

## GOOD NEWS

Despite the lingering effects of the Asian financial crisis, the **U.S. unemployment rate** remained unchanged in July from June's 4.5 percent. The economy added only 66,000 new jobs last month, the weakest monthly gain in more than two years. The weak employment growth was due primarily to 176,000 lost manufacturing jobs, about 80 percent of which are attributable to the General Motors strike; if not for the strike, the July jobless rate still would have fallen to 4.4 percent.

## BAD NEWS

The Michigan Jobs Commission recently reported that the **Michigan unemployment rate** rose 0.6 percentage points in July, to 4.2 percent. The number of unemployed Michiganders rose by 28,000, and the labor force declined by 12,000. Employment in manufacturing fell by 60,000 workers, most of whom were unemployed due to the General Motors strike. A Jobs Commission official stated that without the strike, the unemployment rate would have been "relatively unchanged."

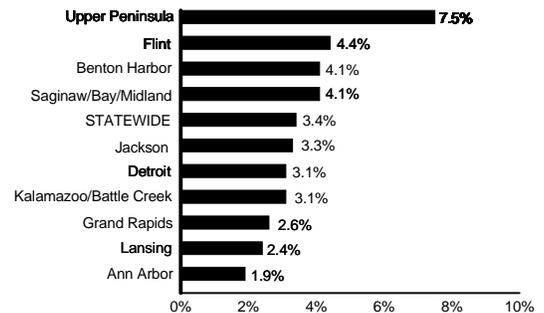
◆ The Conference Board announced that the **index of consumer confidence** fell slightly in July, to 135.4 (June's number was 138.2). The dip in the index—which measures 100 when the economy is performing well—reflects growing concern about future job prospects and increasing expectation that business conditions will soften in the next six months. Despite some jitters about the future, many consumers continue to be pleased with the current economy; 45 percent surveyed indicate that current conditions are "positive."

◆ The U.S. Commerce Department announced that **gross domestic product** (GDP) slowed substantially in the second quarter of the year. The U.S. economy grew at only a 1.4 percent annual rate in the second quarter, down from a swift clip of 5.5 percent in the first. The deceleration is due mainly to the effects of the Asian financial crisis and the GM strike; they shaved approximately 2.5 and 0.5 percentage points off second quarter GDP growth, respectively.

◆ July **motor vehicle sales** fell 8.4 percent from the year-ago level, due mainly to the

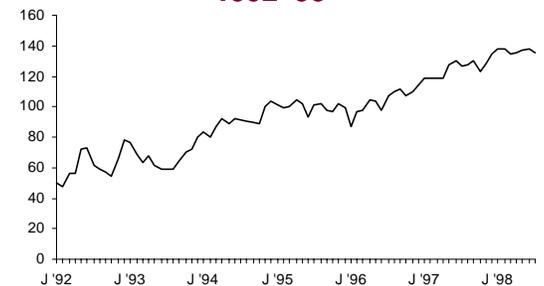
strikes against General Motors. Excluding GM sales, which dropped 38.1 percent, motor vehicle sales increased 4.8 percent. Passenger cars took the biggest hit, with sales down 13.8 percent from a year ago; light truck sales declined only 1.9 percent. Sales for the Big Three fell 17.1 percent, with Chrysler down 3.8 percent and Ford up 3.2 percent. For the first seven months of the year, light motor vehicle sales still are up 2.5 percent over last year, due largely to the incentive-driven surge in June. The negative effects of the strikes likely will linger into August.

**Unemployment Rates, Major Michigan Labor Markets, June 1998 (unadjusted)**



SOURCE: Michigan Jobs Commission.

**Consumer Confidence Index, 1992-98**



SOURCE: Conference Board.

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# MONTHLY FOCUS

## A NEW LOOK AT POVERTY DATA

The U.S. Census Bureau recently released a report about poverty in the United States that finds that many American poor are not permanently so. (See “Information of Interest.”)

The poverty rate—the percentage of the U.S. population falling below a specified income level—was 12.9 in 1993 and 12.6 percent in 1994. The report reveals that the numbers change considerably when duration of poverty is factored in. The good news is that when duration is considered, fewer people than thought—5.3 percent of the U.S. population—were poor for all 24 months of the 1993–94 period. The bad news is that 21.4 percent (over one-fifth of the U.S. population) were poor for some part of that period.

Exhibit 1 illustrates the 1993–94 rates of chronic poverty (lasting for the full two-year period) and episodic poverty (lasting at least two months but less than the full two years). It shows that both are higher among minorities, children, people in female-headed households, and urban and rural dwellers. The exhibit also shows that all groups experience a much higher rate of episodic than chronic poverty.

Exhibit 2 shows the average amount of time that the impoverished stay below the subsistence level. The median is 4.5 months. blacks, Hispanics, children, the elderly, and people in female-headed households tend to be poor longer than others.

