The Impending Storm
Changing Demographics and Wisconsin’s Economic Future

The impending retirement of the baby-boom generation will have significant effects on Wisconsin’s economy over the next 30 years. As this large cohort retires, the size of Wisconsin’s workforce will stall; the working-age population is expected to decline 0.2% between 2010 and 2040. Only 21 of the state’s 72 counties are expected to see increases in residents ages 20 to 64, and only six will see increases of more than 10%. Working-age populations are expected to drop more than 10% in 13 northern counties.

“No question is so difficult to answer as that to which the answer is obvious.” — Nobel Laureate George Bernard Shaw

Many aspects of government and the economy—tax collections and stock prices, for example—are difficult to predict. But future school enrollments and workforce numbers are not. Metaphorically, today’s babies are tomorrow’s students and next week’s working men and women.

As the saying goes, demography is destiny. Population trends that have been building for decades are now “coming home.” Wisconsin is undergoing a major demographic shift that will adversely impact employers, taxpayers, government revenues, and the state economy’s capacity to grow.

The seeds were sown in the years after World War II, when returning GIs married, had children, built houses, and bought all that went with them—furniture, appliances, automobiles, and remodeling. As the nation’s population surged, so did the American economy.

Over the next six decades, the demographic tidal wave of maturing “baby boomers” inundated almost everything in its path, leaving new mores and lifestyles, new political and societal institutions, and new technologies and wealth.

Now, as these boomers begin to retire, their oversized generation’s impact will again be felt—but in a new and less positive way. As growth in the workforce stalls, job growth will slow as well. It is difficult to create jobs when there are no people to fill them. It is also difficult to fund public services if employment and tax revenues are not growing.

LOOKING BACK
The proverbial tea leaves have long been there for Wisconsin’s political, civic, and business leaders to read—if they had wanted. During the 1950s, birth of the bulk of the baby-boom cohort pushed state population up sharply; annual growth averaged 1.4%.

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But those increases slowed over the next three decades. During the economically challenged 1980s, state population growth averaged only 0.4% per year (see Figure 1). With the technology boom of the 1990s helping to spur Wisconsin’s economy, population growth recovered briefly, increasing to about 0.9% per year. However, that did not last: State growth averaged only 0.6% during the first decade of the new millennium.

As growth rates slowed, a major shift in the age composition of the state occurred. As baby boomers aged, they moved into their prime working years. During 1960-2010, the working-age population rose 70%, from two million to nearly 3.5 million (see Figure 2). School-age populations peaked around 1970 and are now 15% below that level.

**A GLANCE AT THE FUTURE**

State demographers don’t expect a reversal of slow population growth over the next three decades (again, see chart above). After reaching 0.8% between 2015 and 2020, they expect average annual population growth to fall consistently, reaching 0.05% between 2035 and 2040. The population will increase a total of just 0.2% over the entire five-year period.

Wisconsin’s population is estimated to grow only 14.1% between 2010 and 2040. To put that in perspective, the state’s population increased 14.5% between 1992 and 2010. In other words, what once took only 18 years will now take 30.

**Of Boomers, Births, and Deaths**

The future look of Wisconsin is shown in Figure 2. Today’s school children are future parents; those of working age are tomorrow’s retirees. Both will significantly impact future births and deaths.

*Births Stagnate, Deaths Accelerate.* During 2000-10, Wisconsin witnessed just over 705,000 births (see Figure 3, page 3). That number is expected to increase only slightly over the next three decades, reaching about 750,000 during 2030-40.
However, as baby boomers age, the number of deaths in Wisconsin will rise much faster. About 450,000 residents died during 2000-10, but that figure is expected to reach almost 650,000 during 2030-40. Thus, while births outnumbered deaths by about 240,000 in the most recent decade, Wisconsin’s natural increase will be nearer 100,000 during 2030-40.

Moving In, or Moving Out?

Predicting Wisconsin’s natural increase—the difference between births and deaths—is not difficult. But estimating future population totals also hinges on the number of people moving in and out of the state, which can be volatile and hard to predict.

Predicting Migration Difficult. Other than by natural increase, the only way population can grow is by more people moving into the state than leaving it (net in-migration). And that depends on a variety of factors, including the relative change in Wisconsin’s economy compared to those of other states. When the state economy struggled during the 1980s, many people left the state in search of jobs. The pattern reversed in the 1990s when the economic boom and a labor shortage drew people to the state. Due partly to the most recent recession, Wisconsin’s net migration has again turned negative, highlighting the impact the economy can have on migration.

