MENARD FAMILY INITIATIVE

TARIFFS, IMMIGRANT ENTREPRENEURSHIP, AND ALCOHOL REGULATION

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TARIFFS, IMMIGRANT ENTREPRENEURSHIP, AND ALCOHOL REGULATION

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Our Mission

The Menard Family Initiative seeks to further our understanding of the free market and the political, economic, financial, and social institutions that guide the working of the same.

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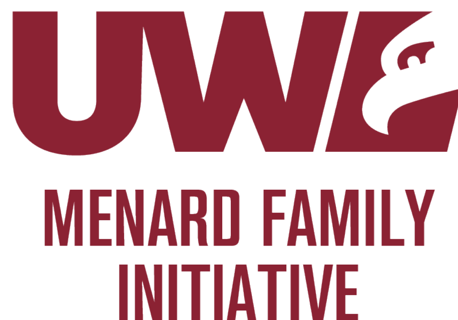

PREFACE

MFI RESEARCHER, NICHOLAS MCFADEN

Introduction

Economic policy and regulation shape the environment in which businesses operate, influencing innovation, competition, and economic growth. While thoughtful policies can enhance market efficiency and encourage entrepreneurship, excessive or poorly designed regulations can create barriers to entry, distort incentives, and hinder economic dynamism. Achieving the right balance is essential to fostering an economic landscape supporting business development and broader societal well-being.

This volume presents a collection of research essays produced by personnel of the Menard Family Initiative (MFI) at the University of Wisconsin - La Crosse during the fall 2024 semester. These essays explore a wide range of topics, including alcohol regulation, tariffs, regional industrial policy, immigration, and housing policy.

By applying economic reasoning and analysis, the authors provide a nuanced look at how political and economic institutions influence entrepreneurship, innovation, and economic dynamism in Wisconsin and the broader United States. The essays highlight how regulatory constraints, even when well-intended, can lead to inefficiencies and harmful market distortions. They also explore how pro-market policy reforms can improve economic outcomes and prosperity. As policymakers and communities grapple with the complexities of economic regulation, this volume offers valuable insights into achieving a framework that fosters growth, competition, and opportunity.

Economic Impacts of Alcohol Sales Time Restrictions in Wisconsin

MFI Student Fellow Aditya Anil examines Wisconsin's regulation on alcohol sales times, comparing it to other states and analyzing its economic and political impacts. He finds that Wisconsin is one of the least restrictive states regarding the number of hours it allows alcohol sales, ranking 5th nationwide.

However, a unique restriction in Wisconsin allows only bars to sell liquor past 9 PM, creating a market distortion that benefits bars while potentially increasing drunk driving by shifting consumption away from home. Using Bruce Yandle's Bootleggers and Baptists framework, Anil explains how moral and economic interests shape these regulations. Public health advocates (Baptists) support restrictions for safety reasons, while bars (Bootleggers) benefit from reduced competition. Similar dynamics occur with Sunday "blue laws" in Southern states, where liquor stores often support bans on Sunday alcohol sales to avoid competing with grocery stores. Anil finds anecdotal evidence from Wisconsin liquor store owners who benefit from closing at 9 PM without losing customers to competing retailers.

Anil concludes that Wisconsin's alcohol sales regulations create unintended market distortions that benefit certain businesses while potentially undermining public health goals. In future research, Anil plans to explore taxation and local regulations on alcohol.

The Southern Rise and Midwest Decline: Analyzing Economic Disparities

MFI Student Fellow Khang Duong examines the economic divergence between the South and the Midwest, focusing on the impact of economic freedom and trade policies. He finds that Southern states like Florida, Texas, and Tennessee have outpaced the Midwest in GDP growth, while Midwestern states such as Illinois, Ohio, and Wisconsin struggle with population decline and stagnant industries.

Duong highlights the Midwest's persistent process of "brain drain," in which educated and skilled workers move to states in the South. This trend has led most Midwestern states to experience an overall decline in manufacturing firms, while the opposite has been true for many Southern states. He links this trend to economic freedom, noting that Southern states generally have fewer regulations and lower taxes, making them more attractive for businesses and workers.

Duong explores how trade policy contributes to the economic divide between the Midwest and the South as well. He argues that Southern states' proximity to Mexico has enabled them to better avoid the negative supply chain disruptions of rising tariffs between the United States and China in recent years.

Duong concludes that the Midwest must address structural issues such as high taxes and burdensome regulations to remain competitive with the South. He plans to conduct further research on policies that could reverse these trends in, particularly in fostering greater human capital development and a more business-friendly environment in the Midwest.

Economic Value Added by Habitat for Humanity in La Crosse County

MFI Research Intern Owen Schuler analyzes the economic impact of the La Crosse County Habitat for Humanity, a nonprofit that develops affordable housing by acquiring, building, or renovating homes in partnership with future homeowners. By measuring increases in property values and tax revenues from its projects, he highlights the positive economic impact created by the organization.

Schuler finds that Habitat for Humanity has completed 52 housing projects in La Crosse County since 1993, adding $7.67 million in property value and $6.65 million to the tax base. He distinguishes between newly constructed and rehabilitated homes, showing that both significantly boost property values, with rehab projects averaging a 210% increase in value.

Schuler notes that these projects have benefited homeowners and the broader community by expanding local tax revenue and promoting more stable neighborhoods. He plans to further explore the positive impacts created by the La Crosse County Habitat for Humanity through cost-benefit analysis using construction cost data.

Barriers or Bridges: Immigrant Entrepreneurship in Wisconsin

MFI Student Scholar Nainil Jariwala examines the challenges and opportunities for immigrant entrepreneurs in Wisconsin, arguing that targeted policies could unlock their economic potential. Despite immigrants' strong entrepreneurial presence nationwide, Wisconsin lags behind neighboring states like Illinois and Michigan in immigrant business formation.

Jariwala identifies key barriers that hinder immigrant entrepreneurship, such as limited financing, complex licensing, and the lack of a dedicated U.S. entrepreneur visa. He uses national and state-level data to show how these obstacles restrict business formation and job creation in Wisconsin.

Drawing from successful models in other states, Jariwala proposes policy solutions such as immigrant-focused business accelerators, state-funded entrepreneurship grants, expanded microloan programs, and streamlined licensing for foreign-trained professionals. He also advocates for federal entrepreneur visa reforms, identifying Canada's Start-Up Visa as a model. Jariwala calls for further research into how tailored policy interventions can maximize the economic contributions of immigrant business owners.

Tariffs and Entrepreneurial Activity – A Double-Edged Sword

UW-La Crosse Associate Professor Anup M. Nandialath examines the complex effects of tariffs on entrepreneurship, highlighting both their protective benefits and economic downsides. While tariffs can shield domestic industries from foreign competition, they also raise costs for businesses reliant on imported goods, disrupt supply chains, and create market inefficiencies.

Nandialath discusses how tariffs can encourage rent-seeking behavior, where businesses lobby for protection rather than improving efficiency. Tariff-driven market distortions may push entrepreneurs toward necessity-driven businesses rather than high-growth, innovative ventures. Additionally, volatile tariff policies create uncertainty, making long-term business planning difficult.

However, he acknowledges that tariffs can have positive effects in specific cases, such as protecting emerging industries and incentivizing local supply chain development. He argues that well-designed tariff policies, combined with targeted government support like R&D subsidies and infrastructure investment, could mitigate negative effects while fostering domestic entrepreneurship.

Nandialath concludes that tariffs are neither universally beneficial nor harmful to entrepreneurship. Instead, their impact depends on how they are structured and whether they are paired with policies that encourage innovation and long-term business growth.

NIMBYism and Zoning Complexity in Wisconsin

MFI Researcher Nicholas McFaden examines Wisconsin's growing housing affordability problem, highlighting insufficient supply as the key driver of rising home and rent prices. While multiple factors influence housing supply, exclusionary zoning laws and complex local regulations remain the primary barriers to new development.

Using newly assembled local zoning data, McFaden finds that Wisconsin performs better than the average state in overall measures of zoning regulation and complexity but lags on key areas such as lengthy approval processes, excessive lot size requirements, and restrictions on accessory dwelling units multi-family conversions.

Recent legislative efforts in Wisconsin have made progress by limiting local government discretion and encouraging upzoning. McFaden argues that Wisconsin should build upon this success and pass statewide legislation to relax

zoning restrictions and streamline the approval process based on those that have been successful in other states. By adopting such reforms, Wisconsin can expand its housing supply, improve affordability, and promote economic growth

ECONOMIC IMPACTS OF ALCOHOL SALES REGULATIONS

ADITYA ANIL, MFI STUDENT FELLOW

Introduction

With one of the strongest drinking cultures in the United States, it is no surprise that the topic of alcohol regulation in Wisconsin is one of heavy contention. In fact, there appears to be no "one size fits all" approach to alcohol regulation, with each state having different laws and regulations. One notable example of regulation in alcohol would be the restriction on the hours that off-premises locations, such as liquor stores and grocery stores, are allowed to sell alcohol. These regulations often have the intent of reducing the supply of alcohol, something which is often said to improve societal welfare. However, this sentiment is not reflected in the actual legislation, in Wisconsin's case. While intended to address public health and safety, the regulation of alcohol sales hours often lead to unintended economic consequences, including market distortions and inequitable advantages for specific industries. This essay will examine the complex relationship that regulation has with public health, markets, rent seeking, and the idea of bootleggers and Baptists.

Summary of Liquor Store Sales Times in Wisconsin

Wisconsin possesses one of the most unique forms of regulation of off-premises alcohol sales. In Wisconsin, off-premises locations are allowed to sell beer from 6am-12 AM daily, but liquor can only be sold from 6 AM-9 PM daily (Wisconsin Department of Revenue, n.d.). This is largely motivated by the idea that restricting the supply of alcohol would lead to a net benefit to society. Wisconsin's legislators have considered regulating the supply of alcohol in the past but for different reasons, such as to "level the playing field". For instance, a 2023 bipartisan bill was passed that would require wedding barns to require a liquor license to operate, which places limits on the number of times that wedding barns are allowed to operate (Venhuizen, 2023). Furthermore, Wisconsin has provided municipalities with the power to change their liquor laws, such as the city of Menasha, allowing for the sale of liquor from 9 AM to 6 PM (City of Menasha, n.d.).

Health Impacts of Restricting Liquor Stores Sales Hours

The relationship between a reduced supply of alcohol and societal well-being is a complex and contested topic. In 2018, the World Health Organization launched the SAFER initiative, aimed at reducing alcohol-related harm globally by advocating for limited alcohol availability. However, not everyone shares this perspective. One illustrative example is the UK's Licensing Act of 2003, which granted local authorities more control over alcohol sales' time restrictions. A study examining the impact of this act on crime in Manchester found no overall change in violent crime rates, though there was a slight increase in incidents between 3 AM and 6 AM (Humphreys et al., 2013). Similarly, evidence from Australia supports this nuanced view. When the

country extended liquor store operating hours on Sundays from 6 PM to 10 PM in 1966, there was no significant change in motor vehicle or pedestrian accident rates. However, the timing of these incidents shifted, with more accidents occurring between 10 PM and 11 PM after the reform (Hahn et al., 2010).

How Rent-Seeking Shaped the Legislature

It is important to note that the sales hours that liquor stores were allowed to operate are for liquor stores and no other venues that serve alcohol. As described earlier, there have been several attempts by Wisconsin's lawmakers to reduce the supply of alcohol, especially at later hours of the night. Instead, the opposite is what happened. From Mondays to Fridays, bars are allowed to serve alcohol from 6 AM to 2:00 AM, and this is extended to 2:30 AM on weekends when bars can only serve some types of alcohol up to midnight (Wisconsin Department of Revenue, n.d.). This creates several issues, as people can still get alcohol at night, but only from bars rather than liquor stores. Additionally, this increases the risk of drunk driving, since people seeking alcohol after midnight must rely on bars, and many of them likely drive to and from these establishments. This situation significantly heightens the likelihood of motor vehicle accidents. Notably, a 2023 law supported by the Tavern League of Wisconsin permits bars to sell pre-packaged beer and wine until midnight (Bauer, 2023). The Tavern League of Wisconsin, a powerful lobbying group representing bars, restaurants, and taverns, has engaged in multiple instances of rent-seeking behavior. While the group claims to advocate for the interests of "licensed beverage retailers," its policies have often harmed the broader industry. For example, the Tavern League has defended Wisconsin's 9 p.m. liquor sales restriction, arguing that "most people plan ahead" (Rosciglione, 2024). However, such regulations primarily drive more consumers to bars, rather than liquor stores or grocery stores. This distortionary policy reduces competition for bars and may result in higher prices for consumers.

Critics may argue that removing time restrictions on alcohol sales could lead to a rise in drunk driving and other alcohol-related incidents. However, the current law's exemption for bars may already contribute to these issues. By restricting late-night alcohol sales at liquor stores while allowing bars to continue operating, the law creates a market distortion that incentivizes consumers to purchase alcohol at bars, where they are more likely to drink on-site and drive afterward. Removing this bias would allow consumers to make more rational purchasing decisions, such as buying alcohol for home consumption at grocery or liquor stores, thereby potentially reducing the risks associated with on-premises drinking.

Approaching the Issue from the Bootleggers and Baptists Framework

In the previous section, it was discussed how the legislation and especially influence from rent seeking entities such as the tavern league have created an uneven playing ground for liquor stores and other retailers to operate under. However, some argue that there is a symbiotic relationship between the liquor store owners and the legislators, with the liquor stores inadvertently benefiting from the increased regulation that they face. This is best understood with the Bootleggers and Baptists framework, by Bruce Yandle. The framework explains

that how advocates for alcohol restrictions of – the Baptists – may inadvertently increase the profits of some alcohol producers, the bootleggers. This helps to explain the paradoxical cases in which alcohol producers have supported stricter alcohol regulations. At first glance, Wisconsin's time restriction law may not seem to align with the "Bootleggers and Baptists" analogy, as this legislation ostensibly harms liquor stores. However, insights from Sunday Blue Laws provide a useful framework for understanding how such regulations might indirectly benefit these businesses. Historically, Sunday Blue Laws have restricted alcohol sales, a policy that has paradoxically worked in favor of liquor stores. Research shows that liquor stores often experience lower sales on Sundays compared to other days. By mandating closures, Blue Laws shield liquor stores from competition with grocery stores and other retailers, allowing them to avoid losing revenue while cutting operational costs (Gohmann & Smith, 2020). A Massachusetts liquor store owner in 2004 expressed his disappointment with a new bill that allowed for sales of liquor on Sundays, by explaining how overhead costs have increased. However, he must remain open on Sunday due to the reduced number of customers that come in on Saturdays, now that liquor can be bought on Sunday (Manuse, 2005). Additionally, grocery stores are already open on Sundays, so the marginal cost of selling alcohol on that day would be far lower than it would be for liquor stores.A similar dynamic appears to be at play with Wisconsin's time restriction law. One liquor store owner in Milwaukee expressed gratitude for the law, stating that staying open after 9:00 PM would force them to compete with bars, which often have an inherent advantage due to their ability to serve alcohol for on-premises consumption. The owner noted that the additional revenue from late-night sales would not justify the increased costs and risks associated with operating during those hours (Tarnoff, 2005).

