



GOOD NEWS

The Department of Labor recently announced that the **national unemployment rate** dropped 0.2 percentage points in December to 5.4 percent, following a 0.3 percent drop in November. The decline was fueled by the creation of 256,000 new jobs throughout the economy; 54,000 factory, 91,000 retail, and 110,000 service jobs were created. The Labor Department also reported that about 135,000 more jobs were created in November than originally thought. The unemployment rate for the year was 6.1 percent, down from 6.8 percent in 1993.

◆ **Michigan's unemployment rate** fell to 4.5 percent in December (a 0.1 percentage point drop from November's rate), the lowest monthly jobless rate in the history of Michigan's unemployment statistics. The rate for 1994, 5.9 percent, is the lowest in 21 years and marks the first time in almost thirty years that Michigan's annual unemployment rate has been below the national average. The number of jobs in Michigan reached 4.5 million in 1994, 117,000 more jobs than in 1993 and surpassing employment in any previous year in Michigan history.

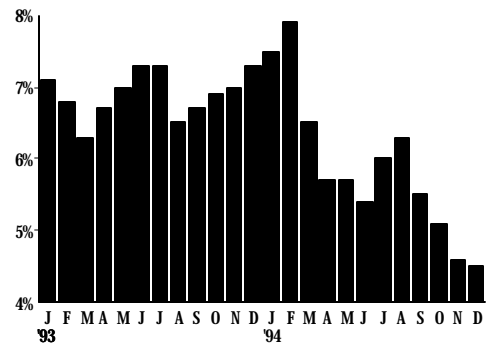
◆ The Conference Board announced that **consumer confidence** rose in December to a four and one-half year high. The index, which ranges between 85 and 100 when the economy is strong, rose 1.8 points to 102.2 in December, following a staggering 12-point rise in November. While November's jump in consumer confidence was generally attributed to the elections, December's increase is attributed to strong job and income growth over the past year.

◆ The year-end totals for U.S. **automobile sales** indicate a banner year: 15.1 million automobiles were sold in 1994, the most for any single year since 1988 and the fourth-highest sales rate ever. Sales of light trucks, which comprised 40 percent of all 1994 light-vehicle sales, totaled 6.1 million and easily hit an all-time high. The 1994 Japanese share of auto sales was 23.2 percent, about equal to its 1993 rate.

BAD NEWS

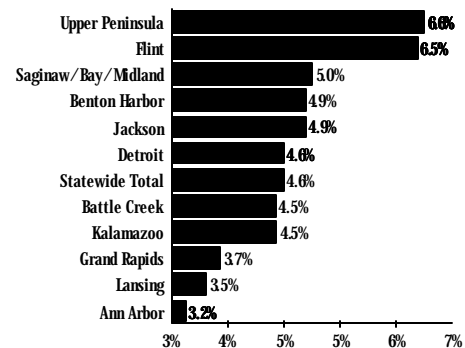
Sales of existing homes dropped 2.6 percent across the nation in November to their lowest rate since mid-1993. The drop in sales and a general slowdown in the housing market are believed to be driven primarily by interest rates, which were raised six times in 1994. Despite these discouraging statistics, the U.S. housing industry will remember 1994 as a very good year—existing-home sales were up 4.5 percent from last year and topped out at their second-highest level ever.

Michigan Monthly Unemployment Rates (seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

Unemployment Rates in Major Michigan Labor Markets, November 1994 (unadjusted rates)



SOURCE: Michigan Employment Security Commission.

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SPECIAL INSERT: REGIONAL ECONOMIC FORECAST

TAX CUTS AND ECONOMIC DEVELOPMENT

State Policy Reports ran two related articles in mid-1994 that discussed the use of state tax cuts to promote economic development.¹ It concluded that not all types of state tax cuts influence economic development and that different tax cuts can help to reach different objectives.

Reducing Overall Tax Burdens

One article explored the use of broad-based tax cuts to promote economic development. Broad-based cuts are those that attempt to lower the tax burden for individuals, or general tax level, by cutting income, sales, or other broad taxes. It is commonly believed that low-tax states are more attractive to businesses and therefore likely to perform better economically. *State Policy Reports* argues that this is not necessarily true.

¹State Policy Research, Inc., *State Policy Reports* (Columbus, Ohio: SPR), vol. 11 (June 1994) and vol. 14 (July 1994).

