



La Follette Policy Report

ROBERT M. LA FOLLETTE SCHOOL OF PUBLIC AFFAIRS

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DIRECTOR'S PERSPECTIVE

The events of September 11 deeply affected all of us at La Follette as they did everyone. Faculty, staff, and students gathered quickly around televisions that morning, standing in stunned silence as events unfolded. Our collective grief and dismay grew throughout that day and in the ensuing weeks.

A standing-room-only impromptu seminar took place soon after the tragedy, in which students, faculty, and staff—with a wide range of international expertise and experience—shared their thoughts and concerns, insights and understanding.

Our faculty were called upon frequently by the media, and as difficult as it was to make any sense of the tragedy, they rose to the occasion admirably. In this issue of the *La Follette Policy Report*, Don

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Economic Development: The Role of State and Local Government in Wisconsin

by **Stephen Malpezzi**

Professor Malpezzi is an associate professor and Wangard Faculty Scholar in the Department of Real Estate and Urban Land Economics of the School of Business, as well as an associate member of the Department of Urban and Regional Planning, of the University of Wisconsin–Madison. The following article is based on a study the author prepared for the Governor's Blue-Ribbon Commission on State and Local Government Partnerships, chaired by Professor Donald Kettl (see www.lafollette.wisc.edu/reform). References, acknowledgments, and supporting data are available from the author at smalpezzi@bus.wisc.edu.

The recent softening of the U.S. and Wisconsin economies, preceding but exacerbated by the economic fallout from September's terrorist attacks, has focused some of our attention from events unfolding in Southwestern Asia to the economy, both globally and close to home. Here in Wisconsin we have concluded a two-day Economic Summit, sponsored by the University of Wisconsin System, wherein a thousand business people, academics, and public officials began to sketch out a "road map" for the state's future economic growth and development.

Deeply embedded in Wisconsin's system of governance is a partnership between state and local units of government. Heavy mutual reliance upon real estate, income, and sales taxes requires a high level of commitment to communication and coordination between the state and its partners in local government. At the most basic level, the citizens of Wisconsin, the common constituents of all units of government, are the members of a social partnership that aims to deliver, among other bene-

fits, economic development. Economic development, broadly and appropriately construed, translates into improved standards of living and well-being for our citizens. Economic development also generates the resources—fiscal and human—that state and local governments need to do their job.

Wisconsin's Recent Economic Performance in Perspective

Wisconsin's population grew more or less steadily over the past thirty years, from about 4.4 million in 1969 to about 5.3 million today. This growth is a little over half the national average population growth over the period. Wisconsin's employment also grew more or less steadily over the past thirty years, from about 1.9 million to about 3.3 million jobs. This growth is also just slightly below the national performance over the period. In 1969, Wisconsin's income per capita was about \$14,400, compared with \$14,800 for the United States as a whole (in today's dollars). Over the next thirty years,

Wisconsin's real per capita income grew at about 2.2 percent per annum to about \$27,300, while the United States as a whole grew at a rate of 2.3 percent to about \$29,600. For both the nation and Wisconsin, incomes per capita roughly doubled over the period.

In Wisconsin, as in the United States as a whole, real incomes were stagnant for households in the bottom of the income distribution, while the fastest household income growth was at the top of the distribution. Broadly speaking, over the past three decades the gap between rich and poor has been growing. Growth and income distribution, however, are not necessarily at odds. As we will see below, it turns out that metropolitan areas that grow fastest generally have the fastest growth in incomes at the bottom of the income distribution.

Why Do Regions Grow?

Many of the findings regarding the reasons for economic growth and development are hardly surprising. For example, physical capital (machines, real estate,

computers, and so on) matters, although in the long run it is perhaps human capital that matters the most. Locational advantages, such as a clean environment and strong amenities, make a difference. Regions that have well functioning cities and strong economic and transport links between cities and nearby rural areas tend to prosper. All of Wisconsin is affected by the fact that our largest city, Milwaukee, is somewhat smaller and less dynamic than nearby Chicago or even Minneapolis.

Nationwide, there are modest relationships between the structure of a region's economy and its growth patterns. The most careful studies show "high tech" regions grow only slightly faster on average than "low tech" regions. But that does not deny the fact that high tech development can be critical to regions that have a comparative advantage in such activities. With a world-class research university inside its borders, Wisconsin is in such a situation. Furthermore, as La Follette's Don Nichols has demonstrated, many industries usually thought of as low tech and "Old Economy," like metal bashing or trucking, have been radically transformed by the application of technology. Certainly technology has been and will continue to be an important driver of development. But we should not turn our legitimate interest in technology into a fetish. For example, biotechnology will likely be an important stimulus in parts of southeastern Wisconsin in the near future. But we should recognize that some parts of the state might need to focus on quite different comparative advantages, including relatively low-tech activities such as tourism. Agriculture continues to play a role in Wisconsin's economy, but as in most other states, a fairly small one in the aggregate. Despite our public "cheesehead" image, Wisconsin is best characterized as a leading manufacturing state.

The role of a region's culture is important, but it also is difficult to measure and analyze. Wisconsin benefits from a strong work ethic and high standards of public probity, the latter partly a consequence of our Progressive tradition. Some would argue, however, that we are less entrepreneurially minded than some other parts of the country.

Who Benefits from Economic Growth and How?

Despite the common perception that fast growth comes at the expense of a more equitable distribution of income, careful recent studies by the Upjohn Institute's Timothy Bartik and the University of Pennsylvania's Janice Madden have demonstrated that metropolitan areas that grow faster also tend to see the largest gains at the bottom of the income distribution. The best explanation for the positive long-run relationship between regional income growth and an improved distri-

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bution of income is the “hysteresis” model of labor markets. Put simply, hysteresis models are ones in which history matters: people aren’t simply identical “labor units” entering and leaving the labor force. In rapidly growing areas, there is more opportunity for increased labor force participation by people who may not have been in the labor market before. Building up a work history and learning better work habits leads to faster growth, which increases the economic potential of low-income households, racial minorities, and other disadvantaged groups even more than for citizens who enjoy greater economic advantage. Metropolitan growth is, therefore, generally progressive.

The progressive benefits of growth can be somewhat offset by increases in rents and house values. Growth in housing costs tends to benefit existing owners and increase the tax base, but such growth harms renters and newly forming young households and may slow the growth of our labor force. Thus, on balance, increasing housing costs reduces the gains from growth. These increases in housing costs, however, are generally not high enough to offset fully the gains from increases in income and declines in unemployment from employment growth. This is one reason it is important to regulate housing and real estate appropriately. Madison and parts of suburban Milwaukee are examples of areas where overly stringent real estate regulation has reduced the potential progressivity of local growth.

A number of recent studies show that net increases or decreases in employment mask even larger job “churning,” the situation resulting from companies simultaneously firing and hiring employees. In a typical year in the United States, for every hundred manufacturing jobs, ten disappear (permanently or temporarily), and nine new ones are created. Employment growth is a combination of increasing our gross positive flows from employment openings and business expansions while limiting gross declines from closings and contractions. In fact, about twice as much variation in employment net growth is explained by gross increases as is explained by gross declines. Declines do matter, of course, and the pain and cost of any plant closing is very real to those involved and not to be trivialized. But the data also show quite clearly that the “action” is in openings and expansions. One should be aware of these facts when considering policies to address plant closings. While good arguments can be made for some advance notice of layoffs, and real issues arise related to the responsibilities of firms that have accepted large public subsidies, making plant closings or layoffs extremely difficult probably does nothing to retain plants in the long run and can surely serve as a barrier to expanding and creating new openings.

Another growth-related question, which is often misunderstood, is the extent to which growth does or does not “pay.” At first glance, a number of studies seem to imply that as employment and population grow and new housing is added, the fiscal impacts on local govern-

ments may be negative. These studies often suggest that increases in local taxes collected will be exceeded by local expenditures on schools and other services. It is not clear, however, that these studies are correct, because they utilize incomplete accounting methods.

Broadly speaking, communities grow because population grows (from natural increase and migration) and because labor and capital productivity rises over time and per capita incomes grow. Higher per capita incomes, in turn, increase the demand for better housing, improved infrastructure and other public services, and additional commercial real estate, among other things. Most “fiscal impact studies” done for local governments fail to capture these dynamics adequately and thus are overly pessimistic about the cost-benefit of growth. It may well be, however, that in the short run, and for particular government entities, growth can be disadvantageous. But there is no evidence that in the long run city fiscal positions are harmed by growth. There is effectively zero correlation between population growth and city surpluses and deficits, taxes per capita, or municipal expenditures per capita.

Is local economic development a “zero-sum game?” Many economists believe that most local incentives for development simply subsidize location decisions that would be made even without a subsidy or “at best” move jobs from one location to another. Some recent research suggests that, at least to a limited extent, this may be overstated. If we accept the hysteresis argument, and further posit that the locations that give the largest tax breaks may be those with the worst economic conditions, it is possible for economic development incentives to move production toward regions where external benefits are greater. But *possible* doesn’t mean that it does or that the effect is very strong. Our quantitative knowledge of the size of these effects is rudimentary at best. And at least with respect to some important subsidies, namely those from Tax Increment Financing (TIF) programs, it is clear that in Wisconsin, the richest counties provide the highest levels of TIF subsidy.

Another important issue about who benefits from growth is the relative position of central cities and suburbs. Cities have been decentralizing for as long as they have existed. American cities have decentralized particularly quickly over the past century and a half, partly because of income growth and improvements in transportation and partly because of localized problems in central cities and localized benefits in some suburbs. Standard models used by urban economists highlight the fact that as citizens’ incomes rise, they tend to move to larger houses on larger lots; and as transportation costs fall, commutes cost less as one moves farther out. Thus, urban decentralization or “sprawl” is not a new phenomenon; it has been around as long as cities have been studied. This does not imply, however, that suburban (or rural) areas are unaffected by the economic fortunes of central cities. In fact, a wealth of evidence

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CRITICAL CHOICES

An International Affairs Breakfast Series
Co-sponsored by the La Follette School of Public Affairs
and World Affairs and the Global Economy (WAGE)

8:00 a.m. Thursdays
Concourse Hotel ■ 1 W. Dayton St.

January 10 *Climate Change and the Future*

Clark Miller, *Assistant Professor of Public Affairs*

Three challenges face policymakers: (1) adapting to climatic fluctuations and dealing with severe weather-related events; (2) finding ways to adjust the infrastructure of the modern economy to eliminate greenhouse gases cost-effectively; and (3) developing worldwide efforts to make sure the costs and benefits of responding are distributed fairly among the world's peoples. What are some steps that government leaders can take to address these challenges?