This phenomenon is not unique to Wisconsin. In Arkansas, for example, the Arkansas Beverage Retailers Association has actively opposed proposals to expand alcohol sales, arguing that such measures would have a "catastrophic" impact on liquor stores by increasing competition and fragmenting their customer base (Gohmann & Smith, 2020). These examples illustrate how certain interest groups, including liquor stores, may lobby for restrictive alcohol laws under the guise of public safety or other concerns, while benefiting from reduced competition.

While some liquor store owners have expressed concerns about the repeal of restrictive sales laws, others have benefited economically. For example, in Massachusetts, the repeal of Sunday Blue Laws allowed liquor stores to sell alcohol on Sundays, leading one liquor store owner to report an 8-10% increase in revenue (Manuse, 2005). This sentiment was echoed by other liquor store owners who extended their operations to include Sunday sales, taking advantage of the additional day of revenue.

Economic Impact of Liquor Store Sales Hours Regulation

The economic impact of such regulatory changes can be significant. While much of the literature on alcohol regulation focuses on health outcomes, fewer studies address the economic ramifications. Alcohol regulations, like Sunday Blue Laws or time restrictions, often have mixed impacts on different stakeholders. Due to the addictive nature of alcohol, successful

regulation to reduce consumption remains challenging, and the industry has historically resisted such measures (O'Brien et al., 2022).

For instance, when Connecticut repealed its Sunday Blue Laws in 2012, liquor and grocery stores experienced a short-term increase in both competition and earnings (Connolly et al., 2024). This indicates that consumers often prefer purchasing alcohol from these establishments over bars, given the convenience and price benefits. Similarly, repealing sales restrictions in Massachusetts boosted competition and created new opportunities for liquor stores to capture additional market share.

These examples demonstrate the complex interplay between regulation and economic outcomes. While extended sales hours or repealed restrictions may introduce new competition, they also provide opportunities for businesses to adapt and thrive, ultimately benefiting both consumers and retailers.

Approaching the issue from another angle, reduced competition and restricted availability increase the relative price of alcohol, potentially driving consumers toward alternative substances. For example, studies in other states have shown that higher alcohol prices can lead to a substitution effect resulting in increased use of substitutes like marijuana (Gohmann & Smith, 2020). If the idea is to reduce the consumption of potentially harmful substances, lawmakers should not expect the problem to go away by simply reducing the supply of one good, since other goods exist, and people would be keen to hop on to the new wave of customers switching from alcohol to some other substitute. In this light, while the regulations may provide narrow benefits to specific groups, they ultimately create inefficiencies in the market and limit consumer choice, raising questions about the true beneficiaries of such policies.

Ideas for Future Research

To make further and better comparisons between the regulations of Wisconsin with other states, we can utilize data from other states alcohol sales hours. Wisconsin allows liquor stores to sell alcohol for up to 18 hours a day. Unlike quite a few other states, Wisconsin does not allow for reduced hours of sales on Sundays. The average hours of sales per day from Monday to Saturday for all states is 16.5 hours, with an average of 11 hours on Sundays (though, these figures exclude states that do not have restrictions on their legislature directly and leave the restrictions up to municipalities and counties). With that, we see that Wisconsin is above average when it comes to less regulation on sales hours. These simply factor in sales hours, which is an important metric but there are other factors that play a key part in comparing overall alcohol regulation between states. For instance, while Nevada has no regulation on the duration that liquor stores may operate, they do have a higher sales tax rate on distilled spirits than Wisconsin does (Hoffer, 2023). As such, this comparison, while having some basis, is not enough to make complete objective rankings yet.

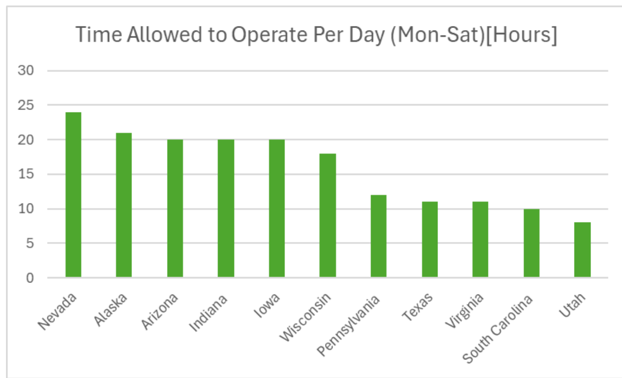

Fig. 1

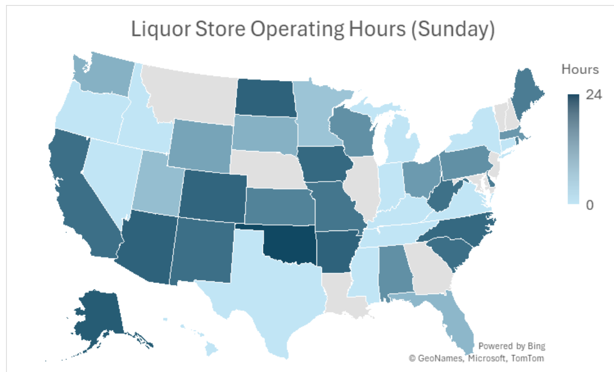

Fig. 2

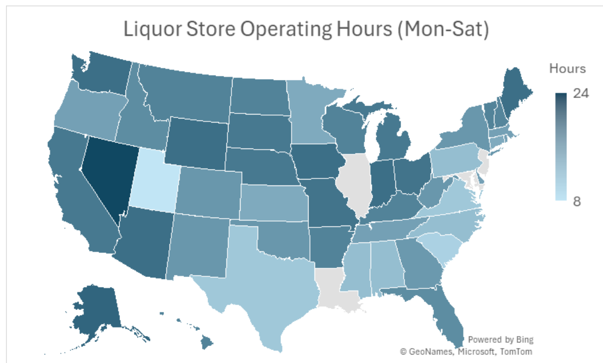

Fig. 3

In Fig. 1, the top and bottom 5 states and Wisconsin are ranked by the number of hours liquor stores are allowed to sell alcohol from Mondays to Fridays. Here, there is a high degree of variance in the hours of sale permitted between the top and bottom states, with Wisconsin allowing for far more time than the bottom 5. In Fig 2 and 3, we see that there are several geographical patterns between regions that allow greater and fewer hours of operation with liquor stores. It also shows that there is a disparity between the number of states that allow for equal number of hours of sale from Monday to Saturday and Sunday. This data can be used to examine which areas have stricter regulations than others.

The notion that increased availability can lead to improved market efficiency is a well-established principle in economic literature. In the context of Wisconsin's alcohol regulations, extending liquor store hours to match those of bars would likely improve consumer welfare by fostering greater competition. With alcohol available at all times from liquor stores and grocery stores, bars would face increased pressure to lower prices, ultimately benefiting consumers.

Conclusion

The issue of the extent of time restrictions on liquor store operating hours is a complex one. There does not exist a clear health benefit to reducing these hours. The reduced hours, instead, creates distortions in the market, increases chances of drunk driving accidents, and highlights the harm that rent seeking can cause. However, it also highlights the confusing relationship between regulators and those being regulated, with some liquor stores benefiting from the restrictions on their hours of sales. Ultimately, eliminating these time restrictions would not only promote fairness among different types of alcohol retailers but also align with the principles of market efficiency. By doing so, Wisconsin could create a more equitable and consumer-friendly alcohol market, reducing the unintended consequences of the current law while empowering consumers with greater freedom and choice. Despite this, more study can be

done on understanding the impact that alcohol regulation has, beyond simply sales times, such as the impact that taxes have on reducing consumption of alcohol. This would be greatly assisted by a comprehensive index that factors in the other variables that make up the web of alcohol regulation.

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THE SOUTHERN RISE AND MIDWEST DECLINE: ANALYZING ECONOMIC DISPARITIES

KHANG DUONG, MFI STUDENT FELLOW

Introduction

According to DePietro (2024), Southern states significantly outpace the Midwest in GDP growth, with top performers being Florida, Texas, and Tennessee driving regional economic expansion, while the Midwest struggles to keep pace. Between 2018 and 2023, Nebraska was the only Midwest state to achieve double-digit GDP growth, ranking 9th nationally, whereas other Midwest states such as Ohio, Michigan, Illinois, and Wisconsin were ranked 33rd, 34th, 46th, and 47th respectively. In contrast, three Southern states—Florida, Tennessee, and Texas—ranked in the top 10 in terms of 5-year GDP growth. Despite these strong growth rates, the Southern economy is still described as "underperforming" relative to its pro-business advocacy, namely "low taxes, anti-union stances, and pro-business regulatory climates" (Childers, 2024). Nevertheless, its favorable economic conditions have successfully attracted businesses and individuals to an extent, as reflected by the increase in net relocation of Fortune 500 firms to states like Texas, Florida, and Georgia, while states such as California, New York, New Jersey, and Illinois have experienced significant losses (CBRE, 2024; Orrenius et al., 2024).

On top of that, the Midwest's historically leading manufacturing industry has faced challenges due to population decline, and the ripple effects of tariffs and trade disruptions. In contrast, the South has taken advantage of the higher levels of economic freedom and strategic geographical position to strengthen its economy and expand its manufacturing and trade sectors. This essay will explore the key factors driving this economic divergence, focusing on domestic migration, economic freedom, and the impact of tariffs, while analyzing their implications for the future of both regions.

Migration Trends and The Midwest's Brain Drain

First, it is important to analyze the migration trend between the two regions. Anderson (2023) reports that the Southern states (led by Florida and Texas) gained more than 1.7 million people due to domestic migration between 2020 to 2022, while the Midwest had a net decline of more than 400,000 residents, with Illinois leading with over 280,000 net losses. Another report from the Minnesota State Demographic Center (2024) shows that between 2010 to 2020, most of the Midwest states experienced a negative net average annual rate of domestic migration. For instance, Minnesota's average net rate of loss due to domestic migration was .6 people per 1,000 Minnesota residents; Wisconsin's was twice as high (-1.3); and Illinois's was 12 times as high (-7.5). Meanwhile, "states in the southern and western parts of the

country tend to gain residents due to domestic migration".

Wisconsin in particular has experienced a "brain drain" in the past few decades. Although from 1990 to 2004, Wisconsin benefited from "positive net migration or more people moving into the state relative to those moving out", starting in 2005, "Wisconsin tended to lose population through negative net migration" (Steven Deller, 2023). More importantly, in 2017, Wisconsin had the "eighth largest gap in the country between the share of those who left the state versus the share of those who moved to the state who were highly educated" (Wisconsin Policy Forum, 2019). On average, Wisconsin consistently loses a net total of 5,000 to 10,000 people per year to migration. This outflow of residents, especially those who are highly educated, poses challenges for the Midwest in terms of innovation, economic growth, and workforce sustainability.

As a result, a number of key industries in the Midwest, namely manufacturing, has experienced a significant human capital loss. Between 1990 to 2019, eight states in the Midwest—Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Ohio, and Wisconsin—"witnessed a decline in both the number of manufacturing jobs and their proportion relative to total nonfarm" with Ohio having the biggest decline. For instance, in 1990, manufacturing accounted for 21.7 percent of all employment in Ohio. In 2019, "manufacturing accounted for 12.5 percent of all jobs in Ohio, after the industry shed roughly 359,000 jobs". Other states in the region where the concentration of employment in manufacturing declined notably include Illinois, Indiana, Michigan, Missouri, and Wisconsin (Arden & DeCario, 2021).

As shown in Figure 1, between 1978 and 2022, the three Southern states—Texas, Georgia, and Florida experienced significant positive growth in the number of manufacturing firms. In contrast, Wisconsin saw a modest 2% increase in the number of firms, while its neighboring states faced substantial declines, i.e., a 32% and 18% decline in Illinois and Michigan respectively. Between 2000-2015 in Wisconsin, beverage and tobacco manufacturing were among a few manufacturing industries that experienced positive growth, while most manufacturing sub-sectors faced a decline in growth rate, primarily in leather, apparel, and automotive manufacturing with -61.62%, -50.68%, and -43.10% growth rate respectively.

The Economic Freedom Advantage of Southern States

In research published by Wisconsin Institute for Law & Liberty, Hoffer et. al (2022) analyze the correlation between Economic Freedom and Migration in Wisconsin. Such economic freedom is measured through Economic Freedom Index, which is based on factors such as size of government, legal structure and property rights, freedom to trade internationally, and regulation of credit. Hoffer et. al.'s analysis shows that between 2015 and 2019, Wisconsin gained nearly 65,000 residents from states that have lower Economic Freedom Index (EFI) scores and lost nearly 38,000 residents to states with higher EFI scores.

According to the 'Freedom in the 50 States' index (n.d.) developed by the Cato

Institute, the Economic Freedom Index is measured by two main dimensions: Regulatory Freedom and Fiscal Freedom. Regulatory Freedom assesses how state regulations impact individual autonomy, including aspects like land-use, labor markets, and legal systems. Fiscal Freedom focuses on the degree of government intervention in economic activities, such as state's taxation, spending, and financial management. The Southern states, with their pro-business climates, rank higher in these areas, making them attractive destinations for both businesses and individuals. This raises an important question: To what extent does Fiscal Freedom drive migration trends from the Midwest to the South?

One of many important aspects of Fiscal Freedom is State Taxation. Yushkov (2024) highlights that Southern states offer more favorable composition-based taxes. States like Florida, Texas and Tennessee do not levy any individual income tax, while Georgia and North Carolina have implemented flat income tax rates. Meanwhile, Midwestern states have a mix between flat and graduated rates, which are comparatively higher than the South's. According to the Freedom in the 50 States index (n.d.), Southern states tend to rank higher in state taxation score, which resulted from lower tax rates, and reduced overall tax burdens. Texas and Florida rank 4th and 5th, followed by Tennessee and Georgia at 12th and 13th place in state taxation. Meanwhile, North Dakota, South Dakota, Missouri and Ohio rank the highest in the Midwest at 6th, 7th, 9th and 11th place respectively. It is important to note that Minnesota and Illinois rank 47th and 35th, while Wisconsin rank 27th. This appears to align with Hoffer et al.'s findings that Wisconsin attracts residents from neighboring metropolitan areas with lower economic freedom scores, while losing its residents to regions with higher economic freedom scores.

