

GOOD news

August **industrial production** rose 1.1 percent, its best showing in eight months. Although strong output extended across all industries, the rise in production was fueled largely by utility and auto-related goods. The gains indicate that firms have corrected for their bloated summer inventories.

◆ The Federal Reserve left **short-term interest rates** unchanged, signaling that the economy is rebounding steadily from its springtime doldrums. Even with few signs of inflationary pressure, the Fed is resisting a change in interest rates until an agreement is reached on how to reduce the federal budget deficit.

◆ The Michigan Employment Security Commission announced that the civilian **unemployment rate** fell to a September record low of 4.8 percent. A moderate increase in total employment and a contraction of the total workforce account for the decline. The unemployment rate remains considerably below the U.S. rate of 5.6 percent and reflects the continuing strength of the Michigan economy. The positive trend is expected to continue.

◆ The number of **people living in poverty** in 1994 is down from 1993 levels according to the Census Bureau. Michigan rates fell from 15.4 percent in 1993 to 14.1 percent in 1994. National rates declined for the first time in four years—from 15.1 percent of the population in 1993 to 14.5 percent in 1994.

BAD news

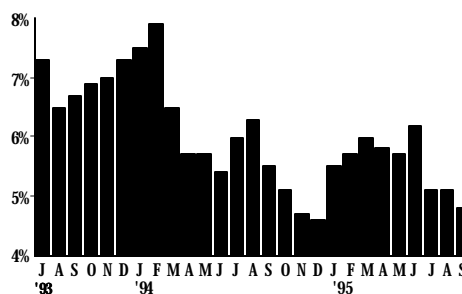
The consumer confidence index fell markedly from 102.4 in August to 97.4 in September. Declining consumer faith underscores the recent weakness in the consumer sector of the economy.

◆ **Retail sales** rose a weaker than expected 0.6 percent in August. When auto sales, which were strong in August, are factored out of the calculation, retail sales were flat. The protracted stagnancy of apparel sales ap-

pears to be the greatest drag on retail sales growth.

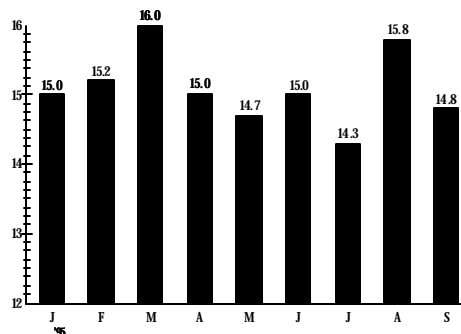
◆ **Sales of cars and light trucks** fell 3.1 percent in September to an annual rate of 14.8 million vehicles. Automakers blamed a shortage of vehicles, resulting from a Teamsters strike and factory changeovers, for the decline and announced that they plan a 2.4 percent cut in production in the fourth quarter of 1995. Despite the recent drop, the model year ending in September marks the highest sales since 1989.

Michigan Monthly Unemployment Rates
(seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

Monthly Auto and Light Truck Sales
(millions of units, annualized rate)



SOURCE: Automotive News.

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M O N T H L Y F O C U S

BLUE COLLAR BLUES: FROM DOWNSIZING TO SKILL MISMATCH

For the past several years, the number of relatively high-paying manufacturing jobs has been declining steadily due to corporate downsizing. Low-wage labor abroad and more technologically advanced modes of production are major reasons for the downsizing. After a long period of adjustment, the manufacturing sector has recovered and once again is actively seeking workers. However, a lack of skilled workers has created a paradox: Thousands of applicants are being turned down at companies that are actively recruiting workers.¹ This has a profound effect on economic growth. A recent Arthur Andersen survey of small businesses found that 25 percent speculate that their growth will be impeded by the lack of skilled workers.

¹Raju Narisetti "Job Paradox: Manufacturers Decry A Shortage of Workers While Rejecting Many." *Wall Street Journal*/8 September 1995 pgs. A1, A3, A4.

