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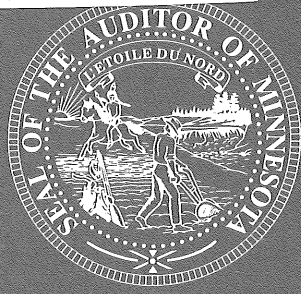
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MINNESOTA OFFICE OF THE STATE AUDITOR

MINNESOTA'S ECONOMY:
FACING THE FACTS

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STATE AUDITOR

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The Office of the State Auditor is a Constitutional office which provides a post-audit function for local governmental units. The Office attests to the fairness of these financial statements as well as to their compliance with applicable laws and regulations.

In general, the Office facilitates improved financial management practices within the State through its oversight programs and contributes to the ongoing economic education of public officials and taxpayers.

The State Auditor has financial oversight for over 4400 local units of government. The local units of government include the following:

- 1800 townships
- 855 cities
- 517 educational districts
- 87 counties
- 700 police and fire relief association funds
- 150 housing and redevelopment authorities
- 22 port authorities
- 91 soil and water conservation districts
- 144 (approximate) special districts

The State auditor also maintains a data base of financial information on local governments. The data are collected by the Financial Health Program which assesses long-term trends for cities and counties.

The State Auditor serves on the State's Executive Council, Land Exchange Board, State Investment Board, State Housing Finance Agency, Rural Finance Administration Board, and the Public Employees Retirement Association Board.

MINNESOTA'S ECONOMY:
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NOV 28 1990

INTRODUCTION

Economic hardship is spreading in Minnesota. Job creation is slow. Wages are running behind inflation. Enrollment and payments in public assistance programs are up.

Statistics which illustrate the deterioration of the state's economy have received scant attention while the public eye has been fixed on a reassuringly low unemployment rate.

However, the unemployment rate is only an estimate, and not a reliable one at that. For more than a year, the unemployment rate has held steady while all precise measurements of unemployment and hardship have shown significant increases. Calculated in an honest but very clumsy fashion (See Appendix), the unemployment estimate has been masking serious problems that require government attention.

Many of those who are employed are not making enough money to meet their basic needs. They require government assistance. Along with the unemployed and the discouraged, they are putting a tremendous strain on human services programs.

The problem of hardship is most acute in rural Minnesota. According to the U.S. Department of Commerce, three fourths of the new jobs created in the state from 1977 to 1988 were created in the seven county Twin Cities metropolitan area. In that time, 22 of Minnesota's 87 counties suffered a net loss of jobs.

The shortage of opportunities in rural Minnesota has sparked a migration to the Twin Cities. The 1980 census showed that residents of the seven county Twin Cities metropolitan area were outnumbered by residents of the other 80 counties. The 1990 census is almost certain to show the opposite.

The concentration of the state's population in the Twin Cities region is a mixed blessing. Pollution, congestion and crime are increasing. State and local governments contend with massive highway and sewer projects. The days of reckoning are approaching on extremely expensive items like airport development and mass transit.

The Northwest Area Foundation, a philanthropic organization based in Saint Paul, recently called for new public strategies to strengthen economic ties between urban and rural communities. In its April newsletter, authors David Harrison and Jonathan Seib asserted that urban citizens have a stake in strengthening less populated areas.

Without such a strategy, they warned, "Urban dollars will ultimately subsidize the rural poor. Urban growth, reflected in ever-rising costs and congestion, threatens to decrease the quality of life for which Northwest metropolitan areas are known. An increase in the number of economically strong rural communities could eventually alleviate pressures being placed on cities and their expanding suburbs."

INDICATORS OF DETERIORATION

Statewide economic improvements are impossible, however, while the economy is deteriorating. At the moment, almost all indicators show that it is.

The number of Minnesotans receiving unemployment compensation from October, 1989, through April, 1990, was 9.4 percent higher than the number for the same period a year earlier. The official estimate of unemployment for October through April, however, was 1.9 percent below the previous year. No explanation of the contradiction has been offered. In fact, the contradiction has not even been acknowledged.

The number of persons receiving unemployment benefits was higher than the number for the previous year for 13 straight months through April. The April figure of 47,616 was 9 percent higher than the April, 1989, figure of 43,540, and 24 percent higher than the April, 1988, figure of 38,680.

The number of unemployment compensation recipients who have been drawing benefits for 15 weeks or more has also been higher than the previous year's total for 13 straight months. The March total of 15,900 was the highest for any month since April of 1986. Because unemployment benefits expire after 26 weeks, this group is a special concern for the state and is defined as long term unemployed.

Average weekly earnings, adjusted for inflation, shrank by \$8.95 during the first nine months of 1989. Weekly earnings in 1988 had increased by the rate of inflation plus \$3.85. (Earnings data for the fourth quarter of 1989 have not been published.)

Statewide payroll wages, which increased by more than 4 percent after adjustment for inflation in 1987 and again in 1988, increased by less than 1 percent after inflation adjustment in 1989.

The growth of manufacturing employment began to taper off in January, 1989, and came to a stop in December. Average weekly earnings in manufacturing had been lagging behind inflation even when jobs were increasing. Weekly earnings for 1989, adjusted for inflation, were \$29.69 less than in 1986.

More than 5,000 office and computing jobs have been lost in less than two years. Average weekly earnings, which topped \$600 as recently as last summer, skidded to \$481.20 in April. Total payroll in office and computing jobs fell from \$24 million in September to \$17 million in April. Until this year, office and computing jobs carried the highest wages of any manufacturing sector.