A strategic location

Aside from attractive tax policy, Southern states also have an advantage over the Midwest states due to their proximity to Mexico. "In 2019, by the first time, Mexico surpassed China in trade with the United States, reaching a historic commercial exchange of USD 614 billion" (Gachúz Maya, 2022). In 2019, the most important Mexican imports are based on the manufacturing sector: vehicles (USD 93 billion), electrical machinery (USD 64 billion), machinery (USD 63 billion), and optical and medical instruments (USD 15 billion). Comparatively, the main import categories from China were electrical machinery (USD 125 billion); machinery (USD 92 billion); furniture and bedding (USD 27 billion); toys and sports equipment (USD 25 billion); and plastics (USD 18 billion).

In 2018, the Trump administration imposed tariffs on Chinese goods to respond to the US's trade deficit with China, beginning the U.S.-China trade war. Over the next few years, the escalating tariffs disrupted global supply chains, increased costs for businesses and consumers, and strained bilateral relations. York (2024) reports that "tariffs on steel, aluminum, washing machines, solar panels, and goods from China" affect "more than $380 billion worth of trade at the time of implementation and amounting to a tax increase of nearly $80 billion". Machinery, electricals, fuels, raw

materials, transportation and metals are among the products with the highest applied tariff. Such imposed tariffs are crucial for both Midwest and Southern states. Since both the South's and the Midwest's economies rely heavily on industries like automotive and manufacturing, which likely benefit from machinery and electronics, capital goods, and raw materials imported from China, an increase in tariffs on those imported products has distorted supply chains for both regions.

It is important to note that the South does appear to adapt to the trade war better than the Midwest. Using the data from the World Integrated Trade Solution, Figure 2, 3, 4 and 5 illustrate the 16 states in the South' substantial increase in nuclear reactors, boilers, machinery and electrical parts imports from Mexico, which also offset its import deficit from China.

Figure 2: Nuclear Reactors, Boilers, & Machinery Parts Imported from China from 2018 to 2023

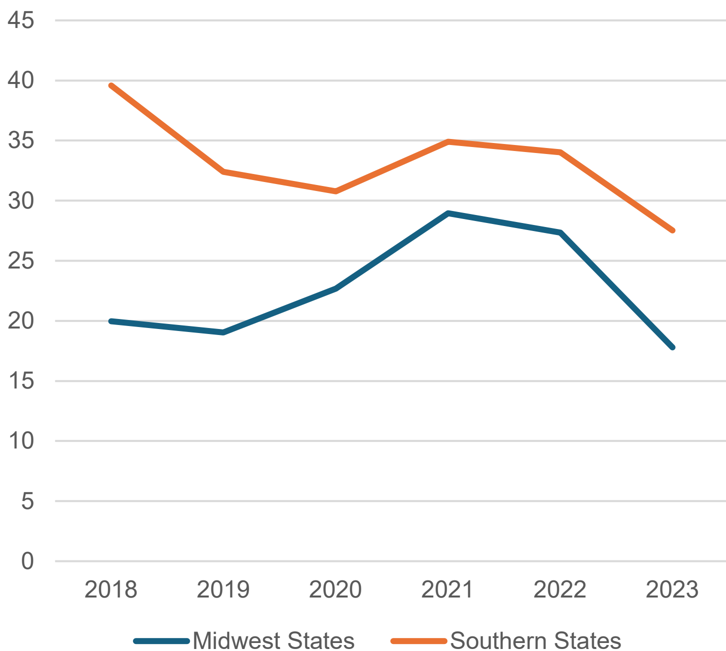


Figure 3: Nuclear Reactors, Boilers, & Machinery Parts Imported from Mexico from 2018 to 2023

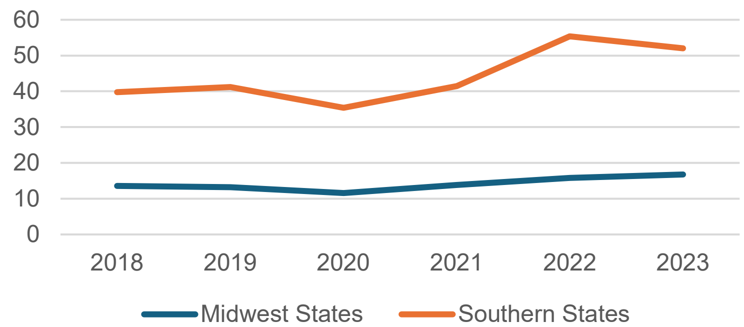


Figure 4: Electric Machinery, Sound & Tv Equip and Parts Imported from China

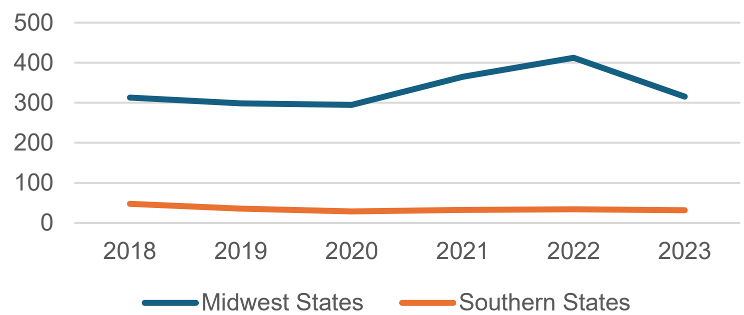
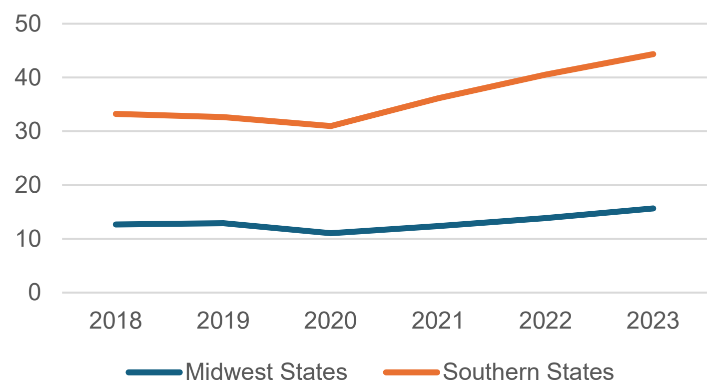


Figure 5: Electric Machinery, Sound & Tv Equip and Parts Imported from Mexico



On the other hand, while the Midwest's imports from China have decreased gradually, its imports from Mexico are not as substantial as in the South, which could result in a much greater import deficit in the Midwest.

The Impact of Tariffs and Retaliation on U.S. Agriculture

Unfortunately, it appears that the detrimental impact of such tariffs is not fully understood among American citizens. Wingenbach and Richardson (2022) note that the U.S.-China trade issues were "most evident in U.S. Midwest corn, soybean, and pork producing states [...] American farmers may have been impacted more by the U.S.-China trade dispute, but all Americans were affected by tariffs imposed on foreign goods throughout 2018-2019. Nonetheless, in a survey of 774 farmers from Iowa, Minnesota, and Illinois developed by Qy et al. (as cited in Wingenbach and Richardson, 2022), 90% of them claim that they are "extremely informed about the trade dispute", but nearly "60% supported raising tariffs on Chinese products", while the majority agree that the trade dispute will have an adverse effect on them, namely through retaliation.

For instance, in retaliation to U.S. tariffs imposed in 2018, China targeted American soybeans, which are highly sensitive to trade disruptions, by imposing a 25-percentage point applied tariff on the product. Retaliatory tariffs caused a reduction of more than $27 billion in U.S. agricultural exports, with soybeans accounting for the predominant share of total trade loss, making up nearly 71% (9.4 billion of annualized losses) of the total" (Morgan et al., 2022). As a result, the retaliation caused a tremendous decline in U.S soybeans exports, going from 31.7 million metric tons in 2017 to around 8 million metric tons in 2018 (Adjemian, et al., 2021). To make matter even worse, the U.S. Department of Agriculture developed the Market Facilitation Program to compensate trade war-damaged to farmers. Such program was estimated to overcompensate the damage: it reimburses a payment with 2.72 times as large as the damage to U.S. soybean value caused by the tariffs (Adjemian, et al., 2021).

Conclusion

This essay examines the difference between the Midwest and the Southern states' economic climates by analyzing the migration trends, economic freedom, and the South's strategic geographical advantages. The Midwest faces significant challenges, such as a persistent "brain drain," declining manufacturing employment, heavy reliance on Chinese imports, and vulnerability to trade disruptions. These issues have hindered its ability to adapt to a rapidly changing global economy. On the contrary, the South's more business-friendly environment and its strategic proximity to Mexico have positioned it as a growing economic area, attracting businesses and individuals to relocate there. More importantly, the Midwest's detrimental loss due to China's retaliation, as evident with China's tariffs on soybeans, has further exacerbated its economic challenges. Further research can focus on policy reforms to address these structural challenges, specifically emphasizing on how to increase the Midwest's human

capital, its economic freedom and reduce tax burden.

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ECONOMIC VALUE ADDED BY HABITAT FOR HUMANITY IN LA CROSSE COUNTY

OWEN SCHULER, MFI RESEARCH INTERN

Decreasing affordability has become a common theme in the U.S. economy. With median home prices significantly outpacing median household income in the U.S., affordable housing is as important as ever. According to Harvard's Joint Center for Housing Studies, the national home price to income ratio has reached record highs. Due to low interest rates during the pandemic, monthly mortgage payments stayed relatively stable as house prices rose. However, now that interest rates have increased, housing is far less affordable for the average American family than it was five years ago (Hermann & Whitney, 2024). This growing affordability crisis has significant effects on both individual households and the broader economy, highlighting the need for affordable housing. Affordable housing allows families to focus their time and money on food, childcare, and education, making it a necessity for class mobility.

Habitat for Humanity: Overview

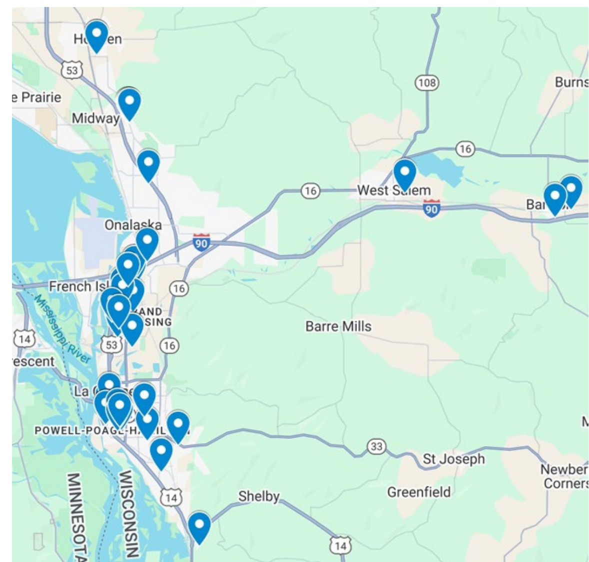
Habitat for Humanity is a nonprofit organization focused on providing families in need with affordable, healthy housing through the support of donors. Habitat for Humanity acquires properties to construct or rehab affordable, single-family homes that prospective homeowners volunteer to help build. Habitat for Humanity uses volunteers to rehab and construct houses with donated materials, therefore ensuring that the houses are both affordable and constructed sustainably.

Interested families apply and then Habitat for Humanity assesses their need and financial readiness for homeownership. Once selected, the families receive personalized guidance and training on homeownership. Habitat further sets up the new homeowners for success by giving them a 0% mortgage as well as tailoring the deals so that the mortgage payments plus taxes and insurance are less than 30% of their monthly income.

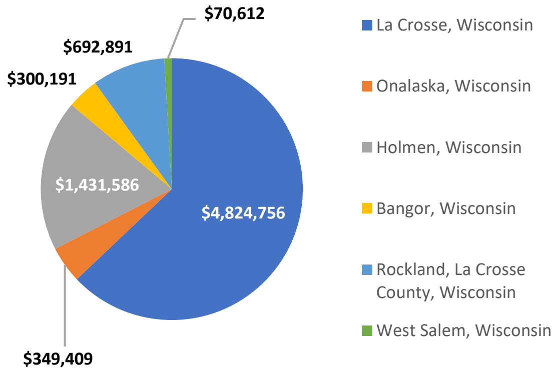
Habitat for Humanity: In La Crosse

Habitat for Humanity in the greater La Crosse area has been supporting the community for over 30 years and has never foreclosed on a home. Figure 1 shows the 52 properties in La Crosse County that Habitat for Humanity has either rehabilitated or newly constructed.

Figure 1: Habitat for Humanity Projects in La Crosse County



Methodology



The economic value added by Habitat for Humanity was measured in two different ways: the increase in property value after the project and the increase in tax base after the project. These methods reflect both the benefit to the individual household as well as the benefit to the community. These initial measures provide a baseline for further research into the economic impact of Habitat for Humanity. Other tangible benefits that are currently unmeasured are the sum of marginal property tax collected after projects, the wealth increase from building home equity for the family, and the increase in neighboring properties after the project.

Results

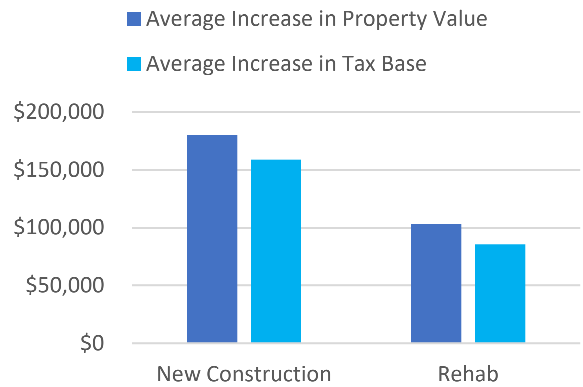
Across the 52 projects in La Crosse County with available data starting in 1993, Habitat for Humanity has added $7,670,000 in property value which directly increases the wealth of the households selected. Additionally, a $6,650,000 increase in the property tax base is attributable to Habitat for Humanity homes. This increase in taxable property has a direct benefit to the community through increased funds from social services. Figure 2 shows the distribution of property value added by city in La Crosse County.

