

*University of Wisconsin-Madison*  
*Department of Agricultural & Applied Economics*

May 2004

Staff Paper No. 474

## **Employment Trends in the Public Sector**

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**AGRICULTURAL &  
APPLIED ECONOMICS**

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**STAFF PAPER SERIES**

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Version 1.3

May 26, 2004

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Support for this applied research project was provided by the Wisconsin Agricultural Experiment Station, University of Wisconsin, the University of Wisconsin-Extension and the University of Wisconsin Masters in Public Administration Program, University of Wisconsin-Oshkosh. The authors would like to thank Andrew Reschovsky for helpful comments. All errors of omission or commission are the responsibilities of the authors and the views expressed here do not necessarily reflect the University of Wisconsin.

# Employment Trends in the Public Sector

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## Abstract

A detailed assessment of employment trends in the public sector from 1979 to 2001 is provided. Particular attention is paid to the relative level of public sector employment in Wisconsin. The analysis also examines the relationship between the size of state and local government and overall employment growth from 1979-2001. Results suggest that growth in total employment and employment in the public sector are highly correlated; higher shares of total employment in the public sector in the beginning of the period are not correlated with subsequent growth rates; but a state that sees the public sector grow faster than overall employment growth tends to be associated with slower overall growth. In addition, when measuring the size of the public sector in terms of employment, Wisconsin does not appear to be out of balance when compared to other states. Employment growth in state government over the period 1979-2001 is one of the lowest in the country and employment growth at the local government level is slightly above the national average. Detailed changes in employment by category are also examined for the US and Wisconsin from 1993 to 2002. These data suggest that there has been significant disinvestment in several areas that contribute to the overall quality of life in Wisconsin which may in turn hinder the future potential for economic growth and development.

## Introduction

Wisconsin has been historically regarded as a relative high tax state. Such conclusions are typically derived by comparing Wisconsin state and local public sector finances on the basis of either population (per capita) or income (per \$1,000 of personal income) to other US states. Wisconsin state and local taxes per capita ranked as high as fifth in 1970 but over the past few years Wisconsin has tended to rank just within the top ten states. On the other hand, Wisconsin's taxes per \$1,000 of personal income ranked as high as third in 1970 and as low as 13<sup>th</sup> in 2000.

Based on such rankings elected officials, as well as members of the business community, have been continuously advocating for lower taxes and a decrease in the size of the public sector. Former Governor Scott McCallum succinctly states the argument:

*“For too long Wisconsin has ranked near the top of every national survey when it comes to measuring overall tax burden. Wisconsin taxpayers have supported this level of taxation for too long.”*  
(*Wisconsin State Journal, February 4, 2001*).

Currently, the taxation debate centers on the proposed Taxpayers Bill of Rights (TABOR) which would place in Wisconsin's constitution a strict limit on the growth in spending at the state and local levels. The mostly widely discussed form limits the growth of expenditures to the rate of inflation plus population growth. Other proposals tie the growth to some percentage of the growth in personal income.

In other studies we have suggested that Wisconsin's high tax reputation is the result of purposeful policy decisions. Wisconsin governments receive operating dollars from two places: taxes such as the property, income and sales tax, and a broad collection of fees and charges. When one looks at taxes alone, Wisconsin tends to rank fairly high compared to other states. But when one looks at fees and charges alone Wisconsin ranks relatively low. In terms of total revenues either

on a per capita or income basis Wisconsin tends to rank just above the national average. In attempts to keep taxes low, other states have aggressively pursued the use of fees and charges. Wisconsin has elected not to follow that path.

Consider for example the widespread use of toll roads in other states to pay for highway construction and maintenance. Wisconsin takes great pride in not having toll roads; we would rather pay a motor fuel tax to finance our road system. Because Wisconsin has tended to stay away from user fees and charges, such as tolls on highways, our tax burden looks disproportionately high. The use of tax rankings does not present a complete picture of the relative size of the public sector.

Rather than focusing on the revenue side of the equation, how does Wisconsin fair when we look at the expenditure side: is Wisconsin a “big-time spender?” Using data from 2000, the most recent year that we can compare Wisconsin to other states, we spent about \$6,443 per person for all state and local services including public education while the national average is \$6,207, a difference of about four percent. Looking at our spending levels in a different way, we spend about 22 cents out of every dollar of income in Wisconsin, which is only two cents higher than the national average of 20 cents.

The reason for the current interest in the relative size of the public sector in Wisconsin centers on a serious proposal to amend the State constitution to limit the rate of growth in public sector spending at both the state and local level. The proposed Taxpayers Bill of Rights (TABOR) has been advanced primarily as an economic development and growth concern. A widely advanced argument for supporting TABOR is that Wisconsin’s fiscal policies are a hindrance to economic growth. In other words, Wisconsin fiscal policies make for an unfavorable business climate and this in turn hinders economic growth and development.

To this point the available economic evidence is clear: taxes have only a small impact on firm location and expansion decisions.<sup>1</sup> While business surveys consistently rank taxes as important, in practice taxes are secondary to the costs of labor, land and capital. In addition, these same business surveys point out that quality schools, access to quality public infrastructure and protective services such as police and fire protection are equally important. TABOR and other TABOR-like proposals such as a freeze on property taxes would restrict our ability to invest in the physical and human infrastructure that is a fundamental underpinning of our economy. Current research suggests that only when we have a situation where businesses and resident view that they are not receiving the quality services that they are paying for is something “broken” with the public sector.

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<sup>1</sup> See Timothy Bartik, *Who Benefits from State and Local Economic Development Policies?* The Upjohn Institute: Kalamazoo, MI. 1991, Helen Ladd, *Local Government Tax and Land Use Policies in the United States*. Edward Elgar Publishing: Northampton, MA. 1998, Beth Walter Honadle, James Costa and Beverly Cigler, *Fiscal Health for Local Governments: An Introduction to Concepts, Practical Analysis and Strategies*. New York: Elsevier. 2004, Michael Wasylenko. 1997. “Taxation and Economic Development: The State of the Economic Literature,” *New England Economic Review*, March/April. Robert G. Lynch. 2004. *Rethinking Growth Strategies; How State and Local Taxes and Services Affect Economic Development*, Washington, DC: Economic Policy Institute, John Halstead and Steven Deller. 1997. “Public Infrastructure in Economic Development and Growth: Evidence from Rural Manufacturers.” *Journal of the Community Development Society*. 28:2:149-169 and Steven Deller and Victor Lledo. 2001. “Local Public Sector Performance: Are Wisconsin City and Village Taxes too High?” Department of Agricultural and Applied Economics Staff Paper Series No. 440, University of Wisconsin-Madison/Extension. (May).

The intent of this study is to assess the size of the public sector and evaluate whether there is a link between the size of the public sector and overall economic growth. We do this in a slightly different fashion than other studies. Here we consider the size of government measured in terms of employment, specifically employment in state and local government relative to total employment. The main purpose of this study will be to reevaluate the perception that Wisconsin has a public sector that is out of balance with the rest of the economy. Instead of focusing on the usual interstate comparisons of fiscal measures such as tax burdens and spending levels we concentrate on trends in public sector employment and explore how public sector employment tracks with total employment growth. Using annual data from the 50 US states from 1979 to 2001 we examine the influence public sector size on overall employment growth.

Beyond these introductory remarks, the paper is composed of three parts. In the next section we compare Wisconsin to the other states in terms of relative employment growth and shares and how those shares change over time. We then introduce and discuss a simple statistical analysis comparing public sector employment size to overall growth. We close the paper with a review of our findings and a broad discussion of the public policy implications of TABOR-like proposals.

Before proceeding it is important to note two limitations to the analysis presented here. First, we can not assess whether or not the public sector in Wisconsin is too large. This requires a normative judgment that we are not in a position to comment upon. The most we can say is how large the Wisconsin public sector is relative to other states and whether changes over the 1979-2001 are above or below national averages. To draw normative conclusions is akin to the mistake of concluding that because Wisconsin ranks in the top ten in terms of tax burden, then taxes are too high. To conclude that Wisconsin is above or below the national average and to what extent is not sufficient to determine if Wisconsin's public sector is too large, too small, or just right.

Second, our statistical analysis can not speak to causation. Because we use simple regression analysis all we can conclude is if certain variables like total employment are correlated to public sector employment levels. In other words, all we can conclude is if two variables move together, in opposite directions or appear to be independent of each other. To suggest that one variable causes change in another requires more solid theoretical foundations and more robust statistical methods.

### Trends in Total and Public Sector Employment

When considering economic performance economists have turned to several indicators including industry sales, income and employment. The latter is perhaps at the forefront of discussions of economic growth and development. Society places great emphasis on jobs. The possession of a job in the American economy provides an income which determines, to a large extent, the capacity to pursue a particular lifestyle. Because jobs are central to society and personal perception of worth, preparing people for work, placing and keeping them in jobs, and providing opportunities for advancement are critical. Thus, a job represents a very valuable element of modern life, with many economic, social, and psychological benefits attached to it. Indeed, as we have progressed through state and federal welfare reform policies of the 1990s, the safety net for those in poverty has been replaced, in large part, with contemporary social policy that emphasizes work first. In the United States, there exists an increasing emphasis on work as a replacement for welfare.

Second, when we consider the relative importance of any one sector of the economy to the overall economy we often focus on jobs. For example, it is not uncommon to hear one industry advocating itself as one of the largest sources of employment in the state. The current economic development policy of Wisconsin has focused on the notion of clusters and their promotion. In determining which clusters are a best fit for Wisconsin special consideration was given to clusters

based on relative size, as measured by employment, and the growth potential of the sector, again measured by employment.

Third, much of the debate on current Wisconsin tax burdens has centered on employment and income growth. Advocates of lower taxes maintain that taxes are a cost to businesses and profit maximizing firms will seek to lower costs, including tax costs. The argument follows that if you lower taxes, costs will decline, profits will go up, firms will expand and employment will go up. There are, however as noted above, several economic studies that have challenged this line of argument as being too simplistic. For example the impact of reduced public services such as police and fire protection on business growth is ignored. But, the central point is that jobs are at the center of the public sector size debate.

Finally, any study of the role of the public sector in economic growth and development should focus on the outcomes of public policy. The public good or service provided by a police department is really crime prevention. Ideally we would look at how crime prevention plays into economic growth and development. Unfortunately, many of these public service outcomes are impossible to measure. In practice we are limited to measuring the inputs and outputs of the public sector. For example, how many police officers are on patrol at a given time is a measure of an input. Response time to an emergency 911 call might be considered an output. But ultimately crime prevention is the outcome. We can directly measure inputs and sometimes output, but seldom if ever outcomes. For most studies government spending is assumed to be an indirect measure of outputs and outcomes. For this study we use employment as our measure of the public sector's input.<sup>2</sup>

If the advocates of TABOR-like restrictions on spending and correspondingly taxation levels are correct then there should be a clear pattern relating the relative size of public sector employment and overall employment growth. Specifically, if Wisconsin is indeed a "high tax and spend" state, then this should show up in the relative size of public sector employment and its spill over effect on total employment growth. *The specific hypothesis that we seek to test is: does Wisconsin's public sector account for a disproportionate share of total employment and hence have a negative influence on overall employment growth?*

Consider first overall employment growth between 1979 and 2001 (Table 1 and Figure 1). For all fifty states the average level of total employment growth was 50.9 percent with Nevada experiencing the most growth and West Virginia experiencing the least. Wisconsin ranks 28<sup>th</sup> in the nation with total employment increasing by 38.4 percent from 1979 to 2001. This compares favorably to our neighboring states of Illinois (26.9%), Michigan (30.6%) and Iowa (23%) but is growing slower than Minnesota (51%). While a detailed description of what drove this growth is beyond the scope of this analysis, much of the growth for Wisconsin came from manufacturing and the services sectors.

Employment in the public sector, defined as state and local government employment exclusive of the federal government, grew by an average of 44.3 percent, 6.6 percentage points slower than overall employment growth (Table 1 and Figure 2). Wisconsin's public sector grew 33 percent between 1979 and 2001; 5.4 points less than the state's total employment growth rate. From a national perspective Wisconsin ranked 28<sup>th</sup> in terms of total employment growth and 33<sup>rd</sup> in public sector employment growth.

