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THE WISCONSIN ECONOMY

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

FIRST SESSION

AUGUST 6, 7, AND 8, 1985

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THE WISCONSIN ECONOMY

TUESDAY, AUGUST 6, 1985

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 9:20 a.m., in room 450, Main Building, North Central Technical Institute, Wausau, WI, Hon. David R. Obey (chairman of the committee) presiding.

Present: Representative Obey and Senator Proxmire.

Also present: Dena Stoner, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE OBEY, CHAIRMAN

Representative OBEY. Let me welcome all of you here. Let me especially thank Senator Proxmire for coming for the first day of this 3-day series of hearings on the the Wisconsin economy.

The role of the Joint Economic Committee in Congress is to review the state of the national economy and to try to evaluate both public policy and activities in the private sector, in order to try to help the country determine what policy mix is best suited to sustain long-term economic growth and assure a decent economic condition for America's citizens.

As you know, Senator Proxmire chaired this committee on two occasions, and I took the chairmanship of the committee this year. Since we were both members of the committee and that I was chairman, we decided to bring together in one place some of the best information about the shape and nature and state of Wisconsin's economy as we move into the last 5th of the 20th century.

We will be doing three things over the next 3 days.

Today we will be hearing from witnesses who are trying to analyze or comment upon the State economy as they see it now. We will be hearing from witnesses who want to express their concerns about the State's economy. We will be hearing tomorrow from a wide variety of people, including Governor Earl, on what State government is doing to try to respond to some of our problems and capitalize on some of our strengths.

We will also, later in the day tomorrow, be focusing for a while on the specific problems which are being faced by the Wisconsin River Valley and north-central Wisconsin. And on Thursday we will be taking a look at how Federal policy impacts the State of Wisconsin and its economy.

There is much that Wisconsin can do to deal with its own problems, and we will be hearing a lot about that over the next 3 days. But there are also many things over which the State has very little control. It cannot control, for instance, what happens on Federal fiscal or monetary policy. It cannot control Federal jobs policy. It cannot control Federal tax policy. And it certainly cannot control what happens on Federal tax policy, which is something that I think both of us are very concerned about, and I am sure a lot of other people in the State as well.

Yet all of those national policies influence Wisconsin directly, not just Wisconsin government but also the decisions of corporations to locate in Wisconsin, to stay here, and the ability of workers to find jobs here.

The State also certainly does not have control over the agricultural policy being pursued by the Federal Government at any given time, but it certainly is very much affected by that policy. We will be here today to hear people's concerns expressed about the economy, to hear what the State's response is to the problems as they see them, and to also examine how Federal actions and policy are affecting Wisconsin.

I have been asked why we are holding these hearings in Wausau rather than in a more metropolitan area of the State where we might have a bigger audience. I would suggest that the answer to that question is simple. First of all, those of us from the North like to feel that, important as Milwaukee and Madison are to the economy of the State, that it is the economy of the State as a whole that counts, and that it is good once in a while to delve into these things in areas other than the two major metropolitan areas of the State.

Second, there is another simple answer, Wausau happens to be my home town. So I tend to view things from the perspective of Wausau rather than Milwaukee or Madison or any other community.

I know economics may sound like a dull subject. If I need proof of that, all I have to do is talk about it at a public meeting and I can see people's eyes glaze over. I can see them look at their watch and I can see them wondering when I am going to get onto something that is interesting. But the fact is, what we are talking about is how we develop more business and job opportunities in the State, how we position the State to be more competitive so that the younger generation of families just now entering the economic mainstream has the same kind of economic opportunity which has been generally available to families in Wisconsin over the last 30 years or so. The purpose of these hearings is simply to give people an opportunity in one place in a concentrated period to talk about those problems so that we can build a hearing record which people can go to, take a look at, perhaps get some idea of how other people from different walks of life view the State and our problems, and also to get, perhaps, some ideas about how to approach them.

I am very pleased, as I said, that Senator Proxmire is here today. Let me call on him for some comments before we hear the first witness.

OPENING STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. Thank you very much. First, I want to congratulate you on holding these hearings. This is the first time, to the best of my knowledge, that really comprehensive hearings that lasted more than a day have been conducted by the Joint Economic

Committee in Wisconsin, and they may be the first in the country. I am not sure about those Indiana hearings that Congressman Lee Hamilton conducted, but I think that these are certainly unusual with respect to the depth you have and also with respect to the excellence of your witnesses.

I have had a chance to review the testimony, much of it was submitted in advance. I am tremendously impressed by its excellence.

Let me just say a few things about the State and then about how difficult it is for us in the Federal Government to handle this situation.

In the first place, Wisconsin does have some really very, very powerful strengths. One is demonstrated right here at this institution. We have a higher proportion of our people attending vocational and technical education than any State in the Union by far. Most of those people are not students in high school or in college, they are adults who are working and in many cases working full time.

That is a great strength because it means that when employers come to this State they can hire skilled people. They can get people trained and trained quickly and expertly, and it is one of the elements that the Wall Street Journal referred to when it talked about Wisconsin as being the star of the snow belt. It is truer now than ever.

Also, our high school graduates had the best scores in the country on one of the most important series of tests last year, and I think that indicates the excellence of our education in Wisconsin at the secondary and primary level.

One other element I can mention, because it is not partisan, is that whether we have Republican or Democratic administrations, we have clean government. Unlike some of our neighboring States, we have a solid reputation of scandal-free government with people who are elected to office to run our State and local communities with a remarkably clean record.

All of those are great assets, and perhaps the greatest of all is the University of Wisconsin. I think it is great that our lead off witness, Mr. Nichols, is chairman of the Economics Department of the University of Wisconsin. Not only if you are a Wisconsin Badger, you are proud of it, but also if you want to make an objective analysis of a top flight university, that is it.

I don't think anybody in this room, with the exception of Dave Obey, appreciates the fact that the most recent statistics show that the University of Wisconsin got more Federal research money, more Federal investment than any public university in the country with the exception of two very large institutions in California.

I think that is a great tribute to the University of Wisconsin. It got more than Harvard, more than Yale, and more than most private institutions, the University of Chicago, and as I say, any public university, more than the University of Michigan or any others. It followed excellence.

Let me just say something about the appalling situation we have in terms of economic policy at the Federal level. We have a deficit that is a disgrace. I happened to vote against the budget resolution, some very able and thoughtful people voted for it. I voted against it because I thought it was a wimp of a budget resolution. It's going to do nothing. If we can't do anything effectively about that deficit this year, I don't don't know when we can.

We are in a period of relative recovery. We are in a period of no election in 1985. Next year will be an election year; next year it will be a lot tougher. It is going to be very difficult for us to cut it. In my view, on the basis of any mature objective analysis, if you have realistic economic projections, we are going to have a deficit of about $200 billion in 1986; a deficit of $200 billion is the estimate, the official estimate for 1985.

As you know, since 1982 we have had a series of the most appalling and disgraceful deficits that this country has ever had in peace time. But I think these deficits illustrate the feeling of uncertainty and a feeling that we don't really have control of our economic destiny. Because if anybody should predict what would happen with this deficit we have had, he would say that it would stimulate the economy and stimulate the economy vigorously. That is what the classical economists tell us. But that hasn't happened.

We have had unemployment stall at 7.3 percent since February—a very high level. Only 2 years since 1941 has it been that high. But it stalled at 7.3 percent and hasn't improved in spite of the terrific fiscal policy. Some people say restrain monetary policy; that is the Federal Reserve Board jurisdiction. Well, that isn't true.

In the last 6 months we have had an explosive monetary policy—a rate of increase in the money supply better than 10 percent with the growth in the real GNP of only 1 percent. In other words, 10 times what you would normally expect. And in June it was a 20 percent annual rate of growth; that is an increase in the money supply. And in spite of all that, as I say, we are right where we are, without any improvement in unemployment. So I think that the economists are maybe modest, but they have a great deal to be modest about.

Then I just have a couple more things I would like to mention.

One is that if we do cut the deficit, and we should, it is very hard. It is hard for people who aren't in politics to understand how difficult it is now. What do you do when you cut the deficit? You cut spending programs. That is the best thing you can do in my view. And you increase taxes, both of which are extraordinarily unpopular politically. Nobody wants popular programs cut, but we have to find a way to cut them.

Those who say, well, you can cut the military programs, well, we should. I was one of the five members of the Senate who voted against the authorization bill because it was too high. Only five Senators did. But I can tell you, as one who has voted against the MX, the B-1, the neutron bomb, the nerve gas, and so forth, not enough. You have to cut other programs. Cut them sharply. It is very, very hard to do. Including programs that have benefited Wausau, programs that benefited Wisconsin, programs that benefit millions and tens of millions of people here in this country.

We have to increase taxes. That is extraordinarily difficult.

I have been shaking hands at the State fair for the last 4 days. And the one constant I get is people say, cut our taxes. Well, folks, we can't cut your taxes. It is just something we can't do and can't do responsively. I feel like when you are a Member of Congress you, no matter what you do is wrong if you have the kind of budget resolution we have, you are wimping out because you are not really cutting the deficit.

On the other hand if you do cut the deficit you make people mad because you cut their programs and increase their taxes. It is like the little boy who was kicked out of the Catholic school for cussing and out of public school for praying.

There is just no way you can win, whichever way you turn. I am looking forward to these hearings. Maybe they can give us some wisdom, which we need, and some strength and courage to do the kinds of things we ought to do in Washington, as well as the best advice on how to help Wisconsin, and particularly northern Wisconsin.

Representative OBEY. Thank you.

Our first witness is Mr. Donald Nichols, chairman of the Department of Economics at the University of Wisconsin. He is executive secretary of the Governor's Council on Economic Affairs. We have asked Mr. Nichols to provide an overview of the Wisconsin economy, focusing on how the national economy affects the State, and to provide the committee with projections for how the State's economy is likely to fare in the years ahead.

I do want to make one other announcement before Mr. Nichols proceeds. If anyone is interested in having a copy of the hearing record that we will compile the next 3 days, please let one of the staff people know in the back of the room and when it is printed and reproduced, we will make sure you get a copy of it.

With that, let me ask Mr. Nichols to please proceed and tell us anything he wants to tell us.

STATEMENT OF DONALD A. NICHOLS, CHAIRMAN, DEPARTMENT OF ECONOMICS, UNIVERSITY OF WISCONSIN, MADISON, AND EXECUTIVE SECRETARY, WISCONSIN GOVERNOR'S COUNCIL ON ECONOMIC AFFAIRS

Mr. NICHOLS. Thank you.

I appreciate this chance to appear before you today and give you my opinions as to how national economic policy is affecting the State. Also, I appreciate your kind words about my university and your somewhat, I grant your somewhat less than kind words about my profession. I have a prepared statement. I would like to submit it for the record.

Representative OBEY. Would you like to say anything about our profession?

Mr. NICHOLS. That is coming.

Manufacturing is in great trouble in the United States today. The world's economy is changing rapidly and it is changing to our disadvantage. There are good and bad aspects to this, of course. The good we all recognize are the new products we see available to us and the decline in prices on old products that are out there. This is how our living standard has improved over time and it is how it has been improved over the centuries.

The bad, of course, is the dislocation that comes with economic progress. Old factories are shutdown as new products are produced and the old products are no longer needed. Production shifts from high-cost areas of the globe to low-cost areas, and again factories are shutdown, and with the shutdown go the hopes and dreams of lots of people who worked in that factory, and people in the communities around who had depended on that flow of income into the community to keep them going.

The regional effects of the current dislocations we are facing are especially severe. The entire Great Lakes region is growing far more slowly than the rest of the country. Wisconsin is growing about 1 percent more slowly than the rest of the economy and has been doing that for the past 5 or 6 years, and is anticipated to do that in the foreseeable future.

We have had a great loss of jobs in durable goods manufacturing, all part of this transformation process.

U.S. durable goods manufacturers as a whole have been hit with a triple whammy. One is the increase in low-cost high-quality competition from the Far East. A great growth in new productive capacity is responsible for some of these new products we enjoy, and responsible for some of these low prices we observe on the old products. Nonetheless it is a stiff new competitor, not welcomed by our own codomestic producers, of course.

The second problem is that our own international customers where we usually sell our goods have not recovered from the recessions that began in 1980, associated with that second OPEC oil price increase. That is, Europe and Latin America still lag behind and these are traditionally the best customers for our durable goods.

So we have got our own markets not growing. We have got our competition growing enormously. This would be a difficult time for domestic manufacturers even if we had our own policy in order.

But the third element of this whammy is that domestic policy is not in order. The high deficit had led to high interest rates. The growth in the economy since 1979 has not been accommodated properly by monetary growth, I feel. Interest rates in real terms remain high. They have been at record levels in the past few years. This combination of policies leading to those high interest rates has caused the dollar to appreciate in value. Foreigners have found it worthwhile to put their savings over here. As they put their savings over here, they have to buy dollars. To buy dollars, the price of dollars rises.

Once the price of dollars rises, this means the prices of products that are sold, in terms of dollars, has to go up abroad. So we have found that our manufacturers have had to raise their prices in foreign markets, not because they have not been diligent holding down their own costs, but simply because the currency of our country has gone up in value relative to foreign currencies.

This increase in price is going on at a time when markets have disappeared, at a time when there is great new competition for those same markets. This triple whammy has caused many firms to just switch the location of their production out of the United States completely toward the Far East, that is the most dramatic move, but toward other sources of low cost manufacturing as well.

No one knows how much of this problem being faced by our durable goods manufacturers is a temporary one that will be reversed, or that would be reversed if we could bring our dollar down by bringing interest rates down, by balancing our budget.

Some of the problems surely will remain. This growth in manufacturing capacity in Japan, Korea, Singapore, et cetera, is not going to go away. These are going to be hardy competitors for the next century. But some of it would go away. Our ability to lower our prices abroad would be welcomed. This would certainly slow the decline that we have seen in our manufacturing base recently.

So I would say this is a particularly inappropriate time for us to be following the kinds of overall economic policies that we are following, policies that tend to raise interest rates, raise the value of the dollar. I will speak at the end of my testimony about some other kinds of policies that I think should be adopted. But the major one is recognized, it is just a difficult thing to do. And that is to move closer toward budget balance.

I think this last budget resolution was an important step that had to be taken, but only a partial one, a move toward budget balance offset by monetary accommodation, which I think would be there. I think the Federal Reserve is very willing to do their part to help this economy recover. They just don't want to print lots of money on top of this high deficit that we already have.

I want to talk a bit about Wisconsin's stake in all this, and then get back to these national forces that we see, or global forces that we see.

How far is Wisconsin behind the rest of the country in this recovery?

Well, our employment levels are only now back to 1979 levels. We have heard in the last few months as monthly employment data have been released that we are setting a record for the month. This is the first time we have been able to say that in 5 to 6 years. The rest of the country has been setting records regularly.

Employment in the rest of country is now up 7 percent above its level of 1979. We are just back to even. I think this entire weakness that we see can be attributed to the weakness in our durable goods manufacturing sector. Employment in durable goods manufacturing was at a level of 397,000 in 1979. It is still 78,000 below that level. So that employment went down. It went down much further than it is now and came back substantially, but it is only back to a level 320,000 at the moment, from a level that was 397,000.

This job loss plus jobs associated with this, jobs in the restaurants where these workers would spend money, and stores, those jobs together explain the shortfall behind the rest of the country in growth since 1979.

This is not, as I said, a problem that only Wisconsin has, the rest of the Great Lakes States have shared it. They have shared it to the extent that they too have been concentrated in durable goods manufacturing.

The areas of Ohio, Michigan, Illinois, areas that are in basic steel have done the worst. We are spared that. We are not heavily involved with basic steel but we are heavily involved with industries that use basic steel, and it is our lack of demand for that basic steel that has caused these other industries to be in trouble.

Wisconsin also is hurt, not by just being in durable goods manufacturing, but is hurt by the fact that within durable goods manufacturing we tend to be heavily concentrated in older metal based industries, construction of agricultural equipment, as opposed to lighter based manufacturing industries. There has been a shift within manufacturing out of the older heavy industries and toward the new ones.

Just last month the Federal Reserve released a new set of data. They completely revised all data going back a decade and changed our view quite dramatically of what has been going on. So the Senator implied the economists have difficulty foreseeing what is going on, or understanding. We don't even know what the past was, apparently, when we see data revisions of this magnitude come along.

We had thought these fast new growing electronics industries would grow at a rate of 9 percent a year between 1977 and 1984. We find out they have been growing at a rate of 14 percent per year, dramatic change from one very high level to another even higher level.

These industries, the fast high-tech industries that were isolated as one group by the Federal Reserve are the industries of office and computing machines, copiers and related equipment, electronic components, and medical instruments. These as a group comprised 6 percent of our total national production in 1977, but they are up to 12.9 percent today. So they have doubled their share, doubled their importance of total production in the United States.

They contrasted the performance of this group with a slow-growing group. That group included agricultural equipment, construction and mining equipment, railroad equipment, commerce, ship building, primary metal production. The kind of industries where Wisconsin is disproportionately represented. These industries had been bigger in 1977 than that electronic group. They had comprised 8 percent of total production, but now their share has shrunk to 4.7 percent. Production remains below the 1979 level on a national basis.

The regional effects we feel are not so much because our region is losing out to other regions within these industries, but the industries that are within our region are losing out on a national basis.

There has also been a shift within the economy as a whole away from investment in industry as a whole, including manufacturing, into commercial and office building construction. This I think was accelerated by the 1981 tax change which made real estate investment more profitable than it had been in the past.

We now have a vacancy rate of 17 percent in office building and still new office buildings are being put up. This is a rate that is high by historical standards. New construction in office buildings, using our past rules of thumb, would have to be predicted to be low. I would have predicted it to be low for 1984 based on this high vacancy rate. Yet extraordinarily high levels of construction are going on. It apparently pays to put up these buildings with that vacancy rate because of the tax advantages associated with them.

The short-run strength of this construction boom is keeping our economy afloat temporarily, and replacing some of the strength that we used to get from the manufacturing economy.

How can we continue to grow in a very unbalanced nature with this wealth of service development and no manufacturing base to support it?

One of the answers is, we have had an enormous growth of construction. Construction of office buildings, of commercial shopping centers, et cetera, that has been financing our development, has been providing incomes to workers that they can spend on the services, et cetera, but this is artificially stimulated, stimulated by that enormous tax cut of 1981. It is really tax breaks on this investment that are making it fly. How else could it be so profitable when many of the buildings sit empty or partly empty?

One of the imbalances is in part due to the fact that we have had this big tax cut, and this big tax cut has effectively subsidized certain kinds of real estate construction, and this subsidy has led to a substantial growth in real estate construction, which is what has kept us going as our manufacturing base has diminished.

I think it is hard to exaggerate the size of our manufacturing problem, the size of our import problem, our foreign sector. I have included two tables with my prepared statement that come from a publication of Data Resources, a national consulting firm. This is the firm we use at the State level, for our own economic forecasts that we use as a basis for the Wisconsin econometric model, that our own department of revenue uses to forecast the State's economy and provide revenue estimates.

These two tables show what has happened to our exports and imports. The exports side is a disaster. Exports in 1984 are lower than they were in 1981. Exports of agricultural products, we all know, are way down. The shock is the decline in exports of capital goods.

Capital goods—there are 11 categories of capital goods outlined in this table, 8 of them are down. The only three that are up are the new electronic type industries, computers, but broadcasting equipment is up, and communications, telephone type equipment is up. All the others are down and some of them down by massive percentages.

As I say, the total is down as well.

When we look at imports it is equally a disaster. Imports of virtually all kinds of manufactured goods are up dramatically. The growth in imports of capital goods in 1984 over 1983 is over 50 percent. A 50-percent increase in a number that was already quite large is an astounding change. These imports are not only in these old heavy metal based industries but they are in the new electronic based industries. Computers imports grew at a rate of 63 percent last year, until now they exceed our exports.

Remember one of the stories we had been told was that this country is going to get out of the old heavy metal industries and import that stuff and pay for it by exporting computers and sophisticated equipment. But we see we are now even importing the computers. We import more than we export.

Last year was the first time we passed into that state.

I think a major cause of this is the high value of our dollar. Our dollar has gone up over 40 percent since 1980. That is another way of saying we have had to raise the prices of our products abroad by 40 percent compared to foreign production. And we just can't reduce our costs by that much to offset this fact.

The high value of the dollar can be traced to many sources, some of which are also out of our control. The Japanese have freed up their domestic financial markets and their citizens are now able to buy our financial instruments indirectly, through their pension funds and financial institutions. But they can buy our securities, and there has been an enormous demand in that way. The Japanese are high savers and so their purchases of our securities have helped support our dollar. And because our dollar is so high, their products are able to sell over here.

So the flow of purchasing power that we have seen now is one whereby we have a big deficit, financing, partly, construction of these buildings through these tax breaks. This construction generates the income for our workers who go out and buy foreign goods that the Japanese produce. Their producers then save the money and buy those securities that we use to finance our tax cut. That is the flow of funds at the moment.

Our manufacturers have been cut out of this circle, a percent of them have been cut out, to a certain extent, of this flow of funds.

What can be done? It is the very tough job the Senator talked about in his opening statement. Cutting outlays and raising taxes. None of them are popular. Everybody wants you to balance the budget, and I am here to ask you to balance that budget, too. I also implied a criticism which I can reemphasize here, that our economic statistics are in sorry shape. Budgets for them have been cut, too. So it is hard to know what is going on in some areas. Some of the regional data in particular are in bad shape.

I am asking you to cut the budget and to raise funding for statistics. You must hear this all the time from everybody else. My analogy is that if you tell someone to go on a diet and slim down, it is not wise to have them put their eyes out. That is what these statistics are. That is, now we know what is going on, how we see the economy. It is not the first set of spending that should be cut. It is our understanding of ourselves, our knowledge of what our economy is doing. I think if the budget were brought into better balance, the Federal Reserve would provide the extra funds. They have been willing this year to provide extra funding when they see the economy start to slip away. So I certainly recommend that.

I think a second line of policy should be considered again; the old trade adjustment assistance has come into great disfavor. But something of that form is probably needed to help this region of the country out and to help those industries out that are especially hard hit.

But I also think we need to consider a form of industrial policy that we have not had in the past. We have not had it because we are not good at it, and we should be very careful and take tentative steps in that direction. The Japanese are so good at it, however, that we have no choice but to respond.

I think we find ourselves in a worldwide strategic game now for markets, only we are not playing. We are telling our domestic entrepreneurs to go ahead, and this is a world of competition, and if they can get their costs down, fine. The Japanese are choosing certain markets that they want to dominate, and they are cutting price in those markets far below their own costs just to take the market over. There industries are organized very differently from our own.

A big Japanese industry like Panasonic, they sell microwave ovens and they sell computer chips far below cost. We have companies, Texas Instruments and Intell who make computer chips and live by that. They can't compete if the price of computer chips falls far below cost. They get in real trouble and we have to respond.

I am someone who favors free trade. I certainly think it makes sense for us to buy products at the lowest cost, and it makes sense for the world as a whole to have them produced where they can be produced at low cost. But I am very much opposed to unfair trade.

I oppose subsidies being given by the Japanese through their own private sector, subsidies from the microwave producers to the electronic chip producers. I think it is a very bad message to send to our entrepreneurs. If they develop a product, invent a product, we should defend that market for them. They should not then feel that that market is going to be stolen from them by someone whose costs are a little higher but who wants the market so desperately that they will undersell whatever they charge.

So I was happy to see that the International Trade Commission did say they were going to do something about the 64K RAM chips which is one of the major areas where this onslaught has gone on at the moment. This is the area of the future for the economy, and we have to make sure we are competitive in that.

We have been bad at industrial policy. We haven't tried it very much. I think we have been very good in a few industries like agriculture where we have a tremendous efficient Government. The Government does research that creates the new products, gets it out to the private producer who produces and competes with his fellow farmers without having to develop the new product himself.

I think we have been good at research in general. We have developed terrific military products with Government financed research. So one of the things this country seems to be able to do well is to manage and organize research efforts. We can put a man on the Moon when we do it through Government organization. I think some Government research into manufacturing methods is in order at this time, when our manufacturing sector is in trouble and when it is so important for our future.

I think the future of this State is tied to manufacturing and will be tied to it for decades to come in the future, and that any national effort to support the manufacturing industry would help us disproportionately.

Thank you.

[The prepared statement of Mr. Nichols follows:]

PREPARED STATEMENT OF DONALD A. NICHOLS

The world's economy is changing rapidly. Wisconsin is changing with it. Some of the forces driving this change are progressive, and should be encouraged. Others are the unwanted side effects of bad economic policies at the national level.

The most desirable features of the rapid change have been the introduction of a wide variety of new products and the reduction in the prices charged on old ones. This has led to an increase in living standards.

The most troublesome characteristic of the rapid change has been the dislocation it has caused. Factories that produce the old unwanted products have been closed. Production has been shifted from high cost areas of the world to low cost ones. Many jobs have been lost in the process, and with them have gone the hopes and dreams of many people.

Wisconsin and the rest of the Great Lakes states have suffered more than the rest of the country from the loss of jobs. This region is heavily dependent on durable goods manufacturing, which is one of the most rapidly changing sectors of the world's economy.

U.S. durable goods manufacturers have been hit with a triple whammy: (1) There has been a dramatic growth in the capacity to manufacture high quality, low cost durable goods in the Far East. (2) There has been an incomplete recovery in many of the world's economies from the recessions of 1980 and 1982. This is especially true of Europe and Latin America, who are tradionally our best customers for durable goods. (3) Domestic producers have been placed at a great competitive disadvantage due to the artificially high value of the dollar, which has made our products more expensive abroad, while making foreign products cheaper here.

No one can tell how much of the problem now being faced by domestic durable goods manufacturers is due to the second and third factors, which are temporary, and how much is due to the first factor, which is permanent. But the effect of them all has been to generate a very unbalanced recovery, with some unprecedented, and possibly, dangerous characteristics. The most troublesome of these is the massive trade deficit, which has quite dangerous possibilities for the future. This deficit, which is largely in manufactured goods, is also reflected in the very incomplete recovery in domestic manufacturing, whose growth since the last recession now lags far behind that of the service sector.

No one knows the long run consequences of the incomplete recovery in domestic manufacturing we are now experiencing, or the rest of the imbalances associated with it. Our economy is sailing in uncharted waters. Even the short-run consequences of these imbalances are badly understood. Quite possibly, for example, the current recovery has run out of steam due to the continued drain on domestic incomes of goods purchased abroad. Forecasters disagree over the importance of this phenomenon, which may tell us how uncharted the waters are.

It should be clear, however, that it is particularly inappropriate at the present time to be following policies that have the effect of raising the value of the dollar. A reduction in the deficit combined with an easing of monetary policy would help bring down interest rates and the dollar, and would provide domestic manufacturers with some well needed breathing room. It is this policy that I urge on you today.

I also think we should begin to think about what is called industrial policy for the United States. Had we had even the most rudimentary of industrial policies, such as the requirement that a chapter appear each year in the Council of Economic Advisors Annual Report on the topic, it is possible that we would have recognized the consequences of our actions before now.

WISCONSIN'S DEPENDENCE ON DURABLE MANUFACTURING

Wisconsin's income growth has been well below the national average since 1979. It is expected to remain below average in the near future as well. This performance reflects several forces that are evident in the national and international economy, some of which are distortions caused by bad policy at the national level.

By how much is Wisconsin behind? Employment in Wisconsin is only now beginning to exceed its 1979 levels. The last few months, we have seen Wisconsin employment reported to be at record levels for the month. In the rest of the country, non-agricultural payroll employment is now about seven percent higher than it was in 1979. They have set new records in many months in the past few years when we have not. Some of this slow employment growth has been offset by out-migration and some by a slower growth in the labor force, so that the unemployment rate has only increased about a point relative to the national average. Meanwhile, for those who have remained in Wisconsin, real per capita Personal Income has grown at a rate of only 0.7% since 1979, while for the country as a whole, it has grown at a rate of 1.4%.

This difference can be attributed to the weak performance of the durable goods manufacturing sector, which had traditionally been Wisconsin's strongest economic sector. Employment in durable goods manufacturing reached 319,900 in early 1984. This was a substantial improvement over the recessionary level of 1982, but it was still well below the peak level of 397,400 reached in late 1979. Had this sector grown at the same rate as the rest of the economy, the gap between the growth in Wisconsin over this period, and the growth in the rest of the country, would have been insignificant.

The rest of the Great Lakes states, with the exception of Minnesota, have fared even worse than Wisconsin, because they are even more heavily dependent on durable goods manufacturing than we are. Furthermore, some of the industries within durable goods where they specialize have been hit even harder than our own. We do not have much basic steel, for example, which has been hit very badly.

The performance of the entire Midwest region reflects national problems in these industries. First there is the decline in the United States' share of the world export markets for capital goods and for durable goods in general. Second, the mirror image to that is the increasing share of foreign producers in the market for durable goods within the United States. Third, there is a change within the U.S. durable goods manufacturing sector from heavy metal-based manufacturing toward light electronics -- Wisconsin being much more heavily involved with the former industries than with the latter. Finally, there is the changing composition of production within the U.S. over the past few years in which investment in facilities for industrial production in general has been displaced by office and commercial construction.

Each of these forces is examined below.

FORCES AFFECTING MANUFACTURING TODAY

Manufacturing industries are being swept by several forces today. There are changes in the product mix due to changes in consumer taste and in technology; there are changes in production methods, driven again by new technology, but also by increased competition from abroad; there is an internationalization of production and markets, with all the world's firms competing for the same customers, and with some products being assembled from parts produced in different places all over the world. Perhaps, the most striking of these changes, and the most significant from a long-term perspective, is the rapid growth in low-cost high--quality manufacturing capacity in the far east.

The Continued Importance of Manufacturing

It is significant that I did not include on this list of challenges the commonly stated position that manufacturing faces a problem because it is a sector of declining importance, and that there is a general shift in the world's economy toward services, and away from manufactured goods. This is because I don't see this shift in the data.

Consumers spend about the same percentage of their disposable income on durable goods today as they did 35 years ago. Investment in durable equipment by businesses is somewhat higher as a percentage of GNP than it used to be. Government purchases of durables have fluctuated over this period, depending largely on the level of defense expenditures. These expenditures are now rising, though they are still lower than they were a few decades ago.

It should be clear from these data that the importance of durable manufactured goods to the end user is not decreasing. Furthermore, goods in general, including manufactured goods, continue to make up a disproportionate share of world trade. The idea that a bright future awaits the country who finances itself with service exports rather than with manufactured goods is at best an untested hypothesis, and, at worst, a dangerous myth.

I don't think we can afford to base our economic development strategy on the unproven theory that we can remain the richest nation on earth without having a vigorously competitive manufacturing sector. This is to say nothing about the possibility of remaining a first class military power under those conditions. I believe we are too big to expect that our future can be like Switzerland's, a country that does well on the basis of a large level of export services, like banking.

The Changing Composition of Industrial Production

Newly released data on industrial production show us that the switch toward new electronic-based goods and away from heavy metal-based goods is going on much faster than we had thought. Last month's Federal Reserve Bulletin presented a major revision of the industrial production data.

As one of the highlights of that presentation, two groups of industries were defined, one fast-growing and one slow-growing. The fast-growing group included the "high technology" industries of office and computing machines, copiers and related equipment, electronic components, and medical instruments. These industries made up 6.1% of total production in 1977, but by 1984, they had grown to be 12.9% of the total. Using the unrevised data, we would have estimated their growth rate to be 9%, but using the new data it appears to have been closer to 14%.

The slow-growing group included agricultural equipment, construction and mining equipment, railroad equipment, commercial shipbuilding and primary metal production. These industries made up 8.0% of total production in 1977, but have since fallen to 4.7%. Production in these industries remains about 40% below their peak levels of 1979.

Wisconsin has the misfortune to be heavily represented in some of the slowest-growing industries. Agricultural and materials handling equipment, for example, are produced here. We are also less than proportionally represented in the rapidly growing industries.

The Changing Composition of Economic Activity

Investment has swung, in recent years, away from manufacturing industry and toward commercial and office construction. This is attributed to the new tax law enacted in 1981, which greatly increased the after-tax return on investments of these kinds. Whether this change will prove to be beneficial to the economy from a long-run perspective remains to be seen.

Certainly the immediate effect of this law has been distortionary. Construction of new office buildings has been so excessive in recent years that we now have a vacancy rate of 17%. With such a high vacancy rate, new construction of office buildings would seem to be unnecessary. Historically, vacancy rates at this level would discourage new construction. Yet the boom continues, because the tax law makes it profitable to put these buildings up even if they sit partly empty.

While the short-run strength of this construction boom may have surprised us, we should not delude ourselves into thinking that our economy can permanently support construction activity at this level. When the demand for this construction disappears, it will be hard to find new sources of strength to replace it to support full employment.

THE CHALLENGE TO DOMESTIC MANUFACTURING POSED BY IMPORTS

It is hard to exaggerate the problem that foreign competition now poses to domestic manufacturers of durable goods. An examination of our trade balance data shows how much our foreign position has deteriorated.

The attached tables from the April DRI Review summarize our recent trade experience.

1) The export table shows the incomplete recovery we have had in our sales abroad since the recession of 1982. Despite a small recovery in 1984, total exports were still lower for 1984 as a whole than they had been in 1981. In some industries, such as machine tools, the decline over this period has been dramatic (-41%).

2) Note the continued decline in Agricultural sales in 1984, even as the other export sectors finally turned around.

3) The capital goods sector is a disaster. Capital goods are the most complicated machines made, and a strong trade surplus in capital goods is a good sign of an advanced economy. Only three of the eleven capital goods sectors reported in Table 1 exhibit export levels that were higher in 1984 than they had been in 1981. Exports of capital goods as a whole remained well below their 1981 level, and the extent of the decline was exceeded in

percentage terms only by the decline in agricultural exports.

On the positive side, note the gratifying growth in the exports of computing equipment. The only other two sectors to show growth were also electronic, namely, broadcasting equipment and telephonic equipment.

4) Now, turn to the next table which shows the recent experience with imports. The last column of that table shows the percentage growth in imports in 1984. These data are shocking. Note, especially, the growth in the import of capital goods, the sector which we saw was a disaster on the export side. Capital goods imports as a whole increased by over 50% in 1984. This is much larger even than the 37% increase in imports of automobiles, which has received far more attention.

5) Most shocking to me in this table were the figures for imports of computers. I could believe that we would become a heavy importer of steel and metal-based manufactures, but I had thought that we would remain for the foreseeable future, a net exporter of high-tech electronic-based products. But the table shows that imports of computers and business machines grew from $9 billion in 1983 to over $14 billion in 1984, exceeding in that year even our own exports.

This does not mean that Silicon Valley is in for a decline, of course. Growth in computing is expected to be so strong worldwide that our own producers will do well even if they have a shrinking share of the market. But it does point out that it is not just the rust belt that is vulnerable to international competition, and it raises the very disturbing question of what we will export in the future to pay for our imports?

6) Finally, the size of the overall merchandise trade deficit in percentage terms is truly shocking. We would have had to increase our exports of all products by 50% in 1984 to pay for our imports. But because we did not export these goods, we were forced to pay for the imports with borrowed money. As a result, our debt abroad grew substantially. If these deficits continue for a few more years at these levels, the interest costs on international debt will force us to be a substantial net exporter of goods to pay for them. To do this, the dollar will have to fall substantially, which will compound the difficulty we will be having in paying for our imports. Further compounding our difficulties will be the fact that we will have lost our position as the world's major supplier of complicated machinery, which is the kind of product we are supposed to be good at exporting.

Something fundamental is happening to world trade that is quite different from what is presented in Economics 101.

FEDERAL POLICY AND THE IMPORT PROBLEM

Our current external position is unsustainable. Its long-run consequences are not clearly understood, nor do we have a good sense of how this imbalance will be righted. Will the dollar just fall benignly as interest rates come down, and will this right our problem? How much must it fall to bring balance to our external accounts? Will domestic manufacturing recover once the trade balance is cured? We have a dim view of the answers to such questions.

What we do know, however, is that the current flood of imports is being encouraged by the strong dollar. It is hardly a coincidence that the value of the dollar soared in international markets in precisely the same period in which our trade balance collapsed. And, what we also know is that our badly imbalanced domestic policies are contributing to the height of the dollar, and, thereby, making this problem worse.

The sources of our imbalanced domestic policies go back a few years. In response to the second major OPEC oil price hike of 1979-80, we battled the inflation that resulted by reducing the rate of money growth. This caused a recession. We then battled the recession with a huge tax cut. This imbalanced approach left us with a large deficit and high interest rates.

The combination of a large fiscal deficit and relatively tight money has led to enormously high interest rates in recent years. These rates are coming down now, though in real terms they are still quite high by historical standards. Their height has encouraged an inflow of savings from abroad which has helped, and is helping, to keep the dollar high. Indeed, it is to a large extent this flow of savings which is financing our trade deficit.

The dollar may be high for reasons other than the high interest rates, of course, but this does not alter the fact that it is high, in part, because of our policies, or that a reversal of those policies would help bring the dollar down. (Among the other factors supporting the dollar are a decline in foreign lending by domestic banks in response to the debt crisis in less developed countries, and an increase in capital inflows due to relaxation of regulations in Japan concerning the holding of foreign securities. The Japanese are savers, and among the investments they now buy are the debt of Americans. Thus the dollar might remain at an excessive level, even if our policies were better balanced.)

We desparately need a more balanced macroeconomic policy at the federal level.

WHAT CAN BE DONE ABOUT THIS PROBLEM ?

Three levels of response can be imagined.

1) Macroeconomic Policy

A fundamental change in macroeconomic policy is in order. I recommend a reduction in the federal deficit accompanied by a further move toward easy money. This would bring interest rates down, and halt the inflow of dollars that finances our trade deficit. The dollar would fall, and this would lower the prices of American products abroad, permitting us to be competitive, once again, in the market for durable goods.

This is the single policy that would do the most to help the Wisconsin economy. The Department of Revenue has examined the consequences of such a hypothetical policy change using their econometric model. The results of that exercise were that Wisconsin would grow a bit faster than the rest of the country, and the whole nation's durable goods sector would recover. The experiment carried out in that study confirms our intuition, which is that the sources of Wisconsin's economic problems are high interest rates and the high dollar.

We should also encourage sensible macroeconomic policies abroad. Europe needs to recover. All the world's industrial economies should share in the burden of macroeconomic stimulation. One reason our fiscal deficit is so large is that we are the only nation who has taken an aggressive fiscal stance to pull ourselves out of the recession.

2) Palliatives.

Policies like Trade Adjustment Assistance help those who are displaced by international trade, even though they don't cure the problem itself. I favor such policies, while recognizing their complexity. One reason I favor them is that I fear the backlash against free trade that could develop as greater recognition is gained of the magnitude of our trade deficit, and the problems it is causing.

A more imaginative adjustment policy would recognize the regional consequences of the overall policies being followed, and would give preference to the Midwest in the location of Federal facilities, such as data processing centers, or research labs. The Federal Reserve study done for the Strategic Development Commission called my attention to the surprising fact that Wisconsin gets a very small fraction of federal spending for R&D. It would be appropriate, I feel, to try to get some labs, or other facilities of that kind in Wisconsin.

3) Industrial Policy.

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I think it is not too inaccurate to say that our manufacturing sector is under a centrally directed attack by the Japanese. Their predatory pricing of 256k computer chips, for example, has forced some of our firms out of the business. These firms are progressive, do a lot of research, and keep costs low. I don't think we can afford to lose them, or that they are being driven out of the business by any market-directed forces. We should try to create an environment in which American entrepreneurs are made to feel that if they develop the world's lowest cost products, they will be protected from unfair competition. If, instead, they feel that by being successful, they are simply painting a bullseye on themselves for predatory Japanese industrial policy, we will soon find our own innovation and progress drying up.

We are not good at industrial policy, and we need to start learning how to be good at it. Different nations with different institutions and social customs find different organizations more or less suitable to their ways. We don't have a good idea of which institutions would suit us best. We need to find out.

I think we have done well in subsidizing research in a variety of industries -- defense, health, and agriculture. Certainly we have created products that are the envy of the world in each of these industries. Perhaps it is time to subsidize research into manufacturing. An industrial policy that funds research would not have the drawbacks associated with a production subsidy of the heavy-handed kind that have made industrial policies so expensive in other environments, and that are used as examples by the critics of industrial policy in persuasive ways.

I would oppose restrictions on trade, except to guarantee fair trade practices. I would especially oppose restrictions on the importation of basic materials, such as steel. How are we to make competitively priced machinery out of high priced steel?

I would view low interest rates as an extremely important and fundamental ingredient of a sensible industrial policy. R&D has a long payoff. Investments in it are much more profitable at low interest rates than at high. Similarly, capital costs are a major part of the cost of many durable manufactures. These costs can be brought down quite easily with the sensible macroeconomic policies espoused above, and by the low interest rates they would cause.

It is these policies I recommend today.

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The U.S. as an International Competitor

Table 2
U.S. Merchandise Exports by Product
(Billions of dollars, free alongside ship)

	Level				Percent Change		
	1981	1982	1983	1984*	1982	1983	1984*
Total Exports	233.74	212.27	200.54	216.69	-9.2	-5.5	8.6
Industrial Supplies	67.74	61.73	56.66	61.43	-8.9	-8.2	8.8
Chemicals	17.96	16.96	16.40	18.93	-5.6	-3.3	15.5
Plastics, Synthetics	3.51	3.35	3.42	3.72	-4.6	2.1	9.[illegible]
Fertilizers	3.92	3.52	3.33	4.19	-10.2	-5.4	27.[illegible]
Petroleum	3.77	6.22	5.00	4.33	65.0	-19.6	-15.[illegible]
Coal	6.02	6.08	4.12	4.41	1.0	-32.2	5.[illegible]
Paper, Pulp	4.97	4.34	4.26	4.61	-12.7	-1.8	9.[illegible]
Lumber	2.64	2.53	2.58	2.49	-4.2	2.0	-3.[illegible]
Iron, Steel	5.48	4.22	3.55	3.90	-23.0	-15.9	10.[illegible]
Textile Fibers, Fabrics	3.83	2.80	2.34	2.49	-26.9	-16.4	6.[illegible]
Cotton	2.28	1.98	1.83	2.44	-13.2	-7.6	41.[illegible]
Precious Metals	3.76	1.52	2.06	2.45	-59.6	35.5	12.9
Advanced Metal Products	2.39	1.97	1.78	1.83	-17.6	-9.6	2.2
Aluminum	1.64	1.30	1.39	1.40	-20.7	6.9	3.[illegible]
Capital Goods	80.17	72.70	67.25	71.78	-9.3	-7.5	7.1
Computers, Parts	8.84	9.32	11.01	13.92	5.4	18.1	[illegible]8.1
Scientific, Business Equipment	7.49	7.05	6.45	6.67	-5.9	-8.5	3.6
Civilian Aircraft, Parts	13.47	9.71	10.69	9.38	-27.9	10.1	-11.5
Broadcasting, Communications	5.74	5.97	6.63	7.85	4.0	11.1	20.0
Telephonic, Other Electrical	5.06	4.92	4.90	5.58	-2.8	-0.4	15.3
Construction Machinery	7.08	4.88	6.45	6.45	-31.1	32.2	-1.8
Drilling Equipment	4.54	5.43	3.14	2.77	19.6	-42.2	-15.3
Specialized Industrial Machinery	3.67	3.29	2.77	3.35	-10.4	-15.8	21.4
Power-Generating Machinery	2.93	2.85	2.35	2.21	-2.7	-17.5	-3.5
Agricultural Machinery	2.23	1.80	1.47	1.70	-19.3	-18.3	13.3
Machine Tools	2.09	1.59	1.15	1.23	-23.9	-27.7	7.9
Automotive Vehicles, Parts	17.99	15.67	16.82	20.85	-12.9	7.3	25.7
Passenger Cars	4.01	2.93	4.25	4.86	-26.9	45.1	14.1
Trucks, Buses	3.31	2.47	1.98	2.47	-25.4	-19.8	24.1
Parts, Engines	10.67	10.27	10.62	13.27	-3.7	3.4	28.5
Consumer Goods	15.80	14.31	13.44	13.44	-9.4	-6.1	-0.5
Durables, except Autos	7.50	6.30	5.74	5.52	-16.0	-8.9	-5.0
Appliances	1.83	1.51	1.25	1.38	-17.5	-17.2	-18.8
Sporting Goods	1.19	1.11	1.03	0.83	-6.7	-7.2	-21.0
Nondurables	8.30	8.00	7.70	7.92	-3.6	-3.8	2.9
Drugs, Medicine	2.31	2.43	2.64	2.79	5.2	8.6	6.1
Textile Products	1.54	1.25	1.10	1.15	-18.8	-12.0	3.6
Foods, Feeds, Beverages	37.89	31.34	30.94	30.90	-17.3	-1.3	2.1
Feed Grains	9.47	6.50	7.33	7.84	-31.4	12.8	14.3
Wheat, Flour	8.15	6.92	6.56	6.92	-15.1	-5.2	4.8
Soybeans	6.19	6.22	5.91	5.09	0.5	-5.0	-10.5
Military-Type Goods	4.18	6.52	5.84	4.70	56.0	-10.4	-23.3
Reexports	4.78	5.12	4.57	5.73	7.1	-10.7	26.8
Other	5.19	5.19	4.90	7.86	0.0	-5.6	59.1

*First ten months of 1984; percent change from first ten months of 1983

Table 3
U.S. Merchandise Imports by Product
(Billions of dollars, customs value basis)

	Level				Percent Change		
	1981	1982	1983	1984*	1982	1983	1984*
Total	261.30	243.95	258.05	328.88	-6.6	5.8	28.6
Industrial Supplies	134.63	112.04	106.96	124.74	-16.8	-4.5	16.4
Petroleum	77.11	60.85	53.59	57.74	-21.1	-11.9	7.2
Natural Gas	4.12	4.39	4.18	3.41	6.6	-4.8	-19.6
Iron, Steel	13.16	11.40	8.11	11.96	-13.4	-28.9	54.1
Precious Metals	4.13	3.49	4.95	5.28	-15.5	41.8	-2.2
Aluminum	1.38	1.33	1.64	2.60	-3.6	23.3	59.5
Paper, Pulp	5.60	5.27	5.58	7.23	-5.9	5.9	32.2
Lumber	2.73	2.26	3.45	4.29	-17.2	52.7	10.3
Industrial Chemicals	4.16	4.07	5.04	6.32	-2.2	23.8	25.9
Fertilizers	1.80	1.61	1.69	2.10	-10.6	5.0	25.7
Textile Fibers, Fabrics	2.04	2.27	2.60	3.63	11.3	14.5	41.2
Capital Goods	34.49	35.35	40.85	60.55	2.5	15.6	51.0
Electrical Machinery	9.88	10.55	12.92	19.03	6.8	22.5	52.6
Computers, Business Machines	4.74	6.17	8.91	14.03	30.2	44.4	62.6
Industrial Machinery	5.76	5.53	5.12	7.78	-4.0	-7.4	52.0
Construction, Specialized Machinery	3.37	2.99	3.66	5.96	-11.3	22.4	66.0
Civilian Aircraft, Parts	3.75	3.43	2.94	3.98	-8.5	-14.3	33.6
Machine Tools	1.99	1.90	1.50	2.06	-4.5	-21.1	33.8
Agricultural Machinery	1.75	1.46	1.33	1.99	-16.6	-8.9	40.1
Scientific Equipment	0.94	1.08	1.34	1.71	14.9	24.1	26.7
Automotive Vehicles, Parts	29.74	33.25	40.83	53.86	11.8	22.8	37.3
Passenger Cars	17.77	20.28	23.57	29.84	14.1	16.2	31.3
Parts	7.12	7.76	11.34	16.06	9.0	46.1	48.2
Trucks, Buses	4.84	5.21	5.92	7.95	7.6	13.6	40.7
Consumer Goods	38.66	39.69	44.93	60.86	2.7	13.2	36.2
Durables, except Autos	23.53	23.25	25.54	33.98	-1.2	9.8	34.9
Household Appliances	5.71	5.58	6.77	9.88	-2.3	21.3	54.1
Jewelry, Art, Musical	2.49	2.81	3.15	4.15	12.9	12.1	34.7
Sporting Goods	2.04	1.69	1.59	3.21	-17.2	-5.9	34.3
Bicycles, Motorcycles, Boats	1.54	1.85	1.92	1.92	20.1	3.8	20.0
Metalwares, Garden Tools	1.41	1.39	1.56	2.47	-1.4	12.2	32.8
Photographic, Optical Goods	2.20	2.72	2.43	1.97	23.6	-10.7	27.9
Wood Furniture, Skis	1.12	1.15	1.43	1.89	2.7	24.3	36.0
Nondurables	15.14	16.44	19.39	26.87	8.6	17.9	37.7
Apparel, Textile Products	7.77	8.41	9.86	14.15	8.2	17.2	41.2
Leather Goods	2.32	2.74	3.24	4.54	18.1	18.2	39.7
Foods, Feeds, Beverages	18.11	17.12	18.19	21.18	-5.5	6.3	16.8
Fish	2.95	3.15	3.59	3.68	6.8	14.0	4.8
Vegetables, Fruit	2.50	2.83	2.93	3.11	13.2	3.5	17.8
Coffee	2.62	2.72	2.59	3.21	3.8	-4.8	23.9
Meat, Cattle	2.17	2.33	2.35	2.40	7.4	0.9	-3.6
All Other	5.67	6.51	6.28	7.70	14.8	-3.5	21.1

*First ten months of 1984; percent change from first ten months of 1983

Representative OBEY. Thank you very much. Before I ask questions, I would like to try to put in context what it is we are talking about. It will take me about 3 or 4 minutes to do that.

I am relying on some charts that Senator Proxmire has seen before. I think it emphasizes what Senator Proxmire said earlier. Namely, that you don't get there from here in terms of cutting the deficit if you do what is politically popular, which is to retain people's pet programs and at the same time cut taxes further.

Basically, to summarize for everybody in the room: here is the situation we face at the national level. As you can see, the spending that the President asked us to approve in his original budget exceeds the revenues he asked us to approve by $180 billion.

That has been advertised in some quarters as a budget-cutting effort. But the fact is, if you take a look at what has happened in the budget, that is all that budget represents. It represents a request to increase or to decrease domestic programs by about $40 billion, increase military by about $30 billion, and increase interest by about $12 billion. That is the actual effect of the budget.

The reason that we are in this growing crunch is because as the share of the gross national product, the Federal deficit has just about doubled in the last 5 years. As you can see by this chart, in 1980, spending as a share of the national budget was 22.4 percent. Today it has gone up to 24.3 percent in spite of all of the reductions that have taken place on the domestic side, because we have also simultaneously been doubling the military budget.

At the same time on the revenue side, revenues have gone from 20.1 percent of GNP in 1980 to 19 percent today. So you have had your income go down, you have had your spending go up in the last 5 years. That means that the deficit as a percentage of GNP has just about doubled over that time period.

The way it has doubled is, I think, revealing in terms of how we are positioning ourselves to deal with competition in the 1990's and in the next century.

This chart shows the budget outlays by category in 1980, and this chart shows the President's budget outlays by category in his budget request for 1986. I will use these small charts which are the same so that people on both sides of the room can see what I am talking about. This is the way your budget looked in 1980.

As you see, the largest share of the budget was the blue piece, which represents the amount of money going for elderly and disabled programs. It was 37 cents out of every dollar. The next biggest piece was defense and foreign assistance, which was 25 cents out of every dollar in 1980. Then you had interest, this green piece, which was 9 cents on the dollar.

On the chart here it is, the pink one. It was 9 cents on the dollar in 1980. And the little purple piece on this chart, which is the red piece on this chart, is the amount that we were providing for welfare programs for the nonelderly poor in 1980. Everything else that Government does is represented by the white piece on this small chart or by this piece on the big one. That is everything Government spends to keep the IRS running, to keep the Customs Service running, to keep the courts running, the jails running, you name it.

It also represents everything that we invest in a public way. It represents everything we invest in health research, everything we invest in kids by way of education, everything we invest in workers by way of job training, everything we invest in infrastructure, in bridges, in highways, to enable our communities to develop economically.

That is what the budget looked like in 1980.

This is what the budget looks like in the President's budget today. As you can see, the portion of the budget going for elderly and disabled programs has remained precisely the same at 37 cents out of the dollar. The military budget has increased from 25 cents on the dollar in 1980 to 31 cents on the dollar today.

The amount that we provide for welfare support for the nonelderly poor has shrunk from 7 cents on the dollar in 1980 to about 5.5 cents on the dollar in the President's new budget. Interest payments have gone up 60 percent from 9 cents on the dollar to 15 cents on the dollar to date.

And everything else Government does, including that investment portion of the budget, has gone from 21 cents on the dollar in 1980 to 11 cents on the dollar in the President's request for this year.

That means that we are simultaneously shrinking the investment portion of the budget while the deficit is increasing, and that is why that Federal debt has mounted so that we are facing the crunch that we are facing today. That is why, I think, Senator Proxmire is right when he says that if anybody believes that there is any magic way to deal with the deficit, except by cutting spending and raising taxes, they must know a secret way to repeal the laws of mathematics.

I wish they would tell it to me, because politicians, who always love to give people easy answers instead of the ones that are necessary, would very much like to have that secret as quickly as possible.

I think I should also say that, in defense of the economics profession, I once heard a farmer, a speaker at a farm dinner say, he said, "Did you know that if you took every agricultural economist in the world and laid him end to end, that it would be a good thing." [Laughter.]

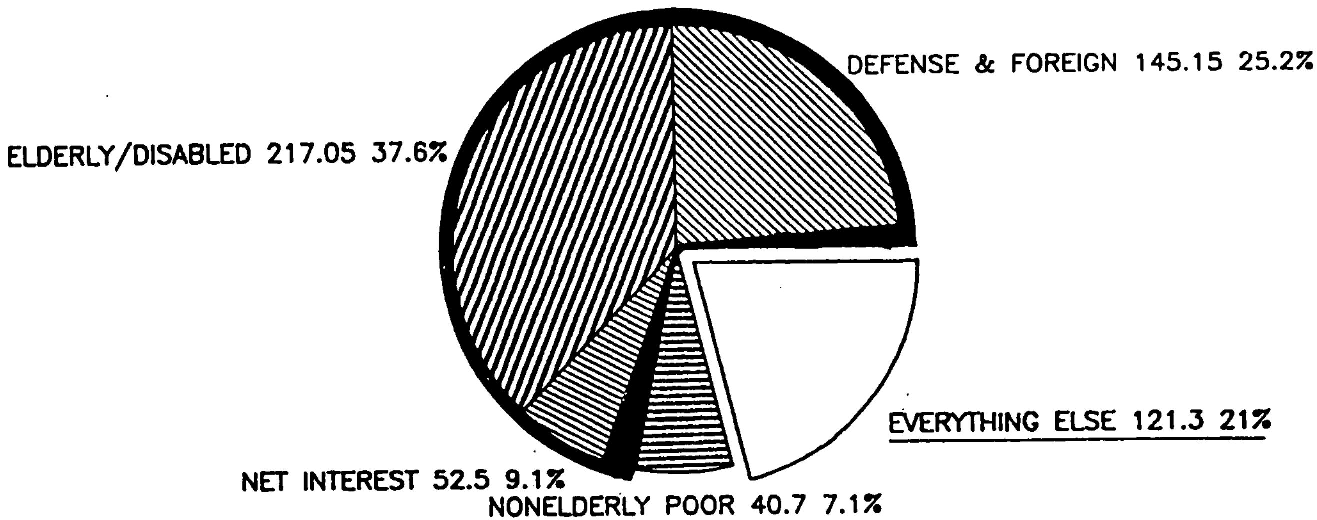
I think people think the same things about politicians. I would point out that in 1981 it wasn't the economists who were wrong. It was the politicians who were saying you could simultaneously cut taxes and double the military budget and cut taxes. They were the ones who were wrong in 1981.

They were also wrong because they said that what would happen if we passed this prescription was that the savings rate would go up. If you take a look at what has happened to our national savings rate, it has declined significantly since the time that those 1981 budget changes were passed.

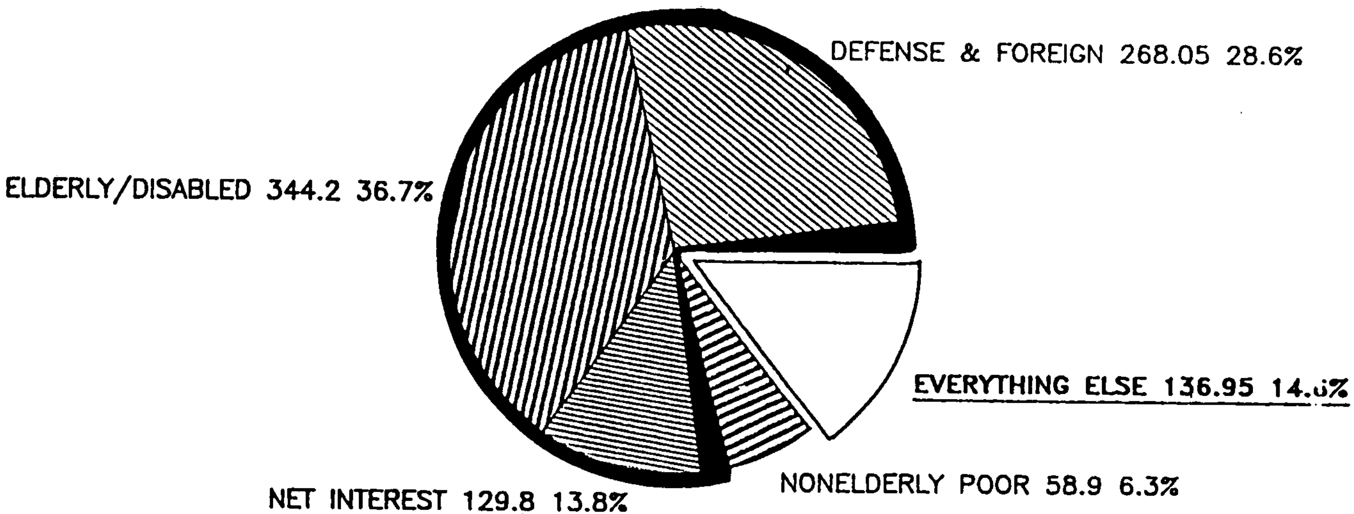
I think that is one of the problems we have today in trying to finance our own economic development.

[The charts referred to by Representative Obey follow:]

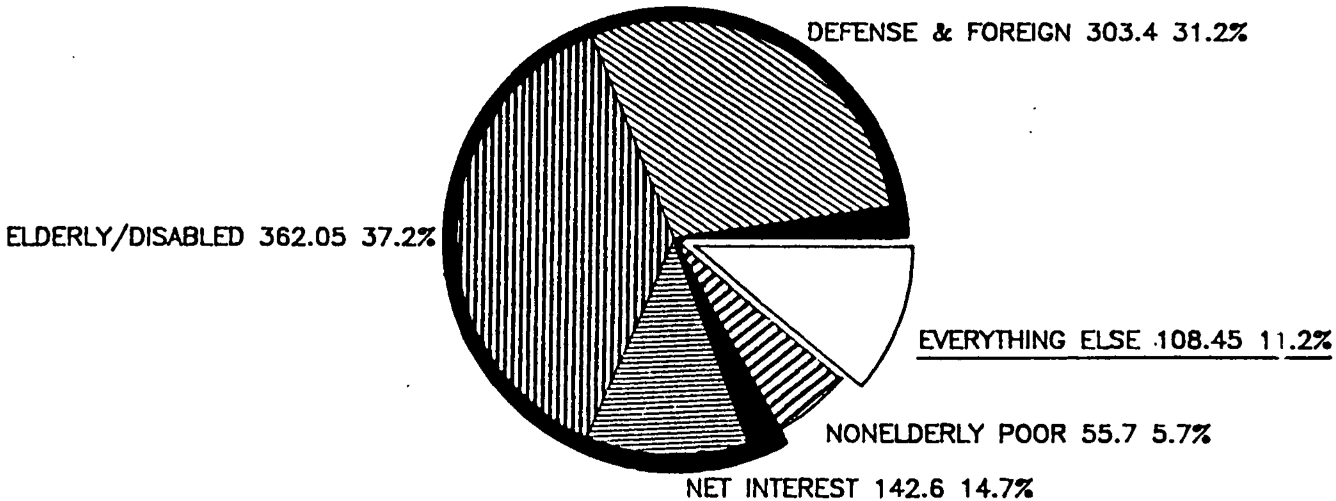
BUDGET OUTLAYS BY CATEGORY
1980 ACTUAL



BUDGET OUTLAYS BY CATEGORY
1985 ESTIMATED



BUDGET OUTLAYS BY CATEGORY
1986 REQUEST



Representative OBEY. Let me ask you a question, Mr. Nichols, now that I have got that off my chest. People point to a State like Massachusetts and show the success that Massachusetts has had in reversing a 20 year or so decline, and is now coming on very strongly with very little unemployment, and wonder whether Wisconsin can replicate the Massachusetts experience. As I look at what has happened in Massachusetts, I look for the key ingredients that might give us some idea as to what they have built on, to see whether we have those same advantages here.

It seems to me that if you look at that State, some of the things they have had and used very effectively were: They had adequate access to venture capital. They also had adequate and excellent access to a first-rate academic community, including MIT. They had a skilled work force. And they had a key cadre of entrepreneurs who were willing to take substantial risks, change a lot of things that they were doing, get into areas of the economy they hadn't been into before.

And that combination of events, with Government acting in a supportive role as a facilitator, bringing these different groups together, seems to me to be the key mixture of elements that was present that enabled them to reverse their economic problems.

Would you agree with that analysis? If you wouldn't, tell me why. And which of those elements do you see here in the State of Wisconsin that might help us go along a similar path?

Mr. NICHOLS. I agree with that. I would emphasize a little more the Government research a few decades back on military work, actually growing out of World War II, enormous growth of Federal spending, and then in the early cold war years, lots of Federal research, through MIT in particular, into electronics, and then those electronics based industries sprung up on Route 128 around Boston; and in the last few years, those 5 years that you showed up there, there has been a great growth in demand for defense products.

The Raytheons of the world are around Boston. They produce those missiles and lots of simpler things like cathode ray tubes that are used by any sophisticated electronics business, but especially by defense. So they have profited by the reallocation within the Federal budget that has caused a reallocation within the economy.

We don't happen to be heavily into electronics so those other ingredients—even if we had lots of them, we wouldn't have the product whose demand is being expanded at the moment, the electronic-based products.

But those other ingredients are necessary, and so we have to make sure we have them.

Our own university is more heavily involved in agricultural-type research. That is, there is a revolution about to go on in agriculture, of some sort. We can't predict where the great products will be and where the factories will be that manufacture these things. But these genetic seeds are clearly going to change the way we grow our food, and lots of that research is going on at Madison.

One possible development is the growth around Madison based on biologic research, rather than electronics.

Indeed, some of the developments for computers in the future are going to be biologically based as a chemical and kinds of memory are being explored at the moment. We are way up on biological and social science research data analysis kinds of things.

We have not been strong in entrepreneuring when you measure it by numbers of new ventures. I don't happen to think that is due because of a lack of venture capital, but in any event, I think, good recent steps have been taken to provide investment capital to provide venture capital pools. I think this Wisconsin Strategic Development Commission report that you will be looking at suggests some useful ways to fill in the remaining gaps.

I would say it is mostly the fact that we didn't happen to be in the industries that have taken off, and I would give some credit to Government changing the natural course of things toward that industry, especially after World War II, with enormous research going into computers.

Representative OBEY. Let me ask one other thing and ask Senator Proxmire for some questions. You indicated that it is important to have strategic planning if the United States is going to deal with competitors like the Japanese. I happen to agree with that.

What concerns me is this: How do you develop that? How do you take a society like ours which is extremely individualistic, and convince leading players in the economy that you really do need that, you just can't stand innocently by while competitors like the Japanese take your socks because they marshall all of the forces in their economy to accomplish an economic goal?

What advice do you have about how we can get that kind of approach in this country without scaring the devil out of people who are legitimately concerned that they don't want this to turn into some kind of centralized planning, with the Government picking winners and losers and becoming the directors of the economy?

How do you assure people that what you are talking about here is simply Government acting as a facilitator so that you can get business and labor to work more effectively together and to select areas where we need to strengthen ourselves if we are going to maintain a well-rounded economy over the next 3 years?

Mr. NICHOLS. I agree with you that our institutions are not as easily adapted to a centrally planned mode as they are in other countries. I certainly do not favor central planning itself, though I do favor planning. That is, looking ahead and taking steps to avert the bad things you see coming and to try to help the good things along.

I think things that seem to have worked in other industries in this country we could move into manufacturing.

I don't see why we couldn't have federally financed research centers on robotics or manufacturing methods. We tend not to do it because our manufacturing companies have been big, and we have thought it was their responsibility to do it.

In agriculture, the farmers are small so we say it is our responsibility to do it, and we develop the new products, not to expect each individual farmer to go out and discover his own new kind of seed.

But our manufacturing firms are now competing with other big firms worldwide, who do have some help in terms of research. I think some institutes on machinery, et cetera, would help.

Then information dissemination. We just have to make available to our own businessmen studies of what is happening. Are the Brazilians going to be the future competitors in foundries or are they not? We can do studies of that kind. We can find out what the Brazilian plans are. We can put that out in a form so that the businessmen can make investment decisions.

Is there going to be a market for their product in 1995 or not? It is very expensive for each firm to try to find that out themselves and to guess at what is going on. We don't have to plan to force these firms to invest or not invest. But we can provide them with good information so they can feel more confident when they are making their investment that they will have a market at that time.

I don't know what is to be called planning and what is not, but this is—I would call this the first step of industrial policy. I would require the Council of Economic Advisers to put a chapter in each year's report describing how the aggregate policies they have recommended will affect the relative advantages of one industry as opposed to another.

I think if we had just had such a simple requirement as that in the past 5 years, they have, every year, had to come down to you and tell you that what we are doing is going to destroy our manufacturing base because these policies are bad for industries that depend on low interest rates. I think that would be a useful first kind of step to ask for how aggregate policies affect different industries and in different regions.

Representative OBEY. I just want to make one comment on your concern you expressed about the erosion of the data base, that we need if we are to understand what is happening in the economy. I just want to assure you that one of the things that the Joint Economic Committee is going to be doing for the rest of this year is holding a series of hearings to give the economics community an opportunity to lay out in detail their concerns about the erroding base, so that we can build a case for strengthening it in the next budget cycle.

Mr. NICHOLS. Very good.

Senator PROXMIRE. I might say the cost of those economic statistics, gathering them, is very, very modest compared to the enormous value on knowing what we are doing, as you say.

I wanted to congratulate the chairman on his presentation of the budget. It was clear, it was simple. It was direct and brief.

I wanted to clear up one or two statements that I am not sure I understood. You say Wisconsin is growing 1 percent more slowly economically than the rest of the country; 1 percent sounds like a meaningless figure unless you are saying we are growing, instead of 3 percent we are growing at 2 percent.

Is that right?

Mr. NICHOLS. That is right.

Senator PROXMIRE. In which case we are growing 33 percent more slowly?

Mr. NICHOLS. That is right. In per capita terms they are growing 1.4, we are growing 0.7, half as fast. But we are having outmigrations so a full percent is not there.

Senator PROXMIRE. And one of the puzzling aspects of that is that our unemployment is less than the national average. You say our employment is growing less, but our unemployment is also less. So that it depends on whether it is half empty or half full, right?

Mr. NICHOLS. Well, we have had outmigration. Wisconsin had not had that until 1979 or so. But a good deal of the unemployed part of the work force does have just——

Senator PROXMIRE. There is a tendency for us to look at the unemployment figure, not at the employment figure. We have had an enormous growth in employment. But as I said, unemployment is very high. It is depression high; 7.3 percent is an enormously high level of unemployment. We have had it for 7 consecutive months, no improvement in spite of this collosal, stimulative fiscal policy.

You say that the monetary policy could accommodate more. I pointed out that the monetary policy has been extraordinarily expansive in the last 6 months. There is lag here. Some monetary economists say it takes 2 years before an increase in the money supply is reflected in inflation. It takes a long time before it is reflected in higher economic activity.

Do you concur with that?

Mr. NICHOLS. There is a lag. There is also a little extra lag at the moment, no one knows why housing construction hasn't taken off in response to this decline in rates we have already seen.

Normally we would expect more housing starts. I can only guess that we will see that in the future. But I do concur.

As to this unemployment rate, 7.3 percent, this is still the same number we had at the election in the fall of 1980. We have had this——

Senator PROXMIRE. It was a little bit higher, as a matter of fact, when we had the election in 1980, higher unemployment. Not many people appreciate that, unfortunately.

You put a lot of the emphasis on the bloated dollar, the fact that we have a high dollar. You are absolutely right. There is no question that when we try to sell it to the Japanese, there is a difference, there is an increase in the value of our currency compared to the yen, that means a 25-percent cut in what they sell us. With the Common Market it is about a 50 percent difference. There is no question about it.

But I am not sure that we are going to cope with that in the foreseeable future in view of the deficit outlook.

Is there anything else we can do?

What you are saying is that the way we get the dollar under control is to reduce the deficit?

Mr. NICHOLS. That is correct.

Senator PROXMIRE. Have a fiscal policy which is more responsible. Is there anything else we can do, because I despair? I would like to see it, too. I would like to cut everything in sight and increase taxes, too.

Mr. NICHOLS. I think we have seen enormous improvement in the dollar with the decline in interest rates we have seen in the last few months. I think that could continue some. The economy is so slow right now, growth is so slow that as long as the Federal Reserve continues to be expansive, we will see further interest rate declines and the dollar will come down.

Senator PROXMIRE. You talked about the fact that a part of the difficulty of the economy, with the slow economy, and the difficulty in manufacturing, has been compensated for by growth in construction. Artificially stimulated, you said, by changes in the Tax Code that make it profitable for people to invest in construction.

And I think you also, or somebody else pointed out that there are 17 percent vacancies with office buildings.

Mr. NICHOLS. Right.

Senator PROXMIRE. I take it you feel that this is probably an unwise economic policy to have that kind of incentive.

Mr. NICHOLS. Waste of national resources.

Senator PROXMIRE. I think it is, too. But if we change that, that one bright part of the economy really nose dives, and then if we also follow the recommendations of the administration, and knock out the investment tax credit, you are going to have a very perverse effect on Wisconsin's machine tool industry which is very important to us, as well as the rest of the industrial part of the country.

Mr. NICHOLS. That is right. This vacancy rate is a time bomb sitting out there. Eventually the construction is going to decline and changes in the tax law could bring it to the present.

Senator PROXMIRE. If we follow your policy it is going to decline much more sharply.

Mr. NICHOLS. That is right. Sooner than it otherwise would.

Senator PROXMIRE. That part of the economy that is, that helps balance, to some extent, our difficulty in manufacturing is going to be hurt.

Mr. NICHOLS. That is correct.

Senator PROXMIRE. Are you going to accept that as an unfortunate fact of life you have to live with or is there something we can do about it?

Mr. NICHOLS. The policies that go along with that, that tax cut is going to help bring interest rates down somewhat, I would believe. I mean the tax reform proposal is going to help.

Senator PROXMIRE. Will that happen if you knock out an incentive that is encouraging people to construct buildings and putting people to work?

Mr. NICHOLS. This demand for borrowed funds, that is an enormously, highly leveraged business. There will be a decline in demand for funds just as if the Federal Government wasn't in there borrowing for it.

Senator PROXMIRE. Therefore, interest rates will fall and that will stimulate housing construction and so forth.

Mr. NICHOLS. Correct. And bring down the dollar.

Senator PROXMIRE. That hasn't happened lately?

Mr. NICHOLS. It hasn't happened in the 3 or 4 months we have seen the rates come down. Starts had that 1 great month, and then they have just been sitting there.

Senator PROXMIRE. Can you tell me what the vacancy rates are in housing residence?

Mr. NICHOLS. I don't know.

Senator PROXMIRE. I don't think that they are very encouraging there either. I could be wrong.

Now, when you look at what you presented us with, it seems to me there are several things we need. We obviously need more savings.

Mr. NICHOLS. Right.

Senator PROXMIRE. We have incentives in the Tax Code to encourage savings. They haven't worked. In Argentina, which has an appalling situation, it makes our situation, 1,000 percent inflation, they print 25 percent of the money they need in order to meet their costs, they are adopting a very radical program which is to begin to work on including forced savings.

Paul Douglas, who is the only real economist to ever serve in the U.S. Senate, used to advocate forced savings.

Do you think that is a policy that you might consider?

Mr. NICHOLS. No; I would not. Forced savings means many things, but that was saving through inflation, just force people——

Senator PROXMIRE. I am not talking about doing it through inflation. I mean a policy that requires people to either pay taxes or to save their part of their income, or even mandate that; if you have an income of $100,000 a year you have to save say $25,000.

Mr. NICHOLS. Mandate it and then it is held in an account for you by Government or in some financial institution?

Senator PROXMIRE. That is right.

Mr. NICHOLS. I would still oppose it. I still favor free choice.

Senator PROXMIRE. I am inclined to do so too, but I think it is something we have to look at.

If we have this very, very high level of unemployment at a time when we have this terrific fiscal policy which should stimulate the economy, and I think a monetary policy to stimulate it, I can't see anything but unemployment is likely to go higher in the future. Isn't it time that we take a look at our national wage hour law, for 50 years we haven't changed the wage hour law which established a 40-hour week and time and a half for overtime. We used to have a 6-day week and a 10-hour day and people worked 60 hours a week. We cut that down and that was one of the things that helped us provide more jobs. If we provide double time for overtime, that will, according to the figures that I have seen, increase employment by, reduce unemployment I should say, by 1 million. If we provide for a 35-hour week and make it mandatory, double time for overtime for those that work over that, that would also share the work. I am very concerned about it. I am not sure that is the right policy but I think we ought to discuss it and consider it. It will be somewhat inflationary. It will increase labor costs. It will also provide more jobs.

Mr. NICHOLS. I would put that in the category I call palliatives. It is not going to change the trade problem and is not going to help manufacturing.

Senator PROXMIRE. But we would have to negotiate it internationally. We would have to negotiate with other countries to adopt a similar policy. There is nothing magic about a 40-hour week or time and a half for overtime. So it is something we ought to think about.

There is a proposal for an enormous increase in antimissile defense, so-called star wars or SDI. We are told that this will absorb 40,000 engineers and scientists, 40,000. It will absorb a great deal of the research down at the University of Wisconsin.

Couldn't this have a very serious effect on research and development in the private sector, and in the economy generally, in taking away from the economy the kind of scientific capability that we otherwise would have?

Mr. NICHOLS. I haven't looked at this but certainly that is an enormous number.

Senator PROXMIRE. It is my understanding that the Japanese have spent 1 percent of their R&D on military. We spend 40 percent. So isn't that a disadvantage for us?

Mr. NICHOLS. Probably; certainly commercial disadvantage, yes.

Senator PROXMIRE. Thank you, Mr. Chairman.

Representative OBEY. Let me just summarize, then, with one question.

You indicate a number of things that we can do around the margins to try to improve our competitiveness as a country. I think the thrust of your testimony is that no matter what we do, we are really, in your judgment, not going to effectively deal with the gut problem in terms of the long-term erosion of our competitive ability unless we do get that deficit down in order to help relieve whatever portion of the pressure on the dollar is coming from that deficit.

Mr. NICHOLS. That is right.

Representative OBEY. Let me ask you, as the chairman of the economics department of one of the great universities of this country, do you know of any other way that we can get that deficit down, except by cutting spending and raising revenue?

Mr. NICHOLS. No. I do not.

Representative OBEY. I don't either.

Let me ask, because I indicated we would try to save a few moments for questions from the audience. Is there anybody from the audience who would like to ask Mr. Nichols a question or two?

I guess not. You got off easy. Thank you very much. We appreciate your coming up.

I ask Mr. Cleary, president, chairman, and chief executive of the G. Heileman Brewing Co., Inc., to come forward; and Ms. Katharine Lyall, acting president, University of Wisconsin; Mr. Russell Bauman, economic development manager for Wisconsin Bell; and Kevin O'Connor, assistant vice president of the First Wisconsin National Bank. Please come forward.

We have asked Mr. Cleary to provide the committee with an analysis of the strengths and weaknesses of the Wisconsin economy and its business institutions, from the perspective of someone who has served on the Wisconsin Strategic Development Commission.

Ms. Lyall is a distinguished economist in her own right in addition to being acting president of the University of Wisconsin. And Mr. Bauman or his firm has been conducting a business retention and expansion survey of over 1,200 manufacturing firms in the State.

Mr. O'Connor has been invited to assess the availability of financing for corporate and small business development in the State.

Let me ask each of you to proceed for about 12 to 15 minutes, if you would. And we are going to have to be very tight on the time in order to give some opportunity for questions.

I think we are going to run the timer at 15 apiece; OK.

We will try to be gentle, but we do have to hold to the schedule.

Mr. Cleary, why don't you begin.

STATEMENT OF RUSSELL G. CLEARY, PRESIDENT, CHAIRMAN OF THE BOARD, AND CHIEF EXECUTIVE OFFICER, G. HEILEMAN BREWING CO., INC.; AND MEMBER, WISCONSIN STRATEGIC DEVELOPMENT COMMISSION

Mr. CLEARY. Thank you.

I am Russell Cleary of the G. Heileman Brewing Co. Heileman has 10 production facilities located throughout the State of Wisconsin, engaged in brewing, baking, snack foods, metal products, and sign manufacturing business.

During the past 18 months, I have served as a member of the Wisconsin Strategic Development Commission, a group of 22 representatives from business, labor, education, agriculture, and government, who attempted to develop a long-range strategic plan for Wisconsin's economic future.

As both a businessman and member of the commission, I am pleased to have the opportunity to comment on economic development issues at this important hearing of the Joint Economic Committee. It is encouraging to have this hearing in Wisconsin as opposed to Washington, DC.

Let me thank you for focusing upon the Wisconsin economy and for bringing together an outstanding group of witnesses to address many key questions facing the State.

My assignment is to outline certain strengths and weaknesses of the Wisconsin economy and to highlight some of the findings of the Wisconsin Strategic Development Commission. You will be hearing from other representatives of the commission tomorrow, including cochair Hal Kuehl and executive director Bob Milbourne. They will present the strategic plan which was submitted to Governor Earl at our final meeting on August 1.

Today, I will focus on current realities and Wisconsin's balance sheet of assets and liabilities from an economic development standpoint.

During the work of the Wisconsin Strategic Development Commission, more than 200 individuals from government and business helped to identify the positive and negative features of Wisconsin. Ten major industry task forces with CEO's from large and small companies, labor and commission members took a hard look at our existing job base and identified specific strengths and weaknesses in Wisconsin.

A series of 50 major papers were prepared on significant economic issues that produced useful analysis and a strategic focus. Throughout all of this work the commission tried to dispassionately review the current realities within our State. There are many strengths that should be mentioned.

Let me list a few: We have a diverse economy that includes strong manufacturing, agriculture, tourism, and service sectors. Major companies within these sectors have shown considerable success and represent some of the higher quality firms within their business.

We have a high-skilled labor force with a reputation for its strong work ethic. We have an infrastructure already in place, including roads and bridges, utility services, parks and recreation, and abundant water resources.

We have a world-class university system that offers significant economic development potential, a high-quality elementary and secondary school system that can compete with any other State in the country, vocational training services that are ranked at the top in the United States.

We have a relatively favorable business tax climate, particularly for manufacturers. We have an able government with men and women of integrity at all levels.

We have a clean environment that makes Wisconsin an attractive place to live, work, and visit, and an array of high-quality public services that are the envy of most other States.

These assets, however, are offset by a series of liabilities that must also be considered. They include a relative high personal tax that creates a negative image for Wisconsin, a range of business tax irritants that offend individual Wisconsin companies and do not raise significant revenue, an expensive government that is increasingly difficult to afford, given the recent economic downturn, a lack of adequate entrepreneurship, venture capital, and new business formation, a university system perceived by at least some in the private sector as antibusiness, a discernment by the business community that government officials tend to be less supportive of economic development than is perceived to be true in other States, a regulatory climate that appears more severe than in most other States, and creates a negative image for Wisconsin in the minds of many business leaders, an economy that significantly depends on manufacturing, a sector which has suffered in recent years, and a dependence on exports that has been adversely affected in recent years by high real interest rates and the strong dollar.

As one reviews the strengths and weaknesses of Wisconsin, it is interesting to note that significant opportunity exists in our State. The assets tend to be in areas that can play major strategic roles in our future, while our liabilities tend to be things which are relatively easy to correct. If our State did not already have a quality workforce, education system, or infrastructure, it would be difficult to create them. It has taken decades for Wisconsin to develop these assets, and it would take other States just as long to match our competitive edge.

On the other hand, our liabilities are not so difficult to change. High personal taxes, particularly individual income, capital gains, and inheritance taxes, expensive government programs, and attitudinal problems can be corrected more readily than structural weaknesses that are faced in many other States.

It is much easier to find ways to direct the resources of a great university toward economic development than it is to create a great university.

It is easier to encourage public officials to support the needs of the private sector than it is to create a competent and clean government.

It is far easier to deal with the issue of wage rates than it is to create a skilled work force. It is easier to create entrepreneurial incentives than it is to build a complete infrastructure to support economic growth.

And it is far easier to remove minor tax irritants that hurt individual Wisconsin companies and raise very little revenue for the

State than it is to completely reform the corporate income tax to make it competitive with other States.

The work of the Wisconsin Strategic Development Commission centered on both the strengths and weaknesses of Wisconsin.

In any worthwhile strategic planning process, it is important to identify ways to take advantage of your strengths and minimize your weaknesses. For this reason, the commission developed over 100 specific recommendations that build on Wisconsin's major assets and correct the liabilities.

Tomorrow you will hear about the proposals recommended to improve the long-term prospects of the State's economy. There is much that needs to be done by both the Government and business.

Together we can make Wisconsin a stronger place to run a business, create jobs, and enjoy our quality of life.

Thank you.

Representative OBEY. Let me have all of the witnesses comment first and then we will have questions from the panel. Ms. Lyall, please proceed.

STATEMENT OF KATHARINE C. LYALL, ACTING PRESIDENT, UNIVERSITY OF WISCONSIN SYSTEM

Ms. LYALL. My name is Katharine Lyall. I am the acting president of the University of Wisconsin system.

The people of Wisconsin have historically made an unusually strong commitment to public higher education, and the result is that this State has in its university system an extraordinary resource for economic development.

Today I would like to provide a brief overview of the UW system, what it is doing to assist in improving Wisconsin's economic development, and what we plan for the future in this important area.

Without question, UW-Madison is regarded as one of the Nation's most distinguished undergraduate, graduate, and research facilities, and more and more, UW-Milwaukee is making its presence known as a front rank urban university with an outstanding group of researchers and scientists active at the graduate level. But the university system also consists of 11 other 4-year degree-granting institutions, all of which offer some graduate level programs, 13 2-year centers that provide undergraduate education which is transferable to the degree-granting institutions, and a statewide extension that was the early national model for most of the other such extension programs in this country.

In addition to educating thousands of students, these institutions contribute solid cultural and intellectual resources to the areas in which they are located.

In this role alone, these institutions have frequently played an important part in the decision to relocate existing businesses or establish new ones. In assessing areas being considered for possible relocation, business and industry invariably count the presence of a college or university as an increasingly important asset and ally.

Wisconsin's public universities, centers and extension also communicate with private enterprise in a very direct and pragmatic manner, as well. Most of the universities include a small business development center, which actively provides businesses that have a need for their extensive expertise with prompt and effective counseling.

Some of these centers have special strengths in particular areas such as technology transfer, and this expertise is shared among other centers around the system.

It is gratifying to note that the Wisconsin Innovation Service Center at the Business School of UW-Whitewater was praised as a integral part of Wisconsin's business development efforts in a recent issue of High Technology, a national magazine published in Boston.

The magazine notes that the center has evaluated more than 1,300 inventions since its inception in 1980. Outside the arena of small business, today's industry often looks toward our universities for particular expertise in the sciences, engineering, and advanced entrepreneurial strategies.

It is here that the University of Wisconsin system has special strengths. Both the university-industry relations program at UW-Madison and the technology transfer project at UW-Milwaukee represent sophisticated efforts to bring higher education resources to bear wherever they are needed in the private sector.

The research park now under development by UW-Madison constitutes an additional important link in the growing bond between academic research and commercial applications. I am happy to report that both the Governor and the State legislature have strongly endorsed the important role the university system will continue to play in Wisconsin's economic development.

In the current legislative session, which ended only a few weeks ago, a substantial number of proposed UW System initiatives related to research and development received funding for the 1985–1987 biennium. For instance, additional funds were provided for continuation of a biotechnology center at Madison, begun as a pilot project last year with a private grant. This center concentrates on genetic engineering and other sophisticated technologies that permit the manipulation of organisms in the production of new processes and products. We received additional funds for a consortium for research and extension activities in agriculture and natural resources.

This consortium involves scientists and staff at four of our universities. The office of industrial research and technology transfer at UW-Milwaukee, previously supported by interim grants from the State's department of development, is now operating under legislative appropriation, as is the UW-Milwaukee project on research in engineering, business, and technology.

In all, over $2.2 million was approved in such additional State-supported funding, related directly to university activities with private sector applications.

The appropriation for ground water management, research, and extension is a perfect case in point. 25 percent of Wisconsin's manufacturing needs for water, are met from aquifers, the underground strata of rock, sand, and gravel that carry water to our wells. Pulp and paper manufacturers, fruit and vegetable processors, cheesemakers, electroplaters, meat processors, and brewers are among the large Wisconsin industrial users of high quality ground water. Agriculture is also an increasingly heavy user of this water, both to ensure high quality milk and for irrigation.

Recently a wide variety of chemical contaminants from numerous sources have been finding their way into our State ground water.

The new appropriation will permit us to develop within the university system, in consultation with citizens, industries, and Government agencies, ground water management strategies to ensure the long-term safety and usability of the State's reservoirs.

In total, the UW System expenditures from all sources for research activities in the 1985–87 biennium will amount to something on the order of $226 million. While the greatest portion of this activity will occur at UW-Madison and UW-Milwaukee, a significant amount of research work is conducted at other sites around the State as well.

For example, the Sea Grant College Program, while based at UW-Madison, funds research and information projects as far north as UW-Superior, in the northeast at UW-Green Bay, to the east at UW-Milwaukee, and even at such landlocked institutions as UW-Stevens Point. The ground water management project I spoke of a moment ago will also involve faculty from numerous UW System institutions.

Because some of our UW System institutions are so successful in attracting extramural support for research and other activities, it has been suggested that they might be properly regarded as the State's leading smokeless industries.

For example, more than 57,000 UW System undergraduates received $164 million in need-based aid in 1983–84. Ninety percent of that aid is received from Federal sources. In any case, the institutions of the university system do have a direct positive impact on the economy of the State that is sometimes overlooked when we talk only of the tax appropriation needed to underwrite a portion of their operation.

A comprehensive new study by the UW-Madison School of Business demonstrates that UW-Madison's economic impact on Madison and Dane County alone totals $1.4 billion a year and 40,000 jobs. University employees and their households spend $186 million a year in local businesses, more than the $164 million in student spending and the $138 million spent by visitors.

That university's impact on the rest of the State exceeds hundreds of millions of dollars. Other UW System universities also have a significant impact on their surrounding communities that should not be overlooked when assessing the impact of the university on economic development in the State of Wisconsin.

But beyond that, I want to continue to stress an attitude toward our public universities, the centers and extension as State resources. Where business and industry once only searched for sites which provided proximity to the minerals and water needed for their manufacturing processes, the availability of railheads and other shipping facilities, and a pool of cheap labor—the process of site selection today has become vastly more sophisticated, and the requirements much more refined.

Frequently the proximity of university-based scientific and engineering activity is far more important than the existence of a rail spur, and the proven skill of Wisconsin's work force outweighs considerations of minimal labor costs. In 1981 we appointed a systemwide task force to identify that amount of then current university-industry contacts.

The report that results, "A Profile of Resources for Business and Industry," listed more than 250 UW System units, mostly academic departments, that provided direct assistance to at least one Wisconsin firm within the immediate past. The report also noted that many thousands of consulting contacts are made by individual members of the faculty which simply were not counted. A new edition of this report is now being prepared, and we are confident that we will find there has been a significant increase in the amount of university-industry contact.

The range of assistance available is very interesting. UW-extension, for example, offers a whole series of seminars and conferences for municipal officials to assist with their economic development planning. There are at least two programs in applied robotics research.

Genetic engineering has fostered some recent industrial growth in Madison. Medical technology is very much in evidence. Much of the UW system's activity in the Great Lakes aims at long-term improvements in commercial fishing.

I could go on with many more details but I think if you care to peruse some of those documents, you will find the details there. I will simply indicate that the Wisconsin Strategic Development Commission in its deliberations recognized the university's position as an asset to be tapped for economic development in the State. It made a number of useful suggestions and recommendations, some of which we already have underway and some of which we hope to get underway in the coming years.

Those include a systemwide study of our business and management programs to see whether we can make sure that they are meeting the needs of Wisconsin industry as well as doing the things they ought to be doing academically to maintain academic excellence.

We have several business representatives on that study committee. We also made some suggestions through the committee, the commission report, for some future activities that we think would be useful.

Among those were the provision of some funds for release time for faculty so that faculty could take what we have called "research leaves" for periods of 6 to 12 months to go to industry and to work on specific applied projects that would make use of some of the theoretical work they have been doing in the university laboratories.

We hope that we will be able to mount some of those research leaves in the coming year.

It was also suggested that we might develop a challenge fund to match private dollars for some endowed chairs for faculty in engineering and management, business and related economic development areas.

The technology development fund, the State fund that I mentioned to you earlier, was refunded in this biennium, for the coming biennium at a level that was double its previous $2 million funding and that will enable us to pursue again some of the joint projects that involve university research together with industry in some very interesting pilot projects that are now going on.

So I think there are a number of things that we need to do and are currently undertaking to make the university system as a system, as a collection of institutions, a more valuable resource to the State. I will stop there.

Representative OBEY. Thank you.

[The prepared statement of Ms. Lyall follows:]

PREPARED STATEMENT OF KATHARINE C. LYALL

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Without question, UW-Madison is regarded as one of the nation's most distinguished undergraduate, graduate and research facilities--and more and more, UW-Milwaukee is making its presence known as a front rank urban university with an outstanding group of researchers and scientists active at the graduate level.

But the university system also consists of 11 other four-year degree-granting institutions (all of which offer some graduate level programs), 13 two-year centers that provide undergraduate education which is transferable to the degree-granting institutions, and a statewide Extension that was the early national model for most of the other such extension programs in this country.

In addition to educating thousands of students, these institutions contribute solid cultural and intellectual resources to the areas in which they are located. In this role alone, these institutions have frequently played an important part in the decision to relocate existing businesses or establish new ones. In assessing areas being considered for possible relocation, business and industry invariably count the presence of a college or university as an increasingly important asset and ally.

Wisconsin's public universities, centers and extension also communicate with private enterprise in a very direct and pragmatic manner as well. Most of the universities include a Small Business Development Center, which actively provides businesses that have a need for their extensive expertise with prompt and effective counseling. Some of these centers have special strengths in particular areas such as technology transfer, and this expertise is shared among other centers around the system.

It is gratifying to note that the Wisconsin Innovation Service Center at the business school of UW-Whitewater was praised as an integral part of Wisconsin's business development efforts in a recent issue of High Technology, a national magazine published in Boston. The magazine notes that the center has evaluated more than 1,300 inventions since its inception in 1980.

Outside the arena of small business, today's industry often looks toward our universities for particular expertise in the sciences, engineering, and advanced entrepreneural strategies. It is here that the University of Wisconsin System has special strengths.

Both the University-Industry Relations program at UW-Madison and the Technology Transfer project at UW-Milwaukee represent sophisticated efforts to bring higher education resources to bear wherever they are needed in the private sector. The research park now under development by UW-Madison constitutes an additional important link in the growing bond between academic research and commercial applications.

I am happy to report that both the governor and the state legislature have strongly endorsed the important role the university system will continue to play in Wisconsin's economic development.

In the current legislative session, which ended only a few weeks ago, a substantial number of proposed UW System initiatives related to research and development received funding for the 1985-87 biennium.

For instance, additional funds were provided for continuation of a Biotechnology Center at Madison, begun as a pilot project last year with a private grant. This center concentrates on genetic engineering and other sophisticated technologies that permit the manipulation of organisms in the production of new processes and products.

We received additional funds for a consortium for research and extension activities in agriculture and natural resources. This consortium involves scientists and staff at four of our universities.

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In all, over $2.2 million was approved in such additional state supported funding, related directly to university activities with private sector applications.

The appropriation for "Groundwater Management, Research and Extension" is a perfect case in point. Twenty-five percent of Wisconsin's manufacturing needs for water are met from aquifers--the underground strata of rock, sand and gravel that carry water to our wells. Pulp and paper manufacturers, fruit and vegetable processors, cheese makers, electroplaters, meat processors and brewers are among the large Wisconsin industrial users of high quality groundwater. Agriculture is also an increasingly heavy user of this water, both to ensure high quality milk and for irrigation.

Recently a wide variety of chemical contaminants from numerous sources have been finding their way into our state groundwater. The new appropriation will permit us to develop within the university system, in consultation with citizens, industries and government agencies, groundwater management strategies to insure the long-term safety and usability of the state's reservoirs.

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For example, the Sea Grant College Program, while based at UW-Madison, funds research and information projects as far north as UW-Superior, in the northeast at UW-Green Bay, to the east at UW-Milwaukee, and even at such land-locked institutions as UW-Stevens Point.

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Because some of our UW System institutions are so successful in attracting extramural support for research and other activities, it has been suggested that they might be properly regarded as the state's leading smokeless industries. For example, more than 57,000 UW System undergraduates received $164 million in need-based aid in 1983-84. Ninety percent of that aid is received from federal sources.

In any case, the institutions of the university system do have a direct positive impact on the economy of the state that is sometimes overlooked when we talk only of the tax appropriation needed to underwrite a portion of their operation. A comprehensive new study by the UW-Madison School of Business demonstrates that UW-Madison's economic impact on Madison and Dane County alone totals $1.4 billion a year and 40,000 jobs. University employees and their households spend $186 million a year in local businesses, more than the $164 million in student spending and the $138 million spent by visitors. That university's impact on the rest of the state exceeds hundreds of millions of dollars. Other UW System universities also have a significant impact on their surrounding communities that should not be overlooked when assessing the impact of the university on economic development in the state of Wisconsin.

But beyond that, I want to continue to stress an attitude toward our public universities, the centers and extension as state resources. Where business and industry once only searched for sites which provided proximity to the minerals and water needed for their manufacturing processes, the availability of railheads and other shipping facilities, and a pool of cheap labor--the process of site selection today has become vastly more sophisticated, and the requirements much more refined. Frequently the proximity of university based scientific and engineering activity is far more important than the existence of a rail spur, and the proven skill of Wisconsin's work force outweighs considerations of minimal labor costs.

In 1981 we appointed a systemwide task force to identify that amount of then current university-industry contacts. The report that resulted, A Profile of Resources for Business & Industry, listed more than 250 UW System units--mostly academic departments--that provided direct assistance to at least one Wisconsin firm within the immediate past. The report also noted that many thousands of consulting contacts are made by individual members of the faculty which simply were not counted.

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The range of assistance available is very interesting. UW-Extension, for example, offers a whole series of seminars and conferences for municipal officials to assist with their economic development planning. There are at least two programs in applied robotics research. Genetic engineering has fostered some recent industrial growth in Madison. Medical technology is very much in evidence. Much of the UW System's activity in the Great Lakes aims at long-term improvements in commercial fishing.

We also have recently seen the development of a growing number of university/industry consortia. Under these arrangements, several industrial firms with mutual research interests provide support for a designated academic research area. The industries gain lead time on developing technologies, personal contacts with research faculty, and familiarity with graduate students who are potential future employees. UW-Madison currently numbers 21 of these consortia among its industry contacts.

Another indicator of the UW System's commitment to the state's future economic development was the creation of an important new position in its central administration. As of the first of this year we now have a full-time Assistant Vice President for Government and Business Relations.

As you may know, I served as a member of the Wisconsin Strategic Development Commission which has just presented its final report to Governor Earl. The commission made a number of recommendations related to the UW System--recommendations which are intended to achieve a number of well defined goals. In the coming months, university system administrators, faculty leaders and others will be evaluating these recommendations and goals to ensure that the full potential of our institution is realized in this regard.

In a recent week, Wisconsin newspapers reported a number of items dealing with the relationship of the University to Wisconsin industry and business as well as to development abroad. I will cite three diverse examples. The

Milwaukee Sentinel reports that scientists at the UW-Madison Synchrotron Radiation Center have made significant progress in an effort to use x-ray lithography to make the integrated circuits that now fuel the multibillion dollar computer and microelectronics industries into circuits one-tenth the size of the smallest chips now produced. The Business section of the Wisconsin State Journal tells us that Assistant Professor William Berggren, an Extension specialist in purchasing, materials and information for the UW-Madison School of Business Management Institute, received the "1985 Faculty Fellowship" sponsored by the Milwaukee Association of Purchasing Management and Snap on Tools Corporation of Kenosha. Dr. Berggren will spend 8 weeks this summer observing the purchasing operation of the company. Finally, the Wisconsin State Journal reports that beyond the boundaries of the state, a satellite and computer software developed at the UW-Madison Space Science and Engineering Center enabled thousands of people in Bangladesh to flee the powerful hurricane and devastating tidal surge in June. The system also will be useful to fishermen and farmers in Bangladesh and elsewhere, by providing information on the location of warm and cold ocean currents which helps to locate fish and information on the moisture content of soil for use in agricultural forecasts.

As a state, Wisconsin has made an uncommon investment in public higher education. Now, at a time when it has become widely recognized that we must take aggressive action to maintain and improve our economic base in Wisconsin to protect what we feel is an especially desirable quality of life, it is widely recognized that the university system is a uniquely valuable resource in achieving this goal. And the university system, for its part, will continue to undertake the programs and activities that will fulfill its role as a major catalyst and participant in the maintenance and growth of the state's economic future.

Representative OBEY. Mr. Bauman, please proceed.

STATEMENT OF RUSSELL BAUMAN, DISTRICT MANAGER FOR ECONOMIC DEVELOPMENT, WISCONSIN BELL, MADISON

Mr. BAUMAN. I would like to make it perfectly clear that I am not an economic expert. I am simply a collector of information and the views that I will express in this presentation are really those of the business people that have taken part in this.

Wisconsin Bell began this program—I think I would like to do this in two parts. The first part is an explanation of the program so you understand how we accumulate information. And then I will respond to the four areas that you have indicated an interest in.

Wisconsin Bell began this program about 3 years ago. Unlike most other economic programs, it directs its attention almost entirely toward the retention and expansion of the existing business base in Wisconsin.

We believe that the best jobs you are ever going to have in Wisconsin are the ones that are here right now and we ought to do all we can to preserve those jobs.

We started the project in Wausau, our pilot location. It became so popular that we began getting demands from other communities and before we were able to complete the project, we were in the process of doing the study in Kenosha and Eau Claire.

Since that time we have now completed a project in 26 communities and the information we have collected represents responses from 1,333 firms, which is 82 percent of the firms that we targeted originally in these communities for the study.

That 82 percent gives you some idea of the interest level on the part of businessmen in taking part in this study; 90 percent of our contacts are with the chief executive officers of these firms, and so the source of the information is really the top of the industrial house.

I have to stress that this is not a Wisconsin Bell study. This is a community project. Wisconsin Bell simply is the catalyst to make it happen. We helped with the administration of the program and, of course, we absorb the financial cost of this program.

Normally, in the community the focal point for the project is the chamber of commerce. We need the chamber of commerce's support because we need volunteers to conduct the studies. We also need the chamber because we have to find a place where we can maintain a high level of confidentiality since the information you get on a per business basis is extremely confidential.

By maintaining our records in the chamber office, we can maintain that level of confidentiality.

In addition to the chamber, of course, we have to have support of local government.

I can tell you, based on our past experiences, that you will find on the average 2.5 local government infrastructure complaints per business, and if we spend 2 or 2½ hours talking about these problems and do not have a plan to address those issues we identify, I don't think we should do the study. So we need the support of local government to help us address the issues as they relate to local government infrastructure.

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In addition to that, the vocational technical schools have played a very active part in the project not only by providing interviewers to conduct the interviewing process, but they also create and have developed data bases for maintaining information.

The process, the interview process takes about 2 to 2½ hours and during that period of time we fill out a 44-page questionnaire which provides us with 135 entries that become part of that base, and 15 narrative responses that are not in the data base but are extremely valuable in doing a subjective analysis of each of those individuals' businesses.

The task force is created at the onset of the project and their responsibility is to help address those issues and help the businessmen in the areas that they have covered as problems.

We have two primary objectives in conducting this study. One of them is to collect this mass of information and store it locally so that it can be used on an ongoing basis by the local community in any other economic programs.

Second, probably the most important objective, is to identify those businesses in the community that have plans either for relocation or expansion and have plans for relocation, and identify the problems associated with that business, and then through the task force readdress those problems and encourage that businessperson to stay in the community.

The entire process, from the onset of training the interviewers until the presentation of a final presentation, is 6 to 9 months.

There were four areas you asked me to address in this hearing today. One was the factors that influence manufacturers' ability to grow and expand in Wisconsin. That is really a three part question. The first part asks the businessmen to rank his community as a place to do business and also to rank the State as a place to do business. That ranking is on the basis of excellent, good, fair, and poor.

I might say that generally the community is ranked much higher in terms of a place to do business. About 82 percent of the respondents say excellent or good in terms of the community.

However, in terms of the State of Wisconsin, that percentage is about 47 percent.

We tried to analyze why the ranking of the State is lower than the ranking of the community, and one of the conclusions we came to is perhaps the more removed you are from the government that provides the service, the less likely you are to rank them high.

We don't ask about the Federal Government. I suspect that if we did ask about the Federal Government, your ranking may be lower.

There are two follow-up questions after that ranking. One is, what is—what do you see as positive about the State of Wisconsin and what do you see as negative? We had 953 responses that were positive and 1,228 responses that were negative. And the ranking, first of the positive responses, are these: The quality of the work force was No. 1. The quality of the life in Wisconsin is No. 2, government services No. 3, resources and recreation No. 4.

Under negative responses, the No. 1, won't come as any great surprise. The No. 1, negative response is taxes. The No. 2, is government services. No. 3, is regulations.

Senator PROXMIRE. What was No. 1?

Mr. BAUMAN. Taxes. And No. 4, is climate. If you have a solution for winter, I think we could improve that perception.

We used taxes as a generalized category, so we broke that down in the responses that we received. In many cases we just simply get taxes as a general response, as a negative for doing business in Wisconsin. That is No. 1, general category of taxes, 348 responses.

Personal income tax is No. 2, with 187 negative responses.

Corporate income taxes, which is a perception that I don't believe matches reality, is 93, and it is in third place in terms of overall taxes.

That is followed by unemployment tax. I think the interesting thing in these negative responses is that the disparity between the No. 1 negative response and the No. 2—No. 1 tax brings us 700 negative responses, and the No. 2, which is government services, brings us 288 negative responses.

Follow-up question, again to that same area is, How can Wisconsin become more probusiness in the future? The No. 1 issue, to improve taxes, with 354 responses. No. 2 is, improve government attitude, and No. 3, is to change regulations.

The third area that you asked me to discuss was the factors leading to relocation of businesses, either within the community or within the State or outside the State.

Specifically the question we asked is, Do you have any immediate plans for relocation of either all or part of your business? 244 out of 1,300 responses are yes. So that is about 18.6 percent have some immediate plans for relocation.

I have to break that down. Of that 244, a half of them are saying that they will stay within the community. The other half are going to either stay within the State or leave the State.

The follow up question then is, Why are you going to relocate? The No. 1 reason why any business has ever relocated is they have no room to expand on present location. No. 2 reason they give us is they have no land for expansion. No. 3, is changing market conditions. No. 4, is labor costs. No. 5 is high State corporate taxes, and No. 6, is the cost of energy.

Once again, I think the high cost of corporate taxes and the cost of energy are perceptions that do not match reality. The cost of energy in Wisconsin is extremely favorable to the businessman.

Next question is, What factors are affecting your recruiting to get qualified people to come to the State of Wisconsin to work? It is a multiple choice question.

The three high positives are quality of life in Wisconsin, K through 12 educational system, and the area of technical schools. The businessman is telling us that those are the primary reasons he is able to get qualified people to come to Wisconsin to work.

I suppose it comes as again no great surprise that the No. 1 negative, is personal income tax and the No. 2, is climate. In between those positives and negatives is the cost of housing and the cost of living. That is more positive than it is negative.

Finally, the fourth issue that you asked me to address was the factors affecting businesses' financial condition. Once again, it is a multiple choice question.

The No. 1 issue, is market conditions in the economy. No. 2, are the interest rates. No. 3, are material costs. No. 4, is labor costs. And No. 5, is energy costs. No. 6, is State corporate taxes.

I might point out that when we initially did the study in Wausau, interests rates were the No. 1 reason. At that time interest rates were 17 and 19 percent. I think this reflects a change in the interest rates overall.

Those would conclude my remarks as it relates to the questions you asked.

Representative OBEY. Thank you very much.

Mr. O'Connor.

STATEMENT OF KEVIN D. O'CONNOR, ASSISTANT VICE PRESIDENT, FIRST WISCONSIN NATIONAL BANK, MILWAUKEE

Mr. O'CONNOR. Thank you. I am Kevin O'Connor, assistant vice president of the First Wisconsin National Bank, Milwaukee, and manager of its economic development department.

First Wisconsin is the only bank in the State that has formally focused staff resources on the State's economy and development efforts. Managing those efforts has allowed me to research some of the issues that I will address today as well as having direct contact with many firms attempting to meet their capital needs.

Your hearings in the next several days will do much to spotlight the Wisconsin economy and the suggestions that are currently circulating regarding strengthening it. I have been asked to comment on the availability of capital in Wisconsin, issues regarding its supply and demand, and recommendations that I might make to close any gaps that may exist.

While there are many others whose competency in this subject far exceeds mine, I have consulted with and reviewed the research of experts in Wisconsin who have addressed this subject, and I would like to present to you my interpretations.

The overall context of this discussion must be considered within the economic strength of the State and national economies. An expanding economy brings demand for capital to meet the needs of increasing demand for one's product.

An entrepreneurial economy brings demand for seed and growth capital as entry into a thriving economy is perceived to be profitable. A mature economy brings with it the demand for working capital that would have been generated by sales and profit growth, but which is now being consumed to meet current expenses and maintain a corporate infrastructure to compete for a declining share of business.

Throughout any economic cycle these demands will exist. It is necessary to review the national economic picture because it goes without saying that the Wisconsin economy does not exist in a vacuum. To a very large degree, the State has no control over its own economy. It cannot control monetary policy.

The State's fiscal policy does not cause disruptions in the supply and demand for capital, but its significance is a good deal less than the effects of national fiscal policy. Wisconsin's capital goods manufacturers are facing new competition in their world and domestic markets from foreign producers that were not factors in the marketplace in the 1970's.

This competition has been accelerated due to the strength of the American dollar. Wisconsin industry in such areas as construction machinery, agricultural equipment, and machine tools are facing aggressive pricing and marketing strategies. Demand for capital for technology development, retooling, and working capital needs will be significant in the future from these industry sectors as they also face declining and perhaps negative profit margins.

There is a specific need to address the needs of companies that can successfully compete in the marketplace if the dollar was at a reasonable exchange rate. Stimulative fiscal policies and tight monetary policies have had a significant effect on the manufacturing sector in the United States.

This effect was particularly strong in Wisconsin. Rapidly rising interest rates have raised the cost of goods of Wisconsin manufacturers and consumed financial resources. Continued high real interest rates not only increase the cost of goods, but restrict the availability of long-term capital.

Fear of a return to double digit inflation and corresponding interest rates appears to be subsiding. However, actions outside Wisconsin's control will affect these perceptions. The Wisconsin economy is complex and not capable of any singular description or definition.

That is to the great benefit of the citizens of our State as they are not tied to the success or failure of any single industry.

I would like to discuss three so-called subeconomies and then review the public policy implications of their capital demands. A department of development study by Kay Plantes in 1982 questioned whether there were structural defects in the Wisconsin economy that would cause it to significantly lag behind the Nation as it entered a recovery from the very severe 1980–82 recession. Happily, that speculation was not accurate.

However, in May of this year, the unemployment rate in Wisconsin dropped below the national average for the first time in 4 years. Wisconsin's economy is experiencing a healthy recovery due to a strong rebound in nondurable goods and the service industry.

The supply of capital is attracted to companies both large and small who are participating in an expanding economy. Experience in the most recent recession requires a careful credit review for those looking for expansion capital. Industry sectors that are tied to markets affected by cyclical economic conditions need a strong cash flow to cushion against unexpected drops in demand for their products.

Large corporations that are experiencing strong noncyclical demand for their product, such as the paper industry, are successfully funding major expansions. Smaller well-managed companies in similar markets also will find a very competitive financial marketplace ready to meet their needs. The printing industry is a good example.

Those companies tied to cyclical markets and who must invest their retained earnings into equipment will face critical reviews from lenders who experienced significant collateral shortfalls during the last recession.

These companies will need to either increase their cash flow through reduced debt service or enhance their creditworthiness through some means other than the pledge of their equipment and plant as collateral if they are to meet their demand for expansion capital.

One of the questions frequently being discussed is the availability of capital for entrepreneurial activity. This capital is generally lumped under the term "venture capital."

There is a widespread belief that there are hundreds of Wisconsin business ventures ready to be launched if only so-called conservative bankers would open up their purse strings. I believe an examination of the Wisconsin entrepreneurial economy would be helpful in examining some of these myths.

Using 1975 as a base year, there was a 66-percent increase in the number of annual new incorporations nationally through 1983. In Wisconsin there was only a 26-percent increase. Recent figures released by Dun & Bradstreet confirms this trend. This lag in new corporations becomes significant in explaining the severity of the Wisconsin recession of 1980–82.

David Birch of MIT, in his study of the job generation process, concluded that bankruptcies and relocations were on an even level throughout the regions of the United States and were not significant in the loss of jobs. Large corporations were also relatively unimportant in the job generation process. The creation of new businesses was the engine that drove a thriving economy.

In examining the rate of new incorporations during Wisconsin's "star of the snowbelt" period, it is found that Wisconsin is running at only 42 percent of the national average. Thus, when the job generating forces of local industry expansion and branch-plant locations slowed during the recession, the effects were magnified by the lack of a job cushion created by newly formed ventures.

While at first blush one may wish to attribute this to a "rustbelt" syndrome, the data do not support such a conclusion. In 1983, Indiana and Minnesota, which bracket Wisconsin in population, experienced 8,846 and 8,202 new incorporations respectively. During that year only 6,340 new incorporations were filed in Wisconsin. During the recession Wisconsin experienced a rate of growth in new incorporations of 0.09 percent. Indiana's was 3.2 as was Minnesota's.

The 1984 data indicate that Wisconsin is experiencing half of the per capita rate of incorporations as the national average and continues to significantly lag its industrial neighbors. Our current economic growth is continuing the pattern of before the recession in relying upon existing Wisconsin businesses for its base. Such a reliance is predicative of another significant increase in the unemployment rate during the next recession. Is there a capital gap that might be responsible for these figures?

A study completed for the Wisconsin Strategic Development Commission by James Stone of the University of Wisconsin-Madison concluded that lack of so-called venture capital was not an impediment to business startup by the entrepreneurs he surveyed. He interprets his survey data in this way:

> The results suggest that those who did not start a business venture were more likely to have anticipated relying on loans from friends and government loans. The

availability of startup or worth capital from financial institutions, sale of stock retained earnings, or from venture capitalists did not emerge as barriers to initiating a business venture.

What factors are there that have led to this lack of new incorporations which could be described as a gap in the demand for capital in Wisconsin? One factor may be that we are not getting a return on our investments in our educational infrastructure.

Dave Birch found in his research on the generation of new jobs that metropolitan areas with a large university center were the leaders in a new business formations. He hypothesized that there was a research/product development synergism which spawned new incorporations.

He also found that these metropolitan areas were concentrated in the Northeast and Midwest. Neither Madison nor Milwaukee were found by Birch to have benefited from being major university centers.

The Wisconsin Strategic Development Commission identified a "brain drain" from the State when it found that Wisconsin conferred significantly more bachelor's degrees per 1,000 population than the national average, yet was below the national average for percent of population age 25 years or older who have graduated from college.

Steps have been taken in the last several years to increase business ties with our university system. Competitive Wisconsin's membership includes the president of the university system and the immediate past president Robert O'Niel examined the university's conflict of interests rules and revised those that he felt might unnecessarily restrict business/university collaboration. Wisconsin for Research was formed and funded privately to match university research with the R&D requirements of business.

The technology development fund was created by the State government, and in Madison an SBIC was privately capitalized which will focus on the Madison metropolitan area.

In Milwaukee, Chancellor Horton has been vigorous in developing business/university contact and the Metropolitan Milwaukee Association of Commerce is specifically working on university/business matchups. I emphasize this university connection not as a criticism, but as a very real issue in capital formation.

The forming of new businesses that are successful is an important catalyst in attracting venture capital. This fact has been emphasized by local venture capitalists. Another issue in the supply of capital in the State of Wisconsin is the taxation of its returns.

Mr. Sheldon Lubar of Milwaukee has frequently talked on this subject. Mr. Lubar's company is a noted provider of growth capital, particularly to industries in a mature market such as tanneries and malting.

He gives this definition of the entrepreneur:

Starting new businesses involves risks. Entrepreneurs take on these risks in return for the opportunity to make and keep money. This is what creates a dynamic economy. Without this process of constant renewal you have a downward cycle as businesses mature and decline. Actually, the specific task of the entrepreneur is to create and then exploit risk. No risk activities are paid for with wages. Profits belong to risktakers. The entrepreneur is the systematic riskmaker and risktaker.

But until 1982, Wisconsin treated capital gains as ordinary income. I agree with Mr. Lubar that the creation of new wealth through new business involved extraordinary returns. There can be little justification for the taxation of capital gains from the investment in new Wisconsin businesses as if it was earned through wages.

Thus, the completion of the federalization of Wisconsin's capital gains tax in the last legislative session is a welcome step, but it will not overcome immediately the effects of the previous treatment of capital gains. I wish to comment on Federal issues and will not review for this committee the many proposals for further targeting of Wisconsin's capital gains tax.

However, philosophically, policymakers will have to determine if they want so-called seed-venture-or growth capital to come from private resources. If so, then the microeconomic effects of Wisconsin tax policies on its creation must be seriously studied. Wisconsin also historically treated the taxation of inheritance in a more significant way than other States.

Only recently has there been reform that has encouraged the transfer of business assets to the next generation. Federal policy has encouraged uniformity in taxation of estates by its estate tax credit. Wisconsin has yet to take advantage of this uniformity.

Wisconsin's entrepreneurial economy is not strong compared to its neighbors and needs to be stimulated. Current research indicates that it is not a capital gap causing this entrepreneurial lag.

Factors such as weak university-business ties or the taxation of gains and inheritance from business ventures may be of cause. I will discuss a Federal capital gap, which I believe to be significant, in a few moments.

Data Research, Inc., conducted a study of industry sectors, their loan demand and their risk factors through the end of the decade. Not surprisingly, many industry sectors that are in mature markets are rated as having above average or high risk.

These sectors are well represented in Wisconsin's durable goods manufacturing component. Not all durable goods manufacturers are defined as having risk, and being in a mature market is not by definition a measure of risk.

Risk is defined in terms of balance sheet characteristics such as cash flow growth, variability, interest rate coverage, debt maturity, and liquidity.

Since this is proprietary research, I cannot define the specific industry sectors, but only use this information to illustrate a capital gap that will occur for some borrowers who may be large, as well as small businesses. Given this risk evaluation, having confidence in management, national and international economic events and a commitment to product line diversification will be important factors in provision of capital.

Further, one cannot ignore the fact that while First Wisconsin is the State's largest bank, it does not rank in the top 50 banks nationally in asset size. Thus, capital demands requiring significant review for their creditworthiness are falling upon a financial system that is not comparatively large.

Responsible financial institutions cannot be expected to fill their loan portfolios with loans with excessive risk. I have given you my analysis of issues concerning capital demand and supply in Wisconsin. It is by no means exhaustive. I would like to provide you with my observations on Federal policies for your consideration. At the outset, I must tell you I have a bias toward a free market approach. I believe that if you stimulate the growth of capital, it will be provided by those whose enterprises stand careful examination.

Very often what is seen as the availability of capital is really part of a winnowing process. Government intervention in that process must be made with strictly defined goals and processes that are targeted to those goals.

The financing of the Federal deficit will continue to compete for capital. Given the ability of the Federal Government to pay, it will always be first in line to satisfy its demand by increasing yields on its securities. These securities set the threshold in risk and return that other borrowers must compete against.

The inflationary fears that the deficit fans continues the record real interests rates now being experienced by borrowers.

Attention to the deficit should be the No. 1 priority in addressing capital needs of Wisconsin businesses by the Federal Government.

Expanding companies have benefited from the increased cash flow that tax-exempt industrial development bonds have provided. Elimination of these bonds will restrict the ability of many growing companies to expand. The Treasury proposal on this issue could be modified using the principle outlined by the House Committee on Banking, Finance and Urban Affairs in their December report.

Risk sharing through the SBA and the SBIC's and SBA chartered Business Development Finance Corporations has successfully provided capital to many small businesses that would not have previously obtained it.

This risk sharing has recognized the historical rates of failure of small enterprises. Elimination of these activities would be significant in Wisconsin.

The use of community block grant funds and Economic Development Administration grants to create local loan pools for participations in financings of businesses has also been used in Wisconsin to spread risk when appropriate. These funds also have been targeted somewhat by Federal regulations.

Tax incentives for the encouragement of ESOPS has been an important tool in retaining local ownership of companies that may have been sold to large conglomerates. They should be continued.

For Wisconsin's entrepreneurial economy, I suggest, No. 1, Federal capital gains reform proposals benefit the holders of securities rather than the investor of venture capital. By definition, this capital is patient money, paying no dividends, waiting for the recapitalization of the company for its payout.

Current proposals to index capital gains to inflation and then tax at ordinary income rates will chill the current increase in venture capital availability.

Targeting the tax treatment of enterprising-creating investments is important if the source of venture capital is to be broadened from its current base.

Silicon Valley and I-128 in Boston are not accidents of geography, nor are they the results of over State actions. Rather, there is the direct relationship that David Birch found to world-class universities and business formation. Wisconsin has that advantage also, and must further capitalize on it.

However, there also is another important capital allocation process going on in the States of Massachusetts and California. Massachusetts ranks first and California ranks fifth in its share of defense R&D dollars. Wisconsin ranks 45th. Defense R&D is 65 percent of all the Federal research and development efforts.

These dollars are vital in providing for the base for entrepreneurial new companies. We need assistance in directing those R&D dollars to the State.

Current tax reform which would change the depreciation and investment tax credit sections of the Tax Code must be examined for the specific impact it would have on large durable goods producing manufacturers in Wisconsin.

Research has indicated that the elimination of such preferences may be neutral on an industrywide sector basis but could significantly affect individual companies.

Since these industries are already facing increasing pressure on income from declining markets and foreign competition, a sudden shift in their tax liability will restrict their ability to raise capital for the necessary reinvestment in their corporate infrastructure.

The double taxation of dividends is also a hinderance to the supply of capital to these industries. Declining dividends restrict the ability to raise funds on the stock market while their taxation absorbs cash necessary for interest coverage.

Credit enhancement through the use of loan guarantee programs like the Economic Development Administration and the FmHA has played and can play a significant role in providing long-term capital for reinvestment when future markets and profitability are unclear.

Increasing Wisconsin's manufacturers' participation as prime Federal contractors will assist those mature industries that need orders to justify the retooling and modernization of their plant. The potential for Harley-Davidson to provide for the motorcycle needs of the Defense Department is a good example of low-technology defense procurement.

I hope that I have provided you with a Wisconsin perspective on the issue of capital availability. There certainly is more that can be discussed, but within the time constraints of your morning, I have tried to touch on what I consider to be the major points that your committee would find interesting.

Let me just close with this quotation: "I doubt if there is any occupation that is more consistently and unfairly demeaned, degraded, denounced and deplored than banking. Before almost any kind of a crowd you can always get a warm and encouraging response when you describe the bankers as grubbing, money-mad millionaires with hearts of stone, cold and glassy eyes and the annoying willingness to loan only when you do not need it.

"Let us hear one for your friendly or even unfriendly banker. If you really want an unsung hero, he is it," by Senator William Proxmire.

Thank you.

Representative OBEY. Let me start by trying to weave together a question for Messrs. Cleary and Bauman and O'Connor.

Mr. O'Connor, again, I am describing your statement the same way you described the university, by way of observation.

I note when you get to the conclusion, you list a number of concerns about the Federal Government and the impact of its policies on the State, and I can't help but note that while it is very difficult to agree with each of the specifics that you raise on all of them, I don't, the fact is that what your statement is suggesting is that we not take a number of actions which would reduce spending, and that we do take a number of actions which would reduce revenue.

I think there is something of the same thing in the study that you referred to, Mr. Bauman, and you, too, Mr. Cleary.

Mr. Cleary, in your statement you indicated that Wisconsin's advantages are a world class university system, high quality elementary and secondary school system, vocational training services that have ranked at the top of the United States, and that the disadvantages include relatively high personal taxes.

Mr. Bauman, in the study that you referred to, you indicated that the respondents to your survey indicated as good things about Wisconsin the quality of its work force, quality of life, quality of government services, quality of education and, in negative terms, they mentioned taxes.

I wonder how often each of you found, either in the survey that the Wisconsin Strategic Development Commission is doing, or in the survey that you conducted, an awareness that there might be a linkage between those two?

We don't get a high quality university, we don't get a well trained work force, we don't get a quality technical institution such as the one we are sitting in this morning without being willing to pay for it.

I myself am often accosted by businessmen, "God, you have got to cut that budget. Why are you going to save the local UDAG grant?" And it gets a little frustrating when people don't recognize that you can't be Houdini.

Seriously, do you find a significant awareness that the disadvantage that people point to by way of Wisconsin's relatively higher taxes may be one of the reasons that we have some of the other assets that people are talking about?

Mr. BAUMAN. I really don't see it in our survey process. But when we conclude the survey process in the community, we do a final presentation. I often address that issue, that it is difficult to understand, it is difficult to get somebody to agree to share 10 percent of their personal income with the State of Wisconsin, but on the other hand, you are telling us that these items are helping you get qualified people to work.

There definitely is a correlation between the two. But I can't point that out individually in the responses.

Mr. CLEARY. I think the problem arises in this context. We have an enormously mobile executive force and a lot of transfers and a lot of mobility between corporations that do business in a lot of States.

From our perspective and our standpoint, when you transfer an employee from Washington State, for example, which also tends to have a pretty good quality of life and a pretty good educational system, and you transfer that employee to Wisconsin, and he has a zero income tax in Washington State and a 1-percent income tax in Wisconsin, that is a cultural shock. You really have to sit the fellow down and explain to him all the good things about Wisconsin, which we do.

Again, in terms of mobility, it is a handicap in recruiting and transferring people. We have no quarrel with the quality of life argument. But other States apparently have solved this problem in other ways, realizing many States like Texas have other resources to fall back on. But there are many, many States that have less or no income tax. This is the one single thing that we think has impacted our employees on our ability to transfer into Wisconsin more than any other single factor.

Representative OBEY. I frankly confess, I was not aware of this myself until I asked the Joint Economic Committee staff to analyze the report that we asked Arthur Andersen to do for us in examining relative tax levels around the country, and trying to determine what effect it would have on States like Wisconsin if the Feds eliminated the ability to deduct from the Federal return what you pay in State and local taxes.

They showed two things. No. 1, that right now, if you compared the amount in taxes that a family making $50,000 makes in Wisconsin versus that same family living in one of the lowest tax States in the lower 48, they found that in terms of overall total State and local taxes, it cost about 35 percent more in Wisconsin for that family now at that level of income.

But they found that if the deduction for State and local taxes was eliminated from Federal return that competitive disadvantage would grow to about 70 percent.

The second thing they found is that if you compared the level of taxation with the level of spending in States, and if you take the five highest—or if you take the five lowest taxing States in the Union, and then you take the five highest taxing States, three of those five are New York, Minnesota, Wisconsin, among the lowest taxing States are States like Alaska, Wyoming, and Texas.

What they found is that four out of the five States who are the lowest in terms of per capita taxation are in fact higher in per capita spending within the five highest tax States, including Wisconsin. The reason for that is the one that you cite, that we pay all our own bills.

But if you are from Texas and you produce oil or gas or if you are from Wyoming you can produce coal, they can export part of the cost of delivering their public services by severance taxes on those commodities. That is a real disadvantage which Wisconsin operates under.

It is something that—which we are really not in a position to change because we aren't going to waive a magic wand and find that we have energy products we can export. I do get concerned sometimes that there is this perception that Wisconsin government taxes because it likes to rather than because it has a different set of economic circumstances it has to deal with.

Ms. Lyall, what about this impression that some people seem to have that Wisconsin, the University of Wisconsin, is an anti- or has an anti-business attitude. Do you think that is a fair assessment? If not, why not? If it is, what are some things that you would add?

Ms. LYALL. That is a finding from the Yankelovich study that was referenced that was disappointing and distressing to us. I have heard that before. I think in part it is a bum rap, as they say. But there is clearly a gap between perception and the vast array of activities and resources that the university system is making available across the State.

I think there are a couple of reasons for that. I am not sure that this is an entire explanation, but partly, you will recall that when Mr. Bauman indicated the results of his survey, taxes came at the top of the list. I think that there is a sense among business people in the State that unless they have had some direct contact with the university that somehow we are not doing anything for them. So that businesses that have had contact with the university and a very large number of small businesses, for example, that have taken advantage of our small business development centers across the State, will report that they have had very good experiences with that.

But I think the natural focus of the business sector is on taxes and wage rates and other things that are not directly university oriented, and so if they have not had an occasion to have a direct contact with a university on a business matter, they assume that there is nothing being done or that there are no resources available there.

That is partly our responsibility to make sure that that knowledge is more widely disseminated than it has been now. That was one of the reasons for our establishing the 800 toll-free number with the on-line computer search capability to locate both individuals and offices within the university that can help by topic area.

I think there is also another factor that is involved here and has been discussed, certainly within the university, and also somewhat publicly.

Wisconsin, more than any other State that I have ever worked in or lived in, is schizophrenic about what it wants its university faculty to do. We hear substantial groups of opinion that say university faculty should teach, that is what the State is paying them to do. They should not compete with consulting businesses or private consultants and any time that faculty spends away from the classroom or away from the campus in those kinds of duties is really time taken away from or stolen from what the State is really paying them to do.

That attitude is fairly pervasive in this State and it has what the lawyers call a chilling effect, I think, on the willingness of some faculty to take on the kinds of entrepreneurial activities and the kinds of consulting work and so on that you can see in Massachusetts or in California or in some other States where there has been a much more conspicuous tie between the university and certainly high-technology development, if not other areas of development.

We simply have to work that out by further discussion within the State. But I think historically that schizophrenia has caused faculty to hesitate at the prospect that they might be more aggressive in the economic development area.

Mr. O'CONNOR. I think—I was specific in citing observations on the Federal policy recommendation. The research shows only about 2 percent of businesses are able to take advantage of federally related programs, so it certainly is on the margins. But the committee had asked for capital supply and demand and clearly changes in these programs will change the supply of capital to some businesses.

But I do believe that there is a recognition in the business community that all that could be ditched if it meant significant reduction in the deficit. But I don't think it would. I think your charts indicate that everything else which this is lumped into has already declined. I think that is important.

The taxation question of capital gains of the House Ways and Means Committee reported in research earlier that lower capital gains taxes actually produces more tax revenue. On the Federal side total gains went from $31.7 billion in 1978 to $68.6 billion in 1981 after the reduction of capital gains taxes under the Steiger amendment.

One could argue that the change in capital gains taxes or not changing them would increase revenue.

Representative OBEY. You can argue that, but I would point out in evaluating that report that further critiques of that report, since it was published, demonstrated that a good portion of that was simply as a result of the balloon effect that took place, because in the short term it did not necessarily indicate a long-term revenue gain. In fact, most observers thought just the opposite.

Mr. O'CONNOR. Let me comment further on where venture capital comes from. I think this is important. A study done about venture economics found that 34 percent of the venture capital committed in 1984 was from pension funds, 18 percent from foreign investors, 14 percent by corporations, 13 percent by insurance companies, 6 percent by endowments and foundations and only 15 percent by individuals and families.

Employment capital gains was a question on expanding the base of venture capital, particularly in the area of C capital, which Mr. Cutler has testified comes primarily from individuals, and in today's Milwaukee Sentinel, Mr. George Moser spoke on that subject. You have an idea and you hook up with someone who has money.

I think that if only 15 percent of the money invested in venture capital in the last 5 years is coming from individuals, there has to be some barrier to that. The other sources paid very little or no taxes, effectively, according to that report.

Representative OBEY. Senator Proxmire.

Senator PROXMIRE. First, Mr. Chairman, this is a very classy panel. I am very impressed. I didn't realize, I should have looked it over more carefully. I think they have quoted themselves extremely well. They have given us an excellent presentation but some conflicts, that give us an opportunity to try to reconcile those.

Mr. Cleary, you list the liabilities that the group studying long range economic planning found in the Wisconsin economy. I wanted to follow up on something that the chairman asked about, too.

First, No. 1 liability was the high income tax. I notice that Mr. Bauman also found that that was the constant complaint, high taxes. As you know, Wisconsin had the first income tax in the country and preceded the Federal Government. Wisconsin has taken a great pride on being a State that imposes taxes on the ability to pay.

The tax justices are a very, very important criteria on judging whether or not a particular tax is good or bad. I certainly appreciate fully that States are in competition, unlike the Federal Government. If the State of Wisconsin has a high income tax, that is certainly a negative factor for business, and keeps business out, and slows down employment increases and so forth. That is true.

But nevertheless, you have that element here. I presume that if you recognized all of the good things that you have listed, including education and the others, that they are based in part on a generous revenue program. You have to balance your budget. You can't be like the Federal Government. So the question is, Are you saying that the business community would prefer that we have a different tax structure? In other words, more sales taxes, more consumption taxes.

Mr. CLEARY. I think this report was printed—the whole study began before the legislature and the Governor proposed what has been a significant reduction in personal income taxes. You will note that there is no recommendation for a reduction in corporate income taxes.

Senator PROXMIRE. Do you think that reduction in personal income taxes is enough?

Mr. CLEARY. I think the important thing is they have taken a significant step in bringing this at least down. That is the first time that has happened in a long time.

Representative OBEY. Could I simply interrupt?

I find that, your response, refreshing, because I noted that the Governor indicated in an article last week that what he found frustrating was that with some people he talked about, the only tax cut people were ever interested in was the next one. They were never——

Senator PROXMIRE. I find that to be true. Right after Congress cuts taxes, we cut them sharply, we go out, people say, cut our taxes. You have never cut our taxes. I said, we just did. But they don't seem to pay any attention to that. I think we could cut taxes to zero and they would say our taxes are too high. It is amazing.

When the Wall Street Journal wrote that article, "Wisconsin, Star of the Snow Belt," one of the things that they featured was tax reductions in the Lucey administration. As you know Pat Lucey made a remarkable effort to try to meet some of the complaints of business. You are saying not only that the income tax is one of the complaints—I am not directing this at you—but that business tax irritants, which you said the feeling was did not raise much revenue compared to the fact that they were annoying to business, and were a negative element in the business climate. Has that been corrected?

Mr. CLEARY. There is one in there. Again, this has been corrected. So a lot of these things have been corrected. There was originally in Wisconsin a law which treated incentive stock options differently than the Federal law.

Our company happens to believe in granting stock options to a lot of people to get it down into the department heads. When you exercised that option, you paid the tax even though the stock was never sold. So you paid a Wisconsin tax on the difference between the option price and the market price and that was never added to the bases. So if you ever sold it, you paid tax again.

The people that live in Minnesota, we have a lot of them also, didn't pay that tax. So citizens of—Wisconsin was one of the very few States that had that provision. Instead of a stock option, you paid. That was one of the things that didn't raise very much revenue but was contraentrepreneurial. It was against the encouraging of employers to be innovative.

Senator PROXMIRE. The taxes that are irritants and don't raise much money, they have been primarily, in your judgment, repealed?

Mr. CLEARY. I think a lot of them, from our perspective, the federalization of the capital gains tax is important, the option situation, our problems, frankly, are not in that area. Our problems are in the court battles with the State over—many of the things that Pat Lucey did were very positive in terms of putting us in a par with other States by not taxing our machinery and equipment.

The problem is, how do you define that? We are in battles with the State over that, other litigation that we think is not productive. We have won many of these. Many of these are joint industry efforts. But I think that we are working in the right direction on these things.

Senator PROXMIRE. One of the findings that you listed as No. 3 is the lack of venture capital. Mr. O'Connor has made a strong presentation indicating that he doesn't think there is a lack of venture capital. There are other elements preventing venture capital from being employed.

He says it is not a problem for the lending institutions. They are making it available but it is not being used.

Mr. CLEARY. Well, I am also on the board of Competitive Wisconsin. I have sat through two dialog conferences with the Governor of Minnesota, the Governor of Wisconsin, all the legislators. And they seem to have a very dynamic venture capital growth oriented business community up there, with a local stock market trading in local stocks. We don't have that. I don't understand why we don't have that.

For some reason these two States that are in many, many ways very similar have evolved very differently in their ability to have emerging businesses, and emerging jobs. I have got to believe that that has got something to do with the availability of capital or the availability of money to people that want to start businesses.

Senator PROXMIRE. I wanted to go after Mr. O'Connor on that a little later.

Ms. Lyall, did you hear Mr. Nichols' presentation?

Ms. LYALL. I came in part way through it.

Senator PROXMIRE. He said that Wisconsin has been particularly successful in providing assistance to the agricultural community. Of course he pointed out they are enormously proficient. Our dairy farmers are certainly tremendously efficient.

When you think of the fact that we have about one-third of the number of dairy farms that we had 30 years ago and are producing more milk, it is an indication of that.

I think that the university is much more helpful to agriculture than it is to business, that you have been far more aggressive there. Do you think that is true?

Ms. LYALL. Certainly historically that has been true, stemming from the land-grant university status in the very beginning. But I think there is another difference that produces the effect you are talking about.

In agriculture, the results of research in that field have been openly available to everybody. That has been the terms of the process from the beginning through the statewide extension service nationally, and so on. When it comes down to business research that is related more specifically to proprietary interests, there is greater reluctance for, to let a university do work on the same scale as has been true in agriculture, and to disseminate that as widely as was the case in agriculture.

I think what made us so successful, or what has made us so successful is that combination of research and translation through extension, or other outreach efforts directly into the field, literally.

And in business, that proves to be a lot more difficult to do. So the scope for wide sharing of the fruits of university kinds of research in the business and commercial areas, I think, is inherently narrower.

Senator PROXMIRE. In other States they seem to have done a more aggressive job. I thought that Mr. O'Connor made a very, very effective challenge to the University of Milwaukee and also Madison in the statistics he provided.

You say the University of Wisconsin provides product evaluation, No. 2, technology transfer, No. 3, technical and management advice and, No. 4, public private partnership. Can you give me any idea of what proportion of businesses, firms in this State use any of that?

Ms. LYALL. We counted, this was about a year ago, that through the organized centers and institutes, not counting individual contacts that faculty might have on a private consulting basis with somebody, but organized contacts through the university, we counted in excess of 10,000 business clients.

Senator PROXMIRE. Does that mean you had 10,000 actions or 10,000 different——

Ms. LYALL. 10,000 actions, 10,000 individual actions.

Senator PROXMIRE. So it might have been with—that you have some firms that are very aggressive and others that pay no attention to what you are doing.

Ms. LYALL. I think that is the case. I think that part of that challenge to us, as I indicated earlier, is to make that knowledge more widely available.

Senator PROXMIRE. You are sitting with the people who work with three of the outstanding businesses in the State. Mr. Cleary has done a marvelous job in his industry. We are all very proud of that. Mr. Bauman, Wisconsin Telephone has been a great firm nationally, within the State. And the First Wisconsin National Bank is the outstanding bank. What have you done with any of them?

Ms. LYALL. Good question. Without looking it up, I am not sure I could answer your question. The activities that we have done with them and many of the people that I am sure Mr. Bauman has surveyed are coordinated through the university industry research consortium at the Madison campus. They have complete records. I would be happy to provide that to you. But those activities are not coordinated at the system level, but at the campus level.

Senator PROXMIRE. How do you promote your operation? I think that a lot of people in the State don't understand that. I would think any businessman, particularly a small businessman who is struggling and is in competition would do what our farmers do, which is to take advantage of the university in all kinds of ways. They have to survive the small businessman struggle

They want to do everything they can to hold down their costs and to improve their operations anyway they possibly can. Yet I think that just doesn't occur. Can you advertise, can you find some way of promoting this in a more aggressive way?

Ms. LYALL. We will and we have advertised it, particularly for small businesses. The small business development centers, of which there is one on just about every campus around the State, are advertised locally, both through the presence and through the publications they distribute, through Rotary Clubs, through other organizations of that kind.

The problems that we have had there have not been lack of clients. They have been the lack of capacity in some cases to respond. We have more clients than we can serve with those centers.

Senator PROXMIRE. I would think something like that that pays off economically, I should think you could find a way to charge for it.

Ms. LYALL. You may notice that those centers are funded through the Federal program, which limits the amount that you can charge.

Senator PROXMIRE. Why can't you charge the people who come in and benefit from it? Why shouldn't they pay? If you are doing a good job and people are going to make a lot of money out of this, they ought to be willing and I am sure they would be.

Ms. LYALL. We do charge within the limits that the Federal guidelines permit.

Senator PROXMIRE. What is your answer to Mr. O'Connor's statistics that we have such a pitifully small corporation formation compared to Indiana and Minnesota, which are very similar States? Why is that?

Ms. LYALL. I don't know.

Senator PROXMIRE. Is there something about incorporation, some legal problem? Is it a little easier in this State to operate as a partnership? Would that be a distortion of the statistics? I am amazed at what Mr. O'Connor is telling us here. I can't understand why we should be well behind two similar States when everything I have seen about Wisconsin businessmen is they are just as aggressive or more so than they are in these other places.

Ms. LYALL. I had not heard those figures before.

Senator PROXMIRE. If you could have your experts at the university check that out and find out if the statistics are sound, No. 1, and, No. 2, if they can come up with any explanation for what seems to be a startling failure on the part of Wisconsin to start new businesses.

As I understand it, most of the jobs in this country were by small businesses and new business formations. Big business hasn't contributed very much over the last 4 or 5 years. The real contribution has been by beginning businesses. We haven't been doing that.

Mr. BAUMAN. One of the questions we asked is the type of corporation or the type of business that we are talking to, and in the 1333 that we have talked to, 90 percent of them were corporations. Two percent were partnerships and 5 percent were family businesses.

Senator PROXMIRE. Did you, with all that information you have and the experience you have, is there a problem for a small businessman? Supposing you or I want to start a business. Is there any reason why we should incorporate in Wisconsin instead of just move along as a partnership?

Mr. BAUMAN. Frankly, I can't give you any reason for that, no.

Senator PROXMIRE. One of the reasons that you gave for difficulty for business in the State is interest rates. I wasn't sure from your presentation whether you were talking about higher interest rates in the State of Wisconsin or higher interest rates nationally. It seems to me with the mobility of capital it would be extraordinary if our interest rates were any higher than they are anywhere else.

Mr. BAUMAN. I think in most instances, not only with interest rates, the issue is not so much comparing Wisconsin with other places but Wisconsin——

Senator PROXMIRE. Is there any element in which interests rates charged by Wisconsin institutions are higher than they are elsewhere?

Mr. BAUMAN. No.

Senator PROXMIRE. So what you are talking about is a national problem, when interests rates are high, people say that is my problem. Not that Wisconsin firms or banks and small loans and so forth, S&L's are charging a higher rate. They are not?

Mr. BAUMAN. I think they are looking back and comparing today's interests rates with interests rates 10 years ago.

Senator PROXMIRE. Mr. O'Connor, what you provided us with was very, very helpful. It seemed to contradict what Mr. Nichols was saying, that Wisconsin has not faired at all well in the last 5 or 6 years because employment has actually gone down, and hasn't gone up. You were saying that unemployment is now lower than the national average in the State. He explained this by outmigration. I am not sure I accept that. I would be surprised.

I haven't seen any statistics that show that the State as a population is getting less. What is your response to Mr. Nichols?

Mr. O'CONNOR. It is a question that needs study. I get the reports and for the last year they have been questioning the recovery, saying there has not been a growth in the employment base. Finally, I think Mr. Bauman, the secretary of the department of industry and human relations, said we are going to have to study this.

I am concerned. I live in the city of Milwaukee, and I am very concerned that it is not the classically discouraged worker, that is, "I am laid off, I can't find a job, I give up." It is people not entering the work force through an underground economy or through the development of an underclass in this society that just will never enter the work force. I think that is why.

Senator PROXMIRE. Why should we be any different than any other State?

Mr. O'CONNOR. It may be that it is an adjustment to the American economy, that is, that that is becoming a nationwide problem.

Senator PROXMIRE. But we have had a huge increase in the work force. A higher percentage of our adult population is working now than ever before in history, in spite of the fact that we have very high unemployment.

Mr. O'CONNOR. I think it depends on where you live. I think every State that has high unemployment that has a large urban area also has a very large number of permanently unemployed people.

Senator PROXMIRE. You were saying that you are not getting return on our educational dollars as far as our business is concerned. That is a direct challenge of Ms. Lyall. It is also a direct challenge of Marquette, which is a great university, also in Milwaukee.

Mr. O'CONNOR. Pays my wife's salary.

Senator PROXMIRE. In view of everything that the University of Wisconsin has done—let me ask you Ms. Lyall. Do you accept that?

Ms. LYALL. No.

Senator PROXMIRE. Why not?

Ms. LYALL. We have looked at educational costs in the UW system compared to our peer institutions around the country. It costs the State of Wisconsin to educate students in the UW system—let me start that again.

We educate 11 students in the UW system for what it costs our peer institutions across the country to educate 10. So that we are well below the national average of our——

Senator PROXMIRE. That is a different point. It is a good point but it is not the point that Mr. O'Connor was talking about. He is talking about the fact that the University of Wisconsin is not as aggressive and active with the business community as you are, for instance, with agriculture.

Ms. LYALL. Was that your point?

Mr. O'CONNOR. I was reviewing—the lack of incorporations is a major significant problem that is not being addressed and it needs further research. The numbers are there and they are historical. The Birch research was replicated by the department of development and they came to similar conclusions, without looking at the national data about metropolitan centers of the university.

But Birch found that the real difference in regional growth in the Northeast and north central part of the country was that university towns had above average, above the national average rate of incorporation. But Madison and Milwaukee—and then he gave a list of those and their rate of incorporation, and Madison and Milwaukee failed to appear on that list.

Senator PROXMIRE. I have asked Ms. Lyall to give us what she can.

I would like to challenge another statement you made. I notice this, in reading your statement, that big banks are more likely to provide entrepreneurial money than small banks. I challenge that. That is why I am so concerned about the interstate branching.

We get National City Bank in here, we get Bank of America in here, and we take the deposits and invest them in South America or Europe. If you read a Wall Street Journal article, Wall Street Journal, they have an article on Norwest Corporation and First Bank of Minnesota, two big banks. They find there they have some excellent anecdotal material.

They indicate that as far as the small entrepreneur is concerned, the big bank couldn't care less. They can't make money out of the little guy. If a banker wants to get money from a bank, he better go to a small community bank. Of course the great thing about this State is that we have banks in every community.

I had a business in Waterloo. If we didn't like that we could go to Watertown, we could go to Madison, Sun Prairie. There are all kinds of banks around anxious to loan money. It seems to me that there is no record that I have seen that, if we had big banks in the State, would change that policy federally so we could have them, that it would be a benefit to our small business.

Mr. O'CONNOR. I think that you will find that in the portion of my testimony on the mature economy relative to the fact that we have large corporations, Allis-Chalmers is a very good example——

Senator PROXMIRE. Was a good example.

Mr. O'CONNOR. That our mature economies and that the local banking system—and then they have their offshoots, smaller large companies, companies in the $5 to $50 million category in sales and that the State's banking system is not large. I do not advocate and did not imply on that a national interstate bill. I am not certain that would be wise at the current time, until regional contacts have had time to grow and sustain our regional holding companies.

I was implying that the banking—we were talking about the supply gaps in the State of Wisconsin and that the banking system in this State, with a very heavy concentration in durable manufacturing above the national average, many of those sectors and mature industries, whether it be foundries or whether it be in agricultural equipment or construction equipment, that they are not going to be able to rely upon the local institutions.

Senator PROXMIRE. All of our banks have correspondent banks in Chicago, New York, and elsewhere. So that you don't have to have a huge bank in the State if you have a big corporation.

Mr. O'CONNOR. That is right.

Senator PROXMIRE. Finally, you say Wisconsin ranks in R&D 46th.

Mr. O'CONNOR. 45th.

Senator PROXMIRE. I think you ought to take another look at those figures because that doesn't square with the latest report I have gotten. The Federal Government devotes so much of its R&D to the University of Wisconsin. We are 10th in the country. We are right at the top in public universities.

You said for defense.

Mr. O'CONNOR. That is correct. That is of 65 percent of all the Federal research and development dollars.

Senator PROXMIRE. The trouble with this, he was using the figures DOD put out. They have put out some new figures that are entirely different. We don't have prime defense contractors in the State to speak of. We have subcontractors. The new subcontracting shows Wisconsin does far, far better. In fact we get back more for our dollar, spent in the State, than we pay in taxes, according to the latest figures, which if you correct them for the subcontracting, because we get a lot of subcontracting but very, very little prime contracting.

It may be true also in research and development.

Mr. O'CONNOR. The issue was on R&D and the offshoot. The source does come from the Federal Government so it is——

Senator PROXMIRE. Take another look, because I say, just recently, just in the last few days, they have come out with these latest figures that are shocking and surprising and also encouraging for our State.

Mr. O'CONNOR. If I may, I would like to respond to two issues that I consider important. First, Chancellor Horton is a director of our bank and I want to indicate that the current effort is a great improvement in the university system. The immediate past president, Mr. O'Neil, Chancellor Horton are working very, very hard and very active. That will not automatically overcome and will take time to develop the proper response within the business community, and I believe in getting a better return on the large expenditure we make in our educational infrastructure.

Senator PROXMIRE. President O'Neil has left. We have a marvelous acting president now. President O'Neil has left and Chancellor Horton may leave. I got a call from Oklahoma and she said, "How about Horton?" I checked out with some people. They say he is terrific, especially in working with business. He has done a superb job; so that in the future if we lose both O'Neil and Horton, we will have to rely on Ms. Lyall, who I am sure will do a great job.

Mr. O'CONNOR. The UW system has been very effective in tailoring responses to large corporations, looking to locate in the State of Wisconsin. Our Saturn proposal had a major component that was developed by the University of Wisconsin-Madison and was extremely important in getting our State consideration. But it is important to recognize that the business formation is not there.

Second, I think the venture capital question, again, is a matter of timing. It is only since 1982 that capital gains in Wisconsin has not been taxed as ordinary income. Security regulation, and we are talking about the Minnesota experience, currently Commissioner Paine is looking at security regulation and making it easier because venture capital is getting paid out by that recapitalization of a company.

If it is difficult to do that in Wisconsin, it is going to be difficult to attract venture capital. Our bank, First Wisconsin, invested $1 million in Wisconsin Venture Capital, Inc., Milwaukee Innovation Center, we bought stock in, which is a seed development, a product development corporation, much like, based on the Minneapolis and Salt Lake product development corporations. These are presented and they will take some time.

Finally, on the question of taxes. I think this is important. I am a Democrat and I think that in looking at the Wisconsin Strategic Development Commission work there is an awful lot the Democrats can do with that that is just excellent work.

The ACIR has issued the tax capacity question. I think Wisconsin's tax capacity, not its level, not its income tax rates or property tax rates but the ability of its citizens, which in this State is broadly based on moderate middle income people, to pay taxes is what the Wisconsin Strategic Development Commission is really focused on.

I hope that tomorrow you ask Mr. Milborne to follow up on that ACIR and the tax capacity questions because he certainly has developed as an expert. I think for middle to moderate income tax payers, not just the business people in the State, that the capacity question is very important.

Representative OBEY. On that point I would like to ask a question, because as I look at some of the recommendations of that commission, they range from a high speed railroad between Madison and Milwaukee to a world trade center, a world class manufacturing technology center, a series of small business incubators, three new capital formation funds plus a lot of other recommendations.

My question is, Did the commission make any effort to cost out those recommendations before they submitted them to the State?

Mr. O'CONNOR. I will defer to my chairman of the board, which I find, usually, smart to do in my bank. He can answer that tomorrow. I think that is only fair.

Mr. CLEARY. I think if you read the language, it said to contractor study. There are many of us on the commission that questioned the wisdom of that proposal. It was watered down to study the idea of a monorail system but it was not a firm recommendation.

Ms. LYALL. But the short answer to your question is, no, the commission did not cost out those.

Mr. CLEARY. It is a consensus, everybody doesn't agree with everything in that report. It is a consensus.

Representative OBEY. Let me ask just two other questions. We are running behind time. I do want to ask these. I want to play devil's advocate with both sides. Ms. Lyall, to the entire panel, what I hear here is that the business community feels that there have been a lot of problems on the tax side, a number of which, all three of you have indicated, the legislature and the Governor have taken care of in the last couple years.

You have also indicated that there are some irritations you have had with the university, a number which you think that they are at least recently trying to address. I wanted to ask a skeptical question of Ms. Lyall and then of you on the other side.

My own instinctive impression of the academic community in general, having dealt with it for as many years as I have, is that somehow in contrast to what used to be the Wisconsin idea of the university serving the entire political system, business system, community development, the whole bit, in contrast to that idea that almost originated in Wisconsin, that today, I am not saying this is pervasive but I detect it on the part of many academics, that there is somehow something a little bit tainted in dealing with either politicians or businessmen, that there is somehow something a little less academically pure in addressing a real practical business or political problem than there is in dealing with the straight academic aspects of the problem.

Therefore, there may be in my view less incentives on a collegial basis, less rewards, less physical rewards available to faculty members who spend a good deal of their time either working with the Government or working with the business community on practical problems. Is—am I off base? Is that something that I pick up that you think isn't true, or do you think that there is a certain truth to that?

Ms. LYALL. Well, I don't think that we have abandoned our traditional commitment to outreach throughout the State, but I think it is true that the focus of academics, particularly in recent years, has been turned inward a bit, particularly in adjusting to some pressures of large enrollments and other considerations that we have had, some curriculum changes and things that we have had as internal business to attend to.

If what you are saying is true in fact, I regret it very much, but one of the efforts that the regents have made recently to try to reverse that set of insensitives, I think you called it, was the decision to integrate the extension division of the university into the departments of all the institutions in the system, so that extension and outreach obligations, instead of being isolated in one unit of the university, will now be the collective responsibility of each and every department.

I hope that that will provide or restore some of the prior collegial sense that it is the responsibility of every faculty member to reach out to the community and to contribute in whatever way they can.

That integration effort is just being completed now administratively, and it is a little too soon for me to report to you whether that will meet our expectations. But it was certainly partly in response to the kind of perception you are talking about that the board decided to do that. I think it was a wise ruling.

Representative OBEY. One other question. Since a lot has been made of the fact that so many Wisconsin graduates leave the State, what percentage of the university budget is paid for out of the State tax funds?

Ms. LYALL. It is just in the coming biennium, in the coming year it will be just a hair under 40 percent, 39 point something. The remainder comes from student fees and user charges that are made, and from Federal and private foundation and research funds.

Representative OBEY. I happen to think that one of the reasons Wisconsin ranks so high on the list of Federal research that Senator Proxmire was talking about earlier is that it is recognized as a national resource and not just a resource for the State.

I would like to ask you other gentlemen one final question. As I look at the—at least I thought I saw this last night in the report, in the question that the report raised on the university, it seemed to imply to me that the authors of that report felt that the university ought to direct a good deal more of its resources toward working with the business community.

Did they also mean, to the best of your knowledge that, therefore, the university ought to devote less of its resources to its primarily teaching obligation?

Mr. CLEARY. For the record, I, in answering Senator Proxmire's question, we do work with the university in our bakery and brewery area. So we have worked with the university and they have worked with us on a very satisfactory basis.

From my perspective, this is just myself, I think that in my travels, I don't have a lot of other contact with universities directly in other States, but the perception that I get is that there are maybe more relationships of a high-technology character, a development character that might exist at other places that we should be working on, in terms of closer ties between university and the business community in developing resources, maybe, that we have got up here, our water, our close access to grains and other resources that could maybe develop industries that could be the byproduct of this kind of research and technology.

Representative OBEY. What I am asking is, I hope it is not true, I hope that that commission is not suggesting that we ought to—maybe I saw something that wasn't there, but I thought I saw it. But there seemed to be a suggestion that somehow less emphasis ought to be on the university's teaching role. If that—if that is the case, I would hope that that suggestion would be rejected because it seems to me that is the primary responsibility of the university in the first place.

Mr. CLEARY. I don't believe that was ever the perception. Tomorrow you will have the chance to ask the chief.

Representative OBEY. Let me thank you all for coming. I appreciate it very much. I appreciate your time. I think—I am sorry. Let me apologize. I can't let you off this quickly.

I said I would try to leave time for questions. I understand that there is a Mr. Max Gordon in the room from Merrill who indicated he had a question he wanted to ask.

Mr. GORDON. I am a relative part-time newcomer to Wisconsin. I own property in Merrill. I note that my property taxes in Merrill are, my last property I owned in the State was in an urban area approximately twice the market value of my property in Merrill, and my taxes are approximately the same. I am talking about a 7-year difference in time. Seven years ago my property was worth twice as much and the taxes were about the same in dollars.

So you are looking at, let's say, a 1 over 70 as far as taxes are concerned, or a 1 over 33, approximately twice as much. We have got the economic effect of 7 years there. But if anything, the taxes would be higher there. The emphasis seemed to be the personal income taxes, or is it personal taxes in toto which includes your consumer taxes, that is a deterrent to businesses, either coming to or remaining in Wisconsin?

Representative OBEY. I don't know if any member of the panel wants to respond to that. All I would say is that the reason you have had the primary emphasis upon income taxes is because in Wisconsin there has been a lot of concern expressed about how far up the line your income tax brackets go, and the legislature and the Governor addressed that in this last session.

Also the fact that property taxes are levied locally. And we have been focusing the question on, here, on the question of how Wisconsin meets its competition as a State where its property taxes, although this certainly isn't exclusively, so property taxes would tend to determine what kind of competition you have from one community to another within the State. I think that is what the discussion focused on.

Mr. GORDON. To have the good support of government, whether it is provided by city, including schools, highways, fire departments, police departments, what have you, it would be barring some differences—geographical differences in cost, here maybe more snow removal than you would have in somewhere down South.

But other than that, the cost of government, whether you share it between city, county, State or Federal is a total taxation situation. If we are looking here, the Federal covers all the States, so you have got to look at city, State, and county taxes as far as——

Representative OBEY. I think we are. The point I am trying to make is that you have 72 counties and many more jurisdictions, that each of whom have their own tax policy. There is blessed little that any of us can do about that.

What we have been trying to look at is the question of what the State can do as a whole. One of the things the State can do is try to relieve those property taxes, which the Governor and the legislature did to a substantial degree, providing more property tax relief this year than any year in the history of the State.

That hasn't hit your taxes yet because we don't know how that is going to flow through by the time local school districts get through dealing with it. But certainly the Governor and the legislature recognize that and that is why they took the action they did in providing significant reductions in property taxes.

Mr. GORDON. My question was why was all the emphasis on the personal income tax?

Representative OBEY. I think it is because if you listened to the results of the survey here, you hear that that is the tax that most often gets griped about around the State by people who choose whether they are going to locate a business here or someplace else.

Thank you all very much for coming.

We will resume at 1 o'clock.

[Whereupon, at 12 noon, the hearing was recessed, to reconvene at 1 p.m., the same day.]

AFTERNOON SESSION

Representative OBEY. This morning we heard an overview of the general conditions of the Wisconsin economy, and that overview was conducted primarily from the viewpoint of what the economy looks like for employers who provide the job opportunities for workers in the State.

This panel is meant to explore that same question from the other side of the ledger. It is meant to explore what the Wisconsin economy presents by way of opportunities and problems for the Wisconsin workers. We have three distinguished panelists with us. We will begin first with Mr. August Cibarich, chief economist for labor market information at the Wisconsin Department of Industry, Labor and Human Relations, who will review recent trends in employment and unemployment in the State.

We will then hear from Mr. Jack Reihl, vice president of the Wisconsin AFL-CIO, who will talk on how Wisconsin workers and their families view the Wisconsin economy and future prospects.

And finally Ms. Ellen Saunders, administrator of the division of employment and training policy of the Wisconsin Department of

Industry, Labor Human Relations will discuss how the public and private sectors can address the problems of long-term unemployment among the State's citizenry.

I have some other remarks I would like to insert in the record at this point by way of defining further what the panel is supposed to do. But in the interest of time, I will simply stop my remarks at this point and ask Mr. Cibarich if you would begin and take, say, 15 minutes or so and tell us what you see.

This panel is particularly important because it will document where workers and their families are today compared with a few years ago and lay out some ideas for how we can begin to help those left behind by the economic recovery. Full employment must always be the central goal of economic policy. With nearly 150,000 Wisconsin residents still unable to find employment we need to bear that economic goal in mind as we think about appropriate State and Federal policies for the future.

STATEMENT OF AUGUST L. CIBARICH, CHIEF ECONOMIST, LABOR MARKET INFORMATION BUREAU, WISCONSIN DEPARTMENT OF INDUSTRY, LABOR AND HUMAN RELATIONS, MADISON

Mr. CIBARICH. Thank you. I will read part of this and go through part of this rapidly so that we can get it in in the timeframe.

I am pleased to present these materials at your hearings on the Wisconsin economy.

The Wisconsin economy has gone through an enormous upheaval in the years since our prerecessionary peak was reached in 1979.

Great changes have occurred in our employment makeup. While no growth has occurred in our total employment level, which includes farm and self-employment or our nonfarm wage and salary employment level since 1979, our population has continued to increase, but at a slower rate.

Job losses have been heaviest in our manufacturing industries, especially our durable goods industries.

While there has been recovery from the recession's low point, reached in 1982, it has been only a partial recovery as measured by employment levels for our durable goods manufacturing industries as a whole.

In recent months the durable goods recovery has ended as monthly employment totals for durable goods have fallen behind year earlier totals.

This has led to a feeling that the durable goods recovery is over, that employment levels in this important sector will not regain their 1979 levels in the near future, and that, based on foreign competition, employment growth occurring in other States and technological improvements, such as computer assisted and integrated design and manufacturing, there are several hundred additional jobs in Wisconsin's durable goods industries that are susceptible to displacement in the next decade.

The factors that have helped Wisconsin regain most of the remainder of its recessionary job loses have been a stronger nondurable goods manufacturing employment rebound, and of course, employment growth in the service producing sector.

Job growth in trade, service, finance, insurance, and real estate industry groupings had helped us reach employment levels that have brought us back almost to the 1979 level in 1984. This is true of both nonfarm wage and salary employment and total employment, the former lagging the 1979 level by 8,000 and the latter by 19,000 jobs.

As we moved into 1985, recovery in employment levels ended in January with total employment declining, nonfarm wage and salary employment stagnant since then, speaking on a seasonably adjusted basis.

More recently, in the period from May to June of this year, the latest period for which data are available at this time, employment in Wisconsin's service sector declined, as did all of nonfarm wage and salary employment. Manufacturing employment rose temporarily, buoyed by earlier than normal increases in seasonal food processing jobs brought about by warm early spring weather.

These developments are cause for concern. Unemployment has declined because of an extended decline in the level of the Wisconsin labor force, rather than employment gains beyond the 1979 levels. We cannot expect these declines in the size of our labor force to continue indefinitely as our working age population continues to grow. Employment levels will have to rise if we are to escape higher levels of unemployment.

The concern resulting from the most recent statistics is that growth in the sector of strong employment growth, service, has slowed and actually declined in the most recent month. The above seasonal manufacturing growth this month will result in below seasonal employment growth next month. Wisconsin's economy has dependence on a resumption of service sector growth if unemployment levels are to increase.

I note that the total hours, released on Friday, declined by five-tenths of a percentage point for the total service sector. And discounting a period of 1 month when the telephone work stoppage was in effect, this is the first significant decline in hours worked in the service sector since the recovery began on the national level.

The economic and social consequences resulting from the end of rapid inflation are likely to be severe. The basic long-term issue facing the economy is not if the extreme imbalances in our economy will be corrected, rather it is how the imbalances will be corrected, the amount of government involvement in the correction process, and the timing of the correction itself.

Wisconsin's basic conservatism and high quality of government means that the economic correction in Wisconsin, while severe, will be less severe than in the Nation as a whole.

Housing prices have inflated less, over building of office buildings is largely absent and creative financing schemes such as balloon auto loans are not as prevalent. Wisconsin consumers and business people have generally extended themselves much less financially than their counterparts in some of our sister States.

The overexpansion mania left Wisconsin behind as it occurred in other States and now that the piper, debt service, must be paid, the piper will be less active in our State than in our Nation.

The corrections of the economy's imbalances can be expected to be the dominant force affecting Wisconsin's labor force over the next decade. Hopefully, we will emerge from this process with renewed vigor, and be more competitive and productive.

The previously mentioned changes in our mix of industry employment and the lack of substantial employment growth beyond 1979 levels has had an impact on a number of other social and economic factors in our State.

One recalls computers on the factory floor where dramatic changes are occurring in the staffing of your durable goods manufacturing firms, and we expect this to have an impact on several hundred thousands of jobs over a period of a decade.

Some of the implications of that, the social problems such as the functional illiterates will be aggravated since the pool of labor jobs that they formerly were able to do will diminish.

On a positive note, the growth of technical work seems to be the strongest growth area in the immediate future, although not all areas will grow evenly, some will decline.

Another issue is what is called the nontechnical college harvest. The vast number of graduates from our schools with general educations, where we will employ them, this is related to the technical growth in our economy, many of them end up going from a baccalaureate program, after completing it, to a technical program. The people work explosion, a very dominant force in providing the jobs as we came out of the recession was work with people, whether that be in a retail trade, in the health services.

And we are asking the question, will this continue or has it topped out? It has become a bigger question in recent months. There are declines in some of the people work areas that formerly gave the thrust to growth such as nursing, such as retail trade.

The rationing of jobs and wages. Our efforts to expand the employer base that we had to help the disadvantaged, to make self supporting tax paying citizens of those who weren't quite qualified under those conditions where the supply of labor was rather tight made very good sense.

As we moved into a much harsher world, the programs tend to have a connotation which an economist such as myself would consider a form of rationing, determining who among the unemployed will get employment and, short of sufficient aggregate number of jobs, it has switched from a program that made good sense for everyone to a sort of rationing system. I know I am covering this very rapidly.

The spread of, or the growth in service employment which is often part time, low wage, is seen changing the social fabric of the family by putting added pressure for children to work, and that has ramifications as well for the schooling. The big issue of paying back the debt which will limit the resources we have in our employment and training program will force us to be more efficient and more effective.

The one positive sector that we seem to be, I won't say overlooking, but less involved with is the surge in entrepreneurship, the surge in the number of self-employed and sole businesses.

In addition, the end of rapid inflation has changed everything. Much of the growth that we had was inflation induced growth and we do not have that. It has made the labor market a much harsher place in which to try to find employment.

Another factor is what I call young versus old, such factors as two tier wages, the large amount deducted for some of our social programs from the young. This has established a sort of adversarial relationship between these two demographic groups.

And in general, all of this will have to be done with a smaller safety net, since many of the safety net items that we set up were used up in, shall I say in better times, and are now in deficit or are available in lesser amounts in some of the worst of times.

I would like to make some brief comments about the impact of the recovery on age, sex, and racial groups. The impact measured by the current population survey, an all average for the State of Wisconsin in 1982 and 1984, the general changes in the unemployment rates and relative distributions of unemployed reveals that young workers 16 to 19 years of age are represented by a higher proportion of the unemployment in 1984 after the recovery from 1982, the most severe recession year.

Male youth 16 to 19 represents an additional 2.1 percent of total unemployment in Wisconsin, female youth 1.5 percent in 1984 compared to 1982.

Older males also represented a larger portion with the 45-54 age group representing the only age group to actually increase in number over the 2-year period, increasing by 2,000. This age group and the 55-64 age group also increased their proportion of the small 1984 employment level by 3.5 and 0.2 percentage points in that order.

Middle-aged women 35-44 increased their proportionate share of the unemployment total in 1984 by 1.8 percentage points, but declined by 1,000 over the 1982 level.

In preparation for this meeting we took the latest data we had on unemployment by county. I did a very general classification by rural, urban, and a mixed labor market economy in that county. And what we find is that the mixed economy has a proportionate share of unemployment, of high unemployment levels. The urban has a smaller, and currently the rural has an above average share of unemployment rates.

Representative OBEY. If I could interrupt at that moment. This yellow and white chart is an indication of the relative unemployment levels of each county. The yellow counties represent the counties which have unemployment levels which. are above both the State and national average.

I apologize for interrupting. Please go ahead.

Mr. CIBARICH. As far as the changes in the kind of general occupational categories between 1980 and 1984, that would be a year that the census year is the base of our information on the distribution by occupation, but we can estimate 1984.

And over this period which includes the recessions and the start of the recovery, we find that we employed significantly more white-collar workers, 25,500 more, that is an additional 2.7 percent—I might add that this is while the total stayed literally the same, it declined by one-tenth of 1 percent.

We employed 20,000 more service workers, an increase of 6.6 percent. I might say that is the service occupations, not service industries. There is a distinction there.

And we employed 41,000 less blue-collar workers.

I would like to repeat a newspaper headline that appeared 20 years go in syndicated columnist Sylvia Porter's July 30, 1965, Capital Times article, "Improved Statistics Insures No Repeat of 1929 Disaster."

I am not sure we could make that statement today. Sharp budgetary cutbacks in the funding levels of the Nation's economic and social information programs have severely weakened our statistical programs and general information efforts at a time when the underlying elements of serious trouble seem to be smoldering. Now is no time to limit our socioeconomic early warning systems.

Our need for information is certainly greater than it was 20 years ago, yet our statistical samples are smaller, revisions are greater, some economic and social data items are no longer collected, and our timeliness is not as current.

Today's hearing would not have been held if we did not value the information we will present here. I urge the Congress to continue its financial support of our Nation's information needs and that Congress intensify its oversite responsibilities to ensure we have the kind and quality of timely information necessary to perpetuate our socioeconomic system.

What greater incentive is there than to prevent a repeat of 1929?

Thank you.

Representative OBEY. Thank you very much.

[The prepared statement of Mr. Cibarich follows:]

Prepared Statement of August L. Cibarich

Mr. Chairman and Members of the Committee:

I am pleased to present these materials at your hearings on the Wisconsin economy.

* I would first like to repeat a newspaper headline that appeared 20 years ago in syndicated columnist Sylvia Porter's July 30, 1965 article:

"Improved Statistics Insures No Repeat of 1929 Disaster"

I am not sure we could make that statement today. Sharp budgetary cutbacks in the funding levels of the nation's economic and social information programs have severely weakened our statistical programs and general information efforts at a time when the underlying elements of serious trouble seem to be smoldering. Now is no time to limit our socio-economic early warning systems.