Figure 2: Increase in Property Value by Location

As shown in the chart, Habitat for Humanity has had the biggest impact in La Crosse but has still benefited the surrounding cities considerably.

It is important to distinguish between newly constructed homes and rehabilitated. The projects were relatively evenly distributed between the two with 30 being new construction and 22 being rehabs. The average increases in tax base and property value by type of project can be seen in Figure 3.

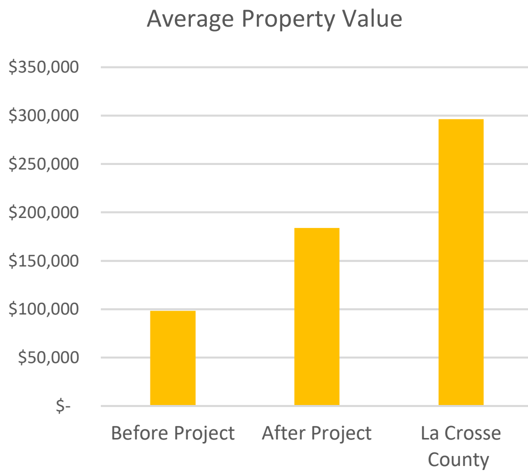
Figure 3: Rehabilitated vs Newly Constructed



Additionally, the average increase in value relative to the original property value was 210% for rehab projects.

In aggregate, the average property value before a Habitat for Humanity project was approximately $98,000. The average value after a project was $210,000. This is still well below the average property value of $296,000 in La Crosse County. Figure 4 visualizes this below.

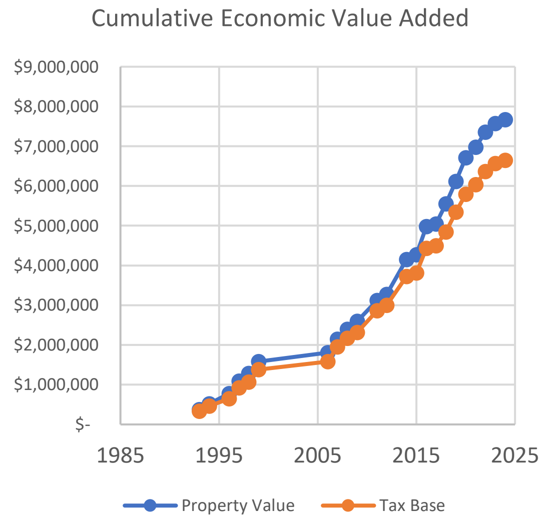
Figure 4: Habitat for Humanity Property Value Compared to La Crosse County Average



When compared with the average property value in the La Crosse area, the Habitat homes are modest. However, this disparity highlights the role Habitat for Humanity plays in ensuring that low-income households are provided accessible housing. Besides the individual financial gain from these projects such as home equity and increased net worth, these projects also strengthen the community. Healthy, affordable housing decreases the burden on social services such as warming shelters and public healthcare services. Another significant impact of these projects is the ability of the new homeowners to establish permanent roots in the community through homeownership as opposed to temporary renting. This means they gain a much larger stake in the well-being of the community.

The cumulative value added by Habitat for Humanity's projects over time further illustrates their lasting impact on both individual families and the broader community. Figure 5 highlights how these contributions have grown steadily, reinforcing Habitat's ongoing role in fostering economic stability and community development.

Figure 5: Cumulative Economic Value Added Since 1993



As demonstrated by the steady growth in cumulative value, Habitat for Humanity's efforts extend beyond individual projects to create lasting economic and social benefits. This underscores the role the organization plays in tackling the problem of decreasing housing affordability.

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BARRIERS OR BRIDGES: IMMIGRANT ENTREPRENEURSHIP IN WISCONSIN

NAINIL JARIWALA, MFI STUDENT SCHOLAR

Wisconsin's economic condition for immigrant entrepreneurs resembles a bridge under construction: the framework of ambition is evident, yet barriers like funding gaps and regulatory hurdles hinder completion. Bridging these gaps with tailored initiatives could unlock immense economic gains, opportunity and growth for all. This text describes the need to transform barriers into bridges to nurture ambition and mitigate alienation.

Key Evidence:

Immigrant-owned businesses generate $775 billion in revenue, employ 10% of the U.S. workforce, and have grown 60% in income over the last decade. In 2023, 44.8% of Fortune 500 companies had immigrant founders, collectively generating $8.6 trillion, surpassing the GDPs of Germany, Japan, and India. Wisconsin ranks 31st in immigrant business formation (1.2%), significantly behind states like Illinois (17.5%) and Michigan (high immigrant job creation rates). Approval rates for business financing in Wisconsin (35%) are lower than the national average (37%), further restricting immigrant entrepreneurs' access to capital.

Policy Recommendations:

1. Establish Immigrant-Focused Business Accelerators
   - Modeled after the Welcoming Center for New Pennsylvanians, which increased five-year business survival rates by 20% and accelerated revenue growth by 1.5x.
2. Implement State-Funded Entrepreneurship Grants
   - Inspired by Michigan's Global Detroit Initiative, which led to a 15% increase in immigrant businesses and 2,000+ new jobs in three years.
3. Expand Microloan Programs for Immigrant Entrepreneurs
   - Wisconsin can replicate Massachusetts Growth Capital Corporation, which increased financing approval rates by 12% and supported 1,000+ jobs.
4. Streamline Licensing for Foreign-Trained Professionals
   - Modeled after Minnesota's International Medical Graduate (IMG) Assistance Program, which facilitated the integration of immigrant healthcare professionals.
5. Advocate for a Federal Entrepreneur Visa Reform
   - The lack of a dedicated entrepreneur visa in the U.S. restricts immigrant founders. Canada's Start-Up Visa offers a model for more effective policies.

Economic Impact of Immigrant Entrepreneurship in the United States

Immigrant-owned businesses have consistently outpaced native-born counterparts in terms of startup rates and economic influence.

In 2011, immigrants formed 550 businesses monthly per 100,000 people, nearly double the rate of native-born Americans, despite comprising only 12.9% of the population. Immigrant-owned businesses

generate $775 billion in revenue, $125 billion in payroll, and $100 billion in income. This employs 10% of U.S. workers. Over the past decade, their income grew by 60%, far outpacing the 14% growth of native business owners. These statistics highlight the entrepreneurial spirit within immigrant communities and their capacity to drive economic activity.

Immigrants have shown a strong presence in some of the fastest-growing industries in the U.S. Between 2007 and 2011, over 25% of businesses in seven out of eight of these fastest-growing industries were immigrant-owned. Notably, they established a strong presence in sectors such as transportation, food-related services, and building services. This underscores their role not only in stabilizing traditional sectors but also in advancing emerging industries.

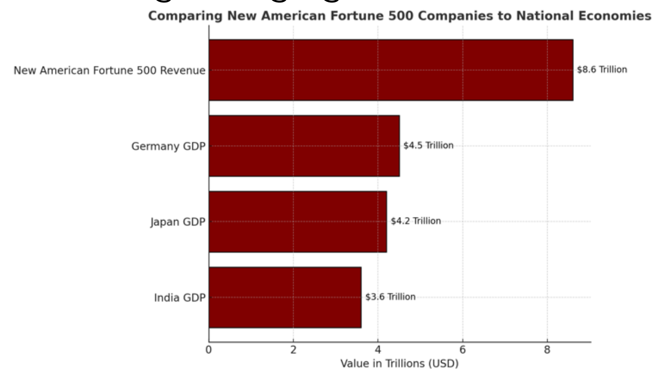


Figure 1: Compares New American Fortune 500 Companies with National Economics.

Figure 1 shows that the revenue generated by New American Fortune 500 companies (one formed, owned, or ran by first- or second-generation immigrants) exceeds the GDP of many major global economies. In 2023, the Fortune 500's combined revenue of $8.6 trillion surpassed the GDPs of countries like Germany ($4.5 trillion), Japan ($4.2 trillion), and India ($3.6 trillion). This comparison emphasizes the economic magnitude of corporate activity in the U.S., driven in no small part by immigrant contributions.

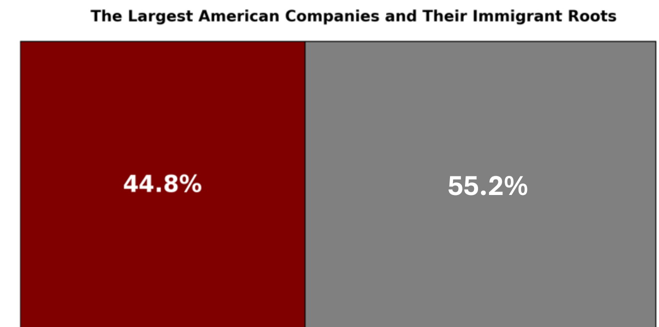


Figure 2: New American Fortune 500 in 2023: The Largest American Companies and Their Immigrant Roots," reveals that an impressive 44.8% of Fortune 500 companies in 2023, equating to 224 companies, were founded by immigrants or their children.

It may be surprising to know that Wisconsin's corporate landscape has entrepreneurial contributions of both immigrants and native-born Americans. Companies like Manpower Group, Kohl's, American Family Insurance Group, and Oshkosh, all shaded in deep maroon in Figure 2, owe their inception or leadership to the vision of immigrants or second-generation immigrants. Together with native-born counterparts (shaded in grey), these firms highlight the diverse roots fueling Wisconsin's business success and serve as a reminder of the shared aspirations driving economic growth across generations.

The map in Figure 3 illustrates the business formation rate of immigrants across the United States, highlighting significant variations between states. California leads with an exceptionally high rate of 27.80%, followed by New York at 10.70%and Texas at 10.50%, reflecting strong immigrant entrepreneurial activity in these states. Florida's rate is 11.80%, placing it among the high-rate states

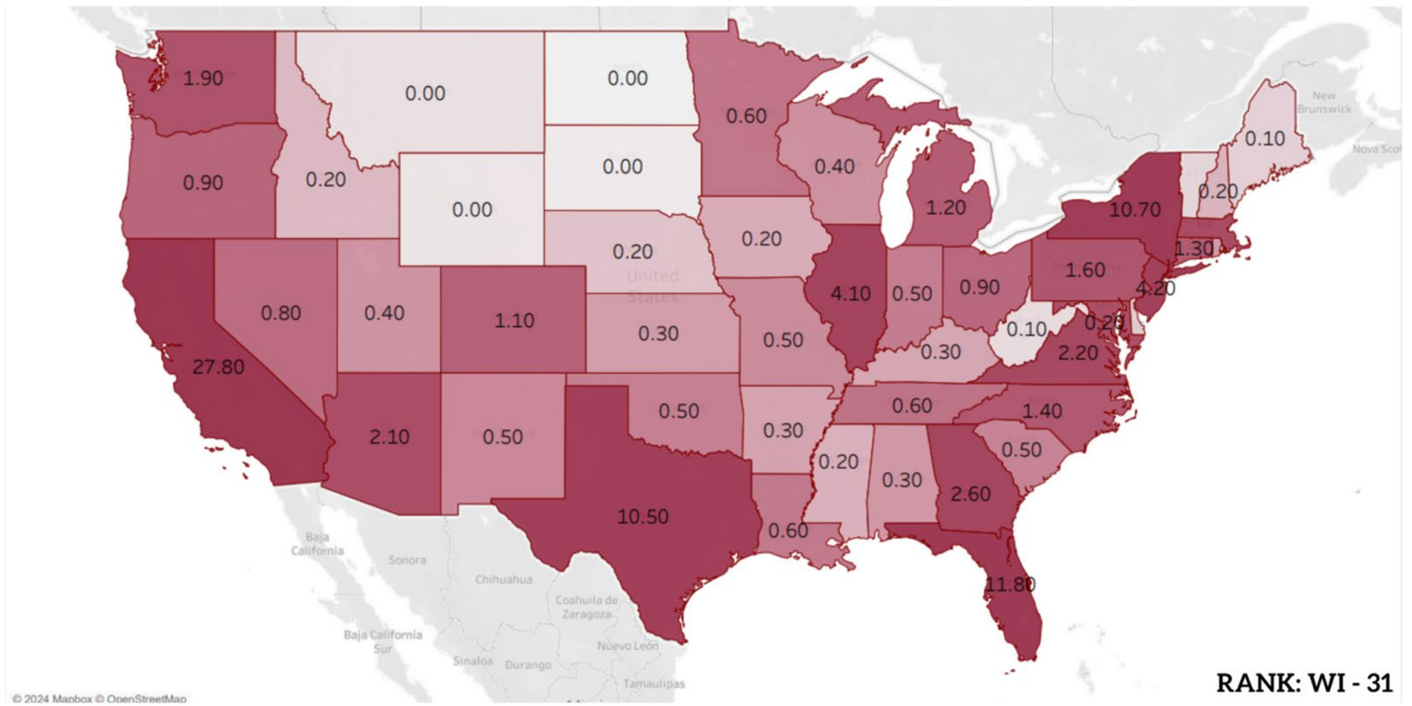


Figure 3: This figure highlights the business formation rate of immigrants within a specific state, relative to the total immigrant population in that state.

rather than in the moderate range. Meanwhile, states like New Jersey (4.20%), Illinois (4.10%), and Georgia (2.60%) exhibit moderate formation rates. In contrast, several central and Midwest

states, such as Wyoming (0.00%), North Dakota (0.00%), and South Dakota (0.00%), exhibit negligible immigrant business formation. Nebraska's rate is 0.20%. Wisconsin ranks 31st with a rate of 0.40%, lower than Michigan's 1.20%, underscoring its relatively low activity in this domain. The disparities in immigrant business formation rates across states may be attributed to factors such as economic opportunities, local policies, and community support systems for immigrants.

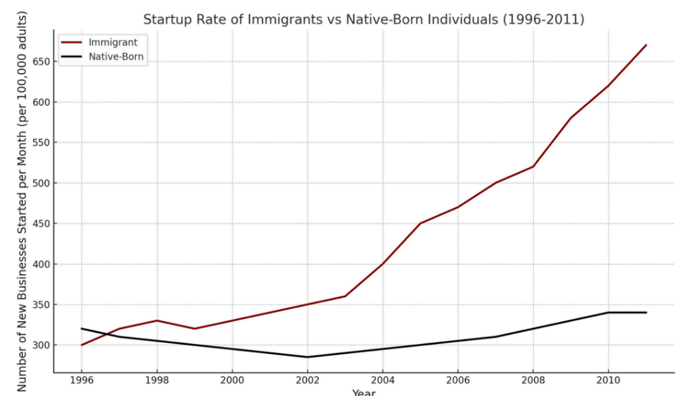


Figure 4: Startup rates of immigrants vs. native-born individuals (1996–2011), highlighting a sharp rise in immigrant entrepreneurship compared to steady native-born rates.

