

# Michigan ECONOMIC BULLETIN

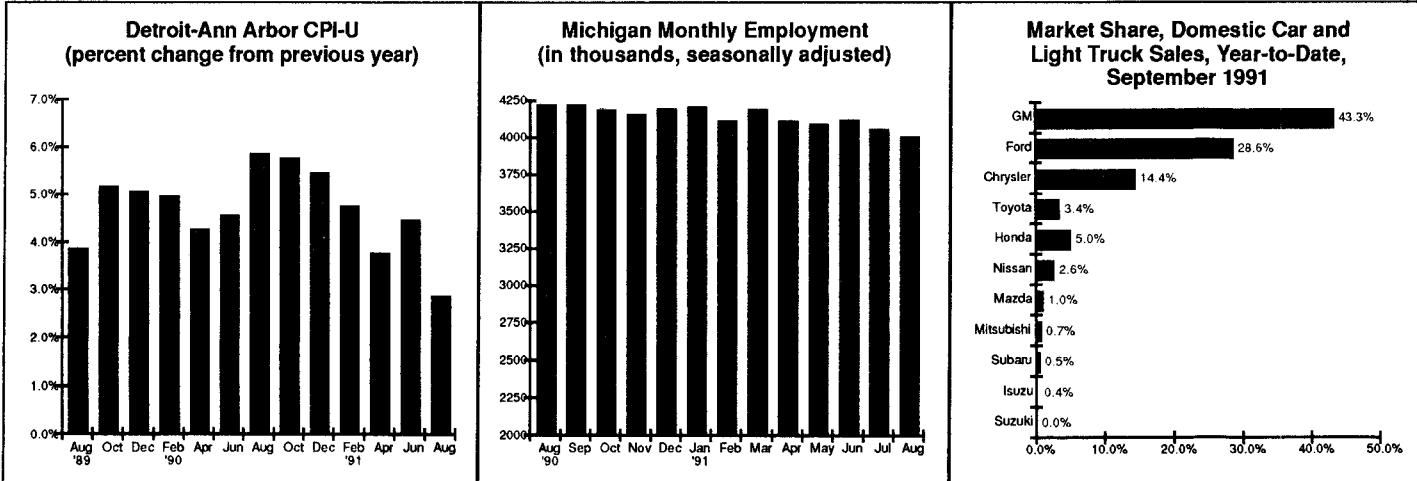
## The Good News

- Despite the weakness of the economic recovery, nationwide sales of new homes continue to convey hope for the housing sector; August sales were up 6.7 percent from July's level, the sixth monthly increase in the last seven months. Declining interest rates and low supply could pave the way to continued recovery in the sector.
- Despite slow growth of the money supply, interest rates continue to hit record lows. In the first week in October, three-month T-bills averaged 5.1 percent, and an average rate of 5.12 percent was recorded for one-year bills. The small spread between the two rates indicates that the economy is not expected to expand significantly over the next 3-6 months.
- The national unemployment rate fell slightly in September, to 6.7 percent from the August mark of 6.8 percent. Job creation totaled a scant 24,000 jobs—all in the service sector—compared to average monthly job creation of 54,000 during the previous three months and 300,000 during the recovery from the 1980-82 recession.
- National personal income rose by 0.5 percent in August; most of the gains, however, were funnelled into savings (which rose during the month from 3.6 percent of income to 3.9 percent) rather than consumption.

## The Bad News

- Motor vehicle sales totaled 9.4 million units in 1991, down 12.5 percent from the year-ago level and the worst

## MICHIGAN ECONOMIC INDICATORS



SOURCES: Bureau of Labor Statistics.

## Defining Unemployment

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### A Question of Semantics

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State Treasurer Doug Roberts often begins discussions of the state budget by saying that three different people can cite three different statistics on the size of "the state budget," and each could be correct. How can this be so?