Estimated statewide employment grew by 1.1 percent in 1989 after increasing by 4.6 percent in 1988. Estimated employment growth for the first four months of 1990 was 1.5 percent.

(See appendix for labor market information.)

INCREASING DEMANDS ON PUBLIC ASSISTANCE

The decline of the Minnesota economy is also illustrated by increasing demands on public assistance programs. Statistics show enrollments and payments growing in all programs. The more current the data, the greater the increases are.

For the first 11 months of the 1990 fiscal year (July 1, 1989 - May 31, 1990), food stamp enrollment was 7 percent above the same period of the previous year. Food stamp payments were up 21 percent. Preliminary figures for April and May show enrollment up 12 percent and payments up 28 percent.

Enrollment in Aid to Families with Dependent Children (AFDC) is up by 1 percent for the fiscal year and payments are up 3 percent. For April, AFDC enrollment was 4 percent above the previous April and payments were up 7 percent.

County human services officials surveyed by the Office of the State Auditor stated that food stamp enrollment is growing faster than AFDC enrollment because many who are eligible for both had been applying only for AFDC, which pays about three times as much per person as food stamps. Because of increasing need, these individuals are now also applying for food stamps.

The two programs together cost \$423 million in fiscal year 1989. The cost for fiscal year 1990, assuming no sudden increase or decline in May and June, was probably \$461 million, for an increase of 9 percent.

The following table shows the growth of all major public assistance programs:

PUBLIC ASSISTANCE PROGRAMS				
FISCAL YEAR 1990 COMPARED TO FISCAL YEAR 1989				
Source: Minnesota Department of Human Services				
	<u>Enrollment</u>	<u>Payments</u>	<u>Most Recent Month</u>	
			<u>Enrollment</u>	<u>Payments</u>
Food Stamps	+ 7.0%	+ 20.8%	+ 11.1%	+ 27.9%
AFDC	+ 1.3	+ 2.7	+ 3.9	+ 7.1
Medical Assistance	+ 5.6	+ 11.5	-	+ 14.5
General Assistance	+ 2.8	+ 16.9	+ 7.4	+ 8.0
G.A. Medical	+ 6.4	+ 18.7	+ 12.3	+ 24.0
Supplemental Aid	+ 16.8	+ 25.8	+ 21.7	+ 19.2
Supplemental Security	+ 3.8	+ 10.0	+ 5.4	+ 12.9

The unemployed parent program of AFDC also shows an accelerating trend:

UNEMPLOYED PARENTS PROGRAM		
	<u>1990 Compared to 1989</u>	
	<u>Enrollment</u>	<u>Payments</u>
January	+ 2.7%	+ 5.8%
February	+ 4.5	+ 5.0
March	+ 5.2	+ 8.8
April	+ 8.1	+ 11.9

Public assistance statistics not only confirm the deterioration of the economy as already described by unemployment compensation and payroll data, but they also undermine the credibility of the statewide unemployment estimates.

In the first three months of calendar year 1990, an average of 170,000 persons in 57,000 families were receiving AFDC; 260,000 in 107,000 households were receiving food stamps; 184,000 were receiving medical assistance; 37,000 were receiving supplemental security income; 25,000 were receiving general assistance; 27,000 were receiving general assistance medical care; 15,000 were receiving supplemental aid; and 9,000 were receiving work readiness aid.

In the same period, estimated unemployment averaged 113,000, and 58,000 were receiving unemployment compensation, which is an employer financed insurance program and not a public assistance program. That leaves an estimated 55,000 uninsured unemployed persons. Even if some double and triple counting is assumed, the public assistance enrollments dwarf the estimate.

The data also call into question the county estimates. In 1989, Hennepin and Ramsey counties together had 34 percent of the state's population and 38 percent of its labor force, but only 31 percent of its unemployment. The counties had 44 percent of all AFDC cases, however. Beltrami County had the highest AFDC enrollment in the state--10 percent of its population--even though 28 counties had higher estimated unemployment rates.

To obtain current information, the Office of the State Auditor telephoned human services departments in 15 counties on July 18. The following responses were received:

Beltrami County: June food stamp enrollment was 12 percent greater than in June of 1989.

Anoka County: AFDC enrollment is up 32 percent from last September. Food stamp and medical assistance enrollments are both up 13 percent from a year ago.

Ramsey County: AFDC enrollment increased 6 percent from June of 1989 to June of 1990. Medical assistance enrollment was up 8 percent and general assistance was up 13 percent.

Hennepin County: Food stamp enrollment increased 10 percent between March of 1989 and March of 1990. AFDC enrollment was up 5 percent.

Polk County: One fourth of the children in Crookston are on public assistance. In the small towns, half of the children are. An official stated: "I have never seen it this bad for the children."

Brown County: AFDC enrollment increased 5 percent from June of 1989 to June of 1990.

Aitkin County: Food stamp payments in 1989 were \$472,909. Payments in the first half of 1990 were \$463,483.

Becker County: From May of 1989 to May of 1990, food stamp enrollment increased by 20 percent and AFDC increased by 7 percent. Food stamp cases have risen from 513 in 1983 to 1,120.

Murray County: Food stamp enrollment is down 6 percent from July of 1989. Payments are up 5 percent.

Winona County: Food stamp enrollment is up 22 percent from a year ago, and payments are up 51 percent.