February 14 *International Transactions and Corruption: Leveling the Playing Field*

Melanie Manion, *Associate Professor of Political Science and Public Affairs*

The adoption of international conventions on the subject of corruption practices is leveling the playing field for American businesses and raising standards for loans and aid. How can this trend be fostered and the "corruption equilibrium" be discouraged on a wider scale?

March 14 *From Counterterrorism Policy to the War on Terrorism*

David Leheny, *Assistant Professor of Political Science*

The terrorism exacted on September 11 suggested that the American approach to security has been insufficient. The Bush administration now seeks to eradicate terrorist organizations with a global reach and is reshaping the nature of U.S. security policy in the process. Drawing on his experience in counterterrorism in the U.S. State Department, Leheny considers the question, How do we assess the success or failure of security policies?

April 11 *Genetically Engineered Food and Food Labeling: Global Policy Differences, Local Impacts*

Lydia Zepeda, *Professor of Consumer Science and Director of the Center for Integrated Agricultural Systems*

This presentation explores differences in the policies that regulate genetically engineered food products and how various economic, social, and political forces help to explain the differences. What are the chances for establishing consistent standards internationally?

Wisconsin Ideas: The Continuing Role of the University in the State and Beyond

by John F. Witte

John F. Witte is the director of the La Follette School of Public Affairs and professor of political science and public affairs at the University of Wisconsin–Madison. Sources on which this article was based include the Curti and Carstensen and Bogue and Taylor volumes on the history of the University of Wisconsin as well as Robert Lampman’s edited volume Economists at Wisconsin. The piece below is a modification of the article “Wisconsin Ideas: The Continuing Role of the University in the State and Beyond” published in New Directions for Higher Education, © 2001, John Wiley & Sons, Inc.

The Wisconsin Idea, which symbolically links the University of Wisconsin with the community it serves, has been in the lexicon of American education and politics for over 100 years. There is no set definition for the phrase. But a definition is different from a meaning. The meaning has been consistent. The Wisconsin Idea has meant that the role of our university—a state university—is to: (1) provide advanced education to as many of its citizens as possible; (2) create, invent, nurture, and implement new discoveries and ideas that benefit “the commonwealth”; and (3) use the expertise of the university for the direct benefit of our citizens and institutions. The Wisconsin Idea, without the name, dates to John Bascom, president of the University of Wisconsin from 1874 to 1887. The name postdated the activity. With the publication of Charles McCarthy’s *Wisconsin Idea* in 1912, the words became symbols for an important purpose and commitment.

The title of this essay makes the phrase plural to signify the multiple meanings that have always been associated with the phrase; and more important, to signify a transition in its meaning from the decades before World War II to its current formulation. My theme is that, although changes have occurred in the structure and practice of the relationship between the university and the community, the underlying commitment of Wisconsin Ideas still flourishes and will likely expand in the future. To explain the evolving relationship between the university and its expanded “commonwealth” requires considering the changing shape of the university, the changing structure of governments, and the current configuration of an economy and society that is at once local, national, and international.

I begin by reciting a remarkable history of the University of Wisconsin’s role in defining the policy issues that framed the twentieth century. These issues could have been championed by Ivy League schools, where most national leaders of the time were educated, but they were not. Rather it was done in the Midwest, largely at state universities, and to a significant degree at the University of Wisconsin. This may have been simply happenstance, for it required merging intellectual, moral, civic, and political goals that defined a progressive program of social action. But it may also have

been that those universities, by the nature of their birth and role, have always been closer to the real problems of common people. Regardless, the result created a lasting international image for my university. More important, it created a lasting set of institutions, laws, and regulatory structures that affected other states of the union as well as national legislation.

Origins: 1874–1914

The University of Wisconsin began in 1848 as a land-grant university, whose first class was taught by John Sterling in a room of the Madison Female Academy. From the beginning, it was clear that the university’s role was to provide advanced education, not only to the elite, but also to the mass of Wisconsin citizens. There was an additional commitment to provide education and service extending beyond its walls to the community in which it was embedded. One of the most definitive histories of the university written by Merle Curti and Vernon Carstensen in 1949 begins by describing the concept of the “state university”:

In briefest compass, the term implied that providing for higher education was a vital function of society; that the most suitable agency in the United States to perform this function was the state, independent of religious and of private bodies; that the state university should crown the whole system of public education with which it was to be so closely integrated; that the recipients of higher education in a democratic civilization should not be an intellectual elite, but all citizens capable of benefiting from such training; and that the curriculum of a state-supported institution of higher education should embody not only the scholarly purposes of traditional institutions, but the professional and practical needs of the citizens, individually and collectively.

The first years of the university were as a “preparatory school,” primarily for schoolteachers. The first president of the university, from 1850 to 1859, John Lathrop, expanded the curriculum to include science, literature, the arts, and a department for the theory and

practice of elementary education. Although the institution grew and functioned admirably through its first three decades, the clear connection of the university to political and social problems of the state and nation did not take effect until Bascom became president in 1874.

Bascom came from Williams College in Massachusetts, where he had developed a decidedly conservative, laissez faire-oriented philosophy of political economy—a subject he taught with relish. His attitudes were connected to strong Christian beliefs, and he was actively involved in the temperance movement. Once at Wisconsin, however, his laissez faire attitudes radically changed. In part to justify state intervention in prohibition, but also in reaction to the problems of monopoly trusts and the great disparities in wealth and income resulting from the industrial revolution, he slowly but deliberately embraced strong state action and responsibility for ensuring the public good.

By connecting his beliefs to his Christian faith, Bascom emphasized the moral responsibility of institutions and individuals. By 1887 these views were well formed. In a famous baccalaureate address, entitled “A Christian State,” he affirmed a clear role for individuals, including students and faculty, to aid their fellows and community. But he also described a set of obligations for the state to support an income tax, redistribute wealth, and heavily regulate business, especially trusts and the railroads. To answer those who argued that such actions threatened individual liberty, a position he himself held several decades earlier, he replied: “Liberty stands for the use of powers, not their abuse. . . . If we allow the individual to seek what he regards as his own liberty without relation to that of others . . . the commonwealth itself crumbles away and is at length dispersed to all winds of heaven.”

Those whom Bascom taught and appointed created and implemented what became known as the Wisconsin Idea. Among those were influential leaders at the university and in government. Students Robert M. La Follette and Charles Van Hise, later as governor and president of the university, respectively, forged a program of progressive legislation and change. La Follette wrote of Bascom’s influence on him in his autobiography published in 1911:

His addresses to the students on Sunday afternoons, together with his work in the classroom, were among the most important influences in my early life. It was his teaching, iterated and reiterated, of the obligation of both the university and the students to the mother state that may be said to have originated the Wisconsin Idea in education. He was forever telling us what the state was doing for us and urging our return obligation not

to use our education solely for our selfish benefit, but to return some service to the state.

Van Hise was trained as a geologist and, soon after becoming the first Ph.D. recipient from the university, quickly made major theoretical advances in the field. He became chair of the Geology Department and was appointed president of the university in 1903—three years after La Follette, his friend and classmate, won the governorship. He soon turned from his training in science to work on political, economic, and social issues. As had Bascom, he focused his own writing, teaching, and leadership of the university, as well as his political activism, on the excesses of the industrial revolution and its consequences for society. This led him to support and foster many of the pieces of social legislation that were enacted during and shortly after La Follette’s six-year period as governor. He also encouraged similar work in the most relevant departments in the university.

Robert Ely headed one of those departments, Political Economy (changed to the Department of Economics in 1918). Bascom had been attracted by Ely’s book, *The Labor Movement*, as early as 1886 when he wrote to Ely expressing how much he agreed with its arguments. Ely’s arguments were in the strong tradition of European socialist support of labor unions and the right of unions to strike. Although Ely did not hold those beliefs for his entire career, from the time of his appointment in 1892 to 1906 they were very pronounced, and they led to a series of appointments that formed the core of the most important department carrying out the progressive agenda as laid out by La Follette and his successors.

Ely was brought to the university with the support of Bascom and was eventually appointed dean of a combined School of History, Political Science, and Political Economy by President Thomas Chamberlain. Because of accusations against Ely as a socialist and a labor sympathizer, the appointment was controversial, as was one of Ely’s first hires—John R. Commons. Commons was a sort of itinerant professor who held four teaching jobs in seven years before arriving at Wisconsin in 1904. He did not hold a Ph.D., but had two years of graduate work at Johns Hopkins and had taken classes from Ely. It was Commons above all others who practiced and trained practitioners of the Wisconsin Idea.

During the critical period from 1885 to 1914, the Wisconsin Idea took three general forms, each of which continues to this day. The first was in the form of extension activities, which proactively moved the knowledge and expertise of the university out into the community. The extension idea emerged during Bascom’s presidency, and although it appeared to be an

Those whom Bascom taught and appointed created and implemented what became known as the Wisconsin Idea.

American—and even a Midwestern—concept, it was not. It originated in British universities and was imported to the United States.

At Wisconsin, extension was first applied in the area of agriculture, with the creation of “farmers institutes” in Hudson, Wisconsin, in 1885. These institutes, which consisted of day-long classes held in local communities, were rigorously limited to technical farming issues. Discussions of politics and religion were strictly forbidden. In the first year, 50,000 students attended. Agricultural short courses, which still exist, began in 1886, with farmers usually coming to the university for more in-depth classes than had been possible at the institutes. Under the leadership of Presidents Chamberlain (president from 1887 to 1892) and Charles Adams (from 1892 to 1901), these activities were strengthened. Similar institutes were tried in the industrial sector, as exemplified by the “mechanics institutes,” but were less successful.

The second and third forms of the Wisconsin Idea directly involved activity with the state government. Establishing state-empowered commissions to regulate a wide range of economic and political activity was at the time considered as or more important than direct enactment of legislation. Commissions, established by statute or constitutional provision, were meant to institutionalize states’ power to control and regulate economic entities and issues that before had not been subject to state intervention. They were based on the theory that citizen experts could adjudicate disputes between private enterprises and citizens and recommend state legislation in such matters as taxation, general industrial activity, insurance, and rules and regulations regarding railroads and utilities.

Although the railroads and the trusts behind them were considered the most important target of regulation, the first state commission, established in 1899, was the Wisconsin Tax Commission. Shortly thereafter came the Railroad Commission (1901), the Public Utilities Commission (1907), the Insurance Commission (1907), and the Industrial Commission (1911). These commissions were created with the aid of university professors, and many faculty members later served as commissioners. Commons wrote the legislation creating the utility and industrial commissions, and he was a member of the latter for a number of years. Professor Thomas Adams was integral in the creation of the tax commission and served for many years as a commissioner. Students of Commons, Edwin E. Witte and Arthur J. Altmeyer, became members of the Industrial Commission.

