

Michigan ECONOMIC BULLETIN

The Good News

- **Michigan's unemployment rate** fell in August to a seasonally adjusted 6.5 percent, keeping the state below the national average. The August rate was 2.4 percentage points below the year-ago jobless rate of 8.9 percent and ranked Michigan the third lowest of the nation's 11 top industrial states. The strongest job growth was in construction, which grew 7.6 percent since last July.
- **The U.S. unemployment rate** fell to 6.7 percent in August, a slight drop from July's 6.8 percent. More than 400,000 new jobs were added to the economy in August, up from the average 149,000 jobs per month added in the first seven months of the year. The average number of hours worked per week also rose, increasing from 34.5 in July to 34.7 in August.
- **U.S. vehicle sales** rose 8.6 percent in August, equivalent to a seasonally adjusted annual rate of 11.4 million sales. While this rate is lower than June's annual pace of 12.8 million, analysts predict that sales will pick up when 1994 models are released. Despite a 5.3 percent rise in sales, General Motors' market share fell to 30 percent of sales from 32.2 percent last year, while Ford and Chrysler each gained about one percent of the market.

The Bad News

- **The index of leading economic indicators** fell 0.1 percent in July after rising 0.1 percent in June and falling 0.4 percent in May. Of the index's 11 components—designed to foretell the state of the economy in the coming

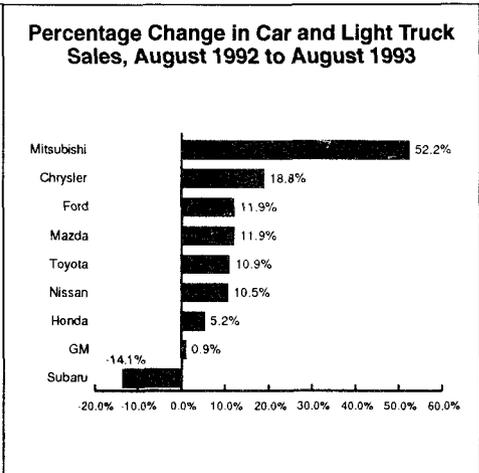
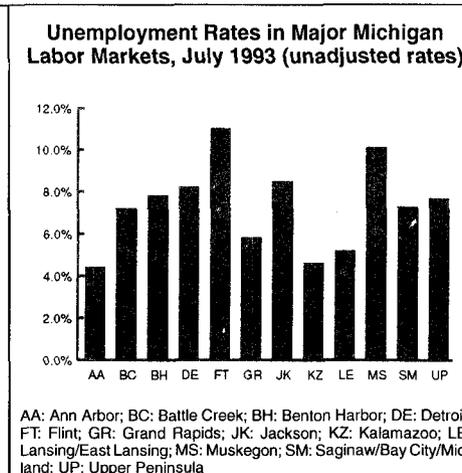
six months—consumer expectations contributed the most to the drop. Despite consumer skepticism, initial claims for unemployment and the average number of hours in the workweek recovered slightly in July from their June levels.

- The Commerce Department announced that **housing starts** remained dismal in July despite the lowest mortgage rates in more than 20 years. Home building fell 2.7 percent in July following a revised drop of 0.2 percent in June. The housing market is not expected to pick up until the job market improves and boosts consumer confidence. In spite of the gloomy figures, many areas of the nation are enjoying a robust housing market, and depressed conditions in California may be weighing down national housing figures, painting an unrealistically gloomy picture.
- The U.S. Commerce Department announced in early September that **factory orders** plummeted 2.1 percent in July. The drop followed a 2.9 percent increase in June and was experienced in both the durable goods (those expected to last more than three years) and nondurable goods sectors. Part of the plunge can be explained by a 37 percent fall in orders for aircraft and parts. Excluding this sector, orders for nondefense capital goods rose 0.5 percent. **Unfilled orders** fell once more in July, a sign that factory jobs are unlikely to expand in the near future.

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MICHIGAN ECONOMIC INDICATORS



SOURCES: Michigan Employment Security Commission and Wall Street Journal.

Do Community College Educations Pay Off?

The National Bureau of Economic Research, Inc., recently published the results of a study that compared earnings of people who attended community college with those who attended four-year colleges and universities.¹ They conducted the study to test skepticism about the value of a community college education and to see if a credit of community college education brings the same higher earnings as a credit from a four-year institution.