St. Louis County: Food stamp enrollment in May was 9 percent above the previous May. Payments were up 24 percent.

Stearns County: June food stamp enrollment was 1 percent above January. Payments were up 4 percent.

Clay County: Food stamp enrollment in June was 32 percent ahead of the previous June. Payments were up 10 percent.

Crow Wing County: Food stamp enrollment is up 15 percent since January 1.

Kanabec County: Food stamp enrollment in June was 32 percent ahead of the previous June. Payments were up 59 percent.

Officials in several of the counties said their human services staffs are overloaded. In St. Louis County, applicants must wait two weeks for interview appointments instead of the customary three days. Two counties reported that employees are working overtime without extra pay.

Other comments: "We are bursting at the seams;" "Total frustration;" "Extremely hectic;" "Must rush everything."

THE RURAL MINNESOTA ECONOMY

Minnesota is not as rural as it used to be. Not only has the Twin Cities area absorbed an increasing share of the population, but the population in the rest of the state has clustered into regional centers.

Rochester, Moorhead, Marshall and Hutchinson have more than doubled their populations since 1950. St. Cloud has gained 17,000, and the combined population of Mankato and North Mankato has also grown by 17,000. Owatonna has gained 9,000; Willmar, 8,000; and Albert Lea and Northfield, 5,000 each.

The gains of these cities have come at the expense of truly rural areas. Many counties have lost 20 percent or more of their population since 1950. Some have lost more than one third.

In 1950, one of every 17 Minnesotans was a farmer. Today, the ratio is one out of 50. Gradual consolidation of farms has driven the children of farm families to cities in search of work. When work has not been available in small county seats without industry, job seekers have moved to the larger county seats or the Twin Cities.

In recent years, economic activity has disappeared from farm counties even faster than the people have. From 1984 to 1988, 22 of Minnesota's 87 counties had a net loss of retail sales, despite a 14 percent inflation rate. The volume of goods purchased in some counties decreased by more than 20 percent.

Minnesota also has regions which are not primarily agricultural but which have rural characteristics such as sparse population and declining economic activity. These areas, in Central and Northern Minnesota, usually have the highest estimated unemployment rates.

These problems prompted the Legislature in 1986 to create the Rural Development Board. Its charge was to enhance technology, manufacturing, agricultural processing, information and marketing in rural Minnesota. The board includes three state department commissioners, the president of the Greater Minnesota Corporation, the heads of the four higher education systems, and six appointees of the governor.

The Legislature asked the board to produce a rural investment guide with "policy statements, objectives, standards and program criteria." The law states, "The board may require state agencies to submit for review any state program relating to rural development. The board may comment on the program and may recommend changes consistent with the rural investment guide."

The guide took three years to complete, and when it was published this year, it lacked the elements which the Legislature requested. It contains economic data and descriptions of state programs, but it sidesteps policy issues and sets no program criteria.

It states, "The Legislature faces serious limits in its ability to create positive change in greater Minnesota...The basic economic imbalance in Minnesota may be beyond the reach of state government." The positive, decisive board envisioned by the Legislature has turned out negative and passive. Its sweeping powers of coordination and review have been wasted.

Positive change in greater Minnesota is not impossible. It will take hard work, and solutions must be tailored to fit different regions. But the job must be tackled, for the sake of all Minnesotans.

RECOMMENDATIONS

The first step in solving a problem is admitting that the problem exists. The decline in the quality and quantity of new jobs presents a challenge for Minnesota, but the challenge cannot be met until the facts are faced.

The monthly estimate of employment and unemployment should not be a political tool. Policy should flow from scientific measurements derived from as many sources as possible.

Two vital elements of private sector job creation in Minnesota are workers' compensation reform and commercial-industrial property tax relief. The commissioner of Labor and Industry recommended several steps toward reform of workers' compensation in March. His proposals and others should be given priority consideration. Commercial-industrial tax relief was legislated in 1989, but was withdrawn at the first sign of state budget problems. It should be reinstated.

The benefits of these reforms would not reach all of rural Minnesota, however, until communications systems are ready for the 21st Century. Transmission of facsimiles by telephone--"faxing"--is impossible in the many areas which are still served by antiquated telephone equipment. Fiber optic technology with its many benefits has not advanced beyond its infancy stage.

Businesses will not invest where the conveniences of up-to-date technology are missing. The Citizens League recently called for a five year plan to bring telecommunications capability to every home and a 15 year plan to deploy high speed communications networks throughout the state. These goals should be adopted.

The rapid and efficient movement of persons and goods is as important as the rapid and efficient movement of information. Rural Minnesota's highway, rail and air transport systems must also be poised for the next century.

Areas which lack adequate health care should be identified and special support should be provided for home care, clinics, physicians' assistants and hospitals in those areas. Features of state health programs that tend to work against rural health care should be eliminated. Features of federal programs which have the same effect should be offset by state initiatives.

Last but not least, Minnesota's commitment to education should increase. Education is the best way to create good jobs.

Preparation for the future will require private and public investment. Business will invest in rural Minnesota because the odds of getting a decent return are improved. Government will invest in rural Minnesota because citizens of the state want to avoid the staggering financial and social costs of drawing another million or two citizens into the Twin Cities.

APPENDIX

Nothing creates more problems for government than unemployment. The loss of a job immediately translates into direct costs for government benefit programs. Continued unemployment drives up indirect costs for social services, health care and public safety. Unemployment also cuts into government revenue. Among all indicators of government financial stability, then, unemployment statistics are the most important.