The university, in concert with the progressives, led by La Follette and later governors James O. Davidson and Francis G. McGovern, were also instrumental in

passing precedent-setting legislation for the country. At the behest of La Follette, Commons wrote one of the first state civil service laws in 1905. He was also involved in writing the first constitutional provision for workers’ compensation in 1911. Adams was the principal author of the first income tax law, also in 1911, a model for the nation’s first income tax in 1913.

What made all this possible was a combination of personal relationships and the resolve of dedicated and committed experts who believed deeply that it was appropriate to be involved in politics in the service of their state. The personal side was never more exemplified than the relationship between former classmates La Follette and Van Hise. This was noted in a retrospective statement by then University of Wisconsin President Edward Birge (president from 1918 to 1925) on the eve of La Follette’s unsuccessful run for the presidency in 1924, published in Curti and Christensen’s history of the university. He spoke of the relationship of La Follette to both Van Hise and the university:

During the critical period from 1885 to 1914, the Wisconsin Idea took three general forms, all of which in one form or another continue to this day.

Our University in the early and formative years of Dr. Van Hise’s presidency was in a unique and very fortunate position. Governor La Follette and President Van Hise were not only close personal friends but were in complete harmony regarding the fundamentals of public policy and especially regarding the relation of the University and the State. Thus Governor La Follette not only put the “Wisconsin Idea” into operation by means of administrative organizations like the Railroad Commission, but he also enlarged its scope by bringing the University and its faculty into active cooperation with public life. Such an enlargement of the ideals alike of public service and of university life was greatly needed twenty years ago and it would be effected only through the initiative of a Governor who was persuaded of its wisdom and who acted in cooperation with a university president equally in sympathy with the policy.

But just as important to understand is what these university men brought to the table. They were clearly idealists, schooled in the combination of moral philosophy espoused by Bascom and the political and economic philosophy of Bascom, Ely, Van Hise, and Commons. That philosophy promoted a very active state role in supporting community efforts to build the commonwealth, to help the average person—farmer or worker—and to combat what the university men viewed as the evils emanating from industrialization.

They also brought something else: the knowledge and expertise generated by a unique level of higher

education. They were among the first Ph.D's in the United States, certainly in the Midwest. In addition, their knowledge gave them special skills, such as the ability to read, understand, and write legislation, and to analyze and synthesize data. Thus Commons, and later many of his students, not only understood legislation and the legislative process, but also they participated in all phases of its operation, including the creation of some of the most important laws written in our country.

Going National: 1914–1956

One of Commons's Ph.D's was my grandfather, Edwin E. Witte. He, along with his lifelong friend and colleague, Arthur Altmeyer, and several of his students, Wilbur Cohen and Robert Lampman, are symbolic of the next phase of the Wisconsin Idea—the expansion of the mission to the national forum. Witte and Altmeyer had considerable experience in Wisconsin before they went to Washington to work on Social Security. Each was Commons's student and had been a member of the Industrial Commission. They had also worked on a number of related legislative acts, concerning unemployment, disability, and pensions.

In 1934, one year after being appointed as a full professor at the university, Witte was asked by Secretary of Labor Frances Perkins to become director of the Committee on Economic Security. That committee had the responsibility of drafting the Social Security Act, which was signed into law on August 14, 1935. As the principal person who wrote and shepherded the legislation through a very challenging maze of committees and legislative hearings, Witte remains known by many as the father of Social Security—a title he never used or acknowledged.

Accompanying him to Washington was Wilbur Cohen, a recent graduate of the University of Wisconsin and one of Witte's students. Altmeyer, another Wisconsin Ph.D. who was then an assistant secretary in the Department of Labor, joined them in Washington. Cohen was Witte's aide and assisted the committee, but he also remained in Washington when Witte returned to Wisconsin. For the next three decades Cohen worked in Washington, first at the Social Security Administration and then at the Department of Health, Education, and Welfare where he rose to become secretary. In his early years he worked with Altmeyer, who became a member of the Social Security Board. Together Cohen and Altmeyer worked for two decades to expand Social Security coverage and benefits.

Witte continued his work in labor relations and the development of social policy. In the former area, he was director of the National War Labor Board in Detroit from 1943 to 1944. This board was responsible for maintaining labor rights and peace during World War II. The board was staffed by so many Wisconsin people that Mark Ingraham, a dean of the university's College of

Letters and Science, later wrote, "Wisconsin-trained economists were so numerous in the War Labor Board that it was reported that you could empty its offices by yelling down the hall, "To Hell with Wisconsin.""

A final example in this era of the Wisconsin Idea was the work of Professor Robert Lampman, who received his Ph.D. under Witte and Selig Perlman in 1950. Lampman's career focused first on the distribution of wealth and income, but later on poverty. Following Lyndon Johnson's famous declaration of war on poverty in 1964, Lampman applied for and won a federal grant to establish the Institute for Research on Poverty at the University of Wisconsin–Madison. He was the first director of the institute, which remains a premier research organization involved in analyzing poverty in all its related dimensions.

By the time the Poverty Institute was created, however, an era in economics and the Wisconsin Idea had ended. I date the end, arbitrarily, back to 1956, the year Witte unexpectedly was elected president of the American Economics Association. In his presidential address on December 28, 1956, he espoused the form of institutional economics dating to Ely that also characterized his own work. He acknowledged its passing, but was also highly critical of the abstract mathematical theorizing that replaced it. He argued that this approach had little chance of influencing public policy. When finished he received a prolonged standing ovation, but the economics discipline, and others, had already moved into the modern period.

The Transition

The example of the Poverty Institute also symbolizes one of the important transitions in the practice of the Wisconsin Idea. A number of post-World War II changes in both the university and the government had a dramatic impact on the working relationship between the university and the state. First, both state government and the university grew to be much larger and more sophisticated than at the turn of the twentieth century. Thus, for example, in earlier years university professors were often asked not only to provide ideas and rationales for legislation, but also to draft the legislation. One reason for that was that they were trained in law and legal matters, but another was that the government had few staff members and could not afford to hire lawyers with drafting experience. Today there are ten staff members in the capitol who draft legislation for the legislature and the governor, and I know of few professors with the requisite skills.

The private sector in the state also changed. Wisconsin was built on agriculture and dairying, machine tools and other heavy industries, food processing, and beer. The university greatly aided agriculture, perhaps more than it did the industrial and food processing sectors. Currently all of those sectors have declined and

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School Performance and Housing Values

by David L. Weimer and Michael J. Wolkoff

This article is an abbreviated version of a larger study titled “School Performance and Housing Values: Using Non-Contiguous District and Incorporation Boundaries to Identify School Effects,” which was published in the June 2001 edition of the National Tax Journal. David L. Weimer is a professor of public affairs and political science at the Robert M. La Follette School of Public Affairs and the Department of Political Science at the University of Wisconsin-Madison. Michael J. Wolkoff is a senior lecturer and deputy chair in the Department of Economics at the University of Rochester. Printed with permission of the National Tax Association. The authors are grateful to Alicia Walley for her efforts at summarizing the longer, more technical article.

An extensive body of research has established the importance of housing characteristics and location in determining the market value of residential properties. Recently researchers have attempted to assess the extent to which the package of public services available at specific locations affect, or are “capitalized into,” the value of residential properties. Our research focused on the capitalization of public school quality. Specifically, we estimated the value of school quality (premiums) after controlling for the characteristics of houses, the qualities of neighborhoods, and the non-school public services that political jurisdictions receive.

We found a strong relationship between elementary school achievement and housing prices. Residences served by schools with higher achievement levels had substantially higher housing sale prices. This finding has implications for public decisions about spending on elementary schools and the expansion of school choice.

The task of estimating school quality premiums is often complicated by the coincidence of school enrollment boundaries with the boundaries of incorporated political jurisdictions, such as cities, towns, and villages that provide other important public services. Where these boundaries perfectly coincide, there is no statistical basis for separating the housing value effects associated with public schooling from those associated with other public services. Consequently, if researchers are to isolate the effect of school quality, they must find locales where at least some residences in the same political jurisdiction differ in terms of school access.

What aspects of school quality are capitalized into housing prices? Previous research has paid limited attention to incorporating multiple measures of school quality in explaining differences in housing prices. Our study allowed for the possibility of separating elementary and secondary school effects on housing values, while previous studies have examined either elementary outputs or middle school outputs. Among the elementary school characteristics we assessed are student body composition, student-teacher ratios, and test scores. The data set we assembled for Monroe County, New York, allowed us to investigate whether housing values reflect not only school performance, but also the socioeconomic characteristics and behavior of the stu-

dents in the school, factors that for the most part have been ignored in previous research.

The research presented here estimated the relationship between single-family, owner-occupied housing values based on a sample of sales registered in 1997. With the exception of the City of Rochester, the boundaries of school districts and political jurisdictions (towns and villages) do not exactly coincide. We also identified grade school enrollment areas in school districts, including the Rochester School District, that had multiple grade schools. Because school district and political jurisdiction boundaries and grade school enrollment variation within political jurisdictions do not perfectly coincide, we were able to separate the effect of public school quality from the effect of the bundle of other publicly provided services offered to a residence. We estimated the impact of school quality differences on housing values with explicit controls for neighborhood quality.

We were thus able to estimate school quality impacts on housing values for a sample of multiple school districts, and distinguish the effects of school quality for residential property at all locations within the same housing market. Furthermore, we were able to identify the implicit trade-offs made by households in a compact metropolitan area that offers a full range of public service packages.

Our study had the additional advantage of examining school quality capitalization by separating the sale price of housing into a quality-adjusted quantity and a locationally determined price of housing. This allowed the physical characteristics of houses to be valued substantially more in some neighborhoods than in others, a feature that fits well with common perceptions of real estate markets.

Explaining Housing Values

Variables describing the physical attributes of residential property were available from assessment records. They included lot size, number of rooms, number of bathrooms, interior floor space, presence of fireplaces, garages, porches, and the age of the structure.

Neighborhood amenities and accessibility to employment and business centers are likely to affect housing values. In addition, the values of nearby properties

may play a role in signaling market values to prospective buyers. Adequately measuring the quality of the neighborhood, however, poses a difficult problem in housing market research. Success in modeling neighborhood quality has been mixed. The polycentric nature of the modern metropolitan area makes simple access measures, such as distance to the central business district, inappropriate. Selecting appropriate measures of neighborhood quality and defining neighborhood boundaries has also been problematic.

In this research, to account for neighborhood quality, we used the median, single-family, residential property value for the census tract (or block) in which the property is located. We viewed the median house value as the single best observable index of the market's valuation of the set of characteristics, both observable and unobservable, that define a neighborhood. It is common practice for Rochester area real estate agents to stress the prices of nearby homes in advising their clients about prices and bids. Our measure of neighborhood quality thus fits well with the informational processes at work in the market.

