



Perspectives on Jobs and Incomes in Michigan

By Charles Ballard

The first decade of the 21st century was very difficult for the Michigan economy. From the peak of employment in early 2000 until the trough at the end of 2009, Michigan lost 860,000 jobs. Fortunately, employment has increased by more than 150,000 in the last 27 months. While the trend is now in the right direction, it is clear that it will take a very long time before the Michigan economy will provide as many jobs as it did 12 years ago.

The number of jobs is not the only important consideration. The quality of those jobs, and the incomes they provide, is just as important. After we adjust for inflation, per-capita personal income is lower now than it was at the turn of the century.

If we take a longer view, per-capita income is actually about twice as high as it was in the early 1960s. Thus, overall, Michigan is much more affluent than it was only a few decades ago. But even this record of long-term growth has to be interpreted with caution. Michigan, like most other states, has experienced very unbalanced growth since the 1970s. The gap between those at the top and those in the middle and at the bottom has widened substantially. Scientists, engineers, doctors, managers, and others have done very well, but the gains have not necessarily trickled down to the average household.

Thus as we look to the future, merely “growing the economy” is not enough. The goal for Michigan’s people should be to find ways of producing economic growth that is widely shared.

Higher Education

When compared with the national average, the best times for the Michigan economy were in the 1940s, 1950s, and 1960s. Michigan was highly successful with an economy heavily dependent on manufacturing. (As recently as the mid-1960s, 49 percent of Michigan’s economy was in manufacturing.) In those days, the economy provided very strong wages and benefits for large numbers of workers with relatively low levels of education.

However, the global economy has changed dramatically. In recent years, only about 16 percent of Michigan’s economy has been in manufacturing. The number of manufacturing jobs has fallen, and wages for many manufacturing workers have stagnated. In Michigan, as elsewhere in the United States, the largest income gains have gone to workers with a bachelor’s degree or more. In 2006, Massachusetts led the nation in the percentage of adult population with at least a bachelor’s degree, and Massachusetts had the third highest per-capita income in the nation. Connecticut was third in college attainment, and first in per-

capita income. Maryland was fourth in college attainment, and fifth in income. At the other end of the spectrum, West Virginia ranked last among the 50 states in terms of college attainment, and 49th in income. Arkansas was 49th in college attainment, and 48th in income. Alabama was 45th in college attainment, and 41st in income. Michigan was close to the middle of the pack in both measures.

If we in Michigan want to have high incomes, the top priority is to have a highly skilled workforce. In many cases, that will mean at least an associate's degree, and often it will mean a bachelor's degree or more. Thus if the people of Michigan want to have high incomes, one important priority is to increase the fraction of our population who have a college degree.

Early Childhood and K-12 Education

However, it is crucial to emphasize that 100 percent college attainment is not necessary for prosperity. Not every job today requires a college education, and that will remain true in the future. But even those workers who have jobs that don't require a college education will be better workers if they have better skills. Too many people in Michigan today have a high-school diploma, but do not truly have a 12th-grade education. At Michigan State University, and elsewhere across the state, tremendous amounts of resources are devoted to remedial instruction for students who have a high-school diploma, but are not ready for college-level work.

Thus another important priority (even more important than increasing college attainment) is to ensure that every young person in Michigan truly has a 12th-grade education. In order to do this, we need to start at the very beginning. The investments that reap the highest rate of return for society are investments in very young children. It is essential to make sure that every child is truly ready for kindergarten when he or she reaches kindergarten age. In my view, if the people of Michigan are serious about having a strong economy in the future, we should have solid pre-kindergarten programs for every child.

Of course, a kindergartner will be in school for 12 more years before he or she receives a high-school diploma. Many children receive far less than 12 years of education during those 12 years of time. There are many reasons for this. In my view, the most important one is that our children simply do not spend enough time on their studies. Many other developed countries have a school year of 200 days, or even more. Only the United States is stuck in the 19th century, with a school year of 180 days. (Also, as emphasized by the Center for Michigan, many schools in Michigan have many fewer than 180 days in practice.)

The current system of 180 days (or fewer) is an anachronism. We spend enormous amounts of time every autumn, relearning things that were forgotten over the long summer

break. If we in Michigan are serious about having a strong economy in the future, we should extend the K-12 school year to 200 days.