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THE WISCONSIN LABOR MARKET

Employment Changes 1979-1984*

The Wisconsin economy has gone through an enormous upheaval in the years since our pre-recessionary peak was reached in 1979. Great changes have occurred in our employment makeup. While no growth has occurred in our Total Employment level (includes farm and self employment), or our Nonfarm Wage and Salary Employment level since 1984, our population has continued to increase, but at a slower rate.

Job losses have been heaviest in our manufacturing industries, especially our durable goods industries.

While there has been recovery from the recession's low point reached in 1982, it has been only a partial recovery as measured by employment levels for durable goods manufacturing industries as a whole.

In recent months the durable goods recovery has ended as monthly employment totals for durable goods have fallen below year earlier levels in the last five months.

This has led to a feeling that the durable goods recovery is over, that employment levels in this important sector will not regain their 1979 levels in near future, and that, based on increased foreign competition, employment growth in other states and technological improvements, such as computer assisted and integrated design and manufacturing there are several hundred additional jobs in Wisconsin's durable goods industries that are susceptible to displacement in the next decade.

The factors that have helped Wisconsin regain most of the remainder of its recessionary job losses have been a stronger nondurable goods manufacturing employment rebound, and of course, employment growth in the service producing sector.

Job growth in trade, service and finance, insurance and real estate industry groupings had helped us reach employment levels that have brought us back almost to the 1979 level of employment in 1984. This is true of both nonfarm wage and salary employment and total employment with the former lagging the 1979 level by 8000 jobs and the latter lagging the 1979 level by 19,000 jobs.

Employment Changes in 1985

As we moved into 1985, recovery in employment levels ended in January with total employment declining and nonfarm wage and salary employment stagnant since then.

* A detailed table of 1979-1984 Labor Force Changes appears at the end of this report.

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More recently in the period from May to June of this year (the latest period for which data is available at this time) employment in Wisconsin's service sector declined, as did all of nonfarm wage and salary employment, while manufacturing employment rose temporarily, buoyed by earlier than normal increases in seasonal food processing jobs brought about by warm early spring weather.

These recent developments are cause for concern. Unemployment has declined because of an extended decline in the level of Wisconsin labor force, rather than employment gains beyond the 1979 levels. We cannot expect these declines in the size of our labor force to continue indefinitely as our adult working age population continues to grow. Employment levels will have to rise if we are to escape higher levels of unemployment.

The concern resulting from the most recent statistics is that growth in the sector of strong employment growth service has slowed and actually declined in the most recent month. The above seasonal manufacturing employment growth this month will result in below seasonal employment growth next month. Wisconsin's economy has dependence on a resumption of service sector growth if unemployment levels are not to increase.

Longer Range Economic Outlook

The economic and social consequences resulting from the end of rapid inflation are likely to be severe. The basic long-term issue facing the economy is not if the extreme imbalances in our economy will be corrected, rather it is how the imbalances will be corrected, the amount of government involvement in the correction process, and the timing of the connection itself.

Wisconsin's basic conservatism and high quality of government means that the economic correction in Wisconsin, while severe, will be less severe than in the nation as a whole.

Housing prices have inflated less, over building of office buildings is largely absent and "creative financing" schemes such as balloon auto loans are not as prevalent. Wisconsin consumers and business people have generally extended themselves much less financially than their counterparts in some of our sister states.

The over-expansion mania left Wisconsin behind as it occurred in other states and now that "the piper"(debt service) must be paid. The piper will be less active in our state than in our nation.

The corrections of the economy's imbalances can be expected to be the dominant force affecting Wisconsin's labor force over the next decade. Hopefully, we will emerge from this process with renewed vigor, and be more competitive and productive.

General Formula For Wisconsin's Future

Continued intelligent use of government to make Wisconsin a better place to live and work.

Building in safeguards (safety net) which will not be over subscribed in the better times and thus unavailable, or of limited capacity in the worst of times.

Facilitate change by eliminating or limiting current rigidities so that Wisconsin can keep up with or ahead of, the rest ofthe world without risking or eliminating the cautious nature of our conservatism that prevents us from putting our precious resources on the line when the risk is too great?

SOCIAL AND ECONOMIC IMPLICATIONS OF LABOR MARKET CHANGES

The previously mentioned changes in our mix of industry employment and the lack of substantial employment growth beyond 1979 levels has had an impact on a number of other social and economic factors in our state.

Employment and Training officials are becoming increasingly interested in long range "strategic " planning to improve our nation's investment in "human capital" and increase our population's standard of living. They are especially concerned about improving the lives of those disadvantaged at the bottom economic levels and others with special needs.

A number of issues these officials will have to cope with in the next decade are apparent from many years of observation of the labor marketplace. The list that follows is by no means all inclusive but should cover the majority of major issues and hopefully focus attention on them.

COMPUTERS ON THE FACTORY FLOOR

The robots are coming' The robots are coming' This message has caught the public's fancy. Actually, the message should be - the computers are coming' The computers are coming' Robots are expected to amount to only 15 percent of the factory computer revolution known as computer assisted or aided manufacturing (CAM).

In brief, the short-term impact of the changes will be the creation of a number of jobs building, installing and maintaining the automated equipment. The immediate on-site impact will be the elimination of large numbers of semi-skilled operators and inspectors' jobs and further reductions in the number of "unskilled" material handling, feeding/offbearing type jobs. The impact on "skilled" jobs is not clear. Several hundred thousand jobs in Wisconsin industries are susceptible to this reduction while the eventual number of "created" jobs is much more difficult to estimate since the process is still evolving and the manufacture of the new equipment can be anywhere in the world.

An example of the kinds of changes (non-recessionary in nature) that affect employment levels in manufacturing is illustrated by a recent Wall Street Journal article about a state firm which reported a savings of 40 percent in hourly wages when some of its production was moved to a sourthern border state from Wisconsin and ..."as a bonus, new computer controlled equipment increased productivity 40 percent." An additional implication is that the required skill level has been lowered. Another state firm in the same industry stated in the article, "Productivity of secretaries, salespeople, engineers and executives must improve along with production workers..." "His company is investing in computer-aided design, computerized management-information systems, word processors and a $3 million automated warehouse, in addition to new machines in its factories."

The changes that are occurring offer opportunities as well as problems. One Wisconsin manufacturing firm has changed its product line from one no longer in demand to another line in an area of growing demand. How well we adjust will determine the future of the manufacturing industry in our state and the employment it provides. What we do know is that short-run impact will be the elimination of more jobs than are immediately created within the state, that the composition of the work force will change radically and that extensive changes in the education and training system will be needed to facilitate these work place changes if we are to maintain our state and nation's share of the world's economic activity. Currently, we do not have a systematic gathering of information on changes in this important segment of Wisconsin's economy.

THE FUNCTIONAL ILLITERATES

Much has been said and much has been spent to assist high school dropouts in the last two decades, yet the pool of unemployed and/or discourged semi-illiterate and functional illiterates remains.

The difficulties associated with helping this group of ourcitizens become self-sufficient, contributing members of society will be greatly incresed by the speed-up in displacement of workers resulting from the use of "Computers On the Factory Floor."

Workers will, in the future, program computers, including robots which control factory operations. Use of body members (arms, legs, fingers,etc.) in the production process is expected to rapidly diminish over the next decade.

The ability to give instructions to a computer will replace the pushing or pulling of levers, turning over of a part and/or visual inspection of it, along with many other unskilled and semi-skilled tasks.

Leaving school without an adequate command of language skills greatly reduces or eliminates the ability of a worker to program, install, service and maintain computers. This will be an even geater guarantee of minimum wage employment or no employment in the future than it has been in the past for a functional illiterate. Thus, reducing functional illiteracy takes on even greater urgency in the next decade as the use of computers in production operations increases sharply. Language skills are now more than ever a

THE GROWTH OF TECHNICAL WORK

In the process of building, installing and maintaining the computerization of industry, the need to develop more workers with specific technical skills stands out as an opportuntiy the state must grasp to maintain its industrial base.

Wisconsin has a head start over other states in our system of technical colleges and institutes. Most states have an extensive community college system which they must redirect to the technical effort while Wisconsin already has such a system.

The issue over the next decade is the degree to which Wisconsin's lead over other states can be held and used to its maximum advantage.

The increase in the need for technicians is a very rapid development. Articulation with college level specialized technical education (engineering, etc.) will be more important than ever before.

Changes in the technical specialties needed and the content of the jobs and training needs will be rapid. Not all technical specialties will grow. The computer impact on drafting work is an example of a change that is eliminating manyjobs and significantly changing those that remain.

THE NON-TECHNICAL COLLEGE HARVEST

The number of college educated job seekers has increased enormously over the last several decades. This increase occurred as an article of faith in the future, with little tangible evidence that the work place needed or could in fact, absorb the vast army of graduates that would leave our college campuses. In recent years, each succeeding class of students has graduated with a larger average debt associated with the education. Thus, relating college level education to work force needs has taken on increasing relevance with every passing year.

Many graduates have not found employment that is commensurate with their educational levels. Exactly how large is the underemployment of college graduates? Some have estimated it at one out of four. No one really knows. This by itself illustrates the degree to which a college education was revered by a population desiring something better for its children.

This occurance, together with its relationships to the Computer Assisted Engineering and Design Trends and the Growth of Technical Work trend, will be major issues facing Employment and Training management in the next decade.

THE PEOPLE WORK EXPLOSION
Will it Continue or Has it Topped Out?

Jobs working with "people" have been expanding at a rapid pace in the last several decades. The expansion has occurred in the entire spectrum of occupations from those occupations which also contain a very significant "data" involvement such as Nurse Aide or Store Clerk. Literally tens of millions of these jobs were "created" in the last two decades nationwide and several hundred thousand were created in our state.

The issue for the next decade will be the extent to which "people" jobs will continue to provide additional jobs. When looking into the future, the probability that this growth will continue at its former pace must be discounted to some extent by the growth that has already occurred. Hints of the reduction in the growth rate are evident in the recent decline in hospital employment. This is an area of work that provided much of the job growth. Recently, job growth outside of hospitals has continued in the health care field, but has only balanced out the job losses in hospitals.

Another hint of a slowdown and possible flattening of growth trends has occurred in "people" jobs in the Retail Trade industry during the recessionary years from 1980 to 1983. Four straight years of slight declines in Retail Tade employment occurred. While recovery in 1984 has been extensive, the "topping out" of long term job growth in Retail Trade employment must be considered one of the next decade's distinct possibilities. Overall growth in the people work area will most likely slow or it will have to occur in segments other than Health Care and Retail Trade areas.

THE RATIONING OF JOBS AND WAGES

Concern and a desire to improve the lives of the disadvantaged and others with special needs became national goals in the 1960's when unemployment levels were much lower. Employers adjusted hiring requirements as the number of workers available to them fell. In this environment of "human resource development", efforts to improve the lot of the unemployed, underemployed and low income citizens made "good sense" to everyone.'

Turning a dependent person into a self-supporting individual reduced taxes, met employers needs for workers and had many additional pluses for the individual and society as well as for the economy. Essentially everyone gained.

In today's much harsher world, with much higher unemployment rates and general surpluses of workers, these very same efforts are today a form of rationing.

Competing programs, agencies and individuals in a jobs-short work world that is likely to continue into the nineties, complicates the task of aiding the disadvantaged and has turned some employment and training efforts into a set of rationing systems.

Searches for teachers nationwide to meet the goals of one program, while qualified individuals subsidized by another program are unemployed or even laid off, highlight this shift from expanding employment to rationing employment. This clash of conflicting goals in an economy which is failing to provide work for all who desire it will most likely intensifty in the next decade.

Another major issue is that of wages. Equal pay for equal worth is becoming equal pay for "comparable worth". Defining comparable worth could become the most complicated issue in the next decade, as no comprehensive standardization of work measures is now occurring. With the closing of U.S. Department of Labor funded Occupational Analysis Field Centers, which defined job skills, standards for measuring jobs may, by default, become the prerogative of the legal profession. The employment and training system has no current facility to develop standardized descriptions of the basic occupational units of work. Certainly this need will grow in the next decade.

TRI-WORKER FAMILIES

Much has been said about the two-worker family. The family where both the husband and wife must work to live at a desired standard. Life styles have sharply changed, with extensive social and ecoomic consequences as a result of the two-worker family.

Recently, information has developed on the negative impact of jobs on student grades. This problem, coupled with the implication of long-term growth of lower paying service jobs and the hastened decline of higher paying jobs is likely to magnify problems beyond those resulting from growth of the two-worker family.

In Hawaii, long a service-oriented economy, it is said two-worker families are not enough. To live there high living costs and low paying service jobs require more than two workers per family.

The trend in industrial states is towards the Hawaiian type economy that has existed in that state for some time. This trend indicates the family of the future will more than ever include one or more working children if lower living standards are not acceptable.

The social and economic realities of increasing numbers of tri-worker families should be a major issue in the next decade.

PAYING BACK THE DEBT

In recent years, employment and training budgets have been limited by budgetary restraints as the various government entities have "tightened their belts" by reducing rates of growth and, in some cases, actually reduced budgets in real dollar terms.

Currently, transfer payments, defense appropriations and interest payments represent 88 percent of the federal budget. All other activities represent only 12 percent. Recent federal deficits are the largest ever, consumer debt formation is very high and business borrowing very strong. The amount of debt being generated is cause for great concern since, while credit is "good", debt is bad (must be repaid).

Repayment of this government, consumer and business debt is limiting the ability of the economy to expand further, will affect the labor market negatively, and limit resources available to improve the labor marketplace during the next decade. The challenge for employment and training is how to handle the labor problems of the next decade without increases in resources or with an even more likely reduction in resources.

THE SURGE IN ENTREPRENEURSHIP

In the last decade and one-half, a surge in entrepeneurship has occurred in the United States. This development has, to a large extent, gone unnoticed or has been ignored by employment and training professionals and has not been incorporated into the nation's or our state's employment and training efforts in any major way.

Will this phenomenon continue over the next decade? How many more boutiques, fast food restaurants and convenience stores can our economy support? critics ask.

During the previous 15 years, employment in the top Fortune 1000 firms has gone down by six million, while total employment has increased by 35 million. High-tech employment is estimated to have provided six million new jobs in this period of time.

Thus, 35 million jobs have been developed in medium and small size firms and sole proprietorships, other than "high tech" in nature.

Can these small enterprises and sole proprietorships provide the job growth that employment in large businesses and government formerly provided? Are these "real jobs"? Are we destined to become a nation of "shopkeepers" with the much lower standard of living traditionally associated with that kind of economy or is this entrepreneuship surge in the U.S. different?

These questions and attitudes, along with others such as what caused the surge in the first place, how much income is generated, and what is to be the future relationship of employment and training efforts and this development are expected to be another of the major employment and training issues of the next decade.

THE END OF RAPID INFLATION

During the lifetime of the vast majority of the people living in the industrialized nations, inflation was the economic experience. While brief periods of price stability may have occurred, our ideas were influenced most by rising prices and scarcity. Inflation lasted so long most of us thought it was forever.

However, in recent years, farmers, bankers, miners and others, whether they be small or world-class in size, have been adversely affected by price deflation. Commodity prices generally and the prices of some finished goods have decreased in price.

In the past, once put in motion a major switch from inflation was not likely to stop at disinflation. A deflationary period usually followed.

More price declines can be expected to follow as efforts to increase productivity, lower unit wage costs and increased production capacity are widespread, worldwide developments. Today overcapacity appears to be a major force in the world's economy. It is likely to continue.

An occasional spurt in the price of a commodity or a product will, no doubt, still occur in the next five years, but the basic price trend now appears to be downward for commodities and many finished goods.

The changes in the price trends that have already taken place are sufficient to alter future labor market conditions. Companies that cannot raise prices are generally unable to raise employes wages unless workers become more productive. This has implications for the number of workers needed.

In the short run, we can expect uncertainty, disruption and miscalculations to accompany the end of rapid inflation.

In the long run, increased demand will eventually occur as increased productivity lowers prices and new products and services should develop from innovations we do not now envision. Demand for labor will again increase.

The significance for those who plan future employment and training efforts is that we cannot automatically limit ourselves to using the trends resulting from the decades of rapid inflation and product shortages if we attempt to estimate future employment and training needs in a new environment that includes significant if not widespread deflation.

YOUNG vs. OLD

One of the consequences of the shift from an inflationary economic environment to one of disinflation, and possibly generalized deflation is a developing conflict of interest between younger individuals of working age and older individuals in our society.

While best illustrated by the current two-tier wage phenomena, there are other major illustrations.

Maximum Social Security taxes are now many times the maximum paid by most retired workers. The system now must be supported by a much smaller number of current workers per recipient. That number will continue to decline.

The end of rapid asset appreciation, resulting from the taming of inflation and the lower interest levels for savings accounts, limit the ability of the young to accumulate a nest egg for retirement.

Employment growth in lower paying industries and declines in higher paying industries limit the wages younger workers receive.

Not all developments have been harmful to today's youth. On the positive side, the ability to shelter income from taxes to a future date, if invested in IRA's or other retirement plans, was not available to most of today's elderly until recently. The advantages these accounts often must, however, be financed out of savings that may be difficult for youth to accumulate, given the other handicaps mentioned above.

Earning less (in real, if not current terms) and asked to contribute a much higher percentage of their earnings to a safety net that will not directly benefit them for decades, younger workers can be expected to desire changes in this arrangement.

Changes in the current relationships can be expected to affect employment and training. For example, raising the retirement age for Social Security purposes, to reduce taxes on today's workers would also reduce job opportunities for youth created by the vacancies retirements create.

The interests of young workers vs. the interests of the elderly will be a part of the socio-economic environment in which future employment and training efforts will take place.

A SMALLER SAFETY NET

As we switch from an inflationary economic environment to a disinflationary or deflationary one, the financial resources available for the socio-economic safety net, relative to the need for these resources, stop increasing as well.

Problems associated with the efforts to slow down or stop inflation, the using up or reduction of reserves in government insurance accounts such as unemployment insurance reserves, bank failure reserves, and other problems such as the federal deficit, have resulted in some retrenchment from past levels of benefits. Current economic problems indicate that this trend towards the reduction of benefits will continue.

The shrinking of the safety net increases the need for successful employment and training efforts. These efforts currently are also under increasing budget restraints which are likely to continue.

Thus, the future for employment and training programs appears to be a continuation of increased need for the services, with a smaller amount of resources available for this purpose. The need for greater efficiencies in employment and training and industrial development efforts has increased and will continue to increase in the future.

The Impact of Wisconsin's Economic Recovery On Specific Age, Sex and Racial Groups

Changes in the unemployment rates and the relative distributions of unemployment reveals that young workers 16-19 years of age are represented by a higher proportion of the unemployed in 1984 after the recovery from 1982, the most severe recession year. Male youth (16-19) represented an additional 2.1 percent of total unemployment in Wisconsin and female youth (16-19) represented 1.5% more in 1984 as compared to 1982.

Older males also represented a larger portion with the 45-54 age group representing the only age group to actually increase in number over the two year period, increasing by 2,000. This age group and the 55-64 age group also increased their proportion of the small 1984 employment level by 3.5 and 0.2 percentage points in that order.

Middle-aged women 35-44 increased their proportionate share of the unemployment total in 1984 by 1.8 percentage points, but declined by 1,000 over the 1982 level.

THE IMPACT OF WISCONSIN'S ECONOMIC RECOVERY ON SPECIFIC AGE, SEX AND RACIAL GROUPS AS REFLECTED BY THEIR UNEMPLOYMENT RATE CHANGES ANNUAL AVERAGES 1982 vs. 1984

	Unemployed 1982 #	Unemployed 1982 Rate	Unemployed 1984 #	Unemployed 1984 Rate	Distribution 1982	Distribution 1984	1982-84 # Change	Change In % Dist.
Total Number of Unemployed	261,000	10.7%	176,000	7.3%	100.0%	100.0	-85,000	-3.4%
Youth 16-19	48,000	21.6%	40,000	18.4%	18.4%	22.7	-8,000	-3.2%
Prime Working Age	171,000	11.1%	103,000	6.9%	65.5%	50.5	-68,000	-4.2%
Older Workers 45+	41,000	5.9%	33,000	4.9%	15.7%	18.8	-8,000	-1.0%
Total White Unemployment	239,000	10.1%	160,000	6.9%	91.6%	90.9	-79,000	-3.2%
Youth 16-19	45,000	20.5%	37,000	18.1%	17.2%	21.0	-8,000	-2.4%
Prime Working Age (20-24)	156,000	10.5%	91,000	6.3%	59.8%	51.7	-65,000	-4.2%
Older Workers 45+	39,000	5.8%	28,000	4.3%	15.9%	15.7	-11,000	-1.5%
Total Black Unemployment	21,000	26.7%	13,000	20.7%	8.0%	7.4	-8,000	-6.0%
Youth 16-19	3,000	67.4%	3,000	32.8%	1.1%	1.7	+0	-34.6%
Prime Working Age 20-44	14,000	27.5%	10,000	23.8%	5.4%	5.7	-4,000	-3.7%
Older Workers 45+	INA	INA	INA	INA	INA	INA	INA	INA
Total Hispanic Unemployment	INA	INA	INA	INA	INA	INA	INA	INA
Male, All Races 16+	160,000	11.7%	110,000	8.1%	61.3%	62.5	-50,00	-3.6%
Female, All Races 16+	101,000	9.3%	66,000	6.3%	38.7%	37.5	-35,000	-3.0%
Male, All Races								
16-19	29,000	24.5%	23,000	19.6%	11.1%	13.1	-6,000	+2.1%
20-24	22,000	19.8%	22,000	10.9%	14.6%	12.5	-16,000	-2.1%
25-34	49,000	12.8%	28,000	7.8%	18.8%	15.9	-21,000	-2.9%
35-44	21,000	7.8%	13,000	5.0%	8.0%	7.4	-8,000	-0.6%
45-54	13,000	6.1%	15,000	6.9%	5.0%	8.5	+2,000	+3.5%
55-64	10,000	6.3%	7,000	5.0%	3.8%	4.0	-3,000	+0.2%
Female, All Races								
16-19	19,000	18.4%	17,000	16.9%	7.2%	9.7	-2,000	+1.5%
20-24	24,000	12.9%	11,000	6.5%	9.2%	6.3	-13,000	--2.9%
25-34	26,000	8.8%	16,000	5.7%	10.0%	9.1	-10,000	-0.9%
35-44	13,000	6.1%	12,000	5.6%	5.0%	6.8	-1,000	+1.8%
45-54	9,000	5.8%	6,000	4.1%	3.4%	3.4	-3,000	+0
55-64	9,000	8.4%	4,000	3.6%	3.4%	2.2	-5,000	-1.1%

June 1984 County Unemployment Rates
By Rural, Mixed and Urban
Labor Force Dominance*

June in Wisconsin is a month when unemployment is usually lower because more outside work is possible than in winter, and jobs related to the summer vacation period are available. It is not the summer month with the lowest seasonal unemployment and highest seasonal employment levels. September and October are the best months of the year because of harvest activities.

Unemployment and employment in rural areas are more susceptable to seasonal variations than urban areas where more work is done inside and a smaller summer tourist increase occurs.

Thus, during a summer month such as June we can expect rural areas to improve their relative position in a ranking of all of the states' counties by unemployment rates.

By dividing the state's 72 counties into four quarters, we can assess the relative current position of rural vs. urban counties in the most current data available.

However, many of Wisconsin's counties have a mixture of economic activities and are not predominantly urban or rural.

Thus, we can classify a Wisconsin county as having a rural, mixed, or urban based local labor force that <u>resides in the county</u>.

Doing so we find that currently, despite the favorable time of the year, June represents a slightly higher proportion of rural counties that are ranked in the higher half of the ranking of counties, while a proportionate share of the mixed counties, and a lower proportion of urban counties are in that upper half.

Thus, unemployment is worse in rural counties at a seasonally better time of the year and unless general economic conditions improve in these rural counties, they can be expected to compare even worse next winter.

June 1984 Preliminary County Unemployment Rates

	All Counties		Upper 25% of Counties		Upper Mid Range 25% of Counties		Lower Mid Range 25% of Counties		Lower 25% of Counties	
	#	% of Dist.	#	% of Dist.	#	% of Dist.	#	% of Dist	#	% of Dist.
Rural	45	62.5	12	66.7	14	77.7	9	50.0	10	53.6
Mixed	14	19.4	3	16.7	4	22.2	3	16.7	4	22.2
Urban	13	18.1	3	16.7	0	0.0	6	33.3	4	22.2
Total	72	100.0	18	100.0	18	100.0	18	100.	18	100.0

* A detailed table of June 1985 unemployment rates for all Wisconsin counties is presented at the end of this report.

ECONOMIC OUTLOOK FOR FEDERAL PROGRAM YEARS
FPY 1984 AND FEDERAL PROGRAM YEAR 1985

The economic outlook for Wisconsin, the nation and the labor market is based on the following assumptions:

1. The national and international financial systems will continue to be able to withstand any future financial shocks occurring from oil price declines, farm failures, foreign debt repayments and currency fluctuations.

2. Long-term trends, such as the shifting of goods production to lower cost facilities in other states and nations and production improvements to minimize or overcome our comparative price disadvantage, will continue at accelerated rates.

3. There will be no major war where the industrialized nations of the world participate actively.

The long recovery from the recession will slow but continue through the end of PY 1984 and possibly into PY 1985. Its continuation is due to the continued outweighing of negative economic factors by a larger number of positive economic factors. A recession is likely to begin sometime in PY 1985.

Briefly stated, the negative economic factors, which are expected to continue to affect our economy in PY 1984*, include:

High interest rates making financing big ticket items for consumers and capital expenditures expensive by historic standards.

The strong US dollar, which makes exporting of Wisconsin-built capital goods extremely difficult, while easing the importing of foreign goods.

Very large federal deficits which limit government action to reduce unemployment, help farmers, and which keep interest rates high. (High interest rates make purchases of Wisconsin-built machinery very difficult.)

The removal of $240 million from the Wisconsin economy as opposed to last year's injection of $260 million into the state's economy as we begin to repay our Unemployment Insurance debt. (This half billion dollar shift is equal to one percent of the state's personal income in current dollars.)

Positive factors are expected to result in economic growth (4.0 percent or better) in the US Gross National Product during the first half of PY 1984 as momentum from election year stimulus is expected to continue through the end of 1984 and possibly into 1985. These positive factors include:

*Federal Program Year(PY)

A continuation of home mortgage rates substantially below the highs experienced a few years ago. Rates are still very high by historic standards so this improvement is very limited and the number of persons becoming financially capable of purchasing homes is also very limited.

Continuation of the large amount of federal transfer payments and a high level of consumer spending in the near future. Late in 1985 and/or during 1986, reductions in the growth rate of transfer payments may be enacted.

Indexing of income tax rates will, if not repealed, prevent erosion of personal income increases but tax increases are likely, sometime in 1985 or 1986 at the latest, to ease the federal budget deficits.

The commitment by the federal reserve system to increase the money supply at a rate large enough to prevent interest rates from rising may end. Money supply contractions (M-1) generally occur in the beginning of the presidential term. This would result in a slowdown in growth or contraction of the economy in mid-term.

Further lowering of gasoline and oil prices and pressure to reduce natural gas prices should continue unless we experience a cut-off of Persian Gulf supplies. This lowering of prices will continue to send fewer dollars overseas making these funds available for the purchase of other goods and services or for investment purposes.

The continuation of the need to replace durable goods due to their increased age and previous low rate of replacement should continue during the remainder of PY 1984. This replacement factor should diminish as we move into PY 1985.

Limited action by Congress and the administration to create some nondefense public and private jobs through the expenditure of federal funds in PY 1985 is expected. Increased job creation activities in PY 1985 can be expected if reductions in the level of joblessness through private sector growth do not continue in PY 1984 and into 1985. (We project this to happen.)

On balance, the above mentioned positive economic factors should outweigh the negative economic factors and are expected to result in some growth for all of PY 1984 despite a slowdown in the second half. We expected an increase of real US Gross National Product of about 2.0 to 3.0 percent in PY 1985.

Wisconsin Labor Force Levels PY 1984 and PY 1985*

Interest rate levels, credit availability and capacity utilization rates continue to hold the key to activity in the two sectors of Wisconsin's economy--durable goods and construction--that have not yet recovered from the recession.

Recovery is expected to increase Employment by about 46,000 from calendar year 1983 to PY 1984 but gain only slightly between PY 1984 and PY 1985 ending June 30, 1986. Over the period from PY 1984 to PY 1985 total employment is expected to gain several thousand.

*Federal Program Year (PY)

Average Unemployment for all of 1984 will decline by about 3.1 percentage points from 1983 before increasing slightly, or 0.4 points, for PY 1984. In PY 1985, Unemployment is expected to rise again (+1.3 percentage points) as the 2,000 gain in Employment will not balance out the much larger Unemployment increase that results from the Labor Force increase.

The Labor Force is expected to decline over the period from 1983 to PY 1984 but is expected to grow another 36,000 from PY 1984 to PY 1985 as the outmigration of state residents slows, recession induced early retirements decline extensively, student enrollment stabilizes and the number of discouraged workers declines.

Nonfarm Wage and Salary Employment Levels PY 1984 and PY 1985

Over the period, starting with the 1983 annual average to the 12-month PY 1984 period, Employment growth is expected to be somewhat proportional between the Service Sector of the economy and the Goods Producing Sector with 59.4 percent and 40.6 percent gains respectively.

Recovery from the recessions of the early 1980's is expected to slow after PY 1984. In PY 1985, the Goods Producing Sector is expected to decline, decreasing 14,000 jobs. The likelihood that the Goods Producing Sector will eventually recover to 1979 levels is not apparent in the foreseeable future. Competition from other states, foreign competition and attempts to increase productivity through computer assisted manufacturing, engineering and design, together with an expected slowing of economic growth, should blunt further gains in goods production jobs. This sector of the Wisconsin economy will, of course, also be affected by the national administration's actions, international economic events, business spending, consumer confidence and interest rates. Service Industry Employment will represent most of the PY 1985 gain in Nonfarm Wage and Salary Employment.

High consumer interest rates are expected to restrict the sale and manufacturing of "big ticket" consumer items. The recovery that has already occurred has met some of the backlogged replacement need for these items. Therefore, sales are expected to continue to increase modestly. Wisconsin's involvement is substantial in consumer durable goods manufacturing.

On the capital goods side, sales are expected to continue to improve modestly in the remainder of PY 1984 as the consumers have picked up their buying pace since 1983, and increases in capital goods orders should follow. Wisconsin's large machinery industry is expected to increase sales for all of PY 1984 and be flat in PY 1985. Farm, Construction and Mining Machinery Employment levels should not improve during PY 1984 from their very low 1983 levels as foreign markets are very weak because of the strong dollar and the debt repayment crisis.

Employment in the Nondurable Goods Sector of Wisconsin, which did not decline as much as the Durable Sector did in the 1979-1983 period, is expected to be stable during PY 1984 but experience a loss of several thousand jobs in PY 1985. Productivity increases and the expansion of Manufacturing facilities closer to the expanding sun belt population is expected to result in the slight decline in PY 1985.

Construction activity, which started to recover in 1984, is expected to decline slightly in PY 1984 as Federal Government support programs are expected to be at a constant level while interest rates remain relatively high. A further decline is expected in PY 1985.

Retail Trade Employment, which grew modestly in 1983, is expected to grow significantly in PY 1984 and modestly in PY 1985. Increased personal income levels for individual consumers have increased Retail Trade Employment levels in PY 1984 over 1983. However, more and more personal income increases will continue to be diverted to consumption areas other than those sold through the trade sector. Increased costs for medical care, housing and utility rates should continue to prevent sharp improvement for the Trade industries. Restaurants and Warehouse Groceries may continue to increase Employment levels in PY 1984 but top out in PY 1985. General Merchandising Employment is not growing as productivity increases cancel out any employment gains from new stores.

Transportation Industry Employment is the largest area of the Transportation, Communication and Public Utilities grouping. Transportation mirrors the economy as the level of industrial production and consumer consumption is reflected in the amount of shipments. The recession(s) lowered Employment in Transportation, then the economic recovery increased levels of shipments and employment. Communication and Public Utility Employment changes are less affected by recessionary changes and tend to reflect long-term trends. The split-up of the Bell Telephone System is expected to lower Employment at Wisconsin Telephone Company, the state's largest private employer. Conservation of energy usage, together with increases in productivity, is expected to decrease Employment in the Public Utility Industries. Cable Television is expected to continue to grow. The net result is expected to be a gain in Employment during PY 1984 over 1983 and with very modest gains in Employment in PY 1985.

Finance, Insurance and Real Estate Employment is expected to return to its long-term gradual growth in PY 1984 but the rate of growth should slow in PY 1985. The housing market, which affects Real Estate Industry Employment, improved slightly in the first half of PY 1984 but has fallen off thus far in the second half and should continue to be somewhat constant in PY 1985. Finance is still in a consolidation phase after rapid expansion in previous years with new products, such as IRAs, increasing Employment, while the total impact of deregulation is still unknown. Insurance Employment is declining very slowly despite dollar volume gains because of extensive automation. High real interest rates will continue to restrain Employment growth in this industry grouping as money flows out of the state to financial centers offering higher rates. The high credit risk on foreign loans should reduce the flow out of the country while borrowing needs of the Federal Government should absorb more of the Wisconsin generated savings.

Service Employment levels should continue to experience a slightly lower overall growth rate than they experienced in the 1970's, especially in PY 1985. Government budget restraint and relatively high Unemployment and interest rates continue to affect Employment growth rates in Medical Services and Social Services while Business Services should continue to grow impressively. Employment levels in Lodging Establishments will not grow at previous rates as tighter controls on private business spending and government travel limits the potential for growth. Passage of Federal or State legislation providing medical coverage for some of the Unemployed would, if authorized by the Federal Government, lessen the job loss in the Hospital area.

Mining Employment in the state is primarily affected by the volume of construction of highways and structures. Expansion of Metal Mining is still not likely in the near future except for site preparation. The outlook for construction means Sand and Gravel Mining Employment will be rather flat in PY 1984 and decline slightly in PY 1985.

Two factors, demographic and budgetary, will continue to affect Government Employment levels. Declining enrollments will result in additional school Employment loss during PY 1984 and PY 1985 while some 1983 budgetary cuts have been restored during PY 1984 in noneducational areas. Post secondary education areas of education, where Employment levels have held up rather well, should continue to show some decline as the pool of young adults declines. Overall, Government Employment is expected to increase very slightly in 1984 and remain constant in PY 1984. Federally supported jobs programs are expected to be expanded by PY 1985 if we are correct and a recession occurs. This should compensate for job losses in Education Employment and other state and local activities. However, if more economic growth occurs than we project for PY 1985 and lower Unemployment rates result, Federal job programs would not increase.

Agricultural Employment Levels

Employment estimates in the Agricultural Production Sector of the economy are difficult to make because of the Self-Employed nature of most farm enterprises and the large amount of off-farm employment resulting in Dual Job holding. If dairy prices remain at the current levels, Wisconsin farm Employment will most likely decline during PY 1984 and PY 1985 as Dairy Farms provide most of the Agricultural Employment in Wisconsin. At this point, the "Payment in Kind" program (PIK) has aided Wisconsin dairy farmers somewhat by creating the need for more Wisconsin milk in other states but the farm debt problems will reduce the number of farmers in Wisconsin significantly during PY 1985.

ACTUAL AND PROJECTED LABOR FORCE CHANGES
BY PLACE OF RESIDENCE
(Thousands)
(Revised 2-15-85)

	Actual		PROJECTED		NUMERIC CHANGE Actual	NUMERIC CHANGE PROJECTED		
	1983	1984	PY-84	PY-85	83-84	84-PY84	PY84-85	84-PY85
Civilian Labor Force	2426.0	2394.0	2404.0	2440.0	-32.0	+10.0	+36.0	+46.0
Unemployment	253.0	176.0	186.0	220.0	-77.0	+10.0	+34.0	+44.0
Unemployment Rate (%)	10.4	7.3	7.7	9.0	-3.1*	+0.4*	+1.3*	+1.7*
Employment	2172.0	2218.0	2218.0	2220.0	+46.0	± 0	+2.0	+2.0

ACTUAL AND PROJECTED
NONFARM WAGE AND SALARY EMPLOYMENT CHANGES
BY PLACE OF WORK
(Thousands)
(Revised 2-11-85)

	EMPLOYMENT Actual 1983	EMPLOYMENT Actual 1984	EMPLOYMENT Projected PY-85	NUMERIC CHANGE Actual 83-84	NUMERIC CHANGE Projected 84-PY85
Mining	1.9	1.8	2.0	-0.1	+0.2
Construction	57.7	58.3	55.0	+0.6	-3.3
Durable Mfg.	295.7	321.7	315.0	+26.0	-6.7
Nondurable Mfg.	188.4	196.2	192.0	+7.8	-4.2
Trans., Comm., Public Utilities	88.1	89.7	92.0	+1.6	+2.3
Trade	433.3	453.8	455.0	+20.5	+1.2
Fin., Ins., Real Est.	98.6	102.2	101.6	+3.6	-0.6
Services	388.6	403.8	420.0	+15.2	+16.2
Government	312.4	313.4	313.4	+1.0	± 0
TOTAL	1864.6	1941.0	1946.0	+76.4	+5.0

PY: Program Year. If not preceded with a PY, time periods are calendar years. PY84 is July 1, 1984 to June 30, 1985 and PY85 is July 1, 1985 to June 30, 1986.

Totals may not add due to rounding and Labor-Management disputes.

*Percentage point change.

Projected estimates are intended for use in Employment and Training Planning.

For other use, contact August Cibarich at (608) 266-0522 first.

INDUSTRIAL EMPLOYMENT CHANGES*
1980 TO 1984
1984 TO PY-85

The next several years will see a continuation of the profound changes in job opportunities for Wisconsin job seekers that have occurred since 1980.

Over the past two years we have been rebounding from the worst recession(s) since World War II. We have also begun to see an acceleration in the application of new technology to production techniques and the shift to new products and strategies that have been called a "race to catch the factory of the future." Overall, the next several years will see much slower Employment growth than we have experienced in the period of recovery from the recession(s).

Events will bring a halt to Employment growth in some of our more familiar areas, while other areas have potential to continue to expand with rapid growth, perhaps explosive growth** in the newly emerging areas.

We have seen enormous expansion in the number of Restaurants, Retail Outlets, Office Buildings and Service firms. The boom in expansion of Office Buildings, Restaurants and Retail firms will most likely end during the next several years, while the rapid expansion in many, but not all, Service industries will continue.

Displaced workers remaining Unemployed or under-employed from the last recession will (short of a super boom which almost no one is expecting) not go back to the jobs they once held. Their displacement now seems final, as we move from recovery to expansion of other sectors of our state's economy.

Most of the thrust of new job growth over the past several years has occurred in the following types of industries:

Restaurants - (Especially rapid growth in fast food Restaurants)

Retail Stores - (Almost all kinds of retail stores increased in number; exceptions include Auto Dealers, Gas Stations and Farm Implement Dealers)

Personal Service Outlets - Traditional - (Barber Shops, Beauty Salons, Shoe Repair, Dry Cleaning, Travel Service, Personal Improvement Centers, such as Diet Centers, Pet Centers have expanded since 1980)

Personal Service Outlets - New - (Video tape Rental Centers, Copy Center Services, Video Game Parlors, Photo Service, Lawn Care Rental Service, Tax Preparation, Cable TV Service also developed and expanded since 1980)

Financial Services - (Branch Banking Services, including Automatic Teller Servicing, Insurance Sales, Vacation Land Sales expanded)

*Through the end of program year 1985 (June 30, 1986)
**From a small base.

Amusement and Recreation Services - (From Archery Centers to Golf Courses to Water Rides, to Ski Hills, all provided additional Employment)

Motion Pictures- (Expansion of highly automated theaters in suburban areas and division of large central city theaters into several smaller units occurred)

Business Services- (Computer and Data Processing Services, Quick Print Centers, Commercial Leasing Services, Janitorial Service, Protective Service, Temporary Help Services, Research Services, Consulting Services, Advertising Services grew rapidly providing good Employment gains)

Lodging Services - (Trailer Parks, Campgrounds, Motels, Hotels, Bed and Breakfast rooms gained, while Vacation Cottages declined)

Health Services - (Most non-Hospital Health Services expanded Employment significantly over the recent past while Hospital Employment declined)

Educational Services -Private - (Day-Care Centers, Training Schools, and other Education Services expanded)

Social Sevices, Private - (Neighborhood Centers, Refugee Services, many types of specialized Social Services expanded and added employees)

Membership Organizations - (Business Assocations, Professional Associations and other Membership Organizations expanded staffing)

Miscellaneous Services - (Accounting, Architectural, Weather Forecasting, and various Professional Services firms expanded)

It is important to note that a significant portion of the above mentioned areas of Employment gains were provided by Self-Employed individuals, rather than Wage and Salary employees. These gains in Self-Employment are not included in the Employment numbers in this report. Only Wage and Salary Employment is available by occupation or occupational groupings.

OCCUPATIONAL EMPLOYMENT CHANGES

PROFESSIONAL WORK OCCUPATIONS

The shift in the mix within the Professional Occupation grouping continued. The number of K-12 Teachers employed declined. The growth in the number of Licensed Registered and Practical Nurses employed may have ended with more of the workers in this occupation working at non-Hospital worksites, and fewer working in Hospitals. The number of Professional Workers employed by the state's Manufacturing and Construction industies has declined significantly since 1980 as cost-cutting measures to reduce "overhead" costs was one means employed to insure firms in these troubled industries would survive.

The rapid growth in Retailing and Service and Financial and Insurance Firms offered additional opportunities for Professional workers as Professional jobs are scattered throughout the Service-Producing Industries.

The demand for Data Processing Specialists was slowed by the recession and the rapid growth in the use of small computers at the expense of mainframe computers. This development affected the demand for Applications Programmers the most, as the emphasis in hiring shifted somewhat to four year graduates of Computer Science Courses.

Growth in the use of Professionals brought on by the energy shortage also was slowed, if not halted, by the current energy glut, which developed since 1980.

Extensive declines in the need for Drafters occurred as a result of the introduction of Computer Assisted Design (CAD). Declines are beginning to occur in the growth rate of Electrical Engineers as Computer Assisted Engineering (CAE) comes on board.

The decline in Government Employment, a big source of Employment for Professional workers, also limited growth in job opportunities for Professionals.

Overall Employment of Professionals continued to increase since 1980, despite the recession(s), however, the rate of growth was reduced significantly by the hard economic times and technological changes.

The number of Professional jobs is expected to increase by 1,600 between 1984 and PY-85. Strong job growth in some industries such as the Service Industries will provide additional job opportunities for Professional workers. Much, but not all of this gain will be displaced by declines in the use of Professional workers in other Industries.

TECHNICAL WORK OCCUPATIONS

Of all the occupational areas the Technical grouping offers the best opportunity for growth.

With the expansion of Computer Assisted Design, Manufacturing and Engineering, many additional jobs will be created in this category. Changes that reduce the need for workers in other occupational groups will increase the need for workers in this group.

Fortunately, Wisconsin has a long-established system of Technical Institutes to train workers in this category.

Together with workers in the Crafts category and in some Professional specialties, these workers will establish Wisconsin's success or failure in the "battle for jobs" that is raging in the world.

Much of the information that we need to know about the future of work is information about the Technical area. The area does not lend itself to much statistical analysis (the usual method for analyzing occupations) since the area is rapidly emerging, the number of workers is relatively small in number currently, and the Occupational categories emerging often are ill defined, or have no common description or set of tasks.

Another disturbing aspect of some of the more recently emerging Technologies is the number of Wisconsin trained workers finding Employment outside of the state. In these instances, Wisconsin's human capital investment in training, while benefiting the individual, does not benefit the state's economy as a whole.

We need to know a lot more about this emerging area of work. We need to organize any information gathered and distribute the knowledge obtained to those in our state who can use it. To do otherwise will reduce the development of this category of jobs in our state.

The number of Technical jobs is expected to increase by several thousand between 1984 and PY 85. This is the second highest rate of increase (3.0%), of any of the industry groups. Continued emphasis on "high tech" solutions to our economic problems will continue to increase the need for Technicians.

MANAGERIAL WORK

The sharp expansion in the number of Service sector firms in our economy since 1980 has expanded Employment opportunities for Managers in these industries. Declines occurred in the number of Managers employed in the Manufacturing and Construction industries, but the net result was a significant increase in the overall number of Managers employed. Many of the additional jobs were of the self-employment type which are not included in the Employment numbers in the accompanying table.

The number of Managerial jobs is expected to increase by 1,200 between 1984 and PY-85, as growth in the number of new firms is expected to be slower than in the four year period from 1980 to 1984. Competitive pressures are expected to continue to restrict the addition of, or recall of, many Managers; and continuing reduction of overhead expense will result in additional layoffs.

SALES WORK OCCUPATIONS

The rapid increase in the number of Retail Establishments has not resulted in an increase of Sales jobs since 1980. Jobs in Retail Firms, a major employer of Sales and Service workers, increased only 13,800 during the period from 1980 to 1984. One segment, Eating and Drinking firms, was responsible for most of this growth. The remaining Retail Industries, which employ the Sales Workers, changed very little overall. Resulting job growth occurred in the Service Occupations, not the Sales Occupations, since Eating and Drinking Firms employ Service workers in large numbers, not Sales Workers.

While growth occurred in several of the remaining Retail industries, declines in General Merchandising and Automotive Dealers and Gasoline Service Stations more than balanced out these gains.

As a result, Wage and Salary Sales jobs gained very little, despite the opening of many additional stores.

While this may sound contradictory, it is explained by the productivity increases in Retailing. The use of advanced technology, restructuring of traffic flow, more self-service, and above all fierce competition, resulted in fewer workers handling the workload and a lower number of workers staffing the individual store. The number of Sales Workers is expected to remain about the same from 1984 through the end of PY-85. Additional Sales Jobs created by growth in the number of firms is expected to continue to be balanced out by continued productivity improvement in the industry as a whole.

CLERICAL WORK

The information age requires that more information be processed. Under "normal" circumstances, this would result in the generation of an additional army of Clerical Workers. But these are not "normal" times. Technology is changing the nature of work and the work experience. Computers, word processers, printers and assorted additional hardware are rapidly changing the Clerical worksite into a "clerical floor", amazingly similar to the "factory floor".

Office machines now entering the office in unprecedented numbers are still primarily used independently of each other, just as factory machines were used for a century or more.

In the factory, machining centers have been rapidly replacing individual machines which were used independently of each other for many decades. Office machine centers are starting to link word processors, computers and terminals, mailroom functions and data control. Thus, the office which has just begun its widespread use of machines is already thinking about linking the machines.

It now appears that the office will undergo its shift from hand work to machine processing and then in a much shorter period (a few years rather than a century) integrate the machines into an office center.

This makes forecasting the need for Clerical Workers much more difficult as both developments will, in rapid succession, effect a change in the number of Clerical Workers needed and the type of Clerical Worker needed. Office integration is still experimental and a time table for its implementation is problematic right now.

Thus, in our attempts to estimate the Clerical staffing and training needs, both a greatly increasing workload and a two-phase rapid increase in productivity must be considered. Some feel office productivity can potentially increase threefold when fully integrated.

Over the year and one half from 1984 through PY-85, we expect the number of Clerical jobs to increase by about 2,500 jobs.

SERVICE WORK

This occupational grouping is a collection of occupations which are quite dissimilar in function performed, educational levels, special training required, and training time required. It is centered around doing service for or with people.

The occupational group has been growing rapidly overall. In 1980, it was estimated that about 300,000 Wisconsin residents were engaged in Service Occupations, doing "Service Work".

The original projections to 1990 for this group assumed a continuation of the rapid growth that had occurred previously. If we look back at the impact of the recession(s) of the early 80's that affected other occupational groups so extensively, we see a much less dramatic impact. No overall decline in the number of Service jobs appears to have occurred during the recession(s), but a dramatic shift has occurred towards the Food Service occupations, and away from the Minor Repair Services, especially Automotive Service. The rapid growth in the Health Service jobs area, that has occurred as a result of the former rapid expansion of Health Care, has leveled off with the decline in Employment in Hospitals.

With the resumed rapid expansion of Eating and Drinking establishments, the number of Food Service workers has grown extensively. A large number of these jobs are part-time positions. This area of Service Work may expand further in the time between now and PY -85; however, its rapid growth is close to "topping out". Exactly when growth will end is not known. What is known is that the rapid expansion that has taken place already, limits future growth.

The number of Service Jobs is expected to increase by 10,000 between 1984 and PY-85.

Blue Collar Employment Decline to Continue

The number of workers in Blue Collar occupations* peaked in 1979, dropped drastically during the recession(s) of the early 1980's and recouped some, but not much, of its losses in the two years of recovery we have experienced.

Factories, Repair Shops, Construction Sites, Warehouses, and other firms employing Blue Collar Workers have emerged from the recession and recovery leaner and much more productive.

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*Comprised of Craftsworkers and Kindred or Skilled Workers, Operatives or Semi-Skilled Workers, and Laborers or Unskilled Workers.

In Wisconsin, employers of Blue Collar Workers were hit harder and longer than the nation as a whole. While the nation as a whole has finally surpassed the Nonfarm Wage and Salary Employment peak levels reached immediately prior to the recession(s), this has not occurred in Wisconsin, and may not in the foreseeable future. Durable Goods Manufacturing and Construction firms which employ large numbers of Blue Collar workers have barely begun to recover the jobs they lost between 1980 and 1982.

Most likely there will be a time lag between the displacement of workers producing older products and the Employment of significant numbers of workers in the Manufacturing and distribution of new products.

Thus, in the short run continued erosion of Blue Collar Employment is likely. Over a longer period (five or more years from now), some Employment opportunities not now apparent will emerge for Blue Collar workers.

In 1980, the number of Blue Collar Workers was estimated to be about 675,000. The forecast to 1990 was estimated prior to the disastrous early 1980's recession(s) which sharply reduced "Blue Collar" Employment. Current estimates of Blue Collar Employment remain below the 1980 figures, as the industries which employ "Blue Collar Workers" are still significantly below their pre-recessionary high.

The 1990 "Blue Collar" Employment level is now expected to be much lower than that previously forecast. The level at the end of our forecast period (June 1986) is now expected to be lower than the 1980 level, with that level expected to be only slightly lower than that of 1984. Several hundred thousand Blue Collar jobs are thought to be vulnerable to a number of developments over a longer period of time.

Reasons For Decline In "Blue Collar Workers"

The balance of trade deficit is not expected to be eliminated even by a sharply reduced exchange rate for the dollar as foreign debtor nations must continue to export much more than they buy to pay interest on the debt and debt principal. Our market in oil exporting countries will decline sharply as oil prices drop. This will continue to restrict growth in the areas of our economy which employ most of our "Blue Collar Workers."

Some Blue Collar jobs are being transferred to states where wages paid are well below the national average or to other countries where wages are even lower.

Computer Assisted Manufacturing (CAM) is displacing many Blue Collar Workers. Spray painting, Arc and Spot Welding and other repetitive tasks are already being done by robots and computers. Second and third generation robots will be much more capable of replacing human labor.

Displacement Impact On Blue Collar Skill Levels

Laborers or Unskilled Workers

This category has been in general decline for several decades. Computer Assisted Manufacturing is accelerating the decline. This level of Blue Collar Workers is also very susceptible to being transferred to other lower paying states and nations.

Operatives or Semiskilled Workers

This type of Blue Collar work had been declining at a slower rate than Laboring work, but is now being displaced at a faster pace by Computer Assisted Manufacturing. A number of the developing countries now have sufficient capital and technical know-how to compete with firms in our state at this level of sophistication.

Crafts or Skilled Work

The impact of Computer Assisted Manufacturing and Computer Assisted Design on Craft work is not fully understood at this time. What is known is that job content is changing. What the overall need for Craft workers will be has not been addressed by any extensive studies of the issue, such as was done in the early 1960's when concern over "automation" resulted in a number of special studies to explain the changes.

The number of Blue Collar jobs is expected to decrease by 12,000 between 1984 and PY-85. The number of Craftsmen employed is expected to decline by 2,000, with a drop in the number of Operatives and Laborers employed of 5,000 for each category.

ACTUAL AND PROJECTED OCCUPATIONAL GROUPING CHANGES
NONFARM WAGE AND SALARY EMPLOYMENT
BY PLACE OF WORK
(THOUSANDS)
(1-85)

OCCUPATIONAL GROUPING	ACTUAL 1980	ESTIMATED 1984	ESTIMATED 1980/84 CHANGE Number	Percent	ESTIMATED PY85	CHANGE FROM 1984 Number	Percent	ESTIMATED* 1990
Total NPWS	1,938,250	1,941,100**	+ 2,850	-0.1%	1,946,400	+5,300	+0.3%	2,286,270
White Collar Workers	957,340	982,840	+25,500	+2.7%	990,140	+7,300	+0.7%	1,146,960
Professional & Kindred	258,160	264,160	+6,000	+2.3%	265,760	+1,600	+0.6%	308,800
Technicians & Technologists	57,300	61,300	+4,000	+7.0%	63,300	+2,000	+3.0%	73,690
Managers & Officials	169,750	174,750	+5,000	+2.9%	175,950	+1,200	+0.7%	200,350
Sales Workers	117,830	118,330	+ 500	+0.4%	118,330	±0	±0%	143,020
Clerical Workers	354,300	364,300	+10,000	+2.8%	366,800	+2,500	+0.7%	421,100
Service Workers	303,890	323,890	+20,000	+6.6%	333,890	+10,000	+3.1%	375,280
Blue Collar Workers	676,109	633,109	-43,000	-6.4%	621,109	-12,000	-2.1%	821,170
Craftworkers and Kindred Workers	214,580	211,580	- 3,000	-1.4%	209,580	-2,000	-1.0%	245,630
Operative	333,989	313,989	-20,000	-6.0%	308,989	-5,000	-1.7%	433,980
Nonfarm Laborers	127,540	107,540	-20,000	-15.7%	102,540	-5,000	-6.1%	141,560
All Other	910	910	±0	±0%	910	±0	±0%	910
NONFARM WAGE AND SALARY EMPLOYMENT	1,938,100	1,941,100						2,286,270

*Source "Wisconsin Projections to 1990, DILHR, August 1983. Since these projections are based on industry projections made prior to the recession(s) of the early 1980's, these long range projections are probably too high.

**Preliminary Employment for 1984 calendar year

NPWS - Nonfarm Wage and Salary Employment. Excludes self employment, agriculture, domestic workers and unpaid family.

WISCONSIN COUNTIES RANKED BY UNEMPLOYMENT RATE

JUNE 1985

RANK	COUNTY	RATE	LAST RANK	RANK	COUNTY	RATE	LAST RANK
1	Menominee-R	20.2%	1	37	Rusk-R	7.2%	33
2	Forest-R	15.2%	2	38	Waushara-R	7.2%	37
3	Sawyer-R	11.7%	3	39	Eau Claire-U	7.1%	39
4	Douglas-U	11.1%	9	40	Portage-M	6.9%	49
5	Bayfield-R	10.1%	4	41	Pepin-R	6.9%	27
6	Calumet-M	9.8%	6	42	Winnebago-U	6.7%	46
7	Vilas-R	9.4%	7	43	Washington-U	6.7%	52
8	Iron-R	9.1%	8	44	Iowa-R	6.7%	43
9	Marquette-R	9.0%	5	45	Vernon-R	6.6%	45
10	Kenosha-U	8.9%	21	46	Richland-R	6.6%	34
11	Racine-U	8.5%	20	47	Wood-M	6.5%	48
12	Polk-R	8.4%	11	48	Rock-U	6.4%	47
13	Juneau-R	8.3%	31	49	Langlade-R	6.4%	62
14	Marathon-M	8.2%	26	50	Door-R	6.3%	41
15	Columbia-R	8.2%	10	51	Milwaukee-U	6.2%	57
16	Trempealeau-R	8.2%	23	52	Brown-U	6.1%	60
17	Dodge-M	8.2%	16	53	Shebcygan-M	6.1%	51
18	Clark-R	8.2%	22	54	Grant-R	6.0%	61
19	Manitowoc-M	8.2%	19	55	Lafayette-R	6.0%	64
20	Oconto-R	8.2%	24	56	Oneida-R	5.9%	50
21	Jackson-R	8.1%	25	57	Barron-R	5.9%	44
22	Sauk-R	8.1%	15	58	Burnett-R	5.9%	42
23	Taylor-R	8.1%	17	59	La Crosse-U	5.8%	54
24	Lincoln-R	8.1%	14	60	Waukesha-U	5.8%	59
25	Ashland-R	8.0%	13	61	Shawano-R	5.7%	55
26	Jefferson-M	7.9%	30	62	Ozaukee-M	5.7%	53
27	Marinette-R	7.7%	35	63	Pierce-M	5.7%	68
28	Price-R	7.7%	12	64	Crawford-R	5.5%	56
29	Chippewa-M	7.6%	28	65	Outagamie-U	5.3%	69
30	Washburn-R	7.5%	18	66	Adams-R	5.2%	65
31	Fond du Lac-M	7.4%	38	67	Florence-R	5.2%	67
32	Green Lake-R	7.4%	29	68	Dunn-R	4.9%	63
33	Waupaca-R	7.3%	36	69	Walworth-M	4.9%	66
34	Kewaunee-R	7.3%	40	70	Green-R	4.5%	70
35	Buffalo-R	7.2%	32	71	Dane-U	4.2%	72
36	Monroe-R	7.2%	58	72	St Croix-M	3.5%	71

M-Represents mixed rural and urban counties.
R-Represents rural counties.
U-Represents urban counties.

Wisconsin DILHR, Job Service
Labor Market Information

EMPLOYMENT AND LABOR FORCE CHANGE
1979-1984
ANNUAL AVERAGES
(THOUSANDS)

	1979	1984	Number Change	Percent Change	Percent Distribution of Net NFWS Loss
CIVILIAN LABOR FORCE	2,331.0	2,394.0	+63.0	+ 2.7	
UNEMPLOYMENT	105.0	176.0	+71.0	+67.6	
PERCENT OF LABOR FORCE	4.5	7.3	+ 2.8*	--	
EMPLOYMENT	2,226.0	2,218.0	- 8.0	- 0.4	
ALL OTHER NONFARM	173.1	179.0	+5.9	+3.4	
FARM	113.1	98.5	-14.6	-12.9	
NONFARM WAGE AND SALARY	1,960.2	1,941.1	-19.1	- 1.0	100.0
MINING	2.6	1.8	- 0.8	-30.8	4.2
CONSTRUCTION	80.5	58.3	-22.2	-27.6	116.2
MANUFACTURING	591.3	517.8	-73.5	-12.4	384.8
DURABLE GOODS	393.7	321.7	-72.0	-18.3	377.0
LUMBER AND WOOD	23.3	21.5	- 1.8	- 7.7	9.4
FURNITURE & FIXTURES	10.5	10.3	- 0.2	- 1.9	1.0
STONE, CLAY AND GLASS	10.0	7.4	- 2.6	-26.0	13.6
PRIMARY METALS	29.6	19.9	- 9.7	-32.8	50.8
FABRICATED METAL	60.9	50.9	-10.0	-16.4	52.4
MACHINERY, NONELECTRIC	134.5	102.2	-32.3	-24.0	169.1
ELECTRIC & ELECTRONIC	58.2	52.6	- 5.6	- 9.6	29.3
TRANSPORTATION EQUIPMENT	42.6	36.1	- 6.5	-15.3	34.0
INSTRUMENTS & RELATED	12.4	10.7	- 1.7	-13.7	8.9
MISCELLANEOUS MFG.	11.6	10.1	- 1.5	-12.9	7.8
NONDURABLE GOODS	197.6	196.2	- 1.4	- 0.7	7.3
FOOD AND KINDRED	64.6	62.7	- 1.9	- 2.9	9.9
TEXTILE MILLS	5.4	4.6	- 0.8	-14.8	4.2
APPAREL & OTHER TEXTILE	6.6	6.5	- 0.1	-15.0	0.5
PAPER AND ALLIED	48.9	47.2	- 1.7	- 3.4	8.9
PRINTING & PUBLISHING	32.4	36.2	+ 3.8	+11.7	GAIN
CHEMICALS AND ALLIED	9.8	9.9	+ 0.1	+ 1.0	GAIN
PETROLEUM AND COAL	0.4	0.4	± 0	± 0	± 0
RUBBER & MISC. PLASTICS	19.4	20.5	- 1.1	- 5.7	5.8
LEATHER	10.2	8.1	- 2.1	-20.5	11.0
TRANS. & PUBLIC UTILITIES	92.2	89.7	- 2.5	- 2.7	13.1
TRADE	441.2	453.8	+12.6	+ 2.9	GAIN
WHOLESALE TRADE	96.4	99.9	+ 3.5	+ 3.6	GAIN
RETAIL TRADE	344.8	353.9	+ 9.1	+ 2.6	GAIN
FINANCE, INS. & REAL ESTATE	90.3	102.2	+11.9	+13.2	GAIN
SERVICES	351.9	403.9	+52.0	+14.8	GAIN
GOVERNMENT	310.1	313.6	+ 3.5	+ 1.1	GAIN
FEDERAL GOVERNMENT	27.1	26.7	- 0.4	- 1.5	2.1
STATE GOVERNMENT	76.3	79.9	+ 3.6	+ 4.7	GAIN
LOCAL GOVERNMENT	206.7	206.9	+ 0.2	+ 0.1	GAIN
LABOR-MANAGEMENT DISPUTES	3.2	0.8	- 2.4	-75.0	12.6

*Percentage points.
INA-Information Not Available.

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Representative OBEY. Mr. Reihl, please proceed.

STATEMENT OF JACK REIHL, SECRETARY-TREASURER, WISCONSIN AFL-CIO, MILWAUKEE

Mr. REIHL. Thank you.

My name is Jack Reihl and I am secretary-treasurer of the Wisconsin State AFL-CIO. On behalf of President John Schmitt and the 305,000 members of the Wisconsin State AFL-CIO in Wisconsin, I am pleased to testify today on economic conditions affecting Wisconsin workers and their families.

The first point that I would make for the committee's consideration is that while I am appearing today on behalf of the Wisconsin State AFL-CIO, the effects of the recession and the weakness of the current economic recovery affect both union and nonunion workers.

Therefore, I would ask that our comments today be considered in that context, of all Wisconsin workers and not just those who benefit from the accomplishments of organized labor in Wisconsin.

It is well recognized that Wisconsin's labor force is as skilled and competent as any in the Nation and beyond.

Our workers are as diverse as the makeup of the population of the State itself. In our mind, that diversity is fundamental and is a keystone to any effort to preserve and expand employment opportunities throughout the State.

Mr. Chairman, since 1980, the Wisconsin economy has felt the effects of both recession and recovery. Recession has been deep and extended, reinforcing the structural difficulties that have been more completely addressed by others testifying today.

Economic recovery, while certainly welcome, has not been as strong and complete as to warrant a conclusion that all is well with the status of Wisconsin workers.

The facts simply do not support the conclusion that the Wisconsin workers and their families are better off today than they were 5 years ago. We have more workers unemployed today than we did in 1980.

Five years ago there were 167,000 Wisconsin workers unemployed

Figures in 1984 show that we had 107,000 unemployed workers, and we all know that that is only about half of the total of unemployed workers when we consider those that are discouraged and quit looking, when we consider people that weren't eligible for unemployment compensation insurance in the first place, where most of the figures are derived from and from those people that would sure love to be working full time and are only working part-time jobs and, therefore, they are not counted in the figures.

Workers today, fortunate to have employment, have not seen their relative economic condition improve. Between 1980 and 1984, growth in nonagricultural employment in Wisconsin has lagged behind national averages. Also between 1980 and 1984, growth in personal income in Wisconsin has lagged behind national averages.

Between 1980 and February 1985, the earnings of production workers in manufacturing employment fell from $323 to $320 a week in real terms. Reduction of employee benefits including pension rights have been cut drastically.

In other words, the decline in the rate of inflation has not been sufficient to keep the worker's purchasing power consistent with 1980 levels.

And that brings me to a point that I believe should be crucial to the committee's deliberations today.

We are becoming more and more concerned that there is an attitude prevailing both in the State and the Nation that the price we must pay for economic health is an unacceptably high unemployment rate.

The unemployment rate in Wisconsin from 1980 to today has ranged from 6.7 to 10.7 percent. Most recent monthly figures from the Department of Industry, Labor and Human Relations indicate that we have finally broken through the 7 percent plateau that has been with us for many months.

The 6.7 percent unemployment rate for June of this year certainly marks an improvement. As I said earlier, Wisconsin has more unemployed workers today than it did 5 years ago.

Where have the thousands of people gone? In the past 5 years the Wisconsin labor force has shrunk. Its May total of 2,378,000 was the lowest May level since 1981. Diller reports 4 straight months of labor force totals below the previous year.

This helps account for the State's modest recovery in its overall unemployment rates. But why has the labor force declined? Have people moved out? Dropped out? Gone into a poor early retirement? The answers are not at all clear. But I fear that what has happened is the growth of some segment of the people is going unnoticed, unreported, and uncared for.

It also has 40,000 fewer manufacturing jobs than it did 5 years ago.

We do not believe that either Wisconsin or the Nation should accept any level of unemployment as being an acceptable alternative to anything less than full employment.

Full employment in Wisconsin is the goal of the Wisconsin State AFL-CIO. One Wisconsin worker that seeks employment unsuccessfully is one too many, as far as we are concerned.

Yet we seem to face a perception for one reason or another that a 7 to 8 percent unemployment rate is acceptable so long as other economic factors are within bounds.

In fact, we seem to face a number of other perceptions today that do not agree with the reality of our economic situation.

We have a perception that the Wisconsin economic climate is antibusiness.

I took President Schmitt's place at a meeting outside of Washington, DC, this spring. Fifty of the presidents of all of the States of the AFL-CIO, or most of the presidents of all of the States got together. I think there was 40-some of them. We all had—we all were getting that same message from business in every one of our States. That our States are antibusiness and their tax programs have to be greatly slanted in favor of business or business just isn't going to come to that particular State.

We have a perception that government in Wisconsin has done little to preserve and encourage development of Wisconsin's economic base.

We have a perception that Wisconsin's economic problems will be solved if only we can avail ourselves of the opportunities of high-technology development.

We have a perception that the tax climate in Wisconsin, both corporate and personal, hinders job preservation, and job creation.

Finally, we have a perception that wages for Wisconsin workers so exceed national averages that business location in Wisconsin is discouraged.

Let me explain why I believe that anyone in Wisconsin should be very careful in accepting the reality of these perceptions. First, we do not believe that an antibusiness attitude exists in Wisconsin. Wisconsin's attitude reflects that it is propeople, and that attitude includes all Wisconsinites, not just a privileged few.

Second, the idea that government policies in Wisconsin have contributed to economic stagnation bears much scrutiny. The old adage says that the squeaky wheel gets the grease. But if government policies grease only one wheel on the wagon, the other three soon stop turning.

The role of government in Wisconsin has constantly been to accommodate competing interests in a way that enhances a better life for all Wisconsin residents. And that better life takes into account all people, not just those riding the crest of an unexamined preoccupation with the rhetoric of economic development.

Public decisions are exactly that. The din of the oft repeated perception should not be allowed to stampede government into adopting unfair and unwise policies regardless of the media attention that such perceptions generate.

Third, while manufacturing employment has declined in relative importance in Wisconsin's economy, it still represents over one-half million jobs, given that we have lost 40,000 manufacturing jobs in the last 5 years.

While every sound opportunity for economic development and job creation should be pursued, it will be a long time before high technology brings that number of jobs to the State.

The much advertised transition to a service based economy offers little hope to industrial workers. They are not being absorbed into service jobs on any great scale, and those who do find work in the service sector suffer a tremendous loss of buying power and benefit protection.

In 1979, the per capital personal income in Wisconsin was the same as the national figure, $11,447 in Wisconsin, $11,421 in the United States. But by 1984, we had fallen behind; $11,863 in Wisconsin and $12,247 in the United States.

So relative to the rest of the country, our people make less money. This is so even through 1984, even though the 1984 unemployment rate of 7.3 percent was lower than the national average of 7.5 percent.

I might also add that with this talk about high wage State, those people that are in the jobs of hired skills, when they talk about work ethic in the State, I don't believe that there is any State that has a better work ethic than the State of Wisconsin, or better trained or more productive people.

So you can't just go by wages alone. You have to go by productivity. And I am sure most management people will tell you in Wisconsin, we do have a high productivity level from our workers.

And I believe it is important to note here that between 1970 and 1980, the rate of increase in manufacturing jobs in Wisconsin was double the rate of increase throughout the United States. Wisconsin during that period more than held its own with the balance of the Nation, even though manufacturing employment showed weakness both nationally and within the State.

Wisconsin has, in our opinion, done much to preserve the quality of life in the State that should enhance job creation, investment, and a reasonable business climate. Wisconsin has one of the best capital infrastructures supporting our economy as any State in the Union.

We shouldn't stand still to pat each other on the back. We still have reports such as those that came out of a recent report out of Milwaukee from the Milwaukee's Action for Goals 2000.

It found that there had been virtually no progress in recent years in providing quality affordable housing, especially for lower income people, and we feel that without direct aid in this area from the Federal Government, it is likely little is going to be accomplished.

Government should not become a scapegoat for the failure of the private sector to carry its share of the burden in maintaining a dynamic and expanding economy.

Government can do much to assure the well-being of its citizens, but it cannot, under our system of government, replace either the private sector or labor if the proper function of each is to be preserved.

Fourth, Wisconsin has a long and proud progressive tradition marked most significantly by its being the first State in the Union to adopt a progressive income tax. That same progressive tradition is today in danger of becoming a perception held by many but not grounded in fact.

The changes adopted in the 1985 State budget bill provide significantly higher tax reductions in the upper and lower income levels that for those people in the middle, which we feel is a step backwards from our progressive tradition.

The people on top got the biggest reductions and those people on the bottom, they weren't paying many dollars in taxes in the first place, so that reduction that they received was very minimal.

The Wisconsin Taxpayers Alliance, a respected independent study group, reported in the summer of 1984 that business taxes in Wisconsin were considerably less in 1984 than they had been in 1969.

Between 1969 and 1984, business tax increases on an annual basis had amounted to $474 million while business tax reductions had amounted to $805 million. This represents a net tax reduction of $331 million.

We certainly agree with the taxpayers alliance that an annual reduction of $331 million represents hard fact and not shallow perception. A copy of the table summarizing these major business tax changes from 1969 to 1984 is attached to this statement for your review.

In recent news reports the State of Wisconsin is credited as having one of the largest surpluses among all 50 States. While an inordinate budget surplus is not necessarily good, Wisconsin's State fiscal picture certainly contrasts favorably with the fiscal picture facing the current administration and the Congress.

The main reason our State has good financial status is because at the outset of his term, our Governor had the courage and the guts to ask for the enactment of the necessary taxes to put our State in fiscal order.

Federal budget deficits under the current administration have literally skyrocketed since 1980, while domestic expenditures, most notably those for the poor and underprivileged, have declined drastically.

Today, the House and Senate budget conferees are locked in seemingly unresolvable conflict primarily because one of the major issues necessary to a solution has been ruled out of hand. It has been painfully obvious to us for some time that if the Federal budget problem is to be brought under control, tax increases will be necessary to assure that the basic fairness of the American system will be continued.

This deficit also threatens a nation already suffering from continued high unemployment, huge trade deficits, high real interest rates, and growing evidence of economic weakness. We recognize that the deficit must be dealt with, that no solution will be painless, and that equal sacrifices are necessary.

Deficit reduction cannot be achieved by placing the burden on the backs of the poor, the workers, and those unable to protect themselves.

The AFL-CIO, and all of organized labor, I might add, remain steadfastly opposed to this dismantling of our Federal system which we have worked so hard over the years to build. Wisconsin workers and their families would not benefit, nor would the bulk of responsible Wisconsin citizens.

In closing, Mr. Chairman, I would like to make three more points.

The economic health of all the States is threatened by an epidemic of corporate takeovers by raiding and leveraged buyouts. The billions of dollars used to finance, as well as to fend off, takeovers is money that is not available for strengthening the national economy. The tax laws should be changed to prevent the encouragement of takeovers through manipulation of various provisions that result in subsidizing corporate mergers and takeovers.

These provisions include capital gains, depreciation, loss carryovers, and interest deductions. Mechanisms need to be developed to protect the interests of workers and communities in mergers and takeovers.

The laws governing the National Labor Relations Board should be amended to make sure that a President can't stack the deck against either management or labor. It should be above partisan politics. If not, it loses all credibility and takes away the incentive from each to bargain in good faith.

In regard to pensions, it is apparent that more fiduciary responsibility must be exercised by companies who are required to make payments into pension plans. We cite the Allis-Chalmers situation, who is transferring liabilities of approximately $170 million to the Pension Benefit Guaranty Corporation. Allis-Chalmers, while failing to properly fund the pension plan with the UAW workers, saw fit and did, indeed, properly fund the plans covering all salaried and executive classes.

This indicates a genuine need for tighter control and calls for amending of the rules governing the activities of companies in their relation with the Pension Benefit Guaranty Corporation.

The pension plan is not a conditional or discretionary gift by the employer. Rather it represents current wages withheld to pay a benefit on retirement.

So with that, I would close and thank you very much for the opportunity to testify.

Representative OBEY. Thank you, Mr. Reihl.

[The table attached to Mr. Reihl's statement follows:]

57-425 O—86——5

MAJOR WISCONSIN BUSINESS TAX CHANGES
1969 - 1984

Tax Change	Year Effective	Estimated Value 1983-84 (in millions)	
Tax Reductions			
Property Tax Exemptions[a]			
Mfg. Machinery & Equipment	1974	$140	
Merchants' & Mfrs' Inventories and Farm Animals	1981[b]	362	
Subtotal		$502	
Sales Tax Exemptions			
Mfg. Machinery & Equipment	1969	$ 99	
Pollution Abatement Equipment	1975	30	
Subtotal		$129	
Income Tax Changes			
Credit for Research & Development	1984	$ 10[c]	
Credit for Sales Tax on Energy Used in Mfg.	1972	25	
Deduction for Intercorporate Dividends	d	15	
Deduction Long-term Capital Gains	1982[e]	61	
Deduction under Accelerated Cost Recovery (ACRS)	1981	59	
Use of Tax Option Corporations (Subchapter S)	1979	4	
Subtotal		$174	
Total Tax Reductions			$805
Major Tax Increases[f]			
Income Tax Changes			
Increase Top Rate from 7% to 7.9%	1971-72	$ 43	
Repeal Limited Deduction for Federal Income Taxes	1975	110	
Repeal Deduction for State Income Taxes	1981	20	
Impose a Flat Rate of 7.9%	1981	6	
Minimum Income Tax - Capital Gains	1982	13	
Subtotal		$192	
Unemployment Compensation Tax Increase[g]	1983	$282	
Total Tax Increases			$474
Grand Total Net Tax Reductions			$331

[a] Assumes tax rate of $20 per $1,000.
[b] 50% tax credit began in 1962; credit increased to 80% by 1974. Exemption phased in beginning in 1977.
[c] Estimate for 1984-85.
[d] 50% deduction in 1980; 75% in 1984, and 100% in 1985.
[e] 20% deductible in 1982; 40% in 1983; and 60% in 1984.
[f] Does not include 10% temporary surtax levied in 1982 and 1983.
[g] Calendar-year increase.
Sources: Wisconsin Department of Revenue, Legislative Fiscal Bureau and Wisconsin Taxpayers Alliance.

Representative OBEY. Ms. Saunders.

STATEMENT OF ELLEN O'BRIEN SAUNDERS, ADMINISTRATOR, DIVISION OF EMPLOYMENT AND TRAINING POLICY, WISCONSIN DEPARTMENT OF INDUSTRY, LABOR AND HUMAN RELATIONS, MADISON

Ms. SAUNDERS. Thank you, Mr. Chairman.

The department I represent might be called, simply, the labor department, for its responsibilities include the administration not only of programs such as the Job Training Partnership Act [JTPA] and apprenticeship, but also the Job Service, workers' compensation, unemployment compensation, and equal rights and labor standards.

My division includes JTPA, the Apprenticeship Program, and the State's labor market information functions.

First, I wish to thank you for giving me the opportunity to share my perspectives on the Wisconsin economy and public and private responses to unemployment with you. The questions that you have asked me to address are, as you know, quite broad and, as such, give me quite a bit of maneuvering room. I appreciate that.

Some of my comments will be likewise quite general; others will be quite specific.

Last year, Governor Earl ordered a major reorganization of employment and training programs in the State, focusing leadership for program service delivery and coordinated policy development in one department.

An important ingredient of our reorganized structure is an employment policy development unit whose responsibility it is to identify program policy issues, across program and departmental lines, and to develop strategies to address them.

A major policy development tool of the department will be the production of "white papers" by this unit.

Attached to my prepared statement are drafts of executive summaries of two such papers: The first is "An Overview of Wisconsin's Employment and Training System," and the second is "A Study of Dislocated Worker Initiatives" done by our department.

A third attachment is a draft State employment and training policy—out for public review and comment.

Successful promulgation of this policy and adherence to it by individual programs will be, we feel, a major achievement and a first for Wisconsin State government. We are investing scarce resources now in this policy unit because the challenges our programs must meet are great. We simply cannot afford to allow programs to operate in isolation from each other. That requires that we identify the areas of overlap and redundancy, and the opportunities for meaningful interprogram coordination.

As I thought about sharing my views more generally with you, I realized that I focused on three themes, if you will. The first was one of our values. The second is the pace of change, and the third is the importance of leadership.

The first question you posed to me was the importance of—what is the importance of full employment for the Wisconsin economy and how such an achievement would reduce transfer payments and increase the State's prosperity.

Well, full employment would be the most important accomplishment of public policy were we still to hold it as a value. But that is the first thing to recognize. As an expression of public weal, it has almost disappeared from the common lexicon. We discuss instead the recovery, the business climate, and our competitive edge in the international economy.

The idea that all people who are able to earn a living by being employed and should be employed as a statement of our values appears to be looked on now as, if you will, an antiquated and almost vestigial value from the spendthrift 1960's, whose legitimacy failed to pass some test then of the marketplace. Yet the lack of full employment is tied to one of the sources of the Federal deficit, and one of the largest chunks of our State budgets—transfer payments.

If people are employed, they pay taxes and the quality of life of the society can be sustained and improved. Our environment, infrastructure, and public services, including education, can be retained, nurtured, and enhanced when public coffers are replenished by taxes fairly levied across a broad base of taxpayers.

The dollars allocated for human service programs to aid the poor can be focused in a full employment economy on those individuals who are not employable, resulting in a quality of life which is not punishing for those who are simply too old or too disabled to be employed or who are responsible for the important care of others.

In a full employment economy, in a full employment society, one can imagine that our citizens' patriotism would be profound, built on a base of self-respect and self-reliance and on a sense of belonging and not on one of fear and a collective sense of inadequacy.

And, in the most self-evident relationship of all, full employment would mean lower public costs for AFDC, general assistance or general relief, food stamps, rent subsidies, and medical assistance. It is clear that being employed raises the standard of living for most people—most people. There is one important and growing and troublesome population for which employment may not have economic utility.

That is the phenomenon of the single female head of household with young children. Research in Wisconsin suggests that a woman with two children would need to earn $5.74 an hour to cover her work-related expenses such as child care and transportation and, in order to replace the AFDC grant, more importantly, the medical assistance benefit, were she to enter a training program or gain employment.

This figure represents a 31-percent increase over the hourly wage women terminating from JTPA programs in Wisconsin earned—see attachments 4 and 5 to my prepared statement. So while full employment has a commonsense relationship to a reduction in transfer payments, it does not have a necessary one.

But, beyond this caveat, I am concerned that we all may be talking to each other, the converted, if you will. The fact is, as I suggested earlier, few people articulate the value of full employment as a goal of public policy anymore, particularly in the national administration.

Beyond that, if we are willing to articulate it as a value, we must be willing to put our money where our mouths are. The Humphrey-Hawkins Full Employment Act articulated a value, but the funds to implement its public service employment trigger were not appropriated. I am not necessarily making the case here for public service employment, but only reminding us that beyond the articulation of full employment as a value is the next step—putting the unemployed to work.

My view, actually, is that we have a more serious problem than either the disappearance of the public policy goal of full employment or the fiscal capacity to effect it. I am concerned about a leadership deficit on the issue of unemployment generally. What are the values being articulated by the present national administration?

The first is that government is not only ineffective at solving social and economic problems but also one of the major causes of them. The resulting leadership gap left by public political leadership is to be filled, following this line of thinking, by the "private sector."

I do not want to take a position that all the social experiments lead by Federal Government action have all been successes. But the fact remains that the problems and realities of the unemployed when addressed by Government programs are the expression of organized charity, if you will, in a secular society.

The support and assistance we give to the unemployed is given so that a minimum human standard of living is maintained and so that the services are there, should we ever need them. And this sense—that we ourselves are not permanently protected from unemployment—is what I sense is lacking in the national leadership.

I sense a lack of acquaintance with need. When President Reagan discusses "the recovery" or holds up a newspaper with ads for data processing professionals or assists one person to get a job, I observe a person who has a lack of experience with the unemployed, underemployed, and just plain poor in this country, one who doubts the fact of the underclass. He demonstrates sincere sensitivity to the individual and ignorance of the large numbers of such individuals.

JTPA programs in Wisconsin have sufficient resources to touch perhaps 10 percent of the eligible population; is that a reasonable assault on poverty and unemployment?

Recently, I have been in some discussions in which this challenge is offered: You could increase employment by getting rid of the regulations and requirements that you have. Unemployment insurance taxes, the minimum wage, equal employment requirements, environmental protection, health and safety regulations, et cetera. The costs associated with worker protections earned only in this century offered up on a quid pro quo basis; employers could hire more people if employees weren't so costly.

My view is that our public policy ought to be one of full productive employment in safe and humane working conditions.

The next question asked me is, what the public sector can and should do to alleviate problems of structural and cyclical unemployment, with special attention to gaps that currently exist and what should be done about them.

The public sector, defined here as local, State, and Federal Government, can alleviate structural unemployment first of all by prevention and then by remediation.

By prevention, I mean effective and appropriate public education which would deliver a work force strong in basic literacy and numeracy skills. When the educational system fails or when individuals fail to use it, their chances for employment independence, if you will, are very chancy indeed.

Beyond the provision of basic education skills is the public sector's role in ensuring that the labor market is not overly influenced by race or sex or other non-job-related characteristics of individuals.

Antidiscrimination laws, as expressions of our best values, are effected to control the dark sides of our character. And we still need such protection for ourselves, from ourselves.

When prevention strategies, such as public education, have failed, remediation is the next public responsibility.

Specific programs such as JTPA and the WIN/WEOP Program come to mind as expressions of this role. The theory is that catchup help is needed for those who face barriers to employment, regardless of their origins or cause.

Service remediation is fine as a strategy if there are jobs available for those who we prepare for the starting gate. But if there are not, or if the cycle of severe unemployment is sustained, then jobs must be supplied. The debate about the success of CETA's job creation components has lacked some analytical rigor, I think. CETA failed to reduce unemployment not because it did not put substantial numbers of people to work but because at the same time as it was enacted, the baby boom generation invaded the labor force.

Rapid expansion of the labor force raised unemployment at a time when a modest effort was launched to deal with unemployment. Did people find work in CETA jobs? Sure.

Were more people employed with CETA than would have been without? Yes, again.

But did CETA substantially reduce the employment rate? We're not sure.

Leaving the past behind and looking into the future, is the public stomach for countercyclical employment programs gone? I think it depends on whose ox is being gored by unemployment. Unemployment which affects middle class voters could lead to public receptivity to public works programs. And, again, public acceptance will be affected by the quality of leadership. If current jobs in the Federal service are being devalued and demeaned and "gubmint" work is put forward as soft and unnecessary, it is unlikely that public service employment as a countercyclical strategy will work.

Whether the unemployment experienced is structural or cyclical, one Government service that is fundamental is the public labor exchange. In fact, if there is a constant in the Federal array of employment and training programs, one would have thought that the employment service would be it. Not so.

At this time, the administration is floating an idea called devolution. That is, a proposal is being made to devolve responsibility for unemployment insurance and labor exchange administration to the States.

Many questions about this infant plan exist and the National Governors' Association is reviewing it with a committee of State officials. One of the issues is that of national standards.

Attachment 6 to my prepared statement is the administration's proposal and Governor Earl's response to an inquiry from the President on his views.

Another responsibility that the public sector has is to administer its programs in a flexible, efficient, and coordinated manner. There is little defense anymore for turf wars. We at the State level can accept this responsibility and, due to the insufficient resources in JTPA as well as its very powerful coordination mandates, in many States are making substantial headway.

I hope we have a little time to discuss the phenomenon of the dislocated worker. The dislocated worker is typically out of work—I will move forward here. There are some remarks in my prepared statement.

The private sector—I will summarize. I am saying that I believe that the real job of the private sector is to produce goods and services that people want and make a profit from them.

I am less certain that the private sector should be considered the main problem solver of unemployment. I am glad that there is increased role of the private sector in the Job Training Partnership Act and also in the Carl Perkin's Vocational Education Act.

But if the private sector really wants to do something for the unemployed, it can use the programs that we have in place, use the job service, use JTPA, use the WIN Program, hire people through these programs. I do not feel there is some suspicion that the Job Training Partnership Act may invite some employer abuse. I think the time is not here when we have employer abuse.

What we have right now is underuse—period.

The last question asked about the impact of Federal employment and training policy and I quibbled whether there was one. I made a general statement about the priorities in the Federal budget. I think the relative size of the pies on 1980 and 1986 demonstrate my point, which is, more is going to defense and that I am not convinced that it ensures our security.

Finally, I make some statements about some rationalization between different requirements of different programs. I will close.

Representative OBEY. Thank you very much.

[The prepared statement of Ms. Saunders, together with the attachments referred to, and the report to the Governor of Wisconsin on the Job Training Partnership Act follow:]

Prepared Statement of Ellen O'Brien Saunders

Good Afternoon. I am Ellen O'Brien Saunders and I am the Administrator of the Division of Employment and Training Policy in the Wisconsin Department of Industry, Labor and Human Relations.

The Department I represent might be called, simply, the Labor Department, for its responsibilities include the administration not only of programs such as the Job Training Partnership Act (JTPA) and Apprenticeship, but also the Job Service, Workers' Compensation, Unemployment Compensation, and Equal Rights and Labor Standards. My division includes JTPA, the apprenticeship program and the state's labor market information functions.

First, I wish to thank you for giving me the opportunity to share my perspectives on the Wisconsin economy and public and private responses to unemployment with you. The questions that you have asked me to address are, as you know, quite general and, as such, give me quite a bit of maneuvering room. I appreciate that. Some of my comments will be likewise quite general; others will be quite specific. And I'd like to leave time for some conversation after my remarks.

Last year, Governor Earl ordered a major reorganization of employment and training programs in the state, focusing leadership for program service delivery and coordinated policy development in this department. He issued an executive order which identified Secretary Howard S. Bellman as the leader among cabinet officials in the coordination of employment and training programs and which charged him with the development of a coordinated policy framework for the delivery of employment and training program services. An important ingredient of our reorganized structure is an employment policy development unit whose responsibility it is to identify program policy issues, across program and departmental lines, and to develop strategies to address them. A major policy development tool of the department will be the production of "white papers" by this unit. Attached to my testimony are drafts of Executive Summaries of two such papers: the first is an Overview of Wisconsin's Employment and Training System and the second is a Study of Dislocated Worker Initiatives. A third attachment is a draft State Employment and Training Policy -- out for public review and comment (Attachments 1, 2 and 3). Successful promulgation of this policy and adherence to it by individual programs will be, we feel, a major achievement and a "first" for Wisconsin State government. We are investing scarce resources in this policy unit because the challenges our programs must meet are great. We simply cannot afford to allow programs to operate in isolation from each other. That requires that we identify the areas of overlap and redundancy, and the opportunities for meaningful interprogram coordination.

As I thought about sharing my views on the specific topics you raised in your letter, three themes emerged: the first was that of our values, the second is the pace of change, and the third is the importance of leadership.

The first topic you asked me to focus my testimony on was <u>the importance of full employment for the Wisconsin economy and how such an achievement would reduce transfer payments and increase the state's prosperity</u>.

Full employment would be the most important accomplishment of public policy were we still to hold it as a value. But that is the first thing to recognize; as an expression of public weal, it has almost disappeared from the common lexicon. We discuss, instead, "the recovery," "the business climate" and our "competitive edge" in the international economy. The idea that all people who are able to earn a living by being employed should be employed -- as a statement of values -- appears to be looked on as an antiquated and vestigial value from the spendthrift 60's whose legitimacy failed to pass some test then of "the marketplace." And yet, the lack of full employment is intimately and self-evidently tied to one of the sources of the federal deficit and one of the largest chunks of state budgets -- transfer payments. If people are employed, they pay taxes and the quality of life of a society can be sustained and improved. Our environment, infrastructure and public services including education can be maintained, nurtured and enhanced when public coffers are replenished by taxes fairly levied across a broad base of tax payers. The dollars allocated for human service programs to aid the poor can be focused, in a full employment economy, on those individuals who are not employable, resulting in a quality of life which is not punishing for those who are simply too old or too disabled to be employed or responsible for the important care of others. In a full employment society, one can imagine that our citizens' patriotism would be profound, built on a base of self-respect, self-reliance, and a sense of belonging and not on one of fear and a collective sense of inadequacy. And, in the most self-evident relationship of all, full employment would mean lower public costs for AFDC, general assistance or general relief, food stamps, rent subsidies, and medical assistance. It's clear that being employed raises the standard of living for most people. Most people. There is one important and growing population for which employment may not have economic utility. That is the phenomenon of the single female head of household with young children. Research in Wisconsin suggests that a woman with two children would need to earn $5.74/hour to cover her work-related expenses such as child care and transportation and, in order to replace the AFDC grant, more importantly, the medical assistance benefit, were she to enter a training program or gain employment. This figure represents a 31% increase over the hourly wage women terminating from JTPA programs in Wisconsin earned.[1] (Attachments 4 and 5) So, while full employment has a common sense relationship to a reduction in transfer payments, it does not have a necessary one.

But, beyond this caveat, I am concerned that we all may be talking to each other, the converted, if you will. The fact is, as I suggested earlier, few people articulate the value of full employment as a goal of public policy anymore. Beyond that, if we are willing to articulate it as a value, we must be willing to put our money where our mouths are. The Humphrey-Hawkins Full Employment Act articulated a value, but the funds to implement its public service employment trigger were not appropriated. I'm not necessarily making the case here for public service employment, but only reminding us that beyond the articulation of full employment as a value is the next step -- putting the unemployed to work.

My view, actually, is that we have a more serious problem than either the disappearance of the public policy goal of full employment or the fiscal capacity to effect it. I am concerned about a leadership deficit on the issue of unemployment generally. What are the values being articulated by the present national administration? The first is that government is not only ineffective at solving social and economic problems, but also one of the major causes of them. The resulting leadership gap left by public political leadership is to be filled, following this line of thinking, by the "private sector." I do not want to take a position that the social experiments lead by federal government action have all been successes. But the fact remains that the problems and realities of the unemployed when addressed by government programs are the expression of organized "charity," if you will, in a secular society. The support and assistance we give to the unemployed is given so that a minimum human standard of living is maintained and so that the services are there should we ever need them. And this sense -- that we ourselves are not permanently protected from unemployment -- is what I sense is lacking in the national leadership. I sense a lack of acquaintance with need. When President Reagan discusses "the recovery" or holds up a newspaper with ads for data processing professionals or assists one person to get a job, I observe a person who has a lack of experience with the unemployed, underemployed and just plain poor in this country. One who doubts the fact of the underclass. He demonstrates sincere sensitivity to the individual and ignorance of the numbers of such individuals. JTPA (Title IIA) programs in Wisconsin have sufficient resources to touch perhaps 10% of the eligible population; is that a reasonable assault on poverty and unemployment?

Recently, I've been in some discussions in which this challenge is offered: you could increase employment by getting rid of some of the regulations and requirements that you have. Unemployment Insurance taxes, the minimum wage, equal employment requirements, health and safety regulations, etc. The costs associated with worker protections earned only in this century are offered up on a quid pro quo basis; employers could hire more people if employees weren't so costly. My view is that our public policy ought to be one of full productive employment in safe and humane working conditions.

<u>What the public sector can and should do to alleviate problems of structural and cyclical unemployment, with special attention to gaps that currently exist and what should be done about them.</u>

The public sector, defined here as local, state and federal government, can alleviate structural unemployment first of all by prevention and then by remediation. There is nothing magical in this formula. The fundamental public investment should be in effective and appropriate public education which would deliver a workforce strong in basic literacy and numeracy skills. When the educational system fails, or when individuals fail to succeed in it, individuals' success in the world of work is very chancy. Each of us knows of people who have overcome educational deficits; but lack of basic skills is, nonetheless, a dependable predictor of economic dependency of one sort of another. Beyond the provision of basic education skills is the public sector's role in ensuring that the labor market is not overly influenced by race or sex or other non job-related characteristics of individuals. Antidiscrimination laws, as expressions of our best instincts, are effected to control the dark sides of our character. And we still need such protection for ourselves, from ourselves.

When prevention strategies such as public education have failed, remediation is the next public responsibility. Specific programs such as JTPA and WIN/WEOP come to mind as expressions of this role. The theory is that "catch-up" help is needed for those who face barriers to employment, regardless of their origins or cause. Services -- from outreach and assessment all the way to job placement and follow-up -- are provided to bring the person up to the labor market "starting post" with less barriered persons. The goal of remedial efforts is to improve the competitive position in the labor market of someone who is economically needy. Remediation is fine as a strategy if there are jobs available for those we prepare for the starting gate. But, if there are not, or if a cycle of severe unemployment is sustained, jobs must be created. The debate about the success of CETA's job creation components has lacked analytical rigor; CETA failed to reduce unemployment not because it did not put substantial numbers of people to work but because at the same time as it was enacted, the baby boom generation invaded the labor force. Rapid expansion of the labor force raised unemployment at a time when a modest effort was launched to deal with unemployment. Did people find work in CETA jobs? Sure. Were more people employed with CETA than would have been without? Yes, again. But did CETA substantially reduce the unemployment rate? We're not sure. Leaving the past behind and looking into the future, is the public "stomach" for countercyclical employment programs gone? I think it depends on whose ox is being gored by unemployment. Unemployment which affects middle class voters could lead to public receptivity to public works programs. And, again, public acceptance will be affected by the quality of leadership. If current jobs in the federal service are being devalued and demeanedm and "gubmint" work is put forward as a soft and unnecessary it is unlikely that public service employment as a countercyclical strategy will work.

With respect to cyclical unemployment, the public sector's responsibility is to support a strong viable labor exchange and, if the peaks of unemployment are severe and sustained, public service employment. The idea of the government as the employer of last resort is merely a reasonable extension of my earlier thought that most domestic programs designed to improve the life situation of the poor are simply manifestation of the ideal of charity, as articulated in a democratic and secular country.

Whether the unemployment experienced is structural or cyclical, one government service that is fundamental is the public labor exchange. In fact, if there is a constant in the federal array of employment and training programs, one would have thought that the employment service would be it. Not so. At this time, the administration is floating an idea called "devolution." That is, a proposal is being made to "devolve" responsibility for unemployment insurance and labor exchange administration to the states. (Attachment 6) Many questions about this nascent plan exist and the National Governor's Association is reviewing it with a committee of state officials. One of the big issues is that of national standards -- is the present administration committee to a certain minimum level of employment service in the states and territories or is devolution a strategy for fragmentation and, ultimately, elimination of the public labor exchange?

Another responsibility that the public sector has is to administer its programs in a flexible, efficient, and coordinated manner. There is little defense anymore for turf wars. We at the state level can accept this responsibility and, due to the insufficient resources in JTPA as well as its very powerful coordination mandates, in many states are making substantial head way.

This is a challenge that can be embraced by the Congress as well; it could attempt the revoluntionary task of effecting coordination and cooperation among and between its committees.

I would like to move beyond the general issue of the public sector's response to structural and cyclical unemployment to the emerging problem of dislocated workers and possible public responses to this subset of unemployed. The dislocated worker is typically out of work because of plant closings or permanent mass layoffs and faces a declining market for his skills.

Some of the individuals thus affected are able to obtain employment on their own and thus require investment of public funds. Some are not, and need such services as skill upgrading, job search assistance, and basic skills remediation. At the least, they all need thorough assessment. Supporting their efforts to re-employ themselves is a defensible public role, for the "pay back" to the rest of society for this assistance is almost guaranteed.

The public sector responses to unemployment I've described are largely supported by the federal government -- with some exceptions. Private employer contributions through the FUTA tax support the Job Service core programs, and some states have committed state tax dollars to programs for dislocated workers. But, in the main, the federal government has assumed the role of ensuring that the poor across the country have the same opportunities for employment and training services, from remediation to public service employment, no matter where they live.

Do I seem to be asking for more money for these programs? I recognize the folly of that in today's environment and feel grateful when the Job Training Partnership Act escapes the budget-slashing axe. As a public offical, voting citizen, consumer and parent, I am concerned about the federal deficit and its long-term effects. And I want it reduced. But the enormous investment in arms and arms apparatus does not, in my view, serve either our state's or our nation's fundamental economic and social needs. The size of the defense budget is disproportionate to its value and no guarantee of the defense of our country. I fear that this topsy-turvy arrangment of public resources not only reflects a budget priority-setting process that is out of control but also a value system that is unsupportive of a democracy. An irony. How can a democracy exercise its public weal in a humane, progressive and enlightened way if the basic literacy level of the citizenry deteriorates and if increasing numbers of children grow up in dependent households learning dependency as a modus vivendi?

At another level, our society is in rapid transition and the world is as well. Rapid technological change is changing the international economy, the tools of war and is disrupting our paradigms of how power is defined and exercised in international relations. But we invest no public resources in research and development in the important areas of problem resolution. It's clear to me that war is an obsolete problem-solving technique; but our federal budget continues to emphasize military solutions to international conflict.

What the private sector can and should do to improve the quality of the existing workforce and help those who are currently unemployed.

While current rhetoric in the employment and training world might suggest otherwise, I believe that the job of the private sector is to produce goods and services that people want, sell them and realize a profit. I'm less certain that the private sector should be considered the major problem-solver of the unemployment problem. The increased emphasis on the involvement of the private sector in such measures as JTPA and the Carl Perkins Vocational Education Act suggest that enhanced communication and interchange between the government programs that are preparing people for the world of work and the employers who will ultimately hire them is healthy. I don't disagree. But this desirable goal, when coupled with the anti-public service values as articulated by the present federal administration, may suggest to some that it makes sense to rely on the private sector to address the problem of unemployment. This is a leap of reasoning that can't be sustained.

The private sector makes massive, largely untabulated investments in training its employes. Inhouse employe development programs are an industry unto themselves. If the committee is interested in the level of investment of business in human resource development, I would suggest your soliciting that information from an organization like the American Society for Training and Development, the professional association of employe development and training officers. I assume that this investment will continue and hope that when companies retool, they will invest in keeping present employes, committing themselves to bringing their skills up to date and not lay them off in order to hire newly-trained workers whose skills are more current.

Continued training is critical in today's rapidly changing world; today's up-to-date worker is tomorrow's displaced worker unless we all pay close attention. In other words, all of us who employ people must recognize the pace of change and take some responsibility for our employes' capacity to remain employed in a world where higher productivity will be required and will depend on facility with modern tools.

And, I believe that the private sector has much to offer in guiding the development of employment and training programs, in identifying those basic skill and work competencies that are fundamental for getting a job at the entry level. I trust that this level of involvement was what the Congress had in mind when developing the Job Training Partnership Act. And, if so, I concur. What has emerged, however, is that the Private Industry Councils, the local program decision-making bodies, have found themselves responsible for the management of public funds. In other words, they are asked to do what they are not necessarily good at. But they cannot walk away from their fiscal responsibilities.

Did the Congress anticipate that the enlarged role of the private sector in employment and training programs like JTPA would result in the business community learning more about how to manage public money? I doubt it.

Beyond their involvement as Private Industry Council members and members of advisory advisory councils to the vocational system, joint apprenticeship committees, school boards, etc. -- and the number of business people who lend their expertise to public program managers and policymakers is not at all insignificant -- the private sector could use the publicly-supported programs more and, if they are not pleased with the results, speak up. The Targeted Jobs Tax Credit, JTPA, the Job Service, are just three programs eager to meet the employment needs of employers which offer free service or reimbursement for training costs. Some call this "employer subsidy" and question the wisdom of transferring funds from government back to the private sector in order to enhance profits. And that is a question. But my feeling is at this time is that these programs are not being abused as much as they are not being used. We're committed in our department to increased concsciousness-raising, if you will, about the broad array of employment and training programs among both the private sector and the public at large, including our own state legislature.

To conclude this section, my view is that the private sector ought to continue to invest in training and upgrading the skills of employed workers at all levels in their organizations and can help their communities by both serving on bodies such as PICs and by using the programs designed to facilitate the entry of disadvantaged people into employment. But we can't expect the business community to have a corner on wisdom with respect to the fundamental issues of unemployment. That's our responsibility if, indeed, anyone can claim it.

<u>The impact that federal employment and training policy has had on the state's ability to address unemployment problems during the last five years, including the impact of the federal budget cuts</u>.

This final topic could, of course, comprise a lengthy and very detailed response in and of itself. But, since my role here is to provide a broad view of a range of complex problems I'll begin by stating that I don't know of any federal employment and training policy. There is, it is true, a variety of federally funded employment and training programs and there is policy imbedded in program goals and requirements. But do the administration and the Congress agree on a consistent thrust for federal efforts in this area? Not, I think, since the War on Poverty has there been consistent national leadership and public consensus on broad policy goals.

But, regardless of this challenge to the question (which is a form of rhetorical nitpicking) there are federal programs, enacted by the Congrees and signed by the president, and they do become by that process public policy. I could inventory the programs that could be considered a part of this panoply. But I've selected only four. The Job Training Partnership Act is a mixed bag of policy thrusts. It invests heavily in training and assumes the existence of jobs. It enhances the role of the governors and the states and diminishes the role of the U.S. Department of Labor to the point of nonexistence. It places a heavy emphasis on performance and may, therefore, encourage service to those who don't really need it. And, it relies on the private sector to address problems that are the public sector's legitimate work. But, at the same time, it broadens the political base for employment and training programs, builds the capacity of states to grapple with employment and training issues generally and requires serious and long-overdue coordination among and between various programs.

Reference has already been made here today to budget cuts in basic statistical capacity and data development. It sometimes appears to me that the saying "ignorance is bliss" applies to certain national leaders. The cuts in basic Bureau of Labor Statistics efforts suggest that labor market information is not fundamental to economic health and development. What we know and experience on a daily basis is exactly the opposite. "Where will the future jobs be?" people ask. "What kinds of jobs should we train people for?" This concern is directly tied to the rapid pace of change and reflects the awareness of students, program planners and vocational education folks that the jobs of today are not necessarily the jobs of tomorrow or five years from tomorrow. Last year the Governor and the Chair of the State Job Training Coordinating Council appointed a Labor Market Information Task Force which discussed how labor market information could be improved and how its use could be enhanced. They came up with several recommendations that are low or no cost and a few that required additional resources. But central to LMI effectiveness is a fundamental national commitment to knowing what's going on in the labor market, both on the supply and demand side. We are concerned about the consistency and dependability of that commitment from this administration.

Finally, certain programs appear to work at cross purposes. While JTPA emphasizes services to AFDC recipients as a strategy and the reduction of welfare as a goal, AFDC regulations penalize women who gain employment by reducing their grants on a dollar-for-dollar basis.

In these remarks, I have suggested the basic roles of public and private sectors in addressing unemployment, and have focused on public policy as an articulation of our nation's values, the rapid pace of economic change, and the need for leadership. Indeed, the challenges we face are very puzzling and, on an individual human basis, painful.

But in this administration here in Wisconsin, we'll continue to grapple with them and hope that we can meet the challenges with some success. And our values will not, I trust, be shaken. We'll not allow ourselves to be so overwhelmed by the enormity or tenacity of the problems of unemployment and underemployment that we begin to see the poor, as one political figure did recently, as a natural resource, one that will allow us to compete successfully with Taiwan or Mexico as a location for firms that need large numbers of poor workers who will work for low wages.

Again, thank you for both the opportunity and your attention.

ATTACHMENT I

DRAFT

Employment Policy White Paper

AN OVERVIEW OF WISCONSIN'S EMPLOYMENT AND TRAINING SYSTEM

by
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Department of Industry, Labor
and Human Relations
Division of Employment and
Training Policy

July, 1985

AN OVERVIEW OF WISCONSIN'S EMPLOYMENT AND TRAINING SYSTEM

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EXECUTIVE SUMMARY

DRAFT

The Report

Wisconsin's publicly financed employment and training system is a complex array of interrelated programs and services intended to prepare individuals for and assist them to enter or reenter the labor market as productive workers and citizens. This report provides a brief overview of that system. It includes a discussion of a conceptual framework through which policymakers can better understand the system, describes the programs and issues which comprise the major elements of the state system, and outlines major policy implications/issues for future consideration.

This report is the first in a series of papers whose purpose is to focus policymakers' attention on broad issues of employment and training policy in Wisconsin. It has been developed by reviewing program and policy strategies across a variety of state programs and by consulting key program administrators and policymakers in the state. The report will be distributed in draft form to solicit additional comments before a final study is published. By distributing it at this time, however, it will provide a backdrop for the development of the Program Year (PY) 86-87 Governor's Employment and Training Policy.

Scope of Employment and Training Programs

Wisconsin's current employment and training system reflects its historical roots, which stem from innovative Wisconsin legislation developed early in this century followed by federal initiatives which began in the 1930's and accelerated in the 1960's and 1970's. The publicly financed state system includes over 40 programs administered by 12 departments or independent agencies of the state and federal governments. Numerous local governments, public and private agencies, educational institutions, private employers and others participate as well. The total budget for these programs exceeds $1 billion in the current 1984-1985 year. This figure does not include the University of Wisconsin system, economic development programs and most income maintenance/support services programs. These other programs make a significant contribution of the state's employment and training system, but are beyond the scope of this paper.

The various programs making up the system as a whole can be categorized into eight related and often overlapping functional systems:

* The Economic and Economic Development System, while not directly providing employment and training services, affects and is affected by employment preparation and job training efforts.

* The Educational System (including secondary and post-secondary educational institutions) provides the means by which the population as a whole gains the knowledge, skills and behaviors necessary to enter and proceed through the labor force.

* The Alternate Employment Preparation System provides targeted comprehensive services to "at-risk" populations who have not benefited from the conventional employment preparation systems.

* The Occupational/Vocational Skills Training System provides specific job-related skills within institutional or employer settings.

* The Labor Exchange System is the vehicle by which employer labor skill needs are matched with the skills of workers.

* The Income Maintenance and Support Services System provides for the basic or supplementary needs of individuals, including those experiencing periods of temporary unemployment and/or participating in employment preparation/ training activities.

* The Labor Market Information System provides the occupational, demographic, economic and other information necessary to target appropriate skill training areas and populations to be served.

* The Subsidized Employment System provides direct wage subsidies or incentives to employers to encourage hiring and/or to create jobs.

Major State Employment and Training Programs

Wisconsin's major employment and training programs (based on agency budgets) are housed in four state agencies: The Departments of Industry, Labor and Human Relations (DILHR), Health and Social Services (DH&SS) and Public Instruction (DPI), and the State Board of Vocational, Technical and Adult Education (SBVTAE). The major programs administered by these four agencies include the following: Labor Exchange Services, Job Training Partnership Act, Unemployment Compensation and Apprenticeship Standards (DILHR); Vocational Education Programs (SBVTAE and DPI); and employment and training for correctional clients, Vocational Rehabilitation Services, and the Wisconsin Employment Opportunities Program (DH&SS).

Policy Issues and Implications

The major programs within the state employment and training system will face a number of challenges in the next few years. The issues identified by agencies are specific to programs and reflect the particular purposes, priorities and needs of the target groups and systems of those programs. They share several common themes, however, which demonstrate the changing nature of the current employment and training system. These themes include the following:

* Responding to changing economic climate, labor market and demographic trends. Of particular concern is the development of agency/system capacity to keep abreast of technological and occupational changes as well as to changing client needs.

* Responding to changing federal priorities and focus. The federal government, through legislation, regulations and/or funding, significantly influences most of the state's employment and training programs. The current Administration's "New Federalism" initiatives, which shift responsibility for policy, planning, administration and funding from the federal to the state government (e.g. the Job Training Partnership Act and the Unemployment Compensation and Labor Exchange programs within DILHR) and changes in federal vocational education programs are two major examples.

* Responding to reduced funding. Employment and training programs, like other domestic programs funded with federal resources, continue to experience no-growth or reduced funding. State funding has not generally made up for federal funding reductions. Agencies and programs must adapt to this environment of shrinking resources and at the same time respond to changing and more complex employment and training needs.

* Defining roles and responsibilities: In response to changes outlined above, agencies are involved in ongoing efforts to review and/or more precisely define their missions and appropriate roles and responsibilities within the employment and training system. This includes re iewing and defining appropriate policy roles and relationships between agencies/programs and between state and local systems. It also involves defining appropriate services, who will receive them, and how they will be coordinated with other program services.

* Improving program effectiveness. Related to the above issues, employment and training programs are seeking ways to improve program delivery systems, more effectively identify client and system needs, assure improved program effectiveness (outcomes) and more efficiently use available resources. Included in this effort are increased efforts to coordinate individual programs within the context of the whole employment and training system.

Broad issues for state employment and training policy consideration in addition to those identified above include:

* State leadership in employment and training policy and development of state/local partnerships.

* State agency responsibility with respect to assuring acquisition of basic literacy of participants within the employment and training system.

* State agency responsibility for assuring equity of access to employment and training programs.

This review of the state's employment and training system generates the following key questions:

* As the role of the federal government in employment policy is deliberately diminished, what new roles, if any, should the State assume? What current roles should the federal government be encouraged to maintain?

* What financing options are available and realistic for current and emerging responsibilities?

* What, if any, additional roles should the State Legislature be encouraged to assume with respect to policy and programs?

* How can the state identify the needs for and effectively retrain its current work force in light of the changes in the state's economic base? What is the appropriate role of unemployment compensation in this effort? Who should receive retraining services?

* Are the basic principles of the income maintenance programs (principally Unemployment Compensation and Aid to Families with Dependent Children) relevant to today's labor market, and how do they complement or retard the retraining of workers?

* Given the rapidly changing labor market, how can our major vocational training institutions keep their programs up to date and relevant to current and emerging occupations?

* How can/should basic skills be provided within the employment and training system given the need for basic literacy skills for successful training and future employment and reemployment?

* How should the significant contributions of the public and private colleges and universities in Wisconsin be incorporated into state employment and training policy?

* In what specific areas is greater coordination among existing programs needed? How should it be accomplished?

Distribution of Funds - State Agency 1984 - 1985 Budgets

Graphic representations of the distribution of funds among the four major state agencies responsible for employment and training programs and among programs within these agencies are found on the following pages.

* Chart 1 shows the distribution of funds by agency for the major employment and training programs administered by DILHR, SBVTAE, DPI and DH&SS. These represent approximately 88.1% of the total 1984-1985 budget (estimated) for employment and training programs in the state and illustrates DILHR's major role in the employment and training system in administering the largest share of funds.

* Chart 2 shows the distribution of funds for major employment and training programs administered by the same four agencies when Unemployment Compensation (U.C.) program resources are excluded. Excluding U.C., they represent about 79.0% of the total employment and training budget in the state. The largest share of these funds (57.6%) is used for vocational education programs in the secondary and post-secondary school system (DPI and SBVTAE).

* Chart 3 shows that within DILHR, U.C. is the single largest employment and training budget item. This program is financed through employer taxes. While the U.C. program has a direct impact on workers and employers, it is primarily an income maintenance program and has not traditionally been used to directly support training and retraining efforts.

  The other major programs administered by DILHR are the Job Training Partnership Act (JTPA), labor exchange services, and the Apprenticeship program. Excluding U.C., JTPA is the single largest program within DILHR. It is the largest program within the "second chance" employment preparation system and is federally funded. The public labor exchange program, which serves the broad population as well as special groups in need, represents only a small portion of the DILHR and state employment and training budgets. Like U.C., its funds are under federal control. The Apprenticeship program is the smallest of the DILHR's employment and training programs and is funded through federal, state and local resources.

* Chart 4 illustrates the distribution of funding for vocational education between the DPI and the SBVTAE. Post-secondary vocational education through the SBVTAE commands the greater share of these funds. Federal resources contribute to funding within both systems.

* Chart 5 shows the distribution of funds among the three major employment and training programs administered by the DH&SS. With the exception of employment and training programs administered by the Division of Corrections, which are supported with state funds, these programs are financed primarily through federal resources. These DH&SS programs, of which Vocational Rehabilitation is the largest, are also included within the family of "second chance" employment preparation programs.

CHART 1

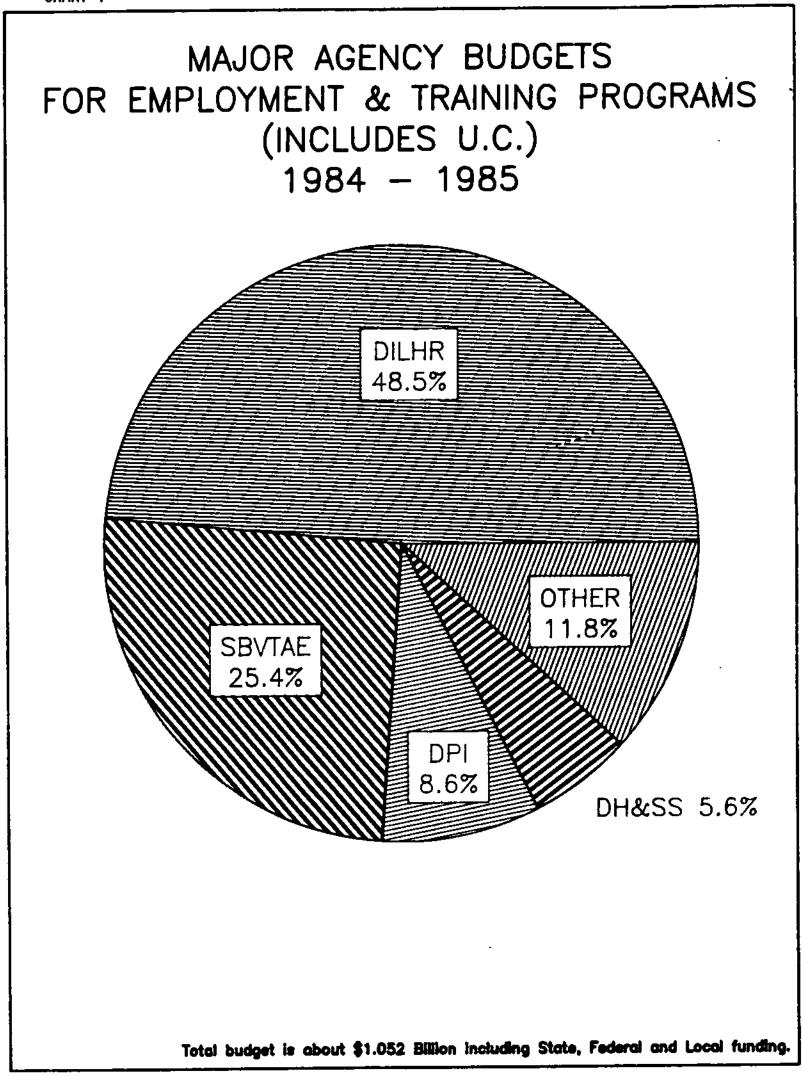
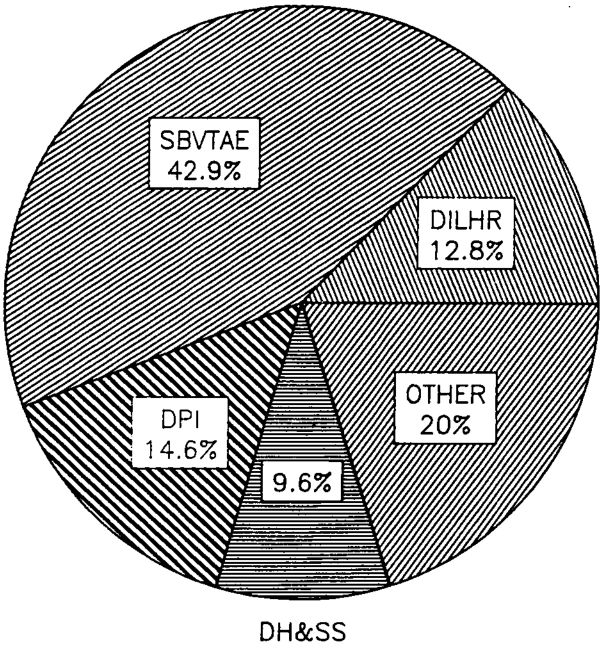

MAJOR AGENCY BUDGETS
FOR EMPLOYMENT & TRAINING PROGRAMS
(INCLUDES U.C.)
1984 - 1985
DILHR
48.5%
OTHER
11.8%
SBVTAE
25.4%
DPI
8.6%
DH&SS 5.6%
Total budget is about $1.052 Billion including State, Federal and Local funding.

CHART 2

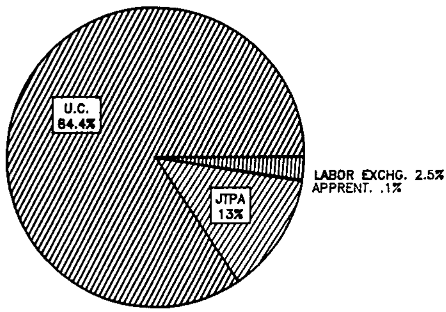
MAJOR AGENCY BUDGETS
FOR EMPLOYMENT & TRAINING PROGRAMS
(EXCLUDES U.C.)
1984 – 1985



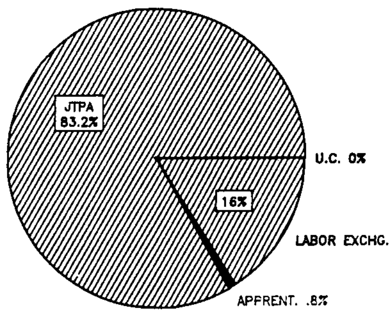
Total budget less U.C. is about $821.5 Million including State, Federal and Local funding.

CHART 3

DILHR EMPLOYMENT AND TRAINING PROGRAMS INCLUDING & EXCLUDING U.C. FUNDS 1984 – 1985



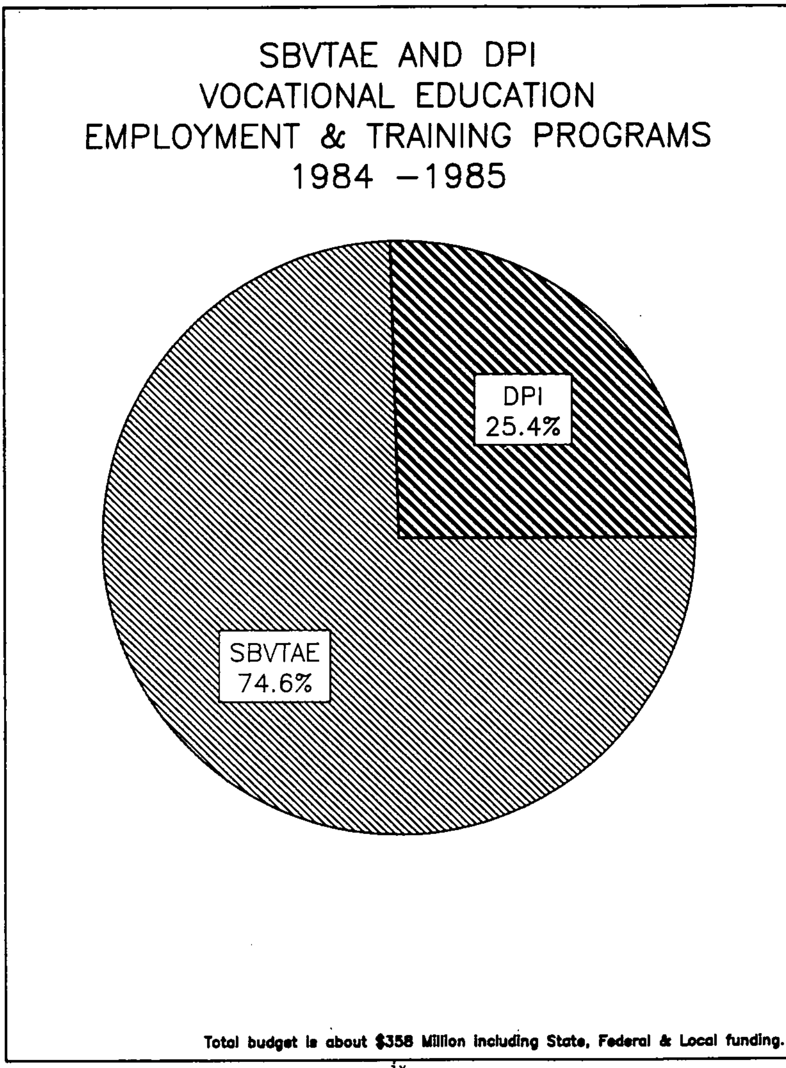
Total DILHR budget including U.C. is about $511 Million.



Total DILHR budget excluding U.C. is about $80 Million.

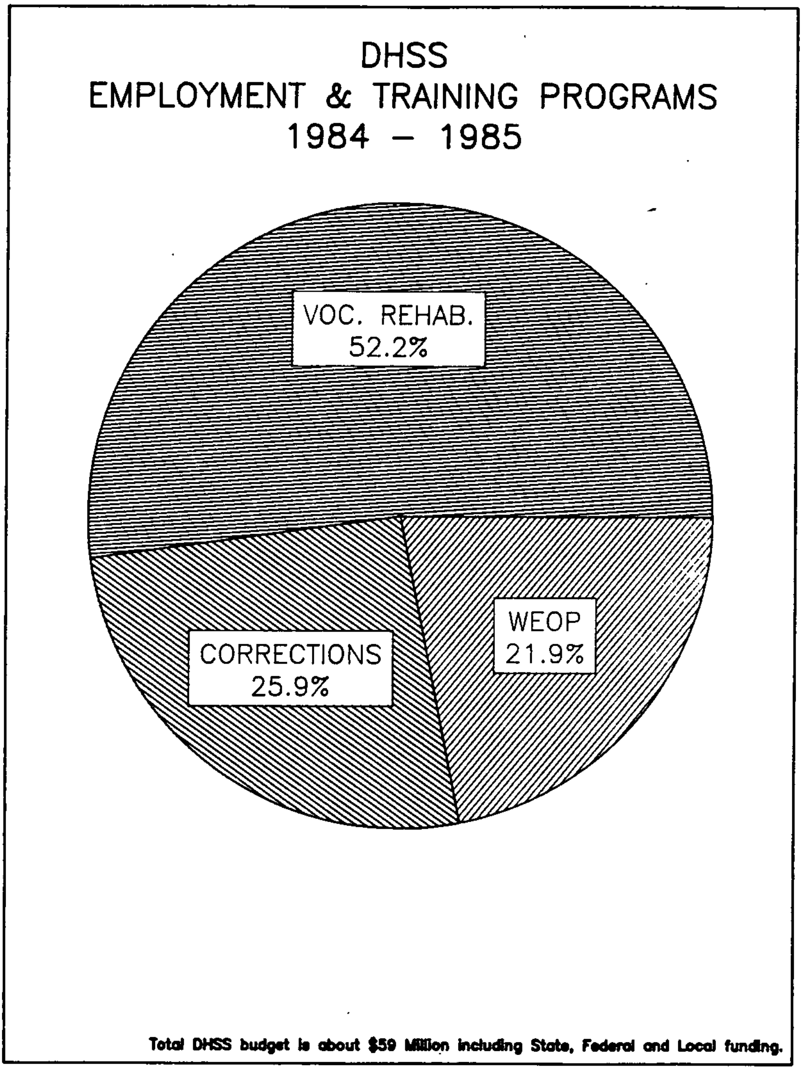
Including State, Federal and Local funding.

CHART 4



57-425 O—86——6

CHART 5


DHSS
EMPLOYMENT & TRAINING PROGRAMS
1984 – 1985
VOC. REHAB.
52.2%
CORRECTIONS
25.9%
WEOP
21.9%
Total DHSS budget is about $59 Million including State, Federal and Local funding.

ATTACHMENT 2

DRAFT

EXECUTIVE SUMMARY
A Study of Dislocated Worker Initiatives:
Policy Issues, Programs and Innovations

This Executive Summary highlights the findings of a study conducted by the Bureau of Employment Policy Development in the Department of Industry, Labor, and Human Relations concerning the needs of Wisconsin's dislocated workers and program or policy changes that could be made to improve services to them. This study is the second in a series of papers whose purpose is to focus policymakers' attention on broad issues of employment and training policy in Wisconsin. It has been developed by reviewing program and policy strategies nationally and by consulting key program administrators and policymakers in the state. The study will be distributed in draft form to solicit additional comments before a final study is published. By distributing it at this time, however, it will provide a back-drop for the development of the PY '86-'87 JTPA Dislocated Workers Program Plan as well as for the new GPR appropriation for dislocated workers.

Specific programs to meet the needs of dislocated workers are very new. The JTPA Title III Program administered by the Division of Employment and Training Policy in DILHR began in 1983 and is the only program in Wisconsin specifically targeted at this population. In the recent biennial budget, however, an additional $1.5 million in state funds was appropriated to speed the reentry of these workers into Wisconsin's work force. State and federal resources will be combined to fund a coordinated effort. At the same time, there are a wide variety of other programs which can assist dislocated workers. Linkages to these other programs are noted in this study and represent an area of increasing interest by program administrators in the future.

Scope of the Study

Faced with the increasing internationalization of the American economy, changes in consumer preferences, and the increasingly rapid pace of technological change, the U.S. economy has recently experienced serious difficulties in keeping its labor force employed. Between January, 1979 and 1984, a total of 11.5 million workers 20 years and older lost jobs due to plant closings or employment cut-backs. About half (5.1 million) of these workers had worked at least 3 years on the job and represent the stable, experienced core of the American work force.

Traditionally, this group has experienced little difficulty in becoming reemployed. In the last decade, however, significant numbers have exhausted U.I. benefits, failed to find work, and ultimately left the labor market. As a result, the problem of worker dislocation has increasingly occupied the attention of policy makers at all levels.

In recognition of this problem, a program was established under the federal Job Training Partnership Act (JTPA) which was specifically designed to serve dislocated workers. Initiated in 1983, the JTPA Title III program annually allocates $3.9 million (FY 1985) to dislocated workers in Wisconsin. However, at this funding level, the program falls far short of meeting the demand for dislocated worker services. Consequently, JTPA policy makers must make difficult decisions concerning which segments of the dislocated worker population to serve and must devote particular attention to developing cost-effective programs and coordinating activities and resources with those of other related programs in order to maximize the use of limited program funds.

Organization of the Study

This study preliminarily addresses these issues by:

1) reviewing relevant research on dislocated worker policy;

2) analyzing the effectiveness of previous dislocated worker initiatives;

3) describing current programs of potential relevance to dislocated workers; and

4) suggesting modifications to existing practices and programs that may enhance service to this group.

Chapter I outlines the general problem of worker dislocation and describes major policy issues facing policymakers. Chapter II describes the Wisconsin dislocated worker population in terms of its size and labor force and demographic characteristics while Chapter III briefly assesses the issue of mass layoffs and plant closings in the state and illustrates problems in determining their extent. Chapter IV of this report describes alternative definitions of dislocated workers and discusses their programmatic implications in the context of targeting different segments of dislocated worker population for program services.

Based on previous research, Chapters V and VI assess the short-term and retraining needs of dislocated workers. Chapter VII describes current federal and state programs that can meet both income support and retraining needs of dislocated workers in the state. Chapter VIII describes a number of innovative approaches to serving dislocated workers, several of which might serve as models for reemployment initiatives in Wisconsin.

The final chapter addresses unmet policy and program needs and focuses on modifications to several programs (JTPA Title III, Unemployment Compensation, Student Aid, Labor Market Information, and Career Guidance Information) that may improve overall service to dislocated workers.

Major Issues Facing JTPA Policymakers

JTPA poses both significant challenges and important opportunities to serve dislocated workers. To its credit, JTPA specifically allocates funds to serve a broad variety of dislocated workers -- individuals facing potentially severe barriers to reemployment, and who, in the absence of program initiatives, might otherwise slip unnoticed into the ranks of the discouraged worker, the economically disadvantaged, and the welfare dependent. The major challenge lies in serving this large, diverse, and sometimes highly visible group with a relatively small national (and therefore, state) budget. The opportunities lie in the broad latitude that JTPA permits states in defining their dislocated worker populations, in fashioning administrative structures and service strategies that can best meet state employment, training, and economic development objectives, and in implementing cost-effective programs designed to meet the varying needs of their dislocated worker populations.

In attempting to develop a comprehensive and effective dislocated worker policy for the state, it is critical to keep in mind a fundamental fact: that demand for dislocated worker reemployment services far outstrips the resources available to supply them. This, in turn, has significant implications for the following key policy areas:

- targeting services to specific groups of dislocated workers;
- design of specific reemployment strategies; and
- coordination of JTPA resources with those of other programs.

1. Targeting Dislocated Workers

Program resource scarcity means that hard decisions must be made concerning which segments of the dislocated worker population to serve. Specific eligibility and targeting criteria are needed if a coherent dislocated worker policy is to be established. Federal JTPA guidelines incorporate terms such as "unlikely to return to their previous industry or occupation," "limited opportunities for employment," and "substantial barriers to reemployment" in order to establish broad need-based eligibility criteria. But these are too broad and inclusive to provide much policy guidance. The question of what constitutes appropriate eligibility and targeting criteria remains. Traditionally, employment and training programs have generally adopted the rule of serving those most in need. This is particularly true in Wisconsin with its emphasis on equitable provision of services to individuals comprising traditionally "difficult to serve" groups (i.e. women, minorities, the handicapped, and welfare recipients).

But what does serving the most in need mean in terms of dislocated workers? This question is not easily answered. No doubt there is widespread agreement that it makes little programmatic sense to serve those who, while they may be technically eligible for services, have the training, skills, and opportunity to quickly find reemployment on their own. However, there is less agreement as to how need should be further defined or applied to specific situations. Are victims of plant closings necessarily more in need of reemployment services than those who have been laid off piecemeal? Are those laid off in some occupations more in need than others? Are the long-term unemployed necessarily more in need than their recently laid off counterparts? How should local labor market considerations be factored into the needs equation? It is important to address these questions in order to begin developing a needs-driven reemployment policy for dislocated workers. Perhaps a general statement that can be made is that need is a general function of those skills possessed by the individual and the demand for those skills in the labor market.

2. Program Design Strategies

The second implication of scarce resources is that they must be allocated and deployed in a cost-efficient manner. Both participant targeting and program design decisions have important implications for program cost effectiveness. Targeting can positively affect cost effectiveness by ensuring that only those who truly can benefit from program services are recruited into the program. Programs which serve individuals who, in the absence of program services, could have adequately reemployed themselves are not utilizing resources in a cost-effective way. This further underscores the importance of establishing clear and accurate need-based criteria for program eligibility and targeting.

Once appropriate participants are identified, cost-effectiveness concerns require that program services be provided in a way that ensures that specific individual reemployment needs are met. Research on dislocated worker initiatives clearly demonstrates that needs of individual dislocated workers for support and training services vary widely. This suggests that comprehensive program approaches, those that offer a broad menu of services, are generally most cost-effective. Additionally, research suggests that it is important to complement a broad programmatic menu with effective assessment and testing techniques that can provide program staff with adequate information to assign participants to service components that will benefit them most.

3. Coordination of Resources

Finally, it is important to consider the fact that the needs of dislocated workers can be met by a variety of non-JTPA institutions and programs. Effectiveness can be maximized and resources expanded by establishing linkages with programs and organizations that provide services complementary to those provided under JTPA. Examples of existing programs benefiting dislocated workers include: UI and public welfare programs (AFDC, GR, Food Stamps) designed to provide income support; VTAE, DPI and TRA programs providing educational services; and DOD programs that provide economic development assistance and training support to private firms. In some cases such programs could modify existing practices to better serve dislocated workers. However, extensive information sharing, joint planning, coordination, and modifications to existing program practices may be needed to effectively utilize these resources on behalf of dislocated workers.

Wisconsin's Dislocated Worker Population

The Wisconsin dislocated worker population is proportionately large relative to the national dislocated worker population. In January, 1984, the estimated 28,000 dislocated workers in Wisconsin represented 1.2 percent of the labor force, ranking Wisconsin 10th among the 50 states in the percentage of workers displaced. Wisconsin's dislocated workers tend to be male (63 percent), of prime working age -- between 22 and 44 years old (66.8 percent), high school completers (73.6 percent), and white (84.6 percent).

Wisconsin's dislocated workers are from a wide variety of occupations (209 three-digit standard occupational classifications are represented). While factory assemblers and production workers were most frequently represented, the list also includes significant numbers of managerial and professional workers (production managers, accountants, engineers) as well as workers separated from service occupations (food and beverage service, financial processing, health service, and sales workers). This occupational distribution deviates substantially from the commonly held perception that all or most dislocated workers are blue collar assembly line workers concentrated in a few basic or durable goods-producing industries.

Despite well-meaning legislation requiring employers to report plant closings, Wisconsin has little systematic information about the nature, extent, and distribution of plant closings and mass layoffs occurring throughout the state. Employers face significant economic disincentives to report plant closings before they occur and do not face severe penalties for failure to report. As a result, only 19 reports of plant closings in Wisconsin were submitted between March, 1984, and March, 1985. These were concentrated in the meat packing, cheese making, mobile home construction, construction machinery, and automative equipment industries.

Definition of Dislocated Workers

Because the federal definition of dislocated workers under JTPA Title III is very broad and inclusive, it covers a highly diverse population of unemployed individuals who vary widely in terms of their reemployment potential. Many of these individuals already possess skills that enable them to reenter the labor market with little or no assistance. Others require extensive retraining or other services to find reemployment. Thus, in order to run cost-effective reemployment programs, it is important to distinguish who most need those program services from those who do not. Operational definitions of dislocated workers, incorporated into program eligibility guidelines and targeting criteria, may prove useful in making such distinctions.

It is unlikely that any single definition will prove fully adequate to define the appropriate dislocated worker population for programmatic purposes. Instead, broad definitions incorporated into eligibility guidelines need to be supplemented with selective program targeting criteria that further refine the definition of the service population.

Potential targeting options include service to the long-term unemployed, major plant closing victims, industry-specific dislocations, occupational-specific dislocations, certain high-risk demographic groups, self-employed individuals (including farmers), as well as targeting specific geographic areas suffering from chronically high unemployment or general economic decline. Existing research suggests that the most-in-need segments of the dislocated worker population include the long-term unemployed, older workers, and individuals displaced from jobs in weak labor markets.

Short-Term Needs of Dislocated Workers

The short-term needs of dislocated workers vary widely depending on their individual circumstances. Among the most significant short-term needs are income support, counseling, and job search assistance.

In terms of income support, U.I. exhaustees or ineligibles, single heads of households, and individuals separated from low-paying jobs face the greatest income support needs. Because some form of income support is necessary to participate in many retraining activities, these groups may face significantly reduced access to skill training services, particularly those involving longer-term training.

Counseling, defined broadly to include a variety of individual counseling, assessment and case management activities, represents a key element in successful dislocated worker initiatives. Counseling meets dislocated workers' needs by providing various service information and support as well as by providing program managers with specific, detailed information about individual participants' occupational skills and other characteristics through a comprehensive assessment process. Use of this information by program staff is critical if appropriate program activity assignments and informed job development and job matching decisions are to be made.

Because dislocated workers often lack practical experience in seeking work, job placement activities are typically viewed as key elements of many comprehensive dislocated worker programs. Job placement activities typically include both job search assistance and job development.

Recent program evaluations found participation in job placement activities to be strongly correlated with reemployment success. In fact, the results indicate participation in job search assistance is as or more effective than classroom training or OJT in reemploying individuals at satisfactory wage levels and results in far lower costs per placement.

Training Needs of Dislocated Workers

A significant conclusion flowing from recent research on dislocated worker initiatives is that not all dislocated workers are suited for extensive skills training. There are three reasons for this:

1) many lack the basic academic skills needed to successfully complete extensive retraining programs;

2) many others already possess marketable skills and need only minimal services (i.e. structured labor market exposure) to successfully compete for jobs; and

3) others have immediate income support needs that preclude participation in anything other than very short-term or on-the-job training.

This suggests that the proportion of the dislocated worker population that is in need of or could benefit from extensive skill training is probably relatively small. It is also important to keep in mind that skills training is expensive and has proven to be at best no more effective in reemploying dislocated workers than less costly service options such as job search and placement assistance.

To the extent that skill training has proven successful, it has incorporated three key features:

1) careful applicant screening based on extensive assessment and testing;

2) training conducted in carefully determined demand occupations; and

3) training structured in a way to meet the needs of dislocated workers (i.e., excluding non-skill training-related academic requirements).

Moreover, previous research suggests that dislocated workers enrolled in training tend to be highly motivated and, if properly selected, do substantially better in skills training courses than "regular" students. In the Downriver project, an early dislocated worker training program near Detroit, training participants had markedly higher grades than the student population as a whole (70 percent versus 49 percent received A's or B's) and a far lower failure rate (7 percent versus 26 percent).

Overall, this discussion suggests caution in widely adopting extensive skills training as a readjustment strategy for dislocated workers. Unless careful attention is given to enrollee selection and program design, it is likely to be very costly and of limited effectiveness.

Current Wisconsin Programs Which Address Dislocated Worker Needs

A variety of programs presently exists in Wisconsin that either meet or have the potential to meet reemployment needs of dislocated workers. Several, including JTPA Title III, Trade Adjustment Assistance (TAA), the Customized Labor Training Fund (CLTF), Apprenticeship, and VTAE programs provide retraining services directly. Others provide income support that may or must be used to subsidize retraining. These include Unemployment Compensation (UC), veterans' benefit programs, Aid to Families with Dependent Children (AFDC), and various student aid programs. Finally, the Wisconsin Job Service provides labor exchange services.

It is likely that the extent and quality of service to Wisconsin's dislocated workers could benefit greatly by increased coordination and joint planning among several of the above-mentioned programs. Several examples follow:

1) Increased information exchange between JTPA Title III and Trade Adjustment Assistance, the Customized Labor Training Fund, and apprenticeship programs could increase service opportunities to dislocated workers;

2) Joint ventures involving JTPA Title III and the Customized Labor Training Fund could improve training opportunities to dislocated workers;

3) Increasing the availability of remedial educational services and flexible open-entry/open-exit training programs through VTAE could permit greater numbers of dislocated workers to engage in skills training;

4) Informing dislocated workers about various income and training support programs could increase their use and open more service options to dislocated workers; and

5) Joint planning between JTPA and UC, VTAE, and student financial aids programs could result in program modifications that would either better target services to dislocated workers or better link income supports to readjustment efforts.

Innovative Programs

Nationally, a number of programs have been initiated or proposed which incorporate innovative features that could potentially benefit Wisconsin's dislocated workers. These include:

1) modifications to the unemployment compensation (UC) system that could make it more responsive to dislocated worker reemployment needs;

2) interagency initiatives that bring to bear several agencies' resources on the problem of worker displacement; and

3) private sector efforts.

UC-linked initiatives include establishment of retraining funds for dislocated workers using taxes on employers commensurate with reductions in the UC tax rate. California, Delaware, and New York have substantially increased funds available for dislocated worker reemployment efforts in this way. Work sharing, or payment of UC benefits commensurate with reduced work hours, has been tried in several states. While primarily a counter-cyclical measure, work sharing has the potential for easing the impact of full unemployment for dislocated workers and for permitting them time and income support needed to find or prepare for new jobs. Notably, however, each of the initiatives described above involves added costs in terms of taxes to employers or system administrative costs.

Other innovations are built upon interagency efforts to provide worker readjustment services. These include:

1) the Illinois Prairie State 2000 Fund which uses economic development resources and tax reduction to provide incentives to employers to participate in worker retraining activities, coordinated in part by JTPA;

2) quick response interagency economic adjustment teams designed to coordinate a variety of economic development, employment and training, and educational resources directed toward communities suffering from plant closings; and

3) reemployment programs targeted toward displaced farmers which extensively use agricultural extension service resources to coordinate social and employment-related services.

Finally, organized labor and individual firms have been extensively involved in worker reemployment efforts. Labor's involvement ranges from collective bargaining for worker reemployment benefits to operation of full-scale reemployment programs. Among organized labor groups, the AFL-CIO's Human Resources Development Institute and the United Auto Workers have been particularly involved in dislocated worker programs on behalf of their membership. Among private firms, Ford, General Motors, and Bethlehem Steel have implemented model readjustment programs.

Unmet Policy and Program Needs

Previous chapters of this report suggested several program and policy directions that could ultimately improve services to dislocated workers. In terms of JTPA Title III, these include:

1) more precise targeting of dislocated workers projects (particularly towards the long-term unemployed, farmers, older workers, and women);

2) installation of more comprehensive assessment, testing, occupational information, and service systems to support Title III program efforts;

3) emphasis on assigning dislocated workers with varying needs to appropriate kinds of program activities;

4) increased coordination with economic development initiatives;

5) development of an interagency effort to respond to plant closings; and

6) the establishment of interstate agreements with neighboring states to jointly serve relevant dislocated workers.

Suggested state-level UC system changes range in scope from minor changes in existing practices and procedures (i.e., extending the definition of acceptable training) to a major refocusing of the Wisconsin Supplemental Benefit (WSB) program. In terms of the latter, the feasibility of using the program in innovative ways should be explored. These include:

1) refinement of the program "trigger" to permit payment of extended benefits to individuals in areas affected by permanent mass layoffs (including plant closings), or specific dislocated worker target groups;

2) payment of extended benefits specifically to individuals engaged in retraining to meet income support needs; and

3) payment of extended benefits to individuals affected by plant closings from firms that failed to meet state plant closing reporting requirements.

Moreover, it is important that some form of coordination mechanism be established with the UC system to further explore and perhaps promote these and other initiatives.

Student aids programs represent an important source of income support for dislocated workers who require or desire retraining. However, because most student aid programs are needs based, dislocated workers often fail to qualify because income or assets exceed qualifying levels. Modifications to existing programs that could improve dislocated worker access to student aid resources include:

1) using the current year's income rather than previous year's income to determine income eligibility;

2) disregarding UC benefit payments for determining eligibility; and

3) disregarding equity in the individual's primary residence in the assets' test for eligibility.

Other proposals that may merit attention include an initiative that permits dislocated workers to enroll in retraining courses tuition free and development of a specially targeted grant program for dislocated workers.

Finally, for purposes of improving dislocated worker initiatives, improvements in labor market information are in order. Presently, it is impossible to accurately and quickly identify mass layoffs and plant closings throughout the state, despite Wisconsin's plant closing notification legislation. The scheduled implementation of a new reporting and follow-up system for employers and employees should help remedy this situation, though some modifications to it could further enhance its utility. Additionally, detailed occupational trend information below the state level of aggregation is unavailable. Provision of such information could permit planners and program operators to better target dislocated workers in need of services as well as better design training activities. Moreover, more comprehensive reporting by Wisconsin Job Service offices of the incidence and characteristics of dislocated workers could be useful in developing a reliable demographic, geographic, and work history profile of the state's dislocated worker population.

Additional sources of potentially valuable labor market information on dislocated workers include the planned wage reporting data base to be implemented by the state UC system in the next two years, and various privately developed data bases which focus primarily on plant and firm expansions, work force reductions, and plant closings.

Conclusion

The problem of worker dislocation in Wisconsin and its remedies are complex issues that defy simple or quick solutions.

This study is intended to serve as a starting point in the process of outlining program and policy needs of dislocated workers and not as the final word on targeting, designing, or coordinating programs. A primary objective of the study is to stimulate discussion among Dislocated Worker Task Force members about the problems facing dislocated workers in their search for reemployment, and how reemployment programs might be structured and coordinated to overcome those problems. A second objective of this study is to organize much of the relevant research on dislocated worker programs in order to ensure its accessibility to program planners and operators. It must be recognized, however, that research on dislocated workers has taken place in a variety of settings, many of which differ greatly from Wisconsin's labor market environment. Any conclusions that might be drawn from the studies described in this report must be carefully considered in light of this state's distinctive economic context.

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7/19/85

Attachment 3

JTPA JOB TRAINING PARTNERSHIP ACT

INFORMATION NOTICE

GOVERNOR'S EMPLOYMENT & TRAINING OFFICE
P O BOX 7972 MADISON, WISCONSIN 53707

Number IN-38 **Date** June 26, 1985

TOPIC MATERIAL FOR REVIEW & COMMENT: Proposed PY 86-87 Mission Statement and Governor's Goals for Wisconsin's Employment and Training System; Proposed PY 86-87 Objectives and Coordination Criteria for JTPA Title II

PURPOSE

This Information Notice transmits the draft Wisconsin Employment and Training Policy for the two-year program period that includes PY 1986 and PY 1987. It is issued to give the state's employment and training community an opportunity to review and comment on the proposed mission statement (Attachment I) and goals (Attachment II) affecting the state and local employment and training system, as well as the objectives (Attachment III) and coordination criteria (Attachment IV) specifically affecting plans for Title II of the Job Training Partnership Act. The final policy will become part of the Governor's Coordination and Special Services Plan (GCSSP).

Explanation and Procedures

The Planning Committee of the State Job Training Coordinating Council approved this draft policy (Mission Statement, Employment and Training System Goals, and JTPA Title II Objectives and Coordination Criteria) at its June 13th meeting. The Committee will meet again August 22, 1985, to review all the written comments received by July 28, 1985, and will then amend the initial policy. The final revised version, upon approval by the Planning Committee (which meets September 25th) and the State Job Training Coordinating Council (which meets September 26th) will then go to the Governor for his consideration. This office expects to be able to issue the final product to the employment and training community by October 3, 1985.

Please submit your comments to Carol McLain, Box 7972, Madison, WI 53707, by the close of business on July 28, 1985.

ISSUED BY: Ellen O'Brien Saunders
Ellen O'Brien Saunders, GETO

Leslie Schoenfeld
Leslie Schoenfeld, SJTCC

DATE: June 25, 1985

June 25, 1985

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IN #38
6/26/85

ATTACHMENTS: DRAFT WISCONSIN EMPLOYMENT & TRAINING POLICY, PY'86 and PY'87

ATTACHMENT I - Mission Statement

ATTACHMENT II - Proposed Employment & Training System Goals

ATTACHMENT III - Proposed Title II Objectives

ATTACHMENT IV - Proposed Title II Coordination Criteria

Attachment I

DRAFT WISCONSIN EMPLOYMENT AND TRAINING POLICY

Mission

The rapidly changing nature of work, the changing demography of the labor force, and the need to retain existing businesses and attract and create new business, demand a sustained and systematic commitment to the preparation and retraining of Wisconsin's work force as an essential element of the state's human resource and economic policy. The state's mission in employment and training is to ensure the most effective use of resources for training, retraining and employing individuals through the strengthening of partnerships, the promotion of equal access to training and employment opportunities and the stimulation of excellence in the delivery of employment and training services.

In order to accomplish this mission, the key roles of Wisconsin government are:

- Fostering an economic climate that encourages the maintenance and expansion of job opportunities;
- Promoting a strong partnership among business, labor, government, and community-based organizations in making basic economic decisions;
- Ensuring equity of access for all citizens to training and job opportunities;
- Providing elementary and secondary education to ensure the basic competency of all citizens in the work force;
- Providing post-secondary training to meet the changing needs of the work place;
- Maintaining an effective public labor exchange;
- Providing up-to-date labor market and occupational information; and
- Promoting the economic self-sufficiency of all Wisconsin citizens.

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6/20/85

Attachment II

PROPOSED EMPLOYMENT AND TRAINING SYSTEM GOALS
FOR PY 1986-1987

In support of the mission, the Governor establishes the following eight goals for employment and training programs in the state:

Goal 1 - Improve the earned income of participants.

Goal 2 - Promote training that will provide citizens with the skills necessary to obtain and maintain stable and well paid employment.

Goal 3 - Target employment and training services to high-need groups within the eligible population.

Goal 4 - Establish policies or mechanisms which make maximum use of complementary resources among delivery systems.

Goal 5 - Improve the collection, analysis, distribution and application of labor market and occupational information for use in both public and private sector training efforts.

Goal 6 - Promote economic development efforts which will increase quality job opportunities for Wisconsin citizens.

Goal 7 - Develop opportunities for youth to attain the skills needed to become economically self-sufficient adults.

Goal 8 - Promote public awareness of the problems of the unemployed and encourage public involvement in the resolution of these problems.

Attachment III

PROPOSED JTPA TITLE II OBJECTIVES FOR PY 1986-1987

Goal 1 - Improve the earned income of participants.

**Objective 1 - (see addendum) Increase the average post program wage of Title IIA participants over the PY 1985 average post program wage by $.16 in PY 1986 and by an additional $.18 in PY 1987.

*Objective 2 - (see addendum) Increase the average post program wage for Title IIA enrolled women that are placed in unsubsidized jobs over the PY 1985 average post program wage by $.32 in PY 1986 and by an additional $.35 in PY 1987.

***Objective 3 (for discussion purposes) - Reduce total public assistance grant support of participants and document other forms of welfare dependence reduction. (At a minimum, such a reduction should apply to AFDC recipients.)

**Goal 1, Objective 1 applies to the 78% and the 8% of Title IIA programs.
*Goal 1, Objective 2 applies to all of JTPA Title II programs.
***Goal 1, Objective 3 applies to all of JTPA Title IIA programs.

Attachment III

Goal 2 - Promote training that will provide individuals with skills necessary to obtain and maintain stable and well paid employment.

*Objective 1 - Provide training and retraining programs consistent with current and projected demand occupational priorities, and actively involve private sector business representatives in defining these priorities.

*Objective 2 - Establish projects that teach skills directed at new and emerging technologies.

**Objective 3 - Actively involve private sector business representatives (in addition to the representatives on the PICs) in the validation of employment competencies for local employment programs.

*Objectives 1 and 2 apply to all JTPA Title II programs.
**Objective 3 applies to the 78% and the 8% of Title IIA programs and to Title IIB programs.

Attachment III

Goal 3 - Assure targeting of employment and training services to high-need groups within the eligible population.

*Objective 1 - Enroll and place in accordance with their incidence in the JTPA-eligible population:

- females
- minorities
- handicapped
- older workers
- ** AFDC/WEOP recipients or WEOP-eligible persons
- school dropouts
- public assistance recipients

*Objective 2 - Establish specific enrollment and placement standards for other high-need groups based on PIC/LEO analysis of the characteristics of the eligible population. Special consideration should be given to:

- displaced homemakers
- offenders
- alcohol and drug abusers
- refugees
- migrants
- dislocated workers
- veterans (Vietnam era)
- teenage parents
- at-risk youth
- American Indians

**AFDC - Aid to Families with Dependent Children

**WEOP - Wisconsin Employment Opportunities Program

* Goal 3 objectives apply to all of JTPA Title II programs. (With the exception of older worker in objective 1 being excluded from IIB programs, and teenage parents and potential dropouts (Objective 2) are excepted from the 3% programs.)

Attachment III

Goal 4 - Establish policies or mechanisms which make maximum use of complementary resources among delivery systems.

*Objective 1 - Identify available supportive services resources for JTPA participants.

*Objective 2 - Identify the need for and, to the extent possible, provide or secure child care and transportation necessary to enable women to participate in training services.

*Objective 3 - Provide or secure, to the extent possible, the means necessary for high need groups to participate in training programs.

*Objective 4 - Establish within DILHR (DETP) a procedure to participate in the development, and/or review, and/or evaluation of the state Vocational Education Act and Wagner-Peyser Plans.

*Objective 5 - Establish within PICs/LEOs a procedure to participate in local economic development efforts.

*Goal 4 objectives apply to all of JTPA Title II programs.

Attachment III

Goal 5 - Improve the collection, analysis, distribution and application of labor market and occupational information for use in both public and private sector training efforts.

*Objective 1 - DETP of DILHR, with the advice of PICs/LEOs, will provide at least one annual training session on the use of Labor Market Information (and Labor Market Information's role in the planning process) to SDAs and related agency personnel.

*Objective 2 - PICs/LEOs will participate on local Labor Market Information inter-agency work groups.

*Objective 3 - PICs/LEOs will establish occupational and training priorities which are consistent with growth and demand occupations identified through Labor Market Information and which reflect the involvement of local private sector representatives.

*Objective 4 - DILHR (DETP) and PICs/LEOs will identify occupations/industries with little re-entry potential, employers experiencing a reduction in force, and workers in jeopardy of layoff from these industries and employers for whom retraining is appropriate.

*Objective 5 - DILHR will identify new and emerging occupations and changing skill requirements.

*Goal 5 objectives apply to all of JTPA Title II programs.

Attachment III

Goal 6 - Promote economic development efforts which will increase quality job opportunities for Wisconsin citizens.

*Objective 1 - The SJTCC, with the cooperation of relevant state agencies and other relevant actors, will recommend a method for predicting new and expanding businesses as well as plant closings.

*Objective 2 - PICs/LEOs will enhance the potential for future jobs in small businesses by treating development of entrepreneurial skills as legitimate training.

*Goal 6 objectives apply to all of JTPA Title II programs.

Attachment III

Goal 7 - Develop opportunities for youth to develop the skills needed to become economically self-sufficient adults.

**Objective 1 - All enrolled JTPA youth will be assessed for basic skill deficiencies and services will be provided to remedy those deficiencies.

**Objective 2 - All JTPA employment competency systems will include pre-employment/work maturity skills, and basic skills components.

**Objective 3 - All JTPA programs will provide youth with an opportunity to stay in or return to school in order to receive a high school diploma or equivalency degree.

**Objective 4 - All JTPA programs will provide training opportunities for young women which will expand their occupational/ role expectations.

**Objective 5 - All JTPA programs will provide youth with career counseling which includes the characteristics of the future job market and describes the preparation and training needed to obtain and secure jobs.

**Goal 7 objectives apply to all of JTPA Title II except for the 3% Older Workers Program.

Attachment III

Goal 8 - Promote public awareness of problems of the unemployed and encourage public involvement in the resolution of the problems.

*Objective 1 - In order to increase awareness and encourage business, labor, and government sector involvement in JTPA, successful programs will be regularly publicized. PICs/LEOs will publicize local programs and the SJTCC and DETP in DILHR will publicize efforts at the state level.

*Objective 2 - All JTPA programs (both state and local) will complete an annual performance review to determine the effectiveness of the services (training) being provided.

*Goal 8 objectives apply to all JTPA Title II programs.

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6/25/85

ADDENDUM

The projected wage increases in Objective 1 are based on recent annual federal average wage increases for all wage and salaried workers within the private sector. According to the Bureau of Labor Market Information (DILHR), .16¢ and .18¢ represent average wage increases over the next two years.

The wage increase for women in Objective 2 reflects twice the average wage increase as defined in Objective 1. Achievement of Objective 2 would raise salaries of JTPA-enrolled women placed in unsubsidized employment to equal the average JTPA men's salaries within approximately five years.

Attachment IV

PROPOSED JTPA TITLE II COORDINATION CRITERIA*
FOR PY 1986-1987

1. The PICs/LEOs, working with other sectors, will demonstrate a coordinated approach to identify and develop specific training and retraining opportunities in demand and growth occupations. This will enhance the development of a communitywide strategy needed to improve the quality and use of labor market information at the local level. (Other sectors to be involved in this effort include the VTAE system, the Employment Service, CBOs, secondary schools, private business, and labor.) (Corresponds to goals 2, 3, 4 and 5.)

2. PICs/LEOs will involve various sectors in developing partnerships which conserve resources by coordinating efforts and using service delivery agencies of demonstrated effectiveness. (The sectors to be involved include community based organizations as well as governmental and educational agencies and the private business sector.) (Corresponds to Goals 1, 2, 3, 4.)

3. JTPA programs will demonstrate a coordinated system of outreach and recruitment with CBOs. (Corresponds to Goals 3 and 4.)

4. At the local level SDAs will demonstrate a systematic method for involving key sectors in planning to identify needs -- including the transportation and day care needs of women -- and to determine how each agency can contribute to meeting those needs. (Sectors to be included in this effort are the VTAE, secondary local educational agencies, the Employment Service, County Social Service Agencies, and CBOs.) (Corresponds to Goals 3 and 4.)

5. A written agreement among each PIC/LEO, its respective social service departments and any other relevant agencies, shall be developed which identifies the steps each jurisdiction shall take to provide day care, transportation, and other social service supports to potential JTPA clients who need such assistance and to minimize duplication of such payments to potential clients.

6. State and local agencies that provide WEOP and JTPA services will:

   1. Explore policies to improve program coordination, including:

      a. Program objectives, policies and procedures (state and local level);
      b. Confidentiality issues (state and local level);
      c. Use of computer systems (state level only);
      d. Coordination of program evaluation (state level only);
      e. Job retention and reduction in welfare dependency (state level only).

      (Corresponds to Goal 4)

Attachment IV

7. The Division of Employment and Training Policy (DETP) of the Department of Industry, Labor and Human Relations (DILHR) will work with the Department of Development (DOD) to identify job training policies and activities which support the state's economic development goals. In addition, PICs/LEOs will establish a procedure to participate in local economic development efforts. (Corresponds to Goals 4 and 6.)

8. The development/operations of youth competency systems will reflect the participation of businesses, local schools, service providers, and youth. (Corresponds to Goals 2 and 7.)

9. The Department of Industry, Labor and Human Relations (DILHR) and the Division of Employment and Training Policy (DETP), in cooperation with the State Board of Vocational, Technical and Adult Education, will establish procedures for review of the Perkins Vocational Educational Act Plan by fall 1986, and participate in its review. (Corresponds to Goals 2 and 4).

*The Coordination Criteria apply to all Title II programs, except for criteria #7, which applies to Title IIA only.

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6/25/85

ATTACHMENT 4

STATE OF WISCONSIN
WISCONSIN WOMEN'S COUNCIL
30 WEST MIFFLIN STREET, SUITE 512 • MADISON, WISCONSIN 53702 • TELEPHONE (608) 266-2219 or 266-2265

SARAH HARDER
CHAIR
HANNAH ROSENTHAL
EXECUTIVE DIRECTOR

M E M O R A N D U M

DATE: May 21, 1984

TO: Federico Zaragoza, Executive Director
Governor's Employment and Training Office

FROM: Ann Brickson, Equal Opportunity Officer
Wisconsin Women's Council

RE: Relationship Between JTPA Wage at Placement Standards and AFDC Benefits

Given the targeting of AFDC recipients in both the Job Training Partnership Act (JTPA) and the Governor's Employment and Training Policy, it is important to examine the value of cash and in kind benefits available under AFDC as compared to the wage at placement goals for JTPA trainees. In order to achieve the goal of reducing welfare dependency, JTPA training must prepare participants for jobs with wages which are at least equal to AFDC benefits.

The following figures compare net placement wages for JTPA trainees with the estimated cash value of AFDC payments and other related benefits. It is impossible to come up with precise figures for these two sources of support, but these estimates are reliable enough to outline the nature of the situation facing AFDC recipients seeking to end their welfare dependency through JTPA.

Monthly AFDC Benefits

Amounts are based upon the benefit level for a family of three receiving no other income. This family resides in Dane County and does not live in low income housing. These figures were provided by the Supervisor of Income Maintenance Intake at the Dane County Department of Social Services.

AFDC payment	$513.00
Food Stamps	109.00
Medical Assistance - estimated value based upon family rates for comparable HMO coverage in Dane County, including dental.	205.00
Total	$827.00

Does not include other benefits available to AFDC recipients, including:

- Low Income Energy Assistance
- WIC for Women with children under 5 years
- Surplus food program
- Counseling through county department of social services
- Low Income Housing Assistance

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GOVERNORS EMPLOYMENT & TRAINING OFFICE

Monthly Earned Income

Income is figured at two wage rates:

1. $4.07/hour: Average wage at placement for women in Wisconsin JTPA programs for the period October 1, 1983 to March 31, 1984.

2. $4.90/hour: National performance standard for average wage at placement (the majority of wage at placement standards for Wisconsin SDA's are below this level).

Withholding taxes for a low income family of three are figured at 17%, based upon the following rates supplied by the Department of Revenue:

FICA	6.7%
State Tax	2.5%
Federal Tax	8.0%
Total	17.2%

1.	Gross monthly income at $4.07 per hour	$705.00
	Withholding	- 120.00
	Net monthly income	585.00
2.	Gross monthly income at $4.90 per hour	$849.00
	Withholding	- 144.00
	Net monthly income	705.00

Earned income must also be sufficient to cover the additional cost of work related expenses, which would minimally include child care and transportation. These monthly costs can be estimated as follows:

Child care $55 per child per week; a low estimate based upon average hourly rates paid by county social service departments.	$440
Transportation Based on Madison rates for public transportation. Comparable to driving 7-1/2 miles each working day at 20¢ per mile.	30
Total	$470

A low income working person may still be eligible for child care subsidy and Food Stamps. The availability and amount of these benefits will vary according to income and county of residence. It is unlikely that they will ever be enough to completely negate the additional expense of working. This is especially true for day care assistance, since the maximum payment is low in some counties, and others develop a waiting list before the fiscal year is out.

Net monthly incomes at both wage rates are substantially lower than the estimated cash value of AFDC, including medical assistance. Thus, to replace AFDC benefits in a job which does not include health insurance benefits, a worker must earn $5.74/hour. This figure would be lower when a comprehensive benefit package is available. The Women's Center of Waukesha, a JTPA funded women's employment training program, has extensive experience counseling AFDC recipients who are trying to get off of public assistance. They have calculated that a strong benefit package and an hourly wage of slightly over $5.00 are both required to make the transition from work to welfare.

The disparity between JTPA placement wages and AFDC benefits should not be attributed to the generosity of welfare payments. When establishing its AFDC benefit level, each state first determines its Standard of Need, the total of items and income (expressed in dollar amounts) which it deems necessary to maintain a minimum acceptable standard of living. In Wisconsin the Standard of Need for a family of three is about $1,000 less than the poverty line, and AFDC payments are 85% of the Standard of Need.

Thus, despite the subsistance level of AFDC payments, a recipient who completes JTPA training may correctly conclude that welfare provides her family a higher standard of living than the net value of earned income after deductions and work related expenses. Contrary to prevailing assumptions, the desire to work is strong among AFDC recipients, and if the net drop in income is small some will still choose to work. But others will decide to remain on AFDC and for them this will be a sound financial decision. Those unaware of the mechanics of this choice may assume that AFDC recipients lack the initiative or competence necessary to successfully complete training and enter the labor market.

The reasons for this discrepancy between work and welfare income are many, and include low entry level wages, fringe benefits which are nonexistent or weak compared to medical and child care assistance for welfare recipients, and insufficient income disregards in computing public assistance eligibility for the working poor. In addition, AFDC recipients are further disadvantaged in the work force in that they are single female household heads and are likely to have little prior employment experience. These are formidable barriers to reducing welfare dependency, and they are beyond the control of both AFDC recipients and JTPA program operators. However, those involved in JTPA implementation must be aware of the specific obstacles which thwart an easy transition from work to welfare. AFDC recipients must have access to training which will prepare them for entry level positions which offer strong benefit packages including adequate health coverage and subsidized child care and hourly wages which can compensate for both lost welfare benefits and work related expenses. Otherwise, JTPA programs will not achieve their goal of significantly reducing dependency upon AFDC.

cc: Hannah Rosenthal, Executive Director
Wisconsin Women's Council
Wisconsin Women's Council

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ATTACHMENT 5

WISCONSIN
SUMMARY OF JTPA PERFORMANCE
PROGRAM PERIOD: 3rd Quarter PY 84 (July 1, 1984 - March 31, 1984)

I. JTPA TOTALS*

EXPENDITURES	$33,170,330
PARTICIPANTS SERVED	32,234

II. SDA PERFORMANCE

A. PERFORMANCE STANDARDS

	MODEL ADJUSTED PERFORMANCE STANDARDS	ACTUAL PERFORMANCE
ADULT		
ENTERED EMPLOYMENT RATE	50.33%	70.1%
COST PER ENTERED EMPLOYMENT	$4,864	$2,698
AVERAGE WAGE AT PLACEMENT	$ 4.73	$ 4.70
WELFARE ENTERED EMPLOYMENT	43.8%	62.5%
YOUTH		
ENTERED-EMPLOYMENT RATE	33%	62.4%
POSITIVE TERMINATION RATE	74%	73.3%
COST PER POSITIVE TERMINATION	$3,263	$2,991

AVERAGE WEEKS OF PARTICIPATION

ADULT	15.7
YOUTH	16.0

*JTPA totals (excluding Title IIB)

B. SERVICE TO TARGET GROUPS (ADULT AND YOUTH)

TARGET GROUP	EQUITABLE SERVICE LEVEL (%)	ENROLLMENTS % OF TOTAL	PLACEMENTS % OF TOTAL	ENROLLMENTS NUMBER	PLACEMENTS NUMBER
TOTAL				23,960	7,720
ADULTS	-	52.9%	61.8%	12,663	4,770
YOUTH	-	47.1%	38.2%	11,297	2,950
MALES	-	52.5%	55.5%	12,588	4,287
FEMALES	56.2	47.5%	44.5%	11,372	3,436
OLDER INDIV.	11.0	2.6%	2.4%	618	187
MINORITY	17.2	22.8%	19.3%	5,463	1,488
BLACK	-	14.4%	12.3%	3,447	953
HISPANIC	-	3.4%	3.4%	824	263
AM. INDIAN/AN	-	2.6%	2.2%	611	166
ASIAN/PI	-	2.4%	1.4%	580	106
HANDICAPPED	10.6	19.3%	15.7%	4,628	1,211
DROPOUTS	17.7	21.2%	21.2%	5,076	1,634
AFDC/WEOP	8.5	29.7%	23.2%	7,113	1,789
PUBLIC ASSIST. RECIPIENT	31.2	47.2%	40.6%	11,312	3,135

C. EARNINGS AND WAGE GAINS/LOSSES

	ADULTS		YOUTH	
	AVERAGE WAGE AT PLACEMENT	WAGE GAIN/ LOSS FOR PART. PLACED WITH PRIOR WAGE	AVERAGE WAGE AT PLACEMENT	WAGE GAIN/ LOSS FOR PART. PLACED WITH PRIOR WAGE
TOTAL	$4.72	$-.11	$3.86	$+.28
MALE	5.02	-.33	3.94	+.22
FEMALE	4.38	+.16	3.77	+.36
WHITE	4.78	-.16	3.94	+.35
MINORITY	4.43	-.19	3.59	+.02
22-54	4.72	-.09	-	-
55+	4.58	-.58	-	-
PUBLIC ASSISTANCE RECIPIENTS	4.54	-.07	3.69	+.27
AFDC/WEOP	4.82	+.20	3.75	+.36

III. DISLOCATED WORKER (TITLE III) PERFORMANCE*

A. PERFORMANCE STANDARDS

	STATE SET PERFORMANCE STANDARDS	ACTUAL PERFORMANCE
ADULT		
ENTERED EMPLOYMENT RATE	60%	74.5%
COST PER ENTERED EMPLOYMENT	$3,665	$1,816
PERCENT OF PREVIOUS WAGE	75%	81%
AVERAGE WAGE AT PLACEMENT	N/A	$6.05
WELFARE ENTERED EMPLOYMENT RATE	N/A	70%

AVERAGE WEEKS OF PARTICIPATION

ADULT 19

B. SERVICE TO TARGET GROUPS

TARGET GROUP	EQUITABLE SERVICE LEVEL (%)	ENROLLMENTS % OF TOTAL	PLACEMENTS % OF TOTAL	ENROLLMENTS NUMBER	PLACEMENTS NUMBER
TOTAL				4,026	2,050
MALE	67%	68.1%	69.3%	2,742	1,421
FEMALE	33%	31.9%	30.7%	1,284	629
OLDER INDIV.	9%	8.5%	8.0%	342	164
WHITE	90%	78.1%	80.4%	3,143	1,648
MINORITY	10%	21.9%	19.6%	883	402
HANDICAPPED	7.3%	5.6%	4.2%	227	86
DROPOUTS	17%	20.4%	19.3%	821	396
AFDC/WEOP	-	12.3%	11.2%	495	229
PUBLIC ASSISTANCE RECIPIENTS	-	18.7%	16.9%	754	346

C. EARNINGS AND POST PROGRAM WAGE AS A PERCENTAGE OF PREVIOUS WAGE

	AVERAGE WAGE AT PLACEMENT	% OF PREVIOUS WAGE
TOTAL	$6.05	81%
MALE	6.49	80%
FEMALE	5.05	84%
WHITE	6.24	83%
MINORITY	5.28	77%
22-54	6.07	82%
55+	5.76	71%
PUBLIC ASSISTANCE RECIPIENTS	5.58	82%

*All figures are for adults only.