Our measurement of public services and taxes involved a partitioning into school and non-school components. Our primary interest was in isolating the effects of school characteristics on housing values. The non-school component was captured by effects associated with the political jurisdictions that provide local public services other than public schooling. These effects represent the overall market evaluation of the bundles of these non-school-related services and the local tax rates levied to provide them in each jurisdiction. The school component consisted of variables describing the public elementary school to which the property gives access, variables based on the averages of characteristics of public secondary schools in the school district in which the property was located, and the effective school tax millage rate levied on the property.

Data and Measurement

We implemented our study by collecting a sample of single-family house sales registered in Monroe County, New York, in 1997. Each property was then located within a political jurisdiction, school district, elementary school enrollment area, and neighborhood. Indicator variables for political jurisdictions captured the effect of the specific bundle of non-school public services and non-school local taxes. Characterizing neighborhoods and schools required the construction of measures based on U.S. Census and school data.

We gathered a sample of single-family residential properties. After removing properties with lot sizes greater than 15 acres and properties with unresolvable coding errors, we were left with a sample of 1,193 units.

Properties in the sample fell in 30 political jurisdictions, each offering a specific bundle of public services other than education. In all, 23 school districts were rep-

resented. Sixteen of the 30 political jurisdictions in the county had properties in more than one school district. Of the 14 jurisdictions serviced by only one school district, only five, accounting for 6.1 percent of the sample, did not have more than one elementary school within the school district. Each of the school districts serving these five jurisdictions provided education to at least one other jurisdiction as well. The only political jurisdiction for which there was an exact congruence between it and a single school district was the City of Rochester. There was considerable variation, however, in grade school attributes for those properties sharing the Rochester non-school public services bundle. Overall, this mixing of school and non-school public service bundles was substantial, offering good prospects for statistically separating the effects of school attributes from other public services on housing values.

The median sale price in the sample was \$97,250 for all jurisdictions (mean \$119,435), \$59,000 for the City of Rochester (mean \$63,905), and \$106,000 for suburban jurisdictions (mean \$128,473). The median price, based on all sales in Monroe County for 1997, was \$102,500, somewhat higher than in the sample. The median price for all City of Rochester house sales was \$54,000, somewhat lower than in the sample. City properties comprised 14 percent of the sample, as compared to 24 percent of all sales, a consequence of our deliberate over-sampling of non-city sales. As there was a total of 5,179 sales in 1997, the sample comprised nearly one-quarter of all sales in that year.

Like many metropolitan areas, important differences were evident between the school district of the central city and those of the surrounding towns. There was also considerable variation in school characteristics across suburban school districts. The variation provided opportunities to measure capitalization effects. Even the choice of location within a district offered households the opportunity to experience different schooling levels. Two-thirds of the school districts had multiple elementary schools. Per-pupil spending by school districts ranged from just under \$8,000 per enrolled student to nearly \$11,700, although whether all such funds came from local resources varied greatly depending on how the specific district was treated under the state school finance formula. Class size also varied across school districts, but the variance in class size was small relative to the other school-level variables. The clearest differentiation was seen in the characteristics of the pupils attending elementary school. Children in the Rochester School District were appreciably poorer than those in the surrounding suburban districts. The percentage of students on free or reduced-price lunch varied from just under 50 percent to 100 percent across the City of Rochester elementary schools. Only three suburban schools in the sample had 25 percent of their students taking free lunches.

Academic performance also varied across and within elementary school districts. To measure differences in

performance we made use of the English Language Arts (ELA) test, a newly constructed New York State Education Department instrument for gauging student language arts skills. The fourth-grade ELA exam, first administered in the 1998–99 academic year, presented New York State students with a much more challenging test of their language arts capabilities than any measure available in earlier years. Publicly available data included school-level average and distributional raw scores, which exhibited much greater variation across schools than the distribution of pass rates realized on the much less sophisticated state exams that were available prior to the introduction of the ELA exam.

Was it reasonable to assume that home buyers in Monroe County were well informed about school quality? Each year the *Rochester Democrat and Chronicle* publishes a report card that presents a variety of information, including test score results, for individual public and private schools and public school districts, which it distributes with the morning newspaper the day the report card appears. New York State also publishes each school district's report card on its State Education Department Web site. The annual release of this data is featured prominently in newspapers in Monroe County as well as in the rest of the state. Furthermore, education issues are of particular salience in the Rochester area because of the publicity surrounding the implementation of an extremely generous teachers' contract approximately a decade ago.

Measuring Neighborhood Quality. Other things equal, potential home buyers prefer higher-quality neighborhoods. The perceived quality of a neighborhood is likely to depend on physical features (such as street condition), locational factors (such as nearness to parks and major transportation routes), and the wealth of current residents. We assumed that the values of nearby houses provide a measure of neighborhood quality.

The properties in our sample were widely distributed across neighborhoods with considerable variation in the median house value. We used the median house value from 148 tracts in the 1990 U.S. Census. We assumed that the median housing value captured all local neighborhood effects: the higher the median house value, the more desirable the neighborhood. This assumption obviated the need to specify the great variety of factors that may be relevant to neighborhood quality.

Using median house value in our estimation, however, raised the concern that the median house value of the tract is simultaneously determined with the value of the sampled house in the tract. Almost certainly our specification of the housing value model left out some variables that actually have an impact on price. For example, a house may have a higher sale price than predicted by the systematic part of the model because it is near a new playground that is valued by potential buyers. Our measure of neighborhood quality may have also been affected by these excluded variables. For example, a playground may have been created since the 1990 U.S.

Census and therefore would not have been reflected in our measure of neighborhood quality.

To increase the reliability of the measure, we used a set of ten instruments: (1) median household income; (2) the educational attainment of the median household; (3) percentage of children going to private schools; (4) percentage of households in poverty; (5) percentage of households on public assistance; (6) percentage of households that are Hispanic; or (7) that are non-white; (8) the percentage of dwellings that are owner-occupied; or (9) vacant; or (10) function as a group home. Our procedure was to use these instruments as the measure of neighborhood quality in the housing value model. From a statistical standpoint the instruments perform well.

Measuring School Outcomes. We conducted our analysis using the 1998–99 ELA exam. Our use of the 1998–99 ELA school average score required us to assume that potential home buyers in 1997 could anticipate the results measured by the ELA, which was administered a year later. Thus, in using the ELA, we traded off its higher quality as a measure of performance with the added necessity of assuming that quality remained stable in schools from year to year and that the qualities of schools that the ELA measures are generally known to prospective home buyers. The ELA score correlated highly (.86) with the Pupil Evaluation Program (PEP) reading test scores reported in prior years, adding to our confidence that the report cards provide a reliable measure of school quality.

Our estimation also attempted to take account of high school outputs. As far as we know, no study had attempted to take account of both elementary and high school performance in estimating housing values. Doing so, however, posed the difficulty that few high schools in Monroe County had enrollment areas. Consequently, we based our estimation on school district averages rather than measures for specific high schools.

We considered three specific high school output measures in our analysis. One measure was the average percentage of students graduating with Regents diplomas over three years. A Regents diploma is more prestigious than a regular high-school diploma. It is awarded to students who take a more intense curriculum and who pass a series of Regents examinations. The second measure of high school performance was the percentage of students earning 65 or higher on the twelfth-grade English Regents examination in the 1996–97 school year. The third measure was the percentage of students earning a score of three or higher on Advanced Placement exams at the high-school level for the 1996–97 or 1997–98 school year, depending on data availability.

Non-Outcome-Based School Characteristics. It is possible that parents consider other factors along with outputs in valuing schools. Parents may care about the environment in which their children are learning. One aspect of environment is the socioeconomic status of the students attending schools. We therefore included among school characteristics the percentage of an ele-

mentary school's student body that qualifies for reduced-price lunches in the 1995–96 school year. We included a comparable measure for the high schools. To allow for the possibility that readily observable resources directly available to students were important, we included the pupil to teacher ratio for elementary schools. Finally, to capture the disciplinary environment in high schools, we included the high-school suspension rate for the 1995–96 school year.

Estimation of Housing Value Models

With only three exceptions, all of the housing characteristic variables were statistically significant (at the 5 percent level) and in the predicted direction. These variables included the amount of living space in the house, the lot size, the age of the house, the number of bathrooms and bedrooms, and the type of garage (attached, detached, or non-existent).

The effects of living space, lot size, and age of structure had the following interpretations in terms of a multiplicative model with full school effects and the neighborhood effects. As living space increased up to 8,130 square feet, which is well above the largest square footage in the sample, housing value increased but at a decreasing rate. As lot size increased up to 6.25 acres, housing value increased but at a decreasing rate; beyond this lot size, housing value declined with further increases. As the age of the structure increased up to 113 years, housing value decreased; beyond this age housing value rose with greater age.

All the school district and town effects were measured relative to Rochester. The uniformly positive coefficients for school districts indicated, other things equal, that sale prices were higher in the suburban school districts than in the Rochester School District. In contrast, the uniformly negative coefficients for towns indicated that, other than schools, the public services provided by towns were negatively capitalized into sale prices. It thus appears that if school quality were equal, house buyers would pay a premium to live in the central city.

Effects of Elementary School Quality on the City Tax Base

Overall, the average ELA score had a large substantive significance. Even relatively small changes in ELA scores seemed to have noticeable effects on city housing values. These results have obvious implications for the fiscal capacity of the city: improvements in the quality of city elementary schools appear to have potential for inducing large increases in the city's tax base.

One way that average ELA scores could be improved would be for city schools to make more effective use of available resources. Another way would be to raise taxes

to provide more resources to schools. But higher taxes would be capitalized into lower housing values. We investigated these offsetting capitalization effects by analyzing what size tax increase could be accommodated to generate a 1 percent change in ELA scores without changing the size of the tax base. The multiplicative model indicated that a 48 percent increase in the effective tax rate would be neutral with respect to the residential tax base. Because the City of Rochester is responsible, under current state law, for approximately 37 percent of the costs of running public schools, these results imply that school spending increases in the range of 17 percent to 34 percent per pupil would be fiscally neutral. However, because of the imprecision of the coefficient estimates of the effective tax rate, these estimates should be taken as merely suggestive that the market reveals a high willingness to pay for improvements in educational outcomes.

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Table 1 summarizes predictions of the impact of changes in average ELA scores on Rochester housing values, assuming suburban scores do not

change. The base case predictions range from \$59,102 to \$60,802 depending on how school and neighborhood variables were statistically analyzed.