People base their evaluation on a different definition of the budget; one may be speaking in terms of general fund appropriations, another includes restricted fund monies, while a third could include federal funds. It is clear that how one defines the budget, or any other statistical measure, is the key element in understanding any evaluation relating to that measure.

The question of definition often comes up in regard to the unemployment rate. This arguably is the economic statistic that gains the most media attention and public interest because it is a primary indicator of economic strength and affects public policy decisions. The length of the recession, for example, has prompted federal legislation to extend unemployment benefits with payments to individual states based on their unemployment rates, while withdrawals from Michigan's budget stabilization fund is tied, in part, to the state's unemployment rate.

### Defining Unemployment

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Misconceptions about unemployment arise because people assume that the rate is defined as simply the number of people not working divided by the total population. This definition, however, is inappropriate as it includes some people who should not be included, such as the nonworking-age population.

So who is included in the calculation of the unemployment rate? The rate is based on definitions of the following: the civilian labor force, employed civilians, and unemployed civilians. The *labor force* is the noninstitutional population aged 16 years and older classified as either employed or unemployed. Those considered *employed* are those who during the survey week (1) completed one or more hours of work for pay or profit, or (2) worked 15 hours or more as an unpaid worker in a family enterprise, or (3) were temporarily absent from their job for noneconomic reasons (illness, weather conditions, vacation, etc.), or (4) were a member of the armed forces stationed in the United States. *Unemployed* persons are those who were (1) not employed, and (2) made an effort to find work during the previous four weeks, and (3) were available to work during the week in question (except if

temporarily ill). Also considered unemployed are those who are on temporary layoff or are waiting to start a new job within the next 30 days if they are available to work. Any person aged 16 years or older and not classified as employed or unemployed is not included in the definition of the civilian labor force. The *unemployment rate*, then, is the percentage of the labor force that is unemployed.

### Who Is Included and Excluded?

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As they stand, employment statistics provide a picture of the current state of the job market: How many people of working age are working, and how many are ready and available to work but unable to find employment. From the job market perspective the statistics are satisfactory; there is no need to include those who are not planning to enter the work force because they do not affect job opportunities. Problems with the definition of the unemployment rate exist, however, because of disagreement over what the statistics should measure and philosophical disputes about the nature of "productive work."

Existing employment statistics would not suffice if, for example, one were seeking a broader picture of the size of the population currently not working. The problem arises because large segments of the population are excluded from the employment statistics, including housewives/husbands, the homeless, those working in the underground economy, and, most notably, discouraged workers. (The latter are omitted from the labor force because they have not looked for employment within the last four weeks.)

A different unemployment rate could be derived by including the entire population aged 16 and older in the definition of the labor force; the number unemployed then would be calculated as the new labor force less the number of workers employed. (A problem with the alternative measure is that some of this population is retired and receiving income based on past employment; the measure could be amended to include only those up to age 65, plus those over age 65 that are currently working.) Although the new measure would include those who are not actively seeking employment, it would provide a better "macro" view of the total size of the population that is not employed and could be used for broad policy purposes, such as in social welfare decisions.

Other differences arise because of disputes over what is to be considered "productive work." A person voluntarily working in the home and not seeking employment elsewhere is excluded from the definition of the labor force

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## FY 1992 Budget: The Governor's Vetoes

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On October 11, Governor Engler announced his vetoes to the FY 1992 budget passed by the legislature on September 28 (refer to *Michigan Roundup*, October 3, 1991). Vetoes totaled \$121.16 million, of which \$102.7 million were general fund/general purpose (GF/GP) funds. This brings total GF/GP spending to \$7,590.4 million, 3.8 percent below the level of FY 1991 year-to-date appropriations, 1.2 percent higher than the governor's revised recommendations, and 1.3 percent less than the level of spending passed by the legislature.

