



MICHIGAN'S SINGLE-STATE RECESSION AND ITS EFFECTS ON PUBLIC EMPLOYMENT

The significant private sector job losses Michigan experienced during the prolonged state downturn that began in 2001 and continued through the 2008-09 recession are well documented. What is less widely known is the impact that the economic downturn has had on public sector employment in Michigan. While private sector employment has begun to recover, job losses in some areas of government employment continue.

Economists have documented the sluggish economic recovery from the 2008-09 recession. This slow recovery is especially wearisome in Michigan, as the state economy did not fully recover from the earlier and less severe 2001 recession. Since the official end of the 2008-09 recession in June 2009, Michigan's total seasonally-adjusted non-farm employment increased by 6.1 percent as of May 2013. Despite this improvement, total employment is still down by 11.6 percent since the 2001 recession began in March 2001 and by 13.2 percent since Michigan's employment high water mark in April 2000.

While there has been an upturn in private sector employment in Michigan, the number of public sec-

tor jobs continues to steadily decline. Since its trough in July 2009, the private sector workforce has grown by almost nine percent. In contrast, over this same time period, public employment has dropped by almost six percent.

The overall decline in public sector jobs has been driven by the local government sector, which is twice as large as the state government sector. Although there have been losses in some areas of state employment, job losses in local government have been widespread. The contraction of the local government sector is primarily a consequence of the housing market collapse, state policy decisions that impact local government revenue, and to some extent, privatization of local government services. Local government employment losses now exceed private sector losses. From Michigan's employment peak in April of 2000 through May of 2013, private sector employment declined by 13.2 percent, while total government employment fell by 11.1 percent. State government employment, which includes public universities, actually increased by 5.9 percent, while local government employment, which includes K-12 employment, fell by 16.6 percent over this time period.

Michigan's Single-State Recession and the Current Landscape of its Economy

The nation slipped into a recession in March 2001, shortly after Michigan's employment peaked in June 2000.¹ Although the nationwide 2001 recession only lasted eight months, Michigan was considered to be in a single-state recession in the years that followed. According to the Michigan Department of Technology, Management and Budget, the single-state recession started sometime in the middle of 2002, signaled by a disruption in employment recovery following the 2001 recession and a fall in job gains compared to the United States as a whole.² The employment and job losses in Michigan did not begin to show signs of stabilizing until early 2007.³

However, as is well-documented by now, any hopes of a full recovery from Michigan's single-state recession were short-lived as the entire nation slipped into recession in December 2007. The 2008-09 "Great Recession" lasted one and a half years and did not officially end until June 2009.

Between 2000 and 2009, Michigan ranked last in the nation in growth in: population, real per capita gross domestic product (GDP), and employment. Michigan became poorer relative to other states as its per capita personal income national ranking fell from 19th highest in 2000 to 41st highest in 2009.

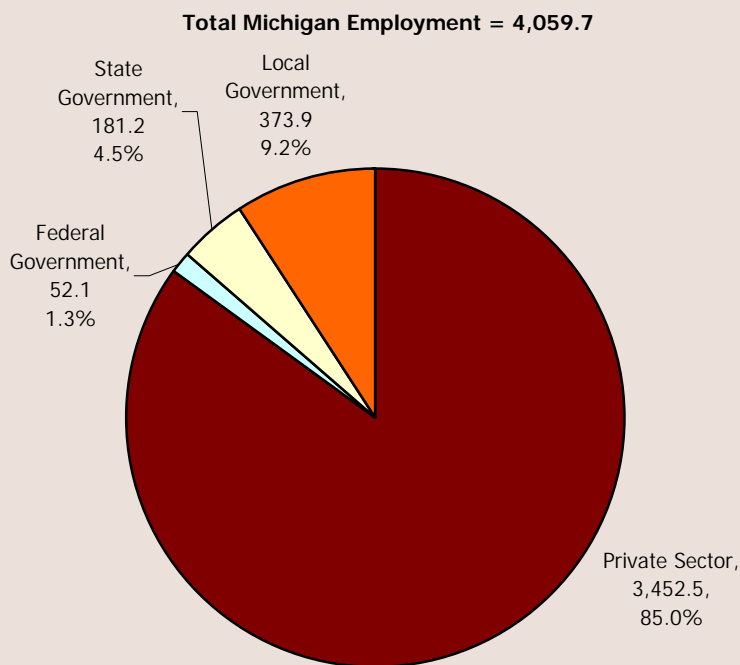


Coinciding with national trends, the Michigan economy has seen signs of improvement, following the end of the national recession in mid-2009. Although still short of its pre-recession levels, the state's real GDP grew by 11 percent from 2009 to 2012. Annual real GDP growth in Michigan exceeded the national average in both 2010 and 2011, and economists expect state GDP growth to remain steady.⁴ Michigan's real GDP growth in 2011 was the 5th highest in the nation, though its rank fell to 18th highest in 2012. Also, the state unemployment rate dropped to 8.8 percent as of July 2013, down over five percentage points since its peak at 14.2 percent in August 2009. February 2010 marked the end of a 47-month streak in which

Michigan had the highest unemployment rate in the country. However, the unemployment rate in Michigan has not yet recovered to its pre-2001 recession level of 4.7 percent in March 2001.

Similarly, employment in Michigan has also increased since the end of the 2008-09 recession based on data from the Bureau of Labor Statistics (BLS). Seasonally adjusted total non-farm employment rose by about 6.1 percent between June 2009 and May 2013. However, employment in Michigan is still down by 535,900 jobs, about 11.6 percent, since the 2001 recession began. **Chart 1** shows the composition of employment in Michigan as of the first quarter of 2013.

Chart 1
Seasonally Adjusted Michigan Employment by Sector:
First Quarter 2013
(in thousands)



Source: Bureau of Labor Statistics (SAE); CRC calculations

In response to the near decade-long economic decline, the State of Michigan was forced to make significant spending changes that transformed the composition of the state budget. State budget decisions directly impacted public sector employment levels for the state government sector, as well as the local government sector. Between Fiscal Year 2000 (FY2000) and FY2010, total state spending increased by 26.3 percent, keeping pace with inflation growth (22.5 percent) over the period.⁵ However, much of the increased state spending was financed by federal aid, not state resources, as state revenue growth was constrained by the effects of the weak economy on major tax receipts. State spending from state resources only increased by 2.5 percent during the same period. As a result, the composition of the state budget was transformed; state expenditures increased for K-12 education (8 percent), corrections (27 percent), and on Medicaid (34 percent), while funding distributed to local governments through state revenue sharing decreased by 34 percent, and appropriations for higher education decreased by 14 percent.