Unfortunately, unemployment statistics are not reliable. There are a variety of ways to measure employment and unemployment, but all of them have flaws. Two measurements, side by side, may give very different pictures of the labor market.

When the official state estimate of employment for April showed a loss of 25,000 jobs, state analysts said the statistic should be overlooked because a more accurate one, payroll employment, showed the expected seasonal gain of 25,000 jobs. When the official estimate for May showed a decrease in unemployment, the same analysts applauded the estimate and made no mention of payroll employment.

The official monthly estimate of unemployment is based on the Current Population Survey of the U.S. Bureau of Labor Statistics. The bureau interviews 59,500 households throughout the nation each month. Survey workers, using standardized criteria, decide who is employed, who is unemployed and who is not in the labor market.

From the monthly sample the bureau produces an estimate of the national unemployment rate. The sample also allows for estimates of the unemployment rate in the 11 most populous states, in which the sample groups are large enough to be reasonably accurate. The Minnesota sample is not large enough to allow a direct estimate.

Prior to 1989, the monthly estimate for Minnesota and the other 38 less populous states was computed by a process called the handbook method. The handbook method combines data from the Current Population Survey with data from a survey of employers, state unemployment compensation statistics and other state data.

The handbook method was criticized by labor experts for its inaccuracies, particularly its tendency to overestimate unemployment in recessions while underestimating it in times of economic growth. In January, 1989, the bureau replaced the handbook method with a technique known as regression.

The Minnesota Labor Market Review, published by the Department of Jobs and Training, reported the change in its February, 1989, issue. "Users of monthly unemployment rates are likely to notice that the new methodology produces more pronounced month-to-month changes than did the former method," it stated.

The Labor Market Review reported that the new technique had been tested by applying it to 1978-87 month to month data. For seven of the 12 months, the new technique produced significant differences in the estimates.

With the handbood method, unemployment rates usually did not change much from February to March. With the new method, unemployment fell in March. The new method changed a July to August decrease of unemployment into an increase, and had the opposite effect between September and October.

The change of estimation methods makes it impossible to compare 1989 and 1990 estimates with pre-1989 estimates. The greater month to month fluctuations produced by the new method complicate any attempt to compare estimates in the short term. Without history or stability, the monthly statewide estimate is practically useless.

Worse, the old method still governs the monthly estimate for Minnesota's 87 counties and its major cities. In April, the estimated labor force was 25,000 fewer than the estimated labor force for March. The shrinkage of the estimated labor force was most pronounced in counties that are the most dependent on agriculture. In Rock and Lac qui Parle counties, the April labor force was smaller than the number employed in March. This means that employed persons as well as unemployed persons dropped out of the labor force in farm country at the first sign of spring.

The Department of Jobs and Training, when asked for an explanation of this phenomenon, advised the Office of the State Auditor not to place any reliance on the monthly county estimates.

Even in its broadest applications, the survey is reliable only within a range of error. The figures which are quoted by politicians and the press are merely the midpoints of the range of possible correct answers. For instance, the Bureau of Labor Statistics estimated Minnesota's 1988 unemployment at 4.0 percent, but noted that the range of error was 3.5 to 4.6 percent. The reported rate for the nation in 1988 was 5.5 percent, but the range was 5.4 to 5.6 percent.

The range of error widens as the subject group narrows. Below are the 1988 Minnesota estimates and the ranges of error:

1988 MINNESOTA UNEMPLOYMENT ESTIMATES			
Group	Estimate	Range of Error	Percentage Range of Error *
Statewide	4.0%	3.5-4.6%	31%
Men	3.7	3.0-4.5	50
Women	4.4	3.5-5.3	51
Ages 16-19	10.2	7.1-13.4	89
Whites	3.6	3.0-4.1	37
White Men	3.4	2.7-4.2	56
White Women	3.8	3.0-4.6	53
White Teens	9.9	6.8-13.1	93
Blacks	21.2	13.2-29.3	122
Never Married	7.2	5.8-8.6	48
Married, Spouse Present	2.3	1.8-2.9	61
Other Marital	4.7	2.7-6.6	144

* Range of error divided by low estimate.
Source: U.S. Bureau of Labor Statistics.

Another way to measure employment is to study the payroll reports submitted by employers to the state. This information yields not only the number of jobs but also the income generated by those jobs. Each month, the Department of Jobs and Training includes some payroll statistics in its Labor Market Review. The information is presented in greater detail in a quarterly report, but the quarterly report runs several months behind.

The payroll data allows precise month to month and year to year comparisons. It can be used to track trends in specific occupational groups. It does not, however, convey a complete picture of the labor market.

First, it deals only with the employed, and provides no clue as to unemployment. Second, it excludes the self employed, domestics, employees of nonprofits, government workers not covered by unemployment insurance, unpaid family workers and farm workers. Third, the monthly total does not differentiate between full time and part time workers. Finally, the monthly total counts jobs, not employed persons, and those working two or more jobs inflate the total. If a person who supported a family on one income loses a job and is forced to take two part time jobs, the payroll total shows a gain.

