More Change Coming

Shifting demographics will impact economy, government, and education

Todd Berry

Many aspects of the economy — tax collections and stock prices, for example — are difficult to predict. But arguably Wisconsin's most pressing economic challenge has been known, and largely ignored, for decades: a major population shift that could adversely impact employers, government revenues, and the state economy's capacity to grow.

In a nutshell, the massive baby boom population is beginning to exit the labor force, and the size of the working-age population that follows is smaller. One need look no further than the last 15 years of Wisconsin's falling school enrollments to understand what lies ahead.

A kindergartener in 1997 is now 22 years old and entering the permanent workforce. And that means our labor force has years of stagnation or decline ahead of it.

Politicians are quick to promote "economic development" and "job creation," but if worker counts are not growing, they may miss the forest for the trees. One cannot create jobs if there are no available people to hire.

Modern economic history confirms the strong tie between growth in the working-age population and job creation. Between 1980 and 2011, in states where the working population expanded rapidly, job creation was robust. In states like Wisconsin and its neighbors, the working-age cohort grew less, and job creation was moderate.

The combined effect of a no-growth workforce and a near doubling of retirees goes well beyond employers and job numbers. Consumer markets will be impacted. The elderly tend to purchase more services and fewer goods than young people. Their need for health and social services is greater while demand for new consumer items, such as vehicles and appliances, is less.

As "boomers" retire, they will also trade larger homes for smaller condominiums or apartments. Prices for smaller residences should rise with increased demand; however, the market for larger ones should be soft.

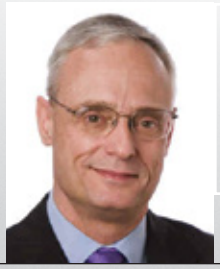
Aging Population, Falling Incomes

Population shifts will also impact state incomes. Average earnings generally rise with age, before falling at retirement. But the number in the former group is not growing, while the number in the latter is surging. Over the next 30 years, total income in the state is projected to increase just 15 percent, or an average of just 0.5 percent per year, far less than averages of 6 percent in the 1990s or even 4.3 percent during the pre-recession 2000s.

An aging population has major revenue implications for state and local governments. Individual income and sales taxes provide more than 80 percent of state general fund revenues. Slower income growth from a shrinking workforce will inhibit income tax collections. Moreover, a growing share of all income will come from Social Security, which Wisconsin exempts from taxation.

Since mature consumers purchase fewer taxable goods and more food, drugs and services that are not taxed, a boom in seniors will affect sales tax collections. And, to the extent that seniors rely on government services more than others, their increasing numbers will put mounting pressure on state-local spending.

State population trends will affect local property tax revenues, as well.



