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Public Sector Reports

Michigan ECONOMIC BULLETIN

The Good News

➤ Nationally, **consumer prices** rose at a 2.4 percent annual rate in April, due mainly to steady food prices and a 8.4 percent decline in apparel costs. Excluding the volatile food and energy components, however, prices rose a more substantial 3.6 percent. **Michigan consumer prices** (as measured by the Detroit-Ann Arbor CPI) rose at an annual rate of 1.8 percent from the February figure. (Michigan prices are reported every two months and are not seasonally adjusted.)

● Despite a mere 3.7 percent gain in passenger car sales in April, a 16.7 percent rise in light truck sales spurred total monthly **motor vehicle sales**. Total sales were up 8 percent, while combined Big 3 sales gained 11.8 percent; sales of Japanese models grew only one percent. Ford moved into first place in nameplate sales, rising 18.3 percent during the month. The hottest selling foreign nameplate was Mazda, up 28.4 percent.

● The **national unemployment rate** declined for the first time in nine months in April, to 7.2 percent from the February and March 7.3 percent rate. Unemployment rates fell among all subgroups except adult women (up to 6.3 percent from 6.1 percent in March) and black teenagers (up to 39.9 percent from March's 36.5 percent).

● **Nonfarm payroll employment** rose a hefty 126,000 and total employment increased 327,000. The number of people **jobless** for 15 weeks or more declined by 167,000 (to 3 million), still nearly twice as many as in July 1990, the onset of the recession.

The Bad News

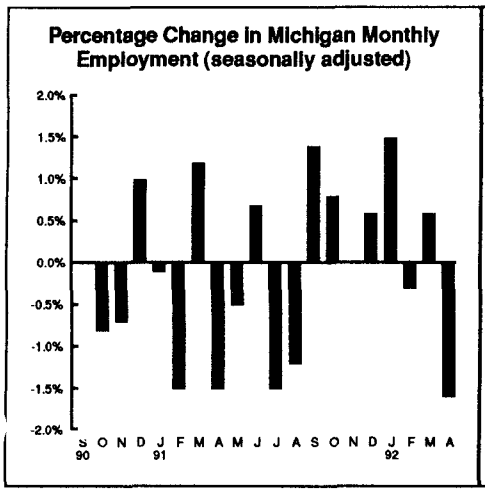
● Despite a 0.9 percent gain in **retail sales** in April, combined March-April sales were nearly flat due to a revision of the March figure; the latter was revised from the originally reported 0.4 percent drop to a hefty one percent decline.

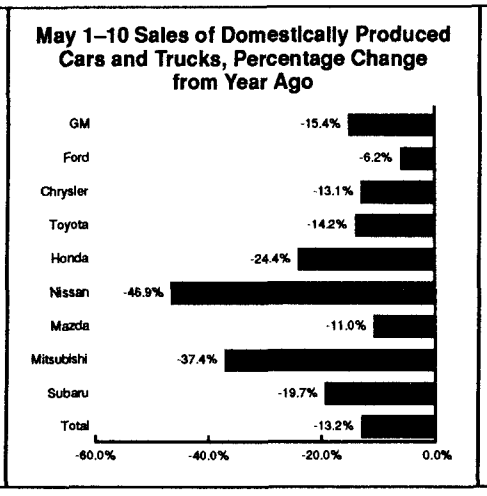
● Although the number of jobless workers declined by 3,000 in April, **Michigan's unemployment rate** rose to 9.4 percent from 9.3 percent in March. The decline in jobless workers was offset by a large decline in the labor force (68,000). The unemployment rate—the highest among the eleven largest states—points to continued weakness in the state's economy.