The lower panel of Table 1 shows the percentage increase in the average value of city housing that results from various increases in average ELA scores. The first row of this panel shows the impact of increasing the average ELA score for each city school by 1 percent. The resulting percentage increases in housing values are quite large. Rows two and three of the panel show the impacts of raising average ELA scores in the lowest scoring schools. Row two shows the impact of moving each school below the city school mean of 629.6 up to 629.6, leaving average scores in schools above the city mean unchanged. This change increases average housing values from between 0.9 and 2.8 percent. Moving all city schools up to the county mean of 650.7 raises the average housing values by between 4.9 and 14.4 percent. Rows four and five of the panel raise average ELA scores in all city schools by one (11.1 points) and two (22.2 points) standard deviations, respectively. The one standard deviation increase raises average city housing values by between 2.7 and 7.8 percent; the two standard deviation increase raises average city housing values by between 5.3 and 15.7 percent.

The strong elementary school effect has implications for predicting the impact of greater educational choice on the city tax base. Imagine a fully implemented voucher plan that effectively separated the choice of publicly funded schooling from residential choice. If it had the effect of giving all city residences convenient access to schools with the mean ELA score for the county, then the results suggest an increase in the city's residential tax base of between 4.9 percent and 14.4 percent. This po-

tentially large fiscal effect on central cities is rarely noted in analyses of the impact of educational vouchers.

Conclusion

Our analysis of housing values in Monroe County, New York, confirms the importance of elementary school outputs, even after controlling for student body composition, high school characteristics, and other public services. It is worth noting that the exclusion of the fraction of the student body participating in the free lunch program, which is the common measure of the socioeconomic standing of the student body, results in substantially larger coefficients for elementary school test scores. This suggests the importance of including such variables in school quality capitalization

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studies. Although our research design gave us the potential to identify the capitalization of high school as well as elementary school characteristics, the pattern of coefficients for high school characteristics and school tax rates suggests that our data may not have allowed us

to separate out their effects reliably. Nevertheless, the strong effect of elementary school test scores remains when these variables are replaced by fixed effects for school districts.

Our results indicate that in a market in which a central city has relatively lower housing values than surrounding suburbs,

central city housing values are highly elastic with respect to improvements in elementary school quality. Improving elementary schools in these central cities thus has large potential for increasing housing values and thus revenues from real property taxes.

TABLE 1

Impacts of Changes in Elementary School Characteristics on Rochester Housing Values: Alternative Models

	<i>High School Variables and Instrumented Neighborhood Effects</i>	<i>Fixed Effects for School Districts and Instrumented Neighborhood Effects</i>	<i>High School Variables and Direct Inclusion of Neighborhood Instruments</i>
Base case—predicted values for city sample	\$59,177	\$59,102	\$60,802
<i>Percentage Increase Over Base Case</i>			
Increase average ELA score by 1 percent in each school (elasticity)	4.1	4.5	1.5
Move average ELA up to city mean (629.6) for all schools currently below city mean	2.5	2.8	0.9
Move average ELA up to county mean (650.7) for all schools currently below county mean	13.1	14.4	4.9
Increase average ELA by one standard deviation (11.1 points) in each school	7.1	7.8	2.7
Increase average ELA by two standard deviations (22.2 points) in each school	14.3	15.7	5.3

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suggests that the central cities and suburbs of most metropolitan areas rise and fall together, though growth rates of population, income, employment, and the like are usually faster in the suburbs.

How does land use affect development? In Wisconsin, as in the United States as a whole, about 3.5 percent of land is urban (though despite its small area, urban land value is greater than the value of rural land). Like most of the rest of the country, the amount of land in urban uses in Wisconsin has been growing more rapidly than the population. The majority of built-up urban land is used for housing, although roads and commercial uses are also significant.

Developing cities, towns, villages, and rural areas all require that sufficient real estate be developed (or redeveloped) in appropriate locations. Of course, real estate development can generate significant externalities (e.g., from additional traffic, storm water runoff, infrastructure requirements).

For all these reasons, real estate development is, and surely should be, a regulated activity. The key question, however, is how it should be regulated. We have already mentioned that overly stringent development regulations in some metropolitan areas adversely affect the affordability of housing. Still, in recent years concern has mounted in many quarters that development is insufficiently regulated, or at least poorly regulated. The current “Smart Growth” initiatives to control urban sprawl undertaken in Wisconsin and many other states are testimony to this concern. But the devil is in the details: what is *smart*, exactly? It will be important to ensure that as statewide “Smart Growth” is implemented in the years ahead, housing and real estate costs do not rise in excess of other benefits received from those regulations.

Economic Development: What Works? What Doesn't Work?

If one thing is critical to economic development today, it is the relationship between education and human capital formation. Many studies show strong private and social returns from education. Forty years ago, households headed by a college graduate had incomes that were about two-thirds greater than households headed by a high school dropout. Over the last forty years, the median incomes of dropout-headed households have fallen by a third, while the median incomes of households headed by someone with a college degree have increased by over one-third, so that now the typical household income “premium” for college over dropping out of high school is an astounding 250 percent.

But actually improving school performance is more difficult than agreeing on its importance. The link between school financing and performance is hard to find and is fragile, but this fragility should not be misinterpreted. Even those involved in the debate who find little

empirical connection between resources and outcome are careful to qualify the implications of the finding. Adequate finance is more a necessary than a sufficient condition for good school performance. Some schools use resources effectively and get a positive return for dollars invested; others don't. The aggregate data show little positive relationship between spending and performance. The key, then, is to pair increasing resources, where needed, with more effective use of resources. The problem is that it is not easy to design policies that will improve school effectiveness and performance.

A heated debate is under way regarding the possibility of improving schools via school choice and vouchers. A complete discussion of that issue is beyond the scope of this article, but details of any school choice program surely matter. Among others is the fundamental question of whether choice is extended only to schools within the public system or whether private schools are included as well. If private schools are included, what standards should these schools meet in order to be admissible? What role will charter schools play in a choice system? Perhaps most fundamentally, how big and how portable will vouchers be? If a student moves from one public school to another, how much of the first school's budget follows her or him? If private vouchers are contemplated, should they be marginal contributions or set at a level to pay full educational cost for even the poorest student? Should vouchers be needs-based?

Many of these issues are explored in recent studies, especially one on Milwaukee's choice experiment undertaken by La Follette director John Witte (published in 2000). While the study found some positive effects of Milwaukee's parental choice program, particularly in parent satisfaction with the educational environment and discipline, it was harder to find any robust effects of the choice program on school performance. Part of the problem may involve the small sample sizes and the fact that the assignment of students to various samples was not random. Other research on school performance suggests that carefully measuring the value added by schools and tying resources to such performance may have greater scope for improving schools.

In today's economy, postsecondary education is another critical determinant of Wisconsin's economic and social development. With approximately 128,000 residents of Wisconsin in the University of Wisconsin System and a total population of only five million, Wisconsin ranks near the top in terms of percentage of its population in a state university system. It also ranks highly in terms of “bang for the buck.” The University of Wisconsin System's budget and tuition are low relative to other state systems, but particularly for systems that include as many high quality research operations and Ph.D. granting programs as the UW System does.

The current system of financing the University of Wisconsin System is in flux. Both state contributions and tuition are held at relatively low levels, with an ever-increasing role played by outside research grants and

private donations. Such a financing system has pros and cons, but one problem is that it will favor the institutions that attract the bulk of the research funds over institutions with primarily instructional missions. Even within research universities like the UW–Madison, such a system will tend to favor departments that attract outside funding, such as engineering, business, and hard sciences, at the expense of such vital basics as English and mathematics.

To the extent the system is still partly state funded, the UW subsidizes a modest number of primarily middle-class students at the expense of the general taxpayer. One broad approach worthy of more detailed consideration would be to increase tuition significantly while offering more scholarships, based both on need and ability.

Appropriate provision of infrastructure is another key function of government with a high potential for return. Many debates are about exactly how this infrastructure should be provided. Deregulation of electric utilities, for example, is creating some controversies. In terms of transport infrastructure, debate rages on the relative virtues of roads versus rail, both inter- and intracity. Airport siting, landing slots and fees, and the antitrust implications of airline industry consolidation are also hot infrastructure issues that have important implications for economic development. Metropolitan areas that have greater airport capacity relative to their population grow faster than average. Another way governments try to encourage economic development is

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states, and our property tax rates are particularly high (see table 1). Taxes should not be analyzed in isolation, however. Many of us would choose Wisconsin's high-tax-high-service package over, say, Louisiana's low-tax-low-service package.

Studies that examine economic growth as a function of taxes and other determinants but that omit public service measures tend to find weak relationships between taxes and growth. Correctly specified studies that control for both public services and taxes find stronger relationships. A 1994 review by Timothy Bartik of a large number of studies determined that if we control at least roughly for service provision, for every 10 percent decline in tax burden, measures of economic output (e.g.,

employment, investment, or new firms) would increase by somewhere between 1 percent and 6 percent. These results tell us that firms and economic output respond to tax environments, although the size of the effect does seem to vary quite a bit from study to study. The differential effect of tax environments is somewhat blunted by the fact that state tax systems are growing more alike over time. An obvious point stemming from these results is that an excellent economic strategy would be to lower taxes without cutting services—if we could find a way.

The way out of this dilemma is to increase the productivity of state and local governments. Figuring out exactly how to do this, of course, is not easy. Over the past several decades slow growth of government productivity has surely delayed growth in many other areas of

TABLE 1
State and Local Taxes
Wisconsin Compared with U.S. Average
FY 1996

	<i>Per Capita</i>		<i>Per \$1,000 Income</i>	
	<i>U.S.</i>	<i>Wisconsin</i>	<i>U.S.</i>	<i>Wisconsin</i>
Own Revenue	\$3,724	\$3,971	\$162	\$180
Taxes	2,597	947	113	133
▶ Income	554	804	24	36
▶ Sales	637	553	28	25
▶ Property	789	1054	34	48
▶ Corporate Income	121	120	5	5

through the creation of infrastructure-rich industrial parks, high-tech incubators, and the like. Related activities include subsidized financing and other public policies meant to encourage high-tech spin-offs, or jointly marketing an area and its products.

Another key lesson of economic development research is that general taxes matter, but one must examine the full tax-service package. Wisconsin is a high-tax state. Our total tax effort is about fourth among the fifty

the economy. But just as many private sector service industries have recently seen productivity grow because of increasingly effective use of information technology and improved business processes, similar benefits in state and local government productivity could occur if enough effort were devoted.

Another important lesson about local economic development relates to specific tax abatements for particular firms or plants. Today, nearly every state and the

majority of municipalities provide at least some such incentives to some firms. Until a decade ago, economists believed that firm-specific incentives usually ended up being given to firms that had already decided to move there for other reasons. Certainly firms that decide to pick a particular location based on transport, labor force, and other grounds have an incentive to claim that they are actively considering other locations in hopes of getting a tax break, but some recent research suggests that, on the margin, while not as central to the location issue as labor force, input, transportation, and other issues, taxes can matter.

