Economic Bulletin

GOOD news

February **car and light truck sales** rose 19.9 percent from February 1993 sales levels. The annualized pace of 15.5 million vehicles marked the best monthly showing in two years. General Motors led domestic automakers with a 26.6 percent increase in sales while Nissan led the major Japanese makers with a 29.9 percent increase. Separately, the Big Three announced plans to add one million units of production capacity to meet an expected rise in demand in 1996 and 1997. The added capacity could sustain as many as 9,500 additional auto industry jobs. In the meantime, the companies are meeting the current surge in demand by adding shifts and scheduling overtime at existing facilities.

◆ The U.S. employment picture improved in February. The economy added 217,000 jobs, and the **unemployment rate** dropped 0.2 percentage points to 6.5 percent. Manufacturing employment increased for the fifth consecutive month, adding 12,000 jobs. The gains in employment were moderated by bad weather, which contributed to a 1.3 percent drop in average weekly hours worked.

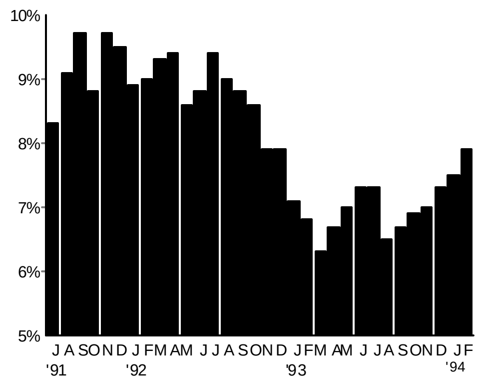
◆ Preliminary reports of **real gross domestic product** put the fourth quarter annualized growth rate at 7.5 percent, up sharply from the January advance estimate of 5.9 percent. These figures mark the economy's best quarterly performance since the first quarter of 1984. Analysts are forecasting a healthy 3 percent growth rate for the first quarter.

BAD news

The **Michigan unemployment rate** rose from 7.5 percent in January to 7.9 percent in February. Employment fell by 25,000, while 8,000 workers dropped out of the labor force, resulting in an increase of 17,000 jobless workers. The state's jobless population increased to 380,000. Of the nation's 11 largest states, Michigan ranked second in the percentage of unemployed workers in February. California registered the highest jobless rate, 9 percent, and Pennsylvania registered the lowest rate, 5.1 percent.

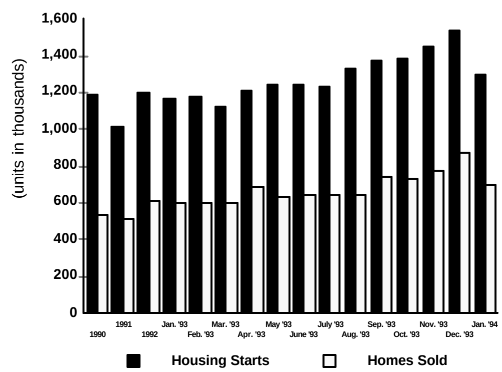
◆ Housing and construction activity slowed in January from the high levels registered in the fourth quarter of 1993. **New construction** put in place was down 1.2 percent between December and January, and **housing starts** plunged 17.6 percent to an annualized rate of 1,294,000 units. Despite the freezing weather and increasing interest rates, the number of housing starts in-

Michigan Monthly Unemployment Rates
(seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

New Housing Starts and New Homes Sold
(Annual: 1990–92; Monthly: January 1993–94)



SOURCE: U.S. Department of Commerce.

IN THIS ISSUE

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March 1994

creased 10.5 percent over January 1993 levels.

RUST-BELT NO MORE: NEW BREED OF MIDWEST MANUFACTURER EMERGES

A recent article by Robert Rose in The Wall Street Journal offers evidence that midwest manufacturers are having some luck shedding the region's not-so-flattering "Rust-Belt" label. The Midwest has been called the Rust Belt because in the 1980s midwest producers, epitomized by the Big Three automakers, were unable or unwilling to invest in, modernize, and streamline operations. Meanwhile, jobs went south to Mexico and to "lean" companies in the southern United States.

