

INVESTING IN WISCONSIN'S FUTURE A Proposal for a State Higher Education Nest Egg Program

BY DENNIS WINTERS

Wisconsin will face serious challenges in the coming decades if it fails to increase the size and quality of the state workforce talent pool. One potential solution is a *Higher Ed Nest Egg Program*, which would put \$1,000 per student per year into an account with the sole purpose that the funds be used for postsecondary education in Wisconsin. The resulting increase in educational attainment would enhance the workforce and realize substantial fiscal benefits for the state.

In the coming decades, the competition for talent will increasingly dictate economic progress at the local, state, national, and global levels. The most consistent complaints I hear from businesses are that they can't find enough skilled help (this includes both technical and personal interactive skills, also referred to as hard and soft skills) and that the tax burden is too high. Moreover, businesses understand that in order to compete in the global economy, they need to be as productive as possible. More often than not, state and national businesses enhance productivity by substituting labor with improved production capital and process advances. Both efforts require higher skills, if not fewer workers. The need for more talent is a continuing evolution of the industrial process.

Earlier in the twentieth century, work was a substitute for schooling, even at the elementary school level. Today, for the majority of family-supporting jobs, the skills required to enter the workforce or enroll in college are the same: advanced math, advanced reading, and an understanding of basic sciences. For example, the HVAC program at the Center for Energy Conservation and Advanced Manufacturing at the Milwaukee Area Technical College's Oak Creek campus requires algebra, geometry, and trigonometry just for the math prerequisites.

By the end of this decade, more than 60% of jobs will require a college education.¹ The vast majority of today's fastest growing occupations earning \$30,000 or more per year require some postsecondary education.² Assuming current trends, projections suggest that by 2025, Wisconsin will face serious workforce quantity and quality challenges to the extent that per capita income in the state will decline.³

ABOUT THE AUTHOR

Dennis Winters brings more than 25 years of experience in economic analysis, modeling, and forecasting to his position as chief labor economist for the State of Wisconsin. His areas of focus include regional and national macroeconomics, energy and labor markets, and economic impact analysis.

Winters is the architect of several studies on the value of education in economic development; has served as an advisor to industry, government agencies, and elected officials; and has testified before governmental investigative bodies. He earned a bachelor's degree in agricultural economics from the University of Wisconsin-Madison and a master's degree in economics from Colorado State University.

Governor Jim Doyle initiated the Wisconsin Covenant to assist students and families with the cost of higher education, and there are numerous scholarships, grants, loans, and work-study programs to help pay for the cost of postsecondary education. In the 2008-2009 academic year, 67% of University of Wisconsin System undergraduate students received some form of financial aid. In the Wisconsin Technical College System, 62% of students get some financial aid, as do 90% of full-time students at the state's independent colleges.⁴ Despite these aids and incentives, it seems we don't have enough high school students pursuing higher education. Only 50% of Wisconsin high school graduates enter postsecondary education, and only 40% of Wisconsin residents aged 25-34 have tertiary degrees.⁵

The Higher Ed Nest Egg Proposal

Overview

Given the current situation and the unsettling ramifications if we don't increase our workforce talent pool in the near future, perhaps it is time I offer for discussion a complementary postsecondary education cost subsidy plan I have been contemplating. I call it the *Higher Ed Nest Egg Program*. The idea is to put \$1,000 per student per year into an account with the sole purpose that the funds be used for postsecondary education in Wisconsin—perhaps at only public institutions because the funding comes from taxpayer money. If a student doesn't attend a public postsecondary education institution in Wisconsin, the money remains in the fund pool to compound further.

When a student considers whether to finish his or her junior and senior years of high school, the nest egg may be a contributing factor in the decision to see it through.

At the completion of 12 years of elementary and secondary education, each student would have a nest egg of more than \$12,000 to apply to postsecondary education costs (assuming a non-negative rate of return on the fund pool over the period). When a student considers whether to finish his or her junior and senior years of high school, the nest egg may be a contributing factor in the decision to see it through.

It also may be a large incentive for the parents or guardians to influence that decision.

Costs and Funding

There are about 900,000 public school students in Wisconsin; therefore, the total annual cost would be \$900 million. Considering that Wisconsin currently sends only about 50% of its students on to postsecondary education, the resulting annual funding requirement would be \$450 million. Should the nest egg incentive be successful and student higher education enrollments rise to an enviable 55% to 60%, the funding burden would rise correspondingly to between \$550 million and \$600 million.

This is a great deal of money, so questions about how the nest egg would be funded will naturally arise. I suggest (and I understand the tax environment) that the state sales tax be increased by 1% per dollar (one penny) and/or expanded across service industries. The one-cent sales tax increase would generate about \$800 million in tax revenue, which would be reserved solely for the nest egg fund and pupil payment of in-state, public higher education costs.

Higher Ed Nest Egg Program at a Glance

- The program would set aside \$1,000 per student per year in a state-administered account.
- Upon high school graduation, each student would have \$12,000 to use for in-state postsecondary education costs.
- The annual funding requirement would be \$450 million based on current postsecondary enrollment trends but could rise to \$600 million if enrollment rates increase as a result of the program.
- The program would be paid for through a 1% per dollar (one cent) increase in sales tax, which would generate \$800 million in tax revenue per year.
- Resulting increases in personal income would, in turn, increase state income tax and sales tax revenues which would pay back the investment in the program in 8.4 years for some-college candidates and 3.8 years for bachelor's degree holders.