The economy is not the only factor, however; migration to and from Wisconsin also has an age component. Whether due to temperature or taxes, residents in their 60s and 70s tend to move out of the state more than they move in. The same is true for those in their 20s and early 30s: Students and young professionals leave Wisconsin to attend college, seek employment, or find higher paying work.

On the other hand, the state is a net importer of families headed by parents in their 30s and 40s. One reason former residents return is that schools here are good and family-friendly public services, such as parks and playgrounds, abound. Wisconsin has also become a net importer of seniors in their 80s. Like young families, aging retirees may be former residents who return to be close to family and to have better access to quality health care.

Looking ahead, state demographers expect economic rather than age patterns to drive migration over the next 30 years. During 2015-20, they anticipate nearly 113,000 more people moving in to Wisconsin than leaving (see Figure 4). In the years that follow, net migration should remain positive, before ultimately declining in 2035-40. Should age, rather than the economy drive future migration, the inflow will likely be less positive.

ECONOMICS OF POPULATION SHIFT

Other than unpredictable migration patterns, there is little in 2010-40 population forecasts that has not been known for decades.

Workforce Stagnation

While population changes over the next 30 years will affect Wisconsin in many ways, the most significant impacts will be workforce size and job creation. This has long been known. In 2003, the state’s chief labor economist told state leaders that by 2030 “at
least 27% of the state’s population will be over 60.” The latest forecast puts the figure at 28%.

*From School to Work.* Changing school enrollments foreshadow the future workforce. Public school enrollments had an uptick during the late 1980s and early 1990s with the “baby-boom echo” (the children of baby boomers). However, as boomers moved past their childbearing years, the echo began to disappear. School enrollment in 1997 was about 860,000; last year, it was less than 855,000.

The writing is on the wall. A five-year-old in 1997 is now 22. He or she is either in or about to enter the workforce. With school enrollments, at best, flat since the late 1990s, Figure 5 starkly suggests that the size of our labor force is in the early stages of stagnation.

*Where Are the Workers?* Just as baby boomers were associated with a sharp rise in Wisconsin’s workforce, they will now be associated with workforce stagnation. As this group moves from work to retirement, the state’s working population will not grow.

Fluctuating in a narrow band of decline and increase, the working-age population (20-64) is expected to decline 0.2% between 2010 and 2040 (see red line in Figure 6). Annual growth is currently averaging a meager 0.1%. It is expected to fall 0.1% per year during the 2020s and then remain nearly unchanged during the following decade. Between 2030 and 2040, worker numbers will increase just 0.3%.

*Population and Job Growth Linked.* If demography is destiny—and it is—then Wisconsin’s economic future is cloudy. Politicians tout efforts to promote “economic development” and “job creation,” but if worker counts change little, those efforts will be inadequate. Employment cannot expand beyond the size of the work-eligible population.

History shows the tie is strong. As Figure 6 shows, a nearly one-to-one relationship exists between growth in employment and growth in the working-age population.

Between 1980 and 2011, in states where the working-age population expanded rapidly, job creation was robust. Nevada and Arizona are examples. In states like Wisconsin and its neighbors, where population increased more slowly, job creation was equally weak.

Thus, the expected “freeze” in the size of Wisconsin’s working-age population over the next 30 years will mean little or no long-term job growth (see blue line in Figure 6). In the short term, Wisconsin will be able to create jobs because unemployment remains relatively high (about 6.5%).

Three factors could change the job picture, but only marginally. First, a greater percentage of the working-age population could enter the workforce. When this occurred during the mid-1980s through the late 1990s, jobs grew faster than the working-age population (see Figure 6). Second, employers could rely to a greater degree on older workers, those 65 or older. Should seniors continue to work more than in the past, job creation could be higher. Third, workers could move here from elsewhere. However, forecasts of worker counts already assume significant in-migration.

*Rising Wages?* For companies looking to expand, the dearth of new workers would likely result in a
labor shortage. This would be positive for workers: Supply and demand will drive up wages, now more than 10% less than national averages. A labor shortage could also encourage workers to work longer, and retire later.

A labor shortage would also magnify the economic fallout from a failure to maximize student success and high school graduation. No state can afford inadequately prepared high school dropouts when it needs every possible worker.

**Student-Age Populations Flat**

What comes after the baby-boom echo’s working years is no more encouraging. Wisconsin’s school-age (5-19) population is expected to grow a modest 3.4% between 2010 and 2040.