Figure 4 shows that for the US, immigrant entrepreneurs consistently outpaced native-born individuals in business creation from 1996 to 2011, as shown in Figure 4. The startup rate among immigrants grew exponentially, reaching

over 650 startups per 100,000 adults by 2011, while the rate for native-born individuals remained relatively stagnant, hovering below 350.

Suggestion for Improvement

Establish immigrant-focused business accelerators, inspired by the *Welcoming Center for New Pennsylvanians*. These initiatives can be funded not only by the government but also through private sector investments and non-profits, ensuring sustainable support for immigrant entrepreneurs. A Kauffman Foundation Research Report (2017) revealed that businesses supported by such programs had a 20% higher survival rate over five years compared to those without support. Additionally, immigrant entrepreneurs participating in accelerators experienced revenue growth 1.5 times faster on average, reflecting the impact of tailored resources such as mentorship, legal guidance, and access to funding networks.

Immigrant Entrepreneurship in the Midwest: Challenges, Opportunities, and Policy Recommendations

Across the United States, immigrant entrepreneurs have consistently demonstrated higher business formation rates than their native-born counterparts. However, these rates vary significantly across states, reflecting differing economic environments, policies, and community support structures. Wisconsin's entrepreneurial landscape follows these national trends, but with lower formation rates compared to neighboring Midwest states.

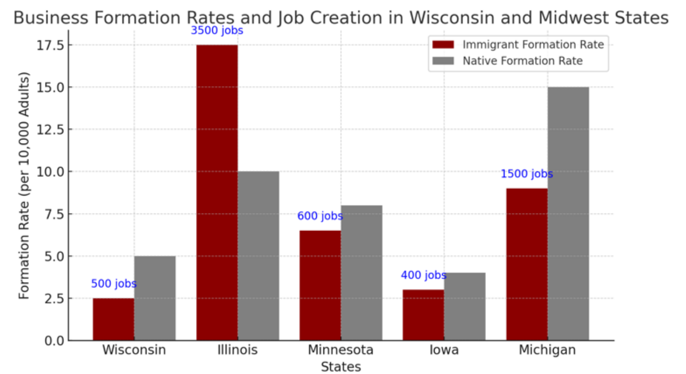


Figure 5: Business formation rates and job creation in Wisconsin and Midwest states, showing higher immigrant formation rates in Illinois and Michigan, contributing significantly to job creation.

The graph in Figure 5 highlights significant disparities in business formation rates and job creation between immigrants and native-born individuals across Midwest states. For example, Illinois exhibits the highest immigrant formation rate at 17.5 per 10,000 adults, while Wisconsin remains below 3.0 per 10,000 adults. This disparity is reflected in job creation, with Illinois generating 3,500 jobs through immigrant-owned businesses, compared to Wisconsin's 500 jobs.

If Wisconsin's immigrant business formation rate were to match that of native-born individuals, it would more than double, potentially leading to the creation of an additional 500 jobs. Further, if Wisconsin's rate aligned with Michigan's, it could result in up to 1,000 new jobs. These estimates underscore the potential economic impact of fostering immigrant entrepreneurship in the state.

Suggestion for Improvement

Implement state-funded entrepreneurship grants for immigrants, similar to Michigan's *Global Detroit Initiative*. This program, which contributed to a 15% rise in immigrant-owned businesses and over 2,000 jobs

within three years, can allow similar growth in underperforming states like Wisconsin (*Global Detroit Report, 2020*).

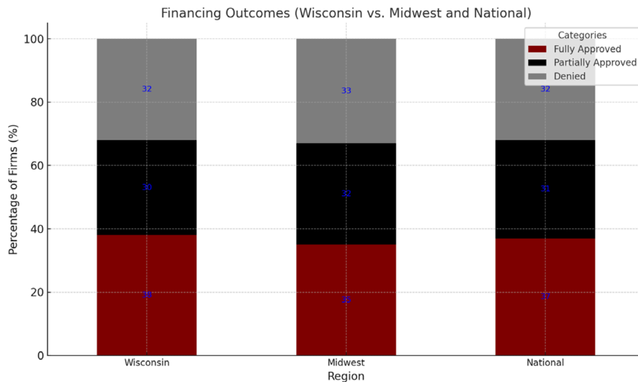


Figure 6: Financing outcomes for firms in Wisconsin, Midwest, and nationally, comparing approval rates, with Wisconsin showing slightly lower full approval percentages.

The chart in Figure 6 shows financing outcomes for firms in Wisconsin, the Midwest, and nationally. Fully approved financing rates in Wisconsin are 35%, slightly below the national rate of 37%. Denied applications remain consistent across all regions at 32%. Wisconsin's partially approved rate is 30%, marginally lower than the Midwest average of 32%.

Suggestion for Improvement

Establish state-backed microloan programs, as seen in *Massachusetts Growth Capital Corporation*, which increased approval rates by 12% for minority-owned firms and added over 1,000 jobs in two years (*MGCC Annual Report, 2020*).

The Motels by Patel Case

The significant presence of Indian-American motel owners in the United States, particularly within the hospitality industry, is a notable phenomenon. As of 2012, Indian-Americans owned over 50% of motels nationwide, with a substantial number belonging to the Gujarati community, especially the Patel subgroup.

This trend began in the 1940s and 1950s when Indian immigrants, facing limited employment opportunities due to discrimination and lack of recognition of foreign qualifications, turned to entrepreneurship.

Many of these entrepreneurs relied on community networks for financing. They often pooled resources through informal lending circles known as "chit funds" or "rotating credit associations." This communal support was crucial, especially for those lacking formal legal status or access to traditional financial institutions. As of 2010, the combined annual revenue of Indian-American-owned hotels exceeded $40 billion, providing over 600,000 jobs nationwide.

However, the lack of a formal framework to support these immigrant entrepreneurs has posed challenges, including difficulties in securing financing, navigating legal complexities, and

accessing business development resources.

Institutional Barriers

Immigrant entrepreneurs in Wisconsin face institutional barriers that limit business growth, particularly in access to funding, regulatory complexity, and licensing restrictions. Loan approval rates for immigrants are lower than both non-immigrants in Wisconsin and the broader Midwest average, making it difficult to secure capital. Additionally, high startup costs, strict grant eligibility, and unfamiliarity with regulatory systems further restrict business formation. Many skilled immigrants also face credential recognition issues, preventing them from entering regulated fields like healthcare despite labor shortages.

Another major barrier is the lack of a dedicated U.S. entrepreneur visa, forcing immigrant founders to navigate restrictive alternatives like the H-1B (which requires employer sponsorship) or the EB-5 (which demands $1.05 million in investment). The International Entrepreneur Rule (IER) offers temporary residency but no path to permanent status, discouraging long-term business investment. State-backed microloan programs, licensing reforms, and private-sector initiatives could help bridge these gaps and enable Wisconsin's immigrant entrepreneurs to fully contribute to economic growth.

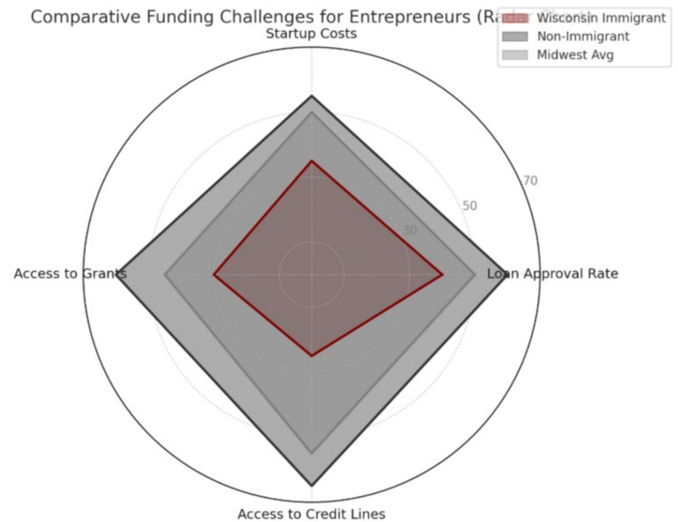
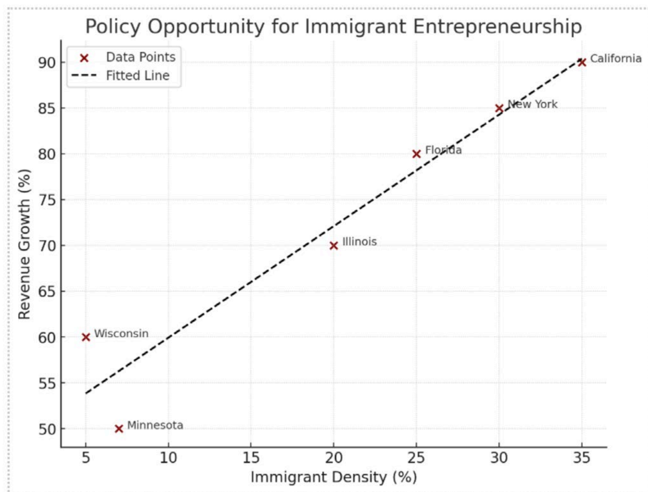


Figure 7: Comparative funding challenges for entrepreneurs in Wisconsin, highlighting differences in startup costs, loan approval rates, access to credit lines, and grants between immigrants, non-immigrants, and Midwest averages.

Figure 7 highlights the financial disparities between Wisconsin immigrant entrepreneurs, non-immigrant entrepreneurs, and the Midwest average in terms of loan approvals, credit access, grants, and startup costs. Immigrants in Wisconsin face lower loan approval rates and reduced access to credit lines and grants, limiting their ability to secure capital.

While startup costs are similar across groups, the lack of financing options creates a major barrier for immigrant business growth. Compared to the Midwest average, Wisconsin provides less financial support to immigrant entrepreneurs. Expanding microloan programs, improving grant accessibility, and alternative lending solutions could help close this gap and support economic growth.



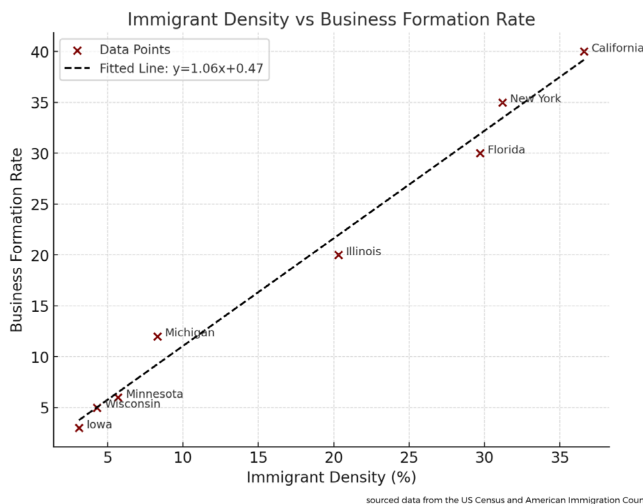


Figure 8: Figure: Immigrant density & Revenue Growth vs. business formation rate across states

Figure 8 (a) shows a strong positive correlation between immigrant density and revenue growth, indicating that states with a higher percentage of immigrants tend to experience greater economic expansion. Wisconsin lags behind states like California, New York, and Florida, suggesting that limited immigrant business activity may be restricting overall revenue growth.
Figure 8 (b) further reinforces this trend, illustrating that immigrant density is directly linked to business formation rates. Wisconsin, with one of the lowest immigrant densities, also shows a significantly lower business formation rate compared to states with a higher immigrant presence. These figures emphasize the economic potential of immigrant entrepreneurship, highlighting that reducing financial and regulatory barriers could stimulate business creation and drive higher economic growth in Wisconsin.

Below is a discussion of some of the barriers that immigrant entrepreneurs face, as well as options that adopted from other states or countries to reduce these barriers.

Barrier 1: The Wisconsin Economic Development Corporation (WEDC) funding programs often overlook immigrant entrepreneurs, particularly due to language barriers and complex application processes.

Current Solutions in Other States:

- California's IBank Loan Guarantee, which improved business success rates.
- Massachusetts' targeted grants increased immigrant business creation by 18% within 3 years.

Hypothetical Impact for Wisconsin

- If 1,000 immigrant entrepreneurs received $20,000 microloans:
  - It would translate into $20 million in business investments.
  - With a 1.5 economic multiplier, this could result in $30 million in economic activity, including job creation and tax revenue generation.

Comparative Benchmark

- Wisconsin lacks immigrant-specific loan programs. Illinois, by contrast,

implemented programs like Advancing Equity in Entrepreneurship, which achieved a 12% increase in immigrant business ownership.

Barrier 2: Healthcare Licensing

- Immigrants face complex licensing and documentation requirements, which significantly deter entrepreneurial efforts in sectors that require certifications, such as healthcare.
- Key Statistics on Immigrants in Healthcare
  - Immigrants constitute 18.2% of U.S. healthcare workers, including:
    - 28% of physicians.
    - 24% of dentists.
  - This is notable given that immigrants make up 13.6% of the U.S. population.
- Example of Success
  - Minnesota's International Medical Graduate (IMG) Assistance Program:
    - Streamlines the licensing process for foreign-trained physicians, serving as a model for addressing similar challenges in other states.

Outdated Alienating Federal Laws

No Dedicated Entrepreneur Visa

- The U.S. lacks a specific visa for immigrant entrepreneurs.
- Current visa options are restrictive:
  - H-1B excludes self-employment.
  - EB-5 Visa requires:
    - A minimum investment of $1.05 million (or $800,000 in certain areas).
    - The creation of at least 10 jobs for U.S. natives, which is unattainable for many startups.
  - Alternatives like F-1, CPT, and OPT do not support self-employment.

Temporary Rule with Limitations

- The International Entrepreneurial Rule (IER):
  - Provides temporary residency for 2.5 years (with a possible extension of 5 years).
  - Requires:
    - Entrepreneurs to own at least 10% of the startup.
    - Startups to secure $250,000 in U.S. investor funding or $100,000 in government grants.
  - Offers no pathway to permanent residency, causing long-term uncertainty.

High Costs and Complex Processes

- U.S. immigration involves multiple agencies (USCIS, DOS, DHS) leading to:
  - Lengthy processing times.
  - High legal and application costs, such as:
    - $460 for H-1B visas.
    - $2,500 for premium processing.
    - $3,000–$7,000 in legal fees.
- The fragmented nature of the U.S. system contrasts with:
  - Canada's Start-Up Visa, which simplifies the process with a single application.