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Employment Stability over the Business Cycle

The size of Michigan’s workforce has not yet recovered to either pre-2001 or pre-2008-09 recession levels. **Chart 2** illustrates the percent change in seasonally-adjusted monthly employment for both the public and private sectors in Michigan since the 2001 recession began.

Public sector employment is mainly comprised of jobs at the state and local level. The “state government” category used by the BLS includes employees of the State of Michigan, staff at public higher education institutions, and affiliated hospitals. The “local government” category includes jobs in general governmental units (such as counties, cities, townships, and villages) and special purpose districts (such as K-12 public schools, libraries, and special authorities). Federal employees are also counted as part of the public sector in a separate category, but are not analyzed for the purposes of this paper.

Although it has continuously shed jobs since the 2001 recession, the public sector is not an insignificant portion of the Michigan workforce and the state’s economic base. Since December 2005, following the downsizing of the automotive industry in the state, more people have been employed in the pub-

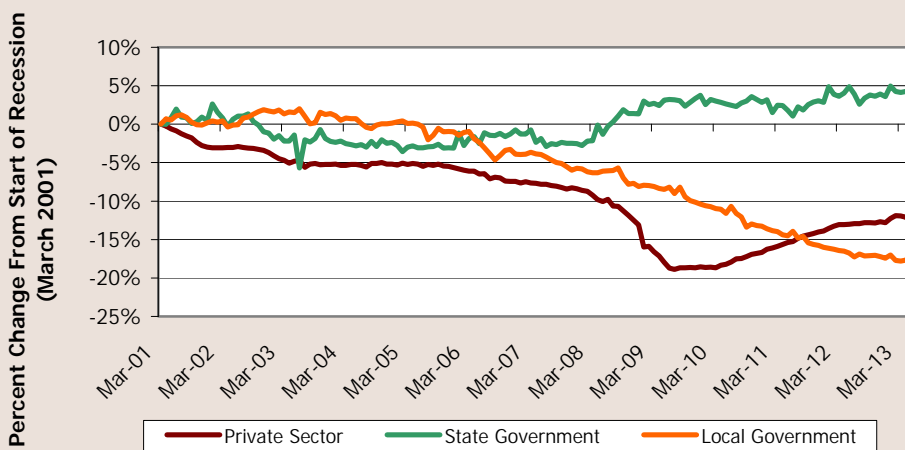
lic sector than in the manufacturing sector – a historically key industry for the state. Also, earnings in the public sector accounted for almost 11 percent of Michigan’s \$371 billion in personal income in 2012.

Although private sector employment has improved since the end of the 2008-09 recession, there were still almost a half million fewer jobs in the private sector in May 2013 than there were in March 2001, a cumulative loss of almost 12 percent. The start and degree of local government job losses lagged behind private sector job losses during the 2001 recession; however, since mid-2005, the local government employment contraction has been continuous and has resulted in a cumulative drop of 17.2 percent compared to March 2001. In contrast to both private sector and local government employment, monthly employment in state government has been relatively stable, and started to grow during the start of the 2008-09 recession. The cumulative growth in state employment since March 2001 is 4.4 percent.

Revenue stability and institutional differences in budgeting processes can account for some of the employment trend disparity between the private sector and the public sector over the business cycle. Until the housing collapse, Michigan local government tax revenues were fairly stable because of the heavy reliance on property taxes. State revenues, which largely come from consumption and income taxes, declined with the economic downturn that began in the early 2000s.

Private sector revenues, and therefore employment levels, are more sensitive to economic activity than revenues and employment in the public sector. Change in demand for private sector goods and services prompts firms to adjust variable costs, which includes labor, accordingly and in fairly

Chart 2
Seasonally-Adjusted Monthly Employment by Sector in Michigan since March 2001



Source: Bureau of Labor Statistics (SAE); CRC calculations

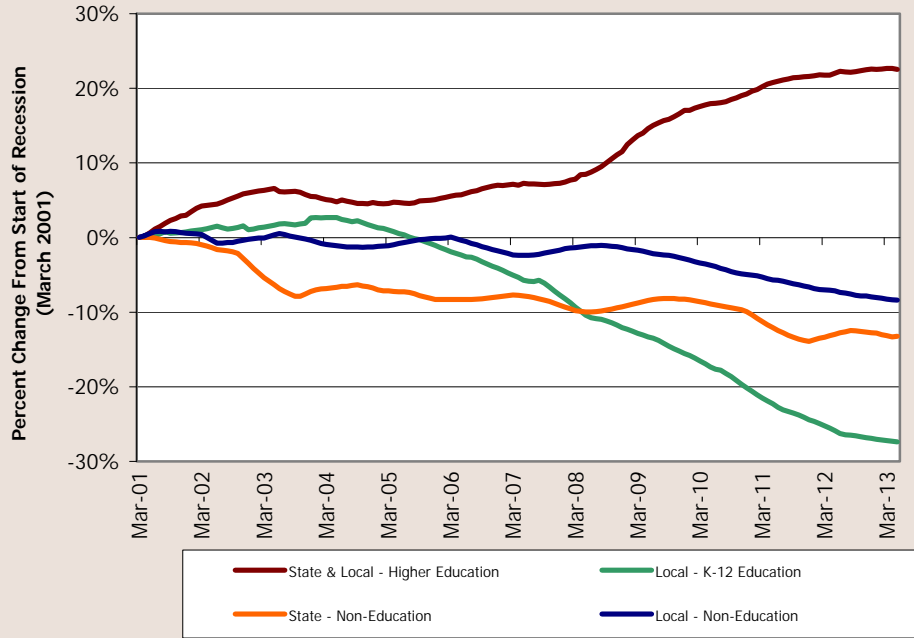
short order. This is evidenced by the immediate and significant decline in private jobs in January 2008 in response to the start of the 2008-09 recession.