In recent years, much attention has been focused on a variety of educational reforms. These include “No Child Left Behind” (which might more appropriately be called “No Standardized Test Left Behind”), teacher certification, charter schools, and the like. Each of these have pluses and minuses. However, if our children do not do enough math problems, and do not write enough topic sentences, it may not make a great difference whether this lack of effort occurs in a charter school or a public school. The key thing is time and effort. The 200-day school year is a part of that. Parent involvement is also crucial. Even if we have school for 300 days per year, the results will be disappointing if parents do not help children with their homework. Parents must do their part, but teachers and administrators also need to make sure that parent involvement is supported, directed, and encouraged.

If we in Michigan are serious about having a strong economy in the future, we will invest the time, effort, and money necessary to boost the skills and education of our future workers.

Public Revenues

It does not require any taxpayer dollars when a parent reads to a child. However, it is difficult for me to see how we can do what we need to do without additional funding. Higher-education budgets have been subjected to draconian cuts. For many college students from families of modest means, this can lead to mountains of student loan debt. Funding for K-12 education has not been cut to the same extent as higher-education funding, but K-12 funding is also under stress. Also, while I have emphasized investments in human capital, it is important not to forget investments in physical capital. Many of Michigan’s roads and bridges are in poor repair. Letting our roads turn to gravel is not a good strategy for economic development. It will take money to improve our transportation infrastructure. In fact, if road repairs are delayed, it ends up costing taxpayers more in the long run.

Additional revenues are hard to come by in today’s political environment. Nevertheless, the case must be made for adequate funding, so that we can make critical investments.

Forty years ago, state and local taxes were a higher fraction of personal income in Michigan than in the nation as a whole. In recent years, however, the fraction going to state and local taxes in Michigan has been lower than the national average, and the national average is much lower than it once was. If the fraction of income devoted to state and local taxes in Michigan were the same now as it was 40 years ago, we would be collecting about \$8 billion per year more.

The recent changes in business taxation in Michigan mean that we now have a more rational and efficient structure of business taxes than we had last year. In itself, that is a step forward. However, we should not expect the business tax changes to lead to dramatic improvements in the economy. After all, of the 860,000 jobs lost between 2000 and 2009, only a tiny fraction could possibly be attributed to business taxes. The vast majority of the job losses were due to the loss of market share for General Motors, Ford, and Chrysler, and to the devastating financial crisis of 2008. Also, although the business tax system is more efficient than it used to be, the overall level of revenues is sufficiently low that it is very difficult to make the necessary investments in our economic future.

If we desire to strengthen the integrity of our tax system, there are many potential sources of revenue. I would put the sales tax at the top of the list. In Michigan, as in most states, the sales tax applies to very few services and entertainments. Since services and entertainments have long been growing more rapidly than manufactured goods, the sales tax effectively applies to an ever-shrinking fraction of the economy. If we were to extend the sales tax to all final consumer purchases, we could raise more tax revenue while reducing the tax rate. This would give us a sales tax that is fairer and more efficient.

International Connections

America's number-one trading partner is Canada, and the number-one gateway to Canada is Michigan. It will be good for Michigan's economy, both in the short run and in the long run, if we keep it that way. That means that we must have a transportation system that allows for goods to be shipped to and from Canada quickly, easily, and at low cost.

Governor Snyder has joined the Canadian government in proposing a new bridge across the Detroit River. I have discussed this with several economists, and I have not yet heard from one who does not support the bridge. For the moment, however, the bridge has been delayed by attack ads and campaign contributions from the owners of the Ambassador Bridge. The attack ads use a variety of "arguments" against the new bridge. From my perspective, however, the real reason for their opposition to the new bridge is that the owners of the existing bridge want to maintain their monopoly power.

I support Governor Snyder's call for a new bridge. In the short run, it will provide thousands of jobs in the construction industry, which has been hit very hard in recent years. In the long run, it will improve our transportation links with the industrial heartland of Canada. It will also be a symbol of our desire to be a good neighbor. And finally, if we build the new bridge, it will show that public policy in Michigan is not for sale to the highest bidder.

Suggestions for Further Reading:

Charles L. Ballard, *Michigan's Economic Future: A New Look*. East Lansing: Michigan State University Press, 2010.

Timothy J. Bartik, *Investing in Kids: Early Childhood Programs and Local Economic Development*. Kalamazoo: Upjohn Institute Press, 2011.