GF/GP vetoes range from a high of \$21.9 million from the school aid budget to \$300,000 from Treasury. Eight departmental budgets—including Social Services—were not subject to GF/GP reductions. A synopsis of the vetoes by budget area is provided below. Also, GF/GP revenue was increased \$8.8 million as the result of the veto of horse racing programs in the Department of Agriculture (\$6.8 million) and the Michigan Pharmaceutical Program in the Department of Management and Budget (\$2 million). These programs were supported by restricted revenues that now are returned to the general fund.

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(Continued from page 2.)

as s/he is not seeking "for-pay" employment. If one is looking at employment statistics to gain a picture of the job market, again it is understandable why this population is not included. If, however, one were seeking a statistic that more accurately reflected those engaged in productive work, one could argue that this population should be included. Because individuals working at home are producing a discernable service (if someone outside the home were providing the same services for pay, s/he would be included in the statistics); excluding these persons, therefore, understates the number of workers in the labor force and the total number of employed individuals. (This same debate arises over the calculation of gross national product.) It is argued that since those working on family farms are included in the statistics (presumably because they are producing "for-pay" goods), why not include home workers as well? (This same argument could be used to include volunteer workers in the definitions of the labor force and employed.)

As with any statistic, one needs to know how employment statistics are defined in order to understand what they mean. Alternative definitions can and should be used for alternative purposes.

► **Human Services** Vetoes to human services were \$17 million GF/GP: \$13.6 million in cuts in the Department of Mental Health and \$3.3 million in the Department of Public Health, which included rejection of \$9.3 million and \$2 million, respectively, in classified employee pay raises to the two departments.

● **Education** Cuts to education totaled \$39.6 million, all in GF/GP monies. The cuts to school aid did not include \$16.8 million in recommended restorations to school aid appropriations not reenacted by the legislature. If these restorations are approved by the legislature, net vetoes to the school aid budget amount to \$4.2 million. The public school employees retirement (PSER) budget was reduced \$12.6 million (\$8.8 million less to community colleges, and the remainder from universities) as the result of the state discontinuing its copayment to the funds. Of the \$4.9 million in other reductions to higher education, nearly half were cuts in consortia funding. The Department of Education funding was reduced \$2.2 million, with the cuts coming from a variety of programs.

► **General Government** Vetoes totaled \$8.4 million GF/GP to four (legislature, Management and Budget [DMB], State, and Treasury) of the ten budgets included in this area. Most of the cuts (\$7 million) were in DMB, including \$3.1 million to Michigan symphonies and \$999,000 to state technological museums.

► **Regulatory** This budget area experienced \$12.7 million in GF/GP vetoes, \$3.8 million in the Department of Commerce and \$8.8 million in the Department of Labor. Cuts to the latter include a \$6.5 million reduction in Michigan Job Training grants. There are an additional \$7.3 million in restricted fund reductions—nearly all to the Commerce budget.

● **Public Safety** The three departments in this area received vetoes of \$7.6 million GF/GP; all but \$1 million are cuts within the Department of State Police. Reductions to that budget include \$4.7 million in cuts in classified employee pay increases and \$1 million to the 911/central dispatch program.

● **Other** The Department of Natural Resources received \$10 million in GF/GP vetoes, with cuts distributed across many program areas. The capital outlay budget was reduced \$3.9 million (including \$1.6 million from the capitol restoration fund) and Agriculture received cuts of \$1.5 million.

# Michigan Revenue Report

The economic recovery has shown little vigor, and this is reflected in state revenue collections, which have improved little in recent months.

Personal income withholding collections increased 30.6 percent in September (August activity), but this was due to a new law that requires accelerated payments from employers. This generated a one-time gain of about \$111 million. Adjusted for this windfall, collections increased only 0.2 percent.

Sales and use tax collections in September rose only 1.1 percent. Most of the weakness was in motor vehicle collections, which fell 13.8 percent from the year-ago level. Excluding motor vehicles, collections increased 4.4 percent, an improvement over recent months.

