



GOOD news

The U.S. economy, as measured by **gross domestic product** (GDP), grew at an annual rate of 3.7 percent

in the second quarter. Excluding an unusually large buildup in inventories, GDP grew only 1.5 percent. Spending on capital goods grew 7.7 percent, following an 18.6 percent rise in the first quarter. These expenditures represent an expansion of production capacity and give the economy more room to grow before triggering inflation.

◆ Orders for **durable goods** increased 1.3 percent in June, marking the fourth consecutive monthly rise and a 13.3 percent increase for the year. Orders for nondefense goods surged 6.3 percent, while those for transportation equipment, including automobiles, rose 2.3 percent.

◆ The Labor Department's survey of employers revealed that the economy added 259,000 jobs in July following a revised increase of 358,000 jobs in June. The **U.S. unemployment rate**, however, rose from 6 to 6.1 percent, as the increase in people entering the labor force exceeded the increase in hiring. Nearly 90 percent of the new jobs were created by service-producing firms, while factories added only 6,000 workers. The **Michigan unemployment rate** rose for the first time since February, increasing to 6 percent in July from 5.4 percent in June.

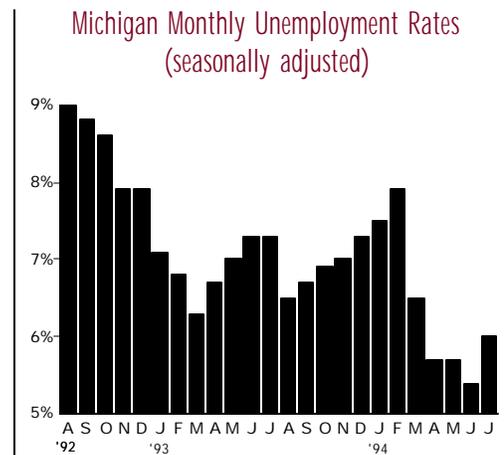
BAD news

Total employment declined by 18,000, as school employment weakened due to the summer recess

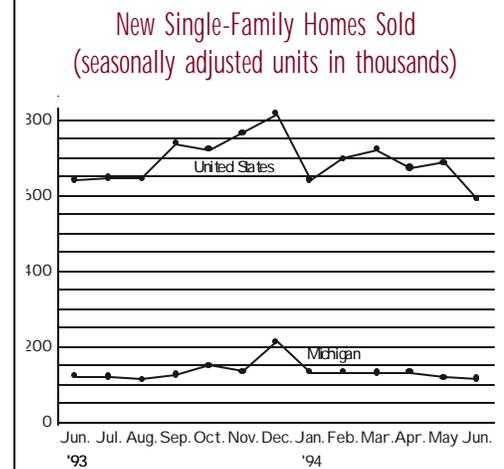
and automotive employment decreased due to model changeovers. Tourism-related businesses, construction, and retail all posted job gains. Eight of the eleven largest states, including Michigan, recorded higher unemployment rates in July; North Carolina had the lowest rate—4.7 percent, followed by Ohio, Massachusetts, and Michigan.

◆ July **car and light truck sales** decreased 0.1 percent from July 1993 levels. The 13.8-

million-vehicle annualized sales rate was down one million units from the previous month's rate. Car sales dropped 2.9 percent, while truck sales increased 4.2 percent. General Motors car and truck sales both declined as the company continued to work out problems that have delayed production start-up of some popular models. Ford and Chrysler sold more trucks and fewer cars than in July 1993. European auto makers gained market share at the expense of both the U.S. and Japanese competition.



SOURCE: Michigan Employment Security Commission.



SOURCE: U.S. Department of Commerce.

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MONTHLY FOCUS

SERVICE WAGES CATCH UP

For years economists and policy-makers have told us that service jobs pay far less than manufacturing jobs. Service jobs were (and are) characterized as low-skilled, “burger-flipping” positions. This has been a source of concern for American workers because the service sector is and should remain the nation’s fastest growing.

The Federal Reserve Bank of Cleveland recently published a report challenging this perception.¹ The report shows that service wages are catching up to manufacturing wages. In the past manufacturing wages were significantly higher, but the service sector has grown and now provides more and better opportunities. The combination of higher paying service jobs and falling manufacturing wages has narrowed the difference between the weekly median service-producing and

¹Max Dupuy and Mark E. Schweitzer, “Are Service-Sector Jobs Inferior?,” in *Economic Commentary* (Cleveland, Ohio: Federal Reserve Bank of Cleveland, February 1994).

