

Increasing the Economic Development Benefits of Higher Education in Michigan

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Timothy J. Bartik
(bartik@upjohninstitute.org)

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Research shows that increasing the proportion of college graduates will have significant economic benefits.

- One point increase in percent of a local economy's population that is college-educated increases growth over 10 years by one-half point.
- One point increase in percent of a local economy's population that is college-educated increases real wages of non-college-educated residents by 1.4%, college-educated residents by 0.3%, and overall average real wages by 1.1%. These effects are in addition to the wage gains of those educated.

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State and local economic development programs in Michigan are sound, and on margin will help increase labor demand to match labor supply changes due to more college graduates.

- Evaluations of Michigan's economic development policies suggest that they generally do quite well in attraction and retention.
- Michigan's business tax structure is surprisingly competitive. After normal incentives (e.g., abatements), effective state/local business tax rates are: Michigan, 8%; Indiana, 16%; Ohio, 12%; Illinois, 8%; Wisconsin, 9%. In addition, MEGA and Ren Zones are much bigger than anything in these nearby states.

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The economic development benefits of more college graduates are greater from policies to educate current state residents, rather than attracting in-migrants.

- 1-point increase in college graduate percent due to educating state residents will produce income gain for those educated equal to 0.6% of overall state wages, because college education increases wages about 60% for those educated. As mentioned before, the wage gain for other state residents is about 1.1%. Attracting in-migrants only has the 1.1% benefit, whereas educating state residents has the 1.1% plus 0.6%.
- Attracting outside residents has potential costs such as: more congestion, more potential environmental problems, higher public service demands, and higher housing prices. For example, 1% increase in population increases housing prices by 0.4%. Taxes on extra population do not fully pay for extra infrastructure costs.

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Why does higher education have economic development benefits?

- Higher education may increase economic development by increasing labor quality, increasing new business ideas, or making an area a more attractive place to live.
- The labor quality effects of higher education are probably the most important mechanism for increasing economic development. Arguments: increase in proportion college-educated increases wages more than housing and other local prices, which suggests higher education's effects on productivity are important, whereas in-migration would increase local prices more than wages; local growth is much more strongly explained by education of local workforce than by direct measures of new ideas such as number of patents.

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What are some of the “market failures” that impede getting new ideas in higher education into the market?

- **Lack of sufficient number of skilled entrepreneurs.**

Research suggests that entrepreneurship training, for a group of individuals with an interest in entrepreneurship, can increase the number of small business start-ups by one-third. We already have Small Business and Technology Development Centers, but can these efforts be expanded to reach more entrepreneurs connected with higher education?

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What are some of the “market failures” that impede getting new ideas in higher education into the market?

- **Problems in technology transfer and other business information transfer from universities into the market.**

Research shows that manufacturing extension services improve productivity growth in about two-thirds of clients, by at least 3% per year. We already have an extension service in this state; can these services be expanded to draw more on technology and business expertise of university staff?

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- **Problems in financing new ventures.**

Capital markets are imperfect, but direct government involvement is problematic. Michigan already has tax credits for venture capital investment, as in 17 other states, but no evaluation research on this approach is available. However, state no longer funds Capital Access Program, which subsidized riskier-than average bank loans to small business, was imitated by 19 other states, and has received several favorable evaluations.

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What are some of the “market failures” that may impede higher education from providing students with economically relevant skills for high-wage Michigan industries and occupations?

- Imperfect information by students. Can we improve information that students have about likely outcomes of particular majors at particular higher education institutions, for example through using the state’s “wage record” data?
- Most higher education funding is based on number of students, not on the institution’s “outputs” of graduates and the graduates’ earnings.

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- Incentives for higher education institutions can be changed through funding add-on programs with some economic development targets.
 - One example: customized job training. Research suggests that customized job training can significantly increase a firm’s productivity. North Carolina runs most extensive customized training program. A program of North Carolina’s size in Michigan would cost \$62 million annually and train 360,000 workers.

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What are some of the “market failures” that may impede higher education from providing students with economically relevant skills for high-wage Michigan industries and occupations?

- Incentives can also be changed by basing a greater percentage of higher education funding on outcomes, for example numbers of students graduating, and their employment and wages in Michigan. Obviously this approach is controversial. Getting the details of the incentives right is crucial for such a policy to be beneficial rather than harmful.