In the public sector, a revenue decline may or may not be correlated with a drop in the demand for public services. For example, local government revenues may fall in conjunction with a population decline. However, in many cases, public sector revenues may fall while demand for public services is constant or even increasing. Governments may delay employment adjustments in an attempt to continue to meet perceived demand.

In addition, faced with reduced revenues, state and local governments tend to wait until the next budget year to make personnel adjustments in the wake of an economic downturn. This can result in a lag between the performance of the economy and public employment levels. The timing of tax collections may also contribute to the lag effect. Unlike major state taxes, which are collected on a monthly basis, property taxes are collected only twice per year, and are based on annual assessments.

Chart 3 shows the 12-month rolling average of employment in select sub-sectors of state and local government.⁶ Employment in higher education, which includes staff at both public universities and community colleges, has increased by about 22.5 percent since the beginning of the 2001 recession.

Chart 3
Monthly Public Sector Employment by Sub-Sector in Michigan:
12-Month Rolling Average Since March 2001



Source: Bureau of Labor Statistics (SAE); CRC calculations

This is a stark contrast with the employment picture at the K-12 education level, which has dropped by over 27 percent during the same period. State government employment in sectors other than education, which includes public hospitals and general government, declined by about 13 percent, and employment in general-purpose local government – which includes counties, cities, townships, and villages – declined by 8.4 percent. These trends are largely a consequence of shifts in state funding, revenue losses incurred during and after the recession, and the privatization of services.

Education Employment Trends

Disaggregating the monthly education employment data by the level of government (state/local) and the education sector (higher education/K-12) reveals two very different trends since March 2001 (See **Chart 3**). The number of jobs in the K-12 sub-sector remained marginally above the March 2001 level until mid 2005, when job losses began a steady and unabated decline resulting in a loss of 67,000 jobs by May 2013. With the onset of the 2001 recession, higher education employment increased at a robust rate through mid-2003. The number of jobs in this sub-sector remained between 5 and 7 percent higher than the amount in March 2001 for nearly five years (mid 2003 until early 2008), when another strong growth period began. Since 2001, universities and colleges added 25,000 jobs through May 2013.

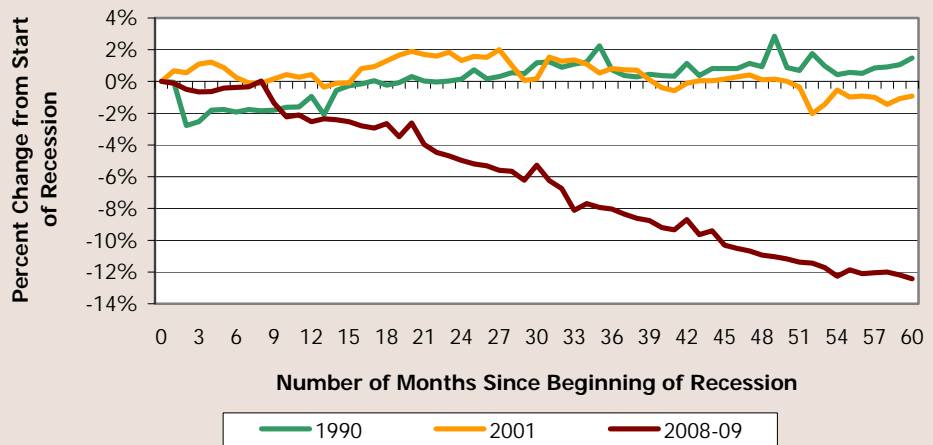
The contrast in growth trends between education sub-sectors can be explained by three factors. First, enrollments at Michigan community colleges and universities ballooned during this period causing institutions to grow with the increased demand. In contrast, statewide K-12 enrollments have declined each year since 2003. Second, higher education institutions have access to revenue sources (e.g., dedicated property tax for community colleges and tuition for both colleges and universities) that K-12 districts do not. These sources helped higher education institutions shore up their budgets (i.e., maintain or increase personnel) when state aid was rolled back or held constant. Finally, data from the Integrated Postsecondary Education Data System points to a change in employment composition over this period; a shift from full-time to part-time employees at both the college and university level. Because the Bureau of Labor Statistics data counts the number of jobs and not full-time equivalents (FTE), the shift away from full- to more part-time workers drove overall growth in the sub-sector.

Local Government Employment

The change in the number of local government jobs after the 2008-09 recession varies dramatically from those after the 1990 and 2001 recessions. Within 60 months of both of the earlier recessions, the cumulative change in local unemployment stayed within about two percent of respective pre-recession levels. This is a significant contrast from the 2008-09 recession in which local government employment has steadily declined since December 2007 with no indications of recovery. This trend is not unique to Michigan, as states throughout the nation continue to see reductions in local government employment well after the end of the 2008-09 recession in June 2009.⁷ However, Michigan still leads all other states in terms of local government job losses with an 11.9 per-

cent decline between July 2008 (which was when local government employment peaked nationwide) and May 2013. (See **Chart 4**.)

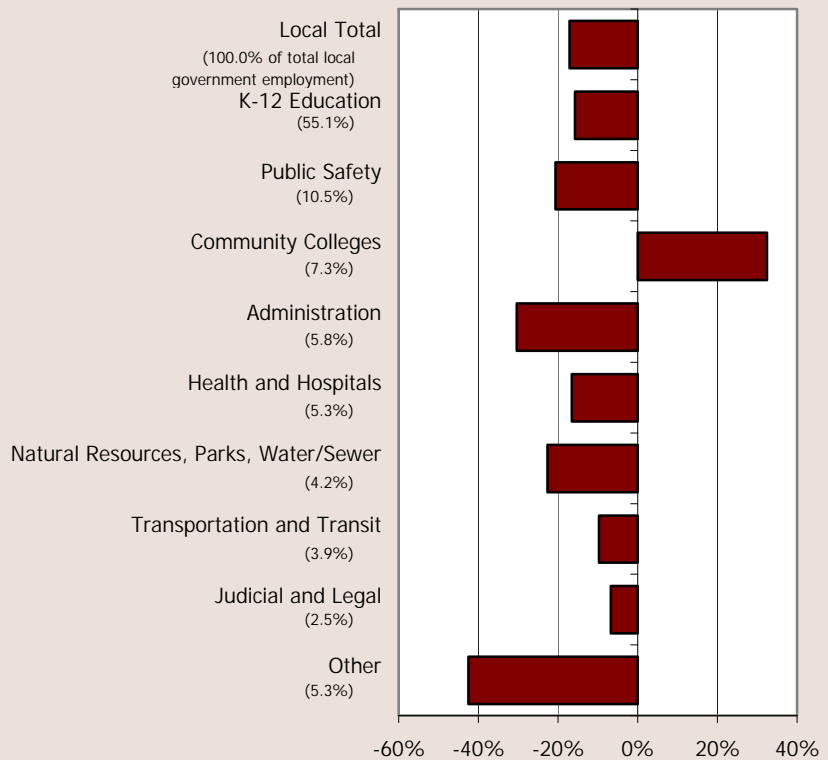
Chart 4
Seasonally-Adjusted Monthly Local Government Employment in Michigan Following Select National Recessions



