



TAXES, EDUCATION, AND MEDIAN INCOME
A New Snapshot Leads to Tough Questions for Policymakers
September 2006

BEST TAX STATES	4-YEAR DEGREE COMPLETION	HOUSEHOLD INCOME CHANGE: 1999-2005
ALABAMA	19%	-7.80%
ARKANSAS	16.70%	-7.20%
COLORADO	32.70%	-8.40%
GEORGIA	24.30%	-8.30%
MISSOURI	21.60%	-5.50%
NORTH CAROLINA	22.50%	-11.30%
OKLAHOMA	20.30%	-5.30%
SOUTH DAKOTA	21.50%	-2.50%
TENNESSEE	19.60%	-8.70%
VIRGINIA	29.50%	-0.80%
MICHIGAN	21.80%	-12%
UNITED STATES	24.40%	-6%

BEST EDUCATED STATES	4-YEAR DEGREE COMPLETION	HOUSEHOLD INCOME CHANGE: 1999-2005
COLORADO	32.70%	-8.40%
CONNECTICUT	31.40%	-3.50%
DISTRICT OF COLUMBIA	39.10%	0.50%
MARYLAND	31.40%	-0.50%
MASSACHUSETTS	33.20%	-3.30%
MINNESOTA	27.40%	-5.70%
NEW HAMPSHIRE	28.70%	-2.00%
NEW JERSEY	29.80%	-4.50%
NEW YORK	27.40%	-2.70%
VIRGINIA	29.50%	-0.80%
WASHINGTON	27.70%	-8.10%
MICHIGAN	21.80%	-12%
UNITED STATES	24.40%	-6%

SOURCES: U.S. Census, "Benchmarking for Success: A Comparison of State Business Taxes," by Anderson Economic Group (August 2006), and "Michigan's Economic Competitiveness and Public Policy, by the Upjohn Institute for Employment Research (August 2006)

COMMENTARY

- Nationwide, average workers make less today than they did at the end of the super-charged economy of the late 1990s.
- In 6 of 10 states with the best business tax climates, household income fell more than the national average. So, one question for policymakers is: How would average workers in Michigan benefit from business tax cuts?
- In 9 of 11 states with the most educated populations, household income fell less than the national average. So, other questions for policymakers are: How can we grow a more educated populace in Michigan? In an era of shrinking public resources, how do we pay for a more educated populace? How do we best invest in the education system and hold that system accountable for efficiently producing more educated workers to help Michigan compete in the increasingly competitive, knowledge-based global economy?

There is considerable debate among economists and public policy experts on what matters most for Michigan's future economic prospects.

Consider studies released this summer by the Anderson Economic Group in Lansing and the Upjohn Institute for Employment Research in Kalamazoo. Both studies concluded that Michigan's business tax climate ranks in the middle among all of the states in various nationwide comparisons. But the two studies reached different conclusions about what that middle-of-the-road status means.

The Anderson Economic Group concluded Michigan's future economic prospects and competitiveness could be bolstered if the state lowered taxes and elevated into a list of top ten states with the most friendly business tax climates.

The Upjohn Institute study concluded that lower business taxes might slightly help the economy. But if those tax cuts result in overall lower government spending, the overall economic impact could be negative. In the long run, the study concluded, the state economy might be helped by increasing the state's level of skilled workers (that means more college grads).

These new Census statistics on the recent earning power of Michigan households provide additional ways to look at the issues raised by the Anderson and Upjohn studies. The Census data is by no means conclusive and doesn't solve the riddle about how Michigan should reform its business taxes. Trends in household income are dependent on many complex factors. Comparing the household income trends to business tax rates and degree completion rates are among many snapshots economists, lawmakers and various interest groups might consider in coming months as the tax reform debate continues in Lansing.