The study is one of the first to compare earnings of graduates from two-year and four-year institutions. Most data do not distinguish between two-year and four-year college students and degree recipients. Therefore, if someone had completed "two years of college," it could mean either that someone had an associate's degree or that they had left a four-year college after only two years. This study used data, including school transcripts, from two U.S. Bureau of the Census surveys that traced the lives of certain high school graduates over time (the *National Longitudinal Study of the High School Class of 1972* and the *National Longitudinal Survey of Youth*) to compare two-year and four-year college attendance.²

The analysis compared hourly wages and annual earnings of survey subjects on the basis of the number of credits earned, whether they were earned at a two- or four-year institution, and the highest degree earned. Results show that a credit from a two-year college brought about the same earning power as one from a four-year college. (See exhibit.) Both bring 3 to 5 percent higher hourly wages and annual earnings for every year (or 30 credits) of college

completed. The findings held true for men and women of all races and age groups.

In addition, the higher earnings were enjoyed whether or not a degree was earned. For example, those who had two years of college under their belt but did not graduate enjoyed the same higher wages as people who had graduated with a two-year associate's degree. The same holds for people who have finished four-years of college but did not obtain a bachelor's degree. There were two exceptions to this finding, however. Hourly wages of male four-year college dropouts were about the same as for high school graduates of similar family background and scholastic ability (measured by standardized test scores). Also, there seems to be some benefit to women in obtaining an associate's degree over completing two years of college without obtaining a degree. This may be explained by the fact that in this study one-fourth of associate's degrees for women were awarded in nursing, a field in which an associate's degree is highly valued.

Conclusions

These findings do not challenge the idea that "more is better" when it comes to college education. They indicate, however, that it is the number of years of school completed rather than the degree one earns or the type of institution one attends that explain differences in earnings. Although the benefits of education are about the same for community colleges and universities *per year*, four-year degrees by definition require completion of more years of education than two-year degrees, leading to higher pay. This may explain the perception of some that a four-year college or university education is of higher quality than a two-year college education. This study implies that this perception needs to be reexamined, because the different *quantities* of education may explain more than we think.

1 Thomas J. Kane and Cecilia Elena Rouse, *Labor Market Returns to Two- and Four-Year Colleges: Is a Credit a Credit and Do Degrees Matter?* (Cambridge, Mass.: National Bureau of Economic Research, Inc., January 1993). Working Paper No. 4268.

2 Vocational schools were not included in the analysis because of insufficient data.

Mean Earnings and Educational Attainment

Years of Education	No College	Some College, No Degree	Highest Degree Earned			
			Occupational Associate's	Academic Associate's	Bachelor's	Master's
6+	NA	NA	NA	NA	\$35,252	\$42,091
5	NA	NA	NA	NA	\$35,276	\$40,145
4	NA	\$32,245	\$31,135	\$34,385	\$25,992	\$37,709
3	NA	\$30,224	\$29,735	\$30,845	\$30,923	NA
2	NA	\$28,928	\$28,139	\$28,558	NA	NA
1	NA	\$26,057	\$24,199	NA	NA	NA
H.S. Grad.	\$23,858	\$25,802	\$23,310	NA	NA	NA

NA = Not applicable

SOURCE: Thomas J. Kane and Cecilia Elena Rouse, *Labor Market Returns to Two- and Four-Year Colleges: Is a Credit a Credit and Do Degrees Matter?* (Cambridge, Mass.: National Bureau of Economic Research, Inc., 1993), p. 16.

NOTE: Differences in earnings by educational attainment were not significantly different statistically.

Willow Run Closure Brings Abatements under Fire; Word Is Out from Governor's Task Force on School Finance/Improvements

Willow Run Closure Brings Abatements under Fire

Despite protests by Ypsilanti Township, the Michigan Supreme Court will allow General Motors' Willow Run plant operations to move to Texas. The township had granted GM tax abatements for the plant, expecting jobs in return. GM asserts that it fulfilled all of its legal obligations to the community by investing \$250 million in taxable equipment. Ypsilanti Township is hoping that the plant may be operated by other another manufacturer in the future, although nothing is definite.

The impending plant closing has brought the use of abatements under fire, and the legislature may put an end to them altogether. Loss of the plant means that revenues for the township's mostly in-formula schools will need to be made up by the state. The school aid fund has already paid out more than \$10 million to the community's schools because of the local revenues foregone due to the abatement. A bill eliminating abatements for plant rehabilitation (HB 4567) is already being discussed in the legislature, and plans to eliminate all abatements or to require written agreements between businesses and local government may follow.

Word Is Out from Governor's Task Force on School Finance/Improvements

Last month Governor Engler put together an internal task force to examine the questions of school finance and education improvements. The task force recently released its initial recommendations to the governor and is planning to release final proposals sometime in October.

The task force, headed by state Treasurer Doug Roberts, offered several preliminary plans to raise revenues. One proposal, reminiscent of June's Proposal A, would raise the state's sales tax by two cents. If the increase were approved by Michigan voters it would raise around \$1.8 billion. To avoid the Headlee limit on the amount of taxes the state can raise, a constitutional amendment overriding the limit could be placed on the ballot with the sales tax hike.