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goods-producing wage from \$82 in 1982 to \$19 in 1992.²

Of course, there is a broad variety of service jobs and some, such as those in retail, are generally low paying. The exhibit on page 3 shows 1992 median weekly wages for the major goods- and service-producing sectors. Wages in retail are the lowest, paying only \$340 per week (\$17,680 per year). The median wage of transportation and public utilities (TPU) workers are much higher—\$605 per week (\$31,460 per year).

Within these industries wages also vary widely, and workers at the top and bottom of the pay scales have very different incomes. In 1992 the highest-paying retail jobs (top 10 percent) yielded only \$39,988 per year, while the highest-paying TPU jobs (top 10 percent) paid \$54,600 per year. Interestingly, most top-paying service jobs pay more than the top-paying manufacturing and construction jobs.

Education

In the growing service sector, education is more important than ever. The gap between the wages of goods-producing workers and service workers is much greater for people without a college education. Traditionally, manufacturing has been a haven for people without a college education, offering high pay and good benefits. This is not the case in the service sector. Median weekly wages for service workers

²This study used U.S. Department of Labor data, which define goods-producing jobs as manufacturing, construction, and mining. Everything else is classified under services.

with only a high school diploma were \$385 (\$20,020 per year) in 1992; they were \$462 (\$24,024 per year) for those in manufacturing and construction.

Young Workers

The Federal Reserve Bank report points out that growth in services does not necessarily mean that young workers entering the work force face worsening job opportunities. The exhibit shows that young workers (those aged 25 to 30) earn less than all workers regardless of whether jobs are in services or manufacturing. In fact, the wage difference between the two sectors is smallest for young workers.

Conclusion

This study makes the case that the growth of service jobs need not be met with dread. Unfortunately, it does not address two very important employment elements—part-time employment and benefits.

The number of part-time employees has grown tremendously in the United States, and many service jobs are part time. Service wages might look less attractive if part-time employment had been included in the study because it usually pays less. The same is true of benefits, as service-producing jobs often offer less attractive benefit packages than do goods-producing jobs.

Despite these omissions, the report makes a compelling argument that negative perceptions about service jobs are exaggerated.

NEWS FROM

 THE STATE

 CAPITOL

TEACHERS' UNION
 CHALLENGES STRIKE LAW

The Michigan Education Association (MEA) is taking the state to court. Last April, as part of education cost containment efforts, the legislature passed a law (Public Act 112 of 1994) making teacher strikes illegal and imposing substantial fines on teachers and their union representatives for striking. For example, teachers lose one day's pay for every strike day and cannot be reimbursed by the school.

Passed at a time when state Republicans had a temporary majority in the legislature, P.A. 112 gives administrators authority to determine some formerly negoti-

ated contract conditions (such as class size and length of school year). Supporters say that it treats teachers and school boards equally in negotiations and that teacher strikes have always been illegal.

The law, which was met with anger by teachers and organized labor, is already being challenged in court by the AFL/CIO, the Michigan Federation of Teachers,

and other labor representatives. Now the MEA has filed its own suit on the grounds that P.A. 112 is unconstitutional. The suit contends that the act restricts teachers' rights to protest employer conduct and denies non-instructional school staff equal protection under the law. It also states that the fines are excessive.

PUBLICATIONS OF INTEREST

Michigan League for Human Services, *Kids Count in Michigan: 1993, Data Book* (Lansing, Mich.: The League, October 1993), 517/487-5436.

The second annual *Kids Count* profiles the economic, health, and educational well-being of children in Michigan. It provides data for Michigan counties that show changes in well-being over time. It includes demographic data on the number of children in different age groups, income of families with children, and the percentage of children living in single-parent homes and homes with working parents. It provides economic data on the number of children in poverty and receiving food stamps. It also measures child health, including low birth-weight babies; education, including high school dropouts; and teens at risk, including teen births. The book is prefaced with a discussion of child welfare statewide.

Senate Fiscal Agency, *Estimated State Spending and State Tax Collections by County: Fiscal Year 1991-92* (Lansing, Mich.: SFA, June 1994).

This annual Senate Fiscal Agency report estimates the amount of taxes collected from each county in Michigan and the amount of state money spent in each county. Tax collections are broken down by type of tax, such as income taxes, and counties are ranked by total and per capita collections. The percentage of total state collections contributed by each county is also provided. Similar measures are provided for the amount the state spends in the 83 Michigan counties. Spending figures are provided for each department of state government.