Since students are future workers, labor force growth will likely remain negligible until the state’s youngest age group begins to expand, something demographers do not expect for several decades (see Figure 8, page 6). After declining until 2015, the 5-19 age group will increase 0.4% annually until 2030, and even less during the following decade. Between 2035 and 2040, student numbers are expected to decline 1.2%.

**Baby Boomers Retire**

What makes these new forecasts even more attention-getting is the combined effect of a no-growth workforce and a rapidly-rising number of retirees (see Table 1, page 6).

While Wisconsin’s total population is expected to grow 14.1% between 2010 and 2040, the number of retirees (65 or older) will nearly double (up 97.5%) as boomers retire. Between 2020 and 2025, retiree numbers are expected to rise 18.2%, more than five times the increase in the overall population (3.3%). Even though its growth will slow in subsequent years, the retiree population will remain Wisconsin’s fastest growing age group through 2040.

A near doubling in the number of seniors coupled with little change in the rest of the population means the share of the state’s population 65 or older will increase from 13.7% in 2010 to 23.7% in 2040. Put another way, in 2010, Wisconsin had 23 seniors for every 100 working-age residents. By 2040, that figure will rise to 45.

**Economic Impact.** The economic consequences of this growing number of seniors will be marked. The elderly tend to purchase more services and fewer goods than younger people, and health services will be particularly in demand. Although employment in both Wisconsin and nationally has shifted to service industries over the past 30 years, population shifts over the next 30 years will accelerate the change.

Wisconsin’s housing market will also be impacted, as baby boomers retire, downsize, and trade three- or four-bedroom homes for smaller houses, condominiums, or apartments. Prices for smaller houses and condos should rise with increased demand, but the market for larger homes will suffer.

**Impact on Incomes**

Not only will population shifts affect the economy and job growth, they will also impact state income. Average incomes generally rise with age, before falling at retirement. Census Bureau figures from 2010 highlight the pattern. In households headed by...
someone under 25, income averaged about $30,000 in Wisconsin. Average incomes were higher in older households: $64,000 in the 25-44 age group and $75,000 for those 45 to 64. Household incomes for retirees were lower, averaging only $45,000.

The seismic demographic shift from households in the 45-64 age group to those where retirees predominate negatively impacts average incomes. If Wisconsin’s 2010 population looked like 2040’s in terms of age, average state incomes would be about 5% lower.

A growing state population will aid total income growth during 2010-40. However, when a slowly rising population is combined with the projected demographic shift, total income will increase just 15%, or an average of only 0.5% per year, over 30 years. More rapid income growth can only come from rising wages. Regardless, income growth is unlikely to match past averages of 6% in the 1990s or even 4.3% during the pre-“Great Recession” 2000s.

**PUBLIC FINANCE**

Modest income growth and a shift from “goods-purchasing” middle-agers to “services-purchasing” retirees has revenue implications for both state and local governments.

**Slowing Tax Collections**

Individual income and sales taxes provide more than 80% of state general fund revenues. Slow income growth will restrict growth in income tax collections over the next 30 years. Additionally, a growing share of all income will come from Social Security, which Wisconsin no longer taxes. That will further adversely impact income tax collections.

Moreover, since seniors purchase food, drugs, more services (generally not taxable) and fewer goods (taxable), a boom in seniors will slow sales tax collection growth.

**Increasing Demand for Public Services.** To the extent that seniors use government services more than others, the rise in retirees will put further pressure on state and local government spending at the same time that revenues increase little.

A slowdown in tax collections and more demand for public services are a difficult combination that will force state and local governments to choose between cutting programs and increasing taxes.

**School Funding Troubles?** Wisconsin’s population shift has already affected public school finances. Little or no growth in school enrollments for the past 15 years depressed school revenues. 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 regularly ask for voter approval via referendum.

Passing referenda will likely become more difficult over the next 30 years. Living on fixed incomes, retirees are more affected by rising property taxes than are wage-earners with rising incomes, and they might be less likely to support higher property taxes that come with successful referenda. Since retirees vote at significantly higher rates than younger residents, rapid growth in the senior population will create more obstacles to passing school referenda.

**COUNTY VARIATION**

The population dynamics Wisconsin will experience—little change in births and rising numbers of retirees with their eventual deaths—is a statewide
phenomenon. However, some parts of Wisconsin will be more affected than others. The rapidly aging North, with little or no natural increase in population, faces dwindling numbers of residents. Counties near metropolitan areas or with access to interstate highways will grow at a moderate rate.