57-425 O—86——7

IV. OLDER INDIVIDUAL (3%) PROGRAM PERFORMANCE

A. PERFORMANCE STANDARDS

	STATE SET PERFORMANCE STANDARDS	ACTUAL PERFORMANCE
ADULT ENTERED EMPLOYMENT RATE	60%	31%

AVERAGE WEEKS OF PARTICIPATION

ADULT 13

B. SERVICE TO TARGET GROUPS

TARGET GROUP	EQUITABLE SERVICE LEVEL %	ENROLLMENTS % OF TOTAL	PLACEMENTS % OF TOTAL	ENROLLMENTS NUMBER	PLACEMENTS NUMBER
TOTAL				430	70
MALE		44%	51%	188	36
FEMALE	60%	56%	49%	242	34
WHITE		79%	93%	340	65
MINORITY		21%	7%	90	5
HANDICAPPED		18%	19%	78	13
DROPOUTS		40%	30%	171	21
AFDC/WEOP		4%	3%	19	2
PUBLIC ASSISTANCE RECIPIENTS		27%	13%	115	9
DISPLACED HOMEMAKERS		7%	9%	29	6

C. EARNINGS AND WAGE GAINS/LOSSES

	AVERAGE WAGE AT PLACEMENT	WAGE GAIN/LOSS FOR PARTICIPANTS PLACED WITH PRIOR WAGE
TOTAL	$4.43	$- .48
MALE	5.15	-1.14
FEMALE	3.66	- .26
WHITE	4.46	- .62
MINORITY	3.91	**
PUBLIC ASSISTANCE RECIPIENTS	3.86	-1.03

**Numbers of those placed too small for meaningful calculation.

V. EDUCATION COORDINATION AND GRANTS (8%) PROGRAM

A. PERFORMANCE STANDARDS

	STATE SET PERFORMANCE STANDARDS*	ACTUAL PERFORMANCE
ADULT		
ENTERED EMPLOYMENT RATE	*	48%
COST PER ENTERED EMPLOYMENT	*	Not Avail.
AVERAGE WAGE AT PLACEMENT	*	$4.69
WELFARE ENTERED EMPLOYMENT	*	34%
YOUTH		
ENTERED EMPLOYMENT RATE	*	25%
POSITIVE TERMINATION RATE	*	70%
COST PER POSITIVE TERMINATION	*	Not Avail.

AVERAGE WEEKS OF PARTICIPATION

ADULT	13
YOUTH	23

B. SERVICE TO TARGET GROUPS (ADULT AND YOUTH)

TARGET GROUP	ENROLLMENTS NUMBER	ENROLLMENTS % OF TOTAL
TOTAL	3,818	
ADULT	1,468	38%
YOUTH	2,350	62%
MALE	1,758	46%
FEMALE	2,060	54%
OLDER INDIV.	59	2%
WHITE	2,880	75%
MINORITY	938	25%
HANDICAPPED	671	18%
DROPOUTS	715	21%
AFDC/WEOP	1,455	38%
PUBLIC ASSISTANCE RECIPIENTS	1,897	50%

*Separate standards were set the two major 8% contractors; the Department of Public Instruction and the Wisconsin State Board of Vocational, Technical and Adult Education.

0130c
5/23/85

ATTACHMENT 6
MAY 06 1985
(Including Gov. Earl's Response)

ADMINISTRATION OF UNEMPLOYMENT INSURANCE
AND THE EMPLOYMENT SERVICE

A Proposal for Reform

Current Situation

The current Unemployment Insurance (UI) program impedes State administrators from improving services to the unemployed. While program policy is set largely at the State level, States are effectively cut off from decisions about program administration.

Within broad Federal guidelines, States determine the size and structure of their UI benefit programs:

- State law determines the specifics of UI: who is eligible, benefit amounts, number of weeks of benefits paid, etc.

- States set UI payroll taxes (1985 revenues $19.4 billion) to pay the full cost of up to 26 weeks of regular UI benefits and one half of the cost of extended benefits (up to 13 more weeks of benefits when unemployment in a State is high).

In contrast, the Federal Government dictates in considerable detail how much each State will get to administer its UI law. States have little authority over how they use the resources. They have virtually no incentive to increase the efficiency of their program administration, and in fact may lose resources as a result of becoming more efficient.

- The Federal Government levies its own $4.8 billion UI payroll tax on the same employers the States do. It then turns back part ($2.5 billion) of the proceeds to the States to finance their UI program administration and to run the Employment Service (ES).

- Each State receives an amount for UI determined by a complex system of Federally-required time studies and workload estimates. The amount for basic ES operations is determined by a formula. (Additional amounts are provided to ES under Federal contracts for services of national interest, e.g., veterans employment, statistics.)

- To monitor the use of administrative funds, the Federal Government requires detailed reports on State program operations and extensive budget planning documents.

Reform Proposal

The Federal Government would continue to assure maintenance of a sound Nation-wide UI system through assuring conformance with the current Federal laws governing coverage, Extended Benefits, and trust fund operations which would remain unchanged. The reforms would:

- Transfer the resources and authority for UI and ES administration to the State.

- Expand the availability of Federal loans, which now are available only to finance benefits when States have a UI deficit, to meet State administrative costs as well.

Reform Objectives

- Give the States full control over administration of their UI and ES programs, allowing decisions on State UI policy and the resources to carry out that policy to be made concurrently.

- Increase the responsiveness and efficiency at the State level of State UI and ES operations.

- Eliminate the mountains of paperwork required by the Federal administrative grants.

- Remove obstacles that deny State administrators the ability to improve their State UI programs.

Issues Requiring Resolution

The Federal Government needs the views of State policymakers from both executive and legislative branches on the basic proposal, the issues cited below, and other issues the States wish to raise.

- What reports will be required? What reports can be eliminated? What is the most efficient way to collect the information that still will be needed nationally to assure conformity with basic UI principles and generate economic measures of national interest?

- What is the most equitable way to divide up among the States the administrative balances in the Unemployment Trust Fund that will not be needed to finance the administrative responsibilities the Federal Government will retain?

- What administrative functions of national interest should still be financed by the Federal Government (e.g., statistics for BLS)? What can be done to assure State assistance in carrying out Federal responsibilities (e.g., alien labor certification)?

- What is the appropriate timing for a turnover of administrative authority to the States?

April 30, 1985

Administration of Unemployment Insurance and the Employment Service

A Proposal for Reform

Background

- Authorized by the Social Security Act in 1935, unemployment insurance (UI) provides temporarily unemployed workers with partial income replacement during brief spells of involuntary joblessness. The system is designed to be self-financing through payroll taxes imposed by the State and Federal Governments.

- State laws determine the policy on eligibility, amount, and duration of benefits and the tax structure to finance them. Federal law establishes, in broad terms, the framework of the UI system.

- In Fiscal Year 1985 State payroll taxes will generate about $19.4 billion in revenues to finance State UI benefits. Although the Federal Government manages the flow of these resources in the Unemployment Trust Fund, the State tax dollars are maintained there in individual State accounts; State law dictates the tax rates and benefit levels that determine these flows. Federal management of the trust fund assures that funds are invested in Treasury securities with no threat of loss of principal, and that they are immediately available to meet benefit payments.

- Revenues from the Federal Unemployment Tax Act (FUTA) in Fiscal Year 1985 are estimated to be about $4.8 billion. Revenues derived from FUTA finance the administration of UI and associated activities such as labor exchange services conducted by the Employment Service (ES), and loans to States which run short of funds to pay UI benefits, and the Federal share of the extended benefits (EB) program. (The extended benefits program authorizes additional weeks of benefits in States experiencing cyclically high unemployment. When in effect, extended benefits are financed half by the State using State taxes and half by the Federal Government via FUTA revenues.)

Unemployment Trust Fund Administrative Costs
(President's FY 1986 Budget Estimates)

($ in billions)

	85	86	87	88	89	90
FUTA Receipts	4.76	4.79	3.98	3.89	4.12	4.30
Available for Admin.	3.02	3.01	3.32	3.64	3.83	3.97
Spent for Admin.	2.58	2.65	2.74	2.81	2.86	2.93

- Administrative activities funded from FUTA include: The State costs associated with paying benefits and collecting revenues for the UI program (estimated in Fiscal 1985 at about $1.6 billion); the labor exchange activities of the Employment Service (ES) (about $730 million); related special purpose activities (e.g., veterans services, labor information, alien certification, etc., costing about $180 million); and Federal administrative activities (about $70 million).

Problem

- The current system doesn't make sense. States, which legislate to determine their UI policy, are precluded by the Federal Government from deciding the level of resources necessary to administer their own UI programs. Decisions about State UI policy are therefore effectively divorced from decisions about the resources to carry out that policy.

- State UI program administration is Federally financed, through a separate payroll tax (FUTA), and funded via grants from the Department of Labor (DOL) to the State Employment Security Agencies (SESAs). States have no say in the amount they receive to assure that their UI laws regarding payment of benefits and collection of revenues are carried out properly. The Federal Government determines not only the level of resources to be made available for administering UI and other activities, it also prescribes the priority that will be assigned by the States to the various administrative activities.

- By concentrating control of program administration in the Federal Government, the current structure:

  -- imposes rigidities on the substantive policy spheres reserved to the States;

  -- involves unnecessary transfer of funds and authority to the Federal Government for responsibilities the States should control.

-- provides no framework for the responsive and efficient programs States could run.

Proposal

o The proposal would place both the resources and responsibilities for UI and ES administration to the States. The tax credit against Federal UI taxes for employers who pay State UI taxes would be increased to reduce their net Federal tax liability. At the same time, the standard tax rate the Federal Government requires States to incorporate in their State UI tax schedule would be increased so that States could get receipts to cover administrative as well as benefit costs. States would be responsible for all revenues associated with the benefits and administration of their respective programs.

Objectives:

o The objective is to remove those facets of the current structure that impede administrators from responding to the demands of the State environment in which they administer the UI and ES programs.

o The objective will be achieved through putting in a single place - the State - the authorities for (a) the formulation and execution of basic program policy (now predominantly a State role) and (b) the administration of the system (currently dominated by the Federal Government).

o The proposal would remove the structural obstacles that deny administrators incentives to improve the system's operation. Increased efficiency, responsiveness and accountability in the administration of UI and the ES will be achieved through a more rational State/Federal programmatic and financial relationship.

Federal Role

o The Federal Government will continue to assure adherence to the basic principles that must underlie the UI system, and act as the banker who assures that all funds are safely invested and provides the ultimate financial backstop to the system.

o Program Framework. The Social Security Act and FUTA define the principles that shall be present in each State's UI program. The basic principles to which State UI programs must adhere are:

-- Coverage. The near universal coverage required by current law would be maintained;

-- Benefits would be paid timely and properly to individuals who meet the State's eligibility standards;

-- Work test would require that those receiving benefits be able, willing and actively seeking work;

-- Financing of the State's UI benefits should be through a revenue measure that establishes a "standard rate" of contribution for all employers and allows variations only on the basis of an employer's actual experience;

-- Due process to assure a fair and timely hearing for all parties at interest;

-- Interstate transactions would be accomplished through cooperative agreement of all the States to process interstate UI claims and exchange information necessary to assure program integrity.

The Federal Government will continue to be responsible for assuring that each State's law conforms to these principles and that implementation of the State law complies with its provisions. In the revised system, off-set will be the sole tool through which conformity will be assured.

"Offset" allows employers to take a large credit against their FUTA liability provided that their State's UI program is in conformity with Federal requirements and that the State meets certain criteria with respect to any outstanding Federal loans.

o Reports: Reports to the Federal Government would be stringently reduced to those necessary:

-- To assure conformity with Federal statute.

-- For overall UI system operation (e.g., unemployment rates needed for EB triggers).

-- For national statistical purposes (primarily BLS).

o Federally-financed programs:

-- Income transfers: UI for former Federal employees and other special programs such as Disaster Unemployment Assistance or Redwood benefits would continue to be administered by the States but financed by the Federal Government.

-- National programs such as Veterans employment services, statistics for BLS, alien labor certification, etc. would be financed by reimbursable agreements with the States.

o Fund Management. The U.S. Treasury would continue to maintain the system's resources in the Unemployment Trust Fund to assure:

-- Fund security: Maintenance of State-specific balances, invested in Federal securities, immediately redeemable at par to meet State benefit and administrative costs.

-- Fund sufficiency: To provide for interest-bearing loans to the States when State balances are insufficient to meet State benefit and administrative costs.

-- Fund accuracy: Proper depositing of funds and charging of withdrawals, including charges to Federal accounts.

o Extended Benefits: The Federal Government will continue the EB program, with Federal resources financing half the benefit costs, as a countercyclic program temporarily providing benefits of longer duration in high unemployment States.

State Role

o States would have full authority to determine their UI and ES administrative resources.

o To obtain the off-set to the Federal Unemployment Tax liability for their employers, the States would conform to and comply with the basic principles enumerated above.

o Any activity not explicitly identified as a Federal function will be the province of the States, to be pursued or ignored at their discretion.

Results

o The redefinition of roles will shift to the States authority for all aspects of the administration of the UI program and its associated work tests. States will, for the first time, be able to make in tandem decisions about UI program policy and the resources to carry out that policy. State benefit and administrative funds will be interchangeable.

o Reports required from the States will be sharply reduced.

o States will have full authority as to the delivery of services - number of offices, staffing, use of computers, etc.

o State accounts in the Unemployment Trust Fund will receive an infusion of funds as amounts in the Federally-controlled administration account not needed to finance remaining Federal responsibilities will be transferred to the State accounts.

o Because revenues for administration will go into State accounts in the trust fund, each State will receive interest on its administrative amounts, rather than having the interest on administrative revenues credited to the Federally-controlled administrative account.

- Loans from the Unemployment Trust Fund, presently available to States which need them to finance benefit costs, would become available for State administrative expenses as well.

- A State-operated labor exchange would be subject to the same Federal statutes as for-profit employment agencies. Such State agencies would not be required to perform additional Federal enforcement functions.

- Maintenance of a strong State/Federal UI system that adheres to the basic principles of the current system will be assured by continuation, with no legislative change, of:

  -- The basic requirements for coverage, etc. specified in the Federal Unemployment Tax Act.

  -- The Extended Benefit program.

  -- Provisions regarding interest on and repayment of State loans from the Unemployment Trust Fund.

  -- Interstate claims.

- The proposal will strengthen the system's ability to provide temporarily unemployed workers with short-term income support and to help them get back to work quickly. By restructuring responsibilities and altering the UI roles of the State and Federal Governments, inefficient cross-State subsidies will be eliminated and administrative burdens will be reduced; in turn, this will reduce the system's costs and the overall need for payroll taxes will be reduced.

Next Steps

Before full authority and responsibility for State administration of the State UI and ES programs can be transferred to the States, a number of detailed issues concerning Federal-State responsibilities, financial arrangements, and the transition to the reformed system need to be resolved. The Federal Government needs the suggestions and reactions of State policymakers, in both the executive and legislative branches, in order to develop a soundly- based proposal that best meets the needs of the States and the nation.

An initial list of questions to be resolved follows. Other questions will be raised by decision-makers as they review the initial proposal.

Issues Requiring Resolution

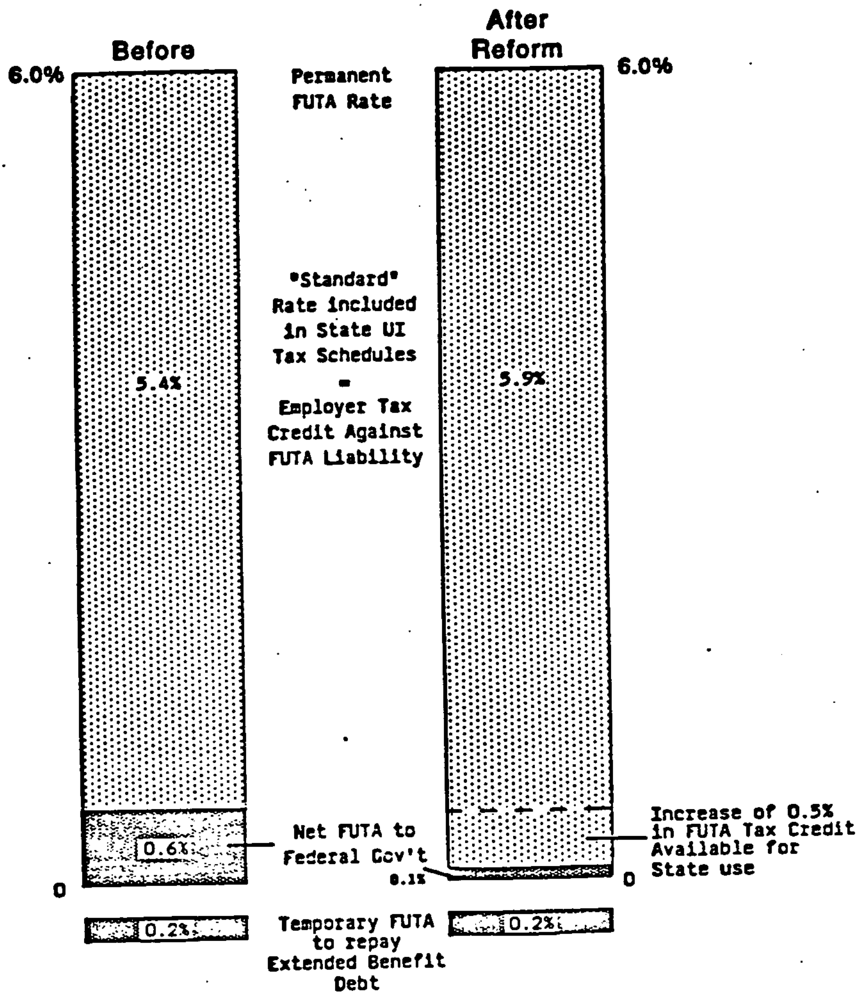
- o What reports will be required? What reports can be eliminated? What is the most efficient way to collect the information that still is needed nationally to assure conformity with basic UI principles and generate economic measures of national interest?

- o What is the most equitable way to divide up among the States the administrative balances in the Unemployment Trust Fund that will not be needed to finance the remaining Federal administrative responsibilities?

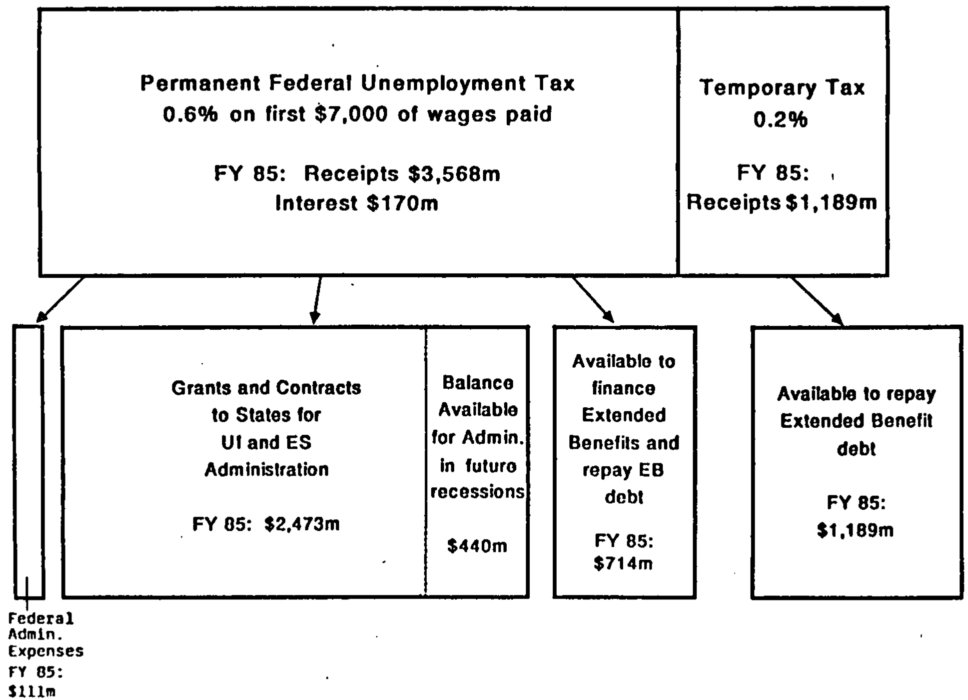
- o What functions of national interest should still be financed by the Federal Government (e.g., statistics for BLS)? What can be done to assure State assistance in carrying out Federal responsibilities (e.g., alien labor certification)?

- o What is the appropriate timing for a turnover of administrative authority and responsibility to the States? (Considerable advance notice of the shift is necessary to permit States to enact enabling legislation.)

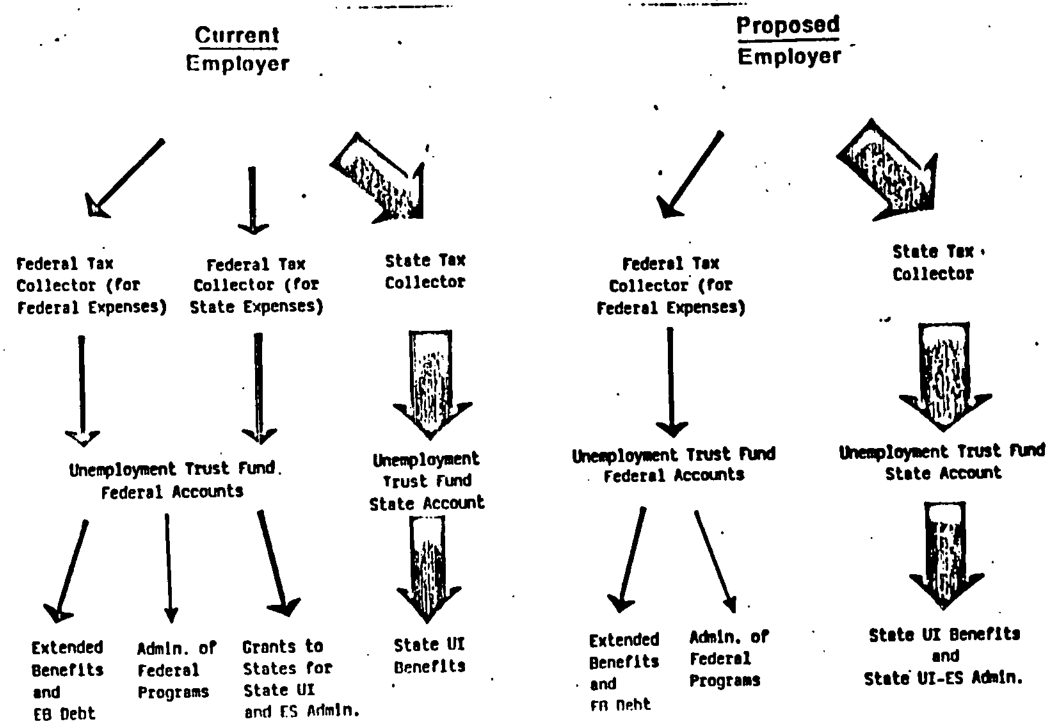
Tax Rates: Federal Unemployment Tax Act (FUTA)



Allocation of Federal Unemployment Tax
1985 Current Law



Flow of Unemployment Tax Dollars



CORRESPONDENCE/MEMORANDUM — STATE OF WISCONSIN

Date June 7, 1985 File Ref

To HAL BERGAN

From Helene Nelson

Subject Response to President's Proposal to "Devolve" UC and Job Service to States

You asked Howard Bellman for a draft of a Governor's response to the President's proposal to devolve UC and Job Service that was both "prompt and thorough." I think our proposed response (attached) is thorough. I'm sorry we're not prompt. But a Governor's response can still be very timely.

Background: Basically the federal government now assesses an employer payroll tax, FUTA, which is used partly to fund grants to states for 100% of the operating costs of the Unemployment Insurance (UI) and Employment Service (ES) programs. UI funding is given to states based on a complicated formula, built basically on UI claims workload in the states. ES funding is an annual grant based on a formula including civilian labor force and unemployment factors.

The Administration "devolution proposal" would reduce the FUTA tax by the amount now supporting UI and ES grants, and the grants would be eliminated. A few national programs would be continued via contracts with states. The proposal focuses on the UI program; it would continue basic national standards for state UI programs, loans to states with insolvent UI funds or cash flow problems, and cost-sharing for extended benefits. The paper hardly mentions the ES program — a serious problem, we think.

We support the Administration proposal in part, particularly streamlining of federal involvement in UC administration. However, we emphasize the need for a national employment policy, including national UI, labor market information, and Job Service elements. This general approach follows current NGA policy and probably will be similar to most states' views.

Obviously the proposal has a financial impact on states — with some "winners" and "losers." Florida, for example, received $269 million in UI/ES grants in FY 84, but their employers' FUTA share for UI/ES administration was $345 million. In contrast, Michigan received $133.5 million and their employers paid $98.7 million. Wisconsin is not a clear "loser" or "winner" financially; in some years we've received more than we've paid, and vice versa.

Our proposed response is based more on policy than financial circumstances. We believe a national approach is needed to employment and unemployment concerns. Coincidently, in coming years, we may find that this policy approach serves Wisconsin's financial self-interest, as undesirable competition may develop among states in terms of employer taxes and UI/ES program funding.

In addition to stressing the need for a national policy here, we comment on a variety of more specific issues that are either unclear, or of concern, to us in the proposal. The federal proposal continues to be fairly general.

I hope our draft response meets your needs.

cc: Tom Krauskopf

June 7, 1985

Mr. Mitchell E. Daniels, Jr.
Deputy Assistant to the President
Director, Office of Intergovernmental
Affairs
The White House
Washington, D.C. 20500

Mr. John F. Cogan
Associate Director for Human Resources,
Veterans and Labor
Office of Management and Budget
c/o The White House
Washington, D.C. 20500

Dear Messrs. Daniels and Cogan:

Thank you for your letter concerning the administration's proposal to transfer administrative authority for the Unemployment Insurance and Employment Service programs to the states. Since the President's fiscal 1986 budget proposal indicated your intent to develop such a proposal, we have been awaiting further details with interest.

We support effective and efficient employment service and unemployment insurance programs. We agree that greater state flexibility, and administrative and financing system improvements are needed in both programs. We are pleased to cooperate in developing proposals to this end.

Generally we agree with the objectives stated in your proposal, and certainly we concur that states are fully capable of administering these programs in an effective and efficient manner. However, I want to emphasize my support for the employment security policy of the National Governor's Association which indicates that:

"Certain fundamental principles which underlie an employment security system should be built into a national employment policy. . ." including the availability of a free and accessible labor exchange to match needs of jobseekers and employers, a system of unemployment insurance, and adequate employment-related information (labor market information).

Some federal role should be continued in both the UI and ES programs because unemployment and employment are national concerns and deserve a national response. Further, the UI and ES programs should work together, and with other nationally-funded and directed employment and training programs.

Your proposal appropriately recognizes the need for a federal role in the UI program. While many essential features of the federal role need to be specified further, the general approach you seem to be taking appears sound.

However, we are greatly concerned about the absence of substantive discussion of the labor exchange or employment service function in your proposal. We believe some minimal federal direction is required to assure continuation of a national labor exchange system.

A main feature of your proposal is to reduce federal FUTA taxes and eliminate grants to the states for administration of both the UI and ES programs. We believe needed administrative simplification, and changes in state-federal roles, to improve the efficiency and effectiveness of the programs can be achieved without such a concomitant shift of full financial responsibility to states. We question whether the national role which is needed in both programs can be effective without some financial participation in administration. On the other hand, we agree some greater flexibility and financial responsibility can be appropriately given to the states. We specifically support substantial streamlining of federal involvement in UI program administration and administrative financing.

Let me comment more fully on ES, UI, and general funding concerns.

ES Program Matters

We believe a stronger, and clearer, federal role definition is needed before states can provide a more meaningful response to your proposal and some of the particular questions you raise. A federal requirement to maintain a national labor exchange system is a minimum element of the federal role, in our opinion.

We think that the current federal program requirements for the Employment Service are, by and large, reasonable. The Job Training Partnership Act amendments to the Wagner-Peyser Act have already transferred substantial authority to states to design and manage the labor exchange function, in coordination with other employment and training programs and local elected officials and private industry councils. Wisconsin and many other states have begun to exercise this new and greater responsibility for the ES program in an effective manner.

The key problem facing the ES program is inadequate funding, not burdensome federal direction. Since a surplus exists in the employment security fund (which is earmarked FUTA taxes for ES and UI administration), ample federal funding for ES is the single most important way that the labor exchange function could be improved.

We realize that under your reform proposal, states would be responsible to make decisions about needed funding, and I would support adequate funding for a Wisconsin labor exchange if the proposal is enacted. But since I believe a national labor exchange is needed, I prefer continuation of national funding.

Whether or not federal grants from FUTA taxes are maintained for ES, or FUTA tax authority is "transferred to the states" as you propose, we are concerned that your proposal is not clear on whether the administration is supportive of a minimum and consistent national labor exchange function. Beyond this very basic question, more specific program questions may be pertinent, for example: What specific expectations will continue for a UI work test and its administration? How will national employment programs such as the veterans employment service be maintained on a consistent basis in terms of the program delivery system and basic administrative provisions? While a national Employment Service organization isn't necessarily the only way to carry out these functions, the existing structure has performed well in these areas.

We also support an effective national labor market information program. We are concerned that standard job and industry classifications and a standard statistical approach be maintained, with adequate funding for data collection and dissemination.

Unemployment Insurance Matters

While ES program management has already been considerably "devolved" to states under the Job Training Partnership Act, we agree that federal involvement in detailed administration of the UI program is excessive and should be reduced. We note that the National Governor's Association policy statement focuses on the need for greater administrative flexibility and reform within the UI program.

We support your view that a basic national framework for UI program policy and administration must be maintained. We support continuation of the basic national program standards listed in your paper, and of the US Treasury role as the ultimate financial backstop to the system.

We strongly agree that the federal financing role should include specific assurances that:

A) Federal loans will continue to be available to states on short-term notice in unlimited amounts.

B) The current provisions for interest-free cash flow loans, and provisions for determining interest on other loans, will be maintained.

C) Federal financing for one-half of extended benefits, and in recessions full financing of supplemental benefits, will continue to be available when such programs are justified by high unemployment levels.

We also would like to see consideration of an option for states to manage their own UC funds, within federal standards. We think that this is consistent with the "devolvement" approach.

We would like to see fuller definition of the federal role in policy and "conformity" concerns. While we infer that current federal standards for UI would be approximately maintained, the proposal severely limits federal ability to assure these standards are met. We would like to see more information about how national standards would be set, and probably more importantly, enforced, without some federal funding incentives/disincentives to stimulate compliance. Do you envision changes in current standards? Do you believe that "offset" alone will be an effective enforcement tool? We question whether withdrawal of the FUTA credit for a particular states' employers is a practical tool for ongoing federal enforcement, except in the most drastic circumstances.

What about new program mandates and funding for them? As one example, recently Congress mandated states to implement wage reporting systems for purposes of checking on potential fraud and abuse in UI, public assistance, and related programs. Most states now use such a system as the basis for UI administration, but Wisconsin and a number of other states will need to set up a major new system to comply with the federal mandate. Federal funding to implement this mandate -- and other federal requirements which may be imposed — is essential.

General Financing Concerns

Beyond the questions about how national program objectives would be achieved and standards enforced without some federal financial participation, we believe more attention should be given to problems of individual states or regions with relatively high unemployment and the extra burden placed on the UI system nationwide in times of recession. While your proposal indicates extended or supplemental benefits will continue with partial or full federal funding in such circumstances, federal funding for all or some of the administrative costs at these times is equally appropriate.

We also have a number of questions about how federal and state FUTA taxes would be administered and disbursed under your proposal. Would federal legislation require that state FUTA taxes be used for administration of the UC and/or ES programs? Would a single FUTA tax collector be more desirable than the two suggested in the paper? Would national FUTA-financed accounts provide administrative funding for national programs administered by states? Would it adequately cover state costs? The proposal does not address Reed Act funds. What would be the disposition of those funds?

Response to Specific Questions

Let me comment briefly on the specific issues you cited as requiring resolution. First, we think reporting requirements should be designed following a clarification of federal and state roles and basic program goals. Specific reporting requirements should assess compliance or progress towards compliance with mutually agreed upon goals or objectives. Second, regarding the distribution of administrative balances in the Trust Fund account, we favor distribution among the states in the same proportion as FUTA payrolls relate to the total account. Third, national interest programs such as BLS statistics, federal unemployment insurance and interstate activities for both Unemployment Insurance and the Employment Service should be financed by federal funds. As to state assistance in carrying out federal programs, it should be required only to the extent that such programs bear their actual share of administrative costs.

Fourth and finally, we believe calendar year 1988 is the earliest possible date that a change of this magnitude could be designed, enacted, and implemented. We would prefer more time, since we anticipate substantial consideration will need to be given to authorizing legislation both in the Congress and in our state Legislature. We also suggest that a carefully designed transition process is needed.

Again, thank you for your letter and the opportunity to comment. We realize and appreciate that this is a preliminary proposal, designed to raise as many questions as it answers. We hope our comments, and our questions, are useful in that context. We will appreciate further opportunities for review and discussion as proposals are developed further.

Sincerely,

Anthony S. Earl
Governor

cc: Karen Glass
National Governors Association

William Brock, Secretary
U.S. Department of Labor

Steve Singer, Regional Director
Employment & Training Administrtion

Howard S. Bellman, Secretary
Department of Industry, Labor & Human Relations

State of Wisconsin
Report to the Governor on the

Job Training Partnership Act

Fiscal Year 1984 (October 1, 1983 - June 30, 1984)

The State Job Training Coordinating Council
Governor's Employment and Training Office
December, 1984

STATE JOB TRAINING COORDINATING COUNCIL
DANIEL JAROSIK, CHAIRPERSON
(CURRENT MEMBERSHIP - NOVEMBER, 1984)*

Private Business

Margaret Baston
First Wisconsin National
Bank of Milwaukee

Gene Boyer
Boyer Enterprises, Inc.

Raymond Farley
Johnson's Wax

Robert Milbourne
Kohler Company

Claire Oberbreckling
Therapy & Support Services Inc.

Rosalie Tryon
Tryon Realty

William Wilberg
Wisconsin Association of
Manufacturers and Commerce

Alfred G. Wilke
G.E. Medical Systems Group

Edmund F. Woychik
CENEX

Diane Dickinson Zilisch
Cliff Dwellers, Inc.

Local Government Representatives

N. Saytha Babu
Southeastern PIC

Jonathan Barry
Dane County Executive

Dorothy Johnson
Mayor
City of Appleton

Pat McVay
County Board Supervisor
Brown County

Leo Talsky
Executive Chief of Staff
Milwaukee County

Yvonne Van Pembrook
Supervisor
Florence County Board

*There are currently four vacancies on the SJTCC.

State Government and the Legislature

Howard Bellman
Secretary
Department of Industry, Labor
and Human Relations

Spencer Coggs
State Representative
Wisconsin State Assembly

James Flynn
Lieutenant Governor and Secretary
Department of Development

Louis Fortis
Executive Director
Community Development
Finance Authority

Herbert Grover
State Superintendent of Schools
Department of Public Instruction

Linda Reivitz
Secretary
Department of Health and
Social Services

Robert Sorensen
Director
Wisconsin Board of Vocational,
Technical and Adult Education

Community-Based Organizations, Organized Labor, Local Educational Systems, Other

Mary Avery
Wisconsin Community
Action Agencies

Daniel Jarosik
State Advisory Council on
Vocational Education

Tom Lonsdorf
American Federation of
State, County and
Municipal Employes

Jack Reihl
Wisconsin State AFL-CIO

Tom Strick
School Superintendent
Merrill Public Schools

State of Wisconsin \ EXECUTIVE OFFICE OF THE GOVERNOR

Anthony S. Earl
GOVERNOR

Governor's Employment and Training Office
P.O. Box 7972
MADISON, WISCONSIN 53707

Ellen O'Brien Saunders
Executive Director

December 18, 1984

The Honorable Anthony S. Earl
Governor, State of Wisconsin
115 E. Capitol
Madison, WI 53702

Dear Governor Earl:

On behalf of the State Job Training Coordinating Council, I am pleased to transmit to you the first Annual Report to the Governor under the Job Training Partnership Act.

The Report summarizes program performance during the initial nine-month transition period. During this time, we have been building a new service delivery structure in Wisconsin — one that enhances partnerships between private industry and government and between state and local government. At the same time, we have provided almost 25,000 Wisconsin citizens with training opportunities, including a totally new program for the increasing number of workers dislocated by changes in our economy.

The federal JTPA legislation mandated a new employment and training structure that is driven by a Governor's policy and by quantified performance measures. The State Job Training Coordinating Council has used both tools to shape programs that promote excellence and cost-effectiveness as well as emphasize service to the most in need.

We are pleased with our performance during the transition period and believe that we are well on our way to building an effective employment and training program in Wisconsin.

Sincerely,

Daniel Jarosik, Chairperson

GETO-1007 (7/84)

State of Wisconsin
Report to the Governor on the
Job Training Partnership Act
Fiscal Year 1984 (October 1, 1983 - June 30, 1984)

This is the first Annual Report to the Governor of accomplishments under the Job Training Partnership Act (JTPA) P.L. 97-300. The report describes Wisconsin's administrative and policy structure and summarizes statewide performance during the transition, or first, program period.

The State Job Training Coordinating Council
Daniel J. Jarosik, Chair

Governor's Employment and Training Office
Ellen O'Brien Saunders, Executive Director

December, 1984

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EXECUTIVE SUMMARY

During the Transition Period, there was extensive policy and program development at the same time that nearly 25,000 Wisconsin residents received services under new JTPA programs.

At the state level, implementation of the Job Training Partnership Act (JTPA) included:

- Establishment of a new 32-member State Job Training Coordinating Council;
- Designation of seventeen Service Delivery Area (SDAs), including ten with new boundaries;
- Approval of seventeen Private Industry Councils;
- Establishment of a Governor's Employment and Training Policy, followed by other policy and planning directives;
- Development of fiscal, audit and programmatic oversight capability;
- Development and implementation of a statewide automated fiscal and participant management information system;
- Design and implementation of new statewide programs for dislocated workers, older individuals and educational coordination; and
- Preliminary efforts to build a comprehensive, coordinated labor market information system.

Although Wisconsin experienced some of the problems common during the implementation of new programs, program performance during the Transition Period was very good. On an aggregate basis, the SDAs met or exceeded all seven Department of Labor performance standards. Ninety percent of the terminees were placed into unsubsidized employment in the dislocated worker and older individual programs.

The SDAs, on an aggregate basis, served minorities, the handicapped, dropouts, AFDC recipients and public assistance recipients at adequate to excellent levels. Enrollment of older individuals and women was lower than desired. The level and quality of service to these two groups are major policy concerns. Efforts will be made during Program Year 1984 to improve the present performance.

Progress has been made in achieving a number of the Governor's Employment and Training Policy objectives. Of note is the high percentage of individuals receiving non-JTPA financial assistance among those selected for JTPA enrollment. This coordination of services among programs reduces duplication and promotes better service delivery to program participants.

There have been other accomplishments as well. Perhaps the most important achievements in this regard have been in the area of partnership building — between the public and private sector and between local government and Private Industry Councils. An example of these partnerships is well captured in statements in the Northeastern SDA's Annual Report. In the Annual Report for that area, Mr. Gordon Wicklund, Vice President of Employee Relations for the Marinette Marine Corporation and Chairman of the Northeastern PIC, states:

> *"I am personally encouraged by the already strong partnership which has been formed between county government, business and industry, JTPA program operators and service deliverers, and the Private Industry Council. This spirit of cooperation accounts for much of our achievement to date, and will, I believe, be the foundation for another exceptional year."*

In the same report, Mr. Oscar Tachick, Oconto County Board Chairman and the Northeastern SDA Chief Elected Official, notes:

> *"What you will not find, however, are some of the less tangible but equally significant products which have come out of Fiscal Year 1984. The statistics exemplify, in my view, what the true meaning of "partnership" is all about. In May of 1984, when the Private Industry Council was created, we took care that mutual trust and cooperation were the beginning points of our joint relationship. We have a great deal of confidence in the expertise and judgment of the Council, and the Council has proven willing to consider our point of view on various issues. Together, all of these assets have enabled us to address the mission of the Job Training Partnership Act. . ."*

INTRODUCTION

JTPA's purpose is "... to prepare youth and unskilled adults for entry into the labor force and to afford job training to those economically disadvantaged individuals and other individuals facing serious barriers to employment."

The Job Training Partnership Act - New Directions

The Act differs from previous employment and training legislation in some key areas:

- A major shift to the Governor of responsibility for planning, management and evaluation.
- The creation of a partnership between the private sector and local elected officials to design and administer programs.
- The design of a performance driven system with an emphasis on placement into jobs.
- A more intensive focus on training with reduced resources for administration and participant support services.
- An increased emphasis on coordination among all segments of the employment and training community.

Wisconsin's JTPA Administrative Structure

1. The State Job Training Coordinating Council (SJTCC)

Wisconsin has a thirty-two member SJTCC to plan, coordinate and monitor all employment and training programs in the State. Its primary responsibility has been to advise the Governor on issues of broad policy significance with an emphasis, during the Transition Period, on JTPA implementation. Wisconsin's JTPA policies closely mirror the Council's recommendations to the Governor.

Wisconsin's State Council includes representatives of those sectors most necessary for an active, effective employment and training system. The membership (See the front cover) includes:

- Eleven private sector representatives
- seven state government representatives
- seven local government representatives, and
- seven representatives of the general public and interested agencies.

The Council has four committees: Executive, Planning, Coordination and Oversight. The SJTCC was officially created on January 19, 1983, and had its first meeting February 25, 1983. From February, 1983, to the end of the Transition Period (June 30, 1984), the Council met 13 times with Committees meeting as frequently.

Wisconsin has a thirty-two member Council. JTPA policies closely mirror the Council's recommendations.

2. The Governor's Employment and Training Office (GETO)

The Governor's Employment and Training Office was originally created by Executive Order in the early 1970's to coordinate federal and state employment and training programs. In anticipation of the expanded Governor's role under JTPA, GETO was assigned full department status within State government effective July 1, 1983.

Immediately prior to and during the Transition Period, GETO expanded in size and responsibility. In that time, GETO concluded two complete planning cycles, each of which included: the preparation of a Governor's Coordination and Special Services Plan, guidelines for the local Job Training Plans (and plan review and approval), and policies in a large number of areas (discussed below).

As a part of GETO's development, a comprehensive set of administrative procedures have been developed, a fiscal and audit capacity was created, and a statewide automated management information system was designed and implemented.

GETO's responsibility has increased under JTPA. Two complete planning cycles were completed prior to and during the Transition Period.

In early June, 1984, the Governor directed that GETO's role be subsumed by a newly created employment and training division within the Department of Industry, Labor and Human Relations (DILHR). The Governor subsequently approved a reorganization plan for DILHR which will include GETO's functions in the newly defined division, the Division of Employment and Training Policy. Implementation will occur in steps and is expected to be completed (with State Legislative approval) by July 1, 1985.

In the next year, GETO and its functions will be assumed by a new employment and training division in DILHR.

3. Private Industry Councils (PICs) and Service Delivery Areas (SDAs)

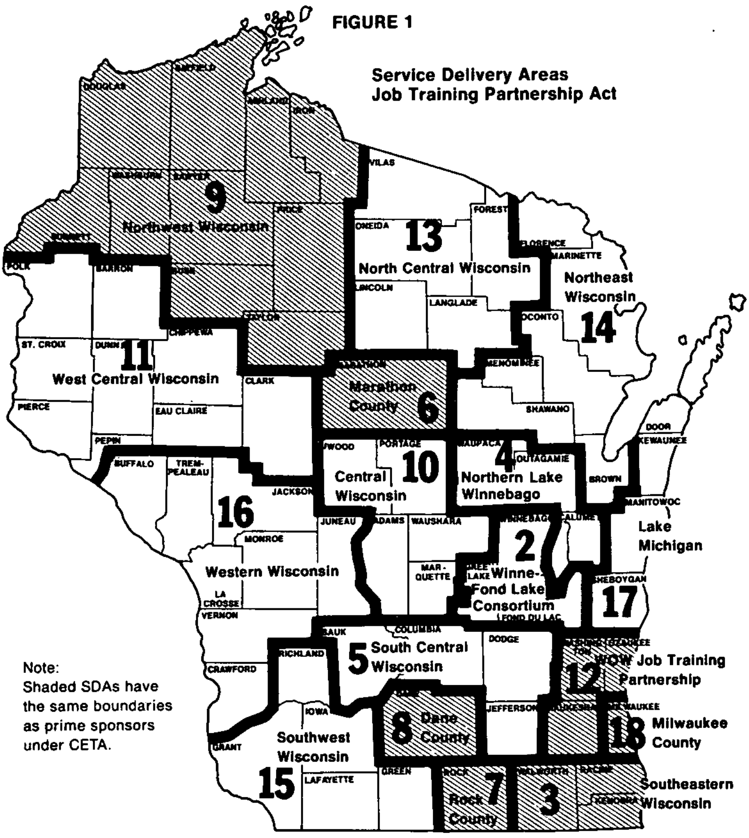
   One of the first acts of the SJTCC was to recommend to the Governor local Service Delivery Areas. Seventeen Service Delivery Areas (see Figure 1 - An SDA map of the State) were established and local Private Industry Councils were quickly certified and appointed.

   The change from Prime Sponsors under the Comprehensive Employment and Training Act to SDAs (ten of which are newly defined areas) under JTPA was a smooth process.

Wisconsin has 17 SDAs. Ten of these are areas with new boundaries.

FIGURE 1

Service Delivery Areas
Job Training Partnership Act



Note:
Shaded SDAs have the same boundaries as prime sponsors under CETA.

POLICY DIRECTIONS DURING THE TRANSITION PERIOD

The Governor's Employment and Training Policy

Wisconsin's Employment and Training Policy established a policy framework for state and local JTPA programs. This Policy, which follows, is a central component of the JTPA program in Wisconsin.

Policy for Dislocated Worker and Set-Aside Programs

1. The Dislocated Worker Program

   Title III of JTPA provides resources to enable the Governor to provide services to workers who have lost, or soon will lose, their jobs because of major changes in a local labor market, the closing of a major plant, technological change, etc. Wisconsin's program, called the Wisconsin Reemployment Program, was designed to be responsive, experimental and innovative in order to determine what service options will be most effective in assisting these individuals.

   Planning for the 1983 program was conducted by an interagency committee including GETO, the Department of Development (DOD), the Department of Industry, Labor and Human Relations (DILHR), and the Wisconsin Board of Vocational, Technical and Adult Education (WBVTAE).

   An initial plan designated five areas of the state as target sites for model dislocated worker programs.

   Planning for the Wisconsin Reemployment Program was conducted by an interagency committee.

   Wisconsin also obtained two Discretionary Grants from the Department of Labor. Both projects are in northern Wisconsin — in Douglas and Marinette counties.

2. The Older Individual (3%) Program

   This program, administered by the Office on Aging in the Department of Health and Social Services, had two goals: a) assisting eligible older individuals to obtain employment and b) identifying successful program models for training and placing older individuals.

   During the Transition Period, five projects (funded through a request for proposals), focused on job search skill development, on-the-job training and placement. A portion of the funds was used by the Department of Health and Social Services for further study of training options for older individuals and to administer the five projects.

3. The Education Coordination and Grants (8%) Program

   The Education Coordination and Grants program is intended to provide education/training services to economically disadvantaged and other high-need groups and to facilitate coordination among the Department of Public Instruction (DPI), the Wisconsin Board of Vocational, Technical and Adult Education (WBVTAE), and other state and local service providers.

   The Education Coordination and Grants funds have been distributed equally between WBVTAE and DPI, who jointly developed a program plan. Activities funded include: joint state and local planning (including agreements between the SDAs and the State Education Agencies), technical assistance, model services, and service to groups in need as identified in the Governor's objectives.

   In addition, the Education Coordination and Grants program operates within the context of a state statutory requirement which targets 50% of those funds to eligible youth, aged 14-21, who are at least one academic year behind their age group or have dropped out of school.

   The Wisconsin Legislature targeted 50% of the Education Coordination and Grants funds to school dropouts or those who are at least one academic year behind their age group.

Wagner-Peyser Program Coordination

The Act mandates joint planning between JTPA and Wagner-Peyser programs. This process started late in both programs' planning cycles. There was a consensus among the Job Service, PICs, elected officials and the service delivery areas that improvements in joint planning were necessary. Improvements occurred and the 17 PICs and chief elected officials certified that joint planning had occurred. In addition, the SJTCC did review and comment on the Wagner-Peyser Plan, identified barriers to coordination, and recommended that the Job Service place added emphasis on the provision of labor market information. The Wagner-Peyser set-aside (10%) funds were directed towards supplying comprehensive labor market and occupational information and to providing JTPA eligible special need target groups with labor exchange services. These accomplishments are viewed as first steps in improving coordination at both the state and local levels between JTPA and Wagner-Peyser programs. Two notable accomplishments during the Transition Period were the reorientation of planning cycles and the realignment of a number of Job Service Districts with SDA areas.

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THE GOVERNOR'S EMPLOYMENT AND TRAINING POLICY FOR FY '84 - THE TRANSITION PERIOD

A. Goal

It is the State's employment and training policy to promote the fullest use of Wisconsin's human resource through training and retraining of the State workforce and those who will enter the workforce and to (thereby) strengthen Wisconsin's economy by improving the state's commerce and industry. Recognizing that, within the framework of the state plan, there is opportunity for unique implementation relative to the characteristics of individual local SDAs, emphasis will be placed upon appropriate job training directed at growth occupations and upon adequate support for those members of the workforce and potential workforce who are unable to benefit from traditional private and public sector training without additional assistance.

B. Objectives

1. Provide fair allocation of resources to reach the most economically disadvantaged who face barriers to employment.
2. Achieve measurable results to improve the economic status and marketable skills of special groups which may include the following:
   - at-risk youth including dropouts and potential dropouts;
   - women and minorities
   - public assistance recipients
   - teenage mothers
   - older workers
   - displaced homemakers
   - single heads of households
   - handicapped
   - offenders and ex-offenders
   - refugees
   - dislocated workers
   - others
3. Promote training and retraining programs in current and projected demand occupations to enhance employment and reduce unemployment through multiple and innovative approaches.
4. Maximize the effective use of JTPA funds for **training** purposes by identifying and using other resources for the costs of supportive services including financial assistance.
5. Coordinate with **state and local economic development planning efforts to integrate** training, job development and placement activities with economic development, resulting in the placement of JTPA enrollees into unsubsidized jobs.
6. Establish a client-oriented case management system for the participant population which will meet their needs and enroll them in a progressive series of training activities as deemed necessary for placement into permanent employment.
7. Develop and maintain a uniform statewide management information system and a Labor Market Information system that meets the planning, management and reporting needs of the service delivery areas and the state by ensuring adequate gathering, storing, retrieval and dissemination of relevant information in standardized terms.
8. Develop state-local partnerships through participation and involvement of the private and public sectors, including governmental and educational agencies and community-based organizations, for planning as well as for training and placing workers in current and projected demand occupations. In carrying out this partnership, attempts should be made to conserve resources, utilize service delivery agencies of demonstrated effectiveness and avoid duplication of services by maximum coordination of existing resources and allowing for the use of alternative resources or facilities when it is deemed to be more effective.
9. Provide equity of services to women and minorities to promote reduction of occupational segregation and earning differentials, including training for both sexes in nontraditional job and pre-employment skill development of new labor force entrants.

C. Coordination Criteria

1. The Job Training Partnership Act administrators at the SDA level shall work collaboratively with local educational and vocational agencies, social/human service departments, youth council or commissions, community-based organizations and private business to develop recommendations on basic skills and work readiness competencies for participants, including high risk JTPA eligible youth to promote their successful entry into the labor market.
2. The Vocational, Technical, and Adult Education System, Local Educational Agencies, and Community-Based Organizations applying for funds under the Act shall collaborate in the development and provision of services where practicable.
3. All recipients of Job Training Partnership Act funds shall solicit support services from state and local human resource agencies, and these agencies shall strive to make these services available to eligible Job Training Partnership Act enrollees.
4. The Job Training Partnership Act resources shall be applied compatibly with state and local economic development planning.
5. Agencies at the state as well as local level should identify labor market information needs and pool resources available for labor market and occupational information purposes to provide an improved labor market information system to all employment and training related agencies.
6. State and local government agencies and the Job Training Partnership Act administrative agencies shall work to reduce duplication of efforts and provide cost effective and linked services.
7. The appropriate PIC and chief elected official(s) in a service delivery area shall develop jointly with the local employment service those components of the ES plan applicable to such area, including integration, cost effectiveness, and complimentary services.

During the Transition Period, the Job Service aligned its planning cycle with JTPA's, and a number of Job Service districts were aligned with SDA boundaries.

Performance Standards and Performance Incentives/Technical Assistance (6%)

The seven Department of Labor required performance measures were used as the basis for examining performance. The Department of Labor's regression model methodology was used to identify initial and end-of-program performance standards for each Service Delivery Area and each statewide program.

Transition Period program performance will be reviewed to determine areas where technical assistance is needed. No rewards or sanctions will be based on Transition Period performance.

During the Transition Period, Performance Incentives/Technical Assistance funds were used for system development, including the operation of a comprehensive management assistance and training program, provision of direct GETO staff assistance in fiscal and program areas, establishment of a statewide automated management information system and the funding of a number of statewide planning and coordination grants. These grants to the Wisconsin Counties Association, the Wisconsin Association of Manufacturers and Commerce, and the Wisconsin Community Organization Resource network supported efforts of these organizations to educate their members about JTPA during the Transition Period.

During the Transition Period, Performance Incentives/Technical Assistance funds were used for technical assistance and system development.

Labor Market Information Coordination

Executive Order #4 provided the Governor's Employment and Training Office (GETO) with responsibility for the State's Occupational Information Coordinating Committee (SOICC). The Governor and the Chairperson of the State Job Training Coordinating Council then created a Labor Market Information Task Force to "develop a plan for a comprehensive labor market information system for Wisconsin that would include measurable goals in defining specific programs and in establishing linkages between participating agencies." Several of the recommendations of this Task Force have been incorporated into the DILHR 1985-87 State Biennial Budget request.

The Governor created a Labor Market Information Task Force to improve the production and coordinate the use of labor market information.

JTPA RESOURCES AVAILABLE IN WISCONSIN

October 1, 1983 - June 30, 1984

TABLE 1

ALLOCATION OF JTPA FUNDS

Federal Share

Title II - Training Services for the Disadvantaged			
1. SDA Adult and Youth Programs			
a. Regular Adult/Youth (78% of Title IIA)		$24,892,549[1]	
b. Summer Youth (100% of Title IIB)		$15,710,108[2]	
2. State-Administered Funds (22% of Title IIA)		$ 6,442,695	
a. Older Individuals (3%)	$ 854,823		
b. Educational Coordination (8%)	$ 2,279,527		
c. Incentive Grants/Tech. Assistance (6%)	$ 1,709,645		
d. Administration/Coordination (5%)	$ 1,598,700[3]		
Title III - Dislocated Worker Programs		$ 4,656,822	
1. FY '83	$ 2,125,542		
2. FY '84	$ 1,844,966		
3. DOL Secretary's Discretionary	$ 686,314		
	Total Federal Share		**$51,702,174**

Required State Match

Title II - Educational Coordination (8%)		$ 1,823,622	
Title III - Dislocated Worker		$ 1,844,444	
1. FY '83	$ 368,471		
2. FY '84	$ 1,475,973		
	State Share	**$ 3,668,066**	

[1] Includes $680,000 that DOL provided for PIC planning grants
[2] Total for the summer of 1984 (May 1, 1984-September 30, 1984) cuts across two JTPA program periods.
[3] Includes a small amount of money for technical assistance and for SOICC functions

FIGURE 2
The Distribution of JTPA FY '84 Funds

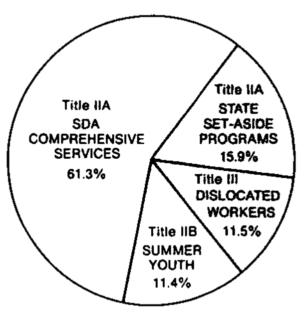


FIGURE 3
The Distribution of Title III and Set Aside Funds

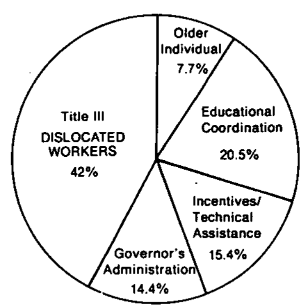


Figure 2 displays the percent distribution of Federal JTPA funds that were allocated to Wisconsin. Figure 3 provides a more detailed breakout of the shaded area (the State set-aside and dislocated worker programs).

SUMMARY OF TRANSITION PERIOD PROGRAM PERFORMANCE

Service Delivery Area (SDA) Expenditures and Program Outcomes (Title IIA)

1. Summary of Participants Served and Dollars Expended

   Wisconsin's seventeen SDAs enrolled 18,406 persons at a cost of $28.6 million for the first nine months of the JTPA program in Wisconsin. Of these, 9,879 (53.7%) were adults (22-69 years old) and 8,527 (46.3%) were youths (14-21 years old).

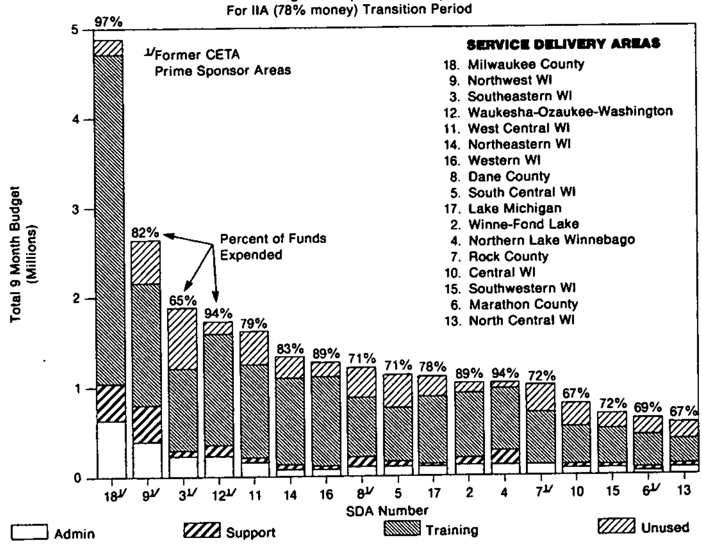
   The SDAs as a whole expended 82% of what they budgeted for the Transition Period. However, the rate of budgeted expenditures was uneven. Program size (as represented by financial resource availability), rather than prior existence as an employment and training program, appears to have had an impact on the SDAs' ability to get a full program in operation (Figure 4). Only three of the ten SDAs with allocations under $1.2 million were able to spend more than 72% of their allocation. Only one of the SDAs with an allocation over $1.2 million spent significantly under 80% of its allocation.

A small SDA's allocation level (under $1.2 million) appears to have had an adverse impact on its ability to get a full program in operation during the Transition Period.

Most SDAs were able to keep within their administrative and participant support expenditure limits. Three SDAs (all with a low rate of overall expenditures) spent more than the allowable 15% on administration. It appears likely that full program operation will eliminate the administrative and participant support overexpenditure problems in the future.

The 40% youth program expenditure requirement (Section 203(b)(1)) was more of a problem during the Transition Period. Six SDAs failed to expend at the required rate. The youth expenditure rate, however, does not appear to be related to the total rate of program expenditures.

FIGURE 4
Use of Program Expenditures by SDA
For IIA (78% money) Transition Period



2. Program Outcomes

a. Performance Standards Accomplishments

Table 2 reveals that Wisconsin's SDAs did well in meeting their performance standards during the Transition Period.

On an aggregate basis, the State's SDA programs met or exceeded all seven Department of Labor performance standards during the Transition Period.

TABLE 2

WISCONSIN TRANSITION PERIOD PERFORMANCE (TITLE IIA) ON PERFORMANCE STANDARDS

Performance Measure	Actual Performance	Adjusted Performance Standard	Acceptable Performance Range	Rating[1]
Adult				
Entered Employment Rate (%)	**66**	46	43-50	E
Cost per Entered Employment ($)	**2,541**	6,270	5,470-7,070	E
Average Wage at Placement ($/hr)	**4.83**	4.69	4.53-4.86	M
Welfare Entered Employment Rate (%)	**57**	35	32-37	E
Youth				
Entered Employment Rate (%)	**57**	40	32-48	E
Positive Termination Rate (%)[2]	**71**	73	70-76	M
Cost per Positive Termination($)[2]	**2,627**	3,815	3,121-4,510	E

[1] Standards Exceeded (E) 5
Standards Met (M) 2
Standards Not Met (NM) 0

[2] Based on state-modified definitions of performance, not directly comparable to Federal definitions of performance.

Table 3 shows the performance of each SDA for the seven DOL performance standards. The SDAs had some difficulty in meeting two interrelated youth standards — positive termination rate and cost per positive termination. The likely reason for this problem is that the youth positive termination rate is intended to include those youths who terminate who attained PIC-recognized youth employment competencies. Few PICs had recognized youth competencies and, thus, SDAs had lower youth positive termination rates and concomitantly higher costs for positive terminations.

An important statewide objective during the PY '84 period will be to facilitate the quick development and implementation of PIC-recognized youth employment competency systems.

Within overall good program performance, youth positive termination performance presented the greatest problem for SDAs. This performance should improve, however, when PIC-approved youth employment competencies are established by all SDAs.

TABLE 3

SDA PERFORMANCE STANDARDS ACHIEVEMENT (TITLE IIA) DURING THE TRANSITION PERIOD (PERFORMANCE STANDARDS DEFINED WITH TOLERANCE LIMITS)

Service Delivery Area	Adult Entered Employment Rate (%)	Cost per Entered Employment ($)	Average Wage At Placement ($/hr)	Welfare Entered Employment Rate (%)	Youth Entered Employment Rate (%)	Youth Positive Termination Rate (%)[1]	Youth Cost per Positive Termination ($)[1]	# Exceeded	# Met	# Not Met
2. WINNE-FOND	E	E	M	E	E[2]	NM[2]	M	4	2	1
3. SOUTHEASTERN	E	E	E	E	M[2]	NM[2]	E	5	1	1
4. N. WINNEBAGO	E	E	E	E	E	E	NM	6	0	1
5. SOUTH CENTRAL	E	E	E	E	E	M	NM	5	1	1
6. MARATHON CTY	E	E	NM	E	M	M	E	4	2	1
7. ROCK CTY	E	E	M	E	E	M	E	5	2	0
8. DANE CTY	E	E	E	E	E	E	M	6	1	0
9. NORTHWEST	E	E	E	E	M[2]	NM[2]	NM	4	1	2
10. CENTRAL	E	E	M	E	E	E	E	6	1	0
11. WEST CENTRAL	E	E	M	E	E	M	E	5	2	0
12. WOW	E	E	E	E	E	M	E	6	1	0
13. NORTH CENTRAL	E	E	M	E	M	NM	NM	3	2	2
14. NORTHEASTERN	E	E	M	E	E	M	E	5	2	0
15. SOUTHWESTERN	E	E	E	E	E	NM	M	5	1	1
16. WESTERN	E	E	M	E	E	NM	M	4	2	1
17. LAKE MICHIGAN	E	E	E	E	E	E	E	7	0	0
18. MILWAUKEE CTY	E	E	M	E	E	E	M	5	2	0
STATEWIDE	E	E	M	E	E	M	E	5	2	0

E = Exceeded performance standard
NM = Did not meet performance standard
M = Met performance standard

[1] Based on state-modified definitions of performance not directly comparable to Federal definitions of performance.

[2] Performance on each of these standards is higher (with all ratings either meeting or exceeding the standard) than what is recorded in the table. The lower ratings are a result of incorrect reporting in three SDAs. The problems were discovered after the submittal of the Federal JTPA Annual Status Report and have not been changed in order to maintain consistency with that Report.

b. Patterns of Adult Placement Wages and Wage Gains/Losses

Have JTPA participants improved their economic status? The following table on placement rates, wages, and wage gains/losses lists information on most of the groups mentioned in the Governor's Policy.

TABLE 4

WISCONSIN TRANSITION PERIOD SDA ADULT PROGRAM[1] PLACEMENT RATES, WAGES AND WAGE GAINS/LOSSES

Group	Rate at Which Terminees Entered Employment	Average Hourly Wage at Placement	Wage Gain/ Loss for Participants Placed[2]
All Adults	66.9%	$4.85	$ -.16
Females	64.5	4.31	+.11
Males	68.9	5.27	-.37
Minorities	54.2	4.38[3]	N.A.
Whites	68.9	4.42[3]	N.A.
Older Individuals (55+)	63.0	4.78	-.63
Handicapped	66.4	4.43	+.05
Dropouts	61.6	4.46	-.39
AFDC/WEOP	57.2	4.74	-.12
Public Assistance	58.3	4.67	-.21
Offenders	60.8	4.55	-.22
Displaced Homemakers	48.9	4.13	-.11
Single Heads of Households	58.6	4.44	+.05
Teenaged Parents	58.3	3.93	+.62

N.A. = Not Available

[1] Does not include information for the Waukesha-Ozaukee-Washington or Milwaukee SDAs. Data was unavailable for this summary because these two SDAs do not participate in Wisconsin's automated participant information system.

[2] Gain (loss) figures are only for participants with pre-JTPA wages.

[3] Average wage for adults and youth combined.

A few preliminary comments can be made: 1) minorities and female-dominant groups (AFDC/WEOP, Displaced Homemakers, Single Heads of Households) appear to have lower placement rates and often earn less (on average) at job entry than other groups; 2) older individuals have the greatest hourly losses from prior jobs; 3) teenaged parents seem to have the largest wage gains as a result of program participation; and 4) many groups appear to suffer wage losses (on average) from prior jobs.

All of the above preliminary findings provide a base for future comparisons. However, the pattern of placements and earnings of minorities and female-dominant groups are of more immediate concern and will be the object of planning and technical assistance efforts.

Minorities, women and female-dominant groups in the SDA programs entered employment at a lower rate and generally obtained jobs with lower average wages than other groups.

Title III (Dislocated Worker) Expenditures and Program Outcomes

1. Summary of Participants Served and Dollars Expended

The Wisconsin Reemployment Program[1] (Title III) enrolled 3,812 persons, of which the vast bulk (98%) were adults. The program did quite well in terms of program expenditure patterns. Although administrative expenditures were 15.3% (slightly over the allowable 15%), participant support expenditures were only 1.5% and most of the money expended, 83.2%, went for participant training costs.

2. Program Outcomes

a. Performance Standards Accomplishments

The Wisconsin Reemployment Program performed extremely well. In the absence of significant national experience, the State set four specific performance standards for the program. Table 5 reveals that the program performed well above the state-set entered employment standard and the cost per entered employment standard.

TABLE 5

WISCONSIN TRANSITION PERIOD DISLOCATED WORKER PROGRAM PERFORMANCE ON PERFORMANCE STANDARDS

Performance Measure	Actual Performance	State-Set Performance Standard	Rating*
Adult			
Entered Employment Rate (%)	91	60	E
Cost per Entered Employment ($)	2,139	4,000	E
Percent of Previous Wage	81	85	NM
Average Wage at Placement ($/hr)	6.45	N/A	—
Welfare Entered Employment Rate (%)	85	N/A	—

* Standards Exceeded (E) 2
Standards Met (M) 0
Standards Not Met (NM) 1

[1] Funding during the Transition Period came via four allocations - FY '83, FY '84, the Emergency Jobs Bill, and Secretary's Discretionary Funds. The discussion of resources and program outcomes will, however, be presented as a single unit. Allocation periods do not match Title IIA allocation periods. For this reason, actual resource use is somewhat understated.

TABLE 6

WISCONSIN TRANSITION PERIOD DISLOCATED WORKER PROGRAM PLACEMENT RATES, WAGES AND WAGE LOSSES

Group	Rate at which Terminees Entered Employment	Average Wage at Placement	Wage Loss for Participants Placed	Post-Program Wage as a % of Pre-Program Wage
All Adults	90.5%	$6.33	$ −1.48	80.9%
Females	91.3	5.27	− .88	85.6
Males	90.2	6.71	−1.70	79.7
Minorities	84.6	5.89	−1.68	77.5
Whites	91.7	6.42	−1.45	81.5
22-54	90.3	6.40	−1.47	81.3
55+	94.3	6.08	−2.03	71.1
Public Assistance	85.2	6.11	−1.53	79.8

The Wisconsin Reemployment Program (Title III) performed extremely well. A 91% placement rate was achieved during the Transition Period.

b. Patterns of Adult Placement Wages and Wage Gains/Losses

Dislocated workers were expected to have wage losses as a result of occupational dislocation. Post-program wages were 81% of pre-program wages — slightly less than the State goal of 85%.

The dislocated worker program succeeded in having high levels of female and older individual terminees who entered employment. Unfortunately, these two groups as well as minorities entered employment with lower placement wages than other groups of dislocated workers. This pattern is generally consistent with Title IIA program results.

Older Individual (3%) Expenditures and Program Outcomes

1. Summary of Participants Served and Dollars Expended

The Older Individual (3%) program enrolled 438 persons. The five projects funded were slow in getting started, however, and this may explain the 65% rate of program expenditures.

2. Program Outcomes

a. Performance Standards Accomplishments

Wisconsin chose to collect the same performance measurement information for the 3% program as was used in the other JTPA programs. Although DOL's regression model cannot legitimately be applied (on a statistical basis) to the Older Individual program, the use of the same performance measures and standards will guide future performance expectations.

The Older Individual program performed well. The performance standard results and other information from the projects that were funded should help to set better directions for the future.

TABLE 7

WISCONSIN TRANSITION PERIOD OLDER INDIVIDUAL PROGRAM PERFORMANCE ON PERFORMANCE STANDARDS

Performance Measure	Actual Performance	Adjusted Performance Standard	Acceptable Performance Range	Rating[1]
Entered Employment Rate (%)	92	76	70-81	E
Cost per Entered Employment ($)	4,061	N/A	N/A	N/A
Average Wage at Placement ($/hr)	4.67	3.35[2]	3.35[2]	E
Welfare Entered Employment Rate (%)	79	57	52-62	E

[1] Standards Exceeded (E) 3
Standards Met (M) 0
Standards Not Met (NM) 0

[2] The DOL regression model-adjusted standard was $3.05. It was raised to the minimum wage.

b. Patterns of Placement Wages and Wage Gains/ Losses

Wages of participants leaving the Older Individual program were generally low and were particularly low for females, minorities and public assistance recipients. In fact, all of the 3% program average wages (except for whites) were lower than those received by similar Title IIA adult program groups. Research is needed to determine the reason(s) for these differences.

TABLE 8

WISCONSIN TRANSITION PERIOD OLDER INDIVIDUAL PROGRAM PLACEMENT RATES, WAGES AND WAGE LOSSES

Group	Rate at which Terminees Entered Employment	Average Wage at Placement	Wage Loss for Participants Placed
All Participants	91.6%	$4.67	$ – .79
Females	92.5	4.23	– .26
Males	90.8	5.07	– 1.25
Minorities	100.0	3.96	– 1.62
Whites	89.2	4.90	– .58
Public Assistance	79.3	3.99	– 1.16

Education Coordination and Grants (8%) Expenditures and Program Outcomes

1. Summary of Participants Served and Dollars Expended

The Transition Period 8% program enrolled 2,584 persons. Of these, 954 or 36.9% were adults and 1,630 or 63.1% were youth. The program expended 67% of available funds.

Two state agencies — the Department of Public Instruction (DPI - the K-12 system) and the Wisconsin Board of Vocational, Technical and Adult Education (WBVTAE - post secondary vocational education) — each ran part of the 8% program. Information from the two sub-programs will be combined even though each program had somewhat different objectives.

2. Program Outcomes

a. Performance Standards Accomplishments

For comparison purposes, Wisconsin chose to collect relevant DOL adult and/or youth performance standards information. The table that follows presents the 8% program's accomplishments.

TABLE 9

WISCONSIN TRANSITION PERIOD EDUCATIONAL COORDINATION AND GRANTS (8%) PROGRAM PERFORMANCE ON PERFORMANCE STANDARDS

Performance Measure	Actual Performance	Adjusted Performance Standard	Acceptable Performance Standard	Rating[1]
Adult				
Entered Employment Rate (%)	**43**	45	42-49	**M**
Cost per Entered Employment ($)	**4,330**	7,260	6,331-8,189	**E**
Average Wage at Placement ($/hr)	**5.27**	4.82	4.65-4.99	**E**
Welfare Entered Employment Rate (%)	**31**	34	31-37	**M**
Youth				
Entered Employment Rate (%)	**37**	32	26-38	**M**
Positive Termination Rate (%)[2]	**63**	73	70-76	**NM**
Cost per Positive Termination ($)[2]	**2,954**	3,002	2,456-3,549	**M**

[1] Standards Exceeded (E) 2
Standards Met (M) 4
Standards Not Met (NM) 1

[2] Based on state-modified definitions of performance which are not directly comparable to Federal definitions of performance.

It does not appear that these standards are the best or should be the only measures of 8% program performance. The DPI and WBVTAE grant applications for 8% funds each included a large number of objectives. Both include cooperation with the other education agency and with the SDAs, service to the educationally disadvantaged, and objectives to achieve the State Legislature's mandated requirements. Measures and standards for these objectives have not yet been developed.

Education Coordination and Grants funds have been used extensively to supplement other JTPA-funded programs.

For example, both the DPI and WBVTAE programs have been used to supplement other SDA and state programs. Extensive coordination is evident in joint enrollment patterns. 55.3% of the WBVTAE participants and 57.7% of the DPI participants are also enrolled in other JTPA programs.

The DPI and WBVTAE programs have also been used differently. DPI's program has been used to keep participants in school. Nineteen percent of DPI's enrollees terminated and less than 1/5 of these terminees entered employment. On the other hand, WBVTAE used the 8% as a supplement to other programs that have as their main objective participant placements: close to fifty percent of the adult *and* youth program participants were terminees, and between forty and fifty percent of these enrollees entered employment.

Performance measures and standards relevant to each program must be developed for an adequate evaluation of the 8% program's outcomes.

b. Patterns of Placement Wages and Wage Gains/ Losses

This information is not included for the 8% program. It is of limited use without further information on how the 8% program was used to supplement other state JTPA programs. In addition, the two agencies' differing use of the 8% will have to be considered when evaluating placement wage and wage gain/loss information in the future.

Comparison of Other Program Characteristics

1. Service to Significant Subgroups of JTPA Participants

Wisconsin's SJTCC has had a continuing concern that those Wisconsin citizens who are most in need be served by employment and training programs. This concept is included in the Transition Period Employment and Training Policy as objective one (see page 3). The concept was stated explicitly again in the Governor's Employment and Training Policy for PY '84 (July 1984-June 1985). In the PY '84 Policy, the equitable provision of services (enrollments and placements) of four federally protected groups are required (women, minorities, older individuals, handicapped). In addition, JTPA specifically requires the equitable provision of services (EPS) to school dropouts and AFDC recipients in the Work Incentive Program[1]). The SJTCC added public assistance recipients to the above six EPS groups.

a. Service Delivery Area (Title IIA) Programs

The table below includes the estimated percentage (the EPS level) of each group in the JTPA eligible population statewide, followed by enrollments and placements for each group as a percentage of the total.

[1] Wisconsin has applied this requirement to the State's WIN Demonstration Program (called the Wisconsin Employment Opportunities Program or WEOP) and extended it, via estimates, to the 45 counties that currently do not have a WEOP program.

TABLE 10

SERVICE TO SELECTED TARGET GROUPS IN 16 SDA PROGRAMS[1] DURING THE TRANSITION PERIOD

Target Group	Equitable Service Level	Enrollment % of Total	Entered Employment % of Total	Enrollment Numbers	Entered Employment Numbers
Females	56.2%	46.9%	43.1%	7,457	2,645
Minorities	17.2	14.1	12.4	2,237	762
Older Individuals	11.0	2.1	2.4	334	147
Handicapped	10.6	17.2	13.1	2,730	804
AFDC/WEOP	8.5	29.6	23.6	4,705	1,449
Dropouts	17.7	15.5	16.5	2,470	1,015
Public Assistance	31.2	40.2	26.3	6,391	2,045

[1] Does not include information for the Milwaukee SDA. Data is unavailable from this SDA because it does not participate in Wisconsin's automated participant information system.

On an aggregate basis, service to five of the seven EPS groups (minorities, the handicapped, those in the AFDC program, dropouts and public assistance recipients) was good. This picture is incomplete, to some extent, because of the lack of information for the Milwaukee SDA (which had 13.6% of the SDAs' enrollees in the state).

On an SDA aggregate basis, service to minorities, the handicapped, those in the AFDC program, dropouts and public assistance recipients was good.

Two problem areas stand out in the provision of equitable service: service to women and service to older individuals has been inadequate. The very high incidence of poverty among women makes the 16.5% statewide under-enrollment of women a major policy concern. If one adds the evidence in Table 4, that female-dominant groups have lower average entered employment rates and obtain lower average wages at placement, the extent of the problem is heightened. It is clear that more equitable levels of enrollment and placement of women, in better paying jobs, must be a major objective of the JTPA system in the next few years.

There is a significant under-participation of women in SDA programs.

The level of service to older individuals in JTPA has been inadequate. Knowledge of this age group's desires and needs is limited and it is thus unclear what actions should be taken to improve service. The Older Individual (3%) program is investigating how services to older individuals can be improved.

b. The Dislocated Worker and Set-Aside Programs

Data on equitable provision of service for dislocated workers and older individuals will be more useful when better population estimates of these groups are available.

TABLE 11

SERVICE TO SELECTED GROUPS IN THE TRANSITION PERIOD DISLOCATED WORKER PROGRAM

Group	Enrollment % of Total	Placement % of Total
Females	27%	26%
Minorities	21	16
Older Individuals	8	6
Handicapped	5	4
AFDC/WEOP	12	11
Dropouts	21	16
Public Assistance	17	15

Almost three quarters (73%) of Wisconsin's dislocated worker enrollees were men. By comparison, national estimates from the U.S. DOL Women's Bureau suggest that females comprise 33% of the pool of dislocated workers in the country. Wisconsin estimates of this population are being developed. Program service patterns can then be examined to determine if Wisconsin's Title III program is enrolling equitable numbers of females or is low on female enrollees as is the case with the Title IIA (SDA) programs.

Although the dislocated worker program is not specifically directed at the economically disadvantaged, the program does appear to be serving those in financial need — 59.7% of dislocated worker program participants were economically disadvantaged.

Although Title III does not require economic disadvantage as a basis for program participation, 60% of the program's participants were economically disadvantaged.

TABLE 12

SERVICE TO SELECTED GROUPS IN THE TRANSITION PERIOD OLDER INDIVIDUAL PROGRAM

Group	Enrollment % of Total	Placement % of Total
Females	55%	47%
Minorities	24	24
Handicapped	16	11
AFDC/WEOP	5	5
Dropouts	43	45
Public Assistance	23	18

It appears as if the older individual program may be serving a somewhat different population than the IIA adult program. There are more women, minorities and dropouts and fewer AFDC participants. These differences will be explored by comparing the characteristics of older individuals served in the two programs.

TABLE 13

SERVICE TO SELECTED GROUPS IN THE TRANSITION PERIOD EDUCATION COORDINATION AND GRANTS PROGRAM

Group	Enrollments % of Total	Numbers of Enrollments
Total Participants		2,584
Adults	36.9%	954
Youth	63.1	1,630
Females	48.0	1,251
Minorities	29.0	745
Older Individuals	1.0	28
Handicapped	16.0	404
AFDC/WEOP	38.0	991
Dropouts	23.0	582
Public Assistance	46.0	1,181

Enrollment figures are provided for the 8% program as a base for comparing future 8% programs. Placement figures are not provided because a significant part of the program did not have a placement focus. As might be expected, the program is more heavily oriented to youth than the SDA programs. In addition, the program seems to be serving a higher percentage of minorities and school dropouts.

2. Occupational Placement Patterns

   a. Service Delivery Area (Title IIA) Programs

   Occupational placements in the (SDA) adult program appear to be concentrated in a relatively small number of occupations. Table 14 lists the twenty occupations (based on the first 3 digits of the Dictionary of Occupational Titles) with the highest Title IIA Adult Program placements. These placements represent approximately one third of all adult placements during the Transition Period.

   Most of the occupations appear to be semi-skilled or low skilled with low average wages. Only nine of the twenty occupations had average wages over $5 an hour. In 15 of the 20 occupations, males earned more, on average, than females in the same occupation.

TABLE 14

SDA OCCUPATIONAL PLACEMENT PATTERNS (TITLE IIA ADULT PROGRAM[1]) DURING THE TRANSITION PERIOD - THE TOP TWENTY OCCUPATIONS

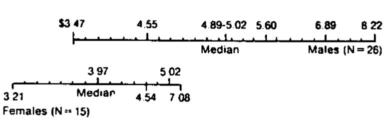
Occupation	Total Placements	Total Males (avg. wage)	Total Female (avg. wage)
1. Secretaries	103	2 ($3.82)	101 ($4.45)
2. Packaging Occupations	98	56 (4.15)	42 (3.78)
3. Metal Unit Assemblers	76	43 (5.53)	33 (4.77)
4. Packaging, Material Handle	74	51 (4.87)	23 (4.44)
5. Chefs, Cooks	71	28 (4.01)	43 (3.71)
6. Waiters, Waitresses	63	7 (3.65)	56 (3.26)
7. Janitors	60	55 (4.22)	5 (3.38)
8. Machinists, related	60	55 (6.49)	5 (4.43)
9. Misc. Construction	59	57 (5.83)	2 (5.25)
10. Occupations in food processing	56	30 (5.11)	26 (4.92)
11. Hospital Attendants	52	8 (3.93)	44 (4.08)
12. Porters, cleaners	51	36 (4.36)	15 (3.98)
13. Welders, cutters	50	49 (6.59)	1 (5.45)
14. Cashiers, tellers	48	5 (3.48)	43 (3.51)
15. Occupations in Medicine, Health	46	10 (5.60)	36 (4.54)
16. Carpenters, related	43	37 (5.39)	6 (5.51)
17. Typists, typing machine	42	4 (5.42)	38 (4.43)
18. Stenography, typing, filing	41	9 (5.20)	32 (4.09)
19. Kitchen workers	40	22 (3.54)	18 (3.66)
20. Sales Clerks	39	4 (3.87)	35 (3.61)

[1] Does not include information on occupational placements in the Waukesha-Ozaukee-Washington or Milwaukee SDAs. Individual participant data is unavailable from these two SDAs because they do not participate in Wisconsin's automated participant information system.

Ninety-seven occupations had ten or more adult program placements. Forty-one of these were predominately male or female occupations (i.e., 85% or more of the placements were of one sex). Placements in sex dominant occupations represent 32% of all placements. A comparison of the average wage of the males in the "male" occupations and females in the "female" occupations produced a striking pattern:

FIGURE 5

The Pattern of Average Wages in "Sex-Dominant" Occupations (Title IIA Adult Program)



"Male" occupation wages are predominantly higher than "female" occupation wages.

Placements in sex dominant occupations represented 32% of all SDA adult program occupational placements. "Male" occupation wages are predominantly higher than "female" occupation wages.

Youth placements (Title IIA) were also concentrated in a small number of occupations with forty-five percent of all placements in twenty occupations. Although there were male dominant and female dominant occupations, there was no strong sex associated wage differential. This may be, in part, because the average wages of the youth occupational placements were all quite low. Only two of the twenty occupations with the most placements had male or female average wages greater than $4.18 an hour.

b. The Dislocated Worker and Set-Aside Programs

Title III occupational placement information is presented in Figure 6, below. The 3% and 8% set-aside programs had few occupations with multiple placements, and so occupational placements will not be discussed for these programs.

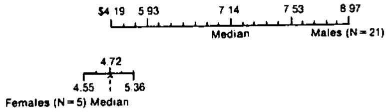
The occupational placements of dislocated workers are, as is the case with the Title IIA adult program, concentrated in a few occupations. Thirty-eight percent of all Title III placements were in the same twenty occupations with the greatest number of placements under Title IIA. The pattern of dislocated worker average placement wages was much higher than for Title IIA adults. Sixteen of the top twenty occupations had average wages of over $5/hr. and appear to be skilled occupations.

Unfortunately, the Title IIA pattern of lower female wages also exists for dislocated worker placements. The placement wages of males were higher than for females in eleven of the top twenty occupations. (No comparison was possible in 4 of the 20 because all placements were male or female.)

What is more striking, however, is the pattern of average wages for males in male-dominant occupations and for females in female dominant occupations. The pattern appears to represent average wages from two statistical distributions even more than is the case for Title IIA adults.

FIGURE 6

The Pattern of Average Wages in "Sex-Dominant" Occupations (Title III)



3. The Length of Program Participation in JTPA

The length of program participation provides information with regard to whether program operators are using short-term or more lengthy training programs. In cases where a high proportion of terminees enter employment and/or positively terminate (in the youth program), the average length of participation is a good indicator of program length. Where there is a lower percentage of positive terminations, the average length of terminees can be influenced by both those who quickly drop out without employment and those who participate in longer programs.

The average length of participation of terminees in the SDA Title IIA adult program was 13.3 weeks; it was 12.8 weeks in the youth program. Few of the SDA programs averaged over 14 weeks. These averages must, however, be tempered by at least two factors: 1) Many prior CETA participants, at various stages of program completion, were enrolled in JTPA, so the JTPA program length may not reflect the actual length of participation in an employment and training program; and 2) A significant percentage of terminees did not positively terminate. Thirty-three percent of the adult terminees did not enter employment and 29% of youth terminations were non-positive[1]). Further information on SDA training program design and on the length of participation of non-positive terminees is needed.

The average length of participation of terminees in the dislocated worker program was nine weeks and in the older individual program twelve weeks. In both cases, over 90% of the terminees entered employment. It is clear that short-term training programs, including immediate job placement assistance, are a significant part of both programs.

The length of participation of Education, Coordination and Grants program terminees was similar to that of the SDA programs — 14 weeks for adults and 12 weeks for youth.

The average length of program participation of terminees in the dislocated worker and older individual programs was nine and twelve weeks respectively. It is clear that short-term training programs, including immediate job placement assistance, are a significant part of each of these programs.

[1] The youth positive termination rate was expected to be lower during the Transition Period because of the absence of PIC-approved youth employment competencies (allowable positive youth terminations).

Achievements on Governor's Employment and Training Policy Objectives and Coordination Criteria

Information has previously been presented on achievements of the Governor's Policy Objectives regarding the fair allocation of resources and improvements in the economic status of specific groups of JTPA participants. Transition Period results will provide a basis for comparing the JTPA program over time to make sure that the state achieves its long range goal — the economic self-sufficiency of its citizens.

Progress has also been made in achieving the other Governor's Policy Objectives:

1. **Maximizing the value of JTPA dollars by coordinating JTPA with other federal and state programs.** All of the JTPA programs — the service delivery area programs, the dislocated worker program and the Older Individual and Education Coordination and Grants programs used less than the allowable 15% for participant support. This was only possible, with economically disadvantaged participants, because a large percentage of participants had financial support from other non-JTPA programs. The percentages of participants receiving outside financial support[1] (excluding the Waukesha-Ozaukee-Washington and Milwaukee SDAs for the IIA programs) were as follows: SDA-IIA adult program - 64.7%; SDA-IIA youth program - 43.9%; the dislocated worker program - 49.6%; the older individual program - 40%; the education coordination and grants program - 60%.

A large percentage of participants in JTPA programs had outside financial support: SDA adult program - 65%, SDA youth program - 44%, dislocated worker program - 50%, Older Individual program - 40%, and Education Coordination and Grants program - 60%.

2. **Improving the development and use of labor market information and a statewide management information system.** Wisconsin has developed an automated management information system (WIMS) that provides support to 15 of the 17 SDAs and all statewide JTPA programs. In addition, the Labor Market Information Task Force was established to ensure that a uniform labor market information system will be developed and maintained. The Task Force's objectives included improvements in the current system to stimulate a more flexible, easily accessible system that will meet both state and local labor market needs.
3. **Equity of services to women and minorities.** Wisconsin's JTPA program, as a whole, did not provide an equitable level of service to women. Service to minorities appears to be quantitatively adequate. The enrollment and placement rates for women were significantly below EPS estimates in the SDAs' IIA programs. In addition, it appears as if sex role stereotyping had a significant impact on occupational placement patterns.
4. **Joint planning between the Private Industry Councils, chief elected officials and the Job Service.** Section 501(d)(5)(1) and (2) of JTPA requires joint planning between the Job Service and PICs and chief elected officials. During the Transition Period, agreements were reached in all areas of the state. These agreements, however, have been viewed as the preliminary steps toward improved cooperation in PY '85.

[1] This assessment was based on adding all participants who had some form of public assistance (excluding Food Stamps, Medicaid or Medicare and a Housing subsidy), those in a Division of Vocational Rehabilitation program, those receiving Unemployment Compensation and those receiving student financial aid.

WISCONSIN JTPA SERVICE DELIVERY AREA CURRENT ADMINISTRATION — NOVEMBER, 1984

SDA #	SDA/Executive Director	Administrative Entity	Chief County Official	PIC Chairperson
2	WINNE-FOND LAKE CONSORTIUM Joe Halter, Executive Director	Winne-Fond Lake Consortium Joe Halter, Exec. Director	James Coughlin Winnebago Co. Executive	William Lill, V-Pres. Roberts Marine Products
3	SOUTHEASTERN WI SDA James Sullivan, PIC President	Southeastern WI PIC, Inc. James Sullivan, President	Gilbert Dosemagen Kenosha Co. Executive	Raymond Farley, President Johnson's Wax
4	NORTHERN LAKE WINNEBAGO SDA James Lauer, Chief Adm. Officer	Human Resource Specialists James Lauer, Chief Adm. Officer	John Schreiter Outagamie Co. Executive	Elmer Carpenter, V. Pres. Ariens Company
5	SOUTH CENTRAL WI SDA Andrew Piekarski, Administrator	South Central WI SDA PIC Andrew Piekarski, Administrator	Melvin Rose Sauk Co. Bd. Chair	Stanton P. Helland, President Riverview Boat Line
6	MARATHON COUNTY SDA Gary Denis, Director	Marathon County PIC Gary Denis, Director	Edward Fenhaus Marathon Co. Bd. Chair	Walt Cosman, V-Pres. Finance Wausau Concrete
7	ROCK COUNTY SDA James Hutchinson, Exec. Director	PIC of Rock County James Hutchinson, Exec. Director	Paul Luety Rock Co. Bd. Chair	Theodore Stevenson, V-Pres. Fairbanks Morse, Engine Div.
8	DANE COUNTY SDA Dale Hopkins, Administrator	Dane County PIC, Inc. Dale Hopkins, Administrator	Jonathan Barry Dane Co. Executive	Toby Sherry, Senior V-Pres. First WI Bank
9	NORTHWEST WI CEP, INC. Jon D. Sollie, Exec. Director	Northwest WI CEP, Inc. Jon D. Solie, Exec. Director	Jack Shepard Chair, NW-CEP Board	Keith Jensen, President J.R. Jensen & Son
10	CENTRAL WI SDA Michael Irwin, Exec. Director	Central Wisconsin PIC Michael Irwin, Exec. Director	David Draves Wood Co. Bd. Chair	Lloyd Chambers III, Director Gov't Affairs & Econ. Analysis Nekoosa Papers, Inc.
11	WEST CENTRAL WI PIC Richard Best, Exec. Director	West Central Wisconsin PIC Richard Best, Exec. Director	Marvin Christenson Pierce Co. Bd. Chair	Thomas Miller III, Chief Exec. Myrtle Werth Medical Center
12	WOW JOB TRAINING PARTNERSHIP Leonard Cors, Director	Waukesha Co. Dept. Job Training Leonard Cors, Director	Betty Cooper Waukesha Co. Bd. Chair	Lyall Mathison, President Mathison Magnesium
13	NORTH CENTRAL WI SDA Kent Larson, Reg. Manager, WPSIP	WI Pri. Sector Init. Program Leslie Olson, President	Neil LeMay Lincoln Co. Bd. Chair	Marcel Lamers, Dir. Ind. Relat. Triumph Twist Drill
14	NORTHEASTERN WI SDA Ron Hayes, Reg. Manager, WPSIP	WI Priv. Sector Init. Program Leslie Olson, President	Oscar Tachick Oconto Co. Bd. Chair	Paul Henrichs, Owner Eagle Nest Supper Club
15	SOUTHWESTERN WI PIC Roberta Early, Prog. Admin.	Southwestern WI PIC Robert Allen, Chair	Mary Wirth Grant Co. Bd. Chair	Robert Allen, Manager WI Power & Light
16	WESTERN WI SDA Jerry Hanoski, Prog. Admin.	Western Wisconsin PIC Jerry Hanoski, Prog. Admin.	Charles Pierce La Crosse Co. Bd. Chair	Jerry Freimark, President Fountain City Ford
17	LAKE MICHIGAN SDA Jeffrey Deprez, Reg. Manager, WPSIP	WI Priv. Sector Init. Prog. Leslie Olson, President	Donald Vogt Manitowoc Co. Bd. Chair	W. James Grasse, President Verifine Dairy Products Co.
18	MILWAUKEE COUNTY SDA Lawrence Jankowski, Acting Director	Executive Office for Economic Resource Development Lawrence Jankowski	William O'Donnell Milwaukee Co. Executive	James C. McDonald, Asst. to Pres. Northwestern Mutual Life Insurance

Representative OBEY. Let me ask a specific informational question first.

This morning we were told that there was an actual, I am not certain if I am quoting it correctly, but we were told this morning that there was an actual outflow of jobs in Wisconsin. At least I think that is what we were told.

Mr. CIBARICH. Outflow of people.

Representative OBEY. I know there is an outflow of people. What I am trying to get at is this, I think the impression was left that as a result the work force is actually declining in the State. Is that an actual fact?

Mr. CIBARICH. It has been declining recently, yes. December—the population continues to grow, the working age population, however, we have a net outmigration, although the amount of net outmigration has been decreasing and in the most recent, in this year, the estimates of our State people together with the Bureau of the Census is that we will have an outmigration of about 2,500 to 3,000. From memory, the numbers—we are about almost 60,000 in 1982, 1983, and 1984, total. But something around 25,000 in 1982. We are net out 15, net out in 1983, and about 9, I think, last year. Now it is down to, or the estimates are that it is down to 2.5 to 3,000.

I would speculate that the reason it has been declining is that the job opportunities that formerly were so prevalent in some of the other areas of the Nation, such as the energy boom and high-technology boom, have now to a degree fizzled, and there isn't the attractiveness in other areas that there once was.

Representative OBEY. One other technical question, how do you actually get, how do you actually measure unemployment in an agricultural area? It is tough enough to get good national standards but as you know, that is a very slippery issue. How do you really get a hold of that?

Mr. CIBARICH. I think earlier I said that the rural counties had unemployment at above average rates compared to the mixed or the urban counties. Some of the rural areas are very low. The reason for it is the unemployment procedures that we have tend to miss the economic problems in the agricultural community.

A farmer is essentially self-employed. The current hard times may mean he isn't—has no cows. He is not farming his land but he is still in that home. He still has his home there, maybe a garden there, self-sufficient style of living that is what he is doing, he would not be counted as unemployed. There would be a big lag before you would ever pick up the agricultural problem in the unemployment statistics.

That is also true in, if you look at State numbers, the lowest numbers have generally been the high agricultural States in the Great Plains. I think it is a technical problem that the method does not relate to the self-employed nature of farming.

Representative OBEY. This morning Mr. Nichols was referring to the national phenomenon of overbuilding for office space. I thought he said at that time that that existed in Wisconsin as well. I think you said in your statement that in your judgment that phenomenon did not exist in Wisconsin.

Mr. CIBARICH. I said it did not exist to the extent that it does in our sister States. Some of it is tax induced, obviously, where you don't have to fill the building to worry about making a profit. But, generally, it is here but to a lesser degree.

Representative OBEY. Let me ask across the board, on this whole issue of job training, one of the most vexing questions to me is that we have large numbers of people who are unemployed. We have much smaller resources being applied to that problem, at least on the public side of the ledger.

There is a good deal of criticism being levied at the Job Training Partnership Act for being a program which skims, in the sense that it takes the workers most easy to train, that all the incentives are there to do that because of the requirements for performance evaluations and all the rest.

Do you think that is an accurate description of the program, and if it is, how do you, how would you suggest we attack it to change those incentives, given the fact that it is today virtually impossible politically to direct any additional resources, by way of dollars, at the problem?

Mr. CIBARICH. I might make just a general comment that as you measure, you effect. If you want to change it, then you change the way you measure the success. That is the Heisenberg principle, Hawthorne effect, and all those kinds of things. If you measure success in terms of——

Representative OBEY. You are talking to a layman.

Mr. CIBARICH. I don't think it is that difficult.

Representative OBEY. How would you change the measurement?

Mr. CIBARICH. You affect your employees, you affect your program by what your definition of success is. And if your definition of success is how many, the percentage of successes you have, then there is a tendency to force them to cream, I guess is the jargon that is used. If you take that into account in your measurement and allow for the difficulty of the clients they are dealing with, there will be less tendency to do that.

Ms. SAUNDERS. I don't really disagree with that. I think it would be very difficult, I think, to develop, or a challenge to develop statutory language which would change the fundamental focus of the JTPA. I think it has, from my perspective, some broad bipartisan support which we wanted to sustain.

But there is no commitment on the part of the Department of Labor for any national view of how this program is working, and I think that if you ask for performance data, and there is some performance data as an attachment to my prepared statement, you will get it for Wisconsin and you can get it for Illinois and for Montana and Guam and 57 States and territories. But it won't necessarily be consistent from State to State.

Therefore, it would be very difficult to draw any supportable conclusions about effectiveness.

However, there are trends that are troubling. Wisconsin is one of the few States where the State job training coordinating counsel which advises the Governor on policy, has taken a strong stand about serving what we refer to as the most in need as a way of trying to halt creaming, if you will, before the fact.

We have strong requirements on program service providers and service delivery areas at the local level that they pay attention to people who most need this resource, since this is the only Federal employment and training program right now.

Are we successful in that? I am not quite sure at this point. It is very true that both the pressures of performance that he referred to and the increased involvement of the private sector have sort of joined like two streams to a river that pushes toward collecting from the unemployed earnings those who meet the basic eligibility criteria, and then moving them very quickly into employment. The private sector wants to impact the program by producing the most placements at the least cost per capita. So it is almost a production attitude, if you will.

Does this send the program in the direction of a sort of beefed-up labor exchange? I think it could. The only thing that stands between the law and that happening is a Governor and a policy mechanism and State mandates that have to happen State by State under this program that say, no, in this State we are going to head in this direction instead. But that is very thin ice in terms of national policy.

Mr. REIHL. I served on the Governor's Manpower Training Council. I think that is one bone of contention that we had with our counsels. They have been before us and we didn't back up as far as creaming when it came to the difficult ones, when it came to would men that had children and had to find child care. And so we just have held our ground.

But I guess maybe throwing in a bouquet to Mr. Cibarich is that I missed the last meeting, but as I understand it that they did change the way that they would require the necessary level. I don't know if they changed the percentage or just what they did.

But they did change it. They talked about changing it in the future. But I think that does, just like Ms. Saunders says, it boils down to each individual statement, the standard set that they hang tough and make sure that those goals are reached.

The Wisconsin State AFL–CIO took part in the programs they have had in the State of Wisconsin. In areas where we had high unemployment and some special programs along with the USW, such as down at J.I. Case. I think in that instance it just takes people that are sincerely interested in and those people that are unemployed, and that you don't see any creaming off, and that in every case we far exceeded all of the goals.

Like our first, one of our goals was 30 percent and I just picked out one of our papers here that shows that we had a 67 percent effort in the area. So it can be done. But you have to be genuinely interested in helping all of those people.

Senator PROXMIRE. I am still not at all satisfied with the explanations I have received this morning or this afternoon on the drop in unemployment in this State at a time when you say, and the statistics apparently indicate, that there has been no increase in employment. It doesn't make any sense at all.

Here we have a situation now where unemployment in Wisconsin is decisively below the national average. The national average is 7.3, we are 6.7. You say outmigration.

Mr. CIBARICH. Partial.

Senator PROXMIRE. You point out the outmigration is much less than it was before. It is not as if the outmigration is speeding up and the outmigration doesn't make any sense either. If we have less unemployment here, why would people go elsewhere? What usually makes migration is people go somewhere to get a job.

Isn't that right?

Mr. CIBARICH. Yes.

Senator PROXMIRE. This seems to me either there is something wrong with them or we haven't received the interpretation of them.

Mr. CIBARICH. There are technical limitations. I call them low budget numbers, if you will excuse that comment.

There are other possible explanations. We have had a drop in the size of the age cohorts of young people that are in college, yet it really hasn't shown up in the enrollments statistics. So we are having a higher percentage going on to higher education and staying in longer. And I might add, adding up a nice loan bill that has to be repaid. So some of the differences——

Senator PROXMIRE. I have a sister-in-law like that. She is 62 years old and she is still going to college. As long as she is going, she doesn't have to pay her student loan off. So she has been going for 35 years.

Mr. CIBARICH. There is another explanation in that there has been an increase in the number of retired people. And some of this was done by the industries that had retrenchment, the pots were sweetened in some cases where the retirement levels were raised, the amount of money was raised, if you retired sooner.

In some cases they were oversubscribed and companies were even short. That is another partial explanation.

But in total, we really don't know. I would have to say we really don't know the total explanation as to why this labor force is dropping and we aren't having the employment growth, but we are having, because of that drop, a decline in the unemployment. We are just not picking up the numbers of unemployed.

Senator PROXMIRE. There has been very little discussion here this afternoon or earlier about unemployment compensation, which I think is a disgrace now. It is only 26.8 percent of the people in this country who are unemployed get unemployment compensation. That means that about three-quarters of the 8.4 million Americans who are out of work get no unemployment compensation.

Mr. CIBARICH. In our State it is in the hole. In the—in the 1930's we didn't have a safety net but we weren't in the hole. So not only do we have to pay for the current unemployment, we have to pay for past unemployment. I think——

Senator PROXMIRE. Is that because the unemployment tax is not adequate?

Mr. CIBARICH. It was not for some time. There is a reference, I believe, in the outlook material to a shift of about a half a billion dollars in Wisconsin from 1983 or from 1984 to 1985, a shift from an infusion of $240 billion from the Federal Government to a payback of $260.

So you have got a swing in the personal income in this State of a half a billion because of that swing from money coming into the State from the Federal Government to money going back to the Federal Government.

Representative OBEY. Could I interrupt to clarify one point. What was the deficit in the unemployment comp fund that the Governor inherited?

Mr. CIBARICH. How high was it? It was something over 700 million.

Senator PROXMIRE. Can you tell me what you think we ought to do about it? Obviously it is unacceptable to my view to have a policy that only covers a quarter of the people who are out of work.

Mr. CIBARICH. I guess I would have to say that I don't know what the percentage should be.

Senator PROXMIRE. It certainly shouldn't be one-quarter. If somebody doesn't have a job and they are first job seekers, obviously they can't be covered.

Mr. CIBARICH. Well, also what happens is at this time in a business cycle, there is a smaller percentage of individuals who have been laid off from previous employment and a higher percentage of new entrants and reentrants that are stacking up because of the fact that there is less opportunity.

Senator PROXMIRE. That is a good explanation.

Mr. CIBARICH. There is—probably the biggest void is those who haven't had recent enough experience to qualify.

Senator PROXMIRE. What I run into all the time is the most pathetic situation. People in their 40's and 50's who have been unemployed for years, I mean a year and a half, 2 years, they never have gotten their jobs back. I understand that 40 percent of people who lost their jobs in the deep recession of 1982 have never gotten work, at least not work that———

Mr. CIBARICH. I would agree that it would be a high percentage. You might note that I commented, the only group that had an increase in, a numeric increase in unemployment from 1982 to 1984 was the middle-age male who tended to be the displaced person in that recession.

Senator PROXMIRE. Let me ask you about this. You are the first person that I have heard make that, nobody else in all the testimony I have heard in the last few years has said that they expect falling prices. You expect a deflation?

Mr. CIBARICH. I would say that it will eventually come. It is a matter—the degree to which the Federal Reserve has a policy of trying to prevent deflation from occurring.

Senator PROXMIRE. You have much more faith in the Federal Reserve's ability to do that than I have. It is like trying to push a string. There is just so much you can do with monetary policy.

Mr. CIBARICH. That is right.

Senator PROXMIRE. The last time we had a falling price was really in the Great Depression of the 1930's. Then we had interest rates that were rock bottom. Even had negative interest rates, below zero.

Mr. CIBARICH. I have read somewhere where the hundred-year average is 4.2 percent.

Senator PROXMIRE. Why has the Wisconsin labor force declined?

Mr. REIHL. I think that part of that, that I mentioned in the speech, that we don't know where those people have gone either. But I did mention that. I did pose that question in my testimony.

Senator PROXMIRE. The national labor force has grown very, very rapidly. It continues to grow rapidly.

Mr. REIHL. We have had outmigration and we have had plant closings. And we have had more than our share of that in the State of Wisconsin. You mean the, as far as in the work force, we have suffered a lot of people a high unemployment in many of the plants in the southern part of our State.

That also builds on that argument which we say that those, about people being overpaid in Wisconsin is that in many, many cases that they have been, their wages have been frozen or they have had givebacks and takebacks both in wages and in fringe benefits. So that one is shot down.

But we have had a drop in the labor force. To tell you just exactly why, I think part of that is because we do—are heavy in manufacturing, which I mentioned in the testimony, and manufacturing has been hard hit throughout the whole Nation. When you are heavy on manufacturing——

Senator PROXMIRE. It is hard to understand a drop in the labor force when we have less unemployment in the labor force than they have elsewhere.

What impresses me from all three of you witnesses, you have all made excellent statements, is that what you say is people are not asking for a hand out. They don't want welfare. They want jobs. They want to work. They want to earn what they get.

Mr. REIHL. That is right.

Senator PROXMIRE. It seems to me that that should be a very, very high responsibility for our Federal Government, our State government, local communities and so forth. How do we do it?

Mr. REIHL. We think that did—one thing is that we are going to have to have, when we have incentives to business, to make sure that they are closely monitored and that they actually produce jobs, that they get——

Senator PROXMIRE. We write all kinds of tax incentives. Now the corporations only pay 6 percent of the Federal tax. They used to pay 30 percent. We have cut it.

Mr. REIHL. That is right. I think some of that goes back to the 1981 giveaway, and we are still suffering from it—I think most of your charts will tell you that—that you fellows have yourself. It just, that 1981 big tax break for business, without having it closely monitored and related to jobs, just didn't work.

Senator PROXMIRE. I am glad to see you also testify against the takeovers, the takeover by the conglomerates. I think that is a very, very serious problem. I have introduced legislation to overcome that. We are going to have hearings on that legislation in September. I hope that labor will testify in support.

Mr. REIHL. A lot of our money is expended in that area.

Senator PROXMIRE. It is not only disrupting for labor, it means a colossal increase in the corporate debt. Our corporations are much more fragile, more likely to go bankrupt. I am very happy that you are opposed to that.

Ms. Saunders, your statement, I have had a chance to read it last night because you did provide it in advance. Your statement is also a very fervent and powerful plea for more jobs, jobs, jobs, jobs. What price are you willing to—but you also say something else that bothers me and disturbs me. I would like to have you justify it a little more.

You are saying that you want full employment. Maybe it doesn't bother me depending on how you define that. Do you mean nobody out of work, out of 108 million people in the work force? No unemployment?

Ms. SAUNDERS. I am suggesting that the value, first of all the question was posed to me, what would full employment mean, what kind of impacts would full employment have on transfer payments. So my sense was that full employment was in fact looked at as some sort of, if you will, higher societal goal.

I didn't think it is possible to reach a point of zero unemployment rate.

Senator PROXMIRE. Is it 6 percent?

Ms. SAUNDERS. I don't have a number, but I don't think that 6.5 or 6.7 or 7 percent is one that we should be satisfied with.

I am not sure that from our perspective, we are sort of on the worker's side of this balance, if you will, of the seesaw, that we have all the wisdom on how jobs are actually created. The data at this point, the research at this point seems to suggest that fresh ideas, smallness rather than largeness, entrepreneurial adventure, if you will, is where jobs are created. They are not going to be initially high paid jobs, and I mean that is a fact.

But everything that we learn now, we hear about the research on how employment actually grows in the community, not the labor force but employment, is that there is a burgeoning small business with a lot of energy, some available risk capital, et cetera.

What our job is in our world, in the labor department, is to take the resource that is available that our public responses to unemployment and underemployment, use them in the most efficient way we can, so that the disadvantaged, which is largely the population that my programs reach, are available and ready to take advantage of the growth in employment opportunities.

We can't necessarily create permanent jobs working on the labor side of the equation. But we can get the labor force poised and ready to take advantage.

Senator PROXMIRE. What I am trying to get is, I think it is very important that we understand what we are talking about in this situation, Humphrey-Hawkins bill provides for employment consistent with the reasonable level of inflation. Reasonable level, reasonable price increase.

It is pretty clear that if you have unemployment that goes down to 1 to 2 percent, you are going to have a terrific pressure on prices. Wages are bound to go up and that will push up prices. Our experience in the past has been that when you do that, you have a very, very serious inflation. There is a tradeoff. You have to decide what you want.

So my question is, have you thought about how, what the level of unemployment can be consistent with the reasonable——

Ms. SAUNDERS. I don't have a response to that that I think would be especially credible.

Senator PROXMIRE. Let me ask you this. We have to pay a price for these things. I suggested this morning that we consider the possibility of double time for overtime and a 35 hour week. We have a

35 hour week in many service areas, people just work 35 hours. Manufacturing by and large is 40, time and a half for overtime.

Automatically I would have a million more jobs from the overtime change and you would have about 5 million if you go on a 35 hour week.

What is your feeling about that?

Ms. SAUNDERS. It is a strategy. It is sort of getting close to what Augie was talking about earlier when he referred to job rationing. I am not sure that it has much of an impact on productivity.

Senator PROXMIRE. It would have an adverse effect on prices, on productivity, and wage costs, all kinds of areas of that kind. You have to determine whether or not you want to pay the price. Also it would make us less competitive internationally unless we could negotiate a situation with other countries that they do the same thing.

Mr. CIBARICH. The trend seems to be in the other direction. Recently companies that have——

Senator PROXMIRE. That is what concerns me. The other direction. That is really murder. In other words, a 45 hour week.

Mr. CIBARICH. They feel they have savings that they don't have to pay all the fringe benefits on that extra 5 hours. There is also a tendency to go to contract labor instead of hiring new people.

Senator PROXMIRE. What I am trying to get is, what are we going to do to get there? What are we going to do? If we don't move in that direction, it seems to me we have to consider the other alternative with this country to a fare-thee-well stimulative fiscal policy. That has been the attempt often in the past, and it is now.

We had a $109 billion deficit in 1982. This year it is going to be over $200 billion. And we haven't been able to budge unemployment under the 7.3-percent level for 7 months.

Mr. REIHL. We have had high employment. And the little bit of recovery we had is at the cost of that huge deficit. It all depends on how much you wanted to broaden this picture. You know—you have heard from organized labor enough that we are for fair trade instead of free trade. A lot of the jobs that we are talking about right here in Wisconsin, when you talk about heavy manufacturing. I think you fellows wouldn't have to tell you about the value of the over-valued dollar that is affecting the, not only the gas we produce here in our State but also the raw materials that our farmers produce.

Senator PROXMIRE. Of course the over valued dollar is a product of the deficit.

Mr. REIHL. That is right.

Senator PROXMIRE. Which not only stimulates our economy but every other economy in the world by succeeding in imports.

Mr. REIHL. Along with that high interest rate.

Senator PROXMIRE. Thank you very much.

Representative OBEY. Thank you. We are a few minutes over on this panel. Let me simply observe one thing in closing.

In talking about comparable percentages of the unemployed that were covered by unemployment comp, I do not know what the comparable figure is at this point. But I know that a year and one quarter ago, 15 months ago, at that point we had about 38 percent of the people were unemployed that were covered by unemployment comp. At a similar time in the recovery in 1975, under President Ford, 65 percent of people who were unemployed were covered by unemployment comp.

Today we are now at 26.9 percent, and I suspect that at a similar period, you might have been slightly lower than 65 percent back a decade ago, but not very much.

Mr. REIHL. It is not too long ago we lost our extended benefits here in the State of Wisconsin.

Representative OBEY. As I understand the number is different from Wisconsin. The number for Wisconsin is about 51 percent. So Wisconsin is better off, I think, than the national average. But I think what it points up is that there is a necessity to deal with macroeconomic policy which can get the budget deficit down.

If you do that, and also I think you have to do more than that, by way of dealing with problems in the exchange rates in order to deal with the trade problem, then I think you can narrow the range of the problem. But that still does not leave you without an obligation to do something about the permanent long-term unemployed.

You note in your statement that you say that there is a leadership gap on that issue in this country. I certainly think that is true.

I do think however that there is one group which is trying to focus the moral attention of this country on that problem. That is the U.S. Conference of Catholic Bishops. If you read the statement, their tentative draft, they have prepared a thorough analysis of what, of the obligation that we have to share job opportunity in a country that is after all supposed to be taking or looking out for the general welfare.

Dave Obey didn't say that. The preamble says that.

Thank you very much for appearing today.

Please proceed, Mr. Bollinger.

STATEMENT OF JOHN G. BOLLINGER, DEAN, COLLEGE OF ENGINEERING, UNIVERSITY OF WISCONSIN, MADISON

Mr. BOLLINGER. I am John G. Bollinger, dean of engineering at the University of Wisconsin, Madison. I have been a faculty member at Madison since 1960 and dean since 1981. I am a professor in the Department of Mechanical Engineering. Much of my research and teaching has been in computer control of machines and processes, robotics, and machine intelligence, and for several years I worked extensively on environmental noise.

I serve on the boards of directors of six Midwest companies, five of which are in Wisconsin, and one hospital.

I have consulted for industry throughout my career.

Representative OBEY. May I ask you to summarize because I want to make sure we have some time for questions.

Mr. BOLLINGER. Wisconsin has always taken pride in a self-reliance that comes from hard-working citizens, abundant natural resources, and high-quality education. These qualities have been reflected in a manufacturing sector concentrated in traditional products—paper, food, metal fabrication, electrical and nonelectrical machinery—produced by traditional methods.

Changing markets and intense competition, however, have threatened the successes solid management and a trained and dedicated work force achieved. After gains in the late 1970's, a recession and bolder competition, much of it foreign, drove down the State's manufacturing employment and income. This sector accounted for about 28 percent of Wisconsin employment in 1960 and that had dropped to 23 percent in 1983.

The problem is continuing and even accelerating in some areas. A Wausau resident recently brought this point home to me by noting that this area has lost more than 3,000 jobs and another 7 companies may close.

The problem's roots run deeper than the Nation's recent recession statistics from the Wisconsin Strategic Development Commission and other sources show that between 1969 and 1983, Wisconsin lost 10 to 20 percent of its employment in machinery and in electronic and electrical equipment, while posting smaller gains in food, metal fabrication, and paper.

For the State as a whole, the manufacturing curve has turned upward in the past couple of years. Wisconsin industry is poised. For what?

In my opinion, either to move upward strongly, or to fade away as an important manufacturing force in the Nation. We can advance, or we can face the alternatives: loss of jobs when Wisconsin companies use cheaper foreign suppliers, loss of profits when foreign companies build here and control earnings, or loss of both.

Although attracting foreign companies creates jobs and a tax base in the short term, we should be concerned about the long-term implications.

The key for Wisconsin companies will be application of new technology and high technology.

An inscription in the Museum of Science and Industry in Chicago tells us that "Science discerns the laws of nature; industry applies them to the needs of man." I could restate that to say that "Science discerns the laws of nature; technology and engineering apply them to the needs of man."

This shows what I mean by technology and shows the close identification I make between industry and engineering or technology.

New technology refers to new techniques and new materials. In my remarks, it particularly refers to the application of these in manufacturing.

High technology refers to technology with strong science base technology that has emerged from a molecular-level understanding.

Wisconsin manufacturing, and thus a major portion of the State's economy, is threatened. Can we survive as a manufacturing State? Yes, if more of our companies employ new and high technology, as some already have.

A leading Fox Valley company is upgrading its foundry and machine shops by investing in computers and other new technology equipment. With this advancement it will grow. Without it, the company might not have survived.

Companies in Milwaukee and Green Bay, and a city department in Madison, are using the Deming strategy to improve quality and reduce costs. A consulting group that spun off from the UW-Madison is advising firms on this topic. The fact that an American had to succeed in Japan before he could begin to convince the United States that statistical quality control is important says a lot about our problems. But at least some Wisconsin firms have gotten the message.

A State firm is making a bold venture into aerospace, specifically into technology for space stations and commercial use of space. It located its facility in Madison because it must have the expertise of a major research university.

Biotechnology companies have located facilities in Madison and are growing because of advanced work in the biological sciences.

A small high-technolgy company in the Racine area is succeeding in electronic controls and related markets in part because it spends 8 percent of its gross sales on research and development. It is able to do so by successfully competing for State technology development funds and Federal funds.

Several Wisconsin manufacturers of electric motors and related equipment have helped themselves stay competitive by joining a UW-Madison research consortium for their field.

A small plastics company in the Fox Valley licensed a technology from Italy and will be supplying millions of dollars' worth of molded plastic components for auto interiors to GM and Ford. This company draws on expertise in acoustics and polymer processing at UW-Madison.

The Wisconsin Foundrymen's Group called on engineers at the UW-Madison to develop computerized design and control programs which now are helping that State industry compete.

An old Milwaukee company several years ago hired the engineering talent it needed and moved from a controls company based on old-fashioned electromechanical devices to what the Wall Street Journal recently called "the leading manufacturer of factory-floor automation equipment—in the forefront of companies applying computer technology to the manufacturing process."

A Milwaukee area heavy equipment firm has taken its smokestack business and converted it to a high technology business in laser measuring, process controls, and other areas.

These success stories show Wisconsin firms can compete and win. If you tell me how many of our Wisconsin companies will follow these examples, I can tell you whether Wisconsin will survive as an important manufacturing State, and thus tell you much about the entire Wisconsin economy.

Here are some of the technologies important to Wisconsin industry.

MATERIALS SCIENCE

Industry needs materials that perform better and cost less, whether in advanced areas like microelectronics or in coating an ordinary drill bit to make it perform like one made of an expensive alloy. High technology ceramics research produces materials for everything from space shuttle tiles to auto engines and human body parts.

Plasma processing is another important technology emerging from materials research and fusion energy research.

MICROELECTRONICS

You all know the importance of the chip. It is important to realize today's most advanced chips will look primitive in 10 years.

ROBOTICS AND AUTOMATION

We are seeing an increase in the use of robotics; it is essential to integrate inspection for quality control into the automation process. Vision devices and computers integrated with robots can achieve this.

BIOTECHNOLOGY

The impact of biotechnology in health, agriculture, and other areas will be enormous.

OPTICS

The high-technology control of light is being applied in lasers, optical communication fibers, optical computing, and other rapidly developing areas.

MANUFACTURING SYSTEMS

To succeed, a company's entire set of physical and human resources must be regarded as a system. This research area brings together a variety of disciplines from engineering, business, and other areas.

A good general statement is one from the report of the President's Commission on Industrial Competitiveness:

> U.S. technological leadership and industrial competitiveness depend on the ability of Government, industry, and academia to work together to create, apply, and protect U.S. technological innovation.

I believe the following recommendations just issued by the State of Wisconsin's Strategic Development Commission are especially important and I will comment on them.

First, the State should increase the university's role in direct assistance to business, especially in new product development and technology transfer. I agree, and will continue our efforts to do so.

There should be a task force to compare the UW University-Industry Research Program with efforts in other States and to analyze technology transfer here. I agree. As one example, we are working to focus our instrumentation systems center at Madison to help Wisconsin companies incorporate certain new technologies into their products.

Small business development activities are needed. I agree, and I believe programs in this area need focus on technology as well as on business and finance.

Wisconsin needs entrepreneurship education programs. I agree. We need continuing education programs in this area so that people learn the rules.

UW business and engineering programs need support that enables them to match the national competition for talent. I certainly agree. Engineering and technology have been shortchanged in higher education for years.

A study should be conducted to define better ways to apply UW business and engineering resources. The other engineering deans in Wisconsin and I have taken it upon ourselves to meet regularly and find ways to be more effective.

Universities must improve manufacturing-related research and education and the UW should have a manufacturing technology center. I strongly agree, but it is important to note that as recently as 1983 the priorities of Wisconsin's leaders did not reflect the needs in this area.

Our college raised more than $5 million from industry to offer a new master's program in manufacturing systems engineering. We were one of five schools in the Nation to receive multimillion-dollar support from IBM manufacturing, and Rockwell, GM, GE, and other companies.

But to obtain the approval of the UW system regents for the program, I found it necessary to make a commitment not to request State funds for at least 5 years.

Since the committee has access to the reports I have mentioned, I will not review them further but rather will give you some additional comments on how organizations like mine can help.

I mentioned the situation in the State of Wisconsin; we do not have a technological impetus in State government. There is no mentor for technology in the government of Wisconsin. One of the goals that we have had is to see more of our graduates go to work in Wisconsin.

Only about a third of our students are employed by Wisconsin manufacturing companies. And there are other things in my prepared statement that reflect that there is a great deal of need for education in Wisconsin to bring technologically trained people into the work force and to take advantage of bringing new technologies to the company's products.

Representative OBEY. Thank you.

[The prepared statement of Mr. Bollinger follows:]

Prepared Statement of John G. Bollinger

Introduction

I am John G. Bollinger, dean of engineering at the University of Wisconsin-Madison. I have been a faculty member at Madison since 1960 and dean since 1981. I am a professor in the Department of Mechanical Engineering. Much of my research and teaching has been in computer control of machines and processes, robotics, and machine intelligence, and for several years I worked extensively on environmental noise. I serve on the boards of directors of six midwest companies, five of which are in Wisconsin, and one hospital. I have consulted for industry throughout my career.

I have been asked to testify today on technology's role in Wisconsin's economic development. The application of advanced technologies is vitally important to Wisconsin citizens: it is important to their health care, their comfort, safety, the quality of their physical environment, their energy supply, and their standard of living. Of special interest to us here today is the application of new and high technology in the state's economy. The use of technology can help us retain and add jobs in agriculture, manufacturing, and every other area; create wealth for Wisconsin; and improve our lives and the lives of our children.

Advanced technology clearly will be critical to Wisconsin's economy in the next decade and beyond. I will focus on the application of technology in Wisconsin's manufacturing. These companies generate more than a third of the state's personal income and today face great challenges.

Our survival as an important manufacturing state is threatened. I want to tell you how I see this threat. More important, I want to describe successes which I believe show what Wisconsin industry can and must do. Since I represent the major academic engineering program in our state, I will emphasize the contribution education and research can make to the Wisconsin economy.

Present, past, and future of technology in Wisconsin industry

Wisconsin has always taken pride in a self reliance that comes from hard-working citizens, abundant natural resources, and high-quality education. These qualities have been reflected in a manufacturing sector concentrated in traditional products -- paper, food, metal fabrication, electrical and non-electrical machinery -- produced by traditional methods.

Changing markets and intense competition, however, have threatened the successes solid management and a trained and dedicated workforce achieved. After gains in the late 1970s, a recession and bolder competition, much of it foreign, drove down the state's manufacturing employment and income. This sector accounted for about 28 percent of Wisconsin employment in 1960 and that had dropped to 23 percent in 1983.

The problem is continuing and even accelerating in some areas. A Wausau resident recently brought this point home to me by noting that this area has lost more than 3,000 jobs and another seven companies may close.

The problem's roots run deeper than the nation's recent recession. Statistics from the Wisconsin Strategic Development Commission and other sources show that between 1969 and 1983, Wisconsin lost 10 to 20 percent of its employment in machinery and in electronic and electrical equipment while posting smaller gains in food, metal fabrication, and paper.

For the state as a whole, the manufacturing curve has turned upward in the past couple of years. Wisconsin industry is poised ... for what? In my opinion, either to move upward strongly, or to fade away as an important manufacturing force in the nation. We can advance, or we can face the alternatives: loss of jobs when Wisconsin companies use cheaper foreign suppliers; loss of profits when foreign companies build here and control earnings; or loss of both. Although attracting foreign companies creates jobs and a tax base in the short term, we should be concerned about the long-term implications.

The key for Wisconsin companies will be application of new technology and high technology.

New technology and high technology

An inscription in the Museum of Science and Industry in Chicago tells us that "Science discerns the laws of nature; industry applies them to the needs of man." I could restate that to say that "Science discerns the laws of nature; technology and engineering apply them to the needs of man." This shows what I mean by technology and shows the close identification I make between industry and engineering or technology.

"New technology" refers to new techniques and new materials. In my remarks, it particularly refers to the application of these in manufacturing. "High technology" refers to technology with a strong science base, technology that has emerged from a molecular-level understanding.

How technology can contribute to the Wisconsin economy

Wisconsin manufacturing, and thus a major portion of the state's economy, is threatened. Can we survive as a manufacturing state? Yes, if more of our companies employ new and high technology as some already have. For example:

-- A leading Fox Valley company is upgrading its foundry and machine shops by investing in computers and other new technology equipment. With this advancement it will grow. Without it, the company might not have survived.

-- Companies in Milwaukee and Green Bay, and a city department in Madison, are using the Deming strategy to improve quality and reduce costs. A consulting group that spun off from the UW-Madison is advising firms on this topic. The fact that an American had to succeed in Japan before he could begin to convince the U.S. that statistical quality control is important says a lot about our problems. But at least some Wisconsin firms have gotten the message.

-- A state firm is making a bold venture into aerospace, specifically into technology for space stations and commercial use of space. It located a facility in Madison because it must have the expertise of a major research university.

-- Biotechnology companies have located facilities in Madison and are growing because of advanced work in the biological sciences.

-- A small high-technology company in the Racine area is succeeding in electronic controls and related markets in part because it spends 8 percent of its gross sales on research and development. It is able to do so by successfully competing for state technology development funds and federal funds. It is developing important products for factories and may supply products for advanced urban rail systems.

-- Several Wisconsin manufacturers of electric motors and related equipment have helped themselves stay competitive by joining a UW-Madison research consortium for their field.

-- A small plastics company in the Fox Valley licensed a technology from Italy and will be supplying millions of dollars worth of molded plastic components for auto interiors to GM and Ford. This company draws on expertise in acoustics and polymer processing at the UW-Madison.

-- The Wisconsin foundrymen's group called on engineers at the UW-Madison to develop computerized design and control programs which now are helping that state industry compete.

-- An old Milwaukee company several years ago hired the engineering talent it needed and moved from a controls company based on old-fashioned electro-mechanical devices to what the Wall Street Journal recently called, "the leading manufacturer of factory-floor automation equipment ... in the forefront of companies applying computer technology to the manufacturing process."

-- A Milwaukee-area heavy equipment firm has taken its smokestack business and converted it to a high-technology business in laser measuring, controls, and other areas.

These success stories show Wisconsin firms can compete and win. If you tell me how many of our Wisconsin companies will follow these examples, I can tell you whether Wisconsin will survive as an important manufacturing state and thus tell you much about the entire Wisconsin economy.

Important technologies

Here are some of the technologies important to Wisconsin industry today.

-- Materials science. Industry needs materials that perform better and cost less, whether in advanced areas like microelectronics or simply in coating an ordinary drill bit to make it perform like one made of an expensive alloy. High technology ceramics research produces materials for everything from space shuttle tiles to auto engines and human body parts. Plasma processing is another important technology emerging from materials research and fusion energy research.

-- Microelectronics. You all know the importance of the chip. It is important to realize today's most advanced chips will look primitive in ten years.

-- Robotics and automation. We are seeing an increase in the use of robotics; it is essential to integrate inspection for quality control into the automation process. Vision devices and computers integrated with robots can achieve this.

-- Biotechnology. The impact of biotechnology in health, agriculture, and other areas will be enormous. The distinction between physical and life science may blur further as biotechnology develops.

-- Optics. The high-technology control of light is being applied in lasers, optical communication fibers, optical computing, and other rapidly-developing areas.

-- Manufacturing systems. To succeed, a company's entire set of physical and human resources must be regarded as a system. This research area brings together a variety of disciplines from engineering, business, and other areas.

Policies and initiatives needed

Those technologies are available. Wisconsin's competition is using them. The question now is what government policies and private initiatives are needed to insure that Wisconsin industry applies the new and high technology it needs to survive.

An good general statement is one from the Report of the President's Commission on Industrial Competitiveness:

-- "U.S. technological leadership and industrial competitiveness depend on the ability of government, industry, and academia to work together to create, apply, and protect U.S. technological innovation."

Strategic Development Commission recommendations

I believe the following recommendations just issued by the State of Wisconsin's Strategic Development Commission are especially important and I will comment on them:

-- The state should increase the university's role in direct assistance to business, especially in new product development and technology transfer.

I agree, and will continue my efforts to do so.

-- There should be a task force to compare the UW University-Industry Research Program with efforts in other states and to analyze technology transfer here.

I agree. As one example, we working to focus our Instrumentation Systems Center at Madison to help Wisconsin companies incorporate certain new technologies into their products.

-- Small business development activities are needed.

I agree, and I believe programs in this area need focus on technology as well as on business and finance.

-- Wisconsin needs entrepreneurship education programs.

I agree. We need continuing education programs in this area.

-- UW business and engineering programs need support that enables them to match the national competition for talent.

I certainly agree. Engineering and technology have been shortchanged in higher education for years -- until recently.

-- A study should be conducted to define better ways to apply UW business and engineering resources.

The other engineering deans in Wisconsin and I have taken it upon ourselves to meet regularly and find ways to be more effective.

-- Universities must improve manufacturing-related research and education and the UW should have a manufacturing technology center.

I strongly agree, but it is important to note that as recently as 1983 the priorities of Wisconsin leaders did not reflect the needs in this area. Our college raised more than $5 million from industry to offer a new masters' program in manufacturing systems. We were one of five schools in the nation to receive multi-million dollar support from IBM in manufacturing, and Rockwell, GM, GE, and other companies have contributed substantially. But to obtain the approval of the UW-System regents for the program I found it necessary to make a commitment not to request state funds for at least five years.

<u>My recommendations for applying engineering research and education</u>

Since the committee has access to the reports I have mentioned, I will not review them further but rather will give you some additional comments on how organizations like mine can help.

To survive and grow, Wisconsin industry needs a technology base to draw on. I believe our College of Engineering in Madison, and the other engineering schools in the state, are an important part of this base. The university and government should work to encourage industry's use of these resources. Here are some of the problems and opportunities I see.

-- A moment ago I mentioned the lack of state support for our manufacturing systems engineering masters' program. Perhaps even more troubling is the lack of involvement by Wisconsin industry. Of the 42 students in the program last school year, about 25 were returning from industry, many at company expense. Some of the nation's biggest and best companies are participating. But none of those students came from Wisconsin companies.

-- One of Wisconsin's goals should be more employment of graduate engineers. In-house engineers are the best source of high-technology for a company wanting to improve. Only about one-third of our B.S. graduates taking jobs are doing so in the state -- and more than that say they want employment here.

It is not surprising some of our graduates go to a national market. We are a national college in both funding sources (only 28 percent of our budget comes from state taxes) and the level of our research. But more could be hired here and we want to encourage that.

Frankly, the low proportion hired in Wisconsin reflects almost exactly the fact that only one-third of the companies coming to interview our students have operations in Wisconsin. We are working to attract more Wisconsin job interviewers. But Wisconsin companies must take the initiative also.

-- One way we encourage this is our cooperative education program. Students alternate work and school. Companies get employees in training and get to know potential permanent employees. We believe this is especially useful to Wisconsin firms who want to know the people they hire. Yet, of 85 employers hiring coop students last year, only 20 were Wisconsin firms.

-- We would like to deliver more and better continuing education to companies. This not only enables Wisconsin engineers to work with the latest technology, but also insures that the engineers companies hire are motivated to stay because they have opportunities to advance their careers.

The engineering extension function from Madison was integrated into our college last month and will be of great help in serving state industry. We are working to make masters' degree programs available by videotape.

We would like more input from Wisconsin industry on what educational programs to offer.

-- I encourage companies to sponsor research in engineering schools (which often means supporting a graduate student). At Madison we have industrial consortia in which companies pool support of research on generic problems of interest. We have a University-Industry Research Program for liaison with industry. My college has an associate dean for industrial relations, and we publish monthly and yearly reports for industry on research activity. We program special industry days on campus to develop communications and find synergistic relationships.

-- Engineering education in Wisconsin has a critical need for more space. For the past 15 years there has been little investment in new facilities for engineering. Other areas have done well at a time when building a strong technical education base was becoming very important. In Madison, for example, we often cannot move forward with an idea because we have no place to cultivate it.

-- Finally, the State Technology Development Fund is an excellent mechanism to get industry and universities to work together, but it is too small compared to those in other states.

We would welcome more interest from industry in these matters, and clearly deans at the other state engineering schools would welcome interest in their work.

<u>In summary</u>

We in Wisconsin cannot continue to believe, as we have in the past, that products will be produced here and sold across the U.S., around the world, or even in this state simply because we work hard or have skilled labor. We cannot rely on the natural beauty and other qualities of our state, important as they are, to keep or attract key innovative people for industry.

Rather, we must prove to the world that our products' quality is exceptional, that our prices are affordable, and that our after-tax income is attractive. And the key is to apply the new and high technologies most appropriate for each company.

Initiatives legislated in some other states are far bolder and of greater magnitude than what Wisconsin has done. We need to move ahead. We in engineering research and education are working to make the Wisconsin economy grow. We are prepared to produce the knowledge and talented engineers to do more.

July 25, 1985

Representative OBEY. Mr. Hassett, please proceed.

STATEMENT OF PAUL E. HASSETT, PAST PRESIDENT, WISCONSIN ASSOCIATION OF MANUFACTURERS & COMMERCE

Mr. HASSETT. I would like to congratulate Dean Bollinger because I have seen him in action. He has done a tremendous job.

Thank you very much for the opportunity to appear before your committee. Advance information on those invited to speak reveals that there are going to be many here with considerable economic and research background with statistical reports that I will not repeat.

I will try to answer the questions posed in your letter; namely, No. 1, the current status of manufacturing in Wisconsin, strengths and weaknesses; No. 2, what kinds of Federal and State Government policies and programs will be helpful; and No. 3, what should the private sector do alone or with the public sector to improve performance of our manufacturing sector.

Like most situations, the picture regarding manufacturing in Wisconsin is not as bad as some would make it out to be, nor is it as good as we would like it to be.

Now for the downside. In the aggregate, Wisconsin's manufacturing sector looks troubled, but not as bad off as the manufacturing sectors of other Midwestern States and to our east, Michigan, Illinois, Indiana, and Ohio.

Between 1980 and 1982, Wisconsin lost more than 134,000 jobs according to the recent Wisconsin Strategic Development Commission Phase I report. In the last year, we lost 540 manufacturing jobs.

Someone brought up the story of how Massachusetts recovered. I wish they would note that Massachusetts lost 200,000 people.

You might ask yourself what would happen in Wisconsin if we lost 200,000 people? We would be looking for people for jobs. We have had some recovery. In 1982 we lost 134,000 jobs, lost 540 last year in manufacturing. And we are still losing some in the durable goods, motor vehicles, heavy equipment. I have given a statement, a list from the State of some of those areas where we have lost them and some where we have some improvement.

The improvements have been in the fabricated metal products, food, paper products and printing industry. Paper and printing are really strong in Wisconsin. Just to the west of us, Consolidated Papers announced expansion in excess of $30 million. It is just fantastic what they are doing.

Representative OBEY. I was there yesterday.

Mr. HASSETT. I thought you might be. And down here you will hear from Tony Earl about his great reception at Lomira where Quad Graphics is adding about 1,000 employees in the printing industries. They are the good stories of Wisconsin.

Representative OBEY. Could I interrupt, we have the mayor of Wisconsin Rapids here. I am sure we will let him take full credit for that.

Mr. HASSETT. Well, they have a great operation over there.

You know, we hear about growth in service industries, but there is also surprisingly as much growth in small manufacturing in Wisconsin. That is kind of interesting.

Small manufacturing firms are keeping pace, but not with the number of jobs, of course, that we are so used to getting with large manufacturers. But that is one of the statistics that is kind of interesting. I have always tried to say that large and small are both important.

Half the employers, half the employees in the State are hired by 98,000 employers. The other half are hired by 2 percent of the employers. My point is that they are both very important, the large and small. And the increases are coming from the many small ones because there are so many of them.

The large ones are not doing as well. I would like to add onto what the Dean said. Allen Bradley, he could tell you more specifically what they do there, but I was taken there a couple of years ago and then most recently about 6 months ago with him.

They took out the whole top two floors and, Senator Proxmire, when you visit, you will want to see that. The two top floors have been gutted. These are a block long, block wide and they have got all new high-technology in there. You have machines making machines and nobody is there.

However, the alternative was to take that plant and move it to Mexico. They did not lay off people. They have still got 5,000 employees, and they are making 30,000 items in that operation, electrical things that he could tell you more about than I can.

But he was a very important cog in that operation in helping them figure out how they could produce and modernize and compete worldwide. That is what they said. We want to compete worldwide and undercut ourselves because we are doing a job in production.

I would like to complement the University of Wisconsin and the dean for their very active work in that area.

Even in the foundry industry, some are really having a problem, but a few are coming back. And the unfortunate part is they are using high-technology techniques and producing two and three times more with half the employees.

The alternative was, go out of business and go elsewhere. That is what they are doing.

They are lowering production costs. I am skipping along here and trying to hit some of the highlights.

I have always made an issue, and I think you know about that, that we—Wisconsin is a high personal income tax State and a high service State, and I think the Governor is making some corrections this year by reducing the high personal income tax, which I hope will have some impact.

The people who make decisions on where you expand, where you go, obviously feel that high personal income tax. The State was persuaded to do something about it and they are doing that. So we are moving in the right direction.

I think it is no secret Wisconsin manufacturing products are hurt by increased foreign competition and competition in the Sun Belt in attracting new companies. I think that is a whole subject for discussion itself for many reasons.

I had an interesting program we ran called Business World up at Lawrence University, and we had Bob Leverins up there, head of Leverins Shoe. He just told a story of their business. They are surviving, doing a terrific job.

But he happened to point out to one of the teachers who was there—this program was for teachers to learn about business—you happen to be wearing a pair of shoes made in Taiwan. I have got a picture of the little girls and boys 12, 13 years old who sit on stools and make those shoes at a dollar a day. That is the kind of competition we have and the problem is how do we overcome it.

He claimed we do it with styles and keeping up to date and going back to customers to find out what they want. But I think he gave an eye opener to all of us as to what you are up against with that kind of competition.

I am very optimistic about Wisconsin. We have paid the price in environmental protection. We paid the price in a fine educational institution like this. Dave Obey and I had some part in that.

We passed the bill on vocational school education when you were back in the legislation. Maybe we got more than we need, but there is no way to change it or cut it back.

Maybe we should examine some of these services we have.

In answer to your other questions, what do we do about them, I think the State probably needs more help in developing and expanding foreign markets for Wisconsin products. We are getting more inquiries from that—for that even by small firms who don't know just how to go about it, and they want some help.

I think there is a place where both the State and private sector and associations might be more helpful.

Also we need to encourage more—although a lot are trying to do that—the growth of small businesses.

And finally, I think our manufacturing strength probably will not return until we and you and all of us attack the problem of those twin deficits, the Federal budget deficit and the Nation's trade deficit. Tough problems and you are more familiar with that than I am.

I know from Senator Proxmire's idea—"Don't cut me and don't cut thee, but cut that guy behind the tree." Somehow we have got to figure out how to do this fairly and evenly.

Thank you.

Representative OBEY. Thank you.

[The prepared statement of Mr. Hassett follows:]

PREPARED STATEMENT OF PAUL E. HASSETT

Chairman David R. Obey
Joint Economic Committee

Thank you very much for the opportunity to appear before your Committee. Advance information on those invited to speak reveals that there are going to be many here with considerable economic and research background with statistical reports that I will not repeat.

I will try to answer the questions posed in your letter, namely (1) the current status of manufacturing in Wisconsin, strengths and weaknesses, (2) what kinds of federal and state government policies and programs will be helpful and (3) what should the private sector do alone or with the public sector to improve performance of our manufacturing sector.

Like most situations, the picture regarding manufacturing in Wisconsin is not as bad as some would make it out to be, nor is it as good as we would like it to be.

Now for the downside. In the aggregate, Wisconsin's manufacturing sector looks troubled, but not as bad off as the manufacturing sectors of other midwestern states and to our east--Michigan, Illinois, Indiana and Ohio. Between 1980 and 1982, Wisconsin lost more than 134,000 jobs according to the recent Strategic Development Commission Phase I Report. In the last year, we lost 540 manufacturing jobs.

So while there has been a relatively strong recovery nationally, we are still losing 450 manufacturing jobs each year. Most of the job loss has been in the durable goods, motor vehicles and heavy equipment industries.

On the other hand, Wisconsin has shown relatively consistent growth in fabricated metal products, food and kindred products, paper products and the printing industries. Paper and printing industries are especially strong in Wisconsin and continue to expand and grow. Just to the west of us, Consolidated Paper has announced expansions in excess of $30 million at the present time; and to the south of us at Lomira, the Quad/Graphics firm has announced an expansion that will result in 1,000 jobs in that rural area.

Despite all the talk about service industries as the wave of the future--their growth is astounding--but very small manufacturing firms also continue to grow at a more rapid pace than very small service firms! Even during the recession of 1980 to 1982, very small manufacturing firms continued to add jobs. Some of this may have been the entrepreneurial response of workers laid off from larger manufacturers.

A 1985 Department of Development study reveals that 36 different manufacturing sectors (S.I.C.s) presently employing over 300 workers as the most likely job generators during the next decade. Generally speaking, it should be pointed out that Wisconsin still employs about one-third of its work force in manufacturing. They generate many of the service jobs. Manufacturing continues to be extremely important to this state's economy and that of the nation. Generally, it is the manufacturing job that led to service needs.

I am enclosing some of the reports indicating the likely job generators.

Personally I am not as pessimistic as some are about the future of manufacturing in the state of Wisconsin. Let me use Allen-Bradley in Milwaukee as an example. Starting several years ago when the recession hit us, due to a variety of things, as you know as well as I, that company made a decision to continue competing worldwide by reducing its costs. Rather than move to Mexico, Allen-Bradley gutted several large floors of this immense building and has used all of the latest techniques of high tech electronic know-how to create machines making machines for worldwide distribution of over 30,000 electrical items. It is true that no additional employees may be employed in those divisions, but the alternative was to move this plant of 5,000 employees to Mexico!

They are staying in Milwaukee, Wisconsin and believe they will be able to underbid their competitors worldwide because of lower production costs, and they have not laid off people.

A similar scene can be portrayed in other manufacturing plants. It is true that they may not increase the number of employees, but they are lowering production costs, and it is possible that they will produce more than they ever have in the past with less employees because of the use of high tech equipment. They will cut their operating costs in order to compete worldwide.

We have had expansions notably in the paper and printing industry. Foundries have been hurt, but even some of the foundries have reorganized, and with the use of high tech improvements will be producing more with less employees. I believe Wisconsin will hold its own with its midwest competitive manufacturing states.

Regarding the second question posed for this hearing, the strengths and weaknesses of manufacturing in the state, I might say that we are doing something about the relatively high personal income taxes that has an impact on the executives who make the decisions on where to locate or expand in Wisconsin. The state has just passed legislation to reduce those high personal income taxes. We think this will help. It certainly is a good start in the right direction.

Other problems involve the relatively high wages in Wisconsin manufacturing compared to those in some other southern states that are fighting for our plants. Negotiations for give-backs have been under way. But, on the other hand, the state's relative corporate income taxes do not affect the state's share of industry employment because our corporate taxes are relatively modest compared to other states.

And, as Mr. Chairman, you know the state passed the machinery and property tax exemption almost ten years ago which has been very helpful to the state in maintaining a manufacturing base.

It is no secret that Wisconsin's manufacturing products are hurt by increased foreign competition and competition from sunbelt states in attracting new companies. There are many different reasons for the success of that competition.

I believe Wisconsin is in pretty good shape for the future because we have paid the price for environmental protection, a price I think other states will have to pay in the future. We have paid the price for a fine, excellent educational system, both for vocational training and for higher education. Maybe we should not have all of the education facilities we have available in the state, but that is what the public approved. Maybe some of these services should be reexamined to determine if we want to keep them and, if so, can they be paid for in a different way.

Some of the things that can be done in the future, both with the help of the private sector itself and possible use of the public sector, are:

1. Strengths in Wisconsin's labor availability and quality, resources and public infrastructure. We are doing that with the availability of our vocational and technical education system, and the public sector has some programs available to the private sector to assist them. I am not so sure that our infrastructure needs all that much more help at this time.

2. The private sector itself is trying to increase its high technology operation and production techniques in Wisconsin as I explained earlier in the case of Allen-Bradley.

3. The state probably needs more help in developing and expanding foreign markets for Wisconsin products. Here is a place where a concerted effort probably will be necessary by both the private and public sector to help those firms who may have products that can be sold to foreign markets, but do not have the expertise and know-how.

4. The encouragement and growth of small businesses. Again, both the public and private sector have tried a variety of programs making venture capital available. Some are working, but not as well as we hear in other states.

5. Wisconsin continues to have the reputation of a high service and high taxes state. High services are available at the local as well as the state level. Therefore, a study of those services ought to be undertaken to determine whether or not they should be continued. If they are to be continued, other methods of financing ought to be reviewed. It is quite possible that users should pay more of the cost of some of the services and maybe some of the services should be cut back, or eliminated.

   There is no way to cut taxes without cutting services. The services apply to both local and state government.

In the next couple of days, you will hear dozens of suggestions about what the federal government can do to improve the fortunes of our nation's manufacturers. But while each of these proposals may have merit, we should not allow many minor proposals to detract us from solving the number one problem plaguing manufacturing health.

> Our manufacturing strength will not return until we have attacked the problem of the twin deficits--the federal budget deficit and our nation's trade deficit. Reducing these mutually supportive deficits should be our nation's number one goal. They are our largest obstacle to economic health. Therefore, each of the proposals offered here today should be judged by how well they work to reduce these paramount problems.

In the 1970's, the state of Wisconsin took a bold step towards improving its business climate. The Manufacturing and Equipment property tax exemption remains one of Wisconsin's most outstanding economic features.

> The state must now build upon this competitive advantage by working to remove Wisconsin's largest deterrent to economic development--high personal income taxes. Study after study has shown that Wisconsin's personal income tax rate is our major deterrent to economic development. Happily, Governor Earl and the Wisconsin State Legislature has begun to reduce our state's personal income tax burden. We must continue to reduce these taxes further in the years ahead.

When the history of Wisconsin's economic recovery is written in the years ahead, economists will acknowledge that the greatest contribution toward resurgence came not from government, but from management and labor. In particular, I believe that trade associations will have an increasing role to play in the economic health of their members. Trade associations offer a forum for joint ventures in management assistance, technical training, research and development, and marketing. While the state and federal government could serve as catalysts for stronger, more active trade associations, the greatest burden lies upon industry and its workers. We will succeed by pulling ourselves up.

LIKELY JOB GENERATORS: TABLE 1

	SIC CODE •	INDUSTRY	1983 WISCONSIN EMPLOYMENT	PROJECTED US GROWTH 1979-1995	CHANGE IN SHARE POSITIVE: US GROWTH 1976-1983 (1)	CHANGE IN SHARE POSITIVE: WISCONSIN GROWTH 1976-1983	ACTUAL CHANGE IN STATE JOBS 1976-1983	CHANGE IN JOBS AT US GROWTH 1976-1983 (2)
1	201	MEAT PRODUCTS	13353	0.2	0.0	0.0	21	11
2	209	MISC. FOODS AND KINDRED PRODUCTS	3221	0.8	0.0	2.2	460	8
3	243	MILLWORK, PLYWOOD AND STRUCTURAL MEMBERS	9632	0.4	1.2	1.9	1191	726
4	254	PARTITIONS AND FIXTURES	1416	1.0	1.4	2.9	255	119
5	271	NEWSPAPERS	10669	1.3	1.3	1.3	955	929
6	272	PERIODICALS	1442	2.4	5.0	7.6	577	353
7	274	MISCELLANEOUS PRINTING	1493	1.3	3.6	4.8	417	306
8	275	COMMERCIAL PRINTING	13754	1.3	2.9	4.0	3298	2325
9	323	PRODUCTS OF PURCHASED GLASS	346	0.3	0.6	0.9	20	15
10	334	*SECONDARY NONFERROUS METALS	165	0.1	1.1	7.0	86	11
11	357	OFFICE AND COMPUTING MACHINES	1915	4.2	7.9	13.8	1142	541
12	366	COMMUNICATION EQUIPMENT	3312	1.6	3.7	5.4	1018	662
13	369	MISC. ELECTRICAL EQUIPMENT AND SUPPLIES	10777	0.6	0.9	4.3	2740	540
14	372	AIRCRAFT AND PARTS	1439	0.7	2.6	5.2	433	201
15	386	PHOTOGRAPHIC EQUIPMENT AND SUPPLIES	1046	1.8	0.5	6.1	355	23
16	411	LOCAL AND SUBURBAN TRANSPORTATION	2835	1.1	3.5	4.2	704	575
17	424	TRUCKING AND TRUCKING TERMINALS	26457	0.8	0.9	1.7	2983	1489
18	45	TRANSPORTATION BY AIR	2141	1.6	2.6	6.1	724	284
19	47	TRANSPORTATION SERVICES	2748	2.7	6.0	10.0	1337	717
20	489	*COMMUNICATION SERVICES	1514	2.2	17.6	24.3	1284	751
21	493	COMBINATION UTILITY SERVICES	5959	0.8	0.9	2.5	931	315
22	51	WHOLESALE TRADE-NONDURABLE GOODS	43747	1.3	1.4	1.6	4716	4011
23	57	FURNITURE AND HOME SUPPLIES	11190	1.4	1.1	1.1	848	793
24	59	MISCELLANEOUS RETAIL	42483	1.4	1.9	2.2	5914	5108
25	61	CREDIT AGENCIES OTHER THAN BANKS	12618	3.3	4.4	4.9	3598	3134
26	63	INSURANCE CARRIERS	31428	1.6	2.6	3.7	7053	4886
27	72	PERSONAL SERVICES	20813	1.4	1.4	2.0	2689	1855
28	731	ADVERTISING	2977	2.2	4.0	5.6	946	645
29	737	COMPUTER AND DATA PROCESSING SERVICES	5039	3.2	14.1	14.3	3068	2989
30	739	MISC. BUSINESS SERVICES	19070	4.2	6.0	6.3	6885	6542
31	802	OFFICES OF DENTISTS	10429	2.5	6.1	7.0	3939	3361
32	82	EDUCATIONAL SERVICES	18833	2.1	7.5	12.6	10602	5464

* THE PAST DATA FOR THESE INDUSTRIES ARE CALCULATED FOR THE YEARS 1975-1982. SEE APPENDIX, NUMBER (1).

(1) ALL GROWTH RATES ARE COMPOUNDED ANNUAL GROWTH RATES

(2) THE LAST COLUMN REPORTS THE CHANGE IN THE NUMBER OF WISCONSIN JOBS THAT WOULD HAVE OCCURRED BETWEEN 1976-1983 IF WISCONSIN'S RATE OF EMPLOYMENT GROWTH WAS IDENTICAL TO THE NATIONAL GROWTH RATE FOR EACH INDUSTRY.

PREPARED BY THE WISCONSIN DEPARTMENT OF DEVELOPMENT, BUREAU OF RESEARCH
SOURCES: WISCONSIN EMPLOYMENT--TABLE 210, VARIOUS YEARS, DEPARTMENT OF INDUSTRY, LABOR, AND HUMAN RELATIONS; STATE OF WISCONSIN
U.S. EMPLOYMENT--1975-1981, EMPLOYMENT AND WAGES, BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR

1982-1983, EMPLOYMENT AND EARNINGS, BUREAU OF LABOR STATISTICS, U.S. DEPT. OF LABOR

1995 PROJECTION, MONTHLY LABOR REVIEW, NOVEMBER 1983, BUREAU OF LABOR STATISTICS, U.S DEPT. OF LABOR

LIKELY JOB GENERATORS: TABLE 2

CHANGE IN SHARE POSITIVE

	SIC CODE	INDUSTRY	1983 WISCONSIN EMPLOYMENT	PROJECTED US GROWTH 1979-1995	US GROWTH 1976-1983	WISCONSIN GROWTH 1976-1983	ACTUAL CHANGE IN STATE JOBS 1976-1983	CHANGE IN JOBS AT US GROWTH 1976-1983
1	203	PRESERVED FRUITS AND VEGETABLES	9838	0.5	-0.5	0.6	433	-302
2	267	PAPER PRODUCTS	29324	0.5	-0.7	0.4	723	-1278
3	273	BOOKS	3170	2.4	-0.1	0.4	78	-15
4	281	INDUSTRIAL INORGANIC CHEMICALS	391	0.9	-0.5	3.0	73	-10
5	287	AGRICULTURAL CHEMICALS	604	1.4	-1.4	2.3	90	-50
6	321	FLAT GLASS	17	0.3	-1.8	3.9	4	-2
7	328	CUT STONE AND STONE PRODUCTS	224	0.6	-3.0	4.1	55	-32
8	342	CUTLERY, HAND TOOLS AND HARDWARE	4565	0.5	-2.6	0.4	112	-739
9	343	PLUMBING AND HEATING, EXCEPT ELECTRIC	5213	0.2	-0.2	0.1	40	-73
10	354	METALWORKING MACHINERY	10022	0.3	-1.3	0.8	563	-848
11	358	REFRIGERATION AND SERVICE MACHINERY	7479	0.8	-0.6	1.2	579	-298
12	361	ELECTRIC DISTRIBUTING EQUIPMENT	5657	0.9	-1.7	1.6	579	-586
13	364	ELECTRIC LIGHTING AND WIRING EQUIPMENT	1320	0.7	-0.8	0.9	77	-67
14	385	OPHTHALMIC GOODS	370	0.8	-0.9	16.9	246	-8
15	391	JEWELRY, SILVERWARE AND PLATED WARE	106	0.4	-0.7	7.0	40	-3

LIKELY JOB GENERATORS: TABLE 3

CHANGE IN SHARE NEGATIVE

	SIC CODE	INDUSTRY	1983 WISCONSIN EMPLOYMENT	PROJECTED US GROWTH 1979-1995	US GROWTH 1976-1983	WISCONSIN GROWTH 1976-1983	ACTUAL CHANGE IN STATE JOBS 1976-1983	CHANGE IN JOBS AT US GROWTH 1976-1983
1	07	*AGRICULTURAL SERVICES	6524	2.4	11.1	5.5	2145	5185
2	284	SOAP, CLEANERS, AND TOILET GOODS	3606	1.4	2.5	1.0	242	644
3	289	MISC. CHEMICAL PRODUCTS	1598	1.2	1.4	0.5	51	160
4	307	MISCELLANEOUS PLASTICS PRODUCTS	13352	2.3	3.3	2.8	2361	2826
5	359	MISC. MACHINERY, EXCEPT ELECTRICAL	7622	0.6	1.5	1.2	624	743
6	367	ELECTRONIC COMPONENTS AND ACCESORIES	3831	3.1	6.9	4.8	1071	1650
7	383	OPTICAL INSTRUMENTS AND LENSES	4	0.8	5.9	4.2	1	2
8	415	SCHOOL BUS TRANSPORTATION	6226	1.7	3.6	1.1	466	1603
9	483	RADIO AND TELEVISION BROADCASTING	4290	4.0	5.1	4.0	1035	1352
10	491	ELECTRIC SERVICES	7264	1.2	4.1	2.1	994	2018
11	495	SANITARY SERVICES	692	2.8	3.4	2.8	121	149
12	50	WHOLESALE TRADE-DURABLE GOODS	52571	1.3	2.2	1.5	5295	7793
13	54	FOOD STORES	48264	1.4	2.6	1.1	3411	8776
14	56	APPAREL AND ACCESORY STORES	14608	1.4	1.5	1.0	938	1520
15	58	EATING AND DRINKING PLACES	125699	2.1	4.2	3.9	29363	32106
16	60	BANKING	26877	2.2	3.4	2.5	4343	5939
17	62	SECURITY AND COMMODITY BROKERS	3374	3.7	8.2	6.7	1228	1588
18	65	REAL ESTATE	12813	1.6	3.6	2.6	2111	3048
19	70	HOTELS AND OTHER LODGING PLACES	19641	1.6	2.5	2.1	2671	3191
20	736	PERSONNEL SUPPLY SERVICES	9148	3.2	12.9	4.2	2277	9167
21	75	AUTO REPAIR, SERVICES AND GARAGES	9664	1.9	3.1	2.9	1739	1915
22	79	AMUSEMENT AND RECREATION SERVICES	18176	2.8	4.0	3.3	3657	4541
23	801	OFFICES OF PHYSICIANS	21612	2.5	4.8	4.7	5969	6039
24	805	NURSING AND PERSONAL CARE FACILITIES	35610	4.0	4.5	4.3	9052	9550
25	806	HOSPITALS	73020	3.[illegible]	4.2	2.3	10945	20846
26	808	*OUTPATIENT CARE FACILITIES	1321	4.0	12.6	11.9	738	806
27	809	*HEALTH AND ALLIED SERVICES	2019	4.0	11.8	9.0	837	1189
28	81	LEGAL SERVICES	10061	3.2	7.2	5.4	3086	4382
29	83	SOCIAL SERVICES	23792	1.5	10.5	6.2	8175	15712
30	86	MEMBERSHIP ORGANIZATIONS	15433	1.2	12.8	1.5	1523	18472

PREPARED BY THE WISCONSIN DEPARTMENT OF DEVELOPMENT, BUREAU OF RESEARCH
SOURCES: SEE TABLE 1

* SEE TABLE 1

Representative OBEY. Mr. Richards, how about agriculture.

STATEMENT OF HOWARD C. RICHARDS, FARMER, LODI, WI, AND COCHAIRMAN, WISCONSIN GOVERNOR'S COMMISSION ON AGRICULTURE

Mr. RICHARDS. Thank you.

It is a privilege to be here and to try and represent other farmers rather than our more usual technique of having to pay experts to speak for us all.

You will note my emphasis is probably a little different than theirs is.

Food will be in the 1980's what oil became in the 1970's—scarce and expensive. What it gets down to is, we have only got so much grain. Are consumers willing to pay more for their food to keep the grain home than importing countries are to ship the grain there? Nobody can afford to feed animals $4 corn.

You would think that we would be sitting here today talking about a prosperous period in agriculture. It turns out just the opposite has taken place.

One of the reasons is that those forecasts were so far in error. They are a factor in the decisions that a lot of our Wisconsin farmers made in terms of preparing themselves for their occupation during this period. I do want to talk first about the perception of why the agriculture situation has not shared in the recovery with the rest of our economy.

I think it is not surprising when we consider what the experts were saying, that we were in the midst of another agriculture embargo, the third and bipartisan action over a period of about 10 years. They obviously didn't see much need for export markets. However, less than 2 years later, we had a big corn harvest in 1982, and we have had surplus production in most of our major commodities ever since.

Much of what is underway is a massive decapitalization of agriculture, forced by tight monetary policy and high interest rates. We have already talked a bit about high interest rates. I won't say much there except that in the 1970's, the real interest rates were about 1 percent.

In 1981 and 1982 they were 9 and 11 percent, and they have stayed up in that 7 to 8 category since. Because in agriculture we have variable interest rate programs from our major lenders. That burden, transferred quickly to the farmers, and combined with the huge Federal deficit and the overvalued dollar which devastated our export markets, has left us with a real problem.

As a result of these three items, misreading the August outlook, the embargo and the sudden change to higher interest rates, I would like to emphasize several quick facts about the current status of the farm situation.

In 1970, total farm debt was only three times the total net farm income. By 1980, it was 7.3 times the total net farm, but by 1983 it was 12.6 times as great as the annual net farm income. Wisconsin's total net farm income was almost one-third less than in 1979.

In 1983, farms with gross incomes between $40,000 and $499,999 had total net farm incomes equal to 1.67 percent of their equity and nothing at all for the operators' unpaid labor.

That amounted to an average net farm income of $11,318. But a 5 percent return on the invested equity of those people would have been triple that without giving any credit or any value to a year's work.

In 1983, farmers with gross incomes between $40,000 and $499,999 had an average net farm income of $11,318, but a 5 percent return on their equity, excluding households, would have earned them $34,800 alone, plus whatever their year's work earned in another occupation.

It's obvious you can't service the debt on that size of business with that low level of income.

The investment in equipment and buildings alone per farm worker is twice the investment per manufacturing worker. Adding the land investment widens the ratio much further.

How many of your staff people would keep coming to work if you quit paying them for their labor? If we assume savings should earn them even 3 percent, the typical farm family has received nothing for its labor for 3 years, and it doesn't look like they will get anything for at least 2 more years.

We have heard a lot about the need for us to compete with the world market crisis. Yet in spite of having asked for this data many times, I have been unable to obtain a chart that shows what the cost of production, the price and the subsidy is for the milk, the meat, the wheat, the corn, that the 6 or 8 or 10 major competitive nations are producing.

In reality it is my understanding that there is no such thing as a world market price because, for example, like the European Common Market, many countries use one price to pay for the commodity used at home and just dump the rest on the world market.

We are being told by our Government that we should produce it all for that dumping price. Our four embargoes and export of our agriculture technology have motivated China, India and Saudi Arabia to become exporters of either wheat or corn.

It seems to me that if the U.S. Government did not want to manage our agriculture, they wouldn't have started that process by giving wide distribution to these tables of costs of production and price and subsidy so that the farmers who are ultimately going to have to take the risk could decide for themselves how to proceed.

But it is clear that our Government would rather manage that output themselves. However, our compensation for doing that work and taking those risks on the farm doesn't even remotely compare to what other industries where the Government determines the desired output level would be.

For example, electric utilities, where the Public Utility Commission says quite openly that they will price the product to yield the investor about a 14- or 15-percent return on equity and where they pay an annual wage of $20,000.

It certainly is understandable that our Government is concerned with maintaining an abundant food supply for our citizens. We farmers support that. But it seems that we must better understand that we can't price our output on a purely supply/demand formula when the main objective of the Government is to be certain that supply always exceeds demand and that there won't be shortages.

We had conversations this morning, for example, about ag research and how it appeared that the university is more helpful to farmers than they are to manufacturing firms.

I would like to give you a bit of a different interpretation on that.

If I ran a hardware store, I would have to worry about research being done by Farm and Fleet or Hardware Hank or True Value or whatever, but they are only going to spend money on research when they are comfortable it will be profitable for themselves in the long run.

However, as a farmer, I have to worry that publicly paid for research never stops, constantly trying to increase the output of my farm commodities from my competitors. I am not saying farmers are against this. But we need policies that really understand it.

I think I saw support for this position in an interview in a newspaper recently where one of the researchers said, "The ultimate beneficiary of technological advances in agriculture is the consumer, who over the years has been able to purchase food at a reasonable price because farmers have become more efficient."

The article also said that the cloned dairy cattle on which he did his research will probably be purchased by corporations rather than by individual farmers. "Since," again I quote, "in the dairy industry, the nature of who owns the valuable cows has changed considerably." It has gone from the hands of individual dairy farmers to corporations that own or invest.

It is hard to see how the farmer is going to be the real beneficiary of that.

Representative OBEY. Could I ask you also to summarize those so that we can have some time for questions.

Mr. RICHARDS. I am trying, but agriculture is a big topic; 15 minutes isn't much time.

Senator PROXMIRE. You will get a shot in our questions.

Mr. RICHARDS. I hope so. If, for example, we compare the price of Wisconsin farmland today to Iowa, when we consider the depth of their soil and that it is level and that makes it adaptable to the kind of technology that is forecasted for the future, I think it is obvious that the Wisconsin farmland is quite overpriced today.

Another quote, this one from a study done by Iowa State and the University of Missouri. It says, "Under the most optimistic farm programs being considered, average net farm income over the next 5 years will not rise above current levels."

These are the levels that got us in trouble. If the Government support programs are removed, net farm income would likely drop by 40 percent from these low levels during the next 3 years.

Part of our problem is that our Government seems to refuse to find the difference between a hobby farm and a full-time farmer. And we are minimizing the effect of our problem and the situation when we talk to our people by taking anybody that grosses over $1,000 and lumping them and offsetting a full-time farmer with that.

You had asked several questions and I would like to at least answer a couple of them. The first one was: What is the trend in the Wisconsin farm situation? And from my vantage point it is definitely getting worse.

Nearly every major enterprise, whether it is dairy, corn, wheat, hogs, beef, beans, is generating lower prices and either lower profits or bigger losses than last year. As near as I can determine from my background in credit, we are approaching a time when we have got 1 farm in 15 where the debt exceeds what that farm could be sold for today.

I think our lenders showed forbearance last spring, in part, motivated by their own self-interest, because the farmers in many of those cases were in so deep that the lender's loss was going to be just as great as the farmers.

You asked about the credit situation. In my view and my experience, loan money is available. The farmer can borrow more money than they can repay, at these interest rates and commodity prices. That doesn't mean they can borrow more to get out of trouble, but they are borrowing more than they can repay.

You asked about interest rates. Interest rates in agriculture are high, and they are running in opposition to the trend in the country. I am paying 12.75 percent, as is every other land bank borrower, on my real estate loan; 13 percent on operating loans. The reason that trend is going opposite of the others is because of nonperforming assets.

These farmers are starting to realize, many of them, that they have no hope of paying off these debts. When I turn or my neighbor turns his farm over to his lenders, the lender assumes the same problem. Earning 3 percent, paying 10. And as a result, the cooperative lenders are having to raise their rates.

I would emphasize, I don't believe that it is possible that they can sustain the kind of losses that our Government pricing policy is pushing toward them. We have made the lenders the executioner of Federal farm policy. And without help from the Federal Government, those lenders, particularly the cooperative ones, will not be able to carry that load in my view.

One farmer in three is in trouble and vulnerable because he cannot generate enough income to service his debts while he maintains his family.

Thank you for your attention.

Representative OBEY. Thank you.

[The prepared statement of Mr. Richards follows:]

Prepared Statement of Howard C. Richards

"Food will be in the 1980's what oil became in the 1970's - scarce and expensive". What it gets down to is we've only got so much grain. Are consumers willing to pay more for their food to keep the grain home then importing countries are to ship the grain there?" "Nobody can afford to feed animals $4. corn." "We moved from surplus to scarcity with one fell swoop."