There was some truth to the Rust Belt stereotype, but it was always an exaggeration and now is outright misleading. The region's manufacturing industry is revitalizing—taking on the competition—and a new breed of manufacturers is leading the way. Many plants that nearly closed in the 1980s are getting back on their feet and finding renewed success competing with overseas rivals. For example, Caterpillar, Inc., whose large plant closings made headlines in the 1980s, is back stronger than ever and shaved $1.85 billion off of the nation's trade deficit in 1992.

The Turnaround

Rose found that a new breed of company—one with a different structure and philosophy—is emerging from the dust of the 1980s. Learning from the Japanese, companies such as Caterpillar, Inc., have used a teamwork system to replace the traditional labor/management separation. Workers are given more flexibility and decision-making responsibilities, and managers toil along side workers when the workload requires it. Union contracts stress quality and efficiency, which has led to productivity gains as high as 20 percent in one year.

Not only have these revitalized companies changed how they do business, but they have also invested heavily in modern equipment. Data from the Federal Reserve confirm this—between 1986 and 1990 midwestern producers spent 9 percent more on capital per worker than producers in other areas of the country.

Implications for Workers

The new manufacturing differs from traditional manufacturing in another important another way. Wages at these new "leaner, meaner" companies are far lower than at more traditional manufacturing companies. Cummins Engine Company exemplifies the pay gap between revitalized and more conventional plants.

After closing its Columbus, Indiana, plant in the 1980s, Cummins Engine reopened it in the early 1990s using teamwork, flexible work rules, quality control, and other elements of the new manufacturing. Wages, however, average $8.60 per hour at the new Columbus plant, while they are about twice that at the company's main factory in another part of the city. Benefits as well are relatively meager at the revitalized plant.

Workers at the reopened factory must possess an entirely different set of job skills than workers at the other plant must have. Incoming workers at the reopened Cummins plant were given 250 hours of training, including statistical process control (a method of quality control), and 72 hours of mathematics. Employees also are required to dissemble and reassemble engines by hand—a far cry from traditional methods that require workers to understand just one fragment of the process.

Conclusion

We will no doubt see more Caterpillar-type transformations in the Midwest and elsewhere. These streamlined companies will pay less and expect more of workers, but will provide factory jobs

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NEWS FROM THE STATE CAPITOL

where none would otherwise exist.

REFORMERS TURN AN EYE ON SBT

Legislation has been introduced to repeal Michigan's controversial business tax, the Single Business Tax (SBT). This tax—the only value-added tax in the nation—came under fire last year when critics charged that it hurts the state's business climate and is unfair to small businesses. The issue was placed on the back burner last fall when the state's school finance issue took center stage, but is now being revisited.

A committee to examine SBT reform is back in action, and a Republican lawmaker has introduced the first bill in 1994 aimed at the SBT (House Bill 5388). HB 5388 would repeal the SBT, eliminating about $1.8 billion per year in state tax revenue. The bill's author has not proposed a source of replacement funds and has suggested that the lost revenues be offset by budget cuts alone. If no replacement business tax is found, business property taxes (24 mills) would be the only direct tax on business in the state.

Other legislators say that a repeal without a source of replacement funds is going too far and that alternative revenues must be found before they would support the bill. Several attempts over the past two decades have failed to repeal the SBT, which has been in effect for nearly 20 years.

FARMERS, TOO, WILL RECEIVE PROPERTY TAX BREAK

Michigan lawmakers have agreed to change the definition of farmland from nonhomestead to homestead, which will allow Michigan's growers to benefit from lower property tax rates. Under the new school finance system nonhomestead property will be taxed at a higher rate than homestead property, 24 mills compared to 6 mills.

As originally written, House legislation (HB 5329) would have taxed all land classified as agricultural at the lower, homestead rate. However, consideringing all agricultural land homestead property was seen as too broad, and more specific criteria have now been ironed out.

The criteria are based on farm size and operation. For example, if a farm is 5–40 acres, it must be used primarily for farming and must have produced a gross annual income of $200 per acre in three of the past five years to classify as homestead property. The agreement also would allow all rental land to be taxed at the homestead rate, which should help the state's many retired farmers who rent out their farm land as an income supplement. Nearly

PUBLICATIONS OF INTEREST

Congressional Budget Office, ***An Analysis of the Administration's Health Proposal*** (Washington, D.C.: U.S. GPO, February 1994). ISBN 0-16-043093-3. 202/783-3238

This document gained national attention after its February release because it concluded that the Clinton administration's health care plan would worsen the federal budget in the short term. The report provides an overview of the administration's proposed plan and an estimate of its effects on national health expenditures and the federal budget. The report also examines the plan's effect on the economy, the institutional capabilities and resources needed to support the plan, and the information required to manage and administer the plan. The plan would initially worsen the deficit, the report concludes, and in later years (by about 2004) would have a negligible effect.