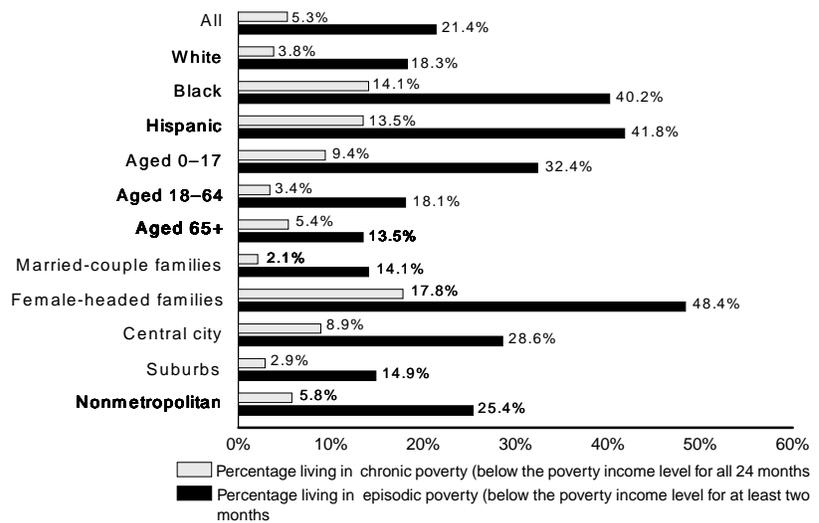
### Conclusion

These data shed some light on U.S. poverty. It appears that at any one time there are more people living below the subsistence level than the poverty rate indicates, but few of them stay in this situation long term. Unfortunately, there are no

data on the frequency with which people suffer more than one instance of episodic poverty.

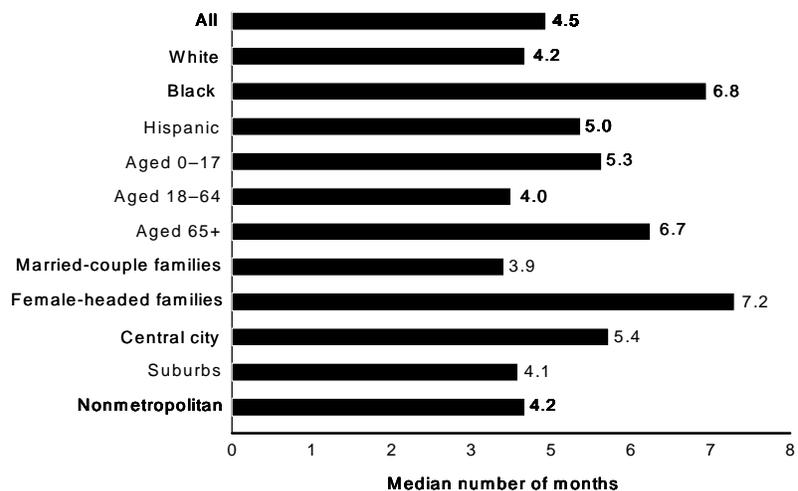
The findings could have far-reaching public policy implications in regard to the type of support given to help people out of episodic poverty and the assistance given to the chronic poor.

**EXHIBIT 1**  
**Chronic and Episodic Poverty Rates,**  
**United States, 1993–94**



SOURCE: U.S. Bureau of the Census.

**EXHIBIT 2**  
**Median Duration of Poverty, United States, 1993–94**



SOURCE: U.S. Bureau of the Census.

# NEWS FROM THE STATE CAPITOL

## ATTORNEY GENERAL NIXES SUPER- MAJORITY

Attorney General Frank Kelly has ruled against Senate-passed bills requiring a three-fifths “super-majority” to raise taxes. The attor-

ney general declared that Senate Bills 1163–66 will not stand up if they become law, because the Michigan Constitution does not allow lawmakers to impose restrictions on the action of future legislatures.

The Senate passed SBs 1163–66 in June when a Senate resolution (HJR A) failed to pass. The resolution would have asked voters to approve a supermajority amendment to the state constitution. Sufficient votes (two-thirds of members elected and serving) could not be mustered, so some senators, try-

ing a different tack, introduced bills that would require the supermajority to raise taxes. Unlike a resolution to put a ballot question before the voters, bills do not require a two-thirds majority to pass, nor do they need voter approval to become law.

The attorney general has stated, however, that only the voters may require a supermajority to raise taxes. The opinion means that if the bills become law, which looks very doubtful at this point, they probably will be ruled unconstitutional.

This month’s Economic Bulletin was written by Laurie A. Cummings, Senior Consultant for Economic and Education Policy, and Robert Kleine, Vice President and Senior Economist.

### INFORMATION OF INTEREST

U.S. Bureau of the Census, U.S. Department of Commerce, “Trap Door? Revolving Door? Or Both?” Current Population Reports (Washington, D.C.: GPO), July 1998. <http://www.census.gov/hhes/www/povdyn93.html>

This eight-page article presents an analysis of poverty rates. It defines the various poverty measures used by the Census Bureau, including the annual rate, episodic poverty rate, and entry and exit rates and discusses the differences among them. It calculates and compares these rates using 1993 and 1994 U.S. data. The analysis shows that among ethnic and other groups, both poverty rates and the length of time in poverty differ.