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The exhibit on the next page shows state and local tax burdens for all 50 states and the growth in personal income from 1991 to 1993. Alaska has the highest tax burden and Missouri the lowest. Michigan's state-local tax burden ranked 19th in the nation in FY 1991-92 (the latest year for which data are available). Its personal income growth ranked much lower, at 35.

The lowest-tax states do not necessarily have the greatest income growth (for example, Connecticut and Maryland). The article points out that while low tax burdens and economic development are sometimes correlated, low broad-based taxes do not necessarily *cause* economic development. It is possible that states that are performing well economically are able to cut taxes and maintain the same level of services, while states performing poorly would need to raise taxes. If this were true, economic development would cause low taxes, rather than low taxes promoting economic development.

While much academic research has been done on this topic, *Reports* states that the findings are inconclusive. Of 57 studies on the relationship of business climates to economic development, 70 percent found that taxes made a difference but disagreed on how much of a difference or which taxes matter. Thirty percent concluded that taxes made no difference to economic development.

The article's authors conclude that although lower tax burdens for individuals may be desirable, they are not justified on economic development grounds. They state that the connection

between the broad-based taxes that individuals pay and the location decisions of businesses is remote. A very large cut in broad-based taxes would likely be required to influence corporate decision makers.

Targeting Tax Cuts

The other article dealt with "targeted" tax cuts. It says that although general tax burdens have an unsure relationship to economic development, specific tax burdens are more likely to make a difference. Tax cuts that are not broad-based ("targeted" cuts) are those made to benefit a specific group of taxpayers or to achieve a specific goal. These cuts are usually targeted to low-income individuals, businesses, or selected individuals (for example, retirees). They can also be aimed at an extremely high or unpopular tax, even if it raises other taxes (for example, Michigan's property tax).

Many targeted tax cuts are designed to encourage economic growth. Most of these are aimed at reducing taxes paid by businesses rather than individuals. Targeted cuts are often intended for firms and industries that are mobile and can easily locate in another state. For example, the State of New York and New York City have offered large tax concessions to keep the NBC, CBS, and ABC networks in New York City.

It is difficult to measure the effect of targeted tax cuts on a state's economy. However, curiosity about the effectiveness of these cuts is growing, and legislative committees and research groups in many states are beginning to take up the issue. While it is widely believed that targeted

incentives work, the evidence is not yet conclusive.

Michigan

Michigan lawmakers will be considering many tax cuts in 1995 and in following years. They will soon undertake discussion of income and Single Business Tax (SBT) cuts, workers' compensation reform, and changes to the unemployment system. The leg-

islature will also consider a highly targeted state tax incentive program called the Michigan Economic Growth Authority (MEGA). MEGA would offer tax credits to certain businesses considering expanding or locating in Michigan.

Conclusion

Tax cutting is a popular sport these days, but the effect on eco-

nomical growth is unclear. Certain types of cuts may promote economic development, but tax cuts that are inequitable or lead to reductions in critical public services could backfire. Governments should carefully evaluate future expenditure needs and the fairness of the current tax system before slashing taxes.

FY 1991-92 Tax Burdens and Income Growth by State

State	FY1991-92 Tax Burden ^a	Rank in Tax Burden	Personal Income Growth, 1991 to 1993	Rank in Income Growth	State	FY1991-92 Tax Burden ^a	Rank in Tax Burden	Personal Income Growth, 1991 to 1993	Rank in Income Growth
Alabama	14.5%	38	12.2%	20	Nebraska	15.6%	21	10.6%	34
Alaska	44.9	1	12.3	19	Nevada	13.8	45	18.1	1
Arizona	15.9	18	13.6	11	New Hampshire	13.3	48	7.4	50
Arkansas	13.9	43	13.1	15	New Jersey	15.2	26	9.5	40
California	15.5	23	7.6	49	New Mexico	19.5	3	15.1	4
Colorado	15.0	30	15.1	5	New York	19.2	4	8.9	42
Connecticut	14.1	42	7.7	47	North Carolina	14.4	41	14.4	8
Delaware	17.7	7	10.0	38	North Dakota	17.0	12	10.1	37
Florida	14.9	31	11.1	27	Ohio	14.5	39	10.5	36
Georgia	14.5	40	13.6	10	Oklahoma	15.2	28	11.0	29
Hawaii	18.2	5	12.4	17	Oregon	17.3	8	13.6	12
Idaho	15.6	22	17.2	2	Pennsylvania	14.9	32	9.1	41
Illinois	13.5	46	10.9	30	Rhode Island	14.7	34	8.6	44
Indiana	14.5	36	13.0	16	South Carolina	15.2	27	11.2	26
Iowa	16.5	15	8.1	46	South Dakota	13.8	44	11.6	22
Kansas	14.6	35	10.6	35	Tennessee	13.0	49	15.0	6
Kentucky	15.3	25	12.0	21	Texas	14.5	37	14.0	9
Louisiana	17.0	10	11.4	23	Utah	17.0	13	15.3	3
Maine	16.4	16	8.6	43	Vermont	17.0	11	10.7	33
Maryland	13.5	47	8.6	45	Virginia	16.1	17	10.9	31
Massachusetts	14.7	33	7.7	48	Washington	15.4	24	13.1	14
Michigan	15.9	19	11.1	28	West Virginia	15.7	20	11.4	24
Minnesota	18.0	6	11.2	25	Wisconsin	16.7	14	12.3	18
Mississippi	15.1	29	13.5	13	Wyoming	21.2	2	10.7	32
Missouri	12.4	50	9.7	39	U.S.	15.4%		10.7%	
Montana	17.1	9	14.6	7					