Senate Fiscal Agency, ***Governor Engler's FY 1994–95 Budget: Summary and Analysis of Major Recommendations*** (Lansing, Mich.: SFA, December 1993).

This document provides summaries of the budget by department for the recently released fiscal year (FY) 1994–95 budget and for the preceding year. The report contains FY 1993–94 spending and FY 1994–95 recommended gross appropriations, general fund appropriations, federal funds, local and private funds, and state government employment. In addition to summary information, detail is provided for each department, including data on state government employment and appropriations and text explaining major changes from the current fiscal year.

MICHIGAN
REVENUE
REPORT

all of Michigan's farmland will be classified as homestead property under the agreement.

There was no sign of a slowdown in revenue collections in February. Personal income tax withholding collections increased 11.5 percent adjusted for one less payday (Friday) this year.

Sales and use tax collections increased 6.6 percent above the year-ago level, due mainly to a 35.1 percent increase in motor vehicle collections. The specter of a 6 percent sales tax beginning May 1 could be spurring sales. Nonmotor vehicle sales increased only 3.6 percent, as the bad weather had a negative effect on retail sales. The volatile use tax declined 4.6 percent.

SBT collections gained 7.5 percent—on the heels of a large gain in January. Collections year-to-date are about 16 percent above the year-ago period.

Cigarette tax collections increased 80.2 percent in February. This large gain may be related in part to advance buying to beat the increase in the cigarette tax that will take effect on May 1. Gains should continue in March and April, and sales after May 1 will be extremely depressed for several months.

Lottery sales (preliminary data) continued to exceed expectations, increasing 6.7 percent in February.

Revenue collections are running well above the consensus revenue estimate. To reach the estimate, collections need to increase only one percent for the remainder of the fiscal year. It is likely that collections will exceed the consensus estimate by $150–

MONTHLY TAX COLLECTIONS
(dollars in thousands)

TYPE OF REVENUE	Preliminary February 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	$367,374	2.9%	$1,358,025	9.7%	$1,778,240	9.3%
Quarterly & Annual Payments	7,823	–54.2	182,629	10.3	190,214	9.9
Gross Personal Income Tax	375,197	0.3	1,540,654	9.7	1,968,454	9.3
Less: Refunds	–161,374	3.7	–192,907	10.6	–203,612	4.0
Net Personal Income Tax	213,823	–2.2	1,347,747	9.6	1,764,842	10.0
Sales & Use Taxes	256,869	6.6	906,258	8.0	1,197,856	7.2
Motor Vehicles	43,456	35.1	123,700	19.0	162,298	13.7
Single Business Tax	236,778	7.5	462,832	15.7	733,416	15.8
Cigarette Tax	30,211	80.2	78,509	33.1	99,421	24.7
Public Utility Taxes	–2	0.0	1,032	–98.4	18,047	–75.2
Oil & Gas Severance	574	–77.3	6,857	–28.0	9,481	–23.7
Lottery [a]	35,832	6.7	111,335	2.0	189,500	3.1
Penalties & Interest	181	–77.7	20,588	13.9	27,616	5.3
SUW—Annuals & Undistributed [b]	10,647	188.1	18,067	87.1	15,850	180.6
Other Taxes [c]	19,116	–27.7	81,095	–5.0	116,176	–4.6
TOTAL TAXES (GF & SAF) [d]	**$804,029**	**5.3%**	**$3,112,485**	**7.4%**	**$4,172,205**	**8.2%**
Motor Fuel Tax [e]	$63,469	9.0%	$189,196	7.4%	$250,823	6.1%

SOURCE: Data supplied by Michigan Department of Treasury.

[a] The state share of lottery sales is 35 percent (FY 1993). The previous years's figures are adjusted to the current year's profit margin; the percent 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.