Economic Bulletin

GOOD news January **motor vehicle sales** rose 14.2 percent from January 1993 levels. Car sales were up 8.2 percent, and light truck sales jumped 24.7 percent. The Big Three auto makers enjoyed a 15 percent rise in sales and a 0.6 percent rise in market share. Sales by Japanese auto makers increased 12 percent, while their market share slipped 0.4 percent.

◆ The Commerce Department reported that **gross domestic product** surged at an annual rate of 5.9 percent in the fourth quarter, the best quarterly performance since December 1987. The news confirmed the strength of the private sector recovery and caused some analysts to revise upward their predictions for economic growth in the current quarter.

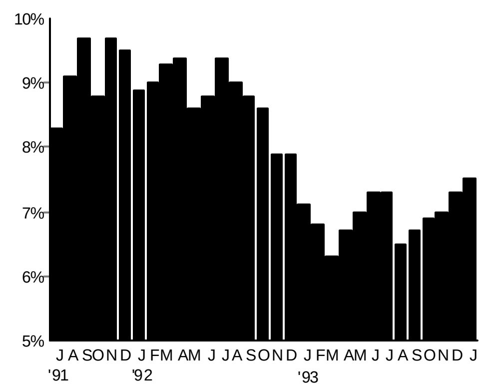
◆ The **Michigan unemployment rate** was 7.5 percent in January, as measured by a newly designed household survey. The revised survey figures—designed to produce a better count of women, teenagers, and discouraged workers—are expected to give a more accurate picture of unemployment but cannot be directly compared with earlier figures. Employment in January increased by 42,000 jobs. Manufacturing, retail trade, and services posted the largest gains.

◆ The Conference Board's **consumer confidence index** increased to 83.2 in January and is up nearly 23 points since October. The confidence level is approaching the 85 to 100 range associated with a strong economy. Despite their general optimism, many respondents felt the labor market was not improving as fast as the rest of the economy.

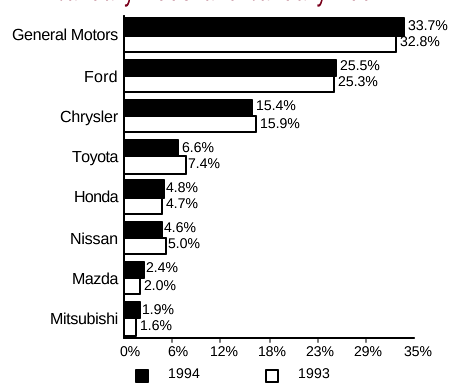
BAD news Federal Reserve Board Chairman Alan Greenspan announced that the central bank would raise **short-term interest rates** in 1994. The move had been anticipated since last year and signals the Fed's serious commitment to low inflation.

◆ The **U.S. unemployment rate** registered 6.7 percent in January under the new survey method. The rate was up from 6.4 percent in December but would have fallen slightly under the old survey method. While the economy added 62,000 jobs in January, the increase was only about a third of the 200,000-job average increase of the last four months. This slowdown was blamed on extremely cold January weather. The manufacturing sector added 26,000 jobs, and manufacturing hours were up 0.3 percent. Construction lost jobs, but employment is expected to pick up with the continued recovery.

Michigan Monthly Unemployment Rates (seasonally adjusted)



Percentage Change in Car and Light Truck Sales, January 1993 and January 1994



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MONTHLY FOCUS

STATES BRAVE COMPLEXITIES OF WELFARE REFORM

A recent report by State Policy Reports, Inc., discusses the welfare reform sentiment that is growing across the nation ("Welfare Budgets and Reform," State Policy Reports (Columbus, Ohio: January 1994). Some states are already experimenting with reform, and Michigan may soon be one of them. (See article on page 3.) Welfare reform, however, is an extremely complex issue and change will not come easily.

The Cost of Welfare

Public assistance programs cost the average taxpayer about $500 per person per year. Adjusted for inflation, however, welfare costs have been declining steadily over the years. After accounting for the cost of living, every state reduced income support for welfare recipients between 1972 and 1991. Michigan had the highest cut, reducing benefits more than 39 percent during this period.