Unfortunately, many of the studies to date have focused on simply whether a measurable effect can be found, rather than on the magnitude of the effect, or its relationship to any benefit to the citizens of a state or region. Not all who study this topic agree with the new findings that suggest tax breaks can have some effect; and no one has yet shown that the net benefits of such policies can be positive.

An important related issue is whether the best way to attract firms is to give tax cuts to specific firms rather than to try to improve the business tax climate generally. It is also important to keep sight of the fact that one firm's tax cut is someone else's tax increase. In the long run, this could lead to firms leaving the region or to a failure to attract firms that are small or unsophisticated in bargaining with local officials.

Recent studies of the effects of general state development spending are mixed, at best. Most studies find no significant or economically meaningful effect; those that do suffer from an absence of controls for other determinants of growth. The jury is still out on the effectiveness of enterprise/empowerment zones, which are federally subsidized projects designed to increase economic development in distressed communities. Studies show that at best enterprise zones have demonstrated mixed results. The most recent and most carefully done studies show little result from enterprise zones as currently implemented.

Tax Increment Financing—TIFs—are now the rule rather than the exception in many Wisconsin communities. TIFs are enabled by the state and financed (implicitly) by local school districts and other units of government to encourage local development in “blighted” areas. In fact, many TIF-supported projects are located in highly desirable places that would certainly be redeveloped and appreciate in value without TIF. The initial rationale, to encourage development of truly blighted locations, is hardly mentioned any longer. Despite their widespread use—perhaps because of it—it has been difficult to find any systematic positive net benefits of TIFs.

Many studies have been done of the economic benefit of sports stadia and convention centers. The consensus of the careful studies is that such projects rarely have any significant development impact, despite pre-investment studies by project advocates that purport to show large economic development “multipliers.” The main

reasons such projects have little net impact is that the economic analysis often assumes that any employment associated with the project is net new employment (i.e., that all workers and other resources would be unemployed without the project), and that it is incorrectly assumed that there is no offsetting multiplier in the other direction because someone pays for the project, typically through increased taxes.

Another important development strategy is to pursue balanced land use and environmental policies. All economic activities pollute. The question is how much, how pollution can be mitigated, and ultimately what tradeoffs communities are willing to accept. One of the defining characteristics of pollution and environmental problems is that almost all such problems are characterized by large “external costs.” If my car spews burning oil, for example, I may suffer somewhat, but others around me bear much of the cost. Because of this externality aspect, environmental regulation can be considered a core function of government.

A number of studies have looked at the effects environmental regulations have had on one aspect of economic development, namely firm location. These studies generally find that more stringent environmental regulations are associated with disincentives to locate in a place, but it appears that these effects are small. Furthermore, few studies have grappled with the effects that the environment itself has upon firm location; it is easy to imagine a positive relationship between environmental outcomes and regulation, although the nature of this relationship is not always straightforward.

A particularly important area for government intervention relates to transport. Many studies have been done regarding privatizing urban bus services and making toll roads. Transport economists tell us that in many cities congestion pricing is the best if not the only effective way to tackle congestion problems. In a congestion-pricing scenario, an automobile is charged for driving during hours of peak congestion. The proposed schemes would use purely electronic toll collections, not “Chicago-style” tollbooths. Debit systems can be designed to ensure privacy, and of course it is central that tolls be high during peak periods and zero (or very low) off peak. This serves as an incentive for individuals to drive in off-peak hours or take advantage of carpooling and public transportation.

Economists have not made much headway in convincing the rest of society that congestion pricing is best. In fact, the bias is away from pricing policies that could tackle congestion problems in a serious manner, and toward public investment in fixed rail transit, which is efficient only under very specific conditions. Some increase in fuel taxes would address external costs of carbon emissions; perhaps most important, a more rational transportation policy would modify the way we tax trucks and other heavy vehicles.

Engineering studies show that road wear is roughly a cubic function of weight per axle. The practical implica-

tion is that autos have almost no impact on road wear; it's mostly from heavy trucks, and as they get heavier, our roads wear out much faster. Taxing trucks on a cubic function of weight per axle would not only generate funds to maintain roads, but it would provide strong incentives to truck owners to choose "appropriate technology," that is, to balance properly the benefits of larger trucks with their costs.

Such a major change could not and should not be made overnight. First of all, such significant changes in truck taxation (and, for that matter, aforementioned changes in fuel taxes) would have to be made in concert with other states. Second, current truckers have invested in trucks under one set of rules; a phase-in of a different taxation scheme would permit existing owners to amortize their prior investments.

Outside of a few of our largest cities, intracity rail has not returned much on investment, even when effects on congestion and the environment are properly included in the calculus. Experience in midsized cities like Dallas, Buffalo, and Portland has demonstrated that light rail and commuter rail systems are generally ineffective transportation investments because they are expensive, inflexible, and soak up transit resources without attracting sufficient ridership. Improving bus systems (and possibly some paratransit options), not rail, seems to be the future of public transit in cities like Milwaukee and Madison.

Rail has and will continue to play an important role in the nation's freight transportation system. What of intercity passenger rail? Compared to many studies of intracity rail, fewer cost-benefit studies have been undertaken of intercity passenger rail. But the available data suggest that in the U.S. system, the only lines that may yield benefits in line with costs are in the northeast corridor. The financial performance of Amtrak, and even of more technically advanced systems in France and Japan, makes it hard to imagine that high speed intercity rail network in the Midwest would be any more viable than Amtrak. Given Wisconsin's geography, and the experiences of other U.S. regions with rail systems, neither intercity nor intracity passenger rail is likely to make a positive contribution to Wisconsin's future economic development.

Governments not only tax and spend and invest in infrastructure, they also regulate. The panoply of regulations affecting business is so broad that some have championed "regulatory audits," studies of the broad range of regulations affecting business and economic development. Such studies lay out recommendations for reform in land use regulation, regulation of professions and occupations, environmental regulations, regulation of rental housing, development and building codes, labor, street vending, and parking.

Many "general" or "traditional" functions of government, not usually thought of as development policies per se, may have strong effects on economic development. For example, it's hard to attract footloose indus-

tries to locations that have high crime, or poor fire protection, or where trash collection is "hit or miss." Conventional wisdom suggests that economic development can be adversely affected by high crime rates, but strong relationships are surprisingly difficult to find in the empirical literature.

A range of strong views exists on how metropolitan governance affects or does not affect economic development and standards of living. On the one hand, much of the work of professional urban economists is informed by something called the Tiebout model, which posits a world of many competing small jurisdictions, each offering its own tax and service packages. In such a world, different households are assumed to have different tastes and needs for various tax and service packages and, at least in the long run, they will move to the jurisdiction that offers the most efficient choice. Among other pluses, the Tiebout model embeds the notion of consumer sovereignty in public services; it gets around the problem of our inability to learn the true demand for public goods.

But the Tiebout model has its dark side. The model starts to collapse if there is to be any implicit or explicit redistribution of income by local governments. We often think of this redistribution in the classic form of cash payments (e.g., welfare), but many other kinds of government spending have redistributive effects—for example, spending on education and infrastructure. It is not possible to tax, say, high-income single people to educate low-income children, according to the model. They will move to some jurisdiction with a lower tax and service package. Thus some analysts—more often political scientists than economists—suggest that metropolitan-wide governance structures, or at least some metropolitan revenue sharing, could contribute. The experiences of Indianapolis and Minneapolis, which have implemented limited regimes of this nature, tell us there may be some scope for such initiatives, but also that they are not silver-bullet solutions to the fiscal problems of cities.

Recently, a number of economic development strategists have emphasized tying development policies to community development initiatives. These approaches are heavily influenced by the concept of social capital. The idea is that a phalanx of interrelated social problems—poor schools, racial segregation, high crime, drugs, and the like—create a whole that is, unfortunately, worse than even the sum of its parts; and that these effects are compounded by their concentration in particular locations and neighborhoods.

Perhaps the most difficult issues related to the community development approach to economic development have to do with the fact that the definition of community development is somewhat fuzzy. Some authors focus on community development as the activities of nongovernmental community development corporations, while others focus on government programs such as the Community Development Block Grant or Urban

SAMPLE POLICY OPTIONS FOR ECONOMIC DEVELOPMENT

Education

- › Increase the accountability of schools by measuring performance.
- › Base state aids to local schools on the difference between demonstrable needs and what the local tax base can reasonably provide.
- › Continue to strengthen and improve the performance of Wisconsin's system of technical and continuing education.
- › Substantially increase scholastic aid by need and by ability to counter our reduced general state support for universities.

Infrastructure

- › Base infrastructure investments on cost and benefit analyses.
- › Monitor changes in electricity pricing and availability and carefully incorporate lessons learned from other states in our own energy deregulation efforts.
- › Consider expanding airports rather than undertaking passenger rail projects.

Service Delivery and Improved Productivity

- › Cut taxes where possible, while preserving the high standards of service delivery that Wisconsin citizens and firms rightfully expect.
- › Use new technology such as e-government where appropriate.
- › Institute performance contracting and consolidate job functions to increase governmental productivity on the state level.
- › Create fiscal incentives to encourage rationalization of local service delivery.

Regulation

- › Develop accountability and performance measurement for regulation based on cost-benefit principles.
- › Use regular audits to analyze government's role in regulating business.

Land Use

- › Balance land usage through a combination of regulation and accommodation.
- › Set impact fees to recover the marginal costs of development, rather than "what the traffic will bear."

Public Projects

- › Take a realistic view of economic advantages and disadvantages of public projects like sports stadia and convention centers.
- › If a project is to be justified on non-economic grounds, do not introduce specious economic arguments that confuse the decision.

Industries and Locations

- › Tailor economic development activities to local conditions while understanding that the localities are economically interconnected.
- › Identify ways to retain our own university graduates in the state, as well as make Wisconsin more attractive to graduates from other states.

Place-Based Development Subsidies

- › Concentrate taxpayers' dollars for subsidies to the areas of greatest need.
- › Place stronger limits on Tax Increment Financing.
- › Study the extent to which TIF funds are actually used in blighted areas and distressed communities.

Wisconsin's Business Culture

- › Lose our "cheesehead" image. Refocus our public image on our quality of life, our strong manufacturing and service base, and our high quality public services.
- › Highlight our natural amenities and the recreational benefit of our climate. Explain how we deal with snow more successfully than many supposedly temperate locations.
- › Celebrate and encourage entrepreneurial talent. Strive for excellence rather than what's "good enough."

Economic Research and Evaluation

- › Integrate program evaluation as a process of continuous improvement.
- › Consider upgrading research on local economic development.

Development Action Grant programs. Several authors focus on housing activities because many Community Development Corporations (CDCs) that serve individuals and neighborhoods in economic distress happen to focus on housing. It's hard to disagree with the general notion that community matters. The question is what to do about it. This is made more difficult by the fact that despite the plethora of community development programs and activities by government and nongovernmental organizations, including churches and CDCs, virtually no rigorous social science research is available that tells us the costs and benefits of these activities.