Source: Bureau of Labor Statistics (SAE); CRC calculations

The majority of local government employment is concentrated in K-12 education (55.1 percent), public safety (10.5 percent), community colleges (7.3 percent), administrative activities (5.8 percent), and health services and hospitals (5.3 percent). **Chart 5** breaks down the change in different sub-sectors of local government employment based on data from the U.S. Census.⁸ According to the Census data, employment in all local government sub-sectors have declined since 2000 except for higher education, which includes both community college instructional and non-instructional staff. Job losses in the categories of K-12 education, administrative services, public safety, and health and hospitals accounted for almost three-quarters of the decline in local government employment.

Chart 5
Percent Change in Local Government Employment from 2000 to 2011
(Ordered by Share of 2011 Total Employment in Parentheses)



Source: U.S. Census (APES); CRC calculations

K-12 Education

Although K-12 education employment continues to comprise the majority of total local government employment in 2011, the number of education jobs has fallen significantly since 2000. Reductions in state funding and declining enrollment are primary factors for this decline. The state School Aid Fund receives funding from the state sales tax, the state education property tax, and the state income tax, all of which have been sensitive to the decline in economic activity during the recession. Between fall 2000 and fall 2012, statewide pupil membership dropped by almost 10 percent, which also influenced the amount of funding individual school districts received since the majority of general operating dollars are distributed on a per-pupil basis.

A growing proportion of revenues for public K-12 school districts are allocated to the Michigan Public School Employees Retirement System (MPSERS) to pay for pension and other post-employment benefit

(OPEB) obligations.⁹ Increasing MPSERS commitments have crowded out funding for other expenditures, including personnel costs for active employees. Between FY2004 and FY2012, MPSERS contributions increased from 8.7 percent to 14.8 percent of all school districts' payrolls. In the same period, the remaining per-pupil revenues declined from \$8,391 to \$7,655 in constant 2004 dollars, a reduction of almost nine percent.

The outsourcing of services is another contributing factor to declining employment. Over the past decade and in response to tightening budgets, public school districts have gradually privatized employment in areas such as food, custodial, and transportation services. While the net change in the number of people physically working in a school may be negligible following any particular privatization effort, such an occurrence would induce an employment accounting swap: a decline in public sector employment and a rise in private sector employment.

Community Colleges

The employment gains in higher education at the local level were caused in part by rising enrollment in local community colleges. According to data from the Michigan Community College Network, fall enrollment increased steadily from 191,688 students in 2000 to 260,175 students in 2010, a 36 percent increase. The demand for higher education tends to increase during recessions as individuals return to school to improve or develop new skills. Additionally, various initiatives that provide financial assistance to those pursuing higher education contributed to the increased demand. Historically, the State of Michigan has offered a variety of merit- and need-based scholarships and grants for attendance at community colleges and four-year institutions.¹⁰ Also, the state launched the No Worker Left Behind program in 2007 to provide tuition assistance to unemployed and low-income individuals. At the federal level, the College Cost Reduction and Access Act was signed into law in 2007 and contained several measures that may have increased demand for higher education: increased Pell Grant disbursements, reduced interest rates on federal student loans, and a new income-based repayment program, among other initiatives.

General-Purpose Governments

Explanations for job losses in public safety, administration, and other areas of local government echo those for K-12 education. Because personnel costs are a major portion of local government expenditures, reductions in staffing are largely attributable to the declines in the revenues for those local governments. Local governments experienced declines in both of their major revenue sources, property tax and state shared revenues.

Between 2007 and 2012, property tax receipts for counties, cities, villages, and townships dropped from nearly \$5.79 billion to \$4.94 billion in constant 2007 dollars, a 15 percent reduction. The state revenue sharing program distributes state sales tax receipts to cities, townships, villages, and counties as outlined by the state Constitution and statutory provisions. The constitutional payments are allocated on a per capita basis, while the statutory payments have

been determined by formulae. In 2001, the state made the first of many reductions in statutory revenue sharing in order to balance the state budget.¹¹ The statutory revenue sharing program was renamed as the Economic Vitality Incentive Program (EVIP) starting in FY2012. The statutory/EVIP portions have steadily declined from \$913 million in FY2001 to \$263 million in FY2012 in constant FY2001 dollars. In total, over \$5 billion has been diverted from the statutory program to other state functions over this time period. EVIP dollars are distributed to only 486 of the 1,775 cities, townships, and villages that received statutory payments in FY1998.

The State of Michigan also distributes receipts from state motor vehicle registration fees and state motor fuel and weight taxes to local governments. These funds are restricted to cover construction and maintenance of transportation systems and the operations of public transit systems. After peaking in FY2004 at \$951 million, the distribution of restricted funds to local road agencies has gradually declined to \$727 million in FY2012, in constant FY2004 dollars.¹²

Similar to K-12 education, rising legacy costs for retirees are crowding out funding for active employees in some general-purpose local governments. The experience of the Municipal Employees' Retirement System of Michigan (MERS) illustrates the effects that growing legacy costs have had on local government finances.¹³ The number of active members per pension recipient in MERS declined from 2.2 in 2000 to 1.2 in 2011. The benefit payout as a percentage of active payroll has increased from 19.7 percent to 31.2 percent during the same period, indicating that retiree pension benefits and OPEBs are consuming a larger share of personnel costs. Given that local governments have concurrently experienced significant revenue decline, the result is a reduction in resources that could be allocated toward wages and benefits for active employees – higher salaries or more positions for improved or increased services.

