Economic Bulletin

GOOD news The **Michigan unemployment rate** fell in June to 4.5 percent, down 0.2 percent from May's rate. According to the Michigan Employment Security Commission, the number of people employed in June grew by 42,000, and the unemployment rate was a full percentage point below last year's. The MESC also reported that the number of Michigan workers grew by 148,000 in the first half of the year.

◆ According to the Conference Board, the **consumer confidence** index increased sharply in July, to 107.2 from the revised June level of 100.1. Consumer appraisal of their current and future economic prospects is optimistic. In July, the belief that jobs "are plentiful" was held by 26.4 percent of those surveyed, up from 24.6 percent in May. Economists temper these reports, however, by pointing to early weaknesses in July retail sales and slowdowns in the housing market.

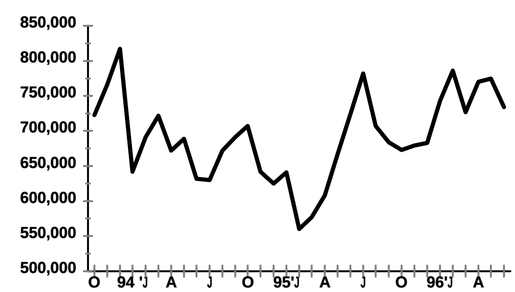
◆ Real **gross domestic product** grew at an impressive annual rate of 4.2 percent in the second quarter, compared to 2 percent in the first. The surge in GDP, which measures growth in the overall U.S. economy, came without the inflation rise that typically accompanies an economic upswing. Although economists expect the economy to continue to grow through 1997, few expected such stellar performance in this quarter.

◆ The **index of leading economic indicators** surged ahead in June for the fifth straight month. The strong June rise of 0.5 percent surpasses those of April and May, which were 0.3 and 0.2 percent, respectively. Three consecutive increases usually indicate that the economy is expanding. The current index reflects a longer work week, higher material prices, and fewer plant and equipment orders.

◆ U.S. **vehicle sales** grew 5.1 percent in July over the year-ago rate, boosted by an extra selling day in the month and record light-truck sales for Ford. Light-truck sales lead the growth, climbing 10 percent above the 1995 rate, while car sales rose a sluggish one percent despite a 17.4 percent jump in sales of the newly designed Ford Taurus.

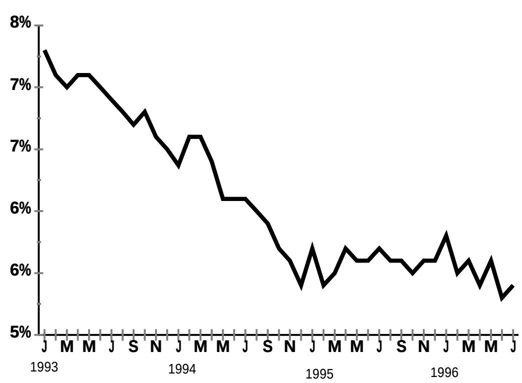
BAD news The **national unemployment rate** rose one tenth of a percent in July, to 5.4 percent. The climb is attributed to growth in the labor force. Approximately 512,000 additional people began working or looking for work. While wage and salary jobs increased by 193,000, July's growth did not match June's gain of 220,000. The construction and service industries added 25,000 and 28,000 jobs, respectively, while retail employment declined by 89,000.

New One-Family Houses Sold



SOURCE: U.S. Bureau of Census.

U.S. Civilian Unemployment Rate, Seasonablly Adjusted



SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

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MONTHLY FOCUS

BREAKING EVEN WITH A COLLEGE DEGREE

By Lisa D. Baragar, Consultant for Public Policy

For decades the premium, or financial benefit, that employers were willing to pay skilled, well-educated workers caused a wage gap between high school and college graduates. A recent article in the *Wall Street Journal*[1] challenges the traditional view that the gap will continue to widen, contending that growth of the college premium finally has reached a plateau.

In 1978 college graduates earned around 40 percent more than their high school counterparts; in the 1980s the premium skyrocketed, until in 1990 the gap was 79 percent. Census Bureau data indicate, however, that since then the differential between high school and college graduates has diminished: the 1994 figure was 73 percent. The decline leads such economists as Kevin M. Murphey (University of Chicago) to believe that ". . . the wage gap has probably run its course."