If we break the public sector into state and local employment we can gain insights into where the growth is occurring. Nationally, state level employment grew by 38.8 percent and local government employment grew by 47.2 percent (Table 2 and Figures 3 & 4). In Wisconsin, state government employment growth was only 4.8 percent, ranking 47<sup>th</sup> in the nation. Only South

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<sup>2</sup> This discussion is at the heart of what economists call market failure and the need for government intervention in the provision of public services. Because output and outcomes are so difficult to capture in a market setting private firms will not supply the good or service, hence the need for government.

Dakota, West Virginia and Rhode Island had a slower rate of growth in state government employment and indeed, the latter two states experienced a decline. Local government employment growth in Wisconsin between 1979 and 2001 was 46.7 percent, slightly below the national average and is ranked 24<sup>th</sup> just behind Minnesota.

Based on this simple employment trend analysis, it does not appear that the relative growth of the public sector in Wisconsin has been out of proportion with the rest of the US. Indeed, the data suggests that the growth in the public sector has been below the national average.

We can also gain insights into whether or not the public sector in Wisconsin is “too large” by comparing the current (2001) distribution of employment across the public and private sectors (Table 3 and Figures 5, 6 & 7). In 2001 the average share of public sector employment was 11.4 percent ranging from a high of 16.4 percent for New Mexico to a low of 8.5 percent for Nevada.<sup>3</sup> Wisconsin ranks 29<sup>th</sup> in the nation with 10.9 percent of total employment in the public sector. Wisconsin ranks below Iowa (11.7%) and Michigan (11.3%) but above Minnesota (10.6%) and Illinois (10.2%). Again, Wisconsin’s public sector as measured by employment does not seem to be out of proportion to the national average and our neighboring states.

If we again decompose total public sector employment into state and local employment we see that on average, state government directly accounts for about 3.7 percent of total employment and local governments account for about 7.8 percent. With state employment accounting for only 2.8 percent of total employment, Wisconsin ranks 39<sup>th</sup>, significantly below the national average, and its local government employment accounts for 8.1 percent of total employment, which is slightly above the national average and ranks Wisconsin 22<sup>nd</sup>. This slightly higher share of local employment is attributed primarily to Wisconsin’s heavy commitment to K-12 public education. But again, Wisconsin is on par with our neighboring states including Iowa (8.4%), Michigan (8.1%), Minnesota (8.0%) and Illinois (7.9%). *Again, the notion that Wisconsin is a high tax and spend state is not consistent with the relative size of the public sector when measured by employment.*

How has this relative share changed over time? From the growth indices presented in Table 1 and Figures 2 and 3 it is clear that the relative share of the public sector to total employment has declined over time. Nationally, the relative share of state and local government employment to total employment has declined by 3.7 percent (Table 4). Some states such as Maryland and Delaware witnessed significant drops, 20 and 16.1 percent respectively, in the relative share of public sector employment to total employ but other states experienced an increase such as Kentucky and Connecticut with the relative share increasing by 6.9 and 7.1 percent. Wyoming experienced the biggest increase by far with the share of public sector employment going from 12.7 percent of total employment in 1979 to 15.6 percent in 2001. Wisconsin again ranks about in the middle (27<sup>th</sup>) with a slightly larger than average decline going from 11.3 percent in 1979 to 10.9 percent in 2001.

The source of this decline for Wisconsin is clearly state government employment which declined by 24.3 percent, the 4<sup>th</sup> largest decline in the country. Local government employment in Wisconsin increased as a share of total employment by six percent, which is larger than the national average which saw a decline in local government employment as a share of total employment by 1.9 percent over the 1979 to 2001 period. In other words, between 1979 and 2001, the growth in local government employment in Wisconsin was slightly higher than overall employment growth.

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<sup>3</sup> Keep in mind that federal government employment and in particular military employment is not considered in this analysis. For states with a large military presence, such as California, the percentage of employment in the public sector can be even higher. Because of a lack of a military presence, Wisconsin has traditionally ranked low on federal government employment.

We can gain greater insight into the sources of public sector employment growth if we examine growth patterns across specific categories of services (Table 5). While in our previous analysis we examined growth from 1979-2001 but for this analysis we examine a shorter time period, 1993-2002, primarily due to data availability. For the overall period total employment at the state and local level for the public sector was 16.1 percent for the US but only 11.2 percent for Wisconsin. This is consistent with the analysis reported above in that the growth in Wisconsin's public sector tends to fall below the national average. The largest single category of employment growth is in corrections where the national average growth was 27.7 percent but nearly three times higher, 64.2 percent, for Wisconsin. This represents an increase of about 4,900 full-time equivalent jobs over the ten year period and reflects the massive investment Wisconsin has made in prisons at the state level and jails at the local level. Interestingly, the increase in public sector health care was 44.3 percent, more than twice the national average of 21.7 percent, but there has been a large decline in public sector employment in hospitals. This latter result is directly due to a number of local public hospitals that were privatized.

Interestingly, of the 32 categories for which employment data are provided, Wisconsin experienced a slower rate of employment growth than the national average in nineteen. Indeed, in several categories Wisconsin experienced declines yet at the national level there was employment growth. Consider, for example, housing and community development initiatives, for the nation there was an increase in employees of 14.8 percent, yet in Wisconsin there was a decline of 15.8 percent. While this represents a decline of about only 240 jobs it points to a disturbing trend in Wisconsin. It would seem that that Wisconsin is moving away from investing in services that would enhance the well-being of Wisconsin residents to services that distract from overall well-being such as prisons and jails. This latter observation is reinforced if one considers that at the national level employment in parks and recreational services increased by 12.6 percent but declined by 10.4 percent in Wisconsin. In addition, Wisconsin appears to be falling behind in investments in local libraries where national employment increased by 28.7 percent while it increased by only 16.1 percent in Wisconsin. The same can be claimed for Wisconsin's investment in jobs that are aimed at enhancing and protecting our natural resources where nationally there was an increase in employment of 5.1 percent, but a decline in Wisconsin of 4.4 percent.

One also sees a disinvestment in higher education where higher education instructors increased by 14.2 percent across the nation, Wisconsin has seen a decline of one percent. In the case of the University of Wisconsin this has resulted in few class offerings and larger class sizes. For K-12 education, there has been a positive investment as measured by an increase in employment, specifically 20.6 percent for instruction, but the investment has not kept pace with the national average which has experienced an increase of 25.2 percent. Wisconsin has seen large increases in K-12 educational employment that is not directly related to instruction with an increase of 30.2 percent compared to the national average of 23.2 percent.

Based on these data it is clear that Wisconsin's public sector has grown disproportional to the rest of the economy. As a share of the total economy, the public sector has become smaller. In terms of state government employment, except for employment in corrections, there has been few increases and in most cases significant declines. At the local level, the growth that has occurred has tended to fall below the national average.

### Statistical Analysis

The descriptive analysis of the previous section makes clear that Wisconsin's public sector when measured by employment is in line with national averages. In terms of relative size Wisconsin is indeed slightly below the national average. Wisconsin has also been slightly above the national average in terms of the declining relative share of public sector employment to total employment. But this raises a question: is there a pattern linking the size of the public sector to overall employment growth. To shed light on this question we estimate a family of simple statistical



models where public sector size, measured by employment, is used to predict total employment growth. If the public sector is a drain on the economy, then we would expect to see negative relationships between the size of the public sector and overall employment growth.

We estimate three sets of simple statistical models:

- (1) Total Employment Growth =  $\alpha_1 + \beta_1$  (Public Sector Employment Growth)
- (2) Total Employment Growth =  $\alpha_2 + \beta_2$  (Public Sector Employment as a Share of Total Employment in 1979)
- (3) Total Employment Growth =  $\alpha_3 + \beta_3$  (Change in Public Sector Employment Share of Total Employment from 1979-2001)

Consider the first model to be estimated. Here we are interested in the sign and statistical significance of the slope coefficient  $\beta_1$ . If  $\beta_1$  is negative and significant, then this implies that growth in public sector employment has a negative relationship with total employment growth. Conversely, if  $\beta_1$  is positive and significant, it implies that public sector employment growth moves in tandem with total employment growth. In other words, as the economy grows the public sector grows in proportion. If  $\beta_1$  is zero, or statistically insignificant, this suggests there is no relationship between growth in the public sector and total employment growth.

Now consider the second model to be estimated. Here we are interested again in the sign and statistical significance of the slope coefficient  $\beta_2$ . If the slope coefficient  $\beta_2$  is negative and statistically significant, then this implies that states that have a higher share to total employment in 1979 in the public sector, total employment growth will be dampened. This would be consistent with the notion that the public sector is a drain on economic growth. If  $\beta_2$  is positive and significant this implies that higher dependency on the public sector has a positive relationship employment growth. Finally, a statistically insignificant result, or  $\beta_2$  is equal to zero, then we can conclude that there is no relationship between initial levels of dependency on the public sector for employment and subsequent economic growth.

The final model looks at the role of relative differences in public and total employment growth and its influence on total growth. Specifically, if  $\beta_3$  is positive, this would imply that states that saw the growth in the public sector greater than total employment growth would see faster overall growth. Drawing on Table 4, would we expect to see states like Maryland and Delaware experience faster overall growth or states like Kentucky and Connecticut? If  $\beta_3$  is positive, we would see evidence that states like Maryland and Delaware grew faster overall. If  $\beta_3$  is negative, then states that are becoming more dependent on the public sector, states like Kentucky and Connecticut, would see faster overall growth.

For completeness, we look at the public sector defined as state and local governments combined, and then state and local government separately. The results of these analyses are presented in Table 6. Consider the first set of models which are reported in the first three columns of Table 6. In each case, the estimated slope coefficient ( $\beta_1$ ) is positive and statistically significant. This implies that growth in the overall economy as measured by total employment tracks very closely growth in the public sector. Indeed, the coefficient being close to one suggests that there is almost a one-to-one tracking. To see this consider Figure 11 where the growth rate for total employment and public sector employment for each of the 50 states are plotted, notice how closely the two lines track each other. This provides evidence that total employment growth will be matched with growth in employment in the public sector. This makes intuitive sense: growing economies place greater demands on the public sector which must respond by increasing employment.

Consider now the second set of models which are the fourth, fifth and sixth columns of Table 6. Here the statistical reliability of the estimate slope coefficient ( $\beta_2$ ) is called into question. The t-

statistics reported in the parentheses below the slope coefficient are all below the critical value of 1.96, suggesting that from a statistical perspective the slope coefficients ( $\beta_2$ ) are all zero. There does not appear to be a relationship between the initial levels of public sector dependency for employment and subsequent economic growth. In other words, having a large public sector relative to total employment does not appear to influence either positively or negatively, subsequent growth in total employment.

The results for model 3, as outlined above, are represented in the final three columns of Table 6. The findings lend more insight into the relationship between public sector size and total employment growth. For each of our three measures of the public sector, state and local combined and state and local government separated, there is a negative and statistically significant relationship between the change in public sector dependency and total employment growth. What this result suggests is that those states that experience a faster growth rate in public sector employment relative to total employment growth tended to have lower levels of total employment growth.

To see this return to Table 1 and Figure 11 and note that in the majority of states, the growth in total employment is greater than growth in the public sector. Seventeen states experienced faster growth rates in public sector employment than overall employment including Wyoming, South Carolina and Kentucky among others. In Figure 11 these would be where the solid line is above the dashed line. The remaining 33 states saw total employment growing faster than growth in public sector employment, including Wisconsin which saw public sector employment growth of 33 percent and total employment growth of 38.4 percent. The statistical results presented in Table 6 suggest that states like Wyoming, South Carolina and Kentucky would experience slower overall employment growth than states like Wisconsin.

The policy implications of these results are clear: *growth in the public sector as measured by employment is a natural result of overall employment growth, but growth in public sector employment should be slower than overall employment growth.*

### Conclusions and Policy Implications

Wisconsin is perceived as a high tax state and it has been widely argued that this in turn harms economic growth. This study reexamines this argument by looking at public sector employment and its role in helping us understand total employment growth. Using data from the 50 US states from 1979 to 2001 we look at the relative ranking of Wisconsin and examine the statistical relationship between public sector employment and overall employment growth. We maintain that if Wisconsin is indeed a high tax state then Wisconsin public sector employment should be disproportionately large. This in turn would hinder economic growth as measured by employment growth.