SOURCE: Calculations by Public Sector Consultants, Inc. based on data from the Bureau of the Census and the Bureau of Economic Analysis.

^aOwn-source state-local revenue per \$1,000 of personal income.

NEWS FROM
THE STATE
CAPITOL

GOVERNOR PROPOSES TAX AND EDUCATION REFORMS

In his State of the State address Gov. John Engler proposed a series of tax cuts intended to save state taxpayers \$1.5 billion over the next five years. He said that he wanted these tax cuts passed within the next 30 days and urged the legislature to “just do it.”

The cuts would more than address a constitutional requirement that the state rebate an estimated \$297.3 million in excess revenues to taxpayers. (The Michigan constitution prohibits the state from collecting more than 9.49 percent of personal income in tax revenues annually, a limit which the state should exceed in FY 1994–95.) The governor proposed in his State of the State address that a set of permanent income and business tax cuts should be used rebate the revenues, rather than a one-time refund.

The governor’s proposed income tax cuts would increase the personal exemption from \$2,100 to \$2,400 and index the exemption to inflation. The higher exemption should save taxpayers an estimated \$588 million over the

next five years. The plan would also phase out the intangibles tax on individuals, which taxes interest, dividends, and other intangible assets. Elimination of the intangibles tax, which the governor called a “tax on savings,” would save taxpayers \$434 million over the next five years.

The business tax cut would be in the form of Single Business Tax (SBT) reform. The governor proposed eliminating social security, unemployment insurance, and workers’ compensation payments from the SBT tax base. This would eliminate what he called a “tax on a tax” and would save businesses an estimated \$532 million over the coming five years.

In addition to tax reform, the governor also proposed very controversial education reform—complete repeal of the state’s school code. In its place local districts would write their own code based on a state model. The governor stated that this would “put parents back in charge.” He also called for the elimination of all positions in the Department of Education that do not “assist local schools and that do not strengthen the educational opportunities of our children.” He called for greater use of the state’s new charter school legislation, setting a goal of establishing ten trade schools within the next four years.

PUBLICATIONS OF INTEREST

Bureau of the Census, Economics and Statistics Administration, U.S. Department of Commerce, 1992 Census of Retail Trade: Michigan (Washington, D.C.: GPO, September 1994), (301) 763-5198.

This *Census of Retail Trade* is published every five years and is available for each state and the nation as a whole. It includes current and historical data on the number of retail establishments, sales, payroll, and the number of employees. Data are provided for retail trade in general and several specific types of retail businesses. In addition to state totals, breakdowns are provided for metropolitan statistical areas, counties, and places (cities, townships, etc.) with 350 or more retail establishments.

Similar Bureau of the Census publications are released at about the same time for wholesale trade; services; the finance, insurance, and real estate industries; the transportation, communications, and utilities industries; manufacturing; mineral industries; and construction. These widely used statistical reports, collectively referred to as the “economic census,” are also available on CD ROM. (To order, call 301/763-4100.)

Michigan Department of Transportation, 1994 Facts and Figures: Air, Land, and Water (Lansing, Mich.: MDOT, September 1994).