These are direct quotes from the concensus summary of the 1980 USDA Fall Ag Outlook meetings released November 28, 1980 and reported in the Wall Street Journal.

I'm Howard Richards, a corn and hog farmer from Lodi, Wi. I was co-chairman of the Governor's Commission on Agriculture. I have been an ag banker and also done some financial consulting with farm families in a couple of Wisconsin counties and I'll be drawing on all of these experiences as I try to answer the questions Congressman Obey sent to me.

I have with me copies of a report prepared for you by the Univ. of Wis. College of Ag. I received the report yesterday and I'm sure you have staff people who read better than I do so I'm submitting that in written form only. I'm also submitting copies of the Ag Commission report.

But let's go back to the actual farm situation. It's not surprising with the experts interpreting the situation as quoted that we were having another embargo of ag commodities since they apparently didn't see much need for our export markets. Less than two years after that AG Outlook meeting already sited, we had a big corn harvest in 1982 and have had surplus production of most commodities ever since.

Much of what is underway is a massive decapitalization of agriculture forced by tight monetary policy and high interest rates. In the 70's real interest rates were about 1%. In 1980 it was 2.8%, by 1981 9.17%, 1982 - 10.96%, 1983 - 6.99% and 1984 - 8.04%.

Federal Reserve policy changed in the fall of 1979. Lenders' variable interest rate programs put that entire burden on the farmers.

The combination of these three - completely mis-reading the ag outlook, the third embargo and the sudden change to a high interest rate policy put the farm economy in a tailspin from which it hasn't been able to recover.

Facts About the Current Farm Crisis:

- In 1970 total farm debt was only 3 times total net farm income, in 1980 it was 7.3 times net farm income and in 1983 total farm debt was 12.6 times more than net farm income.

- In 1983 farms with gross incomes between $40,000 and $499,999 had total net farm incomes equal to 1.67% of their equity and nothing at all for the operators unpaid labor.

- Iowa State study indicates elimination of a significant portion of farmers will not reduce production, nor raise prices, and thus will do little to solve the farm economy problems.

- Farming is the only occupation where we combine the labor income with the return to equity and conclude if the total is 80% of the income of the average working American everything is ok, even though that means the farm operator is getting almost no return on either his labor or on his investment of hundreds of thousands of dollars and working in the most dangerous occupation in the nation.

- 40% of farmland nationally is owned now by someone other than the family that farms it.

- In 1983 farmers with gross incomes between $40,000 and $499,999 had an average net farm income of $11,318 but a 5% return on their equity (excluding households) would have earned them $34,800 alone plus whatever their year's work earned in another occupation. It's obvious you can't service the debt on that size of business with that low level of income.

- The investment in equipment and buildings alone per farm worker is twice the investment per manufacturing worker. Adding the land investment widens the ratio much further.

How many of your staff people would keep coming to work if you quit paying them for their labor? If we assume savings should earn them even 3%, the typical farm family has received <u>nothing</u> for its labor for three years and it doesn't look like they will get anything for at least two more years.

How many of your staff people would keep coming to work if only the very best or luckiest 20% would get paid for their labor and the poorest workers or unluckiest 20% had to borrow money and pay each year for the opportunity to work?

Well, again that's the system we are using to reward Wisconsin farm families for a year's work that includes working seven days a week at least half the time.

I read the following in last Wednesday's Wall St. Journal in a story about agriculture in Mexico. I quote, "low corn prices aren't an accident. For years, the Mexican government held prices down as part of its urban development plans. Industrial growth lured thousands of people to the cities and to feed the city people with cheap tortillas, the government kept corn prices low in the country."

I wonder if with a few word changes that couldn't have been written about the U.S.

In the past 12 months we farmers have heard lots about how we must produce for the world market prices - yet even though I have asked many times, I have never seen a chart showing what the prices of corn, wheat, milk, pork and beef are in the 8 major exporting countries of the world are along with the cost of production and amount of subsidy their farmers receive. In reality my understanding is that there is no world price because in the EC, for example, they pay one price for what they need at home and dump the remaining supply for anything they can get on the world market - they have no facilities to store it - only the USA' s farmers do that. But we are supposed to produce all of our products for the dumping price. Our four embargoes have motivated even China, India and Saudia Arabia to become exporters of wheat or corn.

It seems to me that if the U.S. government did not want to manage our agriculture they would have started by giving wide distribution to such tables of export price and cost data so that the farmers who take the risk could decide for themselves how to respond.

Instead the government wants to manage our supply - when we have an OPEC oil import imbalance or they perceive (correctly or incorrectly) shortages they want fence row to fence row production.

But our compensation for doing that work and taking those risks doesn't even remotely compare to other industries where the government determines the desired output like electric utilities (14% return on equity and $20,000 average annual wage) or defense.

It is very understandable that our government is concerned about maintaining an abundant food supply for our citizens. We farmers support that too. But you can't price it on a pure supply-demand formula when the main objective of the government is to be certain that supply always exceeds demand.

Our ag research programs clearly confirm the priority on abundant food. If I ran a hardware store I have to worry about research by Farm and Fleet or Hardware Hank but they are only spending money on research when and if they think their own future profits will pay it back. But as a farmer I have to worry about publicly paid for research which never stops causing an oversupply of my commodity. Again, I'm not saying farmers are against this, but we need policies that give us the same protection as other industries, ie. cost plus pricing for defense. I noted in an interview for an urban newspaper one of the College of Ag's noted researchers said, "the ultimate beneficiary of technological advances in agriculture is the consumer who over the years has been able to purchase food at reasonable prices because farmers have become more efficient." The article also said that the cloned dairy cattle on which he researches will probably be purchased by corporations rather than individual farmers since "in the dairy industry, the nature of who owns the valuable cows has changed considerably," hs said. "Its gone from the hands of individual dairy farmers to corporations that own investor herds."

I think it is obvious that with such government financed influences, an over-supply is inevitable and intended and consequently that farmers will not be able to pay the going interest rate much of the time.

Other Observations

When compared to Iowa land prices and considering the depth of their soil and that its levelness suits it to future mechanization, it is obvious Wisconsin land prices are likely to go significantly lower.

One of every two Wisconsin farmers are not dairy farmers and cash corn producers, hog farmers or cattle feeders are probably in about the same shape financially whether they are in Iowa or Wisconsin.

Under the most optomistic farm programs being considered, average net farm income over the next 5 years will not rise above current levels. If government support programs are removed, net farm income would likely drop by 40% during the subsequent 3 years. (according to Iowa State and Univ. of Missouri).

In spite of large government farm support costs, real net farm income is at low levels not observed since the 1930's.

It is increasingly apparent that much of the 50 plus million acres of cropland brought into or returned to production in the 1970's represents excess production capacity. U.S. and Wisconsin tax policy encouraged this over-capitalization.

Regional milk marketing orders run counter to concepts of letting the production go to the most cost effective producers.

We cannot solve a problem of inadequate farm income by substituting credit for profit.

The future nature of most rural Wisconsin communities is dependent on the way our governments attempt to solve the absence of profitability for the middle size farm.

If you cannot or will not tell the difference between a full-time farmer whose family is dependent on that farm for its existence from a rural resident who works somewhere else but prefers to live in the country, you aren't likely to be able to solve problems of either one.

A recent USDA bulletin #480 admits, "The characteristics of minifarms in this analysis indicates that these operators are interested in rural living, but not necessarily in farming as an income-generating activity." Nevertheless USDA keeps minimizing the farm problem by including three of these hobby farmers for every full-time farmer and then concluding only a small proportion of "farmers" are in serious trouble.

1. From my vantage point things are definitely getting worse for Wisconsin farmers. Nearly every major enterprise - dairy, corn, wheat, hogs, beef, beans - are generating lower prices and smaller profits or bigger losses than last year.

The devaluation of our farmland and equipment probably has one farm in 15 with more debt on it than its current market value. Overall the lenders showed considerable forbearance last spring in part because the situation is now so bad their loss would be as big as the farmers if they foreclosed. But as these farmers realize how hopeless is their chance of repaying their debts with the commodity prices the government is talking about and then voluntarily turn those farms over to the lenders, a new wave of crisis will hit because land values will be driven lower again.

University of Illinois studies show that on their good land the non-land cost of growing corn is $2.25/bu. - which is more than the price the government is talking about. Since about the only cost factor farmers can adjust is the land price, that seems to mean land will have to be much lower before you could buy land and make a profit growing corn. Wisconsin's unusually high property tax puts us at an even greater disadvantage. After the shellacking land buyers have taken in the past 5 years, it will probably be many years and justifiably so before farmers bid land prices much above its immediat earning potential.

The future holds more of the same - unless farmers organize themselves, require their many organizations to have a joint "Ag Congress" each winter and come out with unified positions aimed at solving their own problems rather than aimed solely at assuring an abundant food supply.

2. Strengths and Weaknesses of Ag in Wisconsin --

Strengths -- dedicated hardworking farmers - used to the long hours of livestock farming
-- good level of technical ability
-- strong research institution although pointed almost solely at increasing production rather than marketing.

Weaknesses -- great dependence on U.S. dairy support price.
-- most farmland not well suited to row crops or the unmanned tractors of the future
-- a state legislature with less concern about its agriculture than most surrounding states, ie. property tax and ethanol.

3. Current situation regarding farm credit:

Loans are available - most farmers, in my opinion, can borrow more money than they can repay at these interest rates and commodity prices.

Interest rates in agriculture are high - 12.75% Land Bank plus stock and 13% on operating loans and going higher.

Trend opposite of non-farm interest rates due to "non-performing assets."

One farmer in three is in trouble and vulnerable because he can't generate enough income to both service his debts and maintain his family and business.

There are concerns about farmers losing control of Farm Credit System

4. Younger farmers - unless they stepped into a niche prepared for them by their parents or in-laws they are usually either in serious trouble or already on the way out if they started farming since 1978 because they had to acquire all their assets at the high market values of the late 70's and early 80's. There are, of course, a few exceptions but they are mighty few.

In terms of young people getting into farming today, most who really want to are people who have little to lose relative to the size of business they want to run. People with $100,000 or more (which is probably the minimum amount you could start with and have reasonable hope of being a full-time farmer) see they can't generate a competitive return on that money at a reasonable risk and are not trying to start farming.

Beginning farmers could best be helped by a real estate tax that was bright enough to know the difference between debt and equity.

5. Administrations proposed farm bill would seem to threaten at least 1/3 of middle sized Wisconsin farms - prices well below cost of production will force prices of farm assets lower as liquidation occurs to pay debts.

I'm not a dairy expert but it would appear their dairy plan will provide the same thing for dairy farmers that the beef cattle producers have experienced - consistent sales at prices below the cost of production.

6. What kinds of federal and state government policies and programs and private-sector iniatiatives are needed to help agriculture in Wisconsin?

Among the many items suggested in the Ag Commission report I emphasize the following:

Tax Policy

The U.S. tax code must be changed along the lines of Senator Abdnor's (So. Dak.) proposal S. 2833 to limit offsetting farm losses against non-farm income to $21,000 per year. There is no point in bribing the wealthy, as current policy does, to direct money to increasing surplus commodities. Government procedures which permit the wealthy to buy and equip farms with tax avoidance dollars, so that they have little or no money invested that wasn't owed to the government anyway must be stopped. Nevertheless if such a wealthy person wants to invest in producing food for people, rather than just farming the government, he should be permitted to do so and the proposal I support permits that. Farmers welcome that kind of competition.

Ag Policy

Federal farm commodity programs should be structured to discourage the capitalizing of program benefits into the value of the farm-land by diverting program benefits to the person operating the farms rather than those who own the farms.

The Federal Governments ag programs should not be a factor forcing farms to be larger than the economics of scale would dictate in the absence of the ag program. Thus there should be a maximum limit on program benefits that provides no reward for expanding beyond the size that achieves reasonable efficiency - a two-full time adult worker farm for most enterprises and that limit should be strictly enforced. People wanting to farm biggern than that should be motivated by the efficiencies resulting, not by the opportunity to put bigger quantities into government storage. The $50,000 limit would seem both adequate for farmers and acceptable to consumers.

Research monies should be directed to development of new markets and products for farm commodities instead of expanding the production of those commodities.

State Initiatives

Real estate tax reform is essential since Wisconsin currently puts its farms at a distinct disadvantage to those in neighboring states Education has nothing to do with real estate, many other forms of wealth are not simiarly taxed (stocks, bonds, pensions, etc) and debt is ignored. This should be the states top priority, and I mean action not words.

I'll attempt to answer any questions about my views.

Representative OBEY. Mr. Bollinger, let me ask you to do two things first. You mentioned the Deming strategy. Would you take a moment to explain who he is and what his role was in helping the Japanese to be——

Mr. BOLLINGER. He is an engineer that developed a strong application, very expensive application of statistical quality control. And he applied that in Japan as a consultant and employee and came back a few years ago to the States and when we were in trouble and started to promote it.

For example, you can visit a company that makes a shaft and it is made on a machine and it is that long and that big around, and the problem is: How do you keep it accurate?

Now, the simple thing like having a chart in front of the employee and having the employee informed as to the importance of the numbers that come off the map and graphing these things and the employee participating in the quality of that dimension of that shaft, that is all part of the Deming philosophy.

We taught that in school 25 years ago. Yet you can walk through plants in this country and you don't see any charts, nor do the employees care, nor did management train the employees to worry about it.

Those techniques are returning. He was sort of a prophet and GM made him famous because they bought into his concepts. He is a very dynamic individual, very cost particular individual and gets people to listen. He has had a big impact on our companies. Now we are going back to applying a lot of his techniques, all of which were developed here 30 years ago.

Representative OBEY. The question is always asked, it is almost a stereotypical question: Should Wisconsin go the high-technology route or should they go the traditional route? Should we seek high-technology industries or should we try to develop the ones we have here?

Correct me if I am wrong; what I think you appear to be saying in your testimony is that what Wisconsin probably ought to do is to obviously emphasize the existing manufacturing structure that we have but try to marry that with new kinds of technology that will enable them to leapfrog forward in terms of their ability to compete. Is that what you are saying?

Mr. BOLLINGER. In two areas. In the product itself, to assure that the product has the technology built into it and in the process that produces the product, and that that technology is new and moderate so that it can be done cost-effectively.

Materials, savings in cost, labor savings and the automation processes and the replacement of processes that are cost particular and that have pollution problems with plasma processes that are deposited in vacuum chambers and are very clean. We have so many alternatives to materials and coatings and things like this. If our companies don't have enough engineering talent to spend the time and to have the knowledge base, then they continue producing what they are making tomorrow just the way they did it yesterday.

Suddenly someone comes along with new technology and new material or a new process to make it with new material and they can do it at a price that is only part of it.

There is a $12 watch. It has got more functions than any watch you could have wanted to have for $500 10 years ago. You can buy it in K mart for $12. It is "Innovation Time" it is called. It is a navigator's watch. It has got Greenwich mean time on it. For 12 bucks. That is new and high technology all in one package. It doesn't even have a metal band. It has got an impervious band that doesn't rot like other new materials.

And new ways of putting these things in—I said that the chip of today in 10 years will look archaic. The number of pieces of information and storage and data capturing devices that can be placed in one little integrated chip in molecular-level structures is going to still continue to revolutionize this whole industry.

We have to use those things in our products. We have to use those things in a hair dryer and in a washing machine and in a car, whatever it is. If we don't have the people with that mind set of reaching out into these new areas and bringing them in to our traditional products, the things people want to buy, then I think we are doomed. Someone else will do it. They will do it in the Pacific or in Europe.

Representative OBEY. Thank you.

Mr. Hassett, I would like to put you on the spot and just ask you a question you probably won't want to answer.

Mr. HASSETT. I think manufacturing was slow to recognize the problems. Now they are coming around, using high-technology techniques in the old smokestack industries. I don't think we will exist otherwise.

They have got to use the high-technology techniques to stay in business. I think we are all slowly—they have had this old way of doing things and things are happening. They didn't quite understand it. Now they realize it and they have got to make those changes. They can't stay there unless they use the new techniques.

Representative OBEY. As you know, you and I have had conversations a number of times about the difficulty in getting some people in the business community to really become aggressive about innovation. You have got a lot of experience in moving all around the business community. You know an awful lot of people in it, too.

If I were to ask you which of the manufacturing sectors in Wisconsin today do you think have the most leadership, or which is most willing to be aggressive and innovative and thinking long-term rather than 5, 6 years down the line.

Mr. BOLLINGER. Five to six years, long-term.

Representative OBEY. Which sectors do you think you have the most difficulty in finding business leadership willing or able to do that? What would you say?

Mr. HASSETT. Those who are doing a tremendous job in the paper industry and the printing industry, they are doing a tremendous job, and then some of the major industries like Allen-Bradley as I mentioned. And some of the plastic firms.

There is a little firm called Teal Plastic. I don't think they have got over 60 employees. They spit out all this plastic tubing that goes all over the world. I said, how many of those do you make? Oh, about 5 million a day. Can you imagine that? Those are tubes they use for cleaning out your ears, Q-tips, and things you use for beer dispensing. They are doing a tremendous job and all kinds of plastic firms in the State.

Anything that you can find in a 5 and 10 cent store is made by a few of our firms.

The bigger industries are, as I said, learning now to use the high-technology technique. Allen-Bradley is the best example, but there are others. I mentioned the foundry because, he had 750 employees, about 3 years ago, and he went down to about 200. Remodeled the plant, remodernized and added all kind of things. Now he is up to about 300 employees, but he is producing twice and three times more than he produced 3 years ago. It is the individual.

If the individual gets the message, which I think they are trying to get across, they can survive. But if they leave that plant stay there and just try to get whatever they can out of it and don't modernize, the new entrepreneur comes on with something new and cheaper and that is—he produces it cheaper and undercuts them.

This is part of the problem. Part of the problem why some older plants we have had here did not produce as well, so if they had expanded some other company that they may have expanded in another State with new plants or here, they didn't feel it was worthwhile expanding here because of other reasons, transportation. But they had to build a new building. They had to expand.

Then the question is: Do you do it here or somewhere else? That is the big fight we are having. I think there are a lot of individuals who are moving ahead. But it is an individual thing in various companies. Some companies that are winners and some are falling behind. Foundries are a good example. Two or three of them are doing a terrific jobs. Others are almost belly up.

In the case of foundries, I went to Washington last time at Aspin's request to be on the new tank track and we have some very good overtures there that might be very helpful to our steel foundries because whoever gets the contract has made it very clear they would like some of this in Wisconsin. We are working on that.

Representative OBEY. Thank you.

Mr. Richards, one question, I notice in the Governor's Task Force and Agriculture Report that they spent a good deal of time discussing the impact that the existing Federal Tax Code has had on agriculture. They were talking, you mentioned in your statement, about the lack of determination to distinguish between the real farmer and a hobby farmer.

Let me ask you a question I have been asked a couple of times. I really don't know the answer to it. I want to hear what you would say as a practicing farmer.

Do you think that the average family farmer in Wisconsin would be better off if we were to eliminate the investment tax credit in the field of agriculture as some people have suggested in order to get at that problem that you are talking about, or do you think that it would not be a good thing to do?

Mr. RICHARDS. In my mind, over the long run, there is no doubt that the typical middle-sized farmer in Wisconsin would be better off if our tax codes were rewritten so that we quit bribing the wealthy people to take tax dollars and get into the business of producing surpluses for the Government to store.

In the short run there will be a little agony getting there, but in the long term there is no point in setting up an environment where it is more profitable to farm for the Government than it is to produce food for people to consume.

Representative OBEY. So in terms of the specific question of the investment tax credit, your response would be yes?

Mr. RICHARDS. Yes.

Representative OBEY. Senator Proxmire.

Senator PROXMIRE. Dean Bollinger, is there more or less innovation and adaptation of technology in Wisconsin than nationally? You gave anecdotal material. I would like to get your judgments on overall.

Mr. BOLLINGER. My candid judgment is there is less here. Talking to some people that have, that are entrepreneurs, they have had a difficult time getting capital.

Senator PROXMIRE. Why would it be more difficult in Wisconsin?

Mr. BOLLINGER. I am not sure that it is different in Illinois, but Minnesota is a little more aggressive perhaps. People are more conservative. Maybe it is because they don't understand the technologies.

Senator PROXMIRE. Are the banks more aggressive, are they helpful in Minnesota?

Mr. BOLLINGER. Banks are not the place you find the start-up-type money unless you already have a good financial——

Senator PROXMIRE. Where does this initiative come from?

Mr. BOLLINGER. It comes from people that have money that are willing to take high risks for high returns.

Senator PROXMIRE. Why do they have more in Minnesota than Wisconsin?

Mr. BOLLINGER. I don't know. Certainly Minneapolis is a financial center far greater than anything that exists in Wisconsin. And we don't have a financial center that is as active as Minneapolis.

Representative OBEY. Could I interrupt a second. I got in trouble a couple years ago because I made the remark to a Milwaukee newspaper reporter and when he wrote the story, he applied it to the whole State. I was only speaking in terms of Milwaukee. I am very careful never to criticize my own district.

We were in a discussion about the difference between the Milwaukee economy and the Minneapolis economy. One of the points I made is that it was my horseback judgment that in Milwaukee you had a great many closely held corporations, family, traditional kinds of entrepreneurs, whereas in Minneapolis, that was not so much the case and as a result of that, I thought that generically between those two cities you had a different mind set.

In addition, any differences in strength of the banking industry that you might have that you also had a different mind set because of the difference and the nature of those corporations. Am I all wet?

Mr. BOLLINGER. I think you are absolutely correct. The fact is that these dollars are held by the companies or small groups of people who have the companies. And they are very willing to invest in themselves.

Senator PROXMIRE. You are talking about in Milwaukee.

Mr. BOLLINGER. Yes. Allen-Bradley is an excellent example. A company that was in real financial trouble and a very wealthy company. They risked millions to do what Mr. Hassett told you they did. That was the example—I didn't name them in my testimony—but that was the same example.

A.O. Smith is another one, Kohler. There is no company in the country more aggressive than Kohler. But the money is tied up more relative to these companies than in Minneapolis. You don't have those traditional companies in Minneapolis, but you have people with money that want to make money.

I would say that you are absolutely—if that is what you meant as you explained it, you are absolutely correct.

Senator PROXMIRE. I wish I knew how we could get those people to come here. Probably would all be Republicans though, so maybe not.

Would you give us the firms that you cite as excellent examples, but will you supply that? I am sure you won't be sued. They are all very nice remarks you make about the companies. I think it would be very helpful for us to know.

You have a list in your prepared statement of important technologies. I see no reference to computers.

Mr. BOLLINGER. That is there.

Senator PROXMIRE. You had that list.

Mr. BOLLINGER. Computers are the subject of the technologies. I talk about new materials and ceramics and these things. And the computer is built out of those things. But I think the computer itself is obviously fundamental to everything that is happening.

Senator PROXMIRE. You mentioned Rexnord. I have worked there for a day. I know the people who own it pretty well. They have stressed technology for a long, long time. Their idea is to not get out of the traditional line but to apply robotics and computers to their operations so they can be more productive. Is that what you have in mind?

Mr. BOLLINGER. Yes. In many parts of their business that is what they have done. They have gone out of some businesses and changed the characters of doing those businesses, like earth-moving equipment.

You cannot build a piece of earth-moving equipment in Milwaukee and ship it to South Africa. What you do is you world-source the parts from Korea, from Japan. You put up a small plant in South Africa and you build them there and sell them there. It is engineered in Milwaukee. And it is world-sourced and local-fabricated. So the whole manufacturing world has changed in terms of how you do your business in order to produce a quality product at a competitive price.

What value added—to me the whole economy depends on value added. I don't believe that unless you create things and produce value added that we ever get anywhere. We are all feeding each other. So we have to have a product that people want and can afford. We have to figure out a way to do that. That is what companies like Rexnord have done.

Senator PROXMIRE. In connection with your work, you are as critical as the dean in engineering and research and so forth. We had the president of the University of Wisconsin, did a fine job this morning, Ms. Lyall. But the statistics are very distressing that we don't have the incorporations in this State compared to other States. We are behind Indiana, behind Minnesota, behind the national average, sharply behind it. And there is a feeling that the University isn't aggressive enough.

What do we do to over come that?

Mr. BOLLINGER. There hasn't been enough focus on the technology education in our State, in my opinion.

Senator PROXMIRE. This is particularly with the new people. A person works for one firm, he wants to start his own business. And he may be a good salesman. He may be all kinds of things but—a good accountant or whatever—but he doesn't have the engineering or research background. How can you reach people like that so that you can let them know that the university is willing, ready and able to really give them a hand.

Mr. BOLLINGER. We are trying to go state-wide, to invite people to the campus, to go and talk to them, give seminars. It is a long-term educational process.

Senator PROXMIRE. When you refer to your college, you are referring to the University of Wisconsin or just your particular program?

Mr. BOLLINGER. My program is the College of Engineering in Madison.

Senator PROXMIRE. That explains then the difference. You say that only 28 percent of your budget comes from State taxes. President Lyall said 40 percent of the university's budget——

Mr. BOLLINGER. In the engineering college, only 28 percent of it is from the State of Wisconsin. The rest is from industry and Government. We are a fairly big contractor to the Federal Government.

Senator PROXMIRE. I certainly enjoyed your testimony. I want to ask you about Allen-Bradley. It is a great story you told about how they gutted the floor and moved out the employees and moved in robotics.

I tell you, the reason I go to Allen-Bradley is to shake hands with people going to work. Those robots, they either don't vote or they vote wrong.

Mr. HASSETT. You ought to go down to General Motors. They have got about 128 of those robots.

Senator PROXMIRE. I will stay away from them.

Can you give us the statistics—you said that there are higher wages in Wisconsin compared to other States. I know that is generally accepted; I have always viewed that as being correct, but they denied that.

Mr. HASSETT. When you take averages—I don't know what the average is—but we have the skills—workers are higher paid in Wisconsin; and some companies who have plants in other States and also Wisconsin have their high-skilled people here and they are high paid. But the same—or the employees working for them in other States, are lower paid.

The average—if you average all the other kinds of companies, all the service operations, you may come out with a lower average. But we have high skilled——

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Senator PROXMIRE. Whatever you could give us to document that, I would appreciate it.

Another question I have for you is: You say Wisconsin has paid the price of environmental protection. Other States have not. That is a price we won't have to pay in the future, at least in the future. Is that a hunch or is that based on a careful survey?

Mr. HASSETT. I think we are aggressively ahead of most other States in the things we have done for the environment. The paper industry has made tremendous investments to keep the air and water clean and whatever else they throw out.

Senator PROXMIRE. And the paper industry in other States has not done the same.

Mr. HASSETT. The rules are not as strict yet. We wanted to keep the air and water clean in Wisconsin, but let's not get us out of sync or out of a situation where we can't compete with Maine and South Carolina and all those other States where the paper industries are competing.

I think we moved ahead very aggressively, but I—let's try to have some restraint here to make sure we don't get out of competition.

Senator PROXMIRE. Then you make a complaint that we pay a high price for education both at the elementary and at the higher level. It is not just a matter of pride. It is a matter of fact.

But the brain drain, you say, is—it means that we lose a lot of those people. What do we do about that?

Mr. HASSETT. That is the $64,000 question.

I don't know if some people are going to the university that probably shouldn't be going there. I don't know how you would test that. But I think we have always argued among ourselves about whether or not the doors are so wide open for people that may not be eligible to go there, higher education.

Senator PROXMIRE. We just——

Mr. HASSETT. One of the Big 10 schools, in spite of the increase this year, was still the lowest in tuition for all Big 10.

Senator PROXMIRE. Don't you think the university could help in opening up foreign markets? You didn't mention that. You mentioned other areas of assistance, but not the university.

Mr. HASSETT. They have done a great job. I was at one of his meetings maybe 3 years ago where he brought in some executives from 25 companies to show them what the university can do. I just learned about chips at that time.

I remember after about 3 hours of this, a fellow from LaCrosse said, my God, I just sent about 25 engineers out to California to learn about this. Our problem, in my opinion—I have told him that and have told the president—we have got to let more people know what we have going for us here in some way.

So now they have about 119 engineers and now they are being trained here. I think they are willing to do it, but it is a hell of a job getting the word out.

Senator PROXMIRE. I am delighted that you testified. I couldn't agree with you more about how all the research we are doing for agriculture isn't helping the farmer.

As I pointed out, we had 107,000 dairy farms in the State in 1954. We have 40,000 now. Two-thirds of them are gone. So the farmer hasn't been helped, but the consumer has really been helped.

People now pay 15 percent of their income for food in this country compared to 25 percent in Europe, to 50 percent in Russia, and about 75 percent in the underdeveloped countries in the world. So the consumer has gotten an enormous benefit out of that.

Let me ask very quickly about a couple of things. You talk about interest rates and too tight monetary policy. I am on the Banking Committee and have been on it ever since I have been in the Senate. I am concerned with that.

I don't think the Federal Reserve Board has the power really to directly control interest rates for very long. The difficulty is this: that interest rates are likely to go up if there is an inflationary expectation. If people expect prices to rise over the next 5 or 6, 7, 8 years and they do, with the huge deficits we have, then they aren't going to invest long-term without a real premium in interest rates.

So that the way we get interest rates down, it seems to me, is to get the deficit under control so there won't be that expectation.

Mr. RICHARDS. I didn't intend to say that I thought we necessarily had too tight a policy or too high interest rates, but just to point out the contrast, that we led our agricultural producers to believe that we had almost unlimited markets, and at the time we had very cheap interest. And we did very consciously. The Federal Reserve shifted their emphasis toward slowing down inflation. We caught these people in a crossfire in the sense that the market was imaginary, and with the higher cost they had nowhere to hide, so to speak.

I don't particularly disagree that we are going to have huge deficits and interest problems.

Senator PROXMIRE. It is a deficit that is really driving that price up and really hurting the farmer more than any other thing in the country. We export more than we produce. And there is just no question that because the value of the dollar has gone up so much, the farmer is taking a whale of a beating. The deficit is the, certainly one of the fundamental, probably the fundamental problem involved.

Mr. RICHARDS. But all we do is talk about getting rid of the deficit. Meanwhile I am trying to say we have got farmers that believed what we told them and they are paying the supreme price for that.

Senator PROXMIRE. Maybe you are right. Maybe I am right. But all the statistics have indicated that in 1981, 1982, 1983, the farmer had no return on his equity, less than zero, zip. No return at all. I don't know, the figures that I have gotten are from the Department of Agriculture.

But they indicate that the farmer actually lost money for the first time since 1931. That he had no return on his invested capital.

Mr. RICHARDS. It depends on whether you physically take out anything for labor or not. But the net effect is totally right. We have been working for nothing. The forecasts are we are going to continue to work for nothing for at least a couple more years.

Senator PROXMIRE. Thank you.

Representative OBEY. Thank you all very much.

I appreciate you all coming here today. I think you all provided excellent testimony.

I would like to take about a 5-minute break. When we come back, I would like to combine the next two panels. I understand that one of the persons on the second panel has to leave early. So I would like to combine those two panels if we could after we begin, after about a 5-minute break.

[A 5-minute recess was taken.]

Representative OBEY. I am going to try to ask everybody from the next two panels to come up to the table at once. We are really running behind and we will try to not extend you too far into the evening.

What we wanted to do with the next people who are testifying is to take a look at two specific problems. One, the issue of tourism, which is a crucial question in the Wisconsin economy.

And second, to take a look at what has been the experience and what the judgments are of some business people in the local area who have very special problems to deal with in the manufacturing sector and in the agricultural sector.

In the agricultural sector we have a tendency to always talk about dairy, but there are other aspects to our agriculture industry. We have a witness who will talk to us about that.

We will have on tourism, first of all State Representative Jim Holperin of Rhinelander, who is the chairman of the State Assembly's Tourism Committee.

Second, Mr. Jack Crowley, who is vice president of Forward Communications of Wausau, past president of the State Tourism Council and now a member of the council.

Mr. Moose Speros, president of the Hayward Lakes Resort Association, and I must say, who knows how to find some of the best fishing guides in the State.

We have from the manufacturing sector Mr. Robert Hartwig, president of Hartwig Manufacturing Corp. from here in Marathon County.

We are supposed to have Mr. Gene Katz, president of Katz Co., Inc., to talk to us about the situation in the potato industry. I don't know where Mr. Katz is at this point, but we are going to proceed.

Let me ask that we start with the three witnesses interested in tourism first, and you give me your comments about the problems we see in that area. Then we can move right on to manufacturing and I will ask questions of everyone at that time.

I should also say that we have with us Paul Umhoefer who is president and chairman of Felker Bros. Corp., a well known Marshfield firm, with whom I have had considerable discussions in the past about not only the problems of the manufacturing industry, but the problems of government in general.

He will also be giving us his views and concerns about some of the topics we have had under discussion today.

I should announce that Senator Proxmire has had to leave because he had to get down to Madison on some family business before he goes over to Milwaukee.

But I wanted to express my thanks to him for staying here as long as he did. I want to assure you that even though Bill is not going to be here for this portion of the program, everything that is said here will be—will still be a part of the record and every member of the committee will be given a copy of it.

Let me ask if we can start with you, Mr. Holperin, and if you could try to confine your remarks to about 5 or 7 minutes we will try to be out of here by 8.

STATEMENT OF HON. JIM HOLPERIN, WISCONSIN STATE REPRESENTATIVE, AND CHAIRMAN, WISCONSIN HOUSE COMMITTEE ON TOURISM, RECREATION AND FOREST PRODUCTIVITY

Mr. HOLPERIN. Thank you for bringing this series of congressional hearings to north-central Wisconsin and for the opportunity to appear before you today.

I am State Representative Jack Holperin, and I represent Oneida and Vilas Counties in the Wisconsin Assembly. I chair the Assembly Committee on Tourism, Recreation and Forest Productivity and would like to review briefly the status, as I see it, of the travel and recreation industry in the State, State government's role in promoting and sustaining tourism growth, and the prospects for the industry over the next few years.

The importance of travel and recreation to the Wisconsin economy is self-evident, with State tourism receipts at slightly over $3 billion annually and employment at approximately 130,000.

While southeastern Wisconsin counties record the largest portion of hospitality receipts, the local economies of many central and northern counties are more affected by, or directly dependent on, the health of the tourism industry.

The outlook for the travel and recreation industry in this State is very positive. Generally, we've had a very good summer and the future for the industry looks bright.

Trends developing in the northern part of the State include a gradual shift away from family resorts to motel, timeshare and condominium accommodations. A corresponding shift away from the traditional 2-week vacation for relaxation to shorter trips during which more planned activities or events are sought. There is a continued emphasis on traditional recreational pursuits like fishing, hunting, snowmobiling, and skiing, but there is new and growing emphasis on aerobic or "silent" sports like bicycling, running, cross-country skiing, sailing, and canoeing.

State government does have an important role to play in maintaining and strengthening Wisconsin's role as a traditional vacation destination in the Midwest.

The central and most controversial legislative issue for the industry over the past few years has been the level of State financial support for recreation advertising. The industry has contended, properly, that the level of State support for promotion has been insufficient when compared to surrounding States.

The legislature has responded with large percentage increases in promotion support, but neighboring States, most with much larger populations, have been generous as well and Wisconsin is still spending far less than they.

Many legislators have questioned the State's role in paying for more expensive promotion campaigns, suggesting that the industry itself ought to assume more direct responsibility for financing the State promotion program.

Last week, Lt. Gov. Jim Flynn appointed a 26-member task force to consider some sort of statewide recreation or hospitality tax to provide the level of revenue necessary to compete effectively in attracting travelers to this State.

While the promotion debate continues others have emphasized another, and perhaps more important, State responsibility to the tourism industry. The Wisconsin Strategic Development Commission's Tourism Task Force concluded in April that:

> Wisconsin is a popular state for pleasure travelers because it has an abundance of historic and scenic sites, public parks, lakes, and developed beaches. Wisconsin's varied cultural and ethnic groups and wide diversity of attractions also serve to draw out-of-state visitors.
>
> Finally, Wisconsin's location near major urban areas and careful stewardship of natural resources have also served as competitive advantages.

Throughout, the report placed far less emphasis on marketing and promotion than on the stewardship and development of the State's abundant natural resources.

Not surprisingly, therefore, the task force's primary goal for a strategy for the industry is "maintaining the existing quality of natural resources."

This is an area where State government has already invested considerable energy and financial resources. We have done much more than many other States, and it shows.

Obviously, we need both promotion and attractive natural resources to compete in today's travel and recreation market. Marketing will be needed to draw new visitors, and our resource base will be needed to keep those visitors coming back.

Perhaps because Wisconsin has been a leader in the careful stewardship of our natural resources, the principals in the travel and recreation industry do not have natural resources issues as high as they might on their industry agenda.

In fact, often the relationship between natural resources and tourism is mentioned only parenthetically or as an afterthought.

This is unfortunate, and I personally encourage the tourism industry to become more involved in current environmental and natural resource issues.

Particularly relevant in this legislative session are measures to control sulfur dioxide emissions from coal burning utility plants, improve the access to and quality of inland lakes, and measures to control widespread damage to woods and streams caused by exploding beaver populations.

The Federal Government also has an important role to play in providing for natural resource protection and development, and can help in other ways.

Congressman Obey, for example, has been very active in support of nationwide legislation to control acid rain and has worked for a stable, environmentally sound national parks and forest policy.

The tourism industry needs a good interstate highway system and plentiful supplies of gasoline. The industry also depends on a stable economy so that travel, which is still a luxury for most working people, will be possible and affordable.

Again, the future for the travel and recreation economy in Wisconsin is bright. The tourism industry and Government need each other, and as we work together for a stronger economy, I would encourage additional opportunities like this to meet and discuss our mutual concerns.

Thank you again, Congressman Obey, for sponsoring this series of hearings, and for your sincere interest in the future of the travel and recreation industry.

Representative OBEY. It is hard for me to call you Mr. Crowley, Jack.

STATEMENT OF JACK CROWLEY, MEMBER AND PAST CHAIRMAN, WISCONSIN STATE TOURISM COUNCIL

Mr. CROWLEY. Thank you.

My name is Jack Crowley, vice president of Forward Telecasting, Inc., a division of Forward Communications. I work at a television station which has been my vocation for 32 years.

For the past 16 years, State tourism has been an avocation.

For background quickly, as chairman of the Wausau Area Chamber of Commerce Visitors and Convention Bureau, I assisted in the formulation and incorporation of Central Wisconsin River County, which is one of seven regional State corporations mandated by legislative action in 1969.

I was elected to the Wisconsin Tourism Federation in 1980 as a member of their board, and in the same year was appointed by the Governor to the Wisconsin State Tourism Council, which I chaired in 1980 and 1981. I was reappointed to the council in 1983.

So much for my tourism pedigree!

I believe my information on the state of the State tourism industry will be accurate and, on occasion, a bit editorial. Nonetheless, factually, although tourism in 1985, statewide, is healthy, there are some pockets of pain—one being our city of Wausau, where there is a lack of year-round tourist attractions.

To thumbnail sketch the State in general, tourism runs from good to very good in all areas. Now, this is not a reflection of all involved in tourism or ancillary tourism industry. It is an overall report from various sources around the State.

For instance: Door County, good to great; Lake Geneva, very good; North Central West, good to very good; east mid-State, the Experimental Aircraft Association has set records; Milwaukee, good; Wisconsin Dells, good; and finally, La Crosse and Northwest, also good.

Although there have been reports of extreme hardship in isolated areas, there are operators within those same areas who are doing well. Good business people tend to do good business.

It is not my intention to present to you redundancies but hold, sir, to this simple premise: Tourism continues to grow.

Our State's leadership has smugly watched this growth without spending a comparative dime and yet tourism continues to grow. Ah, but what have our adjacent States found? Investment dollars for promotion of tourism can bring in super dividends. Minnesota outspends Wisconsin by hundreds of thousands of dollars; Michigan, by millions of dollars; and Illinois, by a rate of close to 10 to 1.

This spring the promotion funds expended by the division of tourism was a bit over $260,000 in various media, which has resulted in a 10-percent increase at our tourism information centers around the State, a whopping 70-percent increase of phone calls asking for information, and an overall cumulative total of 13 percent increase. The bottom line now appears to be, spend a dime, get over $2 back. That's good business.

With that kind of future, no wonder Door County has increased by 400 rooms, which means, of course, more jobs.

I believe the same holds true of the U.S.T.T.A., the U.S. Travel and Tourism Agency, with their 12 million for selling the United States to foreign countries' tourists. Compared to Illinois' $10 million budget, it appears that the Federal Government is using Wisconsin as their role model.

International travel does not always mean foreign tourists going to Disneyland, or the Grand Canyon, or Las Vegas. It could mean large groups from foreign piscatorial societies fishing Wisconsin's lakes.

I have always wanted to use that word, fishing Wisconsin's lakes, but on a limited basis.

The same could hold true for hunters.

It would also be helpful if a close review was made of our visa waiver regulations that are currently impeding foreign travelers from coming to the United States.

There is opportunity for growth. It takes investment dollars, both on the State and Federal levels.

Senator Proxmire's much-heralded "Golden Fleece Award" could be muted a bit to establish a "Blind Iron Pyrite's Award" given to those who can look at past performance and then still refuse to invest in a relatively blue chip certainty.

Thank you very much.

Representative OBEY. I am sorry Senator Proxmire was not here for that one, but I will make certain he gets a personal copy of your statement.

Mr. CROWLEY. Thank you.

Representative OBEY. Mr. Speros.

STATEMENT OF RICHARD SPEROS, PRESIDENT, HAYWARD LAKES RESORT ASSOCIATION, HAYWARD, WI

Mr. SPEROS. Thank you for inviting me. We are going to get down to the basics. I am not going to contradict Representative Holperin or Mr. Crowley's statements, but they don't jive with mine.

I will tell you about northwest Wisconsin.

Representative OBEY. I will let you two argue.

Mr. SPEROS. Tourism provides 240,000 jobs in Wisconsin, or 13 percent of Wisconsin's total job market.

I got those figures from the State. We call down there and they tell us that. In 1966, Sawyer County had 350 resorts. I am from Sawyer County. We now have 182. To me that is almost a 50-percent decrease in resorts.

As Mr. Holperin said, they go condo. Condos are not welcomed in our county. If you want to ask the retailers, the restaurant people, the gas station attendants, do you want one person coming twice a year or do you want different people coming 26 weeks a year, I can assure you what their answer is going to be.

The restaurants are in trouble. The gas stations are decreasing on their—the money they are making. We have 131 resorts in my association, 749 cottages.

I am not going to bore you with each detail, but during prime time, June 15 to July 27, we had a 21.8 percent vacancy. To me that is not good business in northwest central Wisconsin.

The State of Michigan had a tourism budget in 1984 of $6.9 million, and it is expecting $9.3 million in the future. Minnesota had a budget of $8.5 million and is anticipating spending $12.6 million.

Also in Minnesota, Mark Dayton has quoted him in the paper saying they have got a 25-percent increase in inquiries because of this; $1.8 million in Wisconsin. A tragic figure. We can go on and talk about why it is a tragic figure. I am just going to put it out and hope that the Congressman and Senator can give me some answers.

Negative factors on tourism today, the high interest rates. We are in a catch-22 situation. We try and fix up our resorts. The interest rate is 12 to 15 percent. We can't afford to fix them at that interest rate so we try it, and some of us aren't as handy as we like to think we are.

High personal property tax, the States in Minnesota and Illinois did away with their personal property tax. Over the past 10 years we have made a start. Farmers have acquired a phased-in exemption. Logging equipment is not exempt. Orchard trees and cranberry vines were exempted.

I just found out that the shade for the ginseng growers is not exempted. I didn't know you paid tax on shade, but I understand they were.

We are paying for rental furnishings and secondhand furnishings in cottages that are 30 years old. We are asking an assessor to come in, and we are still paying that tax. We want it exempted. We are not asking for a handout. Our budget in my organization is over $82,000. This year it will be $86,500.

The past year we received a total of $175 from the State of Wisconsin for co-op advertising. A ridiculous figure. It is an insult to take $175 and the State is getting 82,000 dollars' worth of advertising from us. Other States would give an arm and a leg to have the natural resources that we have. We do have a number of them. I am not going to bore you with them.

I assume you know what they are. We need some of those problems solved to make a more healthy industry than we have got. As I said, we aren't asking for a handout. They are going to get back whatever is invested because we are paying it back.

Thank you.

[The prepared statement of Mr. Speros follows:]

Prepared Statement of Richard Speros

Tourism, Wisconsin's second largest industry, is a "goose that lays a golden egg" for Wisconsin's tax coffers (literally hundreds of millions of dollars in sales tax) and vast sums for the state's citizonry; yet, the state doesn't even supply sufficient "scratch" feed to keep her nourished. When there are far fewer "eggs" from tourism and most assuredly that will be the situation unless major changes are made at the state level, I can see our governmental officials in Madison scratching their heads in bewilderment at what happened to those "golden eggs." And it would only cost so little and reap so much. Where will the blame be placed? Will each major party blame the other?

Tourism provides 240,000 jobs in Wisconsin or 13% of Wisconsin's total job market. In northern Wisconsin that percentage is much higher. Hundreds of millions of dollars are paid to the state in income tax . . . also derived from the tourism base. Tourism needs the state as a partner-it collects vast sums but continually has been a "weak sister" in doing its share in promoting the state.

A study done by the Wisconsin Department of Development indicates that the most significant problem facing tourism is the decline in the number of lodging rooms and facilities and the far fewer dollars being spent by Wisconsin compared to her neighboring states. Sawyer county had 350 resorts in 1966: now it has 182 . . . with those lost resorts has disappeared millions of dollars to the local economy as well as the state.

The state of Michigan had a tourism budget in 1984 of $6.9 million dollars--and it is expecting $9.3 million in the future. Minnesota had a budget of $8.5 million and is anticipating spending $12.6 million. Wisconsin has a budget of $1.8 million. What's wrong in Wisconsin? Why this backward, sleepy-town attitude? Perhaps our elected officials don't realize the "big bucks" that are to be gained for our state coffers and Wisconsin's citizens. If so, it's tragic.

Another tragedy that has befallen northern Wisconsin has to do with the Northwest Regional Planning Board. A number of years ago it predicted or presumed that some of northern Wisconsin's lost tourism economy would be picked up by small industry developing there. That did not materialize to any degree. During those intervening years tourism has continually decreased. Now we have a new report from the Northwest Regional Planning Board. This time they believe that because northern Wisconsin has the lowest per-hour wage base in the state that the area might be able to draw small business. How much do you want to bet that they'll be wrong again--and in the meantime, tourism will again decline.

Why not be pragmatic and "protect" what we have. Most other states would give an arm and a leg for what Wisconsin has to offer. We ask all representatives in Madison plus the governor to present their views for northern Wisconsin once tourism is basically gone. What recommendations do they have? What will be the "new" economic base? We sincerely hope that northern Wisconsin does not become Minnesota's "Iron Range."

The designated figures supplied by the Hayward Lakes Resort Association do not include the entire monies spent for tourism promotion from Sawyer County. The Sawyer County Recreation Association has a budget of $22,500. The Hayward Chamber of Commerce spends $18,000. The various local resort associations spent approximately $10,000 for promotional endeavors. And lastly, many individual resorts do direct advertising in the midwestern portion of the United states. A conservative figure for those individuals advertising will be an additional $10,000. Those figures indicate a total of $148,000 for promotional media. We believe it is evident that the private sector is doing its share in promoting our area of the state. We do need a partnership hand from the state and federal in those two fulfilling their duties.

The U.S. Travel Data Center states that during the summer of 1985 126 million pleasure trips will be taken by U.S. citizens with them spending $85 billion dollars. Will Wisconsin's share be what it rightly deserves? There are some indications already that Wisconsin is not drawing its share. The Hayward Lakes Resort Association has 131 resorts in its membership. Those resorts comprise 749 cottages. Let's examine our vacancies during the summer of 1985 thus far:

June 15-22--(203 open cottages)	27%
June 22-29--(174 open cottages)	23%
June 29-July 6--(135 open cottages)	18%
July 6-13--(152 open cottages)	20%
July 13-20--(177 open cottages)	23%
July 20-27--(157 open cottages)	20%

The vacancies averaged 21.8% during prime time thus far. Something is drastically wrong. Remember, back in 1966 we had 350 resorts and now we have 182. Almost half are gone. However, back then our occupancy rate was higher with more rooms to rent.

Let's examine some very plausible reasons for this drastic decline. Wisconsin's drawing area is under a continual barrage of media coverage from Michigan, Minnesota, and Canada. They are on radio, T.V., in papers and magazines galore. Their millions of dollars spent are having a negative effect on Wisconsin as a whole. Meanwhile, Wisconsin's governmental officials are sleeping!

Another negative factor for tourism is the high interest rates. It is impossible for resorters to pay 12-15% interest rates in order to up-grade their establishments. After paying their excessively high property taxes, high property and liability insurance, and exorbitant utility bills there isn't much left for any kinds of improvements. What the tourism industry needs badly is low interest loans through either the state or federal governments.

Our organization, the Hayward Lakes Resort Association, is not asking for a free handout. Our budget is over $82,000. This past year we received a measly total of $175 from the state of Wisconsin through co-op sharing for advertising. That is nothing but insulting. We supply the state coffers with hundreds of millions of dollars in state tax and are treated with indifference in return.

The Hayward Lakes Resort Association goes on record for a substantial increase in the state's tourism budget--$10,000,000 is not too much. Even with that, we will still be out spent by a goodly number of states. We recommend that there be 100% or full co-op funding with any organization that is willing to pay its share. We'll put our money where our mouth is--we have in the past, we will now, and we will do so in the future.

Let's have Wisconsin be a leader again---it's just common sense for the state itself as well as its citizens.

Representative OBEY. Let me ask the forbearance of the other two witnesses. I have already introduced you, but let me ask you to just proceed, say whatever you want. If you feel the need to leave at any time——

Mr. KATZ. I have plenty of time. I thought we were starting at about 5. I am OK now. If I can get out of here by 5:30, I am fine.

Representative OBEY. Why don't you go ahead and say what you are going to say.

STATEMENT OF EUGENE J. KATZ, PRESIDENT, KATZ CO., INC., PLOVER, WI

Mr. KATZ. Thank you for asking me to come down and talk about something that I have been involved with for over 30 years, and it has been good to me and all those associated with me, but still is a labor of love.

The potato industry is a much hidden asset in the Wisconsin agricultural picture. Suffice it to say that our industry association rates our annual income in excess of $100 million, which makes it rather sizable.

During the middle 1950's, to Wisconsin came a man from Nebraska by the name of John Maxwell who introduced center pivot irrigation systems where we were able to bring irrigation into automation and which resurrected a great amount of acreage in central Wisconsin.

Those of you who have driven U.S. 51 are familiar with that. So the land that was drought-stricken during the late 1920's and 1930's now came back into production.

With that, the potato industry enjoyed a tremendously meteoric rise which continued through the 1960's and into the 1970's. And now it seems to have leveled off.

To give you an idea of how it fits in numbers, we have now raised approximately 65,000 acres of potatoes in our State.

Compared with other producing States, we produce 20 percent of what Idaho produces which is 325,000 acres. And our figure is about 5.5 percent of the total production in the United States. The total U.S. production of potatoes only represents about 7.5 to 8 percent of the world production. So although we think that we have a lot of acres, on a universal level, it is rather small. But we use our potatoes a lot differently than the people in other countries do. So that will give you an idea of what our impact is on a national level, 5.5 percent.

We will be here forever as far as potatoes are concerned because we are so close to markets, and we have favorable transportation facilities which enable us to get to the east coast in 4 to 8 hours at the most, whereas there is always a fight for trucks out West and it takes 5, 6 days to get the merchandise to them. So we will be here forever because of our transportation factor.

Our production in the State goes into three categories: We have table potatoes, seed potatoes, and processing potatoes. The table potatoes are what most everyone is familiar with, are the products we buy in the stores. And they are served in the restaurants and in institutions.

The seed potatoes are the potatoes that are raised primarily for the market to sell to commercial growers who are raising potatoes for either the table or the processing industry.

And the third category, of course, is the processing industry, which represents the canners who, like Larson Canning Co., use diced potatoes in their veg mix and the small potatoes, whole potatoes that are canned for use in homes and institutions.

During the summertime, we supply potato chip plants with chipping varieties; that is primarily summer; and there are some storage during the rest of the year to feed those plants.

We also, in the processing industry, service dehydrators, people who make potato flakes for snack foods or for potato buds, and also for products that are reconstituted back again into other foods.

And the one big asset that we have in the State, the OreIda Plant, at this point the only major french fry plant that we have in the State, other than potatoes that go to plants out of the State for french fries. And then, and in a minor way, processors or potato salad people, which is mostly a summertime item.

In order for our industry to sustain itself—as I said, I think we have leveled off, and leveling off to me is never a good sign. We have to keep growing to sustain progress.

For us to sustain progress, we need to have more processing plants. That is a catch 22 because to increase—get additional processing plants, we need to increase our acreage. At this point in time, on a national level, the entire industry is suffering from overproduction. So when we increase, somebody is going to have to get out. And we are going to have a struggle within our industry on a national level to find out who is going to survive.

Our need to increase is very basic. We, as an industry, go out of major markets probably about the 1st of March, and in order for us to compete, we need to be able to offer product to the American public on the same level that our competitors do, and that is through the month of June.

When I am referring to—Idaho, Washington, Oregon, Colorado, those are our major competitors.

I might add that when we talk about table potatoes, we are talking of the russet potato. The baking potato has now become on the same level almost as a hamburger. We have to think of Idaho and those other States I mentioned as our competitors.

Where can this hearing and findings of it help our industry? We are not looking, as the gentleman from the tourism industry, for a handout. We need help on a normal legislative manner. The biggest thing that can be done for us is to eliminate the unfair competition that we are getting from Canada.

A lot of people aren't aware that Canada exports into the United States more potatoes than we export to them in the summertime. We would not, as an industry, make that protest if we were dealing with and in competition with a subsidized product. The Canadian Government has, for the past several years, subsidized the Canadian potato growers.

They allow them free freight to the U.S. border and they are able to come into the east coast at a transportation cost even lower than the people in Maine and some of the Northern States can.

The Government guarantees the potato grower a 5-year average on price. In other words, if he gets into a year like our potato people are facing now, where they can't even get close to cost of production, they can go back to the previous 4 years, get an average and the Government will make up the difference.

The Government will also give outright grants to three or more people who want to farm their own packing shed, and that is an outright grant and never has to be returned.

So our industry is competing with a subsidized product, and it is just not fair competition. All we ask is that some solution be found. And I must apologize to Senator Cohen, I called him Carl. His name is William in my statement, but please send my regrets. But he is very active in trying to solve that problem and the support of the committee and the people who are active in it, Congressman, would be greatly appreciated by our industry.

Thank you.

Representative OBEY. Thank you.

[The prepared statement of Mr. Katz follows:]

Prepared Statement of Eugene J. Katz

My name is Eugene J. Katz and I am the President of The Katz Company, Inc. of Plover, Wisconsin. Our Firm is primarily engaged in agri-marketing with an emphasis on fresh potatoes. We have been involved in marketing potatoes for over thirty (30) years which should give credibility to our statement.

First of all, allow me to give you a few statistics on the potato industry. The annual dollar volume in fresh potato sales in Wisconsin is far in excess of $100,000,000.00. This figure, as a minimum, is generally used as a guideline based on an informal survey by our Wisconsin Potato & Vegetable Growers Ass'n.. Our State, on a production basis, raises 65,000 acres which,as of July 10,1985 in a release by the U.S. Department of Agriculture, places Wisconsin in sixth place on a national production level. For informational purposes here are the first five positions in porduction by acres:

1. Idaho	325,000 acres
2. North Dakota	145,000 acres
3. Washington	127,000 acres
4. Maine	98,000 acres
5. Minnesota	78,500 acres

Since the total production is 1,181,300 acres our 65,000 acres is 5.5% of the total. This puts into proper perspective what Wisconsin's impact is at this point in time.

The acreage raised in Wisconsin is distributed as follows:

Central Wisconsin	40,000 acres
Langlade County	12,000 acres
Rice Lake area	1,500 acres
Rhinelander-Eagle River area	4,500 acres
Racine area	2,300 acres
Jefferson area	1,500 acres
Misc.	3,200 acres

Distribution of our potato crop is put into three different channels. The general public is familiar with our fresh potato program, but equally as important is the seed potato program and the processing potato outlet. Our seed program has developed into a very respectable position on a national level and enjoys an excellent following. The future of this segment of our industry is very bright, as the very close-knit group involved in seed have done an excellent job in maintaining their position in that particular market.

A sizeable portion of our potato crop enters the processing field. This portion of our industry caters to the canners, the potato chip plants, the dehydrators, the french-fry processors and the potato salad makers in the summertime. The presence of two large processors in the Plover area has given Central Wisconsin a great base upon which to build our russet potato industry. Their investment in the Central Wisconsin area has placed our industry on a national level and an entre to future growth. The procurement of their supplies through growing contracts has stabilized the profit picture for their participating growers.

The fresh potato market is the more visible and exciting part of our potato industry. The introduction of self-propelled irrigation to our industry in the mid 1950's brought Wisconsin back into fresh potato prominence after the drought years in the 1930's had drastically cut the acreage. The ability through irrigation to raise an early marketable russet potato sky-rocketed Central Wisconsin into the russet baking potato supply channels during the late 50's and early 60's. With that success, the incentive to have the best in packing facilitites emerged and the era of sophisticated packing sheds came into being. To this day Wisconsin has maintained a group of packing sheds that rival any other major shipping area. A recent tour of Idaho convinced me that they have not kept apace with us on a shed to shed basis. With our ability to package on the same basis we have been fairly successful in competing with other areas. For informational purposes let it be known that we market red and white potatoes early in the season and then follow with russets for the major portion of the year.

At the present time the Wisconsin potato industry has taken steps to keep its position in the marketplace. They have retained professional marketing people to do market research and then make appropriate recommendations. A quality seal has been adopted and a new standard of grade has been established to put a "Wisconsin Finest" product into the super-market. It must be recognized that our industry is doing all it can to retain its share of the market.

There are factors beyond our control that loom ominously in our current market season. Overproduction of potatoes in every major growing area has brought current prices to far below production costs. The outlook for the remainder of the season, which extends into May,1986, is equally as bleak as overplanting extends into all the late producing states. To further complicate matters, our Government is allowing Canada to bring potatoes into our Country which adds to our glut and compounds our losses. These Canadian potatoes have various forms of subsidies and present unfair competition to our American producers. We have first-hand knowledge of this competition since we lost several outlets last Spring to Canada. In summary, at the present we are maintaining our position in the market-place as we have in the past several years, but our progress has not been as productive as we had projected. It would also seem likely that the low-price year we are experiencing will also disturb our quality program.

The Wisconsin potato industry has so established itself in the national supply picture that its future is guaranteed. However, there is concern for the future growth that was envisioned prior to this year. Any growth in our acreage would be dependent upon the increase in the number of processing plants in our area. There is constant inquiry and rumor about new processing plants coming here, but at this point in time nothing serious is happening.

We feel that in the near future our industry will have to address the necessity of having supplies of russet potatoes for the marketplace in the months of April, May, and June. The popularity of the baked potato through promotion by the fast-food industry has made it most apparent that we have supplies on the same calendar basis as competing areas. To meet the needs in those months we, the Wisconsin potato industry, must look into re-developing our russet acreage in the Northern Wisconsin growing sections so that the proper product can be furnished around the calendar. Most of us involved in our industry feel that late storage potatoes from the Central growing area are of a questionable quality. Sandland potatoes do not have the storage life to sustain their acceptability beyond March even under the most favorable of conditions. Our Northern sections were, until the 1970's, a very big factor in our russet acreage raising a very desireable product for late season shipment. The sooner we can bring those areas back in the picture the sooner we can offer the trade the same full marketing season that Idaho, Washington, Oregon, and Colorado can offer.

The future of the Wisconsin potato industry basically lies within itself. Its ability to react to changes in the marketplace will determine how it fares in the total picture. The increase of acreage in the Northwest and in Colorado behooves us to be alert to their progress.

What can the Joint Economic Committee do for the Wisconsin potato industry? Other than the normal legislative service to our needs the one immediate priority is to support Senator Carl Cohen of Maine in his mission to solve the Canadian potato export to the United States conondrum. If the American producer must compete with subsidized Canadian potatoes then the future will indeed be a constant battle for the potato customer.

Representative OBEY. Next, could I ask Jack Hartwig to go ahead and tell us anything he wants to tell us.

STATEMENT OF ROBERT R. HARTWIG, PRESIDENT, HARTWIG MANUFACTURING CORP., WAUSAU, WI

Mr. HARTWIG. My name is Robert Hartwig, and I am the president of the Hartwig Manufacturing Corp.

Hartwig Manufacturing Corp. is located in Wausau and was founded by our family some 30 years ago. Our business began as a one-employee shop and has progressed until, today, our company is a major manufacturer of steel-fabricated bridges in the Midwest.

Our market is principally Wisconsin, Minnesota, Illinois, Michigan, and Iowa. Our current employment is approximately 120 administrative and plant personnel. We are now at a level of employment which is equal to our employment base in early 1983.

In early 1983, we began to feel the effects of the recession in our business. Traditionally, our industry lags somewhat behind the general economy. Likewise, any "recovery" we experience tends to lag behind a general economic recovery. In order for our company to survive, in 1983 and 1984, we ceased the purchase of capital equipment, stopped a plant expansion which was in progress, limited our expenditures, and we cut back drastically on administrative and plant personnel, as well as wages for those personnel.

Our employment dropped from 118 employees with a Wausau-area payroll of approximately $2.5 million to 54 employees with a reduced Wausau-area payroll of approximately $1.2 million.

This employment reduction, which equaled 54 percent, occurred in a period of 2 months in January and February of 1984.

Now that we have returned to our 1983 employment level, we are hopeful that we will be able to maintain and expand our employment base. We invest substantial time and money in training valuable employees, and any drastic reduction in the level of employment has a negative effect on the future of our company and the lives of many Wausau families.

Our business and industry is somewhat unique in that the product it manufactures and sells is purchased by State and local governments utilizing principally Federal Highway Administration programs and funds. The one exception is the infrequent sale of bridges to railroads.

Since our business is so closely tied to all levels of State and Federal Government, our concerns center around the lack of long-range planning, commitment, and consistency in Federal and State bridge programs. Projects that are months or years in development at the Federal and State level are frequently delayed due to funding delays. It is a start-and-stop process often tied to special projects, which makes private sector planning and investment very difficult.

Hartwig Manufacturing Corp. is required to make long-term financial commitments for personnel, plant, and equipment needs in a current Federal and State atmosphere of short-term, inconsistent Federal and State bridge programs. We believe a much better approach to aid the economy and provide stability to our employment base would be the application of long-term plans and commitments on the Federal and State level. The process ideally would provide funds in a timely, consistent, and orderly manner.

Since our corporation is involved in projects utilizing Federal and State funds, we face similar issues of short-term inconsistent funding in each State in which we do business. To bring it closer to home, our current backlog in Wisconsin is the lowest of all Midwestern States we serve.

Again, I believe at the State level, our company, its employees, and Wisconsin could benefit by utilizing long-range planning and funding to provide a consistent, uniform bridge program.

Our business does not lend itself to mobility or a large geographical marketing area due to transportation costs. What we manufacture must be transportable to and utilized in a limited geographical area.

We will continue to do our part to manufacture a quality product at competitive prices. We would hope that the Federal Government and States would do their part in providing consistent, uniform, long-range planning and funding to allow the best use of taxpayer's funds to assist in the strengthening of our economy.

In closing, I want to thank you for giving me this opportunity to testify at these Joint Economic Committee hearings.

Representative OBEY. Thank you.

Please proceed, Mr. Umhoefer.

STATEMENT OF PAUL UMHOEFER, CHAIRMAN AND PRESIDENT, FELKER BROS. CORP., MARSHFIELD, WI

Mr. UMHOEFER. I welcome this opportunity to work with the congressional Joint Economic Committee. I have had an almost 30-year involvement with Felker Bros. Corp. and the steel fabrication business.

I hope my experience and insights will prove helpful in your determination of national economic policy.

Committee Chairman Dave Obey and I have occasionally disagreed on governmental direction in the past, but since he invited me to testify and since I readily accepted, it appears that both of us continue to feel that we are making progress toward the political and economic education of the other.

The credentials that I place before this committee include two major areas of expertise:

Expertise No. 1, my aforementioned steel fabrication background.

Expertise No. 2, my perfecting of the art of becoming a grandfather.

Today, I promise to stick to my expertise, but I am available for private consulting on grandparenting.

Realizing that this committee is necessarily committed to a very wide range of economic theory, I thought it best to try to give you an overview, a nonstatistical, but hopefully clear impression of what is going on in the Felker Brothers' corner of the world.

To do that, I will first give you a barebones background of our company, our products, and our services. For the major part of my alloted time, I will offer an update assessment of our relatively small, quite specialized, but nevertheless, world-competitive marketplace.

Second, I would like to share four brief, rather random points regarding past governmental policy as it relates to my company.

Third and last, like everyone else in this still very free country, I would like to offer my personal, directionally orientated formula for improving our Nation's economic health.

If more detail or specifics are desired by the committee or if there are questions, I will certainly be very willing to cooperate.

Felker Bros. has been in business for over 80 years. We continue to operate out of Marshfield, WI, as a closely held, privately owned corporation engaged primarily in the steel fabricating business.

The present owner-management team is only the third since the company beginnings, and while markets and products keep changing, the names of Felker employees don't change very often.

Third- and fourth-generation area people continue to contribute their skills and efforts to sell, manufacture, and service quality products backed by a strong sense of personal and corporate integrity.

End of commercial—for which I offer no apology. We at Felker Bros. take a lot of pride in who we are and what we are doing.

Presently, we operate two separate sales divisions: The petroleum equipment and service division sells and services petroleum storage and dispensing equipment in Wisconsin and into several surrounding States.

We manufacture the larger bulk storage tanks ourselves while the rest of the tanks, pumps, meters, hoses, et cetera, are resale items. Annual sales volume for this division ranges up to $5 million.

The current and future profitability for our petroleum products and service division is severely limited due to the declining consumption of oil. I will mention only one governmental involvement that is currently and importantly impacting the petroleum equipment division. That is the issue of product and service liability.

To our knowledge, we are the only one among a number of competitors for this business that is still able to obtain liability insurance for manufacturing, installing, or repairing oil storage and dispensing equipment.

This insurance coverage is extremely expensive and it appears doubtful that it will be continued in the future at any price. Without reasonable insurance coverage I cannot imagine who, if anyone, will accept responsibility and/or be able to provide petroleum products both safely or efficiently.

Senator Robert Kasten has proposed legislation that attempts to bridge the gap between unlimited consumer protection and unlimited manufacturer-provider liability. Without responsible legislation in this area, the public welfare and safety is going to suffer.

Felker's largest business is the alloy sales division, which has sales around $20 million annually. We manufacture stainless steel pipe, tube, and fittings; custom alloy steel tankage; and various customer-designed fabrications. While some of these products could be considered standard or commodity products, we have emphasized a specialized product, engineered toward a specific customer's need to store, handle, or treat corrosive materials.

We have identified 20 industries that we presently serve. The three primary customer industries are pulp and paper, wastewater treatment, and food processing. Three other important target industries are chemical, pharmaceutical, and brewing.

Sales are made nationwide, with inventories of our products being stocked for distant customers either in our own warehouses or with selected independent distributors.

In assessing our current alloy products marketplace, I thought it would be helpful to give a capsule report on each of the major U.S. companies that compete in the relatively small, specialized stainless pipe, tube and fittings business. These are our major domestic competitors.

I will not use names, and I will include the Felker Bros.' perspective last.

Several of the larger competitor companies produce pipe and tubing only. The largest of them has downsized almost 50 percent to survive, spilling red ink for almost 2 years before stabilizing.

Another, although operating in the black, has a parent company near bankruptcy, limiting its effectiveness.

A third, marginally profitable, has been for sale for over a year without an offer. Several other smaller companies have already closed up shop.

It appears that those companies who had concentrated on low cost, high volume, standard products have been hurt the worst—primarily by foreign competition, and secondarily by long recessions.

It also appears that their basic strategy now is to concede these volume commodity markets to foreign suppliers and to try to develop smaller, narrower, more profitable market niches.

Of those companies that manufacture stainless fittings only, several of the smaller firms have already gone under and several others are for sale. One of the larger more successful firms is foreign owned. None of the larger firms, to my knowledge, is very profitable. Again, like in pipe and tube, it appears that foreign competition is winning the major part of our domestic market and has forced profit margins into oblivion.

There are four other domestic companies that are more fully integrated, more customized, more value-added type of manufacturers. A brief profile of these four companies, which includes Felker Bros., should show you a clearer snapshot of our industry today.

One competitor, in a high-priced labor market, has scaled down from over 500 employees to less than 200. They import almost all of their materials, adding only final customizing. They have a solid financial base and have remained reasonably profitable.

They have also been redirecting their capital into more profitable ventures, such as real estate and public warehousing.

A second company, employing approximately 135 people, operates with a much lower labor cost. They are owned outright by a Canadian firm and, although they complain about profitability, they appear aggressively committed to growing in the stainless pipe, tube and fitting fabrication business.

A third firm, publicly owned, and part of a small diversified conglomerate, reported losses of approximately $2 million in each of their last 2 fiscal years. Their peak employment of over 400 had dwindled substantially also.

Latest reports indicate that they are finally nearing their break-even point again. They are apparently reversing their previous strategy of investing heavily in larger, more automated capacity in favor of more value-added, more customized product lines.

With that capsulized industrywide background, I would like to tell you about Felker Bros., how the previous recessionary years have affected us, and where we stand today.

Five years ago we had sales volumes several million dollars in excess of the previously stated ones. Our profitability was some 10 times what it has been the last several years.

We employed 349 at the peak, dipping to 212 in 1982, and are now at 274 people.

We have spent these last 5 years working hard to manage our costs and maximize our productivity. There is no doubt that we are a much leaner, more competitive and more efficient company than we were 5 years ago.

While we have survived the past 5-plus years, we have not and are not prospering. We see no prosperity breakthrough in the near future, but we do see improved market opportunities into 1986. We are spending most of our time trying to do the day-to-day things right, but we continue to question how long being a custom steel fabricator will remain the right thing to be doing.

I could relate such subjects as inflation, disinflation, and interest rates to our company condition, but I would prefer to touch on four other random governmental-corporate interrelations:

One, when the IRS and OSHA combine to tie up two of our four company officers most of a whole summer—it took them that long to discover that we do pay taxes in the maximum bracket and that we do have a very creditable safety program and record—I become increasingly concerned about a system that keeps tilting toward rules and compliance and away from productivity and citizenship.

Two, when government mandates a $125,000 system to treat and transport our pickle wastes to Indiana when the local sewage facility has the ability to handle it, it costs not just Felker Bros. but it subtracts $125,000 from our regional and national ability to compete and to provide jobs.

Three, millions of dollars of tax credits are offered to General Motors to locate their Saturn Plant, and the Governor of Wisconsin travels to Marshfield to welcome a new $1 million industry promising 15 jobs. Felker Bros. pays full taxes, loses $5 million in sales, loses 75 jobs, and not even the local dogcatcher seems to notice. We don't mind the anonymity at all, but it seems to reflect on political priorities.

Four, certainly not all of our company-governmental interactions carry negative overtones. Deregulation, for example, especially in the trucking industry, has meant both cost saving and improved service for Felker Bros.

The advice to our elected governmental leaders that I promised earlier will conclude my statement today.

I will preface that advice with the flat out statement that my company and I have not and are not looking to our Government for import quotas, Federal grants, special tax breaks, or any of the proliferate special interest band aids that Congress is geared to giving.

Instead, I recommend just two important directional changes to improve our national economic climate. Here they are—both barrels: No. 1, cut spending; and No. 2, cut taxes.

On spending, no one can ever convince me that more and more billions of dollars for defense equates to a safer and safer world. Our second sacred cow, social security, should also be pared with proper concern shown for our truly needy.

On taxation, eliminate corporate income tax entirely. User taxes for services, yes, but corporate income taxes penalizes winners, rewards losers, and in general plays big business favorites, like General Motors, General Electric, and General Dynamics.

Corporate taxes are passed through to consumers and remaining profits are either paid as dividends to stockholders, which are being taxed, or they are invested for future growth. Squeezing the goose doesn't make it lay more or larger eggs.

Regarding personal income tax, simply simplify. Eliminate all deductions, no charitable, no interest, no State tax deductions, no deductions for anything. Gore all of the oxes and go back to the basics.

Tax citizens strictly for the revenues necessary for defense, for law, for order, and for equal opportunity for all citizens, for major infrastructure, and for the basic care of our disadvantaged.

Stop trying to decide what else is good for people. Let each citizen decide how they want to spend or invest their earnings. The composite decisions of all of our citizens have to be better than the arbitrary, contradictory, unwieldy, uncoordinated efforts of Congressmen, Senators, and a President.

Spending the taxpayers' moneys wisely is a big enough challenge without adding the complexity and capriciousness of creating social policy through the tax collecting end of the governing function.

My simple and sincere advice is to cut spending and to cut taxes.

Thank you for listening.

Representative OBEY. Thank you.

Let me start with the tourism question.

First of all, there was very little tourism promotion at all by the State when I was in the legislature quite a while ago. So I don't know the answer to this question.

All three of you have mentioned your interest in seeing the State provide more of its own resources for tourism promotion.

Let me ask you, where is that money spent now? Is it spent significantly within Wisconsin? Is it spent—I would assume a lot of it is spent in Illinois. I see "Escape to Wisconsin" bumper stickers all over the country. My family and I drive here and back to Washington twice a year. We see those bumper stickers every where. I even saw one in the San Francisco airport a few months ago.

Where is the bulk of that money spent?

Mr. CROWLEY. There have been targeted markets that were devised by the advertising agency, which is a Madison firm, this spring in conjunction with the committee of the tourism council.

The targeted markets were Minneapolis, some areas in Iowa. I don't want to go on record as being specific, but Minneapolis, Chicago, Milwaukee, Rockford—I think, Jim Holperin, I am missing about three. I apologize.

Maybe you can——

Representative OBEY. That is all right.

Mr. CROWLEY. The major thrust was, I would say, not more than 150 miles outside of our border. Because we had such a limited budget. That was only $264,000, I believe about $114,000 went into radio and television, and $100,000 went into radio. And $40,000 went into the print medium.

The results were controversial because of Easter, our controversial cow. But it was market gaining—we just showed great increases for this paltry investment.

If you reflect, in the days when you were with the State, Congressman, I think that at that time we had a total advertising budget of $73,000. That was for the full year. We have made some tremendous inroads in talking to the legislators and convincing them of that in greater investment dollars. But it has always been pulling teeth.

When you have all this documentation and you watch the industry grow, and you watch your competitors outspend you, outgrow, outdo everything, I think it sticks in all of our craws.

There is a myriad of other issues that I know that Mr. Speros will bring up and so will Jim Holperin. But in that investment dollar, we just seem to be blind.

Mr. SPEROS. Could I say something about that also? They have increased the tourism budget this year and then, on the other hand, we just find out that they are talking about putting a 1- to 2-percent tax on tourism-related business. We are going to pay for it, for that increase in the tourism.

I sat in with the Governor back in the winter and the legislators were meeting then and co-op funding was to go up $200,000 that day. But also there was to be a room tax added onto it. In other words, we are going to pay for it again.

We always seem to pay in our industry for the increases.

Representative OBEY. Let me play devil's advocate. If I were to play devil's advocate, and let's say I would be a dairy farmer. I spent the last year as a dairy farmer paying for my own diversion program in order to try to get down the surplus of dairy products around the country.

Farmers had to pay 50 cents a hundredweight in order to try to bring that down. So I can imagine a farmer would say to me, Obey, what are these guys talking about raising—having the State pay for tourism promotion?

Wisconsin benefits from agriculture, too, but we had to pay for our own diversion program.

Why—again being devil's advocate—why wouldn't that be the sole responsibility of resort owners to fund their own advertising programs?

Mr. SPEROS. We are willing to fund our own programs, sir, if the state will equally do their share.

Representative OBEY. But the dairy farmer would say the Feds didn't pay for our diversion program. We had to pay for it ourselves. The States didn't put up matching funds, and the Feds didn't put up matching funds.

As a policymaker, these are real questions we have to deal with.

I understand what you want in your industry, but how does the Governor answer a farmer who says, how do these guys get State money to advertise their business when farmers don't get State money to advertise, to pay for our own diversion program?

And then farmers also are asked to kick in 15 cents a hundredweight to pay for their own dairy promotion program.

I ask, No. 1, how do you distinguish between that? And I am just raising it to try to give you an opportunity to get your best answer into the record.

Second, I would ask how—what is the process now by which the resorts' associations assess their membership for funds to advertise on a cooperative basis?

How do you go about doing that?

Mr. Speros. In our association, we have a fee set up on the number of shows we attend to advertise Sawyer County. We also have a room fee that we charge them.

We have an advertising fee by the size of the ad they take in our book. We are trying to pay—we have—Hayward Lakes has an office in Hayward that staffs three girls—four girls that we pay $32,000 a year.

We spend an average of $50,000 a year for the book, and the advertising would go to the shows. We are nonprofit. We are trying to make enough money to go to the shows and pay the girls.

Representative Obey. How do you determine who pays what share of that cost in your own association?

Mr. Speros. It is determined by the size of the ad you take. The membership is the same for each individual. And then there is a room fee.

Representative Obey. Let me ask you another question: What is the average age of a resort owner in Wisconsin these days? Anybody have any idea? Has it gone up or gone down?

Mr. Speros. I don't know. Over in our area I would say the average age, they are probably in the 45 to 50 year old age in our association, from just the people that I know right offhand.

Representative Obey. Is that going up or down?

Mr. Holperin. I think so. I think you will find in the resort industry a phenomenon very similar to the dairy industry. Young couples cannot find the capital to buy the resort. So the resorts that are owned and operated at least of my own knowledge by younger people in my age category, 30 to 35, they have assumed the operations of that resort from their parents. They have gotten it through the family.

In fact almost exclusively that is the case. I can think of almost no young people who have gone out and bought a 10- or 12-unit resort and are operating it. I would assume therefore that the average age of resort operators is going up and probably between 50 and 60.

Representative Obey. How much did the State promotion budget go up this year?

Mr. Holperin. $500,000 per year. It stands now at $1.5 million annually. That is only for promotion. We spent about another $1.5 million on staff and office space and other clerical and administrative costs, but for direct advertising, radio, TV, newspaper, bus boards in Chicago, bumper stickers and booklets, about $1.5 million annually.

Representative OBEY. Mr. Cowley, you said something that the Dells business was good finally. You are stereotyping in my head that Dells did a land office business.

Mr. CROWLEY. But for the last 2 years they have had 2 very, very soft years. There is no way—it is like sewing a button on a sneeze. There is no economist that can say it is because Jack Crowley has bought a car in 1983 that you are having a bad year or that somebody bought a VCR in 1984 that you are having a bad year.

But for 2 years, the Dells were hurting and hurting desperately. They increased their own advertising budget above and beyond what the State could do as far—in the division of tourism—as far as helping.

But from all reports they are getting back on a healthy trend. I haven't had a chance to sit down with the Ben Olsons and the Jerry Carrises from that area and to ask them to give me a rationale. But when you see their smiles, I will take my time and then let them work it out.

It is very important that that section of our free conduit to Minnesota, that we get them to tarry just a little bit.

Representative OBEY. When you quit flying and went up to the Couderay area, what made you decide to go over there? What drew you there?

Mr. SPEROS. Well, the resources. I was—I liked the muskie fish. I like to fish. I liked what northern Wisconsin had to offer, the resources. By accident, I happened to pick the Chippewa, and by accident I bought it.

But had it not been for the pension that Uncle Sam gratefully sends me every year, or every month, my name would be up there on that role during the wintertime. I am not eligible during the wintertime for that unemployment.

As a resort owner I am eligible for 1 month's unemployment and then I am not eligible. That figure goes to 21 percent in Sawyer county and that doesn't even include the resort owners that can't draw. They aren't on the roles.

It was a fluke. A lucky break that I got in there. But I was glad to be in this State.

Mr. CROWLEY. I would like to add an addendum here. When you asked the question about comparing the agricultural society or the dairymen to the resort owner, there are certain——

Representative OBEY. I asked it because I have got to. Those are questions that are going to be asked anybody in public life. I am sure they are asked of Jim Holperin and you have got to have a good answer to it or you are going to have a lot of trouble making your case.

Mr. HOLPERIN. Fortunately or unfortunately, it is not only dairy but cranberry growers, the potato growers, nearly ever agricultural commodity has their own advertising program.

Mr. CROWLEY. The State has.

Mr. SPEROS. The State has a return on what you are saying, a pretty substantial return.

Mr. CROWLEY. Has begun to. But there are certain—and correct me if I am wrong—but there are certain tax breaks that are afforded to the agriculturalists that are not afforded to the resort owner.

The agriculturalist does not pay insurance because they have a public, a property that has public walking over it to the likes of which Mr. Speros has.

Our insurance rates for our local ski hill, it is phenomenal. I don't know how they stay in business. But of course I do know how they stay in business because they pass it on to the user. Those people that want to ski, if the, if the insurance rates go up, they will pay another dollar.

They will pay another dollar the year after that. But in the resort industry, if you have gone up there for 5 years and every year you are going to pay another 5 dollars, eventually you are going to cut off—you are going to cut your nose off to spite your face.

We have here some inequities. I am not suggesting that we do this immediately, as far as giving some tax considerations to the resort owners or to those in the tourism industry, but it should be investigated and if there can be a formula or an equation, Congressman, that is applicable to all these industries, in all deference to the potato industries and the agriculture industry, tourism has now become our second largest.

We have always been regarded as the kissing cousin with the bad case of hives. Even though it is the number two industry, we are still treated like we are 13 or 14.

Sometimes that desperate voice must be heard and looked at with some kind of equality.

Representative OBEY. One other question on tourism. Bed and board, I understand, a lot of people are more and more interested in that. Is the State cooperating in any way to promote that?

Mr. HOLPERIN. That is correct. We have been quite active in the bed and breakfast so-called phenomenon in the last several years. Many from the industry came to the legislature about a year and a half ago and said, we would like to encourage development of this in the State and currently, however, we are treated as any commercial hotel/motel and restaurant operation would be.

Even though we have four sleeping rooms and we serve a continental breakfast in the morning, we are treated like a 40 room Howard Johnson's and we can't operate profitably under these circumstances.

The State legislature did cooperate in passing bed and breakfast legislation. It was very simple, simply defined a bed and breakfast home and delegated to the Department of Health and Social Services the responsibility for drawing up rules that would apply, to have general cleanliness and comfort qualifications for that business.

And the department did that and submitted them back to the legislature this spring and starting July 1 of this year, we have a new bed and breakfast license in the State. We have had no complaints about it so far. It is very broad and very general in what is required of a bed and breakfast, not at all as severe as a commercial hotel, motel or restaurant code. We find it to be working very well. But time will tell.

Representative OBEY. One last question, Mr. Speros, as you know, there is at least some concern around the State and in the region about the desirability of taking your family for a vacation up north in part because of the concern about the Indian hunting and fishing controversy.

I happen to think that that concern is really misplaced because I think that while that certainly is controversial in terms of how people feel about it, it certainly should not stop people from using the resources of northern Wisconsin to enjoy a good vacation with their family. I don't see it getting in the way.

When I was up in the Chippewa near your place, it didn't bother anybody who was out in the boat fishing. I think you are to be congratulated for the effort that your association has made to deal with that issue and deal with the tribal leadership in a way which is constructive and trying to bring people with diverse views together. I just wanted to note if you wanted to make any comment.

Mr. SPEROS. No. The fears that the people have are unfounded. They happen to be media-instigated; either sell or create controversy. We are working with the tribe and we welcome anybody into the Sawyer county area to see how we are doing it.

Representative OBEY. I am watching what is going on between you two.

Mr. SPEROS. We are doing it just like we are doing this. We don't agree with everything they say and they don't agree with everything we say. But we are at least willing to sit down and work this out.

The tribe has made some concessions. We have made some. So far there have been no racial incidents to prevent people from having a good time up there.

Representative OBEY. I think people in your association have probably done the best job of anybody in the State of dealing with that problem. I simply want to congratulate you. I know it is a tough one to deal with. I don't know how it could have been dealt with any better than you people have.

Let me ask, Mr. Katz, you said the United States only produces about 7 or 8 percent of the world's potato production.

Mr. KATZ. Hard to believe but that is true. In central Europe, almost every farm has a potato acreage and it is used for livestock feed, and the diet is more starch contained than ours is by far and the figures are there.

When I first was aware of this several years ago, I couldn't believe it either. But it puts in proper perspective what a huge industry in the States mean and yet it is only 7 or 8 percent of the world production.

Representative OBEY. Let me ask a technical question. Is there any nutritional distinction between the different varieties of potatoes that are the large marketed ones?

Mr. KATZ. Not necessarily. It is a matter of taste. In fact I have a show and tell. I brought a little bag and I thought maybe a little crash course in potatoes would, might interest some people.

This one——

Representative OBEY. People are looking hungry.

Mr. KATZ. This potato will be more moist, the red potato, than will this white potato. These are the round varieties that are raised and harvested early and don't really store as well because they are thin-skinned potatoes and we raise these for storage primarily for seed, for commercial growers. So we are now in the process of harvesting our early varieties.

This is an early variety of Russet and that potato will be drier in content, more like what people desire in a baked potato, and will, as varieties get longer and longer into the season, the more drier they become, until eventually we will only have on hand a Russet Burbank which is the Idaho variety and it loses its name only by State. The potato is the same.

So, no, there is no nutritional difference in the different varieties primarily.

Representative OBEY. You said that you needed to grow. That you were unhappy or concerned about the leveling off. That you needed to grow at the same time that there is overproduction. Somebody is going to get shoved out. What makes you confident that the potato industry in this part of the country is going to be among the survivors?

Mr. KATZ. Well, one of the reasons I stated earlier, Congressman, was our proximity to the markets. The other is that we have enough leverage in our sophistication in the State as opposed to other States east of the Mississippi.

I don't think that there is any producing area in the country east of us that comes anywhere near close to us in what we have in our area as far as growing, irrigation, availability and our eventual processing and packing of the merchandise to put it on the same level that the majors do like Idaho, Washington, and Oregon.

In fact, in my prepared statement, I allude to the fact that on a recent trip I made to the west, I saw nothing that was superior to Wisconsin in the way of packing facilities. So we have that advantage. I also think that we can raise a product that is equal to the so-called brand X Idaho and we need to increase our acreage so that we can go to Mr. McDonald and Mr. Burger King and the chains that have got to come into this baked potato concept and say: You don't have to go West, we have them here for you.

Where that growth has got to come, in my opinion, is the northern areas that our industry has left fall by the way side over the years.

I can remember when I first started 30 years ago that Rhinelander/Eagle River area and there are several other areas up North that raised a lot of potatoes that have since fallen out of production. And those potatoes that were raised up there were the forerunners of these potatoes that we are raising in central Wisconsin.

So from looking at it not from a regional picture, I am looking at it from a total State picture that we need to grow in order to keep up with the threat from the other areas.

Representative OBEY. I just can't help observing that if you want to get any idea of the importance of that, this area, all you have to do is get on a plane and fly south of Chicago and see how long it takes before you stop passing over those central pivot operations. It is amazing how much that has grown.

Mr. KATZ. To the layman, he just sees them as he drives by. At one time when they first got started, those pivots made a total circle, so four corners were left unirrigated. Over the years they developed an added feature to these irrigation arms where there was a limp arm that followed around and when it hit the corner that flew right out and watered the corner and then came back in and was part of the arm again. So we now can irrigate a total field. At that time we started it was all a hydraulic power.

Now we have electric systems and now they can take a field and just—it had to make a total circle in order to do its function. Now they can start and stop it, make it run a quarter circle, come back and do it. So they don't have to plant an entire field to crops. They can do other things with parts of the field that they don't want irrigated.

So we really have become highly sophisticated in irrigation.

Representative OBEY. Mr. Hartwig, we talked quite a bit about a year and a half ago when the economy was somewhat different than it is now. Let me ask you, I know in your statement you emphasized a lot the necessity to have, given the nature of your business, the necessity to have longer range Government planning in some of these construction projects.

I honestly wish I knew how to tell you we could get that, but as you know, even though the money keeps coming in to the highway trust fund, for instance, good year and bad year, the taxes don't go down in a bad year, they keep going in, there are always significant arguments about what the obligational ceiling ought to be on those programs for the coming year.

We just had a fight on the budget resolution, as you know, about what that ceiling ought to be in that program for the coming year. We never really know up until the votes are counted what is going to be available for that, for mass transit, for any of the other items in the budget. Under those circumstances, fully recognizing the desirability for long-range planning but recognizing the fact that administrations are always going to be forced to think about how segregated funds plug in with the rest of the budget in determining our overall fiscal policy, how do you get from here to there, short of passing the budget earlier, which is a nice thing to pray for, but if you look, if you are trying to make decisions, you can't make them like you are the president of the optimist club.

I am not an optimist that you are going to take the push and pull out of that budget process, unless you radically change it, which I favor doing, but which most people in the Congress don't happen to favor. Are there any specific technical things that the Feds can do to make life easier for people in your business, recognizing that the Congress may still not agree at an earlier date on the President's request for any of those programs?

Mr. HARTWIG. I think the basic problem I see is the fact that we are making a longer term commitment than the Federal Government. I understand the dilemma that you face and I am sure you understand the dilemma that we face. There seems to be a window where things are good for a couple of years and we try to do as much expansion as we can through that period.

But it has really been a start and stop. If it were possible to have, say, a five-year or three-year program, some period of time and commit to the funding with, say a lid on the funding that if inflation took off, the program has to be reduced; in other words, you have a fixed, you have a fix then each year on the number of dollars that are going to be spent. Possibly that is one way of handling it. I don't know.

I don't think I am qualified to comment on what you might do to solve our problem. I guess all I can do is point out what we have been experiencing and our employment is back up. I think the work that you did getting the roadblock eliminated certainly was helpful, but I don't know what else to suggest.

Representative OBEY. Let me ask another question that is going to be troubling to the State. In terms of planning, what assumptions are you making in terms of what is going to happen to that Federal highway program given the fact that Congress just decided to cut off 10 percent of every State's highway money if they don't have 21 drinking age. I happen to think that was a stupid thing for Congress to do. I think that is a decision that the States ought to make.

I find it ironic that there are a lot of States with 21 drinking ages who have far softer penalties for drunken driving than Wisconsin has and yet the Congress and the administration is focused only on that one definition of how you are dealing with drunk driving. It is also ironic that they are going to judge simply on the basis of age that the female is a safer driver than a male between the age of 21 and 45.

That has interesting implications of whether you are going to allow men between the ages of 21 and 45 to drink or drive, if you can follow that logic.

Are you planning, are you assuming that the money just isn't going to be there and in your conversations with people at the State, as you plan for your future bids, what are they telling you about their assumptions?

Mr. HARTWIG. There hasn't been any direct conversation as relates to the effect that that would have. The fact that we work in five States, it seems that one or two of them, the market will be much larger than in others. I suppose if all of them didn't comply, there would be some noticeable effect.

The 10 percent reduction in highway funds doesn't necessarily relate to a 10 percent reduction in the bridge program which we are a part of. We have not had any discussions with any of the various States relating to this matter.

Representative OBEY. Now, maybe it will come back. Let me talk to Paul Umhoefer.

Paul, I just have to—I am kidding him now because he is a strong Republican and I am obviously not. I have to tell you, you indicated that you have been pleased by the results of trucking deregulation, I have to tell you, I am awfully glad that there is one thing that a Democrat did that you are pleased about.

Mr. UMHOEFER. There are a couple of others.

Representative OBEY. Carter and Kennedy were stumbling over each other to see who could get most out in front on that one. I frankly see some problems with it. But anyway, that kind of tickles me.

Let me ask you, in the next 5 years, outside of uncertainty in the tax code, for instance, what do you think your biggest problems are in planning?

Mr. UMHOEFER. We do have a 5-year plan. It is changed about every month. The plan, of course, is to find niches of profitability.

We have to concede certain portions of our bulk business to foreign. The price spreads are just too large and the subsidies range in the 40 percent. We have to cut our wages in half, which is practically an impossible situation. We to have to invest very heavily without the money to do that.

So we are concentrating, as we always have over the years, in niches, in finding specialties, highly engineered, value-added, more sophisticated fabrications, closer to the customer. We see a good future in steel fabrication. Our products may vary a little bit. Our customer base probably will not.

We feel vulnerable to foreign, not just direct competition to us in pipe, tube and fittings, but we feel that with the steel industry, we buy basically U.S. steel where we can get it. Our angle in everything has to be bought foreign; there is no domestic supplier of stainless steel left in the United States.

We feel vulnerable on the supply end. We feel vulnerable on the customer end. Consolidated Papers just gave us a very nice order yesterday. They are expanding and doing well. If Consolidated is hurt by foreign competition, it will hurt us. We are going to be in the steel fabricating business.

I can't tell you what products we will be making. I can tell you that we are going to be working with our people, I would say, with the individual talents that we have which are unique to our employees, developing them, trying to develop a higher productivity. We will be survivors.

Representative OBEY. I noticed in your statement you talked about how you have involved your workers for a long time in discussions to find better ways of doing things, of increasing productivity. I know it has been a bit of a fad lately to talk about worker involvement. What is fascinating to me is you talk to so many people who swear it works, it builds morale, that you get people to make suggestions.

My brother, for instance, left a company in Illinois—he lived in Wisconsin but worked right across the border. He left. They made outboard motors. He went with a steel chain saw company. He is now located in Virginia. I asked him what was the principal reason that he left.

And he said the principal reason is that his job was to try to take the goals that the engineers had set and work them out in practical ways and work the bugs out of them on the floor. He had his associate degree from—in the fluid power technology at the vo-tech program at Kenosha. And he said, the reason that I left is because the company that I was working for would never listen.

You could never get them to think that anybody working on the floor knew anything. It was only the front office that knew something. He said, at steel, he said they always listen, they always involve you. They may not always agree, but by God you get a response and you know that they respect your involvement. I really think there is a lot to be said for that.

Mr. UMHOEFER. There is. We have been on a program for 7 or 8 years now. It is relatively low key. We don't call it quality circle. That is the common one. But we have—we went through a lot of training of our supervisors, giving them tools like quantitative analysis and people psychology.

We had to reach these people first. They in turn communicate with the man who is working with the machine and equipment.

We also have to work with the union and we have worked to strengthen our communications through the union. It has paid off. It is probably why we survived that. And we did automate our processes or systems. We brought in computers. It was extremely painful.

We did it 7, 8 years ago. We finally came up with a 7- or 8-year data-processing bank of information, so we now know where our costs are and where we have to work.

Where we had over 100 and some people laid off, we actually hired a couple of industrial engineers because we had people making suggestions and we had ideas and we knew we had to get better.

These are not always high-cost items either. The people's skills, yes, there is a cost involvement like Bob Hartwig talked about, investment in skills, educating and training. But those are the one thing that is going to differentiate us from our competitors, and including foreign, are the individual skills of our people, including our management, to manage our business and do it better than anything else.

We are reasonably confident that we can do that, but there are no guarantees out there. So that keeps us running scared.

Representative OBEY. OK.

I remember the question I wanted to ask you, Mr. Hartwig. We have had a lot of comments from people today about their experiences with the State. What experience have any of you had with the State in your business? Good, bad or indifferent?

Mr. HARTWIG. I am not sure. Does it relate specifically to the bridge——

Representative OBEY. Just as it relates to your own business operation. Have you had problems dealing with the State? Do you find when you deal with them, do you have generally good relations?

Mr. HARTWIG. Yes.

Representative OBEY. People know what they are talking about?

Mr. HARTWIG. We have good relations in our direct dealings with them. I am confused in our specific industry, in the highway program, that I never—I don't fully understand just what the program is or what their long-term goals are, what their plans are for specific jobs, but our direct relations, our direct contact with the State, though, I think has been good.

Building permit, for instance, we are doing quite a bit of building this year. New corporate office, expanding our current plant. We started another plant. Where we needed quick action on our approvals, that was done the same day. It has been a good—they have been very cooperative.

Representative OBEY. OK.

Anybody else have any other comments you wanted to make on the panel?

All right. I have kept everybody long enough. I appreciate your coming. I just wanted to say one thing. I know people have been asking: What is going to come of these hearings, what is going to come of these hearings? I think people have to understand that when you are talking about something like the economy of State and the Federal impact on the economy, what you are talking about is an educational experience.

The main function of the Joint Economic Committee is to simply contribute to people's understanding of economic problems. It is not to hold 2 days of hearings and say, look at—gee whiz, everybody has looked at this problem for years and we in 3 days have come up with some wonderful and magic solutions. That is a naive way to look at the way you bring about consensus on economic problems.

The way you bring about consensus on economic problems is if you sit down, you try to listen to what is in people's heads and listen to what is in people's guts. You try to figure out if there are any common themes and then you see if you can get sensible people to try to focus on the direction that those themes will take you. I think the discussion on the University of Wisconsin was a good example.

We have had questions raised about the relationship of the University to the business community. That university is a terrific asset to the State, not just because it is a wonderful educational asset, but it ought to be a wonderful asset in terms of promoting economic growth.

You have had businessmen express their concerns about the actions of the university in the past. Some expressed it again today, but you have also heard a lot of discussions about how the university has become much more involved in dealing with on-the-ground industrial problems.

It is good to know both, at the university, that the university is moving in a direction which people find useful, and it is also good to know that there is a recognition on the part of the business community, much greater recognition than there was 3 or 4 years ago, that that is an economic asset as well as an educational one.

These may seem like small things. But I don't think they are. Before we finish 2 days from now, we will certainly have a long discussion on the impact of Federal tax policy on the State of Wisconsin. We had some of that today, but one of the major questions we have to face when we get back to Washington is what the impact of the President's tax reform package will be. How it might be changed to have a better impact on the State.

In closing, let me just toss that one out to, primarily to you two. Have you had enough time to look at that tax package well enough to make some judgments about the individual provisions in that package?

Mr. HARTWIG. I think one of the things that I see is what I call lack of consistency. I don't mean where every year it is always the same, but that there be something other than drastic changes. We are going to have investment tax credit, we are not going to have it. Other areas in there. Change of the depreciation schedule. Very dramatic changes in the depreciation schedule.

I think what we have as a small business, after we have paid our wages, our labor, all expenses, our material, and our taxes, that is what we have left to use for expansion. Maybe we borrowed the money to expand and we are using that money that is left over after we paid those four things to return the money to a lender or a combination or maybe all of it is out of these retained earnings.

Now, sometimes things I read, they are quite negative about tax planning, making, doing investments because of tax planning. But I think, Chairman Obey, we have to, to a certain degree, because I told you what is left is all we have left. That is how we do our expansion.

The proposed legislation and what is to come might be quite different. So it is very difficult for us to begin to react in any way to what is being proposed except just kind of a wait-and-see type attitude. I think there are some good parts of it. And I would be glad to expand on that a little bit more at another time with you on that.

But I do see some problems in some of the areas, too. But I think the biggest thing is the lack of consistency or the very dramatic, radical changes instead of, a little bit longer range type thing to give us a chance to react to it or to make the changes gradual and react to what is happening.

In other words, if you change the tax law, maybe 2 or 3 years go by and it might not be enough time to see what the net effect of a change really is. But to make the change in a very gradual way and not every year come up with these great surprises. After all, we are out there with capital at risk and we are trying to, many times, trying to outguess, Mr. Chairman, what is going to happen.

Representative OBEY. Mr. Umhoefer.

Mr. UMHOEFER. You have already heard my advice. I am rather disappointed that Senator Proxmire and yourself here, that you weren't going to carry to Congress some of the recommendations on taxes that we are proposing.

I am disappointed in Reagan's proposal only because it falls far short, but it does contain a big plus; that is, the top marginal rate of taxation. That is almost overlooked because of all the other controversial deductions and things like that. But the marginal rate of taxation is what Felker Bros. pays. And when we do make a buck—first of all, our primary consideration is making a dollar, but then the secondary one is that 50 cents of that dollar has to go to the Government between the State of Wisconsin and Federal.

With that 50 cents, we could invest far more wisely for future survival, let alone profitability. For example, we pay the highest labor rate with one exception. We are proud of that. We have never had to go to our employees and ask for kickbacks; hopefully we never will. Not kickbacks, but cutbacks. We take great pride in being able to pay that wage. We still ask our employees to hold the line. We have to.

It is a cost we have to control. We have no argument with making more money, being able to pay more. We also have the need to invest in capital goods and new machinery and equipment. We have been extremely limited between the interest rate and our ability to keep the few thousand dollars we do make. So I am pushing—authorize those options.

Give us the choices to spend our money, to invest it in the future, to pay our employees, to make our company grow and our industry grow.

In that respect, the Reagan package falls quite a ways short in everything, with the exception of that top rate which is a big plus, and we are pushing and even pushing further. I like Kemp-Kasten a lot better, frankly. Why doesn't Dave Obey come up with one and out-do them?

Representative OBEY. Well, I think I did in 1981. The business community rejected it. If you will recall, in 1981 we had three alternatives. We had the Reagan tax bill, we had Danny Rostenkowski's tax bill. God, I hope that this isn't going to be round two of the the Ron and Rosti show in that respect—but in 1981, as you will remember, Reagan and Rostenkowski were out bidding for votes by appealing to every special interest in the country to try to beat each other in the tax bill.

At that point Udall, Obey and Reuss offered another alternative. On the business side, it would have provided first year 100 percent expensing for all plant equipment. To me that's the most neutral way of dealing with the issue of how you deal with a depreciation because it treats every industry the same. It doesn't pick and choose among them. It doesn't have special gimmicks for any of them. At that time you could not get the business community behind it because they were on board for Reagan's program, regardless of content, given what happened after the 1980 election.

All I can do is repeat what Senator Bill Proxmire said here today on taxes. The problem with all of the alternatives, whether it is Bradley-Gephardt or Kemp-Kasten or a Treasury I or Treasury II, and—which is the Reagan official plan, is that they all wind up being massive revenue losers. If you pay careful attention to the estimates of what those bills do, they all talk about how much revenue they lose between now and 1990. And the numbers are conveniently very small.

The reason they are very small is because of the huge recapture provision to take back a lot of the tax breaks that were given to business in the first place, 5 years ago. I was against giving those breaks in the first place, but I don't know how you ex post facto go back and recapture them, because that does screw up the businesses' ability to plan for the future.

But the problem is that that big recapture gains you temporarily a significant amount of revenue, but after 1990 the bills all fall off the cliff and they all loose billions of dollars in revenue, adding tremendously to the Federal deficit. That is my problem with all of them.

So the two guides I am going to follow, outside of the question of elementary justice for people, will be: No. 1, whether whatever tax bill is produced is indeed revenue neutral or whether it is going to lose revenue and add to the deficit. Second, whether it does take into account our ability to get continuity.

It is all, I think it is very important that we do not do what we have done from 1981 to 1982 to 1983 and so on and so forth. What happened in 1981 is you found a political majority for a certain approach which matched an ideological approach. And so they passed it. And they passed it by a very narrow number of votes.

Then things happened in the economy in 1982 and so you had a different political majority that formed around a different approach. And so you change things. What you need to do—sometimes the most important thing you can have in politics is restraint, even when you have got the votes for something, it is unwise to do it. Because if you can't hold that consensus long term, then all you do is give somebody a short-term promise that can't be fulfilled long term, and that is where you get into the problem that Bob Hartwig is talking about where you have no tax continuity.

I don't know how any corporation plans, given the way taxes have changed. I don't know how, I don't know how anybody would except the taxpayers benefit from the rapid changes all the time. And I must confess, the other item that I will take a look at is whether or not the tax bill puts Wisconsin at a further competitive disadvantage. I am very, very concerned at the elimination of the deductibility for State and local taxes under Federal returns.

That is one item which we have always had in the tax laws since the beginning of the Federal Income Tax. A recognition that the Federal Government is the creation of the States, not the other way around. And, therefore, the Federal Government ought to be neutral in terms of the way it deals with State tax law.

It ought not to try to muscle States in following one pattern or another.

I would simply remind people that the President himself said in 1983 that eliminating the deductibility of State and local taxes was double taxation. I think he was right then.

And I hope, I hope before he and Rostenkowski agree to go down that road that we can persuade him that that is not the right road.

Anyhow, I talked longer than I thought I would. I thank you all for coming. I appreciate those of you in the room who spent the day, too. We will resume tomorrow morning at 9.

[Whereupon, at 5:45 p.m., the committee recessed, to reconvene at 9 a.m., Wednesday, August 7, 1985.]

THE WISCONSIN ECONOMY

WEDNESDAY, AUGUST 7, 1985

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to recess, at 9 a.m., in room 450, Main Building, North Central Technical Institute, Wausau, WI, Hon. David R. Obey (chairman of the committee) presiding.

Present: Representative Obey.

Also present: Dena Stoner, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE OBEY, CHAIRMAN

Representative OBEY. Good morning.

Yesterday we began the first day of 3 days of hearings to examine the condition of the Wisconsin economy, to review what leaders of the State feel are the major problems and weaknesses with which we have to deal and also to review what some of the major strengths are in trying to provide job opportunity and business opportunity for the next 15 or 20 years.

Today we will be doing two things: This morning we will be reviewing what the State is doing to respond to some of those problems; and this afternoon we will be focusing primarily upon some of the economic problems facing northern Wisconsin, but with primary attention to the Wisconsin River Valley.

Tomorrow we will be reviewing the effects of various Federal actions on the ability of the State to compete and to prosper.

Obviously these topics will all overlap. We had some comment on all three subjects yesterday. Undoubtedly we will today as well.

Today we are fortunate enough to have with us Governor Tony Earl to kick off this session.

Tony is no stranger around here. I first met Governor Earl when I was coaching the Little League Knights of Columbus baseball game down on Oak Island, and our district attorney brought this naval officer over to the game to meet me. He was a refugee from St. Agnes' mission.

Through the years, he has proven his mettle in a number of ways. I think he is probably as highly regarded in Wausau as any human being I have have known on both a professional and personal level.

We are very pleased to have you here today, Governor. Let me simply say that your name was mentioned a number of times yesterday in a variety of situations.

I think it is safe to say that when you took office, Wisconsin had one of the biggest deficits per capita in the history of the country, and we also at that time had a huge deficit in the unemployment compensation fund. And you were required to do some very tough things, some very gutsy things, and you did them.

In my own personal judgment, if the Federal Government over the last 3 years had shown the same kind of guts and courage that you and the legislature have shown, we would not be facing the deficit we are facing today at the Federal level.

We certainly would not be facing the trade deficit that we are facing today at the Federal level. And we might have secured a far better future for Wisconsin's and America's young families than is the case today because of the timidity with which Federal policymakers are approaching many of their problems and the reluctance of a good many of them to level with the American people in terms of what it takes.

In many ways I think government is like medicine. When you go to a doctor, and the doctor tells you you have a problem and you may require surgery or some other serious treatment, any thoughtful, reasonable person does not say, well, I don't like the fact that the doctor prescribed something that is painful, so I am not going to do that or I am going to go to a different doctor.

You may get a second opinion, but sooner or later, you do what is necessary if you want to recover your health.

That is what needs to happen at all levels of government, and I think you have demonstrated that you understand that. I wish I could say that the Federal system had exhibited a similar degree of understanding.

What I would like you to address this morning, Governor, would fall largely into these categories.

Yesterday a good many panelists described the concerns that had developed in the State over the years about Wisconsin's competitive posture. They referred to the tax situation. They referred to the use of the university as a tool for economic growth as well as a tool to impart learning.

They referred to the heavy reliance that Wisconsin's economy has on our manufacturing base, which is much heavier than the national average.

They made the point that especially in the tax area, that the State had responded significantly to a number of their concerns.

I would like you to lay out, if you would, the concerns that had been expressed to you over the last several years about the shape and nature of Wisconsin's economy, exactly what you and the legislature have done by way of budget and tax actions in order to deal with those problems, lay out, in addition to that, any other actions that you have taken.

And then, if you would, share with us your view about what needs to happen next if Wisconsin is going to be economically competitive and is going to be able to secure a decent future for our many young families.

Why don't you proceed and say anything you want.

Governor Earl. Thank you very much.

Representative Obey. We will try to hold this discussion between the Governor and myself to about 30 or 40 minutes or so, and then leave a few moments if we can for questions from the audience.

STATEMENT OF HON. ANTHONY S. EARL, GOVERNOR, STATE OF WISCONSIN

Governor EARL. Thank you. I am pleased to have the opportunity to come here and present testimony to you and pleased to have the opportunity to come back to Wausau to do it.

I have a prepared statement which I will leave with you and for members of the public and the press. I will refer to it from time to time, but I will deviate to some extent to try to meet the suggestions that you have just made.

It is clear, or ought to be clear, to everyone who cares about this State that our No. 1 priority has to be economic development and the future of our economy. We have to understand that Wisconsin, once accustomed to having relative prosperity and being relatively better off than other States, is now clearly a part of an international economy. The rules of the game in terms of competition are much different from what they were even as recently as 5 and 10 years ago.

That is true not only in the private sector, it is equally true in the public sector. And both those in the public sector and those in the private sector have to rethink the ways that we have gone about the business of governing, gone about the business of job creation and economic growth, if we are to do all that we can.

Things here are better than they were 3 years ago. There is no doubt about that. There is some encouraging evidence that the regional recession which hit the Great Lakes has bottomed out and that things are a bit better for Wisconsin and Minnesota than other States in the region. But there is certainly no occasion at all for unbridled optimism.

Unemployment is still far too high. Though we finally dropped below the national average, we are still far higher than we historically have been. The recovery is still soft. There are not very many people who think that we can count on 15 years of unparalleled prosperity. The political stalemate which seems to affect the Federal budget and the Federal deficit has great implications for us here.

Faced with all of that, faced with a volatile economic situation, faced with the changing world economy, those of us who are in charge of State government have tried to put together a prescription for prolonged economic growth for our State.

Part of that was simply assessing and trying to resolve some of the very serious problems that we faced in 1982 and 1983, and part of it is to look to the future.

My own belief is that you cannot plan for the future unless you have adequately shored up what you have right now.

Our first task was to do just that: To shore up what we had right now.

We had to restore fiscal stability to the State. As you had indicated, we had the second highest per capita deficit in the country in 1983. Now we are one of four States with a comfortable surplus, comfortable but certainly not excessive.

Not only were we deeply in debt with our general purpose revenue fund, our transportation fund was broke. Our unemployment compensation fund was broke.

I must say as an aside, I know some of the people here—I was greeted at the door by some people who were unhappy with some of the things that I did with unemployment compensation. But what happened in that case is symptomatic of what is the matter with many of our government programs.

Unemployment compensation in the past was extended to school bus drivers even though the 3-month layoff every summer was a part of the employment and everybody understood that when they took the jobs.

Unemployment compensation was classically meant to help someone over a gap when they were out of a job through no fault of their own, until they could find another job or get training to find another job. Unemployment compensation was not meant to be income continuation for school bus drivers in June, July, and August, or for students who worked in the tourism industries in September, October or November, after they had done their work, go back and collect unemployment compensation while they went to school. That is an abuse of the system.

But worse, it seemed to me in the particular instance I faced, and worse because it is so typical, some of my friends in the legislature restored unemployment compensation for school bus drivers in this last budget without paying for it. They simply said, we should extend benefits, but did not say how it would be paid for, where the money would come from.

That is unfortunately all too typical and is wholly irresponsible, and I won't be a party to it. But it makes people angry. And that is undesirable. No one likes to make enemies. But in unemployment compensation we had to cut benefits as well as raise some taxes.

We had to do the same thing with our general purpose revenue budget and the same thing with our transportation budget.

While doing all of that, we recognized our No. 1 liability that Government could address. It was our personal income tax system. And over the course of the past year or year and a half we have made a serious effort to address that. The problem with the personal income tax system, the problems were twofold:

The first was that it was simply too high and made us appear to be uncompetitive and unattractive to people from outside the State. Our top rate was one of the highest in the Nation.

Second, it was too complicated and too unfair so that many people, ordinary people in Wisconsin, felt that the system afforded an opportunity for some who had a good tax lawyer or a good tax accountant to avoid some or substantially all of their burden while other people paid more.

So faith in the income tax as a fair tax system was being eroded, and more and more people felt that trying to cut corners on the system was the rule rather than the exception.

The proposal that was put together and passed, I believe, addresses both those problems. Our top rate was dropped by 21 percent. The top rate is now 7.9. We are collecting considerably less revenue than we did in the past with the income tax. We have gone from eight brackets to four.

We have substantially reduced the number of deductions, exemptions, and credits that are granted, so that the base is broadened, and we have returned much closer to the original principle of the income tax; that two people with the same income and relatively the same circumstances have the same tax responsibility.

Those are the kinds of things that it seemed to me we had to do to put in place the base on which we are going to have to try to secure our economic future. But having done that, it is now time to look forward.

I know that you have heard from some members of the Wisconsin Strategic Development Commission. I hope that you and other people in the State are as impressed as I am with their foresight and their commonsense suggestions. I am prepared to endorse a good many of them.

Among the most important of the premises that governed the deliberations of the Wisconsin Strategic Development Commission was this: That whatever we accomplish will be accomplished through joint efforts of the public and the private sectors and through separate efforts of each sector. We have to know the capacity of government to make the changes and the limitations of government to make changes.

The worst thing that could happen with this Wisconsin Strategic Development Commission report would be that it is presented to me, and then I am expected to take it to the legislature and see various parts of it enacted, but there is no comparable action taken on the private side.

The people on the commission understand that. They understand the changes have to come from both the private sector and the public sector.

As for the public sector role, government's role, I think it is important for us at the State government level to take a very aggressive role in improving our business climate, but we also have to understand and be realistic about what we cannot accomplish.

Madison cannot accomplish things that ought be done or are being done in Washington, DC. For example, we in Madison can't balance the Federal budget. We can't lower the deficit. We can't bring down interest rates. We can't set a realistic value on the dollar. And each and every one of those things individually, much less collectively or cumulatively, has a greater impact on the economic future of this State and the people of this State than anything that we do in Madison.

That doesn't mean that we simply have to wait for fate to roll over us, but we do have to understand that there are limitations to what we can do.

Let me give an example of one thing that is contemplated in Washington right now, for example, that could have very serious implications for us. It is the President's tax proposal which eliminates the deduction of State and local taxes. That one action, if taken by you and the Congress, could more than undo all the efforts that we have made to improve our personal income tax system.

Some will say that most Wisconsinites would benefit. I don't agree with that figure. It would cost this State hundreds of millions of dollars. At a minimum, 40 percent of our taxpayers who are itemizers would take serious losses, and those 40 percent who are itemizers pay the bulk of the taxes paid in this State. So it is not quite accurate to suggest that the hurt would fall in a way that would not hurt the State as an entity. It would certainly hurt the State as an entity.

It is offensive to me that the proposal is being pursued by some, advocated by some as a way to stop Wisconsin from being a high-spending State. That is the kind of antidote we need to make us behave like Mississippi or like Alabama.

The fact is, there are a number of States that are higher spending States per capita than Wisconsin that are gainers under the President's proposal. We don't lose on this because we are a high-spending State. We lose under this proposal because we are a State with a large industrial base. We are a State that relies on a progressive personal income tax. We are a State with relatively very low business taxes. And we are a State that has made major investments in education.

Those are the things that hurt us in the calculus that determines how we make out with the elimination of this deduction.

I don't think the proposal is fair, and I certainly don't think it is consistent with the President's idea of federalism.

I don't mind a bit that the President asked the States to take on more responsibility in the area of human services and protection of the environment and education. I think all that is appropriate. I think the State should.

But we shouldn't be penalized in the bargain for raising the taxes to do those very things he asked us to take.

I was pleased that at the Governors Association meeting in Boise, ID, which just concluded yesterday, the Democratic Governors, including Governors from mineral rich States such as Texas, went on record opposing the President's proposal. I hope that it does not succeed in the upcoming months in Washington. It is one of those matters outside our immediate reach which could hurt us and hurt us very badly.

Let me talk a bit about the future. In the future, as I said, there must be action taken not only in corporate board rooms and with small business people and with farmers, but also in the political arena. And that means that both Republicans and Democrats are going to have to make some changes.

I think that Republicans and Democrats ought to realize that the future economic growth of this State is not a partisan issues. And Republicans for their part have to realize that the debate about our economic future is more than just which tax do we cut next.

I think that the notion of one tax cut after another without any path as to where we are going doesn't make sense. I have never been an advocate of trickle down. I don't think it works. I would hope that the Republican agenda for economic development goes beyond tax cutting.

Democrats for their part have to realize that economic development ought to be, indeed, must be one of the concerns of government. We can't just be concerned about human services and education and environment, because we can't afford those things unless we have economic growth. And we don't get economic growth by business baiting, by talking about the fat cats and the heavy breathers.

I think that both Democrats and Republicans have to put aside some of their past dogmas and recognize that economic development is a matter which is and ought to be bipartisan and address it in that perspective.

Now, in the coming months, we here in Wisconsin, because of this dynamic environment, are going to win some and lose some. We are going to see some plants opening and expanding, and unfortunately, we will see some closing. We have to learn from both those that we win and those that we lose to put things in perspective.

Clearly, if we are going to succeed, we have to win more than we lose, if we are going to build an economic base which provides a secure economic future for our people.

I think that can be done.

In terms of perspective, I would like to quote to you, Mr. Chairman, remarks I heard just a few days ago in Lomira, WI, from Harry Quadracci, president of Quad Graphics, one of the more successful printing operations in this State. The Lomira plant is the third plant that he has built, and he has taken his company from just a handful of employees to a few thousand. The plant in Lomira—within a couple of years—will employ 1,500 people.

That is a lot of folks anywhere in the State, but it is especially a lot in Lomira. He made some very important points. I would like to quote from his speech:

> There is a season for everything. We must recognize that sometimes big trees must die for little trees to grow.
>
> For years this state was dominated by several major industries. And it is these companies that set the wage rates that proved to be noncompetitive both nationally and internationally. It is these companies whose brand of labor relations gave Wisconsin labor and management a black eye—sometimes two black eyes—for poor attitudes and for industrial strife.
>
> It was these companies that received the dominant amount of attention from both state and local governments, from local banks and professional firms, and left small firms such as ours in the shadows.
>
> But in spite of the inordinate attention, many of these big businesses still failed. Survival of the fittest is still the international rule for business, which is the world's largest competitive sport. Now the big trees are gone, and we are enjoying the sunlight, the attention, and we enjoy the opportunity to show what little people, ordinary people can do when they work together. We don't need a lot of government help, just a little sunshine and a lot of love.

Well, there is much in what Mr. Quadracci says. There has been an inordinate amount of time paid, attention paid to just a few big enterprises and not nearly enough paid to those new enterprises in our State which really are the underpinnings of our economic future.

State government can't ignore the big trees, of course. It can't ignore some of the mature industries of the State. But that can't be our sole focus. It can't be the sole focus of our communities, our professional enterprises, our banks, et cetera.

This administration will give continuing emphasis to retaining existing businesses and encouraging expansion and will work on recruiting new businesses to come to the State.

Pat Lesage and the people in Forward, WI., are worth every nickel we spend on them to try to bring enterprises here. But I think the base ought to be to built on what existing strengths we have and how can we do as best we can with them.

I have spent more time dealing with people in business in this State than anything else since I have been Governor. It has been enlightening for me to observe firsthand the competence and the spirit of those who are succeeding, and a good many are. They are entitled to all the encouragement and recognition we can give them.

Russell Cleary who testified here yesterday is one of those people. Harry Quadracci is one of those people. Jim Stollingworth. There are many others around the State who have been positive, who have been pro-Wisconsin, and who deserve attention for their successes. They stand in stark contrast to some of the chronic nay-sayers who can only hurt us and from whom we hear on a regular basis.

Those who are succeeding, interestingly enough, are people who are political independents. They don't have ideological axes to grind. They all appreciate the quality of life in this State and so, and they are willing to pay a fair share for the cost of that quality in life.

Our task, those of us who are in government, has to be to create a business climate in which they can succeed and a natural and cultural environment in which they can prosper and thrive and in which the people they employ can count on a secure economic future.

One thing that has to be done at the State government level that goes beyond strategic plans and beyond looking at encouragement of entrepreneurs is to improve the way that State government itself does business in a day-in-day-out fashion. We have to improve the way we do business with business, both large and small.

Some important gains have been made. We have put together a permit information center 2 years ago. It has worked quite well. As a matter of fact, it has exceeded our expectations. We have made the department of development more accessible to people in business to provide them with help in moving through the permit process.

And we have begun the process of making the permit system a two-tier system: one for very large enterprises, one for smaller enterprises.

For example, a drycleaning establishment shouldn't need to go through the same kind of process to get permits as a foundry or a paper mill. And this process of coming up with a two-tiered regulatory system, a simpler one for smaller enterprises, is working.

What we need to do is to insure that any enterprise or any individual who deals with the State is treated fairly and served quickly. That is especially important in departments such as natural resources, industry, labor and human relations, revenue and agriculture.

We have to, at the State level, ferret out unnecessary delays and bureaucratic arbitrariness in granting permits or in making administrative decisions. There is broad acceptance of our environmental laws, of our safe workplace laws by all the people of the State, but there is genuine concern about how those regulations and laws have been administered.

I think it is crucially important for us to establish an environment in which State government is perceived to be reasonable and fair. State government is to be run by people who are accessible and who are flexible.

We have to get rid of the notion of the arbitrary and the unbending bureaucrat.

Let me talk a bit about investment that we have to continue to make for our long-term future—investment, I know that you agree, is most important, Mr. Chairman. That is, continued emphasis and continued investment in our educational institutions.

The budget that I signed last month contained the largest increase in school aids in this State's history. We improved standards for both elementary and secondary education. We provide catchup pay for our university faculty, and we restructured the Government system of our State vocational system here.

I think it is accurate to say that this was an historic budget for education. But we can't assume the job is complete. We have to continue to build on it.

I recently heard John Young, chief executive officer of Hewlett-Packard, talk about what government could do to promote economic development. He laid the principal emphasis, almost exclusive emphasis, on sound education.

We must have more competence in the basic skills. We have to require that workers are well grounded in the basics but are flexible enough to learn new skills as the economy changes and are prepared to be directly involved in solving problems in the workplace as well as doing the work that is involved.

More and more enterprises are encouraging employee involvement in addressing problems of productivity and profitability.

We need an educational system which will enable workers to absorb new information and to make career shifts with a minimum of personal strain. The educational system that produces these workers has to be very sophisticated and very dynamic, and I have found in my 2½ years as Governor that the status quo has more friends than I thought. But if we are to be dynamic in education we have to discard what is out of date, just as people in the market have to abandon outmoded technologies and have to move away from shrinking markets and find new ones.

Our educational system is a very good one, but it can be a lot better. To be better, it has to be dynamic and receptive to the changes that are going around it.

Let me conclude my remarks, Mr. Chairman, by suggesting a way for those of us who live here in Wisconsin to keep our goals in perspective. About 20 years ago, New England in the Northeast was in much the same situation as we in the Great Lakes find ourselves today.

Basic industries, which in New England were textiles, shoes and heavy manufacturing, were shrinking and leaving the region. Prosperity that had been taken for granted since the early days of this country's history became a scarce commodity.

The Northeast was a victim of external economic circumstances which it could not control, but to which it could and did respond.

There has been a significant recovery in the economy of the Northeast. The region is certainly through its worst times and is now making headway, indeed setting the course for much of the Nation in reinventing the economy.

No State has made a more remarkable turnaround than the State of Massachusetts. Unemployment in Massachusetts is between 3 and 4 percent. Its economy is humming, particularly in the Boston area. What is it that sets Massachusetts apart from its neighbors?

First, its educational institutions and the new economic life which has sprung from the relationship between higher education and business. Second, Governor Dukakis has provided stable, disciplined and consistent leadership in that State's economic development efforts by putting that State's fiscal house in order.

Third—this is a distinct third but it ought to be mentioned because it can't be ignored—Massachusetts has benefited from an influx of Federal funds principally in the area of defense.

Massachusetts' principal success is a result of long-term investments in education and other public investments needed to support a growing economy.

In many, many ways we are like Massachusetts. We have unsurpassed educational resources. We have been working to strengthen the ties between our university system, vocational system and the private sector. Both States have a high level of public services.

Wisconsin has done relatively poorly in the past in attracting defense dollars. Your colleague, Mr. Aspin, suggests that that will be rectified, and I notice an article in today's paper that such a cut was signed recently. So maybe we will do a bit better and get a bit more of our fair share.

I believe that Wisconsin, I think perhaps more than any other State in the Great Lakes region, has the potential to become the Massachusetts of the Midwest. If we maintain our strengths and keep an open mind about the opportunities offered by this changing economy, we can lead the regional recovery that is already underway.

With the quality of our people and the quality of our institutions, we have advantages that set us apart. If we do the job right, we can look forward to a rerun of what is now everybody's favorite Wall Street Journal article, "Wisconsin, the Star of the Snow Belt."

Thank you, Mr. Chairman.

Representative Obey. Thank you, Governor.

[The prepared statement of Governor Earl follows:]

PREPARED STATEMENT OF HON. ANTHONY S. EARL

MR. CHAIRMAN, I AM HONORED BY YOUR INVITATION TO APPEAR HERE TODAY. THIS HEARING REPRESENTS ADDITIONAL EVIDENCE THAT THERE IS NO MORE IMPORTANT SUBJECT FACING OUR STATE THAN THE FUTURE OF THE WISCONSIN ECONOMY.

THE WORLD, OUR NATION, AND OUR REGION ARE ALL EXPERIENCING PROFOUND ECONOMIC CHANGES WHICH DEMAND THAT THE PUBLIC AND PRIVATE SECTORS IN WISCONSIN RETHINK THE WAY THEY APPROACH THE TASK OF PROVIDING JOBS AND INCOME FOR OUR PEOPLE. YESTERDAY, YOU HEARD IN DETAIL ABOUT THE SITUATION WE FACE AS A STATE. WISCONSIN IS PART OF A WORLD ECONOMY THAT IS BECOMING MORE AND MORE INTERDEPENDENT AND COMPETITIVE. OUR GREAT LAKES REGION HAS BEEN EXPERIENCING THE KIND OF REGIONAL DEPRESSION THAT AFFLICTED THE NORTHEAST IN THE 70'S, BUT THERE IS ENCOURAGING EVIDENCE THAT WE HAVE BOTTOMED OUT AND ARE ON THE WAY BACK TO A NEW ERA OF PROSPERITY. NATIONALLY, THE UNEMPLOYMENT RATE CONTINUES TO BE UNACCEPTABLY HIGH, THE RECOVERY IS SHOWING SIGNS OF WEAKNESS AND THE POLITICAL STALEMATE OVER THE FEDERAL BUDGET DEFICIT THREATENS ALL THE PROGRESS THAT HAS BEEN MADE SINCE THE RECESSION WAS AT ITS WORST AT THE END OF 1982.

AGAINST THIS COMPLICATED AND VOLATILE BACKDROP, WISCONSIN HAS BEEN SEEKING A PRESCRIPTION FOR PROLONGED ECONOMIC GROWTH. I THINK WE'VE MADE SOME SIGNIFICANT PROGRESS IN CONCENTRATING ON THE BASIC ISSUES. LATER TODAY YOU WILL HEAR FROM THE STRATEGIC DEVELOPMENT COMMISSION, A GROUP I CREATED MORE THAN A YEAR AGO TO DEVELOP A STRATEGIC PLAN FOR THE WISCONSIN ECONOMY. I FORMALLY RECEIVED THEIR REPORT AND RECOMMENDATIONS LAST WEEK, AND I AM SURE THAT YOU WILL BE IMPRESSED, AS I WAS, WITH THE DEPTH OF THEIR RESEARCH AND FORESIGHT AND WITH THE COMMON SENSE OF THEIR RECOMMENDATIONS. I EXPECT TO ACT ON MANY OF THEM BEFORE THE YEAR IS OUT.

I AM NOT GOING TO RECITE A LONG LIST OF ACCOMPLISHMENTS IN ECONOMIC DEVELOPMENT NOR AM I GOING TO PROVIDE A 20 OR 30 POINT PLAN FOR ENSURING THE FUTURE OF THE WISCONSIN ECONOMY. RATHER, I WANT TO CONCENTRATE ON THE BASICS – THE MAJOR AREAS THAT ARE GOING TO REQUIRE CONSTANT ATTENTION FOR THE REST OF THIS CENTURY IF WE ARE TO SUCCEED IN THE INTERNATIONAL COMPETITION FOR JOBS AND INCOME. MUCH OF WHAT I WANT TO SHARE WITH YOU COMES NOT FROM ECONOMICS TEXTBOOKS OR MY OWN ANALYSIS OF THE FORECASTS WE RECEIVE WITH SUCH REGULARITY FROM THE PROFESSIONAL PROGNOSTICATORS. RATHER, IT WILL COME FROM MY OWN EXPERIENCE IN THE FRONT LINES OF THE ECONOMIC DEVELOPMENT WARS.

NEW PARTNERSHIPS, NEW POLITICS

THE FIRST PRINCIPLE WE NEED TO BEAR IN MIND IS THAT WHATEVER WE ACCOMPLISH IN WISCONSIN WILL BE ACCOMPLISHED

THROUGH JOINT EFFORTS OF THE PUBLIC AND PRIVATE SECTORS AND THROUGH THE EFFORTS OF EACH SECTOR ACTING INDEPENDENTLY. THOUGH STATE GOVERNMENT HAS TO CONTINUE TO TAKE AN AGGRESSIVE ROLE IN IMPROVING THE BUSINESS CLIMATE AND PROMOTING WISCONSIN'S VIRTUES, WE HAVE TO BE REALISTIC ABOUT WHAT WE CAN ACCOMPLISH. STATE GOVERNMENT CAN SET THE TONE, BUT DECISIONS IN WASHINGTON AND OTHER NATIONAL CAPITALS ARE GOING TO BE MORE SIGNIFICANT IN BOTH THE LONG AND SHORT RUN.

AND MR. CHAIRMAN, ONE OF THE DECISIONS THAT IS BEING PROPOSED TODAY IN WASHINGTON WOULD SET OUR PROGRESS BACK SEVERELY. I AM SPEAKING OF THE PRESIDENT'S PLAN TO ELIMINATE THE INDIVIDUAL DEDUCTION FOR STATE AND LOCAL TAXES.

AS YOU WILL HEAR IN DETAIL LATER FROM MICHAEL LEY, OUR SECRETARY OF REVENUE, THE PROPOSED LOSS OF DEDUCTION WOULD COST WISCONSIN CITIZENS HUNDREDS OF MILLIONS OF DOLLARS IN INCREASED FEDERAL TAXES.

MR. CHAIRMAN, I HAVE JUST SPENT A YEAR WORKING LONG AND HARD TO BRING DOWN TAXES IN WISCONSIN AND MAKE OUR REVENUE SYSTEM FAIRER. THE PRESIDENT'S PROPOSAL WOULD UNDO OUR WORK. IT WOULD INCREASE THE TAXES ON OUR CITIZENS AND PENALIZE WISCONSIN, WHILE FAVORING SOME HIGHER-SPENDING STATES WHICH RELY ON OIL AND GAS SEVERANCE TAXES FOR THEIR REVENUES.

WISCONSIN WOULD SUFFER, NOT BECAUSE IT IS A "HIGH-SPENDING" STATE BUT BECAUSE IT IS A MATURE INDUSTRIAL STATE WITH A COMMITMENT TO THE PROGRESSIVE INCOME TAX, A DESIRE TO KEEP BUSINESS TAXES LOW, AND A HIGH PRIORITY ON INVESTMENTS IN EDUCATION.

WE SUPPORT TAX REFORM AT THE FEDERAL LEVEL. THE PRESIDENT IS CORRECT THAT AMERICANS WANT A FAIR TAX SYSTEM, AND IN WISCONSIN WE HAVE SHOWN THE NATION THAT REAL TAX REFORM CAN BE ACHIEVED.

BUT THIS PROPOSAL OF THE PRESIDENT'S IS NOT FAIR — NOT FAIR TO US, NOT FAIR TO HIS OWN IDEA OF FEDERALISM. YOU CAN TRUST, MR. CHAIRMAN, THAT WISCONSIN CITIZENS WILL CONTINUE TO PROTEST AND RESIST THIS PROPOSAL UNTIL IT IS WITHDRAWN.

NEW POLITICS FOR DEVELOPMENT

I SAID A FEW MINUTES AGO THAT THE FATE OF WISCONSIN'S ECONOMIC DEVELOPMENT WILL BE DECIDED IN WASHINGTON AS WELL AS IN THE STATE CAPITOL. THAT IS ALL TRUE; BUT IT IS JUST AS TRUE THAT OUR FUTURE WILL BE DECIDED IN THE BOARDROOMS OF WISCONSIN CORPORATIONS AND SMALL BUSINESSES. IT'S NOT JUST STATE GOVERNMENT THAT MUST THINK ANEW — OUR LARGE AND SMALL BUSINESSES MUST DO THE SAME.

IN THE POLITICAL ARENA, REPUBLICANS AND DEMOCRATS ARE GOING TO HAVE TO LEARN TO AGREE ON THE SUBJECT OF ECONOMIC DEVELOPMENT. FOR REPUBLICANS THAT MEANS THEY ARE GOING TO HAVE TO GET OVER THEIR OBSESSION WITH TAXES AS THE ONLY

SUBJECT WORTH DISCUSSING WHEN THE TOPIC OF ECONOMIC DEVELOPMENT COMES UP. THE WORLD IS CHANGING, BUT THE TRICKLE-DOWN VERSION OF ECONOMIC GROWTH WHICH HAS ALWAYS BEEN AT THE CENTER OF REPUBLICAN POLITICAL RHETORIC HAS NOT CHANGED AT ALL. IT IS AN OUTMODED CREED OF SELF-INTEREST WHICH WILL NOT AND SHOULD NOT SUCCEED IN A PROGRESSIVE STATE LIKE WISCONSIN.

DEMOCRATS, FOR THEIR PART, NEED TO BECOME MORE ACTIVELY ENGAGED IN THE EFFORT TO REJUVENATE OUR STATE'S ECONOMY. THERE ARE SOME IN OUR PARTY WHO PREFER ENGAGING IN OUT-OF-DATE EXERCISES OF IDEOLOGICAL BUSINESS BAITING TO TAKING THE STEPS THAT ARE NEEDED TO PROVIDE STABLE, WELL-PAYING JOBS TO THEIR CONSTITUENTS. WE WILL ALL NEED POLITICAL DISCIPLINE TO SEE US THROUGH THE THIS GREAT ECONOMIC TRANSITION.

ENCOURAGING PROGRESSIVE, EXISTING BUSINESSES

THE FACT IS THAT OUR STATE IS PART OF A VERY DYNAMIC ECONOMIC ENVIRONMENT. THAT MEANS WE WILL BE WINNING SOME AND LOSING SOME AS OUR ECONOMIC FATE UNFOLDS. WE NEED TO LEARN FROM THOSE WINS AND LOSSES TO HELP PUT OUR FUTURE IN PERSPECTIVE, AND NOT LOOK ON EVERY PLANT CLOSING AS CATASTROPHE AND EVERY NEW ENTERPRISE AS A TRIUMPH OF AGGRESSIVE RECRUITING. THE IMPORTANT THING IS TO WIN MORE THAN WE LOSE AS WE CONTINUE TO BUILD AN ECONOMIC BASE THAT WILL PROVIDE A SECURE FUTURE FOR OUR PEOPLE.

THREE WEEKS AGO I TOOK PART IN THE OPENING CEREMONIES OF THE NEW QUAD/GRAPHICS PLANT IN LOMIRA. HARRY QUADRACCI,

THE PRESIDENT OF QUAD/GRAPHICS, MADE SOME CRUCIAL POINTS IN HIS REMARKS — NOT THE LEAST SIGNIFICANT OF WHICH WAS THAT HE EXPECTS THE NEW PLANT TO PROVIDE AT LEAST 1,500 JOBS WITHIN THE NEXT FIVE YEARS. HE ALSO MADE SOME OTHER IMPORTANT POINTS. HE SAID:

"THERE IS A SEASON FOR EVERYTHING AND WE MUST RECOGNIZE THAT SOMETIMES BIG TREES MUST DIE FOR LITTLE TREES TO GROW.

"FOR YEARS, THIS STATE WAS DOMINATED BY SEVERAL MAJOR INDUSTRIES AND IT'S THESE COMPANIES WHO SET THE WAGE RATES THAT PROVED TO BE NON-COMPETITIVE NATIONALLY AND INTERNATIONALLY. AND IT'S THESE COMPANIES WHOSE BRAND OF LABOR RELATIONS GAVE WISCONSIN LABOR AND MANAGEMENT A BLACK EYE, SOMETIMES TWO BLACK EYES, FOR POOR ATTITUDES AND INDUSTRIAL STRIFE.

"AND IT WAS THESE COMPANIES, WHO RECEIVED THE DOMINANT AMOUNT OF ATTENTION FROM STATE AND LOCAL GOVERNMENTS, LOCAL BANKS AND PROFESSIONAL FIRMS, THAT LEFT SMALL FIRMS SUCH AS OURS IN THEIR SHADOWS.

"BUT IN SPITE OF THE INORDINATE AMOUNT OF ATTENTION MANY OF THE BIG BUSINESSES STILL FAILED. SURVIVAL OF THE FITTEST IS STILL THE INTERNATIONAL RULE FOR BUSINESS, WHICH IS THE WORLD'S LARGEST COMPETITIVE SPORT.

"NOW THE BIG TREES ARE GONE AND WE ARE ENJOYING THE SUNLIGHT, THE ATTENTION AND WE ENJOY THE OPPORTUNITY TO SHOW WHAT LITTLE PEOPLE, ORDINARY PEOPLE CAN DO WHEN THEY WORK TOGETHER.

"WE DON'T NEED ANY GOVERNMENT HELP, JUST A LITTLE SUNSHINE AND A LOT OF LOVE."

YOU CAN EXPECT A CONTINUING EMPHASIS IN THIS ADMINISTRATION ON RETAINING OUR EXISTING BUSINESSES AND ENCOURAGING EXPANSION IN OUR STATE. IT IS IMPORTANT THAT WE CONTINUE TO BE ACTIVE IN RECRUITING OUT-OF-STATE BUSINESSES. FORWARD WISCONSIN AND PAT LESAGE ARE WELL WORTH THE PUBLIC AND PRIVATE SECTOR DOLLARS DEVOTED TO THEM, BUT WE NEED TO PAY PRIMARY ATTENTION TO BUILDING ON OUR EXISTING STRENGTHS.

I'VE SPENT MORE TIME LEARNING ABOUT AND ENCOURAGING OUR EXISTING BUSINESSES THAN AT ANY OTHER SINGLE ACTIVITY OF MY GOVERNORSHIP. IT HAS BEEN ENLIGHTENING AND INSPIRING TO ME TO OBSERVE FIRST-HAND THE COMPETENCE AND INNOVATION OF OUR MOST SUCCESSFUL COMPANIES. THEY ARE ENTITLED TO ALL THE RECOGNITION AND ENCOURAGEMENT WE CAN GIVE THEM. THEIR POSITIVE, PRO-WISCONSIN ATTITUDE CAN ONLY HELP OUR EFFORT, WHILE THE WHINING AND COMPLAINING OF THE CHRONIC NAYSAYERS CAN ONLY HURT.

WE NEED TO LOOK FOR LEADERSHIP TO THOSE ENTREPRENEURS AND SMALL BUSINESS PEOPLE WHO HAVE CONTRIBUTED MOST TO THE RECENT GROWTH IN OUR ECONOMY. IN GENERAL THEY ARE POLITICAL INDEPENDENTS WITHOUT AN IDEOLOGICAL AX TO GRIND. THEY APPRECIATE THE QUALITY OF LIFE IN OUR STATE AND ARE WILLING TO PAY THEIR FAIR SHARE OF ITS COST. OUR TASK MUST BE TO CREATE A BUSINESS CLIMATE AND NATURAL AND CULTURAL ENVIRONMENT IN WHICH THEY CAN PROSPER AND THRIVE AND IN WHICH THE PEOPLE THEY EMPLOY CAN COUNT ON A SECURE ECONOMIC FUTURE.

A HELPFUL STATE GOVERNMENT

THERE IS GOING TO BE A CONTINUING EFFORT BY THIS ADMINISTRATION TO IMPROVE THE WAY THAT STATE GOVERNMENT DEALS WITH ALL BUSINESSES, LARGE AND SMALL. WE MADE SOME IMPORTANT HEADWAY ON THIS SUBJECT WHEN WE ESTABLISHED THE PERMIT INFORMATION CENTER AT THE DEPARTMENT OF DEVELOPMENT NEARLY TWO YEARS AGO. AT THE SAME TIME WE REQUIRED STATE AGENCIES TO TAKE INTO ACCOUNT THE PARTICULAR NEEDS OF SMALL BUSINESSES WHEN THEY PROMULGATE THEIR ADMINISTRATIVE RULES.

BOTH THOSE STEPS HAVE BEEN HELPFUL, BUT WE CAN DO MORE. WE NEED TO IMPROVE OUR REGULATORY PROCESSES SO THAT ANY ENTERPRISE WHICH DEALS WITH STATE GOVERNMENT IS TREATED FAIRLY AND SERVED QUICKLY. IN DEPARTMENTS SUCH AS NATURAL RESOURCES, INDUSTRY, LABOR AND HUMAN RELATIONS, REVENUE AND AGRICULTURE, WE HAVE TO FERRET OUT ANY UNNECESSARY DELAYS OR BUREAUCRATIC ARBITRARINESS IN THE PROCESS OF GRANTING PERMITS OR MAKING ADMINISTRATIVE DECISIONS.

THERE IS BROAD ACCEPTANCE OF OUR ENVIRONMENTAL PROTECTION AND HEALTH AND SAFETY LAWS, BUT GENUINE CONCERN OF THE ADMINISTRATION OF THOSE LAWS. WHEN I WAS THE SECRETARY OF THE WISCONSIN DEPARTMENT OF NATURAL RESOURCES, I DEDICATED MYSELF TO THE PROMPT, FAIR AND REASONABLE APPLICATION OF OUR ENVIRONMENTAL PROTECTION STATUTES. I INTEND TO APPLY THOSE SAME STANDARDS TO ALL OF THE STATE AGENCIES UNDER MY CONTROL AS GOVERNOR.

THE OVERALL OBJECTIVE SHOULD BE A STATE GOVERNMENT WHICH IS PERCEIVED AS REASONABLE AND FAIR . . . A STATE

GOVERNMENT WHICH IS RUN BY PEOPLE WHO ARE ACCESSIBLE AND FLEXIBLE AND WHO EXPLODE THE MYTH OF THE ARBITRARY AND UNBENDING BUREAUCRAT. ANY PROGRESS WE CAN MAKE TOWARDS THAT GOAL WILL BE OF GREAT ASSISTANCE TO THE EFFORT TO MAKE WISCONSIN AN EVEN BETTER PLACE TO DO BUSINESS.

ATTENTION TO EDUCATIONAL EXCELLENCE

AS FAR AS OUR LONG-TERM FUTURE IS CONCERNED, THERE WILL BE NOTHING SO IMPORTANT TO US THAN A CONTINUED EMPHASIS ON IMPROVING OUR EDUCATIONAL INSTITUTIONS. THE BUDGET I SIGNED LAST MONTH CONTAINED THE LARGEST INCREASE IN SCHOOL AIDS IN OUR STATE'S HISTORY; IMPROVED STANDARDS FOR ELEMENTARY AND SECONDARY EDUCATION; MUCH-NEEDED CATCH-UP PAY FOR UNIVERSITY FACULTY; A RESTRUCTURING OF THE GOVERNANCE OF OUR STATE VOCATIONAL EDUCATION SYSTEM. IT WAS AN HISTORIC BUDGET FOR EDUCATION, BUT WE CANNOT ASSUME THAT THE JOB IS NOW COMPLETE.

THE NEXT ECONOMY WILL REQUIRE MUCH OF ITS WORKERS. IT WILL REQUIRE MORE COMPETENCE IN THE BASIC SKILLS OF MATH AND READING. IT WILL REQUIRE WORKERS CAPABLE OF BECOMING MORE DIRECTLY INVOLVED IN SOLVING WORKPLACE PROBLEMS WHICH STAND IN THE WAY OF IMPROVED QUALITY AND HIGHER PROFITABILITY. IT WILL REQUIRE WORKERS ABLE TO ABSORB NEW INFORMATION AND TO MAKE CAREER SHIFTS WITH A MINIMUM OF STRAIN. THE EDUCATIONAL SYSTEM NEEDED TO PRODUCE AND SUPPORT THESE WORKERS WILL HAVE TO BE SOPHISTICATED AND DYNAMIC. WE WILL HAVE TO BE JUST AS DISCIPLINED ABOUT DISCARDING THE OUT OF DATE IN OUR EDUCATIONAL SYSTEM AS THE PRIVATE SECTOR MUST

BE ABOUT ABANDONING OUTMODED TECHNOLOGIES AND SHRINKING MARKETS. OUR EDUCATIONAL SYSTEM IS ALREADY ONE OF THE BEST IN THE WORLD. IT WILL REQUIRE OUR CONSTANT ATTENTION TO KEEP IT THAT WAY.

'THE MASSACHUSETTS OF THE MIDWEST'

I WANT TO CONCLUDE BY SUGGESTING A WAY FOR US TO KEEP OUR GOALS IN PERSPECTIVE AS WE CONTINUE THE EFFORT TO REVITALIZE OUR ECONOMY. TWENTY YEARS AGO THE NORTHEAST WAS IN MUCH THE SAME SITUATION WE FIND OURSELVES TODAY. BASIC INDUSTRIES LIKE TEXTILES, SHOES AND HEAVY MANUFACTURING WERE SHRINKING OR LEAVING THE REGION. PROSPERITY THAT HAD BEEN TAKEN FOR GRANTED BECAME A SCARCE COMMODITY. THE NORTHEAST WAS THE VICTIM OF EXTERNAL ECONOMIC CIRCUMSTANCES WHICH IT COULD NOT CONTROL, BUT TO WHICH IT COULD RESPOND.

THERE HAS BEEN A SIGNIFICANT RECOVERY OF THE ECONOMY OF THE NORTHEAST. THE REGION HAS PASSED THROUGH ITS DARKEST HOURS AND IS NOW MAKING NEW HEADWAY IN REINVENTING ITS ECONOMY. NO STATE HAS MADE A MORE REMARKABLE TURNAROUND THAN MASSACHUSETTS. TODAY THE UNEMPLOYMENT RATE OF MASSACHUSETTS IS BETWEEN THREE AND FOUR PERCENT. ITS ECONOMY IS HUMMING, PARTICULARLY IN THE BOSTON AREA.

WHAT SETS MASSACHUSETTS APART FROM ITS NEIGHBORS? FIRST, ITS EDUCATIONAL INSTITUTIONS AND THE NEW ECONOMIC LIFE WHICH HAS SPRUNG FROM THE RELATIONSHIP BETWEEN HIGHER EDUCATION AND BUSINESS. SECOND, GOVERNOR MICHAEL DUKAKIS HAS PROVIDED DISCIPLINED AND CONSISTENT LEADERSHIP TO THE STATE'S ECONOMIC

DEVELOPMENT EFFORTS. THIRD, MASSACHUSETTS HAS BENEFITED FROM AN INFLUX OF FEDERAL FUNDS, PRIMARILY THROUGH THE DEFENSE BUDGET.

MASSACHUSETTS' SUCCESS IS PRIMARILY THE RESULT OF LONG-TERM INVESTMENTS IN EDUCATION AND OTHER PUBLIC INVESTMENTS NEEDED TO SUPPORT A GROWING ECONOMY. IN MANY WAYS, WE ARE LIKE MASSACHUSETTS. WE HAVE UNSURPASSED EDUCATIONAL RESOURCES. WE ARE WORKING TO STRENGTHEN TIES BETWEEN THE UNIVERSITY SYSTEM AND THE PRIVATE SECTOR. BOTH STATES HAVE A HIGH LEVEL OF PUBLIC SERVICES. THOUGH WISCONSIN HAS DONE POORLY IN THE PAST IN ATTRACTING DEFENSE DOLLARS, CONGRESSMAN ASPIN'S ASCENDANCY TO THE CHAIRMANSHIP OF THE ARMED SERVICES COMMITTEE IS AN ENCOURAGING SIGN THAT WE MAY DO BETTER VERY SOON.

I BELIEVE THAT WISCONSIN, PERHAPS MORE THAN ANY OTHER STATE IN THE REGION, HAS THE POTENTIAL TO BECOME THE MASSACHUSETTS OF THE MIDWEST. IF WE MAINTAIN OUR STRENGTHS AND KEEP AN OPEN MIND ABOUT THE OPPORTUNITIES OFFERED BY THE NEW ECONOMY, WE CAN LEAD THE REGIONAL RECOVERY THAT IS ALREADY UNDERWAY. IN THE QUALITY OF OUR PEOPLE AND INSTITUTIONS WE HAVE ADVANTAGES THAT SET US APART. IF WE DO OUR JOB RIGHT, WE CAN LOOK FORWARD TO A RERUN OF EVERYONE'S FAVORITE <u>WALL STREET JOURNAL</u> ARTICLE, "WISCONSIN — STAR OF THE SNOWBELT."

Representative OBEY. Let me first tell you a story.

I was over in Lublin and Stetsonville last weekend and I ran into Pink Van Gordon there. For those of you who don't know him, he is a Republican assemblyman from Clark and Taylor Counties.

And I asked him—and I will ask you the same question—coming from the North as I do, normally you move around the State, you see what happens in budgets and you—the classic argument that has always been made is, well, Ms. Forward has her back turned on northern Wisconsin. The North is getting squeezed out in the budget.

This year I noticed on the rollcall on the budget at who voted for it and who voted against it in the State senate. If you draw a line from Monroe or around that area and draw it straight up through Green Bay, every single State senator, regardless of party, voted for your budget.

What is in that budget for the north this year versus other years? Why did everybody jump partisanship and vote for it in the senate? Why is the budget such a good deal for the north?

Governor EARL. A good part of it is that the north was explicitly taken into consideration in putting together the budget and some of the specific concerns of the north were addressed.

I think that what is good for the north is good for the rest of the State. But let me outline some of the things that did occur.

In the area of education, the additional dollars that are put in the budget to support elementary and secondary education will have a major impact, not only in improving education, but in reducing the reliance placed on the property tax for support of education.

We have to see in many school districts in the north a decline in property taxes as a result of the fact that the State has picked up a larger share of the cost of elementary and secondary education.

Representative OBEY. What share are they going to pick up?

Governor EARL. The State's share by the end of the biennium, if you counted the Wisconsin State property tax credits, will be up to about 48 percent, which is the highest we have ever been.

There are some who will not be happy until we are over 50 percent. I understand that. But we will get there, given the time and the opportunity.

Second, there are two enterprises in this State's economy which are more important in the north than they are to the southeast part of the State. Those are agriculture and tourism. This budget made a number of important changes for agriculture.

The Farming Preservation Act was improved, and the ability of farmers to participate was eased.

The provision in our tax code under which formulas for the distribution of taxes is made was moved from a year or two back to current year values, which reflects the fact that land values have been declining in the western part of the State and the northern part of the State. That will result in more State aids being available as property value declines. The sales tax was removed from some items in agriculture applying the same rationale: If manufacturing machinery and equipment ought be tax exempt so we help people in the paper industries, why do we continue to tax milk-house supplies, animal bedding, et cetera. Those items were made tax exempt.

So a number of things for agriculture—for tourism the most important item was a major increase in tourism promotion dollars, but I think over the long haul what was more important for tourism was the fact that many long-needed highway projects are moving along rapidly. They have been gathering dust for years. You can't attract people to come to the north if they don't think you have got safe and comfortable highways.

Highway 51 is almost done. It will get people up here to the north central part of the State. I think there are only 30 miles that are still two lane. Highway 29 is getting major changes. Highway 53 is getting major changes. And all those things will help bring tourists to the State and encourage them to come back. The tourism promotion dollars are important, but these other things are as well.

So it is a host of things, an emphasis in a number of areas: the economy that is important to the north, an emphasis on tax relief that is important to people in the north.

As I indicated when I began this answer, I think what is good for the north in this budget is good for all the State. It is just that people in the north perceived it sooner.

Representative OBEY. What were the dollar amounts in tax relief for personal income tax and property tax?

Governor EARL. The personal income tax cut will amount to $171 million in the first year. It will be about $175 million a year on an annual basis. The property tax relief is $850 million, of which about $400 million is in the area of greater State aid for elementary and secondary education. It is about a billion dollars' worth altogether.

The income tax clearly is very important and symbolic, very important. But in terms of everybody's day-in-day-out lives, most people continue to have greater concerns about the property tax and specifically the reliance which we place on the property tax for the support of elementary and secondary education.

Representative OBEY. You mentioned Massachusetts.

Yesterday, when Massachusetts came up, I observed that I thought that there were a number of critical elements in Massachusetts which had helped them to bring about an economic turnaround. It was pointed out that one of the ways that it happened was that the State lost population.

We are not interested in replicating that, but that fact aside, it seems to me that Massachusetts had, No. 1, access to adequate venture capital. They had the right mix of businesses—I don't want to say "right" because that sounds like I am imposing a value judgment. But they had a particular mix of businesses in place so that when changing Federal priorities toward military expenditures came into place, that they were bound to get an advantage out of that.

But they also had a State government and a Governor in the person of Dukakis who was alert to the changes taking place in the economy and willing to work with all sides.

It seems to me you also had at MIT and other resources, top-quality educational resources which they could take advantage of.

And you had a willingness to make high levels of investment in the kinds of things we are talking about, education being one of them.

The University of Wisconsin and its role came up quite a few times yesterday. Some members of the business community suggested that they had been concerned about the fact that the university did not provide as much support to manufacturing as would be necessary in order to help facilitate change, whether you are talking about changing product, changing manufacturing technology, research, and things like that.

I told Ms. Lyall, who is the acting president of the university, that my impression in dealing with academics through the years has been a—certainly, it doesn't apply to all of them—but there seems to be a reluctance to deal with either business or government leaders because somehow that is not as academically pure as pursuing knowledge for the sake of knowledge.

I fully recognize the need to do the latter, but it has been my impression that there has been some shying away on the part of some types of faculty members from the necessity to help problem solvers as well as knowledge seekers.

The witnesses who testified for the business community indicated that they thought that attitude had changed or was beginning to change significantly at the university, that more attention was being paid to problem solving.

We had the dean of the school of engineering here yesterday who was outlining some of the things he was doing and some of his frustrations at getting—at his inability to get business to participate in certain programs that he thought would help them.

What is your evaluation of the university's past performance in meeting the practical needs of business in trying to find new ways to grow and provide jobs, and how do you think business can be stimulated to take better advantage of a resource like the University of Wisconsin which is known worldwide for its leadership?

Governor EARL. First of all, I think it is accurate to say that your impressions of the distance between the university community and the business community in this State in the past have been accurate.

There has been a distance and, in part, continued by both sides. A distrust of absentminded professors on the one hand, and a distrust of people who would always put the practical above the theoretical on the other hand. I do think that that is beginning to be overcome.

I don't know if it was Dean Bollinger who was here yesterday or not, but if it was him, he was certainly done the best job of anyone in the engineering school at the university and in its connections with the business community, they are very, very good.

As a matter of fact, when I received a letter from Mr. Hogland saying that Wisconsin had not been chosen for the Saturn plant, he praised our presentation and went on at some length to praise the strengths we had in our university system and the attractiveness that it had and how that will serve us in good stead.

It is more than just coincidental that the dean, Dean Bollinger, was with us when we made our presentation in Detroit. He was very effective.

That feeling that he has, that Dean Bollinger has, is not shared by everyone in the university yet, though I think that the mood is much improved.

In the area of biology, biochemistry, I think the opportunities for us to benefit from what the university has to offer are almost unlimited. If people in California were able to take advantage of what the University of California, Berkeley and Stanford, had in the area of electronics, here in the area of biogenetics and biotechnology, we have an enormous resource in Madison with the university. And certainly everyone I think anticipates that there are going to be enormous economic implications from that.

But a part of that is, the university must demonstrate a willingness to be involved with the business community in exploiting the economic opportunities before us. The business community, for its part, has to realize that there is a large and growing number in the university who look to those kind of partnerships.

One of the things that we did in the last budget, which continues in this budget, was establish a technology transfer program where the State would make money available to help support joint industry/university efforts. It has had some very real successes.

I hope that it only has to be a starter program to let people know what benefits are available for those joint efforts, and then they will begin to take off on their own.

But if we want to emulate Massachusetts and its strength, then we do have to aggressively promote a closer working relationship between our university and our business community.

Representative OBEY. You mentioned the impact of the President's tax bill on the State of Wisconsin. Let me say—and I really don't say this on a partisan basis—I guess what I should say is that this assessment applies to all of the tax bills being considered.

In my opinion, I don't care if you take a look at Kemp-Kasten or if you take a look at Bradley-Gephardt or if you take a look at the President's tax plan. I think all three of them are deficient in two respects:

First, all of them are revenue losers, which does not help Wisconsin or any other State because it simply adds to the deficit which compounds our trade deficit problems and which compounds our interest level problems.

The second problem that I see is that, especially with the President's plan and with Kemp-Kasten, less so with Bradley-Gephardt because they at least provide for some retention of the tax credit for State taxes, Wisconsin does get clobbered.

I am going to be asking the same question to a lot of panelists over the next 2 days. One thing mystifies me. Let me give a little background.

If you analyze which States get hit hardest, if we lose the ability to deduct on your Federal return what you pay in State and local taxes, Wisconsin is the worst hit State in the Union, Minnesota is second, New York is third.

The administration says, and some of their allies in Congress say, well, you ought to eliminate that deduction because it is just a subsidy to high-tax States and high-spending States.

We did an analysis on the Joint Economic Committee which demonstrated that if you take the five lowest taxing States in the country, Alaska, Wyoming, Texas, some others—discard Alaska because they have special problems—even if you do that, the result is still the same. If you take the five highest or lowest taxing States in the Union, and then compare their taxing level with their spending level on a per capita basis, you find a very strange thing. You find that four out of the five States which are the lowest taxing States are, on a per capita basis, higher spending States than Wisconsin is.

The problem is that we don't have coal, oil, and gas that we can tax as it leaves the State in order to pay for the cost of our public services. They do.

That means we get clobbered because we have to pay all of our bills ourselves.

What I don't understand, given that situation, is the difference between what has happened in New York and what has happened in Wisconsin. In New York you have a bipartisan coalition between all of the politicians, regardless of whether they are Republican or Democrat—about the only exception to that is Charlie Rangel, who doesn't agree with the position, but outside of him, the leading politicians in the State are all fighting very hard against that.

They have been able to marshall major business leaders and major labor leaders to make an all-out effort to explain to the decisionmakers in Washington why that is bad business for their State.

What I don't understand is, and I know you have been doing this, why we have not had a more aggressive stance taken by leaders of the business community and leaders of labor in order to drive home that same point as far as Wisconsin is concerned.

The argument that some people make is, well, you can adjust the rates enough to take care of people on an individual basis. That may take care of individual taxpayers, but it does not eliminate the competitive disadvantage that would accrue to Wisconsin if that item passes.

I wonder if you think there is any significant prospect that we are going to be getting more activity out of both labor leadership and business leadership in this State in making people aware of the problems with that provision in that bill?

Governor EARL. Two or three things are obtaining that may improve the situation.

The first is the more people become aware of the bill, the less they like it. I think, frankly, when the proposal was first made and I and some others were immediately critical of it, people just expected that was partisan response to the President's proposal rather than a response that was based on what the implications are to the State.

Now I think a number of people are realizing that there are people on both sides of the political aisle who find the policy not a very good one, who realize that this is not a tax cut nationally but a tax shift. It means that people in Wisconsin will pay more so that people in Oklahoma can pay less.

The second thing that has been happening is I think a number of people did initially go through just the personal equation, what does this do for me and, gee, maybe I am going to gain. They saw this chart on the newspaper front page and felt, well, it is not all that bad or, indeed, I might even gain from it. Only now are they beginning to realize the implications of it to this State as a whole, all the individuals in it, and how it does put Wisconsin at much greater disadvantage in our competitiveness with States in the Sun Belt and the southeast, southeast and southwest combined.

I think that is finally beginning to take hold.

The third reason I think that we didn't see much about it was because tax reform is one of those things that is frequently talked about, but nobody ever really does anything. I think a lot of people thought this was a bit more political rhetoric again, nothing is going to happen. They won't really pass it anyway.

Now that the President has indicated it is going to be his No. 1 priority, I think people understand he is very, very serious about it.

I hope that people in the business community and in labor do get a bit more exercised about it. I think that it is one of those things that transcends political labels.

My feeling about it is no different than the feelings of Senator D'Amato of New York.

Representative OBEY. He is a member of the Joint Economic Committee and fighting it very hard.

Governor EARL. That is right. And I think that there are a number of prominent political figures of both persuasions who find it offensive philosophically; they also find that it flies in the face of federalism. It is really very divisive. It sets one State or one group of States against the rest of the States.

There are a lot of people, including a fair number of people who don't share our political philosophy, who find it offensive on those grounds. I hope they get more outspoken about it.

Representative OBEY. Let me just read you a quote.

"If politicians succeeded in eliminating deductions for State and local taxes, would you pay a tax on a tax?"

Do you know who said that?

Governor EARL. Ronald Reagan.

Representative OBEY. That is correct. He said that in 1983. I wish he had stuck to that view.

One last question. Then let me ask the audience if they have any questions.

We heard a lot of discussion yesterday about how we use the Job Training Partnership Act—especially as we get into more and more high technology applied to all kinds of industries. How do you evaluate the Job Training Partnership Act program and do you really think it is adequate to deal with the job training problem that the State faces and the country faces?

Governor EARL. I think by and large it has worked quite well. I would give it overall positive grades. The problems with it are endemic to any kind of job training program. If you train a person for a job and the job isn't available, then you have a far more frustrated person at the end of it.

If you train a person for a job and you create a job, then you may have only created an artificial situation.

People on one side, the nonbusiness people, are frustrated by the fact that some people go through the program and there is nothing there at the end.

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Business people, I am sure, are very nervous that we may recreate something like CETA and train people and then create a job for them at the end of the process so as to justify the process.

I don't know there is any way to avoid that kind of frustration on either end.

By and large, the program has worked quite well. My major anxiety about it is this: When it began in this State, there was a very high-level participation by people in the business community and people in labor. We had lots of chief executive officers and others getting deeply involved in it to make sure that it worked, to make sure that it was going to be different from CETA, to make sure that we had better results.

As time goes on, people find this commitment to that kind of public service onerous, and we are finding more and more people who are dropping out of serving on-the-job training councils and private industry councils or having somebody else from the operation go in and take their place.

If that continues and if the level of interest on the part of people in the business community begins to erode, then the program won't do nearly as well as it ought to. Whatever success it has is directly relative to the level of interest people in the business community and the labor community have taken in the program.

To the extent that it becomes just another thing that you get involved in like fundraising for another locker room at the country club or whatever, then the program isn't going to do as well.

Representative OBEY. I have a number of other questions I would like to ask, but we are out of time.

Let me ask if anybody in the audience has any questions they want to ask the Governor.

A VOICE FROM AUDIENCE. What does the fall session look like for economics?

Governor EARL. The question, for those of you who couldn't hear, was: What does the fall session look like for economic development?

There is no set agenda as yet. There are a number of people proposing agendas.

Wisconsin Manufacturers and Commerce has. I know Senator Ulichny has some ideas in mind. Representative Lewis has ideas. The Wisconsin Strategic Development Commission has some, as has the Wisconsin Commission on Agriculture.

What I will do by early September, middle September, is take a look at all these agendas and try to put together a fairly short, maybe 15 or 20 bills at the most, agenda of bills which can engender bipartisan support which will meet a real problem and ideally provide a real solution to that problem and genuinely help us in economic development.

The last time around we put in 12 bills; 11 passed. The one that didn't pass will be on the agenda this time around. That is the utility diversification bill.

I don't know for sure what other measures will be on, but there will be bills very similar to the kind that we passed in the fall of 1983. I thought that was a good session. If we can have one that is as nearly successful this time, we will do well.

A Voice From Audience. Governor, I spoke to you about this a couple years ago. Is there any study or research being done on something similar to State IRA's that you would get a tax deduction if you would invest in a business in order to keep your job going or buy stock in a small business to keep small business ventures going or help with financing them?

Governor Earl. There are two items that I have passed that are related to what you have said.

There is no State IRA, but there is a proposal in the budget that provides, if you invest in a Wisconsin firm and keep that money in that Wisconsin enterprise for at least 5 years, you get an advantageous tax treatment for that.

There was another item that is—I am trying to remember what the other item was now. There were a couple of items that went along the lines of those that you described to try to encourage people to make investments in Wisconsin and leave those investments here.

I know the other one. Pardon me.

The other one is a proposal which makes easier employee purchase of companies. And there is a State fund that has been set aside to help employees undertake such employee buy outs of companies.

There is such an effort under consideration now in Fond du Lac, as a matter of fact, in our leather works where the employees are considering buying it out. The law that passed makes it easier for those employee stock ownership plans and provides money for State assistance to help them explore how they do it.

We undoubtedly use the university and other institutions to help put together such an arrangement. So there are two things along the lines that you suggest, though there is no exact analogy to a State IRA.

A Voice From Audience. Which is what I was interested in. Whether you could put like $1,000 over a period of years like you do with your IRA's and get a State income tax deduction on that base in order to keep your small business job going?

Governor Earl. You can do it by investing directly in a Wisconsin business, not by investing in a bank that may invest in the business.

A Voice From Audience. That is what I mean.

Representative Obey. Any other questions?

If not, Governor, thank you very much. We appreciate your time. Enjoy your time you are going to spend with the ginseng growers.

I think we will take about a 5-minute break here before we resume with the next panel.

[A 5-minute recess was taken at this point.]

Representative Obey. Before we start, I want to note the presence of Stan Gruszynsk, State representative from Portage County in the room.

Also, by far the most important part of the Obey family, my wife, Jean, sitting in the back, who I think much prefers congressional hearings to be held in Wisconsin than she does in Washington.

The next panel we are going to hear from will be talking to us about the recommendations made by the Wisconsin Strategic Development Commission. I think the very title of that commission is interesting. I will say why later.

This is a commission appointed by the Governor to recommend or to make recommendations on items that could be useful in improving Wisconsin's competitive position, in improving our job and business outlook in the future.

We have with us this morning Mr. Hal Kuehl, chairman of the board of First Wisconsin National Bank and cochairman of the Wisconsin Strategic Development Commission.

Mr. Robert Milbourne, executive director of the Greater Milwaukee Committee and executive director of the Wisconsin Strategic Development Commission.

Mr. Joel Vattendahl, director of District 32 of the United Steel Workers of America, and also a member of the commission. And Mr. James Morgan, president of Wisconsin Taxpayers' Alliance, who I have known for many years.

When were you tax commissioner? What year?

Mr. MORGAN. 1964 through 1970.

Representative OBEY. You have seen a lot of taxes come and go. The 23 member commission included representatives from government, business, labor, and citizen groups, the last of the commission's reports was just presented to the Governor last week.

At this time I would simply ask Mr. Kuehl to begin and—what time did we provide? If I could ask each of you to take between 10 and 15 minutes to summarize what is in your prepared statement, we will insert, for those of you who brought prepared statements, the full statements in the record.

If you could summarize them, so that we save as much time as possible for questions, I would appreciate it. Why don't you begin. Thank you very much for being here.

STATEMENT OF HAL C. KUEHL, COCHAIRMAN, WISCONSIN STRATEGIC DEVELOPMENT COMMISSION, AND CHAIRMAN, FIRST WISCONSIN NATIONAL BANK, MILWAUKEE

Mr. KUEHL. First of all, I would like to express our appreciation for the opportunity to appear here this morning. We will honor the time constraints and my colleagues and myself will restrict ourselves to that timeframe.