Public assistance costs vary widely from state to state. The exhibit shows the monthly per case cost for Aid to Families with Dependent Children (AFDC), a large component of public assistance. Idaho has the highest per-case cost, paying $1,192 for every AFDC case each month. At $151 per month, West Virginia pays the least. Michigan's $719 per month spending ranks it 10th in the nation—higher than any other Great Lakes state.

Monthly Cost Per AFDC Case, FY 1992, Selected States

State	Amount	Rank
Idaho	$1,192	1
New York	1,156	2
New Jersey	1,085	3
Minnesota	936	4
Oklahoma	921	5
Oregon	817	6
Nevada	790	7
Utah	782	8
Alaska	731	9
Michigan	719	10
Georgia	389	40
South Carolina	344	41
Missouri	338	42
Mississippi	331	43
Illinois	325	44
Tennessee	299	45
Rhode Island	263	46
Texas	238	47
Louisiana	234	48
Maine	234	49
West Virginia	151	50
U.S. Average	**566**	

The Challenge of Reform

Welfare reform involves much more than simply cutting benefits and can, at least in the short run, be very expensive. The goal of most reform proposals is to decrease or eliminate dependence on public assistance by preparing people to enter the work force. During the reform process, therefore, states must provide job training, job placement, and child care assistance in addition to the usual cash assistance and Medicaid benefits. These benefits may cost more than the amount saved.

There is also concern about welfare reform mandates from the federal government, which pays about 57 percent of welfare costs nationwide. States may want tougher reform measures than the federal government allows, or federal reforms may shift the burden to state budgets.

This shift could occur if illegal immigrants or other groups are prohibited by the federal government from receiving medical and other public benefits. If hospitals treat them anyway, the states would end up paying all of their medical costs instead of sharing the cost with the federal government. The same problem would result if the federal government mandates that benefits be stopped after two years, in which case the states might end up rendering assistance without the benefit of federal aid.

Conclusion

Welfare reform will undoubtedly be a slow and controversial undertaking involving a great deal of trial and error. With interest high at both the federal and state levels, however, the nation has a rare opportunity to improve a sys-

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NEWS FROM THE STATE CAPITOL

tem that seems popular with no one.

MAJOR WELFARE REFORMS IN THE WORKS

Governor Engler has proposed some major reforms in an effort to shrink the state's welfare rolls and has met with Clinton administration officials to urge federal cooperation. The aim of the reforms is to ease people off public assistance and into the work force.

To achieve this, the administration has proposed 27 initiatives, including a "social contract" with welfare recipients under which they may receive benefits for up to two years only if they are employed or getting job training. Department of Social Services officials have said that all of the governor's reform initiatives will be implemented, including 13 that will first require federal approval.

Many major reform initiatives were announced in the governor's January 18 State-of-the-State address: These include cracking down on child support evasion, encouraging teenaged fathers to take financial responsibility for their children, and requiring work or job training as a condition for receiving nonmedical public assistance. New initiatives have been announced since that time, including allowing recipients to keep one vehicle for transportation to work, removing criminal penalties in paternity cases to encourage more settlements and reduce costs, and increasing access to family planning to reduce teen pregnancy.

Much of the reaction to the initiatives has been positive. Supporters say that the reforms will lower the poverty rate and break the cycle of dependence on welfare. Advocates for welfare recipients are concerned, however, that requiring work would place an undue burden on people who must stay home to care for disabled children or elderly parents. They are also concerned that the job market will not absorb a large number of recipients and that the jobs available will not cover child-care and health-care costs.

Transfer Tax Lowered

The Michigan legislature has voted to lower the real estate transfer tax, a hotly debated revenue source in the state's new school finance plan. Under the statutory plan, the tax would have levied one percent of sale value and taken effect May 1, 1994; under the ballot proposal, the tax would have levied 2 percent of sale value and taken effect January 1, 1995. SB 999, which lowers the rate to 0.75 percent under both plans, has passed both the Senate and House, and the governor has agreed to sign it.

The lower transfer tax rate will not take effect until April 1995, meaning that higher rates will be charged in the meantime. If the ballot plan passed, the tax will be 2 percent of sale value for four months (January to April 1995). If the ballot plan fails, the transfer tax will be one percent of sale value for about one year (from May 1, 1994, to April 1, 1995). However, observers say that lawmakers may return to this issue later, possibly to move up the effective date.