Policy Implications

The absence of a robust entrepreneur visa in the U.S. discourages talented foreign entrepreneurs. Streamlined programs like Canada's Start-Up Visa could serve as a model for reform, enabling the U.S. to retain and attract global entrepreneurial talent. Addressing these barriers is critical to fostering innovation and job creation.

Conclusion

In conclusion, immigrant entrepreneurs play a crucial role in both the U.S. and Wisconsin's economic landscapes, driving innovation, creating jobs, and contributing significantly to revenue. However, they face barriers like limited access to funding, complex licensing, and inadequate policy support. Bridging these gaps through targeted programs, streamlined regulations, and inclusive policies can unlock their full potential. By addressing these challenges, Wisconsin can position itself as a leader in embracing immigrant ambition.

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This report leverages Machine Learning (ML) and Artificial Intelligence (AI) for extrapolation and assistant

TARIFFS AND ENTREPRENEURIAL ACTIVITY – A DOUBLE-EDGED SWORD

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Entrepreneurship is a vital force for economic progress, driving innovation, enhancing competitiveness, and generating employment. Yet, the choice to start or expand a business rarely occurs in isolation. Macroeconomic conditions such as economic growth rates, interest rates, and trade policies among others exert powerful influences on whether individuals pursue entrepreneurial ventures. Among these forces, tariffs play a pivotal role in shaping market opportunities and constraints. Tariffs are taxes imposed by governments on goods crossing borders, most commonly on imports but sometimes on exports. Import tariffs are used to protect domestic industries or regulate trade, while export tariffs are less common and may be applied to control supply, encourage domestic processing, or raise government revenue. These tariffs are collected by the government, and the cost is typically borne by importers, who may pass it on to consumers through higher prices. Historically, governments have employed tariffs to protect fledgling industries, generate revenue, or respond to perceived trade imbalances. Despite these rationales, tariffs can either stimulate or suppress entrepreneurial activity. In certain contexts, they may provide nascent businesses with a buffer against formidable foreign competition. In others, they raise costs for essential inputs, restrict global market access, and lead to unproductive lobbying or "rent-seeking." Finding a policy balance that preserves a dynamic entrepreneurial ecosystem without sacrificing legitimate protective interests is a formidable challenge. This essay examines how tariffs intersect with broader macroeconomic conditions to influence entrepreneurial behavior.

Macroeconomic Conditions and Their Influence on Entrepreneurship

Robust economic growth typically encourages entrepreneurial activity, as higher consumer spending and increased business confidence open new market niches. In contrast, during economic downturns, constrained credit markets and lower disposable income tends to dampen entrepreneurial enthusiasm. Such conditions may lead individuals to start necessity-driven ventures, small-scale businesses founded due to a lack of other viable income options, rather than opportunity-driven ventures that address genuine market gaps. While necessity-based enterprises can provide livelihoods, they often struggle to scale or contribute substantially to long-term economic innovation. Inflation and interest rates also play a significant role in shaping entrepreneurial behavior. Moderate inflation paired with low interest rates can provide a stable backdrop for borrowing, making it easier for entrepreneurs to fund startups and expansions. High inflation, on the other hand, raises costs for raw materials and labor, squeezing profit margins. Similarly, high interest rates push

up the cost of capital, restricting entrepreneurs' access to the funds they need. In such conditions, businesses that require significant upfront investment are hit particularly hard, often curbing their growth potential.

Government fiscal policy, encompassing taxes, subsidies, and public spending also shapes the risk-reward calculus for entrepreneurs. Excessive taxation can stifle new business creation by reducing net returns. However, targeted tax incentives (e.g., R&D credits, and startup grants among others) can stimulate innovative activities. In many emerging economies, limited tax bases lead governments to rely on tariffs as a complementary revenue source. These revenues can be funneled into infrastructure, small-business loans, or vocational training, all of which can indirectly support entrepreneurship if managed effectively. Labor market conditions can also heavily influence the feasibility of new ventures. Flexible labor policies that allow for easier hiring and firing lower the risks associated with expansion, making entrepreneurs more confident about adjusting their workforces as needed. Rigid labor markets, marked by stringent hiring regulations, high minimum wages relative to productivity, or complex firing procedures, can dissuade small-scale entrepreneurial efforts, as the costs of non-compliance or restructuring become prohibitive. Finally, trade policies such as tariffs, quotas, export subsidies, and non-tariff barriers, collectively determine the accessibility of foreign markets and inputs.

The Influence of Tariffs on Entrepreneurship

Tariffs increase the cost of imported goods, thereby reshaping the competitive landscape. In principle, raising import prices can protect local enterprises from overwhelming foreign competition. However, in a world of complex supply chains, tariffs also increase production costs for businesses reliant on imported inputs. On the domestic front, tariffs can carve out a more secure space for local producers. Yet if these measures lead to retaliatory tariffs abroad, exporting entrepreneurs lose access to crucial international markets. Such reciprocal actions undermine an essential driver of entrepreneurial growth: scalability. The threat from tariffs is indeed real. For example, in February 2025, President Donald Trump announced a 25% tariff on all steel and aluminum imports to the United States, aiming to boost domestic production. In response, China imposed retaliatory tariffs on $14 billion worth of U.S. goods, including liquefied natural gas, coal, crude oil, farm equipment, and automotive goods. This serves a classic example of retaliatory tariffs.

The interplay between tariffs and other policy instruments is also critical. If a government provides tax breaks or public grants to entrepreneurs in a particular sector while imposing tariffs on competing foreign goods, local businesses might gain temporary advantages. Conversely, if monetary policy tightens (raising interest rates) while tariffs elevate input costs, entrepreneurs face a double burden: higher financing costs and costlier supplies. There have been several instances where countries have simultaneously faced elevated tariffs and tightened monetary policies, leading to increased costs for businesses and entrepreneurs. For example, in 2018, the United States imposed tariffs on steel and aluminum imports from Turkey, which led to increased costs for Turkish businesses reliant on these materials. At the same time, Turkey was experiencing a currency crisis, prompting its central bank to raise

interest rates to combat inflation. This combination resulted in higher input costs due to tariffs and increased financing costs from elevated interest rates, placing significant financial strain on Turkish entrepreneurs. Careful coordination among fiscal, monetary, and trade authorities is thus paramount to ensure that tariffs do not undermine broader economic stability. Shifting tariff policies can also complicate strategic planning for entrepreneurs, who often commit large sums of capital with expectations of stable or predictable market conditions.

Under volatile tariff scenarios, risk-averse entrepreneurs might delay key decisions, such as product launches or market expansions, thereby stalling broader economic dynamism. Tariffs can also tip the balance between opportunity-driven and necessity-driven entrepreneurship. If elevated tariffs erode market efficiency or raise costs, high-potential ventures may fold, leaving only small-scale efforts aimed at local, low-margin niches. Over time, this scenario erodes an economy's capacity for high-value innovation, signaling a transition to subsistence-level entrepreneurship rather than catalytic, growth-oriented enterprises.

Positive Influences of Tariffs on Entrepreneurship

One of the most cited advantages of tariffs is their capacity to protect infant industries. By taxing competitive imports, governments offer local entrepreneurs a safer space to establish themselves. This approach is particularly relevant in emerging economies, where domestic firms face stiff challenges from established global players. Temporarily insulating these local businesses can allow them to build economies of scale, refine processes, and accumulate the skills needed to compete effectively in the future. Tariffs can also incentivize entrepreneurs to source inputs domestically, fostering the growth of local supply chains. If imported components become prohibitively expensive, businesses might invest in domestic manufacturing or collaborate with local suppliers to fill the gap. Such inter-firm networking can lead to knowledge spillovers and potentially strengthen entire sectors.

Tariffs also remain a significant source of public revenue in many developing countries. If directed wisely, these funds can support small-business loans, entrepreneurship training, or infrastructural improvements, factors that lower barriers to market entry. Although the efficacy of this approach depends on good governance, there is potential to turn tariff revenue into an engine for broader enterprise development. Targeted reinvestment in technology parks, incubators, and R&D programs can help entrepreneurs absorb the costs of production while maintaining a competitive edge. Tariffs can serve as short-term solutions when external economic shocks, such as sudden price collapses or dumping by foreign competitors, threaten domestic producers. Rapidly imposed tariffs can keep local ventures afloat, buying time for restructuring or diversification. Such measures may preserve specialized skills and industrial capabilities that might otherwise disappear in a crisis.

Although tariffs limit foreign competition, they can amplify rivalry among domestic firms. In a relatively large market with high tariffs on imports, entrepreneurs may collectively vie for market share that imported products can no longer claim. This can spur local R&D efforts, marketing

innovations, and competitive pricing strategies. If the protected market is sizeable enough, the resulting domestic competition can lead to quality improvements and productivity gains, creating a springboard for potential export ventures once tariffs are phased out.

Negative Consequences of Tariffs

Tariffs can also have a negative impact on overall entrepreneurship. A central criticism of tariffs is that they inflate the cost of imported inputs. Many entrepreneurs rely on identifying the most economical source of inputs (e.g. machinery, raw materials etc.) which in many cases happens to be sourced internationally. When tariffs substantially increase input expenses, margins shrink, and entrepreneurs have less room to invest in research, talent, or scaling. Further, tariff impositions by one country often provoke retaliatory measures by its trade partners. Domestic firms that rely on exports subsequently face foreign tariffs, reducing their competitiveness abroad. For entrepreneurs with narrow domestic markets, the inability to scale internationally can be crippling. This diminished export capacity saps the growth potential of an economy, leading many high-potential ventures to remain small or pivot to alternative sectors.

Protectionist environments sometimes encourage businesses to seek preferential treatment from regulators instead of competing through innovation or efficiency. Over time, this stifles the competitive dynamics that drive entrepreneurship. Modern economic theory stresses the importance of specialization and economies of scale for business growth. Tariffs often distort these processes by incentivizing entrepreneurs to invest in protected sectors where the country may lack genuine comparative advantage. The outcome is frequently a fragmented market of producers reliant on policy insulation, unprepared for the rigorous demands of international competition. Tariff regimes, especially when altered by shifting political priorities, breed unpredictability. Entrepreneurs facing unclear or rapidly changing trade policies may delay or reduce investments, uncertain whether their chosen business model will remain profitable. Over time, investors and innovators may gravitate toward more predictable jurisdictions.

Balancing Tariffs: Toward a Nuanced Policy Approach

Policymakers can reconcile the need for economic protection with entrepreneurial dynamism by applying targeted tariffs for specific periods. Infant industries, those with strong potential but limited resources to withstand immediate global competition, may benefit from carefully structured tariff barriers. The government should, however, pair these tariffs with concrete performance benchmarks and sunset provisions so they do not transform into perpetual crutches that encourage complacency. Even where tariffs are warranted, complementary policies can mitigate their adverse effects. These might include policies such as subsidies for Research and Development, supporting entrepreneurs in protected sectors to enhance product quality and innovation capacities. Alternatively support for business incubators and infrastructure through tariff revenues to upgrade infrastructure (e.g. roads and telecommunications among others) can also help reduce overall operational costs. Such policies aim to build a robust entrepreneurial ecosystem rather than relying solely on elevated import prices to shield domestic businesses.

Regional trade agreements can also be crafted to lower or eliminate tariffs within a bloc while maintaining external protection. This strategy gives entrepreneurs in member states a broader, integrated market, helping them reach economies of scale. Nevertheless, entrepreneurs engaged in global value chains may still face hurdles if external tariffs remain steep. Policymakers must also remain alert to the risk of creating rigid trading blocs that distort larger global trade flows. Rent-seeking is a persistent threat in protectionist environments. Governments can counter it by setting transparent criteria for tariff eligibility and tying ongoing protection to measurable improvements in cost competitiveness or export readiness. Independent audits, public reporting, and stakeholder engagement can all help ensure that tariff protection does not devolve into industry lobbying contests. By emphasizing innovation and productivity gains, policymakers can steer businesses to compete on genuine value creation.

Conclusion

In sum, tariffs are neither unequivocally detrimental nor universally beneficial for entrepreneurship. They can safeguard emerging ventures, stimulate domestic supply chain creation, and raise government revenue for targeted entrepreneurial support. At the same time, they risk hiking input costs, triggering retaliatory barriers, and encouraging rent-seeking. Striking the right balance demands nuanced policymaking that acknowledges sector-specific realities and prioritizes open, competitive markets over the long run. For entrepreneurs, this means adapting to a fluid landscape where tariff-related uncertainties coexist with potential opportunities, requiring strategies that are simultaneously innovative, cost-conscious, and agile enough to cope with evolving trade conditions.

NIMBYISM AND ZONING COMPLEXITY IN WISCONSIN

NICHOLAS MCFADEN, MFI RESEARCHER

Introduction

Housing affordability is one of the most pressing economic challenges facing Wisconsin today. According to a report by the Wisconsin Policy Forum, over 45 percent of Wisconsin renters were rent-burdened in 2022, meaning they spent more than 30 percent of their income on rent (Wisconsin Policy Forum, 2024). Figure 1 illustrates Wisconsin's price-to-income ratio over time, calculated as the state's median home price divided by its median income (U.S. Census Bureau, *Median Household Income*, n.d.; Wisconsin REALTORS® Association, n.d.). As can be seen, Wisconsin's price-to-income ratio is significantly higher than it was ten years ago. While the state does perform better than the national average in terms of its price-to-income ratio and rent burden, affordability concerns remain a significant barrier to economic opportunity and quality of life in the Badger State.

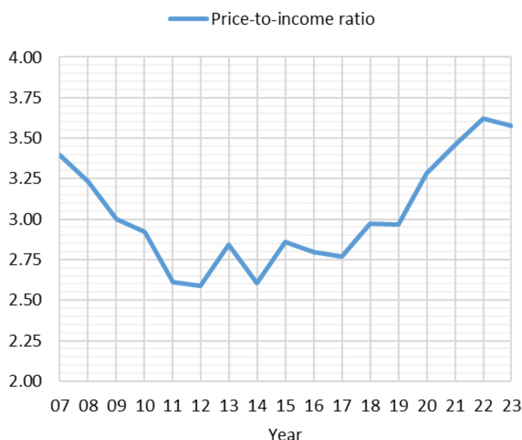

Figure 1: Price-to-income ratios, Wisconsin

This financial strain extends beyond individuals—it has broader implications for the state's economic vitality. High housing costs limit where people can afford to live, restricting workforce mobility and discouraging businesses from expanding in Wisconsin. Young professionals and families are increasingly priced out of desirable areas, leading to longer commutes, reduced economic mobility, and even outward migration. To remain competitive and attract new residents, Wisconsin cannot afford complacency in addressing its housing challenges.