Compared to the other 49 US states, Wisconsin is not disproportionately dependent upon the public sector as measured by employment. Indeed, in 2001, Wisconsin had about 10.9 percent of total employment in the public sector which is below the national average of 11.4 percent. When looking over the 22 year period, the share of total employment in Wisconsin in the public sector declined by 3.9 percent which again places Wisconsin in about the middle of the 50 states. Indeed, growth in state level employment was one of the lowest in the country. Our growth in employment at the local level was about at the national average. Growth in local government employment was, however, faster than overall employment growth.

Looking at specific categories of employment from 1993 to 2003 we see that there has been significant disinvestment in certain categories such as parks and recreational services, natural resource protection and promotion, housing and community development, solid waste management and sewerage disposal. For this more recent period, what modest growth in the public sector that has been uncovered tends to be below the national average. Only in corrections investments has Wisconsin accelerated above the national average.

Results from our simple statistical models have three implications. First, growth in the public sector is a natural result of overall economic growth. Second, higher initial levels of dependency on the public sector for employment does not appear to influence subsequent employment growth. Finally, states that experienced growth in public sector employment relative to overall employment growth tended to experience slower total employment growth.

These findings represent strong prima facie evidence challenging the basic premise upon which the proposed TABOR amendment is based. The data presented here challenge the notion that Wisconsin's public sector is "out of control" and requires a constitutional "fix." Using employment as a measure of the public sector we find that Wisconsin is close to and in many ways below the national average. Draconian measures such as TABOR and blind freezes on spending authority cripple the ability of governments to respond to changes in the economy and the desires of residents.

The argument that TABOR would return democracy to the citizens falls short; as noted by Andrew Reschovsky:<sup>4</sup>

*Supporters of TABOR argue that if voters want to spend more than the TABOR limits they can authorize extra spending through referenda. Budgetary decisions, however, are complex, and it is unlike that most voters would have the time or expertise to study the issues closely. It is more likely that many voters will be influenced by "bumper sticker" campaigns financed by various groups that want to influence their vote. Low voter turnout, especially in local elections, increases the chance that fiscal decisions in Wisconsin will represent the views of a relative small portion of the electorate.*

It is clear that TABOR and the most recently proposed property tax freeze would challenge the fiscal health of many local governments in Wisconsin. As communities grow the demand for additional resources in the public sector will grow. This is the result identified in Table 6 and Figure 11. Unfortunately, many of these changes at the local level are "lumpy" and do not follow the spending growth allowable under TABOR. Consider a community that is growing at a modest two percent rate. As long as there is sufficient capacity within the community to absorb that growth the fiscal health of the community will not be affected. At some point, however, public services will become congested; roads will become congested, the sewer treatment and water supply system will be near capacity and the local schools will be at capacity. Additional growth will require "lumpy" investments in public services to alleviate that congestion; roads will need to be expanded, sewer and water systems will need to be expanded, and new schools will need to be built. These lumpy investments are not possible under TABOR and blind tax freezes. In the short-term, communities will find it to their advantage to discourage additional growth and development. Indeed, one of the primary motivations for TABOR, to create a healthier business climate, creates a situation that discourages economic growth.

In the longer-term communities will find that their deteriorating fiscal health will be a detriment to economic growth and development. From an economic development perspective the fiscal health and well-being of local governments is important. Above all, it is an indication of the ability of local governments to provide adequate and uninterrupted services to local residents and businesses. While fiscal health may not be the ultimate measure of success for local governments, a fiscally unhealthy local government will not be able to provide the level and quality of public services that are required for a high quality of life, an effectively functioning government and sustainable economic growth and development.

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<sup>4</sup> Andrew Reschovsky, *The Taxpayer Bill of Rights (TABOR): A Solution to Wisconsin's Fiscal Problems or a Prescription for Future Fiscal Crises?* The Robert M. La Follette School of Public Affairs, University of Wisconsin-Madison. Paper presented at the Wisconsin Tax Policy Colloquium, Marquette University School of Law, April 16, 2004.

When the library reduces hours of service, the roads are full of potholes, emergency services are slow to respond, or water treatment facilities are at capacity and there are no funds for expansion, local residents and businesses will perceive a problem. Trying to identify and deal with fiscal problems before they get out of hand is vastly better than trying to cope with a full-blown crisis. In this light attending to local fiscal health is akin to taking an ounce of preventive medicine to avoid taking a pound of cure. TABOR will preclude local governments, and indeed state government, from taking preventive steps to create fiscally healthy and sound policies.

There are compelling reasons for local government officials to strive for better fiscal health, not the least of which is to get reelected by the voters. Other reasons for maintaining fiscal health include influences fiscal health has on homeowner location decision, business location decisions and economic development, local government organizational flexibility and human resources quality, local government competitiveness, service provision quality and variation in services provided, long-term credit worthiness and tax costs to local residents and businesses. Again, TABOR and similar revenue and spending freezes will tie the hands of local officials when trying to create fiscally healthy and sound policies.

In short, current research on economic development and growth consistently documents that local services play an increasingly important role. Historically the view has been that local governments should provide basic core services at the lowest possible cost to the taxpayer. While keeping downward pressure on taxes is still important, as noted earlier current research indicates that higher levels of services and overall quality of life are becoming more important. Items once considered luxuries such as quality parks and recreation programs, libraries and adult learning services, and a broad range of extra-curriculum programs offered by public schools are now expected in vibrant and growing communities. Research has shown that as we become richer as a society, we demand more from our local governments. Still, we prefer someone else to pay for these services.

At the local level there are several strategies that officials can think about to when considering options to create an environment for a stronger fiscal health position. Eight broad based strategies include:<sup>5</sup>

1. Be more efficient in the production of services;
2. Expand the tax base;
3. Reduce the demand for services;
4. Shift costs to non-residents;
5. Secure new sources of revenue;
6. Increase spending flexibility;
7. Improve management of existing resources; and
8. Diversify revenue sources.

Note that none of these can be described as “quick fixes,” rather these are long term strategies for long term fiscal health. Short-term quick fixes such as across the board reductions in expenditures or deferment of capital improvements or maintenance or exacerbates the long term viability of local governments. For example, for smaller more rural community expenditures on local roads is often the single largest expenditure category. A common fiscal crisis “solution” is to delay maintenance expenditures. Engineering studies have consistently documented that such strategies lead to a deterioration of roads and larger costs long term.

Vibrant communities that are socially and economically dynamic know that there are no quick fixes or simple solutions to complex problems. During times of fiscal stress, these same

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<sup>5</sup> These are drawn from Beth Walter Honadle, James Costa and Beverly Cigler, *Fiscal Health for Local Governments: An Introduction to Concepts, Practical Analysis and Strategies*. New York: Elsevier. 2004,

communities must look to long term solutions and seek opportunities to implement sound long term fiscal planning and fiscal health strategies. The interplay between the public and private sectors of the local economy are becoming more blurred as opposed to clear and well defined.

The advocates of TABOR are offering a simply “solution” to complex questions. The research presented here challenges the premise that Wisconsin’s public sector is out of control and hindering economic growth and development. Finally, a detailed discussion of the currently thinking about the interplay between the public sector and economic development and growth reveals that TABOR would hinder and help growth and development. TABOR is a “solution” to a non-existent problem and would cause serious damage to Wisconsin.

If the logic of TABOR is correct from an economic development perspective, why are low tax states such as Alabama, Mississippi and West Virginia lagging behind Wisconsin? Indeed, why does Minnesota, one state with higher taxes than Wisconsin, have stronger employment and income growth?

Table 1. Growth in Employment 1979-2001

| Total Emp        |              |           | S/L Govt         |              |           |
|------------------|--------------|-----------|------------------|--------------|-----------|
| Nevada           | 273.6        | 1         | Nevada           | 234.9        | 1         |
| Arizona          | 229.1        | 2         | Arizona          | 197.0        | 2         |
| Utah             | 204.7        | 3         | Utah             | 185.1        | 3         |
| Florida          | 203.7        | 4         | Texas            | 178.7        | 4         |
| Colorado         | 185.8        | 5         | Florida          | 175.8        | 5         |
| Georgia          | 180.9        | 6         | Washington       | 174.2        | 6         |
| Washington       | 172.8        | 7         | New Mexico       | 171.5        | 7         |
| Texas            | 170.3        | 8         | Idaho            | 168.6        | 8         |
| New Hampshire    | 169.8        | 9         | Alaska           | 168.6        | 9         |
| Idaho            | 169.3        | 10        | North Carolina   | 163.8        | 10        |
| Alaska           | 168.0        | 11        | South Carolina   | 160.0        | 11        |
| New Mexico       | 164.5        | 12        | Colorado         | 159.8        | 12        |
| Delaware         | 161.7        | 13        | California       | 156.4        | 13        |
| Virginia         | 160.4        | 14        | New Hampshire    | 156.1        | 14        |
| North Carolina   | 159.8        | 15        | Georgia          | 154.4        | 15        |
| California       | 158.7        | 16        | Wyoming          | 153.5        | 16        |
| Vermont          | 156.1        | 17        | Virginia         | 150.4        | 17        |
| Oregon           | 155.9        | 18        | Kentucky         | 147.5        | 18        |
| Maryland         | 151.7        | 19        | Hawaii           | 145.8        | 19        |
| Tennessee        | 151.5        | 20        | Vermont          | 145.7        | 20        |
| Minnesota        | 151.0        | 21        | Kansas           | 145.7        | 21        |
| South Carolina   | 149.7        | 22        | Arkansas         | 144.5        | 22        |
| Maine            | 145.9        | 23        | Missouri         | 143.0        | 23        |
| Arkansas         | 144.8        | 24        | Minnesota        | 142.4        | 24        |
| South Dakota     | 143.0        | 25        | Oklahoma         | 141.3        | 25        |
| Montana          | 142.2        | 26        | Oregon           | 141.2        | 26        |
| Hawaii           | 139.0        | 27        | Mississippi      | 139.5        | 27        |
| <b>Wisconsin</b> | <b>138.4</b> | <b>28</b> | Maine            | 138.0        | 28        |
| Kentucky         | 137.9        | 29        | Tennessee        | 137.1        | 29        |
| Alabama          | 137.3        | 30        | Delaware         | 135.7        | 30        |
| Kansas           | 137.1        | 31        | Connecticut      | 135.5        | 31        |
| Oklahoma         | 136.3        | 32        | Alabama          | 133.2        | 32        |
| Nebraska         | 135.0        | 33        | <b>Wisconsin</b> | <b>133.0</b> | <b>33</b> |
| Missouri         | 134.8        | 34        | Montana          | 131.8        | 34        |
| New Jersey       | 134.3        | 35        | North Dakota     | 131.0        | 35        |
| Massachusetts    | 134.2        | 36        | Louisiana        | 130.9        | 36        |
| Indiana          | 133.2        | 37        | Indiana          | 130.0        | 37        |
| Mississippi      | 131.1        | 38        | South Dakota     | 129.5        | 38        |
| Michigan         | 130.6        | 39        | Ohio             | 128.4        | 39        |
| Ohio             | 127.5        | 40        | Iowa             | 121.7        | 40        |
| Illinois         | 126.9        | 41        | Maryland         | 121.4        | 41        |
| Louisiana        | 126.6        | 42        | New Jersey       | 120.2        | 42        |
| Connecticut      | 126.5        | 43        | Michigan         | 119.4        | 43        |
| North Dakota     | 126.5        | 44        | Nebraska         | 119.4        | 44        |
| Wyoming          | 125.1        | 45        | Illinois         | 116.7        | 45        |
| Pennsylvania     | 123.1        | 46        | New York         | 116.0        | 46        |
| Iowa             | 123.0        | 47        | Massachusetts    | 114.3        | 47        |
| New York         | 122.5        | 48        | Pennsylvania     | 113.2        | 48        |
| Rhode Island     | 120.9        | 49        | Rhode Island     | 110.7        | 49        |
| West Virginia    | 111.6        | 50        | West Virginia    | 104.9        | 50        |