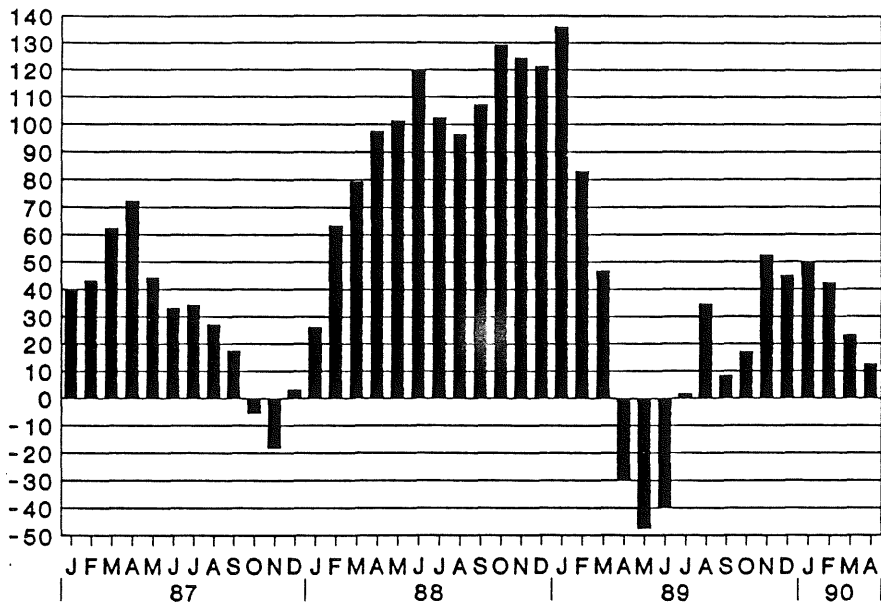
By excluding farm workers, the payroll total overlooks the segment of the labor force that has been losing the most jobs. The family that once made a living by farming might now find it necessary for one, two or more members to obtain income off the farm. The failing farmer who sells land to a successful farmer and finds other work also increases the total.

For these reasons, payroll employment tends to increase whether times are good or bad. Since January of 1987, the annual increase has never been less than 43,000 in any month. The average increase for 1987 was 55,000; for 1988, 74,000; and for 1989, 59,000.

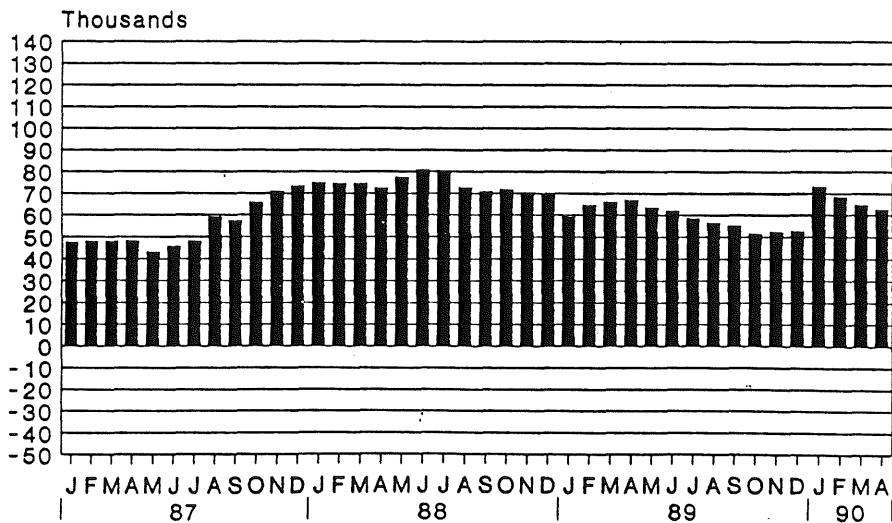
These statistics often run counter to the official estimate of employment. From April of 1988 to April of 1989, payroll employment increased by 67,000, while estimated employment dropped by 30,000. May of 1989 showed a gain of 63,600 in payroll employment and a drop of 47,400 in estimated employment. June of 1989 showed a gain of 62,100 in payroll employment and a drop of 40,100 in estimated employment. The average discrepancy for the three month period was in excess of 100,000.

The graphs on the following page, showing changes on a monthly basis in both estimated employment and payroll employment, illustrate the discrepancies between the two measures:

Change in Estimated Employment



Change in Payroll Employment (Each month compared to same month of previous year)



More useful is the quarterly report of total statewide payroll wages. After adjustment for inflation, the wage totals show a real gain of 4.04 percent in 1987, 4.25 percent in 1988, and 0.98 percent for the first nine months of 1989. (The fourth quarter report has not been published.)

INCREASE IN STATE PAYROLL WAGES COMPARED TO INFLATION (Millions)					
	<u>Prior Year</u>	<u>Inflation</u>	<u>Actual</u>	<u>Real Gain*</u>	
1987	\$ 36,019	\$ 37,350	\$ 38,859	\$ 1,509	(4.04%)
1988	38,859	40,444	42,161	1,717	(4.25%)
1989 (Jan.-Sept.)	30,888	32,411	32,728	317	(0.98%)

* Actual minus Inflation

Source: Department of Jobs and Training

The increase in statewide wages from the first quarter of 1988 to the first quarter of 1989 was less than the rate of inflation. Payroll employment, however, increased by 63,000. This combination of statistics shows that wage increases were much less than inflation, or that the proportion of part time jobs increased, or both.

Average weekly earnings were \$411.26 in the first quarter of 1988. Had they kept pace with inflation, they would have reached \$431.00 in the first quarter of 1989. Instead, they advanced only to \$416.99, leaving the average job \$14.01 behind inflation. Second quarter wages were \$5.42 behind inflation. Third quarter wages were \$7.41 behind inflation.