Office of Revenue and Tax Analysis, *The Michigan Single Business Tax Statistical Update, 1994–1995* (Lansing, Mich.: Michigan Department of Treasury), March 1998. 517/373-2697

This 27-page document is a compilation of charts and graphs describing the single business tax (SBT). It contains a brief narrative summary of the methods and statistics in the report, presents data depicting the tax’s revenue history and its liability breakdowns by industry and class, and compares the SBT to a pure value-added tax. Charts detail the computation of SBT liability, makeup of the Michigan tax base and the various deductions, exemptions, filing methods, and credits allowed under the SBT.

House Fiscal Agency, *Fiscal Fundamentals, 1998: A Manual on State of Michigan Governmental Finances* (Lansing, Mich.: HFA), February 1998. 517/373-8080.

This 58-page document explains the key elements of the state’s finances, including K–12 aid, transportation financing (i.e., road/bridge maintenance and public transportation funding), revenue sharing, higher education funding, state spending to local governments, Budget Stabilization Fund, long-term debt obligation, state appropriations history, state tax sources and federal revenue sources, state government organization and employees, and state-administered retirement systems. Each section of the document presents exhibits illustrating the narrative.

U.S. Congressional Budget Office, *Long-Term Budgetary Pressures and Policy Options* (Washington, D.C.: USGPO), May 1998.

This 67-page report examines the long-term federal budget outlook as it relates to the pressure that will be placed on it from increased spending on Social Security and Medicaid as the baby boom generation reaches retirement age. It also looks at policy options for controlling the growth of these two programs. It concludes by discussing the long-term effects of these policy options, both individually and in packages. To ensure that the report is impartial and objective, no recommendations are made.

# MICHIGAN REVENUE REPORT

The strikes against General Motors slowed July state revenue collections. The month's totals were up only 3.6 percent above the year-ago level, falling behind the performance of the previous three months. The Senate Fiscal Agency estimates that the strikes cost the state about \$25–30 million monthly in lost revenue. Based on this estimate, state revenue would have increased about 5.5 percent without the strikes.

It appears that the strikes had the greatest effect on sales tax collections. After rising a robust 8.6 percent in June, collections increased only 0.9 percent in July. Collections on motor vehicle sales fell 0.4 percent, while all other sales tax revenue edged up only 1.1 percent. Use tax revenue, which may vary widely from month to month, was up 10.9 percent.

Personal income tax withholding held up well, increasing 6.1 percent above July 1997, roughly in line with year-to-date growth of 6.4 percent.

Single business tax collections (excluding insurance) also enjoyed an usually large increase for the second straight month in July: 7.7 percent. However, insurance company

collections were down sharply, resulting in a 7.7 percent decline in combined SBT/insurance collections.

Lottery sales were down 2.4 percent in July and are up only 2.2 percent year-to-date.

Tobacco tax revenue rose 12.4 percent in July, following a strong gain in June, and is down only 0.1 percent for the fiscal year. As reported last month, this may be a sign that the dampening effects of the big 1994 tobacco tax hike and the accompanying increase in smuggling have abated and/or that state's efforts to combat smuggling have been effective.

## July 1998 Revenue Collections (millions)

Source	July Collections	Percentage Change, Year-ago	Percentage Change, Year-to-Date	July 1997 Actual	FY 1997–98 Consensus Est. Less Tax Cuts (% Change)
Income tax					
Withholding	\$491.7	6.1%	6.4%	\$463.5	5.6%
Quarterly	13.7	75.6	14.6	7.8	10.9
Annual	11.0	93.0	22.0	5.7	14.9
Subtotal: gross income tax	516.4	8.3	8.3	477.0	6.8
Sales tax	498.0	0.9	3.7	493.7	3.5
Motor vehicles	78.3	-0.4	6.0	78.6	—
Other	419.7	1.1	3.3	415.1	—
Use tax	109.7	10.9	3.7	98.9	1.0
Subtotal: sales/use/withholding	1,099.4	4.1	5.0	1,056.1	4.3
Tobacco tax	54.3	12.4	-0.1	48.3	-4.0
SBT	262.2	7.7	4.4	243.4	2.2
Insurance	-1.3	-103.3	-39.3	39.3	0.7
Subtotal: SBT + insurance	260.9	-7.7	0.8	282.7	17.7
State education property tax	19.3	27.8	0.8	15.1	5.0
Real estate transfer tax	22.4	23.8	20.6	18.1	11.5
Estate/inheritance tax	12.8	113.3	41.3	6.0	13.2
Intangibles tax	0.4	33.3	-43.5	0.3	-46.2
Severance tax	2.4	-46.7	-19.0	4.5	-12.6
<b>TOTAL</b>	<b>\$1,496.4</b>	<b>3.6%</b>	<b>4.9%</b>	<b>\$1,444.6</b>	<b>4.0%</b>
Gross lottery sales (prel.)	\$125.6	-2.4%	2.2%	128.7	

SOURCE: Senate Fiscal Agency.

NOTE: November is the first month of the new fiscal year for all revenue sources except the lottery.