This 100-page annual publication contains data on all modes of transportation in Michigan, including aviation, highways, railroads, marine ports, and public transportation. Current and historical statistics are provided and some regional and county breakdowns are available.

While the specific data varies according to the mode of transportation, many are measures of the size and quality of each system. The book also includes a section on transportation finance, which includes fuel tax data, federal aid data, and revenue and expenditure statistics.

NOTE Due to continued problems with a new computer system, October–December revenue collection data were not available from the Department of Treasury in time to be included in this issue. Data will be reported on when they become available.

This special insert forecasts employment changes in Michigan and its seven regions for 1994–96. The regions, along with projected percentage changes for the coming two years, are depicted in Exhibit 1.

The Michigan economy should continue to perform well in the coming two years, although growth will slow from 1994 levels.

In the durable goods industries, which still account for a sixth of Michigan employment, a job gain of 2.6 percent is expected for 1995, compared with a 4.7 percent gain last year. However, a job decline of 1–2 percent from the 1995 level is expected in 1996.

Nondurable goods employment, which grew 3.6 percent statewide last year, is forecast to grow 2.9 percent this year and decline about one percent in 1996 from the 1995 level.

Some improvement in construction, to 5.5 percent from 4.9 percent, is anticipated for 1995 and a decline of 1.4 percent from the 1995 figure is forecast for 1996. The transportation, communication, and utilities (TCU) group is slated for a 0.6 percent job gain this year, compared with 2.3 percent in 1994. The job level in wholesale trade grew by 1.3 percent last year and likely will post gains of 1.1 percent this year and about 0.5 percent next. Retail job growth of 1.3 percent for 1995 and 1.1 percent for 1996 is forecast compared with 2.7 percent last year. The finance, insurance, and real estate (FIRE) group grew one percent in 1994 and should grow 1.2 percent in 1995.

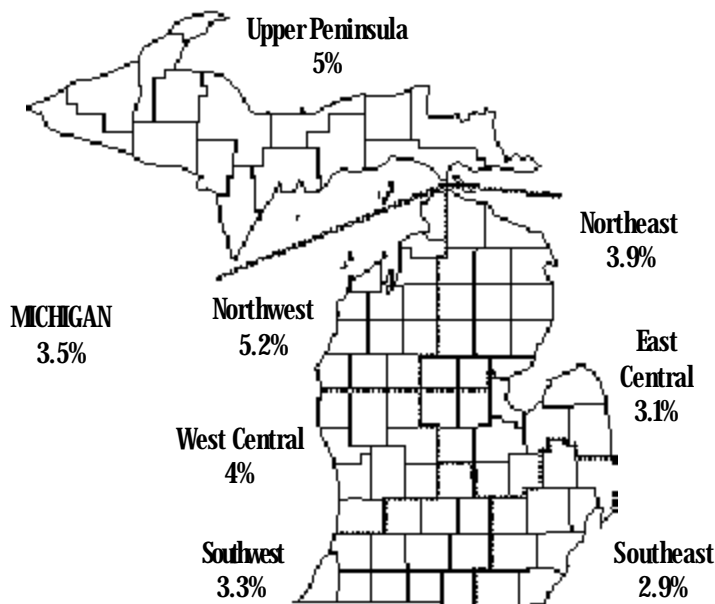
The expected 1995 service industry growth is 3.4 percent, and 2.8 percent for 1996. Gains in government employment in the neighborhood of 0.5 percent are expected for 1995 and 1996.

R E G I O N A L

 E C O N O M I C

 F O R E C A S T

EXHIBIT 1
*Percentage Change in Total Civilian Employment in Michigan Regions:
 1994–96*



**Special Insert
 January 1995**

EXHIBIT 2
Forecast: Southeast

	1995	1996
Employment (% change)	2.3%	0.6%
Unemployment rate	5.2	5.6

Outlook: Southeast

Total civilian employment rose to 2,288,000 in 1994, or by 2.6 percent from the 1993 level of 2,230,000. The forecast for 1995 is 2,340,000; for 1996, 2,355,000. Actual and projected unemployment rates are 6.8 percent for 1993, 5.6 percent for 1994, 5.2 percent for 1995, and 5.6 percent for 1996.

SOUTHEAST

Durable goods manufacturers added over 18,000 jobs in 1994 and expect to add another 7,500 in 1995. With no growth in the state's automotive sector the 1996 job total is forecast to decline by about 8,000 from the 1995 figure.