STATEWIDE AVERAGE WEEKLY EARNINGS					
	<u>Prior Year</u>	<u>Inflation</u>	<u>Actual</u>	<u>Difference</u>	
1st Q '87	\$ 377.50	\$ 385.81	\$ 391.75	+ 5.94	
2nd	374.52	388.75	386.75	- 2.00	
3rd	368.86	384.35	383.51	- .84	
4th	388.41	405.89	409.83	+ 3.94	
			Average	+ 1.76	
1st Q '88	\$ 391.75	\$ 407.42	\$ 411.26	+ 3.84	
2nd	386.75	401.83	402.65	+ .82	
3rd	383.51	399.23	405.02	+ 5.74	
4th	409.83	427.45	432.40	+ 4.95	
			Average	+ 3.85	
1st Q '89	\$ 411.26	\$ 431.00	\$ 416.99	- 14.01	
2nd	402.65	423.99	418.57	- 5.42	
3rd	405.02	424.06	416.65	- 7.41	
			Average	- 8.95	

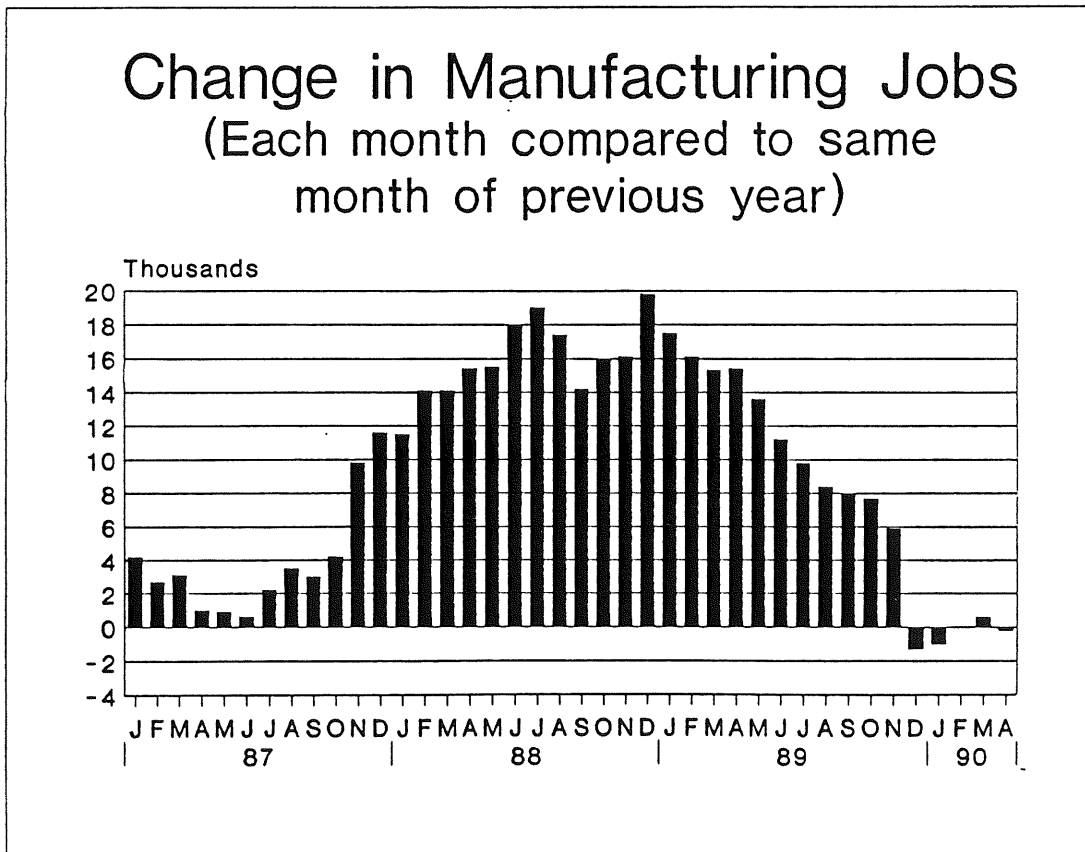
Source: Department of Jobs and Training

The erosion of earning power in the manufacturing sector, which has historically provided some of the state's best paying jobs, is shown in the following table:

AVERAGE WEEKLY EARNINGS IN MANUFACTURING				
	<u>1986</u>	<u>Inflation</u> <u>1989</u>	<u>Actual</u> <u>1989</u>	<u>Difference</u>
1st quarter	\$ 413.37	\$ 460.45	\$ 432.16	- \$ 28.29
2nd quarter	413.85	469.99	434.65	- 35.34
3rd quarter	412.22	468.16	441.78	- 27.38
4th quarter	417.67	476.64	446.88	- 29.76

Source: Department of Jobs and Training

Compounding the problem of declining real wages in manufacturing has been a recent and very abrupt end to growth in the number of manufacturing jobs. The following chart shows that while 10,000 to 20,000 new manufacturing jobs were created on an annual basis during 1988 and the first half of 1989, the number of new jobs dwindled rapidly in the second half of 1989. The statistics for the first four months of 1990 were slightly behind the same period of 1989.