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The Origins of Skill Mismatch

The reason for the mismatch of employees and jobs is that industrial production methods have been transformed, but workers have not been adequately trained in the new technology and techniques. New production modes require skilled workers because increasingly employers are assigning employees multiple production responsibilities that include more analytical thinking and interaction with technology.

Scott Paper Company's Owensboro, Kentucky, plant illustrates the new roles of the production worker. Scott's employees are organized into teams that have multiple functions, some of which were previously performed by managers, such as developing production schedules, working with computer spreadsheets, and buying supplies.

Labor Market Inefficiencies

Most structurally unemployed people (i.e., workers displaced by a change in the mode of production) are older, formerly high-wage workers who lack exposure to technology and team production. Furthermore, the majority of rejected applicants in the new industrial climate are lacking needed skills, such as the ability to read technical drawings and operate computer-based machines. Workers lacking these technical skills are further disadvantaged if their work backgrounds are limited to retail and food service jobs.

What has caused the "deskilling" of job applicants in the manufacturing sector workforce? Higher education is increasingly more accessible to students with strong communication, computer, and math skills. Rising college enrollment, in tandem with a previously absorbed skilled labor pool, has decimated the manufacturing labor market. Another contributing factor is that employers have not offered sufficient wages to attract college graduates away from white-collar jobs or lure talented high school graduates away from college.

Thousands of applicants are being turned down at companies that are actively recruiting workers.

Prospects for Manufacturing

Until manufacturers provide greater incentives to attract high-skilled workers, they will continue to face a labor shortage. High school and college graduates with analytical and technical skills will continue to pursue more glamorous and ostensibly higher-paying white collar and professional work. With the limited pool of skilled labor impeding business growth, it is clear that the workforce must be retrained to compete in the 21st century.

NEWS FROM THE STATE CAPITOL

STATE AVERTS CONSTITUTIONAL TAX REFUND

Based on revised data, the Senate Fiscal Agency (SFA) estimates that FY 1994–95 Michigan tax revenues will not exceed the state revenue limit by more than 1 percent, as originally anticipated. Consequently, the excess revenue will be deposited into the Budget Stabilization Fund, rather than refunded to taxpayers, as mandated by the Constitution.

Final revenue data for August were \$50 million higher than the preliminary data had indicated. With this revision, gross tax collections for FY 1994–95 are expected to be \$230 million higher than the May 1995 consensus estimate. However, a surprising \$132 million upward revision of income tax refunds has offset the bulk of the revenue increase, meaning that net revenues will not exceed the constitutional ceiling on state revenues. The net effect of the changes in revenues and refunds places total revenue only 0.8 percent above the revenue limit, averting a tax refund.

SCHOOL CHOICE BILLS MOVE FORWARD

The House and Senate Education committees have approved bills

that would ease restrictions on school choice. SB 639 and its House counterparts, HB 4987 and 4988, which would likely go into effect on July 1, 1996, would eliminate a requirement that parents obtain the permission of their own school district before sending their children to another district. This removes a major legal barrier to parents' ability to send their children, and consequently the state aid for their children, to a school district in which they do not reside. The bills do not include any provision for transporting students across district lines, meaning that parents would have to provide their own transportation. The bills passed out of committee along close party lines, with Republicans supporting and Democrats opposing.

The bills are part of a broader effort to introduce market forces into education. Their supporters maintain that greater school choice will promote educational

improvement through competition—schools will face a choice of meeting the needs of students and their parents or losing students and funding to other districts. Supporters also contend that school choice will make it easier for students to attend schools that are closer to their parents' place of work, a particular advantage in rural areas. Opponents are concerned that school choice will widen racial and educational inequality among school districts, that economically disadvantaged parents will find it difficult to transport their children to better schools, and that schools that lose students and funding to other districts will face severe financial hardships and intellectual "draining" of the better students. They also point out that districts will have a hard time getting millages approved if students are attending districts other than the district in which their parents vote.

PUBLICATION OF INTEREST

U.S. Department of Commerce, Census Bureau. *Income, Poverty, and Valuation of Noncash Benefits: 1994*. Washington D.C.: (Census Bureau Poverty and Income Information Staff, 1995).