Nondurable goods manufacturers will add 2,800 jobs this year and shed 2,100 next. For manufacturing as a whole, the 1996 job level will look very much like that for 1994. Construction industries are forecast to add 4,100 jobs in 1995 and then to fall by 1,800 in 1996. The net result is a 3.4 percent gain for the biennium.

Retailers will add 8,000 jobs this year and another 4,200 next, for a 3.2 percent gain over the two years. Car and truck dealers are experiencing another good year as are building materials suppliers. The restaurant business also is on the mend. Employment in services will grow by 7 percent for the biennium, led by business services.

Wholesaling, government, FIRE, and TCU are forecast to show job growth of 1.5 percent during the 1994-96 period.

EXHIBIT 3
Forecast: Southwest

	1995	1996
Employment (% change)	2.2%	1.2%
Unemployment rate	4.4	4.6

Outlook: Southwest

Total civilian employment rose to 714,100 in 1994, or by 3 percent from the 1993 level of 693,400. For 1995 the forecast is 729,500; for 1996, 737,900. Actual and projected unemployment rates are 5.9 percent for 1993, 5 percent for 1994, 4.4 percent for 1995, and 4.6 percent for 1996.

SOUTHWEST

Branch is the fastest growing county in the state. Hillsdale, St. Joseph, and Cass also are among the top ten in job growth, largely due to the automotive industry.

Durable goods manufacturers are forecast to add 3,600 jobs this year compared with 5,100 last. For 1996 the expectation is a loss of 1,000 jobs. For the biennium, chalk up a gain of 2.9 percent.

Producers of nondurable goods in this region include The Upjohn Company in Kalamazoo and several food processors that are not expansive these days. For the biennium, expect modest growth, 1.6 percent, in nondurable goods manufacturing employment.

Retailers in this region are expected to add about 1,300 jobs this year and the same number next, for a 2.6 percent gain overall. Services employment is expected to grow by more than 4 percent during the forecast period. The leader here is health services.

Construction industries are performing very well, with the expectation of adding close to 2,000 jobs for the biennium, a growth rate of close to 10 percent. Government employment is forecast to grow by about 1,000 over the two-year span, a gain of 0.8 percent. The FIRE sector along with TCU and wholesale trade will do well to hold their own.

EXHIBIT 4
Forecast: West Central

	1995	1996
Employment (% change)	2.6%	1.4%
Unemployment rate	4.9	5.0

WEST CENTRAL

Next to Benton Harbor, Grand Rapids is the region's fastest-growing metropolitan statistical area. Manufacturing of both durable and nondurable goods provides much of the growth impetus in this region. For 1994-96 the job total in durable goods production is expected to rise by 4.6 percent. The comparable figure for nondurable goods manufacturing is 4.9 percent.

The retail sector in this region has been experiencing a shakeout, with consolidations among food and department store chains. For 1994–96 a 2.3 percent rate of job growth is projected.

Here, as almost everywhere else, services is the major growth sector. All told, the services category will grow by 6.8 percent between 1994 and 1996, providing an additional 8,600 jobs.

The building boom in this part of the state appears to be sustainable for the near future but not beyond 1995. For the biennium, 3.6 percent job growth is forecast. This compares with 6.2 percent between 1993 and 1994.

Together wholesaling, TCU, FIRE, and government will add 3,000 jobs during the forecast period, for a growth rate of 2.1 percent.

Outlook: West Central

Total civilian employment rose to 595,200 in 1994, or by 3 percent from the 1993 level of 577,600; the expectation for 1995 is 610,900, and for 1996, 619,300. Actual and projected unemployment rates are 6.2 percent for 1993, 5.4 percent for 1994, 4.9 percent for 1995, and 5 percent for 1996.

NORTHEAST

This region has two of the slowest growing (Montmorency and Crawford) and two of the fastest growing (Oscoda and Cheboygan) counties. On balance it is performing reasonably well in job growth. This also is the smallest and, in some ways, most remote of Michigan's seven regions.

Durable goods manufacturers employment is forecast to grow by 2.2 percent during 1994–96, while nondurable goods producers experience no growth or decline.

Retailers should add 5.5 percent to their job base, while service industries grow by 4.9 percent.

The combined FIRE, TCU, government, and wholesale trade categories are projected to grow by 1.2 percent in this region during 1994–96.