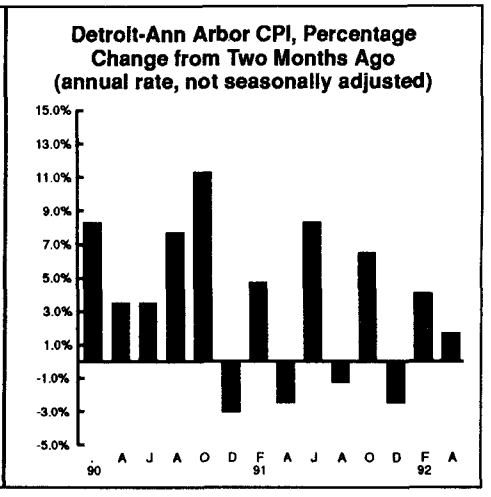
● After three consecutive monthly gains, **housing starts** tumbled at a seasonally adjusted annual rate of 17 percent in April, to 1.115 million units, down from 1.344 units in March. Although a slowdown in the housing market was expected (due to an abatement of the effects of lower interest rates and a mild winter), the decline was larger than anticipated by most economists. Because the figures can vary widely from month to month and are often substantially revised, however, a single decline should not be viewed as a definitive sign of deterioration.

IN THIS ISSUE

MICHIGAN ECONOMIC INDICATORS







SOURCES: Bureau of Labor Statistics and *Automotive News*.

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Low-Wage Incomes

Background

This month the Bureau of the Census issued a study entitled *Workers with Low Earnings, 1964–1990* that indicates that the proportion of full-time workers earning low wages increased dramatically between 1979 and 1990. (Low-income earnings are defined as households with earnings below the poverty level for a family of four, or less than $12,195 per year.) The report examines employment trends throughout the decade and concludes that the difference is not merely the result of cyclical economic change (that is, changes in income resulting from recessions and expansions) but rather the consequence of fundamental structural change in the economy. The statistics that led the Bureau to this conclusion are discussed below.

Who Has Been Affected?

Between 1964 and 1974 the percentage of full-time workers earning low incomes declined from 24.1 percent to 12 percent; the percentage remained about the same until 1979. Between 1979 and 1990, however, the proportion increased from 12.1 percent to 18 percent.

Nearly all segments of the work force were affected during the period. Both men and women experienced an increase in their proportion of full-time, low-wage earners; this was also the case among whites, blacks, and other racial groups, as well as single and married workers, and across age groups. The groups hardest hit were younger workers; those 18 to 24 years old saw their percentage of full-time, low-wage earners increase from 22.9 percent in 1979 to 43.4 percent in 1990. Among women the proportion grew from 20.4 percent to 22.9 percent, while for men it increased from 7.7 percent to 13.9 percent.

A Cyclical Phenomenon?

The Census Bureau concluded that growth in the proportion of full-time workers earning low wages was not limited to recessionary periods. In 1979 (at the beginning of the 1980 recession) unemployment averaged 5.8 percent nationally, yet the percentage of low-wage, full-time workers in the labor force was lower than in 1990—the onset of the most recent recession—when unemployment averaged 5.5 percent. In addition, the proportion of low-income earners steadily increased during the period, despite the economic recovery that occurred between 1983 and 1989.

Consequences

Although the Census Bureau report did not include any specific conclusions regarding the growth in the low-income working population, it did state that low wages "affect social behavior in terms of affordability of marrying, having children, and establishing an independent household." The statistics also indicate consequences in the public policy decision-making arena. Affected spheres include providing affordable health care, housing, and job training in order to provide a minimum standard of living for working Americans and providing these individuals with some chance of upward mobility.

In the area of health care, for example, medical care benefits are available to children of some low-income earners in the form of Medicaid. These benefits are not, for the most part, available to low-wage earning adults. Given the high cost of health care, some contend that this could provide sufficient incentive for low-income workers to drop out of the labor force and enroll in public assistance programs that include medical benefits. If this is indeed true, policies aimed at providing affordable, or even free, health benefits to low-income wage earners would help to prevent workers from leaving the labor force.