Table 2. Growth in Public Sector Employment 1979-2001

| State Govt       |              |           | Local Govt       |              |           |
|------------------|--------------|-----------|------------------|--------------|-----------|
| Utah             | 191.7        | 1         | Nevada           | 256.8        | 1         |
| Nevada           | 187.8        | 2         | Arizona          | 201.7        | 2         |
| Florida          | 187.8        | 3         | Texas            | 183.9        | 3         |
| Arizona          | 184.4        | 4         | Washington       | 181.8        | 4         |
| Georgia          | 171.2        | 5         | Utah             | 180.8        | 5         |
| California       | 169.0        | 6         | New Mexico       | 179.7        | 6         |
| Texas            | 163.4        | 7         | Alaska           | 176.7        | 7         |
| New Mexico       | 160.9        | 8         | Idaho            | 176.2        | 8         |
| Washington       | 159.9        | 9         | Florida          | 172.2        | 9         |
| Colorado         | 157.8        | 10        | North Carolina   | 168.4        | 10        |
| Alaska           | 157.3        | 11        | New Hampshire    | 166.2        | 11        |
| Arkansas         | 157.3        | 12        | South Carolina   | 163.2        | 12        |
| North Carolina   | 154.5        | 13        | Wyoming          | 161.4        | 13        |
| South Carolina   | 154.2        | 14        | Colorado         | 160.7        | 14        |
| Idaho            | 153.8        | 15        | Virginia         | 159.9        | 15        |
| Hawaii           | 152.7        | 16        | Kentucky         | 157.7        | 16        |
| Missouri         | 151.8        | 17        | Kansas           | 157.5        | 17        |
| Delaware         | 151.7        | 18        | Vermont          | 153.6        | 18        |
| New Jersey       | 149.0        | 19        | California       | 153.3        | 19        |
| Mississippi      | 148.0        | 20        | Oregon           | 150.0        | 20        |
| Massachusetts    | 138.5        | 21        | Oklahoma         | 148.6        | 21        |
| New Hampshire    | 137.9        | 22        | Georgia          | 148.4        | 22        |
| Connecticut      | 136.9        | 23        | Minnesota        | 147.1        | 23        |
| Wyoming          | 135.8        | 24        | <b>Wisconsin</b> | <b>146.7</b> | <b>24</b> |
| Vermont          | 133.9        | 25        | South Dakota     | 145.5        | 25        |
| Virginia         | 133.5        | 26        | Maine            | 144.5        | 26        |
| Montana          | 133.4        | 27        | Tennessee        | 140.6        | 27        |
| Indiana          | 132.9        | 28        | Missouri         | 139.5        | 28        |
| Alabama          | 132.5        | 29        | Arkansas         | 137.3        | 29        |
| Kentucky         | 131.7        | 30        | Mississippi      | 135.9        | 30        |
| Louisiana        | 131.6        | 31        | North Dakota     | 135.7        | 31        |
| Minnesota        | 129.4        | 32        | Connecticut      | 134.9        | 32        |
| Tennessee        | 128.4        | 33        | Alabama          | 133.5        | 33        |
| Oklahoma         | 128.3        | 34        | Montana          | 130.9        | 34        |
| Ohio             | 126.0        | 35        | Rhode Island     | 130.6        | 35        |
| Maine            | 125.4        | 36        | Louisiana        | 130.6        | 36        |
| North Dakota     | 123.8        | 37        | Ohio             | 129.2        | 37        |
| Iowa             | 122.6        | 38        | Indiana          | 128.8        | 38        |
| Oregon           | 120.8        | 39        | Hawaii           | 124.2        | 39        |
| Kansas           | 119.0        | 40        | Nebraska         | 124.2        | 40        |
| Pennsylvania     | 119.0        | 41        | Maryland         | 122.7        | 41        |
| Michigan         | 118.8        | 42        | Iowa             | 121.3        | 42        |
| Maryland         | 118.5        | 43        | Michigan         | 119.6        | 43        |
| Illinois         | 113.4        | 44        | Delaware         | 118.7        | 44        |
| New York         | 109.2        | 45        | New York         | 117.7        | 45        |
| Nebraska         | 106.3        | 46        | Illinois         | 117.6        | 46        |
| <b>Wisconsin</b> | <b>104.8</b> | <b>47</b> | West Virginia    | 114.5        | 47        |
| South Dakota     | 100.2        | 48        | New Jersey       | 112.1        | 48        |
| West Virginia    | 92.7         | 49        | Pennsylvania     | 111.1        | 49        |
| Rhode Island     | 89.4         | 50        | Massachusetts    | 105.3        | 50        |

Table 3. State & Local Govt as Percent of Total Emp (2001)

|                  | St/Loc Govt  |           | State Govt       |             | Local Govt |                  |             |           |
|------------------|--------------|-----------|------------------|-------------|------------|------------------|-------------|-----------|
| New Mexico       | 16.4%        | 1         | Hawaii           | 8.7%        | 1          | Wyoming          | 11.3%       | 1         |
| Wyoming          | 15.6%        | 2         | New Mexico       | 6.7%        | 2          | Mississippi      | 10.0%       | 2         |
| Mississippi      | 14.6%        | 3         | Delaware         | 6.0%        | 3          | New York         | 9.9%        | 3         |
| Alaska           | 14.6%        | 4         | Alaska           | 5.7%        | 4          | New Mexico       | 9.6%        | 4         |
| Louisiana        | 13.8%        | 5         | West Virginia    | 5.2%        | 5          | Kansas           | 9.6%        | 5         |
| West Virginia    | 13.3%        | 6         | Louisiana        | 4.7%        | 6          | Louisiana        | 9.1%        | 6         |
| South Carolina   | 13.0%        | 7         | Utah             | 4.6%        | 7          | Alaska           | 8.9%        | 7         |
| Kansas           | 12.9%        | 8         | Mississippi      | 4.6%        | 8          | Texas            | 8.7%        | 8         |
| Alabama          | 12.4%        | 9         | North Dakota     | 4.6%        | 9          | Nebraska         | 8.6%        | 9         |
| North Dakota     | 12.3%        | 10        | South Carolina   | 4.5%        | 10         | South Carolina   | 8.5%        | 10        |
| New York         | 12.3%        | 11        | Arkansas         | 4.4%        | 11         | Alabama          | 8.5%        | 11        |
| Oklahoma         | 12.2%        | 12        | Montana          | 4.3%        | 12         | California       | 8.5%        | 12        |
| Montana          | 12.2%        | 13        | Wyoming          | 4.3%        | 13         | South Dakota     | 8.4%        | 13        |
| Idaho            | 12.2%        | 14        | Kentucky         | 4.0%        | 14         | Idaho            | 8.4%        | 14        |
| Washington       | 12.1%        | 15        | Oklahoma         | 4.0%        | 15         | Iowa             | 8.4%        | 15        |
| Iowa             | 11.7%        | 16        | Alabama          | 3.9%        | 16         | Oregon           | 8.3%        | 16        |
| North Carolina   | 11.7%        | 17        | Washington       | 3.9%        | 17         | Arizona          | 8.3%        | 17        |
| South Dakota     | 11.6%        | 18        | Vermont          | 3.9%        | 18         | Oklahoma         | 8.2%        | 18        |
| Utah             | 11.5%        | 19        | Rhode Island     | 3.8%        | 19         | Washington       | 8.2%        | 19        |
| Kentucky         | 11.4%        | 20        | Idaho            | 3.7%        | 20         | Michigan         | 8.1%        | 20        |
| Arkansas         | 11.4%        | 21        | North Carolina   | 3.6%        | 21         | West Virginia    | 8.1%        | 21        |
| Texas            | 11.3%        | 22        | Virginia         | 3.5%        | 22         | <b>Wisconsin</b> | <b>8.1%</b> | <b>22</b> |
| Nebraska         | 11.3%        | 23        | Connecticut      | 3.4%        | 23         | North Carolina   | 8.0%        | 23        |
| Michigan         | 11.3%        | 24        | Maine            | 3.3%        | 24         | Minnesota        | 8.0%        | 24        |
| Oregon           | 11.2%        | 25        | Iowa             | 3.3%        | 25         | Ohio             | 8.0%        | 25        |
| Arizona          | 11.2%        | 26        | Kansas           | 3.2%        | 26         | Illinois         | 7.9%        | 26        |
| Hawaii           | 10.9%        | 27        | Missouri         | 3.2%        | 27         | New Jersey       | 7.9%        | 27        |
| Virginia         | 10.9%        | 28        | South Dakota     | 3.2%        | 28         | Montana          | 7.9%        | 28        |
| <b>Wisconsin</b> | <b>10.9%</b> | <b>29</b> | Maryland         | 3.1%        | 29         | North Dakota     | 7.8%        | 29        |
| New Jersey       | 10.9%        | 30        | Michigan         | 3.1%        | 30         | Missouri         | 7.6%        | 30        |
| California       | 10.8%        | 31        | Indiana          | 3.1%        | 31         | Georgia          | 7.5%        | 31        |
| Missouri         | 10.8%        | 32        | Georgia          | 3.1%        | 32         | Maine            | 7.5%        | 32        |
| Maine            | 10.8%        | 33        | Massachusetts    | 3.0%        | 33         | Virginia         | 7.4%        | 33        |
| Ohio             | 10.6%        | 34        | New Hampshire    | 3.0%        | 34         | Kentucky         | 7.4%        | 34        |
| Minnesota        | 10.6%        | 35        | New Jersey       | 3.0%        | 35         | Florida          | 7.4%        | 35        |
| Georgia          | 10.6%        | 36        | Oregon           | 2.9%        | 36         | Tennessee        | 7.3%        | 36        |
| Vermont          | 10.6%        | 37        | Colorado         | 2.9%        | 37         | Indiana          | 7.2%        | 37        |
| Connecticut      | 10.5%        | 38        | Arizona          | 2.9%        | 38         | Colorado         | 7.2%        | 38        |
| Delaware         | 10.4%        | 39        | <b>Wisconsin</b> | <b>2.8%</b> | <b>39</b>  | Connecticut      | 7.1%        | 39        |
| Indiana          | 10.3%        | 40        | Tennessee        | 2.8%        | 40         | Maryland         | 7.0%        | 40        |
| Maryland         | 10.2%        | 41        | Nebraska         | 2.7%        | 41         | Arkansas         | 6.9%        | 41        |
| Illinois         | 10.2%        | 42        | Texas            | 2.6%        | 42         | Utah             | 6.9%        | 42        |
| Tennessee        | 10.1%        | 43        | Ohio             | 2.6%        | 43         | Vermont          | 6.7%        | 43        |
| Colorado         | 10.0%        | 44        | Pennsylvania     | 2.6%        | 44         | Pennsylvania     | 6.6%        | 44        |
| Rhode Island     | 9.9%         | 45        | Minnesota        | 2.6%        | 45         | New Hampshire    | 6.5%        | 45        |
| Florida          | 9.8%         | 46        | Florida          | 2.4%        | 46         | Nevada           | 6.3%        | 46        |
| New Hampshire    | 9.5%         | 47        | New York         | 2.4%        | 47         | Massachusetts    | 6.2%        | 47        |
| Massachusetts    | 9.3%         | 48        | California       | 2.4%        | 48         | Rhode Island     | 6.0%        | 48        |
| Pennsylvania     | 9.2%         | 49        | Illinois         | 2.2%        | 49         | Delaware         | 4.4%        | 49        |
| Nevada           | 8.5%         | 50        | Nevada           | 2.2%        | 50         | Hawaii           | 2.3%        | 50        |