I am Hal Kuehl, of the First Wisconsin National Bank of Milwaukee and cochairman of the Wisconsin Strategic Development Commission. Our panel this morning will focus on the findings and recommendations of the commission, which issued its final report to the Governor Earl last week.

I will lead off with a summary of the commission's major proposals; Bob Milbourne, our executive director, will follow with more detail on the analysis that led to our recommendations; Joel Vattendahl, of the United Steelworkers of America, will offer come comments on the strategy to preserve existing jobs; and Jim Morgan, president of the Wisconsin Taxpayers' Alliance, will review the business and personal tax recommendations of the Wisconsin Strategic Development Commission.

Governor Earl created our group 18 months ago as a public-private partnership to develop a long-range strategic plan to improve

Wisconsin's economic future. Members represented large and small business, labor, government, education, and civic organizations.

To balance my private sector organization, Lt. Governor James Flynn served as the other cochairman and helped to make the effort a real public-private venture.

We attempted to follow the process of strategic planning commonly used in business. Those included in analysis of current economic environment and competitive assessment, and you heard about that yesterday.

The commission recognized from the outset that Wisconsin competes with other States in a nation that competes with other nations. The State is not an island unto itself. Thus, it is critical to understand our current competitive position as the first step in strategic planning.

We evaluated our strengths and weaknesses.

Before one can develop strategies for the future, it is important to grasp present strengths and weaknesses. The objective is to build on our assets and minimize the liabilities.

Yesterday, you heard from Russ Cleary, chairman of Heileman Brewing Co., who was a member of the Wisconsin Strategic Development Commission. He outlined the major economic development strengths and weaknesses in Wisconsin. I will not repeat them here today.

We analyzed strategic alternatives.

The next step in our strategic planning process was to evaluate alternative strategies for long-term economic development. The commission reviewed more than 50 major issues and produced more that 100 recommendations.

We consolidated the strategic plan.

Once strategies have been analyzed, they must be consolidated into a sensible overall strategic plan. The outcome of that effort is contained in the final report issued last week to Governor Earl.

We proposed an implementation program.

A strategic plan must be a living document. It is only as good as its implementation makes it. Our commission recommended specific steps to continue the strategic planning process in Wisconsin and outlined the proper role for the public and private sectors.

During the past 18 months, more than 200 individuals participated in the work of the commission. About one-half were donated by the private sector and the other half were representatives of State agencies and the University of Wisconsin.

I might add a personal comment as a businessman not well acquainted with the talent of the State bureaucracy. The State agency staff who assisted our work were of high quality and produced extremely valuable analyses. My view of the dedication and competence of Wisconsin State employees was greatly enhanced by their work.

Let me get to the overall strategic plan approved by the commission. You have heard thus far in this hearing about the impact of national and international factors on the Wisconsin economy and the limitations of the State to guide its own future.

I think it is apparent that what happens at the national level certainly impacts Wisconsin. What happens at the national level is extremely important to us.

However, we also compete for jobs and economic activity with 49 other States, and how we compete with them in our economic environment is also extremely important if we are to prevent a reduced outmigration and enhanced inmigration of jobs to the State of Wisconsin.

While it is true that external factors will have a large influence on Wisconsin's economy, there is still much the State can and should do to improve its economic development potential. Strong leadership from both the public and private sectors can result in a stronger economy that creates new jobs and a better quality of life for all of us.

The three broad strategies that form the foundation of the long-term plan include: First, preserving the existing job base. We must begin with efforts to build on what is already in place. Our future will depend on the success of the existing companies now operating in the State. It must be our first priority.

Second, emerging jobs. New strategies must be directed toward those emerging industries that can produce jobs in the future. These strategies are directed toward strengthening the role of small business, entrepreneurship, and new technology.

Third, Wisconsin first in quality. The Wisconsin Strategic Development Commission also recommended a series of proposals that constitute a strategy that can best be described as "Wisconsin first in quality."

Wisconsin must improve its business climate and convince the private sector that it does offer high quality.

It must be pretty obvious to everyone that the perception of the private sector is that Wisconsin is not friendly and in the worst case, hostile to economic development by the private sector.

The commission recommended a series of tax and spending proposals designed to meet that objective. In addition, our strategic plan emphasizes the need to better utilize the resources of the University of Wisconsin, the vocational, technical, and adult education system, and other major assets that can contribute to economic development.

Others on the panel will comment on specific parts of the strategic plan. I would like to focus on two areas that are dear to my heart.

First is the proposal to create a strategic planning council to continue the work of our commission. It is essential for the State to view strategic planning as an ongoing process. If the final report of the commission is placed on the shelf, with no plan for implementation, our time over the past 18 months will have been wasted.

The new council will carry forward on a permanent basis the role of long-range planning. It should review, assess, and update the strategic plan. It should also set the agenda for economic development policy in the years ahead.

I was encouraged last week at our final meeting when Governor Earl indicated support for this proposal. Now, if we can receive legislative endorsement, the State can be assured of the continuation of long-range planning and the implementation of our report.

The second subject that I would like to address is the issue of State spending. This has been my personal "cause celebre" during the past 18 months. I hope my colleagues from the commission will bear with me one more time as I emphasize the need for Wisconsin to review its spending priorities.

The Wisconsin Strategic Development Commission issued three reports on the subject of State spending. Programs were compared with 10 other States that were carefully chosen.

Those States included our Midwest neighbors: Illinois, Indiana, Michigan, Ohio, and Minnesota; and selected Sun Belt States such as North Carolina, Arizona, and Georgia; and examples of States that have demonstrated economic performance—California and Massachusetts.

By any measure, Wisconsin is a high-spending State. Let me highlight a few of our findings.

I have attached to this statement a sheet highlighting those findings. What is says in essence is that the total to date in local expenditures, Wisconsin spends, per $1,000 of per capita income, $189.75 or $19.80 above the average in the United States. And on a per capita basis, we spend $170 on a per capita basis more. We rank respectively No. 3 and No. 4.

On total State expenditures we rank No. 1.

Representative OBEY. Is that State or State and local?

Mr. KUEHL. That was State and local. I am going to address now specifically State.

We rank No. 1, spending more money on both a per $1,000 of personal income basis and on a per capita basis than our competitive States.

And finally, in local expenditures, we rank respectively 2 and 3 on the same measures.

On higher education, we again rank No. 1 on the per $1,000 of personal income and per capita basis. So spending substantially more than the comparison States.

AFDC, Wisconsin ranked third and exceeded the national average by more than 60 percent. And in our last budget we increased that number by 2 percent.

On a per capita basis Wisconsin also ranked third in 1983 and topped the U.S. average by 5 percent. Wisconsin ranked third in the average monthly payments per AFDC family in 1982. Only California and Minnesota spend more. And we spent at that time a good deal of money for those families.

Our amount was $422. Arizona, North Carolina, and Georgia spent less than $200 and the U.S. average was $303. You can see my concern for the level of spending in the State of Wisconsin.

If we are going to reduce taxes—the private sector who create jobs consider that to be one of the prime measures of attitude toward business development—if we are going to reduce taxes on any kind of a permanent basis, we are going to have to reduce expenditures. We simply cannot continue to spend at the level which we have been.

The Wisconsin Strategic Development Commission recommended that the Governor appoint a high-level State spending commission that would examine major issues in this area. The commission would report to the Governor by December 1986 in time to affect the 1987-89 State budget.

During the 1970's, Wisconsin had a relatively high capacity for spending. Since 1979, conditions have changed significantly. Wisconsin lost a large share of its economic resources during the recession of 1980–82. Personal income fell by 5 percent relative to other States between 1979 and 1983.

We lost 7 percent of our work force. The recession hit Wisconsin harder than most other States and our capacity to spend was adversely affected.

A State, like the National Government, cannot afford to spend beyond its fiscal capacity.

Governor Earl showed support for this proposal at the final meeting of the Wisconsin Strategic Development Commission, as long as the effort was substantive. That is precisely what we intend to create with a spending commission.

Thank you for your attention. I would be happy to answer any questions.

Might I suggest that my colleagues make their presentations first, as it will round out the whole picture, and questions that might be asked may be answered in their presentations.

Thank you.

Representative OBEY. Thank you, Mr. Kuehl.

[The attachment referred to in Mr. Kuehl's statement follows:]

Total State and Local Expenditures

Wisconsin's position relative to the ten other states in total state and local spending was reasonably steady from 1974 to 1983. Wisconsin exceeds the United States' average by about $20 per $1,000 personal income and by $170 per capita. Wisconsin spends approximately 12 percent more than the United States' average.

	FY 1974-1975		FY 1982-1983	
	Per $1,000 Personal Income	Per Capita	Per $1,000 Personal Income	Per Capita
Wisconsin	$194.91	$1,100	$189.75	$2,156
U.S. Average	182.32	1,065	169.95	1,986
Difference	$12.59	$35	$19.80	$170
Wisconsin Ranking	#3	#5	#3	#4

Total State Expenditures

Wisconsin ranked number one among the comparative states in total state spending for 1982-83. This measure includes intergovernmental aids to local government.

	FY 1974-1975		FY 1982-1983	
	Per $1,000 Personal Income	Per Capita	Per $1,000 Personal Income	Per Capita
Wisconsin	$132.08	$745.45	$128.98	$1,465.76
U.S. Average	109.88	641.89	122.17	1,427.29
Difference	$22.20	$103.56	$6.81	$38.47
Wisconsin Ranking	#1	#2	#1	#1

Local Expenditures

Wisconsin also ranks relatively high in local spending among the comparative states and the United States' average. In spite of a high level of state aids, local government spending in Wisconsin exceeded the United States' average by 18.6 percent in 1982-1983 per $1,000 personal income.

	FY 1974-1975		FY 1982-1983	
	Per $1,000 Personal Income	Per Capita	Per $1,000 Personal Income	Per Capita
Wisconsin	$129.06	$728.40	$121.86	$1,384.85
U.S. Average	113.73	664.37	102.75	1,200.41
Difference	$15.33	$64.03	$19.11	$184.44
Wisconsin Ranking	#3	#4	#2	#3

Higher Education

In 1982-1983, Wisconsin ranked number one among comparative states in terms of the personal income and per capita measures. While the United States' average was $155.95 per capita for that year, Wisconsin spent $214.78—37 percent more. Since 1974-1975, our ranking increased from third to first in terms of personal income and from second to first per capita.

	FY 1974-1975		FY 1982-1983	
	Per $1,000 Personal Income	Per Capita	Per $1,000 Personal Income	Per Capita
Wisconsin	$20.28	$114.44	$18.90	$214.78
U.S. Average	14.06	82.13	13.35	155.95
Difference	$6.22	$32.31	$5.55	$58.83
Wisconsin Ranking	#3	#2	#1	#1

AFDC

In AFDC spending, Wisconsin ranked third by the personal income measure in 1983 and exceeded the national average by more than 60 percent. On a per capita basis, Wisconsin also ranked third in 1983, and topped the United States' average by 57 percent. Wisconsin ranked third in the average monthly payment per AFDC family in 1982. Only California and Minnesota spend more than the $422 monthly amount spent by Wisconsin. Arizona, North Carolina, and Georgia all spent less than $200 per month, and the United States' average was $303.

Representative OBEY. Mr. Milbourne, please proceed.

STATEMENT OF ROBERT H. MILBOURNE, EXECUTIVE DIRECTOR, WISCONSIN STRATEGIC DEVELOPMENT COMMISSION, AND EXECUTIVE DIRECTOR, GREATER MILWAUKEE COMMITTEE

Mr. MILBOURNE. Thank you very much.

Thank you, Mr. Chairman. I am Bob Milbourne, executive director of the Greater Milwaukee Committee. During the past 18 months I served as staff to the Wisconsin Strategic Development Commission. During most of that time I was vice president and economist of the Kohler Co., which donated my services to the commission.

The Wisconsin Strategic Development Commission performed a new assignment for Wisconsin—the preparation of the State's first long-range economic development plan.

We were charged by Governor Earl to study the State's economy and recommend proposals to strengthen the State in the long term.

Unlike other commissions and task forces that have been created in the past, the Wisconsin Strategic Development Commission analyzed both the private and public sectors. Often groups focus on government and forget that the private sector has a key role in our economic future.

Our commission firmly believed that the private sector must lead the way to a prosperous State economy. Many of the recommendations call for private action, with no government involvement whatsoever. Of the more than 100 recommendations, almost one-half will require private sector initiative.

Let me highlight some of our findings with respect to Wisconsin's economic future. After a strong growth period during the 1970's, Wisconsin fell into economic decline in the early 1980's. The recession of 1980-82 seriously affected every sector of the Wisconsin economy.

We lost 134,000 jobs from the beginning of 1980 to the end of 1982—a drop of 7 percent.

Wisconsin's long history of maintaining an unemployment rate substantially below the national average was broken. For 4 years in a row our unemployment rate remained about the U.S. average.

Our most important employer, manufacturing, was devastated by the recession. That sector of the economy is 25 percent more important to our State than to the average State. The impact of large Federal budget deficits, high interest rates, and the strong dollar seriously undermined manufacturing and had a disproportionate effect in Wisconsin.

There is no question that high real interest rates, the strong dollar, and large Federal deficits have a more adverse impact on Wisconsin than most other States.

While national and international factors beyond the control of Wisconsin will dictate much of our economic future, there is much the State can do to improve its economy. That was the focus of the Wisconsin Strategic Development Commission.

We set three economic objectives to achieve by 1990. They are outlined in the report.

First, we would like to see the State set as a target the creation of 150,000 new jobs by 1990.

In the work done with the department of industry, labor and human relations, we felt that that target was an achievable one, although in the parlance of private sector strategic planning, it is a "stretch" objective. More than 110,000 of those 150,000 new jobs will result from growth beyond Wisconsin's recent economic performance.

Second, we would like to set as a target an unemployment rate by 1990 of roughly 5 percent or 2 percentage points below the national average, whichever is less. That is a rate of unemployment that was commonly true in Wisconsin in our past. There is no reason in our view that it cannot be achieved once again.

Third, we suggested a target of growth in per capita disposable income of 18 percent between 1985 and 1990 or 3.5 percent annually. These targets were not picked out of the air. We did much work in——

Representative OBEY. Would you say that again?

Mr. MILBOURNE. These targets, these targets were not——

Representative OBEY. The previous one.

Mr. MILBOURNE. Growth in per capita disposable income of 18 percent between 1985 and 1990, which would be about 3.5 percent annually. These targets came from national and State econometric model forecasts which are maintained by our State government.

To meet these quantifiable goals by 1990, the commission proposed a range of strategies that would involve government action, private sector initiative or a cooperative effort by both sectors.

Mr. Kuehl outlined in his testimony the strategies which included: First, preserving the existing job base; second, fostering emerging jobs, particularly small business and entrepreneurship; and third, the strategy noted in his testimony, which we came to call "Wisconsin first in quality."

Let me first comment on the existing job focus. As our first priority, the commission probably spent more efforts studying this area than anything else. During the course of our work we created 10 major task forces to study large Wisconsin industries. Those task forces worked for several months.

They included CEO's from large and small companies within the industry, labor and commission members.

The work of the task forces resulted in a series of recommendations to make the State a stronger place to do business. Some of the recommendations included the establishment of a business-labor council, strengthening the University of Wisconsin, building world trade opportunities, and many other proposals.

The second strategy focused on emerging jobs in Wisconsin. Specific proposals were made to strengthen the role of small business, entrepreneurship, and technology. The commission produced 13 reports that were used to develop a range of recommendations that would make Wisconsin a better place to start a small business, create new jobs, and build technology.

Among the specific proposals were the creation of seed capital, capital needed at the outset, venture capital, and growth capital funds to be managed by the private sector.

The commission also recommended the creation of small business incubators, all over the State, technology transfer programs with the University of Wisconsin, securities deregulation, new management assistance programs, international trade promotion, and many other proposals.

Finally, the commission developed an array of recommendations that, in combination, can be described as a strategy called "Wisconsin first in quality."

Every competitor, whether a business or a State, must determine its niche in the marketplace. Some may choose to be the low-cost producers and compete on the basis of price. Others may aim for high quality and compete at the top end of the market.

Either strategy can be successful if it is properly executed. A State must face this strategic question as it determines its economic future.

As one reviews the strengths and weaknesses of Wisconsin, it is interesting to note that significant opportunity exists in our State. Our assets tend to be in areas that can play a major role in our future, while our liabilities tend to be things that are relatively easy to correct.

Yesterday, Russ Cleary, chairman of Heileman Brewing Co. and a member of the commission, outlined some of Wisconsin's assets and liabilities. He noted some examples:

No. 1, a diverse economy that includes strong manufacturing, agriculture, tourism, and service sectors. Major companies within these sectors have shown considerable success and represent some of the higher quality firms in their industries.

No. 2, a labor force that has a reputation for a strong work ethic and highly developed skills.

No. 3, an infrastructure already in place, including roads and bridges, utility services, parks and recreation, and water resources.

No. 4, a world-class university system that offers significant economic development potential.

No. 5, a high-quality elementary and secondary school system that can compete with any other State in the country.

No. 6, vocational training services that are ranked at the top in the United States.

No. 7, a relatively favorable business tax climate, particularly for manufacturers.

No. 8, a clean environment that makes Wisconsin an attractive place to live, work, and visit.

No. 9, an array of high quality public services that are the envy of other States.

No. 10, a capable government with men and women of integrity at all levels.

We also have our weaknesses.

No. 1, relatively high personal taxes that create a negative image for Wisconsin.

No. 2, a range of business tax irritants that offend individual Wisconsin companies and do not raise significant revenue.

No. 3, expensive government that is increasingly difficult to afford, given the recent economic downturn.

No. 4, a lack of adequate entrepreneurship, venture capital, and new business formation relative to other States.

No. 5, relatively high wage rates in certain industries, particularly at lower skilled levels.

No. 6, a university system viewed by the private sector as antibusiness in many respects.

No. 7, a perception by the business community that government officials tend to be less supportive of economic development than in other States.

No. 8, an economy that significantly depends on manufacturing, a sector of the economy that has suffered the most in recent years.

No. 9, a dependence on exports that has been adversely affected in recent years by high real interest rates and the strong dollar.

No. 10, a regulatory climate that appears more severe than in most other States and creates a negative image for Wisconsin in the minds of some business leaders.

Wisconsin is in the enviable position of having assets that are difficult to match and liabilities that should be easy to correct. It is not likely that Wisconsin will ever be a low-tax State.

We will not compete with Mississippi and Tennessee as the low-cost alternative for economic development. It is more likely that Wisconsin will find a market niche that emphasizes "quality of life."

To do so successfully, Wisconsin must be perceived by the private sector as a high-quality place to operate a business. It is not enough to argue that Wisconsin offers high quality—the private sector must be convinced. It is the responsibility of both government and business to move the State in that direction.

The SDC recommended several tax law changes to make Wisconsin more competitive. Our focus was on personal taxes, not corporate taxes, which we found to be relatively competitive, particularly for manufacturing.

Jim Morgan will provide a more detailed commentary on these recommendations.

The commission also raised some important questions regarding the University of Wisconsin, the vocational, technical, and adult education system that would give both programs a greater role in economic development. We also recommended stronger participation by the private sector in the Job Training Partnership Act.

It is important to note some of the recommendations made by the commission that present policy be continued. There is a tendency to highlight only those proposals that would bring about change. It is also important to emphasize the areas where current policy should be maintained.

For example, the commission analyzed property tax abatement programs as an economic development incentive, and for a number of reasons recommended that Wisconsin avoid such programs. We also analyzed the State-shared revenue system and found no economic development reason to alter the current law.

The most important work of the commission was the research and analysis conducted during the past 18 months. The 50 major studies prepared for the commission contained valuable information about the Wisconsin economy that will be useful for years to come. Excellent research was done by private sector volunteers, State agencies' staff, and UW faculty. I should particularly thank those faculty members who assisted in our work; their efforts show that the Wisconsin idea is still alive and functions in the State.

It should be noted that the economic development plan emerging from the Wisconsin Strategic Development Commission is long term. There will be a tendency to highlight the immediate actions that were recommended, but the true benefits of our work will be long term.

It will take years to implement the strategic plan. There is no quick fix to economic development. The commitment of the public and private sectors must last for decades, not weeks or months. In this way, strategic planning can be a meaningful exercise for Wisconsin.

That concludes my testimony.

Representative OBEY. Thank you very much.

Mr. Vattendahl, please proceed.

STATEMENT OF JOEL VATTENDAHL, DIRECTOR, DISTRICT 32, UNITED STEELWORKERS OF AMERICA, AND MEMBER, WISCONSIN STRATEGIC DEVELOPMENT COMMISSION

Mr. VATTENDAHL. Yes.

My name is Joel Vattendahl. I am district director of United Steelworkers of America, District 32, which comprises the State of Wisconsin and a portion of Illinois.

My role in this whole Wisconsin Strategic Development Commission was to serve on the existing jobs committee with the idea to make recommendations as to how the State could help preserve its existing job base.

One of the things, of course, that we found out in this whole process that was very pleasant to find out is that there are many industries in our State that are in fact healthy, alive, well.

The best example is the paper industries in the State, and there are several others—printing—that are doing well, but there are some real disaster areas also. And our task then was to see what, if anything, could be done to help preserve these.

I think that the study and, certainly, I personally have concluded that in the case of mining, particularly as it would relate to copper mining or iron ore mining, there is really nothing that the State can do to preserve those jobs. When we closed the last ore mine, in fact, I guess it was the only ore mine in the State at Black River Falls, if we would have, as a union, agreed to take wage cuts down to the point where we would have been violating the minimum wage law in the country, we still would not have been able to compete with the foreign producers of ores.

So it just simply is not in most cases a pure dollar-per-hour labor cost that makes these things noncompetitive.

In many areas, such as the machine tool industry, we are able to compete with foreign manufacturers. These are relatively high wage rate industries, but where the companies are willing to do the research and make the quality product that can be done, we can compete.

The thing that the commission reports on is a cooperation between the management and the workers of companies. I am not suggesting to anyone that everybody has to have a quality circle in their plant, and so on, but there are many industries where companies must, in fact, go to their employees to seek what improvements can be made in their procedures. The old Frederick Winslow Taylor "one best way" theory simply is not going to work in today's market.

And I think that there are many examples where the person who knows how to do the job best is in fact the person who is doing it. And there has to be a cooperation between the employers and the employees. I suspect that some of my colleagues in the union business would consider this heresy, but it just simply must be.

I think that the study reveals clearly that there is in fact a problem of bad management in many industries as well as high cost per unit labor that is causing certain industries to bog down and be noncompetitive.

This is where a joint management-labor-university counsel could in fact improve situations so that we can remain competitive.

With that, I will stay well within my time constraints and rest.

Representative OBEY. Mr. Morgan, please proceed.

STATEMENT OF JAMES MORGAN, PRESIDENT, WISCONSIN TAXPAYERS' ALLIANCE, AND MEMBER, WISCONSIN STRATEGIC DEVELOPMENT COMMISSION

Mr. MORGAN. Mr. Chairman. My name is James Morgan.

I am president of the Wisconsin Taxpayers' Alliance, and in this capacity, with the research and citizen education organizations, I get the opportunity to serve on many different study groups.

I think that the Wisconsin Strategic Development Commission was unique in several aspects. Certainly the scope of the study was much broader than any I had been involved in before. But I think also more importantly was the idea of strategic planning for the economy of the State and for the well-being of the State. And Bob Milbourne's point about this being a long-term type of plan which rarely comes from legislative committees is an important point to remember.

I violated your rules a little bit by not having any prepared statement, but my presentation is basically based on the Wisconsin Strategic Development Commission report beginning on page 89, which has to do with State and local taxes.

One of the issues that came up very quickly before the commission was the effect that State and local taxes might have on economic development.

A specific committee was created to deal with this, of which I was the chairman. We examined empirical studies done by academics at various institutions on whether you could track the effect of taxation on economic development. We got kind of a mixed result. Some said, yes, this was very important. Others said in the long range it had no—it was not a factor.

But I think that both of these ignored the idea of the perception of the business community on what taxes can do as far as economic development.

I was convinced of this many years ago when I did serve as the secretary of revenue, that you might think that the businessman is a calculating, very logical person who makes decisions based on all the facts, and the studies indicated the taxes should not rank very high in terms of making a determination, but the practical effect is that businessmen, like all of us, are not too keen on taxes and a certain element of emotion can enter into the picture and frequently does.

I think this was brought forth rather clearly by a study that was done in Wisconsin by the Yankelovich firm in 1984. This was the study that was funded by private industry in the State. It took place after the officers or at least the chairman of the board of the Kimberly Clark Corp. indicated there was a possibility of changing headquarters to another State, which ultimately came about.

But what they did was survey the Wisconsin business officials and those in other States to get some idea of how they felt about their respective States. Also this report had a study by Arthur Andersen which did some business tax comparisons. And out of that you got kind of a funny result.

No. 1, we do have an excellent business tax climate which ranks extremely favorably because of past actions of the State, including the manufacturing machinery and equipment exemption, and some changes in the individual income tax—the corporate income tax, as well as the exemption for inventories.

But Wisconsin business officials had a very negative attitude as far as State government was concerned. Only 20 percent thought Wisconsin was good for business, whereas their counterparts in other States have a much higher ranking for their respective States.

Finally what came out of this was a misunderstanding, first of all, about the business tax climate, but more importantly, a very negative attitude as far as the Wisconsin individual income tax is concerned.

As a result of that study and as a result of the pressure that was being put on by political forces at the time, one of the items that got the highest priority for the commission was to look at the State and local tax structure and make some recommendations that could be presented to the legislature in January of 1985. And this was ultimately done.

There was an individual income tax reform proposal that was presented through the commission and ultimately the Governor adopted most of the principles that were included in that proposal.

Let me very quickly run down the principles that were proposed by the commission.

No. 1, there should be an emphasis on economic development. In order for that to take place, income taxes should be reduced generally, but most importantly, reduced income tax rates at the top rates—at the top level.

As an example that we presented was to reduce the top rate from 10 to 8 percent.

On the question of equity, we felt that the taxpayers with the same income should pay the same taxes. And as a result of that, we suggested eliminating all the itemized personal deductions and most credits and replace them with an increased standard deduction but one that phased out over a period as your income went up to maintain the progressively of the system.

In terms of another principle was the idea of simplicity. Here we felt that the best way to do this was to tie into the IRS definitions of adjusted gross income, encourage the joint return which had been adopted by the previous session of the legislature, and reduce the number of tax brackets in our example from 8 to 3.

Let me add here that what we adopted here basically as a commission were some principles. There was one kind of an example of a proposal, and that was all it was. It was no more than that. But that was what the Governor ultimately adopted for his proposal.

I should also add that you can appreciate that when you have principles like this, there has to be some clash frequently.

For example, if you wanted to go with equity, you might want to make some changes in the business-type deductions sort of before the line, before you got to that adjusted gross income. Unfortunately, this clashed with the idea of simplicity that if you were to just take a number off the Federal return and make it easier for the taxpayers to file their return, you couldn't do both.

In this particular instance we felt that the simplicity factor was more important.

The bill that the Governor recommended to the legislature was amended, but ultimately passed, and many of the principles that we had proposed were retained.

There was obviously a reduction in income taxes as Governor Earl mentioned, approximately across the board of about 7.9 percent, if you took the total reduction. But the rate reduction at the top level went from 10 to 7.9 percent.

In addition to that, the results of this change were that there were some more dramatic reductions at the top levels for most taxpayers than there were—than the average. This was the first time in my memory that the progressivity of the Wisconsin system was actually reduced.

The amounts that we had—the recommendation that we had or the example to eliminate all itemized deductions, the itemized deductions were restored, but instead of taking them as itemized deductions, they are taken as a credit.

That is, you take the medical expenses, the interest on the residents, limited interest on business expenses and charitable contributions, and you take that amount, take 5 percent of it, and that is the direct credit against the tax rather than an itemized deduction.

This was the proposal that was ultimately adopted by the legislature and will basically go into effect in 1986.

Some of the other tax changes that we dealt with and were included was to change our basis of the minimum tax. We had adopted that back in 1983. Actually 1981, I believe. And then it changed again.

We had a minimum tax which was an add on in addition to the regular tax liability. Our recommendation was that we should take the Federal route and have it as an alternative tax. Either you do your tax under the regular system, or you do it under the alternative and take the greater of those two. But you don't add them together.

Ultimately a tax on that form came through in the bill. We recommended on a long-term basis to reduce the inheritance tax burden. This was a problem that we heard about continuously in terms of potential outmigration of people from the State of Wisconsin.

And finally, I think one that you can't underestimate, that is to continue to try to remove what were called "business tax irritants." That is, items that are of rather minor nature in terms of revenue production but ones that are a constant irritant.

I think that that has been reestablished with Mike Ley, the secretary of revenue. He does have a committee that meets regularly with the secretary to try and work these out. And there were a number of irritants removed at this proposal.

One was to tie into the Federal on the 15-year carryover of losses.

I think that out of this we had to come to a major conclusion. That is, that the tax policy as far as we were concerned is a major factor in State economic development, and that is why the commission report gave it the emphasis that it did.

One further point that doesn't relate to our work but I think probably would be one that you would raise a question about, that is, the question of the Federal tax reform proposal that is before the U.S. Congress right now. In particular, the effect of the repeal of the State and local tax deduction.

I think it has been pretty adequately testified to here that we have a rather high-tax level compared to other States. Particularly in the individual income tax level, we are even higher. We rank probably within the top two or three. The reaction that I have from a number of businessmen is that if the Federal proposal is successful in repealing the State and local tax deduction, that will be all that is necessary for them to transfer their assets and their residency ultimately out of the State.

I think it is a very pragmatic approach, without getting into the philosophical arguments about whether our having that deduction encourages spending at the State and local level in Wisconsin. I personally feel that I can't imagine the school board in Wausau or the Marathon County Board sitting down and saying, we are going to have a property tax increase because it is deductible on our Federal return. Remembering also that at the Federal level, probably 50 to 60 percent of the taxpayers do not itemize.

But the fact is that I am concerned that we are able to keep a lot of people here with their assets, even though we have a substantially higher-than-average income tax rate in the State, because of the offset that they can claim on the Federal or the deduction.

My concern is that this would cause a departure of capital and a departure of talent, as well, for people who would normally be involved in economic development in the State of Wisconsin.

That concludes my testimony.

Representative Obey. Thank you all very much.

Let me, first of all, make an observation and then ask a question.

As you know, at the Federal level we are having a lot of argument, especially in our committee, on the whole question of how the United States positions itself to be competitive internationally over the next generation.

Right now we have got exchange rates which are clobbering us, especially the manufacturing sector. We have a very serious question of the ability of this country to maintain its long-term competitive edge.

A lot of people are suggesting that we are not going to do that unless we take a shrewd, calculated look at where we have a potential for competitive advantage and where we don't and try to see to it that where we do, we do marshall the forces of government and business and labor in order to affect things in ways that we like.

Our Committee did a study of the way the Japanese manhandled us in the area of semiconductors. And it is very interesting. If you compare how American manufacturers were able to compete with Japanese manufacturers in Japan for the sale of semiconductors, you see that because of all of their gimmicks, we were beating our heads against a stone wall. We could not penetrate that market.

In contrast, if you compare how we did vis-a-vis the Japanese in the sale of semiconductors in Europe where we were playing on an even field, we did very well. The point was that the Japanese have constructed a system, whether it is official or whether it is under the table, that is, in effect, a strategy for dealing with the development of products and the marketing of those products.

The minute on the Federal level you start to mention planning, strategy, you scare the hell out of a lot of people who think that you are talking about central planning rather than simply the intelligent marshaling of areas of advantage in order to preserve jobs and preserve markets.

The very title of your book—the very title of your commission, the Wisconsin Strategic Development Commission, at the Federal level would have a lot of people with their hair standing on end because they think that implies the Government running the joint, picking winners and losers.

This is not exactly on the point on your recommendations, but I will get to those in a minute.

As leading business and labor people in the State, how would you suggest that those of us in the Federal Government who are very interested in seeing us develop some kind of a long-term plan for Government and facilitating the cooperation of business and labor in areas where we need to do that in order to be more competitive in the future go about that without running into all of the negative vibrations about central planning, Government deciding which industries are going to win or lose? How would you go about that?

Mr. KUEHL. I would like to take a shot at that. I think that it is not the proper role for the Government to do it. I don't think it will be effective in the long run.

Representative OBEY. That is what you are asking State government to do right here. You are asking government to adopt a set of strategies which enable business and labor to be effective.

Mr. KUEHL. I agree that the Federal Government ought to do that, too. But if you read our strategies carefully, our strategies say that they ought to do things like reduce the deficit, which in turn brings the value of the dollar down, which in turn brings interest rates down, which makes us more competitive.

I believe in the long run that the Japanese have a self-defeating process. Once, if we compete on the same basis, where Government removes those kinds of things which are causing a lot of the problem, the Japanese will not be able to subsidize all of their industries across the board for all of the world.

Representative OBEY. They are not trying to.

Mr. KUEHL. That is correct. And I think American ingenuity is alive and well. I think labor and management will do that. I think the Federal Government has completely abrogated their responsibility; their major responsibility was to get rid of that deficit. The Republicans blame the Democrats. The Democrats blame the Republicans. The House blames the Senate and the Senate blames the House. Both of them blame the President. The President blames the Congress. We don't get anywhere.

That is the problem. That is the nub of the problem. You said that yesterday. So we are in agreement.

Representative OBEY. Let me agree with that, but let me pursue your answer. Do you seriously believe that we have a chance of a snowball in you know where to penetrate Japanese markets without a coordinated strategy between business, labor, and Government to respond to their actions?

Mr. KUEHL. No; I think the Government has to keep the heat on the Japanese to open up those marketplaces. But I don't think that we ought to have the kind of subsidization that goes on in Japanese industry.

Representative OBEY. Nobody is talking about that. If you are talking about that, with all due respect, I don't think you are listening to what I said.

What I said was: How do you encourage using Government as a facilitator, not as a director, not as a manager, not as a subsidizer? How do you encourage using Government as a force that can provide incentives for business and labor, the academic community, and the investment banking community to get together and take note of what our competitors are doing in time to counter what they are doing before we lose major markets?

Mr. KUEHL. Again, I can't argue strongly about the objective, but it seems to me, our whole system has been based on a capitalistic system. If you endorse that and follow that, Government's role is to get out of the way, if you will forgive me. And they haven't. They are in the way at every crossroad.

Representative OBEY. With all due respect, I don't think we are talking to each other.

Mr. MILBOURNE. Let me try a different approach. It seems to me that there is some new opportunity to make some progress in longer range planning, whether it is done by Government or someone else. And that new opportunity is that there appears to me—I think our exercise in Wisconsin is an example of it, of where the public and private sectors—when I talk about the private sector, I mean both management and labor—are trying to do more in a cooperative way.

Too often in the past I think the hesitation of the private sector to support planning is because it is done by Government. And it seems to me that the world has shifted a little bit to permit opportunities for planning to be done in cooperation, in partnership between public and private sector representatives.

I think there is less uneasiness about efforts where Government facilitates solid planning efforts that involve the private sector in ways that I think the private sector is more willing today to participate than perhaps in the past. And that if it is done in that fashion, it seems to me it is a lot more possible than if we say the Government is going to do the planning.

We don't want the Government to do the planning. We want the private sector and the Government to do the planning in cooperation. That was really what this exercise was all about.

Representative OBEY. That is right.

Mr. KUEHL. Whatever he said, I can agree with that. I am not sure what he said.

Representative OBEY. One of the recommendations that was made by a number of people yesterday, for instance, is that in this State, the university ought to provide a greater support level for research into manufacturing process and manufacturing questions and problems. I used to chair the House Budget Committee Task Force on Productivity.

We have been told by witness after witness, from the business sector, that there is a lot of research that business prefers to do itself. However, in terms of the basic research necessary to unlock some of the scientific answers so that business can then apply them to products and lots of other things, that you need greater attention earlier to some of the research questions that will have long-term profitability payoffs. I was trying to get back to this concern raised yesterday.

Let me ask about your own programs.

When I asked this question yesterday of Mr. Cleary and some others, they told me I should ask you. You have a number of suggestions in your proposal, some tentative for consideration, some a little more firm. Things like world trade center, possible monorail between Madison and Milwaukee, et cetera.

Has anybody done a cost estimate of the package that you are asking the Governor and the legislature to accept?

Mr. KUEHL. No.

Mr. MILBOURNE. Not exactly, but I can tell you that in total, the overall cost, if you add up the new spending ideas and the new tax ideas, add everything up, it is actually a negative cost in total. That is, the reductions are greater than the additions.

Representative OBEY. I think that answer is contradictory. Normally, when people come to me, they say, you guys have to invest money, whether it is in education or whether it is in health care or whether it is in tourism promotion. You guys invest it and we will get a bigger payoff on the dollar, and that will pay it all back.

That is fine if the world runs that way. But lots of times those expectations aren't met. When I see an item like the monorail between Madison and Milwaukee, that sounds to me like a whale of a lot of bucks.

Mr. KUEHL. I don't think that that is a proposal which we have—we have suggested that for investigation really. It is not a suggestion that we adopt that. It is a suggestion that we look at that possibility.

You are right, that is expensive, maybe impractical.

Mr. MILBOURNE. That is right. And also it should be noted that a lot of the suggestions made by the commission were not for public sector investment but were for private sector investment.

If a monorail indeed could occur—and that is probably the most expensive single thing that was even raised, and we did not recommend it, but we did recommend that it be looked at. The recommendation was that it be looked at not just as a public-sector investment but perhaps in some cooperative way.

The same would be true for the world trade center. Our recommendation was to do a feasibility study, and the thought was that it would be a private-sector development, if indeed it was feasible.

Representative OBEY. So on the tax side, among your major recommendations were the change in personal income tax, lowering the top rate which has been embodied in the Governor's tax plan and passed by the legislature. And evidently you indicated, according to the general description of your package last week on corporate income tax, no major changes in business taxes because they are now generally competitive.

Frankly, that is a refreshing statement, because in all the years that I have served in the legislature and even after the M&E exemption was passed years ago, I continued to hear from a lot of businessmen that they just didn't think that the corporate taxes were competitive.

I think your own study shows that at least in that area we are and we ought to be tooting our horn about it in terms of attracting possible outside investment into the State.

Trade. One of my other committee responsibilities is to chair the Foreign Operations Appropriations Subcommittee. If you do that for any length of time it becomes half apparent how important economic conditions in other countries are in terms of what they can then buy from us.

We had some hearings in Washington last month and heard from some witnesses, including some from Milwaukee, on the importance of a healthy Latin America, if they are going to be able to export a lot of their manufacturing products there.

How do you think you and we in the private and public sector can generate a greater awareness on the part of the public in general and the business community as well that more and more of our job opportunities and business opportunities lie in the trade area?

Mr. KUEHL. We suggested an international trade center, as you have said. We have, throughout the report, emphasized the importance——

Representative OBEY. Why don't you describe what the international trade center is supposed to do for the folks here?

Mr. KUEHL. We have emphasized, in addition to that, the importance of exports to our industries in this area and particularly our manufacturing industries where that is extremely important. I don't know how we educate the public to that other than through forums like this.

There does seem to be an increasing awareness. Many of our institutions are sponsoring forums on foreign trade, both private and public. We have suggested that the State take a more active role in publicizing exports and helping people to assist.

As you know, the State has opened an office in Frankfurt to help with the European end of that thing.

So I think that there does continue to be an increasing awareness of that. I am not certain how that can be magnified beyond the ongoing efforts of all of us to continue to point out that importance.

You might talk specifically or quote specifically on the trade center.

Mr. MILBOURNE. The idea of a world trade center was partly to create a symbol, to do exactly what I think you have in mind: that we need to call more attention to the opportunities for world trade.

Wisconsin is blessed with industries and companies that have the ability to export. But there appear to be some special obstacles that probably are not all that large but seem to stop export orientation.

So in part the notion of a world trade center was as a symbol to create in the State that would encourage more attention in the private sector toward the possibility of export. There is now a lot of interest in a world trade center from both the public and private sectors.

The issue is getting discussed everywhere from the Milwaukee County Board to the department of development in Madison.

We outlined a series of questions that needed to be raised in the feasibility study.

The other half of it is a more important half of the symbol. We felt that a world trade center located in Wisconsin might permit the ability for both the public and private sectors to attack the various obstacles that appear to be in the way.

We did a study trying to determine why is it that small business in particular in Wisconsin is having difficulty penetrating international markets beyond the normal reasons of high value of the dollar and so forth. What we found largely was that there were individual obstacles all along the way that just made it more difficult for a small fledgling business to even consider getting into the international marketplace and that there were many of those obstacles that could be solved, in our view, by some cooperative effort.

For example, many businesses told us that their biggest problems internationally were in dealing with foreign governments over a permit, over a quota, over a tax provision, over something that really was government policy in the foreign country and that they just simply didn't have the kind of staff who knew how to deal with those kinds of problems.

A marketing person, a salesperson in a foreign country who has never had any government experience has a tough time even getting in the right door in a government agency that is making a decision. We felt that government here in Wisconsin and at the Federal level had a great opportunity if they began to find out what those specific problems were, the specific hurdles that companies were facing; and that they would have much better luck at stepping in and dealing with their counterparts in other countries to help solve those problems.

One of our recommendations was that the Governor pull together the marketing arms of Wisconsin industry to begin to pinpoint those specific kinds of governmental obstacles that exist in foreign countries to see if there were some that government officials here might begin to attack.

We also recommended that in the area of small business that there just needed to be a whole lot more management assistance efforts. There are efforts now.

The Department of Commerce has some wonderful services that our businesses don't even know about. We learned, many of us, myself included, learned for the first time the series of services that are offered by the Department of Commerce in Milwaukee. And when we surveyed small business entrepreneurs, most of them were not even aware that it existed.

The same is true of the Department of Development. There is a lot of support out there to use, but it is not well marketed to the private sector by government and needs to be done.

And then there are also specific problems which we gave as assignments to either the private sector or to the public sector to solve, which dealt with insurance problems, all kinds of more bureaucratic kinds of problems that small business people have a particularly hard time dealing with.

So we tried to attack it both from the standpoint of identifying specific obstacles and figuring out what is the best way to deal with it, and, on the other hand, trying to focus on the broader, more symbolic question of how do we focus more attention on opportunities that our companies really do have but aren't taking advantage of.

Representative OBEY. One of you said there was a lack of venture capital in Wisconsin.

Yesterday, when Kevin O'Connor testified, he flatly disagreed with that statement and suggested instead there was a lack of demand for venture capital. How do we determine who is right on that? What can you cite to demonstrate that your side of the argument is right and his is wrong?

Mr. MILBOURNE. I don't think there is a difference in argument. There is a lack of venture capital; if you look at the data, we rank woefully in the statistics on the amount of venture capital invested in Wisconsin relative to other States.

The question is: Is it a supply problem or is it a demand problem?

What he apparently said was that it was not a supply problem. We did not find that there was a supply problem. What we—we don't know whether it is a supply or demand problem, but the result is that there is not enough venture capital being invested in the State.

Representative OBEY. Let me ask——

Mr. KUEHL. I think if you look at that, there is a difference of opinion across the State in almost every facet. The guy who has got a great idea for a better mouse trap and can't get it financed says there is no venture capital. The person with the venture capital says that is a lousy idea and won't invest it.

We in the financial business think that money is pretty fungible. It will go where it is needed, where it is deserved, where it is required.

Others think that you have to create a special supply of it in order to have it available. I think there is probably some argument on both sides.

We have recommended that the pension fund consider seriously devoting some of its resources toward that.

Representative OBEY. Let me ask a sort of a devil's advocate question because frankly, after the 16 years I have been in Congress, what I generally find is that people are very generous in recommending to Government that we follow policies which are to the benefit of themselves or their own group, but they are very stingy about recommending policies that gouge themselves.

The people who have been in the most high-visibility positions in this conference have been, with the exception of the Lieutenant Governor, I suppose, largely within the business community.

Let me ask you a question. You have a lot of things in here in terms of specific tax changes that you say would reward entrepreneurship, reward capital investment, make it easier for business to function.

What recommendations do you have in this report that are necessary for the public interest but might in fact cause some pain or some unhappiness or might gouge the business community?

Mr. MORGAN. I think on the tax part of it, although you have something like 85, maybe 86 percent of the people getting a tax break, there are a number that do not.

A number of those that do not are those that are maybe heavily invested in tax shelters, particularly the deduction is a factor there. So in terms of the proposal here, there was the attempt to try to convince the decisionmakers that Wisconsin did have a tax program that did recognize the problems of progressivity, but at the same time that we would not go on with a system that gave undue tax breaks.

I think that there were and are some people that as a result of that are going to suffer some. That was one of the big issues before the legislature where some groups decided there should just be across the board cuts rather than the reform proposal that was ultimately enacted.

Representative OBEY. You are asking Government to follow policies that at first instance appear to benefit largely high-income people—for instance, lowering the top rate, no question that the impact of that here has had a greater impact on higher income people than lower income people, at least the initial impact. My observation is that if that policy is essential to get the right mix of policies that will stimulate economic growth and investment, that in the political arena, it is necessary, if you are going to be pushing policies like that, to be able to demonstrate that overall what you are doing is that you are not forgetting issues like equity, you are not forgetting people who fall through the cracks.

Are there any provisions that you have in your package which are suggesting greater efforts, specifically aimed at the less fortunate people who are never likely to sit either on this side of the table or on a panel like yourself; that is, assisting people who are long-term unemployed, I don't mean by generic action but I mean by specific actions bent at improving their ability to get a job and improving their ability to be able to function in jobs which might be higher technology 10 years from now than they are now?

Are there any specific expenditures or tax provisions that you are asking for or any other action you are asking the State government to take that would inure directly in the first instance to people like that?

Mr. MORGAN. On the tax side, at the lower level, about 90,000 people, I think, taxpayers were dropped off the rolls because of the particular provisions. And the most substantial reduction was made in the lowest bracket because of the substantial increase in the standard deduction.

So there was a combination here of both the low and high end where that was provided. So if you are trying to aim at the low-income people, that was there. I think you have to appreciate from being in the legislature that they are not going to pass something like this unless they thought that that concept was valid and that there was something that that would assist across the board.

Representative OBEY. How about taxes?

Mr. MILBOURNE. One is in the area of job training. We laid out in our final report a series of recommendations that really are directed toward the private sector. I happened to serve as a member of the Governor's Job Training Coordinating Council. One of the big issues that faces Wisconsin's participation in the Job Training Partnership Act is something that I guess he alluded to this morning. That is, the lack of participation from the private sector to really get this program to do what it is designed to do. That is, to serve the hard to employ and the underemployed part of our society.

We put a series of six recommendations together that are directed toward calling attention to the private sector's responsibility to participate more fully, to make the commitments which are financial commitments in large part, to utilize the Job Training Partnership Act the way it was intended. That is why it is called a partnership act.

In our view the private sector really was not participating as well as it could, and we outlined some recommendations which are really directed toward efforts that ought to be made by individual companies and groups of companies to offer new training opportunities for the underemployed. So that is one area.

I think another is in the recommendation of support for what heretofore had been public programs. We have asked the private sector in many instances to take on costs which heretofore have been public sector costs, including, for example, efforts to bring the University of Wisconsin to play a stronger economic development role.

We gave the private sector a challenge to fund 10 endowed faculty chairs by the year 1990 which would be $10 million or something like that.

Representative OBEY. You have a number of suggestions in your report that indicate that the university ought to be paying more attention to the needs of the business community and ought to devote more of their resources to dealing with the problems of business and jobs.

There are some in the university who I have talked to in the last week who are concerned that because there doesn't seem to be a suggestion—unless there is something there that I just didn't see—that there doesn't seem to be a suggestion for the State's providing added resources to the university.

There are some people in the university who think that what this is suggesting, therefore, is a redirection of some of the university's resources away from their primary teaching responsibility.

Are they being needlessly concerned about those recommendations? What did your commission really mean on that?

Mr. KUEHL. We suggested that a commission be formed to study the university with the job of looking at the reordering of all kinds of resources. I don't think anyone had the intention, any intention of reducing the teaching responsibilities of the university.

In fact, if they apply themselves in the area that you are talking about, it may be one of the greatest teaching tools that there are; that is, at least with regard to certain aspects of the university.

Representative OBEY. Let me follow up on Dean Bollinger's testimony here yesterday. He had referred earlier to his unhappiness with the State for not supporting their manufacturing systems engineering master's program but then he went on to say this:

> Perhaps even more troubling is the lack of involvement by Wisconsin industry. Of the 42 students in the program last school year, about 25 were returning from industry, many at company expense. Some of the nation's biggest and best companies are participating but none of those students came from Wisconsin companies.

Any idea why?

Mr. KUEHL. I can't answer that.

Representative OBEY. It seems to me that is a very interesting and troubling observation.

Highways. In your report you indicated that, at least I think you did, that there were no major infrastructure additions that were needed in the State. By that did you mean that there are no major highway improvements needed?

Mr. MILBOURNE. I think what we specifically said was that we had a strong highway system and that we should continue to implement that plan which is already in place in the department of transportation.

And we also recommended that more emphasis needs to be placed on the maintenance of our highway system as opposed to new highway construction.

Mr. KUEHL. I think as we compared with other States, and we looked at the infrastructure in Wisconsin and many aspects, we thought that was one of our strengths. And so we didn't think that there was a major effort required to take a big program and put it in place.

But obviously we felt that we needed to maintain that infrastructure, which we think is pretty darn good, if we are in competition with other States.

Representative OBEY. I would say that that is probably true for the southern part of the State. But frankly, if you look at the history of the State, what happened in 1954 when the Feds passed the Federal Highway Act, Governor Kohler had to go into his own caucus and beg people to pass the matching money that was necessary in order to get that additional, or that original interstate mileage.

I remember George Molinaro, who was then the top Democrat in the assembly, he was given a major highway through his district simply for not speaking against adding those revenues. He didn't even support it. They just gave him a highway if he wouldn't speak against it.

The problem is that because of such reluctance to participate in that program earlier, the southern part of the State was able to get a fair amount of highway construction; but I think if you talk about the needs of the Highway 53 channel up to Superior, if you talk about Highway 13, Highway 29, Highway 51, even Highway 2, while normally that doesn't need much effort, during the summer you can run into some miserable traffic jams.

I think for people from that part of the State, there would be some concern about not needing further construction up there.

Let me ask you to evaluate, if you would, because all of you have had a lot of connections with businesses all around the State, I asked this question yesterday. Which industries in the State do you find to have the kind of leadership that is most receptive to technology change, incorporating new ideas, thinking far enough ahead to position their companies to be competitive down the line?

If you could pick out two or three which are the best at that and then contrast that with a couple which you think are the worst, what would your response be?

Mr. KUEHL. As a banker who serves all the industries, I don't intend to answer that question.

Mr. MILBOURNE. I thought he would at least say that the banking industry was at the forefront.

Representative OBEY. I have not been able to get anyone to answer that question. If we have a specific problem, we——

Mr. MORGAN. You are assuming it goes by industry.

Representative OBEY. No. I am not. I am not assuming anything. I am simply asking: Are there any sectors? One that was mentioned as being fairly innovative was the paper industry. I can always get people to cite the good ones. I can never get anybody to cite the problem areas.

Mr. VATTENDAHL. I think since I don't represent anybody in it, I can comment that I think that if you look at the printing industry in the State of Wisconsin, you have the full spectrum, you have some printing companies that are, you know, absolutely the best in the world, that have every type of innovative process, and then you have probably somewhere somebody setting type by hand in the State. But the printing industry is, by its very nature—the large ones I think are highly innovative and the small ones that serve little niches in the market don't do it because the capital investment just isn't practical to make; which ones adopt the technology are the ones who can afford it.

But I think that industry is highly innovative in paper and the paper machinery industry also. I think that we have outfits that manufacture paper machinery in this State that do things that you don't really believe that machines can do, that supply huge rolls of newsprint while they are traveling 1,600 feet a minute. That is quite a feat.

The least—I don't know. I suppose there is a farmer with a mule someplace left in the State. If he wanted them, that is his choice. But I don't think that by industry there is a bad industry.

I think again, I represent, I suspect, the majority of the people in the construction machinery industry, and we have, you know, generally speaking, excellent engineering and, generally speaking, good productive facilities. But the industry is virtually dead because there simply isn't the demand for machinery, plus the Japanese have done us in in that market pretty well also.

I do want to comment on something that you were speaking of earlier. We talked about what the Federal Government's role in planning, and so on, should be. Of course, unlike Hal Kuehl, who I rode up here with and don't want to risk having to hitchhike back, I think that the Federal Government should take a greater role in many areas.

I think that it is insane, for instance, that the Federal Government permits the use of tax dollars to buy foreign engines for ships. They are getting away from it a little bit now. But we in this country can build the biggest and best diesel engines in the world. And I think it is just insane in the defense area to spend money on foreign products.

I just can't envision—I think it is insane to envision men on ships having to radio the enemy or a neutral country for spare parts. I think that the defense establishment clearly should be done by American manufacture.

I think it is insane for this country to let its manufacturing base go to the point where it cannot supply itself. I think the greatest example of that is the steel industry. It is happening in steel.

Now, just a small example: The place I used to work at, Bucyrus-Erie, makes the world's largest stripping and mining shovels. There is no market for that in this country anymore. The only market is foreign. Every foreign sale they make, those governments require local content, anywhere from 50 to 90 percent. I think it is wrong that a government like Argentina can require 90 percent, in their case, local manufacture and yet be permitted to just dump any amount of their steel products in this country that they choose.

And I don't think it is us that is erecting the trade barrier. I think that they already have and I think we have to respond.

Mr. KUEHL. What do you suggest we do?

Mr. VATTENDAHL. I think that where they have local contents that they be restricted in their exports to us. I know that is just out and out protectionism, if you want to call it that.

I want to make a comment on the deficit reduction which everybody says has to be done. I agree it has to be done. I think that the first thing that the Federal Government needs to do, both the Congress but especially the administration, is get away from this nonsense that we can grow our way out of it.

I think that your pie graph up there clearly shows that if we are to maintain the present sacred cows—and if I were in charge, I would maintain them—which is defense and social security, and the other big one up there is the servicing of the debt, there just is not enough room left to do anything in reducing the budget deficit. I heard a guy talk last week who said if the only thing that we supported in Federal taxes—if we eliminated all of the social welfare programs and quit paying all of the civilian employees, which would include you, which I am sure you are not in favor of, there would still be a $40 billion deficit this year. I think that pretty well shows that you can't do it just by whacking away at AFDC and these other programs.

Clearly if there is going to be appreciable budget reduction, it has to be done through a tax increase. There is no question in my mind that that is going to happen, and what you have said earlier about taxes is true. It is true of me. You know the old adage, don't tax me or thee, get that guy behind the tree.

But if there is going to be budget deficit reduction of an appreciable nature without going into Social Security and without going into the Defense Department, there has to be a tax increase.

I think it is time that the Washington Government stopped saying that it isn't going to be that way, because 1 and 1 still equals 2. That is the end of my economics lecture.

Representative OBEY. I won't give the whole lecture that I gave yesterday on what these charts mean. This is the budget in 1980. This is the President's request for this year.

Outside of interest payments, which is the pink piece, the only portion of the budget which has increased both in real dollar terms after inflation and as a percentage of the Federal budget is the blue piece, the military budget.

All I can say is that if that is in fact the only portion of the budget which is growing, no matter how you measure it, then to me you have two questions. One is whether we need it. I don't happen to think that we need the incredible new investments that we are making in strategic weapons systems, but even if I am wrong and you say you do, then it seems to me that if there is enough of an emergency to spend it anyway, then there ought to be enough of an emergency to tax to pay for it.

If Government doesn't have the tax to pay for peacetime military buildup, if it doesn't have guts enough to do that, I don't know what it does have guts enough to do except feed more baloney to the public that we are going to grow out of the deficit without action of the kind that you just described.

Let me ask you, Mr. Morgan, one last question. The commission stated that you had analyzed property tax abatements and recommended that Wisconsin avoid such programs.

Would you explain what you mean and why you reached that conclusion?

Mr. MORGAN. This was a deal where you would say to a new company coming in that you would hold their taxes at a certain level or perhaps exempt them from certain parts of it. This would require a constitutional amendment to do it, but in effect you would give an incoming industry some particular break that would not be across the board.

In contrast to that would be a policy where you do give something across the board like an M&E or something like that.

We decided, after looking at the history, first of all where this was done in other States, that that was really not a major factor, nor did you get really the type of business that you wanted to locate based on that. We decided that the tax abatement was really not the way to do it; that you sold other positives that you had, whether it be education or labor or what it might be, but this was not the way to go about trying to get new industry and locate it.

One reason for that is, you put your existing industry at a disadvantage by doing that. It may be the same kind of business but the new one gets an abatement and the existing one does not.

Representative OBEY. Let me ask: Does anyone in the audience have a question or two for the panel?

Bob Williams.

Mr. WILLIAMS. I don't think that Hal Kuehl and Bob Milbourne had the advantage that you and I had of hearing the talk where we were addressing, comparing—Hal Kuehl and Bob Milbourne spent a fair amount of their time talking about spending in Wisconsin as rather immodest compared to us being a very modest State in population.

I thought perhaps you would like to address it. I had the advantage, as you did, of hearing us cite, give these marvelous accolades to Massachusetts and how we are going to try to be like Massachusetts.

I have a daughter going to school in Boston at one of those high-priced colleges. I realize that Massachusetts has done absolutely nothing to compare to Wisconsin as far as financing higher education. Illinois does nothing compared to Wisconsin.

I think what I heard Hal Kuehl saying was: Is Wisconsin ever going to start making choices on where we are going to cut spending in some areas and improve it in others? That is something that the business people who travel the country and see other States, as you do through Congress, what other States do, that they all don't try to do everything in spending.

Would you care to comment on that, particularly addressing what Hal Kuehl said, that that is something this commission said we must do something about, is begin to downsize spending in some areas of choice?

Representative OBEY. Well, I am not about to tell, as a visiting fireman, tell the Governor or the legislature what their policies ought to be in the State when we can't even get decent policies adopted at the Federal level.

All I would simply do is repeat what I said earlier today: I honestly believe that, if I watch what happened here the last 3 years, I find it ironic, people say the State hasn't made difficult choices. We had a lot of pickets outside this room today, picketing the Governor because the Governor had made some tough choices and vetoed some spending that was unfunded in that budget in regard to putting bus drivers back on unemployment compensation without funding.

I received many a letter from people who don't know the difference between Madison and Washington asking what we were doing when we were cutting back on a wide variety of—or when the State was cutting back on a wide variety of programs over the last 2 or 3 years. I received many objections from faculty members squawking about the fact that—just as Federal employees are doing this year—that they weren't getting a pay raise last year.

I would say that the States have shown far more spending discipline than the Feds have. I would also say that if the Feds had faced up to the need to bring income and outgo in line as well as the Governor and the legislature had, we would be in a lot better position today.

I would also point out, however, that in Massachusetts, while they may not make the same kind of public investment we do in Wisconsin in higher education, they certainly do have some very well-funded private institutions which contribute tremendously to the brain assets that State has, just to point to Harvard and MIT as a couple of relatively obscure universities who happen to be very useful in putting together State strategies on anything.

I have been in Massachusetts enough to know if I have to make a choice between living there, I will live here. But I think Wisconsin has done rather well overall in that regard in comparison to other States.

I will leave it to the legislature and the Governor and Mr. Kuehl and company to decide how the State itself ought to perform on the specifics. I don't appreciate gratuitous advice from the State legislate or from State legislators who spend 30 minutes studying a problem that I have dealt with for 8 years any more than they would appreciate my telling them what they should do.

Let me ask if there are any other questions anybody might have?

A VOICE FROM AUDIENCE. I notice that agriculture didn't seem to be addressed at all.

Representative OBEY. That will be addressed this afternoon.

A VOICE FROM AUDIENCE. I mean by their commission.

Mr. MILBOURNE. It was addressed. It was 1 of our 10 major industry task forces. We spent probably more time on that industry than any other, and there is a complete report available on the agricultural task force.

A VOICE FROM AUDIENCE. But none of your comments mentioned any of it this morning. I am concerned about the factor of the property taxes which one gentleman said he didn't want to get into, the unfairness of agricultural taxes on nearby development areas. And also in regard to the world trade, your world trade center, but I didn't hear any of this addressed in any of your comments this morning. That is why I asked.

Mr. MILBOURNE. Unfortunately we have a 125-page report with 100 recommendations and we weren't able to cover all of them. I knew that——

A VOICE FROM AUDIENCE. Agriculture wasn't mentioned one time.

Mr. KUEHL. I don't think any other industry was specifically mentioned. We didn't dwell on any specific industries, although we covered what we considered to be every major industry segment, including agriculture. And if you read the report, you will find we have paid a great deal of attention to it and made some very specific recommendations.

A VOICE FROM AUDIENCE. Because you just didn't mention it in your statement this morning, I thought it might not have been considered at all.

Representative OBEY. I do have a question on the pension fund which I wanted to submit to you and ask you to respond to in some detail.

I just want to say one thing in response to your comments on the Federal elimination of State and local tax deductions and the impact that would have on Wisconsin. I really do hope that we can energize the same kind of attention to that problem in the State that they have been able to energize in New York, Minnesota, and a couple other States.

In New York, across the board, you have Gus D'Amato, you have Mayor Koch, you have Pat Moynihan, Governor Cuomo, the leaders of the political system, leaders of business and labor community, all drawing very close attention to what that would mean to their State.

The argument that that tax break just benefits high-income people in my estimate is nonsense. As a lot of people pointed out, this is a high-service State. You do have high-income people and middle-income people who pay a good share of their taxes in order to support the welfare of low-income people and poor and other services as well.

The only recognition they get of that fact, the only compensation they get for that is the ability to deduct on their Federal return what they pay in State and local taxes. I just think that policy is essential in the interest of equity and in the interest of preserving our competitive position, whatever position we have. I would encourage all of you, business and labor, to spend a good deal of time between now and October, or actually, between now and September in trying to bring whatever pressure you can to bear on the Federal decisionmakers to rethink the plans to eliminate that deduction.

Danny Rostenkowski does not support that State and local tax deduction. He has said that to me personally. So we have a bipartisan problem at the Federal level. I am afraid that we are going to see round two of the Ron and Rosti show which will wind up not delivering a reshaping of the tax program that will be beneficial either in terms of deficit reduction or in terms of equity among regions.

And whatever you gentlemen can do to energize labor and business and anybody else you can grab too, in plain English, raise some hell about the elimination of that deduction, I think is important and crucial, because we have more at stake than any other State in the Union, given our relative tax posture and given our limited ability to tax other sources such as energy commodities. I thank you all for coming.

I appreciate your time.

[Whereupon, at 12:12 p.m., the committee recessed, to reconvene at 1 p.m., the same day.]

AFTERNOON SESSION

Representative OBEY. This afternoon we want to concentrate more on issues that were of relevance to northern Wisconsin and the Wisconsin River Valley.

I want to hear first from a panel concerning the economy of the Wisconsin River Valley with a lot of attention here at the county because that is where we are. But we do have a witness on our trade panel who has a time problem. North-central plane schedules don't take into account hearing conveniences.

We have as one of the three panelists on our trade panel Mr. William Lehman, director of planning and development for Superior. He deals primarily with the port—the Wisconsin side of the Duluth-Superior port situation up there.

I don't think Wisconsin generally thinks about shipping, at least in the north, as being an important ingredient in its economy. I want to assure you, you do if you live in Superior. I want Mr. Lehman to simply make his points now very briefly so that he can get on with catching his plane.

Could you summarize what the importance is of Great Lakes shipping to the northern Wisconsin economy and what some of the problems are that you see or what are some of the problems that you see, I would appreciate that?

STATEMENT OF WILLIAM G. LEHMAN, DIRECTOR, PLANNING AND PORT DEVELOPMENT, CITY OF SUPERIOR, WI

Mr. LEHMAN. Thank you very much.

Good afternoon. My name is William G. Lehman, and I am the director of planning and port development for the city of Superior, WI. I thank you for this opportunity to appear today and present this testimony concerning the role of the Port of Superior in the Wisconsin economy.

The city of Superior is the major community in the northwestern section of Wisconsin. Its economy has historically, and is today, related directly and intensely to the movement of waterborne commerce through our national and international port.

The shipping which transits the port area consists primarily of two types of cargoes: bulk cargo consisting of taconite, iron ore, grains and coal, and to a limited extent, general cargo which consists mainly of break bulk agricultural products whose origin is primarily Public Law 480, title II—Food for Peace—cargoes.

When we speak of the Port of Superior, it really has to be stated in the context of the twin ports of Superior, Wisconsin and Duluth, Minnesota. We share a harbor, and because of that, we either collectively benefit by that harbor or we collectively suffer.

In 1984, the direct impact of commercial shipping in the Superior/Duluth harbor was some $233 million. That total economic impact is a summation of the individual economic impacts of the different types of cargo that travel through the port. In Superior's case, bulk products of iron ore, taconite and coal have an estimated impact of $3.72 per ton. The overseas shipment of grain has an impact of $25.30 per ton, and the impact of general cargo is in excess of $85 per ton.

Today the city of Superior is suffering an economic decline due primarily to the downturn of the harbor. As an example, through June of last year, the Superior-Duluth Harbor realized the transshipment of 9.1 million tons of cargo, with the arrival of 378 vessels to the Twin Ports Harbor.

By comparison, the 1985 shipping season through June has resulted in 8.8 million tons of cargo with only 321 vessels entering the harbor.

The decline is due to a decrease in export shipments of grain, which has amounted to over 326,000 tons less through June of this year.

In other locales, these figures could be compensated for in other segments of a local economy. That sadly is not the case in either the city of Superior or in Douglas County.

An article contained in the January 1985 issue of Wisconsin Business Journal showed that there is only one county in the State of Wisconsin, Douglas County, where the "major source of personal income by county is in transportation."[1]

More recently, the State of Wisconsin, Department of Industry, Labor and Human Relations, prepared information showing a general breakdown of the nonfarm wage and salary employment of Douglas County, which compared calendar years 1979 and 1984.

That comparison showed that at the end of 1984, there was a decrease in Douglas County of over 2,200 employment positions.[2] Of this amount, a vast majority of those jobs lost are directly related to either the port itself or to those transportation modes which service the port.

This employment loss generally consists of persons who were employed in manufacturing industries, with an emphasis primarily on metal industries and transportation equipment; in transportation, which includes railroad consolidation; and wholesale trade, which involves individuals formerly employed on the transshipment docks within the community.

Of that total decrease of employees, well over half are in these three specific harbor-related employment categories.

My previous comments generally describe the harbor as it is today. There are currently major issues or proposals which would cause the Port of Superior and its sister port of Duluth to regain its economic profile in the community.

First, the U.S. Army Corps of Engineers has prepared a draft feasibility study and environmental impact statement entitled, "Great Lakes Connecting Channels and Harbors."

This proposal would involve the selective deepening of areas within the Superior-Duluth harbor as well as the Vidal Shoals area of the St. Mary's River.

It would allow vessels carrying cargoes of coal, taconite, and iron ore from Superior, as well as taconite from Duluth, to increase their draft an additional foot. That proposal has an estimated benefit-to-cost ratio of 14.8 to 1. Through the public hearing process, the project received the support of the cities of Superior and Duluth as well as all of the shipping interests in the port area. What is urgently needed to proceed with the project is congressional authorization of the proposed improvement.

Second, the Port of Superior has continually supported, and does so now, the extension of the shipping season. It has been shown that a slight extension of the season of 1 to 2 weeks is technically feasible for the movement of agricultural products from the Midwest. That extended season would result in additional vessels being loaded. A vessel containing 10,000 tons of grain in bulk has an impact on the local economy of approximately $250,000.

Third, we urge that all efforts be made to stop a proposal currently in Washington which involves a change in the amount of Food for Peace cargoes on U.S. flagships.[3]

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[1] See exhibit I at the end of Mr. Lehman's oral statement.
[2] See exibit II at the end of Mr. Lehman's oral statment.
[3] See exhibit III at the end of Mr. Lehman's oral statement.

Currently, 50 percent of Public Law 480 cargoes must be placed on U.S.-flag vessels. A proposal is pending through the office of Senator Robert Dole of Kansas to change that ratio to 75 percent for U.S.-flag vessels.

If that percentage is applied to the Great Lakes, it will have a devastating impact on the Food for Peace shipments that go through the Ports of Superior and Duluth. I believe this would also affect many other port communities on the Great Lakes.

An alternative to a blanket percentage increase as proposed would be to exclude port ranges which do not have U.S.-flag activity. That action would retain or possibly expand today's volume of Food for Peace cargoes.

Fourth, emergency Food for Peace cargoes should be exempt from seaway toll charges applied to vessel traffic in the St. Lawrence Seaway system.

Finally, due to the softness of this country's grain market, many of the throughput grain elevator facilities in the community are now being forced by the Commodity Credit Corporation to convert their storage capacity from throughput to long-term storage of grain.[4] This can again reduce the number of jobs on the waterfront, and this has to be altered.

I believe this action is due to the national decline of grain exports, which is due in part to the strength of the American dollar in the foreign markets.

In summary, the Port of Superior has a marked effect on both the city of Superior as well as the hinterland of northern Wisconsin. That economy cannot continue with the port being as it is today, for an Appalachia could be the result of the sluggishness of the port economy.

Thank you for this opportunity to offer these comments and observations, and I will try to answer any questions which you may have.

Representative OBEY. Thank you, Mr. Lehman.

[Exhibits I to IV and the impact statement entitled "Great Lakes Connecting Channels and Harbors," attached to Mr. Lehman's statement, follow:]

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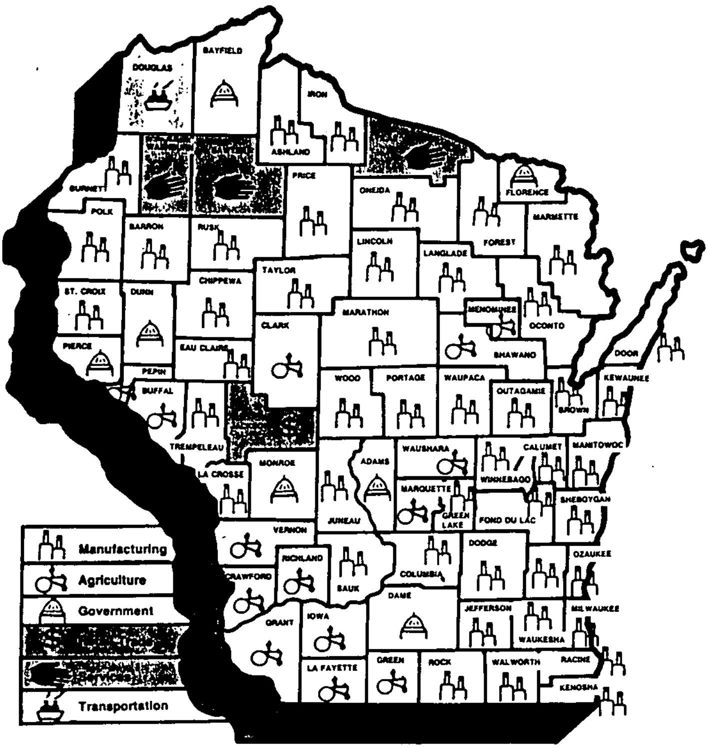
[4] See exhibit IV at the end of Mr. Lehman's oral statement.

Major source of personal income by county, 1980



Source: "Local Area Personal Income" from U.S. Department of Commerce, Bureau of Economic Analysis

Income[4]

MEDIAN FAMILY INCOME 1979
State $20,977[•] U.S. $19,908
PERSONAL INCOME, 1981 ($1,000s)
State $47,579,000 % of U.S. 1.98
PER CAPITA PERSONAL INCOME
State $10,035 U.S. Avg. $10,491

Three largest income sources, 1981 ($1,000s):

Manufacturing	$11,863,000
Services	5,472,000
Government	4,631,000

• Department of Commerce, Bureau of Economic Analysis, Survey of Current Business
• Bureau of the Census, General Social and Economic Characteristics, 1979—Summary Tape File 3.

Recreation Highlights

Total acreage 35,937,520; Great Lakes/Mississippi shoreline 820/230 miles
Acreage of named lakes 930,974; Total number of lakes 14,927; Lakes with public access 2,784
Total public land designated for recreation use 5,253,082 acres; Federal- 1,666,387 acres; State- 1,064,897; County- 2,300,186 acres; Other public areas 221,612 acres

Canoe trails (no./mi.) 144/3,484; Canoe pick-up services 248
Swimming 1,500 areas
Fishing: Sample of fish caught—bass, perch, panfish, walleye, trout, northern, salmon, muskellunge
Trout Streams (no./mi.) 2,189/8,412; Smallmouth Bass (no./mi.) 213/3,516

EXHIBIT II

State of Wisconsin \ Department of Industry, Labor and Human Relations

JOB SERVICE DIVISION

July 26, 1985

Mr. Michael McNamara
Executive Director
Douglas County Development Assoc.
1213 Tower Avenue
Superior, WI 54880

Dear Mike;

Attached is the information you requested on employment levels in Douglas County. The information demonstrates the dramatic decline in area employment since 1979. That year (1979) was chosen for comparison as it was pre-recessionary and one of relative economic stability throughout the State.

Major losses have occurred in manufacturing and in particular in those industries involved in production of nonelectric machinery, transportation equipment, apparel and food products. In addition, severe losses have occurred in construction, wholesale trade, transportation and service industries.

Please note that this information (wage and salary data) estimates employment by place of work. That is, it describes employment levels of Douglas County employers. It is based on a monthly survey of area employers and estimates are subject to a small sampling error. The data does not include self-employed, unpaid family or agricultural workers. As data can only be published if there are three or more employers in a given industry, some manufacturing employment levels are combined in an "All Other" category. Should you find it necessary to determine exact employment levels for these industries I will be happy to pursue it for you.

In addition, Mike, we have recently received preliminary unemployment estimates for the month of June. Douglas County continues to have a substantially higher jobless rate than the State as a whole. Douglas County's rate for June is 11.5% (compared to a State rate of 6.5%) and ranks fourth among Wisconsin counties. Only Menominee, Sawyer and Forest Counties have higher jobless rates for the month of June.

I hope this information is helpful to you and please feel free to call if you need clarification or any additional information.

Sincerely,

Shelagh Cullen

Shelagh Cullen, Labor Market Analyst
Lake Superior District

DOUGLAS COUNTY

NON-FARM WAGE AND SALARY EMPLOYMENT

- BY INDUSTRY -

	1979	1984	EMP. CHANGE
TOTAL WAGE & SALARY EMPLOYMENT:	15,300	13,100	-2,213
I. MANUFACTURING	1,920	1,050	-868
A. Durable Goods	1,200	660	-541
-Lumber & Wood Products	240	250	+ 10
-Stone, Clay & Glass	60	60	- 7
-Fabricated Metal Products	120	100	- 24
-Nonelectric Machinery	380	200	-178
* -All Other - includes Primary Metal Industries, Electric Machinery, & Transportation Equipment	400	60	-342
B. Nondurable Goods	720	390	-326
-Food & Kindred Products	330	110	-219
-Printing, Publishing & Allied Prod.	140	120	- 19
* -All Other - includes Apparel, Chemical & Allied Products, Petroleum Refining & Related, & Rubber & Misc. Plastics	250	160	- 89
II. AGRICULTURE, FORESTRY & FISHERIES	20	20	+ 2
III. CONTRACT CONSTRUCTION	580	290	-292
IV. TRANSPORTATION, COMMUNICATION, GAS, ELECTRIC AND SANITARY SERVICES	2,540	1,800	-739
V. TRADE	4,030	4,030	- 3
A. Wholesale	910	820	- 91
B. Retail	3,120	3,210	+ 93
VI. FINANCE, INSURANCE, & REAL ESTATE	350	360	+ 9
VII. SERVICES AND MISC.	2,530	2,180	-359
VIII. GOVERNMENT	3,320	3,350	+ 32

* Underscored industries in All Other Categories represent largest portion of employment change.

NOTE: Totals may not add due to rounding; employment change is based on unrounded figures.

SOURCE: WI Department of Industry, Labor & Human Relation, Labor Market Information Section.

Source: Job Service, State of Wisconsin

One factor used to determine an area's economic situation is the number of people who are looking for work but are unable to find it. Douglas County has historically maintained a high rate of unemployment compared to Wisconsin and the nation. This continues to be the case, and in fact, in recent years the gap has widened. The year-to-date average for Douglas County is 10.6% compared to an average of 7.4% for Wisconsin. Average annual rates for the area have been as high as 13.6% in 1982 and 14.1% in 1983. Monthly rates have gone as high as 20.3% in 1983.

Although the rate for Douglas County dropped to 9.6% in 1984 (the first time it's been below 10.0% since 1980), it is also important to consider that the unemployment rate is based on what is measured to be the "labor force." It has been of considerable concern in this area that the labor force has declined. While this may partially be due to people leaving the area, it is likely that it is also a result of people giving up their search for employment. An estimated 1,900 less people were considered in the labor force in 1984 than in 1979. Although there is no way of actually measuring the number of discouraged job seekers, consider the following: If these 1,900 people were considered still in the labor force, and therefore, among the unemployed, the unemployment rate for 1984 would be 18.3% rather than 9.6%.

In addition to a high unemployment rate, it is important to note that the number of people counted among the employed in the area has dropped considerably. According to the U. S. Bureau of Labor Statistics, approximately 2,500 fewer people were employed in 1984 than in 1979. This continues to be the situation in 1985. In May of 1984, 16,500 people were estimated to be employed in the county; in May of 1985, 15,700 people were employed. That is 800 fewer people working in May of this year than in May of last year.

In addition to unemployment statistics, a second way of monitoring economic trends is by analyzing trends of "non-farm wage and salary employment." This information monitors employment levels of county employers and is based on a monthly survey.

Wage and salary positions have declined by approximately 2,200 from 1979 to 1984, and preliminary figures indicate the decline has continued into 1985. Estimates for May, 1985 employment are the lowest in the last ten years.

According to this wage and salary data, declines in employment largely have been in manufacturing, transportation, construction and wholesale trade (i.e., grain elevators). Declines from 1979 include - 868 manufacturing, 292 construction jobs, 799 in transportation, and 359 in service-related industry. These industries are traditionally the industries that supply full-time and highly-paid positions. On the other hand, what little growth we have experienced in area industries has been in those that support part-time and very low-paying jobs (i.e., retail sales, restaurants).

AFDC-U cases in Douglas County have increased sharply since 1979 (AFDC-U household with two parents present):

1979 - 81

1980 - 122

1981 - 192

1982 - 267

1983 - 429

1984 - 461

This means it has increased 469% since 1979.

CIVILIAN LABOR FORCE ESTIMATES

COUNTY	CIVILIAN LABOR FORCE			EMPLOYMENT			UNEMPLOYMENT			UNEMPLOYMENT RATE		
	JUNE 1985	MAY 1985	JUNE 1984	JUNE 1985	MAY 1985	JUNE 1984	JUNE 1985	MAY 1985	JUNE 1984	JUNE 1985	MAY 1985	JUNE 1984
ASHLAND	7,100	7,100	7,800	6,500	6,500	7,100	570	610	630	8.0	8.6	8.2
BAYFIELD	5,000	4,800	5,100	4,500	4,300	4,500	500	530	560	10.1	10.9	10.9
BURNETT	6,000	6,000	6,300	5,600	5,600	5,900	350	390	470	5.9	6.5	7.4
DOUGLAS	17,200	17,200	18,800	15,300	15,700	16,900	1,900	1,590	1,910	11.1	9.2	10.1
IRON	2,600	2,500	2,800	2,300	2,200	2,500	230	250	270	9.1	10.2	9.4
PRICE	7,700	7,600	7,200	7,100	6,900	6,700	590	650	550	7.7	8.6	7.6
RUSK	6,600	6,800	6,800	6,100	6,300	6,300	470	480	560	7.2	7.0	8.2
SAWYER	5,500	5,400	5,400	4,900	4,800	4,700	650	640	690	11.7	11.7	12.8
TAYLOR	9,400	9,500	9,800	8,700	8,700	8,900	760	780	870	8.1	8.2	8.9
WASHBURN	5,300	5,200	5,600	4,900	4,800	5,100	400	430	520	7.5	8.2	9.3
N.W. SDA	72,300	72,100	75,700	65,900	65,800	68,700	6,400	6,300	7,000	8.9	8.8	9.3

WISCONSIN RATE: 6.5 U.S. RATE: 7.5

EXHIBIT III

Great Lakes ports would suffer under cargo preference proposal

BY AL MILLER
Staff writer

A plan to increase the shipping subsidy for U.S. food donations overseas could cut deeply into exports at Duluth's public marine terminal and other Great Lakes ports.

Several agriculture and maritime groups in Washington, D.C., have agreed to boost from 50 percent to 75 percent the proportion of Food for Peace cargoes that must be carried aboard U.S.-flag ships, according to the Associated Press.

The requirement, known as cargo preference, is a subsidy provided to U.S. merchant ships to help them stay in business. The subsidies are needed because higher operating costs make U.S. ships uncompetitive with vessels from many other countries.

Duluth port officials say increasing the cargo preference requirements would slash the amount of Food for Peace cargoes available to Great Lakes ports.

"That rule change would really put us at a disadvantage on the Great Lakes," said Al Johnson, director of international trade for the Seaway Port Authority of Duluth. "It could take away another 25 percent of the (Food for Peace) tonnage we receive now on the lakes."

U.S. ocean ships rarely pick up cargoes on the lakes because of high costs. Reserving more aid cargoes for those ships would reduce the amount that lake ports could seek, Johnson said.

Food for Peace shipments normally comprise 30 to 40 percent of all cargo handled at the Duluth Port Terminal. Those shipments provide considerable work for longshoremen and generate the most money per ton for the city's economy.

Two years ago, the terminal shipped about 28,000 tons of Food for Peace cargoes. That amount has fallen sharply since then, however. So far this year, the terminal has handled about 9,000 tons.

Under the plan being discussed in Washington, the U.S. maritime industry would be guaranteed 75 percent of the nation's Food for Peace shipments. Currently, U.S. vessels are guaranteed only half those shipments.

In return for a bigger share of the aid cargoes, the maritime industry would allow other farm export programs to be exempt from the cargo preference requirements.

But Johnson said that trade-off wouldn't be fair to the Great Lakes. And freeing other export programs from the cargo preference requirements probably wouldn't help Duluth, he said.

"We don't receive much tonnage under these other programs," Johnson said. "They usually buy the cheaper wheats from Gulf and West Coast ports."

The cargo preference agreement has been drafted in the form of a bill, but it has not been submitted to Congress. If it is submitted, it will face opposition from federal agriculture officials and some farm and shipping groups.

The U.S. Department of Agriculture wants to keep the 50 percent share on cargo preference and exempt only one export program, said Tom Kay, a deputy undersecretary.

The Maritime Administration, which administers the cargo preference act, has not taken a stand on the changes proposed. If changes are made, they would have to come from Congress and not administration officials, said Gary Misch, assistant administrator for marketing.

Legislation concerning the cargo preference act is being handled through the office of Sen. Robert Dole, R-Kan. Aides to the senator couldn't be reached for comment Wednesday.

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EXHIBIT IV

Port's storage grain termed 'by-product' of real problem

By DICK POMEROY
Assistant to Editor

Slumping grain traffic and the volume of federal surplus grain stored in elevators in Superior and Duluth are taking their toll in waterfront activity in the Twin Ports.

Ocean ships here for grain cargoes are becoming rare and the shipment of grain by U.S. lakers to lower Great Lake ports has tapered off to little or nothing. Canadian lakers normally seen this time of year moving grain from the Twin Ports to St. Lawrence River ports for trans-shipment to world markets are virtually non-existent so far during the 1985 navigation season.

But, the more than 25 million bushels of Commodity Credit Corp. grain piling up in Twin Ports elevators is only a "by-product of the real problem," according to an official of one of the major grain elevator firms in the port.

The real problem is the fact that grain isn't moving because there isn't a decent price for it, said John Thames, vice president for employee relations, Harvest States Cooperatives, St. Paul. The company operates the massive elevator complex in Superior formerly known as Farmers' Union Grain Terminal Association.

The "root problem," Thames said, is the "poor export business - until it gets better we and other elevator operators have to look at ways to cut our overhead" and storing the government grain appears to be one of those ways.

Thames, asked about rumors that the storage operations would result in layoffs, said he did not expect any reductions in employment because of the storage grain. If there are any significant reductions, he said, it would be because of the decline in the overall grain shipping business.

Income from storing government grain, he said, helps offset fixed costs and in that way serves as a buffer to layoffs. Thames said the Harvest States work force in Superior numbers about 50 employees "not on layoff," although some of the employees may be on vacation.

Without the storage grain, he said, the company would be concerned about the possibility of being forced to virtually close down.

He said Harvest States, like other companies handling grain moving through the port, has been "looking for the most efficient ways to move grain" when asked if the firm has made arrangements with other Twin Ports companies to receive, store and ship grain for it.

Maritime observers say Harvest States in Superior and Cargill, Inc., in Duluth have been the Twin Ports leaders in grain shipments this year. Several grain elevators have had very little traffic this year. Traffic figures of the individual firms are not divulged.

Thames said the Harvest States elevators in Superior contain about 12 million bushels of the government grain - of a total storage capacity of about 18 million bushels.

That's almost one-half of the total of 25 million bushels of CCC grain stored in Superior and Duluth elevators which have a total storage capacity of about 74 million bushels.

Other than the 25 million bushels of CCC grain in Twin Ports elevators as of July 18 the contents included only another five million bushels, indicative of the low level of commodities moving through Superior and Duluth. The 25-million-bushel figure also is about 8 million bushels more than the storage grain level in the Twin Ports in mid-July of 1984.

Thames said the 12-million-bushel figure for Harvest States may be more than normal, but he added "virtually all of the operators" of grain elevators in the Twin Ports have "significantly large amounts in storage - just about everybody - but that is not abnormal in the given situation because prices in the export grain market are so horrible."

The depressed prices, he said (other sources have cited the strong U.S. dollar as a major factor in the dwindling grain traffic through the Twin Ports) have made elevator operations difficult and have made it prudent to enter the storage grain program.

Thames said Harvest States is in business to move grain and will make efforts to remain as flexible as possible with its storage operations to continue that business.

Harvest States, he said, has been "looking to try to do all the specialty business we can to put our people to work, but that has not been a consistent market."

SUPERIOR EVENING TELEGRAM July 30, 1985

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Grain shipments decline sharply

BY AL MILLER
Staff writer

A severe decline in grain shipments continues to batter Lake Superior's grain ports, according to port officials.

Grain exports through Duluth-Superior are 13 million bushels behind last year's pace while domestic shipments trail by 3.5 million bushels, according to the Minneapolis Grain Exchange.

Over the last month, only one or two ships a week have left the Twin Ports carrying grain. That figure is unusually low even for the ports' sluggish summer months.

In Thunder Bay, Canada's second busiest port, grain shipments trail last year's pace by 2.5 million metric tons. Port officials expect a 30 to 40 percent drop in grain cargoes by the end of the year.

Thunder Bay normally handles two or three grain ships each day. This year the port is averaging one vessel a day, said Don Trost, manager of the Saskatchewan Wheat Pool elevators in Thunder Bay.

The drop in shipments has meant less work for longshoremen and grain millers in the Twin Ports. In Thunder Bay, grain handlers report a 30 percent drop in jobs.

Reasons for the decline vary. Duluth port officials blame the high value of the dollar for discouraging foreign countries from buying American grain.

Thunder Bay officials blame their downturn on a worldwide glut of grain and a production drop stemming from last year's drought in Canada's grain region. Adding to the problem is the strength of the Canadian dollar, they say.

The drop in grain shipments has led to an overall decline in cargo handled in the Twin Ports this year.

Through the end of June, a total of 8.8 million metric tons of cargo had moved through the port. Last year, 9.1 million metric tons had been shipped during the same period. A metric ton equals 2,204 pounds.

Coal shipments totaled 1.8 million tons, slightly behind last year's pace. Iron ore shipments were 5.6 million tons, about 500,000 tons ahead of last year.

Draft of
Final Feasibility Report and
Environmental Impact Statement

May 1985

GREAT LAKES CONNECTING CHANNELS AND HARBORS

US Army Corps
of Engineers
North Central Division

DEPARTMENT OF THE ARMY
DETROIT DISTRICT, CORPS OF ENGINEERS
BOX 1027
DETROIT, MICHIGAN 48231-1027

IN REPLY REFER TO

DRAFT

OF

FINAL FEASIBILITY REPORT

AND

ENVIRONMENTAL IMPACT STATEMENT

GREAT LAKES CONNECTING CHANNELS AND HARBORS

U.S. ARMY ENGINEER DISTRICT
DETROIT, CORPS OF ENGINEERS
DETROIT, MICHIGAN
MAY 1985

SYLLABUS

The Great Lakes - St. Lawrence Seaway commercial navigation system serves the heartland of the United States and Canada providing a maximum safe vessel draft of 25-1/2 feet at Low Water Datum. It is anticipated that unless modifications are made to the existing navigation system, some amount of waterborne commerce would not be able to be serviced in the future.

The study was authorized by two resolutions of the U. S. Senate Committee on Public Works in 1969 and 1976, to determine the advisability of further improvements in the Great Lakes Connecting Channels and Harbors in the interest of present and prospective deep-draft commercial navigation. An interim report was prepared in partial response to these resolutions. The Final Interim Feasibility Report and Environmental Impact Statement was completed in March 1985 and is presently under Washington level review. The Interim Report identifies the problems, needs, and opportunities related to the existing U. S. locks at the St. Marys Falls Canal, and recommends construction of a new large lock designed to accommodate all vessel sizes in the current U. S. Great Lakes fleet. The problems and needs identified, and the proposed recommendations in the draft Final Feasibility Report and Environmental Impact Statement (EIS) are independent from those addressed in the March 1985 Final Interim Feasibility Report.

The alternative plans formulated and analyzed in the draft Final Report and EIS were: deepening the upper St. Marys River and Lake Superior harbors, modifying seven Great Lakes harbors to accommodate 1,000-foot long by 105-foot wide vessels at the existing system-wide 25-1/2 foot safe vessel draft at Low Water Datum; and deepening five southern Lake Michigan commercial harbors to permit increased drafts on intra-Lake Michigan transits.

The proposed recommended plan contains the following elements:

a. Deepen portions of the upper St. Marys River and Duluth-Superior Harbor as necessary to permit a maximum safe vessel draft of 26-1/2 feet at Low Water Datum (LWD).

b. Dispose of the estimated 440,000 cubic yards of dredged materials from the upper St. Marys River in the least costly, environmentally acceptable manner by placing it at the Mission Deepwater site. The disposal would be staged so that the sandstone would be placed in the Deepwater Site last.

c. Dispose of the dredge material from Duluth-Superior Harbor in the least costly, environmentally acceptable manner as follows: Dispose of the estimated 660,000 cubic yards of dredged materials from the Cross and South Channel, West Gate Basin, East Gate Basin, Duluth Harbor Basin Northern and Southern Sections, and the Duluth Ship Canal by placing it in the Hearding and 21st Avenue deep holes. Dispose of the estimated 220,000 cubic yards of dredged materials from the Superior Harbor Basin and Entry Channel by placing it at the Itasca Upland site.

The estimated first cost of the proposed recommended plan is $11,104,000. Estimated average benefits resulting from the plan are $15,041,000 and the estimated average annual cost is $1,015,000. The resulting benefit-to-cost ratio is 14.8.

STATEMENT OF

MR. DAVID VAN BRUNDT

GENERAL MANAGER OF OPERATIONS

USS GREAT LAKES FLEET, INC.

BEFORE THE U. S. ARMY CORPS OF ENGINEERS

PUBLIC MEETING ON THE

DRAFT OF THE FINAL FEASIBILITY REPORT

AND ENVIRONMENTAL IMPACT STATEMENT ON

GREAT LAKES CONNECTING CHANNELS AND HARBORS

DULUTH, MINNESOTA

JULY 9. 1985

MR. DAVID VANBRUNT: Good evening. I'm David VanBrunt, General Manager of Operations with USS Great Lakes Fleet, Inc. here in Duluth.

It's well know that the domestic steel industry, a prime user of my company's service, uses the Great Lakes waterway system for the transport of a major portion of its basic raw material needs. The economy of the heartland of the United States is strongly influenced both directly and indirectly by the viability of this steel industry. Every possible technique for improving the steel industry's position in the world steel market must be explored simultaneously by industry, labor and government.

Studies that have been developed by all three of these entities reveal there is a tremendous surplus of low-priced, and in many cases foreign government subsidized, iron ore available, even to the steel mills located in the heartlands of America.

Our vessel officers see foreign ore coming up the Mississippi River and discharging right alongside our ships at many of the ports on the Great Lakes.

The continued existence of the Great Lakes Merchant Marine, as well as the regional iron ore industry in Minnesota and Upper Michigan, is directly linked to the competitive delivery of iron ore to the domestic steel mills and receiving docks along the lower Great Lakes.

The report that we're here discussing tonight indicates that we're losing in this world steel market battle. It reviews population decreases in the heartland, reductions in the number of young people that are staying around in the heartland parts of the United States. It's kind of depressing for those of us who are intimately involved in the steel industry. But, we truly believe that we are fighting back, and we are starting to come back in that battle.

Daily you're reading of concessions made by labor organizations. You're daily hearing bits of good news, such as this report that we're reading and reviewing here tonight. It's trying to give us a chance to fight back in that world economy.

In order for our fleet and the other fleets on the Great Lakes to survive in this very competitive world market, we are constantly exploring every alternative to potentially increase the productivity of our ships. Every minute of time on these large vessels is accounted for, even to the extent of minimizing the time from when mooring lines are placed on the dock until the ore is flowing into the hatches.

Our loading methods and drafts are closely monitored to assure that the absolute maximum productivity for each ship is gained on each trip. In every fleet there's one individual that has the same task that I have up here in Duluth, and that's determining how deep do we load the boats each day as we head down to the Soo Locks. It's an interesting decision, and many people don't realize all the factors that go into it.

This entire system that we operate our ships on is constrained by the Soo Locks and the Duluth harbor. We look at things like whether or not the boat is going to be down at the Soo in daytime or nighttime. Daytime makes the deck warm. A warm deck up above and a cold bottom down below the water makes the vessel hog at the two ends. It gets us closer to the bottom.

We look at when the high and low pressure systems are expected to move over the Soo. Low pressure systems give us more water on that end of the lake. We look at every way we can load the boat to make sure that when he arrives down there, he's absolutely flat.

We calculate fuel burnoff between Duluth and the Soo. We calculate it down to the fraction of an inch to make sure that when he gets to the Soo, he's going to be safely able to get over Vidal Shoal.

Productivity increases of only one percent are truly major breakthroughs in our trade here on the Great Lakes. We have all been working on vessel productivity for many years, and it is tougher and tougher to increase the productivity of these ships by even small increments. The report that we're reviewing tonight will represent an amazing five percent increase in the productivity of these larger ships!

The deepening of the channel at Vidal Shoal and in through the Duluth harbor will result in as much as a five percent increase in the vessels' carrying capacity over an 1800 mile trip, from Duluth down to Conneaut, Ohio and back to Duluth. We're addressing a dredging of about ten or eleven miles that is constraining an 1800 mile system.

I point out that this productivity increase will be gained with only marginal increases in the cost of operating the ships. Maybe I should use the term negligible, or marginal. We calculate that by loading the large Class 10 ships, one foot deeper, the decrease in speed will be about .06 miles per hour. The ship has a given fixed horsepower, so he's going to continue to operate at, say, 20,000 BHP, or 18,000 BHP, or whatever the ship was originally designed with. The engine will continue to put out its full power, and the vessel will slow down only .06 of a mile per hour.

That will represent in a trip from Duluth to Conneaut and back to Duluth only ten minutes of increased time. That's ten more minutes of labor and ten more minutes of fuel and ten more minutes of supplies on board the ship, but 2800 to 2900 more tons of cargo! It is truly a quantum increase in the productivity of our ships here on the Great Lakes. We have not seen projects coming through the system that could compare to this in recent times.

I am not a naval architect. I'm a vessel operator. My next comments are close to bordering on naval architect's area of expertise. We should recognize that the Environmental Impact Statement suggests, when they list areas of controversy, that there might be a potential for increased propeller turbulence resulting from the proposed channel deepening.

In the areas to be deepened, I point out that the propeller's proximity or closeness to the bottom on those vessels which will be able to load one foot deeper, will be identical to the clearance that we are presently operating under. There won't be any greater turbulence or scouring of the bottom on those 15 to 20 ships that may be loading deeper.

I also point out that many of the smaller vessels that will continue to operate in the trades will not be able to take advantage of loading deeper after the dredging, and therefore, will transit the channels with a greater clearance than they transit it with today, thereby reducing turbulence from those smaller ships.

Furthermore, if we are to carry a given tonnage through the St. Marys system and deliver it to the lower lakes, that tonnage will move on fewer trips if we haul more per trip on the large ships. There will be a net reduction on the total number of ships going through the system, which should have a positive impact on the turbulence overall.

This deepening project is a very cost effective project and is probably one of the most beneficial one that has been considered in recent times as far as relating to the productivity of our Great Lakes Merchant Marine.

It will yield immediate productivity increases to the heartland region, the Great Lakes maritime industry, and the domestic iron mining industry. USS Great Lakes Fleet, Inc. is very supportive of the general recommendations and hopes that the Corps of Engineers will be able to proceed as expeditiously as possible as time is so critical to us now in trying to regain a position in the international steel and iron mining industry.

Thank you very much.

TESTIMONY BY WILLIAM G. LEHMAN

DIRECTOR OF PLANNING AND PORT DEVELOPMENT

CITY OF SUPERIOR, WISCONSIN

PUBLIC HEARING

ON THE

DRAFT OF THE FINAL FEASIBILITY REPORT

AND ENVIRONMENTAL IMPACT STATEMENT

ON

GREAT LAKES CONNECTING CHANNELS AND HARBORS

BY THE

U. S. ARMY CORPS OF ENGINEERS

DULUTH, MINNESOTA

JULY 9, 1985

Good evening. My name is William Lehman, and I am the Director of Planning and Port Development for the City of Superior, Wisconsin.

The testimony that I am offering this evening is on behalf of both the Mayor and Common Council of the City, as well as the Superior Board of Harbor Commissioners.

The City of Superior is the major community in the northwestern section of the State of Wisconsin. Its economy has historically, and is today, related directly and intensely to the efficient movement of waterborne commerce through the Great Lakes and the St. Lawrence Seaway System. In the past the community has served as a port of destination for products brought into the midwestern section of the United States. Today's role is one of exporting primarily bulk cargoes for both foreign and domestic consumption. The restrictions on foreign export are primarily those associated with the physical limitations of the St. Lawrence Seaway System, and thus, are both difficult and expensive to modernize.

The proposal before us this evening does not directly address that foreign market, but rather the improvements which can be made, and made inexpensively, that would greatly advance bulk transshipment of natural resource products for consumption within the lower lakes of the Great Lakes watershed.

In particular, the City of Superior believes that the implementation of the findings in the Great Lakes Connecting Channels and Harbors Study would be of great benefit to two transshipment facilities in Superior, Wisconsin. These are the Burlington Northern Taconite facility which is located adjacent to Allouez Bay, which uses the Superior Harbor Basin section of the harbor; and the Superior Midwest Energy Terminal which is located adjacent to St. Louis Bay which uses the following sections of the harbor -- the South Channel, the West Gate Basin, the East Gate Basin, and the Duluth Harbor Basin. The establishment of a 26.5' static draft in these areas of the harbor will allow for additional cargo to be emplaced on vessels using these two transshipment facilities. The additional tonnage per transit which could be allowed with the completion of this project would reduce the cost per ton per transit of both western coal and Minnesota taconite.

The proposed project, as we understand it, would necessitate the dredging of approximately 660,000 cubic yards of material for vessels exiting the harbor via the Duluth Ship Canal, and some 220,000 cubic yards of material for vessels exiting the Superior Entry. The proposed disposal of the material to be dredged would be accomplished in both an environmentally-sound and economically-sane manner. These two general criteria have been identified through this draft feasibility study.

The use of man-made "deep holes" -- specifically those holes known as the 21st Avenue West and Hearding holes -- in our opinion are suitable for disposal of the 660,000 cubic yards of material to be removed from the Duluth side of the harbor. The use of the Itasca disposal site for the balance of the material to be removed is also sound. This opinion is based upon two general items. First, and very importantly, it has been found through analysis and review by the U. S. Environmental Protection Agency that the material to be removed has been found suitable for the disposal options proposed by the Corps of Engineers. Secondly, and perhaps equally important, the City of Superior, in conjunction with the City of Duluth, private port interests and the Metropolitan Interstate Committee, have evaluated internally the concept of deep hole filling for dredged material. This evaluation, funded through grants from the Wisconsin Coastal Management Program, resulted in the adoption of "deep holes" as a disposal option in October of 1983. Part of that 1983 evaluation consisted of a physical, chemical and biological comparison of two dredged deep holes and adjacent flats in the St. Louis River estuary. That evaluation, conducted through the Lake Superior Basin Studies Center at the University of Minnesota--Duluth, showed that the aquatic value of the deep holes from a fishery standpoint is miniscule in comparison with the shallower natural river bottom which they abut. Thus, the conclusion is that fishery value, as an example, could be enhanced through the filling in of these areas due to additional aquatic habitat being created.

In summary, it is the firm belief of the City of Superior that the recommended plan in this Feasibility Report is one which warrants expeditious implementation by the U. S. Army Corps of Engineers. Its impact on the local shipping economy is one which is positive. Its impact on the environment will also be positive.

I have with me this evening a letter from the Superior Midwest Energy Terminal and have been asked by Mr. John Ethen to read it into the record, expressing their support for the project. That letter is as follows: (Letter read, appended.)

On behalf of the City of Superior, we appreciate the opportunity to appear this evening. I can assure you that the Administration is supportive of the proposal. We do believe it is in the best interests of the Cities of Superior and Duluth that the project be implemented expeditiously.

Representative OBEY. Let me be brief with my questions.

No. 1, I have talked about this before but for the record, what is the estimate of the cost of that harbor deepening project?

Mr. LEHMAN. Including the area of Vida Shoals, around $12 million, I believe.

Representative OBEY. How much?

Mr. LEHMAN. $12 million.

Representative OBEY. Extension of the shipping season. You are talking primarily the extension in order to facilitate the export of sunflower seeds?

Mr. LEHMAN. And other grain products coming out of the Midwest as result of the fall harvest.

Representative OBEY. As you know, there is a dispute about whether they ought to go to year-round shipping in the Great Lakes or a small extension.

What is your expectation about our ability to get people to agree on a short extension as the alternative?

Mr. LEHMAN. From our perspective, it's feasible. I believe that people that are in the shipping industry will come to the port because of the difficulty with access into the seaway system due to the bridge malfunction. We show the vessels did come in. Vessels did load. There was that impact on the community, a positive impact on the community. We are not advocating a 12-month shipping season.

Representative OBEY. My point is some other people are. I am asking you what your guess is, if you want an alternative to the status quo, that you will have to unite on what that alternative is going to be?

We have had people spread all over the lot in terms of how they wanted to change it. Do you think there is any reasonable prospect of getting people together on the short extension that you are talking about?

Mr. LEHMAN. I would hope so. The reason I say that is that with the overbuilding of transshipment facilities in the area of coal and taconite, particularly those two, the Port of Superior and the other facilities can deliver enough product to be used downstream to satisfy their needs. They would not have a reason to, I believe, seek a 12-month season.

The grain commodities on the other side of the coin have always advocated a season extension. So there should be some degree of consistency between those two shipping components.

Representative OBEY. It is interesting to note a chart attached to your statement. Mr. Lehman has given me a chart which shows what the major economic activity is in each county in Wisconsin. If you take a look at this congressional district, you will find that 13 of the counties rely principally on manufacturing which is why so much emphasis has been on manufacturing in these hearings, even in counties where agriculture is very heavy.

Although this is an agricultural area, agriculture is the dominant activity in only one county in this district, which is Clark County. You have the service industry which is dominant in Washburn and Sawyer Counties and Douglas is the only one, as Mr. Lehman has said, which has transportation as the dominant economic activity in the area, principally because of the port.

Mr. LEHMAN. Yes.

Representative OBEY. And there are some railroad operations, too.

I thank you very much. I hope you catch your plane.

Mr. LEHMAN. Thank you.

A VOICE FROM AUDIENCE. May I ask a question? Have you possibly a record to inform us in regard to the total tons of export in 1984 and the total tons of import in 1984 in that port?

Mr. LEHMAN. In my possession at this time, no, I do not. I can certainly get that to you.

I can say generally that there is a very small amount of cargo that comes into either Superior or Duluth from the outside. I assume that you are talking about a general cargo movement, containers being the best example.

There are no containers that come into Duluth-Superior. That is part of the reason why U.S. flag vessels typically do not come into the port because there is not cargo to transit the distance from Lake Superior.

Representative OBEY. Thank you.

We were supposed to have Mr. Roger Luce. However, Mr. Luce is busy unexpectedly on a far more important subject. He has a business prospect which might want to be locating in the area. He feels that he really ought to pay attention to that. I wholeheartedly agree with him.

His statement will be presented for the record by Mr. Lawrence Johnston. We have asked each witness to try to confine their remarks to, from 7 to 10 minutes. The closer you are to 10 rather than 7, the less time I will have for questions.

The closer you are to 7, the more time I will have for questions. I would appreciate it if you could summarize to the best of your ability and we will put your entire statement into the record. I would like to begin with Mr. Luce's statement and then go to Mr. Warner and then we will continue on down the line.

Mr. Johnston, why don't you begin.

STATEMENT OF ROGER LUCE, EXECUTIVE DIRECTOR, MARATHON COUNTY ECONOMIC DEVELOPMENT COUNCIL, PRESENTED BY LAWRENCE JOHNSTON

Mr. JOHNSTON. Thank you, Congressman Obey, for the opportunity to express several of the concerns we have regarding the central and northern Wisconsin economy.

On March 4, 1985, I began my job as executive director of the Marathon County Economic Development Council. Four days prior, Pauly Cheese, a packaging division of Beatrice Companies, Inc., announced it would close, leaving 57 people without jobs.

At the end of my first week, Connor Forest Industries, Inc., announced it would be shutting down its cabinet division facility, permanently laying off over 100 workers.

Within 30 days, Lemke Cheese closed its factory and within 60 days Marathon County's largest employer, Wausau Insurance, laid off 240 employees.

I questioned whether it was my arrival in the area, or just more of the continuing saga of layoffs and plant closings dating back to

1981 when the Industrial Crane division of JI Case in Schofield dropped their employment by nearly 1,200. Coupled with the powerful tides of the most recent recession, foreign competition, and technical change, Marathon County's bellwether industries have been beaten down.

While there are a number of bright spots, the State's economy and in particular the north-central Wisconsin economy remains sluggish. In large part, this is due to the industrial mix of the area with high concentrations in a number of interest-rate-sensitive industries which, while beginning to show recovery between 1983 and 1984, still remain well below 1978–79 employment levels.

A survey of 15 manufacturers in the county showed their employment had dropped from a total of 9,510 jobs in 1978 to 7,014 jobs in 1983. Maintaining the region's employment base has become the foremost economic development priority among local units of governments.

As you know much of the north-central Wisconsin economy is resource based, particularly as it relates to the lumber and wood products as well as the recreation tourism industry. The Marathon County Economic Development Council has been working with the North Central Wisconsin Regional Planning Commission to address some of the particular concerns that these industries present to the State and local units of government.

Within the northern part of the region, annual growth of timber is more than twice the annual cut according to a recent study by the U.S. Forest Service and the Wisconsin Department of Natural Resources. Given the State's historic strength in this area, with such an abundance of resource, should provide the area with a competitive advantage for the growth and development of lumber and wood product firms. Such an abundance of timber should also provide an opportunity for the export of hardwoods, particularly to the European market.

Why then are we facing declining employment, recent and potential closures, and a drastically underutilized resource in this industry? Potential answers lie in several directions.

As is the case with many industries, currently the strength of the dollar does not encourage the development of what could be a competitive hardwood export potential. This is particularly true given the friction for a relatively large number of small producers to become involved in what they see as a confusing array of paperwork in establishing and supplying a foreign market. The development of a lumber and wood products export trade company may provide an appropriate vehicle to encourage the development of this market assuming an ability to be competitively priced in a world market.

Another factor relating to recent closures of certain lumber and wood products firms, and a deterrent to developing a foreign market potential is lack of capital reinvestment. While this region and the State has seen substantial reinvestment in the pulp and paper industry, among lumber and wood products firms, this has not been universally true throughout the region. The recent loss of a furniture manufacturer was in large measure the result of dated plant and equipment. The facilities required such a massive recapitalization, that even after such investment, if the firm had been able to achieve markedly better than industry standards, it would not have justified such reinvestment.

Also of concern is the area's hospitality and tourism industry. The recent study compiled by the State of Wisconsin shows substantial room loss in the resort stock of north and central Wisconsin, in large part due to the aging resort infrastructure.

The study points out that there have been no physical improvements to over 60 percent of the units constructed prior to 1930. As revenue falls off, there is increasing pressure to convert resort facilities, many through condominium conversion, or second-seasonal homes. Conversion of these facilities will result in loss of tourist volume resulting in revenue and employment loss.

Of potential equal or greater concern is our area's ability to continually attract a tourist market which is demographically undergoing some major shifts. The bulk of the baby boom population is currently of prime tourist age. This group has some different characteristics as recreation consumers than did their parents.

They are by and large childless, two-income families. While they, as were their parents, are attracted by the natural amenities northern Wisconsin has to offer, they are looking for quality accommodations with such amenities as saunas, whirlpools, racketball courts, et cetera. The number of such facilities in northern Wisconsin is severely limited.

Will we be able to maintain and enhance this important industry without the development and upgrading of facilities? Assuring sufficient capital for investment and reinvestment in this industry is crucial. Given the risks in this business, it is also one of the more difficult industries for financial institutions to meet capital formation needs.

Many of the problems I have discussed regarding these two important sectors of the regional economy revolve around capital formation and, in particular, focus on the unique problems of recapitalization.

The recent study completed by the Wisconsin Strategic Development Commission underscores businesses' concerns regarding the adequacy of financial institutions within the State to respond to their capitalization needs.

We believe a program such as the U.S. Department of Commerce's Revolving Loan Fund Program, which allows for the establishment of a source of capital in a region such as this, could help alleviate the capital formation problems I briefly discussed.

In the brief time allowed me, I have only touched on two sectors of the area's economy. I will be forwarding a copy of a report recently completed by North Central Wisconsin Regional Planning Commission, which discusses area trends, problems, and opportunities in more detail.

Thank you very much.

I would be more than happy to answer any questions on Mr. Luce's behalf.

Representative OBEY. Thank you.

Next, Mr. Warner.

STATEMENT OF PAUL D. WARNER, DIRECTOR, CENTRAL WISCONSIN ECONOMIC RESEARCH BUREAU

Mr. WARNER. Representative Obey, I hope you recognize the difficulty for a professor to hold his comments to 7 to 10 minutes.

I am the director of the Central Wisconsin Economic Research Bureau which is our economic research arm at the University of Wisconsin, Stevens Point.

We are funded primarily through private sources and so we feel that this is a small effort in the direction suggested by the Wisconsin Strategic Development Commission of public-private efforts to get the university system involved in economic issues and economic development.

We work closely with the university extension, with center campuses, with the Wisconsin Strategic Development Commission itself, the central Wisconsin PIC and hopefully our expertise will be of some assistance to public and private decisionmakers.

The topic of my discussion today is on the Marathon County economy and recent performance in particular. What I have done is go back and look over the last 15 years and see if we can trace some common trends through the area and take a look at the future developments that can be anticipated.

One of the things that strikes any economist about the Marathon County economy is the similarity to the State and its economic makeup. The county is heavily dependent on durable goods manufacturing just as the State is, resource-based manufacturing, as Mr. Johnston pointed out, and dairy production which, of course, is very important to the Marathon County economy.

Like the State, the county outperformed the United States in the 1970's, both in terms of job generation and in terms of unemployment rates. However, the 1980's have brought a reversal of that trend whereas also in the case of the State we have underperformed particularly in terms of job generation.

And different from the State, the Marathon County economy has not dropped below the national unemployment rate, currently standing at 8.4 percent on a seasonally adjusted basis.

Looking back to the 1970's, it was a period of rapid expansion for the Marathon County economy. Population grew 14.2 percent which was more than twice the State rate of growth. The Marathon County unemployment rate bottomed out at 4.5 percent in 1977. This rapid growth was fueled by durable goods manufacturing, manufacturing employment peaked at over 14,000 in 1978, and also including the lumber industry as a component of durable goods manufacturing, which very much benefited from the national housing bill.

Financial services was a strong sector. The agricultural sector played a key role and all of these trends along with population growth generated a local housing boom.

The underlying reasons behind this growth was a skilled labor force, availability of natural resources, and land prices which were attractive for business expansion. I think another factor that is not often mentioned but was important to the entire region is what demographers call the population turnaround.

The population turnaround involved movement of individuals from metropolitan areas into nonmetropolitan areas. Over the course of a decade nonmetropolitan areas grew 1.34 percent per annum while metropolitan areas grew 1 percent. This reversed a trend throughout the 20th century.

The reasons for it, besides the economic reasons I suggested in terms of lower cost production, were lower crime rates, shorter commuter times, better access to natural amenities and simply better community life. All of these are oftentimes summarized in the phrase "a higher quality of life."

I think it is also worth noting that before we moved into the 1980's that there were a number of problems in the 1970's. In hindsight we think of that time locally as one of rapid growth. It was. But there are also the problems of high energy prices which, of course, hurt this area more than other areas because of our severe winters. And rapid inflation added a great deal of uncertainty to local decisionmakers just as it did on the national level.

In the 1980's, things have changed considerably. On the cyclical level the recession of 1980 and, of course, the very severe 1981–82 recession have hurt the local economy hard. If you combine these cyclical pressures with structural changes, we have had a great deal of difficulty within the local economy. It has greatly slowed the rate of economic growth in Marathon County.

These forces combine to significantly reduce manufacturing jobs, which have dropped by about 2,500 since the peak in 1978. The rate of population growth has slowed to eight-tenths of 1 percent between 1980 and 1984 and preliminary estimates indicate that 1985's population will be less than 1984's population.

There were a number of sectors that were hit very hard by the recession. The lumber industry, very dependent on housing. Nonelectrical machinery and fabricated metals also saw sharp drops in employment. These rippled through the local economy affecting retail trade in the service sectors.

The Marathon County unemployment rate peaked at 16.1 percent on a seasonally unadjusted basis in January of 1983.

Beginning in 1983, the economic expansion began in our area and Marathon County begins or tends to reflect national trends much more rapidly than does the rest of our region. The expansion began and was fueled by the Wausau downtown redevelopment project. Retail trade employment grew 15.2 percent in Marathon County between June of 1983 and this past June.

Manufacturing jobs have increased by roughly 600 since the depth of the recession, going back to January of 1983. The unemployment rate has dropped below 9 percent. It is currently at 8.4 percent. One of the things that has been of concern to us is the fact that even though unemployment has continued to fall, we are not seeing a corresponding increase in employment in the local economy.

Employment, in fact, has dropped 2.2 percent in the past year. Of course, this reflects the difficulties associated with the plant closings that Mr. Johnston mentioned.

Structural change is also important to the local economy and unlike the 1970's, structural change has worked to the detriment of the Marathon County economy rather than to the benefit. Of course, structural change has been very important in the agricultural sector and let's remember that agriculture also is reflected in manufacturing.

For example, the farm equipment production industry has been hurt very much by a weak agriculture sector and food processing is also dependent on agriculture.

The dairy industry has been affected by reductions in price supports and also by the national problems of higher real interest rates and declining wealth, which have resulted from falling land prices.

Our durable goods sector in the area has been damaged by foreign competition which has either forced them to retrench in terms of output or to substitute capital for labor to remain competitive. The property and casualty insurance industry has been affected by disinflation and also, of course, by deregulation. That has resulted in some of the local problems that we have had. I think it is reasonable to expect these structural problems to continue.

We are seeing some signs of some improvement in cyclical conditions, but from the point of view of structural problems, it is unlikely that these problems will go away in the near future. But I think it is important to recognize there are a number of positive factors to look at.

I would like to list those, because I think they are also similar to some of the points that Bob Milbourne raised about the State as a whole.

One of the very favorable factors that we see is what led to the population turnaround in the 1970's still very much in existence, and that is the high quality of life in Marathon County. Among Marathon County's positive features include low crime rates, family stability, and recreation facilities. We should continue to make the county attractive to immigrants. An abundance of skilled labor—while manufacturing is declining as an employer, it is essential for manufacturing to regain a competitive advantage that we have skilled labor available. I think that this very much is in tune with the Wisconsin quality thing.

Community cooperation—the public and private sectors of Marathon County have along history of working closely together to solve problems. Marathon County and particularly the Wausau area does have an advantage of location on a local regional basis. Although Marathon County population has not grown rapidly, a number of counties in the region have, including Portage County. Wausau remains the trade and financial center of the north-central Wisconsin region. This role will continue to bring in income to Marathon County residents.

There are well-developed educational facilities, of course, which we are sitting in one of them right now. Primary and secondary and higher education facilities compare well with other regions and of particular importance is the respected North-Central Technical Institute, which should play a key role in providing the labor skills that will be needed to counter these structural changes in the economy.

Finally—I think this is a point that you made earlier—improving transportation facilities I think improves the prospects of economic development in the region. The completion of a four-lane, north-south route from Madison to Wausau will encourage economic development, particularly helping the tourist industry, and improvement of the east-west transportation system between Green Bay and Eau Claire will also aid growth.

Thank you.

Representative OBEY. Thank you, Mr. Warner.

[The prepared statement of Mr. Warner, together with attachments, follows:]

Prepared Statement of Paul D. Warner

Summary

This testimony traces the Marathon County economic performance over the past fifteen years and discusses factors which shape the outlook. Marathon County experienced a period of rapid economic and population growth during the 1970's. This expansion was fueled by growing manufacturing, agricultural and financial service sectors. The severe recessions of the early 1980's combined with structural change to stifle economic growth. Although structural change will continue to create difficulties for the local economy for years to come, a number of positive forces provide the basis for an optimistic long term outlook.

Profile

The Central Wisconsin Economic Research Bureau

Mission:

The Central Wisconsin Economic Research Bureau, founded in 1983, represents a cooperative effort between the University of Wisconsin-Stevens Point and the communities of Central Wisconsin. The Bureau is designed to utilize the expertise available at UW-SP to interpret and disseminate information relevant to public and private decision-makers in Central Wisconsin. The goal of the Bureau and its sponsors is to assist in the development of the Central Wisconsin economy, and help ensure the prosperity of the region's residents.

Activities:

1. Analysis of short term cyclical patterns in the Central Wisconsin economy. Information is provided to the public through the:
   a. Stevens Point Area Economic Indicator Report (released quarterly)
   b. Wausau Area Economic Indicator Report (released quarterly)
   c. Wisconsin Rapids Economic Indicator Report (released quarterly)
2. Analysis of economic issues relevant to the region. Special reports, prepared by UW-SP faculty members, are included in the quarterly indicator reports.
3. Assistance to the public sector for specific projects.
4. Assistance to the private sector for specific projects.

Organizations Served:

1. Division of Business and Economics, University of Wisconsin-Stevens Point
2. Central Wisconsin Small Business Development Center
3. Central Wisconsin Private Industry Council
4. Wisconsin Strategic Development Commission

5. Regional Professional Organizations
6. Individual Firms
7. General Public through the availability of public materials

Funding Sources: Funding is provided on an annual basis by:

1. First National Bank of Stevens Point
2. First American National Bank of Wausau
3. First National Bank of Wisconsin Rapids

Additional support is provided by the University of Wisconsin-Stevens Point and through the provision of specific services on a contractural basis.

Director: Paul D. Warner, Ph.D., was appointed Director of the Central Wisconsin Economic Research Bureau when it was founded. Warner also serves as an Assistant Professor of Economics in the Division of Business and Economics at the University of Wisconsin-Stevens Point.
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Recent Performance of the Marathon County Economy

Introduction

In many ways the fortunes of the Marathon County economy mirror those of the state. The structure of the county economy with its dependence on durable goods manufacturing, resource based manufacturing and the dairy industry is similar to Wisconsin as a whole. Consequently, the performance of the Wausau area economy reflects the ups and downs experienced by the state. The 1970's was a period of solid growth, particularly in manufacturing and agriculture for both the state and the county. The 1980's, with its accompanying recessions and structural change, has brought considerably more economic difficulties for Wisconsin and Marathon County. This testimony examines local economic trends over the past fifteen years and concludes with a discussion of the long term outlook.

The 1970's

The 1970's was a period of rapid expansion for Marathon County and the Central Wisconsin region. The county attracted a strong flow of in-migrants, particularly from other parts of the state. Population in Marathon County rose 14.2% during the decade, more than twice the state growth rate of 6.5%. In spite of the rapidly growing local economy, the Marathon County unemployment rate remained slightly above the Wisconsin level but well below the national average. The Marathon County unemployment rate reached its decade low of 4.5% (annual average) in 1977.

The rapid expansion of the 1970's was fueled by strong growth in the manufacturing and financial service sectors. Employment opportunities in these industries attracted new residents to the area which in turn triggered payroll expansion in retail trade and services. Rapid population growth also led to a housing construction boom during the decade. The local expansion was further supported by a strong agriculture sector.

Relatively low land prices, a skilled labor force and abundant natural resources were the keys to attracting firms into the area, but there is considerable evidence that another factor was at work as well. Demographers have labeled the 1970's the decade of the "population turnaround." Population grew at an annual average rate of 1.0% in metropolitan areas and 1.34% in nonmetropolitan areas between 1970 and 1980, reversing a well established trend. Factors such as lower crime rates, less pollution, shorter commuter time and greater access to natural amenities combined with lower cost production to cause this migration pattern reversal. Marathon County and the North Central Wisconsin region clearly benefitted from this national trend.

In retrospect, the 1970's appears to be a period of economic prosperity for Marathon County. However, to keep the decade in proper perspective it is important to recall the economic problems of the time. Rapid inflation caused considerable uncertainty for local wage earners, households and portfolio managers, just as it did nationally. Moreover, North Central Wisconsin was disproportionately affected by the energy price surges of the decade.

1980's

The decade began with a short but sharp recession in the summer of 1980 followed by the severe 1981-82 recession. The Marathon County economy was hit hard by both cyclical downturns. The county has also been adversely affected by structural shifts taking place in the national economy. These forces combined to push the county unemployment rate to 16.1% in January of 1983 (seasonally unadjusted).

The Wausau area's important durable goods manufacturing industries, always sensitive to the business cycle, were forced into large employment reductions. The weak national housing market was particularly harmful to the region's large lumber and wood products industry. The local economy's sensitivity to the business cycle became painfully apparent during this period.

The strong economic recovery of 1983-84 did bring relief to the local economy. Unemployment dropped below 9%, 600 manufacturing jobs were regained during the two years and construction activity surged. The local expansion was greatly assisted by the Wausau downtown redevelopment project, which initially created a large number of construction jobs and since completion has expanded retail trade payrolls. Retail trade employment climbed 15.2% in the county between June 1983 and June 1985. However, the economic expansion, rocked by local plant closings, has dissipated in the past year. Although the county unemployment rate has continued to fall, the level of employment is below a year ago. Similar to the nation, Marathon County growth since mid-1984 has been negligible.

The 1980's has also been a period of rapid structural change for the U.S. economy. Although it is difficult to distinguish between cyclical and structural economic trends, changing migration patterns, production techniques and government policies are clearly redefining the long term economic role of many communities and entire regions. Unlike the 1970's, these long term trends have had a largely negative impact on the Marathon County economy.

Structural problems in the dairy industry have severely slowed income growth in the county. Since Marathon County agriculture largely consists of dairy production, reductions in dairy price supports have caused major transitional problems. The county's large agriculture sector has also been set back by the industry's well-known national problems. High real interest rates and falling land values have severely strained the financial position of local farmers.

Two of the county's major sectors have also been weakened by structural change. Durable goods manufacturing industries (electrical and nonelectrical machinery, fabricated metal products and lumber) have been slowed by international competition and forced into retrenchment or the substitution of capital for labor to cut costs. The Wausau area's once strong farm equipment manufacturing industry is another casualty of the weak national agriculture sector.

The financial services industry is currently in a period of transition. Deregulation and disinflation are fostering a period of structural change in the industry. These uncertainties have become particularly troublesome for the county's crucial property and casualty insurance industry.

Outlook

The past five years have presented many difficult economic problems for the residents of Marathon County. Many of the area's growth industries leveled off or retrenched during the first half of the decade. Some of these industries are unlikely to ever achieve the employment levels recorded in 1979. These dislocations have acted to virtually halt population growth in the county. Population increased only .8% between 1980 and 1984. Employment growth has also leveled off.

Although these trends are likely to continue for the next several years, there are a number of factors which make the county's long run economic outlook favorable. These factors include:

1. a high quality of life. Many of Marathon County's positive features which attracted residents in the 1970's remain. These amenities include low crime rates, family stability and recreation facilities;

2. an abundance of skilled labor. The Wausau area has a large number of skilled manufacturing workers available. These workers are crucial to the revival of a competitive manufacturing sector;

3. community cooperation. The public and private sectors of Marathon County have a long history of working closely to solve local problems;

4. location. Although Marathon County population has not grown rapidly during the 1980's, a number of counties in the region have. Wausau remains the trade and financial center of the North Central Wisconsin region. This role will generate income for the residents of Marathon County;

5. well developed educational facilities. Primary, secondary and higher education facilities compare well with other regions. Of particular importance is the respected North Central Technical Institute which should play a key role in providing labor skills for a changing regional economy.

6. improving transportation facilities. The completion of a four lane north-south route from Madison to Wausau will encourage economic development. Improvement of the east-west transportation system between Green Bay and Eau Claire will also aid growth.

EMPLOYMENT SHARE BY MAJOR INDUSTRY IN CENTRAL WISCONSIN
(thousands)

	1975 Wood	1975 Portage	1975 Marathon	1984 Wood	1984 Portage	1984 Marathon
Total Employment	27.5	22.0	42.2	34.0	33.1	51.0
Services	5.5	1.9	4.7	7.1	3.6	7.0
% of Total	20.0%	8.6%	11.1%	20.9%	10.9%	13.7%
Trade	5.2	3.3	6.8	5.5	4.2	10.0
% of Total	18.9%	15.0%	16.1%	16.2%	12.7%	19.6%
Financial Services	.5	2.0	2.6	.8	2.8	3.9
% of Total	1.8%	9.1%	6.2%	2.4%	8.5%	7.6%
Government	3.6	3.7	4.7	3.9	5.2	6.1
% of Total	13.1%	16.8%	11.1%	11.5%	15.7%	12.0%
Manufacturing	9.8	2.9	11.5	9.8	4.5	11.6
% of Total	35.6%	13.2%	27.3%	28.8%	13.6%	22.7%
Paper	5.4	.8	2.6	5.7	.9	2.6
% of Total	19.6%	3.6%	6.2%	16.8%	2.7%	5.1%
Lumber	1.1	.2	2.0	1.6	.7	2.1
% of Total	4.0%	.9%	4.7%	4.8%	2.0%	4.1%
Food Processing	.6	.8	1.4	.5	1.5	1.7
% of Total	2.2%	3.6%	3.3%	1.3%	4.5%	3.3%
Machinery	---	---	3.3	---	---	2.5
% of Total			7.8%			4.9%

Sources: Central Wisconsin Economic Research Bureau and the Wisconsin Department of Industry, Labor and Human Relations

PERSONAL INCOME IN CENTRAL WISCONSIN

PERCENT CHANGE 1977 - 1982

	Wisconsin	Wood	Portage	Marathon
Personal Income	60.6	66.0	68.7	58.8
Farm Income	36.2	187.1	97.0	51.1
Nonfarm Income	61.5	63.3	67.1	59.2
Construction	5.1	- 2.8	7.0	11.2
Nondurable Goods Manufacturing	50.7	52.1	81.6	30.1
Durable Goods Manufacturing	37.1	- 2.4	72.9	5.0
Transportation, Comm. and Public Utilties	56.5	109.1	67.4	60.1
Wholesale Trade	56.2	42.9	33.6	72.4
Retail Trade	33.2	31.2	45.9	35.2
Financial Services	58.9	74.8	76.7	74.9
Services	71.1	89.1	73.6	65.9
State and Local Government	57.7	78.8	64.3	53.2
Consumer Price Index	59.0			

Sources: Central Wisconsin Economic Research Bureau and the U.S. Department of Commerce Bureau of Economic Analysis

STEVENS POINT AREA
1985
ECONOMIC INDICATORS

1st Quarter 1985
presented
May 10, 1985

Presented by:
Central Wisconsin Economic Research Bureau
Paul D. Warner, Ph.D., Director

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Overview

The return of sluggish growth in the first quarter has once again raised fears of an impending recession (see Table 1). Real GNP grew at a 1.3% annual rate during the first three months of 1985, raising total output to 3.5% above the year earlier level. The first quarter figure is particularly disappointing because it follows a solid 4.2% growth rate achieved the previous quarter. Industrial production was also at a virtual standstill but price increases remained modest and interest rates declined sharply.

Economists are finding it difficult to interpret the increasingly erratic GNP figures. The consensus view is that unusual factors are to blame for the irregular quarterly behavior of the GNP numbers. The huge foreign trade deficit has contributed considerable variability to GNP throughout the economic expansion. Abnormally slow delivery of income tax refunds played a part in trimming growth during the first quarter. More fundamentally, the changing structure of the United States economy suggests that some of the statistical variations recorded by government data may be illusory.

Regardless of the timing or precise magnitude of the economic slowdown, there is considerable evidence that the expansion is moving into lower gear. Such a development is typical for the third year of a cyclical upswing. Most economists feel that the economy is indeed slowing but few foresee a recession emerging in 1985. In fact, most analysts expect the second quarter growth rate to bounce back near 4%. The reasons most commonly cited are falling interest rates, moderate inflation and the arrival of those delayed Internal Revenue Service refund checks.

Declining interest rates and I.R.S. refund checks are also welcome news to the residents of Central Wisconsin. The regional economy has clearly slowed in recent months and is in need of some outside stimulus. The Central Wisconsin economy, like the nation as a whole, is stronger than it was one year ago. However, also similar to the nation, little growth is evident throughout the region during the first quarter. The Portage and Wood County economies grew at a slower rate during the first quarter while Marathon County, buffeted by major plant closings, struggled to maintain jobs created earlier in the economic expansion.

The composite regional unemployment rate stands at 8.5%, down sharply from last year's 10.3%. On the other hand, employment gains are a much more modest 1.4% for the region. The rate of job generation has clearly slowed since the robust gains recorded in 1983 and 1984.

Evidence of growing weakness is apparent in several of the region's major sectors. Employment is lower than last March in the government and construction sectors while durable goods manufacturing is unchanged. Only the trade sector, which expanded payrolls 8.8%, reported major jobs increases. Deteriorating labor market conditions can also be found in two of Central Wisconsin's key industries. Lumber and wood products employment is down 9.8% while financial services payrolls are off 2.1%. The food processing industry is the bright spot among the regions primary industries, boosting employment 9.1% above the March 1984 level.

After a year of solid growth, the Stevens Point area economy is considerably stronger than it was in the fourth quarter of 1984. Payrolls have increased in all major sectors of the Portage County economy. However, signs of a much slower expansion are beginning to dominate the local indicators. Although seasonal factors are partly to blame, employment gains during the first three months of 1985 were minimal.

Other evidence of a moderating local growth rate can be found in rising unemployment claims, flat help wanted advertising volume and a weak residential construction sector. Nonresidential construction, the primary force behind local growth in recent months, tailed off during the first quarter.

The Central Wisconsin indicators have become decidedly more mixed as the economic expansion moves into its third year. Economic conditions have begun to decline in the Wausau area, while the Wood and Portage County growth rates have slowed. When interpreting these changes over the last year it is important to remember that economic conditions in all three counties are far better than they were two years ago.

Table 1

National Economic Statistics

	1985 First Quarter	1984 First Quarter	Percent Change
Nominal Gross National Product (Billions)	$3819.9	$3553.3	7.5
Real Gross National Product (Billions of 1972 $)	$1668.0	$1610.9	3.5
Industrial Production (1967 = 100)	165.4	160.8	2.9
Three Month U.S. Treasury Bill Rate	8.29%	9.74%	-14.9
Consumer Price Index (1967 = 100)	318.8	307.9	3.5

Central Wisconsin

Central Wisconsin is comprised of Portage, Marathon and Wood Counties. This section of the report focuses on the performance of the regional economy. Analysis is based on regional unemployment rates, total employment, employment by sector and key industry and the attitudes of regional business executives. This information is contained in Tables 2-6.

Unemployment rates throughout Central Wisconsin are down impressively from the year earlier levels (see Table 2). The regional unemployment rate stands at 8.5% compared with a March 1984 level of 10.3%. All three counties recorded lower jobless rates with Portage and Wood Counties showing the biggest drops. All figures are seasonally unadjusted.

Changes in total employment in the region, a more revealing measure of economic performance, are not nearly as encouraging as examination of the unemployment rates would suggest (see Table 3). Plagued by financial difficulties at several of the region's more prominent employers and plant closings in the Wausau area, regional employment increased a modest 1.4% since last March. Employment for the state inched up .9%. Wood and Portage Counties recorded gains of 2.5% and 4.5% respectively. Marathon County employment slipped 1.2% from the year earlier total. These figures indicate a slowing regional growth rate.

For the first time since the regional economy emerged from the 1981-82 recession, employment conditions are deteriorating in a number of important sectors (see Table 4). Durable goods manufacturing recorded no gains over the past year. Industries experiencing declines were wood products and machinery production. Payroll declines are evident in the construction and government sectors. All figures are compared to the March 1984 totals.

The nondurable goods manufacturing and service sectors are essentially unchanged. The only sector which stands well above the March 1984 employment level is trade. Retail trade gains have occurred in all three of the region's counties in the past year.

Two of Central Wisconsin's key industries have experienced sagging payrolls in the past year (see Table 5). Employment is down 2.6% in the financial services industry, while the lumber and wood products industry suffered a 9.8% drop in employment. Financial services employment is depressed by difficulties at the region's two insurance giants. The wood products industry is feeling the effects of a major closure in the Wausau area.

After failing to generate jobs throughout most of the expansion, the region's important food processing industry gave the economy a needed boost. Employment in food processing stands 9.1% above the year earlier level. Employment in the paper industry, Central Wisconsin's largest employer, remains at the March 1984 level.

Executives at the region's major firms remain skeptical about the strength of the national and regional economies just as they were in December (see Table 6). Business leaders have noticed only modest improvement in national conditions in recent months and expect the economy to improve only slightly in the months ahead. They expressed similar feelings regarding the Central Wisconsin economy. Table 6 is based on a survey taken in mid-March, prior to the release of first quarter GNP figures.

Table 2

Unemployment in Central Wisconsin

	Unemployment Rate March 1985	Unemployment Rate March 1984
Portage	7.0	9.8
Marathon	9.6	10.6
Wood	8.2	10.8
Central Wisconsin	8.5	10.3
Wisconsin	7.7	8.7
United States	7.5	8.1

Table 3

Employment in Central Wisconsin

	Total Employment March 1985 (Thousands)	Total Employment March 1984 (Thousands)	Percent Change
Portage	32.3	30.9	+4.5
Marathon	47.5	48.1	-1.2
Wood	33.1	32.3	+2.5
Central Wisconsin	112.9	111.3	+1.4
Wisconsin	2175.7	2155.5	+ .9
United States	105,768	102,770	+2.9

Table 4

Central Wisconsin Employment Change by Sector

Sector	Employment March 1985 (Thousands)	Employment March 1984 (Thousands)	Percent Change
Manufacturing	24.9	24.7	+ .8
Durable goods	10.3	10.3	—
Nondurable goods	14.6	14.4	+1.4
Services	30.5	30.1	+1.3
Trade	23.6	21.7	+8.8
Construction	2.0	2.1	- 4.8
Government	15.5	15.7	- 1.3

Table 5

Employment in Key Central Wisconsin Industries

Industry	Employment March 1985 (Thousands)	Employment March 1984 (Thousands)	Percent Change
Paper Products	9.0	9.0	—
Lumber & Wood Products	3.7	4.1	- 9.8
Food Processing	3.6	3.3	+9.1
Finance, Insurance and Real Estate	7.4	7.6	- 2.6

Table 6

Business Confidence in Central Wisconsin

	Index Value	
	March 1985	December 1984
Recent Change in National Economic Conditions	55	47
Recent Change in Local Economic Conditions	52	48
Expected Change in National Economic Conditions	54	53
Expected Change in Local Economic Conditions	54	57
Expected Change in Industry Conditions	57	66

100 = Substantially Better
50 = Same
0 = Substantially Worse

The Stevens Point Area

The Portage County economy is operating at a significantly higher level of activity than one year ago. However, the rapid pace of growth exhibited throughout much of 1984 slowed appreciably during the first three months of 1985. Tables 7-13 reveal a cooling local economy. These tables provide information on labor, construction and financial markets.

Employment in Portage County is up over last March in all major categories (see Table 7). However, nearly all of these gains were recorded during 1984. Comparing employment levels with December, there were virtually no seasonal job reductions, nore were there payroll increases in Portage County's major sectors. Manufacturing and construction gains have become considerably more modest in recent months when compared with year earlier figures. The service and trade sectors have been marginally more active, but here also, job creation was essentially nonexistent during the first quarter.

Other meausres of the local labor market confirm the conclusion that the rate of job generation declined during the first three months of 1985. Help wanted advertising is up modestly over the March 1984 volume (see Table 8). However, this figure is little changed from the seasonally adjusted December reading of 78.9.

Public assistance claims and unemployment claims have exhibited erratic behavior over the last several quarters (see Tables 9 and 10). Public assistance claims at the Stevens Point office posted a sizeable 16.0% drop during the first quarter when compared with the year earlier figure. This decline, certainly a positive sign, is not as encouraging as it first appears. The actual number of public assistance claimants is identical to the fourth quarter figure (63) which was slightly above the previous year total. Unemployment claims have also failed to demonstrate a clear pattern over the last nine months. Initial claims are up modestly compared to the first quarter of 1984, but this reading stands significantly below the seasonally unadjusted fourth quarter total.

Residential construction in the Stevens Point-Plover area recorded a lackluster first quarter (see Table 11). Sizeable declines were posted in nearly all categories. New permits dropped 23.3% and the estimated value of new construction was down 18.0% when compared with the first quarter of 1984. These figures indicate that declines in interest rates have yet to have a measureable impact on the local housing market.

Nonresidential construction also just completed a relatively quiet first quarter (see Table 12). Commercial and industrial construction settled into winter inactivity after a furious fourth quarter pace triggered by the Centerpoint Mall project. However, the local economy will be boosted by the expansion project being conducted by Warehouse Specialists in Plover. This permit is classified as a nonresidential alteration, causing the estimated value of alterations to register an unusually large total.

Further evidence of a slowing local growth rate can be found in the statistics of Portage County's major commercial banks (see Table 13). Bank deposits and loans show moderate increases over the year earlier level. However, bank deposits dropped 1.8% during the first quarter of 1985. Declining consumer liquidity usually means weaker consumer spending.

Table 7

Portage County Employment by Sector

	March 1985	March 1984	Percent Change
Manufacturing	4500	4300	+ 4.7
Services	7620	7220	+ 5.5
Trade	4900	4600	+ 6.1
Construction	360	310	+16.1
Government	5900	5600	+ 5.4

Table 8

Help Wanted Advertising in Stevens Point

	Index Value	
	Stevens Point (March)	U. S. (January)
1985	79.0	145.0
1984	73.8	123.0
	1980 = 100	1967 = 100

Table 9

Public Assistance Claims in Stevens Point

	1985 First Quarter	1984 First Quarter	Percent Change
Public Assistance Claims	63	75	- 16.0

Table 10

Unemployment Claims in Stevens Point

	1985 First Quarter	1984 First Quarter	Percent Change
Unemployment Claims	1753	1695	- 3.4

Table 11

Residential Construction in Stevens Point-Plover Area

	1985 First Quarter	1984 First Quarter	Percent Change
Residential Permits Issued	23	30	- 23.3
Estimated Value of New Homes	$1418.1 (thousands)	$1730.2 (thousands)	- 18.0
Number of Housing Units	35	42	- 16.7
Residential Alteration Permits Issued	61	77	- 20.8
Estimated Value of Alterations	$ 140.6 (thousands)	$ 135.2 (thousands)	+ 4.0

Table 12

Nonresidential Construction in Stevens Point-Plover Area

	1985 First Quarter	1984 First Quarter
Number of Permits	2	3
Estimated Value of New Structures	$ 144.5 (thousands)	$ 244.0 (thousands)
Number of Business Alteration Permits	34	30
Estimated Value of Business Alterations	$1664.8 (thousands)	$ 184.6 (thousands)

Table 13

Financial Statistics for Portage County

	1985 First Quarter (millions)	1984 First Quarter (millions)	Percent Change
Bank Deposits	232.4	$222.5	+4.4
Bank Loans	140.9	$130.7	+7.8

Outlook

Falling interest rates, smaller increases in the foreign trade deficit, and I.R.S. refund checks should combine to boost national economic growth in the second quarter. Along with spring weather, these factors should also spur growth in the Central Wisconsin economy in the months ahead. There are, however, factors which will moderate this growth. Problems in the region's important insurance industry and the after shock of plant closings in the Wausau area are likely to limit any employment gains in the second quarter. The Wausau area economy, in particular, will be hard pressed to expand job opportunities in the months immediately ahead. The outlook is brighter for the Stevens Point and Wisconsin Rapids areas. Planned expansions by major employers in both local economies should fuel growth.

The current business cycle has now reached the stage where the development of a recession can occur quickly. Experts have always had great difficulty in predicting when turning points in the cycle will occur. Although most economists do not see a recession developing in 1985, the emergence of an economic downturn becomes increasingly likely as the expansion ages. Back in the 1960s, President Johnson argued that recessions are not inevitable. Twenty years later, few are so bold.

SPECIAL REPORT

Agriculture in Portage County: An Overview

Presented by:
Dennis Palmini
Associate Professor of Economics
University of Wisconsin-Stevens Point

This report presents a portrait of agriculture in Portage County and its contribution to the county's economy. It also shows how agriculture in the county has changed over the past decade. Data are taken from the Censuses of Agriculture for 1974, 1978 and 1982.

This research is a first step in describing and understanding agriculture in the Central Wisconsin area, how it is changing, and how it can cope with a changing economic and technological environment. While the Central Wisconsin Economic Research Bureau provided support for this project, the narrative portions of the report represent the views of Professor Palmini and are not the responsibility of the University of Wisconsin-Stevens Point.

Table 1

Local Area Personal Income Sources: 1975, 1982

	Portage County				Wisconsin			
	1975		1982		1975		1982	
	($000)	(%)[a]	($000)	(%)[a]	($000)	(%)[a]	($000)	(%)[a]
Farm	11,905	6.7	31,654	8.2	931,984	4.75	1,488,423	4.15
Nonfarm	166,295	93.3	356,030	91.8	18,707,710	95.25	34,375,892	95.85
Private	137,524	77.2	299,799	77.3	15,887,688	80.9	29,253,230	81.6
Government	28,771	16.1	56,231	14.5	2,820,022	14.4	5,122,662	14.3
Total earned income	178,200	100.0	387,684	100.0	19,639,694	100.0	35,864,315	100.0

a] Percent of earned income

Table 1. Local Area Personal Income Sources: 1975, 1982

Income earned in farming in Portage County has increased its relative share of total earned income in the county, even while farming's share of earned income for the state has fallen. Farming is twice as important for Portage County as it is for Wisconsin, accounting for 8.2 percent of earned income in 1982 compared to only 4.15 percent for Wisconsin. The increase in farming's share of earned income appears to reflect the increase in potato production and contracts with area processors along with the expansion of irrigated farming cropland.

Table 2

Number Farms and Land on Farms: 1974-1982

	Portage County			Wisconsin		
	1982	**1978**	**1974**	**1982**	**1978**	**1974**
Number of Farms	1,119	1,238	1,302	82,198	86,505	89,479
Change in Number	- 119	- 64	—	- 4,302	- 2,974	—
Percent Change	- 9.6	-4.9	—	-5.2	-3.3	—
Acres in Farms	283,731	297,462	288,296	17,234,127	17,838,982	17,624,826
Change in Acreage	-13,731	+9,166	—	-604,855	+214,156	—
Percent Change	-4.6	+3.2	--	-3.4	+1.2	—
Total Land Area	--	518,496	—	34,832,780	34,858,240	34,857,728
Percent in Farms	55.0	57.7	55.9	49.5	51.2	50.6

Table 2. Number of Farms and Land in Farms, 1974 thru 1982

Both Portage County and Wisconsin continued to lose farms from 1974 thru 1982, though the pace of loss picked up from 1978 to 1982, reflecting the deterioration in farm income conditions during the latter period. Portage County lost farms at a more rapid pace than did Wisconsin. Acres in farms, and the percent of total land in farms, both increased from 1974 to 1978, but then fell sharply from 1978 to 1982. The strong demand for farm products and the rapid appreciation of land values during the 1970s contributed to the expansion of land in farms while the reverse conditions tended to dominate during the last four years.

Table 3

Size Distribution of Farms: 1974, 1982

Size of Farm (acres) #	**Portage County 1982 # Farms**	**%**	**1974 # Farms**	**%**	**Wisconsin 1982 # Farms**	**%**	**1974 # Farms**	**%**
1 - 9	22	2.0	14	1.1	4,254	5.2	2,392	2.7
10 - 49	115	10.3	93	7.1	10,256	12.5	8,176	9.1
50 - 179	475	42.4	643	49.4	31,202	38.0	41,160	46.0
180 - 499	407	36.4	475	36.5	30,855	37.5	33,612	37.6
500 - 999	64	5.7	50	3.8	4,682	5.7	3,527	3.9
1000 - 1999	27	2.4	22	1.7	778	0.9	494	0.5
2000 +	9	0.8	5	0.4	172	0.2	118	0.1
	119	100.0	1302	100.0	82,199	100.0	89,479	100.0
Average Size of Farm (acres)	254		221		210		197	

Table 3. The Size Distribution of Farms: 1974 and 1982

The average size of farms continued to grow, reaching 254 acres in Portage County by 1982. While the number of farms continued to decline, the acreage in farms was consolidated into larger farm units. The distribution of farms by size shows an interesting change for both the state and county. Though small in relative terms, there is a flattening of the distribution: there are more small farms and more large farms, while fewer middle-sized farms. In Portage County, farms in the 50-179 acre category fell by 26 percent while farms 180-499 acres fell by 14 percent. Quite obviously the loss of farms shown in Table 2 is occurring in the middle-size category.

Table 4

Farms by Standard Industrial Classification, 1982

	Portage #	Portage %	Marathon #	Marathon %	Wisconsin #	Wisconsin %
Cash Grains	127	11.3	119	3.7	9,570	11.6
Field Crops except cash grains	165	14.7	462	14.2	5,632	6.9
Vegetables & Melons	32	2.9	16	0.5	1,415	1.7
Fruits & Tree Nuts	4	0.4	4	0.1	841	1.0
Horticultural Specialties	5	0.4	14	0.4	623	0.8
General Farms, primarily crop	51	4.6	55	1.7	2,322	2.8
Livestock except dairy, poultry and specialty farms	232	20.7	499	15.4	17,979	21.9
Dairy Farms	470	42.0	1971	60.7	40,168	48.9
Poultry & Eggs	6	0.5	22	0.7	564	0.7
Animal Specialties	13	1.2	54	1.7	1,722	2.1
General Farms, primarily livestock	14		29	0.9	1,363	1.6
	1119	100.0	3245	100.0	82,199	100.0

Table 4. Farms by Standard Industrial Classification, 1982

This table compares the structure of farming in Portage and Marathon Counties against that for the state as a whole. The pattern in Portage County pretty well matches that of Wisconsin, especially for livestock farms other than dairy, poultry and specialty livestock farms. It also matches the state's emphasis on dairy farms though just a little less heavily. By contrast, Marathon County shows a much heavier emphasis on dairy farms and correspondingly less emphasis on non-dairy farms. Portage shows rather greater proportion of farms in "Field crops except cash grains" which reflects the important role of potato production in the county.

Table 5

Revenues From Agricultural Products Sold: 1974, 1982

	Portage County				Wisconsin			
	1982		1974		1982		1974	
	value ($1000)	% of total	value ($1000)	% of total	value ($1000)	% of total	value ($1000)	% of total
Market Value of Sales	82,622	100.0	38,434	100.0	4,854,582	100.0	2,352,996	100.0
Average per Farm ($)	73,836	–	29,519	–	59,071	–	26,297	–
From Crops	41,614	50.4	22,806	59.3	943,422	19.4	478,736	20.3
From Animals and animal products	41,008	49.6	15,498	40.3	3,911,160	80.6	1,867,277	79.4

Table 5. Revenues from Agricultural Products Sold: 1974, 1982

Wisconsin's economy is heavily dependent on revenues from the sales of animals and animal products, reflecting the important role of dairy production. This balance changed little from 1974 to 1982. By contrast Portage County has a much more balanced combination of revenues from both animals and crops. Notice too that the trend in Portage has been toward more reliance on revenues from animals and somewhat less reliance on revenues from crops. The average sales per farm has more than doubled over the years, reflecting both the rise in prices and the decline in number of farms in both the state and county.

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WISCONSIN RAPIDS AREA 1985 ECONOMIC INDICATORS

1st Quarter 1985

presented

May 16, 1985

Presented by:
Central Wisconsin Economic Research Bureau
Paul D. Warner, Ph.D., Director

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Introduction

The Central Wisconsin Economic Research Bureau is very pleased to present the first *Wisconsin Rapids Quarterly Economic Indicator Report.* A generous grant from the First National Bank of Wisconsin Rapids made this publication possible. The Bureau, which began its coverage of the Central Wisconsin economy in February 1984, is the economic research arm of the University of Wisconsin-Stevens Point. The addition of the Wisconsin Rapids report will add depth to our understanding of the region's economic performance.

The *Wisconsin Rapids Quarterly Economic Indicator Report* is designed to serve as a tool for public and private sector decision-makers. The report begins with a brief analysis of recent national economic conditions. However, the main focus of the report and indeed of all Bureau research activities is the Central Wisconsin region. Central Wisconsin is defined to include Wood, Portage and Marathon Counties exclusively. A discussion of the Central Wisconsin regional economic performance follows the introductory national presentation.

The third segment of this account is devoted to the Wisconsin Rapids economy. This section allows the reader to examine economic factors unique to the Wisconsin Rapids area and contrast trends with the rest of Central Wisconsin and the nation.

The first three sections of the Quarterly Economic Indicator Report will appear on a regular basis. This allows readers to trace the short-term cyclical performance of the regional and local economies. Following this short run oriented approach there appears a special report. Special reports are prepared by experts in the field and focus on a specific economic issue relevant to decision-makers in Central Wisconsin. The special report for this edition is on the demographic characteristics of Wisconsin Rapids residents. The role of the special reports is to take a longer run in-depth view of major economic trends in the region.

The Central Wisconsin Economic Research Bureau represents a cooperative effort between the University of Wisconsin-Stevens Point and a community minded private sector. The Bureau was devloped to combine the expertise available at UW-SP with the insight and resources available in the private sector. The goal of the Central Wisconsin Economic Research Bureau and our Wisconsin Rapids sponsor, First National Bank of Wisconsin Rapids, is to assist in the development of the Central Wisconsin economy and help ensure the prosperity of the region's residents.

Paul D. Warner Ph.D.
Director, Central Wisconsin
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Overview

The return of sluggish growth in the first quarter has once again raised fears of an impending recession (see Table 1). Real GNP grew at a 1.3% annual rate during the first three months of 1985, raising total output to 3.5% above the year earlier level. The first quarter figure is particularly disappointing because it follows a solid 4.2% growth rate achieved the previous quarter. Industrial production was also at a virtual standstill but price increases remained modest and interest rates declined sharply.

Economists are finding it difficult to interpret the increasingly erratic GNP figures. The consensus view is that unusual factors are to blame for the irregular quarterly behavior of the GNP numbers. The huge foreign trade deficit has contributed considerable variability to GNP throughout the economic expansion. Abnormally slow delivery of income tax refunds played a part in trimming growth during the first quarter. More fundamentally, the changing structure of the United States economy suggests that some of the statistical variations recorded by government data may be illusory.

Regardless of the timing or precise magnitude of the economic slowdown, there is considerable evidence that the expansion is moving into lower gear. Such a development is typical for the third year of a cyclical upswing. Most economists feel that the economy is indeed slowing but few foresee a recession emerging in 1985. In fact, most analysts expect the second quarter growth rate to bounce back near 4%. The reasons most commonly cited are falling interest rates, moderate inflation and the arrival of those delayed Internal Revenue Service refund checks.

Declining interest rates and I.R.S. refund checks are also welcome news to the residents of Central Wisconsin. The regional economy has clearly slowed in recent months and is in need of some outside stimulus. The Central Wisconsin economy, like the nation as a whole, is stronger than it was one year ago. However, also similar to the nation, little growth is evident throughout the region during the first quarter. The Portage and Wood County economies grew at a slower rate during the first quarter while Marathon County, buffeted by major plant closings, struggled to maintain jobs created earlier in the economic expansion.

The composite regional unemployment rate stands at 8.5%, down sharply from last year's 10.3%. On the other hand, employment gains are a much more modest 1.4% for the region. The rate of job generation has clearly slowed since the robust gains recorded in 1983 and 1984.

Evidence of growing weakness is apparent in several of the region's major sectors. Employment is lower than last March in the government and construction sectors while durable goods manufacturing is unchanged. Only the trade sector, which expanded payrolls 8.8%, reported major jobs increases. Deteriorating labor market conditions can also be found in two of Central Wisconsin's key industries. Lumber and wood products employment is down 9.8% while financial services payrolls are off 2.1%. The food processing industry is the bright spot among the regions primary industries, boosting employment 9.1% above the March 1984 level.

Economic growth continued in the Wisconsin Rapids area through the first quarter of 1985. Local indicators show gains in overall employment, residential construction and financial activity. Employment gains over last year are concentrated in the service and trade sectors. The retail trade sector has been particularly strong in the local economy. One further positive sign is a drop in public assistance claims processed in Wisconsin Rapids.

There is some evidence of slowing economic conditions contained in the local indicators. Manufacturing employment gains, a key source of jobs earlier in the expansion, have stopped. Modest declines in construction and government payrolls were reported at the county level. Further signs of slowing conditions include a drop in local help wanted advertising and increases in both total and initial unemployment claims. Initial unemployment claims rose an uncomfortable 11.2% over the first quarter of 1984.

The Central Wisconsin indicators have become decidedly more mixed as the economic expansion moves into its third year. Economic conditions have begun to decline in the Wausau area, while the Wood and Portage County growth rates have slowed. When interpreting these changes over the last year it is important to remember that economic conditions in all three counties are far better than they were two years ago.

Table 1

National Economic Statistics

	1985 First Quarter	1984 First Quarter	Percent Change
Nominal Gross National Product (Billions)	$3819.9	$3553.3	7.5
Real Gross National Product (Billions of 1972 $)	$1668.0	$1610.9	3.5
Industrial Production (1967 = 100)	165.4	160.8	2.9
Three Month U.S. Treasury Bill Rate	8.29%	9.74%	-14.9
Consumer Price Index (1967 = 100)	318.8	307.9	3.5

Central Wisconsin

Central Wisconsin is comprised of Portage, Marathon and Wood Counties. This section of the report focuses on the performance of the regional economy. Analysis is based on regional unemployment rates, total employment, employment by sector and key industry and the attitudes of regional business executives. This information is contained in Tables 2-6.

Unemployment rates throughout Central Wisconsin are down impressively from the year earlier levels (see Table 2). The regional unemployment rate stands at 8.5% compared with a March 1984 level of 10.3%. All three counties recorded lower jobless rates with Portage and Wood Counties showing the biggest drops. All figures are seasonally unadjusted.

Changes in total employment in the region, a more revealing measure of economic performance, are not nearly as encouraging as examination of the unemployment rates would suggest (see Table 3). Plagued by financial difficulties at several of the region's more prominent employers and plant closings in the Wausau area, regional employment increased a modest 1.4% since last March. Employment for the state inched up .9%. Wood and Portage Counties recorded gains of 2.5% and 4.5% respectively. Marathon County employment slipped 1.2% from the year earlier total. These figures indicate a slowing regional growth rate.

For the first time since the regional economy emerged from the 1981-82 recession, employment conditions are deteriorating in a number of important sectors (see Table 4). Durable goods manufacturing recorded no gains over the past year. Industries experiencing declines were wood products and machinery production. Payroll declines are evident in the construction and government sectors. All figures are compared to the March 1984 totals.

The nondurable goods manufacturing and service sectors are essentially unchanged. The only sector which stands well above the March 1984 employment level is trade. Retail trade gains have occurred in all three of the region's counties in the past year.

Two of Central Wisconsin's key industries have experienced sagging payrolls in the past year (see Table 5). Employment is down 2.6% in the financial services industry, while the lumber and wood products industry suffered a 9.8% drop in employment. Financial services employment is depressed by difficulties at the region's two insurance giants. The wood products industry is feeling the effects of a major closure in the Wausau area.

After failing to generate jobs throughout most of the expansion, the region's important food processing industry gave the economy a needed boost. Employment in food processing stands 9.1% above the year earlier level. Employment in the paper industry, Central Wisconsin's largest employer, remains at the March 1984 level.

Executives at the region's major firms remain skeptical about the strength of the national and regional economies just as they were in December (see Table 6). Business leaders have noticed only modest improvement in national conditions in recent months and expect the economy to improve only slightly in the months ahead. They expressed similar feelings regarding the Central Wisconsin economy. Table 6 is based on a survey taken in mid-March, prior to the release of first quarter GNP figures.

Table 2

Unemployment in Central Wisconsin

	Unemployment Rate March 1985	Unemployment Rate March 1984
Portage	7.0	9.8
Marathon	9.6	10.6
Wood	8.2	10.8
Central Wisconsin	8.5	10.3
Wisconsin	7.7	8.7
United States	7.5	8.1

Table 3

Employment in Central Wisconsin

	Total Employment March 1985 (Thousands)	Total Employment March 1984 (Thousands)	Percent Change
Portage	32.3	30.9	+4.5
Marathon	47.5	48.1	-1.2
Wood	33.1	32.3	+2.5
Central Wisconsin	112.9	111.3	+1.4
Wisconsin	2175.7	2155.5	+ .9
United States	105,768	102,770	+2.9

Table 4

Central Wisconsin Employment Change by Sector

Sector	Employment March 1985 (Thousands)	Employment March 1984 (Thousands)	Percent Change
Manufacturing	24.9	24.7	+ .8
Durable goods	10.3	10.3	—
Nondurable goods	14.6	14.4	+1.4
Services	30.5	30.1	+1.3
Trade	23.6	21.7	+8.8
Construction	2.0	2.1	- 4.8
Government	15.5	15.7	- 1.3

Table 5

Employment in Key Central Wisconsin Industries

Industry	Employment March 1985 (Thousands)	Employment March 1984 (Thousands)	Percent Change
Paper Products	9.0	9.0	–
Lumber & Wood Products	3.7	4.1	- 9.8
Food Processing	3.6	3.3	+9.1
Finance, Insurance and Real Estate	7.4	7.6	- 2.6

Table 6

Business Confidence in Central Wisconsin

	Index Value March 1985	Index Value December 1984
Recent Change in National Economic Conditions	55	47
Recent Change in Local Economic Conditions	52	48
Expected Change in National Economic Conditions	54	53
Expected Change in Local Economic Conditions	54	57
Expected Change in Industry Conditions	57	66

100 = Substantially Better
50 = Same
0 = Substantially Worse

The Wisconsin Rapids Area

Similar to the Central Wisconsin region as a whole, the Wisconsin Rapids area has experienced a year of economic growth. However, signs of a slowing economy are also evident in the local indicators. This section of the report focuses on the Wisconsin Rapids area economy. Information on local labor markets, construction activity and financial markets is contained in Tables 7-13.

Strong gains in the trade sector more than offset mild declines in construction and government employment in Wood County during the first quarter (see Table 7). Manufacturing jobs remain even with the year earlier level, while employment in service industries rose 2.4%. The economic expansion has been paced by the trade and service sectors in the local economy. Manufacturing employment in the Wisconsin Rapids area is not strongly influenced by economic fluctuations because of the highly stable paper industry.

At the bottom of Table 7, the Wisconsin Rapids employment index shows a 4.0% increase over the March 1984 reading. The index uses the 1980 Census of the Population to extrapolate local employment. Assuming that the structure of the local economy remains relatively stable, the Census figures can be combined with monthly Wood County labor statistics to provide a local employment index. For example, the importance of the paper industry is accounted for in this manner.

Table 8 measures the volume of help wanted advertising in the *Wisconsin Rapids Daily Tribune*. Help wanted advertising declined slightly from the March 1984 reading, suggesting that labor demand is slipping. This finding is a reflection on the slowing nature of the economic expansion.

Public assistance claims processed at the Wisconsin Rapids office showed solid declines (see Table 9). The total caseload fell 12.2%, while initial applications registered an 11.6% drop from the first quarter of 1984. Public assistance claims serve as a measure of financial stress and long term unemployment. Two years of economic expansion has helped to alleviate these problems to some degree.

Table 10 is based on the number of unemployment claims handled through the Wisconsin Rapids district Job Service office. These figures include Wood, Portage, Adams, Marquette and Washara Counties. More localized data will be available in six months. Total unemployment claims showed a 5.5% increase during the first quarter. However, an even more disturbing finding is the 11.2% rise over last year in initial unemployment claims. These data indicate that the economic expansion is slowing.

Residential construction activity in the Wisconsin Rapids area was light during the first quarter but above the 1984 level (see Table 11). Residential construction statistics are based on building permits filed with the city of Wisconsin Rapids and the town of Grand Rapids. Healthy growth is reported in all categories of the local housing market. However, percentage gains are misleading due to the usual winter induced construction slowdown.

Nonresidential construction, which includes new starts and major remodeling projects, also shows the effects of the winter weather (see Table 12). The number of permits rose over last year but the value of new projects is dwarfed by the 1984 figure. The reason for this discrepency is a major permit filed by Consolidated Papers in February of last year.

Nonresidential construction is a highly volatile category but it reveals long run growth in the local capital stock.

Financial activity in the Wisconsin Rapids area, as measured by the four largest commercial banks in the local economy, shows strong gains in loans and deposits (see Table 13). Deposits serve as a measure of consumer liquidity and therefore tend to change before overall economic activity. The 7.8% jump in deposits over last year indicates that Wisconsin Rapids' households are in a good position to continue spending.

Table 7

Wood County Employment by Sector

	March 1985	March 1984	Percent Change
Manufacturing	9500	9500	–
Services	10120	9880	+ 2.4
Trade	8300	7400	+12.2
Construction	740	770	- 3.9
Government	4000	4100	- 2.4
Wisconsin Rapids Employment Index (1980 = 100)	113.3	108.9	+ 4.0

Table 8

Help Wanted Advertising in Wisconsin Rapids

	Index Value Wisconsin Rapids (March)	U. S. (January)
1985	57.2	145.0
1984	64.6	123.0
	1980 = 100	1967 = 100

Table 9

Public Assistance Claims in Wisconsin Rapids

	1985 First Quarter	1984 First Quarter	Percent Change
Total Caseload	4467	4522	- 12.2
Initial Applications	266	301	- 11.6

Table 10

Unemployment Claims in Central Wisconsin

	1985 First Quarter	1984 First Quarter	Percent Change
New Unemployment Claims	3196	2873	+11.2
Total Unemployment Claims	6646	6300	+ 5.5

Table 11

Residential Construction in Wisconsin Rapids Area

	1985 First Quarter	1984 First Quarter	Percent Change
Residential Permits Issued	9	7	+28.6
Estimated Value of New Homes	$ 463.0 (thousands)	$ 330.8 (thousands)	+40.0
Number of Housing Units	10	8	+25.0
Residential Alteration Permits Issued	38	37	+ 2.7
Estimated Value of Alterations	$ 108.2 (thousands)	$ 98.3 (thousands)	+10.1

Table 12

Nonresidential Construction in Wisconsin Rapids Area

	1985 First Quarter	1984 First Quarter
Number of Permits	11	3
Estimated Value of New Structures and Alterations	$ 119.1 (thousands)	$1083.0 (thousands)

Table 13

Financial Statistics for the Wisconsin Rapids Area

	1985 First Quarter (millions)	1984 First Quarter (millions)	Percent Change
Bank Deposits	$ 263.0	$ 244.0	+7.8
Bank Loans	$ 151.2	$ 138.1	+9.5

Outlook

Falling interest rates, smaller increases in the foreign trade deficit, and I.R.S. refund checks should combine to boost national economic growth in the second quarter. Along with spring weather, these factors should also spur growth in the Central Wisconsin economy in the months ahead. There are, however, factors which will moderate this growth. Problems in the region's important insurance industry and the after shock of plant closings in the Wausau area are likely to limit any employment gains in the second quarter. The Wausau area economy, in particular, will be hard pressed to expand job opportunities in the months immediately ahead. The outlook is brighter for the Stevens Point and Wisconsin Rapids areas. Planned expansions by major employers in both local economies should fuel growth.

The current business cycle has now reached the stage where the development of a recession can occur quickly. Experts have always had great difficulty in predicting when turning points in the cycle will occur. Although most economists do not see a recession developing in 1985, the emergence of an economic downturn becomes increasingly likely as the expansion ages. Back in the 1960s, President Johnson argued that recessions are not inevitable. Twenty years later, few are so bold.

SPECIAL REPORT
THE PEOPLE OF THE WISCONSIN RAPIDS AREA

A Statistical Portrait

Presented by:
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This report consists of demographic, economic, and social statistics relating to the people, facilities, and commerce of the Wisconsin Rapids area. Support for this project has been provided by the Central Wisconsin Economic Research Bureau. The aims of this research are to:

- provide managers with background data on which to base business decisions.
- provide government officials with information that may be useful in future planning.
- provide the general public with an accurate perspective on important characteristics of their community and a better understanding of some aspects of their quality of life.

The basic data have been compiled from federal and state governmental sources including the U.S. Bureau of the Census and the Wisconsin Department of Administration. Central Wisconsin figures are weighted averages by population of Marathon, Portage, and Wood Counties. Narrative sections of this report represent the views of Professor Weiser and are not the responsibility of the University of Wisconsin-Stevens Point.

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1. Population

The population of the Wisconsin Rapids area has increased a solid 31% since 1960. This growth exceeded that of the State of Wisconsin over the same twenty-five year period, and the time pattern of change was quite different. In the 1960s Wisconsin Rapids' growth was somewhat above the state, in the 1980s this area increased 71% faster than Wisconsin, and in the 1980s the population appears to be growing at over triple the state rate.

Over 70% of the Wood County population growth in the 1970s was caused by natural increase (births minus deaths). The remainder was due to in-migration. Moving to Wood County were primarily families consisting of parents in the 30-44 age group and their children under age 15. Measurable out-migration occured in the 20-24 age range. These young adults left to seek employment or attend college. However, there was no corresponding return flow in the 25-29 group. It should be noted that there was no significant out-migration of older residents.

The continued healthy growth of this area indicates the presence of economic opportunities, an attractive environment, and appropriate amenities which can sustain long-run development.