Use of Surplus Funds

If postsecondary education attendance reaches the 60% mark, we still have \$200 million in surplus revenue. I suggest this funding be redirected into early childhood development (ECD). The fiscal cost of providing voluntary, universal, quality four-year-old kindergarten (4K) in Wisconsin is \$207 million.⁶ Factoring in only the fiscal savings in the K-12 Wisconsin public schools due to quality 4K programs, the net present value cost is \$66 million—less than 1% of the public school budget. Moreover, the benefits-to-cost ratio of quality ECD for at-risk kids is 8 to 1 through age 27 and 17 to 1 by age 40. This is realized through multiple benefits, including higher earnings and more taxes paid, less dependency on public services, better health, less incarceration, and fewer teenage pregnancies, among others.⁷

The annual return on investment of ECD is 16%, and the risk is low and the returns long lived.⁸ Other work shows that early successes, such as the development of discipline and motivation in the pre-school years, beget continued successes.⁹ Kids ready for kindergarten are more likely to enter and complete high school and go on to college.

Benefits

The state income tax return alone is worth the investment. For every student who completes high school and goes on to postsecondary education, an increase in personal income and tax revenue is generated. A person with some college training increases his or her earned income by almost \$17,000 per year over a high school dropout. Applying a 6.5% marginal income tax rate (which kicks in at \$27,250, less than the average annual income of a person with some college) to the incremental earnings generates \$1,094 in incremental annual income tax revenue. The increases in income and tax revenue increments are \$25,400 and \$1,650, respectively, for those who complete an associate's degree (AD), and \$37,500 and \$2,436 for a bachelor's degree. Graduate and professional degree increments are higher.

Factoring in an average sales tax rate of 2% per income increment adds to the tax revenue stream. Summing the income and sales tax revenue increments and dividing it into the \$12,000 nest egg gives a payback that ranges from 8.4 years for the some-college candidate to 3.8 years for the baccalaureate degree holder.



Conclusion

If we increase the number of students who go on to college by 10% at each level (some college, associate's degree, bachelor's degree), we begin to add significantly to the Wisconsin labor talent pool while cutting costs in basic education, health care, public assistance, and incarceration.

Combining the nest egg and the ECD programs costs \$800 million per year if we are lucky (meaning high subscription to postsecondary education and ECD). The returns on that investment are overwhelming, low-risk, long-lived, and largely non-duplicative. Furthermore, the combination of the programs addresses the very things that businesses in this state care most about: workforce talent and the tax burden.

The odds of retaining this talent are very high. The vast majority of state residents who grow up in Wisconsin and attend college in Wisconsin stay and raise families in Wisconsin. State residence rates for Wisconsin residents who receive in-state postsecondary training range between 85% and 62%.¹⁰

Is an extra penny in the state sales tax worth the investment in Wisconsin's economic future? I submit that it is.

NOTES

¹ Center on Education and the Workforce, "The Demand for an Increasingly Skilled and Educated Workforce is Growing," Georgetown University, <http://cew.georgetown.edu/research/jobs/79012.html>.

² Office of Economic Advisors, "OEA 2006–2016 Statewide Long-Term Projections," Wisconsin Department of Workforce Development, http://www.dwd.state.wi.us/oea/employment_projections/long_term_projections.htm.

³ See forthcoming WISCAPE Policy Brief on Wisconsin's workforce quantity and quality.

⁴ Figures reported by the University of Wisconsin System, Wisconsin Association of Independent Colleges and Universities (WAICU), and the Wisconsin Technical College System (WTCS).

⁵ Complete College America, "State Data: Wisconsin," http://www.completecollege.org/state_data/.

⁶ Clive R. Belfield and Dennis K. Winters, *An Economic Analysis of Four-Year-Old Kindergarten in Wisconsin: Returns to the Education System*, Pre-K Now Research Series, (Washington, DC: Pre-K Now: A Campaign of the Pew Center on the States, September 2005), http://www.preknow.org/documents/WIEconImpactReport_Sept2005.pdf.

⁷ Lawrence J. Schweinhart, Jean Montie, Zongping Xiang, W. Steven Barnett, Clive R. Belfield, and Milagros Nores, *Lifetime Effects: The High/Scope Perry Preschool Study through Age 40*, Monographs of the High/Scope Educational Research Foundation, 14, (Ypsilanti, MI: High/Scope Press, 2005).

⁸ Arthur J. Rolnick and Rob Grunewald, "Early Childhood Development: Economic Development with a High Public Return," *fedgazette*, (Minneapolis, MN: Federal Reserve Bank of Minneapolis, March 2003), http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3832

⁹ James J. Heckman, "Schools, Skills and Synapses," *Economic Inquiry* 46, no. 3 (2008): 289-324.

¹⁰ As reported by state postsecondary education system contacts and publications: Kathleen Cullen for WTCS; Andrew Richards for UW System, and University of Wisconsin System, "UW Alumni in Wisconsin," *Office of Policy Analysis and Research Bulletin* (March 2010), <http://www.uwsa.edu/opar/b-p/bulletins/alumni.pdf>; and Karin Wells for WAICU. Sixty-two percent of WAICU graduates remain in the state, bolstered by 30% of the out-of-state students who elect to stay in Wisconsin after they graduate.





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