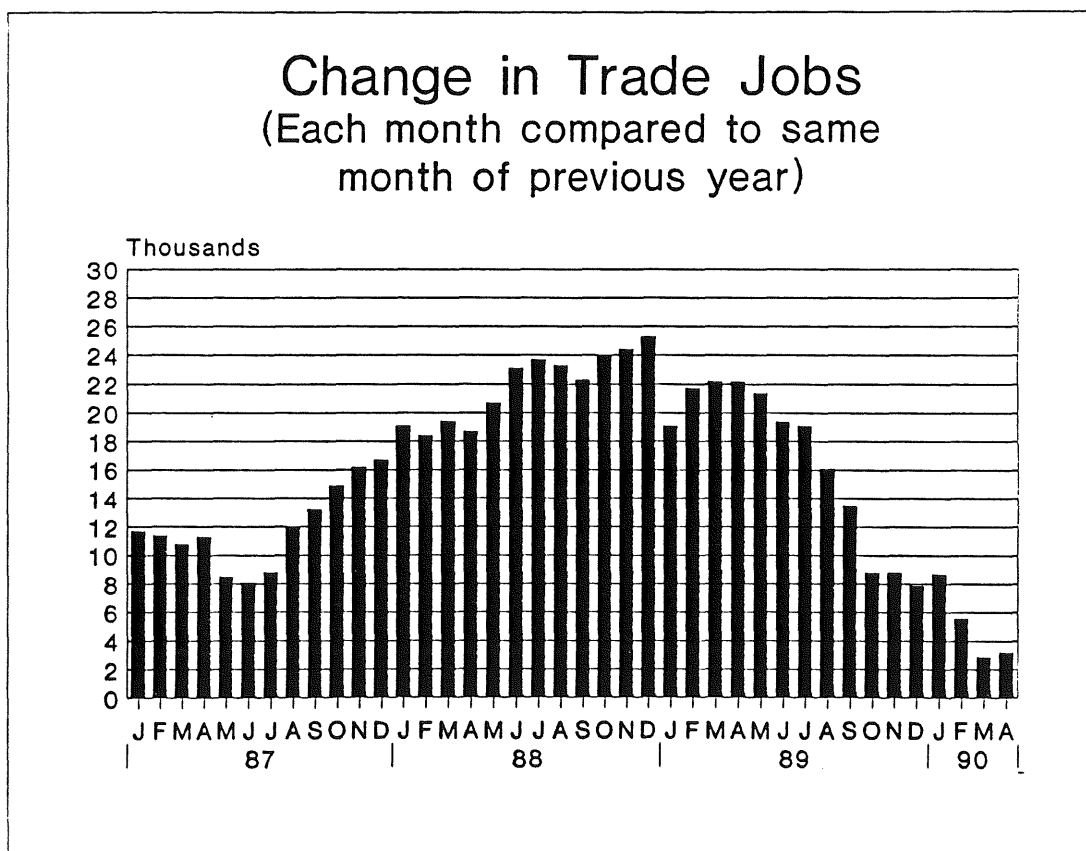


The manufacturing slump has been caused in part by job losses and pay reductions in the office and computing category. The April total of 35,700 jobs is more than 5,000 behind the December, 1988, total of 40,800. Average weekly earnings, which exceeded \$600 from July through October of 1989, fell to \$481.20 this April.

In the retail and wholesale trade sector, where jobs are more numerous but wages are much less than in manufacturing, similar patterns stand out. Weekly earnings are almost unchanged since 1986, with retail jobs showing a \$3.05 improvement from the first quarter of 1986 to the first quarter of 1990, and wholesale jobs actually declining. As in manufacturing, the number of new jobs was high in 1988 but declined throughout 1989 and into 1990.

AVERAGE WEEKLY EARNINGS IN TRADE		
<u>1st Quarter of</u>	<u>Wholesale</u>	<u>Retail</u>
1986	\$ 405.24	\$ 178.31
1987	403.97	174.85
1988	408.67	168.44
1989	400.95	173.80
1990	402.23	181.36

Source: Department of Jobs and Training



In the same way that payroll data gives a precise yet incomplete picture of employment, unemployment compensation data gives a precise but incomplete picture of unemployment. Not everyone who is unemployed is eligible for unemployment benefits. In most months, the estimated unemployment is more than twice as great as the number on unemployment compensation. In some months, it has been four times as great.

Persons who are fired or laid off are eligible, while those who quit their jobs are not. Persons whose jobs are not covered by unemployment insurance, such as the self employed, are not eligible. Persons who have not recently had steady employment are not eligible. Those who have received benefits for 26 weeks without being rehired or finding other work are not eligible.

The uninsured unemployed may rely on public assistance programs, such as general assistance or food stamps. They may be supported by family members. They may get discouraged and quit looking for work, in which case the state stops counting them as unemployed.

The data system is perfect at counting unemployment compensation recipients, who are in no immediate economic danger. The system gives wildly fluctuating estimates of the number of uninsured unemployed, who may or may not be in economic danger. And it does not even attempt to count the discouraged workers whose condition is the worst of all three groups.

The unemployment compensation statistics are at least useful in making year to year comparisons. In every month of 1988, the number of persons receiving benefits was lower than the number for the same month of 1987. This pattern held through the first three months of 1989.