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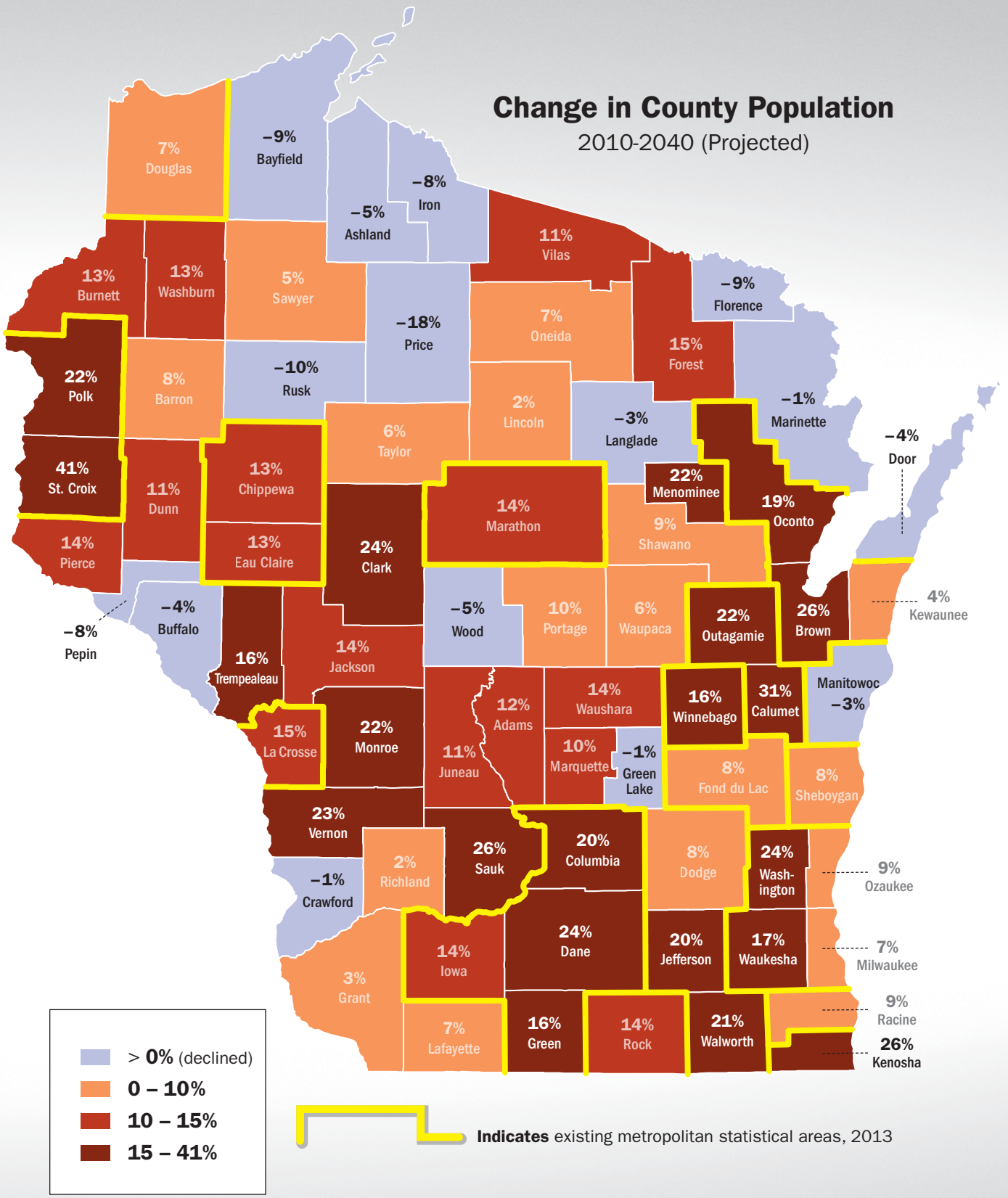
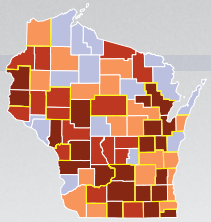


Source: University of Wisconsin Applied Population Laboratory



Because state-mandated revenue limits are directly tied to student counts, little or no increase in enrollments makes it more difficult for schools to increase revenues, unless they ask for approval via referendum.

Yet, approving referenda will likely become more difficult over the next 30 years, as the number of fixed-income retirees swells. That is especially true since older citizens have a greater propensity to vote than their younger counterparts.

Varied Population Growth

Although the population dynamics Wisconsin is beginning to experience is a statewide phenomenon, some parts of Wisconsin will be more affected than others. Total state population will increase 14 percent over the next 30 years. However, only 25 counties will grow more than that; 47 will grow less.

What's more, between 2010 and 2040, the working-age population is expected to fall 0.2 percent. Yet, in the 11-county area that spans from Barron in the west to Langlade in the east to Bayfield and Iron in the far north, a near-20 percent drop in the number of working-age residents is projected.

Growth will generally follow major highways from Brown County south to Kenosha, then northwest through Dane and Sauk counties, before leapfrogging to St. Croix County. Kenosha and St. Croix benefit from growth in the Chicago and Minneapolis-St. Paul metro areas.

The pattern of region-specific decline is expected to continue beyond 2040, given pending school trends. During 2010-40, the school-age population is expected to drop more than 30 percent in Bayfield and Price counties, and more than 20 percent in Ashland, Lincoln, Pepin and Rusk counties.

Economics aside, this raises questions about how to educate children in sparsely populated areas. More than 60 northern districts already have fewer than five students per square mile, making transportation of children costly.

Back in 2004, the Wisconsin Taxpayers Alliance warned that over the succeeding 15 to 30 years, "unprecedented changes in Wisconsin's population will impact the state's economy and government." What was once crystal-ball gazing a decade ago is now becoming reality.

The sobering question is: Are Wisconsin's leaders any better prepared now to meet the challenges of population change than they were then? ■

Todd Berry is president of the Wisconsin Taxpayers Alliance.

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