These affordability issues are not the result of market forces alone. Instead, they stem largely from flawed policy decisions at the local level. Restrictive and overly complex zoning laws have constrained housing supply, driving up costs and limiting development. While state lawmakers have recently enacted reforms, more reform is needed to meaningfully expand housing supply and improve affordability.

This essay examines the root causes of Wisconsin's housing affordability crisis by analyzing a recently assembled dataset on local housing regulations. It explores the specific policies that have contributed to rising costs and proposes targeted reforms. By addressing the state's barriers to housing development, Wisconsin policymakers can create a more competitive and affordable housing market.

Housing Supply and Affordability

Basic economics suggests that when the supply of housing increases, all else equal, home and rent prices will fall. While demand for housing may be overstimulated by policies like the

mortgage interest deduction, government-backed mortgage programs, and subsidies, economists generally agree that supply-side constraints are the dominant explanation for increasing unaffordability in the housing market. Wisconsin is failing to build enough units to satisfy demand and slow the rate of increase in housing prices. As shown in Figure 2, the number of new housing units permitted each year per 1,000 residents in Wisconsin is well below its pre-2008 peak (U.S. Census Bureau, *Building Permits Survey*, n.d.)

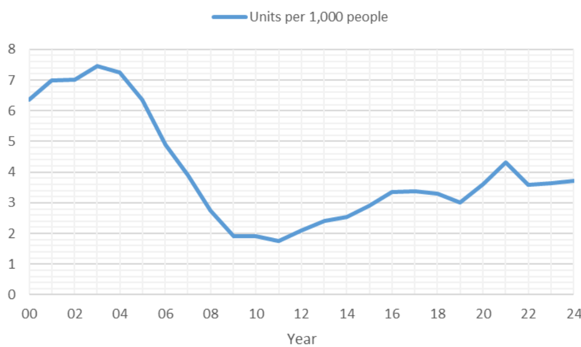

Figure 2: New housing units per 1,000 residents, Wisconsin

A recent empirical analysis of this phenomenon finds that a one percent increase in housing supply reduces average rents by 0.19 percent (Mense, 2025). The author also finds that for each new unit built, four second-hand units enter the market. This supply-side spillover effect of new units is consistent with the literature on the "filtering" process in the housing market in which new units free up and reduce the price of older units (Been, Ellen, & O'Regan, 2019).

There are three primary explanations for the insufficient supply of housing that is persistent throughout most of the United States: Construction costs, geographic limitations, and government regulation.

A review of the housing economics literature by Gyourko and Molloy (2015) explores the research on these three housing supply constraints. They find that, while real housing prices increased dramatically from 1980 to 2015, real construction costs stagnated. Figure 3 displays the producer price index for residential construction in the United States, which measures the change over time in the average prices that builders and contractors pay for materials, labor, and other inputs used in housing production. As can be seen, this measure increased dramatically from 2020 to 2021 but has since leveled off (U.S. Bureau of Labor Statistics, n.d.).

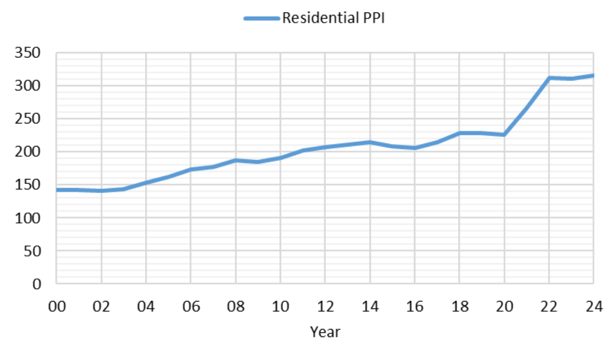

Figure 3: Residential construction producer price index, United States

Although higher construction costs may now play a bigger role in limiting housing supply, they can explain only part of the overall rise in home prices.

While the literature suggests that geographic constraints contribute to high housing prices, the impact of these limitations depends on government regulation over land use and density. If this were not the case, geographically constrained regions would likely allow for much denser development than they currently do (Glaeser & Gyourko, 2003).

Gyourko and Molloy find extensive empirical evidence showing that land use regulations significantly constrain housing supply and increase prices. For example, Glaeser, Gyourko, and Saks (2005) find that regulations account for significant portions of home prices in

highly regulated markets: 50 in San Francisco, 30 percent in Los Angeles, and 20 percent in Boston, for example.

Local governments regulate land use through zoning ordinances that dictate building types, height, density, lot size, and allowable uses. They may provide variances and conditional use permits, which allow projects to deviate from existing zoning regulations. Local governments also exhibit discretion through the development approval process. Public hearings, environmental impact assessments, and negotiations with developers often shape the outcome of housing development projects. In many cases, political considerations and community opposition often lead to projects being delayed, modified, or rejected, even if they comply with the zoning code.

While regulation directly limits housing supply, broad discretion at the hands of local governments leads to uncertainty for developers, which can increase risk and raise costs. According to a report by the Wisconsin Institute for Law and Liberty, zoning regulation and local government discretion add "approximately $88,500 to the average cost of each new-built home in the Midwest." The authors also surveyed Wisconsin developers and found that "the average development takes 14 months to even begin construction" with much of this delay being caused by "a tangled web of regulations where development can be stopped at every turn"(Diekemper, Koenen, & Flanders, 2022).

Given the significant impact of local government regulations on housing supply and prices, it is crucial to understand why communities impose such stringent land use controls.

NIMBYism and Zoning Complexity

Not in My Backyard (NIMBY) refers to a tendency for individuals to be in favor of or indifferent to new housing units or other forms of development in general, while opposing them in their own communities. According to a 2024 Morning Consult poll, "74 percent of respondents believe that the lack of affordable homes is a significant problem in the United States" (Torres, 2024). The same poll found that 78 percent of Americans consider it an important or top priority for Congress to pass bipartisan legislation to "increase the supply of affordable homes and help address high housing costs." Despite this broad agreement around housing affordability, most communities around the United States impose exclusionary zoning regulations that limit housing supply.

The Homevoter Hypothesis, developed by economist William Fischel, may help to explain this NIMBY phenomenon. Fischel argues that homeowners view their property as a significant financial investment (Fischel, 2001). Since basic economics suggests that increases in housing supply lead to lower home prices, homeowners have a significant financial incentive to participate in local politics to block new housing developments that would reduce the value of their homes.-Of course, a homeowner's preferences regarding new housing developments in their community may not be based on their impact on property values alone. Additional research has also emphasized the role of an individual's beliefs or preferences regarding the type of community he or she wishes to live in. (Brookman, Elmendorf, & Kalla 2024).

Mancur Olson's *Logic of Collective Action* explains that individuals in concentrated groups, who stand to gain substantial benefits, have stronger incentives and a

greater ability to organize and advocate for policies that serve their interests (Olson, 1965). These policies often impose widespread costs on the larger population, which has weaker incentives and faces greater difficulty in mobilizing, as the per-person cost is relatively small and the group is less organized. In the case of housing, when a community debates allowing a new multi-family housing development, the homeowners most directly affected by the project have the greatest stake and motivation to oppose it, while the broader community stands to gain only marginally on an individual level. The concentrated benefits accrue to current residents and homeowners who resist new developments. The broader costs, however, fall on those who are not yet homeowners or residents of the community, who face reduced housing availability and affordability. Empirical research has found that members of a community who participate in the public approval process for new developments are indeed unrepresentative of their community overall. Research by Einstein, Palmer, and Glick (2018; 2019) shows that older residents, white residents, male residents, and homeowners are disproportionately likely to participate in development meetings. Likewise, a majority of the residents participating in these meetings do so in opposition to new housing developments.

NIMBYism is not the only source of local policies that constrain housing supply. In many cases, communities who genuinely favor more housing may inadvertently create obstacles to new development by increasing the complexity of local housing regulation. This occurs when individuals and local interest groups use the local political system to extract value from profitable development projects (Hankinson, Magazinnik, & Weissman, 2024). This extracted value may come in the form of city fees, affordable housing mandates, union labor requirements, environmental standards, historical preservation, and more. There is empirical evidence to suggest that affordable housing mandates and other forms of inclusionary zoning policies can reduce housing supply by diminishing the returns from housing development (Means, Stringham, & Lopez, 2007; Li & Guo, 2021). While such policies benefit low-income renters and buyers, they limit the ability for filtering to occur in the housing market, resulting in higher prices being passed onto market-rate buyers and renters.

Addressing Wisconsin's housing affordability problem requires understanding which local policies are constraining housing supply throughout the state.

New Developments in housing research

A recent study by Bartik, Gupta, and Milo (2024) sheds new light on local zoning regulations throughout the country. Using a large language model (LLM) to interpret local statutes and administrative documents, the authors developed an index of housing regulations at the most local levels of incorporation, including cities, towns, and subdivisions.

Prior to this dataset, the best available index of local zoning regulations was the Wharton Residential Land Use Regulation Index (WRLURI), which was developed using surveys of local officials and community representatives (Gyourko, Hartley, & Krimmel, 2019). This survey-based method has several drawbacks compared to an LLM-based approach. Surveys are prone to respondent error, whereas an LLM-based model directly interprets publicly available statutes and documentation. As a result, Bartik et al. estimate that their data has a 96 percent accuracy rate for binary variables. A

survey-based method is also susceptible to non-response bias. In other words, if a local official or community representative fails to respond to the survey, the locality they represent will be excluded from the index. As a result, the WRLURI dataset contains only 2,844 observations – with some being incomplete due to non-response – while the Bartik et al. data includes 5,794 observations. This more comprehensive dataset allows for a more complete view of housing regulations nationwide.

Bartik et al. use principal component analysis to combine the various regulatory variables into just two principal components that capture the complexity of housing regulations at the local level. The first principal component (PC1) captures "regulatory complexity" which is associated with variables such as affordable housing mandates, public hearing requirements, and wait times for permit reviews. PC1 closely resembles the value extraction process described above. The second principal component (PC2) represents "exclusionary zoning" regulations which include variables such as minimum lot sizes, frontage requirements, multi-family housing restrictions, and density caps. PC2 is generally the result of NIMBY attitudes in local policymaking.

Bartik et al. produce several key insights about housing regulations in the United States. First, they find that most new housing development occurs in unincorporated areas, which are typically not subject to local zoning regulations as they exist outside of cities and towns. Second, they confirm that exclusionary zoning regulations restrict housing density and lead to higher home prices and rents. Together, these insights contribute to another conclusion of Bartik et al. that housing regulation tends to follow a monocentric pattern: They are least stringent near city centers but become more restrictive as the distance from the city center increases.

Taken together, their results suggest that complex housing policies in cities and restrictive zoning in suburban communities lead to high housing prices in these areas. In response, new development sprawls outward into unincorporated areas. Eventually, these unincorporated areas incorporate into towns, cities, or villages – in part for the purpose of imposing zoning regulations – and the process of sprawl continues. This pattern of sprawling development has occurred in Wisconsin, just as it has throughout the rest of the United States.

Zoning in Wisconsin

Using the data collected by Bartik. et al, Wisconsin's overall housing regulatory regime can be compared with the rest of the country. Population weights were applied to ensure state-level aggregates of regulatory variables were representative. Additionally, principal components one and two were normalized onto a zero to ten scale before population weights were applied.

Figure 4 shows each state's aggregate zoning complexity measure, with higher values representing less zoning complexity. The average state for this measure has a value of about 6.60. As can be seen, Wisconsin is just above the middle of the pack with a value of 6.60 and a rank of 18.

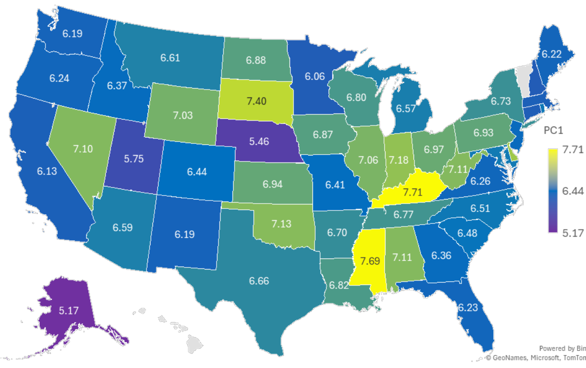

Figure 4: Zoning complexity by state

While Wisconsin may perform better than the median state on regulatory complexity overall, it performs worse on several key measures. Figure 5 compares Wisconsin to the rest of the Midwest and the US median state on three numerical measures of regulatory complexity.

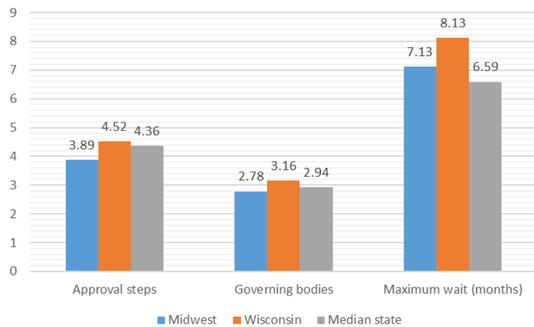

Figure 5: Measures of zoning complexity, the Midwest, Wisconsin, and the median state

On average, approval processes in Wisconsin localities involve 4.52 steps, whereas this number is 4.36 for the median state and 3.89 for the Midwest overall. Relative to the Midwest and the median state, Wisconsin's localities tend to have more distinct governing bodies or agencies that must give mandatory approval before a development project can begin. Wisconsin similarly stands out for its high maximum potential waiting time for government reviews of new multi-family housing developments. Wisconsin localities have an average waiting time of 252 days (around 8.13 months), significantly higher than that of both the Midwest overall (221 days or around 7.13 months) and the median state (204 days or around 6.59 months).

Figure 6 shows each state's exclusionary zoning measure, with higher values representing less exclusionary zoning. On this measure, Wisconsin is again performing slightly better than average with a value of 7.77 and a rank of 20.