SB 999 specifies that property owners who are selling real estate to their children or grandchildren are exempt from paying the transfer tax. People whose property depreciates because of factors beyond their control are also exempt.

Critics of the cut in the trasfer tax say that this surplus should be considered a one-time revenue and that lowering the tax will cause a structural deficit in the future, leaving schools short on funds. Supporters of SB 999 argue that the real estate transfer tax is unfair because it is borne by a minority of taxpayers, will shut lower-income families out of the home market, could hurt the

MICHIGAN REVENUE REPORT

economy, and is not a stable source of revenue.

State revenues recorded strong increases again in January, as the economy grows more robust each month. Personal income tax withholding collections gained 8.2 percent over the January 1993 level. Adjusted for an extra payday this year compared with last, however, collections increased about 3 percent. For the past three months withholding collections (adjusted) are up more than 8 percent. January quarterly income tax payments surged 26.8 percent above the year-ago level.

Sales and use tax collections fell 1.3 percent in January. This is misleading, however, due to the acceleration of collections that began last summer, which distorts comparisons. The January figure is a mix of December and January activity; last January's collections reflect entirely December activity. December collections increased more than 20 percent because of this distortion. The best comparison is of December and January collections combined, which increased 9.7 percent (preliminary) above the same period a year ago.

Motor vehicle collections increased 11.7 percent for the two-month period, declining 3.9 percent in January after jumping 27.9 percent in December. As these collections were not accelerated, the decline in sales likely reflects the cold January weather.

Single business tax collections soared 45.1 percent in January, likely due to a change in the collection pattern, as the payment is due on the last day of the month. February collections should be down sharply from the year-ago level. Collections should be strong in the next few months, however, due the improving economic and the strong sales and profits reported by the motor vehicle industry.

Preliminary Lottery sales increased 5.5 percent in January, the first full sales month reflecting the end of the $2 Lotto game and the return of the $1 game

MONTHLY TAX COLLECTIONS
(dollars in thousands)

TYPE OF REVENUE	Preliminary January 1994	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1993–94 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	$533,563	8.2%	$1,401,048	10.3%	$1,401,048	10.3%
Quarterly & Annual Payments	147,118	29.4	180,068	-16.9	180,068	16.9
Gross Personal Income Tax	680,681	12.2	1,581,116	11.0	1,581,116	11.0
Less: Refunds	-17,926	73.5	-41,971	4.4	-41,971	4.4
Net Personal Income Tax	662,755	11.1	1,539,145	11.2	1,539,145	11.2
Sales & Use Taxes	322,697	21.5	948,141	8.2	948,141	8.2
Motor Vehicles	44,841	27.9	118,841	7.5	118,841	7.5
Single Business Tax	76,871	4.1	495,921	20.0	495,921	20.0
Cigarette Tax	20,292	0.0	69,215	9.9	69,215	9.9
Public Utility Taxes	1,332	-97.9	18,042	-75.3	18,042	-75.3
Oil & Gas Severance	2,180	-34.0	8,907	-10.0	8,907	-10.0
Lottery [a]	44,001	-3.1	115,440	1.1	154,280	2.7
Penalties & Interest	391	-44.9	16,335	-35.7	16,335	-35.7
SUW—Annuals & Undistributed [b]	13,547	31.2	13,727	-1,122.1	13,727	-1,122.1
Other Taxes [c]	16,466	-14.7	96,746	1.5	96,746	1.5
TOTAL TAXES (GF & SAF) [d]	**$944,675**	**3.4%**	**$3,360,459**	**8.8%**	**$3,360,459**	**8.8%**
Motor Fuel Tax [e]	$59,029	5.3%	$187,226	5.0%	$187,226	5.0%

SOURCE: Data supplied by Michigan Department of Treasury.

[a] The state share of lottery sales is 38 percent (FY 1993). The previous years's figures are adjusted to the current year's profit margin; the percentage change reflects the change in ticket sales.

[b] These revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

[c] Includes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

[d] Excluded are beer and wine, liquor, and horse racing taxes.

[e] The motor fuel tax is restricted to the Transportation Fund.