Table 4. Change in State & Local Govt as Percent of Total Emp 1979-2001

| St/Loc Govt      |              |           | State Govt       |               |          | Local Govt       |             |           |
|------------------|--------------|-----------|------------------|---------------|----------|------------------|-------------|-----------|
| Maryland         | -20.0%       | 1         | Nevada           | -31.4%        | 1        | Delaware         | -26.6%      | 1         |
| Delaware         | -16.1%       | 2         | South Dakota     | -29.9%        | 2        | Massachusetts    | -21.6%      | 2         |
| Massachusetts    | -14.9%       | 3         | Rhode Island     | -26.0%        | 3        | Maryland         | -19.1%      | 3         |
| Georgia          | -14.7%       | 4         | <b>Wisconsin</b> | <b>-24.3%</b> | <b>4</b> | Georgia          | -18.0%      | 4         |
| Nevada           | -14.1%       | 5         | Oregon           | -22.5%        | 5        | New Jersey       | -16.6%      | 5         |
| Arizona          | -14.0%       | 6         | Maryland         | -21.9%        | 6        | Florida          | -15.5%      | 6         |
| Colorado         | -14.0%       | 7         | Nebraska         | -21.3%        | 7        | Colorado         | -13.5%      | 7         |
| Florida          | -13.7%       | 8         | Arizona          | -19.5%        | 8        | Arizona          | -12.0%      | 8         |
| Nebraska         | -11.6%       | 9         | New Hampshire    | -18.8%        | 9        | Utah             | -11.6%      | 9         |
| New Jersey       | -10.5%       | 10        | West Virginia    | -16.9%        | 10       | Hawaii           | -10.6%      | 10        |
| Utah             | -9.6%        | 11        | Virginia         | -16.8%        | 11       | Pennsylvania     | -9.8%       | 11        |
| Tennessee        | -9.5%        | 12        | Tennessee        | -15.3%        | 12       | Michigan         | -8.4%       | 12        |
| Oregon           | -9.4%        | 13        | Colorado         | -15.1%        | 13       | Nebraska         | -8.0%       | 13        |
| South Dakota     | -9.4%        | 14        | Minnesota        | -14.3%        | 14       | Montana          | -7.9%       | 14        |
| Michigan         | -8.6%        | 15        | Vermont          | -14.2%        | 15       | Illinois         | -7.3%       | 15        |
| Rhode Island     | -8.4%        | 16        | Maine            | -14.1%        | 16       | Tennessee        | -7.2%       | 16        |
| Pennsylvania     | -8.1%        | 17        | Kansas           | -13.2%        | 17       | Nevada           | -6.1%       | 17        |
| New Hampshire    | -8.1%        | 18        | New York         | -10.9%        | 18       | Arkansas         | -5.2%       | 18        |
| Illinois         | -8.0%        | 19        | Illinois         | -10.6%        | 19       | New York         | -3.9%       | 19        |
| Montana          | -7.3%        | 20        | Idaho            | -9.2%         | 20       | Oregon           | -3.8%       | 20        |
| Vermont          | -6.6%        | 21        | Michigan         | -9.0%         | 21       | California       | -3.4%       | 21        |
| Virginia         | -6.2%        | 22        | Florida          | -7.8%         | 22       | Indiana          | -3.3%       | 22        |
| West Virginia    | -6.0%        | 23        | Washington       | -7.5%         | 23       | Alabama          | -2.8%       | 23        |
| Minnesota        | -5.7%        | 24        | Alaska           | -6.4%         | 24       | Minnesota        | -2.6%       | 24        |
| Maine            | -5.4%        | 25        | Utah             | -6.3%         | 25       | New Hampshire    | -2.1%       | 25        |
| New York         | -5.4%        | 26        | Montana          | -6.2%         | 26       | Vermont          | -1.6%       | 26        |
| <b>Wisconsin</b> | <b>-3.9%</b> | <b>27</b> | Delaware         | -6.2%         | 27       | Iowa             | -1.4%       | 27        |
| Alabama          | -3.0%        | 28        | Oklahoma         | -5.9%         | 28       | Maine            | -1.0%       | 28        |
| Indiana          | -2.4%        | 29        | Georgia          | -5.4%         | 29       | Virginia         | -0.3%       | 29        |
| California       | -1.4%        | 30        | Kentucky         | -4.5%         | 30       | Ohio             | 1.3%        | 30        |
| Iowa             | -1.1%        | 31        | Texas            | -4.0%         | 31       | South Dakota     | 1.7%        | 31        |
| Idaho            | -0.4%        | 32        | Alabama          | -3.5%         | 32       | West Virginia    | 2.6%        | 32        |
| Arkansas         | -0.2%        | 33        | Pennsylvania     | -3.4%         | 33       | Louisiana        | 3.2%        | 33        |
| Alaska           | 0.4%         | 34        | North Carolina   | -3.3%         | 34       | Missouri         | 3.5%        | 34        |
| Ohio             | 0.7%         | 35        | New Mexico       | -2.1%         | 35       | Mississippi      | 3.7%        | 35        |
| Washington       | 0.8%         | 36        | North Dakota     | -2.1%         | 36       | Idaho            | 4.0%        | 36        |
| North Carolina   | 2.5%         | 37        | Ohio             | -1.2%         | 37       | Washington       | 5.2%        | 37        |
| Louisiana        | 3.4%         | 38        | Iowa             | -0.3%         | 38       | Alaska           | 5.2%        | 38        |
| North Dakota     | 3.6%         | 39        | Indiana          | -0.2%         | 39       | North Carolina   | 5.4%        | 39        |
| Oklahoma         | 3.7%         | 40        | South Carolina   | 3.0%          | 40       | <b>Wisconsin</b> | <b>6.0%</b> | <b>40</b> |
| New Mexico       | 4.3%         | 41        | Massachusetts    | 3.2%          | 41       | Connecticut      | 6.6%        | 41        |
| Texas            | 4.9%         | 42        | Louisiana        | 4.0%          | 42       | North Dakota     | 7.3%        | 42        |
| Hawaii           | 4.9%         | 43        | California       | 6.5%          | 43       | Texas            | 8.0%        | 43        |
| Missouri         | 6.1%         | 44        | Connecticut      | 8.2%          | 44       | Rhode Island     | 8.0%        | 44        |
| Kansas           | 6.2%         | 45        | Wyoming          | 8.6%          | 45       | South Carolina   | 9.0%        | 45        |
| Mississippi      | 6.4%         | 46        | Arkansas         | 8.6%          | 46       | Oklahoma         | 9.0%        | 46        |
| South Carolina   | 6.9%         | 47        | Hawaii           | 9.9%          | 47       | New Mexico       | 9.3%        | 47        |
| Kentucky         | 6.9%         | 48        | New Jersey       | 11.0%         | 48       | Kentucky         | 14.4%       | 48        |
| Connecticut      | 7.1%         | 49        | Missouri         | 12.6%         | 49       | Kansas           | 14.9%       | 49        |
| Wyoming          | 22.7%        | 50        | Mississippi      | 12.9%         | 50       | Wyoming          | 29.0%       | 50        |

Table 5. Detailed Changes in Public Sector Employment 1993-2002

|                     | Percentage   | Percentage   | Percent of | Percent of |
|---------------------|--------------|--------------|------------|------------|
|                     | Change 1993- | Change 1993- |            |            |
|                     | US           | Wisconsin    | US         | Wisconsin  |
| TOTAL               | 16.1%        | 11.2%        | 100.0%     | 100.0%     |
| FINANCIAL ADMIN     | 14.6%        | 9.8%         | 2.4%       | 2.1%       |
| CENTRAL ADMIN       | 19.3%        | 27.1%        | 1.7%       | 2.2%       |
| JUDICIAL-LEGAL      | 31.6%        | 15.1%        | 2.6%       | 2.0%       |
| POLICE-ARREST       | 21.9%        | 19.0%        | 4.2%       | 4.3%       |
| POLICE-OTHER        | 25.6%        | 25.9%        | 1.4%       | 1.3%       |
| FIREFIGHTERS        | 18.4%        | 11.4%        | 1.8%       | 1.5%       |
| OTHER               | 35.9%        | 47.9%        | 0.2%       | 0.1%       |
| CORRECTION          | 27.7%        | 64.2%        | 4.5%       | 4.3%       |
| STREETS & HWYS      | 0.8%         | 5.4%         | 3.5%       | 3.9%       |
| AIRPORTS            | 20.0%        | 17.3%        | 0.3%       | 0.1%       |
| WATER TRANSPORT     | -5.6%        | -17.9%       | 0.1%       | 0.0%       |
| PUBLIC WELFARE      | 8.6%         | 9.7%         | 3.4%       | 5.1%       |
| HEALTH              | 21.7%        | 44.3%        | 2.7%       | 2.6%       |
| HOSPITALS           | -11.8%       | -63.8%       | 5.9%       | 1.8%       |
| SOC INSUR ADMIN     | -18.0%       | 9.7%         | 0.6%       | 0.3%       |
| SOLID WASTE MGMT    | 2.7%         | -5.9%        | 0.7%       | 0.6%       |
| SEWERAGE            | 5.9%         | -17.7%       | 0.8%       | 0.7%       |
| PARKS & RECREATION  | 12.6%        | -10.4%       | 1.7%       | 1.3%       |
| HOUSING & COMM DEV  | 14.8%        | -15.8%       | 0.8%       | 0.4%       |
| NATURAL RESOURCES   | 5.1%         | -4.4%        | 1.2%       | 1.2%       |
| WATER SUPPLY        | 8.7%         | 7.4%         | 1.0%       | 0.7%       |
| ELECTRIC POWER      | -6.7%        | -6.5%        | 0.5%       | 0.2%       |
| GAS SUPPLY          | 3.2%         | na           | 0.1%       | na         |
| TRANSIT             | 19.9%        | -2.4%        | 1.5%       | 0.8%       |
| ELEM&SEC INSTRUCT   | 25.2%        | 20.6%        | 28.0%      | 31.5%      |
| ELEM&SEC OTHER-TOT  | 23.2%        | 30.2%        | 12.3%      | 10.3%      |
| HIGHER ED INSTRUCT  | 14.2%        | -1.0%        | 4.0%       | 5.4%       |
| HIGHER ED OTHER     | 17.6%        | 8.3%         | 7.7%       | 9.9%       |
| OTHER ED - STATE    | -1.2%        | -10.8%       | 0.6%       | 0.4%       |
| LOCAL LIBRARIES     | 28.7%        | 16.1%        | 0.8%       | 1.0%       |
| STATE LIQUOR STORES | -16.7%       | na           | 0.0%       | na         |
| OTHER & UNALLOCABLE | -3.7%        | -1.9%        | 2.9%       | 3.9%       |

Table 6. Effects of Public Sector Employment on Total Employment Growth 1979-2001

|  |                |                |         |          |          |          |          |                  |                 |
|--|----------------|----------------|---------|----------|----------|----------|----------|------------------|-----------------|
| Growth in State & Local Govt Employment                          | <b>1.0797</b>  |                |         |          |          |          |          |                  |                 |
|  | <b>(13.95)</b> |                |         |          |          |          |          |                  |                 |
| Growth in State Govt Employment                                  | <b>0.9425</b>  |                |         |          |          |          |          |                  |                 |
|  | <b>(8.33)</b>  |                |         |          |          |          |          |                  |                 |
| Growth in Local Govt Employment                                  |                | <b>0.9147</b>  |         |          |          |          |          |                  |                 |
|  |                | <b>(11.15)</b> |         |          |          |          |          |                  |                 |
| State & Local Govt Share of Total Employment 1979                |                |                |         | -78.5681 |          |          |          |                  |                 |
|  |                |                |         | (0.23)   |          |          |          |                  |                 |
| State Govt Share of Total Employment 1979                        |                |                |         |          |          | -112.49  |          |                  |                 |
|  |                |                |         |          |          | (0.31)   |          |                  |                 |
| Local Govt Share of Total Employment 1979                        |                |                |         |          |          |          | 24.1597  |                  |                 |
|  |                |                |         |          |          |          | (0.07)   |                  |                 |
| Change in State & Local Govt Share of Total Employment 1979-2001 |                |                |         |          |          |          |          | <b>-139.2897</b> |                 |
|  |                |                |         |          |          |          |          | <b>(2.89)</b>    |                 |
| Change in State Govt Share of Total Employment 1979-2001         |                |                |         |          |          |          |          |                  | <b>-94.0402</b> |
|  |                |                |         |          |          |          |          |                  | <b>(2.63)</b>   |
| Change in Local Govt Share of Total Employment 1979-2001         |                |                |         |          |          |          |          |                  | <b>-83.6207</b> |
|  |                |                |         |          |          |          |          |                  | <b>(2.11)</b>   |
| Intercept Term   | -4.9521        | 20.0865        | 16.2602 | 160.2189 | 155.3213 | 148.9751 | 145.7004 | 144.0641         | 149.3204        |
|  | (0.44)         | (1.26)         | (1.32)  | (3.85)   | (10.37)  | (5.31)   | (33.83)  | (30.37)          | (36.17)         |
| Fstatistic   | 194.51         | 69.47          | 124.31  | 45.66    | 85.41    | 4.31     | 8.38     | 6.91             | 4.44            |
| Rsquared   | 0.8021         | 0.5914         | 0.7214  | 0.0011   | 0.002    | 0.0001   | 0.1489   | 0.1257           | 0.0847          |
| sample size  | 50             | 50             | 50      | 50       | 50       | 50       | 50       | 50               | 50              |

Numbers in parentheses are t-statistics, bold are statistically significant.