1992 Median Weekly Wages for Full-time Workers

	All Workers	Workers with Only High School Diploma	Workers Aged 25 to 30	Share of Employment For All Workers
Goods-producing	\$500	\$462	\$417	27.9%
Construction	481	481	391	6.2%
Manufacturing	500	456	423	21.7%
Service-producing	481	385	415	72.1%
Retail	340	313	327	13.7%
Narrow services*	472	343	417	31.7%
Wholesale trade	500	459	422	4.5%
Finance, insurance, and real estate	498	386	433	7.4%
Public administration	579	481	500	6.3%
Transportation and utilities	605	577	495	8.6%
Difference between goods- and service-producing jobs	\$19	\$77	\$2	

SOURCE: Federal Reserve Bank of Cleveland.

*Narrow services are business services, health services, and professional services such as dry cleaners and beauty parlors.

MICHIGAN REVENUE REPORT

It is difficult to assess July revenue collections accurately because of the recent changes in the tax system and the acceleration of sales and use tax collections, which began last July. It appears, however, that July collections were weak. Unadjusted personal income tax collections increased 1.2 percent above the year-ago level. Adjusted for the decline in the tax rate (from 4.6 to 4.4 percent) and an extra state payday last year, collections were up only 1.4 percent.

Sales and use tax collections increased 19.8 percent. Adjusted

for the increase in the tax rate to 6 percent and the advent of accelerated payments last July, however, collections increased only 2.2 percent. Motor vehicle collections, adjusted for the tax rate change, were off 18.6 percent, partially due to April's advance buying. Excluding motor vehicles, adjusted sales and use tax collections were up 6.9 percent, due in large part to a 27 percent gain in use tax collections.

Single Business Tax collections increased 6.7 percent in July, but with the quarterly payment due on July 31 it is difficult to make an assessment until August collection data are available.

Cigarette tax collections increased 71.3 percent above the year-ago level due to the increase in the tax rate from 25 to 75 cents per

pack. Adjusted collections were down 43.6 percent, as earlier advanced buying is still affecting sales. The effect of advanced buying is weakening, however, as collections per penny of tax increased from about \$290,000 in June to \$503,000 in July (preliminary data).

Lottery sales continued very strong in July, increasing nearly 13 percent above the year-ago level. Year-to-date collections are up 7.7 percent, and the profit to the school aid fund was 37.5 percent through May, up from only 33 percent in the previous year. If sales continue at this pace, revenue to the school aid fund could exceed \$500 million for the first time since the lottery began in 1973 and exceed the consensus revenue estimate by about \$45 million.

MONTHLY TAX COLLECTIONS (dollars in thousands)

TYPE OF REVENUE	Preliminary July 1994	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1993-94 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$396,845	1.2%	\$1,199,803	4.9%	\$3,794,284	8.0%
Quarterly & Annual Payments	5,682	-25.1	138,697	12.6	639,787	3.7
Gross Personal Income Tax	402,527	0.7	1,338,500	5.7	4,434,071	7.4
Less: Refunds	-59,840	44.9	-361,007	59.8	-1,324,406	10.5
Net Personal Income Tax	342,687	-4.4	977,493	-6.1	3,109,665	6.1
Sales & Use Taxes	483,332	19.8	1,329,386	37.1	3,092,267	19.4
Motor Vehicles	71,091	22.1	213,039	36.9	467,292	26.2
Single Business Tax	164,612	6.7	576,918	14.8	1,519,680	13.2
Cigarette Tax	37,700	71.3	84,767	39.0	222,079	23.2
Public Utility Taxes	15,161	-17.6	15,571	-17.9	33,633	-63.4
Oil & Gas Severance	2,848	-9.6	8,402	-15.0	24,071	-19.1
Lottery ^a	40,020	12.7	120,208	14.6	388,873	7.7
Penalties & Interest	489	-3.0	17,022	-9.1	75,109	1.5
SUW—Annuals & Undistributed ^b	1,378	-147.0	-11,347	-397.8	4,186	-83.6
Other Taxes ^c	37,657	-22.1	123,183	-2.2	340,163	-13.7
TOTAL TAXES (GF & SAF) ^d	\$1,125,884	8.2%	\$3,510,268	12.8%	\$8,809,726	9.9%
TOTAL LESS NEW ^e	\$964,919	-7.3%	\$3,160,826	1.6%	\$8,460,284	5.5%
Motor Fuel Tax ^f	\$67,763	13.0%	\$174,473	-0.3%	\$560,117	4.3%

SOURCE: Data supplied by Michigan Department of Treasury.
^aThe state share of lottery sales is 35 percent (FY 1993).
The previous years' figures are adjusted to the current year's profit margin; the percent change reflects the change in ticket sales.

^bThese revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

^cIncludes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

^dExcluded are beer and wine, liquor, and horse racing taxes.
^eDoes not reflect changes in cigarette and income tax rates.
^fThe motor fuel tax is restricted to the Transportation Fund.

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