As of May 2013, the State of Michigan had been awarded \$8.9 billion in federal stimulus monies from the American Recovery and Reinvestment Act of 2009 (ARRA). Over 85 percent (\$7.6 billion) has been re-

ceived and spent.¹⁴ The massive infusion of federal aid allocated to state and local governments helped preserve thousands of jobs in the short term. These funds, however, were always intended to be one-time in nature and now they are mostly exhausted. The ARRA monies mostly delayed the negative effects of the Great Recession on public sector employment in the state.

Facing Limited Options

In the current policy environment, local governments are limited in their ability to counter these employment trends. First, they are subject to several restrictions in their authority to raise revenue, such as:

- constitutional property tax rate limits,
- a constitutional requirement to obtain voter approval to raise property tax rates,
- limited local income tax options (available only to cities), and
- no local options for sales, motor fuel, or other taxes.¹⁵

Growth in property tax revenues is stunted by constitutional provisions in the Headlee Amendment of 1978 and in Proposal A of 1994. Section 31 of the Headlee Amendment limits the authorized millage rate that municipalities can levy when aggregate property values, excluding new construction and improvements, rise faster than the rate of inflation. Proposal A limits the annual increases on the taxable value of individual properties to the lesser of

five percent or the rate of inflation unless there is a transfer of ownership or new construction. The implication of these two policies is that property tax revenues will not grow at the same rate as that of property values when the housing markets improve in Michigan.

Michigan's system of state revenue sharing to local governments is a byproduct of the tax restrictions imposed on local governments. As long as state revenue sharing continues to decline (both in terms of dollars dispersed and the number of qualified recipients) and the local taxing authority remains impaired, local governments face few options for responding to reductions in property tax revenue other than: 1) scaling back the workforce and reducing services or 2) collaborating with other local governments and consolidating services. The latter option would still result in personnel cuts, but it may also offset service reductions.

The inability to deal with rising legacy costs also presents challenges to local government officials. Accrued pension benefits are protected by the Michigan State Constitution. While public employers may adjust pension benefit provisions prospectively for new hires or active employees, the accrued benefits of active employees and retirees cannot be impaired or diminished.¹⁶ In contrast, the protections afforded to OPEB, which primarily comprise of retiree health care insurance, are less defined.¹⁷ Whether these benefits can be amended for current retirees is subject to the individual contracts and agreements made with a particular public employer.

State Government Employment

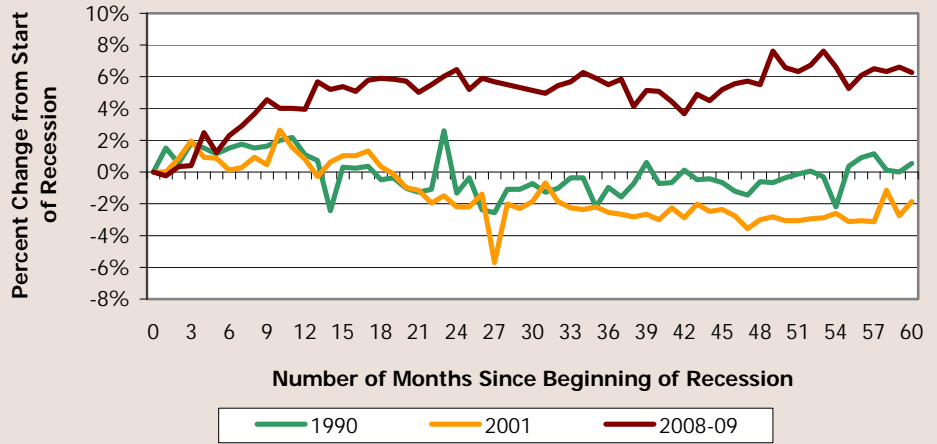
The state government employment trend following the 2008-09 recession contrasts with trends observed following the 1990 and 2001 recessions (See **Chart 6**). While the number of jobs in state government declined slightly during the 60-month period following earlier recessions, employment within the state government category actually increased by about six percent since the beginning of the 2008-09 recession.

State government employment (as counted by the U.S. Census) largely consists of jobs in higher education (62 percent), health services and hospitals (12 percent), and public safety (law enforcement and corrections) (9 percent). **Chart 7** provides a breakdown of the change in employment in various sub-sectors of state government based on the number of jobs in March of each year. Education, health services and hospitals, and administration are the only areas in which employment is greater than that in 2000.

State Government

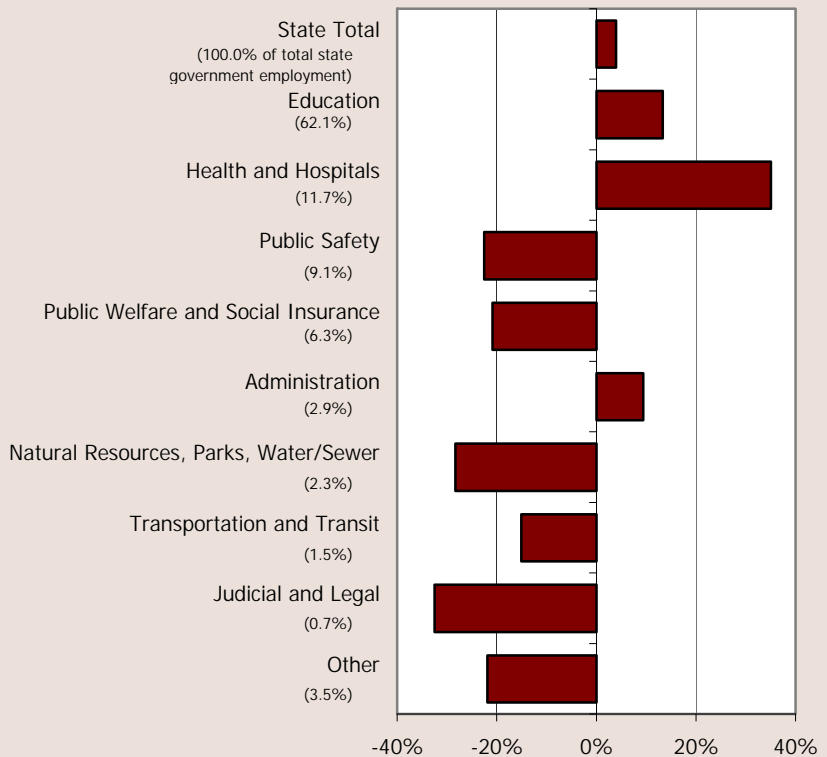
The Michigan Civil Service Commission reports statistics on state classified employees.¹⁸ The classified workforce, which comprises all employment categories except education, health services, and hospitals, has