The statistics cited in the report also tend to demonstrate that "trickle down" economics—widely touted during the Reagan years and still espoused by many policy makers today—was unsuccessful in trickling down very far. It also implies that providing incentives for "investment" through such policies as capital gains tax relief and cuts in high-income marginal income tax rates are insufficient as economic policies if those policies are aimed at positively affecting the broadest base of wage earners.

Bureau of the Census, U.S. Department of Commerce, *Workers with Low Earnings, 1964–1990*, stock #803-005-30025-1 (Washington D.C.: the Bureau, May 1992). Available from the Superintendent of Documents, U.S. Government Printing Office, 202/783-3238. The cost is $5 prepaid, which may be charged to a credit card with phone purchases.

FY 1992 Budget Deficit Agreement

In an effort to reduce the current year deficit, the governor and legislature have reached accord on eliminating $785 million from the FY 1992 budget. Passed were executive order (EO) 13, Senate Bill (SB) 213 (the supplemental spending bill), SB 1 (revisions to the state's inheritance tax), SBs 509 and 511 (which alter revenue sharing payments to local units of government), House Bill (HB) 5353 (an early retirement agreement), and HB 5801, which resulted in allowing a withdrawal from the escheats fund.

- **EO 13** contains $228.9 million in savings, including $182.4 million in spending reductions and $46.5 million in revenue lapses and transfers to the general fund of unexpended or excess monies from various fee and revenue accounts. (Suit has been filed in Ingham County Circuit Court protesting the transfer of $9.6 million in fee revenue from the Harbor Development Fund.) Spending cuts consist of $55.6 million in capital outlay reductions to state universities, community colleges, and corrections, mental health, and other selected state facilities and $126.8 million in reductions in 13 budget areas, including $112.8 million in the Department of Management and Budget ($111.3 million of which will result from cut or delayed revenue sharing payments to local units of government), $4.6 million from the Department of Natural Resources, and $2.6 million from the Treasury budget.

- **SB 213** cuts general fund/general purpose (GF/GP) expenditures by $171.3 million, but offsetting increases of $260.1 million in federal funds, $27.6 million in local and private funds, and $25.1 million in restricted revenues result in a $141.9 million rise in gross spending. The Department of Social Services will receive the bulk of the increase with a supplemental totaling $166.6 million gross/$33.9 million GF/GP.

SB 213 also includes a $217-million reduction in school aid payments. The cuts in K–12 funding will be accomplished through a permanent delay in the August payment to school districts. House Concurrent Resolution R (signed by both the House and Senate), however, exhibits the legislature's intent to return to the normal payment schedule upon improvement of the revenue picture. In addition, the bill includes an agreement on use of the Budget Stabilization Fund (BSF) and borrowing from the health reserve account of the Public School Employees Retirement (PSER) Fund. The legislation would allow a $150-million withdrawal from the BSF to balance the FY 1992 budget. If more funds are needed, an additional $25 million from the BSF is available, with the first $12 million to come exclusively from the BSF and any additional withdrawals to be matched (at a ratio of 1 to 1.92) with funds from the PSER health benefits pool.

- **SB 1** will cut inheritance taxes by increasing the exemption for nonspouse close relatives (class A beneficiaries) from its current $10,000 to $15,000 in FY 1993, $25,000 in FY 1994, and $50,000 in FY 1995. In addition, transfers of family-owned businesses and farms to close relatives or farm business partners that actively participated in the operation of the business will be exempt from the tax beginning in 1993. Other provisions include steeper penalties for late payment of the tax, a 10 percent credit for taxes paid before they fall due, and a speeded up payment schedule (to 105 days from the previous nine months) for remitting the levy. The latter caveat will allow the state to accrue $50 million in revenues during FY 1992. Total cost of the legislation is estimated at $18.5 million when fully phased in in FY 1996.

- **SB 509** delays from the current year until next fiscal year payments of income and SBT tax revenue sharing monies, for a savings of $46 million.

- **SB 511** permanently changes (from September to October) the distribution of revenue sharing payments to local governments under the state's single business tax, resulting in current fiscal year savings of $35 million.