Conclusion

The best tax policy for development is obvious: lower taxes without reducing services. It helps the jurisdiction cutting taxes if nearby jurisdictions don't respond with their own cuts. Unfortunately, except for very marginal changes, it is often pretty difficult to keep service levels constant while cutting taxes. Nearby jurisdictions usually do respond, instituting their own cuts. Our best tax policy in such a world is to look constantly for improvements in public sector productivity that will help reduce fiscal burdens while keeping service levels strong and to rethink exactly what mix of services the public sector should deliver.

If we are to use localized tax incentives, we should limit their use to lagging regions such as Douglas County or Menomonie County or Milwaukee's central city. It makes little sense to subsidize thriving locations in Dane County or Milwaukee's suburbs. When using tax incentives, we must think clearly about how to pay for them.

We must recognize that the most important economic development policies are rarely labeled as such. Of all the things governments do, improving the educational system, particularly primary and secondary schools as well as the university, is very important. Well-functioning infrastructure is also critical. People-based human service programs, such as housing vouchers and Wisconsin Works (Wisconsin's welfare program, W-2) should be carefully examined through the economic development looking-glass as to how well they meet their social goals.

While much remains to be learned, we do know a number of useful things about economic development. First, growth in employment is good: it increases incomes, particularly at the low end of the income distribution, and it lowers unemployment rates even in the long run after migration has had time to occur. Real estate prices tend to increase as economic development occurs. In the aggregate, however, this is not usually sufficient to outweigh the benefits of higher incomes. Some "new-wave" economic development policies involving location incentives might affect location decisions in some cases, but they are probably insufficiently effective to justify widespread use.

We know some things matter a lot (like education), and other things surprisingly little (like subsidies of sports teams and convention centers). Many studies of

one kind of development activity or another suffer from focusing on either cost or benefit, but not both in tandem. For example, planners tend to focus on the benefits of land use regulation while economists focus mainly on the costs. In fact, we need more precise quantification, where possible, of the size of both the costs and the benefits. It's good to know that a particular activity increases economic activity (or decreases it), but the magnitude of the effect also matters, even though it is harder to know. We need more detailed research on the specific policies that governments have in their economic development arsenal, but we should be realistic about the likely limitations. ✍

DIRECTOR'S PERSPECTIVE *continued from page 1*

Kettl comments on the public management ramifications of September 11.

We extend our sympathy to Walter Dickey of the Law School, who participates frequently in La Follette programs. Walter lost his brother Joseph in the World Trade Center.

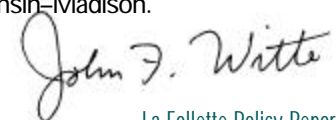
On a personal note, as chair of the University of Wisconsin's ROTC Officer Education Committee, I was extremely gratified by the effective and controlled military response of the U.S. administration to the terrorist attacks. May our world be a safer one in 2002.

In other news: Several of our faculty have been away on leave recently. Dennis Dresang is back after a global tour, while Bob Haveman and Bobbi Wolfe have once again been engaged for visiting lectureships in Australia (in the winter months, of course). Maria Cancian is at the Russell Sage Foundation and Kelly Chang has a Robert Wood Johnson fellowship. Karen Holden recently received a prestigious award from the Society of Actuaries for her (and colleague Meeryoung Kim's) paper on spouse survivorship provisions in public retirement systems.

This issue of the *La Follette Policy Report* includes a summary of one of Stephen Malpezzi's report for the Governor's Blue-Ribbon Commission on State and Local Partnerships, chaired this past year by our own Don Kettl.

David Weimer and Michael Wolkoff's piece in this issue is an example of the type of scholarship that our faculty engage in and that we teach our students to undertake to evaluate public policies. Although it is somewhat technical, we have omitted the mathematical equations while retaining the description of their work. They exhibit the kind of careful analysis that goes into high-quality scholarship.

My own article on "Wisconsin Ideas" was originally published in a special edition of *New Directions in Higher Education* as part of a collection of work describing the backgrounds of various public policy schools. The University of Wisconsin was cited in the introduction to the volume as the "Wisconsin model," being the first government-university partnership in the United States. As you will note, we remain proud of the traditions we have and on which we build here at the University of Wisconsin-Madison.



Youth Violence Seminar: The Wisconsin Idea in Action at the La Follette School of Public Affairs

by **Dennis Dresang**

Dennis Dresang is a professor of political science and public affairs and director of La Follette's Center for State, Local, and Tribal Governance at the University of Wisconsin-Madison. For information about the spring 2002 program, contact Professor Dresang (dresang@lafollette.wisc.edu) or his assistant, Hillary Murrish (hlmurrish@students.wisc.edu).

Youth violence and gang activity challenge communities and individuals throughout Wisconsin. Some of the gangs that operate in the state are part of corporate organizations headquartered in Chicago and Los Angeles. Others are ethnically based or are independent groups of antisocial young people unique to a particular community. Youth violence includes both assaults on others as well as self-destructive behavior and suicide. In most Wisconsin communities, alcohol and other drug abuse is the most common form of youth violence—violence done to youth by themselves.

Young people join or form gangs for a variety of reasons. For some, it is not even a conscious decision, but a matter of simply following friends, neighbors, and relatives. In most communities in our state, boredom is the most common reason that young people join gangs and/or abuse drugs and alcohol, which often leads to violent activity. For some, gangs offer an opportunity for belonging, excitement, and employment, albeit in ways that involve dangerous and illegal activities.

Since the mid-1990s, police and school officials have acted promptly and harshly with youth gangs. “Zero tolerance” policies have been relatively effective in eliminating graffiti, signs, colors, and other manifestations of gangs. Young people seem to approach forming or joining gangs less frivolously than they once did. Corporate gangs are less visible, but remain active in trafficking drugs. By all accounts, alcohol and drug abuse among young people is significantly worse than it had been even a few years ago.


Providing real alternatives to gangs and dealing with the effects of gangs and youth violence requires the resources and cooperation of a number of actors in the community who are usually pursuing separate and distinct objectives. This typically leaves communities less than well poised to deal effectively with the multifaceted nature of gangs and youth violence. Governance is fragmented among school districts, municipalities, police departments, family service agencies, recreation programs, churches, and businesses. Among these, there is no obvious single entity that is responsible for the issues of gangs and youth violence.

To enhance the abilities of communities to meet the challenges of gangs and youth violence, the La Follette School of Public Affairs at the University of Wisconsin-Madison has provided a program known as “Teaming Up on Gangs.” Since the program’s inception in 1994,

twenty-nine communities from throughout the state have accepted the invitation to participate in the program. In 2001, four others—La Crosse, Sun Prairie, Sheboygan, and the Menominee Nation—participated.

Students interviewed a cross-section of community leaders, seeking their perception of the problems, the existing community responses to those problems, and areas in need of further attention. Interviewees included school principals, police officers, nonprofit leaders, community businesspersons, social workers and religious leaders. Discussions with young people were important to get a sense of their views of opportunities and issues in their communities. Research also included the examination of relevant scholarship and news accounts.

It is important to reiterate that the case studies were undertaken to inform the community of observations made by impartial investigators reporting the results of interviews and research. It is not meant to judge community work on the problem, only to provide the group with a common base for analysis, further probing, and development of action steps. The challenge for program participants is to use one another to address the general issues outlined in the case study, clarify their validity, and develop action steps to improve the community approach to gangs and youth violence.

Below is a list of the 2001 case studies. If you are interested in obtaining a copy of the full report, contact the La Follette School of Public Affairs publications department at (608)262-5443 or download it from www.lafollette.wisc.edu/gangs/caseStudies2001.pdf. 

COMMUNITY CASE STUDIES 2001

The Menominee Experience: Youth Violence and the Awakening of Strengths

by Heather Priess and Alicia Walley

A Gang Metamorphosis: La Crosse's Efforts Get Results

by Sarah Barry, Jennifer Gonda, and Daniel Maxwell

Sun Prairie: A Bedroom Community Awakening to Big City Challenges

by Erin Hanson, Sarah Popp, and Terry Tuschen

Getting Ahead of the Problem: The Sheboygan Response to Youth Violence

by Hilary Murrish and Melissa Ducat

account for much less of the state economic product. They are increasingly being replaced by business services or higher technology industries, with much closer ties to the core knowledge currently at the university.

Changing organization within the university also affected the Wisconsin Idea. As departments and disciplines became the center of the university, they responded not only to the university and state needs, but also to the professional norms that defined their specialty. That meant, in nearly all disciplines, moving from applied to theoretical work, and often to work involving sophisticated scientific, mathematical, and statistical techniques. The former made the rewards for faculty working on applied problems less attractive; the latter made it more difficult for research to be understood by nonspecialists and translated into implementable ideas, programs, and policies.

University rules for tenure changed as did department and discipline norms. Publishing became much more important, while teaching and service became less important. "Publish or perish" became and remains the norm. Thus, for example, members of the Poverty Institute, all of whom have appointments in disciplinary departments, had not only to work on practical problems of how to reduce poverty, but also on econometric techniques and other theoretical issues.

These trends have changed the Wisconsin Idea. The state, with many more highly trained personnel and much more information, began to use the university in different ways. Elected officials and appointed bureaucrats, with much better education, staff, and information, relied less on the university to provide an agenda, promote policies, or be involved in their implementation. Rather, they needed more sophisticated ideas, arguments, and evidence. In addition, to bolster arguments in partisan environments, "objective," "nonpartisan" analyses became valuable in political debates. On both scores the university remains an excellent resource not only in the state, but in federal and international venues as well.

The relationship with the private sector has probably changed the most. Early on the connection was bifurcated. Progressive legislation was probably best characterized in modern terms as "anti-business." What Bascom, Ely, La Follette, Van Hise, and Commons shared was a hatred of "trusts," large corporate power, and the wealth for owners that it produced. They also supported labor and the right of labor to unionize and have a seat at the table with corporations and government.

Many of those ideas have seemingly changed. The animosity on the part of the university toward business seems clearly diminished. As the university produced ever more sophisticated scientific knowledge, partnerships between business and the university grew from the initial connections between biology and dairy to encompass many of the disciplines in the university. The Computer Sciences Department, Biomedical Engineering, Department of Chemistry, the Business School, the Industrial Relations Research Institute, and the La Follette School of Public Affairs, to name just a few, began to work with corporations or closely aligned nonprofit organizations. Direct links were made that in the earlier period would have been viewed with suspicion.

Just as government and business changed their roles and needs, so did the university.

As the university produced ever more sophisticated scientific knowledge, partnerships between business and the university grew from the initial connections between biology and dairy to encompass many of the disciplines in the university.