September single business tax collections were 25.5 percent below the year-ago level, but this is not particularly significant as September historically has been an off month for collections. Of more significance is the 0.6 percent decline for the last three months. This is an improvement

over recent months, although collections were inflated somewhat by back payments made after the legislature passed a bill resolving legal questions concerning the capital acquisition deduction (CAD).

Lottery sales continued weak in September, declining 6.3 percent (preliminary) below year-ago sales. For the last three months, collections were 16 percent below the year-ago quarter. With FY 1990-91 collections almost complete, sales for the year are 5.1 percent below FY 1989-90 sales.

At this point, with only October collections (for most revenue sources) remaining, it appears that general fund-general purpose and school aid revenue for FY 1990-91 will fall about \$50 million below the current Department of Treasury estimate of \$9,248 million. There is a possibility, however, that some portion of the \$111 million in accelerated withholding payments mentioned above could be accrued to FY 1990-91 to offset some of the potential shortfall.

## MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary September 1991	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1990-91 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	\$476,970	0.2%	\$1,149,158	-0.8% <sup>a</sup>	\$3,967,997	1.7% <sup>a</sup>
Quarterly and Annual Payments	96,875	-5.9	121,870	-6.7	738,395	-8.3
Gross Personal Income Tax	573,845	-1.1 <sup>a</sup>	1,271,028	-1.4 <sup>a</sup>	4,706,392	-0.1 <sup>a</sup>
Less: Refunds	-22,840	71.7	-104,304	77.1	-1,134,890	9.8
Net Personal Income Tax	551,005	-3.3 <sup>a</sup>	1,166,724	-5.6 <sup>a</sup>	3,571,502	-2.9 <sup>a</sup>
Sales and Use Taxes	277,731	1.1	822,757	0.4	2,871,100	-0.3
Motor Vehicles	41,994	-13.8	127,064	-10.8	402,916	-11.3
Single Business Tax	51,495	-25.5	435,373	-0.6	1,511,464	-8.9
Cigarette Tax	22,311	-3.6	67,802	1.8	236,330	-0.2
Public Utility Taxes	0	—	73,163	1.3	144,874	1.9
Oil and Gas Severance	3,833	-11.3	11,554	3.4	45,559	10.5
Lottery <sup>b</sup>	35,464	-6.3	110,388	-16.0	464,211	-5.1
Penalties and Interest	869	NM	17,247	43.4	78,138	29.0
SUW—Annuals and Undistributed <sup>c</sup>	-9,086	NM	-4,290	NM	19,512	-19.3
Other Taxes <sup>d</sup>	10,023	-45.8	72,043	53.3	408,484	24.9
<b>TOTAL TAXES (GF &amp; SAF)<sup>e</sup></b>	<b>\$943,645</b>	<b>-6.6%<sup>a</sup></b>	<b>\$2,772,761</b>	<b>-2.3%<sup>a</sup></b>	<b>\$9,351,166</b>	<b>-2.0%<sup>a</sup></b>
Motor Fuel Tax <sup>f</sup>	\$58,678	-0.6%	\$182,283	0.3%	\$630,947	-0.8%

SOURCE: Data supplied by Michigan Department of Treasury.

NM = Not meaningful

<sup>a</sup>Adjusted to reflect \$111 million in accelerated withholding payments.

<sup>b</sup>The state share of lottery collections is estimated to be 40.8 percent, based on the average profit to the state for fiscal year 1989-90. The previous year's figures are adjusted to the current year's profit margin; the percentage change reflects the increase in ticket sales.

<sup>c</sup>These revenues are distributed to the sales, use, and withholding (SUW) accounts when final numbers for the month are reconciled.

<sup>d</sup>Includes intangibles, inheritance, foreign insurance premium, corporate organization, and industrial and commercial facilities taxes.

<sup>e</sup>Excluded are beer and wine, liquor, and horse racing taxes, which are not collected by the Department of Treasury.

<sup>f</sup>The motor fuel tax is restricted to the Transportation Fund.

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