Chart 6
Seasonally-Adjusted Monthly State Government Employment in Michigan Following Select National Recessions



Source: Bureau of Labor Statistics (SAE); CRC calculations

Chart 7
Percent Change in State Government Employment from 2000 to 2011 (Ordered by Share of Total 2011 Employment in Parentheses)



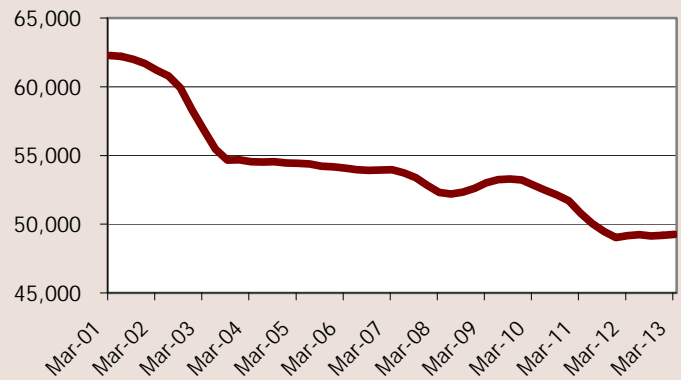
Source: U.S. Census (APES); CRC calculations

shrunk considerably since March 2001 (See **Chart 8**). There was a slight jump during the recession; however, the classified workforce has contracted by about 4,000 jobs since June 2009. The classified workforce has remained steady since December 2011, though the cumulative loss since the beginning of the 2001 recession is about 13,000 jobs (21 percent).

Higher Education

Total employment in higher education at the state level increased by approximately 20 percent between April of 2000 and May of 2013.¹⁹ Similar to the changes in employment for community colleges at the local government level, increases in higher education employment at the state level were caused in part by rising enrollment. Increased enrollment in public universities coincided with the 2001 recession. Between FY2002 and FY2012, the number of fiscal-year equated students (FYES) attending Michigan public universities increased by almost 10 percent. However, higher education employment did not consistently increase over the entire period. **Chart 9** compares enrollment trends with general fund employment at the 15 public universities in Michigan from FY2002 to FY2012. Despite the steady rise in

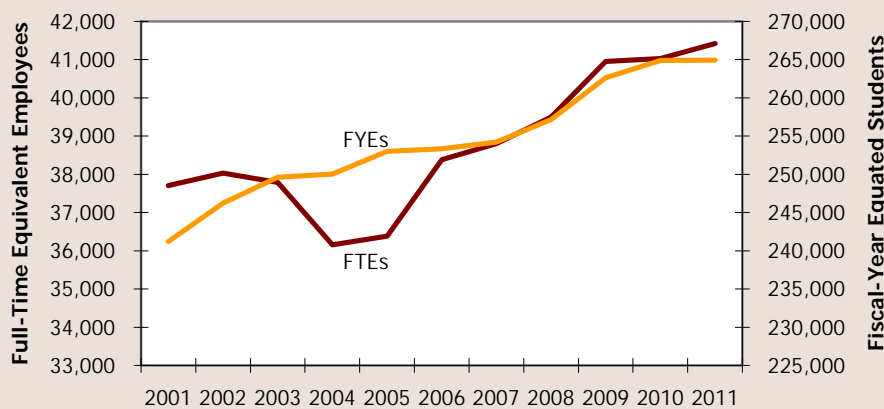
Chart 8
State of Michigan Classified Workforce:
Four-Quarter Rolling Average since March 2001



Source: Michigan Civil Service Commission; CRC calculations

enrollment, employment sharply dropped in FY2005 and then recovered in FY2007. This was mainly driven by Wayne State University, whose workforce shrank in FY2005 by over 1,200 FTE personnel, primarily faculty, likely because of a voluntary retirement program.²⁰ The size of the higher education workforce increased between FY2006 and FY2007, as Wayne State University added almost 1,300 FTE positions, but unlike the FY2005 cuts, these gains were mostly in administration/professional and service fields.

Chart 9
Employment and Enrollment in Michigan Public Universities



Source: Michigan House Fiscal Agency, Public University Summary Data Reports, www.house.mi.gov/hfa/highed.asp.

Even after excluding Wayne State University from enrollment and employment figures, there was still a slight dip in employment for the remaining universities. This was primarily driven by cuts in state appropriations in FY2003 and FY2004 that were then followed by tuition restraint conditions placed on the universities as part of their FY2005 state appropriation that incentivized the schools to limit tuition increases to the rate of inflation (2.4 percent), in return for the state restoring a por-

tion of the previous years' funding cuts.²¹ Since compensation costs comprise 60 to 70 percent of general fund expenditures, this impelled universities to cut back on staffing. After FY2005, universities were then able to raise tuition to a level that compensated for continuing cuts in state appropriations and also maintained revenue at the rate of higher education cost inflation. This resulted in increased employment to meet the needs associated with rising enrollment.

Public Welfare and Social Insurance

Similar to the other state sub-sectors, employment

levels dropped in the public welfare and social insurance sub-sector since 2000. However, employment losses in this area stabilized during the 2008-09 recession, whereas nearly all other state sub-sectors (education being a notable exception) continued unabated. This was primarily driven by a settlement agreement arising from a class action lawsuit involving the Department of Human Services.²² Among the many requirements outlined in the 2008 settlement, the Department of Human Services was to limit the caseload-to-worker ratios at local offices to 15:1 by hiring additional staff. Prior to the settlement, caseloads had been reported as high as 40:1.