Figure 1. Total Employment Growth: 1979-2001

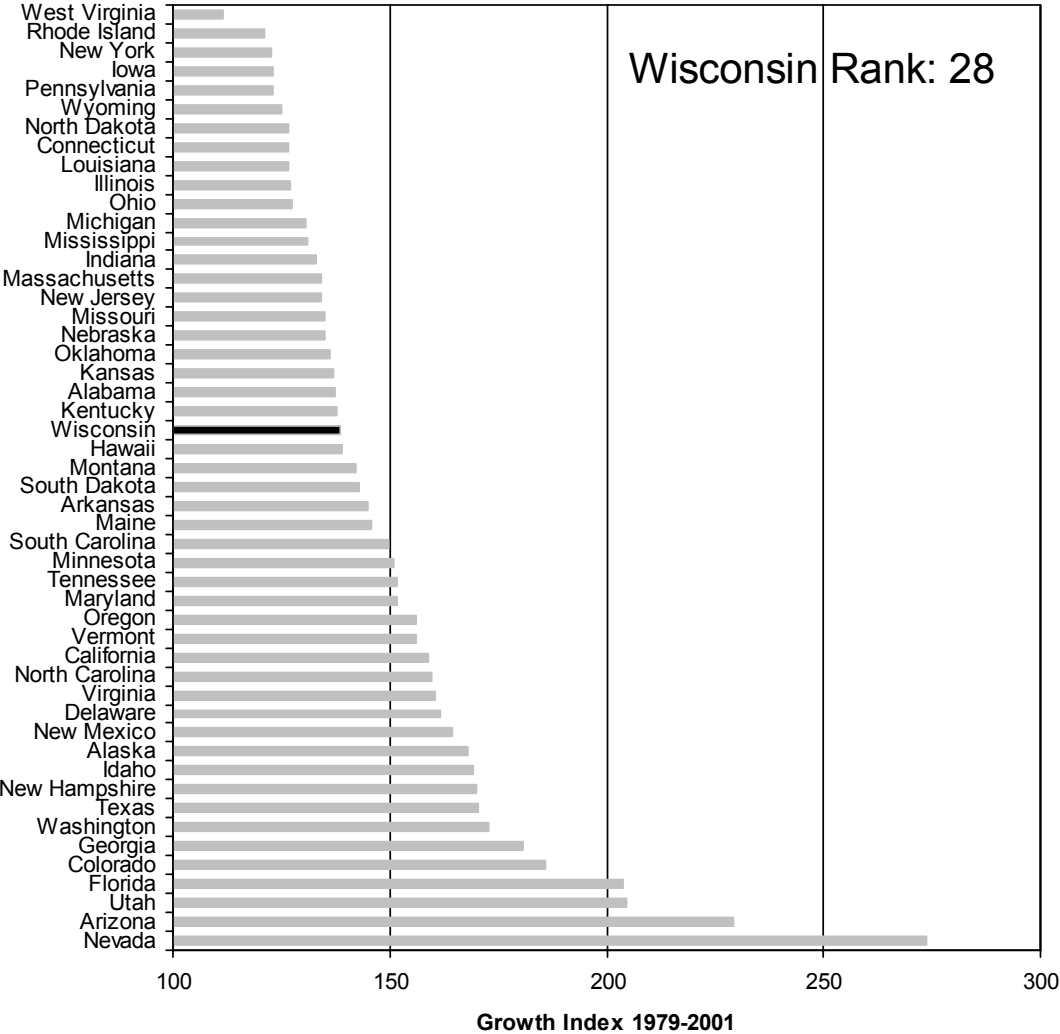


Figure 2.State & Local Govt Employment Growth: 1979-2001

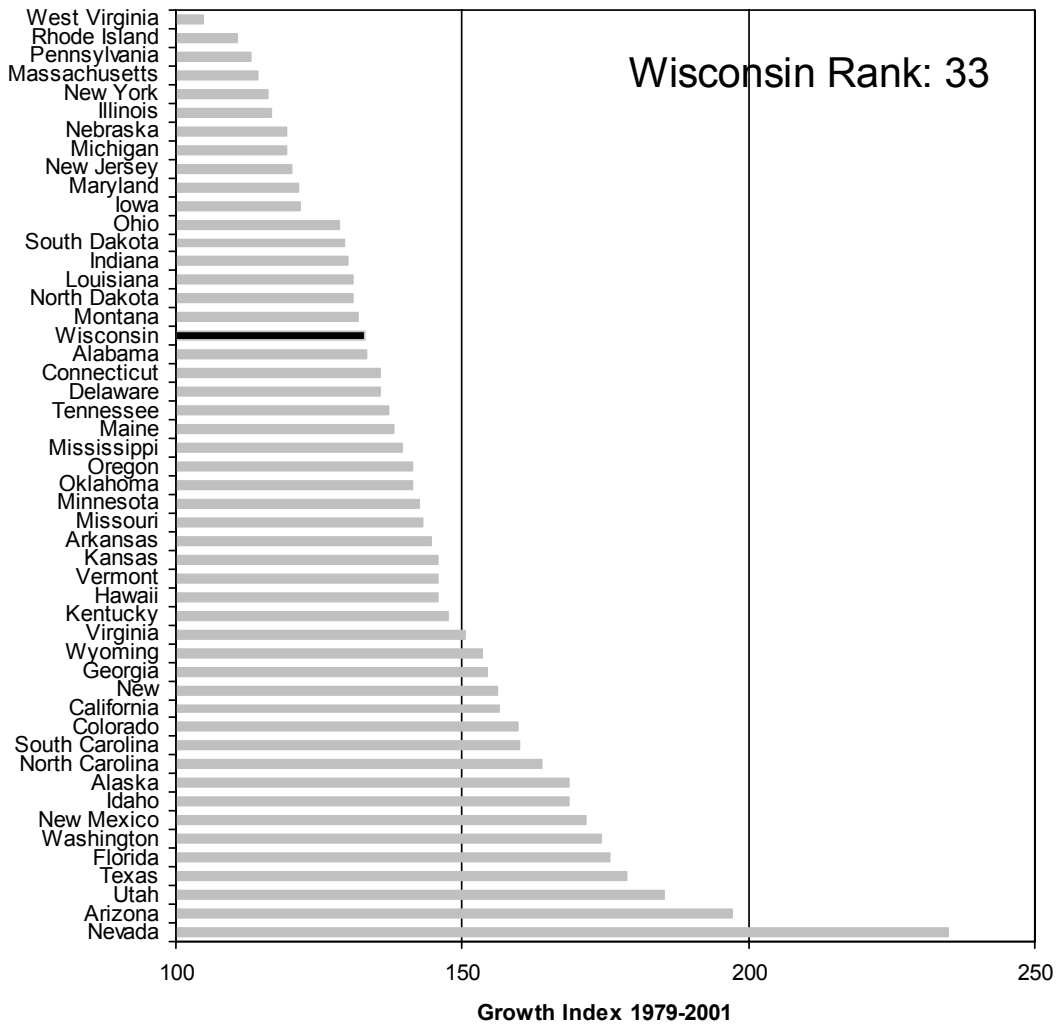


Figure 3.State Govt Employment Growth: 1979-2001

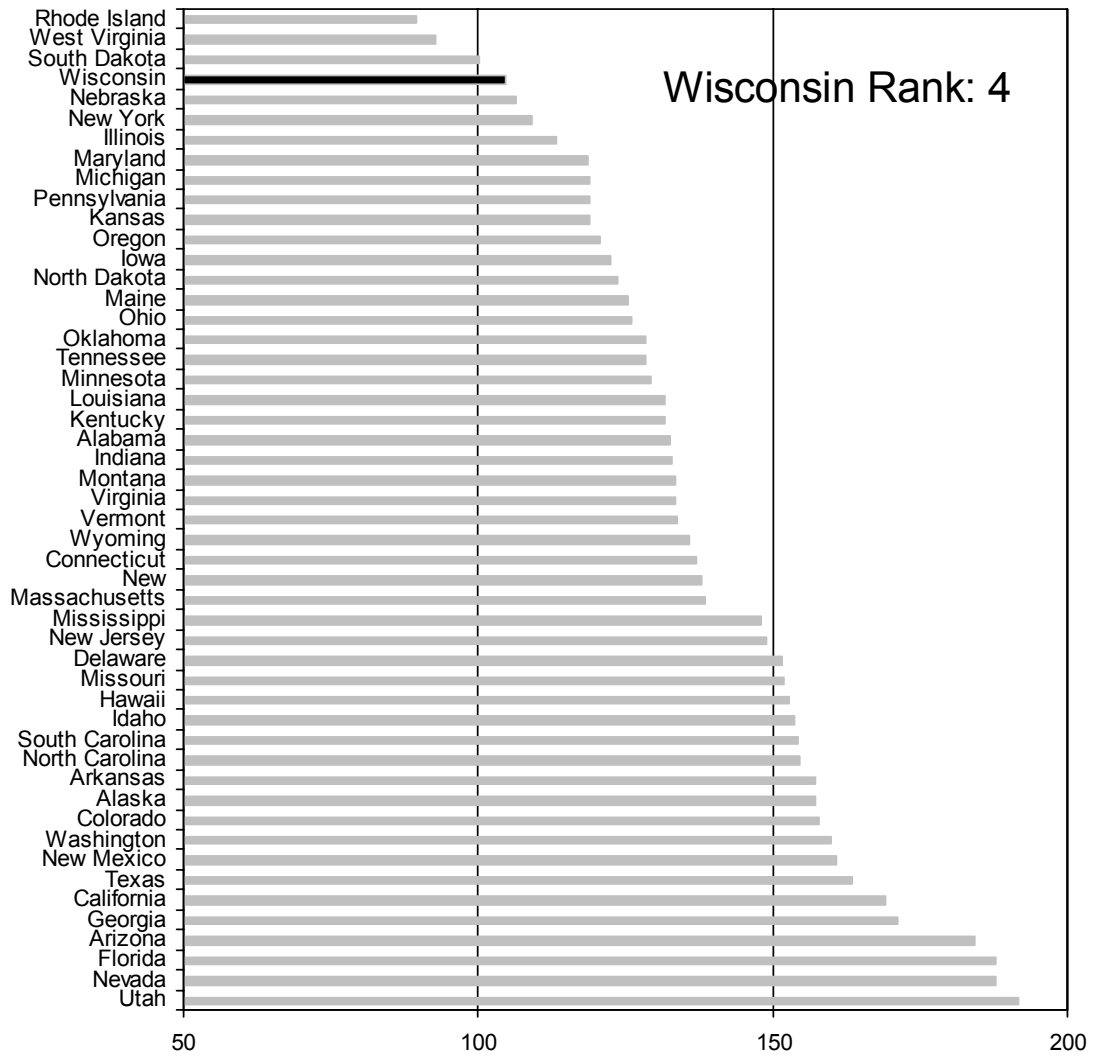


Figure 4. Local Govt Employment Growth: 1979-2001

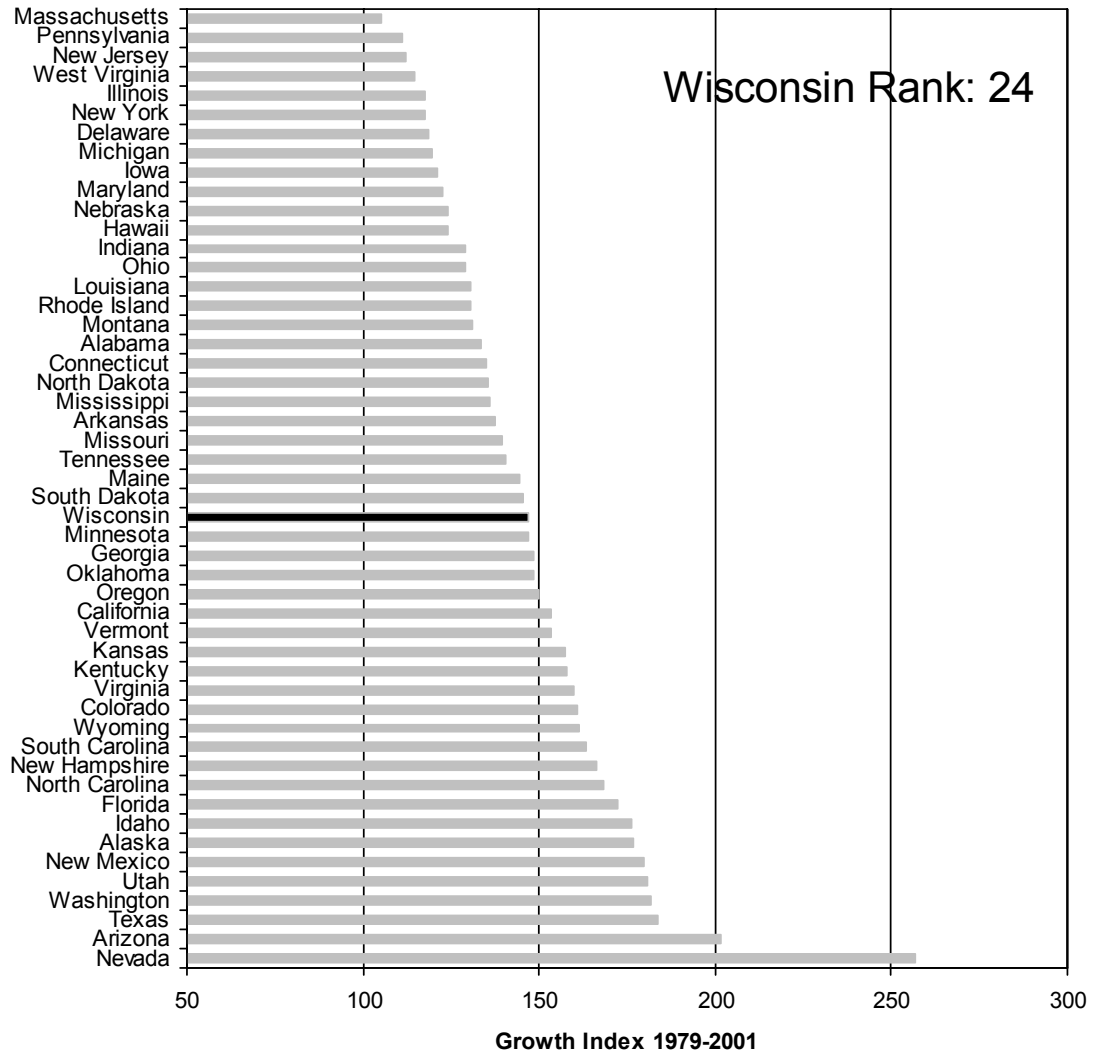


