VIEWPOINT
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Putting the University's Cart before the Economy's Horse

By James M. Hohman and Jack McHugh

Summary

Reforming Michigan's tax, labor and regulatory climate, rather than spending more on higher education, is the key to restoring the state's economy.

Main Text Word Count: 694

An organization calling itself "Michigan Future" gained a lot of press attention recently with a report by its president, Lou Glazer, and University of Michigan economist Don Grimes implying a causal relationship between states having high income levels and also having a greater-than-average proportion of college graduates.

A closer examination strongly suggests that this relationship is spurious. Indeed, when one looks at rates of economic growth — not static snapshots of current income levels — the evidence is mixed at best, and some data even appears to suggest a negative relationship between growth and having more grads.

For example, of the 10 states with the highest proportion of college graduates, none were also among the 10 states with the fastest growing per capita personal income between 2001 and 2006 (a useful period to examine because it more or less covers the recent economic expansion). Only one of those states with more graduates, Vermont, was also among the 10 states with the fastest growing per capita state gross domestic product.

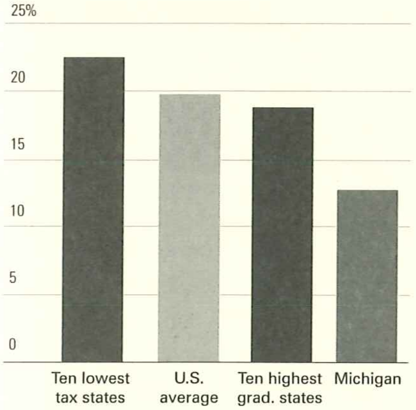
Turning that relationship over, only two of the 10 states with the fastest growing per capita incomes also had a higher-than-average number of college grads, and only four states with higher than average grads were in the top 10 with the fastest growing per capita state GDP.

On the other hand, in research incorporating thousands of observations over 46 years, Ohio University professor and Mackinac Center adjunct scholar Richard Vedder did find a very weak correlation between a state's economic growth over longer periods (rather than the static income level snapshots that are all Glazer and Grimes described) and having a higher-than-average proportion of college degrees among the over-age 25 population.

Before the university lobbyists go running with that information to the Capitol, though, Vedder also discovered that higher spending from state and local governments is correlated with lower per capita personal income growth in a state.

For example, the proportion of personal income spent by Michigan on higher education in 1980 exceeded that spent by Illinois by around

Per capita personal income growth 2001-2006



Source: Author's calculations based on data from the Bureau of Labor Statistics, Tax Foundation, and the U.S. Bureau of the Census.

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one-third, and exceeded Ohio's spending by 15 percent. By 2000, Michigan had increased its spending by nearly double the rate of Illinois, and by half again as much as Ohio. Yet per capita income in Illinois grew much faster than Michigan, and Ohio also grew a bit faster. Many similar examples could be provided.

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Glazer and Grimes didn't say whether they examined other variables. Had they done so, they might have focused on per capita state and local tax burdens, because here the association with economic growth is much more pronounced. Of the 10 fastest growing states in per capita personal income between 2001 and 2006, only three had higher-than-average tax burdens and only two of the fastest-growing per capita GDP states had high taxes. Two of those exceptions in the first batch — Florida and Nevada — compensate by having no state income tax. Nevada also has no state business tax. And unlike the number of grads working in the state, tax burdens are something that Lansing directly controls.

None of this is to say that individuals can't improve their life chances by acquiring a higher education. But the public policy implications of that are by no means as pat as Glazer and Grimes suggest.

Here's the gaping logic-gap that undercuts all the claims that increased state higher education spending will "save" Michigan from its current decline: If, because of a hostile business climate, employers can't make money and so don't create jobs here — meaning that once they graduate, young people must go elsewhere to find work — how does this state benefit from educating the next generation of high-earners in fast-growing, low-tax states like Florida, Alabama and North Carolina?

Michigan Future and the state university lobbyist corps put the cart before the horse: Until Michigan's tax, labor and regulatory policies are repaired so that we become a place that attracts, not repels, investors and entrepreneurs, all the new bachelor's degrees in the world won't do a thing to restore our economy.

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