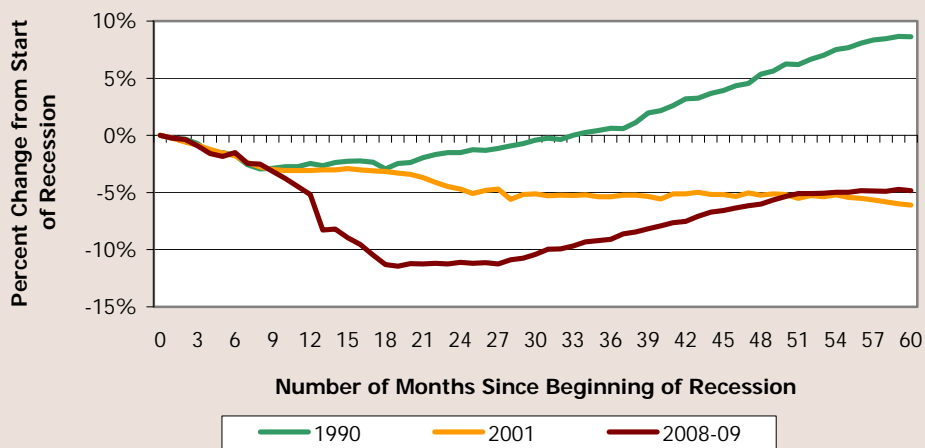
On the Road to Recovery in the Private Sector

The trend in private sector employment after the 2008-09 recession varies from the trends observed following the previous two recessions in 1990 and 2001, each of which lasted 11 months (See **Chart 10**). While private sector employment began to recover immediately after the conclusion of both the 1990 and 2008-09 recessions, it reached pre-recession levels 22 months later for the former. In contrast, the private sector has not yet attained the December 2007 jobs level, nearly four years after the

end of the 2008-09 recession. The private sector in Michigan continuously shed jobs throughout the 60 months following the 2001 recession.

Chart 11 shows category-level changes in private sector employment compared to 2000. In 2012, according to the Bureau of Labor Statistics, the majority of private sector employment was concentrated in trade, transportation, and utilities (21 percent), educational and health services (19 percent), and

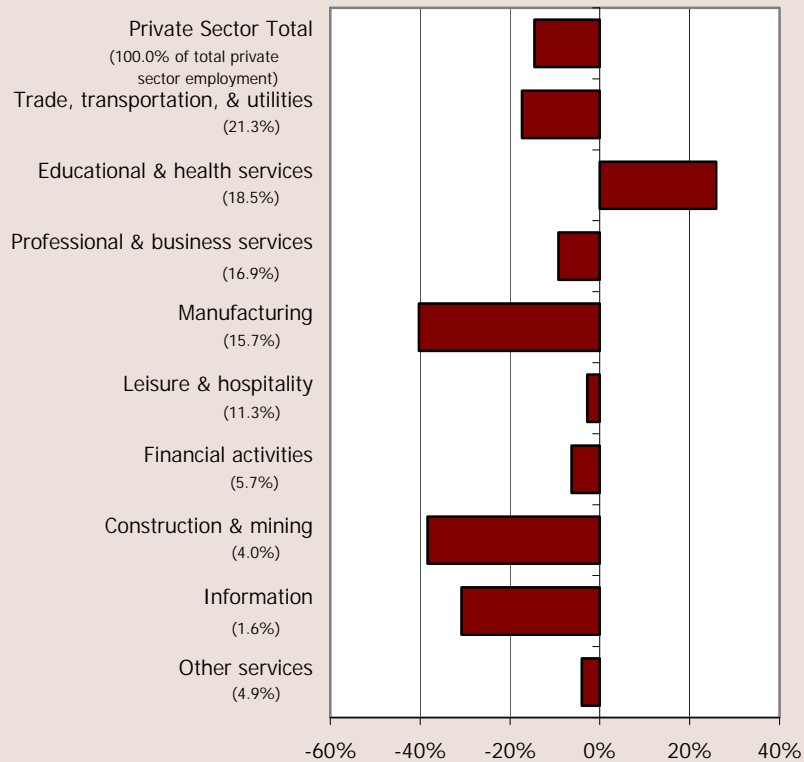
Chart 10
Seasonally-Adjusted Monthly Private Sector Employment in Michigan
Following Select National Recessions



Source: Bureau of Labor Statistics (SAE); CRC calculations

manufacturing (16 per cent). The information sub-sector, which has not experienced recent employment gains alongside the other sectors, includes publishing (excluding internet-based publishing), telecommunications, and wired communications. The continuous decline in employment is likely attributed to improved labor efficiency, substitution of cellular phones for landlines, and the rise of Internet-based content and of e-readers, tablets, and other similar electronic devices, which provide substitutes for print media. The growth in health services employment caused a growth in the educational and health services sector; the only sub-sector in which employment has increased since 2000.

Chart 11
Percent Change in Non-seasonally Adjusted Employment from 2000 to 2012
(Ordered by Share of Total 2012 Employment in Parentheses)



Source: Bureau of Labor Statistics, State and Metro Area Employment

Conclusion

The trends in Michigan employment following the 2008-09 recession vary significantly compared to those following the previous two recessions, in both the private and public sectors. While the private sector has begun to recover, the public sector workforce in Michigan continues to decline. The most striking deviation from past economic downturns is the unprecedented and continuous decline in local government employment, which is driven by lost jobs in general government and K-12 education areas. Temporary relief from federal stimulus funds was unable to overturn the effects of rising legacy cost obligations and chronic revenue losses due to the collapse of the housing market and cuts in state funding to local governments. The nature of an employ-

ment recovery in this sector will depend on the ability of local governments to raise revenues to fund the labor costs, which may require policy reforms at the state level.

Analyzing specific trends in public sector employment demonstrates how overall trends can be driven by dominant sub-sectors, such as higher education at the state level. Despite reductions in state appropriations, public university employment levels expanded over the past decade due to demographics and increased demand for higher education. However, the rise in higher education employment masked the sizeable reduction in state classified employment.

(Endnotes)

¹ National Bureau of Economic Research (NBER). U.S. Business Cycle Expansions and Contractions. *National Bureau of Economic Research (NBER)*. Accessed on August 1, 2013, www.nber.org/cycles.html

² The National Bureau of Economic Research (NBER) is the official source for dating the business cycle. The term “single state recession” is not a term used by the NBER, but became commonly used in Michigan to refer to the prolonged economic malaise experienced in the past decade while economic growth was the norm for most or all other states.