TABLE 1

	1984	1980	1970	1960
Population of:				
United States (millions)	235.4	226.5	203.3	179.3
percent change from previous period	9.8*	11.4	13.4	18.5
Wisconsin (thousands)	4771	4706	4418	3952
percent change from previous period	3.5*	6.5	11.8	15.1
Central Wisconsin	248,238	241,489	210,360	184,943
percent change from previous period	7.0*	14.8	13.7	--
Wood County	75,348	72,799	65,362	59,105
percent change from previous period	8.8*	11.4	10.6	17.0
Wis. Rapids Area**	31,170	29,677	26,712	23,736
percent change from previous period	12.6*	11.1	12.5	25.3

* Estimated percent change for 1980-90 decade at actual rate for 1980-84.

** Wisconsin Rapids area is the city of Wisconsin Rapids and the townships of Grand Rapids, and Saratoga.

2. Community Characteristics

The communities of Wood County provide a quality of life and a style of living which is highly valued by many Americans. The presence in this area of comfortable housing, lack of crowding, and low incidence of crime is indicated by the data in Table 2. The serious crime rate in this county is only one half of the national average, and the ratio of violent crimes to property crimes is only 18% of the corresponding figure for the U.S. Despite the location of two cities in this area, Wood County is split close to 50/50 between urban and rural residents.

TABLE 2

	United States	Wisconsin	Central Wisconsin	Wood County
Percent of homes owner occupied	64.4	68.2	74.9	74.8
Percent urban	73.7	64.2	51.0	53.0
Population per square mile	64.0	86.5	77.2	90.9
Serious crime rate per 1000	57.5	45.2	28.0	28.2
Ratio of violent/property crime	.11	.04	.04	.02

3. Age

The age structure of the Wisconsin Rapids area is quite similar to that of the state and the nation. The median age of the area's population is slightly less than average since there is a higher percentage of children than in most communities.

An increasing concern throughout the country is the ratio of older people to the working age population. For Wisconsin Rapids this figure is 19.7, slightly higher than the U.S. as a whole. Another important statistic is the ratio of all non-working age people, young and old, to the working age population. For this area, the total dependency ratio is 71.8 which is 10% higher than the national figure.

Table 3

	United States	Wisconsin	Central Wisconsin	Wisconsin Rapids Area
Percent of population in each age category				
under 18	28.1	28.9	30.4	30.1
18-64	60.6	59.1	58.6	58.4
65 and over	11.3	12.0	11.0	11.5
Median age	30.0	29.4	27.9	29.3
Total age dependency ratio	65.0	69.2	70.6	71.8

4. Health

Wood County has a low death rate even though its age structure is quite similar to the population as a whole. The death rate in this county is 15% below the national average, while the median age is only 4% less than that of the nation, and the proportion of senior citizens is higher than the U.S. figure. The availability of physicians and hospital facilities far exceeds the national average.

Table 4

	United States	Wisconsin	Central Wisconsin	Wood County
Deaths per 1000	8.7	8.3	7.0	7.4
Physicians per 100,000	173.7	154.0	165.5	294.0
Hospital beds per 100,000	610.8	618.5	586.3	1085.2
Births per 1000	15.9	15.9	16.8	16.5

5. Family Characteristics

The structure of families in America has undergone rapid change in the last twenty years. These changes have reduced the importance of the traditional family in procreation, child rearing, and sustaining older poeple.

Family relationships in Wood County are markedly different from the national pattern. The number of persons per household is larger. Both marriage and divorce rates are lower, but the ratio of divorces to marriages is 8% lower than the U.S. figure. The percent of households consisting of married couples is 11% above the national average, while the percent of female headed families is 33% below the nation.

Table 5

	United States	Wisconsin	Central Wisconsin	Wood County
Persons per household	2.75	2.77	2.91	2.87
Marriage rate (per 1000)	10.6	8.7	8.2	9.1
Divorce rate (per 1000)	5.2	3.7	3.6	4.1
Divorces per 1000 marriages	491	425	439	451
Percent of households consisting of married couples	60.0	62.6	67.0	66.8
Percent of married couple families where both husband and wife worked	55.8	56.0	55.9	54.6
Percent of households consisting of female headed families	10.4	8.2	6.7	7.0
Percent of households consisting of unrelated individuals	22.6	22.5	19.9	20.5

6. Education and Mobility

Wisconsin has a higher high school completion rate than the national average. This state has about the same proportion of its college age people in school as does the country, but Wisconsin's college completion record is 9% below the U.S. Therefore, it is likely that the state is losing college trained people through out-migration: The absence of a four-year college accounts for the low percentage of college age people enrolled in school in this area.

Wisconsin has somewhat more intra-state mobility than most other states, but it attracts 37% less in-migrants than the average for all states. Central Wisconsin attracts 20% more in-migrants than the average for all states as a whole. Wood County attracted over 2000 net in-migrants during the 1970-80 period.

Table 6

	United States	Wisconsin	Central Wisconsin	Wood County
Percent completed high school	66.5	69.6	66.6	67.9
Percent enrolled in school, age 20-21	32	32	27	15
Percent completed college (25 or older)	16.2	14.8	12.9	11.4
Percent moved 1975-80				
Same county	25.1	25.5	23.7	24.5
Same state	9.8	11.0	13.2	10.1
Different state or abroad	11.6	7.3	6.1	6.1
Net Migration 1970-80	—	9959	12974	2185
Percent of 1970-80 population change due to net migration	—	3.4	39.6	29.3

7. Income and Poverty

The financial resources of Wisconsin families exceeds the national average. The size and composition of families in this area helps to provide this higher standard of living. The growth of per capita income in Wood County during the 1977-82 period was below the nation and lower than the State of Wisconsin. In fact, the cost of living was going up faster than income in those years. The most important sources of personal income in this county were: manufacturing; services; finance, insurance, and real estate; and government. Of these, only the financial, service, and government sectors exhibited gains greater than the national cost of living.

Both the state and Central Wisconsin region have a poverty rate 30% below that of the nation. Factors contributing to this low poverty rate are: a high proportion of traditional families, over half the married couple families have multiple earners, and a low proportion of minority persons who have a high incidence of poverty. Wood County had an extremely low poverty rate at the time of the 1980 census.

Table 7

	United States	Wisconsin	Central Wisconsin	Wood County
Median family income (1979)	$19917	$20915	$20294	$20584
Personal income per capita 1982	$11100	$10725	$ 9601	$10276
Percent change in per capita income 1977-82	59	56	54	54
Percent change in personal income, 1977-82				
Farm	27	36	67	187
Forestry, fisheries, agri. services	53	52	26	18
Construction	40	5	6	-3
Manufacturing				
non-durable	48	51	49	52
durable	44	37	19	-2
Retail trade	44	33	36	31
Finance, Insurance, Real Estate	71	59	75	75
Services	77	71	75	89
Government	53	58	63	79
(Consumer Price Index change 1977-82 = 59%)				
Persons in poverty (1979)	27.4m	398000	20500	5466
Percent of population in poverty (1979)	12.4	8.7	8.7	7.6

8. Employment and Labor Force

For a county with its urban/rural character, Wood has a high proportion of its work force involved in manufacturing. That distinction is even more pronounced in the Wisconsin Rapids area. The percentage of employment in trade and services is comparable to the national pattern. Women workers are represented in the local labor force to almost the same extent that they participate in the national work force.

Table 8

	United States	Wisconsin	Central Wisconsin	Wood County
Percent employment in:				
Manufacturing	22.4	28.5	25.7	30.8
Trade	20.4	20.2	20.8	20.6
Professional and related services	20.3	20.6	19.6	21.9
Women as percent of labor force	42.6	42.6	41.7	41.6

9. Summary and Conclusions

This report includes information on many important aspects of life in the Wisconsin Rapids area. The vital events that determine the size and age distribution of the population are births, deaths, and migration. Demographers expect that in the 1980s population growth in less urbanized areas will continue at a higher rate than in metropolitan centers. Wood County, and especially the Wisconsin Rapids area, are exhibiting solid growth as compared to the state of Wisconsin. Contributing to this growth has been net in-migration. Moving to this area have been adults in the 30-44 age range and their young children. Measurable net out-migration has occurred for young adults, but older residents have tended to remain in the area.

This community is characterized by a balance between urban and rural residents which has contributed to a lack of crowding and an extremely low crime rate. The population of Wood County seems to be quite healthy as indicated by an age adjusted death rate well below the national average. Excellent health services are available in the area. Although the age structure of Wisconsin Rapids is similar to the nation, the slightly higher proportions of children and elderly people raise the total age dependency ratio 10% above the U.S. figure.

Traditional family patterns have been maintained in this area to a greater degree than elsewhere in the nation. These household arrangements have contributed to many of the advantages of Wood County including: low incidence of poverty, low crime rate, and healthy population. Wood County does not rank high in educational attainment of its residents, and it attracts a very low number of in-migrants from other states and countries.

Although income growth has been lagging behind the nation in recent years, the financial and service sectors have been performing extremely well. The poverty rate in Wood County is extremely low due to the number of earners per family and the low proportion of minority persons in the population.

Manufacturing of non-durable goods provides a very high proportion of jobs for an area with as large a rural component as Wood County. Although manufacturing constitutes 31% of employment, this industrial sector directly generates over 40% of income in this community.

FIRST AMERICAN
MEMBER FDIC NATIONAL BANK
WAUSAU, WI

UNIVERSITY OF WISCONSIN
1894
STEVENS POINT

WAUSAU AREA 1985 ECONOMIC INDICATORS

1st Quarter 1985

presented

May 17, 1985

Presented by:

Central Wisconsin Economic Research Bureau

Paul D. Warner, Ph.D., Director

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Overview

The return of sluggish growth in the first quarter has once again raised fears of an impending recession (see Table 1). Real GNP grew at a 1.3% annual rate during the first three months of 1985, raising total output to 3.5% above the year earlier level. The first quarter figure is particularly disappointing because it follows a solid 4.2% growth rate achieved the previous quarter. Industrial production was also at a virtual standstill but price increases remained modest and interest rates declined sharply.

Economists are finding it difficult to interpret the increasingly erratic GNP figures. The consensus view is that unusual factors are to blame for the irregular quarterly behavior of the GNP numbers. The huge foreign trade deficit has contributed considerable variability to GNP throughout the economic expansion. Abnormally slow delivery of income tax refunds played a part in trimming growth during the first quarter. More fundamentally, the changing structure of the United States economy suggests that some of the statistical variations recorded by government data may be illusory.

Regardless of the timing or precise magnitude of the economic slowdown, there is considerable evidence that the expansion is moving into lower gear. Such a development is typical for the third year of a cyclical upswing. Most economists feel that the economy is indeed slowing but few foresee a recession emerging in 1985. In fact, most analysts expect the second quarter growth rate to bounce back near 4%. The reasons most commonly cited are falling interest rates, moderate inflation and the arrival of those delayed Internal Revenue Service refund checks.

Declining interest rates and I.R.S. refund checks are also welcome news to the residents of Central Wisconsin. The regional economy has clearly slowed in recent months and is in need of some outside stimulus. The Central Wisconsin economy, like the nation as a whole, is stronger than it was one year ago. However, also similar to the nation, little growth is evident throughout the region during the first quarter. The Portage and Wood County economies grew at a slower rate during the first quarter while Marathon County, buffeted by major plant closings, struggled to maintain jobs created earlier in the economic expansion.

The composite regional unemployment rate stands at 8.5%, down sharply from last year's 10.3%. On the other hand, employment gains are a much more modest 1.4% for the region. The rate of job generation has clearly slowed since the robust gains recorded in 1983 and 1984.

Evidence of growing weakness is apparent in several of the region's major sectors. Employment is lower than last March in the government and construction sectors while durable goods manufacturing is unchanged. Only the trade sector, which expanded payrolls 8.8%, reported major jobs increases. Deteriorating labor market conditions can also be found in two of Central Wisconsin's key industries. Lumber and wood products employment is down 9.8% while financial services payrolls are off 2.1%. The food processing industry is the bright spot among the regions primary industries, boosting employment 9.1% above the March 1984 level.

The Wausau area economy has slowed dramatically in recent months. The impact of plant closings and layoffs in the important food processing, wood products and financial services industries are beginning to outweigh the job creation taking place in other areas of the local economy. The full effect of recently announced closings has yet to show up in the indicators. This suggests that the Wausau area economy is likely to go through a transition period in the months ahead.

Payroll reductions in the service, construction and government sectors over the past year point to deteriorating local economic conditions. The Wausau area's crucial manufacturing sector has also been unable to increase employment over last spring. The most telling sign of a weakening economic performance is the first quarter 20.3% jump in initial unemployment claims reported by the Wausau Job Service. Total unemployment claims are also up over the first quarter 1984 figure.

There is also some evidence of strength contained in the Wausau indicators. The retail sector remains strong. Retail sales and employment show healthy gains. The help wanted index also rose from the March 1984 reading. Construction activity, as measured by new building permits, showed modest gains over the previous first quarter. Finally, positive readings were also obtained from Wausau's major deposit institutions. Bank deposits rose a solid 9.4% over last year while bank loans climbed 5.6%.

The Central Wisconsin indicators have become decidedly more mixed as the economic expansion moves into its third year. Economic conditions have begun to decline in the Wausau area, while the Wood and Portage County growth rates have slowed. When interpreting these changes over the last year it is important to remember that economic conditions in all three counties are far better than they were two years ago.

Table 1

National Economic Statistics

	1985 First Quarter	1984 First Quarter	Percent Change
Nominal Gross National Product (Billions)	$3819.9	$3553.3	7.5
Real Gross National Product (Billions of 1972 $)	$1668.0	$1610.9	3.5
Industrial Production (1967 = 100)	165.4	160.8	2.9
Three Month U.S. Treasury Bill Rate	8.29%	9.74%	-14.9
Consumer Price Index (1967 = 100)	318.8	307.9	3.5

Central Wisconsin

Central Wisconsin is comprised of Portage, Marathon and Wood Counties. This section of the report focuses on the performance of the regional economy. Analysis is based on regional unemployment rates, total employment, employment by sector and key industry and the attitudes of regional business executives. This information is contained in Tables 2-6.

Unemployment rates throughout Central Wisconsin are down impressively from the year earlier levels (see Table 2). The regional unemployment rate stands at 8.5% compared with a March 1984 level of 10.3%. All three counties recorded lower jobless rates with Portage and Wood Counties showing the biggest drops. All figures are seasonally unadjusted.

Changes in total employment in the region, a more revealing measure of economic performance, are not nearly as encouraging as examination of the unemployment rates would suggest (see Table 3). Plagued by financial difficulties at several of the region's more prominent employers and plant closings in the Wausau area, regional employment increased a modest 1.4% since last March. Employment for the state inched up .9%. Wood and Portage Counties recorded gains of 2.5% and 4.5% respectively. Marathon County employment slipped 1.2% from the year earlier total. These figures indicate a slowing regional growth rate.

For the first time since the regional economy emerged from the 1981-82 recession, employment conditions are deteriorating in a number of important sectors (see Table 4). Durable goods manufacturing recorded no gains over the past year. Industries experiencing declines were wood products and machinery production. Payroll declines are evident in the construction and government sectors. All figures are compared to the March 1984 totals.

The nondurable goods manufacturing and service sectors are essentially unchanged. The only sector which stands well above the March 1984 employment level is trade. Retail trade gains have occurred in all three of the region's counties in the past year.

Two of Central Wisconsin's key industries have experienced sagging payrolls in the past year (see Table 5). Employment is down 2.6% in the financial services industry, while the lumber and wood products industry suffered a 9.8% drop in employment. Financial services employment is depressed by difficulties at the region's two insurance giants. The wood products industry is feeling the effects of a major closure in the Wausau area.

After failing to generate jobs throughout most of the expansion, the region's important food processing industry gave the economy a needed boost. Employment in food processing stands 9.1% above the year earlier level. Employment in the paper industry, Central Wisconsin's largest employer, remains at the March 1984 level.

Executives at the region's major firms remain skeptical about the strength of the national and regional economies just as they were in December (see Table 6). Business leaders have noticed only modest improvement in national conditions in recent months and expect the economy to improve only slightly in the months ahead. They expressed similar feelings regarding the Central Wisconsin economy. Table 6 is based on a survey taken in mid-March, prior to the release of first quarter GNP figures.

Table 2

Unemployment in Central Wisconsin

	Unemployment Rate March 1985	Unemployment Rate March 1984
Portage	7.0	9.8
Marathon	9.6	10.6
Wood	8.2	10.8
Central Wisconsin	8.5	10.3
Wisconsin	7.7	8.7
United States	7.5	8.1

Table 3

Employment in Central Wisconsin

	Total Employment March 1985 (Thousands)	Total Employment March 1984 (Thousands)	Percent Change
Portage	32.3	30.9	+4.5
Marathon	47.5	48.1	-1.2
Wood	33.1	32.3	+2.5
Central Wisconsin	112.9	111.3	+1.4
Wisconsin	2175.7	2155.5	+ .9
United States	105,768	102,770	+2.9

Table 4

Central Wisconsin Employment Change by Sector

Sector	Employment March 1985 (Thousands)	Employment March 1984 (Thousands)	Percent Change
Manufacturing	24.9	24.7	+ .8
Durable goods	10.3	10.3	—
Nondurable goods	14.6	14.4	+1.4
Services	30.5	30.1	+1.3
Trade	23.6	21.7	+8.8
Construction	2.0	2.1	- 4.8
Government	15.5	15.7	- 1.3

Table 5

Employment in Key Central Wisconsin Industries

Industry	Employment March 1985 (Thousands)	Employment March 1984 (Thousands)	Percent Change
Paper Products	9.0	9.0	–
Lumber & Wood Products	3.7	4.1	- 9.8
Food Processing	3.6	3.3	+9.1
Finance, Insurance and Real Estate	7.4	7.6	- 2.6

Table 6

Business Confidence in Central Wisconsin

	Index Value	
	March 1985	December 1984
Recent Change in National Economic Conditions	55	47
Recent Change in Local Economic Conditions	52	48
Expected Change in National Economic Conditions	54	53
Expected Change in Local Economic Conditions	54	57
Expected Change in Industry Conditions	57	66

100 = Substantially Better
50 = Same
0 = Substantially Worse

The Wausau Area

There is growing evidence of a weakening area economy. This section of the report zeroes in on data specific to the Wausau area. Tables 7-14 contain information on local labor, retail, construction and financial markets.

Employment gains in the past year have been concentrated in Marathon County's trade sector (see Table 7). Retail and wholesale trade employment stands 7.2% higher than the March 1984 level. The manufacturing and service sectors reported virtually unchanged employment conditions, reflecting the slowing local economy. Construction and government employment are below last year's totals.

Retailers in the Wausau area have witnessed moderately rising sales and store traffic in recent months (see Table 8). The magnitude of these gains has subsided since the seasonally adjusted December survey. Retailers remain confident about the months ahead despite the negative local economic news.

Somewhat surprisingly the Wausau area help wanted index moved above the 1984 reading (see Table 9). This may be reflecting the strong retail sector. Public assistance claims in the area are up slightly but new applications took an encouraging 8.0% drop from 1984's first quarter (see Table 10).

The unemployment claim data gathered by the Wausau Job Service office contains the most sobering information on the local economy (see Table 11). Unemployment claims stand 5.2% above the first quarter of last year but more ominous is the 20.3% jump in initial claims. The impact of area plant closings are clearly beginning to have a measurable impact.

Construction data for the Wausau area is a mixed bag though the news is generally positive (see Tables 12 and 13). Construction activity as recorded by the building inspectors in the cities of Wausau and Schofield and the townships of Weston and Kronenwetter, shows an increase in residential and nonresidential permits. The absolute numbers are small and some construction indicators are negative. The actual level of activity, typical for the winter months, was quite low.

Financial activity as reported by the Wausau area's eight largest deposit institutions showed gains in loans and total deposits (see Table 14). Bank deposits posted an encouraging 9.4% increase over last year. Loan activity is also up solidly. The rise in bank deposits suggests that there is growing liquidity among Wausau area consumers.

Table 7

Marathon County Employment by Sector

	March 1985 (thousands)	March 1984 (thousands)	Percent Change
Manufacturing	10.9	10.9	—
Services	12.8	12.9	- .8
Trade	10.4	9.7	+ 7.2
Construction	.9	1.0	- 10.0
Government	5.6	6.0	- 6.7

Table 8

Retailer Confidence in Wausau

	Index Value March 1985	Index Value December 1984
Total Sales Compared to Six Months Earlier	60.9	72.8
Store Traffic Compared to Six Months Earlier	60.4	65.2
Expected Sales Six Months From Now	70.8	67.4
Expected Store Traffic Six Months From Now	66.3	67.4

100 = Substantially Better
50 = Same
0 = Substantially Worse

Table 9

Help Wanted Advertising in Wausau

	Index Value	
	Wausau (March)	U. S. (January)
1985	102.1	145.0
1984	88.5	123.0
	1980 = 100	1967 = 100

Table 10

Public Assistance Claims in Wausau

	1985 First Quarter	1984 First Quarter	Percent Change
Total Caseload	549	538	+ 2.0
New Applications	138	150	- 8.0

Table 11

Unemployment Claims in Wausau

	1985 First Quarter	1984 First Quarter	Change Percent
Initial Unemployment Claims	4862	4041	+20.3
Total Unemployment Claims	44533	42350	+ 5.2

Table 12

Residential Construction in the Wausau Area

	First Quarter 1985	First Quarter 1984	Percent Change
Residential Permits Issued	18	16	+12.5
Estimated Value of New Homes	$1264.0 (thousands)	$1130.0 (thousands)	+11.9
Number of Housing Units	26	26	0.0
Residential Alteration Permits Issued	38	49	- 22.4
Estimated Value of Alterations	$ 127.4 (thousands)	$ 150.8 (thousands)	- 15.5

Table 13

Nonresidential Construction in the Wausau Area

	1985 First Quarter	1984 First Quarter
Number of Permits	5	3
Estimated Value of New Structures	$ 172.0 (thousands)	$ 188.0 (thousands)
Number of Business Alteration Permits	10	5
Estimated Value of Business Alterations	$ 79.0 (thousands)	$ 48.3 (thousands)

Table 14

Financial Statistics for Wausau

	1985 First Quarter (millions)	1984 First Quarter (millions)	Percent Change
Bank Deposits	$481.6	$440.1	+ 9.4
Bank Loans	$345.7	$327.3	+ 5.6

Outlook

Falling interest rates, smaller increases in the foreign trade deficit, and I.R.S. refund checks should combine to boost national economic growth in the second quarter. Along with spring weather, these factors should also spur growth in the Central Wisconsin economy in the months ahead. There are, however, factors which will moderate this growth. Problems in the region's important insurance industry and the after shock of plant closings in the Wausau area are likely to limit any employment gains in the second quarter. The Wausau area economy, in particular, will be hard pressed to expand job opportunities in the months immediately ahead. The outlook is brighter for the Stevens Point and Wisconsin Rapids areas. Planned expansions by major employers in both local economies should fuel growth.

The current business cycle has now reached the stage where the development of a recession can occur quickly. Experts have always had great difficulty in predicting when turning points in the cycle will occur. Although most economists do not see a recession developing in 1985, the emergence of an economic downturn becomes increasingly likely as the expansion ages. Back in the 1960s, President Johnson argued that recessions are not inevitable. Twenty years later, few are so bold.

SPECIAL REPORT

Agriculture in Marathon County: An Overview

Presented by:
Dennis Palmini
Associate Professor of Economics
University of Wisconsin-Stevens Point

This report presents a portrait of agriculture in Marathon County and its contribution to the county's economy. It also shows how agriculture in the county has changed over the past decade. Data are taken from the Censuses of Agriculture for 1974, 1978 and 1982.

This research is a first step in describing and understanding agriculture in the Central Wisconsin area, how it is changing, and how it can cope with a changing economic and technological environment. While the Central Wisconsin Economic Research Bureau provided support for this project, the narrative portions of the report represent the views of Professor Palmini and are not the responsibility of the University of Wisconsin-Stevens Point.

Table 1

Local Area Personal Income Sources: 1975, 1982

	Marathon County				Wisconsin			
	1982		1975		1982		1975	
	($000)	% [a]	($000)	% [a]	($000)	% [a]	($000)	% [a]
Farm	49,620	6.5	26,298	6.4	1,488,423	4.15	931,984	4.75
Nonfarm	711,378	93.5	383,531	93.6	34,375,892	95.85	18,707,710	95.25
Private	634,088	83.3	339,944	82.9	29,253,230	81.6	15,887,688	80.9
Government	77,290	10.2	43,587	10.6	5,122,662	14.3	2,820,022	14.4
Total earned Income	760,998	100.0	409,829	100.0	35,864,315	100.0	19,639,694	100.0

[a] Percent of earned income

Table 1. Local Area Personal Income

Almost 50 million dollars of income was earned in farming in Marathon County in 1982, about six and a half percent of the county's total earned income. While incomes have increased 88 percent in Marathon County over the past decade (primarily due to inflation), farming's relative share of total earned income has remained constant. Agriculture's share of earned income in Marathon is almost 60 percent greater than its share of earned income in the state, reflecting the proportionately greater importance of agriculture to the Marathon County economy than to the state economy.

Table 2

Number Farms and Land in Farms: 1974-1982

	Marathon County 1982	1978	1974	Wisconsin 1982	1978	1974
Number of Farms	3,295	3,255	3,353	82,198	86,505	89,479
Change in Number	-10	-98	—	-4302	-2974	—
Percent Change	-0.3	-2.9	—	-5.0	-3.3	—
Acres in Farms	605,780	633,407	628,554	17,234,127	17,838,982	17,624,821
Change in Acres	-27,627	4853	—	-604,855	214,156	—
Percent Change	-4.4	0.7	—	-3.4	+1.2	—
Total Land Area (acres)		1,015,000		34,832,780	34,858,240	34,857,728
Percent in Farms	59.7	62.4	61.9	49.5	51.2	50.6

Table 2. Number Farms and Land in Farms: 1974-1982

Both Marathon County and Wisconsin continued to lose farms from 1974 through 1982. But while the pace of loss accelerated for the state from 1978 to 1982, reflecting the deterioration in farm income conditions, Marathon County lost farms at a considerably slower rate. Acres in farms and percent of land in farms both increased from 1974 to 1978, but then fell sharply from 1978 to 1982. The strong demand for farm products and the rapid appreciation of land values during the 1970's contributed to the expansion of land in farms while the reverse conditions tended to dominate during the last four years.

Table 3

Size Distribution of Farms: 1974, 1982

Size of Farm (acres)	Marathon County 1982 No. Farms	%	1974 No. Farms	%	Wisconsin 1982 No. Farms	%	1974 No. Farms	%
1 - 9	234	7.2	44	1.3	4,254	5.2	2,392	2.7
10 - 49	286	8.8	203	6.1	10,256	12.5	8,176	9.1
50 - 179	1314	40.5	1625	48.5	31,202	38.0	41,160	46.0
180 - 499	1284	39.6	1401	41.8	30,855	37.5	33,612	37.6
500 - 999	119	3.7	76	2.3	4,682	5.7	3,527	3.9
1000 - 1999	6	0.2	3	0.1	778	0.9	494	0.5
2000 +	2	–	1	–	172	0.2	118	0.1
	3245	100.0	1302	100.0	82,199	100.0	89,479	100.0
Average Size of Farm (acres)	187		187		210		197	

Table 3. The Size Distribution of Farms: 1974 and 1982

The average size of farms continued to grow in Wisconsin, but remained steady in Marathon County. Actually the average size of Marathon County farms increased slightly from 1974 to 1978 but then fell back again from 1978 to 1982. While the number of farms continued to decline, the acreage in farms was consolidated into larger farm units. The distribution of farms by size shows an interesting change for both the state and the county. Though small in relative terms, there is a flattening of the distribution. There are more very small farms and more large farms and fewer middle-sized farms. In Marathon County, farms in the 50 to 499-acre category fell by 14 percent while the number of farms 500 or more acres increased by almost 60 percent. The number of very small farms (1-9 acres) increased five-fold while accounting for very little acreage.

Table 4

Farms by Standard Industrial Classification, 1982

	Portage No. Farms	%	Marathon No. Farms	%	Wisconsin No. Farms	%
Cash Grains	127	11.3	119	3.7	9,570	11.6
Field Crops except cash grains	165	14.7	462	14.2	5,632	6.9
Vegetables & Melons	32	2.9	16	0.5	1,415	1.7
Fruits & Tree Nuts	4	0.4	4	0.1	841	1.0
Horticultural Specialties	5	0.4	14	0.4	623	0.8
General Farms, primarily crop	51	4.6	55	1.7	2,322	2.8
Livestock except dairy, poultry and specialty farms	232	20.7	499	15.4	17,979	21.9
Dairy Farms	470	42.0	1971	60.7	40,168	48.9
Poultry & Eggs	6	0.5	22	0.7	564	0.7
Animal Specialties	13	1.2	54	1.7	1,722	2.1
General Farms, primarily livestock	14		29	0.9	1,363	1.6
	1119	100.0	3245	100.0	82,199	100.0

Table 4. Farms by Standard Industrial Classification

This table compares the structure of farming in Portage and Marathon Counties against that for the state as a whole. The pattern in Marathon County shows more than 60 percent of the farms classified as Dairy Farms compared to less than 50 percent of farms so classified for Portage County and the state. This, of course, reflects Marathon County's rating as the number one dairy county in the nation's number one dairy state. For Marathon, as Portage County, "Field crops except cash grains" are relatively important, but cash grains like corn, wheat and oats are relatively unimportant.

Table 5

Revenues From Agricultural Products Sold: 1974, 1982

	Marathon County				Wisconsin			
	1982		1974		1982		1974	
	value ($1000)	% of total	value ($1000)	% of total	value ($1000)	% of total	value ($1000)	% of total
Market Value of Sales	173,296	100.0	76,745	100.0	4,854,582	100.0	2,352,996	100.0
Average per Farm (S)	53,404	–	22,888	–	59,071	–	26,297	–
From Crops	22,431	12.9	5,575	7.3	943,422	19.4	478,736	20.3
From Animals and animal products	150,865	87.1	70,473	91.8	3,911,160	80.6	1,867,277	79.4

Table 5. Revenues from Agricultural Products Sold: 1974, 1982

Wisconsin's farm economy is heavily dependent on revenues from the sales of animals and animal products, reflecting the important role of dairy production. This balance changed little from 1974 to 1982. The same relative proportions are seen, although in somewhat more exaggerated form, in Marathon County. While revenues from animals and their products accounts for 81 percent of state farm revenues, they make up 87 percent of farm revenues for the County. Thus the importance of dairy farming to Marathon County in economic terms is even greater than suggested by the previous table. It is worth noting the proportion of revenues from animals and their products fell by about five percent from 1974 to 1982 in Marathon.

Representative OBEY. Mr. Dreyer, why don't you fill us in on the employment, unemployment or whatever you want to call it situation.

STATEMENT OF JAMES X. DREYER, DISTRICT DIRECTOR, WISCONSIN JOB SERVICE, WAUSAU

Mr. DREYER. My name is James X. Dreyer. I am the director of the job service office in the Wausau-Rhinelander district. I have been employed with the job service for the past 24 years. Nineteen of those years, I have been the director of a local job service office in northern Wisconsin.

I worked in Marinette, Rhinelander, Superior, and I am presently working as the director out of the Wausau district office.

North-central Wisconsin and the Marathon County area have rebounded from the recession of the early 1980's. This rebound, however, was not a recovery to the type of economy that existed before the recession. The area is still trying to deal with the changes that this new economy and labor market have brought to the region.

The prerecession economy in north-central Wisconsin reached its peak in 1978–79. For example, the work force in Marathon County in 1978 was 52,300 and in 1979 it reached 53,200. Total employment in 1978 was 49,600.

In 1979, the average total employment was 50,400 with employment peaking at 52,300 in June of 1979.

This change in the labor force was not only a change in the total number of individuals who are employed, but it also affected the occupational and industrial mix of the economy. Total employment showed an increase in the trade industries, service industries, and also local government has grown slightly.

In Marathon County, the trade industry has increased its employment by 1,400. There were 9,200 people employed in the trade industry in 1980, and in June of 1985 it had increased to 10,600.

The service industries' employment has grown by 700. They showed an employment of 6,600 people in 1980, and today they are at 7,300. Local government has grown, increasing 300, from 4,300 in 1980 to 4,600 today.

Manufacturing in north-central Wisconsin has always been the bedrock of this economy. If we look at Marathon County's manufacturing statistics for 1978 to 1985, we show a drastic decrease in employment. In 1978, there were 14,100 people employed in manufacturing jobs. Over 3,000 of these jobs are not eliminated from the local labor market.

Today, this same type of dramatic decrease is occurring throughout the north-central Wisconsin area.

During the past several years, when employers in the manufacturing industry decided to increase their capital expenditure, their first goal was to remain competitive within their industry. This mainly meant reducing their labor costs. The manufacturing industry has to make periodic investments in the area if we are to retain a vital economy.

The Bureau of Labor Statistics information shows that the average weekly earnings for production workers in Marathon County is $419.83, or $9.52 an hour, for 44 hours of work. Taking this figure times the number of jobs lost since 1978 means that there is approximately $1 million less income generated in the area per week.

Five out of six counties in north-central Wisconsin are presently labeled as labor surplus areas. In 1985, unemployment rates ranged from 5.4 percent to 18.5 percent. As you can see by these figures, the unemployment rate in the area fluctuates a great deal. For example, the unemployment rate for Forest County in March 1983 was 28.1 percent, and a low was registered in Langlade County at 5.4 percent in May of 1985.

The Wisconsin Job Service is basically a labor exchange organization. In other words, we try to place people in employment. Our main clientele that we serve are employers and applicants.

For example, here in the Wausau local office we will have approximately 1,000 new applicants come in to our office each month for jobs, for a total of approximately 12,000 a year. We placed approximately 1,500 individuals last year.

Last year, the Wausau Job Service Office received approximately 1,700 job openings; 55 percent of these openings were in the service, clerical, and sales occupations.

However, the individuals that come in to our office are looking for manufacturing-type employment. While these jobs are fairly numerous, they are not what the public wants in terms of hours and wages.

Based on job order information at the Wausau Job Service Office, 50 percent of the retail sales openings are part time or temporary.

The average starting wage for these jobs locally is $4.05 an hour; 52 percent of the clerical jobs are temporary or part time. The starting wage for the clerical worker averages $4.36 per hour. Of the service jobs, 81 percent are part time or temporary, and the average starting wage is $3.48 per hour. Of all the job openings received at the Wausau Job Service, 57 percent are temporary or part time.

We are starting to see several things happen in the area. First, the youth are going either to the university or the technical schools to improve their potential in the labor market. They are starting to realize that if they do not have some special skills to offer the employer, they will be working for minimum wage for a long period of time.

Along with this, we are seeing an outmigration of young people. They are either moving to different areas of the State or to other States to find better employment opportunities.

Employers who use our services are still interested in the most qualified individual that is available in the labor market. They expect the Wisconsin Job Service to have an intimate knowledge of their employment needs and to fill their employment requests with high-qualified applicants. Employers are interested in personalized service as well as fast efficient service.

In summary, I would like to make several recommendations.

First, I would like to recommend that all congressional budgetary expenditures be related to what effect they would have on the manpower in the Nation. In other words, I would like to see an employment or manpower impact statement on all expenditures by Congress. This statement would give the congressional leaders an idea of the employment that would be generated by each expenditure.

Second, I would like to recommend an incentive to help industry invest in modernized equipment so as to assure their competitiveness in the world marketplace.

Third, I would like to see additional expenditures for the people who, for reasons beyond their control, are unable to participate fully in the world of work.

My final recommendation would be to have some arrangement whereby local people would have an option to purchase local business and industries. Many times outside interests do not have the same commitment to the area as local people do.

Thank you for your time.

Representative OBEY. Thank you very much.

Next, I would like to hear from both sides of the bargaining table as far as the construction industry is concerned.

Why don't we start with Gerry Wergin first.

STATEMENT OF GERALD WERGIN, PRESIDENT, WERGIN CONSTRUCTION CO., INC.

Mr. WERGIN. Thank you, Representative Obey and members of the Joint Economic Committee.

Approximately 20 years ago I was either standing on this site or one contiguous to it trying to figure out how to dewater supersaturated ground to build this building.

It would be fair to say today I am trying to figure out how to deemphasize the interest rates. I feel that if that were solved, much of the construction industry's problems would also be solved.

The construction industry in Marathon County, and those counties contiguous to Marathon County, is in a state of limbo.

The industry as a whole could use a prop. We don't know whether to gear up for more work.

Construction activity as a whole has noticeably been in slight decline over a period of the past 3 to 4 years. At the present time there is a much greater capacity to build than consumer demand for the product of the industry. At the present time there is greater activity in the institutional area than in commercial and industrial areas, except for the papermill industry.

The housing industry is in a unique position in that a fair percentage of housing could use improvement, but the interest rates hold the replacement and/or additional housing at a minimum. I strongly feel that young families are being penalized.

When I look back 40 years, interest rates of 4, 5, and 6 percent, while something to be wrestled with, were not such a formidable thing as 10, 12, and 13 percent. I think it is very unfair to the young family today to be unable to upgrade and achieve part of the so-called American dream in housing.

In the late 1970's, a federally sponsored jobs tax credit program was initiated. Our own experience was an expansion of our forces with the result that we did earn the maximum tax credit, like $100,000, and reinvested those credits in new equipment, in anticipation of a growing need for the construction industry. That is not the situation today.

A few years ago, industry as a whole was much more optimistic about the future growth of our economy. This was the period before the runaway interest rates which began in late 1979 and continued through the midsummer of 1982, with the prime rate in December 1980 reaching as high as 21.5 percent.

Prior to this period, the interest rate was low and stable enough and the expectations of the future were great enough that industry was willing to provide for future expansion in excess of their current needs to be able to handle future requirements when they arrived. Companies are not opting to expand at a more controlled rate as the need arises without incurring any more debt than is absolutely necessary.

If business and industry felt a long-term stable economic climate was approaching, they would be more attuned to making capital investments.

I am speaking of the breadwinners that we are working for. Businesses, industry, manufacturing, and so forth. There appears to be a cloud on the horizon as to what the long-term future holds.

To sustain long-term future economic growth, the borrowing public must have confidence in a relatively stable interest rate. The wide fluctuations, those wide swings in interest rates over the past few years have resulted in lenders being reluctant to make long-term commitments.

In order to insure a stable long-term interest rate, the Government has to reduce the national debt. Old, old story. Don't ask me how.

As a result of a large deficit, our government is forced to borrow a significant portion of the funds available in the private sector. This reduces the funds available for private construction, forcing up the interest rate. I believe it is time for the Government to bite the bullet, but quit blaming the other party and resolve the issue.

The large number of construction companies that geared up to handle the expansion in the decade of the 1970's is now eagerly searching for business. Companies making capital investments are also going to greater lengths to insure the maximum benefit for the dollars spent.

This has resulted in economic benefits to the consumer, but has placed the various construction companies in a dog-eat-dog environment in order to be able to survive.

At one time, contractors were able to earn a normal operating profit for their construction services. Now, many companies are satisfied in accepting a project at a break-even point merely to keep their employees working, keep equipment working, and to contribute to the fixed overhead.

The Government of the United States has recently been adding fuel to the fire, causing more companies to adopt a "wait and see" attitude regarding their future construction plans.

The current tax program as currently proposed by President Reagan will significantly affect depreciation and investment tax credit benefits of a company currently in a program of capital expansion.

It is the indecision and the inability of companies to outguess our Federal Government, just the tail and the dog, and the delays are causing—those decisions are causing delay in decisions to build or not to build.

The accelerated depreciation deduction and the liberal investment tax credit have a very significant impact on a companies future expansion plans. Without these benefits, many plans will have to be curtailed. Until the tax policies have been finalized, the business communities will have to delay investment decisions in order to determine the impact of these changes on their particular operation.

Our Government has made many significant tax changes since 1981. Each time, we are told that the change is a needed reform or simplification. We have yet to see that. Another major change is now in the works. The time has come to adopt a comprehensive tax plan that is fair to all and will remain fairly stable.

I emphasize stability so that everybody can plan, stability.

Industry would be more prone to making capital investments if the tax environment they would be operating in was more static.

The construction industry in this country is being indirectly hurt by unfair foreign competition. An American company which cannot sell its products, either here or abroad, has no need to build another factory or warehouse. While our Government is advancing a free trade policy, other countries, most noticeably Japan, are not. Foreign products can enter our country with a relatively low tariff and a minimum of restrictions.

To get our products into most foreign countries, however, we run head on to a massive system of bureaucratic redtape, high foreign tariffs, or government subsidies which makes free trade impossible. It is time that we quit being the patsy of the world and force other countries to limit their restrictions on our products in a reciprocal manner.

Another area I would like to touch upon is housing for the elderly.

Rather than forcing people who have conserved a modest saving, we are still depending on them for the bulwark of taxes. I would hope that some type of development policy might be enacted whereby qualifications for this type of housing are not restrictive as presently written.

People who have saved some money, conserved their funds, should hopefully be entitled to a moderate, fair and clean, safe housing without the total burden, without having to divest all their hard-earned moneys to live on the property.

The construction industry from this country's early inception has always been an integral part of the Nation's economy. In today's world the industry has the capability, capacity, skilled workmen and integrity, reliability and thus is poised and ready to build more and better. I look forward to the future of this industry with cautious optimism but with definite optimism.

Thank you.

Representative Obey. Thank you, Mr. Wergin.

Mr. Cohrs, please proceed.

STATEMENT OF PHILIPP COHRS, BUSINESS MANAGER, WISCONSIN RIVER VALLEY DISTRICT COUNCIL OF CARPENTERS, AND CHAIRMAN, GREATER WISCONSIN CARPENTERS BARGAINING UNIT

Mr. COHRS. I am Philipp Cohrs of Merrill, WI. I am the business manager of the Wisconsin River Valley District Council of Carpenters and chairman of the Greater Wisconsin Carpenters Bargaining Unit, which covers seven-eighths of the State for bargaining purposes.

We do not cover Milwaukee, Kenosha, Racine, or Janesville. In those capacities, I have considerable knowledge as to the state of the construction industry in Wisconsin and especially as it affects the carpenters. The state of the industry is not good.

We have lost thousands and tens of thousands of construction jobs in this State since 1980. These jobs are no doubt permanently lost as we watch the continuing erosion of our industrial base. Construction is directly affected by the decisions of industry in general for they along with government are our major consumers.

We see a need for legislation on a Federal level which discourages companies from moving to the Sun Belt. Present laws encourage such moves through tax incentives. There is a need for legislation to make employers who leave us, after having raped the land and society and taking their huge money coffers with them; to educate and train and retrain those employees who are left behind.

Arrangements must be made to make those employers liable for the basic needs of those past employees and not put the burden on the taxpayers; in other words, the working people of this State.

We have an absolute need for import quotas or taxes to stop or at least slow down the ever-increasing tide of imports into this country and State. We can no longer allow the importation of cheap foreign articles while we export our jobs. If this United States of America is to continue with a middle-class America, we must have jobs with a dignified wage.

When the shoe industry hurts, the construction industry hurts. When the car industry hurts, the construction industry hurts. When the heavy equipment manufacturers leave town, the construction industry hurts.

With sales being freely given away by the Federal Government to every bleeding heart nation of the world, our industry is getting the heck kicked out of it. A policy that allows this to continue to happen is entirely counterproductive to a healthy United States and Wisconsin.

The United States is probably the only country in the world stupid enough not to have an import policy which does not take care of its own first. If people are not working, who will pay the taxes to take care of running this country and world and reduce a Federal deficit which runs wild and completely out of control? Our legacy to our kids will always be remembered. It will be "taxes forever."

We cannot agree with a policy which is to drag the middle class of this United States down to a level of poverty so that we may be on a par to third world citizens. Yet, surely, that is the aim of the present administration as we see the rich get richer and middle-class America being decimated.

The construction industry needs the Davis-Bacon Act. I have never met an honest, legitimate contractor who thinks that Davis-Bacon is bad for the industry. The only contractors who do not want it, who fight it, are those who greedily refuse to pay living wages, who refuse to train their employees for more productivity and better craftsmanship. Every employer I deal with recognizes the need and balancing factor of Davis-Bacon.

How can a small businessman, like most contractors are, and working people such as carpenters are, compete with the awesome power of the Federal Government to maintain a dignified wage scale? Certainly, the Government as the biggest consumer of construction wields a devastating power for or against the industry. What is wrong with carpenters deriving a living wage? The Government subsidizes every conceivable business and entrepreneur in the country one way or another. Why not the construction worker?

Are we less important than the ginseng farmer or the tobacco farmer? Do we have less right to protection from unfair use of power than the other minorities of society, be that distinction by race or ethnic background or the caste system between rich and poor which exists in this United States?

The only thing construction workers want is the right and ability to own a house, to raise their kids peaceful, healthful, and with pride and dignity. We want our kids to be able to have an education and to be able to go on to higher education if desired.

We feel we should be able to look forward to and enjoy our twilight years with dignity and without the fear of poverty and rejection. We feel that as American citizens we have a right to that kind of a life.

Yet today, the administration seems to be totally committed to taking that right, that pride, that dignity away from working people.

The continuing song from both the State and Federal unemployment counters is that Wisconsin sits at about 7 percent unemployment and probably not much over 10 percent for the last year. These figures are incorrect. They do not include that vast number of workers who have totally exhausted their unemployment compensation benefits and, therefore, do not register as being out of work. These tens of thousands of totally discouraged workers, when added to that 7 or 10 percent figure, would greatly raise that percentage.

Between the State of Wisconsin and the Federal Government attempting to do away with unemployment compensation insurance, we have a large group of workers in this State who receive no benefits. Now, certainly the easiest and most effective way to cut costs of unemployment compensation is to not pay workers. That is exactly what Wisconsin and the Federal Government have done. At 19 weeks to attain eligibility the State has very effectively taken away unemployment compensation benefits totally from thousands of construction workers.

Nineteen weeks is totally unrealistic to the needs of our people and shows an absolute lack of knowledge as to the variances of the industry.

With the lack of work over the past 5 years, the years under the present administration, many of our people were lucky to attain 15 weeks; 19 weeks is a sheer impossibility.

With the removal of the Federal extension, where do these people go? They leave the trade and attempt to get into a different line of work, are unsuccessful, and finally end up on the welfare rolls.

Once again, the burden falls upon the taxpayer, the middle-class American who is being systematically destroyed and removed as a viable part of this country.

Once again, the dignity of receiving moneys which have been earned, as in the concept of unemployment compensation insurance, is denied. If it was not so tragic, if it did not take such an awful toll of human life and dignity itself, if it did not exert such a horrendous degree of suffering upon working people, it would be laughable to listen to an administration which espouses removal of persons and families from the welfare rolls and then, by its very actions and absolutely meaningfully, promulgates legislation which forces people and families to partake of the public dole.

The removal of unemployment compensation benefits from these working people reflects immediately in small business closing their doors, laying off their employees, and joining the ranks of the unemployed. That is real "trickle down."

The concept of taxing fringe benefits, health insurance, pension, et cetera, is completely off the wall. How in the world can working people, who the Federal Government expects to take cuts in wages, be expected to take part of their health insurance and pension to pay for a defense budget which runs unchecked. Those same working people who have fought the wars and sacrificed their sons and daughters on the battlefields of this world are now being asked to lessen their expectations for healthy lives and their dignity of old age. All of this so we can build more bombs to kill more sons and daughters.

Those fringe benefits have come about because working people hit the bricks and fought for and demanded those benefits from a society which never dreamed that working people could attain such goals, people whose blood and very lives ran down the gutters of this country, working people who demanded to be treated as equal citizens of a country which specifies that all people are created equal.

The Federal Government is very willing to accept our taxes and to take part of those dollars and put them to use for medical research. Our colleges and universities and other research centers have been very effective in promoting better health and longer life for the people of this country and the world.

Now, after paying for that research, we see a movement by the administration and its following to deny those advances in medical technology to a large portion of American citizens—the working people.

We can only assume that the powers that be feel that adequate health care is only for the rich of the world, because if taxation of fringe benefits is allowed to happen, middle-class America will have fewer dollars to spend for health care. We do not need budget directors to figure that out. Even carpenters can come up with that conclusion.

We hear the continuous litany from the administration that Social Security was never intended to be the sole provider of security in retirement, that its intent was to supplement other avenues of security. That litany is used as an excuse to cut Social Security benefits to the retired people of this Nation or to cut the usual raises on which that group of citizens depends for its sustenance.

Conversely, we see an attempt to tax pension benefits, thereby effectively lowering the standard of living or our older generation.

What sort of noncaring monsters dream up schemes like this? Once again, that monster demands not only sons and daughters, husbands, and fathers to feed the war machines, but the little amount of substance which those patriots have left, after fighting two world wars and a few little police actions.

There is probably a correlation between cutting benefits and raising taxes on retired people. If those people cannot get adequate health care or do not have enough money to take care of themselves, they will probably die sooner and not be as much of a burden on society.

Let me make it loud and clear, that is not the thought of "working America," but seems to be the all-consuming thrust of the economic policies of the Reagan administration.

Those of us in organized labor who have fought tooth and nail to get our members a dignified retirement, a retirement without ending up in the poor house or begging the kids for money to live on, a retirement which comes as a reward for a lifetime of toil and heartbreak, we who have forged a path for all Americans to follow and have willingly allowed the freeloaders, nonunion, to be covered by the programs which we devised and finally implemented, we do not wish to see those retired persons, our fathers and mothers, relegated to a second-class status such as present economic policies are aiming to do.

We believe in the dignity of man and violently disagree with the administration thrust regarding our retired citizens.

This year, 1985, is the first year since 1980 that the carpenters in this north-central part of Wisconsin are enjoying full employment. We have, in fact, begun replacing some of the many people lost by attrition during that period of time with young, viable apprentices. If we are to have a viable industry, we must maintain our group of qualified tradesmen.

We who have built America realize that the group of fine tradesmen we had available in 1980 has been badly decimated. While I am happy to report improved work opportunities in this area, I must also state that this is the only area of Wisconsin in which that is true. Although we here have, in fact, full employment for carpenters, we achieve that with fully one-fifth fewer tradesmen in our group than we had in 1980. Thus, we still have a long way to go to get back to pre-Reagan or prerecession days.

There is a feeling of distrust in the industry, from the consumer to the contractor to the tradesman, that this burst of activity will be long lived. The general consensus is that it will not last and that we are headed for another recession. We have not recovered from the previous one and already the industry is fearful of another.

We fervently hope that this committee and Government in general will take steps to lessen the chance of another recession, whether that be with import controls, a softening of the dollar or allowing a little bit higher rate of inflation, and most importantly, by getting a handle on the Federal deficit. We cannot stand another recession.

We would at this time suggest to the committee that one avenue of cost savings could be the total elimination of the National Labor Relations Board. That Board which originally was designed to treat both labor and management fairly has, with the Reagan appointees, taken a completely antilabor stance. That act which was passed to bring labor peace to this United States has been so prostituted by the present administration that it is worthless for working people and especially construction workers.

If that stance is not changed and quickly, this society will again see open warfare between labor and management. If there is no fairness from the United States, why should we abide by the warped rules which the Board is imposing on us?

We hear the pontifical pleas from our political leaders as to the Soviet Union's reply to solidarity in Poland. We hear our Wisconsin Republican Senators plea as to Soviet Jewry. We hear our leaders lash out against apartheid in South Africa.

You do not have to leave these shores to find a cause to beat your breasts about. Look at your own working people. This Government just passes laws to make it look better when labor is assaulted. We today have labor leaders being investigated, harassed, and intimidated and some being jailed for political reasons. Clean up your mess in the United States and then start worrying about the rest of the world.

Save some money, get rid of the National Labor Relations Board.

On behalf of the working people of Wisconsin, I extend my appreciation and especially to Chairman Obey for bringing this committee to Wausau and for the opportunity to express our views and some of our concerns.

It has been a pleasure to be here. Thank you.

[Applause.]

Representative OBEY. Thank you, Mr. Cohrs.

Next we have, in a sense, our host, Mr. Hagen, who is the new director of North Central Technical Institute. Why don't you tell us whatever you would like to tell us, focusing on the services NCTI provides to this area, to try to deal with some of the problems we have been talking about.

STATEMENT OF DONALD L. HAGEN, ED. D., DIRECTOR, NORTH CENTRAL TECHNICAL INSTITUTE DISTRICT, WAUSAU, WI

Mr. HAGEN. Thank you. Good afternoon.

I am Donald Hagen, director of the North Central Technical Institute District. As the director of the North Central Technical Institute District, it is my pleasure to bid you welcome to our Wausau campus, and to express our appreciation to the committee for having chosen it as the site for these extremely important meetings.

The accelerated pace of technological change has created a sudden need for a new kind of national work force with new educational needs, a work force schooled in high-technology skills of the new information age, a work force schooled in skills which, in many instances, were unknown just a few short years ago, skills and knowledge which, when once gained, will continue to undergo change at an unprecedented rate and thereby create a need for periodic retraining.

Retooling America's work force and economic development are two of the large issues confronting all of us in 1985, and they will only become more crucial during the next 5 years as the Nation attempts to reverse its negative trade balance and regain its position of world economic leadership.

These are issues which are at the forefront of the mission and purpose of vocational, technical, and adult education of Wisconsin, and they are at the top of the list of our own objectives here at North Central Technical Institute.

We, and our 15 companion institutions, encompassing all areas of Wisconsin, are laboring within our limitations to resolve these issues to the best of our abilities in our areas of the State, and throughout the State, within the scope of our mission.

Our district encompasses 5,900 square miles, an area slightly larger than the State of Connecticut.

Our 10-county district has a population of 216,000 people. Each year, one of every eight citizens over age 18, or some 18,000 men and women, enrolls in some form of occupational education we provide.

During the past year, the unemployment rate in the 10 counties of our district has varied from 7 percent to as high as 20 percent, depending on the particular problems of the individual counties and the season of the year.

There have been signs of recovery during the past 9 months, but they are not the basis for glowing optimism. Instead, they are signs of a region struggling, against some rather heavy odds, to return to sound economic health.

And we, here at North Central Technical Institute, are doing, we believe, our part in that largely self-generated economic recovery plan.

We are providing, from our current fiscal year tax levy of $8 million, 34 different 1- and 2-year occupational training programs, six programs less than 1 year in length, instruction for apprentices in a dozen fields, more than 1,000 job training short courses, specialized training for East Asian refugees, specialized training for persons with vision or hearing impairments, specialized services for dislocated homemakers and dislocated workers, career counseling and career planning services, personalized remedial services, skills assessment and counseling services, customized training for business and industry, technical assistance for business and industry.

Are these efforts yielding observable results? As noted earlier, our current tax levy is $8 million, and that investment alone will yield a return of over $9 million as represented by the combined total of just the starting salaries of just last year's graduates of just our 1- and 2-year training programs.

Another measure of success is the fact that over the past decade the average job placement rate of our graduates has been over 90 percent, and bear in mind that each year 4 or 5 percent of our graduates enter the Armed Services, seek further education, or are otherwise not in the job market.

There are also other indicators of success, such as the recognition given our laser technician program last fall when it received, in Washington, the U.S. Secretary of Education's National Exemplary Program Award.

It is significant to note that we could not have achieved our successes of recent years solely with tax-supported revenues. We have, with considerable success, offset dwindling tax-revenues or tax-generated revenues which have not kept pace with service demands, with contributions from private sector donors.

Through the efforts of the NCTI Foundation, a group of private citizens, more than a quarter of a million dollars was raised toward the construction and equipping of our new center for vision and hearing impaired persons. Service clubs and civic organizations throughout the area contribute generously each year to the maintenance of those unique programs.

Our national award-winning laser technician program was also heavily endowed by local private sector donors and one of them, Caroline Mark of Wausau, received national recognition from the American Vocational Association last year for her interest in and financial support of that program.

Our special training programs for East Asian refugees would probably have been almost entirely phased out this past year if local philanthropic interests had not given that effort many thousands of dollars.

There are more than 1,000 East Asian refugees in Wausau, which is a community with a total population of approximately 35,000. Presently, 211 East Asians are enrolled here at NCTI. In the last several years, 80 percent of the adult East Asian population have been students here at NCTI.

In an era of unprecedented technological change, one of the challenges in vocational-technical-adult education is the need for constant upgrading of instructional staff—particularly in the fields of new and emerging technologies. Today, our efforts in that arena are partially supported by contributions from business and industry and private citizens.

But in each of these areas of private sector support, as splendid as that support has been and continues to be, we are falling short of the mark.

One can only go to the same philanthropic wells so often before the sources go dry. Our region is not an affluent region. Fifteen percent of the families in Marathon County have an annual income below the federally defined poverty level of $10,650. That percentage is even greater in some of the counties in our district.

A more serious factor in our constrained financial situation is the fact that under Wisconsin statutes, we cannot levy a property tax above a 1.5 mill ceiling, and our current fiscal year tax rate puts us squarely at that ceiling.

To compound this fiscal problem, our district's $4.5 billion total property tax value decreased slightly last year, and zero growth is predicted this year. This is important because local district property taxes account for about 63 percent of our total revenues.

In addition, our State aids are predicted to remain at about the present 27-percent level of support for operations.

Indeed, because of these various ever-tightening financial constraints, our success of recent years has not been achieved without paying a very high and very painful educational price.

When these financial constraints became extremely tight 3 years ago, our district board of trustees wisely resolved not to sacrifice quality for the sake of maintaining sheer numbers. The board felt it was better to produce lesser numbers of well-qualified workers than to generate larger numbers of ill-prepared workers. Thus, we began a program of curtailment which reduced enrollments.

In each of the past 3 years, we have been compelled by financial constraints to eliminate some services and to reduce others in order to implement new services and to maintain quality in all remaining services. These curtailments and reductions closed the door of educational opportunity in the faces of more than 300 adults seeking education for employment. As educators, these are very painful decisions.

But in spite of that bleak fiscal picture, we have not abandoned our intention to strengthen our efforts in either of the two major crisis areas to which I alluded at the outset: occupational training and economic development.

Just last month, our district board of trustees adopted a resolution establishing an Applied Technology Center here at North Central Technical Institute.

Our Applied Technology Center is not a building, but is a new concept. Under that concept, we will make available to business and industry, on a cost-sharing basis, our facilities, our instructional equipment, and our staff. We will, in a sense, become high-technology brokers to business and industry in our region, particularly in fields such as laser technology, computer assisted design, computer-aided manufacturing processes, and robotics.

We will endeavor to be a vital component in helping communities in our district attract new industries to those communities and, perhaps more important, to help industries already in place to expand, to become more efficient, more productive, more sophisticated, and, through applications of high-technology concepts, to become more competitive in national and international markets.

We are extremely optimistic about the potential of our Applied Technology Center and what it can do for business and industrial development in our region. All the chief executives with whom we have discussed the concept are equally enthusiastic about it. And we appear to have broad-based public support for the Applied Technology Center concept, as evidenced by the Wausau Daily Herald editorial and article appended to my prepared statement.

However, to be successful, that effort will require a broader base of financial support than is presently available to us.

What we propose to you is this:

If we can demonstrate the success of our Applied Technology Center in expanding employment opportunities, and in providing the trained personnel needed to fill those opportunities, and in enabling regional industry to complete more successfully in expanded markets, if we have been able to generate significant private sector financial support for that effort, then we challenge you to secure Federal funds matching those private sector donations we have generated.

Why Federal support for local or regional technical schools, or community colleges, or any segment of higher education?

The history of Federal support for vocational education goes back to the Smith-Hughes Act of 1917. These are new times with new needs, and new efforts are needed to address them.

The fact is paramount that this year, for the first time in our Nation's history, the United States of America purchased more goods from other nations than other nations purchased from it.

In time of a prolonged national security crisis our Nation could ill afford being dependent on foreign manufacturers. We must regenerate American industry and strive for economic strength as well as military strength. The two are inseparable.

The only way present trends can be reversed is by helping our manufacturers, thousands of medium and small manufacturers as well as just a few large ones, to produce goods better and at lower cost than the international competition.

Efforts such as our Applied Technology Center here at NCTI and similar efforts nationwide can help reverse the present negative trends and ultimately strengthen the Nation's economy and our national security.

The Walgren bill, which proposes Federal grants on a competitive basis to accredited community and technical colleges which demonstrate ability to provide competency based occupational education, and which work with other community colleges and technical schools to provide an inventory of advanced technical training programs serving private and public employers addressing changing work force demands, is a step in the right direction.

Added to that concept could be grants to technical schools and community colleges which provide customized training and technical assistance to firms, and particularly to firms which export their products to foreign markets or which use such assistance to enter export markets and to firms providing products and services vital to our national security.

We urge consideration of these new concepts geared to assist in solving the crucial new problems confronting our Nation.

We appreciate having had this opportunity to appear before you.

Thank you.

Representative OBEY. Thank you, Mr. Hagen.

[The prepared statement of Mr. Hagen, together with an attached editorial and article, follows:]

PREPARED STATEMENT OF DONALD L. HAGEN

Good afternoon! I am Donald Hagen, Director of the North Central Technical Institute District. As the Director of the North Central Technical Institute District, it is my pleasure to bid you welcome to our Wausau campus, and to express our appreciation for having chosen it as the site for these extremely important meetings.

These hearings ARE important because it has become increasingly clear that the subject of these hearings (the education of the nation's work force and economic development) is crucial to our nation's future well-being.

The accelerated pace of technological change has created a sudden need for a new kind of national work force with new educational needs; a work force schooled in the high-technology skills of the new information age; a work force schooled in skills which, in many instances, were unknown just a few short years ago; skills and knowledge which, when once gained, will continue to undergo change at an unprecedented rate and thereby create a need for periodic retraining.

Furthermore, an intensely competitive global marketplace is now a fact of life. Economic insularity has become obsolete.

Right here in Wausau, an economic liaison program has been established between Marathon County, under the leadership of the Wausau Area Chamber of Commerce, and the Heilongjiang province in China. Several local manufacturing firms are engaged now in exporting their products abroad and more firms are exploring foreign markets.

Retooling America's work force and economic development are two of the large issues confronting all of us in 1985, and they will only become more crucial during the next five years as the nation attempts to reverse its negative trade balance and regain its position of world economic leadership.

These are issues which are at the forefront of the mission and purpose of Vocational, Technical, and Adult Education in the State of Wisconsin, and they are at the top of the list of our own objectives here at North Central Technical Institute.

We, and our 15 companion institutions, encompassing all areas of Wisconsin, are laboring within our limitations to resolve these issues to the best of our abilities in our areas of the state, and throughout the state, within the scope of our mission.

Our particular service area includes all or portions of ten north central Wisconsin counties.

Our district encompasses 5,900 square miles....an area slightly larger than the state of Connecticut. However, the property value of our district, the basis for 63% of our budget unfortunately, is only a fraction of the property value of Connecticut.

Our 10-county district has a population of 216,000 people. Each year, one of every eight citizens over age 18, or some 18,000 men and women, enrolls in some form of the occupational education we provide.

Our district's economy is based on diversified manufacturing (in which housing-related manufacture is a keystone), service industries (of which insurance and health care are keystones), agriculture (of which dairy farming is a key), forest products (of which paper manufacture is a key), and tourism.

Each of these economic components has been adversely affected in its own way to greater or lesser degree by the national economic recession of recent years.

During the past year the unemployment rate in the 10 counties of our district has varied from seven percent to as high as 20 percent--depending on the particular problems of the individual counties and the season of the year.

There HAVE been signs of encouragement during the past nine months, but they are not the basis for glowing optimism--nor are they signs of doom. Instead, they are signs of a region struggling (against some rather heavy odds) to return to sound economic health.

And we, here at North Central Technical Institute, are doing, we believe, our part in that largely self-generated economic recovery plan.

We are currently providing, from our current fiscal year tax levy of eight million dollars:

* 34 different one- or two-year occupational training programs
* six programs less than one year in length
* instruction for apprentices in a dozen fields
* more than one thousand job training oriented short courses
* specialized training for East Asian refugees (English as a Second Language, adult remedial education, pre-vocational training, vocational training, and a unique garden produce project)
* specialized training for persons with vision or hearing impairments
* specialized services for dislocated homemakers and dislocated workers
* career counseling and career planning services
* personalized remedial services
* skills assessment and counseling services
* customized training for business and industry
* in-plant training for business and industry
* technical assistance for business and industry

Are these efforts yielding observable results? As noted earlier, our current tax levy is eight million dollars--and that investment alone will yield a return of over nine million dollars, as represented by the combined total of JUST the STARTING salaries of JUST last year's graduates of JUST our ONE-and TWO-YEAR training programs! And those nine million dollars are pumped immediately back into the economy and are recirculated many, many times!

Another measure of success is the fact that over the past decade the average job placement rate of our graduates has been over 90 percent (and bear in mind that each year four or five percent of our graduates enter the armed services, seek further education, or are otherwise not in the job market.

Approximately eighty-five percent of our 1983-84 graduates were employed when we conducted our annual job placement survey six months after graduation, and that was at the depth of the recent economic recession.

Indications lead us to believe that our May 1985 graduates placement rate will gain a couple more percentage points back toward our traditional ninety-plus percentage placement rate when our current graduate job placement study is completed in November.

There are also other indicators of success, such as the recognition given our Laser Technician Program last fall when it received, in Washington, the U.S. Secretary of Education's National Exemplary Program Award.

This year, our Educational Interpreter Technician Program, which prepares men and women as interpreters for hearing impaired persons in educational settings, received the Wisconsin Exemplary Program Award and has been nominated for the U.S. Secretary of Education's National Exemplary Program Award.

It is significant to note that we could not have achieved our successes of recent years solely with tax supported revenues. We have, with considerable success, offset dwindling tax generated revenues or tax generated revenues which have not kept pace with service demands, with contributions from private sector donors.

Through the efforts of the NCTI Foundation (a group of private citizens), more than a quarter of a million dollars was raised toward the construction and equipping of our new center for vision and hearing impaired persons. Service clubs and civic organizations throughout the area contribute generously each year to the maintenance of those unique programs.

Our national award winning Laser Technician Program was also heavily endowed by local private sector donors...and one of them...Caroline Mark of Wausau...received national recognition from the American Vocational Association last year for her interest in and financial support of that program.

Our special training programs for East Asian refugees would probably have been almost entirely phased out this past year if local philanthropic interests had not given that effort many thousands of dollars.

There are more than one thousand East Asian refugees in Wausau, which is a community with a total population of only 35,000. Presently, 211 East Asians are enrolled here at NCTI. In the last several years, 80 percent of the adult East Asian population have been students here at NCTI.

We also receive private funds for our displaced homemakers services and financial assistance from private sources for many part-time adult and non-traditional students who, because they are not and, usually because of personal circumstances, CANNOT enroll for the 6 credits required to become eligible for state and federal student financial aids programs.

In an era of unprecedented technological change, one of the challenges in vocational-technical-adult education is the need for constant upgrading of instructional staff--particularly in the fields of new and emerging technologies. Today, our efforts in that arena are partially supported by contributions from business and industry and private citizens.

But, in each of these areas of private sector support--as splendid as that support has been and continues to be--we are falling short of the mark.

And, one can only go to the same few philanthropic wells so often before the sources go dry! And, our region is NOT an affluent region. Fifteen percent of the families in Marathon County have an annual family income below the federally defined poverty level of $10,650. That percentage is even greater in some of the counties in our district.

A more serious factor in our constrained fiscal situation is the fact that under Wisconsin statutes we cannot levy a property tax above a 1.5 mill ceiling...and our current fiscal year tax rate puts us squarely at that ceiling.

To compound our fiscal problem...our district's 4.5 billion dollar total property tax value decreased slightly last year...and zero growth is predicted this year. This is important because local district property taxes account for about 63 percent of our total revenues.

In addition, our state aids are predicted to remain at about the present 27 percent level of support for our operations.

Indeed, because of these various ever-tightening financial constraints, our success of recent years has not been achieved without paying a very high and very painful educational price.

When these financial constraints became extremely tight three years ago, our District Board of Trustees wisely resolved not to sacrifice quality for the sake of maintaining sheer numbers. The board felt it was better to produce lesser numbers of well-qualified workers than to generate larger numbers of ill-prepared workers. Thus, we began program curtailments which reduced enrollments.

In each of the past three years, we have been compelled by financial constraints to eliminate some services and to reduce others in order to implement any new services and to maintain quality in all remaining services.

Some of the training programs which have been eliminated are:

* a one-year retail sales program
* a one-year welding program
* a one-year electronics servicing program
* a one-year auto repair program

Some of the programs in which enrollments were reduced were:

* Data Processing
* Police Science
* Architectural-Residential Design
* Nursing

These curtailments and reductions closed the door of educational opportunity in the faces of more than 300 adults seeking education for employment. For educators, these are very painful decisions.

But, in spite of that bleak fiscal picture, we have not abandoned our intention to strengthen our efforts in either of the two major crisis areas to which I alluded at the outset: occupational training and economic development.

Just last month, our District Board of Trustees adopted a resolution establishing an Applied Technology Center here at North Central Technical Institute. Next week, our board will consider for adoption a set of specific policies related to the future of our Applied Technology Center, which we will make fully operational as soon as possible.

Our Applied Technology Center is NOT a building, but IS a NEW concept. Under that concept, we will make available to business and industry, on a cost-sharing basis, our facilities, our instructional equipment, and our staff. We will, in a sense, become "high technology brokers" to business and industry in our region....particularly in fields such as laser technology, computer assisted design, computer aided manufacturing processes, and electromechanical robotics.

We will endeavor to be a vital component in helping communities in our district attract new industries to those communities and, perhaps more important, to help industries already in place to expand, to become more efficient, more productive, more sophisticated, and--through applications of high technology concepts--to become more competitive in national and international markets.

We will not be "going it alone" in that effort; we will be able to utilize expertise available throughout Wisconsin's Vocational-Technical-Adult Education system, and we will also be able to tap the reservoir of technical expertise pooled in "The Mid-America Training Group"....an alliance of ten technical schools and community colleges in five midwestern states who have banded together to help business and industry in their respective localities.

We are extremely optimistic about the potential of our Applied Technology Center and what it can do for business and industrial development in our region. All the industrial chief executives with whom we have discussed the concept are equally enthusiastic about it. And we appear to have broad-based public support for the Applied Technology Center concept, as evidenced by the Wausau Daily Herald editorial and article appended to this testimony.

However, to be successful, that effort will require a broader base of financial support than is presently available to us.

What we propose to you is this:

If, after one year of operation, we can demonstrate the success of our Applied Technology Center in expanding employment opportunities, and in providing the trained personnel needed to fill those opportunities, and in enabling regional industry to compete more successfully in expanded markets--and if we have been able to generate significant private sector financial support for that effort--THEN we challenge you to secure federal funds matching those private sector donations we have generated.

Why <u>federal</u> support for local or regional technical schools, or community colleges, or any segment of higher education?

The history of federal support for vocational education goes back to the Smith-Hughes Act of 1917, the George-Barden Act of 1946, the National Defense Education Act of 1958, the Area Redevelopment Act of 1961, and the Vocational Education Act of 1963.

Each of these acts came into being in response to national needs. These are new times with new needs, and new efforts are needed to address them.

The fact is paramount that this year, for the first time in our nation's history, the United States of America purchased more goods from other nations than other nations purchased from it.

The implications of that trend bode ill for our nation's economic future, and for national security.

In time of a prolonged national security crisis our nation could ill afford being dependent on foreign manufacturers. We must regenerate American industry and strive for economic strength as well as military strength. The two are inseparable.

The only way present trends can be reversed is by helping our manufacturers--thousands of medium and small manufacturers as well as just a few large ones--to produce goods better and at lower cost than the international competition.

Efforts such as our Applied Technology Center here at NCTI and similar efforts nationwide can help reverse the present negative trends and ultimately strengthen the nation's economy and our national security.

The Walgren Bill (H.R. 2353) which proposes federal grants on a competitive basis to accredited community and technical colleges which demonstrate ability to provide competency based occupational education and which work with other community colleges and technical schools to provide an inventory of advanced technical training programs serving private and public employers addressing changing work force demands is a big step in the right direction.

Added to that concept could be grants to technical schools and community colleges which provide customized training and technical assistance to firms and particularly to firms which export their products to foreign markets or which use such assistance to enter export markets and to firms providing products and services vital to our national security.

We urge consideration of these new concepts geared to assist in solving the crucial new problems confronting our nation.

We appreciate having had this opportunity to appear before you. Thank you.

Page 10—The Daily Herald, Wausau-Merrill, Wis.—Friday, July 28, 1985

Opinion

Wausau Daily Herald

James T. Barnes Jr., Publisher

Geri Nikolai
Executive Editor

Pat Whaley
Opinion Page Editor

Cheers for NCTI; it has better idea

Wausau people don't have to be told that business isn't all it should be around here.

They don't need to be reminded that unemployment is still high, and that it keeps rising as more and more area companies face cutbacks to survive — or don't survive at all.

The list runs from cheese wholesalers to insurance to heavy industry and some woodworking plants.

For years, we thought the area was relatively protected because our industrial based was diversified. We have discovered it was not diversified enough.

We know we're not likely to become the Silicon Valley of the Midwest, but some high-tech businesses are perfectly feasible here and might put a little starch in our sagging economy. Something needs to be done to stop the flow of jobs to the Sunbelt and other parts of the country.

But there is one bright note. That is North Central Technical Institute's training center plan.

NCTI and other schools in the consortium are working hand-in-hand with local business and industry to find out what type of jobs are available and what training is needed for those jobs. Then they come up with programs to train current or prospective employees in the required skills.

Some of the businesses have donated equipment to the schools on a shared basis. The company uses the training centers for displaying the merchandise to new customers and showing them how to use it. The school uses the equipment to train students in classes or company employees on a short-term contract basis.

But the cooperation doesn't stop locally. The schools, located in the ailing midsection of America, will pool whatever information they gather, then pass the word along on what programs work — and what programs don't, so other schools don't make the same mistakes. Perhaps they can even tell a neighboring school, "It didn't work here, but it still has possibilities. Maybe it's right for your area."

One aspect of the program that intrigues us is the plan to work on product development and solving production problems. That's the sort of independent enterprise that formed the backbone of the American industrial giant.

NCTI has already earned national recognition for its laser technology program. We think it may be on the way to other accolades.

It already has our respect and gratitude.

Daily Herald

2 Sections—20 Pages

Wausau, Wis.—June 24, 1985

High-tech

NCTI creates training center

By Wausau Daily Herald
And Associated Press

North Central Technical Institute of Wausau and nine other Midwest community colleges are trying to expand their traditional academic role by establishing high-tech training centers on campus and creating a technology network.

Working with local business and industry, members of the Mid-America Training Group hope to accelerate the region's economic renewal, according to Mid-American Outlook, a quarterly business review published by AmeriTrust Corp., a Cleveland bank holding company.

NCTI and the other colleges are working to develop technical training programs tailored to the requirements of individual businesses.

School officials say they view such technology information exchange as a new form of "capital" which can be invested in their areas.

Donald Hagen, new NCTI director, credits his predecessor, Dwight Davis, with working with the other directors to establish a "loosely structured alliance to share information, plans, successes and failures.

"We are all plowing new ground together so we are sharing our experiences," says Hagen.

At NCTI, Hagen hopes to have an applied technology center in operation by fall to offer "multifaceted technological assistance to business and industry using our facilities, equipment and the expertise of our staff," he said.

NCTI may help solve production problems, contract to teach employees, work on product development, help develop training programs and do testing for business and industry. The board will be setting a policy for the program this summer.

One of the reasons NCTI is in the Mid-America Training Group, Hagen said, is probably because its laser technology program has received nationwide recognition.

"We are doing whatever is necessary to share technology,"

Donald Hagen

said Edward Lynch, dean of Macomb College in Warren, Mich. "We'll provide expertise, meeting places, demonstration places, linkages between technology makers and potential buyers, monitoring and consulting services."

For instance, Cuyahoga Community College in Cleveland will provide one of the largest training facilities of its kind in the country when its United Technologies Center opens in 1986. It will provide short-term customized classes for individual companies and year-long skill training programs.

Please turn to NCTI/Page 2

"New technology is changing the way we work, and the demand for quality customized training is sparking a revolution in educational service institutions," said Dr. Nolen Ellison, school president.

Lorain Community College has developed a technology-sharing relationship with Cincinnati Milacron, a machine tool manufacturer.

Milacron has donated more than $1 million in robotic equipment to the school's Advanced Technology Center. The college, in turn, lets Milacron use the center, which houses $5.5 million worth of advanced equipment, to demonstrate equipment to customers and train workers and buyers how to use it.

Sinclair Community College in Dayton has joined with GMF Robotics to open a robotics training center.

The remaining community colleges in the consortium are Kellogg, Battle Creek, Mich.; Rock Valley, Rockford, Ill.; Triton, River Grove, Ill.; Des Moines Area College, Ankeny, Iowa; and Eastern Iowa, Davenport, Iowa.

Other large firms working with the colleges to expand technical skills of their work forces include General Motors, Ford Motor, Firestone Tire and Rubber, Parker Hannifin, Borg-Warner and Technicare.

Representative OBEY. Let me, since we are very short on time, let me ask a few very brief questions.

Mr. Johnston, in the last sentence in the statement which you read, you indicated that you were going to be providing a copy of the North Central Regional Planning Commission report outlining problems and opportunities in more detail.

Could you briefly tell us what are the major opportunities that you see?

Mr. JOHNSTON. Again, I guess very quickly, we do see some opportunities as it would exist in the lumber and wood products industry, as it would relate to some of the better growth curve ones, say, office furniture, along those lines, particularly, wooden partition and shelving and particularly the export market.

One of the problems we have had is not simply the strength of the dollar problem, but our ability to sell, if you will, a high-quality, consistent quality, product. We do have a lot of small producers in that industry, a lot of producers that are producing with very antiquated equipment. They are producing things a quarter inch close enough one way or the other.

Frankly, the European market won't buy that. That is a particular opportunity.

Food processing, as it would relate to some changes in packaging and ability to break into some additional markets, particularly foreign markets, would provide opportunities along those lines as well.

Representative OBEY. Let me ask any of the three of you at that table, you all recited the decline in manufacturing employment and talked about other problems in general.

Let me ask you, how much of this, how much of this decline in this area do you think is due to the fact that we have had now for a long time a severe recession, if not a depression, in the agricultural sector of the economy?

Mr. WARNER. I would think that a good share of it is because it effects all industries. The agribusiness sector we estimate is around 20 percent of the jobs directly. That is from farm equipment production, food processing, which is a very important employer not only here in Marathon County but certainly in Portage County.

I think it is worth noting, too, that we have noticed a lot more problems in the dairy industry than in the cash crops industry. Portage County has been able to weather the agricultural storm in better shape than has Marathon because it is not as dependent on dairy.

So I think that that particular industry itself has generated considerable difficulty.

One of the things that we have also noticed is a large percentage of our smaller farms, which are tending to grow in number, tend to have workers that also participate in the labor market in other industries such as the lumber industry. Or the paper industry, for example. And when they get laid off at those jobs, then they will go back to the agricultural sector.

So there is a good deal of that overlay between the two sectors. It feeds on itself and has a multiplier effect.

Representative OBEY. Mr. Dreyer, just a technical question, we have a lot of debate about the value of any of the statistics that we work with.

How accurate are the local job market numbers which you use or which you have given to us today? What degree of confidence can we have in the accuracy of those numbers?

Mr. DREYER. We measure them the same way, we make slight changes over the years. So I guess you have to look at the trend on which way the figures are going rather than the figure itself. That is the main thing.

I wouldn't bet my life on those figures. We don't have the resources and the ability to calculate all of the unemployment in the area. But I think you should look at the trends rather than at the figure itself.

Representative OBEY. In terms of your comments, I really have a comment more than a question. You indicate that what we need on the tax side in order for business to be able to plan, including the construction industry, is continuity. At the risk of being repetitive, all I can say in response to that is what I said yesterday with another panel.

I think a classic example of how we screw things up is the way we dealt with taxes since 1981. In 1981 we had a temporary political majority for the very extreme tax proposal. And so that proposal was adopted by a very narrow margin. Then conditions changed. We had a different political majority, a different approach, so you had significant adjustments to the tax bill a year later, even though it was an election year.

Then you had another significant change about a year and a half later and all I can say is that I agree with you. I think that what we need is not so much to pass tax legislation that we agree on in our own gut but rather what is necessary is to pass tax legislation which, while everybody might not like it, they could at least live with it for a 4- or 5-year period of time so that you do have some stability in policy and people can plan. I don't know how to tell you that that is going to happen because I don't think that is going to happen. I think we are going to get really twisted around in this tax bill coming up in September.

I think it is going to hammer capital-intensive industries again and I think it is going to hammer this State unless we can change the thrust or eliminate the deductible of State and local taxes. But I well recognize what you are saying. I hope that we can get there from here.

Mr. Cohrs, again, not so much a question as a comment, you said that you were concerned that what we were going to do is simply say to our kids, taxes forever, if we didn't deal with the deficit problem now. I think that is true. I know everybody wants to see Federal taxes cut, but the problem is that any time that you have Federal spending that reaches $180 billion above the revenue, that is not a responsible thing to support.

The problem is that the longer we wait to deal with the need for increased revenues, the more those taxes are going to wind up going up when they do go up. Because every year we add $20 or $25 billion depending upon what the performance of the economy is. Every year that we wait we add about $20 billion more to interest payments. That means that it takes a higher and higher tax increase down the line than it does right now in order to deal with the problem. I hope that you can get people at the Federal level to face up to it because they did in the State, because that would relieve the problem.

I just would like you to express, Mr. Hagen, you mentioned the philanthropic efforts that have helped you continue your efforts to educate the East Asian refugees. This community has a very heavy burden in that regard. I just would appreciate if you would extend my appreciation to those who you referred to because I think that is an important social contribution and an important economic contribution to this area.

Mr. HAGEN. Thank you.

Representative OBEY. Mr. Wergin, you said you had built this building?

Mr. WERGIN. Yes.

Representative OBEY. I had forgotten that.

This building is an example of what we need at the Federal level, because you, as the fellow who constructed the building, and I, in a sense, can claim joint paternity because the legislation that created this building was put together in a bipartisan way.

It was put together by three Republicans. Ray Heinzen, Bill Steiger from Oshkosh, and Dave Martin who was the Republican whip at the time in the legislature.

On the Democratic side it was Frank Nickolay and George Molinaro from Kenosha and myself. And we argued about how it would be put together but we eventually agreed on a plan and we did something that was very unpopular at the time. We also suggested taxes to pay for it.

Today you have indicated that we are at the top of the mill rate ceiling for paying for it. At the time there was a lot of controversy about whether we should be providing an independent tax base for an institution like this. Lots of people were angry. But today I think nobody would think of this community without this institution. We have to deal with the Federal budget policy and tax policy the same way we dealt with that and the way we dealt with social security? The way we dealt with social security 3 years ago was simply to get both parties involved and get each side to take some of the heat. And we did some popular things and some unpopular things. That is usually the way things work when people want to solve problems.

I would like to ask you more questions but we just don't have the time with three other panels. I do want to thank you all for coming today and I hope that while you have been testifying, we have found somebody who is going to provide more jobs for the area.

Thank you very much.

[Pause.]

Representative OBEY. We are talking about two things. The shape of Wisconsin's farm economy. Also I assume there will be some discussion about the pending farm bill in Congress, and, I would hope, some discussion of the existing credit situation with special attention on what people expect the farm credit situation to look like come next spring.

I am asking each of you to take 7 to 10 minutes. I am sure that there will be a few questions from the crowd on this one as well. So I will try to keep mine to a minimum.

Mr. Haldeman, why don't you start?

STATEMENT OF DONALD HALDEMAN, PRESIDENT, WISCONSIN FARM BUREAU

Mr. HALDEMAN. Thank you, Chairman Obey.

I am pleased that you took the time to come back and visit with us and invite us together to discuss the issues that are important to agriculture. I guess we just want to review where we are and where we have been.

It is quite simple. When you compare to it 5 years ago there is no question about it but agriculture is in more serious financial trouble than it was then. The other problem being is where we are presently may not be related too strongly to where we would like to be next spring. Quite candidly I expect that next winter's and next spring's discussion to be at least as intense if not more intense as it relates to the financial ability of farmers to survive through next year.

The question is, What is the strengths of Wisconsin's agriculture? I guess it goes without saying that the primary strength has to be the farmers themselves. It is a dedicated type of work force that has demonstrated ingenuity and willingness to adopt new technology and is also the type of people that have been willing to take sacrifices to stay in business.

But the primary concern we have today and the other strengths we ought to add is our land base, Wisconsin being the eighth largest agricultural State in the Union compared to the—on gross sales, and we have also within the Midwest a very, very valuable water resource that needs to be protected and above all that is a nonsubsidized water resource contrary to what a lot of other agriculture has in this Nation.

The real problem we face today is interest rates. There is lot of this farm debt that was acquired in the 1970's and in the 1980's and admittedly some was acquired because of ill-advised decisions. But a lot of this debt would never have been the problem it is if it hadn't been that the interest rates had risen from 8 percent to as high as 16 and 18 percent while they were trying to pay them back.

You express an interest in young farmers. Of course those that had to purchase the farm and had to borrow the capital to do it are seeing some very serious financial troubles. You also expressed an interest in people that want to enter into agriculture. Quite candidly at this time I am more concerned about the survival of those that we have already in, rather than trying to figure out some program to bring more people into the business.

That may be part of our problem today is that we have too much capital, too much labor at the present time involved in agriculture production and therefore producing surpluses that are hanging over our markets. I am not sure what to say the alternatives that we are facing and what we ought to go—ought to be doing.

I would go back over 50 years of history. If farm programs were the answer to agricultural problems and if expenditures were the solution to our problems, we probably shouldn't have any problems when they relate to the amount of moneys that have been spent for the past 6 to 7 years in agricultural policy. We have a system where we have shifted ourselves from producers for markets and producers for consumers to producers that are producing for surpluses, for storage, for inventory.

And as long as those inventories are around, they tend to do the same thing this time they have every time in history before and they tend to depress my price to a level at which I cannot afford to produce.

So I guess what I would suggest to you on a State level of which I know you have no direct influence on, but realizing that it is an issue that needs to be discussed, is the area of property taxes. If there is any one single ingredient in the farmer's expenditures that the State government is directly related to it is the property tax.

Something needs to be done to shift the cost of education off from property to something else. How can we get the interest rate down? There are farmers today, because they do not have debt, that still are making fair amounts of money farming. But if you have money borrowed and are paying the interest rate, particularly if you have that money borrowed from a bank, from the farm credit system or some other private enterprise, in all likelihood you are paying an interest rate that simply will not—we need to get on with a discussion of how we will balance the budget.

I am not sure what the solution is but we will have to look at the big areas of expenditures to figure out where we can trim them.

I think we are also going to have to look at how we will flatten out the tax and tax ourselves. My concern is as long as we as a public are getting 95 cents worth of Government while we pay only 73 cents for it, we are going to continued to want to have the 95 cents worth of Government.

So I would encourage you to do whatever you can to get the deficit in order so that interest rates ought to be coming down after that happens, and that would probably do more for those that are in trouble in agriculture than anything else.

History will probably record that for 1985, we probably made a left turn every time we should have made a right turn as it relates to solving agricultural problems in the spring of the year. It became very evident we thought we could borrow ourselves out of trouble this last spring.

My concern is that we forgot, perhaps, that what we had to do was sell everything we plant this spring, and reality is starting to set in as markets are depressing each and every day. I have a concern that next year we will all have to work together to have to figure out how to solve the problem. But that problem will not be solved until we get the interest rates down much and that will not happen unless we can figure out a way to get that Federal deficit down and do it quickly.

Thank you very much.

Representative OBEY. Thank you.

Mr. Mulder, please proceed.

STATEMENT OF LELAND MULDER, PRESIDENT, WISCONSIN FARMERS UNION

Mr. MULDER. Thank you, Chairman Obey.

We welcome this opportunity to testify on the health of the farm economy and applaud your decision to bring the Joint Economic Committee's hearings on the general economy to Wisconsin.

High interest rates, low commodity prices, falling land values, and shrinking farm exports are today's four horsemen that are ravaging U.S. agriculture. For purposes of this hearing, I wish to concentrate my remarks on high interest rates and the farm credit situation.

Even though we have seen the prime rate plunge in the past year from 13 percent to 9.5 percent, farmers are financing their operations with borrowed money at the 13 to 14 percent interest range. As Hobart Rowen, economics writer for the Washington Post, has observed, and I quote, "The problem is a classic catch 22. As farm debt soars and the value of farmers' assets decline, more farmers careen toward bankruptcy and become a bad risk for banks, already overcommitted in their agricultural loans."

The rural banks, in turn, are failing at a higher rate than at any time since the Great Depression. Through early May, 20 of 32 U.S. bank failures were agricultural banks. The Wall Street Journal recently carried an article on failing rural banks, datelined Colfax, WI.

The town's lone bank, the First American Bank of Colfax, had been forced to merge with an Amery bank because many dairy farmers couldn't meet their loan payments.

The bank had tried to hold down foreclosures. Who wants to kill a town, the banker told the Wall Street Journal. The newspaper's reporter wrote, and I quote:

> Colfax already is being hurt badly as local businesses that count on farmers' trade feel the blight on the fields. Empty stores dot Main Street, and the lumber yard has closed. The bigger farmers, who still are flush with money, often bypass Colfax when buying both farm supplies and personal goods.

The reporter didn't single out farm implement dealers as businessmen whose livelihood depends on a viable farm economy, but he very well could have. Farm machinery and equipment sales are in their sixth consecutive year of decline and the persisting financial stress in the farm sector does not augur well for a change for the better in the near future. Unit sales of farm equipment in 1984 were down between 50 and 80 percent from their 1979 peaks.

The farmers' biggest banker is the Farm Credit System, which holds $78 billion of the Nation's $212 billion of farm debt. Nearly 11 percent of the $78 billion of FCS loan volume is in trouble.

Some observers expect the System's delinquent loans to about double to 20 percent within a year. The Federal Farm Credit Administration has proposed a $435 million rescue package for its ailing Omaha Intermediate Credit Bank after a $150 million bailout of the Spokane Farm Credit Bank earlier this year also took place.

A Texas rural banker who invested heavily in FCS bonds expressed his worry to the Washington Post, and I quote: "There surely would be another serious ripple effect if we see farm credit defaulting. The Government would have to go in. No question about it."

The Federal Government may have to step in with an infusion of tax money to save the Farm Credit System because the System's own, so-called, blueprint for survival, Project 1995, is more concerned with restructuring the System to wrest control from the grassroots than in serving the best interests of its farmer patrons.

The control moves rapidly to the bureaucracy. I would emphasize that particular point.

Commenting on Project 1995 in the August issue of the Farm Journal, Iowa State University economist Neil Harl expressed his dismay. Said Harl:

> I am very disturbed with the basic orientation of the report. They suggest to build a new Farm Credit System from the top down. It seems to me that they really aren't looking for what is good for farmers and agriculture.
>
> If they were, they'd be looking to build from the bottom up, that's the critical missing element in the report—no insight is given as to what ag credit should be in the future.
>
> Despite all the talk about 1995, this is a plan without the customer in mind.

We also believe that the Farm Credit System has been derelict by not supporting farm legislation in the interest of its farmer patrons. I have attached to this statement a reprint of an article that appeared in the Saturday, March 9, Milwaukee Sentinel.

Thirty-one representatives of the St. Paul Farm Credit District were in Washington, DC, at the time President Reagan vetoed the emergency farm credit bill last March. We said at the time that the legislation was the "only game in town," and that those who went along with the President deserve censure.

The Sentinel story makes clear that the chairman of the St. Paul District Farm Credit Board agreed with the President's veto. We believe the farmer patrons of the Seventh Congressional District still deserve an explanation of what I consider to be an antifarmer stand.

If farm families received an adequate price for their commodities, we wouldn't have to be here today, Congressman. Price is a matter of unity, and we have more unity today in agriculture, especially in this State, than ever before in my adult life.

I can't conclude my remarks without mention of the dairy situation. As you are well aware, Congressman Obey, 3 weeks ago I joined Wisconsin Farm Bureau President Don Haldeman, Farmers Union Milk Marketing President Stewart Huber, Wisconsin NFO President Steve Pavich, and Tom Lamm of the Wisconsin Rural Development Center in sending a letter to you and the rest of the Wisconsin congressional delegation, in which we supported the paid diversion provision of the dairy bill approved by the House Agriculture Committee, but raised serious objections to provisions in the bill which would legislate higher fluid milk prices in the Southeast to the detriment of the Upper Midwest producers and authorize further checkoffs from milk checks for promotion and research that we feel are ill-advised at this time of falling milk prices.

At a time when interest costs account for an estimated 20 percent of all farm production expenditures, at a time when interest costs approximate total net farm income, it is imperative that Congress and the administration come to grips with the Nation's No. 1 fiscal problem, the U.S. budget deficit.

Especially do Wisconsin farmers want to see more fiscal conservatism in the Pentagon. The $1.5 billion approved for the MX missile would have covered the cost of the dairy price support program in 1984. You have said many times, Congressman Obey, that interest rates cannot come down in the long run if the country must turn, more and more, to borrowed money for operating capital.

The U.S. trade deficit has become as major a problem as the national budget deficit. The question is no longer free trade, the question now is fair trade. And the tokenism we are being offered is simply not enough and will never solve the problem.

Traditionally, the rate of farm disappearance has been 1 to 2 percent annually. In 1984, it jumped to 3 to 4 percent. If in 1985 farm commodity prices are not substantially strengthened by the new farm bill, and if in 1985 there is no move to substantially reduce the national deficit, then we can look forward to more farm failures, more disrupted lives, and the continuing disintegration of the rural community.

Thank you.

Representative OBEY. Thank you.

[The article attached to Mr. Mulder's statement follows:]

MILWAUKEE SENTINEL

Lenders say vetoed farm bill was useless

By Richard Bradee
Sentinel Washington Bureau

Washington, D.C. — Lenders now believe that the farm credit bill President Reagan vetoed would not have helped farmers, an official of the organization that is Wisconsin's leading source of farm loans said Friday.

"It wouldn't have done the job that needed to be done," said Philip Hein, of Stratford, Wis., chairman of the St. Paul District Farm Credit Board, which manages Federal Land Banks, Production Credit Associations and Banks for Cooperatives in Wisconsin, Minnesota, North Dakota and Michigan.

Land banks account for 47% of Wisconsin's farm real estate loans, and PCAs account for about 30% of loans on cattle, machinery and other personal property.

In Wisconsin, the land banks make four times as many real estate loans as commercial banks and eight times as many as the US Farmers Home Administration.

Thirty-one representatives of the St. Paul District have been in Washington since Wednesday, meeting with members of Congress.

Hein said Sen. William Proxmire (D-Wis.), who voted against the farm credit bill, had been persuasive in his arguments against the bill. "He said it wasn't going to do anything for the farmers, and we agreed with him."

Before knowing details of the bill, he said, many people "just had an overview that it was a bill to help the farmers."

Hein said it now appeared that the FmHA could not have used the extra money the bill would have provided, and lenders could not have forgiven loan principal, as some in Congress suggested.

Representatives of the land banks and PCAs, he said, tried to let Congress know that farmers faced an income crisis, not a financing crisis.

"Up to 10% of our loans are problems," he said, and the problems are caused by decline in the value of collateral, high interest rates because of the high federal deficit and the loss of world markets to other countries.

The district board's policy statement urged Congress to try to lower interest rates temporarily, stabilize the value of farm assets, reform tax laws and improve world trade.

Reducing the federal deficit would help farmers, the statement said.

"About the deficit, I'm not too optimistic," Hein said.

The delegation gave members of Congress a report showing that their loan volume was increasing slightly and that they had 1,772 loans 30 days or more overdue at the end of 1984, compared with 1,490 at the end of 1983.

The most recent report on commercial banks in Wisconsin, issued last month by the Federal Reserve Bank of Chicago, showed that only 18% of Wisconsin bankers said loan demand was more than a year ago, and 39% said it was less.

Most of the banks, according to the Federal Reserve survey, had better loan-to-deposit ratios than they had had in the 1960s or 1970s.

Representative OBEY. Mr. Gasser, please proceed.

STATEMENT OF JOHN GASSER, ADMINISTRATIVE ASSISTANT TO THE PRESIDENT, WISCONSIN NATIONAL FARMERS ORGANIZATION

Mr. GASSER. I, too, am happy to be here.

As I indicated in my prepared statement, I work as Steve Pavich's assistant in the dairy office where we do the accounting and all related things for about 2,500 dairy farmers. That is the only thing we do in that office.

In my capacity there, I think I enjoy a rather unique opportunity to assess the conditions that farmers are in, and with 2,500 approximately, I think it is a good cross section of the State and some of those farmers have 15 cows and some have 700. Most of them fall in a different category, probably 50 to 100 cows.

In the 7 years that I have been in that office, it used to be a very rare occasion when one of the sheriff's people would come with a garnishment or when I would get a call from a bank or a lender wanting to know about somebody's cash flow.

Starting about 2 or 3 years ago, that started to happen more often. More and more farmers taking chapter XI, more and more farmers whose assignments exceed their income. So in response to one of the questions that you asked, the trend, as someone else indicated before, is not good.

Since dairy farmers make up the largest segment of farmers in Wisconsin, their welfare, their ability to pay their bills is important to everybody else. Every dollar that the farmer gets is spent to service his debt. It is spent for paint, for hardware, for fuel oil, for all the things that farmers use. And farmers are the biggest single segment, consumer segment in the United States.

So whether the money is derived from the marketplace, where it should be, or whether the Congress initiates some sort of help, whatever dollars the farmers receive generate themselves time and time and time again throughout the whole economic system.

There have been a lot of studies made and there is so much statistical material available to you and Mr. Haldeman and Mr. Mulder have touched on some of it. I don't think I should be repetitious and go into these things here. I would like instead to comment on the national situation as I see it, from my perspective and if you and the rest of the Representatives and the Senators are confused about what farmers want, all I can say is that I don't blame you.

A couple years ago, Don Haldeman and myself and Doug Caruso from Farmers Union and several other people went to Washington with the new concept which was the dairy diversion program. And your office was one of the first ones we went to, if you recall it.

Eventually we got something in, along the order of what we wanted. But when the President indicated that he would suffer this nonsense just this once, it gave the signal to every dairy farmer in the country that 15 months down the road it was going to be one battle to see if he could survive.

And the only way, the only means he had is to increase production, knowing that the price was going to go down. That is exactly what is happening right now.

That is what I see continuing to happen. We have toll-free lines coming to our office. I talk with probably 50 or 100 farmers a week and they ask me: What is going to happen? Where is it going to end? They all tell me the same thing, there is nothing else I can do to meet my obligations right now except produce more milk.

That is a sad fact of life. It is the same way with a corn farmer and the grain, and the soybean farmer and everybody else. We have a Secretary of Agriculture who made the statement a couple of years ago that the big problem with agriculture were there were too many farmers. He said when about 20 percent of them leave the scene, the problem will be over. That is not an exact quote but that is the substance of his remarks.

I have seen farmers leave the farm. But somebody else works the land, they produce the milk, they produce the grain. It doesn't really do anything to solve the problem, as Mr. Haldeman indicated, the problem of more production than we can sell domestically.

On my way over to this table, I left on your table there a cartoon from a magazine called Farm Futures. And I see a sort of a smile on your face.

I think you appreciate the thrust of it.

Representative OBEY. I am smiling because the same cartoonist did one on me last week. That is the one I thought you were going to bring up. He had me in the shape of a cow. Go ahead.

Mr. GASSER. For those of you who don't see the cartoon, it sort of accuses the Congress in Washington of leading the farmers on a snipe hunt, and those of you who have a traditional snipe hunt in mind, in the cartoon, it is wonderful.

The Secretary of Agriculture has indicated we have to bring the price of our exports down to rural levels so we can move them on the world market. My reaction is, if the farmer is already losing money on what he produces, what good does it do for him to sell it overseas?

The whole theory is that if you can move it out of the country, the domestic price will go up. That seems to be a sort of a self-defeating scenario here. I don't see it working very well. Perhaps we need a two price system. One price domestically and one for the world market.

How you would accomplish that is something that I don't know. I am reminded of the old story about the grasshopper who felt fall coming on and winter coming on and knew he wouldn't survive the winter so he asked the owl what he should do. The owl said, "Well, look at the frog. He goes to the bottom of the pond and hibernates in the mud all winter." The grasshopper said, "How can I do that?" The owl said, "I gave you the plan. It is up to you to work out the details."

So I think that if you are looking at something realistically, something that is possible to accomplish in the farm bill, maybe we should be looking at some kind of a two-price system. Again, with the administration apparently not quite thinking in unison with a lot of the rest of us, it may be very difficult.

The other way that I, other thing that I see possible, you can gear supply and demand together two ways. You can either control the amount that is produced, which doesn't really sit very well with farmers. They don't want quotas. Or you can control the amount that goes on the market. You can do as this Government has done many times in the past, have storage for grain, the old Roosevelt theory of the ever-normal granary, which worked quite well. But like everything else, all Government programs, there are always ways to reduce the system.

Now, to respond directly to some of your questions in my prepared statement. One thing I would like to leave with you though. The question that a lot of people ask: Who is at fault for this crisis? I don't think we should be pointing fingers.

Find out where the problem lies and then try to rectify it.

I would like to quote something from a bulletin from the University of Missouri, from the extension service. One of our consultants has a master's degree in farm economics and he sent me this.

He said: "Least of all did the majority of farmers now in financial trouble bring on that trouble by bad farming. A study of farmers in Missouri for 1983"—remember this is 2 years old already—"showed that the farmers with the lowest equity had the highest percent return to capital in management. They were good farmers, but their interest payments forced them into a net loss for the year.

To repeat the question, the second horn of the dilemma is how much squeezing of capital in a farm family is consistent with the democratic values and our concept of public interest?

Asset deflation, high interest rates, have put hundreds of thousands of farmers in peril, not primarily because of operating inefficiency but by virtue of national economic policy.

If you are confused as to what farmers wanted, I don't blame you. Because while we are speaking with one voice more than we did a few years ago, there is still, there are still a lot of areas that the major farm organizations in the commodity groups can't agree on.

And I would just like to close with one observation. That is, that at the time of the dairy diversion program, we heard a lot of comments from the national associations of livestock associations, pork and beef producers. You said you can't put a million cows on the market because it would drive the price down. I don't know how much lower the price can go than it is right now.

But it seemed to me that they were taking a very shortsighted look at the situation because every year that those dairy cows stayed around, they produced another calf that either winds up as another cow or a Holstein steer and eventually those cows go to market anyway and having reproduced themselves three or four times.

The only solution that I see is to cut off the supply of the source. So I have one closing remark and that is that if you and people you work with in Washington manage to get some realistic farm bill, something the public will accept and something that the farmers can accept and live with, it would really do them some good, then we can preserve the most efficient agriculture that the world has ever known. It is the envy of the whole world.

But if the farm bill is too compromised, either by political considerations or regional interest or commodity interests, then we are all in trouble. Thank you.

Representative OBEY. Thank you.

[The prepared statement of Mr. Gasser follows:]

Prepared Statement of John Gasser

My name is John Gasser and I am Administrative Assistant to Steve Pavich, President of the Wisconsin National Farmers Organization and the Director of Operations for the Midwest Dairy Department. I enjoy a unique opportunity to see the records of thousands of farmer's income and assignments because it is a part of my job. Until about a year and a half ago, it was a rare occurrence to have garnishments arrive at our office. Now it is rather common. I have talked with hundreds of farmers about their financial problems and one thread is common to most conversations, it is the first time most of them have experienced severe problems. I believe that the farmers I am talking about are an excellent cross section of Wisconsin's farmers and a large enough sampling to make my observations valid.

Dairy farmers make up the largest single segment of Wisconsin's agricultural economy and until recently, were relatively better off than their counterparts who depend on livestock and grain for income. I stress the word relatively, because even when milk prices peaked at over thirteen dollars per hundredweight, the cost of producing milk was higher than that by just about every study made. To be sure, there were surveys made and some farmers said they could survive on lower prices and some of them are going to be able to do that, but they are in the minority. As in all instances, when looking at trends, we must look at averages, not exceptions. The fact is that a lot of dairy farmers, like a lot of other farmers, have been living off their equity, off farm jobs, and in some cases, tax write-offs. This scenario is not the right one for a continuation of the most efficient agriculture the world has known.

There are so many studies and reports, and so much statistical data available to the members of the Congress that it would be a waste of time to discuss much more of the problem here. We can not ignore the signals out in the country. The Farm Credit System is in deep trouble, banks in farm country are failing, investors are waiting for still lower land prices because they feel that the bottom has not yet been reached. Wisconsin's farmers are a little late getting into the pool of trouble, but there is no doubt that they too are in trouble. I believe that we have only seen the tip of the iceberg here.

The Secretary of Agriculture has said that when about twenty percent of the farmers leave the scene, the problem will be gone. That is not a direct quote, but the substance of his remarks. I do not believe that when twenty percent of the farmers go broke, as the saying goes, that agriculture will benefit at all. Just the opposite. Farmers who leave the farm will only compete for already scarce jobs, and if there are none, they will join the welfare ranks where too many already exist. The problem is not too many farmers, but too little income from the marketplace. The secretary also believes that farm prices must be lowered to world price levels so that we can compete for world markets. The flaws in that theory are obvious. Farmers already going broke will not benefit from lower prices. The Congress must take a realistic look at the problems and come up with some realistic solutions, not solutions that will be so unpopular that they will not be accepted by either the public or by the nation's farmers.

There are two ways to manage the supply-demand situation. Either farm production must be curbed through the use of quotas, which farmers are reluctant to accept, or a method of making available to the market only that portion that will bring about a profitable price level must be found. I have used a homely analogy which goes like this; If you have ten chickens to sell and the market will take only nine of them at a dollar each, you are much better off to sell nine of them than to put all ten of them on the market if that tenth chicken drives the price down to fifty cents.

Now I would like to respond directly to the questions raised by the Chairman in the letter dated July 22.

- *The current status of agriculture in Wisconsin is not as good as it was last year and certainly not as good as it was five years ago.*

- *The strengths of Wisconsin's agriculture are the family and the owner operated farms with family labor and the pride of ownership of farms that have been in the family for generations. Some of these farms are in jeopardy because of cash flow problems caused by low prices, not bad management.*

- *Farm credit is available to those farmers who have a lot of equity and who have demonstrated good management. The problem is that the young farmers who need credit the most, do not usually have sufficient equity to qualify. I hear a lot of complaints from farmers who feel that lenders are foreclosing on farmers who could probably make it, and on the other hand, loaning more more to some who probably won't, in the hope that things will turn around and and they can then recover those investments too.*

- *The Administration's proposed farm bill, if enacted, would have a very serious effect on Wisconsin's dairy economy. Lowering support prices without putting legislation in place to correct the basic problem, will have an adverse effect.*

- *Alternatives to the Administration plan should include some kind of plan similar to the late Dairy Diversion Plan. A plan that will allow dairy farmers to maintain income while reducing production. It must be effective enough to reduce total production, extend over a long enough period so that it gets the full job done, not just half of it as the last one did. Then, when production and consumption are about equal so that CCC purchases are manageable, we must adopt something similar to the Canadian system to ensure we do not get into the present situation again.*

The question that many people, including farmers, find themselves asking is: "Who is at fault for this crisis." The issue is not primarily, who, or to lay the blame, but to ascertain where the problem lies so that we can make sure it does not occur again. Let me quote from a bulletin published by the University of Missouri Cooperative Extension Service:

> *"Least of all did the majority of farmers now in financial trouble bring on that trouble by bad farming. A study of Mail-in-Record farmers in Missouri for 1983 showed that the farmers with the lowest equity had the highest percent return to capital and management. They were good farmers, but their interest payments forced them into a net loss for the year.*
>
> *To repeat the question at issue...the second horn of the dilemma...is how much squeezing of capital and of farm families out of agriculture is consistent with democratic values and our concept of public interest..?*
>
> *"Asset deflation and high real interest rates have put hundreds of thousands of farmers in peril, not primarily because of operating inefficiency, but by virtue of national economic policy."*

The former director of OMB made a statement for which he received much criticism. However, when we look at his statement literally, he was right. He said that the government had no duty to "bail out" farmers who had purchased land at too high prices, or words to that effect. David Stockman was right, but unfortunately, many people lumped all farmers into that category. The truth is, that most farmers, and I stress the word most, are simply victims of circumstances. I believe that it is the duty of the Congress to change those circumstances so far as possible. Only dreamers believe that a totally free market is possible, and only dreamers believe that the Congress can do the total job. The Congress must do what it can in the short term to save our system of agriculture, and farmers themselves must organize and cooperate to finish the job.

I believe that agriculture in Wisconsin and in this nation can survive in its present, highly efficient form, but only if a realistic farm bill becomes law. If the farm bill is too compromised, either by regional interests or political considerations, then agriculture is in real jeopardy.

Representative OBEY. Mr. Hein, please proceed.

STATEMENT OF PHIL HEIN, CHAIRMAN, ST. PAUL DISTRICT FARM CREDIT COUNCIL, INC., AND CHAIRMAN, BOARD OF FARM CREDIT SERVICES, ST. PAUL, MN

Mr. HEIN. My name is Phil Hein, and I am a dairy farmer, chairman of the St. Paul District Farm Credit Council, and chairman of the Board of Farm Credit Services, St. Paul.

It is an honor and pleasure to be here today. It is not often that I have the opportunity to share my concerns with such an influential group of leaders regarding an issue that is affecting thousands of farmers in hundreds of communities, including those in Stratford, WI, like me.

As a farmer, I have seen and felt the consequences of this Nation's depressed agricultural economy. And so have the thousands of farmers in North Dakota, Minnesota, Michigan, and Wisconsin whom I represent as chairman of the Farm Credit Services, the area's leading lender of agricultural credit.

As you probably are aware, farming has become a very unstable occupation, particularly for Midwestern farmers who are finding it increasingly difficult to overcome the oftentimes overwhelming combination of low income, high debt, and deteriorating asset values.

I am concerned about the viability of U.S. agriculture, about the viability of the American farmer, deeply concerned, as is the Farm Credit Services.

Therefore, for the next few minutes this afternoon, I would like to present a short, but I hope incisive, view of what it is like to be a Wisconsin farmer today, August 7, 1985. I will outline the severity of stress, as well as some of the causes and cures behind it.

I will start with the good news first.

Wisconsin farmers, on the whole, are better off than their Midwestern counterparts: they are stronger and more financially sound than many farmers in neighboring States. Don't get me wrong, though. They are by no means living on easy street.

Wisconsin farmers today, like other farmers nationwide, are witnessing trends that are forcing many to reconsider their livelihood. The trends include low income, high costs, declining asset values, rising debt-to-asset ratios, more delinquencies, record foreclosures. Behind those trends are numbers—too many numbers.

As of midyear, for instance, in Wisconsin, Farm Credit Services recorded 2,700 FLBA and PCA delinquencies, 200 bankruptcies, 450 foreclosures. We watched Wisconsin total farm debt grow from $4 billion in 1979 to $6.8 billion last year. We saw debt-to-asset ratios rise 26.7 percent in 1984, and worse yet, we witnessed land values drop by 14 percent. In central and northern Wisconsin, the value of farm land declined anywhere from 10 to 29 percent.

These statistics spell lean times for farmers and declining credit quality for our associations. The percentage of acceptable FLBA loans statewide was 79.9 percent as of last month. The percentage for PCA's was a bit lower at 75.4 percent. In northern and central Wisconsin, the percentage of acceptable PCA and FLBA loans ranged from 72 to 80 percent.

Overall, our Wisconsin loan portfolio remains pretty healthy, due to the presence of dairy. However, the stability, which has marked the dairy industry for years, will no doubt be affected by the administration's various farm bill proposals. To what extent, though, I do not know at this time.

The future health of Wisconsin's dairy industry will benefit from a farm bill that provides for an equitable return on investment for all dairy farmers. As far as ceiling prices and other particulars are concerned, we feel that is best left to the dairy organizations to decide. However, Farm Credit Services has done some research regarding the impact of various price support levels on Wisconsin dairy farmers, the results of which you will find in attachment B to this statement.

The present and future livelihood of Wisconsin and other dairy farmers is and will be influenced by a number of factors, including the availability and cost of credit. Today, like tomorrow, farmers will find credit available at a variety of interest rates at Farm Credit Services.

Land bank rates, for instance, currently range from 11.50 percent to 12.75 percent, and we think in the near future that we will be able to do even better than that. By cutting operating costs by 15 percent, we hope to reduce interest rates by the first quarter of next year, if not earlier.

Times are tough, but we are doing what we can to help farmers remain farmers. An example of this commitment is our relationship with young farmers. Our associations, including FLBA of Wisconsin, are giving young and beginning farmers a chance to prove themselves, using acquired property, preferred rates, and special lease agreements.

Unfortunately, these are stressful times for both lenders and borrowers. And they will continue to be stressful. The bad news is that we anticipate the trends and percentages I mentioned earlier will worsen until we have in place some long-term, national solutions. We foresee no quick answer, just as we foresee no quick turnaround to the agricultural crisis. That creates a problem for rural America.

The solution to our problems lies with reversing two of the most detrimental trends facing farmers in the 1980's: low commodity prices and declining land values. These two factors, in large part, influence farm income, which in turn determines a farmer's austerity or prosperity.

To give you a better idea of how asset values, commodity prices, and debt determine profit or loss, I have included an attachment, attachment A, to this statement.

To reverse the stress facing those of us in the agricultural community, the Farm Credit System's Farm Credit Council is aggressively working to enhance farm income, stabilize land values, and lower interest rates. It is unlikely that agriculture will return to the days of endless prosperity and growth, but the St. Paul district is confident that, with the right legislation, agriculture can return to a world marked by reasonable profits, stable asset values, and manageable interest rates.

We have been supporting legislation that will provide temporary interest rate reduction for farmers where loans could be brought to performing condition with limited help; stabilize values of farm assets, reduce production and improve markets. Two proposals falling into this category are the concept of a National Agricultural Conservation Corporation and the development of a new marketing loan proposal.

Under the first concept, an organization would be created to purchase land on a short-term basis from lenders and financially stressed farmers. This holding tank for land would help stabilize land values, allow financially stressed farmers to restructure their asset holdings and help conserve fragile land resources.

The second concept is a marketing loan proposal that would provide farmers with cost-effective economic supports and competitive world market prices. Very briefly, the concept allows farmers to be able to receive a marketing loan at harvest, to be repaid at the loan level or the world market price, whichever is the lower at the time farmers choose to repay their loans. This arrangement would benefit farmers, exporters, commodity users, and the Government. I believe the Senate has adopted a form of this concept in its farm bill.

The council also is supporting legislation that would improve the use of agricultural commodities in foreign aid and food programs and alter tax laws for the benefit of agriculture and, of course, of major importance, improve and strengthen trade policies to bring higher prices for U.S. agricultural commodities.

As you can see, we have our work cut out or us. But that's OK. It's a challenge we are willing to take because the Farm Credit Services is committed to agriculture. We are committed to remaining a viable organization. We are committed to developing solutions that will reduce stress and restore income to America's farmers, and we are proud of our accomplishments.

In Wisconsin, Farm Credit Services served on the Governor's commission of agriculture, an ambitious, timely and results-oriented organization that brought assistance to rural areas and fought for agricultural tax reform.

Unfortunately, though, these efforts alone are not enough to swing the pendulum back to a more profitable, less stressful environment. It will take more, more than just State or local actions and solutions.

As I mentioned earlier, it will require national answers and cooperation and commitment from you, me, your congressional peers, and our borrowers.

We must act together to ensure agriculture remains a viable industry in Wausau, in Elkhorn, in Stratford, and in the other farming communities across rural America.

Reasonable profits, stable asset values, and manageable interest rates are what the American farmer needs. It is what he deserves. And with your help, it is what he will get.

Thank you.

Representative OBEY. Thank you.

[Attachments A and B referred to by Mr. Hein in his statement follow:]

ATTACHMENT A

The attached tables illustrate how prices, asset values and debt combine to determine a farmer's equity. The tables show the results of the above factors on three groups of farmers: farmers with no debt, moderate debt and high debt. (Studies show that about one-third of the nation's farmers fall into each category.)

Table 1 is similar to the conditions of the 1970s. During this period, commodity prices were high enough to allow farmers to earn 15 percent on their money, whether it was their own or borrowed capital. The 1970s also was when the value of farm assets increased by 10 percent a year.

The three groups of farmers in Table 1 all have $100,000 in equity capital. The difference lies in their debt, which ranges from $0 to $200,000. The rate of return on equity (assuming the return of investment is 15 percent) is 12 percent for farmers with no debt; 14.4 percent for farmers with moderate debt; and 21.6 percent for farmers with high debt. The conditions of the 1970s allowed highly leveraged farmers to receive the highest gains in net worth.

In addition, the value of assets also was increasing for farmers. Assuming a yearly asset appreciation of 10 percent, the first group of farmers with no debt earned a rate on equity of 22 percent. The second group of farmers earned 29.4 percent, while the third group of farmers more than doubled their equity, increasing their net worth from $100,000 to $151,600 in one year. With such financial incentives, farmers often expanded their operations, using borrowed capital.

In Table 2, the same three groups of farmers are shown -- using their same debt and equity levels -- under conditions more similar to the 1980s.

Assuming the income earned on the total capital invest is now -15 percent, the rate of return on equity for the first group of farmers is -15 percent. Because the return is negative on borrowed and equity capital, the second group of farmers have a -27 percent return on equity; the third group of highly leveraged farmers have lost 63 percent.

In addition, the rate of return on equity worsens when the value of assets decreases by 10 percent. As shown at the bottom of the table, the first group of farmers under these conditions have lost 25 percent of their equity; the second group lost 42 percent and the third group lost 93 percent.

Table 1

PRINCIPLE OF INCREASING RISK

	Debt/Equity		
	0	.5	2
Equity Capital	$100,000	$100,000	$100,000
Debt Capital	0	50,000	200,000
Total Capital	$100,000	$150,000	$300,000
Income when rate earned on investment is +15%			
Returns to total capital	$15,000	$22,500	$45,000
Cost of debt (9%)	0	4,500	18,000
Before-tax return on capital	$15,000	$18,000	$27,000
After-tax net return on capital (tax = 20%)	$12,000	$14,400	$21,600
Rate earned on equity (investment)	12%	14.4%	21.6%
Income when asset value increase +10%			
Increase value of assets	$10,000	$15,000	$30,000
Rate earned on equity (investment + appreciation)	22%	29.4%	51.6%

Table 2

PRINCIPLE OF INCREASING RISK

	Debt/Equity 0	Debt/Equity .5	Debt/Equity 2
Equity Capital	$100,000	$100,000	$100,000
Debt Capital	0	50,000	200,000
Total Capital	$100,000	$150,000	$300,000
Income when rate earned on investment is -15%			
Returns to total capital	-$15,000	-$22,500	-$45,000
Cost of debt (9%)	0	4,500	18,000
Total return on capital	- 15,000	- 27,000	- 63,000
Rate of return equity (investment)	-15%	-27%	-63%
Income when asset value decrease 10%			
Decrease in value of assets	-10,000	-15,000	-30,000
Rate earned on equity (investment & depreciation)	-25%	-42%	-93%

ATTACHMENT B

The attached corn/soybean, wheat and dairy analysis is based on 1984 Agrifax data and should serve as a useful basis to facilitate legislative policy discussion. Like any commodity analysis, this data is subject to a number of factors, conditions and assumptions that determine the output. These factors are listed below to help explain and interpret the output, and provide necessary background for further legislative analysis.

- The accrual inventory changes included in the value of farm production are a major factor affecting the relative profitability levels. Although these changes even out over time, they cause wide income fluctuations for farmers from year to year. For 1984, the federal PIK program contributed to particularly large inventory swings. As a result, analysis based on the same sample of farmers over a number of years would better explain current conditions and overall trends.

- Price volatility is another significant factor affecting net farm income. This analysis assumed a successful marketing strategy and utilized early 1984 market prices before the precipitous decline in corn and soybean prices. As a result, corn and soybean income is much higher than if an average price or an even lower year-end price was used. Further, since the average market price for each income group is not know, the high-income group may have had much better marketing success than the low-income group. Meanwhile, wheat prices were more stable in 1984, and successful marketing had less of an effect on income.

- Federal program benefits also helped boost income for 1984 participating farmers. This analysis used a 64 percent participation level for corn and 55 percent for wheat. Corn benefits are included in the price per bushel, and wheat payments are included in the government payment category. Without these payments, net farm income would drop accordingly.

- Other income from other farm enterprises was relatively small for dairy, but it was more important for wheat, and it was extremely significant for corn/soybeans. For example, North Dakota wheat farms were able to increase cash receipts through hefty barley and sunflower production. Surprisingly, the most profitable Minnesota corn/soybean producers had the highest proportion of other cash income, primarily from hogs.

- Operating expense increases have moderated in recent years due to lower inflation levels, but interest payments have increased as real interest rates increased. These high levels of interest payments affect farm income because interest expense ranges from $9,000 to $53,000. Generally, higher interest payments are associated with the low-income groups. For example, the low-income Minnesota corn/soybean producers paid $53,000 in average interest payments while the high-income group paid an average of $21,000.

- Net farm income does not account for family living expense and income taxes. Assuming a modest $20,000 charge for living expense and taxes, most farm operations show a substantial reduction in equity. To help offset these farm losses, nonfarm income ranges up to $7,500 and averages approximately $3,500 per year.

Income budgets such as the 1984 Agrifax data provide a useful short-term perspective. Production cost information is also highly useful, because it lists production costs for each enterprise. The University of Minnesota Southwest Minnesota Farm Business Management Association shows a 1984 breakeven cost of $2.54 per bushel for corn, $5.70 per bushel for soybeans and $3.60 per bushel for spring wheat. These costs are near the average market price for 1984, and generate little or no net cash flow for principal payments, taxes and family living. Most other studies and research show similar bleak results. It is clear that the economic viability of many farmers is precarious, and further price reductions will negatively affect an already critical agricultural economy.

Wisconsin Dairy Producers
30 to 45 Cows Per Herd

1984 Actual Performance	Income Groups Low	Medium	High
Number of Farms	18	19	19
Average Tillable Acres	170	150	190
Number of Cows	40	39	40
Pounds Sold/Cow	13346	12824	14157
Average Price Received	13.15	12.85	13.44
Milk Income	70200	64267	76108
Other Income	18519	10084	15320
Government Payments	8	1498	212
Total Cash Income	88727	75849	91640
Value of Farm Production	74762	74545	97965
Total Operating Expense	84202	69248	81664
Net Farm Income	-9440	5297	16301
Net Farm Income If:			
Milk Prices Drop $1.00	-14778	296	10638
Milk Prices Drop $2.00	-20117	-4706	4975

Notes:

1. Government payments includes income for all agricultural programs.
2. Value of farm production includes inventory value adjustments but excludes changes in value of land. Accrual inventory changes included in the value of farm production are a major factor affecting profitability levels.
3. Operating expense includes depreciation of buildings and equipment.
4. Net farm income is before operator labor draw and income tax.
5. Source: 1984 Agrifax Comparative Farm Business Summary.

Wisconsin Dairy Producers
46 to 59 Cows Per Herd

1984 Actual Performance	Income Groups Low	Medium	High
Number of Farms	15	14	15
Average Tillable Acres	251	213	216
Number of Cows	53	52	53
Pounds Sold/Cow	13549	12557	14756
Average Price Received	13.23	13.06	13.43
Milk Income	95004	85277	105032
Other Income	24779	16124	16850
Government Payments	1506	1454	2727
Total Cash Income	121289	102855	124609
Value of Farm Production	113573	95849	133925
Total Operating Expense	130335	93179	106947
Net Farm Income	-16762	2670	26978
Net Farm Income If:			
Milk Prices Drop $1.00	-23943	-3860	19157
Milk Prices Drop $2.00	-31124	-10389	11337

Notes:

1. Government payments includes income for all agricultural programs.
2. Value of farm production includes inventory value adjustments but excludes changes in value of land. Accrual inventory changes included in the value of farm production are a major factor affecting profitability levels.
3. Operating expense includes depreciation of buildings and equipment.
4. Net farm income is before operator labor draw and income tax.
5. Source: 1984 Agrifax Comparative Farm Business Summary.

Wisconsin Dairy Producers
60 to 79 Cows Per Herd

1984 Actual Performance	Income Groups Low	Medium	High
Number of Farms	9	9	9
Average Tillable Acres	323	239	279
Number of Cows	69	68	68
Pounds Sold/Cow	13202	14436	14271
Average Price Received	13.71	13.25	13.31
Milk Income	124890	130068	129164
Other Income	25641	18180	25526
Government Payments	2258	1283	2474
Total Cash Income	152789	149531	157164
Value of Farm Production	135898	151123	169095
Total Operating Expense	153633	142501	144823
Net Farm Income	-17735	8622	24272
Net Farm Income If:			
Milk Prices Drop $1.00	-26844	-1194	14568
Milk Prices Drop $2.00	-35954	-11011	4863

Notes:

1. Government payments includes income for all agricultural programs.
2. Value of farm production includes inventory value adjustments but excludes changes in value of land. Accrual inventory changes included in the value of farm production are a major factor affecting profitability levels.
3. Operating expense includes depreciation of buildings and equipment.
4. Net farm income is before operator labor draw and income tax.
5. Source: 1984 Agrifax Comparative Farm Business Summary.

Wisconsin Dairy Producers
80 to 300 Cows Per Herd

1984 Actual Performance	Income Groups Low	Medium	High
Number of Farms	57	57	58
Average Tillable Acres	NA	NA	NA
Number of Cows	107	109	110
Pounds Sold/Cow	12956	13377	14297
Average Price Received	13.49	13.36	13.25
Milk Income	187011	194801	208379
Other Income	47137	35063	54481
Government Payments	4660	3501	5479
Total Cash Income	238808	233365	268339
Value of Farm Production	211054	231716	271864
Total Operating Expense	245372	227641	229081
Net Farm Income	-34318	4075	42783
Net Farm Income If:			
Milk Prices Drop $1.00	-48181	-10506	27056
Milk Prices Drop $2.00	-62044	-25087	11330

Notes:

1. Government payments includes income for all agricultural programs.
2. Value of farm production includes inventory value adjustments but excludes changes in value of land. Accrual inventory changes included in the value of farm production are a major factor affecting profitability levels.
3. Operating expense includes depreciation of buildings and equipment.
4. Net farm income is before operator labor draw and income tax.
5. Source: 1984 Agrifax Comparative Farm Business Summary.

Minnesota Corn/Soybean Producers

1984 Actual Performance	Income Groups Low	Medium	High
Number of Farms	31	32	32
Average Tillable Acres	651	333	335
Corn Produced (bu.)	30206	15451	15544
Corn Price	3.07	3.07	3.07
Income from Corn	92734	47435	47720
Soybeans Produced (bu.)	7724	3951	3975
Soybean Price	6.25	6.25	6.25
Income from Soybeans	48276	24694	24842
Other Income	81387	54428	70568
Government Payments	3596	1580	1770
Total Cash Income	225992	128137	144900
Value of Farm Production	160026	105835	144943
Total Operating Expense	222380	119365	125097
Net Farm Income	-62354	-13530	19846

Net Farm Income If:			
Corn Increases $.25/Bu.	-27768	4161	37644
Corn Increases $.50/Bu.	7059	21976	55566
Corn Decreases $.25/Bu.	-96940	-31221	2048
Corn Decreases $.50/Bu.	-131767	-49036	-15874

Notes:

1. Price sensitivity analysis assumes corn/soybean price relationship is constant at soybean price = 2.25 times corn price.
2. Government payments includes income for all agricultural programs.
3. Value of farm production includes inventory value adjustments but excludes changes in value of land. Accrual inventory changes included in the value of farm production are a major factor affecting profitability levels.
4. Operating expense includes depreciation of buildings and equipment.
5. Net farm income is before operator labor draw and income tax.

North Dakota Dryland Wheat Producers

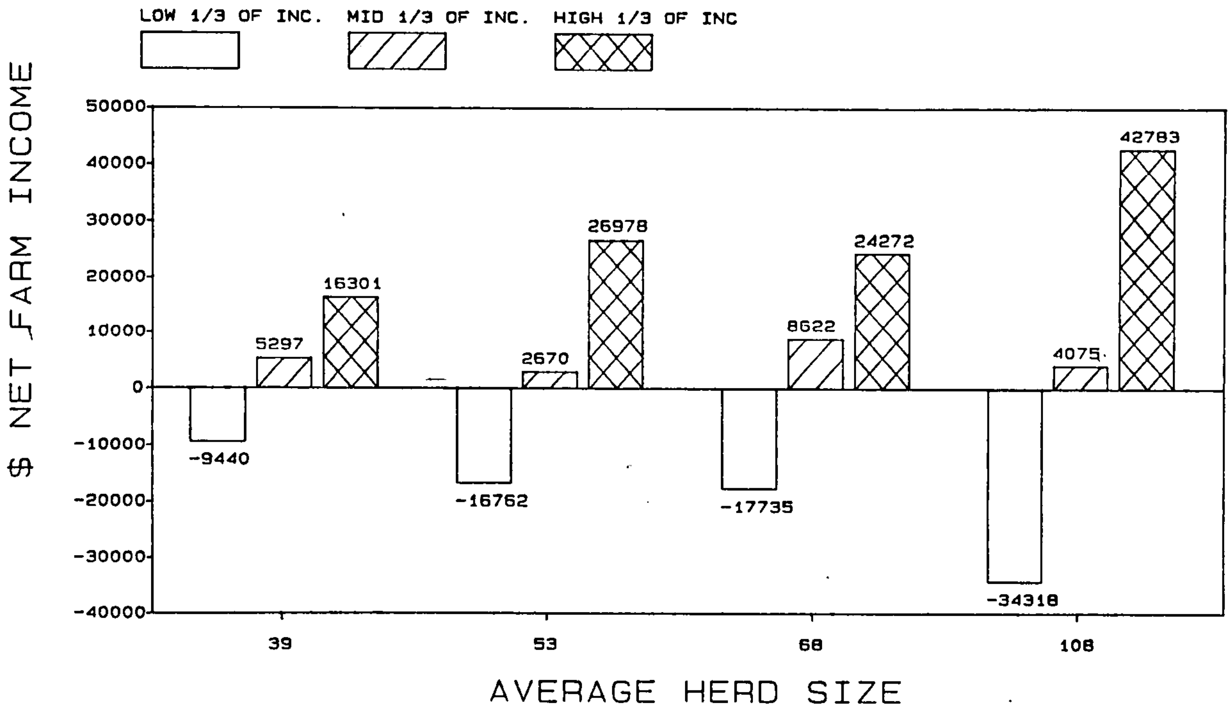
1984 Actual Performance	Income Groups Low	Medium	High
Number of Farms	11	10	11
Average Tillable Acres	1051	1200	1107
Wheat Produced (bu.)	15765	19200	22694
Wheat Price	3.40	3.40	3.40
Income from Wheat	53601	65280	77158
Other Income	36613	25664	34762
Government Payments	11258	12258	15972
Total Cash Income	101472	103202	127892
Value of Farm Production	78973	97241	132034
Total Operating Expense	89297	84861	96444
Net Farm Income	-10324	12380	35590
Net Farm Income If:			
Wheat Increases $.40/Bu.	-4018	20060	44667
Wheat Increases $.80/Bu.	2288	27740	53745
Wheat Decreases $.40/Bu.	-16630	4700	26513
Wheat Decreases $.80/Bu.	-22936	-2980	17435

Notes:

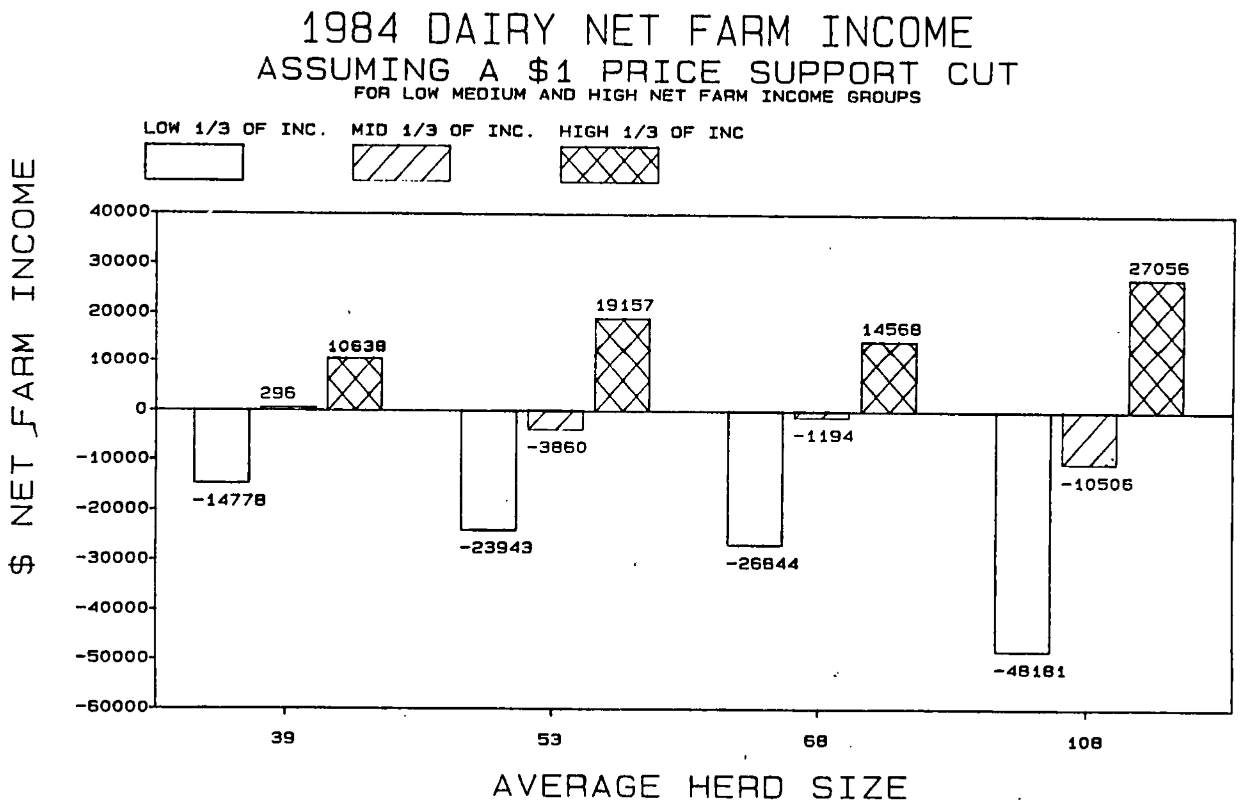
1. Government payments includes income for all agricultural programs.
2. Value of farm production includes inventory value adjustments but excludes changes in value of land. Accrual inventory changes included in the value of farm production are a major factor affecting profitability levels.
3. Operating expense includes depreciation of buildings and equipment.
4. Net farm income is before operator labor draw and income tax.
5. Source: 1984 Agrifax Comparative Farm Business Summary.

1984 DAIRY NET FARM INCOME

FOR LOW MEDIUM AND HIGH NET FARM INCOME LEVELS
AND DIFFERENT HERD SIZES



FOOTNOTES:
Numbers below/above bars are net farm income.
1984 Wisconsin Agrifax Data.

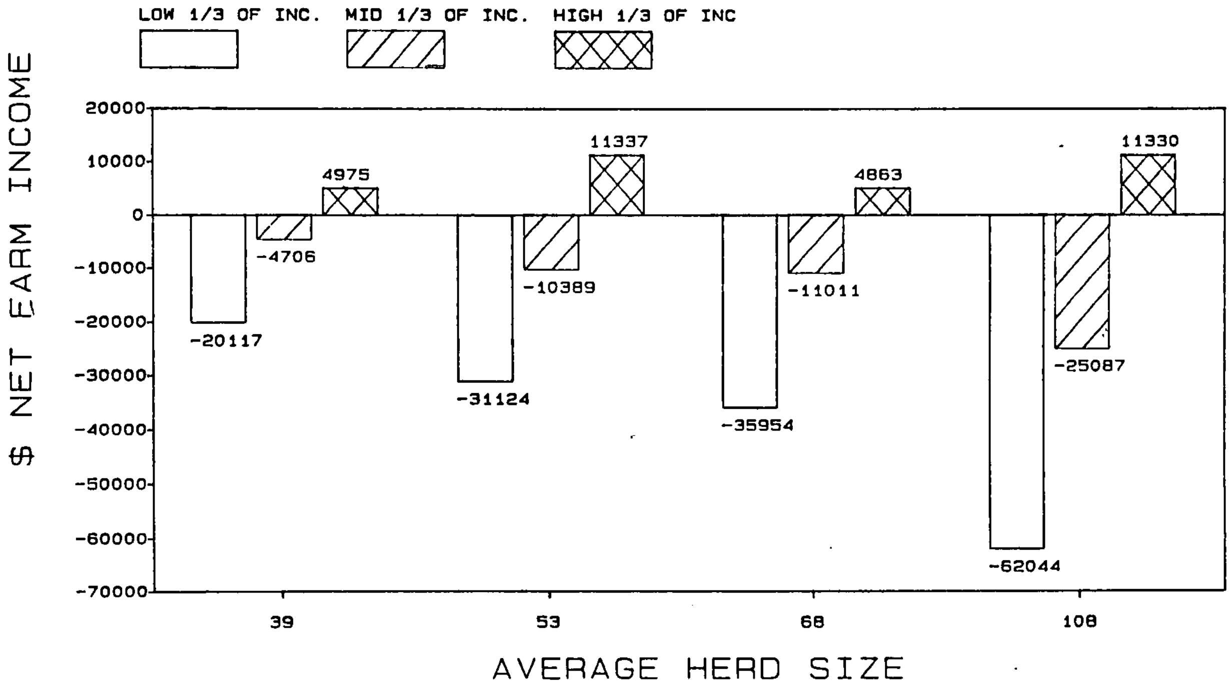


FOOTNOTES:
Numbers below/above bars are net farm income.
1984 Wisconsin Agrifax Data.

1984 DAIRY NET FARM INCOME

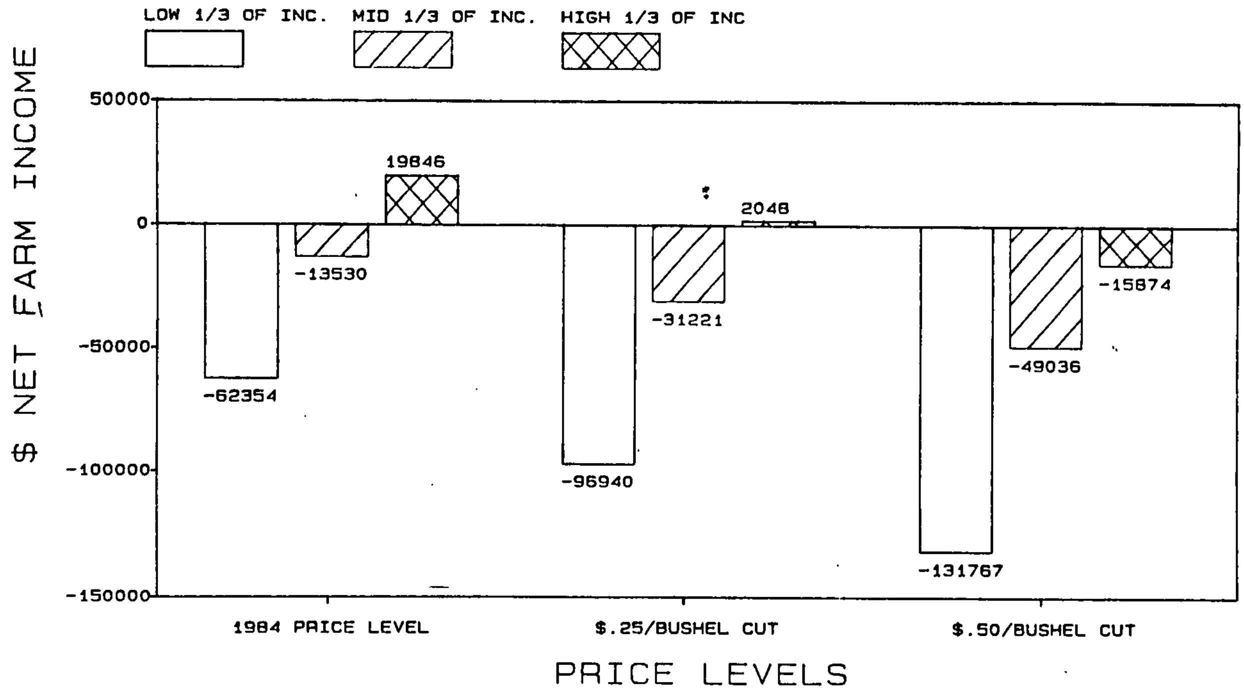
ASSUMING A $2 PRICE SUPPORT CUT

FOR LOW MEDIUM AND HIGH NET FARM INCOME GROUPS



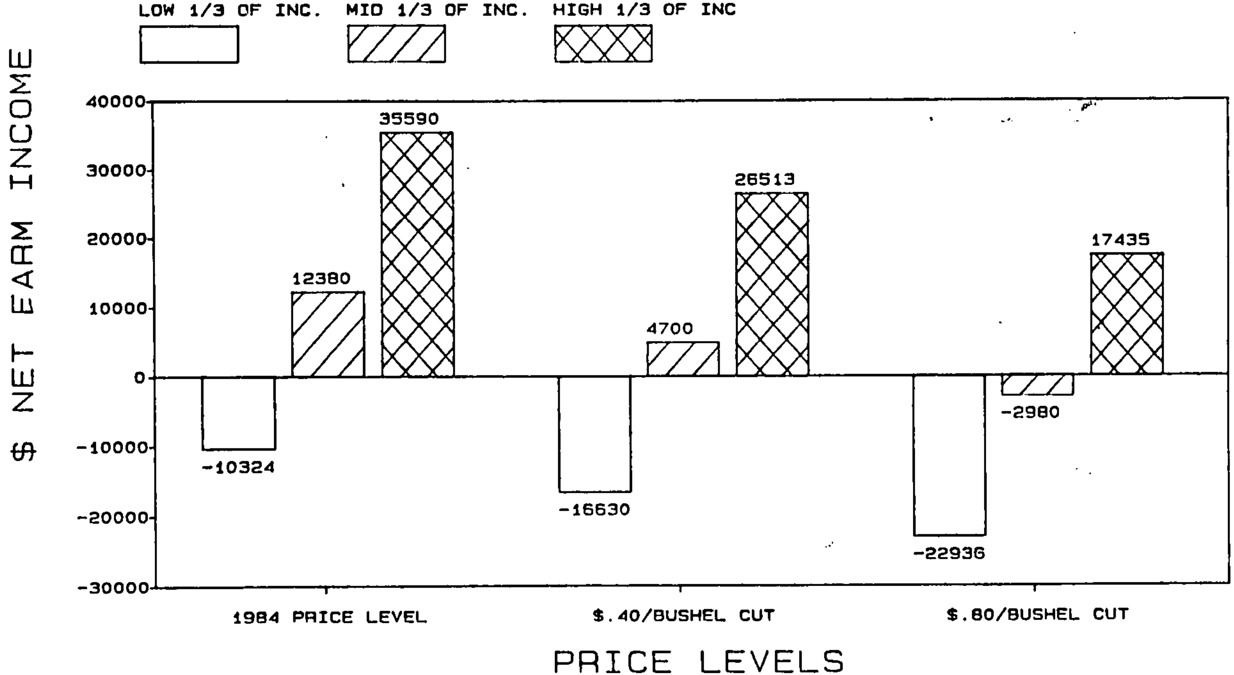
FOOTNOTES:
Numbers below/above bars are net farm income.
1984 Wisconsin Agrifax Data.

1984 MN CORN/SOYBEAN NET FARM INCOME
BASED ON 1984 PRICES AND $.25 AND $.50/BU CUTS
FOR LOW MEDIUM AND HIGH NET FARM INCOME GROUPS



FOOTNOTES:
Numbers below/above bars are net farm income.
1984 Minnesota Agrifax Data.

1984 ND DRYLAND WHEAT NET FARM INCOME
BASED ON 1984 PRICES AND $.40 AND $.80/BU CUTS
FOR LOW MEDIUM AND HIGH NET FARM INCOME GROUPS



FOOTNOTES:
Numbers below/above bars are net farm income.
1984 North Dakota Agrifax Data.

Representative OBEY. Mr. Elkin, please proceed.

STATEMENT OF IRVIN J. ELKIN, PRESIDENT, ASSOCIATED MILK PRODUCERS, INC.

Mr. ELKIN. Thank you, Chairman Obey.

I am a dairy farmer. I am a third generation farmer and I have a son who will be a fourth generation. You can see that I am very personally concerned about the future of dairy and certainly the future of dairy in Wisconsin.

I am the president of the Associated Milk Producers, Inc., the Nation's largest dairy farmer cooperative with over 31,000 members located in 20 States throughout the Midwest, South, and Southwest, who produce about 11 percent of the Nation's milk supply. I also have the honor to serve on the executive committee of the National Milk Producers Federation.

Let me start by expressing our appreciation to Chairman Obey and the Joint Economic Committee for conducting this hearing. Nothing is more vital to the Wisconsin economy than the health of the farm sector, and dairying is the lifeline of Wisconsin agriculture.

Agriculture is not an essential industry in Wisconsin. It is the essential industry.

Consider these facts:

Agriculture has a $20 billion impact on the Wisconsin economy when you combine cash receipts, value added, and farm production expenses.

It is also very clear that Wisconsin farm families today face real and severe economic pressures. Foreclosures and bankruptcies are occurring with alarming frequency. Farm returns have been unsatisfactory for several years in a row, and the prospects for improvement in the immediate future look bleak, if we can't change direction.

I agree with Secretary Block, I believe it is good for exports, but exporting at a loss doesn't make any sense. So we continue to produce the grain. We rebel against his goal of reducing the prices to the world level, and yet we have to admit it is happening.

Oats in my area were bringing about a $1.70. Today you are lucky if you can get a dollar. Our grain prices are getting closer and closer to world prices, and yet we have a dairy industry that still, a domestic industry pricing itself by domestic prices.

So you can see the impact that cheap grain has on our particular business of dairying. There is no doubt that the situation is extremely tight for young and highly leveraged people.

In order to better answer some of the questions you posed on credit, I went in and visited with one of our local farm loan officers and in answer to what he sees in the future, he says, there is no question that things are getting worse. Loans are available for agriculture, money is there and is available.

He had quite a bit of praise for the handling in Wisconsin of some problem loans. He said that they have been able to turn over several of their loans to the FHA at 7.25 percent interest which is quite a break for people who were paying, say 13 or 13.5 percent, and they also are extending them over 14 years. So he said he had quite a bit of praise for the Government in handling of loans that they feel they can no longer service or that the lenders can no longer properly service.

On the other hand, he said that as far as bad loans in their particular bank—I didn't ask him how many loans they have outstanding, but I know a couple of years ago they were in the $50 or $60 million category—he said there is no question about 5 percent are facing foreclosure. That really doesn't sound too bad, but up to another 20 percent are getting awfully close. So you are looking at about a fourth of those loans as having real problems.

He said two groups at this time are in trouble. The one group which you would always have, I suppose, that is bad management, lower the average that he said would have a hard time anyway. And then, of course, you have the other group at this time that is in trouble that had probably did some remodeling, taking in some sons and done some expanding and acquired some new debt. Those two he sees as being in the categories of having problems.

He said that young farmers, a young farmer virtually cannot enter, not through the private sector. Income is too low. He said they just can't get cash-flow.

When you talk about cash-flow, we keep hearing about the goal of getting these land values back down. Certainly they are coming down but they are not being reflected in our taxes. But he said land really has only two values: speculative value and productive value. We are coming off the speculative and now we are getting down to the productive.

He said they ran some numbers and they feel that land would have to go at about $250 an acre to cash flow at present milk prices. So if we are going to look at getting down something like that, it is something that I notice you have warned urban towns that if this land keeps eroding and the tax shifts back to the cities, they haven't seen taxes yet.

Something that I noticed in one of the daily papers recently, we keep hearing that agriculture has a lot of debt but we are not really in trouble, we are able to service that debt. I read about a week ago, we are trying to get a hold of the study, it was the most comprehensive study yet and the USDA released this about a week ago. Agriculture has something between $216 to $220 billion in debt. Of that debt about 12 percent cannot service or handle their loans. That doesn't sound too bad. However, that represented 45 percent of that total.

So that is alarming and it is a study that we are trying to get our hands on. It is a study that is a little bit different than we have been hearing about. How best to deal with this situation, we believe that it is absolutely imperative that programs of the 1985 farm bill point agriculture on a more reasonable and responsible course. We believe that it is absolutely essential at this time that we come up with some type of supply management in dairy.

I repeat again, if we continue to produce more grain than we can sell economically, it is going to wind up in meat, milk or eggs and you see what what has happened to the prices of meat and milk. So we believe that we need to come up with some type of supply management.

The administration has proposed elimination of milk price support from the purchase program, entirely replacing it with a target price which by 1990 would give us assurance that we would receive at least $7.23 for what we produce. If we didn't get that other market we could get a check for the additional $7.23. That is ridiculous. We are losing money at the present prices. All the time we are assured that farmers and consumers want to avoid wild swings, the price going way down, farmers being forced out, then going way up.

We absolutely think that it is essential that for both the consumers and for the producer that we maintain the stability that our dairy-type programs have been able to provide for that. The program that has passed both the House subcommittee and the full House Agriculture Committee, H.R. 2100, we refer to it as the Dairy Unity Act although I know I see that here in Wisconsin people will say you don't have total unity. I agree with that.

I might also say that this particular bill does not have everything that we wanted by any means. Cut away all the shaft, what we proposed was a two-tier price. That would put everybody on an absolute base from the period of time until we get it solved. We wouldn't care where the cows went. It would have worked. One problem, we couldn't sell it to the rest of the United States.

So we are now working with something that we have had at least enough unity on to get it through that first and second step, and hopefully it will pass full House and survive through the compromise or through the conference. We believe that we have a leg up in this particular bill because it does guarantee or cap Government costs, and will reduce Government budget costs even more than we were able to do the last year. We think that that will have a lot to do with its being able to pass in Congress.

You probably know that we were out and made the rounds of some 200-plus offices and when you talk about lowering the cost of any Government program, you get people's attention. People that didn't understand anything about dairy we were able to suggest and show them that it would create budget savings, we immediately had interest from people who probably weren't all that concerned about dairy in the first place.

It has a standby diversion feature in it which would kick in and out. In other words when the problem is solved, it would go away. We have a lot of people who did not agree with the diversion program even when it was in effect and production was down and we reduced Government costs in half in that 1 year. We had people who said: Well, the diversion part really isn't working.

The price was cut 50 cents at the same time. That is what is working.

Well, I would hold forth today that we have had two 50 cent price cuts since then and milk production is just going up like crazy. So for anybody that says that diversion wasn't working and that it was price alone, it would be working twice as good now because we have had more price cuts since then and production is still going up.

We are supporting a supply management. We are supporting the present H.R. 2100 at this time. Again because it—the proposal that is being supported or pushed by the administration would exact such a heavy toll on dairy farmers, and certainly a heavy toll on the entire Wisconsin economy. If we would ever lose the purchase-type programs, then many farmers may wonder how far down that price would go if we went on a free market.

I hold forth that every 50 cents cut we have had has been reflected in the price. You you would keep dropping 50 cents. It is anybody's guess where that would be. I think it would be extremely hard on the Wisconsin economy, where we rely so much on the hard products, some 80 percent of our products are converted into butter, powder, and cheese. We think at all costs, and we are very pleased that even though we may disagree on other things, that there is support for that program.

Also of importance, although the C&I group in Washington thinks our price should always be a dollar lower—if it is 11, it should be 10—she still supports the purchase-type program because she realizes the stability in the availability of milk from that.

So we believe in supply management. We think it is important that we have it at this time. Otherwise I guess we can have some great fears that Congress may just throw up its hands and look at the cost of the program and say: Let's try something else for a while.

We don't want that to happen. We think we should be more responsible. So we support supply management to solve this.

Thank you.

Representative OBEY. I thank you.

[The prepared statement of Mr. Elkin follows:]

PREPARED STATEMENT OF IRVIN J. ELKIN

My name is Irvin J. Elkin. Along with my family, I milk about 40 Holstein cows and farm 200 acres of corn, alfalfa and small grains in Amery, Wisconsin.

I am the President of Associated Milk Producers, Inc., the nation's largest dairy farmer cooperative with over 31,000 members located in 20 states throughout the midwest, south and southwest, who produce about 11 percent of the nation's milk supply. I also have the honor to serve on the Executive Committee of the National Milk Producers Federation.

Let me start by expressing our appreciation to Chairman Obey and the Joint Economic Committee for conducting this hearing. Nothing is more vital to the Wisconsin economy than the health of the farm sector -- and dairying is the lifeline of Wisconsin agriculture.

Agriculture is not <u>an</u> essential industry in Wisconsin, it is <u>the</u> essential industry. Consider these facts:

* Agriculture has a $20 billion impact on the Wisconsin economy when you combine cash receipts, value added and farm production expenses.

* Dairying accounts for about 60 percent of this $20 billion.

* Some 500,000 Wisconsin jobs relate to agriculture or about 22 percent of the state's employment force.

It is also very clear that Wisconsin farm families today face real and severe economic pressures. Foreclosures and bankruptcies are occuring with alarming frequency. Farm returns have been unsatisfactory for several years in a row, and the prospects for improvement in the immediate future look bleak.

The economic situation is particularly harsh for younger farm families whose situation is typically characterized by a heavy debt load and capital intensive operations.

It is unrealistic to separate the interests of dairy farmers from those of the general farm economy. Dairy farmers recognize that their economic well-being is linked directly and substantially to the conditions of producers of other commodities. Stability in the dairy sector is impossible unless the rest of agriculture is healthy.

It is imperative the programs of the 1985 Farm Bill point agriculture on a reasoned and responsible course. AMPI advocates long-term programs to replace the piece-meal approaches that have characterized recent years. Greater certainty must be established in public policy so farmers can intelligently make planting, investment and other strategic decisions.

AMPI members believe that effective supply-management measures are essential to the recovery of the farm economy. The consequences of the so-called free market advocated by the Administration, abandoning the price support program as we know it, are frightening to both consumers and farmers.

The Administration has proposed eliminating the milk price support program completely and replacing it with a target price of $7.23/

hundredweight by 1990. Let's not kid ourselves, this policy would spell disaster.

The elimination of a price support program introduces major uncertainty, and the risk of wild price swings as market conditions fluctuate is greatly increased. There would be substantial danger of major shifts in milk supply as farmers were first attracted into dairying and then forced out by cyclical downturns.

Farmers and consumers want to avoid wild swings of this type. The U.S. consumer is used to enjoying fresh dairy supplies day-in and day-out and in every city across the country. This has been assured under effective administration of the price support program.

The bill approved by the House Livestock, Dairy and Poultry Subcommittee and full House Agriculture Committee -- the dairy provisions (the Dairy Unity Act) of H.R. 2100 -- provides a responsible "self-help" approach to the current dairy situation. It offers the most effective way available to keep Government costs under control, while continuing the stability dairy farm families need and deserve. It features "supply-management" -- a sensible and proven response to milk surpluses. Let's review some of the reasons why this legislation should be enacted.

1. <u>H.R. 2100 offers the greatest budgetary savings.</u> It is projected to reduce Government costs for the dairy program in FY'86 by $700 million. By comparison, the proposal offered during House subcommittee and full committee mark-up to cut milk support

prices to as low as $9.60/hundredweight would cost the Government twice as much.

The Dairy Unity Act places an absolute limit on the cost of the milk price support program at the level necessary to purchase and store five billion pounds milk equivalent. No other 1985 Farm Bill dairy proposal provides such a lid.

2. <u>The dairy industry stands firmly united behind H.R. 2100.</u> The National Milk Producers Federation and the vast majority of dairy farmers nationwide support it. In fact, there might never have been a time that the dairy industry has been so united. That's why the bill is titled -- The Dairy Unity Act.

3. <u>The standby diversion authority featured in the legislation has a proven track record.</u> The experience of the Milk Diversion Program over the past year demonstrated that dairy farmers will respond positively to individual incentives to reduce production. Achievements of the program during 1984 include:

* After 57 months of consecutive increases, national milk production dropped three percent.

* Government purchases of surplus dairy products went down nearly 50 percent.

* Government costs for the dairy program were cut by over $1 billion or 40 percent from the previous year.

The proposed diversion plan would be financed entirely by dairy farmers themselves as was the case with the 15-month Milk Diversion Program that ended March 31, 1985.

4. H.R. 2100 will continue to assure U.S. consumers of dependable supplies of milk and dairy products at reasonable prices. The standby diversion plan allows the dairy industry to reduce milk production gradually. This is important to economic stability, for both agriculture and consumers, and is much preferred to the forced liquidation of thousands of dairy farm operations which would occur under a straight price cut.

5. H.R. 2100 prescribes several measures to head off potential problems if a diversion program increases the number of cows sent to slaughter. The experience of the past Milk Diversion Program showed no adverse effect on livestock prices.

There can be little question which bill -- the Administration's proposal or the Dairy Unity Act -- is in the best interest of Wisconsin.

The Administration's proposal would exact a heavy toll on dairy farmers, and in doing so, exact a heavy toll on the entire Wisconsin economy. It would painfully eat away at the resources of individual dairy operations, and countless families would be forced out of business. It wouldn't be long before repercussions spread throughout the state's economy.

The Dairy Unity Act offers a much more reasoned path to follow. It features "supply management", a proven way to deal with milk surpluses, while continuing stability for the nation's dairy farm families and consumers. It will put a cap on Government costs. It is sound legislation.

We call for the enactment of the Dairy Unity Act.

Thank you.

Representative OBEY. Let me ask a couple of quick questions. We have a very short time. I really have so many questions I don't know where to start. Let me start with just telling you what I have heard around the district. I think that all of you prefer a diversion program of some type.

I certainly think that it is far better than any other alternative that is being suggested. The problem I run into is that the people it is supposed to help are still chewing on me up one side and down the other every time I go around this district. I was in Stetsonville last weekend and I ran into a woman who was at the VFW stand in Stetsonville tending bar.

And she said, damn it, after you have been in something for 28 years, things are supposed to be pretty good. She said we have been farming 28 years and it ain't good. And then she proceeded to say, how, why are you guys pushing the diversion program? I tried to explain what the alternatives are. She didn't want to hear them. None of the alternatives were good.

I understand that frustration but we don't have a lot of choices we like. We have a lot of choices we don't like in looking at the dairy bill.

Another thing I ran into is very strong objection to the idea that we ought to continue a checkoff. Let me ask you this question. My understanding is that according to Advertising Age, farmers are only getting about 16 cents back in presales for every dollar spent on fluid promotion. What is your reaction on that issue? Is it really worth a tinker's you know what?

Mr. HALDEMAN. I trust you are looking at me, seeing that I am on the dairy board. First of all, that article, there is a basic flaw in that article.

I will admit the numbers that we have shown so far are not a lot to cheer about, but the reason there is an error in that article in the same article that appeared in the Dairy magazine; I visited that editor, I think he would even agree there is a mistake in that they are only using the difference between the manufacturing price and the class I price to determine the value.

I would quite strongly argue that he has to look at that as being new consumption so therefore your return is more nearer to what you have spent at least. But the real thing is that this advertising program was put in place a year ago. It was organized in May of 1984.

The first expansions were created in September 1984 and what we really—in the first go around had to talk about short-term programs which is merely dumping your money in advertising and there is an old theory, half of what you spend you waste. You can't identify which half. The other theory is, when you increase advertising by as much as the dairy industry did, you will make some miscues to start with. I am optimistic that it can be turned around, particularly if it is a long-term program.

One of the benefits has to be if we know we are going to be around for a while, so we can create some expenditures in research that I think have long range benefit. I am not going to sit here and hold out that what we have shown so far is going to save the dairy industry.

Mr. MULDER. We all, Farmers Union has always supported promotion and we have always opposed block voting. I guess we will wonder until it happens and I guess Mr. Haldeman, it is going to happen in Wisconsin eventually, if the farmers cast their own vote, and when you look at the amount of checkoff that comes off, versus the difficulties that farmers are in, I don't think you can blame them for looking a little askance at a checkoff like that. Especially when there is nothing left over for their own use and it all goes somewhere else.

I think it needs more time. I think it is premature to try to judge it now. But we strongly feel and I think that if the—if, Mr. Haldeman, if the national board could in Wisconsin, I think it would be a very critical and important thing. If the National Milk Marketing Board could be put strictly on a bipartisan or nonpartisan basis either way, I think that would strengthen it considerably in the long run, down the road.

Representative OBEY. Let me say something else on the farm credit issue. The bill was passed earlier in the year. I know that you and Mr. Hein have a disagreement. I voted for that bill but I have to tell you, I don't honestly know if I did the right thing.

Because it is such a Hobbesian choice. On one hand you recognize the equity in providing additional credit because farmers are stuck in a hole that they didn't dig for the most part. By the same token, I guess I would have more faith in the ability of additional credit assistance to help if I thought that that credit assistance was going to bridge from now to the future that was going to be a little better. But given the alternatives that I see coming down the pike, I don't have much faith that that is in fact the case.

So while I certainly don't apologize for voting for it, I don't brag much about it either because I am not sure what the right choice was.

The only objection I did have in that situation was that the President told the country that it was a budget buster, ignoring conveniently the fact that the House Budget Committee called the President and told him that if he signed that bill, we would make other reductions in the agriculture portion of the budget in order to compensate for the cost of that package.

I think that was, that is the only thing that frustrated me because he was communicating half of the fact. The full fact never really surfaced. He has the megaphone and we don't.

Mr. MULDER. Just one comment. I know a lot of people, I am a member. I can recall when I was a very small boy, at about 1930, 1931, and 1932. It saved the farm. Now the last notice, which wasn't very long in coming after the previous one, which raised from 11½ to 12 percent, the last one raised from 12 to 12¾ percent the day after the Fed cut the discount rate. Now, you know, of all the planning in the world, it couldn't have been worse. It is the antithesis of what the farmers need. They don't need more cost, they need less.

Are they going to gain if they put them out of business? I think they need an infusion of tax moneys and they need them right now.

Mr. HALDEMAN. I have a concern that as we address this whole credit issue that basically what we are doing is going down a road that if you continue to go this direction there is only two guys left farming.

One is the guy that is so wealthy that he can use the Tax Codes to buy his expenditures at a lesser cost than someone else and stay in business. In other words, writing farm losses off against nonfarm income and all those things, investment tax credits, all those things that work in favor of the nonfarmer.

The second one, is the guy that is so poor off that he gets all his credit given to him by the Government. And we are in the middle, we are just in the process of squeezing the living devil out of that family farmer in the middle, that is out there borrowing the capital from the farm credit system, from the banks, from the Farmers Home Administration at the going rate loans; he is being pushed by the competition from the other two extremes. I don't know how we get around that.

But those 636,000 farmers in that middle group are the place where the pressure is being put on. It is through two public policy decisions we have made. One is that we do not ever expect farm credit or farm loans to be paid back on the low end, and at the top end just keep heaping tax credit benefits into the agriculture and compete against them.

A VOICE FROM AUDIENCE. Everybody should applaud that. That is right on the ball.

[Applause.]

Mr. HEIN. There are other issues. I would like to respond to the issue that Mr. Mulder is referring to. Before I do, I would like to follow up with Mr. Haldeman because it ties right in with a comment he made. There is an element of farmers that are out of debt. But many of those are at the twilight of their career. And that farm is there and he is farming it and he is doing very well because he is out of debt.

There isn't, in many cases, a young son or the next generation that is going to come along and take that farm over, and as a result, with the day that comes along when he decides to call her quits, he may not be able to sell that farm. He may have an obsolete set of facilities there that is no longer of much use to the type of farmer that is using the technology that is available today.

So that is a concern, that while we talk about the assets or the debt-to-asset ratio, that could increase at a greater amount in the not too distant future. Then to respond to the issue of the bill that is in question, this was a bill to aid agriculture, but it was tied to a bill to give aid to Ethiopia, if my understanding is correct. And Senator Proxmire had indicated that it wasn't a good bill. He said it wouldn't have done any good for farmers. He said there is millions of dollars, hundreds of millions of dollars available.

He said what we need is a program to give that money out to the farmers. That program came along in early May, late April and early May and on into June when farmers were helped in rearranging their debt scheduling and so on through the FHA and the help from the various farm credit institutions.

So that is the response that I want to make to that.

Mr. ELKIN. I think this investment credit thing is something that we are starting to talk a lot about.

Representative OBEY. Can I butt in on that? I wanted to ask a question I asked yesterday of a witness from the Governor's agriculture task force. A number of farmers are saying to me, look, on the point you made, Mr. Haldeman, that the trouble right now is that the Tax Code many times encourages people who aren't farmers to get into farming just for tax loss purposes.

I asked him, I wanted to ask you, all of you, do you think the farmer would be better off if we were to eliminate the investment tax credit at least as it applies to agriculture?

Mr. HALDEMAN. Yes; in the long term.

Mr. ELKIN. That is something that we are starting to take a look at. The investment tax credit is needed if you need to help a business and do some expanding and all that. Apparently we have done a lot of that. It has also helped the dealers. But what it does, of course, for the dairy farmers, it offsets their taxes. They don't have any taxes to offset any more the way things are going in dairy. That is one of the big reasons they aren't buying.

The other side of the coin, we have people in Wisconsin that didn't even know that you can take investment credit on dairy cattle because they never bought them. They raised them. It was a surprise to them to know that you could buy cattle and take investment credit. I think it is something that as far as dairy is concerned is a big problem.

Mr. MULDER. Put a lid on it.

Mr. ELKIN. Or else make it a fact that the guy has to be a farmer.

Mr. MULDER. Start with a sensible lid. We have started with a cap on some items, maximum payments. Of course they were waived. The administration looked the other way when it came to the dairy diversion program. You can make an argument that they should. But I think you can start that scenario by putting a cap on it.

Representative OBEY. OK.

Mr. HEIN. The problem is that some of these opportunities to save in taxes has encouraged farmers who already had more than their share of debt to go out and buy another tractor because it would help reduce his income tax for that year. Unfortunately, it put him deeper in the hole, and now that is coming back and creeping up on him very rapidly. He still has to pay the debt. It hasn't helped.

Representative OBEY. There are a lot of questions I want to ask you. I would like to talk to you about the farm bill except that I can do that another time with all of you. That is going to be a real alligator. But there are a number of people in the audience who had asked to ask questions of the panel.

A VOICE FROM AUDIENCE. As long as we are on dairy, dairy, it is easy to handle because everybody has a quota. They know what it is. They are going to—they should put a two-price system on it. Limit the amounts you produce. That is the only way to solve the problems. With grains it will be different because of they don't know what everybody produced. Not everybody sends in their acreage. But on the voting deal, that is real bad, when the farmer does not vote.

I had a big argument with Osmond on it. Because how can a co-op which has members in two States and they have 400 in Wisconsin and 600 some Minnesota, the bylaws of the co-op say you should act as members, equally, how can a co-op block vote a bunch of votes for its members in Wisconsin when it is only doing so much good for so many members. It is an illegal vote. Instead of the people that are voting for themselves.

When I confronted Osmond with it, he said, well, if you don't make it, sue me. So I went to the jury and I found out it cost $100,000 to bring a suit in. So he helped me—but why can't we do something about it. A newspaper won't print an article on it because they are in the advertising business. Television stations won't do anything about it. I told them that there was an $11 million fraud out there. They listened to my story but they won't put it on the air. It is illegal to get by with that.

I will let somebody else——

Representative OBEY. I will put you down as agreeing with Mulder on that one.

Mr. Wayne Sonnentag from Bloomer.

STATEMENT OF WAYNE SONNENTAG, DAIRY FARMER, BLOOMER, WI

Mr. SONNENTAG. My name is Wayne Sonnentag. I own and operate a 160 acre dairy farm in Chippewa County, near Bloomer, WI. I wish to thank you for giving me a couple minutes of your time to explain to you what our government is doing to me as an individual dairy farmer.