While total state population will increase 14.1% over the next 30 years, changes will range from a 17.1% decline in Price County to a 41.1% increase in Saint Croix. Only 25 counties will grow faster than the state average; 47 will grow slower.

**Most Counties Losing Workers**

Between 2010 and 2040, the working age population is expected to fall 0.2% statewide. In 51 of the state’s 72 counties, the decline will be larger (see map), with northern counties taking the biggest hits.

The combined 11-county area (A on the map) from Barron in the West to Langlade in the East and running to Bayfield, Ashland, and Iron counties in the North will see a near 20% drop in the number of working-age residents. Price (-41.0%) and Bayfield (-35.1%) are expected to experience the largest declines in the state.

Three other areas are expected to see declines of more than 10%: northeastern Wisconsin (B) from Kewaunee County north to Florence; central Wisconsin (C) from Green Lake to Wood; and southwestern Wisconsin (D).

The map shows growth will generally follow major highways from Brown County south to Kenosha, then northwest through Dane and Sauk to Saint Croix County. Kenosha and Saint Croix counties benefit from growth in the Chicago and Minneapolis areas, respectively.

**North Losing Kids, As Well**

Economic prospects for northern Wisconsin become of greater concern when changes in student populations are considered. During 1997-2003, enrollments in five northern school districts declined more than 40%; in another 16, they dropped more than 30%.

That pattern is expected to continue. During 2010-40, state demographers expect the school-age population to drop more than 30% in Bayfield and Price counties. Declines will top 20% in Ashland, Lincoln, Pepin, and Rusk counties.

This will have both short- and long-term consequences. First, it 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 school transportation costly. Of these, more than 40 are small, enrolling fewer than 500 students. WISTAX research has shown that small districts lack scale economies that allow larger districts to reduce costs. Further enrollment declines will exacerbate these challenges.

The future of the workforce beyond 2040 has not been examined here. But having fewer students has workforce implications after 2040. Declining student populations over the next 30 years portends continued workforce shrinkage over the next 50.

**FINAL THOUGHT**

In 2004 in “Wisconsin’s Future: Year 2015 and Beyond,” WISTAX warned that over the next 15 to 30 years, “unprecedented changes in Wisconsin’s population will impact the state’s economy and government.” What was crystal-ball gazing a decade ago is now becoming reality. The sobering question is: Are Wisconsin leaders any better prepared now to meet the challenges of population change than it was then?

**DATA SOURCES:**

U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; U.S. Census Bureau; Wisconsin Department of Administration; Wisconsin Department of Public Instruction
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**WISTAX NOTES**

- **Wisconsin Income Rising.** Wisconsin per capita personal income (PCPI) rose 2.4% in 2013, the seventh largest increase among the states (see chart). National per capita income climbed 1.8%.

  Among neighboring states, only income in Iowa (2.7%) rose more. Income growth in Michigan (2.4%, 9th), Illinois (2.1%, 18th), and Minnesota (2.0%, 21st) trailed Wisconsin.

  In addition to reporting the new income figures for 2013, the Department of Commerce (Bureau of Economic Analysis) also revised income numbers for 2001-12 based on new information. These changes show Wisconsin income was higher than previously reported.

  The new figures also show the Badger State outperforming the nation during 2000-13. Over the 13 years, Wisconsin per capita income rose 48.1% compared to 46.9% for the nation. Incomes here also rose more than in Illinois (43.3%), Michigan (33.4%), and Minnesota (46.8%).

- **Wisconsin Government Employment.** In 2012, Wisconsin state and local governments employed 282,864 full-time equivalent (FTE) employees, or 49.4 per 1,000 state residents. Nationally, government employment averaged 51.8 FTEs Wisconsin was 14th lowest in government employees per capita. Census Bureau figures show that during 1998-2005, the Badger State averaged 52.5 government workers per 1,000 people. That figure dropped to 50.3 in 2010, fell further to 49.0 in 2011, but rebounded slightly in 2012. In Wisconsin, 27.9% of all government employees are employed by state government; the comparable national figure is 27.5%.

- **SchoolFacts, at a Discount.** With the end of the school year just around the corner, WISTAX researchers are beginning work on *SchoolFacts14*. To clear inventory, we are offering our *Wisconsin Taxpayer* subscribers a one-time $25 discount on the book. *SchoolFacts* helps you compare your district with others on spending, taxes, test scores, staffing, and many other important measures. It can now be purchased for just $9.95, and is a “must-have” for anyone interested in Wisconsin public schools. Supplies are limited; Order your copy by visiting wistax.org or by calling 608.241.9789.