Figure 5. Percent of Total Employment in State & Local Govt 2001

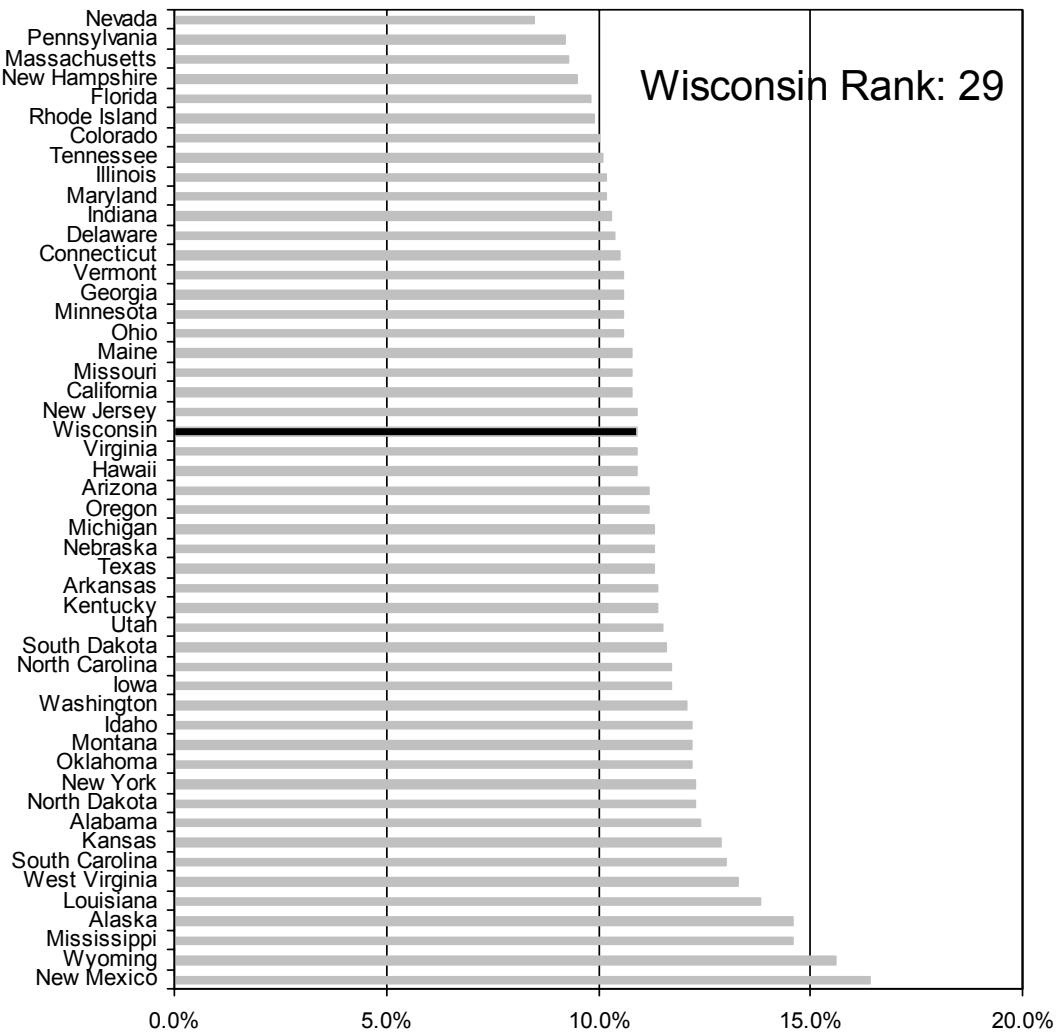




Figure 6. Percent of Total Employment in State Govt 2001

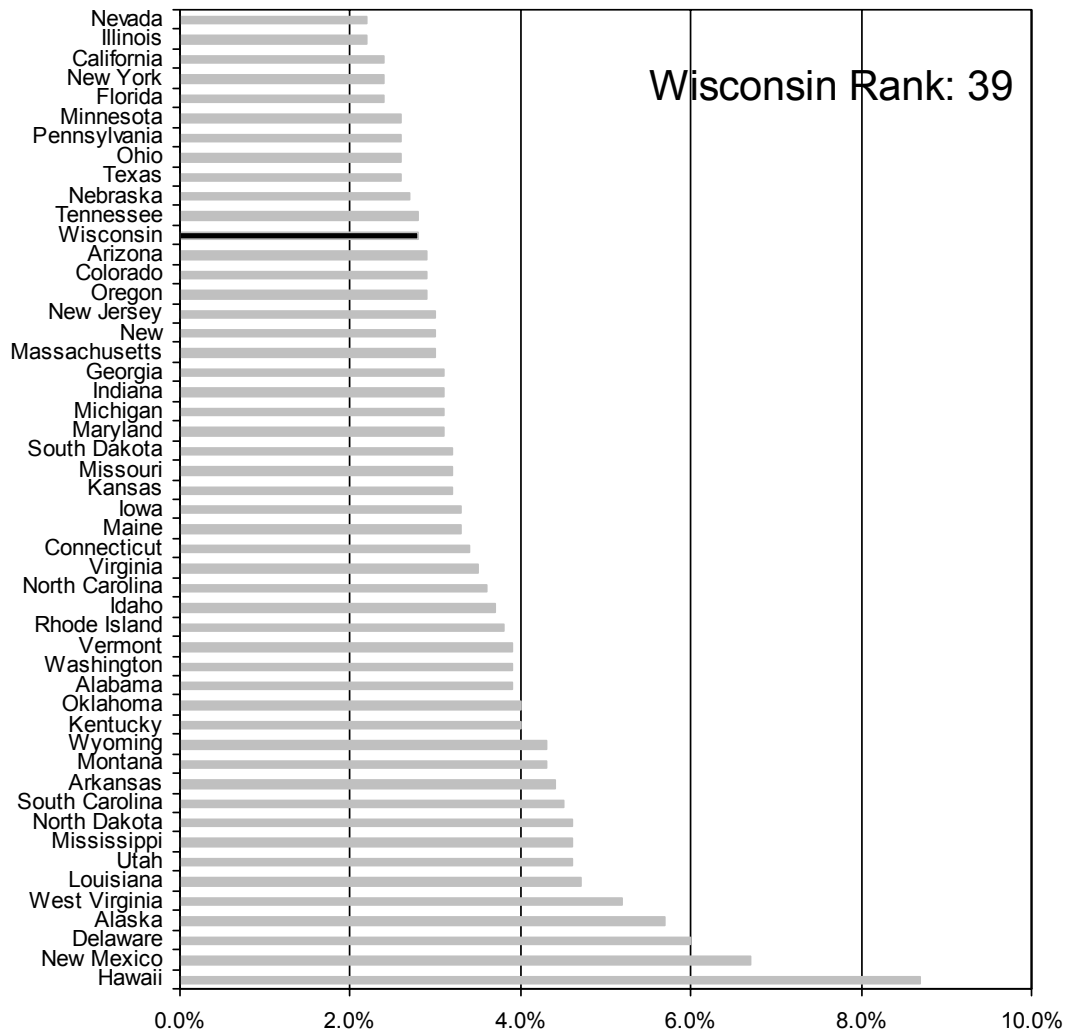


Figure 7. Percent of Total Employment in Local Govt 2001

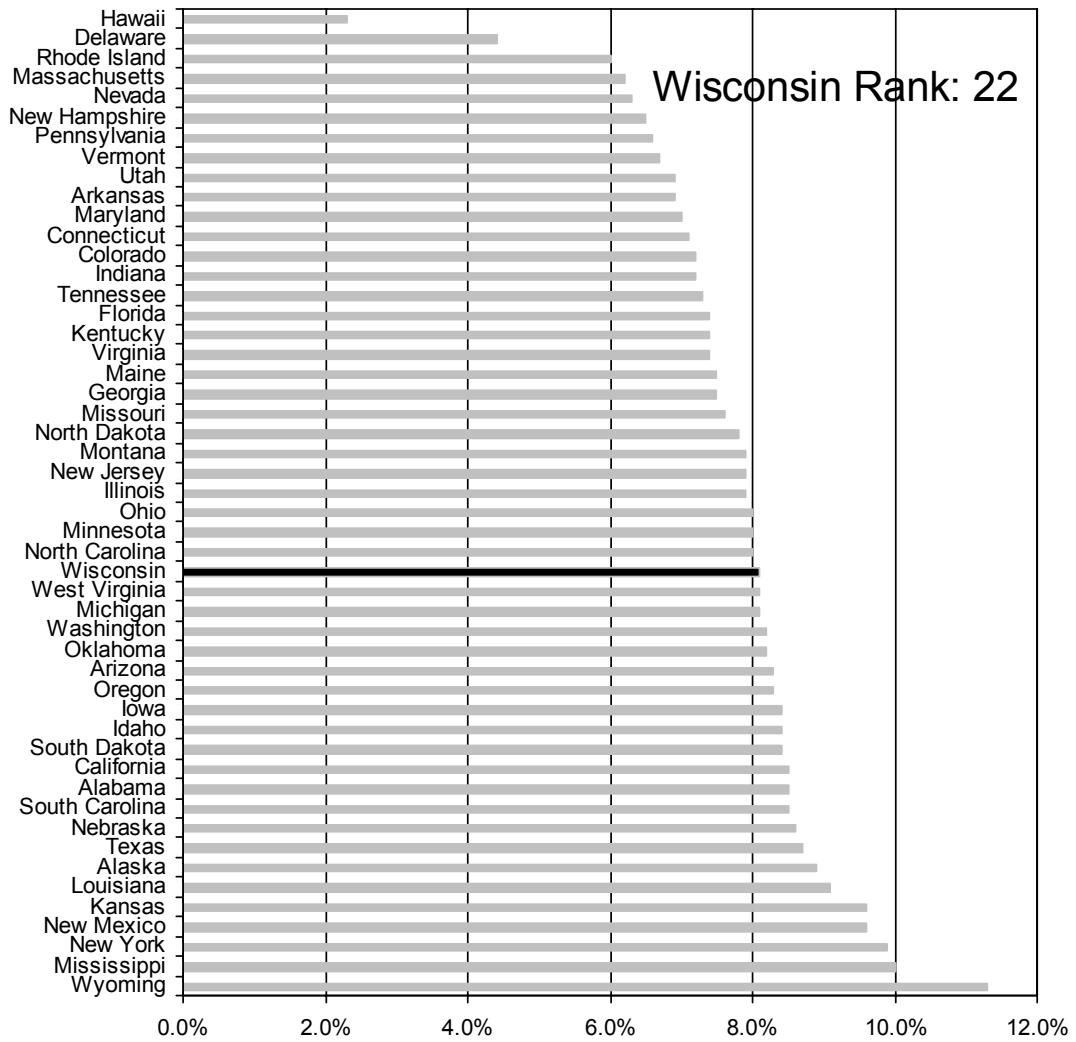




Figure 8. Change in State & Local Govt Employment Share of Total Employment 1979-2001