I also understand that the purpose of these hearings is to find out what economic impact a number of Federal policies have on Wisconsin's ability to achieve business growth and to create jobs.

After hearing the various farm organizations present their testimony, of which I tend to agree with some, I wish that all these organizations would form one alliance. Then maybe I could afford to pay membership dues. I presently cannot afford to pay any.

At this time I wish to give you some facts and figures which I brought with me and presented to you earlier this morning. These figures are of my own operation. I would also like to tell you what taxpayers' dollars are doing that affect me in my operation, and what I think should be done to protect those dollars.

Representative OBEY. I will be happy to get those, but I am going to have to ask you to limit it to about a minute and a half because we have to be out of this room for the Boy Scouts. I have two more panels.

Mr. SONNENTAG. I will get through in that time.

I have here what FmHA calls a farm and home plan,[1] dated December 21, 1984, when I applied for a farmer's ownership and operating loan.

The loan amount of $153,000 was approved and received January 24, 1985. This money was used to pay off my land contract holder, which she discounted, $26,000 off the purchase price. The balance was used to pay off back operating debt. Milk price, which is fig-

[1] See copy of the farm and home plan at the end of Mr. Sonnentag's statement.

ured in cash-flowing the loan, is $12.50 per hundred. And at that time a loan was received, I received $13.04 per hundred.

The milk price I receive now for my milk is $11.65. My farm currently does not cash-flow. My current herd average after the dairy diversion program ended is 19,739 pounds of milk with 713 pounds of fat and this generates the farm income. I currently am paying 35 percent of my gross income to support farm debt.

I participated in the dairy diversion but it also has to be financially feasible to me before I could participate again. My farm has to generate $23,382 to support my farm debt.

My lenders—like most farm lenders, this forces me to produce enough dollars in sales regardless of price or volume sold. My wife also works off the farm to support our family living. There is something wrong when the farm doesn't support itself even with good management. I need a better price for my milk and I am willing to supply what—willing to limit what I supply, if I can pay my bills. I have talked to my neighbors, and I get the same response from them.

There is a study here, I will leave it with you, from Wharton Industries. It touches—some of the farm leaders here have read it. I directed this somewhat to you, your job is to fight to give farmers a choice. There is a farm bill proposed in Washington that has been written by farmers. It is called the Farm Policy Reform Act. It will raise prices, control production, conserve soil and cut taxpayers' costs.

When the farm bill is debated, on the House and Senate floor, this bill must be presented as an alternative along with the Farm Policy Reform Act. Let the farmers vote in referendum giving them a chance to choose. Let us vote on our future.

I personally challenge you, Representative Obey, to lead the fight on the House floor. We need your leadership. Stand up for farmers in rural towns. We will support you.

I ask you, Mr. Obey, to relay this message to Senator Proxmire: Now is the time to talk economic sense. If we do not pass a good farm bill, all the help I have received from FmHA will be wasted and all the bills in the world will be of no use. I personally challenge you to lead the fight in the Senate. If Congress turns their backs on the farm crisis of the American farmer such as myself, give them the biggest golden fleece award you can find because it is tax dollars that are wasted.

We need change quickly and I personally am ready for change. Without improvement, tax dollars that are used for my farming operation is in jeopardy. I may have to resort to a hunting dog, a fishing pole, and the State welfare system.

Representative Obey. OK. Thank you.

[The farm and home plan loan application attached to Mr. Sonnentag's statement follows:]

USDA-FmHA
Form FmHA 431-2
(Rev. 12-14-78)

Position 3

FORM APPROVED OMB No. 0575-0001

COUNTY

FARM AND HOME PLAN

NAME OF BORROWER	NAME OF CO-BORROWER	ADDRESS & TELEPHONE NO.
WAYNE G. SONNENTAG		RR 2 BLOOMER WISC. 569-5157

AGES OF PERSONS IN HOUSEHOLD	Borrower	Co-Borrower	Children	Others	TOTAL ACRES (OWNED)	TOTAL ACRES (RENTED)	CROP ACRES (OWNED)	CROP ACRES (RENTED)	OPERATED SAME FARM LAST YEAR?	WRITTEN LEASE?
	33	30	2		160		110		☒ YES ☐ NO	☐ YES ☐ NO

TERMS OF LEASE

PERIOD OF LEASE ______, 19__ TO ______, 19__

A. FINANCIAL STATEMENT AS OF 12-21, 1994

PROPERTY OWNED	ACRES	VALUE	DEBTS OWED: NAME AND ADDRESS OF CREDITOR	FINAL DUE DATE	INTEREST RATE	ANNUAL INSTAL.	AMOUNT DELINQ.	UNPAID BALANCE
REAL ESTATE (LOCATION): FARM	160	147,500.						
			LIENS ON REAL ESTATE:					
OTHER REAL ESTATE			IRMA A. KING		10	—	13705	45,370 H
TOTAL REAL ESTATE		147,500.	NORTHWESTERN BANK		13.5	—		45,000 H
LIVESTOCK:	NO.	VALUE	FmHA		11	5414		23,471
LIVESTOCK HELD FOR SALE								
DAIRY COWS	35.	36000.	TOTAL LIENS ON R. E.					113,841
BEEF COWS			LIENS ON CHATTELS AND CROPS:					
OTHER CATTLE	16.	22,400.	FHA 44-04		11	2500		14,540
BROOD SOWS AND GILTS			44-02		11½	8490	5760	49,869
OTHER HOGS								
EWES								
OTHER SHEEP								
POULTRY			IHC					4241 H
TOTAL LIVESTOCK		68,400	NORTHWESTERN BK					4900 H
MACHINERY AND EQUIPMENT:								
TRUCK(S): YR. 79 MAKE Ford		1000.						
TRACTOR(S): YR. ___ MAKE ___								
MAJOR ITEMS OF EQUIPMENT								
			TOTAL LIENS CHATTELS & CROPS					72,550
			JUDGMENTS:					
OTHER FARM MACHINERY			TOTAL JUDGMENTS:					
TOTAL MACHINERY AND EQUIPMENT		24,900	TAXES DUE: REAL ESTATE $___ PERSONAL $___					
OTHER PERSONAL PROPERTY:	QUAN. OR NO.	VALUE	INCOME & SOCIAL SECURITY $___ TOTAL TAXES DUE					
CROPS HELD FOR SALE			ALL OTHER DEBTS (DOCTOR, STORE, ETC., DESCRIBE):					
GROWING CROPS			CITIZENS STATE BANK CADOTT					2590
FEED		12,900.	BLOOMER FARM PRODUCTS					3635
SEED AND SUPPLIES			BADGER SALES OF BLOOMER INC					2786
AUTO: YR 78 MAKE Ford		1500.	THOMAS SAZAMA					1773
HOUSEHOLD GOODS		6000	COLFAX FARMERS UNION					7652
CASH ON HAND		—	BLOOMER FARMERS UNION					3102
BONDS AND INVESTMENTS			BLOOMER TIRE CENTER					1370
ACCTS. OWED US—COLLECTIBLE			UNITED BANK OF MO					2677
			RIHN OIL COMPANY					4097
TOTAL OTHER PERSONAL PROP.		20,200.	OTHER LISTED ACCOUNTS — TOTAL OTHER DEBTS					37,043
TOTAL PROPERTY OWNED		256,000.	TO GIVE THE TOTAL — TOTAL ALL DEBTS					223,434

1. TOTAL OF CASH ON HAND, CROPS AND LIVESTOCK HELD FOR IMMEDIATE SALE, AND INCOME TO BE RECEIVED IN IMMEDIATE FUTURE			
2. DEBTS AND EXPENSES WE WILL PAY FROM ABOVE CASH AND INCOME (Itemize)			
3. CASH CARRY-OVER FOR NEXT YEAR'S OPERATIONS AFTER PAYING THESE DEBTS			
	BEGINNING OF YEAR	END OF YEAR	INCREASE OR DECREASE (FmHA use only)
4. NET WORTH (TOTAL PROPERTY OWNED MINUS TOTAL ALL DEBTS)	32,566.		
5. TOTAL LAND DEBT	113,841.		
6. TOTAL DEBTS OTHER THAN LAND	109,593.		

PERIOD COVERED BY PLAN: FROM 1-1, 1985 TO 12-31, 19__

FmHA needs this information to further define your financial situation and to assist you in making sound financial decisions. The form will be used as an [illegible] to determine the soundness of the proposed loan. | Estimated time needed for completion: 1 hour. Number of copies required: Original only. | No further monies or other benefits may be paid out under this program unless this plan is completed and filed as required by existing regulations (7 CFR 1910, Subpart A).

NOTE: All "actual" data to be completed by end of crop year

B. CROPS, PASTURE, ETC.—PRODUCTION AND SALES

CROPS, PASTURE, SET-ASIDE PROGRAM PAYMENTS, ETC.	PLANNED: ACRES	PLANNED: YIELD PER ACRE	PLANNED: OPERATOR'S SHARE UNITS FOR: FARM USE	PLANNED: OPERATOR'S SHARE UNITS FOR: SALE	PLANNED: OPERATOR'S SHARE @	PLANNED: OPERATOR'S SHARE DOLLAR SALES	ACTUAL: ACRES	ACTUAL: YIELD PER ACRE	ACTUAL: OPERATOR'S SHARE UNITS: FARM USE	ACTUAL: OPERATOR'S SHARE UNITS: HELD FOR SALE	ACTUAL: OPERATOR'S SHARE UNITS: SOLD	ACTUAL: @	ACTUAL: CASH INCOME
1. Corn	30	100	8000										
2. Hay	60	4	240T.										
3. Oats	30	60	1000.										
4.													
5.													
6.													
7.													
8.													
9.													
10.													
11.													
12.													
13.													
14. FARMSTEAD, GARDEN AND ROADS													
15. TOTAL (ENTER TABLE J, LINE 1)													

C. LIVESTOCK AND PRODUCTS—PRODUCTION AND SALES

LIVESTOCK AND PRODUCTS AND WOOL-MOHAIR PROGRAM PAYMENTS	PLANNED: NO.	PLANNED: PROD. PER ANIMAL	PLANNED: OPERATOR'S SHARE UNITS FOR: FARM USE	PLANNED: OPERATOR'S SHARE UNITS FOR: SALE	PLANNED: OPERATOR'S SHARE @	PLANNED: OPERATOR'S SHARE DOLLAR SALES	ACTUAL: NO.	ACTUAL: PROD. PER ANIMAL	ACTUAL: OPERATOR'S SHARE UNITS: FARM USE	ACTUAL: OPERATOR'S SHARE UNITS: HELD FOR SALE	ACTUAL: OPERATOR'S SHARE UNITS: SOLD	ACTUAL: @	ACTUAL: CASH INCOME
1. COWS	35	1	16	15	50	750.							
2. CULL COWS	7			7	425.	2975					5		2438.18
3.													
4. BRED HEIFERS	12	1											
5. OPEN HEIFERS	34										11		
6. CALVES	10												
7.													
8.													
9. SET A SIDE CK MILK DIVERSION (15%)						9498							
10. MILK PRODUCED				135,000	12.50	16,875							
11. 3 MOUTH of M.D.													
12. 9 MOUTH FULL PRODUCTION	40	14,000			12.50	52,500							
13. MILK (LBS.)													
14. EGGS (DOZ.)													
15. TOTAL (ENTER TABLE J, LINE 2)						92,598							

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F. CASH FAMILY LIVING EXPENSES	OTHER CREDIT NEEDED	FHA CREDIT NEEDED	PLANNED EXPENSES	ACTUAL EXPENSES
HOUSEHOLD OPNG.				
FOOD INCL. LUNCHES				
CLOTH., PERS. CARE				
HEALTH				
HOUSE REPAIR AND SANITATION				
SCHOOL				
CHURCH, RECREATION				
PERS. INSURANCE				
TRANSPORTATION				
FURNITURE & OTHER				
TOTAL			15000	

G. CASH FARM OPERATING EXPENSES	OTHER CREDIT NEEDED	FHA CREDIT NEEDED	PLANNED EXPENSES	ACTUAL EXPENSES
HIRED LABOR			3400	
MACHINERY REPAIR			7200	
FARM BUILDING & FENCE REPAIR			2000	
INTEREST			13000	
RENT			3500	
FEED			13,500	
SEED			1,500	
FERTILIZER		5000	6000	
PESTICIDES & SPRAY MATERIALS				
OTHER SUPPLIES			8400	
LIVESTOCK EXPENSE			3500	
MACHINERY HIRE			250	
FUEL AND OIL			4500	
PERSONAL PROP. TAX				
REAL ESTATE TAXES			8000	
~~WATER CHARGES~~ MISC. VACCIS			1500	
PROPERTY INSURANCE			1265	
AUTO & TRUCK EXPENSE			1000	
UTILITIES FARM SHARE			2200	
MILK HAULING			2000	
CCQ ETC			2500	
CURRENT OPNG. BILLS (TABLE A)				
TOTAL			73,716	

H. CAPITAL EXPENDITURES	OTHER CREDIT NEEDED	FHA CREDIT NEEDED	PLANNED EXPENSES	ACTUAL EXPENSES
BALER NH 275		3000	3000	
4? R ?				
DEBTS REFINANCED (TABLE A)		22,100	22100.	
TOTAL		25,100	25,100	

I. CREDIT FOR:	OTHER	FHA	TOTAL	ACTUAL
FAMILY LIVING				
FARM OPERATING		5000	5000	
CAPITAL EXPENDITURES		25/00	25,100.	
TOTAL		30,100	30,100	

J. SUMMARY OF YEAR'S BUSINESS	PLAN	ACTUAL
1. CROP INCOME (*Table B*)		
2. LIVESTOCK INCOME (*Table C*)	82,598	
3. CONSERVATION PAYMENTS AND OTHER FARM INCOME		
4. TOTAL CASH FARM INCOME (*1, 2 and 3*)	82,598	
5. CASH FARM OPERATING EXPENSES (*Table G*)	73 715	
6. NET CASH FARM INCOME (*4 Minus 5*)	8,883	
7. NON-FARM INCOME	11,000	
8. TOTAL NET CASH FARM & NON-FARM INCOME (*6 Plus 7*)	19,883	
9. CASH FAMILY LIVING EXPENSES (*Table F*)	15,000	
10. NET CASH INCOME (*8 Minus 9*)	4,883	
11. CASH CARRY-OVER (*Page 1, Line 3*)	–	
12. LOANS AND OTHER CREDIT (*Table I*)	30,100.	
13. INTEREST (*Table G*)	13,000	
14. TOTAL AVAILABLE (*10, 11, 12 and 13*)	47,983.	
15. CAPITAL EXPENDITURES (*Table H*)	22,100.	
16. BALANCE AVAILABLE (*14 Minus 15*)	25,883	
17. GROSS CASH INCOME (*4 Plus 7*)	93,598	

K. DEBT REPAYMENT

TO WHOM OWED	AMOUNT DUE THIS YEAR (PRIN. AND INT.)	PLAN: PRIN. AND INT. TO BE PAID	PLAN: DATE	PLAN: SOURCE OF FUNDS	ACTUAL AMOUNT PAID
FO 123,000	$13,450.	$12450.	7416.		$
FO 41-02	4808.	2589.	1465.		
OL 44-04	5000.	1928.	1612.	30% D/A	
OL 44-02	23,620.	6518.	5451.		
Subo OL	7,056.	7086.	6193.		
INCOME AND SOCIAL SECURITY TAXES	1255.	1255.	1256.		
TOTAL	55,139.	32,836.	23,383.		

We agree to follow this plan and to discuss with the County Supervisor any important changes that may become necessary.
This instrument is a prospective plan only and does not release the security interest of the government in any security referred to herein.

12-21-84 (Date) — Wayne A. Sonnentag (Borrower) — (Co-Borrower)

Donald A. S[illegible] (County Supervisor)

Form FmHA 431-2 (Page 4)

sanna

Sanna Inc.
Division of Beatrice Foods Co
Madison, Wisconsin

12113

PATRON NO	PERIOD ENDING	LBS OF MILK	AVE TEST	LBS BUTTERFAT
16255	01 31 85	39,338	3 85	1514 51

BASE PRICE CWT	B/F DIFF	TOTAL PRICE CWT	TOTAL BEFORE OTHER CREDITS	+ OTHER CREDITS	TOTAL CREDIT TO PATRON
13 040	163	13 731	5401 50		5401 50

*SEE ENCLOSED STATEMENT

DEDUCTIONS MISC	HAULING	CHECK AMOUNT
3306 49	123 01	1972 00

DETACH BEFORE DEPOSITING
RETAIN THIS STUB FOR YOUR INCOME RECORDS.

SANNA
BEATRICE GROCERY GROUP
MENOMONIE, WISCONSIN 54751

62114

PATRON NO	PERIOD ENDING	LBS OF MILK	AVE TEST	LBS BUTTERFAT
16255	06 30 85	64,291	3 45	2218 03

BASE PRICE/CWT	B/F DIFF	TOTAL PRICE/CWT	TOTAL BEFORE OTHER CREDITS	+ OTHER CREDITS	TOTAL CREDIT TO PATRON
11 650	163	11 728	7540 04		7540 04

QUALITY TIER 1- .12
PROTEIN 3.24 .04

DEDUCTIONS * MISC	HAULING	CHECK AMOUNT
5472 93	189 43	1877 68

DETACH BEFORE DEPOSITING
RETAIN THIS STUB FOP YOUR INCOME RECORDS

* SEE ENCLOSED STATEMENT

Representative OBEY. One last request from Linda Bersinski.

Ms. BERSINSKI. Thank you, Mr. Chairman.

After hearing the testimony of the various panels it appears that my comments have been brought up. But I and many others who live in northern Wisconsin still question why our country insists on importing products that can be produced here and give our own people the jobs. Be it in manufacturing, forestry, or the dairy industry. Place quotas or tariffs on imports. What have those countries done for us in the last 15 years?

I also want to thank you for listening to my comments. And the Boyd Village board would like to ask you to please lower our taxes and to bring business to Boyd.

Representative Obey. Is that all?

[Laughter.]

Representative OBEY. OK. I really would like to respond to those, but we are out of time. The Boy Scouts are going to be awfully upset with all of us. So I thank you all for your attention. I thank you gentlemen for your participation.

The next panel we have is two-thirds of the panel we have on trade. We did that yesterday.

Bill Lehman from Superior was here earlier. He had a problem with the plane which he had to catch, so we took his testimony on importance to Great Lakes shipping problems earlier.

So we will hear now from the remaining two witnesses on our trade panel.

First of all, Carla Lenk, executive vice president of Marshfield Technologies, Inc., and Carl Marschke.

Let me ask each of you—how long did you—if you could each take 5 to 7 minutes to give me your insights on the question of trade as it relates to the economy of northern Wisconsin, I know, Ms. Lenk, you have been dealing with many businesses in this part of the State trying to sensitize them to the opportunities available for trade.

I have to say, Mr. Marschke, that you certainly have firsthand hands on experience in the field given the niche you have been able to carve out for your company in a very competitive market under some very difficult situations in terms of the exchange rates these days. Why don't we proceed first with you, Ms. Lenk, and just say whatever is on your mind.

STATEMENT OF CARLA LENK, EXECUTIVE VICE PRESIDENT, MARSHFIELD TECHNOLOGIES, INC., AND PRESIDENT, WISCONSIN BUSINESS ASSOCIATES

Ms. LENK. Thank you. I am going to make this short but probably not so sweet.

Trade has fallen down since 1980. Since I was aware that I was going to testify today, I did a really informal survey with the people that are out there, most of them in the service areas. These would be the bankers, the freight forwarders, the trade specialists, and some of the exporters themselves.

And everyone agrees that trade both domestically and internationally is slow and has been declining since the early 1980's. Export trade is unusual in central Wisconsin. Three out of five U.S. exporters overall have fewer than 100 employees. Exports keep an estimated 3,850,000 Americans working overall; 40,000 workers for every $1 billion of exports.

U.S. exports represented $105 billion in 1975 and, according to the SBA, in the 1970's an annual rate of growth was holding at 20 percent.

Yet in 1980, only 8 percent of all American businesses were involved in export trade, leaving 92 percent involved in strictly domestic trade. Since 1980, that 20 percent growth has stagnated to little or no growth.

Today I received information and I added that as an addendum to what I have already prepared. According to the statistics that they sent me in 1982, there were $601 million in total agriculture exports from Wisconsin. In 1984 that was $644.1 million. They feel that they can back up an estimate of 22,540 jobs related to Wisconsin in 1984 agricultural exports.

I am just going to hit a couple of the different industries that are involved with trade.

The wood products industry has little going on in actuality, but has lots of potential. There seems to be little commitment to go after business in whatever market field. The strong dollar and fear of the unknown hampers change in the wood industry's marketing.

Because export trade is such an unknown quantity to the wood products industry, companies are interested but extremely cautious. There is approximately 2 percent export trade done in the wood products industry, and all in value-added woods; that is, veneers or furniture in the State, and there is only one in Marathon County who exports this commodity.

Logs are shipped throughout the upper Midwest.

Exporting demands time, money, patience, and a commitment to go after the trade.

The ginseng trade is the largest export in central Wisconsin, but because of the type of seasonal growth, this occurs only 3 to 4 months during the year.

Experts in the field feel that a saturation point may be occurring within the next 5 years. Fiskars exports to Finland, Hong Kong. Oryx Systems exports hi-tech hardware and software around the world, and Marathon Electric exports AC motors and generators plus parts.

I view export trade as a potential for central Wisconsin. I also view Government procurement as a potential for trade with central Wisconsin. It is another marketplace.

Historically, Wisconsin receives around six-tenths of 1 percent of Federal Procurement. In 1983, only 12 companies were receiving contracts over $1 million. Since 1983, the percentages have remained the same while the Government budget has escalated.

Wisconsin now stands as 44th in the rank of procurement contracts. Most of these contracts are on the eastern and southeastern part of the State. Oshkosh Truck now leads the procurement contractors with the largest amount of dollars. They, however, have had a poor reputation in the past for using Wisconsin companies as subcontractors.

There are lucrative contracts out for bid that are passed up by Wisconsin businesses because of lack of knowledge and fear of risk.

What does the future hold?

Essentially people who work with the business people in central and northern Wisconsin all have the same story. Business is down from 1980 and business people are apathetic and afraid to risk what they have to establish themselves in a new market.

Many opportunities are available, with more occurring every day. A local bank here in Wausau is doing some innovative joint ventures with two local companies to set up companies overseas in China. Products would be produced for the Chinese market in China. This concept provides inexpensive labor with low transportation and overhead costs. Fifty more companies have shown interest in this concept.

The major strengths in the area still go back to a strong work ethic with a commitment to quality and workmanship. Weaknesses, however, are numerous and show an apathetic and suspicious attitude toward new markets. There is a resistance to any change and a total disregard to competitiveness in world marketing.

Labor rates in Wisconsin will have to come down in order to compete with other States, much less worldwide competitors.

Over all, people still feel that Wisconsin companies produce quality workmanship over many other States. Weaknesses are numerous and there is an apathetic suspicion toward new markets. Labor rates in Wisconsin will have to come down in order to compete with other States. What can be done to help?

Trade offices such as the German office established by the State and the Tokyo office established by the Marine Bank will be of great benefit to those businesses who are ready to grab this opportunity. More publicity from the media would be beneficial. Half the businesses in northern Wisconsin do not realize a World Trade Association exists in central Wisconsin, much less the other three associations in the State.

There exists a real conundrum to present a solution to the apathetic attitude of business people. More hype; more opportunities, such as the joint ventures available; more export credit availability; more programs to show how export works, such as Toby Roth's conference on September 20, more viable programs on how to deal with the Government offices and aid in getting lucrative contracts back, as in Les Aspin's district, would be of invaluable aid in this area.

These are perspectives rather than statistics, but after talking to a lot of these people, I feel that that is a good picture of what actually is occurring here.

Just one other thing that is not in my prepared statement, my company has bid over $1 million in export commodities since November of 1984. It probably will go well over that before November of 1985. You can do business in export trade. You just have to have a lot of patience and you have to keep at it. It is not impossible.

Thank you.

Representative OBEY. I should say that Ms. Lenk personifies the awareness of exports.

[The prepared statement of Ms. Lenk follows:]

Prepared Statement of Carla Lenk

I. Introduction

My name is Carla Lenk, I own Wisconsin Business Procurement Associates and have DOT certification as a woman owned business. I am also Executive Vice-President of Marshfield Technologies, inc. WBPA is a government contracting service company providing services to the private - sector in obtaining government contracts. MTi is a full-service marketing and sourcing company who markets commodities domestically and over-seas.

I was born and raised in Wisconsin and have lived in northern and central Wisconsin for over 15 years. I am President of Central Wisconsin World Trade Association and have been on the Board since its inception in 1982. I am also on the Board of Directors for Forward Services, Inc. a non-profit agency engaged in finding jobs for targeted pools of unemployed people.

II. Issue I.

Current size and scope of trade-related business industry in Central and Northern Wisconsin.

Trade has fallen since 1980. Since I was aware that I was to testify today, I did an informal survey of my own. I have spoken to bankers, freight forwarders, trade specialists, and exporters themselves. Everyone agrees that trade both domestically and internationally is slow and has been declining since the early 1980's.

A. Export Trade. Most export traders are small businesses. Three out of five U.S. exporters have fewer than 100 employees. Exports keep an estimated 3,850,000 Americans working - 40,000 workers for every $1 billion of exports. U.S. exports represented a $105 billion in 1975 and, according to the SBA, in the 70's an annual rate of growth was holding at 20%. Yet in 1980 only 8 % of all American businesses were involved in export trade leaving 92% involved in strictly domestic trade. Since 1980 that 20% growth has stagnated to little or no growth.

B. The Wood Products Industry has little going on in actuality, but has lots of potential. There seems to be little commitment to go after business in whatever market field. The strong dollar and fear of the unknown hampers change in the wood Industry's, marketing.

Because export trade is such an unknown quantity to the Wood Products Industry, companies are interested, but extremely cautions. There is approximately 2% export trade done in the Wood Products Industry and all in value-added woods i.e. veneers or furniture in the state and there is only one in Marathon county who exports this commodity. Logs are shipped throughout the upper mid-west. Exporting demands time, money, patience, and a commitments to go after the trade.

C. The Ginseng trade is the largest export in Central Wisconsin, but because of the type of seasonal growth, this occurs only 3 -4 months during the year. Experts in the field feel that a saturation point may be occurring within the next five years. Fiskars exports to Finland, Hong Kong. Oryx Systems exports high tech hardware and software around the world, and Marathon Electric exports A C motors and generators plus parts.

D. Government Procurement is another market place that is avoided by Wisconsin businesses, and especially in Central Wisconsin and Northern Wisconsin. Historically Wisconsin receives around 6/10's of 1% of federal procurement. In 1983 only 12 companies were receiving contracts over $1 million. Since 1983 the percentages have remained the same while the government budget has escalated. Wisconsin now stands as 44th in the rank of procurement contracts. Most of these contracts are on the eastern and south-eastern part of the state. Oshkosh Truck now leads the procurement contractors with the largest amount of dollars. They, however, have had a poor reputation in the past for using Wisconsin companies as subcontractors. There are lucrative contracts out for bid that are passed up by Wisconsin businesses because of lack of knowledge and fear of risk.

There are many industries in Wisconsin who have shown interest in export trade, but little else. One of them is the Wood Products Industry.

III. Are things getting worse, better, or staying the same compared to five years ago. What does the future hold.

Essentially people who work with the business people in Central and Northern Wisconsin all have the same story. Business is down from 1980 and business people are apathetic and afraid to risk what they have to establish themselves in a new market.

Many opportunities are available with more occurring every day. A local bank here in Wausau is doing some innovative joint ventures with two local companies to set up companies over-seas in China. Products would be produced for the Chinese market in China. This concept provides inexpensive labor with low transportation and overhead costs Fifty more companies have Shown interest in this concept.

IV. The major strengths in the area still go back to a strong work ethic with a commitment to quality workmanship. weaknesses, however, are numerous and show an apathetic and suspicious attitude towards new markets. There is a resistance to any change and a total disregard to competitiveness in world marketing. Labor rates, in Wisconsin will have to come down in order to compete with other states, much less world wide competitors.

V. Public and private-sector initiatives could help the trade sector in Wisconsin.

Trade offices such as the German office established by the state, and the Tokyo office established by the Marine Bank will be of great benefit to those businesses who are ready to grab this opportunity. More publicity from the media would be beneficial. Half the businesses in Northern Wisconsin do not realize a World Trade Association exists in Central Wisconsin much less the other 3 associations in the state.

There exists a real conundrum to present a solution to the apathetic attitude of business people. More hype, more opportunities such as the joint ventures available more export credit availability, more programs to show how export works, such as Toby Roth's conference September 20, more viable programs on how to deal with the government offices and aid in getting lucrative contracts back as in Les Aspin's district would be of invaluable aid in this area.

Representative OBEY. When I think of somebody who personifies imaginative entrepreneurship in carving out a market for a Wisconsin company, one person would certainly be Carl Marschke.

Why don't you just proceed and say what you would like to say.

STATEMENT OF CARL R. MARSCHKE, PRESIDENT, MARQUIP, INC., PHILLIPS, WI

Mr. MARSCHKE. Thank you.

I would like to give a history of Marquip because I think it is relevant to where we are coming from so you can see the basis of some of my comments.

I started Marquip in 1968 in Phillips, WI, designing and building custom automation machinery for the building products industry. We continued serving the building products industry until 1974, when the housing downturn completely shut off all capital spending for producers of building products. At that point we had to change industries or go out of business. We began serving the corrugated box industry.

We entered that with a single product, being a supplier. This then expanded into several other products for the corrugated box industry.

As a matter of interest, the Green Bay packaging plant here in Wausau is one of our prototype facilities where we put the first one of all of our new products right here in Wausau.

What we found is, we found that the major machinery suppliers to the corrugated industry all had major weaknesses in some of their individual machines. So what we decided to do is to perfect a small area of this manufacturing process, that being, manufacturing corrugated board, and then to become the best in the world at that one small segment of this manufacturing process.

This led to the development of all the prototype machinery which has been put into the plant here in Wausau and has led to our achieving technical superiority in each of these product lines that is now recognized by the industry.

The way we know that it is recognized is by the market share that we enjoy. When I say "enjoy," it is a matter—we are getting the orders for the machines as opposed to some of our competitors not getting them.

We have seen a major change in the last two years with a great interest of foreign suppliers in the U.S. market. Much more so than ever before. The main thrust of their activity has been in complete corrugators where we supply individual compliments. They supply complete machines and I think it is interesting to note that of the last 17 complete corrugators purchased in the United States, 13 of them came from foreign vendors. In the face of this competition, we have continued to gain market share in the areas that we serve.

Our concerns are as follows:

First and probably the most important is the extraordinary high value of the U.S. dollar. Although it has subsided somewhat in the past 2 to 3 months, this has created a major obstacle for our sales of equipment to foreign users as well as providing a powerful incentive for foreign suppliers to invade the U.S. market.

Second, many of the foreign competitors have government-backed financing available for their export sales. This is particularly true of Italy and Germany. This low-interest rate, long-term financing is almost impossible for an independent manufacturer to effectively combat. We have used the Eximbank on a few occasions; however, the loan rates have been at U.S. prime rate plus some additional charges. So there has been no special benefit to deal with them on financing.

The third concern I have is that the current product liability legislation is killing off the old line U.S. manufacturers. This is because the product liability exposure is fairly proportional to the total installed base of equipment. This means that a company that has been in business a long time has substantially more exposure than one which has just entered the market.

For the foreign supplies, their installed base in the United States is very low because many of them are just getting their first systems installed here.

The second side of this problem has to do with the legal system in Europe. In Europe an injured worker is essentially taken care of by the government as part of the general fund, as opposed to the U.S. system where the injured party tries to recover damages from the machine manufacturer through the court system.

The net result is that the manufacturers who rebased in the United States have had to deal with this problem and factor in the necessary costs. The foreign suppliers, on the other hand, have not had sufficient exposure to recognize the high costs of this aspect of doing business in the United States.

There are a number of things which the legislature could do to improve our ability to sell abroad.

First, reduce Government spending and the deficit to help cut the Federal loan demand and thus to reduce interest rates. If the interest rates can be brought down, foreign investors will find U.S. investments in government securities less attractive and this will tend to drive the U.S. dollar to a lower level compared to other currencies.

Second, don't make any legislative changes which impose more false stability on business. Any of these items make it more difficult for U.S. business to react to changing market situations.

I have heard a lot of testimony directed toward stabilization and legislating something which reacts in a normal economic situation is a very, very difficult process. What you can do is—it is like putting a lid on a pressure cooker. You can hold it down for a while only to find that it is going to blow up on you sometime in the future.

It is much better, I think, to let the economy dictate the direction that it should take rather than trying to legislate it.

Third, look at business as a partner with the United States instead of as a natural resource that will always be here. Export industries are unique in that they alone can bring new money into the U.S. economic system and keep it fueled.

Fourth, distribute the product liability costs to the end user of industrial machinery. They are in a far better position to bear this burden because they have an ongoing payback from the equipment that was installed.

Fifth, make interest on export financing loans tax free to reduce the effective rate of interest and make available government backing of these loans.

Sixth, reduce taxes like what is currently being proposed, to leave the capital under the control of those who earned it. I believe that they are in the best position to employ it in the most productive way.

Seventh, eliminate death taxes so that the businesses which are able to compete on an international scale do not run the risk of having to be dismantled because of the death of principal shareholders. It is important for the United States to keep their export businesses as strong as possible to meet foreign competition.

I expect the future to be very bright for our company. We plan to continue offering products which are technically superior. This has worked for us in the past, and I believe it is a basic principle of a successful business.

We will accelerate our efforts at reducing our costs while increasing or maintaining the value offered to our customer.

Marquip is currently looking forward to the very best fiscal year ever, including the highest level of export sales in our history. If the dollar continues to drop as it has in the last few months, we will be in an extremely strong position to dominate markets which we have kept through the period of the high dollar value.

I heard mention of a two-tier pricing system. Essentially our European sales have been at the very lowest possible level that we could go with, mainly to keep our foot hold in the market that we have tried to carve out for ourselves over there. It appears that we are through the worst of that and business is really picking up this summer.

So I say that the investment has been very well worthwhile. In closing, thank you very much. I appreciate the opportunity to share these thoughts with you.

Representative OBEY. Thank you.

[The prepared statement of Mr. Marschke follows:]

Prepared Statement of Carl R. Marschke

It seems appropriate to begin with a brief history of Marquip. I started Marquip in 1968 in Phillips, Wisconsin designing and building custom automation machinery for the building products industry. We continued serving the building products industry until 1974 when the housing downturn completely shut off all capital spending for producers of building products. At that point we had to change industries or go out of business. We began serving the corrugated box industry.

Our entry into the corrugated box industry was with a single product, the Web Splicer. The U.S. market for corrugated box machinery was served primarily by three major U.S. suppliers and about 60 smaller suppliers of peripheral equipment which included Marquip. In 1976 there was very little involvement of foreign equipment suppliers to the corrugated industry in the United States. By 1978 we had gained the major market share in Web Splicers for the corrugator. We introduced our Stacker for the end of a corrugator in 1978. At this time there was beginning to be more foreign equipment activity, particularly from the Japanese equipment suppliers.

In 1981 we began a program which was to shape the future direction of our company. We observed that the full line suppliers of corrugators had mediocre individual machines in many cases. This led us to the decision that we should select a single area of corrugated boxboard production and concentrate our efforts entirely in that one area with the goal being to develop the world's best technology of that type. This program led to the development of our Servo controlled Cutoff Knife introduced in 1983 and our automatic Slitting and Scoring machine in 1985. These machines, taken in combination with the Stacker which had been developed earlier, put Marquip into the position of being a total dry end of the corrugator supplier. Each one of these machines had unique capabilities of speed or performance which made it stand out as the leader of that type of equipment available anywhere. We had accomplished our goal of technical superiority in our product line and the market rewarded us for this effort with very high market share in each of the products we offer.

The major difference in the last two years has been the entry of many more foreign suppliers to the corrugated box machinery industry here in the United States. Because of the rapid rise in value of the U.S. dollar, the European suppliers have found this an extremely attractive market. There has been intensified competition from companies in Italy, England, Spain, France and Germany. The main thrust of their activity has been in supplying complete corrugators. Of the last 17 complete corrugators purchased in the United States, 13 of them went to foreign vendors.

In the face of this intense foreign competition, Marquip has been successful and has continued to gain market share of the dry end systems and components which were purchased in addition to the complete corrugators mentioned above.

Our concerns are as follows:

1. First and probably the most important is the extraordinary high value of the U.S. dollar. Although it has subsided somewhat in the past two to three months, this has created a major obstacle for our sales of equipment to foreign users as well as providing a powerful incentive for foreign suppliers to invade the U.S. market.

2. Second, many of the foreign competitors have government backed financing available for their export sales. This is particularly true of Italy and Germany. This low interest rate, long-term financing is almost impossible for an independent manufacturer to effectively combat. We have used the EXIMBANK on a few occasions; however, the loan rates have been at U.S. prime plus some additional charges, so there has been no special benefit to deal with them on financing.

3. The third concern I have is that the current product liability legislation is killing off the old line U.S. manufacturers. This is because the product liability exposure is fairly proportional to the total installed base of equipment. This means that a company that has been in business a long time has substantially more exposure than one which has just entered the market. For the foreign supplies, their installed base in the U.S. is very low because many of them are just getting their first systems installed here. The second side of this problem has to do with the legal system in Europe. In Europe an injured worker is essentially taken care of by the Government as part of the general fund, as opposed to the U.S. system where the injured party tries to recover damages from the machine manufacturer through the court system. The result is that the manufacturers who are based in the United States have had to deal with this problem and factor in the necessary costs. The foreign suppliers, on the other hand, have not had sufficient exposure to recognize the high costs of this aspect of doing business in the United States.

There are a number of things which the legislature could do to improve our ability to sell abroad:

1. Reduce government spending and the deficit to help cut the federal loan demand and thus to reduce interest rates. If the interest rates can be brought down, foreign investors will find U.S. investments in government securities less attractive and this will tend to drive the U.S. dollar to a lower level compared to other currencies.

2. Don't make any legislative changes which impose more false stability on business. Any of these items make it more difficult for U.S. business to react to changing market situations.

3. Look at business as a partner with the United States instead of as a natural resource that will always be here. Export industries are unique in that they alone can bring new money into the U.S. economic system and keep it fueled.

4. Distribute the product liability costs to the end user of industrial machinery. They are in a far better position to bear this burden because they have an ongoing payback from the equipment that was installed. The current system is placing far too heavy a burden on the old line U.S. companies.

5. Make interest on export financing loans tax free to reduce the effective rate of interest and make available government backing of these loans.

6. Reduce taxes like what is currently being proposed to 33%, to leave the capital under the control of those who earned it. I believe that they are in the best position to employ it in the most productive way.

7. Eliminate all death taxes so that the businesses which are able to compete on an international scale do not run the risk of having to be dismantled because of the death of principal shareholders. It's important for the U.S. to keep their export businesses as strong as possible to meet foreign competition.

I expect the future to be very bright for our company. We plan to continue offering products which are recognized as technically superior. This has worked for us in the past and I believe it is a basic principle of a successful business.

Secondly, we will accelerate our efforts at reducing our costs while increasing or maintaining the value offered to our customer. This is a fact of life and must be done, even though we currently have technical superiority.

Marquip is currently looking forward to the very best fiscal year ever, including the highest level of export sales in our history. If the dollar continues to drop as it has in the last few months, we will be in an extremely strong position to dominate markets which we have kept through the period of the high dollar value.

Thank you very much. I sincerely appreciate the opportunity to share these thoughts with you.

Representative OBEY. Mr. Marschke, where do you sell abroad?

Mr. MARSCHKE. We sell particularly well in the Scandinavian countries, England, Switzerland has been very good for us, less in France and Italy.

We also have a very active marketing in Australia which we handle through a distributor in Australia. We have an odd sale from time to time into the Pacific rim area from companies that know us in that area, but we still maintain our office in Switzerland, which is staffed with two sales people and four field service engineers.

Representative OBEY. OK.

I have to say I am glad somebody is selling something to the Scandinavian countries. I have seen enough Swedish machines in a State where I used to see Beloit machines.

I know the answer to this because we have talked about it before but I would like the record to show it: Why are you located in Phillips as opposed to someplace else which represents a shorter or a straight-line route to the markets?

Mr. MARSCHKE. I am in Phillips because I grew up in the area. I grew up in Rib Lake, WI., and moved to Phillips in 1959.

When I started the business in 1968, I had just hired one individual and it didn't seem like I needed to do an international study of where the best place to be was.

Representative OBEY. Today how many people do you employ?

Mr. MARSCHKE. We did a head count for a talk I gave last week. We have 284 people on a full- and part-time basis. That includes our Swiss operation and our plant in Madison.

Representative OBEY. What percentage of your sales would you say are abroad?

Mr. MARSCHKE. This year we are expecting about 14 percent to be international sales. That is Europe only by the way. If you counted Canada and Australia, it would add probably another 6, 7 percent to that.

Representative OBEY. OK.

Let me ask you this question: It takes an instinct, it takes a talent, it takes instinct, it takes good analysis—how do you decide where the seam is in a market that you can open and exploit in order to carve yourself a good share of the market?

Mr. MARSCHKE. What we do is we spend a lot of our time deciding what products to make first, and by that what I mean is that we will study a particular method of performing an operation.

Let's say, to take an example, the cutoff knife for the corrugated box industry. When we decided that we wanted to pursue that end of the product, we looked at all of the products which were available. We recognized what the positive features were and what the limitations were. We looked more strongly at the limitations and decided which ones that, through our combined electrical and mechanical know-how, we could impact, we could make a difference.

And then we set about to pick goals which the customer would recognize very easily as a superior product. Then what we did, or what we would do normally is we would then see if our engineering department could come up with a product that in fact would satisfy those goals, and if we could, we knew that we had a new way of entering the market.

If the customer can easily recognize that the machine that we provide, in this case the cutoff knife, it will cut faster, more accurately, consume less power and take less floor space than any product which had been available before. And if you present a customer with all of those benefits and if he is in the market for that new product, you will sell it. No question about it. You will sell it to a customer in Wisconsin or you will sell it to a customer in Australia, Switzerland, or wherever. Because they all recognize the benefits which we have carefully built into the product.

That is really the key. It is getting the product right and then the rest will follow.

Representative OBEY. I think what you are saying is that it didn't take government activity or government programs or government policy to build a market for you. It took shrewd management. It took quality product. It took good people working for you, and with those, with that combination of factors, in spite of some very rough market conditions, you were able to make a real dent.

Mr. MARSCHKE. That is correct. Our industry as a whole, our competitors in the United States have not fared very well in face of foreign competition. I have one of them that is going to be shut down for the whole month of August. We are going ahead full steam and looking for a very, very bright future and the best fiscal year ever.

Representative OBEY. Ms. Lenk, let me ask you, a lot of what you have talked about is prospective opportunity for business. You indicated a couple things that you might do, such as conferences, to sensitize people to the opportunity. Let me ask you this, three times over the last 10 or 11 years I sat down with my staff, we have talked about conducting small business conferences, procurement conferences, you name it, Senator Proxmire has held conferences in Milwaukee. We have mailed a good portion of the business community, letting them know that it was there, encouraging them to let us know if they were interested in trying to explore how much interest there is.

Frankly, the response was not overwhelming. It was deadly in the lack of interest that was communicated.

Ms. LENK. That is what I was talking about. It is an apathetic attitude. I don't know the answer. Like Mr. Marschke who has absolutely been aggressive and gone out to do business and business occurs, there are countries overseas that are in war and somewhere, although cities and buildings are being destroyed, somewhere in that area business is going on. That is a reality. Business does not stop.

You have to go out and seek it. You have to take the risk. You have to be patient and make a commitment to do that. It doesn't happen overnight. But it is there.

Representative OBEY. What I find is, I think, a real skepticism that it is safe to deal with government in terms of contracting, concern about the penalties if you miss very strict specs. And you get people who will say, well, this is a terrible time to get into anything that might be considered expansion. There are a lot of reasons given: High dollar, uncertain interest rates, inability to plan, don't know what government is going to do on taxes. And so they say I think we will just forget it for now.

I would say that until Revis Stevenson and a couple other people contacted me about a year ago, I think there has only been two real indications of interest on the part of local business people about just sitting down and talking about trade issues.

I cannot recall the last time anybody asked me to sit down and talk about how I was going to vote on the upcoming trade bill, for instance.

Ms. LENK. I will be in your office any time you want me to be.

Representative OBEY. I was shocked when Revis called because it was the first time in a long time that I had really had a heavy interest expressed.

What would—both of you, what would your response be to businessmen who say, look, these are bad times, really uncertain, really risky, better stick to what we are doing now to get along—people always talk about the Japanese and their market. It takes such a long time and such a sustained effort. It really isn't worth it. It is only marginal. Talk to me about something that is real instead of that.

What would your response be to somebody thinking along those lines?

Mr. MARSCHKE. Well, I think, Mr. Chairman, I look at one of the reasons why we decided to be in the foreign market to start with. And I think the main reason is that we recognized early on that we were in a world market for our product line, whether we wanted to be in or not. And the reason was, is because the foreign competitors were here. The Japanese competitors were here and so on, to a certain extent.

And it was the realization that you really have to have a world class product if you are going to make it today because if you don't, just because you singled out a small U.S. market that you have right now, if you have anything that is worth anything at all, you can bet somebody can import something into that market cheaper than you can right now and you better get rid of it. Because if you are waiting for things to get better, things will get worse.

Ms. LENK. I would add just a little bit to that, that I view it as the only people who are going to change are those that experience a lot of pain. If you study change, pain elicits change.

If things get really bad, people are going to be forced to look to other markets, what other markets are available other than domestic. If that doesn't work, where do you go? The world's largest buyer of everything is the U.S. Government. That doesn't mean necessarily Defense but they buy toothpaste, they buy shoelaces, they buy everything. That is a marketplace. The other one is export trade.

Representative OBEY. My cousin, who I haven't seen in a number of years, called me from the Pentagon a few weeks ago and it was like he fell out of nowhere. I talked to him and I found that he is in charge of a supply depo in Ohio which purchases $2 billion worth of equipment a year.

Ms. LENK. Is that Columbus?

Representative OBEY. Yes; they do by a lot of stuff, if people are interested.

Ms. LENK. According to statistics, they say that the government buys $400,000 a minute, 24 hours a day. That is a whole lot of commodities that are going out.

You can have as many ideals as you wish. I don't wish to be involved in burning children and killing people either, but somewhere along the line, whether they buy it from here, domestically or overseas, it is going to be purchased. We do not get Federal dollars back into this State. So that is something to look at. Everybody says that trade is terrible and there are a lot of horror stories out there.

I had one client a couple of years ago to show why they don't want to get involved with export trade who was just vehement. He grew livid, purple in the face when he talked about export trade because he had gone into a contract with a Third World country to purchase some very heavy machinery and it was to be delivered. In the contract it said to be delivered to the site and put into service. And he had to send three people over there to put the thing into service and they got this piece of equipment to the site and they wanted to put it into service and then found out that the place didn't have electricity.

Then they said, well, you can't leave because you have to put this machine into service and they were going to pull the passports on these three people and have—here they were, they were stuck. I will never export again. That to me was a failure in really researching what was happening with that contract. It wasn't export trade.

Representative OBEY. Well, just another example, when I was in Moscow 2 years ago at this time, on July 4 we celebrated Independence Day at the American Embassy in Moscow which was a unique experience. We had Soviet officials there as well. I will not forget it.

One of the things that surprised me, because I think people underestimate just how much linkage we do have with the outside world. I discovered that a person from Wausau, WI, was in Moscow working on our new embassy over there, in charge of installing the security windows at our new embassy building. And you go almost anywhere and you will find somebody from Wisconsin doing something and making a buck at it.

I just think it is important that people don't underestimate the possibilities.

Ms. LENK. There are only three countries that are not sanctioned by the U.S. Government to do trade with. That is Vietnam, Cuba, and Libya. Everybody else is open season.

Representative OBEY. OK. Well, I thank you both. I appreciate your time.

I have asked the next panel to lay out for me the state of the economy that they are most familiar with and tell us what they are thinking about, what they are worrying about.

I must confess this is probably the one industry in this district that I have paid most attention to through the years simply because paper was involved in virtually everything in the community that I grew up, and without the employment that I had received at the local paper mill for a number of years, I wouldn't have been able to get to college.

There were some jobs I enjoyed in the paper mill more than others. You can let somebody else have the wet machine, for instance.

Mr. KEMERLING. My daughter is working on that today.

Representative OBEY. Why don't we start. Why don't we start with Tom Schmidt. Then we can talk to you two about your concerns, and then we will get to the question of forest management, future resource base, the whole business from that angle.

STATEMENT OF THOMAS H. SCHMIDT, EXECUTIVE DIRECTOR, WISCONSIN PAPER COUNCIL

Mr. SCHMIDT. Thank you. We appreciate very much this opportunity to appear here today to discuss the economic importance of the State's pulp and paper and forest product industries and the future outlook here in the State.

In accordance with your request, I will divide my remarks into three categories. First, I will discuss the current economic status of the industry in central and northern Wisconsin. Next, I will discuss the strengths and weaknesses of our industry. And last, I will discuss the kind of public-private initiatives that might be undertaken to enhance the economic fortunes of central and northern Wisconsin.

The paper industry has been referred to as the backbone of the State economy. Rightfully so, as it has been a pillar of strength during good and bad economic times. The industry currently employees 47,000 men and woman at an annual payroll in excess of $1.2 billion. In Wood County, for example, the paper industry accounts for 17.5 percent of all employment and in excess of 30 percent of all income.

In Lincoln County, which is also in your congressional district, 10.5 percent of all employment and 19.4 percent of all wages are derived from the paper industry. And in Marathon County, the industry is responsible for 6.0 percent of the employment and 9.4 percent of the wages.

When combined with the larger forest products industry, the statistics are equally as impressive. For example, the paper and forest products industry, with more than 75,000 employees, is the leading employer in 24 counties and ranks second largest in another 6 counties.

And of the 19 counties comprising the Seventh Congressional District, the paper and forest products industry is the largest employer in 12 counties and is the second or third largest employer in another 5 counties.

What is the current status of the pulp, paper, and forest products industries?

The paper and forest products industries, as you know, closely track the national economy. Overall, most pulp and paper mills are currently operating at or near capacity with pricing and profitability showing marked improvement during the past 18 months. Some markets, however, have not fully recovered from the 1982–83 recession and continue to be soft, particularly the paperboard and packaging grades.

Wisconsin's lumber and wood products industry, although outperforming the Nation in employment gains over the past decade, is not faring quite as well.

Housing starts are still sluggish and there is presently a surplus of wood on the market, a short-term surplus, I must hasten to add, as government officials are predicting shortages early next century.

Thankfully, however, the paper industry continues to be a stabilizing force as 42 percent of the State's timber harvest is consumed as pulpwood.

Wisconsin has been the Nation's leading producer of paper since the mid-1950's. According to latest statistics, the industry produces almost 3.7 million tons of paper annually, or almost 12 percent of the national total.

What are the strengths and weaknesses of this major State industry?

On the positive side of the ledger, one must cite the availability of raw materials, adequate energy supplies, proximity to markets, reasonable wage rates, progressive management, and the work ethic of the labor force.

On the down side of the ledger, one must repeat the all-too-common concerns, some of which are starting to be addressed by State government, including State and local taxes, a shortage of softwood fiber, sometimes overly stringent environmental rules and regulations, and delays in obtaining operating permits.

In simplest terms, we continue to have an attitudinal problem within State government. But thankfully, government is starting to address the problem. Let us hope it is not a case of too little too late.

Wisconsin ranks No. 1 in terms of paper production. It is significant to note that during the 1983–85 timeframe, Wisconsin ranks sixth in terms of capital expansion. In other words, we are not growing as fast as some of our competitors, such as South Carolina, Georgia, and our neighbor, Michigan.

That brings me to the last segment of my comments: What private-public initiatives can be undertaken to improve the economic fortunes of the State, particularly central and northern Wisconsin?

For starters, government—local, State, and Federal—must stop spending beyond their means. We must become more frugal. We must lower our expectations to realistic levels.

Next, we—meaning both the public and private sectors—must continue to work together to improve the business climate.

Elected State officials and bureaucrats, for example, continue to send mixed signals to the business community. The current debate over acid rain is a case in point.

On the one hand, State officials and bureaucrats are making sincere efforts to expedite the permitting process and to encourage economic development. Yet, at the same time, some legislators and bureaucrats are urging the State to act unilaterally to reduce emissions of sulfur dioxide, one of the suspected precursors of acid rain, in spite of the fact that unilateral action might place some Wisconsin firms in a noncompetitive position, in spite of the fact that research is inconclusive as to the causes and effects of acid deposition.

And then these same elected officials and bureaucrats who promote unilateral action wonder why business leaders ponder long and sometimes publicly about expanding their operations in Wisconsin.

And last, this State must wake up to the enormous economic opportunity that awaits it here in central and northern Wisconsin.

We don't have oil. We don't have gas or an abundance of mineral resources, but we do have our forests, a renewable resource, an underutilized resource.

The State's forest resource base and industry have been studied to death. During the past 7 years, for example, we have had a Governor's conference on forest productivity, two Governor's councils on the same subject, the DNR's strategic plan for Wisconsin's forests, the Conservation Foundation's policy for the Great Lakes, and the review by the Wisconsin Strategic Development Commission.

The fact that these studies have not produced a bolder and more visible approach suggests that a renewed and strengthened commitment from the highest levels of State government and industry is required for the successful implementation of a long-range forest products strategy.

Following the Governor's conference on forest productivity in 1978, Michigan and Minnesota followed our lead and held similar conferences. Those two States have recognized the economic opportunity that is available. They are doing something about it. They have leapfrogged Wisconsin.

Michigan, for example, has targeted the forest products industry as one of its major economic opportunities. Have we seen a similar commitment from Madison? No, we have not. It is time we do.

The private sector is moving forward to avoid fiber shortages next century as we are funding a cooperative private-public effort which is designed to stimulate increased productivity on private, nonindustrial forest lands. But much more needs to be done.

In summary, Wisconsin's pulp and paper industry continues to be the economic mainstay of the State economy. Recent growth in other States, however, warns us that we cannot, and should not, take the industry for granted. Papermaking is a capital-intensive industry. It is an intensely competitive industry.

We in the industry are optimistic. We believe we will continue to experience incremental growth here in Wisconsin. By "incremental growth," I mean productivity increases and the occasional addition of a new papermaking machine. If we fail to make these productivity increases, the future of the industry is indeed bleak.

At the same time, on a much broader scale, there exists an enormous economic opportunity for Wisconsin to be the wood basket of the Midwest, if we build on our strengths and improve upon our weaknesses.

The research, the studying, has been done. Now it is time for commitment, a time for action.

Thank you for this opportunity to comment.

Representative OBEY. Thank you.

Mr. Chambers, please proceed.

STATEMENT OF LLOYD L. CHAMBERS III, DIRECTOR, GOVERNMENTAL AFFAIRS AND ECONOMIC ANALYSIS, NEKOOSA PAPERS, INC.

Mr. CHAMBERS. It may help if I establish my identity. I am employed by Nekoosa Papers. We are headquartered in Port Edwards. WI. We operate as a division of Great Northern Nekoosa Papers.

We will manufacture and sell an estimated 765,000 tons of fine papers in 1985. Such papers are commonly used for assorted printed materials, plain paper copies, computer printouts, envelopes, and tablets. They are sometimes referred to as business communications papers and represent more than half of all printing and writing papers used in the United States.

The domestic paper industry is intensively competitive, not dominated by one or two companies, but with several major companies, each enjoying a modest share of the market. Such a competitive environment has fostered aggressive expansion in the building of paper mills and pulp mills, with the result that paper prices, as measured in real dollars, have declined steadily over the last three decades.

Older, inefficient equipment has been retired and in its place we have built new paper machines and supporting facilities with price tags approaching $200 million and pulp mills costing more than $500 million. We have served the American consumer well and are a showcase example of the economic benefits derived from the capitalistic system.

Historically, the U.S. pulp and paper industry has been the most competitive in the world. We have an abundant wood resource, a well-developed infrastructure, state of the art equipment, and we are capital intensive rather than labor intensive, making us less vulnerable to competition from those areas of the world where labor is cheap and in great abundance.

The traditional paper-producing areas of the world, in addition to the United States, include Canada, Scandinavia, and more recently, Brazil. Scandinavia is characterized by a limited wood resource, which results in high-cost raw material.

Canada has experienced higher inflation, and with it, high costs. They have also focused heavily on groundwood papers and newsprint, rather than fine paper, such as we manufacture.

Although the Brazilians are known for their low-cost wood, they do not have a well-developed infrastructure, nor do they have access to capital, as we do in the United States. A similar review of all producing countries in the world results in the same conclusion: The United States is undeniably the strongest in the world. Unfortunately, not all is well in the industry.

A greatly overvalued dollar has priced our products out of world markets and provided our foreign competition with a tremendous advantage in our domestic markets. Historically, imports and exports of uncoated papers, such as we make, have been about in balance. Last year, however, foreigners captured about 5 percent of our market, resulting in reduced operations for American producers and reduced employment as well.

Prices on some products were driven so low that domestic producers could not cover their costs. How ironic for an industry which is undoubtedly the world's leader.

Part of the explanation lies in distorted currency exchange rates. But there is more to it than that. It has been the position of foreign governments to offer subsidies to their pulp and paper industries. A couple of examples:

In 1982, both Sweden and Finland devalued their currencies, instantaneously restoring their industry to competitiveness which they otherwise lacked. Only within the last few weeks, the Canadian Federal Government and the Quebec Provincial government agreed to loan Domtar, a major fine paper producer in Canada, $150 million on a 10-year interest free loan.

This money will be used to create an additional 250,000 tons of capacity at Windsor, ON, which is just across the river from Detroit. In the past, the Brazilian Government has offered export subsidies and low interest loans to exporting companies.

It is unfortunate that our Federal Government is now contemplating tax reform which will eliminate the investment tax credit, capital gains treatment for timber sales, and provide for the recapture of accelerated depreciation provided by the Economic Recovery Tax Act of 1981.

Loss of these tax incentives for a highly capital-intensive industry such as the paper industry will certainly stall the aggressive investment activity that has made the U.S. industry the world leader. Notwithstanding the reduction in corporate tax rates, windfall recapture will cost my corporation tens of millions of dollars in the 1986–88 timeframe.

In the last decade, we have seen several major U.S. industries—steel, rubber, textiles, and others—lose their competitive ability. And with that, lose their employment. If there is to be an industrial policy in this country, it should be to promote investment in the interest of keeping U.S. industry competitive and alive.

Thank you, Congressman Obey.

Representative OBEY. Thank you very much.

Please proceed, Mr. Kemerling.

STATEMENT OF JAMES L. KEMERLING, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MOSINEE PAPER CORP.

Mr. KEMERLING. Good afternoon. My name is Jim Kemerling. I am president and chief executive officer of the Mosinee Paper Corp. I appreciate the opportunity to comment on the State's paper industry.

A common misconception is that the paper industry is a homogeneous industry. We produce a myriad of products which have distinct end use applications. Each product is driven by its own economic factors, technological requirements, and distribution channel.

For example, the products produced within your district include coated publication papers, paper towels and tissue products, printing and writing papers, specialty papers for industrial and packaging applications, and paperboard utilized in corrugated containers and folding cartons.

You requested that my testimony be predicated upon my personal experiences. While adhering to that premise, I am confident that my views are shared by a majority of the industry's chief executive officers.

There are a number of basic factors regarding the Wisconsin paper industry:

First, Wisconsin is the leading paper producing State in the Nation.

Second, the Wisconsin paper industry produces a multitude of different products.

Third, the Wisconsin paper industry has a diversity of organizations: public and privately owned firms, independents and divisions of national firms, integrated mills and nonintegrated mills, large mills and small mills.

Fourth, products are marketed nationally.

Fifth, product demand is cyclical.

Sixth, many older facilities, 50 years and older.

Seventh, many mills are the largest employer in their community.

The primary mission of this hearing is to examine the viability of the economy in central and northern Wisconsin; the intent being to precipitate positive actions, including legislative alternatives that will aid in the region's economic development.

Being international in scope, the entire paper industry, including those located in Wisconsin, are directly impacted by Federal regulations and activities. Primary concerns at the present time are the President's tax proposal and the strength of the dollar.

To be totally effective, tax reform must contribute to continued economic growth and to increased efficiency through consistent tax policies that encourage capital formation. The frequency of recent tax change has strained credibility. Few businesses believe that the current proposal, if enacted, would last more than a year, given the magnitude of the budget problem and the uncertainties over revenue effects of the tax proposals. A larger flow of investment in plant and equipment can only result if tax programs provide continuity in financial planning.

Specific features of the proposal that will retard the paper industry's future contributions include:

Recapture of the tax benefits obtained from the use of accelerated recovery systems from 1980 through June 1986; replacement of the current investment tax credit and accelerated cost recovery system with a less favorable capital cost recovery system; removal of the investment tax credit on January 1, 1986; elimination of capital gains treatment for timber.

Another basic concern at the national level is the budget deficit and its related implications on the value of the dollar as compared to other foreign currencies.

The strength of the dollar has negatively impacted our industry. There has been a considerable increase in imports and a substantial reduction of primary paper and converted paper products.

This aspect is illustrated very vividly at our pulp and paper division which is located in Mosinee. We have a major customer who 7 years ago targeted the export market as his major growth area.

His efforts were rewarded as the volume grew to represent 20 percent of his sales. Supplying 100 percent of his raw material requirements for a specific end product application, we participated in his growth. Due to the strength of the dollar, the firm's export business has virtually dried up; the result to our pulp and paper division—$1 million decline in sales.

As indicated previously, the mission of this hearing is to focus attention upon the State's economy. Unfortunately, many of our State legislators and employees have the misconceived idea that our business activities are confined to the State's boundaries. They fail to recognize a basic tenet that to remain viable, the Wisconsin paper industry must remain competitive on national basis. In conjunction with that premise, two State issues are of primary concern to our industry: taxes and environmental controls.

There has been considerable dialog, publicly and privately, within the past 2 years that our State has an unfavorable business image; the primary culprit being an onerous tax position. While there has been considerable lipservice given to improving the situation, the business community continues to be saddled with "hidden" tax and fee increases.

Two examples impacting the paper industry are workmen's compensation rates and solid waste tipping fees. While neither will jeopardize the existence of the industry, they contribute to an erosion process.

Whether we like it or not, the State has a major dependence on smokestack industries, including ours. Our State legislators should recognize their magnitude and strive for preserving that employment base. It is more advantageous to assist a known entity than to attempt to attract an unknown one.

The second key issue involving the paper industry is the State's attitude regarding environmental matters. I concur that government involvement is needed to establish standards and to enforce them. While every individual and every business claims they would act in a responsible manner, we both know that if left on their own, some individuals would operate irresponsibly. That must not be allowed to happen.

Despite the need for control, we in Wisconsin must recognize that our business community does not operate in a vacuum. There is a delicate balance between environmental control and employment. What would be our heralded quality of life if our basic industries are forced to adhere to tighter, more costly constraints than our national competitors. Once again, they would erode and eventually fade away.

Our Nation has a proclivity to being No. 1. That attitude pervades our State government. There is a desire to be the most stringent regardless of the implications. We have a current situation regarding discharge limits into the Wisconsin River which we all know has been reborn. Fundamental to the current dispute is the DNR's hypothetical position that all dischargers will have maximum discharges simultaneously. While I am not a mathematician, the probabilities of that occurring are staggering. In my opinion, to jeopardize employment on that type of premise is unconscionable.

A recent concern is the State's aggressive posture toward acid rain, which is a highly controversial issue. Like yourself, I have read numerous articles and studies regarding the problem. Unfortunately, there is not a common understanding as to the environmental effects.

Because of the uncertainties, the issue should be decided on a national level. To impose State restrictions prior to the adoption of a national policy would, in my judgment, be ludicrous.

In closing, I want to reaffirm my position that the paper industry has a very substantial impact upon the State's economy. We are not seeking a "most favored" status. Instead, we are seeking a comparable status with our competitors. We are viable and can remain in that posture with the cooperation of the State of Wisconsin.

Thank you very much.

Representative OBEY. Thank you.

Please proceed, Mr. Dawson.

STATEMENT OF DAVID H. DAWSON, CONSULTANT, THE CONSERVATION FOUNDATION

Mr. DAWSON. I am David Dawson, a consultant to the Conservation Foundation.

Since its founding in 1948, the Conservation Foundation has recognized the importance of a healthy social and economic climate to the achievement of conservation goals. It seeks to ensure that environmental and natural resource policies are based on rigorous factual analysis and public understanding.

My major activity with the foundation since 1983 has been conducting a policy study of the forests of the Lake States of Wisconsin, Michigan, and Minnesota. The study, of which the first phase is complete, has, indeed, identified some of the issues, opportunities, and concerns of forestry in the Lake States Region and north-central Wisconsin.

It has also been clearly shown that north-central Wisconsin is typical of the region in terms of what is happening in forestry. In fact, the changes and opportunities may indeed be greater than other parts of the region. With a very few minor exceptions, what are issues or opportunities for forestry in the Lake States Region are of equal significance in this area of Wisconsin.

It is most significant and logical that forestry and forest products should be seriously considered in these hearings because the impact of forests in terms of employment, tourism, wildlife, and the ecology of the area currently and in the past are so great.

At the time of settlement of Wisconsin, the total area was heavily forested. These so-called "first" forests were logged off in the latter part of the 19th century. At that time, Wisconsin was a world leader in lumber production. These original forests, thought to be inexhaustible, were virtually obliterated by 1920.

This period of timber harvest was followed by repeated forest fires until about 1930 when better fire control measures were inaugurated.

The result is that the forests we have today have mostly grown since that period, either as the result of natural regeneration or planting programs.

One very major point needs to be emphasized at the onset of these discussions about forestry: Our forests are the most ecologically diverse of any in the Nation. In this way they are quite unique.

This diversity gives policymakers and those involved in forestry and related disciplines an opportunity to meet the varied needs and desires of the public—whether those interests are in terms of timber production, wildlife, tourism, aesthetics, or other noncommodity values.

To meet these goals, however, is professionally challenging, but we at least have the opportunity to do it.

A few pertinent facts about the ownerships and use of the forests of north-central Wisconsin:

Currently, about 6 million acres, or 60 percent of the total land area is in forest.

Representative OBEY. When you say north-central Wisconsin——

Mr. DAWSON. I am speaking essentially of your district.

About 120,000 acres, 2 percent, of this land is not commercial or reserved. Major reserved forestlands include Apostle Islands National Lakeshore, St. Croix Wild and Scenic Riverway, Flambeau River Wilderness Area, and the Rainbow Lake Wilderness Area.

The ownership of the commercial land/forestland is divided into the following approximate major categories: private nonindustrial, 48 percent; counties and municipalities, 20 percent; national forest, 13 percent; corporations, 14 percent.

Major public lands is one national forest, the Chequamagon, three State forests, three Indian reservations.

There is a large Forest Service Research Laboratory at Rhinelander.

Major forest industries, 14 pulp mills producing 4,000 tons of pulp per day; four particleboard plants, 830 million square feet; and 250 sawmills and veneer mills.

Our present forests, impressive when compared with the devastated landscapes that remained after the logging era, are not producing anywhere near their potential. With a potential average annual production per acre of 67 cubic feet, the Lake States are second nationally in productive potential only to the Pacific Coast, 97 cubic feet, and surpass the South, 60 cubic feet.

Forestry officials in the region estimate that the Lake States' forests could, under efficient management with research support, produce up to 80 percent above today's levels on a sustained basis. This is along with an increase in the quality and economic value of the timber grown.

While timber harvesting and forest products manufacturing return significant economic benefits to the region, the forests also contribute immeasurably to the region's character and quality of life. They are the basis of a thriving recreation industry. Their scenic qualities reinforce the region's attractiveness to tourists. While very valuable today, our forests have the potential to contribute even greater economic, social, and environmental benefits in the future.

While the timber industry's use of the forest resource is increasing, the areas still have an unused timber surplus: Growth substantially outpaces the volume cut. How long this situation will continue, no one can say. It is clear, however, that there will be increased harvesting of the available forests and that the resource presents an unusual economic opportunity for the three States.

In summary, I would like to point out four things: First, the Lake States forests are indeed an underutilized resource that potentially could provide far greater amounts of all forest goods and services.

Second, to achieve this potential the forestland base should be maintained and the quality of the timber railroad improved.

Third, this potential could be achieved quickly through regional cooperation and forest policy planning, management and promotion by the three States working independently.

Finally, improved communication among the States, among forestry interests within the States and among policymakers and other agencies, organizations, and individuals who are affected by forest policies and programs is essential if coherent, effective programs are to be developed and implemented.

This last point, this need for improved communication, is really probably the most important one and is tantamount to working out the solution and addressing these other issues.

It is important to remember that today's action on today's management determine the nature of tomorrow's forest. The cause and effect are always a long-time thing.

Decisions being made today and to be made in the near term will profoundly affect the economic, social, and environmental quality of the region and the lives of generations of its inhabitants.

Management choices will affect the aesthetics of forest land, the nature of wildlife that will inhabit the new forests, and recreational opportunities available.

Through the economic use of timber and the location of mills, the growth of communities and land use patterns will be determined. These, in turn, will affect the quality of the forest environment.

In sum, the future of the Lake States and north-central Wisconsin forests are at a critical juncture.

Thank you very much.

Representative Obey. Thank you, Mr. Dawson.

[The prepared statement of Mr. Dawson follows:]

Prepared Statement of David H. Dawson

INTRODUCTION

I am pleased to have been invited to participate in the hearings of the Joint Economic Committee. I am associated with The Conservation Foundation which is a nonprofit research and communications organization dedicated to improving the quality of the environment and to promoting wise use of the earth's resources. Based in Washington, D.C. the Foundation conducts interdisciplinary research and communicates its findings to a broad spectrum of leaders in business, government, academia, other conservation groups, and the press. The Conservation Foundation does not have members, does not lobby, and does not buy or sell land.

Since its founding in 1948, The Conservation Foundation has recognized the importance of a healthy social and economic climate to the achievement of conservation goals. It seeks to ensure that environmental and natural resource policies are based on rigorous factual analysis and public understanding.

My major activity with the Foundation since 1983, has been conducting a policy study of the forests of the Lake States of Wisconsin, Michigan and Minnesota. The study of which the first phase is completed has, indeed, identified some of the issues, opportunities and concerns of forestry in the Lake States Region and North Central Wisconsin.

It has also been clearly shown that North Central Wisconsin is typical of the Region in terms of what is happening in forestry -- in fact the changes and opportunities may indeed be greater than other parts of the Region. With a very few minor exceptions, what are issues or opportunities for forestry in the Lake States Region are of equal significance in this area of Wisconsin.

It is most significant and logical that forestry and forest products should be seriously considered in these hearings, because the impact of forests in terms of employment, tourism, wildlife, and the ecology of the area currently and in the past are so great.

HISTORY OF FORESTRY IN THE AREA

Before settlement of Wisconsin the total area was heavily forested. These so called "first" forests were logged off in the latter part of the nineteenth century. At that time Wisconsin was a world leader in lumber production. These original forests -- thought to be inexhaustable -- were virtually obliterated by 1920.

This period of timber harvest was followed by repeated forest fires until about 1930 when better fire control measures were inaugurated.

The result is that the forests we have today have mostly grown since that period either the result of natural regeneration or planting programs.

TODAY'S FORESTS

Today North Central Wisconsin along with the Upper Great Lakes States of Minnesota, Wisconsin, and Michigan comprise one of the most densely forested areas of the nation, second only to New England. Thirty-eight percent, or 47 million acres, of the three states' land area is in commercial forest.

One very major point needs to be emphasised at the onset of these discussions about forestry: Our forests are the most ecologically diverse of any in the nation. In this way they are unique. This diversity gives policy makers and those involved in forestry and related disciplines an opportunity to meet the varied needs and desires of the public -- whether those interests are in terms of timber production, wildlife, tourism, aesthetics or other non-commodity values. To meet these goals, however, is professionally challenging, but we at least have the opportunity to do it.

A few pertinent facts about the ownerships and use of the forests of North Central Wisconsin:

1. Currently about 6 million acres or 60% of the total land area is in forest.
2. About 120 thousand acres (2%) of this land is not commercial -- or "reserved".

   Major Reserved forest lands:

   Apostle Islands National Lakeshore
   St. Croix Wild and Scenic Riverway
   Flambeau River Wilderness Area
   Rainbow Lake Wilderness Area
3. Ownership of the commercial land/forest land is divided into the following approximate major categories:

   Private nonindustrial 48%
   Counties and municipalities 20%
   National Forest 13%
   Indian Lands 2%
   State Forest 3%
   Corporations 14%

4. Major Public Lands

    One National Forest -- The Chequamagon

    Three State Forests

    Three Indian Reservations

5. There is a large Forest Service Research Laboratory at Rhinelander.

6. Major Forest Industries

    14 Pulp mills producing 4000 tons of pulp per day

    4 Particleboard plants - 830 million square feet

    250 Sawmills and veneer mills

Our present forests, impressive when compared with the devastated landscapes that remained after the logging era, are not producing anywhere near their potential. With a potential average annual production per acre of 67 cubic feet, the Lake States are second nationally in productive potential only to the Pacific Coast (97 cubic feet) and surpass the South (60 cubic feet). Forestry officials in the region estimate that the Lake States forests could, under efficient management with research support produce up to 80 percent above today's levels on a sustained basis, along with an increase in the quality and economic value of the timber grown.

While timber harvesting and forest products manufacturing return significant economic benefits to the region, the forests also contribute immeasureably to the region's character and quality of life. They are the basis of a thriving recreation industry. Their scenic qualities reinforce the region's attractiveness to tourists. While very valuable today, our forests have the potential to contribute even greater economic, social, and environmental benefits in the future.

THE CHANGING ROLE OF THE FORESTS

After decades in which there was only modest use of the region's forests when compared to the Southeast or Pacific Northwest, they are experiencing an increase of commercial harvesting. Though much of the timber is not of the size or quality required for construction-grade lumber, new techology has made the regions forests valuable for reconstituted wood products, collectively called particleboard, which substitute for and are economically competitive with plywood. Improved technology also has resulted in the increased use of a greater variety of three species as a component of the pulp used for paper and for some construction lumber. Because of these factors, and the region's proximity to Midwest metropolitan markets and the outlook for increased overseas access provided by the St. Lawrence Seaway, the region's forest products industry has expanded significantly. For example:

- The region's pulp and paper industry in 1982 produced about 11,000 tons of wood pulp a day, an increase of approximately 20 percent since 1970.
- In 1981, the paper industry committed approximately $250 million to increase production capacity in Wisconsin.
- The particleboard industry, attracted by the large supply of mature aspen that is a unique resource of the region, more than doubled its production capacity (from 378 million square feet to 780 million square feet) between 1979 and 1982.

Meanwhile, the forests are increasingly being looked to as a source of energy for homes and industry. More than 400 institutions and manufacturing plants in the region have converted from fossil fuel to wood as a primary source of heat. In 1983, the Wisconsin Paper Council estimated that in Wisconsin, the nation's leading paper-producing state, as much wood was used for residential heating in that state as for the manufacture of pulp for paper.

While the timber industry's use of the forest resource is increasing, the area still have an unused timber surplus -- growth substantially outpaces the volume cut.

How long this situation will continue, no one can say; it is clear, however, that there will be increased harvesting of the available forests and that the resource presents an unusual economic opportunity for the three states.

MAJOR FOREST POLICY ISSUES IDENTIFIED BY THE CONSERVATION FOUNDATION

1. The contribution of the area's current timber resource is less than its potential for providing economic growth and development.
2. Forest managers of public lands and those foresters advising non-industrial private landowners need better and more consistent guidelines from industry. Similarily, industry needs longer-term assurances of a supply from public forests.
3. The concept of roles for each forest ownership class needs to be re-examined and redefined.
4. Production of forest resources on private nonindustrial forestland is below the level needed from this land to meet expected regional demands for wood and noncommodity products and services.
5. The region is experiencing more energy problems than most regions because its economy is highly energy-dependent compared with other states. The forests of the region can make a large contribution to energy production.
6. Current funding and technical services to intensify forest management on public lands through timber-stand improvement and planting are insufficient to meet the needs. The same condition prevails on most private forest ownerships.
7. A lack of public understanding of desirable and scientifically proven forest management practices to increase productivity of all resources has restricted their implementation and lessened the opportunities for achieving greater forest productivity.
8. The current forest provides opportunities for achieving regional economic

growth and various social needs. How it is managed now and in the future will determine the character, potential, and social benefits of the "third" forest.

9. Although there is an abundant supply of forest products and benefits available now, projected demands for the future are very high. It is imperative that to meet these demands investments in forestry improvement and research be made now.

TODAY'S ACTIONS DETERMINE TOMORROW'S FORESTS

How the present second-growth forests are harvested and regenerated will determine the nature of the forests that will replace them. The fundamental question what mix of timber management alternatives will assure a sustained yield of diversifie species and age classes in perpetuity? There are many possible options. Managers will have to decide, for example, what portions of the commercial forest land base are to be regenerated in softwood and hardwood species to be permitted to grow to sizes suitable for construction-grade lumber and veneer, what portions are to be regenerated in fast-growing hardwoods that could be harvested on short rotations for particleboard, pulp, and fuel, and what portions are to be left to develop with little or no direct management into natural old-growth stands, or be designated as wilderness. In answering these questions, are there specific roles for various landowners -- the federal government, the states and local governments, the timber industry, small private forest landowners depending on the special attributes of the land, statuatory mandates of the public agencies, and objectives of industry and small private landowners?

Decisions being made today and to be made in the near-term will profoundly affect the economic, social, and environmental quality of the region and the lives of generations of its inhabitants. Management choices will affect the aesthetics of forest land, the nature of wildlife that will inhabit the new forests, and recreational opportunities available. Through the economic use of timber and the location of mills, the growth of communities and land use patterns will be determined. These, in turn, will affect the quality of the forest environment. In sum, the future of the Lake States and North Central Wisconsin forests are at a critical juncture.

Representative OBEY. Mr. Nienstaedt, please proceed.

STATEMENT OF HANS NIENSTAEDT, RETIRED CHIEF PLANT GENETICIST, FOREST SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. NIENSTAEDT. Thank you. My prepared statement addresses the dependence of forest industries on innovative forest management and a strong research support program.

The three Lake States can be considered the unit in terms of forest biology, and biological research results can be applied across the three States. That means that the forest industries in northern and central Wisconsin draw on a broad research base, including the universities in our adjoining two States; and in Wisconsin, the University of Wisconsin and the Institute of Paper Chemistry have made very important contributions to the industry, also the Federal research programs centered at the USDA Forest Service Forest Products Laboratory in Madison and the North Central Forestry Experiment Station.

In northern Wisconsin, the main research facility is the Forest Sciences Laboratory of the north central stationed at Rhinelander. Just as the research base is very broad, so are the research disciplines that are supporting the industry very broad. It spans the fields of forest economics, tree physiology, all the way to harvesting and products engineering.

Forest related industries, including the products and recreation industries are among the most important generators of employment and revenue in northern and much of central Wisconsin.

The objectives of forest management are several: to provide commercial forest products, energy, wildlife habitat, and leisure activity, including aesthetics. Management techniques differ depending on objectives, and objectives are often at least partially incompatible.

Furthermore, the uses are not only competing for a decreasing land base, the uses are also changing over time as the demands of society change.

To meet these increasing and changing demands, forest management must be flexible and able to provide many options. This can only be achieved through research since research essentially sets the limits for the framework of management's options.

The objectives of research are to increase management's options for the maintenance and improvement of the forestland base. Research must make it possible to increase the yields of all forest values while at the same time reducing the risk of catastrophic losses within the resource. Together managers and researchers must make it possible to optimize key values of individual land parcels and to separate uses and users that conflict if placed on the same areas.

In order to meet these objectives, balanced basic and applied research programs are essential. Service research answering current problems is not enough because such research most likely will find the answers only after the problems have solved themselves. Only through basic, future-oriented research can the forest manager be provided with the essential options for meeting changing demands of the future.

In my prepared statement I have a number of examples of contributions made by research, and I also speculate on the potential. I have emphasized developments that may lead to increases in yields of wood fiber. This is partly because these are my areas of expertise, but it is also because I am convinced that the ability to produce more wood per acre is the key to meeting increased demands for other values as well. This ability will minimize the conflict of competition among forest use values.

Today the forest research community is disorganized. It can be observed not only in the Federal research organization, but also universities are concerned.

In the past cooperative research agreements provided for joint research. Now university scientists must compete with Federal scientists for grant money. Research program development is a creative evolutionary process. It thrives in an environment of relative freedom and stability.

Instability of policies and funding kills the process. While overall program development is evolutionary and requires change, there is, or there are many individual research efforts in forestry, particularly in forest management research, that are long term. This was already alluded to. Interrupting or abolishing good long-term research is costly.

It can, under circumstances, some circumstances, mean lost opportunities and complete waste of past investment. Because forest management research is long term in nature, it has generally been outside forest industries investments and research capabilities. Therefore, the responsibility for the bulk of long-term forest management research has traditionally fallen on the forest service.

Such research has in fact been the main justification for forest service management and research. The present budget of just over $140 million represents a 13.9 percent decrease in funding for fiscal year 1986.

One of the changes is the elimination of $7.8 million for competitive grants. These were new moneys and were hailed as highly desirable sources of funding. I don't know what has happened to the budget in the last few days.

Nevertheless, to me the President's budget shows the current administration's disregard for the importance of forestry research and an indecisiveness of policy which could be detrimental to forest service research in the future.

If the President's budget did pass without change, and if the trends continue in fiscal year 1988, it would eliminate effective forest service research. It would in the long run have serious impacts on forest industries and the economy in northern Wisconsin.

Thank you.

Representative OBEY. Thank you.

[The prepared statement of Mr. Nienstaedt follows:]

Prepared Statement of Hans Nienstaedt

THE DEPENDENCE OF THE FOREST INDUSTRIES ON INNOVATIVE FOREST MANAGEMENT AND A STRONG RESEARCH SUPPORT PROGRAM

Forests provide society with an array of commodity and amenity values. The mix of values required by society constantly changes in time and space. In order to meet these different and changing demands, forest managers must have available many management options. Forestry research provides these options. Forest based industries are essential to the economy of northern and central Wisconsin. Assuring a healthy, expanding economy in the area will require flexible forest management supported by strong research programs. This will only be achieved with stable research policies and funding that at least provide for inflationary cost increases. The following will briefly discuss the research base that has supported the Wisconsin economy in the past. The research contribution will be illustrated with a few examples; some future potentials will be described, and the requirements that are essential to reach the potentials will be discussed.

A recent Conservation Foundation publication[1/] emphasizes that Michigan, Minnesota, and Wisconsin constitute a logical "region" for purposes of forest policy coordination. The three states can also be considered a unit in terms of forest biology and management. Broadly speaking, forest management techniques and biological research results can be applied across the three states.

1/ Shands, William E. and David H. Dawson, 1984. Policies for the Lake States Forests. The Conservation Foundation, Washington, D.C. 33 p.

The forest industries in northern and central Wisconsin, therefore, draw on a broad research base that includes several facilities of the University of Minnesota, Michigan State University, Michigan Technological University, and the University of Michigan. In Wisconsin the programs at the University of Wisconsin and the Institute of Paper Chemistry at Appleton have provided the industries invaluable information. Federal research programs are centered at the USDA-Forest Service's Forest Products Laboratory in Madison and the North Central Forest Experiment Station (NCFES with facilities in all three states). The main forest research facility in northern Wisconsin is the Forestry Sciences Laboratory of the NCFES at Rhinelander. A number of individual University studies are on state and private lands across the northern areas.

The research disciplines supporting the industries are similarly broad and include forest economics, forest measurements (mensuration), forest ecology, silviculture, pathology, entomology, management, fire, genetics, tree physiology, wildlife, recreation, harvesting and products engineering, and some others. My experience has been in forest biology related disciplines, particularly tree genetics and breeding and related tree physiology, silviculture, entomology, and pathology. My examples, therefore, will be drawn from these fields, but I want to emphasize that all the disciplines have contributed significantly to the forest products industries; in fact some of the most productive recent research have been coordinated efforts involving several different fields.

Forest Management and Research Objectives

The forest related industries, including the products and recreation industries, are the most important generators of employment and revenue in northern and much of central Wisconsin. Their importance will increase in the future. The objectives of forest management are several: (1) to provide commercial forest products, (2) energy, (3) wildlife habitat, and (4) leisure time activity, including aesthetics. Management techniques differ depending on objectives, and objectives are often at least partially incompatible. Furthermore, the uses are not only competing for a decreasing land base, the uses are also changing over time as the demands of society change.

To meet these increasing and changing demands, forest management must be flexible and able to provide many options. This can only be achieved through research since research essentially sets the limits for the framework of management's options. Or to express it differently, forest managers will only use techniques developed through research. Broadly stated, the objectives of research are to increase management's options for the maintenance and improvement of the forest land base. Research must make it possible to increase the yields of <u>all</u> forest values while at the same time reducing the risk of catastrophic losses within the resource. Together managers and researchers must make it possible "to optimize key values of individual land parcels and to separate uses and users that conflict if placed on the same areas".[1/]

In order to meet these objectives balanced basic and applied research programs are essential. Service research answering current problems is not enough because such research most likely will find the answers only after the problems have solved themselves. Only through basic, future-oriented research can the forest manager be provided with the essential options for meeting changing demands of the future.

Stable forest research policy is another prerequisite for forestry research, particularly for the federal research programs. Trees are long-term crops and long-term research is essential to establish reliable answers to the management of trees crops. The lead time in forestry research is long--10 years or more is not unusual--and good forestry research cannot be turned on and off haphazardly without costly delays and lost opportunities. The evolution of sound forest management research programs requires stable policies and funding that, at a minimum, increase with the inflationary cost of doing research.

Highlights of Past Forest Management Research Contributions

Fifty years of hardwood management research by NCFES scientists have resulted in detailed management guides. Four-to-five hundred forest managers have been trained in the use of the guides, and the techniques are now being used to manage the 2.8 million acres of northern hardwood forests in the northern half of Wisconsin. Following the guides, 18 inch financially mature yellow birch can be produced in 87 years. Without proper tending, it would take 147 years to grow the same size tree. Select logs from such trees are 2 to 5 times more valuable per thousand board feet than common lumber when delivered at the mill. As pointed out at the Conservation Foundation meeting[1/], the intensive management of the hardwood resource can further enhance the region's position in the national and international high-quality hardwood markets.

Similar guides have been developed for softwood species management, and it has been demonstrated that yields can be improved through breeding, as well as through improved culture. The University of Wisconsin has shown that red pine--the most important plantation species in Wisconisin--can be improved 3 percent in height growth and 5 to 11 percent in volume growth in a generation. This may not sound like much, but considering that more than 18,000 acres of red pine are planted in Wisconsin annually, the impact is very substantial. With the Department of Natural Resources, the University has established 3 special plantations for the production of this improved seed. The plantations are now coming into production.

. The potential for improvement of other softwood species is much greater than for the genetically uniform red pine. NCFES scientists at Rhinelander have shown that 12 to 14 percent increases in height growth per generation in jack pine are possible, and that under ideal conditions an 80 percent increase in per tree volume can be achieved in a single generation of white spruce breeding. Plantations for the production of improved jack pine and white spruce seed are now producing seed for the Department of Natural Resources. The program is a cooperative effort involving the DNR, NCFES, and Region 9 of the Forest Service.

Seedlings produced in the Wisconsin DNR nurseries are used for reforestation on state and private lands, while planting stock for federal lands come from federal nurseries. The federal nurseries uses genetically improved seeds exclusively for the production of trees.

Hardwood management and improved production through breeding require little or no increase in energy input. Much greater yield increases however are possible.

Based on the results of many years of research and breeding elsewhere, scientists at Rhinelander over a period of 8 years developed a cultural system which, although it is energy demanding, is energy efficient and economically feasible. With certain fast-growing tree species, intensive culture involving weed control and fertilization can increase wood fiber yields by 5 times over that of average forest stands. Furthermore, intensively cultured plantations can be harvested at rotations as short as 10 years or less. This combination of high yields and short rotations could provide a valuable insurance factor in the raw material supply for a pulp mill or a wood-fired electric generating plant. Intensive culture management techniques provide an alternative to declining forest fiber yields in the face of increased demands for other forest amenities.

Forest pathologists have identified and developed control measures for seven diseases causing damage to Wisconsin's Christmas trees that are worth approximately $10,000,000 (half of the trees are located in the northern half of the state). Using information provided by many cooperating scientists, the NCFES staff has also published a highly successful "Christmas Tree Pest Manual" which treats 70 Christmas tree pests, and has received national acclaim from growers in forestry and horticulture.

Tree physiologists have developed a better understanding of the processes that lead to the formation of roots on detached cuttings from trees. With cooperating chemists, they have developed and patented new hormones that can double the rate and quality of rooting. An organization in South Dakota is now preparing to begin production of proprietary rooting compounds based on these hormones. When the compounds are marketed, it will benefit not just Wisconsin forestry but forestry and horticulture throughout the world.

Forest resource inventories are the responsibility of USDA Forest Service research in cooperation with Wisconsin DNR. The Wisconsin survey has been recently completed and the 5 unit reports dated 1983 have been published. The Statistical State Summary Report is expected in about 6 months. The analytical reports will appear later. Industry cannot plan without these survey data.

The above examples are limited and completely fail to convey the importance of forest management and products research conducted at the University of Wisconsin, the Institute of Paper Chemistry, and the Forest Products Laboratory. The industries have benefited equally or more from the research at these three organizations.

Research Potentials

Prediction is a hazardous game at best. Predicting what forestry research may accomplish in a foreseeable future is essentially impossible.

We can predict that tree breeding will provide continued gains of the magnitudes mentioned for 2 to 3 generations. To assure these gains, researchers, in cooperation with public and private agencies, have established long-term jack pine and red pine breeding populations, and breeding populations are being assembled for white spruce, larch, and for 3 species of poplar.

In other disciplines we can perhaps expect: (1) that intensive culture techniques will be applied to new species with resulting yield increases; (2) that better methods of raising and grading tree seedlings will result in more efficient regeneration of both conifers and hardwoods; (3) that we will increase our ability to predict and control major pest outbreaks by methods that pose low dangers to the forest ecosystem as a whole; (4) that new more efficient inventory methods will be developed; and (5) that long-term breeding strategies will be developed that will assure the efficient maintenance of the invaluable genetic resources of our tree populations. The potentials in the new fields of biotechnology and genetic engineering may be greater yet, but they are even less predictable. However, highly efficient methods have been developed for the propagation of selected highly productive genetic types of some species of both softwoods and hardwoods. These techniques undoubtedly will be extended so Wisconsin trees can be propagated with equal facility. New screening methods are being developed for the isolation of genetic types resistant to diseases, environmental stress, or herbicides. Such research is now in progress in Wisconsin at the Rhinelander Laboratory, at the Institute of Paper Chemistry, and at the University of Wisconsin-Madison. Success of the programs could revolutionize the culture and genetic improvement of some of our most important tree species. A breakthough in genetic engineering of tree species could be of even greater importance.

I have emphasized developments that may lead to increases in yields of wood fiber per acre. This is partly because these are my areas of expertise, but it is also because I am convinced that the ability to produce more wood per acre is the key to meeting increased demands for other forest values. This ability will minimize the conflict of competition among forest use values.

Requirements for Healthy Research Environments in the Future

Today the forest research community is discouraged and disorganized. These feelings prevail nationwide! It can be observed not only in the federal research organization, but also the universities are concerned about current trends. In the past Cooperative Agreements provided for joint research, now university scientists must compete with federal scientists for grant money.

Research program development is a creative, evolutionary process. It thrives in an environment of relative freedom and stability. Instability of policies and funding kills the process. While overall program development is evolutionary and requires change, many individual research efforts--particularly forest management research--are long-term. Forest ecosystem research studies long-term natural processes that cannot be speeded up. Geneticists have tried to speed up the breeding process and have successfully shortened some required steps. Yet it is necessary to prove that selection for a trait at 6 years of age, for example, provides the required results at 20 years when the crop is harvested. Providing the proof is still a 20-year process. Interrupting or abolishing good long-term research is costly at best; it can under some circumstances mean lost opportunities and complete waste of past investments.

Because forest management research is long-term in nature, it is outside the forest industries' investments and research capabilities. The industries have, therefore, relied on the results of Forest Service and, to a lesser degree, university research for the information they require in order to do "problem solving" follow-up research and to manage their forest holdings. Also, the universities have found it difficult to conduct long-term forest management research. Universities require short-term projects for graduate programs, do not have the continuity of staffing, often lack sufficient forest holdings to conduct long-term investigations effectively, and their sources of funding generally dictate a short-term research emphasis. Therefore, the responsibility for the bulk of long-term Forest Management Research has traditionally fallen on the Forest Service. Such research has in fact been the main justification for Forest Service Forest Management Research.

The Forest Service Research Budget is minuscule compared to the total federal budget--a total of less than 121 million dollars for FY 1985. The President's Budget of just over 104 million dollars represents a 13.9 percent decrease in funding for FY 1986. One of the more disturbing changes in the budget is the elimination of 7.8 million dollars for competitive grants. These were new moneys in the 1985 budget and were hailed as a highly desirable new source of funding.

The President's 1986 Budget shows the current administration's disregard for the importance of forestry research, and an indecisiveness of policy which could be detrimental to the Forest Service Research Organization. If the President's 1986 Budget is passed and the trend continues in FY's 1987 and 1988, it would eliminate effective Forest Service research. It would in the long run have a serious impact on forest industries and the economy in northern Wisconsin.

Representative OBEY. Thank you all for the well prepared statements. Given the time squeeze, let me be as quick as I can in raising a few issues.

No. 1, I am confused on the issue of acid rain that some of you mentioned. Your comments talked as though the State had not proceeded with acid rain action. What is the status? Hasn't the State actually passed acid rain legislation?

Mr. SCHMIDT. Yes, it did. The State acted last session and enacted a bill which imposed a 500,000 ton cap on the utilities in the State. In addition, there was a 675,000 goal which is not to be exceeded, which, in effect, has the same impact of a cap.

Representative OBEY. Is that the action to which you were objecting?

Mr. SCHMIDT. No. There are numerous studies under way. Wisconsin is not in a do-nothing situation as I just said. The legislature has acted. There are research programs underway. In addition though, at the August board meeting of the natural resources department, a recommendation will be coming forth from staff as to whether or not future action should be taken here in Wisconsin.

One bill is already in the hopper calling for a 50 percent reduction in SO2. Another legislator has indicated similar legislation will be introduced in the State senate. The DNR has conducted five public hearings around the State in recent months, all predicated on the idea of limiting the rainfall in the State to a Ph of 4.7.

If you were to do that, that equates out to a 50 percent reduction in SO2 emissions. So it is on the horizon. It is disturbing to us because acid rain is a national issue and needs to be resolved on a national basis, not on a State basis.

Representative OBEY. In that regard, there are three main acid rain bills in the House right now. You have had the Waxman approach. You have the Udall approach, which is essentially Tony Earl's bill, which he has been carrying for the Governor's Conference. I can't think of the author of the third one.

Are you in support of any of those bills?

Mr. SCHMIDT. Not at this time. Let me expand, if I could, why we are not. We are taking a "wait and see" posture at this point. As we have indicated during our comments today, there are no common conclusions that have been drawn at this point.

Much research has been conducted, much is underway, and we don't have definitive answers yet as to either the causes of the proposed problem as well as the effects. Once we see what those results are, I am very confident that we will take a position. I think you have to keep in mind that we in the paper industry probably have more at stake than anyone else.

For example, we are in Wisconsin responsible for emitting 17 percent of the SO2 that originates in the State. Utilities roughly about 80 percent. At the same time, we are totally dependent upon the natural resource base, wood.

There are questions that have been raised and studies underway to determine if there are any effects from acid rain either positive or negative on the forest resource base. So we have a dual stake in this issue. We are awaiting——

Representative OBEY. I am trying to figure out what you mean in your statement. You indicate you don't want the State to take further action. If you do want it addressed at the national level, there has to be some legislation you would favor, unless you are telling me that you think that because the research is not yet absolutely definitive, that at this point you don't favor action on any Federal bill.

Are you saying the latter or are you not quite at that position?

Mr. SCHMIDT. We have not taken a position on any national legislation at this point.

Representative OBEY. I haven't decided this year which bill to sponsor either. Frankly, at this point I am thinking of sponsoring all three of them, simply because I think what we have going on at the Federal level is a stall game, and while I certainly recognize that there are questions about the details of the impact, as you know, it is kind of like exposure to a carcinogen. It might be 10 or 15 years before exposure results in disease in that case.

And in acid rain, if what a significant portion of the research seems to indicate is true, by the time we wait until the research we are absolutely totally tied down, it could very well then be too late. I don't want to support something which is needlessly Draconian, but I also am frustrated by the forces in the Congress who are in effect saying, do nothing.

I would hope that we could get agreement on which alternative to support, because I think there are a lot of members who are going to wind up perhaps not supporting the provision they prefer but the provision they think can get the most number of votes.

And very frankly, I would give this advice to you: I have studied a long time, the bill that seems to have been put together most cleverly in terms of building the magic number, 218 votes, is the toughest of the three bills, the Waxman bill, which has traditionally been the toughest. And that is very effective because it has very skillfully taken advantage of the concerns of the Eastern coal interests as well as the needs of States for pollution cleanup.

And I would urge you that if you are interested in seeing a more consensus approach followed, that the industry arrive at a conclusion in terms of which of those horses ought to be ridden, because I certainly feel an obligation to ride one of them. I know a lot of my colleagues do as well.

Mr. KEMERLING. I don't think, Congressman, we debate or question the fact that if indeed something has to be done. My concern is that the State of Wisconsin in their normal aggressive position is going to put our industry at a disadvantage competitively. We have enough other disadvantages. That is going to be a very distinct hurdle.

Representative OBEY. I think the Governor recognized that. I know he took a lot of heat for taking what some people thought was too generous a position on that issue.

Mr. KEMERLING. The situation would be exacerbated if the Federal policies go through and repeal investment tax credit and accelerated depreciation. Once again, it is the type of thing that one whammy is bad enough. Two or three are real trouble.

Representative OBEY. Let me ask on that, on the President's tax package, I know that there is a difference of opinion, firm to firm within the industry. I was talking to some Consolidated people on another matter when I was in Rapids on Monday. They have a somewhat different view on the repeal of the investment tax credit than the industry does as a whole.

But generally, how much of that is there within the industry? In this area or in the State of Wisconsin, how many companies would you say would be taking the same position as Consolidated on that question?

Mr. KEMERLING. I think the biggest problem—I think there will not be a majority taking the position of Consolidated. The biggest problem is the retroactivity aspect on the recapture.

Mr. CHAMBERS. It may well be that Consolidated takes that position because they will have made their investment ahead of everybody else. So it cuts out their competition but it makes it available to them.

Representative OBEY. What they told me is that they would be very unhappy if the effective date of that bill were adhered to because they thought it would cut them out.

Mr. KEMERLING. It would. They will not be in operation by January 1.

Representative OBEY. On the recapture provision, as I told you, I think this is an example of—let me be very frank about it. When a lot of those tax breaks for business were provided in 1981, I opposed them because I thought that they went too far and would lead to too large a deficit. But as one of the previous witnesses indicated, we have a problem here of stability going from one set of policies, that even though I might have opposed them, we thought were going to be in place for a while.

Now you are snapping the rubberband totally the other way, and it is going to be a very difficult thing for smokestack industries to deal with in my judgment.

Mr. CHAMBERS. I would like to make a comment. Currently the cost recovery after a 5-year period for Canadians, the Swedes, and for the Americans is about at parity. They recover the same on their investments as we do.

Under the proposal involving elimination of ITC, windfall recapture and elimination of ACRS, our cost recovery will only be about 75 percent of what it is in Brazil and in Sweden.

That means that investments will be more difficult for us to make because we simply don't get the return that they are getting in those countries. And then if you add to that the unfair trade practices, the subsidies they provide, we will be at a very distinct disadvantage.

Representative OBEY. Let me ask you this. I think we are in an ironic position. What I don't understand is this: In 1981, and we will talk about it, I will, the President has talked about repealing a number of those breaks that were provided in 1981. In 1981 we had the Reagan administration tax plan. Then we had the Dan Rostenkowski alternative and what happened, as I said earlier, was round one of the Ron and Rosti show. Each of them was trying to lick the other by offering larger breaks to different segments of society in order to get the votes of Representatives from areas where they were strong politically. As a result, we received a temporary agreement on a set of tax preferences that couldn't hold long term.

At the time there was a third alternative. It was the one offered by myself and Moe Udall and Henry Reuss. What we suggested instead of the ACRS and the investment tax credit, which in some cases gave some industries 115 percent return on their investment, which is a little much, I think, we—the courtesy of the taxpayer gave them that return.

We suggested that the best way to handle it would be to provide 100 percent first year expensing for all machinery and equipment. And that is what we had in our bill. Frankly, I think that if the business community had seen the liberal Democrat offer that in 1979 or 1980, they would have thought they died and gone to Heaven. What I never understood is the fact that even though that would have been the most neutral way to treat every industry so that you were not giving one industry an unfair advantage versus another, I never understood why the business community wouldn't take that and run, because it seems to me that is the least complicated way to deal with it.

It was the fairest, and I think if we had done it at the time—I mean you had people, you had people from conservative Yale Business School to liberal Harvard Business School who were all arguing for it across the political spectrum. I have never understood why they wouldn't grab it at the time because I think that would have been more sustainable than the existing set of arrangements and you would have had the kind of continuity that business was——

Mr. CHAMBERS. It would have created a big tax loss flow. We can hardly absorb the depreciation and still show a profit. I would like to add one more thing. That is, that contrary to what you remarked about, 100 or 115 percent return, our current figures on the return on investment on a new paper machine are between 9 and 10 percent. And with the elimination of——

Representative OBEY. What I meant to say is that for some corporations, the way the accelerated depreciation schedule coupled with the investment tax credit has, or what that has resulted in is that taxpayers have paid 115 percent of the cost of that investment instead of 100 percent. And that is pretty well documented. That is what a lot of people think is excessive.

You don't argue with that, do you, that that has been the case?

Mr. CHAMBERS. I would think that your remark is correct. I don't know if it is 115 percent. I know it is above 100 percent. I don't know that that is necessarily bad if it provides employment and growth and lower cost paper products, and that has been the history of this industry through time.

What my argument is, the Government's posture now is going to destroy our competitive ability. We have seen it happen in automobiles and steel and textiles and rubber and shoes, and we cannot be put at this disadvantage and continue to enjoy that favored position as the world's most productive producer of paper products.

Representative OBEY. I would respectfully suggest that if you are going to argue a position, I don't think it is going to be politically tenable to say that Uncle Sam ought to pay 112 percent of the cost of installing a piece of machinery; 100 percent you can make a case for; 112 percent, a guy would have to be in a pretty relaxed mood to accept that argument.

Mr. KEMERLING. Are you endorsing that position?

Representative OBEY. No. Let me ask another question.

Again, I know you have all emphasized that the main problem business has is the same problem that everybody else has: the deficit. The deficit causes at least partially high interest rates. There are some other reasons for it.

It also at least partially causes our competitive disadvantage because of the warp in exchange rates. It causes the cost of what we sell to inflate 20, 25 percent. I know that personally, emotionally, ideologically and in every other way most people would prefer to say, look, let's get that deficit down totally on the spending side. Let's not touch revenue increases at all.

But let me give you a specific. That is fine in theory but we are now at the point where we have to make some specific decisions. We have to deal with what the system produces.

The budget resolution last week claims to cut $58 billion off the deficit this year. Really in my judgment, that is only $35 billion. I think it is a lousy budget. I voted for it. I voted for it because $35 billion in deficit reduction is better than zip. But our House Appropriations Committee tried to go beyond the cuts made in the budget resolution. Eight of the subcommittees on the House Appropriations Committee have gone in their appropriation bills, produced additional cuts of about $9.5 billion. In my Foreign Operations Subcommittee, I brought out a bill which was 21 percent below last year's level. Half a billion dollars below the present.

But in one action, in one action, the Defense Authorization Bill brings a defense figure in for this year which totally wipes out all of the cuts that we made on the domestic side because we go $10 billion above where we expected they would go.

So to make a long story short, we are, we have reached the point where, whether we like it or not—I certainly don't like it—we are there. We can now see now what the system is going to produce by way of actual spending actions. And we still have interest payments that are going up, which means bigger and bigger interest payments each year.

I would ask you at this point, with the necessity that everybody has mentioned to bring down that trade deficit, to bring down interests rates, to bring down the deficit, even though ideally we would like to see it done on the spending side, but apparently that is all we are going to get. Now you even have a breakdown between the Senate Republican leadership and the White House, not to mention the traditional division between the White House and Tip O'Neil, when even Bob Dole and Ronald Reagan temporarily aren't talking to each other, what is your position?

Is it worth it at this point to continue any increases in revenue even at the expense of continued trade deficit, budget deficit, the whole bit?

Or is it more important to get that deficit down by, say matching what we have been able to get on the spending side with revenue actions to increase revenue by, say the same amount?

Mr. CHAMBERS. My feeling is that it should be on the spending side. I think that was the question.

Representative OBEY. The question is: We have as much as we are going to get on the spending side. Should we just stop there or should we try to get something on the revenue side to match that?

Mr. CHAMBERS. I would think not. I think that increases in revenues are increases in taxes, which are saying the same thing has the effect of stalling out the economy. And what we need to do is to help the private sector, not the public sector.

Representative OBEY. You would rather just accept what we have been able to get on spending reductions and make no further attack on the deficit?

Mr. CHAMBERS. I think there should be a further attack on the deficit, but it would have to come from the spending side. If not in this Congress, in the next Congress.

Representative OBEY. Well, we will deal with what happens next Congress next August, but next August is going to be an election year and you know, if you think we had trouble getting people to do something this time, you watch next time. So what you are saying is that even with all of the testimony that you have given about the importance of breaking that trade deficit and everything else, you would still rather not have any action on the revenue side even if that means simply for this year being, just accepting as all you can do what we got on the spending side?

Mr. CHAMBERS. That is right.

Mr. KEMERLING. I come back and I tend to agree, I think we have to do more on the spending side; $58 million or $35 million is not enough.

Representative OBEY. For this year it isn't going to happen. We went $10 billion more on that on domestic but they wiped it out on defense.

Mr. KEMERLING. Doesn't it basically come back to a situation, is how many things can you accomplish in a limited time interval. For example, we come back, and let's take our industry. We have gone through, in the environmental side we failed to recall that the EPA only came into existence in 1971. So in 14 years look what we have done there. We come back and we continue. I guess our situation is not unanalogous to yourself. If you come back and we have environmental concerns on one side; it is going to cost to do that. We come back on the other side, we talk in terms of hidden taxes, workmen's comp because the State has a problem with——

Representative OBEY. That is a State issue.

Mr. KEMERLING. But they are a domino effect. Each one has an effect. I think you come to a certain point that I think that you are going to force the private sector—there is a possibility that the private sector is going to get forced into a situation not uncommon to what we have now.

Representative OBEY. Either way you are going to get clobbered. You are going to get hit with tax increases or continued erosion of your trade position and your ability to sell abroad and continued erosion of everything that the deficit causes. I am simply trying to measure—

Mr. KEMERLING. I think it is the same-type thing.

Representative OBEY. I want to know how badly people want to get at that deficit.

Mr. KEMERLING. I think badly.

Representative OBEY. But only if it can be done on one side of the ledger.

Mr. KEMERLING. But I think that there would be more unanimity attacking that if you come back and basically say, fine, it is going to hurt everybody. It is going to hurt everybody. We are going to take a 2-year period or a 3-year period and that is it.

Representative OBEY. If I had my druthers, I would have a 2- or 3-year freeze on every program funded right out of the general fund; but my point is, we are beyond that point. We are beyond the point of defining the ideal, and what we are asking is: What do we do next?

OK, let me note the other problem with the President's tax bill that it is an additional revenue loser. The estimate is that we are going to lose maybe $28 billion.

The problem is after 1990 we lose a lot more than that. The recapture provision that you are talking about that you and I think is looney, the fact is that after 1990 there is a huge revenue loss.

Mr. CHAMBERS. Reduction of maximum tax rate.

Representative OBEY. One thing you think is most important to improve the prospects of the paper industry, what would it be?

Mr. KEMERLING. Strength of the dollar, this relates to the budget deficit.

Representative OBEY. But yet you say—I don't want to badger you on this, and yet I heard you say that it is the number one thing but only if you will deal with it on one side alone? I find that hard to find the logic.

Mr. CHAMBERS. I don't know that you can identify it as a single thing, but a single result has to be retention of our competitiveness in world markets and in domestic markets.

When we lose 5 percent of our market in 1 year, we are not being competitive in our own market. That involves reducing the deficit, which would have the effect of bringing the value of the dollar down. It involves fair trade policies and it involves what I would call industrial policy that would incorporate those things, as well as tax rates that are comparable to our foreign competition that keeps us in the ballgame. That is the threat that is being posed right now with these tax reforms. We have to remain competitive. We can't go the way of steel and autos and rubber and textiles and shoes and so on.

Representative OBEY. I would simply submit, I agree with that. I think that is the most important thing. The problem is that we are not going to protect that competitiveness unless, in my opinion, we do what Senator Proxmire said, which is to address the deficit both by revenue increases and spending cuts. And not that I think that is going to happen, I don't.

I think we are going to have further revenue reductions if we pass that tax bill, which I think would be a terrible mistake.

Let me ask you two, if you were to single out the one thing you think is most important in preserving the ability of our forests to be a productive asset in the State, what would that be?

Mr. DAWSON. I think currently the need for timber stands improvement, just plain ordinary silviculture, 1940 pattern, nothing necessarily new to be applied, some of these actions are being taken with—Mr. Schmidt alluded to working with the private landowners.

The Federal Forest Service, even without any further appropriations is not able to carry on some of the practices which would pay off at a 20 percent increase economically in 10 years. But they don't have—the formulas aren't right for them to do it because the practices don't a pay off in 1 year. We have an opportunity for investment. Investment, whether you look at that term ecologically or economically, we simply aren't making or improving a productivity of our staffs.

I think that also relates to the suggestions these gentlemen from industry are making in that there is an opportunity for increasing industry along with it. This includes opportunities for increasing tourism on the recreational and esthetic values along with that.

We are not making them. Federal influence comes not only through forest management, but through State and private forestry, the work of the forest service. They are simply not filtering this through the private landowners. That is my generalized thinking. I think we have a real opportunity here in this area, more than any other in the country, to make this kind of investment.

Mr. NIENSTAEDT. I would agree with that. As I said in my statement, I think the ability to increase yields on a per acre basis is a key, because if you choose your acres right, invest your money there, any research that has been done in the past has shown that you will get money back on your investment.

And by increasing the yields of fiber on such acres, you will not have to be concerned to the extent that we now hear industry being concerned about the decrease of the land base for other uses in competition between the wildlife habitat demands, the demands for the recreational research, recreational industries. So I think that Dave Dawson is correct, that the key is to increase the yield per acre through any number of activities that we know how to do.

Representative OBEY. Just one other question on something that was raised several times today, the University of Wisconsin.

Have either of you, either of your corporations, are you aware of any instances where corporations that you deal with have gone to the University with a problem and tried to use their resources to get at it?

Mr. SCHMIDT. I am not aware of any, no.

Mr. CHAMBERS. I am not.

Mr. KEMERLING. Technical problems we would not go to the university system. We would go to the institute. Our Forest Products Lab in Madison. Basically as far as business consultation or that type of thing, no. Our first reaction, or our first action would probably be an outside consultant.

Representative OBEY. I just have to say, I think the paper industry is an example of—I remember a lot of years people were talking about old plant, lots of pressures, all of the environmental changes that came up. And I know lots of times people were saying, gee whiz, an old mill like that can't survive. I would say the combination of smart management, and I don't know what else, but it has managed to survive and do quite well.

Mr. KEMERLING. My hair was black then.

Representative OBEY. I was told there was somebody in the audience to wanted to ask a question.

A VOICE FROM AUDIENCE. I tried to write it out. Is it up there somewhere on a white half sheet of paper? It is a question for Mr. Schmidt.

Representative OBEY. I can't find it.

A VOICE FROM AUDIENCE. I will try to figure out the gist of it. Mr. Schmidt, in his oral statement was talking about the sometimes overly stringent pollution regulations that are suffered upon them and also a little later on talked about mixed signals from the State on acid rain.

I was wondering on the first point if there are some specific examples of what might be deemed overly stringent regulations, and on the latter point, if your concerns on acid rain necessarily put your industry at odds with the tourism industry?

Mr. SCHMIDT. I tried to indicate in my comments in the informal session here, I do not think that we would be at conflict between the paper industry and the tourism industry. We, too, just as the tourism industries, rely very heavily on that resource base. So that we do have a very common interest and a very common concern in that regard.

As far as the question of the over-stringent environmental regulations relative to acid rain, that is very much of a concern for the Wisconsin pulp and paper industry. We, as you know, have been in the forefront, very responsible when it comes to environmental responsibilities. We are a national leader in that regard. When you look at waste water discharges, for example, we are removing presently 60 percent more than required by either State or Federal law. That is just an outstanding example to set for any industry in this State or for the Nation.

Our concern though, is that Wisconsin does not impose regulations on its industry that are either more stringent than what our competitors have to face or are entirely new or different. As Jim Kemerling stated, the cost of environmental control, the cost of unemployment compensation, everything adds up. It is cumulative. And you reach a point where you can no longer be competitive in the marketplace. We are competing nationally. We are also competing for capital dollars for expansion.

Without expansion, without productivity increases in Wisconsin, we will not maintain that competitive nature. So it is a cumulative concern that we have. In no way are we trying to abdicate any responsibilities in that regard. I think our record speaks for itself.

Mr. KEMERLING. I think if I might add something, really the critical period was in 1974. At that particular time the net worth of the Mosinee Paper Corp. was roughly $21 million. Because of the environmental problems that we had had, our company borrowed $20 million.

So that is the type of thing—we were fortunate, but to have to go through that type of situation again, you make those decisions once. For example, I came to——

Representative OBEY. Your hair can't turn white twice?

Mr. KEMERLING. I came to Mosinee and my office previously was on the what, 45th floor of Park Avenue. If that type of decision had to be made in New York City, you would not have elected to spend the $20 million. That is the type of thing that I think we lose sight of. You have to keep it intact.

Mr. SCHMIDT. Just one other thing. Please keep in mind that most of the mills here in Wisconsin are quite old facilities. And the facilities here are competing with newer, more modern machines in the south and elsewhere. And that is where the progressive management here in the State, the work ethic of our employees and a variety of reasons is why we have been able to maintain our competitive position. But it is a fragile, competitive position.

Mr. KEMERLING. We are viable because we have just announced yesterday publicly that we have committed another $8.5 million to improve quality of our product and increase production at our pulp mill. So I think that is indicative of what we talked about: There are positives that we intend to pursue.

Representative OBEY. Let me thank you all. I appreciate this. I have much concern about the necessity for continuity in Federal support for research, not just in this field but all over. You destroy, not just in this field but in the health field too, you just destroy the ability of young researchers to get involved if you keep the research funding on the roller coaster.

And Mr. Schmidt, I just wanted to thank you for the cooperation of the Wisconsin Paper Council in resolving the wilderness issue last year.

Thank you very much.

[Whereupon, at 6 p.m., the committee recessed, to reconvene at 9 a.m., Thursday, August 8, 1985.]

[The following report was presented to the committee in the context of the discussion on Wisconsin agriculture:]

Staff Report No.240 August 7, 1985

STATUS OF WISCONSIN FARMING

by

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* Written testimony presented to the Joint Economic Committee of the Congress, Wausau, Wisconsin, August 7, 1985. The authors are faculty members, Department of Agricultural Economics, University of Wisconsin-Madison/Extension.

THE PROBLEM

Wisconsin's agriculture is in the midst of a dramatic upheaval, the worst financial stress since the Great Depression. Factors beyond the control of farmers are a major cause of this stress. Record budget deficits and restrictive monetary policy have resulted in high interest rates (see Tables 1 and 2). This rise in interest rates has caused farmers' interest payments to increase greatly, making it difficult for farmers to service their debt commitments.

Higher interest rates and lower rates of inflation have also caused a high world demand for U.S. dollars since foreign investors want to take advantage of the high real rate of return (return adjusted for inflation) offered by the U.S. economy. This strong demand increases the dollar's value relative to other currencies in the world (Table 3). As a result, the relative prices of U.S. products in the world market have increased and the affordability of U.S. farm exports has decreased substantially.

Thus, the federal government's macroeconomic policies have brought about the increased interest rates and the decreased demands for farm commodities that have translated into lower prices, higher costs, and cash flow problems for many Wisconsin farmers.

In the past, farmers have looked to Washington to prop up falling farm prices and incomes. In fact, confidence in continued government intervention through price supports and deficiency payments probably encouraged the expansion and the financial leveraging in the 1970's that are also causes of agriculture's current problems. Now, however the current administration proposes price supports below market-clearing levels, which would bring even more downward pressure on farm commodity prices. Thus, the federal government's farm policies are also a major cause of the economic depression in Wisconsin agriculture.

IMPACT ON WISCONSIN AGRICULTURE

Total net income of Wisconsin farmers dropped substantially in recent years but has not declined as rapidly as average U.S. farm income (Table 4). For the 1979-83 period Wisconsin farmers' income decreased 32.2 percent and U.S. farmers incomes fell 50.2 percent. Relatively stable milk prices, thanks to government supports, and the dominance of dairy farms in Wisconsin are the main reasons that income of Wisconsin farmers' has not dropped as dramatically as farm income for the entire U.S.

Declines in farm income and increases in real interest rates have caused the value of farm land to fall in Wisconsin and the rest of the U.S. (Table 5). From 1981 to 1985 the per acre average value of Wisconsin farm land decreased 26.5 percent. For the same period the per acre average value of U.S. farm land fell 7.2 percent going from a peak of $823 to $679. Many of the corn belt states show much greater declines than Wisconsin. The decline in farmland values is likely to continue if farm incomes remain low and/or real interest rates remain high.

Declining land values have put farmers and lenders into highly vulnerable positions because many farm loans are directly or indirectly secured by farm real estate. If lenders force farmers who are delinquent in their loan payments to sell land, the resulting increases in the supply of land on the market could cause additional declines in farm land values. This additional drop in farm land values would magnify the vulnerability of the lenders and the remaining farmers.

As farm incomes and farm land values have declined, farmers' equity has fallen relative to debt and the leverage position (Debt ÷ Equity) of farmers have generally risen (Table 6). From 1979 to 1984 the leverage position of all U.S. farmers rose from .192 to .263 while Wisconsin farmers' leverage increased from .217 to .343. The increasing leverage position of many farmers is one of the main reasons lenders have become more reluctant to make loans to farmers. Lenders are more likely to have losses on loans to borrowers who are highly leveraged. Farmers will find it more difficult to obtain credit if their leverage positions continue to climb.

Not all Wisconsin farmers are under the same amount of financial stress. Today's most vulnerable farmers are those who borrowed most of the capital they used to purchase land and other assets. In the 1970's these highly leveraged farmers had little trouble obtaining credit because of the favorable cost-price relationships in agriculture. Now that cost-price relationships have reversed and interest rates have risen, the highly leveraged farmers have seen their equity decline at nearly the same rate it increased in the past decade.

Precise evidence of the number of Wisconsin farm families currently in "financial trouble" is not readily available, so indications of the magnitude of the problem can only be pieced together. In spring of 1984 a random sample of 800 Wisconsin farmers indicated that 10 percent were delinquent on their real estate loans and 15 percent were delinquent on their non-real estate loans. In addition, 29 percent of these farmers had past due accounts with suppliers and dealers. Another random sample of southwestern Wisconsin farmers indicated that about a third of these farmers did not generate enough income in 1982 to cover estimated consumption, capital replacement, and principal payments on loans. These studies suggest that a sizeable sequent of Wisconsin's farm sector is experiencing significant financial difficulty.

The net incomes that farmers are able to generate in the coming years and the strength of their equity positions will determine how many of them will default on their loans. If farmers continue to receive current commodity prices (Table 7) and make high interest payments, it will be difficult for many of them to repay their loan obligations. Alternatively, if commodity prices increase and interest rates drop, most of the state's efficient farmers will probably be able to generate the earnings they need to service debts.

Over the years the structure of agriculture has changed as the number of farms has decreased and farm ownership has become more concentrated (Table 8). This trend will probably continue regardless of government policy. However, if the government continues to incur high budget deficits with restrictive monetary growth, interest rates and exchange rates will most likely remain high and the exit of farmers will be accelerated.

AN EXAMPLE FROM SOUTHWESTERN WISCONSIN

It is clear that U.S. agriculture is in economic trouble, but in most states there are not studies that demonstrate the extent of the problem and who is affected. Fortunately in Wisconsin we have recent information about farm family assets, debts, receipts, expenditures, and income for a random sample of farm families in eight counties in southwestern Wisconsin.[1] Income data are for 1982 and asset and debt data are for January 1, 1983. The survey reflects conditions at a time when milk prices and farmers' incomes were still relatively good and before asset values had begin their precipitous decline. Farmer optimism had begun to be replaced by some uncertainty about the future, but financial stress as seen in late 1984 and 1985 had not surfaced.

The survey area is in the unglaciated region of southwestern Wisconsin. The area's population is somewhat lower income relative to the state. The region contains one metropolitan area with a population of about 55,000 (La Crosse) and

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1 The counties include Buffalo, Crawford, Jackson, La Crosse, Monroe, Richland, Trempealeau, and Vernon. A summary of survey results is available in a University of Wisconsin-Madison, College of Agricultural and Life Sciences research report, "Highlights of the 1983 Wisconsin Family Farm Survey" by Priscilla Salant, William Saupe and John Belknap.

five small cities with populations under 6,200 that provide some employment opportunities. About two-thirds of the farms are dairy farms and most others are beef cattle, cash grain and other livestock farms. The Wisconsin site is typical of parts of the North Central region and New England where dairying is the major agricultural enterprise and farms are most often family operations.

The purpose of the study was to assess the economic viability of family farm households. To be "viable", a farm household must generate enough net income to meet three types of financial obligations. First, the household must provide for the livelihood of its members, Second, to continue operating the farm business as it is currently organized, the household must cover cash operating expenses (including interest payments), and capital replacement costs. Third, to maintain its line of farm credit and prevent foreclosure of the business, the household must also meet principal payments on debt as scheduled. Such principal payments also enhance the net worth of the farm household.

The farm household derives its annual net income from three different sources: (1) net farm income, (2) earned off-farm income (from wages and salaries), and (3) unearned nonfarm income (from retirement funds, nonfarm asset earnings and public transfer programs).

The farm groups studied are: (1) farm households planning to leave or "exit" farming, (2) households that operate dairy farms, (3) non-dairy households in which the operator works off-farm at least 160 hours per year (farms part-time), (4) non-dairy households with a full-time operator and farm sales of less than $20,000, and (5) non-dairy households with a full-time operator and sales of at least $20,000. (Selected information about the five groups of farm families is presented in Table 9.) Farms with net income less than financial obligations cannot continue to function as they did in 1982 for the long run. This does not mean that they will immediately go out of business.

For example, in the short run they might (temporarily) avoid their financial obligations by not replacing machinery at the usual rate, or by suspending principal payments. They might resolve their dilemma by increasing net farm income (perhaps with increased efficiency or change in size) or by increasing off-farm wage income. They might be able to restructure debt for reduced annual principal and interest payments. But if financial obligations exceed net income they cannot continue in their financial circumstances as observed in 1982 and remain in business in the long run.

The data show the difficulties of Wisconsin's farm families.[2] In general, about one-third of the farm households were not economically viable in the long run -- their annual financial obligations exceed their net annual income from all sources. The groups in the most difficulty in the long run are dairy farms and full-time, larger non-dairy farms.

Fully 47 percent of the dairy farms had financial obligations greater than income, and the situation today is worse than at the time of the survey. The average size of farm was 191 crop acres, above the state average. The average debt-to-asset ratio was .26, about average for the state at that time, but the ratio would be significantly worse today because of the decline in land values. Net cash farm operating income was $20,800 per farm and this too would be significantly lower today than at the time of the survey because of the decline in milk prices.

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[2] It is not possible to include in this brief summary enough information about the analyses to be sure they are not misinterpreted. Documentation of the research methods used, definition of terms, and more complete analyses, and comments on the implications of the findings are contained in research reports now in review by the publications Rural Development Research Review and the Agricultural Economics Research in the U.S. Department of Agriculture. Questions may be directed to the senior author, Priscilla Salant, Department of Agricultural Economics, 427 Lorch Street, University of Wisconsin-Madison, 53706.

The full-time non-dairy farm with sales over $20,000 was also in difficulty. About 42% of these farm households had financial obligations greater than annual net incomes, implying that they could not survive in the long run if they continue to operate as they did in 1982. The average farm size (crop acres) was 347 acres, net cash farm operating income was $21,715, and the debt-asset ratio was .23 (again, this would be greater today because of declining land values).

Thus, almost half of the dairy farms and just less than half of the full-time larger non-dairy farms were not economically viable in the long run as viewed in 1982! Today we would expect many more farm households to be economically unviable in the long run. The problem in 1982-83 was serious for the operations that form the backbone of the area's economy. Today the problem is ever more serious.

On the other hand, not all farms are in such difficulty. Those who plan to retire had extremely low debt-asset ratios, as did part-time non-dairy farmers. Both groups averaged over 60 years of age and both had significant amounts of unearned income (social security, etc.). But the dairy farm and the full-time larger non-dairy farms were, and are, in serious trouble.

Dairy farmers and full-time non-dairy farmers on small farms (at least $20,000 in gross sales) appear most vulnerable. Farmers planning to exit (mainly through retirement) at the time of the study were in good financial position on average.

POLICY OPTIONS

The problems of Wisconsin agriculture may get worse before they get better. Much depends on the federal government monetary and fiscal policies, federal agricultural policies and the vigor of the recovery in the world economy.

In spite of the fact that agriculture's financial stress is caused by federal policies and the national and international economy, the State of Wisconsin is actively pursuing policies to address the farm crisis. State policy options are limited and cannot attack the source of the problem, but the state government is actively debating or implementing policies in farm management education, research, credit, retraining, marketing, and programs to ease the transition out of agriculture. In part the state action is spurred in part by the lack of federal action in addressing the causes of farm problems and in part by the desire to do something to assist Wisconsin farmers using whatever limited policy options are available. Nevertheless, it is federal government policy that can have the greatest impact in relieving the financial stress of Wisconsin farm families.

Macroeconomic Policy

The U.S. farm sector has been hurt badly by monetary and fiscal policies of the past six years. Farmers and others who held inflating assets secured by loans were gainers during the inflation of the 1970's, but have been losers in the battle against inflation. Tight monetary policies to control inflation mean high interest rates, and increases in the farmer's costs of production. Record federal deficits amplify the effects of monetary policy on interest rates and elevate the value of the U.S. dollar, thereby curtailing agricultural exports and reducing commodity prices. The resulting decline in farm income, combined with high interest rates adversely affect the land market. Farmer's equity and cash flow decreased simultaneously.

Most Americans are concerned about deficit spending. But, as is clear from Congressional budget debates few are willing to make the sacrifice necessary to achieve a balanced budget. In the meantime, many U.S. farmers are in sever financial stress. Most Americans would think it fair if everyone shares these costs. It is important for the economic health of the family farm system of

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agriculture that farmers do not continue to be frustrated in using their ability to efficiently produce commodities by fiscal policy that prices them out of world markets.

Achieving a low rate of inflation is a desirable national economic goal, and the cost of achieving that goal should be shared among sectors of the economy. Agriculture (and other capital intensive and export industries) has been injured by a single-objective monetary policy of low inflation. It would be better served by monetary policy that strikes a balance between interest rates and inflation rates.

Agricultural Commodity Policy

A combination of unusual conditions dictate the tenor of the 1985 farm bill debate. Unusually large surpluses, especially for wheat, feed grains, and dairy products, and record-high government expenditures for commodity programs generate mounting public pressure to cut program costs. In spite of high government program costs, real net farm income is at low levels not observed since the 1930's, and farm financial stress is intensifying. It is increasingly apparent that much of the 50 plus million acres of cropland brought into or returned to production in the 1970's represents excess productive capacity -- continued production at full capacity will continue to depress farm prices. Most students of agricultural policy have concluded that the farm programs of the last 50 years are not appropriate for 1985 conditions. In particular, high grain and cotton loan rates have provided farmers an incentive to store rather than sell, high dairy price supports have given farmers price signals contrary to the marketplace, and farm program benefits have been distributed so as to encourage concentration in the farming sector.

These conditions suggest a set of conflicting farm policy goals: reduce farm program costs, provide income protection to farmers, reduce excess capacity, and provide price signals consistent with marketplace conditions.

Clearly, tradeoffs among these goals are necessary. In debating these tradeoffs, the following points deserve special attention:

- Farmers are more concerned that most other Americans about the Federal budget deficit because of its direct effect on interest costs and farm exports. Slashing farm programs to achieve lower deficits hurts those who have already paid dearly for budget excesses.
- The need for income protection is related to farm size. Mid-size farms, predominantly family operated, are currently in the poorest financial condition and should be the target group for an income protection programs.
- Part of the excess capacity in agriculture is from publicly subsidized water development projects and cultivation of highly erosive new lands. Efforts to reduce excess capacity should be directed toward removing public subsidies and providing incentives to retire fragile lands until needed for food production.
- Market orientation is a desirable farm policy goal. But farm market prices are heavily influenced by non-market forces such as federal macroeconomic policy and foreign policy. Achieving these broader social goals may distort market prices and cause unwarranted or excessive adjustments or shifts in the farm sector as recent events demonstrate. Compensating Farm programs that compensate for the effects of these other policies are necessary to prevent such over-adjustments.

Agricultural Trade Policy

A reasonable agricultural trade objective is to provide a "level playing surface" for U.S. participants. A highly-valued U.S. dollar and high loan rates share major responsibility for the recent decline in U.S. farm exports. However, export subsidies and import protection, primarily by the EEC, have also been a contributing factor. Free trade is a worthy goal, but unilateral free trade is a contradiction in terms. Promoting U.S. farm exports during periods of world-wide surpluses may require matching competitors' actions.

Promoting exports also requires farm, trade, and macroeconomic policies that make export subsidization expensive for other countries to use. This is particularly relevant in the case of milk. The absence of import quotas for casein make the U.S. a good dumping ground for EEC milk surpluses.

Milk Marketing Orders

Marketing orders help stabilize fluid milk markets. But they do so at a cost of regional equity. The upper Midwest region regularly supplies milk to deficit regions and processes milk from the same regions when their supplies are flush. Yet, the upper Midwest does not share in the relatively high blend prices in other regions in return for providing this balancing service. Moreover, order pricing disincentives to reconstituted milk elevate the overall cost of fluid milk in markets distant from the upper Midwest.

The current milk order program should be revised to eliminating regional inequities and unnecessary costs. Particular attention should be paid to the managing of orders, including the establishment of a single order, as a means of equitably sharing the balancing costs.

Transition Out of Farming

Some farm families will not be able to continue farming, regardless of the agricultural programs that are implemented or continued. These families will endure financial and emotional hardship when they terminate their farm business. This hardship could be reduced if the federal government implemented programs that would help these families make the transition from farming to other occupations.

First, exiting farmers could be given educational assistance to help make the adjustment from farming to other occupations. Tuition and fee scholarships or waivers could allow farmers could attend an educational institution at low cost to develop a skill necessary for obtaining a reasonable job. This training assistance should make displaced farmers employable and increase their chances of finding a job at a living wage. This type of program is already being offered tc urban workers.

Second, farmers could be eligible for the same type of "adjustment allowance" as other workers. When urban workers lose their jobs they receive unemployment compensation. Displaced farmers do not, and the farm family can experience severe financial hardships if it cannot immediately liquidate the farm assets and find employment. This financial hardship could be reduced if government would help these families obtain low interest loans that could be used to cover living and moving expenses from the time they leave farming until they find full-time employment. Farmers could repay these loans after they find a job and liquidate their farm assets. This type of financial assistance would ease the financial hardships of displaced farm families and reduce some of the uncertainties these families face.

Credit Policy

Last spring many emergency credit programs were adopted to help farmers weather the financial difficulties. The Farmers Home Administration (FmHA) allowed some of its existing borrowers to re-amortize their loans at reduced rates of interest. In addition, FmHA extended new loans to many first time borrowers who could not obtain credit from private lenders or it guaranteed the loans farmers did obtain from private lenders. The State of Wisconsin allocated $300,000 to the federal FmHA to help fund several emergency loan processing centers in the state and helped recruit volunteers from the private and public sectors to staff these centers. As a result about $201 million of operating credit was supplied to farmers.

The State of Wisconsin also adopted a state loan guarantee program to help financially distressed farmers obtain operating credit. Under this program, farmers were eligible to receive up to $20,000 of operating credit at 9 percent interest rate if they could project a positive cash flow. The loans were made by private lenders and the state guaranteed 90 percent of the principal. In addition the state paid 2 percent interest on these loans such that the lenders earned 11 percent (9% + 2%). Approximately $10 million of state guaranteed loans were given to Wisconsin farmers this past spring.

The federal government should ensure that farmers that can project a positive cash flow have access to operating credit in 1986. It is absolutely critical that FmHA be given the resources -- both loan funds and administrative funds -- to ensure that adequate credit is available to farmers. If FmHA loan programs are not available many farmers will have difficulty obtaining needed credit. Greater demands will be placed on states to step into the vacuum created by federal inaction, placing more stress on extremely limited state resources.

Tax Policy

Federal income tax benefits for farmers have not increased farmer's after-tax income in the long run. Instead, the tax incentives have encouraged investment in farm resources such as livestock and other depreciable assets by both farmers and others. Much of the tax benefit has been capitalized into the value of farm resources and is captured by the current owners. The next buyer must pay higher prices for those resources, offsetting the tax benefits.

Tax benefits, such as accelerated depreciation, that provide a greater tax saving to high-bracket taxpayers give them a competitive advantage in the marketplace. Because the after-tax cost of resources is lower for high-bracket taxpayers, they can outbid lower-bracket taxpayers for the resources used in agriculture.

In the long run, removing the incentive for outside investors to invest in agriculture is likely to benefit the farmers that remain. Removal of the tax incentives will allow the economics of farming to determine the price of inputs and outputs rather than the economics of the tax code. Those benefits and the lower tax rates in the administration proposal are likely to more than offset the extra income taxes farmers will pay as a result of losing the tax incentives.

In the short run, removing the incentive for outside investment in agriculture may exacerbate the current financial difficulties of farmers. If outside investors are discouraged from investing, additional downward pressure would be exerted on resource prices. A delay or phasing in of the changes that discourage outside investment would give farmers time to recover from their current difficulties.

Rural Development

The farm and non-farm rural economies are tightly linked. The economic impact of farming extends far beyond the number of people employed on the farm. Likewise, many Wisconsin farms are economically viable only because the family has some off-farm income.

The fundamental problems facing rural Wisconsin communities are access to services and economic transition. Sparsely settled rural areas often do not have enough population to "justify" many services such as business services to support new technology (e.g. computer repair), personal services (e.g. health care) and many types of consumer services (e.g. clothing, furniture). The deregulation of transportation and financial services places smaller rural areas at risk in losing these services since rural markets may be too small to justify them on purely private economic terms.

The transition of rural economies parallels that occurring in urban areas. Because of their smaller size, rural communities are vulnerable to fluctuations in a few/single employer(s). Since smaller businesses dominate employment in rural areas, their increased sensitivity to changes in local and national economic conditions places additional pressures on sources of nonfarm employment. Access to management counseling or financial support is critical. Rural banks responding to farm credit problems may not be able to provide the financial support needed to maintain nonfarm activities. Rural families displaced by plant closures or loss of a farm may be unable to sell assets and may have limited access to training to prepare for other jobs.

A particularly difficult problem today is the pressure on local leaders to sense and interpret the rapid changes in the rural economy and develop appropriate strategies to respond.

CONCLUSION

Wisconsin's agricultural economy is in a very perilous condition. Problems of low income, declining asset values and financial hardships for many families may worsen in the next year. Yet Wisconsin's farm economy is healthier than those in neighboring states, and many Wisconsin farmers are not having great financial difficulties. The primary causes of this problem are the monetary, fiscal, and agricultural commodity policies of the federal government.

Federal initiatives to reduce the federal deficit would bring major benefits to Wisconsin agriculture. A monetary policy based on interest rate as well as money supply growth targets would also bring great benefits to Wisconsin farmers. Wisconsin agriculture would also benefit if commodity program benefits are targeted to mid-size family farms, water subsidies are eliminated and fragile lands retired from production. Milk marketing orders should not penalize the upper Midwest. Federal credit agencies should be prepared to respond to the needs for operating credit in 1986. Tax policy changes to eliminate tax benefits to farm activity would benefit farmers and limit outside investment in the long run. Perhaps the most important, immediate, and humane need is a program that eases the hardships of those families who are forced to leave.

Table 1: Federal Budget Deficits and Federal Debt In Billions of Dollars.

Year	Federal Budget Deficit For Fiscal Year	Federal Debt As Of June 30
1979	40.2	812.2
1980	73.8	884.4
1981	78.9	977.4
1982	127.9	1084.7
1983	207.2	1324.3
1984	185.3	1517.2

Source: Federal Reserve Bulletin.

Table 2: 90 Day T-Bill Yields, Inflation Rates, and Real 90-Day T-Bill Yields.

Year	90-Day T-Bill Yields (Annual Average)	Annual Inflation (Percentage Change in Consumer Price Index	Real 90-Day T-Bill Yield (Average Annual Yield Less Inflation)
1979	10.0	13.3	- 3.3
1980	11.5	12.4	- .9
1981	14.1	8.9	5.2
1982	10.7	3.9	6.8
1983	8.6	3.8	4.8
1984[a]	8.6	2.4	6.2

[a] Quotes for month of November.

Source: Federal Reserve Bulletin.

Table 3: Average Annual Value of Various World Currencies Expressed in Cents.

Year	French Franc	West German Mark	Japanese Yen	United Kingdom Pound
1979	23.50	54.56	.46	212.24
1980	23.69	55.09	.44	232.58
1981	18.49	44.36	.45	202.43
1982	15.20	41.15	.40	174.80
1983	13.12	39.22	.42	151.59
1984[a]	10.87	33.33	.41	123.92

[a] 1984 quotes are for the month of November.

Source: Federal Reserve Bulletin.

Table 4: Net Farm Income for USA and Wisconsin.

Year	USA		Wisconsin	
	Billions $	Percentage of 1979	Billions $	Percentage of 1979
1979	32.3	100.0	1.4	100.0
1980	21.2	65.3	1.4	99.8
1981	31.0	96.0	1.4	100.6
1982	22.3	69.0	1.2	82.9
1983	16.1	49.8	1.0	67.8

Source: USDA

Table 5: Per Acre Average Value of Farm Land for USA and Wisconsin.

Year	USA		Wisconsin	
	$	Percentage of 1979	$	Percentage of 1979
1979	628	100.0	856	100.0
1980	737	117.3	1004	134.6
1981	819	130.4	1152	134.6
1982	823	131.0	1144	133.6
1983	788	125.5	1113	130.0
1984	782	124.5	1046	122.2
1985	679	108.1	847	98.9

Source: USDA

Table 6: Leverage Position of U.S. and Wisconsin Farmers.

Year	USA		Wisconsin	
	(Debt ÷ Equity)	Percentage of 1979	(Debt ÷ Equity)	Percentage of 1979
1979	.192	100.0	.217	100.0
1980	.197	102.6	.230	106.0
1981	.200	104.2	.232	106.9
1982	.229	119.3	.275	126.7
1983	.261	135.9	.312	143.8
1984	.263	137.0	.343	158.1

Source: USDA

Table 7: Average Annual Prices Received by Wisconsin Farmers for Selected Commodities.

Year	Corn	Soybeans	All Cattle	Hogs	All Milk
1979	2.43	5.97	54.70	41.40	11.75
1980	2.96	7.25	50.80	38.00	12.67
1981	2.39	5.90	50.70	43.10	13.38
1982	2.74	5.61	48.90	51.00	13.22
1983	3.25	7.75	45.60	45.60	13.23
1984[a]	2.43	5.62[b]	44.60	48.00	13.60

[a] 1984 prices are December prices obtained from Agricultural Prices, SRS-USDA, December 1984.

[b] No Wisconsin soybeans price was reported so the Minnesota price was used as a proxy.

Source: Wisconsin Agriculture Reporting Service, "1984 Wisconsin Agricultural Statistics", Madison, WI, June 1984.

Table 8: Number and Average Size of Wisconsin Farms.

Year	Number of Farms	Average Farm Size in Acres
1954	153,588	147
1959	131,215	161
1964	118,816	172
1969	98,973	183
1974	89,479	197
1978	86,505	206
1982	82,199	210

Source: 1982 Census of Agriculture, Volume 1, Geographic Area Series, Part 49, Wisconsin State and County Data.

Table 9: Operator resources, farm business and financial characteristics, and farm household viability of five farm househol groups, Southwestern Wisconsin, 1982.

Item	Unit	Farmers who Plan to Exit	Dairy Farms	Non-dairy Part-time Farmers	Non-dairy Full-time Farmers: Sales Under $20,000	Non-dairy Full-time Farmers: Sales at least $20,000
Column number		(1)	(2)	(3)	(4)	(5)
Farm households	no.	2,175	6,850	1,665	715	835
Operator resources						
Age	yr.	60 (2,3,5)[a]	44 (1,3,4)	50 (1,2,4)	65 (2,3,5)	47 (1,4)
Years of school completed	yr.	9.9 (2,3,5)	11.6 (1,3,4)	12.3 (1,2,4)	9.7 (2,3,5)	11.5 (1,4)
Farm operating experience	yr.	31 (2,3,5)	18 (1,4)	18 (1,4)	35 (2,3,5)	20 (1,4)
Farm business						
Gross sales	dr.	38,384 (2,4,5)	84,916 (1,3,4)	17,406 (1,2,4,5)	6,206 (1,2,3,5)	114,187 (1,3,4
Cash operating expenses	dr.	25,779 (2,4,5)	58,561 (1,3,4,5)	18,215 (2,4,5)	6,621 (1,2,3,5)	91,515 (1,2,3
Sales-to-expenses (less interest) ratio	dr.	1.7 (3,4)	1.9 (3,4)	1.1 (1,2,5)	1.0 (1,2,5)	1.7 (3,4)
Crop acres	no.	118 (2,4,5)	191 (1,3,4,5)	87 (2,5)	62 (1,2,5)	347 (1,2,3
Farm business plans						
Exit from farming	pct.	100	--	--	--	--
Increase size of operation	pct.	--[b]	40 (4)	43(4)	13 (2,3,5)	33 (4)
Decrease size of operation	pct.	--	11	10	13	11
Maintain size of operation	pct.	--	49 (4)	47 (4)	74 (2,3)	56
Financial resources						
Assets	dr.	274,511 (2,3,5)	368,991 (1,3,4,5)	201,773 (1,2,5)	214,301 (2,5)	565,354 (1,2,3
Debts	dr.	33,784 (2,4,5)	95,930 (1,3,4)	35,599 (2,4,5)	5,134 (1,2,3,5)	129,560 (1,3,4)
Net worth	dr.	240,727 (3,5)	273,061 (3,4,5)	166,174 (1,2,5)	209,167 (2,5)	435,794 (1,2,3,
Debt-to-asset ratio	dr.	.12 (2,5)	.26 (1,3,4)	.18 (2,4)	.02 (2,3,5)	.23 (1,4)
Income by source						
Net cash farm operating	dr.	12,029 (2,3,4)	20,808 (1,3,4)	-35 (1,2,5)	-99 (1,2,5)	21,715 (3,4)
Off-farm employment	dr.	6,017 (3,5)	4,154 (3)	24,262 (1,2,4,5)	4,171 (3)	2,765 (1,3)
Other	dr.	7,037 (2,3)	3,214 (1,4,5)	3,268 (1,4,5)	10,794 (2,3)	7,837 (2,3)
Total household	dr.	25,083 (4)	28,176 (4)	27,495 (4)	14,865 (1,2,3,5)	32,317 (4)

Table 9 (cont.)

Item	Unit	Farmers who Plan to Exit	Dairy Farms	Non-dairy Part-time Farmers	Non-dairy Full-time Farmers: Sales Under $20,000	Non-dairy Full-time Farmers: Sales at lea $20,000
Column number		(1)	(2)	(3)	(4)	(5)
Viability ratio	-	4.2 (2,3,4,5)	1.4 (1,3)	1.9 (1,2,5)	1.6 (1)	1.3 (1,3
Households by viability ratio[b]						
Less than 1.0	pct.	3 (2,3,4,5)	47 (1,3)	17 (1,2,5)	32 (1)	42 (1,3
1.0 to 1.9	pct.	5 (2,3,4,5)	29 (1,4)	42 (1)	48 (1,2)	31 (1)
2.0 or more	pct.	92 (2,3,4,5)	24 (1)	41 (1,4)	20 (1,3)	28 (1)

a/ The numbers in parentheses refer to statistically significant differences in means and proportions. For example, the mean age of operators in the "Exit" group (Column 1) is 60 years. The "(2,3,5)" indicates that this mean is different from the means in Columns 2, 3, and 5.

b/ The viability ratio is the key to determining the economic viability of the household. The viability ratio is:

$$\text{Viability Ratio} = \frac{\text{Annual Household Net Income}}{\text{Annual Household Financial Obligations}}$$

A viability of less than one means that estimated household income from all sources is less than the estimated financial obligations of the household. They are not "viable" in the long run in their observed financial circumstances.

Source: 1983 Wisconsin Family Farm Survey

All population estimates in this report are based on expanded sample data.

THE WISCONSIN ECONOMY

THURSDAY, AUGUST 8, 1985

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to recess, at 9 a.m., in room 450, Main Building, North Central Technical Institute, Wausau, WI, Hon. David R. Obey (chairman of the committee) presiding.

Present: Representative Obey.

Also present: Dena Stoner, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE OBEY, CHAIRMAN

Representative OBEY. Good morning.

We, as you know, have been holding hearings for 2 days on the shape and nature of the Wisconsin economy and on its problems and opportunities.

Today we are going to be hearing from three individuals who will outline in some detail what potential or, what potential effects there are on Wisconsin from a number of Federal actions.

I have asked each of the witnesses to deal with a specific piece of that equation and to lay out what the impact on Wisconsin has been so far because of Federal budget changes.

I have also asked that we have an analysis of what the administration's new tax bill might do to Wisconsin. In that regard one of the witnesses will be laying out a study which the Joint Economic Committee commissioned earlier in the year, specifically on the question of what the impact would be on Wisconsin of the change to eliminate the deductibility of State and local taxes on our Federal return.

This morning we have with us Mr. Lon Sprecher, Wisconsin Budget Director, who will be going over the impact of the Federal budget on Wisconsin.

We will then have Michael Ley, who is Secretary of the Wisconsin Department of Revenue. In plain language, he is the guy who collects the taxes.

And then we will have with us Mr. Dennis Torkko, a partner in the Arthur Andersen Co. of Milwaukee, who will present the findings by that firm on how Wisconsin taxpayers would fare if we were looking specifically at the question of the elimination of the State and local taxes—if we were to look at the elimination of the deduction for State and local taxes on our Federal return.

Mr. Sprecher, why don't you proceed and outline what your review indicates of the Federal budget's effect on Wisconsin.

I would ask each of you, we need to be finished by about 11 a.m. So if you could take about 20 minutes or so to lay out what you see, and then have some time left for questions.

STATEMENT OF LON SPRECHER, WISCONSIN STATE BUDGET DIRECTOR

Mr. Sprecher. Thank you, Mr. Chairman.

I am Lon Sprecher, the State budget director for Wisconsin.

As you know through your work on the committee, Wisconsin's economy and citizens are directly affected by Federal monetary expenditure and revenue policies.

In recent years, a combination of these policies has worked a grave hardship on the State of Wisconsin.

Wisconsin has suffered fairly severe budget lacerations over the past 5 years due to Federal policies. We have sustained the cuts and kept programs operating. We have kept our composure in dealing with Federal reductions coupled with the worst recession since the 1930's.

Governor Earl has been a clear and outspoken critic of certain aspects of the administration's budget and tax proposals. We have not taken an ingratiating posture toward many of the administration's proposals. We have not recently volunteered to be pilot fish for the New Federalism and our Democratic congressional delegation has delivered a clear and convincing blow to the Kemp-Kasten and Treasury II tax-shifting plans.

Wisconsin needs to keep reminding the President and the Congress that we are alert and concerned about Wisconsin's interests and how they are affected by Federal policies. This hearing provides an excellent forum to bring home the message: Reaganomics, Treasury II, Kemp-Kasten, and the deficit are unfair and counterproductive.

Wisconsin is not trying to divert the burden of Federal tax reforms to other States. Nor are we trying to divert the burden of dealing with the deficit entirely away from domestic programs toward defense. The final deal on tax reform and the deficit should be fair and balanced. All States and all sectors should feel the pain equally.

Fiscal federalism has changed dramatically in 4½ years. The Federal Government has ceased being a policy innovator, in my judgment. Rather, its role has become one of a defense procurement officer, a loan shark's mark, and a reluctant third-party payer for Social Security and Federal grant programs.

Since 1981, the Federal budget has cut selected programs and limited others to growth far below the inflation rate. In 1984 alone, these actions cost Wisconsin State government a net loss of approximately $200 million in real dollars. Increased State revenues and program cuts have been used to make up for this lost funding.

The deficit has also dampened Wisconsin's economic recovery through international appreciation of the dollar; we estimate 30,000 manufacturing jobs and 40,000 jobs in total have been lost. The sharp appreciation of the dollar has also cut personal income in Wisconsin by $710 million.

Wisconsin now receives about 80 cents for every tax dollar we send to Washington.

For many years, Wisconsin has been fortunate to receive a share of Federal aid payments which is proportionate to its share of total U.S. population, roughly 2 percent. The major portion of this aid is used to finance human services programs. Partly because of our emphasis on such programs, the poverty rate in Wisconsin in 1982 was one-third below the national rate of 15 percent.

Shifts in Federal priorities since 1981, however, threaten the State's ability to reduce suffering among low-income residents. Between 1981 and 1984, for example, Federal medicaid assistance received in Wisconsin declined by 7 percent in real dollars.

The massive Federal deficits exceeding $200 billion per year are clearly not an accident. The deficit results from a policy on the part of elected Federal officials to reduce revenue and massively boost military procurement. During the period from 1976 to 1988, defense expenditures will rise by 80 percent in constant dollars. By contrast, grants-in-aid will fall by 16 percent, and aid to individuals and total expenditures will increase by 40 percent.

As a consequence of the imbalance between revenues and expenditures, interest payments on the rapidly expanding national debt are rising as well. During the period from 1976 to 1988, interest payments are expected to increase by 176 percent in constant dollars. The combination of defense expenditures, interest on the national debt, and programs such as Social Security is squeezing all other expenditures out of the budget.

In particular, the consequences in Wisconsin of the shift in Federal funding priorities—an examination of State revenues illustrates the impact resulting from the continuing squeeze on Federal domestic funding. Between 1980–81 and 1983–84, the Federal share of Wisconsin's total revenues fell from 21 percent to 17 percent. Since 1981, the Federal share of health and social services funding at the State level has declined by more than 2 percent, requiring an additional annual expenditure of $50 million from State sources.

Programs providing assistance to local government have become continuing targets for Federal cutbacks. Among the largest grant programs, reductions have been most severe in revenue sharing, community development, and public housing.

These were again the targets of the 1986 budget compromise. We estimate a total loss to localities of $23.1 million. The total elimination of revenue sharing in 1987 will represent a $108 million annual loss to Wisconsin communities.

Last winter, the Wisconsin Department of Revenue completed an economic analysis of alternative Federal fiscal and monetary policies. The department found that the current Federal policy of deficit spending and monetarism of the Federal Reserve is a prescription for anemic growth for Wisconsin for the remainder of the decade.

Total farm employment would grow by 7.4 percent from 1980 to 1990, compared to a growth of 31.8 percent in 1960–70 and 26.6 percent from 1970–80.

At the same time, real personal income would rise at less than half the level experienced during the two previous decades. Of particular concern is the projection that employment in manufacturing, mining, and construction would actually be lower in 1990 than in 1980.

The Wisconsin economic outlook would be much more favorable if the Federal Government enacted tax increases and spending cuts of approximately twice the size of last year's downpayment proposals, and adopted an accommodating monetary policy. Lower interest rates, in particular, would boost investment and increase employment in the capital goods industries.

Care would have to be taken not to lower interest rates to the point that inflation reaches an unacceptably high level. Wisconsin would gain 44,000 additional jobs by 1990. Construction employment would be about 11,000 higher than under current policy, and manufacturers would employ an additional 28,000 people.

Wisconsin suffers from the consequences of the Federal budget deficit, while receiving few of the economic benefits in return. Stimulative increases in Federal outlays are concentrated in defense procurement. Because spending for defense is concentrated in other parts of the country, Wisconsin industry receives procurement contracts worth far less than the taxes State taxpayers contribute.

As I mentioned before, for every dollar sent to Washington, Wisconsin receives about 80 cents in return. And Wisconsin annually receives Federal expenditures of about $669 per capita below the national average.

Procurement for defense is the fastest growing area of the budget. Wisconsin's annual procurement shortfall alone is about $2.2 billion. Since 1981, this shortfall has grown by $1 billion. Wisconsin's annual shortfall from defense procurement equals the total sales of 3 major firms the size of A.O. Smith Corp. or 20 moderate-sized companies like Badger Meter.

The importance of this defense procurement shortfall to the State's economy cannot be overemphasized. We are not asking for more defense spending, but for a fairer share of the existing pot.

Procurement has become the Federal Government's biggest economic development program, worth $83 billion per year. This spending is highly concentrated geographically, rather than being spread nationally. Over 70 percent of defense procurement dollars are spent in just 11 States.

The current prospects in Washington hold little comfort for improvement. The President shows no intention of exerting necessary leadership to come to grips with the deficit. Even the Senate GOP proposal was shot down by the President. The President declared most every solution out of bounds and refused to look far beyond domestic cuts.

Last week Congress finally passed a first budget resolution. If Congress follows all the provisions, the deficit would fall to $181 billion in 1986. This is obviously better than the projection of the $227 billion deficit which would occur without this action.

However, under the resolution, the deficit will remain at $161 billion in 1988. Even congressional leaders are not satisfied with the budget.

The first resolution does not accomplish the main goal set for it, which is reduction of the deficit. The problem that we fear here in Wisconsin, and Mike Ley will talk a little bit more about it, is that the President will try to divert the public attention from the failure of deficit reduction by pushing ahead with the ill-defined, ill-designed plan for tax reform.

We had to bring revenue and expenditures into line here in Wisconsin and then pursue tax reform. This is the road we have just traveled in Wisconsin. In 1983, we were faced with a $304 million deficit and a projection of several times that for the future.

Wisconsin leaders took the tough action necessary to constrain spending and raised the needed revenues. Once the budget was brought into balance, Governor Earl was able to successfully advance income tax reform and rate reduction from a position of fiscal strength.

Rather than first establishing fiscal stability, the Reagan administration's focus is to finance income tax rate reductions on the backs of many State and local taxpayers. Instead of true-based tax reform, the current proposal reallocates tax preferences among current winners and losers. Wisconsin would be one of the major losers under this brand of federalism.

Tax reform should be pursued. We all know the current Federal tax system is complex and inequitable. However, tax reform should be undertaken only after the Nation's fiscal house is in order.

In terms of any recommendations, I suppose if I were playing David Stockman, what I might be proposing, I think what needs to be done is taking defensive action to reduce the deficit.

Representative Obey. Let me say, if you were, you would be making a lot of money right now because David Stockman has, when he left public life, done quite well for himself.

Mr. Sprecher. I think probably I am making about 2 percent, which is about the share that Wisconsin gets of Federal money, 2 percent of David's salary.

I think the point that we are making is that the deficit is the biggest threat to Wisconsin economic welfare in the future.

As you would suspect, our major concern lies with the proposal to repeal the deduction for State and local taxes. This action would severely restrict the ability of already pressed State and local governments to finance education and human service programs. Beyond this, it would also exacerbate the imbalance of payments which Wisconsin experiences by an additional $200–$300 million.

States and localities are willing to share proportionately in the burden of deficit reduction. Their willingness is expressed clearly by the resolution adopted by the National Governor's Association in February of this year. No area of the budget can be held sacred. Action is needed in four areas: Defense, entitlements, grants and other domestic expenditures, and revenues.

In defense, it is time to bite the bullet on defense procurement. Rather than financing every proposed system, choices need to be made. Congress and the administration need to establish priorities and deauthorize lower priority systems. Recent revelations concerning diversion of materials to hostile nations, lack of inventory control, overcharges by contractors, and failure of overdesigned weapons systems leave little doubt that base cuts are possible.

In addition, Congress and the White House need to look beyond campaign promises and deal directly with rapid increases in Federal pension programs, including Social Security. More serious consideration should be given to proposals such as the one by Speaker O'Neill to raise income taxes on the Social Security benefits of higher income individuals. This would be an alternative to a 1-year moratorium in COLA's.

Representative O'Neill's proposal would raise approximately $8.5 billion over 3 years but would affect only about 9 percent of the 36 million Social Security recipients.

In terms of grants-in-aid and domestic expenditures, because deficit reduction is so crucial to economic growth, States should be willing to absorb the consequences of a freeze or proportional restraint in Federal assistance to nonentitlement programs as part of a broad and serious effort at deficit reduction.

On the revenue side, it has become clear over the last several years that the deficit cannot be brought into line without revenue increases. The tax reductions enacted in 1981 have clearly demonstrated that the stimulation to the economy resulting from a tax cut is insufficient to offset revenue losses plus finance massive military spending increases.

Serious consideration should be given to any of a number of revenue-raising proposals, including biennial indexing, a cap or freeze on tax preferences, and the $5 per barrel tax on imported oil recently proposed by Senate budget conferees.

In conclusion, the twin deficits, Federal budget and foreign trade, loom as the greatest threats to Wisconsin's economy. More than anything else the Federal Government can do, action now to reduce these deficits would render the greatest potential benefit to the citizens of Wisconsin.

Thank you very much.

Representative Obey. Thank you.

[The prepared statement of Mr. Sprecher follows:]

PREPARED STATEMENT OF LON SPRECHER

THE BACKDROP

Wisconsin's economy and citizens are directly affected by federal monetary, expenditure and revenue policies. In recent years, a combination of these policies has worked a grave hardship on the State of Wisconsin.

Ever since this Administration proposed it's taxing and spending policies in 1981, we in Wisconsin have been swimming with federal fiscal sharks. Its not been a pleasant or enlightening experience.

> Wisconsin has suffered fairly severe budget lacerations over the past five years due to federal policies. We have sustained the cuts and kept programs operating. We have kept our composure in dealing with federal reductions coupled with the worst recession since the 1930's.
>
> Governor Earl has been a clear and outspoken critic of certain aspects of the Administration's budget and tax proposals. Wisconsin has not taken an ingratiating posture toward many of the Administration's proposals. We have not recently volunteered to be pilot fish for the New Federalism and our Democratic congressional delegation has delivered a clear and convincing blow to the Kemp-Kasten and Treasury II tax shifting plans.

Wisconsin needs to keep reminding the President and Congress that we are alert and concerned about Wisconsin's interests and how they are affected by Federal Policies. This hearing provides an excellent forum to bring home the message-- Reaganomics, Treasury II, Kemp-Kasten, and the deficit are unfair and counterproductive.

Wisconsin is not trying to divert the burden of federal tax reforms to other states. Nor are we trying to divert the burden of dealing with the deficit entirely away from domestic programs toward defense. The final "deal" on tax reform and the deficit should be fair and balanced. All states and all sectors should feel the pain equally.

CHANGES IN FEDERAL ASSISTANCE

Fiscal federalism has changed dramatically in 4-1/2 years. The federal government has ceased being a policy innovator. Rather its role has become one of a defense procurement officer, a loan shark's mark and a reluctant third party payer.

1. Since 1981, the federal budget has cut selected programs and limited others to growth far below the inflation rate. In 1984 alone, these actions cost Wisconsin state government a net loss of approximately $200 million in real dollars. Increased state revenues and program cuts have been used to make up for this lost funding.

2. The deficit has dampened Wisconsin's economic recovery through international appreciation of the dollar to the tune of approximately 30,000 manufacturing jobs and 40,000 jobs in total. The sharp appreciation of the dollar has also cut personal income in Wisconsin by $710 million.

3. Wisconsin now receives about 80 cents for every tax dollar we send to Washington.

For many years, Wisconsin has been fortunate to receive a share of federal aid payments which is proportionate to its share of total U.S. population. The major portion of this aid is used to finance human services programs. Partly because of our emphasis on such programs, the poverty rate in Wisconsin in 1982 was one-third below the national rate of 15 percent. Shifts in federal priorities since 1981, however, threaten the state's ability to reduce suffering among low income residents. Between 1981 and 1984, for example, federal Medicaid assistance received in Wisconsin declined by 7 percent in real dollars. Similarly, the six block grant programs, which were to be the keystone of federalism, remain funded at levels lower than in 1981.

DEFICIT

The massive federal deficits exceeding $200 billion per year are clearly not an accident. They result from a conscious policy on the part of elected federal officials to reduce revenue and massively boost military procurement.

During the period from 1976 to 1988 defense expenditures will rise by 80 percent in constant dollars. By contrast grants-in-aid will fall by 16 percent and aids to individuals (primarily social security and Medicare) and total expenditures will increase by 40 percent.

As a consequence of the imbalance between revenues and expenditures, interest payments on the rapidly expanding national debt are rising at dangerous rates. During the period from 1976-1988 interest payements are expected to increase by 176 percent in constant dollars. The combination of defense expenditures, interest on the national debt, and programs such as Social Security is squeezing all other expenditures out of the budget.

CONSEQUENCES IN WISCONSIN

1. Shift in Federal Funding Priorities

An examination of state revenues illustrates the impact resulting from the continuing squeeze on federal domestic funding. Between 1980-81 and 1983-84, the federal share of Wisconsin's total revenues fell from 21 percent to 17 percent. Since 1981, the federal share of state Health and Social Services funding has declined by more than 2 percent; requiring an additional annual expenditure of $50 million from state sources.

Programs providing assistance to local government have become continuing targets for federal cutbacks. Among the largest grant programs, reductions have been most severe in revenue sharing, community development, and public housing. These were again the targets of the 1986 budget compromise; for a total loss to localities of $23.1 million. The total elimination of revenue sharing in 1987 will represent a $108 million annual loss to Wisconsin communities. Of this amount, 87 percent would be lost to current operations with the remainder taken from capital projects.

2. Deficit Slows Growth

Last winter, the Wisconsin Department of Revenue completed a sophisticated economic analysis of alternative federal fiscal and monetary policies. The department found that the current federal policy of deficit spending and monetarism of the federal reserve is a prescription for anemic growth for Wisconsin for the remainder of the decade. Total farm employment would grow by 7.4 percent from 1980 to 1990, compared to growth of 31.8 percent in 1960-70 and 26.6 percent from 1970-80. At the same time, real personal income would rise at less than half the level experienced during the two previous decades. Of particular concern is the projection that employment in manufacturing, mining and construction would actually be lower in 1990 than in 1980.

The Wisconsin economic outlook would be much more favorable if the federal government enacted tax increases and spending cuts of approximately twice the size of last year's downpayment proposals and adopted an accommodating monetary policy. Lower interest rates, in particular, would boost investment and increase employment in the capital goods industries. Care would have to be taken not to lower interest rates to the point that inflation reaches an unacceptably high level. Wisconsin would gain 44,000 additional jobs by 1990. Construction employment would be 11,000 higher than under current policy, and manufacturers would employ an additional 28,000 persons. Further, total personal income would be 1.1 percent higher compared to personal income under a continuation of current policy.

3. Balance of Payments

Wisconsin suffers heavily from the consequences of the federal budget deficit, while receiving few of the economic benefits. Stimulative increases in federal outlays are concentrated in defense procurement. Because spending for defense is concentrated in other parts of the country, Wisconsin industry receives procurement contracts worth far less than the taxes state taxpayers contribute.

Federal tax and expenditure policy results in a sizeable balance of payments loss to Wisconsin. For every dollar sent to Washington, Wisconsin receives only 80 cents in return. In 1984, $3.6 billion was lost to the state's economy due to the federal expenditure policy. Annually, Wisconsin gains approximately $11 billion from federal expenditures. If federal dollars were to be distributed on the basis of population, Wisconsin would be entitled to more than $14 billion. Wisconsin annually receives federal expenditures of $669 per capita below the national average.

Procurement for defense is the fastest growing area of the budget. Wisconsin's annual procurement shortfall alone is about $2.2 billion. Since 1981, this shortfall has grown by $1 billion. Wisconsin's annual shortfall from defense procurement equals the total sales of three major firms the size of A. O. Smith Corporation or twenty moderate sized companies like Badger Meter.

The importance of this defense procurement shortfall to the state's economy cannot be overemphasized. We are not asking for more defense spending, but for a fair share of the existing pot. Over the twelve months through February, total industrial production in the U.S. grew less than 3 percent but the defense and space category rose by 13.5 percent. Procurement has become the federal government's biggest economic development program-- worth $83 billion per year. This spending is highly concentrated geographically, rather than being spread nationally. Over 70 percent of defense procurement dollars are spent in just eleven states.

This concentration is even more dramatic in the area of Research and Development. The Department of Defense funds 25 percent of all research and development undertaken in the U.S. Over 80 percent of these R&D funds are spent in just ten states. In both procurement and R&D, Wisconsin ranks near the bottom. Examination of subcontracts does not alter the picture. It's no wonder then that the areas of the country which have received the greater share of defense procurement spending and defense research and development expenditures are now experiencing the greatest growth in high-tech firms, expanded employment, and entrepreneurial spinoff of new business.

CURRENT PROSPECTS

The current situation in Washington holds little comfort for improvement. The President shows no intention of exerting the leadership necessary to come to grips with the deficit. His original FFY 1986 budget failed to deal with the deficit. Even the Senate GOP proposal was shot down by the President. The President declared most every solution out of bounds and refused to look beyond domestic cuts. That's not leadership; that's letting Reagan be Reagan.

Last week Congress finally passed a first budget resolution. If Congress follows all the provisions, the deficit would fall to $181 billion in FFY 1986. This is better than the projection of the $227 billion deficit which would occur without action. However, under the resolution, the deficit will remain at $161 billion in 1988. Congressional leaders are not satisfied with the budget. It does not reduce the deficit by even half as much as the target set in January. Some have even called the budget a "wimp" and "better than no budget." It's up to Congress and the President to characterize the budget agreement. But one thing is certain—the first resolution does not accomplish the main goal set for it--reduction of the deficit.

This recent congressional action appears to make the eventual enactment of a significant deficit reduction package ever more difficult.

Later in the Congressional session, I fear that Congress and the President will try to divert public attention from their failure at deficit reduction by pushing ahead with an ill designed plan for tax reform.

Tax reform should be pursued. We all know the current federal tax system is complex and inequitable. However, tax reform should be undertaken only after the nation's fiscal house is in order.

. . .

First, bring revenue and expenditures into line and then, pursue tax reform.

This is the road we have just traveled in Wisconsin. Faced with a $304 million deficit in the spring of 1983 and a projection of several times that in the future, Wisconsin government leaders took the tough action necessary to constrain spending and raise needed revenues. Once the budget was brought into balance, the Governor was able to successfully advance income tax reform and rate reduction from a position of fiscal strength.