³ Michigan Department of Technology, Management, and Budget. (2011). *Is Michigan's Economic Recovery Real? Re-Thinking the One-State Recession*. Michigan Department of Technology, Management, and Budget. Accessed on June 19, 2013 michigan.gov/documents/cgi/cgi_census_OS_R_Pres_11-0516_354250_7.pdf

⁴ Michigan Department of Technology, Management & Budget. (2013). *Michigan Economic and Workforce Indicators and Insights*. Accessed on May 23, 2013

milmi.org/admin/uploadedPublications/1986_Winter_2013_Michigan_Economic_Workforce_Indicators_Insights.pdf

⁵ Olson, G. (2010, May 17). *Michigan's Fiscal Future*. Presented at the Business Leaders for Michigan Summit, Lansing, MI. Accessed on August 17, 2013 www.businessleadersformichigan.com/storage/documents/may-2010-summit/Gary_Olsons_Presentation.pdf

⁶ Because the BLS does not provide seasonally-adjusted data for these sub-sectors, CRC used the rolling average to smooth out seasonal fluctuations in employment in order to better visualize trends.

⁷ Dadayan, L., & Boyd, D. J. (2013). *The Depth and Length of Cuts in State-Local Government Employment Is Unprecedented*. Nelson A. Rockefeller Institute of Government. Accessed on May 14, 2013 www.rockinst.org/pdf/government_finance/2013-01-09-State-Local_Government_Employment.pdf

⁸ The Census data details more sub-sectors in the public sector than the Bureau of Labor Statistics employment data; however, the release of the Census information lags the BLS data. The employment estimates for common sub-sectors, such as education or health services and hospitals, may vary between the two data sets, but are comparable.

⁹ Citizens Research Council of Michigan. (2013). *Funding for Public Education: The Recent Impact of Increased MPSERS Contributions* (State Budget Note No. 2013-01). www.crcmich.org/PUBLICAT/2010s/2013/sbn201301.html

¹⁰ State of Michigan. (2012). MI Student Aid - History of State Programs. Accessed on June 6, 2013, www.michigan.gov/mistudentaid/0,4636,7-128-60969_61002_61357-279168--00.html

¹¹ Pratt, E., & Zin, D. (2013, March 14). *Revenue Sharing: The Governor's Recommendation for FY 2013-14 - REVISED*. Accessed on June 20, 2013 www.senate.michigan.gov/sfa/Publications/Memos/RevShareMemo031413.pdf

Michigan House Fiscal Agency. (2011). *Background Briefing - Revenue Sharing* by J. Stansell. Accessed on June 20, 2013 www.house.michigan.gov/hfa/PDFs/Briefings_New/Briefings/Revenue%20Sharing10-11.pdf

¹² Michigan House Fiscal Agency. (2013). *Financing Michigan's Transportation Network: the State Transportation Budget and Beyond* (Fiscal Focus) by W. Hamilton. house.michigan.gov/hfa/PDFs/FINAL%20transportation%20budget%20Apr2013%20v2.pdf

¹³ As of December 2011, the Municipal Employees' Retirement System of Michigan (MERS) managed the retirement systems for 721 out of the approximately 2,500 local governments in the state of Michigan that are not schools. (2011). *Summary Report of the 66th Annual Actuarial Valuations as of December 31, 2011 for the 721 Defined Benefit Plan and Hybrid Plan Municipalities*. Municipal Employees' Retirement System of Michigan (MERS). Accessed on June 13, 2013 www.mersofmich.com/Portals/0/Assets/ActuarialReport/annual_actuarial_report-2011.pdf

¹⁴ United States. Recovery Accountability and Transparency Board. (2013). *Recovery.gov - Tracking the Money*. Accessed on August 8, 2013, www.recovery.gov/Pages/default.aspx

¹⁵ Citizens Research Council of Michigan. (2012). *Using State Shared Revenues to Incentivize Local Government Behavior* (State Budget Note No. 2012-03). www.crcmich.org/PUBLICAT/2010s/2012/sbn2012-03.pdf

¹⁶ Article IX, Section 24 of the 1963 Michigan Constitution states that: “The accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby.” Historically, this has been the understanding and the rule in Michigan. However, the City of Detroit's recent file for Chapter 9 bankruptcy has called into question whether a federal bankruptcy judge has authority to overrule provisions in the state constitution. The authority of the Article IX, Section 24 may be tested if the Detroit is able to establish eligibility for bankruptcy.

¹⁷ In 2005, the Michigan Supreme Court ruled in *Studier v. Michigan Public Schools Retirement Board* that health insurance benefits are not included in the “accrued financial benefits” protected by the State Constitution.

¹⁸ State classified employees are individuals that fill any state position except: elected officials, heads of principal departments, members of boards and commissions, employees of the courts and of the legislature, employees of the state institutions of higher education, members of the armed forces of the state, and a few other similar positions.

¹⁹ Employment totals calculated using a 12 month rolling average to remove variations due to seasonal factors.

²⁰ Wayne State University. *Wayne State University General Fund Budget FY2005*. Accessed on July 10, 2013 budget.wayne.edu/MajorPublications/BudgetBook/FY05BudgetBookver2.0.pdf

²¹ Michigan Senate Fiscal Agency. (2004). *Governor Granholm's FY 2004-05 Budget - Overview of Recommendations* by Gary Olson. Accessed on July 17, 2013 www.senate.michigan.gov/sfa/main/FY0405GovsRecOverview.pdf

²² *Dwayne B v. Granholm*. The Children's Rights nonprofit organization that filed on behalf of about 19,000 children in state custody alleged that foster children were maltreated or neglected while in state custody, that they lacked access to basic physical and mental health services, that they were subject to excessive lengths of stay in state custody, and that they were subject to frequent moves among multiple placements. For more information see Michigan Senate Fiscal Agency. (2008). *How the Children's Rights Settlement Will Affect the State of Michigan* (State Notes) by D. Fosdick. Accessed on June 24, 2013 www.senate.michigan.gov/sfa/Publications/Notes/2008Notes/NotesSepOct08df.pdf