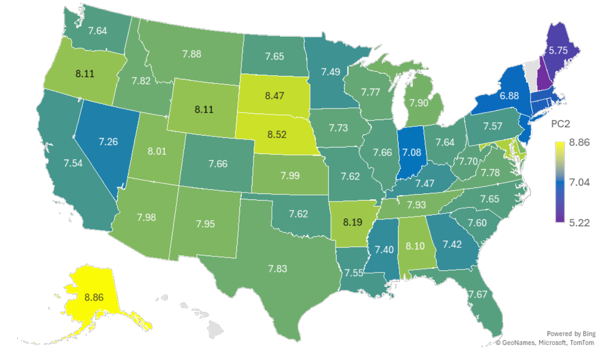

Figure 6: Exclusionary zoning by state

Again, Wisconsin outperforms the average state on this overall measure but falls short in several key indicators of exclusionary zoning. One such indicator is frontage requirements, which sets a minimum width for the front of a residential lot. Frontage requirements thus restrict the density of neighborhoods by limiting how many units can be built on a street. In Bartik et al., frontage requirements are incorporated into their overall measure of exclusionary zoning by identifying the largest frontage requirement for a single-family residential development in any district for each locality. Figure 7 shows that Wisconsin's frontage requirements tend to be higher

than those of the Midwest overall and the median state.

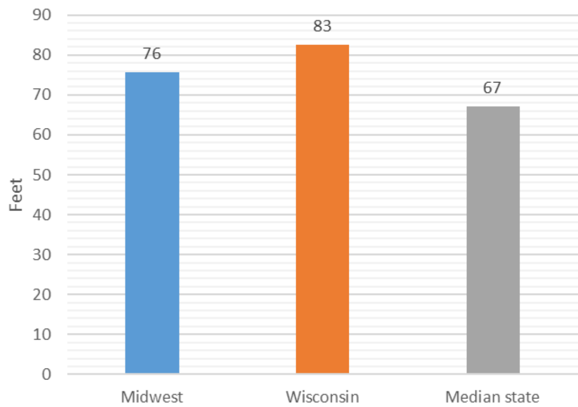

Figure 7: Frontage requirements, the Midwest, Wisconsin, and the median state

A similar type of exclusionary zoning policy is a minimum lot size requirement, which sets the minimum required area for a residential lot. Much like frontage requirements, minimum lot size requirements limit density in housing development. Bartik et al. use generative AI to determine the minimum lot size for single family homes in each residential district within a locality. Using this data, they calculate the smallest, largest, and average minimum lot size requirement across all districts of each locality. Figure 8 compares minimum lot size requirements for Wisconsin, the Midwest, and the median state.

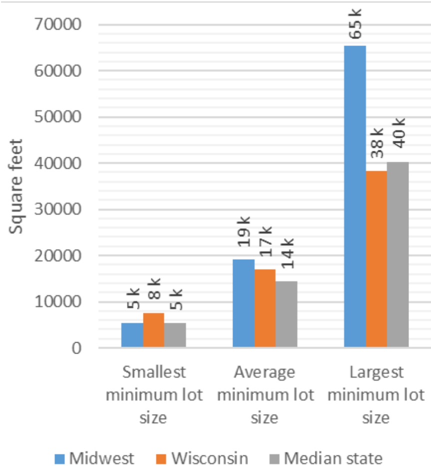

Figure 8: Minimum lot size requirements, the Midwest, Wisconsin, and the median state

Compared to the Midwest and the median state, Wisconsin performs better on its average locality's largest minimum lot size requirement. The figure shows that the largest minimum lot size requirement in a locality is lower on average in Wisconsin compared to that of the Midwest and the median state. Also, while Wisconsin's average minimum lot size requirement is lower than that of the Midwest overall, it is higher than that of the median state. However, Wisconsin performs worse than both the Midwest and the median state on its average locality's smallest minimum lot size. In other words, while Wisconsin's most restrictive minimum lot sizes tend to be lower than that of the Midwest and the median state, its least restrictive minimum lot sizes tend to be higher than those of the Midwest and the median state.

This may be in part due to Wisconsin's statewide default standards for minimum lot sizes. According to the Wisconsin Department of Administration, Wisconsin law establishes default minimum lot sizes of 6,000 square feet in counties with populations of 40,000 or more and 7,200 square feet in counties with fewer than 40,000 residents. While these minimum lot sizes can be reduced by local ordinances for lots served by public sewer systems, the default standards may set a higher floor for lot size requirements throughout Wisconsin compared to other states (Wisconsin Legislature, n.d.).

Bartik et al. also prompted the generative AI on numerous binary variables at the place/subdivision level, with "1" indicating an affirmative response and "0" indicating a negative response. Weighing each locality's response by population, multiplying the results by 100, and finding the average for each state aggregates these binary variables to the state level.

These values thus represent the prevalence of these policies for a given state. Table 1 displays several of these state-level variables for Wisconsin, the Midwest overall, and the median state.

Item	Midwest	Wisconsin	Median state
Age restrictions	57	64	50
Accessory dwelling units	34	21	50
Affordable housing mandates	24	13	33
Permits cap	12	3	19
Public hearing requirements	20	14	26
Multi-family conversions	20	6	18

Table 1: State-level zoning variables, the Midwest, Wisconsin, and the median state

Several insights can be derived from this table. First, we can see that age restrictions on housing developments – which are intended to ensure accessible and affordable housing options are available for senior residents – are more prevalent in Wisconsin compared to the Midwest and the median state. The greater prevalence of such provisions in Wisconsin may be in part due to the higher median age of the state's population (40 years) relative to that of the US overall (38.2 years). Affordable housing mandates are also less prevalent in Wisconsin's localities than in the rest of the Midwest and the median state.

Accessory dwelling units (ADUs) are small, independent residential units located on the same property as a single-family home. ADUs come in a variety of forms, such as backyard cottages, converted garages, or basements. When ADUs are allowed, they enable more dense development. In many localities, ADUs do not meet local zoning requirements and are thus prohibited. As Table 1 shows, local zoning codes that legalize the development of ADUs are less prevalent in Wisconsin relative to the Midwest and the Median state.

Some localities place caps on the number of new residential permits that can be issued annually or biannually. Other localities may have "phasing" policies, which are intended to make the development of housing units more gradual. Of course, these policies limit the supply of housing. Such policies are very uncommon in Wisconsin, despite being prevalent in the rest of the Midwest and the median state.

In many localities, public hearings must be conducted for new multi-family housing developments. As discussed previously, such requirements can create uncertainty and delay in the development process, resulting in higher costs for developers and lower supply. Such requirements are somewhat less common in Wisconsin than in the Midwest or the median state.

Some localities allow single-family homes or non-residential buildings to be converted into multi-family housing, either by-right or by special permit. Such conversions are a flexible means of increasing housing supply, particularly in cases where commercial buildings may otherwise go unused. Allowances for conversions are much less prevalent in Wisconsin than in the Midwest or the median state.
The above graphs and tables suggest several areas in which state and local policymakers in Wisconsin could pass legislation to address the state's housing affordability crisis.

Policy Solutions

To address its housing affordability crisis, Wisconsin should build on its recent successes and look to the successes of other states for guidance.

In June 2023, Wisconsin enacted a legislative package of several laws intended to address the state's insufficient housing supply (Wisconsin Legislative Council, 2023). Most of these laws established loan programs to finance the development of new housing, the rehabilitation of existing units, or the conversion of existing commercial buildings into housing. These loan programs also included income and age requirements for developers who take advantage of them.

The most significant law included in this legislative package is 2023 Wisconsin Act 16 because it directly addresses the root cause of Wisconsin's insufficient housing supply. The law establishes a state-wide policy of "development by-right" – also known as "by-right zoning" – which requires that a local government must approve any development proposal that complies with its established zoning regulations.

Act 16 also reforms the judicial review process to help prevent costly delays and cancellations in the development process by limiting who can challenge approvals. Before this law, any taxpayer could challenge local land use approvals through certiorari review, potentially delaying or obstructing residential developments even if they were not directly affected by the decision. After the reform, individuals must demonstrate that they would sustain actual damages that are personal and distinct from damages to the public generally in order to pose a challenge. Act 16 will help to limit the housing supply constraints caused by overly complex and discretionary zoning regulations.

Act 16 will also make it easier for localities to reduce or eliminate exclusionary zoning policies. While the law does not alter existing zoning ordinances, it does modify the process for how changes in local zoning can be made. Previously, if at least 50 percent of affected landowners objected to a change to a zoning ordinance that increases density, a supermajority – three-fourths – vote of the relevant governing entity in favor of the change was required. Act 16 reduces this supermajority requirement to just a simple majority. On the other hand, the vote requirement for a change that decreases density – two-thirds – has not been changed. In other words, the law has now made "up-zoning" easier relative to "down-zoning" when the opposite was true prior to its passage.

It is key to note that, although Act 16 was passed in the Summer of 2023, it was not set to take effect until January 1, 2025. Thus, the effect that this law will have on Wisconsin's housing supply is yet to be seen. While Act 16 may reduce the severity of zoning complexity by limiting arbitrary discretion in the housing development process, many policies contributing to zoning complexity remain unaffected by the establishment of by-right zoning. Furthermore, since Act 16 does not alter existing zoning regulations, it has little immediate impact on any of the previously discussed exclusionary zoning policies.

Wisconsin could further reduce the costly burden of its slow review process by expanding access to third-party reviews of building applications. While cities may elect to allow third-party reviews, they may also refuse to do so. Several states – such as Florida, New Jersey, Tennessee, and Texas – have passed laws to require cities to allow third party reviews (Furth, Hamilton, & Gardner, 2024). In the case of New Jersey and Texas, cities are only

required to accept third party reviews when their own delays are excessive. A Wisconsin law with these same conditions could reduce wait times in cases where cities fail to meet their codified maximum wait times. However, such a law would not directly impact these maximum wait times as the allowance for third party reviews would only come into effect when these deadlines have passed. Thus, to most effectively streamline the approval process, Wisconsin should pass a law to ensure that third-party reviews are always allowed, rather than only after deadlines have already passed.

A recently introduced bill in the Montana Senate known as the Creating the Private Property Protection Act, aims to dramatically overhaul Montana's zoning statewide by establishing sweeping protections for private property rights (Ambarian, 2025). The bill would significantly limit the authority of local governments to enact zoning restrictions, mandating that such regulations serve a "compelling governmental interest in public health and safety." Additionally, it would grant property owners the legal standing to challenge zoning rules that exceed these narrowly defined purposes.
If passed, this law would eliminate exclusionary zoning practices – such as minimum lot sizes, multifamily housing restrictions, historic preservation requirements, and other such regulations – throughout Montana as they are unlikely to satisfy the stringent public health and safety standards. While such a radical zoning reform policy would undoubtedly allow for greater housing development, it may risk creating negative pushback to zoning reform. If the law passes, it will make for an insightful test case of a truly free-market housing paradigm. However, even if the law works well in a frontier state like Montana, it is unclear whether it would be feasible in Wisconsin.

Rather than eliminating zoning completely, Wisconsin could take the more pragmatic approach of directly addressing the policies that contribute most to its housing shortage. The Mercatus Center at George Mason University publishes an annual brief providing a "menu of options" for housing reform based on successful state and local endeavors nationwide (Furth, Hamilton, & Gardner, 2024). Wisconsin can build on the progress of Act 16 by looking to reforms that have been implemented in other states.

Since most housing policy is determined at the local level, Wisconsin can pass legislation to set statewide standards. Such standards would preserve the ability for communities to shape their zoning policy according to their preferences while preventing overly complex or restrictive regulations that limit housing supply and drive up home and rent prices.

Some cities in Wisconsin – such as Madison, Oconomowoc, and La Crosse – have passed laws allowing for the development of ADUs without the need for a conditional use permit. However, laws that technically allow for the development of ADUs do not necessarily enable enough of them to be produced, as many have conditions that limit the feasibility of ADU development. For example, Madison's ADU law previously required the owner of the property to inhabit either the primary residence or the ADU. Such restrictions limit ADU development and thus housing supply (City of Madison, 2024). While Madison's owner-occupancy requirement was removed in 2024, La Crosse, Oconomowoc, and other Wisconsin cities with by-right ADU laws maintain such

requirements (City of Oconomowoc, 2024; Mentzel, 2024). Fourteen states have passed laws to allow ADUs state-wide, preventing localities from banning them. Several of these states – such as California, Washington, Oregon, Montana, and Arizona – allow for ADUs by-right, ban owner-occupancy requirements, and prohibit or limit parking requirements (Hamilton & Houseal, 2024). Wisconsin should join these states and pass a state-wide, by-right ADU law without unnecessary barriers that limit ADU development.

While there is little precedent for statewide measures to address the issue of minimum lot sizes in other states, some cities – such as Houston, Texas and Spokane, Washington – have passed citywide laws to set caps on minimum lot sizes. Houston, for example, reduced its minimum lot size requirements citywide from 5,000 square feet to 3,500 square feet in 2013. Since then, the city has experienced a surge in small-lot development, resulting in the construction of nearly 80,000 homes that would have been prohibited without the reform (Mei, 2022). Since Wisconsin has existing statewide minimum lot size standards, it could address this issue at the state level by reducing or eliminating these standards for all lots served by public sewer systems. While doing so would not necessarily reduce minimum lot sizes everywhere – as many such requirements are set at the local level to be higher or lower than the statewide standards – removing an unnecessarily high default could lead to modest improvements in some localities.

Since multi-family conversions are much less prevalent in Wisconsin than in other states, expanding this development option could help to boost the state's housing supply. A law could be passed to allow by-right the conversion of commercial buildings to multi-family homes state-wide. It would be more politically challenging to pass a law to allow the conversion of single-family homes into multi-family homes statewide. However, Wisconsin could follow in the footsteps of Oregon, which passed a law in 2019 that requires all localities with populations greater than 10,000 to allow the development of duplexes on lots zoned for single-family homes. The law also requires that localities with populations greater than 25,000 allow "missing middle" housing – duplexes, triplexes, fourplexes, cottage clusters, and townhouses – in all areas zoned for residential development (City of Eugene, 2020).

Implementing the above reforms would enable Wisconsin to alleviate its most pressing housing supply constraints and improve affordability.

Conclusion

Wisconsin's housing affordability problem directly results from supply constraints driven by restrictive and overly complex local regulations. While construction costs and geographic limitations play a role, empirical research consistently shows that excessive zoning complexity and exclusionary policies are the primary barriers to housing development. Wisconsin performs worse than the average state in several important areas of zoning regulation.

Act 16 represents a step in the right direction by reducing local government discretion and enabling more up-zoning, but further action is necessary. Wisconsin should look to successful reforms in other states to guide its next steps. Policies such as state-wide legalization of ADUs,

streamlining the development approval process, reducing restrictive minimum lot size requirements, and enabling more multi-family conversions would enable higher-density development where it is needed most.

By addressing its self-imposed housing supply constraints, Wisconsin can improve housing affordability throughout the state. Doing so will unlock new economic opportunities, attract workers and families, and foster long-term economic growth.

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