Rather than first establishing fiscal stability, the Reagan administration proposes to finance income tax rate reductions on the backs of many state and local taxpayers. Instead of true, broad-based tax reform, the current proposal merely reallocates tax preferences among current winners and losers. Wisconsin would be one of the major losers under this brand of federalism.

As you would suspect, our major concern lies with the proposal to repeal the deduction for state and local taxes. This action would severely restrict the ability of already pressed state and local governments to finance education and human service programs. Beyond this, it would also exacerbate the imbalance of payments which Wisconsin experiences by an additional $200-$300 million.

RECOMMENDATIONS

Congress and the President need to act decisively to reduce the deficit. Further delay makes an eventual solution far more difficult. Without needed action, domestic programs will continue to be squeezed out and our economy will continue to be sluggish.

States and localities are willing to share proportionately in the burden of deficit reduction. Their willingness is expressed clearly by the resolution adopted by the National Governor's Association in February of this year.

No area of the budget can be held sacred. Action is needed in four areas: defense, entitlements, grants and other domestic expenditures, and revenues.

Defense

It is time to bite the bullet on defense procurement. Rather than financing every proposed system, choices must be made. Congress and the administration need to establish priorities and deauthorize lower priority systems. Recent revelations concerning diversion of materials to hostile nations, lack of inventory control, gross overcharges by contractors, and failure of overdesigned weapon system leave little doubt that base cuts are possible.

Direct Payments to Individuals

Congress and the White House need to look beyond campaign promises and deal directly with rapid increases in federal pension programs, including Social Security. More serious consideration should be given to proposals, such as the one by Speaker O'Neill to raise income taxes on the Social Security benefits of higher income individuals. This would be an alternative to a one year moratorium on COLAs. Representative O'Neill's proposal would raise approximately $8.5 billion over three years but would affect only about 9 percent of the 36 million Social Security recipients.

Grants-In-Aid and Domestic Expenditures

Since 1981 states and localities have borne the brunt of reductions in federal expenditures. Because deficit reduction is so crucial to economic growth states should be willing to absorb the consequences of a freeze or proportional restraint in federal assistance to non-entitlement programs as part of a broad and serious effort at deficit reduction.

Revenue

It has become clear over the last several years that the deficit cannot be brought into line without revenue increases. The tax reductions enacted in 1981 have clearly demonstrated that the stimulation to the economy resulting from a tax cut is insufficient to offset revenue losses plus finance massive military spending increases. Serious consideration should be given to any of a number of revenue raising proposals, including biennial indexing, a cap or freeze on tax preferences and the $5 per barrel tax on imported oil recently proposed by Senate budget conferees.

CONCLUSION

The twin deficits—federal budget and foreign trade--loom as the greatest threats to Wisconsin's economy. More than anything else the federal government can do, action now to reduce these deficits would render the greatest potential benefit to the citizens of Wisconsin.

Representative OBEY. Mr. Ley, why don't you proceed to lay out your analysis of what would happen to Wisconsin on the tax side under the tax, so-called tax reform proposal which is being discussed in Washington right now.

STATEMENT OF MICHAEL LEY, SECRETARY, WISCONSIN DEPARTMENT OF REVENUE

Mr. LEY. Chairman Obey, I really appreciate the opportunity to be here and talk about this today.

At this point I would really like to commend you for your leadership on this particular issue, specifically on the deductibility issue. I want to say that the fine staff work that has been done in this area to date by your staff and for your staff, I think, has greatly assisted us in coming up with some more details of conclusions of how it might affect Wisconsin residents.

You have asked that I comment in three particular areas: First, how the Treasury—what is now called Treasury II would affect Wisconsin families compared to other States; second, how the President's proposal would affect important sectors of Wisconsin's economy; and third, how the repeal of the State and local deductibility would affect individual families and provisions of State and local government services.

The major theme of my comments here is that the President's proposal is a badly flawed response to an extremely important national issue: The need for Federal tax reform. I say that as one very, very much committed to Federal tax reform.

It is not an abstract commitment because I think we have evidence here in the State of Wisconsin, having pulled it off, taken care of a lot of the problems that were similar to the Federal Tax Code, we have taken care of those of at the State level in the reform proposal that the Governor proposed to the legislature and the legislature adopted.

The details of the inequitable results of how this proposal would affect Wisconsin are contained in this report, just recently completed by the Wisconsin Department of Revenue. I don't know that you have had an opportunity to look at it in detail, but I would urge that you do that. I invite you to call upon us, if we can be of help in making the report clearer.

As I say, on balance, the President's plan is unfair to the people and businesses of Wisconsin. It is supposedly a revenue-neutral proposal where some—especially the business sector gets tax increases; individuals get tax decreases.

But what this proposal does is, because of the nature of Wisconsin's economy, in the tax increase area, those Wisconsin people, businesses, will get more of a tax increase than other businesses in other States. And on an individual side, where in balance the administration is trying to sell us a tax reduction for individuals, it is clear that Wisconsin residents do not share in the reduction.

Wisconsin taxpayers, such as middle-income earner families, low- and middle-income itemizers, and middle-income elderly couples will be harmed by sizable tax increases of this proposal. I will cite some examples later.

I want to point out that we are unable to precisely quantify the drain of economic resources from Wisconsin which would occur if this proposal were enacted without fundamental revision.

Neither we nor the Treasury Department have the necessary data base to calculate the State-by-State tax shifting that will go on. However, I think the data in the report that the revenue department just finished together with the analysis released by the respected, nonpartisan ACIR, suggests that the magnitude would be large enough to be detrimental to Wisconsin's economy.

There are many problems with the President's proposal that you and your staff have identified. The fact that it would add to the Federal budget deficit, I think, is really tragic. You understand how the nature of the deficit, high interest rates, strong dollar, is sapping Wisconsin's economy.

I want to focus my remarks on the central problem of the President's proposal, and that is, it fails to accomplish the goal that the public wants and deserves most from tax reform. That is fairness.

We need to get a higher degree of fairness in our system. Polls, scientific sampling polls done for the IRS show that 80 percent of those interviewed believe that the current tax system benefits the rich and that it is unfair to the ordinary man or woman. That is a very serious problem.

I think to the extent that the perceived fairness of our system exists, I think compliance and adherence to a self-assessment system is seriously jeopardized. Roscoe Egger, the IRS Commissioner, has spoken out on that, that our system is taken less seriously each year. I can attest, as secretary of revenue in Wisconsin, that the kind of things that people are attempting to get away with really clearly show a lack of perceived fairness in our system.

As we all know, tax avoidance has become a national pastime and voluntary compliance by taxpayers is undermined when they observe a complex system which offers tax avoidance opportunities to wealthy individuals and profitable companies that have the benefits of sophisticated tax advice.

I would like to just spend a couple of minutes talking about Wisconsin's experience with tax reform because I think it is in marked contrast to the approach that I see the President taking.

Fair and fundamental tax reform is possible if our political leaders lead. As you know, the Governor proposed a bold comprehensive income tax reform plan as part of the biennial budget. I am proud to have played a part in that effort and in shaping that reform proposal.

The Wisconsin tax system contained many of the same inequities found in the current Federal system. A whole host of exclusions, from income tax credits and itemized deductions, made tax liabilities lower for some taxpayers than for others with the same ability to pay.

The tax reform proposal, as passed, had the following provisions: An 8 percent ongoing tax cut, a 21 percent reduction in the top rate, a reduction in the number of brackets from eight to four. And importantly, I think it is often overlooked, an innovative sliding scale standard deduction designed to protect the progressivity of our current system. That is the ability to pay——

Representative OBEY. Explain that.

Mr. LEY. Right now we have a flat rate standard deduction under the Wisconsin tax code of $2,300 for a single person, $3,400 for a married couple.

Under the proposal as passed, the married couple standard deduction will be, for lower taxpayers will be $7,200 in contrast to the $3,400. As one's income rises, the amount of that standard deduction decreases to the point where one's income, joint income, is over $7,500 on a joint return. The standard deduction becomes zero. So it is a sliding scale standard deduction.

The program was designed to give tax relief at the upper end of the middle- and upper-income levels through reduction in rates, but then at the lower and part of the middle-income level we wanted to get relief there and keep progressivity. So the sliding scale standard deduction was introduced to keep the system fair. So in summary that is how it works.

They came up with a 5 percent credit based on a narrowed and limited list of itemized deductions in excess of the standard deduction. That is similar to an idea contained in the Bradley-Gephardt proposal whereby the benefit of deductions is the same for everybody and people with high incomes do not get a disproportionate benefit as is now the case.

Also in the plan was a significant base broadening through the repeal of 16 exclusions, credits and itemized deductions. The tax-free income levels were increased for all income categories.

What that meant was that 100,000 tax filers that are now paying taxes will not have to pay taxes under the new reform proposal.

So only 11 percent of all taxpayers will use the itemized credit compared to 40 percent who might itemize for Federal purposes and 20 percent who itemized under previous Wisconsin law.

The reason I mention all this is that it is important to point out the differences in the Governors's approach to tax reform and the President's approach to tax reform. The Governor took a pure approach politically by recommending elimination of all itemized deductions, many exclusions and most income tax credit.

This bold strategy gave the legislature room to actively participate in the tax reform effort and still produce a strong reform package.

Overall I believe that Wisconsin's experience demonstrates that fundamental tax reform can overcome political hurdles if the plan is designed to be equitable.

As I say, the problem with the President's proposal is equity, unfairness. I see two problems with that proposal. First of all, it gives special treatment to certain interest groups; and second, the problem of State and local tax deductibility.

Let me go through those. The President's plan doesn't have the necessary element of success because of those two features. Governor Earl placed all of the deductions on equal ground.

I could use an analogy as far as the President's proposal. I think it is like dealing with 10-year-old twins where their dentist reported some major problems with tooth decay and a major part of the solution was to cut out sweets. Imagine the problems you would encounter if you took candy from one without treating the other the same way. You would find screams of fairness and favoritism heard.

This proposal has produced many screaming twins. The President has made selective decisions about retaining tax preferences for certain industries. One of the best examples is the oil and gas industry.

The original treasury plan of Don Regan would have eliminated this industry's tax breaks. However, the oil and gas industry was able to convince the administration to retain most of their tax privileges. This is expected to result in increased earnings for major oil companies, according to several analyses that I have seen. And right now they pay taxes of only 8.4 percent of pretax profits in 1984.

Because the President caved in to some special interest groups, each group whose benefits were eliminated will feel it is being unjustly discriminated against.

In Wisconsin it was very difficult to present to the legislature a tax plan that treated all groups alike. Yet in the long run, I am convinced that we achieved more reform because the Governor showed no favoritism in coming in with this proposal.

It couldn't be said that he was leaving this alone or that alone. He went at them all and yet gave the legislature room to operate.

The second problem is the total elimination of the deduction for State and local taxes. I think that is a major problem. Stated simply, it is not sound tax policy for the Federal Government to take. It reduces the ability of States to raise revenues needed to support government services at a time when Federal support is being cut back.

In addition, no provision in the tax reform here at the State level had such a devastating effect on one part of the State over another part of the State. If the President had proposed eliminating the deduction for all consumer interests, it would most likely have had the same effect on every part of the country.

However, because the proposed elimination of the deduction for State and local taxes has strong regional implications, it increases inequities in the present system.

One of the reasons we undertook this tax reform was to improve the business climate in Wisconsin. Our efforts to improve Wisconsin's competitiveness in my judgment would be seriously undermined by the President's proposal to eliminate this particular deduction while retaining most other itemized deductions.

According to the ACIR, the loss of that deduction in isolation from rate reduction would mean a tax increase for Wisconsin citizens of $820 million. You cited that.

Representative OBEY. It would mean a reduction—I mean, it would mean a loss of how much?

Mr. LEY. $820 million.

But if you then take into account the reduction in the rates, that brings the loss down to $238 million. I need to be careful, and I think I urge you to be careful not to oversimplify the use of that $238 million because that number would probably be even further reduced given other effects of the President's proposal.

No matter how it comes out, we can be certain that Wisconsin residents would pay a higher share of total Federal taxes because of the repeal of this deduction. There is just no way of getting around that.

I would be careful in and urge you to be careful to not use in a simplified way that $238 million figure.

As I think you know, all States will be adversely affected by the repeal of the deduction, but some States with the following characteristics will be heavily affected by the proposal. There are basically five characteristics:

The first one is, States that have no natural resource tax base to export taxes to consumers in other States.

Second, States whose business taxes are relatively low in an effort to attract and retain business and which rely more heavily on the personal income tax.

Third, States that have a commitment to the progressive income taxation. That is, an ability to pay basis.

Fourth, States with mature economies that require above average support for services.

And fifth, States which place a high priority on education.

Wisconsin fits all of those five categories. As a result our residents would bear a disproportionate share of the impact of eliminating deductibility. I don't think that it is correct to categorize this issue as high spending States whining about a deduction from which only they benefit. The proponents of repeal ignore the higher cost of providing for the needs of urban areas and operating quality schools.

Also it should be noted that the tax-spending correlation is far from perfect. Because of tax exporting, some low personal income tax States have above-average per capita spending levels.

The timing of this couldn't be worse. At the same time that cuts in domestic spending are coming about, forcing States to pick up a greater share, here the Federal Government is really taking away the capability of States to respond to that need.

I would like to now turn to the impact of the so-called Treasury II on Wisconsin taxpayers, first from a personal income tax standpoint on individuals, and then I will wrap it up by talking about its effect on corporate Wisconsin.

It is clear that the plan benefits people at the two extremes of the income scale: the richest and the poorest. By and large that conclusion is supported by the data in our study because of the flaws we have talked about. Major classes of taxpayers would receive a tax increase.

I would like to give you some examples, if I could.

Married, two-earner couples with no dependents, low- and middle-income itemizers and middle-income senior citizens are three groups which are treated particularly poorly in Wisconsin under Treasury II. The following table provides a brief overview of Treasury II's impact on these groups.

The first example is of an elderly single person itemizing, owns own home, income of $20,000, $376 tax increase. That is a 50 percent increase.

The second example, a $25,000 family, one-earner, itemizer, owns home, almost a $300 increase. That is about 13 percent.

The third example is a two-earner married couple, with incomes split 65/35, own their own home, itemize, $30,000 income. Almost a $400 increase in taxes, 14 percent increase.

And the last example, a $50,000 family, again an itemizer, almost a $700 increase in taxes, almost an 11 percent increase.

The middle-income elderly face the most serious negative impacts of the tax plan. Single elderly tax filers who use the standard deduction would tend to experience a tax decrease.

I think it is fair to say that those who take the standard deduction would likely be the beneficiaries of this.

However, we in Wisconsin are 40 percent people who take itemized deductions, and within that 40 percent I think we see the most serious problems of this proposal. The examples that we use reflect actual average income and expense profiles for Wisconsin taxpayers. We took it from an 1983 scientific sample of Wisconsin tax returns.

There are some in those income classes who have higher deductions and some who have lower deductions. But these are actual averages.

Let me wrap this up by talking about the effect of this proposal on Wisconsin corporate taxpayers.

Several Wisconsin industries would be adversely affected by the President's corporate tax plan. In our analysis of the Treasury plan's impact on the Wisconsin corporate sector, we have conducted extensive interviews with corporate tax managers of leading Wisconsin firms. These discussions are outlined in the second section of the report submitted to you today.

After reading the report carefully, I believe that you will draw the same conclusion that I did—there is more bad news than good news for Wisconsin business in the tax plan.

Wisconsin relies heavily on a mature manufacturing sector for a disproportionately high share of its employment. Regaining lost competitiveness or insuring continued competitiveness requires large capital outlays. The loss of the investment tax credit, combined with the recapture tax on ACRS depreciation from past plant and equipment outlays, are the largest blows to Wisconsin's manufacturing sector, for example, the machinery production and paper industries.

I would like to go through and give you some thumbnail sketches of how some industries are affected.

A major paper company expects its tax liability to increase by 400 percent. Nearly half of that increase is due to the recapture tax on prior year depreciation. The rest is accounted through the loss of the investment tax credit.

A manufacturer of heavy equipment and machinery reports that the windfall tax will produce a $14 to $15 million loss. The recapture tax accounts for the losses in that area.

A leading printing company will lose—printing is really a comer in Wisconsin's economy, a lot of our job growth is in the printing industry, a leading one of those will lose approximately $3 million due to the loss of the investment tax credit.

One paper company's loss of the ITC is offset by the rate reduction, but the recapture tax provision results in a loss of $50 million over 3 years.

A major manufacturer of consumer products with a significant overseas investment estimates that the new limitations on foreign tax credits will increase tax costs on these operations by $10 million a year.

It appears that the insurance industry, another major employee in Wisconsin, would be negatively affected.

Sentry, Wausau Insurance, and Northwestern Mutual are names known worldwide whose headquarters are based in Wisconsin. Although classified as a service sector industry, the insurance sector is a key example of a successful Wisconsin traded business. A traded business is defined as any business that provides goods and services which are exported to other States and countries. Traded businesses are of particular value to their home States because the wealth generated by the traded business has a multiplier effect. It stimulates the sale of local goods and services.

Our analysis of the insurance sector shows that the tax plan would hurt insurance companies through limiting the reserves that companies can set aside to pay future claims. Several provisions in Treasury II would also have the effect of decreasing the attractiveness of insurance products to consumers-including cash-value life insurance, deferred annuities, and group health insurance.

I have tried to give you a reasonably brief overview of the impact of Treasury II on Wisconsin. Tax reform is a difficult process. In Wisconsin, we are sensitive to this fact. Nonetheless, it is important that at the beginning of the process, decisions aren't made that protect certain interest groups at the expense of other groups. This is a strong concern and examples of such favoritism in the President's proposals are prevalent.

The July 29 issue of Business Week provided evidence that the general public perceives the same problems with the President's plan. Congressman Russo of Illinois held a tax forum on the Treasury II and said, "They"—his constituents—"knew about the special breaks the President had given to the oil companies and to the wealthy and they were burning."

As Congress proceeds with the important task of tax reform, I trust that many of you will come to the same conclusion that I have reached. Treasury II is not a satisfactory blueprint for equitable tax reform. I hope that my testimony has helped to focus upon the fundamental flaws of the President's plan. Tax reform must treat the people and businesses of all of the 50 States fairly. I don't think this proposal does.

Thank you.

Representative OBEY. Thank you.

[The prepared statement of Mr. Ley and a report entitled "The Impact of the President's Proposed Tax Plan on Wisconsin Taxpayers" follow:]

Prepared Statement of Michael Ley

INTRODUCTION

Honorable Chairpersons, members of the committee, I appreciate this opportunity to appear before you on the issue of federal tax reform. For the record, my name is Michael Ley, I am Secretary of the Wisconsin Department of Revenue. I am here this morning to comment on the President's Income Tax proposal--otherwise known as Treasury II.

I believe that Treasury II is a badly-flawed response to an extremely important national issue: the need for federal tax reform. That need is fundamental and is recognized by many people. Reams of data and opinion polls point to the fact that our citizens want and need tax reform.

The inequitable results of this proposal are documented in the report prepared by the Wisconsin Department of Revenue. You have not had an opportunity to read this report; I invite you to do so and to call upon me and my staff at any time to discuss the contents of the report in detail. I will present the highlights of the report to you today.

On balance, the President's plan is unfair to the people and businesses of Wisconsin. Our analysis strongly suggests that corporations doing business in Wisconsin would pay a disproportionately greater share of the President's proposed corporate tax increase, while Wisconsin residents would receive less than their fair share of the proposed individual income tax reduction. Furthermore, many

Wisconsin taxpayers--such as middle-income two-earner families and middle-income elderly couples--will be harmed by sizable tax increases.

For example, a married, one-earner couple who owns their own home, with no dependents in the $25,000 Adjusted Gross Income (AGI) category will experience a tax increase of $292 or 13%. An elderly married couple in the $25,000 AGI category who owns their own home would receive a tax increase of $182 or 190%.

I must point out that we are unable to precisely quantify the drain of economic resources from Wisconsin which would occur if this proposal were enacted without fundamental revision. Neither we nor the Treasury Department have the necessary data base to calculate the state-by-state tax shifting which would result from the current plan. However, the data in this report, together with the analysis released by the respected, nonpartisan Advisory Committee on Intergovernmental Relations (ACIR), suggests that the magnitude would be large enough to be detrimental to our state economy.

There are many problems with the President's proposal that have already been identified. For example, the apparent fact that the President's tax proposal would <u>add</u> to the federal budget deficit is tragic. The members of this committee understand that the federal deficit--and the attendant high interest rates and strong dollar--is sapping the present and future productive capacity of key sectors of the U.S. economy--manufacturing, agriculture and mining. I am deeply concerned that this tax proposal, by failing to accomplish revenue neutrality, would worsen the deficit situation. However, I will focus my remarks on the central problem with the President's proposal: it fails to accomplish the goal that the public wants and deserves most from tax reform--<u>fairness</u>.

NEED FOR TAX REFORM

In 1984, the Internal Revenue Service commissioned the consulting firm of Yankelovich, Skelly and White to do a poll of taxpayer attitudes. The firm interviewed over 2,000 taxpayers and what these people told us about our tax system is troubling. The most telling result of the poll was this: 80% percent of those interviewed believed that the current tax system benefits the rich and is unfair to the ordinary man or woman.

There are several reasons that comprehensive tax reform is needed now. Most important of those reasons is the decline in voluntary compliance. The founders of this nation demonstrated that taxation cannot work without the cooperation of those who are taxed. No amount of coercion will produce needed tax revenues if citizens feel the tax system is fundamentally unfair.

Roscoe Egger, Jr., Commissioner of the Internal Revenue Service, cites the fact that voluntary compliance--the cornerstone of our tax system--appears to be taken less seriously by our citizens each year. Egger indicates that 1981 IRS figures show that Americans failed to pay $90 billion in taxes they owed to the federal government. The IRS study that I spoke of earlier revealed that 38% of those surveyed agreed with the statement, "Since a lot of rich people pay no taxes at all, if someone like me underpays, it is no big deal."

Tax avoidance has become a national pastime. Voluntary compliance by taxpayers is undermined when they observe a complex system, which offers tax avoidance opportunities to wealthy individuals and profitable companies with sophisticated tax advice.

WISCONSIN'S EXPERIENCE WITH TAX REFORM

Fair and fundamental tax reform is possible if our political leaders have the intestinal fortitude to lead. As some committee members may know, Wisconsin Governor Anthony Earl proposed a bold, comprehensive income tax reduction and reform plan as part of his biennial budget.

The Wisconsin tax system contained many of the same inequities found in the current federal system. A myriad of exclusions from income, tax credits and itemized deductions made tax liabilities lower for some taxpayers than for others with the same ability to pay.

The tax reform plan passed by the Legislature and scheduled to take effect in tax year 1986, differed somewhat from the Governor's original proposal but the Legislature held firmly to the principles of tax reform. The following provisions were part of our final package:

-- An 8% ongoing tax cut.

-- A 21% reduction in our top tax rate.

-- A reduction in the number of brackets from eight to four.

-- An innovative sliding scale standard deduction designed to protect the progressivity of our current system.

-- A five percent credit based on a narrowed and limited list of itemized deductions in excess of the standard deduction.

-- Significant base broadening through the repeal of 16 exclusions, credits and itemized deductions.

-- Tax-free income levels increased for all income categories.

-- Only 11% of all taxpayers will use the itemized credit, compared to 40% who itemize for federal purposes and 20% who itemized under previous Wisconsin law.

At this juncture it is important to point out the differences in Governor Earl's approach to tax reform and the President's approach to tax reform. The Governor took a pure approach politically by recommending elimination of all itemized deductions, many exclusions and most income tax credits. This bold strategy gave the Legislature room to actively participate in the tax reform effort and still produce a strong reform package.

Overall, I believe that Wisconsin's experience demonstrates that fundamental tax reform can overcome political hurdles if the plan is designed to be equitable.

PROBLEMS WITH TREASURY II

I have spent some time discussing Wisconsin's experience with tax reform because I believe it is instructive to examine a successful effort in this area. The President's plan does not appear to have the necessary elements of success.

It is clear that Treasury II has lost ground when compared to Treasury I. When describing Wisconsin's reform plan, I made clear the importance of placing all provisions on equal ground. A simple analogy would be dealing with ten-year-old twins where their dentist reported some major problems with tooth decay and the major part of the solution was to cut out sweets. Imagine the problems you would encounter if you took candy from one without treating the other the same way. Screams of unfairness and favoritism would be heard.

In effect the President's approach to tax reform has produced many screaming twins. The President has made selective decisions about retaining tax preferences for certain industries. One of the best examples is the oil and gas industry. The original Treasury plan would have eliminated this industry's tax breaks. However, the oil and gas industry retained most of their tax privileges in Treasury II. This is expected to result in increased earnings for major oil companies according to an analysis printed in the Wall Street Journal. A BusinessWeek study, released in its June 10, 1985, issue, noted that major companies in the oil and gas industry paid average U.S. taxes of only 8.4% of pretax profits in 1984.

Because the President caved in to some special interest groups, each group whose benefits were eliminated will feel it is being unjustly discriminated against. Referring again to our experience, in retrospect, it was very difficult to present to the Legislature a tax plan that treated all groups alike. Yet, in the long run I'm convinced that we achieved more reform because the Governor showed no favoritism.

Along with the special treatment given to some interest groups, the total elimination of the deduction for state and local taxes is a major problem with the President's proposal. Stated simply it is not sound tax policy for the federal government to tax state and local taxes. It reduces the ability of states to raise revenues needed to support government services at a time when federal support is being cut back.

In addition, no provision in our tax reform plan had such a devastating effect on one part of the state over another part of the state. If the President had proposed eliminating the deduction for all consumer interest, it would most likely have the same effect on every part of the country. However, because the proposed elimination of the deduction for state and local taxes has strong regional implications, it increases inequities in the federal fiscal system.

One of the leading reasons that the administration in Wisconsin undertook the effort of tax reform was that we are concerned about our business climate. We reduced our reliance on personal income taxes as a component of our tax mix in an effort to attract businesses.

Our efforts to improve Wisconsin's competitiveness would be undermined by the President's proposal to eliminate this particular deduction, while retaining most other itemized deductions. According to the ACIR, the repeal of this deduction in isolation would result in a federal tax increase for Wisconsin citizens of $820 million. I realize that there are offsetting tax benefits in Treasury II. The most objective way to analyze the aggregate effect of this proposal is to assume revenue neutrality. Our analysis using ACIR data shows that even when rates are reduced to offset the revenue gain from eliminating the deduction, Wisconsin residents would have their federal taxes increased by $238 million per year. This potential tax increase is mitigated by other features of the President's plan; however we can be certain that Wisconsin residents would pay a higher share of total federal taxes because of the repeal of this deduction.

All states will be adversely affected by the repeal of this deduction, but some states will suffer disproportionately. Specifically, any state that has the following characteristics can expect to be heavily affected by the repeal:

a. States that have no natural resource tax base to export taxes to consumers in other states.
b. States whose business taxes are relatively low (in an effort to attract and retain business) and which rely more heavily on the personal income tax.
c. States that have a commitment to progressive income taxation.
d. States with mature economies that require above average support for services.
e. States which place a high priority upon education.

Because Wisconsin fits each of these categories, our residents would bear a disproportionate share of the impact of eliminating deductibility.

It is incorrect to categorize this issue as high-spending states whining about a deduction from which only they benefit. The proponents of repeal ignore the higher costs of providing for the needs of urban areas and operating quality schools. In addition, it should be noted that the tax-spending correlation is far from perfect. Because of tax exporting, some low personal income tax states have above-average per capita spending levels.

Finally, it should be noted that the repeal of the state and local tax deduction would be coming at the same time funding for several federal programs is being phased out. More and more, the federal government is directing states to be responsible for services. Yet, the degree to which state and local taxpayers could shoulder the burden for that increased responsibility would be limited by the repeal of this deduction.

IMPACT OF TREASURY II ON WISCONSIN TAXPAYERS--PERSONAL INCOME TAXES

Since Treasury II was introduced by the President in late May, my Department has been in the process of analyzing the effect of the tax code changes on Wisconsin taxpayers. It has been reported in the popular press that the plan benefits people at the two extremes of the income scale--the richest and the poorest. By and large, that conclusion is supported by our data. Thus, because of flaws in the President's proposal, major classes of taxpayers would receive tax increases.

Let me spend some time explaining the conclusions of our analysis. From the onset I'd like to make clear that the examples represent the impact of Treasury II on hypothetical taxpayers at various income levels. It is based on data from our 1983 Wisconsin Tax Model which is a scientific sample of Wisconsin income tax returns. The information represents average deduction and credit amounts for various income classes.

Married, two-earner couples with no dependents, low and middle-income itemizers and middle-income senior citizens are three groups which are treated particularly poorly in Wisconsin under Treasury II. The following table provides a brief overview of Treasury II's impact on these groups.

	Taxpayer Profile	Income Class	Current Tax Law	Treasury II Tax	Change in Tax Liability	Percent Change in Tax
1.	Elderly single person, itemize, own home, zero dependents.	$20,000	$750	$1,126	$376	50.1%
2.	One-earner itemizer, own home, no dependents.	$25,000	$2,240	$2,532	$292	13.0%
3.	Two-earner married couple, 65-35% income split, itemize, own home, no dependents.	$30,000	$2,796	$3,193	$397	14.2%
4.	Two-earner married couple, 65-35% income split, itemize, own home, no dependents.	$50,000	$6,598	$7,295	$697	10.6%

The middle-income elderly face the most serious negative impacts of the tax plan. Single elderly taxfilers who use the standard deduction would tend to experience a tax decrease. But, single elderly taxfilers who itemize would with average deductions and credits experience steep tax increases ranging between 20% and 50%. For the married elderly the results are the same but the increases are even steeper, ranging between 55% and 190%.

Married, one-earner couples in the $25,000 AGI category with no children who own their own home and itemize would face a tax increase of $292. This represents a 13% increase over current law. The average taxpayer with this profile would begin to see a tax decrease at the $75,000 AGI level.

Married, two-earner couples with no children would benefit from reduced rates, but they lose the value of the married two-earner deduction and the itemized deduction for state and local taxes. At the $30,000 AGI level, such households would see their taxes grow by $397 or a tax increase of 14.2%. The average taxpayer in this class would see an increase until the $75,000 AGI category. This AGI category would experience a tax decrease of $263 or 1.9%.

The final profile is that of a two-earner, no dependents couple in the $50,000 AGI category. They own their own home. This couple will experience an increase of $697 or 10.6%. As with the other taxpayer profiles, taxpayers in this category with incomes over $75,000 will begin to experience a tax decrease.

These examples, which reflect <u>actual</u> <u>average</u> income and expense profiles for Wisconsin taxpayers, clearly demonstrate that the President's plan fails the test of fairness.

IMPACT OF TREASURY II ON WISCONSIN TAXPAYERS--CORPORATE INCOME TAXES

Several Wisconsin industries would be adversely affected by the President's corporate tax plan. In our analysis of the Treasury plan's impact on the Wisconsin corporate sector, we have conducted extensive interviews with corporate tax managers of leading Wisconsin firms. These discussions are outlined in the second section of the report submitted to you today. After reading the report carefully, I believe that you'll draw the same conclusion that I did--there is more bad news than good news for Wisconsin business in the tax plan.

Wisconsin relies heavily on a mature manufacturing sector for a disproportionately high share of its employment. Regaining lost competitiveness or insuring continued competitiveness, requires large capital outlays. The loss of the investment tax credit combined with the recapture tax on ACRS depreciation from past plant and equipment outlays are the largest blows to Wisconsin's manufacturing sector, for example, the machinery production and paper industries.

I would like to give you some thumbnail sketches of how some Wisconsin industries are affected. These tax situations are based on information from our conversations with Wisconsin tax managers.

-- A major paper company expects its tax liability to increase by 400%. Nearly half of the increase is due to the recapture tax on prior year's depreciation. The remainder is accounted for through the loss of the investment tax credit and changes to the accelerated depreciation schedules.

-- A manufacturer of heavy equipment and machinery reports that the windfall tax will produce a $14 to $15 million loss. The recapture tax accounts for losses among several industries.

-- A leading printing company will lose approximately $3 million due to loss of the investment tax credit.

-- For another paper company, the loss of the investment tax credit is offset by the rate reduction, but the recapture tax provisions results in a loss of $50 million over three years.

-- A major manufacturer of consumer products with significant overseas investments estimates that the new limitations on foreign tax credits will increase tax costs on these operations by $10 million a year.

As I stated at the beginning of my remarks, it is important to note that the capital intensive industries are generally not performing well on world markets. One of the primary factors of this poor performance is the strong dollar. Most economists believe that the huge and growing federal deficit is responsible for the dollar's strength. Although Treasury II has been touted as being revenue neutral, recent reports indicate that the net effect may be growing deficits in 1990 and beyond. Revenue neutrality is not the focus of my remarks today. But, to further increase the deficit would only exacerbate efforts of our capital intensive sector to become competitive on worldwide markets.

In addition to the negative impact of the plan on our capital intensive industries, it appears that the insurance industry, another major employer in Wisconsin, would be negatively affected. Sentry, Wausau Insurance, and Northwestern Mutual are names known worldwide whose headquarters are based in Wisconsin. Although classified as a service sector industry, the insurance sector is a key example of a successful Wisconsin "traded business." A traded business is defined as any business that provides goods and services which are exported to other states and countries. Traded businesses are of particular value to their home states because the wealth generated by the traded business has a multiplier effect; it stimulates the sale of local goods and services.

Our analysis of the insurance sector shows that the tax plan would hurt insurance companies through limiting the reserves that companies can set aside to pay future claims. Several provisions in Treasury II would also have the effect of decreasing the attractiveness of insurance products to consumers--including cash-value life insurance, deferred annuities and group health insurance.

The need to equalize effective tax rates among industries is a goal toward which we should be working. And, in the context of a fair tax plan these differential impacts on particular industries would be a lesser concern. However, in the context of Treasury II, they raise important fairness issues. The research we have done suggests that the cumulative impact of selective retention or repeal of corporate tax preferences on a state like Wisconsin is likely to be negative, even though some sectors will benefit. This would compound the serious damage to the Wisconsin economy which would result from repeal of the deduction for state and local taxes.

CONCLUSION

I've tried to give you a reasonably brief overview of the impact of Treasury II on Wisconsin. Tax reform is a difficult process. In Wisconsin we are sensitive to this fact. Nonetheless, it is important that at the beginning of the process, that decisions aren't made that protect certain interest groups at the expense of other groups. This is a strong concern and examples of such favoritism in Treasury II are prevalent.

The July 29th issue of BusinessWeek provided evidence that the general public perceives the same problems with the President's plan. Congressman Russo of Illinois held a tax forum on the Treasury II and said, "They (his constituents) knew about the special breaks the President had given to the oil companies and to the wealthy and they were burning."

As Congress proceeds with the important task of tax reform, I trust that many of you will come to the same conclusion that I have reached. Treasury II is not a satisfactory blueprint for equitable tax reform. I hope that my testimony has helped to focus upon the fundamental flaws of the President's plan. Tax reform must treat the people and businesses of all of the 50 states fairly.

THE IMPACT OF THE PRESIDENT'S PROPOSED TAX PLAN ON WISCONSIN TAXPAYERS

Prepared for the Joint Economic Committee Hearings
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by

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THE IMPACT OF THE PRESIDENT'S PROPOSED TAX PLAN ON WISCONSIN TAXPAYERS

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I. EXECUTIVE SUMMARY

A. Purpose of the Study

The purpose of this study is to provide Wisconsin citizens and representatives with an objective analysis of the impact of the President's tax proposal on Wisconsin taxpayers, both corporate and individual.

B. Methodology

It is not possible to calculate the aggregate impact of the plan on Wisconsin taxpayers because neither the Treasury nor the Department of Revenue possesses all the necessary data bases for individual states. However, for the individual income tax analysis, we have used the hypothetical taxpayer approach. The deduction and credit assumptions used in the examples reflect actual average deduction and credit amounts for various income classes, and are derived from the 1983 Wisconsin Tax Model, a scientifically designed sample of Wisconsin tax returns for the tax year 1983.

The corporate analysis is based on extensive interviews with tax managers of leading Wisconsin companies in key industries.

C. Major Findings

1. Individual Income Taxpayers

Under the President's plan, total personal income taxes are reduced and total corporate income taxes are increased on a national basis. If the personal income tax reduction were spread uniformly across the 50 states, Wisconsin residents would expect to realize a significant reduction in federal income tax liability. However, the proposed repeal of the deduction for state and local taxes will result in Wisconsin residents paying a higher share of total federal taxes. The net decrease or increase in federal taxes paid by Wisconsin residents as a result of the President's plan cannot be calculated because of the lack of data noted above. However, it is possible to estimate the magnitude of the tax shift for Wisconsin which would occur as a result of the repeal of the state/local deduction.

According to estimates prepared by the Advisory Commission of Intergovernmental Relations, based on 1984 data, the repeal of the state/local tax deduction, without any offsetting tax law changes, would increase taxes paid by Wisconsin taxpayers by an additional $820 million. The most objective way to analyze the aggregate effect of this proposal is to assume revenue neutrality. Our analysis using the ACIR data shows that even when rates were reduced to offset the revenue gain from eliminating the deduction, Wisconsin residents would have their federal taxes increased by $238 million per year from repeal of the deduction. This is not intended as an estimate of the net effect of the total proposal. However, it indicates that a significant shift in the federal tax burden would increase the share of total federal income taxes paid by Wisconsin residents. States benefitting the most from this proposal are those with natural resource bases that export their state taxes to consumers in other states.

While many individuals would benefit under the plan, especially those who currently use the standard deduction, certain types of taxpayers tend to be harmed. Middle income two-earner couples with no dependents, low and middle income itemizers, and middle-income elderly taxpayers are three groups which fare poorly in Wisconsin under the President's tax plan.

In general, low income taxpayers who take the standard deduction and high income taxpayers--regardless of their age, marital status, and whether they itemize or take the standard deduction--derive the greatest benefits from the tax plan. In the case of low income taxpayers, the larger personal exemptions and zero bracket amounts account for the tax decrease, while for high income taxpayers, the reduction in tax rates is more than sufficient to offset the adverse effects of the elimination of state and local tax deductions and limitations on other itemized deductions.

However, low and middle income itemizers are generally worse off. These groups do not benefit as much from the rate reduction and are adversely affected by the repeal of state and local tax deductions.

In addition, married two-earner couples fare relatively poorly, especially if they itemize and have no dependents. The loss of both the married couples deduction (which is equal to 10% of the earnings of the lower earning spouse, subject to a maximum deduction of $3,000) and the state/local tax deduction is not adequately compensated by the lower rates and increased personal exemptions.

Even with 2 dependents, the average married two-earner couple who itemizes and is a homeowner faces a tax increase.

The middle-income elderly face the most serious negative impacts of the tax plan. Single elderly taxfilers who use the standard deduction would tend to experience a tax decrease. But, single elderly taxfilers who itemize would with average deductions and credits experience steep tax increases ranging between 20% and 50%. For the married elderly the results are the same but the increases are even steeper, ranging between 55% and 190%. These results stem from the loss of the additional personal exemption for the elderly. For a married elderly couple, the exemption amounts under current law total $4,320. Under the President's tax plan the amount is $320 less. In combination with the loss of the state/local tax deduction, it is not surprising that the President's tax plan results in such steep tax increases for the married elderly couple who itemizes.

2. Corporate Taxpayers

Key industries in Wisconsin which produce traded goods and services, are especially harmed by the corporate tax provisions of the President's tax plan.

Wisconsin relies heavily on a mature manufacturing sector for a disproportionately high share of its employment. Employment in the manufacturing sector accounts for 26% of the state's total non-farm employment.

This compares with 20.5% for the U.S. The loss of the investment tax credit (ITC) combined with the recapture tax on ACRS depreciation from past plant and equipment outlays are the largest blows to Wisconsin's manufacturing sector, for example, the machinery, printing, and paper industries.

Machinery manufacturing represents a critical segment of the state's economy employing almost 145,000 state residents comprising 30% of total manufacturing jobs. Besides being adversely affected by the loss of ITC and ACRS and the recapture tax, firms that have significant overseas operations would be hurt by the restrictions on foreign tax credits.

The printing industry has been one of the bright spots in Wisconsin's economic picture over the last few years. Responsible for 7.3% of the state's manufacturing jobs, employment in the printing industry grew by nearly 8% in 1984 and is expected to grow at an average rate of 3.1% over the next 3 years. The President's tax plan will in effect penalize firms in this industry that have been aggressively investing over the last few years. For them, the loss of the investment tax credit and the depreciation changes more than offset the benefits of rate reduction, and the recapture tax further adds to the increased liability.

The paper industry in Wisconsin accounts for about 9% of total manufacturing jobs, and Wisconsin is one of the top paper producing states in the nation. None of the three paper companies surveyed expected to benefit from the tax plan. In every case, loss of the ITC and ACRS will offset the benefits from lower marginal rates. One company is forecasting a 400% increase in its liability, nearly half of it due to the recapture tax, and the remainder from loss of ITC and ACRS.

In addition to the negative impact of the plan on our capital intensive industries, it appears that the insurance industry, another major employer in Wisconsin, would be negatively affected. Although classified as a service sector industry, the insurance sector is a key example of a successful Wisconsin "traded business." A traded business is defined as any business that provides goods and services which are exported to other states and countries. Traded businesses are of particular value to their home states because the wealth generated by the traded business has a multiplier effect; it stimulates the sale of local goods and services.

Our analysis of the insurance sector shows that the tax plan would hurt insurance companies through limiting the reserves that companies can set aside to pay future claims. Several provisions in Treasury II would also have the effect of decreasing the attractiveness of insurance products to consumers--including cash-value life insurance, deferred annuities and group health insurance.

D. Conclusion

This report strongly suggests that corporations doing business in Wisconsin would pay a disproportionately greater share of the President's proposed corporate tax increase, while Wisconsin residents would receive less than their fair share of the proposed individual income tax reduction.

While the need for tax reform is fundamental and recognized by many people, the fact that the tax plan leads to severe distributional shifts of the federal tax burden to Wisconsin from other states raises serious questions about the plan. Furthermore, certain categories of taxpayers--two-earner married couples, low and middle-income itemizers, and middle-income elderly taxpayers--appear to be systematically disadvantaged by the proposal. Major revisions will be necessary in order for federal tax reform to satisfy the test of fairness.

II. EFFECT OF THE PRESIDENT'S TAX PLAN ON INDIVIDUAL INCOME TAXPAYERS

A. Introduction

The current federal individual income tax structure consists of numerous income exclusions, deductions and credits. Critics of the system suggest that it is unfair, economically inefficient and unnecessarily complex. President Reagan's tax plan attempts to address these concerns, by expanding the tax base, increasing personal exemptions and zero bracket amounts, limiting itemized deductions and lowering tax rates.

Base-broadening measures include repeal of the $100/$200 dividend exclusion and the taxation of a portion of employer-provided health insurance. The President's tax plan would also repeal the married couple's deduction and the non-itemizer's deduction for charitable contributions.

While the itemized deductions for charitable contributions, medical expenses and casualty losses would be retained, the deduction for state and local taxes would be eliminated. Mortgage interest deduction would be limited to amounts paid for the principal residence, and other interest deductions would be limited to $5,000 over investment income. Miscellaneous deductions, such as those for union dues, would be converted to deductions from gross income, and only such expenses in excess of 1% of federal adjusted gross income would be deductible.

The President's tax plan increases the zero bracket amounts from $2,480 (for single taxpayers) and $3,670 (for married joint filers) to $2,900 and $4,000 respectively.

Personal exemption amounts would be increased from $1,080 per taxpayer, spouse and dependent to $2,000 each. The extra exemption allowed for elderly taxpayers and blind taxpayers would be repealed, and replaced by a special elderly, blind and disabled credit related to income.

The current 14 rate brackets with marginal tax rates ranging from 11% to 50% would be replaced by 3 brackets with marginal tax rates of 15%, 25% and 35%.

According to the Treasury Department's analysis of the President's tax plan, 58.1% of all families in the U.S. would experience a tax decrease, 21.2% would experience no change and 20.7% would face higher taxes. Although the majority of taxpayers would benefit, some families would see a tax increase. The following sections will describe the effect of the tax plan on various taxfiling groups. It is apparent that the tax benefits associated with the President's plan are not distributed evenly among taxpayer groups.

B. Methodology

The individual income tax analysis is based on examples of the impact of the President's tax plan on hypothetical taxpayers at various income levels and in different family situations.

Calculations of federal income tax liability have been made under existing federal tax law and under the President's tax plan. Calculations of state and local taxes include state income tax, real property tax and sales tax. Since the President's tax plan is effective with tax year 1986, state income tax calculations are based on the new Wisconsin state income tax law recently enacted as part of the 1985-87 Biennial Budget and scheduled to take effect in 1986.

The deduction and credit assumptions used in the examples are based on data from the 1983 Wisconsin Tax Model, a stratified sample of Wisconsin tax returns for tax year 1983. The amounts used reflect average deduction and credit amounts for various income classes.

Non-elderly taxfilers in the examples are assumed to derive a large part of their incomes in the form of wages and salaries. The share of Adjusted Gross Income (AGI) derived from non-wage sources such as interest, dividends and capital gains, increases as AGI increases. Elderly taxfilers, on the other hand, are assumed to receive their income from sources other than wages and salaries.

Data on the use of itemized vs. standard deduction is also derived from the 1983 Wisconsin Tax Model. The average itemized deduction amounts are adjusted for frequency of use and certain deduction amounts are adjusted for family size. It is assumed that standardizers are renters while itemizers are homeowners.

C. Findings

In general, the President's tax proposal benefits taxpayers at the two extremes of the income scale--those with incomes over $50,000 and those with incomes below $10,000.

However, the effect of the tax plan varies among taxpayer groups. Differences occur not only by income level, but also by filing status, age, number of earners, income splits among earners, number of dependents, and whether or not taxpayers itemize or take the standard deduction.

1. Single Taxpayers

As seen in Table 1, single taxfilers who take the standard deduction would have a reduction in their taxes under the President's plan. This reflects the increase in the personal exemption and zero bracket amount. For these taxpayers, the tax decreases range from 8.5% to 18.4%.

However, single homeowners who itemize, with incomes ranging from $20,000 to $50,000, would have tax increases as a result of the loss in state/local tax deduction that is not sufficiently offset by the reduction in rates or the increases in personal exemption and zero bracket amount. For them, the tax increase ranges from 1.6% to 11.4%.

The rate reduction, on the other hand, just barely compensates the loss of state/local tax deduction for single itemizers at the $75,000 income and more than compensates at the $100,000 income, where there is a 6.3% tax decrease.

TABLE 1: IMPACT OF PROPOSAL ON HYPOTHETICAL SINGLE TAXPAYERS, WITH NO DEPENDENTS

It is important to note that these are examples of the impact of the President's proposal on hypothetical taxpayers at various income levels. The deduction and tax credit assumptions built into these examples are based upon data from 1983.

1986 LAW		PRESIDENT'S PROPOSAL			
Adjusted Gross Income ($)	Net Tax ($)	Adjusted Gross Income ($)	Net Tax ($)	Change From 1986 Law ($)	% Change
(A) STANDARDIZERS, RENTERS					
10,000	856	10,120	783	(73)	-8.5%
15,000	1,693	15,120	1,533	(160)	-9.5%
20,000	2,771	20,220	2,320	(451)	-16.3%
25,000	4,047	25,220	3,570	(477)	-11.8%
30,000	5,487	30,220	4,820	(667)	-12.2%
40,000	8,880	40,290	7,338	(1,542)	-17.4%
50,000	12,843	50,340	10,484	(2,359)	-18.4%
(B) ITEMIZERS, HOMEOWNERS					
20,000	1,961	20,220	2,126	165	8.4%
25,000	2,903	25,220	3,233	330	11.4%
30,000	3,937	30,220	4,370	433	11.0%
40,000	6,260	40,290	6,663	403	6.4%
50,000	9,128	50,340	9,277	149	1.6%
75,000	17,621	75,660	17,476	(145)	-0.8%
100,000	27,373	101,220	25,636	(1,737)	-6.3%

2. Married Taxpayers

a. One-earner couples

As shown in Table 2, married one-earner couples with no dependents would be affected by the tax plan in much the same manner as single filers. Standardizers would see a tax decrease--ranging from 4.8% to 27%, as would high income (over $75,000) itemizers. Itemizers with incomes between $15,000 and $50,000 would see tax increases of between 4.5% and 18.3%.

Married one-earner couples with two dependents (Table 3) would have larger tax decreases for most income classes, reflecting the importance of the increased exemption amount for dependents. For example, while the $15,000 couple who takes the standard deduction has a 5.6% tax decrease if they had no dependents, their tax decrease would be 42.3% if they had two dependents. If that couple itemized, an 18.3% tax increase under the no dependents situation transforms into a 25% tax decrease when there are two dependents.

TABLE 2: IMPACT OF PROPOSAL ON HYPOTHETICAL MARRIED, ONE-EARNER TAXPAYERS, WITH NO DEPENDENTS

It is important to note that these are examples of the impact of the President's proposal on hypothetical taxpayers at various income levels. The deduction and tax credit assumptions built into these examples are based upon data from 1983.

1986 LAW		PRESIDENT'S PROPOSAL			
Adjusted Gross Income ($)	Net Tax ($)	Adjusted Gross Income ($)	Net Tax ($)	Change From 1986 Law ($)	% Change
(A) STANDARDIZERS,RENTERS					
10,000	472	10,300	345	(127)	-26.9%
15,000	1,160	15,300	1,095	(65)	-5.6%
20,000	1,969	20,500	1,975	(94)	-4.8%
25,000	2,907	25,500	2,625	(282)	-9.7%
30,000	4,044	30,500	3,375	(669)	-16.5%
40,000	6,709	40,570	5,643	(1,066)	-15.9%
50,000	9,982	50,620	8,155	(1,827)	-18.3%
(B) ITEMIZERS, HOMEOWNERS					
15,000	926	15,300	1,095	169	18.3%
20,000	1,568	20,500	1,849	281	17.9%
25,000	2,240	25,500	2,532	292	13.0%
30,000	2,969	30,500	3,193	224	7.5%
40,000	4,892	40,570	5,129	237	4.8%
50,000	6,984	50,620	7,295	311	4.5%
75,000	14,387	75,940	13,298	(1,089)	-7.6%
100,000	22,406	101,500	21,013	(1,393)	-6.2%

TABLE 3: IMPACT OF PROPOSAL ON HYPOTHETICAL MARRIED, ONE-EARNER TAXPAYERS, WITH 2 DEPENDENTS

It is important to note that these are examples of the impact of the President's proposal on hypothetical taxpayers at various income levels. The deduction and tax credit assumptions built into these examples are based upon data from 1983.

1986 LAW		PRESIDENT'S PROPOSAL			
Adjusted Gross Income ($)	Net Tax ($)	Adjusted Gross Income ($)	Net Tax ($)	Change From 1986 Law ($)	% Change
	(A) STANDARDIZERS, RENTERS				
10,000	69	10,300	(356)	(425)	-615.9%
15,000	858	15,300	495	(363)	-42.3%
20,000	1,613	20,500	1,275	(338)	-21.0%
25,000	2,480	25,500	2,025	(455)	-18.3%
30,000	3,532	30,500	2,775	(757)	-21.4%
40,000	6,104	40,570	4,643	(1,461)	-23.9%
50,000	9,269	50,620	7,155	(2,114)	-22.8%
	(B) ITEMIZERS, HOMEOWNERS				
15,000	540	15,300	405	(135)	-25.0%
20,000	1,139	20,500	1,155	16	1.4%
25,000	1,804	25,500	1,875	71	3.9%
30,000	2,535	30,500	2,588	53	2.1%
40,000	4,353	40,570	4,118	(235)	-5.4%
50,000	6,356	50,620	6,281	(75)	-1.2%
75,000	13,558	75,940	12,285	(1,273)	-9.4%
100,000	21,488	101,500	19,600	(1,888)	-8.8%

b. Two-earner couples

Married two-earner couples with no children fare relatively poorly under the President's tax plan. Tables 4 and 6 show the impact of the tax plan on married two-earner couples with different income splits (50-50% in Table 4 and 65-35% in Table 5).

Although these couples benefit from the reduced rates, they lose the value of the married two-earner deduction and the itemized deduction for state and local taxes. The married two-earner deduction is equal to 10% of the earnings of the lower earning spouse, subject to a maximum deduction of $3,000. These deductions are especially important for two-earner couples who own a home and itemize, and whose incomes are below $75,000. Like the other taxpayer groups previously analyzed, the tax plan adversely affects them, but more so in the case of the two-earner couple because of the loss in the married couple deduction. The tax increase for itemizers ranges from 13.2% to 28.7% when income is split 50-50 between the spouses, and from 10.6% to 25.7% when the income split is 65-35%. Thus, the more equal the incomes of the spouses, the larger the tax increases (and the smaller the tax decrease).

The loss of the married couple deduction is severe enough that even standardizers with $15,000 and $20,000 incomes see a tax increase of 3.2% and 3.6% respectively for incomes split 50-50, and 0.7% and 1.5% for incomes split 65-35.

The value of the increased exemption amounts is apparent in comparing the effect on two-earner couples with no dependents to those with two dependents. (Table 4 vs. Table 5, Table 6 vs. Table 7). As seen in these tables, although married two-earner homeowners with dependents also pay higher taxes, the increases, in general, are less than those faced by their counterparts with no dependents. The tax increases faced by married two-earner standardizers with no dependents at the $15,000 and $20,000 income levels transform into tax decreases when there are two dependents.

TABLE 4: IMPACT OF PROPOSAL ON HYPOTHETICAL MARRIED, TWO-EARNER TAXPAYERS(INCOME SPLIT 50-50), WITH NO DEPENDENTS

It is important to note that these are examples of the impact of the President's proposal on hypothetical taxpayers at various income levels. The deduction and tax credit assumptions built into these examples are based upon data from 1983.

1986 LAW		PRESIDENT'S PROPOSAL			
Adjusted Gross Income ($)	Net Tax ($)	Adjusted Gross Income ($)	Net Tax ($)	Change From 1986 Law ($)	% Change
(A) STANDARDIZERS, RENTERS					
10,000	413	10,300	345	(68)	-16.5%
15,000	1,061	15,300	1,095	34	3.2%
20,000	1,809	20,500	1,875	66	3.6%
25,000	2,659	25,500	2,625	(34)	-1.3%
30,000	3,699	30,500	3,375	(324)	-8.8%
40,000	6,185	40,570	5,643	(542)	-8.8%
50,000	9,222	50,620	8,155	(1,067)	-11.6%
(B) ITEMIZERS, HOMEOWNERS					
15,000	851	15,300	1,095	244	28.7%
20,000	1,456	20,500	1,849	393	27.0%
25,000	2,083	25,500	2,532	449	21.6%
30,000	2,738	30,500	3,193	455	16.6%
40,000	4,537	40,570	5,129	592	13.0%
50,000	6,447	50,620	7,295	848	13.2%
75,000	13,418	75,940	13,298	(120)	-0.9%
100,000	21,335	101,500	21,013	(322)	-1.5%

TABLE 5: IMPACT OF PROPOSAL ON HYPOTHETICAL MARRIED, TWO-EARNER TAXPAYERS(INCOME SPLIT 50-50), WITH 2 DEPENDENTS

It is important to note that these are examples of the impact of the President's proposal on hypothetical taxpayers at various income levels. The deduction and tax credit assumptions built into these examples are based upon data from 1983.

1986 LAW		PRESIDENT'S PROPOSAL			
Adjusted Gross Income ($)	Net Tax ($)	Adjusted Gross Income ($)	Net Tax ($)	Change From 1986 Law ($)	% Change
(A) STANDARDIZERS, RENTERS					
10,000	(147)	10,300	(356)	(209)	--
15,000	488	15,300	345	(143)	-29.3%
20,000	1,217	20,500	1,121	(96)	-7.9%
25,000	2,040	25,500	1,868	(172)	-8.4%
30,000	3,004	30,500	2,610	(394)	-13.1%
40,000	5,331	40,570	4,330	(1,001)	-18.8%
50,000	8,230	50,620	6,805	(1,425)	-17.3%
(B) ITEMIZERS, HOMEOWNERS					
15,000	203	15,300	255	52	25.6%
20,000	795	20,500	1,002	207	26.0%
25,000	1,433	25,500	1,718	285	19.9%
30,000	2,125	30,500	2,423	298	14.0%
40,000	3,748	40,570	3,783	35	0.9%
50,000	5,558	50,620	5,931	373	6.7%
75,000	12,289	75,940	11,910	(379)	-3.1%
100,000	20,097	101,500	19,040	(1,057)	-5.3%

TABLE 6: IMPACT OF PROPOSAL ON HYPOTHETICAL MARRIED, TWO-EARNER TAXPAYERS(INCOME SPLIT 65-35), WITH NO DEPENDENTS

It is important to note that these are examples of the impact of the President's proposal on hypothetical taxpayers at various income levels. The deduction and tax credit assumptions built into these examples are based upon data from 1983.

1986 LAW		PRESIDENT'S PROPOSAL			
Adjusted Gross Income ($)	Net Tax ($)	Adjusted Gross Income ($)	Net Tax ($)	Change From 1986 Law ($)	% Change
(A) STANDARDIZERS, RENTERS					
10,000	430	10,300	345	(85)	-19.8%
15,000	1,087	15,300	1,095	8	0.7%
20,000	1,847	20,500	1,875	28	1.5%
25,000	2,715	25,500	2,625	(90)	-3.3%
30,000	3,782	30,500	3,375	(407)	-10.8%
40,000	6,317	40,570	5,643	(674)	-10.7%
50,000	9,404	50,620	8,155	(1,249)	-13.3%
(B) ITEMIZERS, HOMEOWNERS					
15,000	871	15,300	1,095	224	25.7%
20,000	1,484	20,500	1,849	365	24.6%
25,000	2,122	25,500	2,532	410	19.3%
30,000	2,796	30,500	3,193	397	14.2%
40,000	4,630	40,570	5,129	499	10.8%
50,000	6,598	50,620	7,295	697	10.6%
75,000	13,561	75,940	13,298	(263)	-1.9%
100,000	21,335	101,500	21,013	(322)	-1.5%

TABLE 7: IMPACT OF PROPOSAL ON HYPOTHETICAL MARRIED, TWO-EARNER TAXPAYERS(INCOME SPLIT 65-35), WITH 2 DEPENDENTS

It is important to note that these are examples of the impact of the President's proposal on hypothetical taxpayers at various income levels. The deduction and tax credit assumptions built into these examples are based upon data from 1983.

1986 LAW		PRESIDENT'S PROPOSAL			
Adjusted Gross Income ($)	Net Tax ($)	Adjusted Gross Income ($)	Net Tax ($)	Change From 1986 Law ($)	% Change
(A) STANDARDIZERS, RENTERS					
10,000	(147)	10,300	(356)	(209)	--
15,000	514	15,300	345	(169)	-32.9%
20,000	1,255	20,500	1,121	(134)	-10.7%
25,000	2,091	25,500	1,868	(223)	-10.7%
30,000	3,081	30,500	2,610	(471)	-15.3%
40,000	5,462	40,570	4,330	(1,132)	-20.7%
50,000	8,411	50,620	6,805	(1,606)	-19.1%
(B) ITEMIZERS, HOMEOWNERS					
15,000	220	15,300	255	35	15.9%
20,000	819	20,500	1,002	183	22.3%
25,000	1,467	25,500	1,718	251	17.1%
30,000	2,173	30,500	2,423	250	11.5%
40,000	3,840	40,570	3,783	(57)	-1.5%
50,000	5,709	50,620	5,931	222	3.9%
75,000	12,431	75,940	11,910	(521)	-4.2%
100,000	20,097	101,500	19,040	(1,057)	-5.3%

3. Elderly Taxpayers

The President's tax plan adversely affects the middle-income elderly. This is because the elderly lose the additional personal exemption that they are allowed under current law, and that loss is not offset by the increased credit for elderly, disabled and blind taxpayers. The tax credit phases out rather abruptly for adjusted gross incomes over $11,000 for singles and over $14,000 for married couples. Based on the examples, the credit phases out between $15,000 and $20,000 of total income for singles, and between $25,000 and $30,000 for married couples.

In general, single elderly taxpayers, who take the standard deduction would be better off, while those who itemize would pay higher taxes. For example, Table 8 shows that single elderly taxpayers with incomes of $20,000 would have a tax increase of 8.4% if they took the standard deduction and 50.1% if they itemized.[1] At $25,000 of income, the standardizer's tax decrease of 1.9% contrasts with the itemizer's increase of 50.1%.

Married elderly taxpayers, with no dependents, would face significantly higher taxes under the tax plan. Although certain standardizers (those with incomes of $20,000 and $50,000 or more) and itemizers with incomes of $50,000 of more would have tax decreases, most of these examples of elderly couples would face tax increases. For example, Table 9 shows that certain married elderly itemizers would have steep increases (190% at $20,000 of income, and 120% at $25,000 of income). This again reflects the loss of the elderly exemption. In the case of a married couple, current law allows them a total of $4,320 for personal exemptions (4 x $1,080). The President's tax plan increases the personal exemption to $2,000 per person but disallows the extra exemption for being elderly. Thus, total personal exemptions claimed by an elderly couple decreases to $4,000 under the tax plan, and this decrease is not sufficiently offset by the revised elderly credit for these taxpayers.

1 In the case of the elderly taxpayers, it is assumed that they have no mortgage interest deductions, since the data shows that relatively few elderly itemizers (21%) take a deduction for mortgage interest.

TABLE 8: IMPACT OF PROPOSAL ON HYPOTHETICAL SINGLE ELDERLY TAXPAYERS, WITH NO DEPENDENTS

It is important to note that these are examples of the impact of the President's proposal on hypothetical taxpayers at various income levels. The deduction and tax credit assumptions built into these examples are based upon data from 1983.

	1986 LAW		PRESIDENT'S PROPOSAL			
Total Income ($)	Adjusted Gross Income ($)	Net Tax ($)	Adjusted Gross Income ($)	Net Tax ($)	Change From 1986 Law ($)	% Change
		(A) STANDARDIZERS, RENTERS				
5,000	200	0	200	0	0	--
10,000	4,500	0	4,550	0	0	--
15,000	8,700	501	8,900	390	(111)	-22.2%
20,000	13,000	1,156	13,250	1,253	97	8.4%
25,000	17,450	1,965	17,750	1,928	(37)	-1.9%
30,000	21,975	2,980	22,325	2,846	(134)	-4.5%
40,000	34,300	6,493	34,750	5,953	(540)	-8.3%
		(B) ITEMIZERS, HOMEOWNERS				
20,000	13,000	750	13,250	1,126	376	50.1%
25,000	17,450	1,252	17,750	1,694	442	35.3%
30,000	21,975	1,889	22,325	2,321	432	22.9%
40,000	34,300	4,249	34,750	5,103	854	20.1%

TABLE 9: IMPACT OF PROPOSAL ON HYPOTHETICAL MARRIED ELDERLY TAXPAYERS, WITH NO DEPENDENTS

It is important to note that these are examples of the impact of the President's proposal on hypothetical taxpayers at various income levels. The deduction and tax credit assumptions built into these examples are based upon data from 1983.

	1986 LAW		PRESIDENT'S PROPOSAL			
Total Income ($)	Adjusted Gross Income ($)	Net Tax ($)	Adjusted Gross Income ($)	Net Tax ($)	Change From 1986 Law ($)	% Change
(A) STANDARDIZERS, RENTERS						
5,000	200	0	200	0	0	--
10,000	1,190	0	1,200	0	0	--
15,000	5,290	0	5,350	0	0	--
20,000	9,220	127	9,525	0	(127)	-100.0%
25,000	13,555	655	13,913	707	52	7.9%
30,000	17,920	1,280	18,325	1,549	269	21.0%
40,000	27,398	2,960	27,908	2,986	26	0.9%
50,000	41,693	6,578	42,261	6,065	(513)	-7.8%
(B) ITEMIZERS, HOMEOWNERS						
20,000	9,220	0	9,525	0	0	--
25,000	13,555	96	13,913	278	182	189.6%
30,000	17,920	441	18,325	971	530	120.2%
40,000	27,398	1,316	27,908	2,047	731	55.5%
50,000	41,693	3,846	42,261	4,629	783	20.4%

4. Summary

On average, low income taxfilers who use the standard deduction and very high income filers, regardless of their age, marital status and whether they itemize or take the standard deduction, derive the greatest tax benefits under the tax plan. Single taxpayers fare better than married couples, and one-earner couples derive greater tax benefits than two-earner couples. Families with dependents fare better than those with no dependents because of the larger personal exemption amounts and the child care deduction. Standardizers receive a greater tax reduction than itemizers because of the increased zero bracket amounts and the limitations on itemized deductions. Finally, for middle-income elderly taxfilers the loss of the additional personal exemption generally adversely affects them.

As illustrated in these taxpayer examples, the total elimination of the deduction for state and local taxes is a major cause of tax increases for Wisconsin taxpayers, that is not offset by the other features of the tax plan. This is further borne out by analysis prepared by the Advisory Commission on Intergovernmental Relations (ACIR).

According to estimates prepared by the Advisory Commission of Intergovernmental Relations, based on 1984 data, the repeal of the state/local tax deduction, without any offsetting tax law changes, would increase taxes paid by Wisconsin taxpayers by an additional $820 million. The most objective way to analyze the aggregate effect of this proposal is to assume revenue neutrality. Our analysis using the ACIR data shows that even when rates are reduced to offset the revenue gain from eliminating the deduction, Wisconsin residents would have their federal taxes increased by $238 million per year. While other features of the President's plan may mitigate this potential tax increase, a significant shift in the federal tax burden would increase the share of total federal income taxes paid by Wisconsin residents. States benefitting the most from this proposal are those with natural resource bases that export their state taxes to consumers in other states.

While all states will be adversely affected by the repeal of this deduction, some states will suffer disproportionately. Specifically, any state that has the following characteristics can expect to be heavily affected by the repeal:

a. States that have no natural resource tax base to export taxes to consumers in other states.

b. States whose business taxes are relatively low (in an effort to attract and retain business) and which rely more heavily on the personal income tax.

c. States that have a commitment to progressive income taxation.

d. States with mature economies that require above average support for services.

e. States which place a high priority upon education.

Because Wisconsin fits each of the categories, its residents would bear a disproportionate share of the impact of eliminating deductibility.

The repeal of state and local tax deduction would also be coming at a time when federal funding for programs is being phased out and increasing responsibility for government services is being placed on the state. The repeal of the deduction limits the ability of states that have no natural resource tax base to shoulder the increased burden.

III. EFFECT OF THE PRESIDENT'S TAX PLAN ON CORPORATE TAXPAYERS

A. Introduction

This section of the report examines the effects of the President's tax plan on Wisconsin businesses. This is accomplished through both general and specific analyses of key tax provisions on industries that are important contributors to the state's economy. The focus is on firms involved in the large-scale production of "traded" goods and services and includes companies in printing, machinery manufacturing, paper production, food processing, insurance and other activities.

B. Methodology

The general analysis is drawn from various sources of tax and economic information such as journals, congressional testimony, and the text accompanying the Treasury tax plan. The specific industry analysis is based on the results of an informal survey of tax and financial executives of 16 corporations with significant investments in Wisconsin.

C. Background

The newest version of the U.S. Treasury's federal tax reform package continues in the same vein as the original by proposing substantial changes in the tax treatment of corporate businesses. The stated intent is to distribute the tax burden in a more neutral fashion among different industries and minimize the impact of tax considerations on investment decisions. However, Treasury II contains a number of tax incentives designed to encourage certain kinds of capital investment which were not present in Treasury I. Among these incentives are more generous depreciation schedules, preservation of the preferential capital gains tax rate, and continued expensing of intangible drilling costs.

The new plan is intended to be revenue neutral although the plan would result in a net revenue loss according to recent Congressional staff analyses. Yet, the plan would entail a significant shift in the overall tax burden from individuals to businesses. Over the next 5 years, the Treasury estimates that corporate income taxes would rise by $118.4 billion while individual income tax receipts would fall by $131.8 billion. This represents a boost of nearly 25% in corporate tax collections above the level that would otherwise prevail from 1986 through 1990.

While overall, the corporate tax burden is expected to rise under Treasury II, the plan involves both pluses and minus. As Table 10 shows, the items yielding the greatest tax benefit for business are the reduction in marginal rates, the revised treatment of intercorporate dividends, and changes in the rules for valuing inventories. Provisions which will lead to substantially higher tax costs include repealing the investment tax credit, imposing a recapture tax on prior ACRS depreciation, enacting less generous depreciation guidelines for new investment, modifying the accounting treatment of certain multi-period costs, limiting foreign tax credits, and reducing tax advantages for financial institutions.

TABLE 10:

Federal Revenue Impact of Select Corporate
Tax Provisions in Treasury II
(Figures in billion $'s)

Proposal	Federal Fiscal Year 1986	1987	1988	1989	1990	Total
Reduce marginal tax rates	$(10.0)	$(27.3)	$(36.5)	$(39.7)	$(42.5)	$(156.0)
Eliminate investment tax credit	14.0	25.6	29.4	33.3	37.4	139.7
Recapture tax on ACRS depreciation	7.6	19.4	20.4	9.1	-	56.5
Replace ACRS with indexed depreciation system using longer asset lives	0.3	(0.7)	2.3	8.7	15.4	26.0
Liberalized inventory accounting rules	-	(2.4)	(4.5)	(4.5)	(4.5)	(15.9)
10% dividends paid deduction	-	(3.4)	(6.2)	(7.2)	(8.0)	(24.8)
Modify accounting treatment of multiperiod costs	3.3	6.9	10.3	13.6	15.0	49.1
Limit foreign tax credit and other tax benefits for overseas income	1.3	3.4	4.1	4.6	5.1	18.5
Revise taxes on financial institutions	2.1	4.2	4.9	5.9	6.9	23.8

Assumptions: The effect of the reduced corporate rates is estimated assuming all other provisions are enacted. The revenue impact of the remaining provisions reflect current law rates.

Source: Office of Tax Analysis, U.S. Department of the Treasury.

D. Description of Major Tax Provisions

This section briefly describes those federal tax law changes expected to have the greatest impact on corporate businesses.

1. Corporate Tax Rates

Treasury II proposes to reduce the current marginal tax rates on corporate net income in excess of $50,000. The most noteworthy change is the decrease in the top rate from 46% to 33%. The existing and proposed corporate rates are:

Net Income	Current	Treasury II
$ 0 - 25,000	15%	15%
25,000 - 50,000	18%	18%
50,000 - 75,000	30%	25%
75,000 - 100,000	40%	33%
Over $100,000	46%	33%

2. Investment Tax Credit

Federal law presently provides a non-refundable tax credit equal to 10% of the cost of investments in depreciable personal property. In general, the asset must have a tax life of at least 5 years to qualify for the full credit. Treasury II repeals this credit for assets placed in service on or after January 1, 1986.

3. Recapture Tax on ACRS Depreciation

Treasury II proposes a recapture tax on prior ACRS benefits. This would be accomplished by adding back to net income, 40% of the excess of ACRS depreciation over economic depreciation claimed between January 1, 1980 and July 1, 1986.[2] In order to cushion the impact on taxpayers, cumulative excess depreciation would be taken into income over 3 years as follows: 12% in 1986; 12% in 1987; and 16% in 1988.

The special tax applies only to individuals and corporations with more than $400,000 of total depreciation deductions over the recapture period. In addition, the first $300,000 of excess ACRS depreciation is exempt for those parties subject to the tax.

2 Economic depreciation is computed using the actual service lives of assets and the straight-line method of calculating yearly write-offs.

4. Replace ACRS with New Depreciation System

Treasury II proposes to replace the existing ACRS guidelines for depreciating assets with new ones collectively termed the Capital Cost Recovery System (CCRS). CCRS retains some of the features of ACRS such as a limited number of asset classes but is significantly different in other respects e.g. inflation adjustments.

Some of the major points of interest relative to CCRS are:

- CCRS employs six asset classes rather than the five utilized by ACRS.

- The tax lives of assets are generally longer under CCRS than under ACRS. The CCRS write-off periods range from 4 years for vehicles to 28 years for real estate. For ACRS, the range is 3 to 18 years.

- Annual write-offs continue to be calculated using a declining balance method switching to straight-line at an appropriate point in the tax life.

- Depreciation under CCRS is determined by applying a specified allowance percentage against the inflation-adjusted basis of the asset. Thus, the greater the rate of inflation, the higher the annual depreciation deductions CCRS generates. Under ACRS, write-offs are computed using only the original cost of assets net of prior depreciation.

- Due to the indexing of assets under CCRS, Treasury II would treat all gains on the sale or exchange of depreciable property as ordinary income. Existing law classifies a portion of these gains as capital gains eligible for preferential treatment. In the case of individuals, a 60% exclusion is available while for corporations, capital gains are taxed at a top rate of 28%.

5. Liberalizing Inventory Accounting Rules

The proposal would facilitate the use of the Last In First Out (LIFO) method - an inventory accounting technique that assigns the most current values to the cost of goods sold during the year. LIFO tends to compensate for the effects of inflation on inventories and thus reduce the resulting overstatement of corporate profits. It is estimated that 95% of the corporations eligible to use LIFO now use FIFO - an alternative accounting approach that assigns lower values to the cost of goods sold which leads to inflated earnings figures. Companies are often reluctant to use LIFO because it must then also be used in public financial statements thus causing reported profits to be lower than under FIFO. Treasury II eliminates this barrier by allowing LIFO to be used exclusively for tax purposes. The plan also contains provisions allowing the use of an inflation-adjusted FIFO system for firms unwilling to use LIFO.

6. Dividends Paid Deduction

Currently, corporations are not allowed to claim a deduction for dividends paid to shareholders. As a result, the profits used to pay the dividends are subject to corporate taxation. To the extent that shareholders must include dividends in their taxable income, the underlying corporate profits are taxed twice. Treasury II attempts to mitigate this problem by authorizing corporations to deduct from pre-tax income, 10% of the dividends paid to shareholders. Under the original Treasury package, the deduction was 50%.

In addition to the new deduction for dividends paid, Treasury II proposes to expand the existing deduction for intercompany dividends received to 90% from 85%. At present, corporations may subtract 85% of dividends received from unaffiliated companies i.e. less than 80% owned from gross income. Dividends received from affiliates will continue to be eligible for a 100% exemption.

7. Other Provisions

As Table 10 indicates, Treasury II embodies a number of other law changes which will have a substantial impact on Wisconsin businesses. Many involve complex accounting issues such as the provisions prescribing the types of costs that must be included in valuing inventories. Others will affect only certain industries e.g. capitalization of forest management costs. As a result, a general analysis of these items is not presented here. Instead, they will be discussed where they specifically affect an industry of economic import to Wisconsin.

E. Industry Analysis of Treasury II Impact

Before launching into an industry by industry analysis of Treasury II, a few comments on the plan's expected overall impacts may be helpful. The repeal of the investment tax credit combined with the restructuring of ACRS will have a significantly adverse effect on capital intensive businesses. Such firms have relied heavily on the ITC and ACRS to generate funds for plant modernization and expansion over the last 5 years. Loss of these incentives will mean higher taxes in the future and less cash for investment. This situation will be aggravated by the recapture tax on prior-year ACRS benefits which is expected to add $56.5 billion to corporate tax liabilities by 1989. It will tend to penalize profitable firms that have made substantial capital improvements since 1980. Although published sources disagree on precisely what industries will be losers under Treasury II, most lists would include heavy manufacturing (e.g. paper and machinery), transportation, and utilities.

On the other side of the tax equation, Treasury II will tend to benefit companies with heavy investments in labor or inventories rather than plant and equipment. Such firms currently pay tax at a fairly high effective rate since the traditional tax deferral devices e.g. depreciation, ITC are of less use to them. Lower marginal rates, the dividends paid deduction, and more liberal inventory accounting rules will offset the loss of ACRS and the ITC. Extension of the R&D credit will provide further tax relief to certain high tech industries which are not by nature, capital intensive. Industries expected to gain under Treasury II are: services, wholesale and retail trade, tobacco, food products, beverage makers, consumer goods, publishing and broadcasting and again, high tech enterprises.

1. Printing

The printing industry has been one of the bright spots in Wisconsin's economic picture over the last few years. The industry now employs almost 38,000 people in the state comprising about 7.3% of the total manufacturing jobs. Employment by Wisconsin printers grew by nearly 8% in 1984 and is expected to continue increasing at an average rate of 3.1% over the next three years. This compares with an anticipated average growth rate for all manufacturing jobs of 0.6% through 1987. Clearly, printing will be one of the key components in determining Wisconsin's future economic prospects.

The Department of Revenue survey of companies tended to confirm general assessments of Treasury II's impact on the printing industry. Firms that have been aggressively investing over the last few years will not fare well. One of the printers whose current plant and equipment outlays are expected to exceed $50 million in 1985 estimated that the loss of the ITC alone would raise its federal tax liability by $3-4 million. This, combined with the replacement of ACRS was expected to more than offset the benefits produced from lower marginal rates. In addition, the company anticipated significant added tax from the ACRS recapture provisions as a result of its steady increases in plant and equipment spending since 1980.

A second printing firm which has been growing at a more modest pace estimates that excluding the recapture tax, its future liability should decline by 2-5%. This is due to the fact that the company's effective tax rate is currently near the statutory maximum of 46%. Thus, the reduction of the top rate should nearly offset the impact of CCRS depreciation and the ITC. The company did indicate that in its view, the biggest disadvantage of the Treasury plan was the recapture tax and the loss of the ITC. As an investment incentive, the latter now provides an effective tax rate reduction of nearly five percentage points.

Aside from the direct liability impacts, tax officials of the companies interviewed expressed serious doubts about the "tax simplification" aspects of Treasury II. They questioned whether the benefits produced by such steps as indexing inventories and capital consumption allowances would offset the added compliance costs. Other changes were criticized on the grounds that they will substantially complicate the tax laws while producing only small amounts of additional revenue, e.g. new limitations on business meal and entertainment expense deductions.

2. Machinery Manufacturing

Manufacturers of electrical and non-electrical machinery represent another critical segment of Wisconsin's economy. Collectively, they employ almost 145,000 state residents comprising 30% of the total manufacturing jobs.

The Department of Revenue survey again yielded somewhat negative results. As a whole, the machinery industry is capital intensive and will suffer from the proposed cutback in investment-related tax incentives. Internal Revenue Service corporate tax statistics for 1981 indicate that the machinery industry earned $2.2 billion in investment tax credits accounting for about 20% of the aggregate credits accruing to manufacturing companies.

One machinery company interviewed expected that the loss of ACRS and ITC alone would offset any savings from the rate reductions. Since the firm has significant overseas operations, it was also concerned about the Treasury II provisions restricting foreign tax credits and other tax benefits for profits earned abroad. The foreign provisions were ranked as the second most burdensome item in the reform package. The ACRS recapture provisions came in for special criticism as it could raise the company's tax liability by $10-15 million over the next three years. The firm felt that this proposal was discriminatory and unfair since it focuses only on one particular type of tax deferral, i.e. depreciation. It pointed out that the tax code contains other deferrals which will yield windfall benefits from the rate reductions that are not subject to recapture - for example, installment contracts and the expensing of R&D costs.

A second machinery manufacturer stated that in the long-run, its liability may fall by as much as 15% under Treasury II. Having a high effective tax rate and a substantial dividend payout, it anticipated that the lower rates and dividends paid deduction will more than offset the elimination of the ITC and adoption of CCRS. However, any short-run tax savings under Treasury II will more than likely be wiped out by $50-100 million of additional liability from the ACRS recapture tax. From an investment standpoint, the ITC loss was thought to be in the neighborhood of $4 million annually.

Finally, while analyses of the economic impact of the President's proposal vary, most studies agree that the proposed tax changes would dampen increases in business fixed investment. Thus, demand for machinery would be negatively affected with likely adverse impacts on production and employment levels.

3. Fabricated Metals

The outlook for manufacturers of fabricated metals products under Treasury II is much the same as for the machinery makers. Two of the firms surveyed expected the rate cuts to be of substantial benefit in the long-run with some additional relief being provided by the 10% dividends paid deduction.

Elimination of the ITC for these companies will mean increased tax costs directly related to new investment of $1-2 million a year. The tax executives expressed some concern over CCRS, feeling that its benefits relative to ACRS would be directly tied to the rate of inflation. The indexing feature of CCRS means that as general price levels rise, annual depreciation deductions will increase. The analysis accompanying Treasury II indicates that the value of depreciation deductions over the life of metal working machinery will be about 4% less under CCRS than ACRS assuming no inflation. If inflation runs at a 5% annual rate, the cumulative value of CCRS will exceed that of ACRS by over 6%.

The recapture tax on prior ACRS benefits was seen as troublesome although one company has accumulated net operating loss and ITC carryovers which are expected to cushion the short-run impact. The new limits placed on foreign tax credits may cause problems for one of the manufacturers with an extensive overseas dealer network. It anticipates losing as much as half of its foreign tax credit now running at about $2 million annually.

4. Paper and Allied Products

The paper industry in Wisconsin currently supplies about 47,000 jobs in the state or about 9% of total manufacturing employment. In general, the industry has fared well in recent years due to a combination of sustained capital investment and efficient management. Wisconsin is one of the top paper producing states in the nation.

Most analyses of Treasury II have concluded that paper and forest products companies will be negatively affected by Treasury II. A recent Wall Street Journal article (July 19, 1985) contained a statement by an industry analyst that if the plan were now law, the cash flow of most forest products concerns would fall by 20%. The elimination of the ITC will be quite costly for the industry which in 1981 earned over $720 million in credits accounting for about 6.4% of the manufacturing sector's total. The paper industry is highly capital intensive with outlays on single pieces of equipment running anywhere from $50-$200 million.

The Treasury plan also includes several provisions specifically aimed at reducing tax advantages in the paper and forest products industry. For example, it would require companies with timber property to capitalize certain forest management costs which may be expensed under current law. Thus, the recovery period will be lengthened from a number of months to upwards of 40 years; until such time as the trees are cut. Another troublesome item for the industry is the proposed repeal of capital gains treatment of timber income. Such income which accrues to slow-developing assets would be treated as ordinary income in the same manner as business inventories which turn over several times a year.

None of the three paper companies surveyed expected to be positively affected by Treasury II. In every case, the loss of the ITC and ACRS will offset the benefits of lower marginal rates. One company is forecasting a 400% jump in its liability next year under the plan. Some of the highlights of the paper industry interviews are:

- One firm anticipates losing investment tax credits worth more than $20 million a year while a second predicted a $12 million annual loss.

- Estimates for additional liability due to the ACRS recapture provisions ranged between $9 million and $50 million over the 3-year recapture period.

- One papermaker placed the cost of the capital gains changes at $1 million a year.

- Two of the companies anticipated further tax hikes due to the limitations on foreign tax credits.

The industry-specific proposals made by Treasury II were seen as problematic for indirect reasons as well as direct ones. Since all three of the papermakers purchased 80% or more of their wood from outside sources, they tended to be more concerned about the effect of these proposals on their suppliers than on their own firms. Much of their timber is purchased from small independents whose operations are only profitable on the margin. The loss of capital gains treatment for these suppliers could cause some to go out of business and others to cut back on their activities. This would lead to higher wood prices for the paper producers which would have to be recouped from increases in the price of their own products.

Another comment was that the restrictions imposed on the recovery of forest management costs will hinder reforestation efforts since tax considerations will encourage timber producers to strip tracts of land without replanting them.

5. Other Manufacturing

Aside from certain provisions in Treasury II such as the ACRS recapture tax, the plan's impact will vary considerably by industry type. It will be a function of many factors including: capital structure (debt versus equity), asset composition (depreciable property, inventories), accounting practices, scope of operations (domestic or worldwide). This section avoids generalized analyses for other industries in Wisconsin that are important contributors to the state economy. Instead, it concentrates on the insights provided by a few key firms.

A major manufacturer of consumer products observed that the interaction of various elements of Treasury II made the overall outcome uncertain. The tax manager noted that aside from the ACRS recapture effects, the company's liability could change by ± 10-15% in any given year. The firm would benefit significantly from the lower marginal rates and the dividends paid deduction. However, it expects to lose roughly $1.5 million of ITC and as much as $10 million in foreign tax credits. The company was critical of several provisions such as the business expense restrictions and limitations on contributions to employe retirement (401k) plans which it felt imposed burdensome record-keeping requirements for little or no fiscal gain. These sentiments were echoed by many firms as noted earlier. Some wondered about the wisdom of reducing incentives to contribute to private retirement plans in light of the problems associated with the Social Security program.

One manufacturer provided an interesting series of contrasts relative to Treasury II's features. The company operated both a hi-tech line of business, i.e. the manufacture and service of precision control systems, and a capital intensive integrated manufacturing enterprise. As a result, it expected to fare about the same as under existing law before accounting for ACRS recapture. The latter would yield about $20 million in added federal tax over the next 3 years. The peculiar blend of businesses means that overall, the loss of the ITC and ACRS will just about offset the benefits accruing from higher rates. Since the company retains most of its earnings, it will realize little advantage from the dividend paid deduction. The restrictions on foreign tax credits was seen as troublesome, stimulating efforts to restructure operations so as to minimize added tax.

The last corporation surveyed in this category was a major beverage manufacturer. This industry is predicted as a net gainer under Treasury II. The interview tended to confirm this. Lower corporate rates were expected to more than offset the repeal of the ITC and ACRS. The biggest drawback of the plan was seen to be the recapture tax estimated by the firm at nearly $50 million in total. It expressed a willingness to accept higher rates in the short-run as a trade-off for dropping the recapture proposal. The company was one of the few that expected to derive tax benefits from liberalized inventory accounting requirement. Depending on inflation, it anticipated revaluing as much as two-thirds of its inventory under the indexed FIFO option. The advantages from this would be at least partially offset by the new inventory cost capitalization requirements however.

6. <u>Financial Services</u>

Like the paper and forests products industry, the financial services industry, e.g. banks, thrifts, insurance, is the target of special tax measures under Treasury II. Some of these are:

- Banks and thrifts will be prohibited from computing bad debt deductions using the reserve method now authorized. Thus, deductions will have to be based on actual experience rather than estimates of future losses.

- Interest expense incurred to invest in tax-exempt securities will no longer be deductible by financial institutions. Currently, approximately 80% of such interest may be deducted.

- Credit unions with $5 million or more in assets will be subject to the federal corporate income tax.

- Life insurance company deductions for additions to reserves for policyholder claims will be restricted under new accounting rules. In addition, the existing 20% income offset available to life insurers established to mitigate the tax changes implemented by the 1984 Deficit Reduction Act would be repealed.

- Deductions by property and casualty insurers for additions to loss reserves would be reduced by requiring an adjustment to reflect the accrual of future investment income. In addition, certain mutual property and casualty insurers would lose tax advantages now available such as the deduction for dividends paid to policyholders.

Collectively, these provisions are estimated to produce nearly $24 billion in added corporate revenues by 1991. Given the fact that there are approximately 1,300 insurance companies operating in Wisconsin (of which 263 are domestic) and 570 credit unions, the proposed changes are significant.

Some analyses have identified banks and insurance companies as losers under Treasury II. The rationale is that the stricter loss accounting requirements along with the repeal of special deductions and exemptions will more than offset benefits from lower marginal tax rates. Other analyses have disputed this; contending that the Treasury proposals are not specific enough to accurately assess their impact. In addition, it is also pointed out that certain segments of the banking, thrift and insurance industries have large accumulated loss carryovers which will neutralize any short-run tax increases.

A large domestic life insurer interviewed noted that the stricter claim reserve accounting standards could raise its annual tax liability by 10-25% before accounting for the new rates. Since its current effective tax rate is close to the proposed top marginal rate of 33%, the company was not expecting much in the way of net benefits from the rate reductions. It identified another Treasury II provision as the one it most strongly opposes. The provision does not directly affect the firm's liability but instead affects the demand for several of its products. The Treasury advocates taxing (primarily to individuals) the undistributed investment income accruing to life insurance and annuity policies. Currently, this income is exempt which makes the policies relatively attractive as investment vehicles. Life insurers fear that loss of the tax advantage will stimulate consumers to bypass whole life and related policies in favor of term insurance. They would then take the cost savings and invest it themselves in order to have cash available to pay the tax on any earnings. If a large-scale shift in investing behavior occurs, life insurance companies would obviously suffer. The firm also expressed concern over Treasury attempts to eliminate or reduce tax preferences for employe benefits such as health insurance and retirement plans.

Another interview was conducted with a prominent property and casualty insurer. The firm was a mutual and thus anticipated significantly higher taxes in future years from the loss of the policyholder dividend deduction. In addition, it expected to have both additional tax and compliance costs due to the new loss reserve accounting standards. Overall, the company felt that the industry-specific changes in Treasury II would generate more tax than would be saved by the rate cuts.

The last financial concern surveyed was a major bank. While it offered no net assessment of Treasury II, the corporation noted that the lower rates would yield significant tax relief. A short-run tax increase was foreseen due to the repeal of reserve method of accounting for bad debts. However, this result is more of a timing problem which will work itself out over the long-run. The elimination of the deduction for interest related to tax-exempt securities was seen as ultimately resulting in higher borrowing costs for state and local units of government. It might also generate substantial windfall losses for existing security holders depending on the precise effective date of the proposal. Lastly, the bank observed that the new restrictions on foreign tax credits may force it to restructure some of its operations outside the U.S.; possibly by converting more of its investments in high tax jurisdictions into tax-exempt form.

IV. CONCLUSION

This report strongly suggests that corporations doing business in Wisconsin would pay a disproportionately greater share of the President's proposed corporate tax increase, while Wisconsin residents would receive less than their fair share of the proposed individual income tax reduction.

While the need for tax reform is fundamental and recognized by many people, the fact that the tax plan leads to severe distributional shifts of the federal tax burden to Wisconsin from other states raises serious questions about the plan. Furthermore, certain categories of taxpayers--two-earner married couples, low and middle-income itemizers, and middle-income elderly taxpayers--appear to be systematically disadvantaged by the proposal. Major revisions will be necessary in order for this proposal to satisfy the test of fairness.

Representative OBEY. Mr. Torkko, please proceed.

STATEMENT OF DENNIS TORKKO, PARTNER, ARTHUR ANDERSEN & CO.

Mr. TORKKO. Mr. Chairman, my name is Dennis Torkko, and I am a partner in charge of the tax division of the Milwaukee, WI, office of Arthur Andersen & Co.

Arthur Andersen is an international accounting and consulting services organization doing business in more than 125 cities around the world. The testimony we present here today is based on research performed at the request of your committee.

While most of our U.S. clients would be affected by the many proposed changes to the tax laws found in President Reagan's tax plan, we do not represent them here today. Also, we express no opinion as to the advisability of adopting any of the proposals found in President Reagan's plan, including the proposal to repeal the deduction for State and local taxes.

Shortly after the President's package was submitted to Congress in late May, the staff of the Joint Economic Committee contacted Arthur Andersen's Washington Office of Federal Tax Services located in Washington, DC, to request analysis of an issue that was central to both the so-called Treasury I proposal, released in November 1984, and the President's package released in May. That feature, of course, was the proposal to repeal the deduction for State and local taxes.

The Joint Economic Committee staff requested our Washington associates to gather data to assess the Federal tax effects of the repeal of State taxes in three different hypothetical situations. The purpose of the analysis was to provide the committee with comparative data by State for its use in evaluating the effects of the administration's proposal to repeal the deduction for State and local taxes. The comparison was based on hypothetical taxpayers and is not intended to reflect the impact of the administration's proposal on an average taxpayer.

The full text of that study has already been made a part of the record of these and other Joint Economic Committee hearings.

Joint Economic Committee staff worked with our people in Washington to construct three hypothetical fact patterns that would illustrate the effects of the proposals. In each, the taxpayer considered was assumed to be married, have two children, and to have taxable income of $50,000 before deductions for State and local taxes and before considering the zero-bracket amount and personal exemptions.

Gross salary income of each taxpayer varied depending upon the cost of his personal residence. In each case, however, gross income less home mortgage interest expense netted to $50,000 taxable income, before other deductions, as shown on the chart provided in my prepared statement.

The three alternatives differ from one another only in the assumed cost and value of the taxpayer's personal residence. In alternative one, the taxpayer's home was assumed to have a current fair market value of $97,000, the average price of a single family, new home in the United States, according to the U.S. Bureau of Census.

In alternative two, the value of the taxpayer's home varied according to the average price of the home in the region of the United States in which he lived, based on data compiled by the Bureau of the Census.

In alternative three, it was assumed that the value of the taxpayer's home was $140,000.

Calculations of the Federal income tax liability were made under existing tax law and under the administration's proposals. Calculations of State and local taxes included State income taxes, real and personal property taxes, and sales tax.

With the exceptions of New York City and the District of Columbia, city income taxes were ignored. It was assumed that State taxes would be the same under the administration's proposal as under current law—that is, that no State would change its laws so that State tax liability would change—with one exception.

Some States permit a deduction for Federal taxes paid or otherwise refer to Federal income tax for purposes of computing State tax liability. For those States, State income tax liability was recomputed taking into account any change in Federal tax liability under the administration's proposal.

The calculations were intended to focus on the effect of repealing the current deduction for State and local taxes. That was the objective. Other variables that might affect the taxpayer's Federal tax liability were controlled. Thus, the taxpayer's income was assumed to have been earned by only one of the spouses and current Federal tax cost is not reduced by the two-earner deduction.

Similarly, other income items, deductions and credits that would be modified by the administration's proposals, such as the taxation of employer-paid health insurance premiums, limitations on investment and consumer interest deductions and repeal of investment tax credit are not included in the examples.

Hence, the change in Federal tax liability that the hypothetical taxpayer would sustain under the administration's proposal is specifically designed to be attributable solely to the repeal of the deduction for State and local taxes, and change in tax rates including change in zero-bracket amount and change in personal exemptions.

Generally, we assumed a single-earner family, with income only from salary. Where applicable, personal property taxes were attributed to a single car and to household effects. Real property taxes were attributable only to the taxpayer's home. The mortgage interest attributable to the home was calculated at 12.5 percent for 30 years. The size of the mortgage was assumed to be 90 percent of the cost that was financed.

Our study made five separate analyses. In each case, taxpayers paid less Federal income tax under the administration's proposal than under current law. However, in each case, the tax cost varied tremendously from State to State. Accordingly, the present disparity in tax burdens among States was greatly magnified.

The first analysis compared the States on the basis of combined Federal, State, and local tax cost. We ranked the States in order of their respective tax burdens, and then determined the percentage of increase for each State above the lowest State. We also established a median, and ascertained the variance from the median for each State.

We found that the administration proposal exacerbates the differences among States. Under current law, taxpayers with $97,000 homes in Alaska have the lowest combined tax burden, taxpayers in Wyoming the next lowest, and taxpayers in New York City the greatest. Georgia, California, and Indiana are the median. Under current law, the differences in total tax costs between Alaska and New York City varies by 37 percent, and the difference between Wyoming and New York City by 36 percent. The variance for the median States is 18 percent.

Under the administration's proposal, the hypothetical taxpayers in Alaska and Wyoming have the lowest combined tax burden and Wisconsin replaces New York City as the locale with the highest combined tax burden. The variance between the lowest and the highest more than doubles, increasing from 37 percent to 76 percent.

Even for the median States, the difference between Wisconsin and the median is 57 percentage points, a very substantial difference. The variance is even greater for the taxpayer with a $140,000 home.

Under the administration proposal for that taxpayer, the difference between the combined tax burden of a taxpayer in Alaska or Wyoming and a taxpayer in Wisconsin, which again becomes the State with the highest combined tax burden, becomes 84 percent—83 percent for Wyoming. The variance between Wisconsin and Texas is 81 percent.

Our second analysis again looked at the combined Federal, State, and local tax cost for each of the three hypothetical taxpayers. It did not rank the variations among the States, but rather compared the results under current law with the results under the administration proposal.

We then evaluated what the increase or decrease would be in the hypothetical taxpayer's liability, and the percentage of change from current law to the administration proposal. In this particular example, each hypothetical taxpayer in every State experienced a tax decrease, but the percentage of the decrease varied widely, from 3 percent in Wisconsin, and 6 percent in Delaware, and up to 25 percent in Alaska.

For a taxpayer with a $97,000 home, the smallest tax decrease occurs in Wisconsin, where there would be a mere 3 percent change.

It is important to note that the findings of this example relate only to our hypothetical taxpayers and would not hold true in every case. The principal reason for the decrease is, of course, the great care taken in the hypotheticals to control a significant number of variables. The control of the variables meant that each taxpayer had the same taxable income of $50,000, but the taxpayers were not necessarily in the same economic position and, in fact, would no doubt have very different gross cash and salary incomes.

Since the marginal tax rate for $50,000 is lower under the President's plan than under current law, each taxpayer experiences a tax reduction. In addition, the zero-bracket amount and personal exemptions are greater under the administration proposal than under current law. Thus, it is only the amount of the reduction that varies.

The third analysis segregated the components of the State and local tax cost by income tax, real property, personal property, and sales taxes. Since the change in Federal tax liability would change the State income tax liability, it was necessary to break the tax cost into its various components under current law and the proposal.

We then compared the relative tax burdens under current law and under the administration proposal, established a median, and ascertained a variance from the median. The median State and local tax cost for the hypothetical taxpayer was found to be $4,150 for the taxpayer with a $97,000 home, and $4,550 for a taxpayer with a $140,000 home.

A Wisconsin taxpayer with the average cost home has a tax burden that is $3,100 greater than the median, for a total burden of $7,250 Similarly, the Wisconsin taxpayer with the more expensive $140,000 home has a total State tax burden that is $3,900 greater than the median, for a total burden of $8,450.

The fourth example evaluated the change in only the Federal income tax liability for the hypothetical taxpayer in each tax situation. A Wisconsin taxpayer who has the less expensive home would experience a 6-percent decrease in Federal tax liability, while the Wisconsin taxpayer with the more expensive home experiences a 2 percent decrease in Federal tax liability.

In each case, the Wisconsin taxpayer derives the least benefit of any State from the rate relief and base broadening of the President's proposal. The residents of Wyoming and Nevada experience the greatest tax relief, enjoying a 26 percent decrease in their taxes in both the housing groups.

Again, these are States with no State income tax, so rate reduction is extremely valuable to residents there.

Our fifth and final analysis assessed the components of the decrease in tax liability that the taxpayer would experience on the given facts in each State. We traced what component of the reduction was attributable to the repeal of deductions of State and local income, real property and other taxes, and also what component of the decrease was attributable to changes in State income tax and to changes in rates.

In every case, the most significant component of tax reduction was, not surprisingly, the change in rates.

For example, our hypothetical Wisconsin taxpayer in a $97,000 house experiences a $550 Federal tax decrease. However, if the rates the President proposed were applied to taxable income, but the State and local tax deductions were not repealed, the same taxpayer would experience a tax decrease nearly five times greater, $2,363.

The difference is even greater in the case of a $140,000 house. That Wisconsin taxpayer has only a $200 tax reduction. If the reduced rates were applied to taxable income, but State and local tax deductions were not repealed, the tax reduction would be almost 12 times as great, at $2,313.

The second set of examples found in appendix B to my prepared statement shows the effect of the administration's proposal on an average taxpayer, using Wisconsin-based information. The examples are derived from Treasury's own data, extrapolated from census data, for Wisconsin taxpayers. The Treasury example was narrowly drawn, so it was then modified to add other factors into the equation. In these additional examples, families with two earners and child care expenses experience a tax increase relative to current law.

Example 1 is a presentation of the Treasury's data for a Wisconsin taxpayer in a single-earner family where salary was $33,360. Under current law, the family in the example would be permitted to take itemized deductions split about evenly between State and local taxes, and all other items available to be itemized.

Treasury's example provides a basis for its claims of simplification, as this taxpayer would no longer itemize under the President's proposal because of the loss of the deduction for State and local taxes and the increase in exemptions and the zero-bracket amount. Even when this taxpayer loses the opportunity to itemize, the family experiences a tax reduction of 6.4 percent, largely because of the changes to the exemption amounts, the zero-bracket amount, and rate reduction—22 percent marginal rate under current law versus 15 percent under the President's plan.

We have modified Treasury's example somewhat to show how the proposed plan affects families with similar income, $36,360, but different circumstances. In example 2, the family incurs expenses for child care. The credit is available not only when both spouses or a single parent works, but also when a parent is a full-time student.

The change of the credit to a deduction reduces the tax benefits associated with child care expenses, but the family nonetheless receives a tax reduction, although it is smaller than in example 1.

Examples 3, 4, and 5 show the same gross income, but assumes part of it is earned by the second spouse. The proportions attributable to each spouse are varied in the examples. These examples illustrate the effects of the loss of the two-earner deduction and show that the more similar the spouses' incomes, the greater the impact of the loss of the deduction.

It is important to note that, under the facts presented in the example, when the gross salary comes from two incomes rather than one, the result is a tax increase as compared to present law. In example 5, where the two incomes are identical, the 8.6 percent tax increase is significant, particularly given the relatively modest income of each spouse.

In conclusion, the results of our study and the data presented in appendix B to my prepared statement are not the same as econometric analyses that would apply to large classes of taxpayers. The examples should be interpreted only in the context of the facts presented. In the case of our original submission to the Joint Economic Committee, the results should not be extrapolated to other taxpayers in other income levels and are pertinent only to the assumptions contained in appendix A of our report.

All of the examples in our initial study show tax reductions. It is nonetheless possible that a taxpayer at some other income level residing in a high tax-rate State, or a taxpayer whose income was the same as our example, but whose deduction patterns were different than those assumed, could incur an increase in overall tax burden under the administration's proposal.

Nontheless, the comparative relationships that are suggested would have general application. For example, in considering the loss of the State tax deduction, taxpayers living in States with no income taxes will fare much better than taxpayers who live in high-tax States, assuming all other factors are neutral.

Similarly, the amount of tax increase or decrease for all taxpayers earning $33,000, as shown in appendix B to my prepared statement, could vary under circumstances not present in the examples.

Again, though, the relationships will generally be similar. The change of the child care credit to a deduction will reduce the associate tax benefits, particularly for taxpayers in low-tax brackets, and the loss of the two-earner exclusion is more keenly felt as the second lower income rises. And the amount of the exclusion increases under present law.

We appreciate the opportunity to testify here today. We will be pleased to answer any questions the committee wishes to raise.

Thank you.

Representative OBEY. Thank you very much.

[The prepared statement of Mr. Torkko, together with appendixes, follows:]

Prepared Statement of Dennis Torkko

Mr. Chairman: My name is Dennis Torkko, and I am the Head of the Tax Division of the Milwaukee, Wisconsin office of Arthur Andersen & Co. Arthur Andersen is an international accounting and consulting services organization doing business in more than 125 cities around the world. The testimony we present here today is based on research performed at the request of your committee. While most of our U.S. clients would be affected by the many proposed changes to the tax laws found in President Reagan's tax plan, we do not represent them here today. Also, we express no opinion as to the advisability of adopting any of the proposals found in President Reagan's tax plan, including the proposal to repeal the deduction for state and local taxes.

Background of the Arthur Andersen Study

Shortly after the President's package was submitted to Congress in late May, the staff of the Joint Economic Committee contacted Arthur Andersen's Office of Federal Tax Services (OFTS) located in Washington, D.C., to request analysis of an issue that was central to both the so-called "Treasury I" proposal, released in November 1984, and the President's package released in May. That feature, of course, was the proposal to repeal the deduction for state and local taxes.

The Joint Economic Committee staff requested OFTS to gather data to assess the Federal tax effects of the repeal of state taxes in three different hypothetical situations. The purpose of the analysis was to provide the Committee with comparative data by state for its use in evaluating the effects of the Administration's proposal to repeal the deduction for state and local taxes. The comparison was based on hypothetical taxpayers and is not intended to reflect the impact of the Administration's proposal on an "average" taxpayer. The full text of that study has already been made a part of the record of these and other Joint Economic Committee hearings.

Joint Economic Committee staff worked with OPTS to construct three hypothetical fact patterns that would illustrate the effects of the proposals. In each, the taxpayer considered was assumed to be married, have two children and to have taxable income of $50,000 (before deductions for state and local taxes and before considering the zero bracket amount and personal exemptions). Gross salary income of each taxpayer varied depending upon the cost of his personal residence. In each case, however, gross income less home mortgage interest expense netted to $50,000 taxable income (before other deductions), as shown on the chart below.

	ALTERNATIVE 1	ALTERNATIVE 2	ALTERNATIVE 3
Salary	$ 59,600	$ 60,500	$ 63,300
Mortgage interest	(9,600)	(10,500)	(13,300)
Taxable income (before other deductions)	$ 50,000	$ 50,000	$ 50,000

The three alternatives differ from one another only in the assumed cost and value of the taxpayer's personal residence. In Alternative 1, the taxpayer's home was assumed to have a current fair market value of $97,000, the average price of a single family, new home in the United States according to the U.S. Bureau of Census. In Alternative 2, the value of the taxpayer's home varied according to the average price of the home in the region of the United States in which he lived (based on data compiled by the Bureau of the Census). In Alternative 3, it was assumed that the value of the taxpayer's home was $140,000.

Calculations of Federal income tax liability were made under existing tax law and under the Administration's proposals. Calculations of state and local taxes included state income tax, real and personal property taxes and sales tax. With the exceptions of New York City and the District of Columbia, city income taxes were ignored. It was assumed that state taxes would be the same under the Administration's proposal as under current law (i.e., that no state would change its laws so that state tax liability would change), with one exception. Some states permit a deduction for Federal taxes paid or otherwise refer to Federal income tax for purposes of computing state income tax liability. For those states, state income tax liability was recomputed taking into account any change in Federal tax liability under the Administration's proposal.

The calculations were intended to focus on the effect of repealing the current deduction for state and local taxes. Other variables that might affect the taxpayer's Federal tax liability were controlled. Thus, the taxpayer's income was assumed to have been earned by only one of the spouses and current Federal tax cost is not reduced by the two-earner deduction. Similarly, other income items, deductions and credits that would be modified by the Administration's proposals, such as the taxation of employer-paid health insurance premiums, limitations on investment and consumer interest deductions and repeal of investment tax credit are not included in the examples. Hence, the change in Federal tax liability that the hypothetical taxpayer would sustain under the Administration's proposal is <u>specifically designed</u> to be attributable solely to repeal of the deduction for state and local taxes, and change in tax rates (including change in zero bracket amount and increase in personal exemptions).

A full description of the assumptions used for the study are found in Appendix A. Generally, we assumed a single-earner family, with income only from salary. Where applicable, personal property taxes were attributed to a single car and to household effects. Real property taxes were attributable only to the taxpayer's home. Results for all of the taxes were rounded to the nearest $50. The mortgage interest attributable to the home was calculated at 12-1/2% for 30 years. The size of the mortgage, of course, varied depending on the cost of the house. We assumed that 90% of the cost was financed.

<u>Findings of the Study</u>

Our study made five separate analyses. In each case, taxpayers paid less Federal income tax under the Administration's proposal than under current law. However, in each case, the tax cost varied tremendously from state to state. Accordingly, the present disparity in tax burdens among states was greatly magnified.

The first analysis compared the states on the basis of combined federal, state and local tax cost. We ranked the states in order of their respective tax burdens, and then determined the percentage of increase for each state above the lowest state. We also established a median, and ascertained the variance from the median for each state.

We found that the Administration proposal exacerbates the differences among states. Under current law, taxpayers with $97,000 homes in Alaska have the lowest combined tax burden, taxpayers in Wyoming the next lowest (it was nearly identical) and taxpayers in New York City the greatest. Georgia, California and Indiana are the median. Under current law, the differences in total tax costs between Alaska and New York City varies by 37%, and the difference between Wyoming and New York City by 36%. The variance for the median states is 18%.

Under the Administration's proposal, the hypothetical taxpayers in Alaska and Wyoming have the lowest combined tax burden and Wisconsin replaces New York City as the locale with the highest combined burden. The variance between the lowest and the highest more than doubles, increasing from 37% to 76%. Even for the median states, the difference between Wisconsin and the median is 57 percentage points. The variance is even greater for the taxpayer with a $140,000 home. Under the Administration proposal for that taxpayer, the difference between the combined tax burden of a taxpayer in Alaska or Wyoming and a taxpayer in Wisconsin (which again becomes the state with the highest combined tax burden) becomes 84% (83% for Wyoming). The variance between Wisconsin and Texas, a very populous state, is 81%.

Our second analysis again looked at the combined federal, state, and local tax cost for each of the three hypothetical taxpayers. It did not rank the variations among the states, but rather compared the results under current law with the results under the Administration proposal. We then evaluated what the increase or decrease would be in the hypothetical taxpayer's liability, and the percentage of change from current law to the Administration proposal. In this particular example, each hypothetical taxpayer in every state experienced a tax decrease, but the percentage of the decrease varied widely, from 3% in Wisconsin, and 6% in Delaware and Michigan, to 25% in Alaska and 22% in Texas.

For a taxpayer with a $97,000 home, the smallest tax decrease occurs in Wisconsin, where there would be a mere 3% change. The greatest tax relief for this taxpayer occurs in Alaska, Wyoming, and Texas (25%, 24%, and 22% respectively), where there is no state income tax. The results are similar for a taxpayer with a $140,000 home. A Wisconsin taxpayer who has a $140,000 home would experience only a 1% tax decrease.

It is important to note that the findings of this example relate only to our hypothetical taxpayers, and would not hold true in every case. The principal reason for the decrease is, of course, the great care taken in the hypotheticals to control a significant number of variables. The control of the variables meant that each taxpayer had the same taxable income of $50,000, but the taxpayers were not necessarily in the same economic position, and, in fact, would no doubt have very different gross cash and salary incomes. Since the marginal tax rate for $50,000 is lower under the President's plan than under current law, each taxpayer experiences a tax

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reduction. In addition, the zero bracket amount and personal exemptions are greater under the Administration proposal than under current law. Thus, it is only the amount of the reduction that varies.

The third analysis segregated the components of the state and local tax cost by income tax, real property, personal property, and sales taxes. (Since the change in Federal tax liability would change the state income tax liability, it was necessary to break the tax cost into its various components under current law and the proposal.) We then compared the relative tax burdens under current law and under the Administration proposal, established a median, and ascertained a variance from the median. The median state and local tax cost for the hypothetical taxpayers was found to be $4,150 for the taxpayer with a $97,000 home (Georgia and California were the median states), and $4,550 for a taxpayer with a $140,000 home. (Illinois was the median here.) A Wisconsin taxpayer with the average cost home has a tax burden that is $3,100 greater than the median, for a total burden of $7,250. Similarly, the Wisconsin taxpayer with the more expensive home has a total state tax burden that is $3,900 greater than the median, for a total burden of $8,450.

The fourth example evaluated the change in only the Federal income tax liability for the hypothetical taxpayer in each tax situation. A Wisconsin taxpayer who has the less expensive home would experience a 6% decrease in Federal tax liability, while the Wisconsin taxpayer with the more expensive home experiences a 2% decrease in Federal tax liability. In each case, the Wisconsin taxpayer derives the least benefit of any state from the rate relief and base broadening of the President's proposal. The residents of Wyoming and Nevada experience the greatest tax relief, enjoying a 26%

decrease in their taxes in both the housing groups. (Alaskans in the $97,000 house have a 27% decrease.) Again, these are states with no state income tax, so rate reduction is extremely valuable to residents there.

Our fifth and final analysis assessed the components of the decrease in tax liability that the taxpayer would experience on the given facts in each state. We traced what component of the reduction was attributable to the repeal of deductions for state and local income, real property and other taxes, and also what component of the decrease was attributable to changes in state income tax and to changes in rates. In every case, the most significant component of tax reduction was, not surprisingly, the change in rates. For example, our hypothetical Wisconsin taxpayer in a $97,000 house experiences a $550 Federal tax decrease. However, if the rates the President proposed were applied to taxable income, but the state and local tax deductions were not repealed, the same taxpayer would experience a tax decrease nearly five times greater ($2,363). The difference is even greater in the case of a $140,000 house. That Wisconsin taxpayer has only a $200 tax reduction. If the reduced rates were applied to taxable income, but state and local tax deductions were not repealed, the tax reduction would be almost 12 times as great, at $2,313.

Typical Wisconsin Situations

The second set of examples, found in Appendix B, shows the effect of the Administration's proposal on an "average" taxpayer. The examples are derived from Treasury's own data (extropolated from census data) for Wisconsin taxpayers. The Treasury example was narrowly drawn, so it was then modified to add other factors into the equation. In these additional examples, families with two earners and child care expenses experience a tax increase relative to current law.

Example 1 is a presentation of the Treasury's data for a Wisconsin taxpayer in a single-earner family where salary is $33,360. Under current law, the family in the example would be permitted to take itemized deductions split about evenly between state and local taxes and all other items. Treasury's example provides a basis for its claims of simplification, as this taxpayer would no longer itemize under the President's proposal because of the loss of the deduction for state and local taxes and the increase in exemptions and the zero bracket amount (ZBA). Even when this taxpayer loses the opportunity to itemize, the family experiences a tax reduction of 6.4%, largely because of the changes to the exemption amounts, ZBA, and rate reduction (22% marginal rate under current law vs. 15% under the President's plan).

We have modified Treasury's example somewhat to show how the proposed plan affects families with similar income ($33,360) but different circumstances. In example 2, the family incurs expenses for child care. (The credit is available not only when both spouses or a single parent works, but also when a parent is a full-time student.) The change of the credit to a deduction reduces the tax benefits associated with child care expenses, but the family nonetheless receives a tax reduction, although it is a smaller decrease (4.5%) than in example 1.

Examples 3, 4 and 5 show the same gross income, but assumes part of it is earned by the second spouse. The proportions attributable to each spouse are varied in the examples. These examples illustrate the effects of the loss of the two-earner deduction, and show that the more similar the spouses' incomes, the greater the impact of the loss of the deduction. It is important to note that, under the facts presented in the example, when the gross salary comes from two incomes rather than one, the result is a tax increase as compared to present law. In example 5, where the two incomes are identical, the 8.6% tax increase is significant, particularly given the relatively modest income of each spouse.

Conclusion

The results of our study, and the data presented in Appendix B are not the same as econometric analyses that would apply to large classes of taxpayers. The examples should be interpreted only in the context of the facts presented. In the case of our original submission to the Joint Economic Committee, the results should not be extrapolated to other taxpayers in other income levels and are pertinent only to the assumptions contained in Appendix A. All of the examples in our initial study show tax reductions. It is nonetheless possible that a taxpayer at some other income level residing in a high tax-rate state or a taxpayer whose income was the same as our example, but whose deduction patterns were different than those assumed could incur an increase in overall tax burden under the Administration's proposal.

Nonetheless, the comparative relationships that are suggested would have general application. For example, in considering the loss of the state tax deduction, taxpayers living in states with no income taxes will fare better than taxpayers who live in high tax states, assuming all other factors are neutral.

Similarly, the amount of tax increase or decrease for all taxpayers earning $33,000, as shown in Appendix B could vary under circumstances not present in the examples. Again, though, the relationships will generally be similar. The change of the child care credit to a deduction will reduce the associated tax benefits, particularly for taxpayers in low tax brackets, and the loss of the two earner exclusion is more keenly felt as the second/lower income rises, and the amount of the exclusion increases under present law.

We appreciate the opportunity to testify here today. We will be pleased to answer any questions the Committee wishes to raise.

Appendix A

ASSUMPTIONS USED IN COMPUTING TOTAL TAX BURDEN OF INDIVIDUALS BY STATE

The Arthur Andersen study depicted federal, state and local tax burden under current law and under the Administration's tax reform proposal. It was prepared using the following assumptions provided (and/or approved) by the staff of the Joint Economic Committee. They describe a hypothetical taxpayer and are not intended to depict an "average" taxpayer or even an "average" homeowner.

1. Taxpayer description - Married, joint return, two-dependents, one-earner family.

2. Income - Taxpayer's only income is salary income. Total salary less assumed home mortgage interest expense deduction (see below) equals $50,000. Thus, taxable income, before reflecting state and local tax deductions, the zero-bracket amount and personal exemptions is $50,000.

3. Taxpayer's assets - State and local property taxes (real and personal) depend on the value of the taxpayer's real property, automobile, boats and (in some cases) household effects. Furthermore, some states impose an intangibles tax on taxpayer's intangible assets, such as corporate stock. For each alternative, it is assumed that the taxpayer has one automobile valued at $12,000 and household effects valued at $15,000 that may be subject to personal property tax. The taxpayer was assumed not to own any intangibles or boats. The taxpayer's personal residence was valued variously according to each of three alternatives:

   Alternative 1 - $97,000

   Alternative 2 - Home value varied according to the location of the state by region as follows:

Northeast	- $107,400
South	- $ 86,000
Midwest	- $107,800
West	- $109,400

   Alternative 3 - $140,000

   The home values assumed for Alternatives 1 & 2 are based on data compiled by The Bureau of Census regarding average sales price of new homes in 1985.

States are categorized by region as follows:

Northeast	South	Midwest	West
Connecticut	Alabama	Illinois	Alaska
Maine	Arkansas	Indiana	Arizona
Massachusetts	District of Columbia	Iowa	California
New Hampshire	Delaware	Kansas	Colorado
New Jersey	Florida	Michigan	Hawaii
New York	Georgia	Minnesota	Idaho
New York City	Kentucky	Missouri	Montana
Pennsylvania	Louisiana	Nebraska	Nevada
Rhode Island	Maryland	N. Dakota	New Mexico
Vermont	Mississippi	Ohio	Oregon
	N. Carolina	S. Dakota	Utah
	Oklahoma	Wisconsin	Washington
	S. Carolina		Wyoming
	Texas		
	Tennessee		
	Virginia		
	W. Virginia		

4. Mortgage interest expense deduction - Interest expense was approximated for the hypothetical taxpayer assuming that the home was purchased three years ago and that the taxpayer borrowed approximately 90% of the purchase price. Interest was computed at 12.5% per annum, assuming monthly level debt service payments and a 30-year mortgage. The purchase price of the home was computed based on the assumption that, after its acquisition, the home had appreciated in value at the rate of about 4% per year. Thus, interest expense assumed in each of the alternatives is:

Alternative 1 - $9,600

Alternative 2 - Northeast - $10,500
South - $ 8,500
Midwest - $10,500
West - $10,500

Alternative 3 - $13,300

5. State and local tax deductions

A. Income taxes - Actual state income taxes were computed in each state based on all other given facts and assumptions using 1984 tax rates (rounded to the nearest $50). With the exception of New York City and the District of Columbia, it was assumed that the hypothetical taxpayer did not live or work in a city that would impose an additional city income tax. The state income tax computed for Maryland includes an additional local tax at 50% of the basic state rate.

Some states permit a deduction for federal income tax liability or, in some other fashion, determine state income tax based on federal income or income tax. For these states, state income tax has also been recomputed under the Administration proposal to take into account the revised federal income tax liability.

B. Sales tax - Sales taxes were computed using the tables prepared by the Internal Revenue Service (rounded to the nearest $50).

C. Personal property tax - Actual personal property taxes were computed using the assumed taxpayer assets (see above), rounded to the nearest $50.

D. Real property tax - Real property taxes for a personal residence in a given jurisdiction depend on the property's value, the combined (state, county, city and school district) nominal tax rates in the jurisdiction and the assessment ratio (i.e., the portion of the property's value to which the nominal tax rate is applied in computing the tax bill). The assessment ratio can be, and usually is less than 100%, for many reasons including:

- o The law in the jurisdiction may provide that residential property is assessed at a fraction of the property's fair value (e.g., 50% or less).
- o The law may provide specific dollar exemptions for classes of property (e.g., residential) or classes of taxpayer (e.g., the elderly).
- o Although the law intends that the property be assessed at fair value, in fact it is not in many, if not most cases, due to inaccuracy in appraising the property or the lack of a recent appraisal.

Each of the relevant factors -- property value, nominal tax rate and assessment ratio -- can vary widely from state to state and from town to town. Consequently, recent accurate data for all locales is, in effect, nonexistent. Furthermore, because the relevant factors vary so much within a state, the use of one, assumed tax rate for a particular state cannot be considered representative of that state's tax rate.

Nevertheless, there is data available that has been compiled by the U.S. Department of Commerce, Bureau of the Census that can be used to compute a real property tax value for most states. Real property tax for the hypothetical taxpayer has been computed using this data contained in the publication entitled "1982 Census of Governments - Volume 2 (Taxable Property Values and Assessment - Sales Price Ratios)". The effective tax rates in most states is provided in Table 22 of that publication. For those states not listed in Table 22, (Delaware, Indiana, Massachusetts, Texas and Vermont), real property tax was computed using the aggregate assessment - sales price ratio provided in Table 13 and the composite average property tax rate for the state, according to Prentice Hall Inc., All States Tax Handbook, ¶260 (1984). With regard to Vermont, the use of this alternate methodology resulted in unrealistically low real property tax values. Therefore, data regarding a reasonable effective tax rate ($1.85 per $100 of property value) was obtained directly from property tax officials in Vermont. Real property tax for the State of California was computed at 1% of original cost, in accordance with that state's Proposition 13. All values computed for real property tax have been rounded to the nearest $50.

6. Federal Income Tax - Current law federal income tax has been computed (to the nearest $50), based on 1984 tax rates.

JOINT RETURN FOR FAMILY OF FOUR COMPARING CURRENT LAW AND PRESIDENT'S PROPOSAL FOR 1986 (WITHOUT PHASE IN OF RATES)

	#1		#2		#3		#4		#5	
	Current Law	President's Proposal	Current Law	President's Proposal	Current Law	President's Proposal	Current Law	President's Proposal	Current Law	President's Proposal
Wages and salary S1	$33,360	$33,360	$33,360	$33,360	$25,020	$25,020	$20,016	$20,016	$16,680	$16,680
S2	0	0	0	0	8,340	8,340	13,344	13,344	16,680	16,680
Employer paid health	N/A	300	N/A	300	N/A	300	N/A	300	N/A	300
Contribution to IRA	(2,150)	(2,150)	(2,150)	(2,150)	(2,150)	(2,150)	(2,150)	(2,150)	(2,150)	(2,150)
Child care expense	N/A	0	N/A	(1,425)	N/A	(1,425)	N/A	(1,425)	N/A	(1,425)
Two earner deduction	0	N/A	0	N/A	(727)	N/A	(1,227)	N/A	(1,561)	N/A
Adjusted gross income (AGI)	$31,210	$31,510	$31,210	$30,085	$30,483	$30,085	$29,983	$30,085	$29,649	$30,085
State and local taxes	(3,020)	N/A	(3,020)	N/A	(3,020)	N/A	(3,020)	N/A	(3,020)	N/A
Other itemized deductions	(3,780)	(3,780)	(3,780)	(3,780)	(3,780)	(3,780)	(3,780)	(3,780)	(3,780)	(3,780)
Zero bracket amount	3,670	4,000	3,670	4,000	3,670	4,000	3,670	4,000	3,670	4,0000
Allowable itemized deductions	$(3,130)	$ (0)	$(3,130)	$ (0)	$(3,130)	$ (0)	$(3,130)	$ (0)	$(3,130)	$ (0)
Personal exemption	(4,320)	(8,000)	(4,320)	(8,000)	(4,320)	(8,000)	(4,320)	(8,000)	(4,320)	(8,000)
Taxable income	$23,760	$23,510	$23,760	$22,085	$23,033	$22,085	$22,533	$22,085	$22,199	$22,085
Tax liability	$ 3,126	$ 2,927	$ 3,126	$ 2,713	$ 2,966	$ 2,713	$ 2,856	$ 2,713	$ 2,783	$ 2,713
Child care credit	0	N/A	(285)	N/A	(285)	N/A	(285)	N/A	(285)	N/A
Tax due	$ 3,126	$ 2,927	$ 2,841	$ 2,713	$ 2,681	$ 2,713	$ 2,571	$ 2,713	$ 2,498	$ 2,713
Percent change		-6.4%		-4.5%		1.2%		5.5%		8.6%

Notes: #1 Administration Analysis
#2 Same but with child care (assumes second parent is full-time student)
#3 Same but with child care and two earners 75/25
#4 Same but with child care and two earners 60/40
#5 Same but with child care and two earners 50/50

Representative OBEY. Mr. Sprecher, let me first turn to your analysis of the impact of Federal budget on Wisconsin. You say that in 1984 alone, Federal budget actions cost Wisconsin a net loss of approximately $200 million in real dollars?

Mr. SPRECHER. That is correct.

Representative OBEY. And then you indicate that the deficit has, in your estimate, cost Wisconsin approximately 30,000 manufacturing jobs and 40,000 jobs in total?

Mr. SPRECHER. That is correct.

Representative OBEY. And that the sharp appreciation of the dollar, which is significantly, if not totally related to the deficit, has cut personal income in Wisconsin by $710 million.

Mr. SPRECHER. Right.

Representative OBEY. Can you tell me how you arrived at those numbers?

Mr. SPRECHER. OK. In terms of the last one first, the $710 million. This was derived from the DRI national study and——

Representative OBEY. Why don't you, for benefit of the laymen in the crowd, explain what DRI is?

Mr. SPRECHER. We have a contract with Data Resources, Inc., which is a national forecasting firm, national econometric firm, and using their data on a national basis and then using the Wisconsin Department of Revenue study of that data, determined that there were 30,000 jobs lost in manufacturing and 10,000 elsewhere. What then we did—that is confirmed as well by a congressional study that was just completed this past year as well—then took the personal income loss, was arrived at by multiplying the average wage in that sector by the number of jobs that were lost because of the DRI—or lost as an estimate of the DRI study. So that is how the $710 million number came into being.

In terms of your other questions, the $200 million lost to the State budget, that includes not only cuts, cuts to the base of dollars coming to Wisconsin, but that also includes an area such as medical assistance and AFDC where the inflation, the increase is not being kept pace with. So it is in essence not a cost-to-continue budget. So we are also including in that figure losses in those particular human service programs that are not keeping pace with inflation.

Representative OBEY. That $200 million figure, that includes total loss to State and local or just State?

Mr. SPRECHER. That is State.

Representative OBEY. Just State. Any estimate as to what that number would be if you add the impact of local government?

Mr. SPRECHER. I can give you an estimate in terms of just the current 1986 budget. That is $23 million to just the local governments. And I think in 1986 it was less of an impact on local governments than in other previous years, but the State impact was obviously less as well. We are estimating about $9 million loss in 1986 budget of the State government. So I think the locals have also lost on an annual basis more than $23 million for the previous 4 years but in 1986 it has been $23 million. That doesn't include the Federal revenue sharing loss that will kick in in 1987.

Representative OBEY. The reason I wanted to emphasize that for a moment is that I think people have a tendency, the general public has a tendency to blame the guy who is the closest to him, like the local mayor, local county board people, for budget reductions or increases in taxes. I think that it is important that it be understood that without placing any value judgment for the moment on where that service, or where that ought to be delivered, or where that tax ought to be levied, that nonetheless, a lot of the changes that have occurred at both the State and local level, for which State and local people are being blamed by some of the populace, that those decisions were really forced on them by actions that we at the federal level were taking.

I hope people remember that.

I had not seen this figure before put in real dollar terms as concisely as you have. You say that during the period from 1976 to 1988, defense expenditures will rise by 80 percent in constant dollars. Why don't you explain what that term "constant dollars" means?

Mr. SPRECHER. In terms of constant dollars, that means that when you exclude inflationary cost increases, that means that it will increase that amount of money in constant dollars, in dollars in the base year. That does not include even inflation. So, inflation would boost that number to an even greater percentage.

Representative OBEY. And grants in aid will fall by 16 percent, but that aid to individuals would increase by 40 percent.

Mr. SPRECHER. I think all that those statistics are showing are basically what your statistics on your charts are showing as well. That the defense is becoming an ever larger portion of the budget. The net interest payments are becoming an ever larger portion of the budget; everything else, which is basically domestic spending, is shrinking in real or constant terms.

Representative OBEY. I don't know how many—I see a number of people who have been here 2 or 3 days. But for those of you who were not here, what these charts simply illustrate is the change in the Federal budget from 1980 through this year. If I could take just a moment, you will see that what they illustrate is that the large blue piece, which is the total amount of the Federal budget dollar that went for elderly and disabled people, everything from, everything that someone gets who is not working either because he is retired, he or she is retired or disabled, you can see that that portion has remained precisely the same percent of the budget, 37 cents. You can see, I know people usually say to me, if you guys would just eliminate foreign aid and squeeze welfare, we could balance the budget. The fact is that the aid to the nonelderly poor, it was only that little purple piece at the bottom of the chart. It was only 7 cents out of every budget dollar in 1980. That has gone down to 5.7 cents on the dollar.

Interest is the pink piece which has gone up 60 percent from 1980 to the 1986 request by the President. Outside of interest payments, the only portion of the budget which has grown in real dollar terms, which means after inflation, and which has also grown as a percentage of the Federal budget is this piece, which goes from 25 cents on the dollar to 31 cents on the dollar. That is one reason why Wisconsin has absorbed such a large portion of budget reductions because this State has very few large defense contractors. We don't get a very good piece of that chain. I think that is what Mr. Sprecher has indicated.

Mr. SPRECHER. That is exactly the point, Mr. Chairman.

Representative OBEY. Now, again, let me play devil's advocate. You say in your prepared statement that the Wisconsin economic outlook would be much more favorable if the Federal Government enacted tax increases and spending cuts of approximately twice the size that were enacted last year in what was then called the downpayment on the deficit.

Mr. SPRECHER. Right.

Representative OBEY. And if an adaptation was then made in monetary policy. Again, people are skeptical of numbers and models. Can you explain how you arrived at that?

Mr. SPRECHER. Yes; I think what we had done is, we had taken a benchmark, we haven't, the Wisconsin Department of Revenue had taken a benchmark and said, what would happen to the State's economy if we just let everything run as it is versus what would happen to the State's economy if we had a more flexible, more expansive monetary policy and a combination of spending cuts, budget reductions of roughly double what the downpayment was being proposed, and then used the data resources model to run that through our State economy.

Without getting into a whole lot of technical jargon—which I am probably not the best person to talk about anyway—use that benchmark and just said, what would that really mean?

What it would mean is that we would be seeing about 1.1 percent more in terms of personal growth, personal income growth and we would be seeing about 44,000 additional jobs by 1990.

If we had those two extremes. I think at this point we are not saying that a reasonable short-term goal of Congress should be doubling the downpayment, but if indeed that were done, that is what the likely outcome would be in Wisconsin. I think it is a model. It is based on a whole series of assumptions in terms of interest rates and their ability to either dampen or not dampen the job creation ability of the manufacturing sector in particular.

So, whether it is 44,000 jobs, 40,000, 50,000, somewhere in that magnitude, I think that is just the point that we are trying to bring home here, is that with a little bit more flexible monetary policy, reduction in deficit and, therefore, hopefully a reduction in the balance-of-trade problem that we have, Wisconsin can make more exports. I think that is exactly where the deficit is hitting Wisconsin is in our manufacturing sector, and in particular exports.

Representative OBEY. In your prepared statement, you talk about the budget deficit problem, and the difficulty that the President and the House of Representatives have had in reaching meaningful deficit reduction. And you say that the latest Senate GOP proposal was shot down by the President. The President has declared most every solution out of bounds. That is not leadership and Reagan and Congress must share the blame for inaction.

I think that is an accurate assessment. What I tried to point out yesterday is because of that budget impasse in the House Budget Committee, the House Appropriations Committee on which I serve decided we could not wait any longer to proceed with passing the financing bills that have to be financed before the Congress reaches the end of the fiscal year and the beginning of the next one. So, in addition to the reductions that were made in the House budget resolution, the House Appropriations Committee proceeded to bring out their funding bills—the budget is divided into 13 parts. The House is finished with eight of them right now. And after those eight bills had been finished by the House, we had cut an additional $9 billion below the budget resolution numbers and significantly below the President because that budget resolution was $8 billion below the President in terms of spending.

The problem is that then the defense bill came in and that bill was increased by $10 billion. And so, all of the actions taken by every single Appropriations Committee to further reduce that deficit were wiped out by the conference on one bill, which is that piece. Which is why many of us are saying that since that is the only portion of the budget outside of interest which is growing in real dollar terms, what we are saying is that whether we win or lose the argument about what level military spending ought to be at, what we are saying is, even if we lose it and it is at a higher level than we want, at least we ought to be paying for it rather than borrowing it so that you do not continually add to interest payments each year.

The problem, if I could just illustrate, is that if we accept the President's budget, lock, stock, and barrel and do not change a comma, here is what happens to interest payments. As you can see, in 1981 they were $69 billion. In the budget which was sent to us by the President, they would, interest payments would represent $143 billion. And they continue to rise throughout the remainder of this decade even if we do not change a comma in the President's budget.

To put in perspective what we are talking about, this is one chart I did not use previously, this shows what has happened to the national debt. I think therein lies the story in terms of job loss, trade deficit, interest rates remaining high, because what is happening is simple.

If you take a look at this little black and white stripped piece on the bar, that shows what was incurred by way of debt from 1789 when the country began, through 1943, the third year of World War II. The green piece illustrates what was added to the national debt from 1943 through 1946 in order to win the war.

The pink piece indicates what was added to the national debt from 1946 through 1968, in other words, under all the administration's from Harry Truman through LBJ. And LBJ, that outrageous big spender, Great Society liberal, was the last President to give us a balanced budget in 1969.

Then we see what was added when the oil shock hit Nixon and Ford and this—they added substantially to the debt primarily because of the impact on the economy of the oil shock. Then between 1976 and 1980 under Carter, you have this much added to the national debt.

In the last 4 years, this is what has been added to the national debt and if we accept the President's budget without changing a dime, this is what will be added over the last 2 years.

Because this is such a huge number, we are having to literally borrow to the skies from foreign countries and that is what is keeping those interest rates high because any time there is a demand for that much capital to finance the Federal deficit, if you don't get the money from abroad to provide enough room in the economy for everybody else to participate, then the borrowing that is going on in your economy—you have an absolute crunch in terms of interest rates and a crunch on the economy. That is a long explanation but I wanted to put that in context.

Let me ask you, Mr. Ley, you said in your prepared statement, that because of tax exporting, some low personal income tax States had above average per capita spending levels. I think it is also important to point out that the study done by the Arthur Andersen Co. and then analyzed by the Joint Economic Committee demonstrated that because of the ability of Texas, Wyoming, Louisiana, and those States, to charge us when they ship oil, coal, or gas out of the States, we wind up paying a good portion of the cost of educating kids in Texas, or taking care of mental institutions in Louisiana or any other public service. And because we have to raise all of our money ourselves, you get that strange phenomenon in which Texas can have a very low State tax and still wind up outspending a good many States in the country. So, I think it is crucial to make a distinction between taxing levels and spending levels. When that study was done, it was demonstrated that if you take the five lowest taxing States in the Union, the four out of those five have higher spending levels than do the five highest taxing States in the Union, one of which is Wisconsin. It is primarily due to that reason.

Let me ask, would it be fair to say that with the examples you gave us on individual taxes, that you don't begin to see, under the examples that you have mentioned, any help for those individuals, in terms of tax reductions, until you hit above $70,000 or so?

Mr. LEY. That is about right. I have to say though that there are, again, these are examples. You would find—to be objective about it, you would find some in different circumstances than these that would have a tax decrease. But again the amount of that decrease is not proportional to the decrease that you are seeing in people in those income categories in Wisconsin versus other States.

Representative OBEY. So I think what you are saying then is that, you brought the upper bracket on State income taxes down by what percent this year?

Mr. LEY. The top ratings from 10 percent to 7.9 percent which is a 21 percent reduction.

Representative OBEY. Are you suggesting that if you look at the exclusive impact of the elimination of State and local taxes, that elimination of that deduction would virtually wipe out what you did at the State level?

Mr. LEY. It would go a long way in that regard. I haven't seen data, but it would certainly offset. We have about an 8 percent reduction on average. Again, we have some small number of folks that would have an increase as well, people who are heavily sheltered in income and so forth. But if we have an 8 percent on average reduction, and on average you are getting, for those with a tax increase such as the example—again, I am not saying those are typical but certainly for those in our examples that had 13 and 14 percent increases in their Federal taxes, that would more than offset in most cases the cut that you would see at the State level.

Representative OBEY. OK. Would you go into a little more detail in explaining the impact of that Federal tax proposal on not just the insurance industry but on individuals with insurance policies as well?

Mr. LEY. Well, one of the—on individuals as far as insurance, one of the key things that people are concerned about is the so-called inside buildup on cash value life insurance policies. If a person has what is called either an ordinary life policy or a whole life policy, essentially policies with cash value on them, they are an insurance policy on the life of an individual, but there is a savings plan built in.

At this time, the amount of that accumulated savings interest, if you will, that people have in these policies, right now that is not taxed on an annual basis. But what the Treasury plan would do is force people to include as income, who have these kind of life insurance policies, to declare on an annual basis the amount of, they call it, the accretion, the amount of yield that people have on the investment in that savings portion of their policy. They would have to declare that as income even though they don't receive that. And the insurance industry which depends very heavily, increasingly more heavily, there was a time 3 or 4 years ago where that wasn't the case. Life insurance companies are very, very concerned because I think their health is based on the savings component of ordinary life policies. So the insurance industry is very concerned that their long-term economic health may be, probably would be adversely affected by not allowing the so-called inside, by providing that inside buildup would be taxable.

Representative OBEY. Which industries in Wisconsin do you think would be most heavily affected in negative fashion by the change in the way that the administration's package deals with business taxes?

Mr. LEY. Probably the heavy machinery. Electrical and nonelectrical.

The elimination of the investment tax credit, which allows an industry, as they add new plant and equipment, to take a one-time investment tax credit on that capital investment. Second, as I say, the so-called windfall tax which in effect takes back part of the benefit that these industries gained in the last several years through faster writeoff, through accelerated depreciation. And it is not only in Wisconsin but States like Wisconsin that depend—whose manufacturing sector jobs are largely made up by the heavy machinery industry, electrical machinery, nonelectrical machinery such as farm implements and those sorts of things.

So the heavy machinery industry I think, which is attempting to come back and is really in another area adversely affected by the high value of the dollar and the lack of exports, they are getting hammered there. Come back and get hammered here. I think that that is just the wrong thing, the wrong effect to be having on these industries as they try to struggle to be competitive.

Representative OBEY. Let me ask you, I asked this of a number of other witnesses yesterday when we had our discussion of agriculture, and the day before when we heard from the chairman of the

Governor's counsel on agriculture policy. A suggestion has been made that farmers—let me back up. As you know, the investment tax credit can provide some assistance to farmers in meeting their operating expenses. But it has been suggested by quite a number of people who know a lot about it that, in fact, because that ITC, as applied to agriculture, encourages a lot of people who really aren't farmers to get into the business of tax-loss farming, that the average family farmer in the Middle West would be better off, even though he would loose a slight advantage from the ITC, if that were eliminated, that the average farmer and farming in general would be better off if the ITC was eliminated as a device that can be used in the field of agriculture.

Do you have any judgment on that?

Mr. LEY. As we debated the income tax reform at the State level, although we don't have an investment tax credit at the State level, we heard that as well. It was another component of the same argument—was the use of accelerated depreciation—which we heard in testimony at the State level as we went through the reform effort, that accelerated depreciation as well might have been, when you look back in retrospect, might have been an ill-advised policy under the State Tax Code because it drew people in to make investments at a period of time in which we had high inflation and it looked like a good thing at the time. But in retrospect, the ITC combined with accelerated depreciation may have drawn farmers into machinery acquisition and other investments that in the long run, given what has happened since then, with 20-20 hindsight, it may have been better that they hadn't made those capital expenditures, as their income has dropped and they have an inability to pay back any borrowing, so to speak, for those investments. So the way that the legislature here came at that question is they passed a fairly detailed tax-loss farming provision, in effect limiting the amount that people who weren't really farmers, who really got the bulk of their income elsewhere, put a cap, a ceiling, a sliding scale cap depending on income, on the amount of tax, of losses that you could declare as a result of farming on your ordinary income.

So we did hear that as we went through our reform process. The legislature attempted to deal with that in a fashion that it could deal with it.

Representative OBEY. Let me ask you another question. In 1981, when a lot of these tax decisions were made at the Federal level, and some of us were trying to produce alternatives not only to the administration's package but to the Rostenkowski package coming out of Ways and Means, because we thought that was almost as big a turkey as the administration tax package was, and in some ways it was worse, I guess. Some of us were suggesting that as long as you deal with accelerated depreciation or any depreciation schedule, it is so complicated and it is bound to change so often as you get different political majorities for different approaches, that you ought to look at a different approach; also because investment tax credit and the accelerated depreciation treat different businesses different ways, different industries different ways.

We suggested as an alternative the Auerbach approach which calls for 100 percent first year expensing of machinery and equipment. We had no time to try or the staff to determine what the impact would be on original basis or anything else. Would you have any idea at all of how Wisconsin's manufacturing sector would fare if we had that kind of an approach to business taxation for machinery and equipment?

Mr. LEY. I would like to, if you wouldn't mind, have Mike Vlaisavljevich of my staff, if he could, comment on it. He is much more familiar with this corporate stuff.

Mr. VLAISAVLJEVICH. The Auerbach approach was really designed to equalize return on investment regardless of the type of asset. I would be unable to say whether in the short run Wisconsin would be hurt or helped in terms of individual firms. Obviously those firms that, under existing depreciation, pay below-average taxes on investments would in the short run find themselves confronted with higher taxes. But I think the advantage of the Auerbach approach was that it was a more efficient way of providing depreciation so that there would not be any distortion where capital went. Instead, depreciation would be recognized as an economic cost and capital would flow to that investment which provided the highest return. So it was an attractive concept.

Representative OBEY. OK. I really do believe that some day that is the way we are going to go.

Mr. Torkko, let me just try to summarize a couple points you make and ask you if this is a fair summary of what you are saying. You make very clear that what you are doing here is trying to measure only the effect of the elimination of the deductibility of State and local taxes, that you are not trying to change other variables. Even though we recognize that there will be other variables, for instance the whole idea behind all of the tax reform proposals on our plate down in Washington, is to try to get the base broadened and get it down so that you can eliminate some of the gimmicks in the Tax Code and provide a better deal for most people.

What you are saying is that even if we grant that there is going to be a base broadening and rate reduction to compensate in whole or in part for the elimination of that State and local tax deduction, what you are saying is that even if that happens, with the examples that you have used here, that it is pretty hard to find another State that would be treated worse than Wisconsin. Is that a fair assessment?

Mr. TORKKO. That is a fair assessment.

Representative OBEY. The comments that you made about the differences that occur in families with two incomes rather than one, who also incur child care expenses, would those comments be moderated somewhat with the administration's announced intention to now re-do what they were going to be doing on the child-care provision?

Mr. TORKKO. Yes. We have not looked at that impact but the direction would be better.

Representative OBEY. Good.

In your statement, you talk about the variances in your examples. Would you just run that by me again to explain what you mean?

Mr. TORKKO. What we are addressing there is pointing out that the disparity in relative State tax rates, if you will, among the States, is exacerbated by the direction that the administration proposal takes, so that the difference between the lowest and the highest becomes much greater than it now is if the administration's proposals are adopted. Wisconsin fares less well under that than most other States.

Representative OBEY. Let me ask any one of you to comment on what I am trying to bring out here. I will frankly admit that I have a bias in this issue. The first 2 days of these hearings were held to try to get at some general questions on the Wisconsin economy, but I have a very strong bias on this issue. I might as well confess it.

I think that the most significant threat to Wisconsin's economic future, outside of, I suppose, the general budget deficit situation that we face, is the potential for passing any tax proposal that would include the elimination of State and local tax deductions.

Yesterday Jim Morgan, who is head of the Wisconsin Taxpayers' alliance and who used to be tax commissioner under Warren Knowles—he is not exactly a conspiratorial left wing liberal Democrat—when I asked him what he thought the impact would be in Wisconsin of the elimination of that deduction and he said he talked to a good many businessmen who had said to him that that would be the last straw. That for a lot of them, if that deduction were eliminated, it would create such an increase in Wisconsin's competitive disadvantage, that they would begin to pull up stakes and leave the State.

The reason that I have tried to focus on this issue almost exclusively this morning is because I think what we are talking about here is not the importance of what happens to an individual taxpayer.

For instance, you can run through these numbers and it is possible for an individual, as you have indicated, Mr. Torkko, and as you have cautioned, Mr. Ley, that it is possible that if you run your own numbers or go to a tax person and have them run your tax numbers, that you individually may come out whole. You indicate that some Wisconsin taxpayers at the levels we are talking about would experience losses but that a good many of them may make up those losses because of the rate reduction.

But the important thing is to recognize that that isn't the question.

The important thing if we are looking at the health of the economy as a whole is what happens to our competitive disadvantage if we eliminate that item. And what that means to me is that even if each of us can come out whole and wind up paying no more taxes than before, because of the different ways that Texas taxes, for instance, somebody living in Texas is going to be one whale of a lot better off with that provision than they will be here or somebody living in Wyoming or Alaska. Isn't that a fair assessment of what we are really talking about? Not so much what happens to individual taxpayers but as what happens to the State as a whole because of the increased competitive disadvantage that we would face?

Mr. LEY. I think that is an excellent way to put it. I am pleased that you are keeping an eye on the so-called big picture with the effect of this sort of a tax proposal as opposed to worrying about how it effects individuals, although that is important.

I think that the—if this were to pass in its present form it would really call into question and get much more national intrusion into the way that States tax than they now currently do. I would think if that deduction were eliminated, serious consideration ought to be given by Congress and the President to intrude themselves into the way these States that export their taxes are able to do that. I think that only fairness would dictate that that occur.

I don't mean to suggest that we ought to accept State and local tax deductibility elimination. We ought not. But I think that the kind of testimony you heard from Jim Morgan yesterday reiterates or I reiterate that in my testimony today, we have been trying to get our business climate improved in this State through the M&E exemption or cutting the top rate of our personal income tax. All that could be for naught, if one thing, State and local tax deductibility, were eliminated. I think, frankly, it is unfair and perhaps a misuse of ideological fervor for this administration to be trying to dictate to the States the way that they collect revenues. I think it is unfortunate but I think it is something we ought to be very wary of.

Mr. SPRECHER. I think if I may make a comment, as you pointed out, I think continuously, this should not be a partisan issue. It should be a Wisconsin issue. That is what we have been trying to get across. The Governor has even gone so far as to say that it is not the start of the second American revolution. It is the start of the second Civil War. In essence what we are seeing is a further drain from the Midwest and Northwestern States to the Sun Belt, and to the Southern, Midcontinent States.

And we are not only paying for our own taxes here, paying for our own programs, but then severance taxes which States such as Texas make a large amount of their revenue from, we are also paying for those severance taxes. So you are making an argument that Wisconsin is getting hurt twice or hit twice by the elimination of local and State deductibility. I think we would like to stress again, it is not a partisan issue. It is not a Democrat versus Republican administration, but it is a State issue. This will be, as you have said, other than the deficit, probably the worst thing that could happen to the State's economy at this juncture. I think we are at a critical juncture.

We have been trying for the last 2½ years to make up from the recession and to chart new directions in our economic growth, and in our business climate. I think we have been making some strides in that regard in terms of how is Wisconsin perceived as a place to do business.

This deductibility will be, whether real or symbolic, I think it can be viewed at both areas, a detriment to our business climate.

Representative OBEY. Mr. Torkko, the essence of your study that you did for the Joint Economic Committee is that, if you take a look at the examples that you provided here, that for people in those conditions, if that deduction is eliminated, you would be increasing the difference between the cost of a taxpayer in that situation living in Wisconsin and a taxpayer living in the lowest tax State in the lower 48, in Wyoming by, from about 35 percent to about 75 percent?

Mr. TORKKO. That is exactly—the disparity is significant and it is measured approximately in those percentages.

Representative OBEY. So you would approximately double the disadvantage that Wisconsin would be competing under to retain those people in the State?

Mr. TORKKO. With respect to the State and local income tax deduction, that is correct.

Representative OBEY. OK.

We need to shut this down in about 10 minutes. I promised I would give some time for questions to the panel from people in the audience.

Does anyone have a question?

A VOICE FROM AUDIENCE. Could someone on the panel or yourself explain a little better exactly how other States export taxes, the manner in which they do so or their ability to do so, especially as it relates to the new budget proposal?

Representative OBEY. You mean the new tax bill?

A VOICE FROM AUDIENCE. Yes.

Mr. LEY. Are you talking about ways in addition to coal, gas, and oil severance taxes?

A VOICE FROM AUDIENCE. First of all, I want you to explain it.

Mr. LEY. Right now, States like Wyoming, Montana, Louisiana, Texas collect a large share of their revenues from severance taxes, in other words, they send their natural resources out of their States and in effect they put what they call a severance tax on it. And the oil, gas, and coal is not consumed largely in their States, most of what is mined is sent out of State. So when coal comes into Wisconsin, natural gas comes into Wisconsin, gasoline for automobiles and trucks come in, they have in effect built into the price our severance taxes that those States charge.

In those States, those severance taxes make up a larger, a relatively large share of the general fund taxes that those States collect.

In contrast, Wisconsin collects about 46 percent of its general fund revenues from a personal income tax, another 30 percent of taxes come from sales tax and the difference from a whole host of other sources. What that means is, Wisconsin, compared to Texas, Wisconsin gets most of the taxes from its citizens.

We, about 15 percent of our sales tax collections, about 4½ of our total collections come from sales taxes that are paid by people coming into Wisconsin. There is an example of Wisconsin where we, so-called, export part of our tax, where people from other States pay it.

But in Texas and Louisiana, Montana, those States, I don't know what the exact percentages are, but I do know that a lot of Texas doesn't have a personal income tax. So that probably, I would guess, 40 to 50 percent of their revenues are collected from gas, oil, and coal.

It isn't just those States. Florida, for example, a non-income-tax State, exports its taxes by relatively high sales tax that is paid by people, tourists coming into that State. Is that answering your question?

A VOICE FROM AUDIENCE. Yes.

Representative OBEY. Let me add on that, we had a lot of talk about the University of Wisconsin in the last 2 days and the the role it could play in helping to stimulate economic development.

The university that is making the fastest strides in becoming a truly world-class university is the University of Texas. They have an endowment based very much on oil. They own oil wells. And the money from those wells goes into that university. You ask anybody who at the University of Wisconsin is trying to keep qualified, competent faculty and they will tell you that Texas will go to a key professor at the University of Wisconsin and say: "We will take you, we will take your whole research team, we will build you a laboratory, we will give you everything you want." And they will give them a salary that will make their eyes glow.

When you can compete for brains like that, it puts States who have no resources that we can tax as they leave the State—maybe some day we may do that with water, if the Southeast continues to stupidly drain their own aquifers and overtax their own ground water. But that is a long way in the future, even if it is practical. I am told that with the benefits that Texas, that the University of Texas gets from oil and gas, Texas kids pay about $350 a year total tuition. So that is a very difficult thing to overcome and that is just one example of how we have to be very careful in treating these tax changes.

A VOICE FROM AUDIENCE. I would like to propose a way of improving Wisconsin's economy by the development of product and research centers in Wisconsin. I think that we could get a headstart on other States by developing localized product research and development groups which would have an exclusive on the patent ability of the product that they develop and then we would have something that we can export to other States that other States could not utilize or tap without going through the manufacturer who produced them in Wisconsin. This could be easily done in Wisconsin. There are a lot of qualified people here who are moving out of the State who could be caused to stay in the State by development of such centers.

I have proposed doing this in Wausau over the last few years. I think that by tapping the creativity of the Wisconsin people, we can overcome a lot of our deficiencies in fuel and natural resources because we do have a great university, a great university system. But by making a definite attempt to, a definite effort to produce product research and development centers, we can overcome a lot of these deficiencies and put a lot of our skilled technical people back to work in Wisconsin.

Representative OBEY. Thank you. There was some discussion of that 2 days ago when we had the acting president of the University of Wisconsin here.

The other argument that I would like you to address and expand upon is this: The administration and others who agree with them will make two points in pushing the elimination of that deduction. They will say, first, that after all, that deduction is just a subsidy on the part of 35 other States to 15 high-tax States like Wisconsin, New York, Michigan, and Minnesota.

Second, they will say, after all, this break really just benefits high-income people. It really isn't of benefit to people across the board.

My response to that is that, first, Wisconsin is not subsidizing anybody. If you take a look at what we get back in comparison to what we send, we get back about, I think your figure said 80 cents on the dollar, mine says 82 cents on the dollar. You have to adjust for the Federal deficit before you reach that conclusion. But that is what the number is when you do that. And second, my response is that it may appear on first glance that the initial beneficiary of that deduction is a high-income person, but the fact is the high-income people and middle-income people pay a lot of taxes in the State in order to support services for people who are too poor to pay for them themselves, everything from education to medical costs, you name it. And that is the only recognition that they get for shelling out that amount of money out of their own pockets is the ability to deduct that from their Federal and State return.

It is also funny, the argument made by some is that this is just another special interest. I think it is important to note that that exemption has always been in the Tax Code, since the beginning of the income tax, you have always had an exemption for the State income tax. In fact, there was, when Lincoln levied a tax at one point in the Civil War, there was an exemption at that time. So that is my response, but I want to know if you have a better or tighter response to those two points?

Mr. Ley. To the second point, I think that the study that I referred to will clearly show that as far as how this, the President's proposal, affects Wisconsin residents, it is not a matter of just the high rollers, the high-income people being adversely affected. As I testified, it is a good share of our elderly population, those who continue to itemize. I wouldn't say a majority, but a good share of the elderly.

Other middle-income Wisconsinites. Especially those where you have—which is an increasingly important phenomenon—especially as a lot of manufacturing jobs get cut back, you have a much larger share of the households with two-income earners. You take the elderly and middle-income taxpayers who lose not only the child-care deduction, but more importantly, the second earner credit, that 10 percent of the credit up to—yes, 10 percent up to $30,000 or a $3,000 credit. That is a very significant feature that the President proposes for elimination that causes, in addition to the loss of the State and local tax deduction, the loss of that deduction really gets the middle-income Wisconsinites. So it isn't a matter of just the high-income people getting hurt. It is a boon to them. I know that Don Regan has referred to the statement: Why should the Federal Government subsidize the high-income wealthy people in a high-tax State like New York?

Well, I think if you look at the study, you will see that middle-income Wisconsinites, as a result of the State and local deductibility loss, the loss of the child care credit, combined with the loss of the second earner credit, that is why you are going to see a substantial portion of Wisconsin residents having a tax increase, not to mention the broader macro effects that we talked about a few minutes ago. I think that is important to hammer home. I think that this weakness in the President's proposal has been identified by many others. I wouldn't go so far to say that we are the first to identify this, but I think this reinforces what Chairman Rostenkowski and others have pointed to as a weakness in the President's proposal.

Mr. TORKKO. I would like to add that you are making—Congressman Rostenkowski's message to his House Ways and Means Committee members as they left for break recognizes that the Joint Economic Committee study refutes the argument that low-tax States are subsidizing the spending of high-tax States.

Representative OBEY. When did he say that?

Mr. TORKKO. It is in writing.

Representative OBEY. I want a copy of that. I am very concerned because Congressman Rostenkowski has told me that he does not support the retention of that deduction and if what that statement would indicate is that he recognizes the validity of the JEC data and yours, but that he supports it anyway. I am very worried about that because I think we saw what happened to us the last time when we saw round one of the Ron and Rosti show. We have still got that, so we can't forget it.

The other thing I think I need to point out, on the question of whether that bill is revenue neutral. It appears to be somewhat costly between now and 1990, but what I find bothersome, I wonder if you have done any checking on it, my understanding is that after 1990, that bill really falls off a cliff in terms of its lack of revenue neutrality. That after 1990, it begins to roll up some very significant deficits. Do you have any information that would——

Mr. LEY. I don't.

Mr. VLAISAVLJEVICH. I think the Congressional Budget Office staff did a report which I believe is regarded as definitive and essentially what they are showing is very logical: When you change depreciation schedules in a way that you reduce the depreciation deductions in early years but provide more depreciation later, then what you have done is delay that but made it greater in the later years. So I think the magnitude of the shortfall that they were indicating was of the order of $15 billion a year, due to the change in depreciation schedules after 1990.

Mr. TORKKO. The other effect that creates that cliff approach, the cliff impact, is the runoff of the recapture, of the depreciation recapture, because that ends about that time. So that one-time revenue-neutrality device expires and that has an impact.

Representative OBEY. So the impact of that on Wisconsin, as you indicate, Mr. Sprecher, is that it adds to the deficit and continues to add to the factors of the economy which keep growth slow and help drain jobs out of it.

Mr. SPRECHER. That is exactly right.

Representative OBEY. Time for one last question.

A VOICE FROM AUDIENCE. With the tax reform, is that going to lower the deficit to keep the economy rolling or is this something you can't anticipate yet?

Representative OBEY. That is what we are talking about now. The tax reform bill doesn't lower the deficit. It adds to the deficit, and this is not just true of the administration's proposal, it is true of the four major proposals being considered. It is true of the administration's certainly. It is true of Kemp-Kasten. It is true of Bradley-Gephardt. They all, as far as I am concerned, have two fundamental disadvantages. They started from a very regressive tax base which is the 1981 base, so that nationally, high-income people tend to come out very well. And middle-income people not so well. And second, all of them add to the deficit problem rather than help solve it because they all lose revenue. And when you are losing revenue, and you are continuing to expand this piece of the pie, you have got a bigger deficit. That is the problem.

A VOICE FROM AUDIENCE. Can I ask one question?

Representative OBEY. Go ahead.

A VOICE FROM AUDIENCE. I thought you made a very powerful point yesterday morning when you stated that in answer to the statement made by our own State senator, that our real solution to our problem is to reduce our spending. Then we wouldn't be in the boat that we are in if this deduction were eliminated. You made a statement yesterday, I believe, that four out of the five lowest tax States in the country have spending levels higher than we have in Wisconsin.

Representative OBEY. Higher than we have in the five highest tax States.

A VOICE FROM AUDIENCE. OK. That is still a powerful argument. Then yesterday, sometime after you made that statement—which I really appreciated having that information—Mr. Kuehl yesterday morning made the statement that our spending levels on several different bases was among the highest in the country. I was wondering whether you could reconcile those two conflicting statements. I have had some correspondence with our State senator who is one of the proponents of this deduction being eliminated. I would like to pursue that subject further, about a statement such as you made that might be imparted to others, and might be challenged?

Representative OBEY. I am sure people will challenge virtually everything I say, at least some people. But I stand by those numbers. The numbers are self-evident. Mr. Kuehl was dealing from a somewhat different base. He was talking about taxation levels per thousand dollars of income. That is a different way of measuring the issue. What I was trying to measure is the total amount of State and local taxes combined on a per capita basis. And when you measure that, I think I have got the chart here—spending State and local, if you take a look at on a per capita basis where Wisconsin comes out on spending per capita, it comes out lower than Minnesota, New York, business district of Hawaii, California, New Mexico, Nevada, and several others.

Mr. LEY. We are 15.

Representative OBEY. Yes. And if you take the combined amount of money spent by the Federal, State, and local government in this State, we are 37 in the Nation below the median and below the average. And that, we have got to keep that in mind.

Well, let me if I can summarize. This will take a little bit of time but I tried to put together, after reading all of the testimony and hearing what happened the last 2 days, I tried to summarize what we heard. I think several themes have emerged from these hearings.

First, Wisconsin has had special problems for the last 2 years because it has, primarily because of the peculiar mix of our own economy. We rely much more heavily on manufacturing than does the average State in the Union.

Second, the Federal budget and trade policies which we have had have resulted in significant trade deficits, much larger than anything in our history. And they have been especially hard on the manufacturing sector. And, therefore, they have been hard on States like Wisconsin because of our reliance on manufacturing. I think it is also apparent, we heard a lot of testimony from the business community and other people yesterday, it is apparent that Wisconsin, its Governor and its legislature have taken some pretty tough actions to deal with Wisconsin's problems and that Wisconsin is better off for it. I think it is also apparent that the Federal Government, if the Federal Government had shown the same kind of guts and same kind of discipline, that Wisconsin would be even better off because deficits would be lower, interest rates would be lower and that would bring our trade deficit down and would greatly improve the ability of both farmers and manufacturers to export. It is apparent that if Wisconsin is to provide the kind of decent long-term future for our young families, it has a higher stake than most States in having the Feds exhibit some guts and courage on fiscal policy.

At the State level we have examined our disadvantages. The disadvantages included the income tax situation and a feeling that the University of Wisconsin has not been as attentive as it ought to be in identifying opportunities to assist in Wisconsin's economic development. We have also been told that to a significant degree the budget actions taken by the Governor and the legislature have addressed our income tax disadvantages in a meaningful way. And we have been told that in the eyes of business leaders, the Wisconsin Strategic Development Commission testified yesterday that business taxes in this State are certainly competitive with other States and we also have been told that the university, already a priceless asset, I am sure, many of us recognize that, that the university is making significant progress in trying to devote more attention to opportunities to help business and State government promote economic growth.

I think the witness who best summed up what Wisconsin's situation is was Russ Cleary who is president of G. Heileman Brewing Co. He said Wisconsin's disadvantages include relatively high personal taxes that created a negative image of Wisconsin. A range of business tax irritants that offends individual Wisconsin companies and do not raise significant revenue. Expensive government that is increasingly difficult to afford given the recent economic downturn. He cited a lack of adequate entrepreneurship, venture capital, and new business formation, a relatively high wage rate in certain industries, particularly at the lower skilled levels, a university system viewed by the private sector as antibusiness in some respects, although we heard some brighter news on that issue in the hearings, and a perception by the business community that government officials from time to time tend to be less supportive of economic development than is perceived to be true in other States. He also cited that in some people's eyes, regulatory climate, which appears to be more severe than in most other States, creates a negative image for Wisconsin in the minds of some business leaders, and that we have an economy that is significantly dependent on manufacturing and a sector has suffered in recent years. But he also said that Wisconsin has a lot of strengths. He listed these. He said a diverse economy which includes strong manufacturing, agriculture, tourism and service sectors. Major companies within those sectors have shown considerable success and represent some of the higher quality firms within their business lines. And he cited the tremendous advantage that Wisconsin has from a highly skilled labor force with a reputation for a strong work ethic. I think if there is anything that identifies Wisconsin culture, it is the strong work ethic. He cited that we have a solid infrastructure already in place. We had a little argument about whether we had enough by way of modern highways in this part of the State, but outside of that the infrastructure is, in his view, in pretty good shape. A world class university system, a high quality elementary and secondary school system that compares favorably with any State in the country, a vocation training services as exemplified by this building which are ranked at the top in the United States, and a relatively favorable business climate, particularly for manufacturers and he added something, which I think we always take for granted but which we shouldn't, we ought to be very proud of, Wisconsin does have able people in government at all levels on a nonpartisan basis and it has a clean government in comparison to the kind of scandals that you have seen in many States around the country; Wisconsin has been very, very much free from that over the years, regardless of which party has controlled the State capital or the legislature. And that is a tremendous advantage I think. And as Mr. Cleary noted, that it is much easier to find ways to direct the resources of a great university toward economic development than it is to create a great university. It is easier to encourage public officials to support the needs of the private sector than it is to create a competent and clean government. It is far easier to deal with problems of wage rates than it is to create a skilled work force. And it is far easier to create entrepreneurial incentives than it is to build a complete infrastructure to support economic growth. And it is far easier to remove minor tax irritants cited by Mr. Cleary than to completely reform the corporate income tax to make it competitive with other States. We are lucky to have a corporate tax structure which is competitive.

I think the Governor also cited something which is important in our own committee's joint economic report for this year, we cited something similar. What the Governor said yesterday was this. He said in the political arena, Republicans and Democrats are going to have to learn to agree on the subject of economic development. For Republicans he said that means that they are going to have to get over their obsession with taxes as the only subject worth discussing when the topic of economic development comes up, and he said the world is changing but the trickle-down version of economic growth which has always been at the center of Republican political rhetoric has not changed at all. He said it is an outmoded creed which will not and should not succeed in a progressive State like Wisconsin. But the Governor also said that Democrats need to become much more actively engaged in the effort to rejuvenate our own State's economy. He went on to say that there are some in our own party who prefer in engaging in out-of-date exercise of sick ideological business baiting rather than taking the steps that are needed to provide stable, well-paying jobs to their constituents.

I think that while he was speaking from a State standpoint, we need to say the same thing about the Federal Government. What is important, for instance, on the budget deficit is not a person's ideology, not a person's political philosophy and not even what your first preferences are. What is important is what works; what is important is what you can get people together to do that works. And it seems to me that the question is can—we had some argument about how you ought to get the deficit down. The question isn't whether you get it down my way or get it down somebody else's way. The question is whether you can get it down period. And we have to make compromises in order to do that. I also think based on the testimony today and the testimony that we heard yesterday that it is clear that Wisconsin has done a significant amount to deal with its problems but it is also clear that Wisconsin's economy could be under severe attack by developments at the Federal level. The one change in Federal policy that poses the greatest threat to Wisconsin's ability to compete is the plan to eliminate the deduction for State and local taxes; it is the tax on a tax which the President admitted a couple years earlier and has now changed his mind, I guess.

But in the words of Jim Morgan, former tax commissioner of this State and currently president of the Wisconsin Taxpayers' Alliance: The elimination of that deduction would be the final straw that would cause many businesses to leave Wisconsin. It would place Wisconsin in a significantly worse position, in a significantly worse competitive posture tomorrow than it is in today and we have been told this morning that there would be substantial dollar loss to the State ranging from $820 million on down, depending upon what other factors you bring into it. I think what I found most rewarding in these hearings is that we have had a genuinely cooperative tone. We have have had a lot of people on opposite sides of the bargaining table, but I don't think they were very disagreeable where they did disagree. I think probably the most painful session that we had was the session on agriculture, because if you want to really see an illustration of how government policy affects human beings in the flesh, all you have to do is take a look at what happens in agriculture. You could certainly see yesterday with some of the people in the room, and given what is happening to a lot of those farmers, it is not a very pleasant thing to see.

I think Wisconsin is ahead of most States. I get around this country a lot, I think Wisconsin is ahead of most States in the way we are able to work with each other even though we might have differing political philosophies. I hope that that cooperative tone will extend to dealing with this very serious problem of State and local tax deduction. In New York, as I indicated yesterday, you have a bipartisan coalition. You have a Democratic mayor of New York and a Democratic Governor and a Democratic Senator but you also have a Republican U.S. Senator by the name of Gus D'Amato who is a member of the Joint Economic Committee, all united, putting very heavy pressure on Washington not to eliminate that State and local tax deduction.

We don't have that same unity in public officials here. The Governor feels very strongly about it. Senator Proxmire and I obviously do, but at least one of our Senators doesn't. He is entitled to his opinion. He feels that the rate reductions in the tax reform bills will mitigate the problem that the elimination of that deduction would have on Wisconsin's economic condition.

I think the testimony indicates that that is not correct. If you look at the big picture rather than simply the question of how individuals do, and I hope that we will be able to get a strong, concerted effort on the part of the government officials, on the part of business, and on the part of labor and the academic community which has certainly contributed to this debate, in putting together a united effort to pressure Washington sufficiently so that we do not lose that deduction. I know some people are suggesting what I consider to be a copout. We have one member of the congressional delegation in the House who is suggesting that the way to deal with it is simply to have a 5-year phase-in for the elimination of that deduction. To me that simply imposes the death sentence but it delays the hanging. I don't think that does anybody any good. What it really does, it allows the politicians who vote for that to escape the political consequences of inflicting a considerable competitive disadvantage on the State of Wisconsin. That is what that proposal does.

I hope that at the State level there will be more active opposition to this proposal. I know the Governor has been active already. I hope that he will continue to help in putting together the kind of coalition we need in order to knock that one out on its merits. Because as you mentioned earlier and I have been trying to emphasize the point, this is not a Democratic issue, it is not a Republican issue, it is a Wisconsin issue. On this one, we had all better hang together or as Ben Franklin said, we are going to hang separately.

Thanks very much for your coming.

[Whereupon, at 11:25 a.m., the committee adjourned, subject to the call of the Chair.]

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