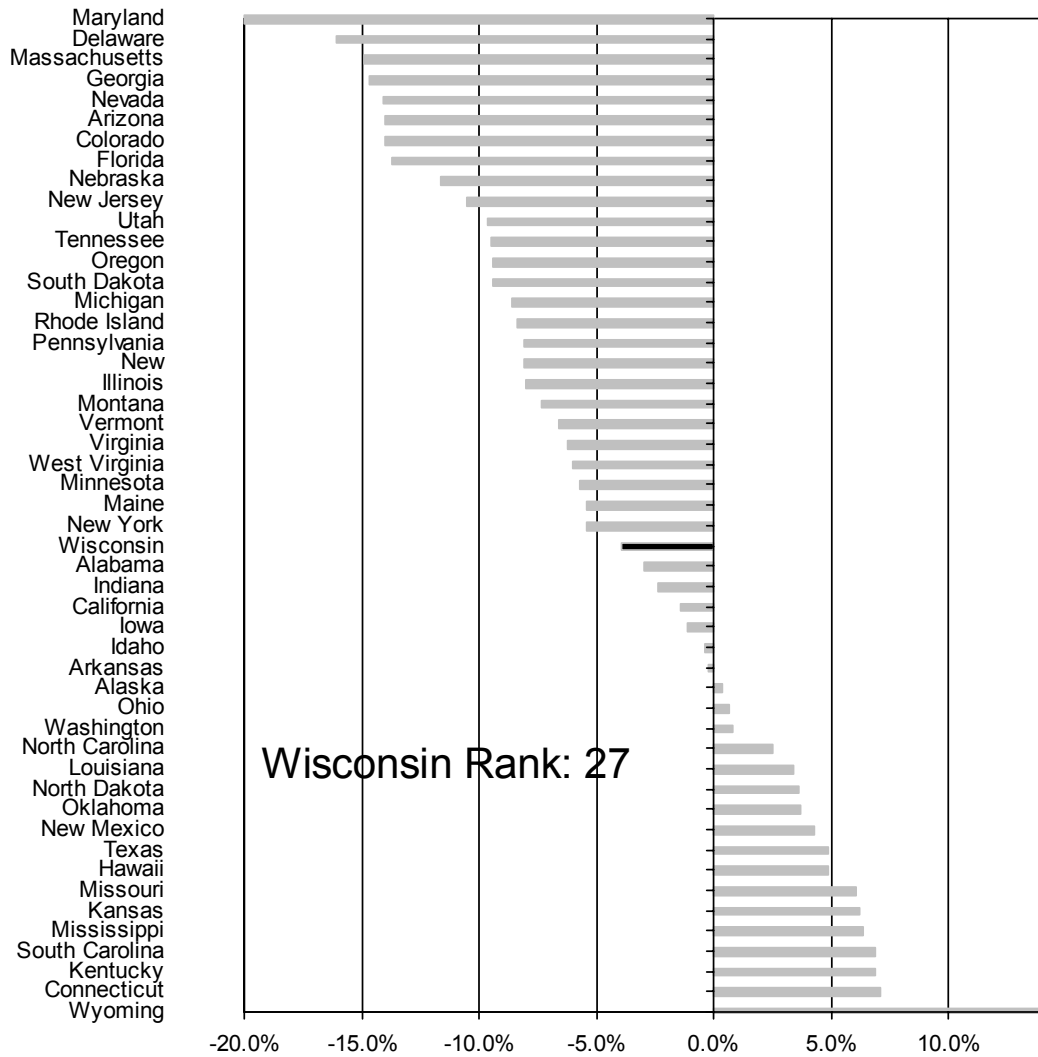


Figure 9. Change in State Govt Employment Share of Total Employment 1979-2001

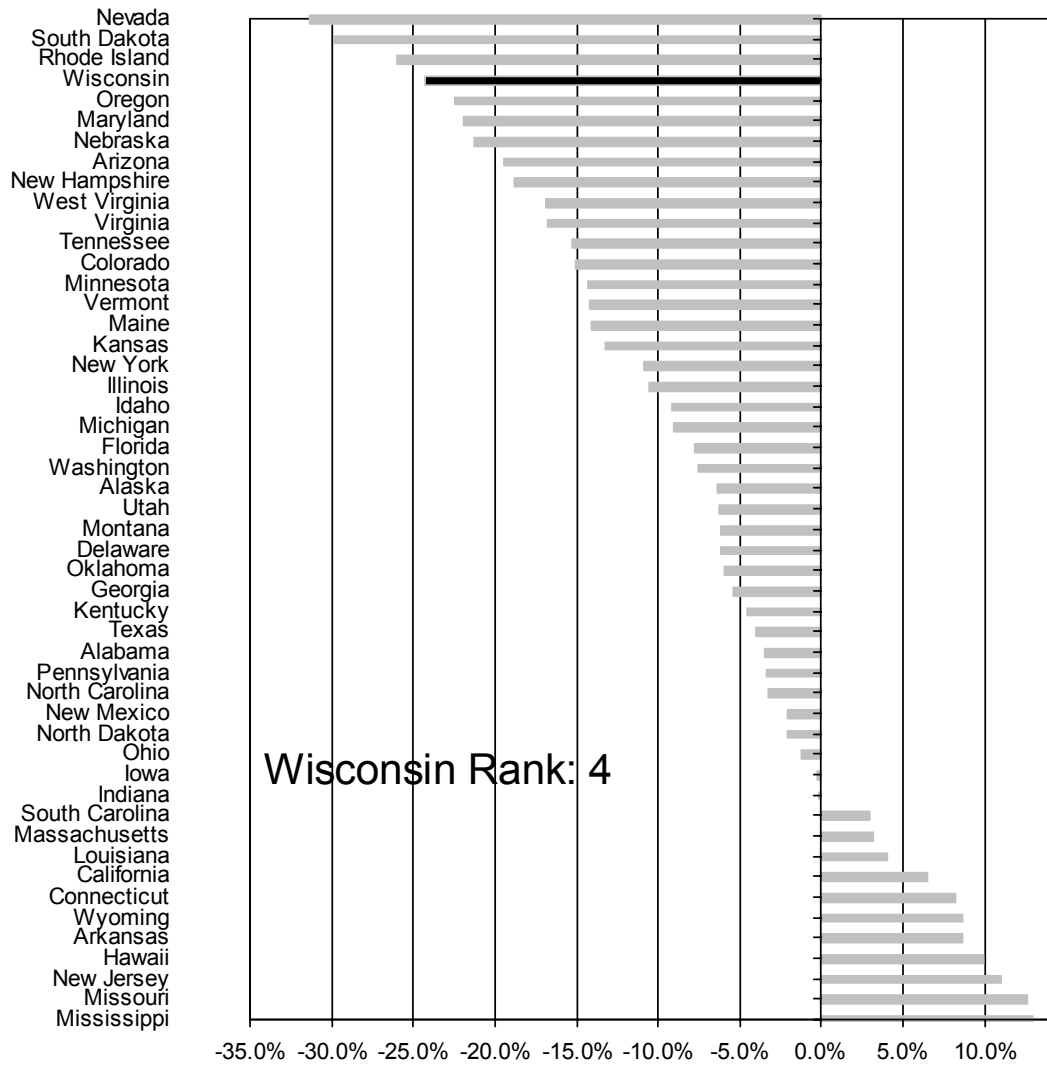


Figure 10. Change in Local Govt Employment Share of Total Employment 1979-2001

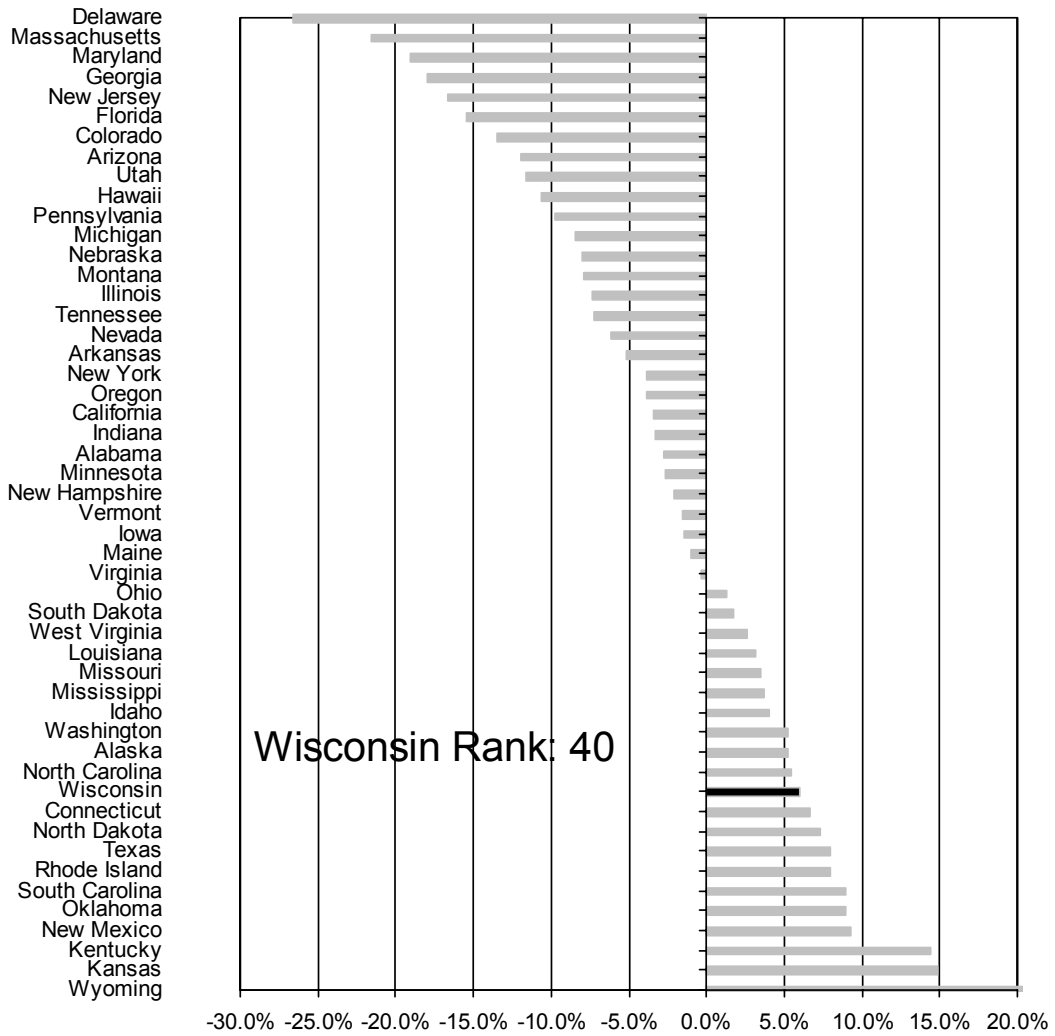


Figure 11. Growth in Total and State/Local Govt Employment 1979-2001