Seeking tenure and advancement, professors in some disciplines and departments were still able to produce the type of information and objective analysis needed. For example, researchers in the Poverty Institute were able to provide estimates of labor market participation of those receiving (welfare) subsidies in an experimental setting and still make numerous advances in the way such experiments should be

run and the treatment of statistical problems that resulted. Both policy and academic needs were met.

Many disciplines, however, followed their own paths. Economics shifted to mostly theoretical, highly mathematical research; political science downgraded its concerns for policy, administration, and law; and history diversified significantly. Thus, academic demands shifted faculty away from practical policy problems.

The creation or transformation of the professional schools and professionally oriented departments or institutes now fill the void. These include, among others, the La Follette School of Public Affairs, the Department of Urban and Regional Planning, the Industrial Relations Research Institute, the Business School, the School of Library and Information Sciences, the Nursing School, the Medical School, the School of Pharmacy, and many departments in the College of Agriculture. These organizations, with their primary role being training of professionals in their respective areas, naturally become aligned with the institutions where their students take jobs. They also often have internships and bring outside experts into the classroom from agencies, businesses, or nonprofit organizations, and design classes to interact directly with these organizations.

Those activities bring the faculty in close contact with government and business, and that often leads to research, outreach, and consulting relationships. To cite examples from the La Follette School of Public

Affairs, our faculty are conducting research in Wisconsin on welfare reform; pension and aging programs and reform; educational reforms (school finance, vouchers and education choice, and charter schools); the state economy and economic forecasting; the problems of gangs and youth violence; and environmental issues. One of our senior faculty has served the governor as chair of blue-ribbon commissions on campaign finance reform and on state and local relations.

Thus, although the relationships between the university and the state have changed considerably relative to the earlier period, activities and connections are probably more numerous and much broader across the community. A recent study by the Office of Outreach Development, relying on a survey of 888 faculty, highlighted the extent of outreach activity at the university. Of those responding, 87 percent indicated they had participated in outreach activities in the last two years. The primary activities outside the university broke down as follows: 72 percent gave speeches or presentations; 51 percent served on advisory boards; 48 percent wrote for the general public; and 43 percent conducted research for public or private organizations.

Carrying On

What we have now are Wisconsin Ideas. There is no simple idea that fits a slogan on how our university relates to the rest of the state and beyond. The linkages now extend from the university to state government agencies, to private companies, to nonprofit organizations, and to the international community.

The models, or ideas, for these relationships are varied. In recognition of the research interests of the faculty, external organizations are increasingly willing to provide funding for research of mutual interest. This of course carries with it a number of complications. For example, will the research lack objectivity because of the source of funding? It also presents problems in terms of who will benefit financially from the research if it ends with products or outcomes of commercial value. These problems can be solved. The external peer review process for publications in professional journals provides a check on research quality and objectivity. And contractual arrangements, dividing up the benefits of research among the researchers, sponsors, and the university, have become the norm in research leading to commercially viable and patentable products.

Also, particularly in the emerging international fields, experts have taken on consulting roles for governmental organizations, nonprofits, or private concerns. This arrangement allows faculty members to se-

cure release time from other activities in order to pursue longer-term projects around the world. For example, I recently returned from a semester as an international research exchange scholar sponsored by the federal government. The purpose was to help Central European universities establish and design public management and policy programs. In the process I wrote several articles with my new colleagues in Hungary and Poland, and I have incorporated materials from those countries into my courses. Although earlier proponents of the Wisconsin Idea may have viewed such pay-for-service arrangements with cynicism, these activities reflect the reality of the modern professional world in which we work. And they will continue to evolve.

The current practices of Wisconsin Ideas increasingly extend beyond our state and nation. At times these reflect state interests abroad, such as helping Wisconsin businesses place their products in foreign markets, as has been done, with controversy, with genetically engineered crops and animals. Other times, university faculty join our state agencies when they work closely with foreign agencies to share ideas and innovations. Or there simply may be sharing of university knowledge with governments in other countries, often developing nations or nations in transition. For example, the university's Land Tenure Center has extensive experience in land reform in Latin America and Africa, and faculty there are now extending their

knowledge to emerging democratic regimes in Central Europe and the former Soviet states. In another example, a faculty member affiliated with both La Follette and the Department of Agriculture and Applied Economics has been applying his knowledge of local finance in the United States to reforms in South Africa.

Finally, as communication technology continues its revolutionary journey, the possible contacts with the world beyond the walls of the university will explode in number and form. Interactive distance learning, both in degree programs and in other forms, will make more contact possible. The Internet is already becoming a primary medium for displaying research. For example, a major report on a symposium held by La Follette on sweatshops and living wages in the apparel industry was released not in hard copy by mail, but instantaneously on a Web site created explicitly for that conference. The report was forwarded and reproduced so fast that by the end of the week it was issued, scores of people across the country and the globe were able to download and comment on the report.

Thus, by whatever means we use, Wisconsin Ideas are not only secure, but are expanding in important new directions. ✍

Although the relationships between the university and the state have changed considerably relative to the earlier period, activities and connections are probably more numerous and much broader across the community.

Terrorism and the Role of Public Administration

by Donald F. Kettl

Donald Kettl is a professor of public affairs and political science at the University of Wisconsin–Madison. This article is adapted from the article entitled “The Next Public Administration Revolution” published in PA Times volume 24 number 10 (October 2001). Reprinted with permission from Public Administration Times © by the American Society for Public Administration (ASPA), 1120 G Street NW, Suite 700, Washington, DC 20005. All rights reserved.

When terrorist planes slammed into the World Trade Center and the Pentagon, the first foot soldiers in the war against terrorism were front-line public administrators. Countless survivors told of firefighters racing up the stairs as workers evacuated running the other way. The firefighters thought only about doing their jobs—saving lives—and hundreds of them lost their lives in the effort.

In the smoldering aftermath, the sight of hundreds of rescuers picking carefully through the rubble reminded us that government isn't only an institution. Government is people—police officers and firefighters, air traffic controllers and defense workers—on whom Americans depend.

In a way unmatched in history, Americans had a chance to watch public administrators at work and, sometimes, under attack. They saw countless cases of unmatched bravery. Behind the scenes, state and local governments across the country mobilized to prepare for the possibility that the attacks might spread. The broadcast heroism, in fact, only hinted at the way that government workers rose to the challenges of their jobs.

Americans won't soon forget these images. Those who do the public's work won't ever be able to go about their routines in quite the same way. How public administration—and public administrators—rose to the test can only enhance the field and those privileged to serve in it.

The real work—how to refashion the field to master the enormous new challenges facing it—begins now. Public administration will only become more important, but its job has been dramatically transformed. Consider some of the basic issues.

Coordination. In probing possible intelligence failures, analysts quickly focused on the old rivalries between the CIA and the FBI. They poked into the historic division of responsibility, between the FBI's emphasis on domestic terrorists and the CIA's focus on international problems. The proposals for a single, national, anti-terrorist agency recall the post-World War II plan—and the new challenges that spilled out of it—that combined the military services into a single Department of Defense.

During the attack and its aftermath, the coordination problem boiled over everywhere. Federal officials bluntly admitted that they had no procedure for notifying federal agencies in Washington about a possible at-

tack. Washington Mayor Anthony A. Williams complained that federal officials failed to inform him quickly enough about critical decisions they were making, while District of Columbia officials discovered they lacked a citywide antiterrorist plan. New York's emergency management officials discovered that they had planned for many contingencies but didn't anticipate having their communications system virtually wiped out. Creative managers there proved almost unimaginably inventive in putting the operation back on its feet. Around the country, local officials discovered that their emergency response plans, devised for hurricanes or floods, were inadequate to manage a terrorist threat.

Everyone agrees on the need for better coordination. Events that emerge outside routines always cause public agencies to scramble. As the federal govern-

ment gears up its new Office of Homeland Security, it's clear that public administration will become even more central in strengthening the coordination among public programs—and that public administration will need to learn to be even lighter on its feet to adapt to problems that fall outside the routine.

Privatization. The terrorists slipped through the security checkpoints at multiple, different airports. While the airport security operations, managed by private contractors, were porous, federal policy was inadequate as well. In fact, before September 11, flyers could board planes carrying knives with blades up to four inches long. The failure was not so much one of privatization as of effectively forging a public-private partnership—the right governmental policy matched by effective implementation through a contractor network—that was up to the job.

Since the disaster, calls have arisen to governmentalize everything, from sky marshals to airport security. The emerging policy response is creating new public-private partnerships, among federal policymakers, local airport authorities, and the airlines. It's clear that public administration will be even more important in figuring out how to structure and manage this evolving partnership.

Strategic thinking. The attack revealed simmering problems in the nation's approach to public administration. When confronted with a new problem, the instinct has long been to reorganize instead of asking how best

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public administrators at work and,
sometimes, under attack.

to solve the problem. When facing a budget crunch, the instinct has been to downsize the number of public employees instead of asking what skills the government needed to get its jobs done. Comptroller General David M. Walker for years has been sounding the alarm about the government's "human capital" problem. That phrase takes on new meaning when the FBI can't find enough Arabic-speaking agents to operate wiretaps and when officials across the government struggle to manage the critical public-private partnerships on which security depends.

It's clear that public administration will have to be even smarter to assess what people are needed with what skills in what places. The research community will need to focus on a new breed of analytical problems. Teachers will need to train the workers the government most needs.

If the tasks are daunting, the steps that need to be taken were, in fact, already in motion before the attacks occurred. A quiet revolution in public administration was well under way, with sometimes-radical thoughts about improving the productivity and responsiveness of government services. The fruits of that work were evident for the world to see in the heroic action of emergency workers in New York and Washington.

The fundamental nut to crack now is this: We manage our organizations along functional lines—such as fire, police, intelligence, and defense. However, the prob-

lems we need to solve increasingly are place-based—whether emergency response to catastrophic fires at the World Trade Center or a coordinated campaign against terrorist cells around the country. We shouldn't move away from public administration's traditional foundation of functionally structured organizations. But we need to get much smarter, much faster about how to match functional organizations with place-based problems.

Tom Brokaw's *The Greatest Generation* celebrated the work of ordinary Americans—our fathers and mothers, grandfathers and grandmothers—who rose to the challenge of World War II. The often-unrecognized story is the critical role that public administration—and public administrators—played in winning the war. The field's greatest thinkers converged on the problem, and smart managers quickly devised new systems to shape the war effort. Their work established them among the great of "the greatest generation."

The administrative problems we face are even more complex than those in World War II. The enemy hides in the shadows, and the campaign demands unprecedented administrative coordination. The challenge for public administration today is to stand as tall as the generation of administrators who helped win World War II. The first step is for administrators and academics alike to enlist in the public administration revolution and to crack its toughest theoretical and practical problems. *z*



La Follette Policy Report

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