Other school finance recommendations include a higher real estate transfer tax and higher cigarette taxes. The transfer tax would be based on the sale price of a home and would be deductible under federal tax law.

The task force also included recommendations for education reform. Schools of choice, charter schools, and special schools run by the Department of Social Services for children at risk were all elements of the plan, as was a foundation grant for each student. School districts would compete for students and could establish schools in other districts to do so. It was also recommended that charter schools specializing in different areas, such as science or the arts, be allowed.

Publications of Interest

Educational Resources Information Center, U.S. Department of Education, *ERIC Review*, vol. 2 Issue 2, Fall 1992. (Subscription free by calling, 1-800-LET-ERIC.)

This newsletter is published three times a year by the U.S. Department of Education's Educational Resources Information Center (ERIC), a large clearinghouse of educational data and literature. Each issue contains research results, lists of new education publications, and general information on ERIC services. In addition, each issues contains one or two articles focusing on a particular education topic. The issue under review centers on partnerships between business and higher education and between urban schools and their communities. A resource list containing related organizations and reading accompanies the articles on education partnerships.

U.S. Department of Commerce, Bureau of the Census, *County Government Finances: 1990-91* (Washington, D.C.: U.S. Government Printing Office, July 1993), GF/91-8.

This publication presents the county-level results of the annual survey of government finances conducted by the U.S. Bureau of the Census. It provides a summary of revenues, expenditures, debt, and assets for county governments across the United States. For each state it provides a summary of total and per capita government finance activities for every county with a population over 100,000 in 1990. The publication could be used to compare county spending and taxation (including tax burdens) between states and for areas within states. (The Bureau of Census publishes similar reports for state spending and state and local spending.)

Michigan Revenue Report

Revenue collections continued to strengthen in August, as all the major taxes except the income tax recorded above-average gains. Personal income tax withholding collections increased 4.1 percent above the year-ago level, well below the year-to-date gain of 5.9 percent.

Sales and use tax collections rose an estimated 8.5 percent. Because of the acceleration of payments that began last month it is difficult to calculate the actual increase. Excluding the volatile use tax, which jumped 22.7 percent, sales tax collections increased 6.8 percent, with motor vehicle sales up 5.6 percent. The economy does not appear strong enough to sustain increases of this magnitude over the next few months.

Single business tax collections surged 29.5 percent after last month's sharp decline. This large gain was due

to a change in the timing of collections, with more of the July 31 quarterly payment falling into August than last year. Collections for the last three months increased a robust 10.5 percent above the year-ago level.

August was one of the best months in history for the state lottery. Sales increased 26.4 percent, topping \$120 million for only the second time in history. This strong performance was due to a large Lotto jackpot and the \$2 ticket, which combined to produce near record sales despite reluctant consumer acceptance of the new Lotto game. However, the state profit from the lottery is still expected to fall well short of the original budget estimate, as the state share has fallen sharply from last year, from about 40 percent to 33 percent through June of this year.

MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary July 1993	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1992-93 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$388,255	4.1%	\$1,163,065	3.9%	\$3,902,458	5.9%
Quarterly and Annual Payments	11,201	17.0	118,402	3.8	630,925	3.2
Gross Personal Income Tax	399,456	4.5	1,281,467	3.9	4,533,383	5.6
Less: Refunds	-36,318	84.3	-125,245	13.4	-1,234,555	2.0
Net Personal Income Tax	363,138	0.1	1,156,222	2.9	3,298,828	6.9
Sales and Use Taxes	304,600	8.5	998,221	17.1	2,895,070	9.2
Motor Vehicles	50,790	5.6	157,912	10.5	421,087	7.1
Single Business Tax	217,927	29.5	426,946	10.5	1,560,382	14.6
Cigarette Tax	21,843	-4.0	63,645	-0.4	202,118	-1.7
Public Utility Taxes	56,925	0.0	75,890	NM	148,929	1.9
Oil and Gas Severance	3,465	-0.1	10,184	2.0	33,201	-4.3
Lottery ^a	49,240	26.4	129,397	0.5	460,320	3.0
Penalties and Interest	396	37.0	15,997	17.1	80,320	21.5
SUW-Annals and Undistributed ^b	3,094	NM	5,018	NM	28,575	49.4
Other Taxes ^c	24,336	-10.0	91,775	-2.7	418,869	-6.2
TOTAL TAXES (GF & SAF)^d	\$1,044,964	8.8%	\$2,973,295	8.2%	\$9,126,612	7.8%
Motor Fuel Tax ^e	\$71,561	16.7%	\$190,608	4.2%	\$608,642	4.6%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

^aThe state share of lottery sales is 40 percent to 33 percent (FY 1992). The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase 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.

^eThe motor fuel tax is restricted to the Transportation Fund.

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