- **HB 5353** eliminates the requirement that a state employee be 50 years old before being allowed to participate in the "70 and out" early retirement plan. Those whose combined age and years of service total 70 may opt for the plan during the six weeks beginning June 1, 1992.

- **HB 5801** changes from seven to five years the holding period for abandoned property, freeing up about $20 million from the escheats fund.

PUBLICATION OF INTEREST

Health Care Spending: Nonpolicy Factors Account for Most State Differences, #GA/HRD-92-36 (Washington, D.C.: GAO, February 1992).

This report compares health care spending among the states in terms of per capita expenditures. It also examines the reasons for differences in spending levels for health care and the extent to which state cost-containment policies have contributed to lower health care spending. A copy of the report (the first copy is free) can be obtained by writing the GAO at P.O. Box 6015, Gaithersburg, MD 20877, or by calling the GAO at 202/275-6241.

Michigan Revenue Report

April revenue collections (largely March activity) were the strongest in a number of months, although the apparent strength is probably overstated. Personal income tax withholding collections fell 1.5 percent from the year-ago level; adjusted for one less payday this March than in March 1991, however, accelerated withholding collections rose an estimated 9.4 percent. This large increase likely is due to a change in the collection pattern, as economic activity is not strong enough to generate this large an increase.

Quarterly and annual payments were also strong, increasing 6.4 percent, but this surprisingly large gain may also be due to a temporary change in the collection pattern. A better indication of economic activity is sales tax collections, which increased 3.5 percent from the April (March activity) 1991 level. Motor vehicle collections increased a robust 12.9 percent from the depressed year-ago period, while all other collections rose only 2 percent.

Single business tax collections increased 36.3 percent, as some collections received in May last year were receipted to April this year. The large April increase is likely to be offset by a large decline in May collections.

Lottery sales declined an estimated 3.8 percent in April but are still up 1.5 percent for the fiscal year.

Although the strength in April collections is likely overstated, some improvement is evident. This month's collections combined with last month's strong showing increases confidence that the current revenue estimates for FY 1991–92 will not have to be revised downward again. If this trend continues, it is possible that revenues could slightly exceed the estimates.

MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary April 1992	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1991–92 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	$341,203	–1.5%	$1,030,097	2.3%	$2,202,319	2.9%
Quarterly and Annual Payments	289,545	6.4	331,516	7.5	475,719	0.5
Gross Personal Income Tax	630,748	2.0	1,361,613	3.5	2,678,038	2.5
Less: Refunds	–334,694	16.0	–790,426	9.3	–846,761	10.9
Net Personal Income Tax	296,054	–10.3	571,187	0.0	1,831,277	–1.0
Sales and Use Taxes	254,963	3.5	719,076	3.1	1,540,444	0.6
Motor Vehicles	39,174	12.9	105,272	17.1	203,241	5.9
Single Business Tax	174,727	36.3	359,630	–2.3	720,963	–9.1
Cigarette Tax	19,991	0.5	58,637	0.9	122,162	–1.8
Public Utility Taxes	0	0.0	105	NM	72,582	1.3
Oil and Gas Severance	3,427	–16.9	10,607	–11.3	21,809	–16.9
Lottery[a]	41,788	–3.8	121,159	0.5	279,244	1.5
Penalties and Interest	506	–46.8	16,123	–17.8	37,504	–4.3
SUW—Annuals and Undistributed[b]	16,004	10,498.7	24,394	106.5	34,314	57.9
Other Taxes[c]	105,409	32.8	191,287	23.1	288,963	21.5
TOTAL TAXES (GF & SAF)[d]	$912,869	7.1%	$2,072,205	1.8%	$4,949,262	–0.4%
Motor Fuel Tax[e]	$54,895	–0.2%	$167,649	3.1%	$340,565	2.7%

SOURCE: Data supplied by Michigan Department of Treasury.
NM = Not meaningful
[a]The state share of lottery sales in 40.1 percent (FY 1991). The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase 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.