Labor Pool is Growing

According to the *Journal*, the principle of supply and demand is at work. Economists attribute the slowing growth of the college wage premium to a rise in the skilled labor supply. In 1994 the portion of 18 to 24-year-olds enrolled in college reached 35 percent—up from 26 percent in 1980. As college graduates began to saturate the job market, employers were not willing to pay as much for their skill.

Jacob Mincer, a Columbia University labor economist, believes that because college enrollment still is climbing (see the exhibit), the premium graduates are paid will continue to lessen, perhaps—based on current enrollment figures—as much as another 25 percent over the next 6–7 years. Moreover, he argues that even students who pursue higher education but do not attain a degree expand the skilled labor pool to some extent and thus contribute to narrowing the noncollege-college wage gap.

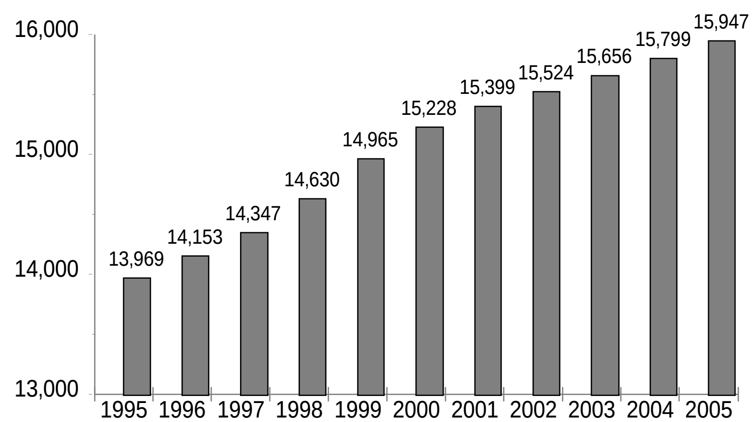
Winning with Real-World Experience

Mr. Murphey's and Mr. Mincer's position that the wage gap is closing stands in contrast to conventional wisdom, which says the gap will continue to expand in the future. The latter view is held by many, who believe that escalating demand for workers trained in high-tech and related fields will continue to push up the college premium.

Only time will tell whether downward pressure on wages, brought about by the growing supply of graduates, will overpower the upward pressure exerted on wages by the swelling demand for skilled workers.

Regardless of the future size of the gap, most people with higher education will find that they have an economic advantage over people who do not. The *Journal* article does remind us, however, that a college education is not all that is required to maintain that advantage—on-the-job experience and a continual upgrading of skills are needed if one is to stay ahead.

Projected Enrollment, U.S. Public Colleges/ Universities (thousands)



SOURCE: U.S. Department of Education.

[1]Phillips, Michael M. "Wage Gap Based on Education Levels Off." *Wall Street Journal*, July 22, 1996.

NEWS FROM THE STATE CAPITOL

FEDERAL WELFARE REFORM GETS STATE OFF THE HOOK

In July lawmakers in Washington passed a sweeping reform of welfare, ending the federal entitlement (guarantee) of financial assistance to the poor and moving instead to a system that grants the states blocks of money and lets them pretty much run their own welfare programs. The states will write most of their own rules for distributing public assistance rather than following a tight set of federal rules.

While the federal government still will continue to share the costs of welfare with states, the amount of federal support will be less for most states than under the current system, and states will be responsible for coming up with additional money if its block grant runs out.

States will have to follow some new federal guidelines, including one that requires at least half of all adult welfare recipients to be employed or performing community service within two years of going on welfare and another that prohibits states from using federal aid to support anyone who has been on welfare for more than five years.

Washington's approval of welfare reform gives Michigan the green light to go ahead with most of Governor Engler's public assistance proposals. The state now may continue the revamp of welfare that it began under federal waivers, such as requiring recipients to work or seek job training as a condition of receiving benefits, and initiate such new reforms as moving to a one-caseworker-per-family system.

July's enactment of federal welfare reform is good news for the 1996–97 state budget (for the fiscal year beginning October 1). Although Michigan's welfare caseload is lower now than in past years, the amount of federal support will be based on past caseloads, which means state budgeteers were counting on a sizeable windfall: Lawmakers, in passing the budget earlier this summer, assumed that the state would receive approximately $250 million in additional funds due to federal welfare reform. However, in case the block grants did not materialize, they had put on hold some of the FY 1996–97 spending, planning to use it only if reforms passed.