EXHIBIT 5

Forecast: Northeast

	1995	1996
Employment (% change)	2.4%	1.5%
Unemployment rate	10.4	10.1

Outlook: Northeast

Total civilian employment rose to 103,900 in 1994, or by 3.3 percent from the 1993 level of 100,600. The 1995 estimate is 106,400, and for 1996, 108,000. Actual and projected unemployment rates are 11.2 percent for 1993, 11.3 percent 1994, 10.4 percent 1995, and 10.1 percent for 1996.

NORTHWEST

The Mason, Misaukee-Wexford, and Grand Traverse labor markets are among the state's fastest growing. Employment in durable goods manufacturing grew by 3.8 percent in 1994 and is expected to show further growth, 3 percent, before declining in 1996.

Producers of nondurable goods increased their work force by more than 9 percent last year and are expected to grow by another 8 to 9 percent during 1995. For 1996 a 2 percent decline is forecast from the 1995 level.

Retailers have been doing very well in this region, showing an employment gain of 6.2 percent during 1994. The forecast is for much slower growth during the next two years, between 4 and 5 percent for the biennium. The services sector will grow by 7 to 8 percent between 1994 and 1996, compared with 5.4 percent between 1993 and 1994.

Together, the construction, wholesale trade, TCU, and FIRE sectors are forecast to grow by 3.4 percent during 1994–96, and government by 2 percent.

EXHIBIT 6

Forecast: Northwest

	1995	1996
Employment (% change)	3.9%	1.3%
Unemployment rate	6.9	6.7

Outlook: Northwest

Total civilian employment rose 7.3 percent to 155,200 in 1994 from the 1993 figure of 144,700. The 1995 and 1996 projections are 161,200 and 163,300, respectively. Actual and projected unemployment rates are 8.7 percent for 1993, 7.6 percent for 1994, 6.9 percent for 1995, and 6.7 percent for 1996.

UPPER PENINSULA

Baraga County has a new state prison, making this the second fastest growing labor market last year. Mackinac and Chippewa also were among the top ten labor markets in growth, largely due to casino gambling.

EXHIBIT 7
Forecast: Upper Peninsula

	1995	1996
Employment (% change)	3.2%	1.7%
Unemployment rate	8.0	8.2

Outlook: Upper Peninsula

Total civilian employment rose to 139,900 last year from 135,200 for 1993. The 1995 and 1996 forecasts are 144,400 and 146,900, respectively. Actual and projected unemployment rates are 9.1 percent for 1993, 8.9 percent for 1994, 8 percent for 1995, and 8.2 percent for 1996.

EXHIBIT 8
Forecast: East Central

	1995	1996
Employment (% change)	2.3%	0.8%
Unemployment rate	6.7	6.6

Outlook: East Central

Total civilian employment rose to 505,200 last year from the 1993 level of 492,700. The 1995 and 1996 projections are 516,700 and 521,000. Actual and projected unemployment rates are 8 percent for 1993, 7.2 percent for 1994, 6.7 percent for 1995, and 6.6 percent for 1996.

This region is Michigan's least dependent on the automotive manufacturing industry. The total 1996 employment level for manufacturing is unlikely to differ from that for 1994. Employment in mining, another important activity, also is not expected to change over the forecast period. Retailers are poised for 6.2 percent job growth for 1994-96, compared with 4.9 percent last year. Restaurants in particular are thriving, perhaps due to visitors to the casinos.

The service sector will experience 5.3 percent job growth this year and 3.6 percent next, compared with 6.4 percent in 1994. The impetus in the services category is provided by gambling casinos along with lodgings.

Government employment has slipped, largely as a result of the closing of K.I. Sawyer Air Force Base near Marquette. Growth of about a half percent is forecast for 1994-96.

Together, all other industries in the U.P. are expected to grow very slowly, 1.5 percent for 1994-96.

EAST CENTRAL

This region is the most dependent on durable goods manufacturing, reflecting the automotive industry centered in Flint and including components manufacturing in Saginaw, Bay City, and smaller cities. Durable goods employment is expected to rise by about 3 percent this year and to slip by about one percent next. For the 1994-96 biennium an overall gain of about 2 percent is forecast.

Among nondurable goods manufacturers no change in job level is forecast. Retail job growth of 2.6 percent is forecast, while services will add 5.4 percent during 1994-96.

Construction shows modest growth, while the TCU and FIRE sectors exhibit no growth potential. Government employment will grow by 1.3 percent.

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