The soon-to-be-released study examines income, poverty, and health insurance coverage. Income figures are detailed across households, demographic groups, and regions. Poverty levels are explored against 18 definitions of income, across demographic groups, and across regions. The Census Bureau also looks at health coverage in terms of types of coverage and how they are distributed across different age, demographic, and occupational groups. To obtain reproduced excerpts, call (301) 763-8576.

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M I C H I G A N

R E V E N U E

R E P O R T

State revenues are showing signs of slowing, although most major sources are still growing at a good pace. September personal income tax withholding increased an adjusted 6.6 percent above the year-ago level (preliminary data).

Sales tax collections increased 6.1 percent despite a 2.5

percent decline in motor vehicle collections. Excluding motor vehicles, sales tax collections increased a robust 7.8 percent. The volatile use tax declined 12 percent from the year-ago level.

SBT collections declined 2.6 percent in September, but this will not have much effect on fiscal year collections as September accounts for a very small percentage of annual collections.

Cigarette tax collections continued to exceed estimates, gaining 14.5 percent. Year-to-date collections are down only 13.7

percent compared with an estimated 19 percent decline due to the 50-cent per pack tax increase.

Lottery sales continued the summer slump, declining 6.7 percent, the fourth consecutive monthly decline. FY 1994–95 sales increased 2.9 percent, well below the 8 percent increase in FY 1993–94. Lottery profits, which are deposited in the School Aid Fund, were about \$542 million for FY 1994–95, \$16.5 million below the consensus revenue estimate.

September 1995 Revenue Collections

(Adjusted month end DCCR, DAFR8960, 10/17/95, & Treasury Adjust, millions)

September 1995 Tax Revenue	September 1995			Percentage Change from Yr. Ago (baseline)	Percentage Change FY-to-Date (baseline)	FY 1994–95 Consensus Est. Base % Chg. (5/15/95)	September 1994 (baseline)
	Gross	New	Baseline				
Income Tax							
Withholding	419.0	–32.6	451.6	6.6 ^a	9.5**	8.8	406.2
Quarterly	111.3	–5.9	117.2	3.3	7.3	3.8	113.5
Annual	1.3	–0.1	1.4	–68.2	27.3	13.9	4.4
Subtotal Gross Income Tax	531.6	–38.6	570.2	5.3 ^a	10.3**	8.7	524.1
Sales Tax	416.8	135.9	280.9	6.1	6.6**	6.2	264.7
Use Tax	88.6	32.9	55.7	–12.0	2.7**	5.4	63.3
Cigarette Tax	59.5	39.7	19.8	14.5	–13.7	–19.0	17.3
SBT	61.1	–5.6	66.7	–2.6	17.6**	9.4	68.5
Insurance	0.2	0.0	0.2	100.0	5.7	3.0	0.1
Subtotal SBT + Insurance	61.3	–5.6	66.9	–2.5	16.3**	8.9	68.6
State Education Property Tax	157.0	157.0	0.0	–			126.8
Real Estate Transfer Tax	15.3	15.3	0.0	–			0.0
Estate/Inheritance Tax	5.1	0.0	5.1	–44.6	39.3	36.8	9.2
Intangibles Tax	0.6	0.0	0.6	–400.0	8.1	6.1	–0.2
Severance Tax	2.2	0.0	2.2	–31.3	–12.6	–7.5	3.2
TOTAL	1,338.0	336.6	1,001.4	3.5 ^a	9.4**	7.6	950.2
S–U–W	924.4	136.2	788.2	4.8 ^a	8.0**	7.6	734.2
Sales Tax – SOS	64.3	21.5	42.8	–2.5	3.6		43.9
Sales Tax – All Other	352.5	114.4	238.1	7.8	7.2**		220.8

^aThere was one more Thursday this year compared with last year, so September 1995 was decreased by \$18.4 million.

**FY-to-date percent changes reflect prior month adjustments made in September.

SOURCE: Senate Fiscal Agency.