With the uncertainty surrounding federal aid lifted, these monies now can be freed up and spent. The state, however, still must come up with approximately $90 million to cover money that was budgeted on the assumption that Medicaid reform also would occur, which it did not. To make up the difference between federal Medicaid funds budgeted and received, the state likely will use funds *lapsed* (appropriated but not spent) from FY 1995–96.

PUBLICATIONS OF INTEREST

U. S. Department of Education, Office of Educational Research and Improvement. *Digest of Education Statistics* 1995. NCES 95-029 (11/95). GPO # 065-000-00803-3. Washington, D.C., 1995. *http://www.ed.gov/NCES/ncespub2.html#MajorPubs or 202/783-3238.*

This 546-page publication is a compilation of statistical information covering a range of education issues affecting kindergarten through graduate school. More than 415 tables present data on education finances, federal education funding, employment and income of graduates, and international comparisons. Supplemental information is provided on population trends, education demographics of the workforce, and related economic trends.

Tom Schafer and Jeff Faux. "Reclaiming Prosperity: A Blueprint for Progressive Economic Reform." Washington, D.C.: Economic Policy Institute, 1995. *http://epinet.org/epscha.html or 800/EPI-4844*.

The authors examine economic growth and decline of the last two decades within the context of real wages earned. They present analysis of the potential effects that cutting government expenditures and rearranging the welfare system could have on the U.S. economy and household income. They also look at the detrimental effects of competition among states to attract businesses could have on real wages, social investment, and consumption. Finally, they offers their own plan to increase real economic income in the future.

MICHIGAN REVENUE REPORT

July revenue collections increased 3.8 percent above a year ago, slightly below expectations. Personal income tax withholding collections declined 1.5 percent, after a solid 7.6 percent gain in June; year-to-date collections are up only 3.5 percent, well below the state officials' consensus forecast of 4.9 percent.

Sales tax revenue is up 3.9 percent, with motor vehicle collections gaining 9.5 percent; for nonmotor vehicles, receipts were up only 2.8 percent. Use tax revenue is up 7.3 percent. The year-to-date figures for these two important revenue sources are about on target with the consensus estimate.

SBT collections increased 13.9 percent in July, the best performance in some time, but the apparent strength could be due to timing: the quarterly payment was due the last day of July, and whether the figure represents an improvement will not be clear until the August receipts are in.

Lottery sales, fueled by larger-than-average Lotto jackpots, surged 20 percent in July, the fourth consecutive monthly increase. Year-to-date sales are down only 0.2 percent, after lagging well behind 1995 for most of the year.

July 1996 Revenue Collections (millions)

Source	July 1996 Collections	% Change Year-ago	% Change Year-to-date	July 1995 Actual	FY 1995–96 Consensus Est. % Change (5/23/96)
Income tax					
Withholding	$446.3	-1.5%	3.5%	$453.2	4.9%
Quarterly	6.3	12.5	13.6	5.6	9.1
Annual	4.9	28.9	-5.5	3.8	-6.1
Subtotal: gross income tax	457.5	-1.1	3.5	462.6	4.5
Sales tax	453.0	3.9	5.1	436.2	5.3
Motor vehicles	73.5	9.5	5.2	67.1	—
Other	379.5	2.8	5.0	369.1	—
Use tax	91.0	7.3	10.3	84.8	7.2
Subtotal: sales/use/withholding	990.3	1.7	4.8	974.2	5.3
Cigarette tax	48.2	-16.6	-7.1	57.7	-4.8
SBT	247.6	13.9	0.0	217.3	3.3
Insurance	35.8	8.8	6.6	32.9	-2.6
Subtotal: SBT + insurance	283.4	13.3	1.3	250.2	2.7
State education property tax	9.2	7.0	3.5	8.6	3.8
Real estate transfer tax	14.9	19.2	205.4	12.5	21.8
Estate/inheritance tax	9.0	104.5	-15.7	4.4	-5.0
Intangibles tax	0.5	-72.2	21.5	1.8	12.9
Severance tax	3.8	137.5	37.9	1.6	6.6
TOTAL	$1,370.5	3.8%	4.0%	$1,320.4	4.3%
Gross lottery sales	$118.0	20.0%	-0.2%	$98.3	—

SOURCE: Senate Fiscal Agency.