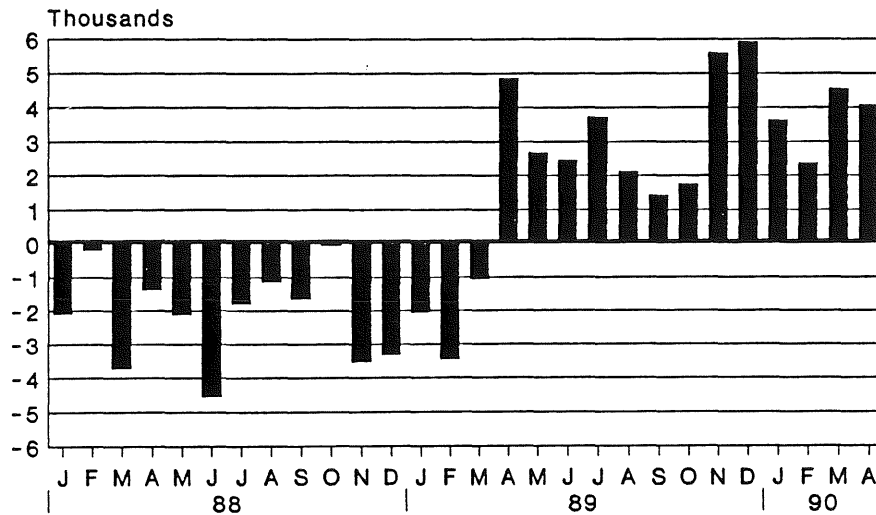
In April of 1989, the number receiving benefits was 43,540, an increase of 13 percent from April of 1988. The unemployment compensation total has been higher than the previous year ever since. The April, 1990, figure of 47,616 was 9 percent higher than the April, 1989, figure, and 24 percent higher than the total for April, 1988.

In 1987 and 1988, the number of persons receiving benefits decreased by 19,000 between January and April. In 1989 and 1990, the number decreased by 12,000. This indicates that the ability of the economy to put people back to work has diminished.

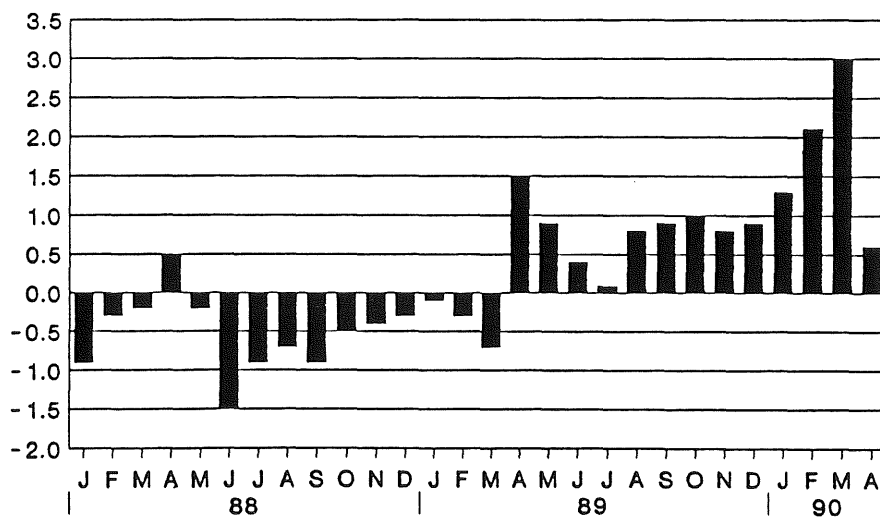
The number of persons who have been drawing unemployment benefits for 15 weeks or more, a group defined by the state as long term unemployed, has also been increasing since April of 1989. The March and April totals for 1990 were higher than at any time since 1986.

The charts on the next page show the reversal of the unemployment compensation trend beginning in April of 1989.

Change in Unemployment Compensation (Each month compared to same month of previous year)



Change in Long-Term Unemployment Compensation



Each month compared to same
month of previous year

From April of 1989 through September, the increases in unemployment compensation and long term unemployment corresponded with increases in estimated unemployment. From October of 1989 through April of 1990, however, estimated unemployment was down 1.9 percent while unemployment compensation was up 9.4 percent and long term unemployment was up 17.9 percent.

One possible explanation is that the labor market somehow differentiates the insured from the uninsured, and is unfavorable to one but favorable to the other. Such a phenomenon would be unprecedented and its mechanism would be an ideal subject for government scrutiny. The other explanation is that the estimates are faulty.

As unreliable as the state's unemployment estimates are, the federal government requires them for calculations for funding for jobs and training programs. The state cannot change the estimation technique, nor can it adjust figures that are clearly implausible.

On the other hand, there is no duty for the state to use the estimates for any purpose other than passing them along to Washington. The search for a magic number is not as worthwhile as a thoughtful approach to the multitude of issues that affect the Minnesota labor market.

Such an approach was tried in Southwestern Minnesota in 1988, when the Southwestern Regional Development Commission made its own nine county labor survey. The survey found 6.8 percent of respondents "not working but looking for work," at a time when the region's estimated unemployment rate was 5.0 percent.

The survey also found that 26.7 percent were working but available for another job, working and available for more hours, or retired and looking for work. These groups were combined under the classification of "underemployed."

In Lincoln County, 35 percent were underemployed. The survey noted that Lincoln County is one of the poorest in the state, but that its estimated unemployment rate is usually fairly low.

Among retired persons in the survey, 40 percent said they would like part time work but could not find it. Among those who were employed, 42 percent stated that they had the desire and the skills for a better job.

The survey region includes only 3 percent of the state's population and is not representative of the state as a whole. Still, the results are alarming in the waste of productive potential that they reveal.

July 1990