Gerald Faverman, Ph.D. • *Chairman of the Board*
Robert J. Kleine and Frances Spring • *Editors*
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Public Sector Reports

Michigan ECONOMIC BULLETIN

The Good News

➤ For the second consecutive month **Michigan's unemployment rate** declined, falling to a seasonally adjusted 8.8 percent in September from 9.0 percent in August. While still one of the highest in the nation, Michigan's unemployment rate is falling faster than the national rate, which declined 0.1 percent from August to September.

➤ The **consumer price index** rose only slightly (0.2 percent) in September. Excluding volatile food and energy prices, the rate of inflation was 0.2 percent, the same as in each of the previous four months. Low inflation generally leads to lower long-term interest rates, which would spur demand for housing and other big-ticket items.

The Bad News

➤ The Conference Board revealed that **consumer confidence** fell 2.6 points to 56.4 points in September, the third consecutive month in which confidence has declined. Consumer confidence, which measures between 85 and 100 when the economy is performing well, is the lowest it has been this close to a presidential election since the measure was first used in the early 1970s.

➤ The Commerce Department announced that, following a 0.3 percent decrease in June and a 0.1 percent rise in July, August's **index of leading economic indicators** fell 0.2 percent. The index—designed to foretell the state of the economy in the coming six months—has risen in five of the last seven months.

➤ Despite the lowest interest rates in twenty years, **sales of new homes** fell 6.1 percent in August to a seasonally adjusted annual rate of 570,000 units. Initial estimates of new home sales in July were revised, however, from a 2.6 percent decline to a 4.5 percent rise, lending hope that August's dismal figures do not reflect the true state of the housing sector.

➤ Despite a slight decline in the **national unemployment rate** (from 7.6 percent in August to 7.5 percent in September), the employment picture remains gloomy. The drop in the jobless rate is largely attributable to a decline in the size of the labor force. **Factory payrolls** were down 26,000 in September, and a 0.8 percent drop in unfilled factory orders suggests that manufacturers are unlikely to hire additional workers soon.

➤ **Automobile sales** were down 14 percent in September from the same month last year. Mid-September sales of cars and truck were down from 339,672 units in 1991 to 290,297 in 1992. Most of the decline was in car sales (down 19 percent) rather than truck sales (down only 6 percent). Sales of domestically produced trucks fell only 0.9 percent, while foreign truck sales declined 42 percent.

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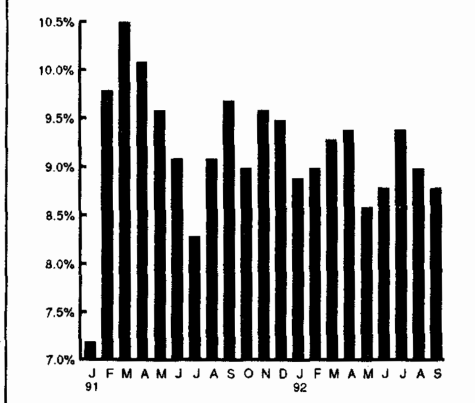
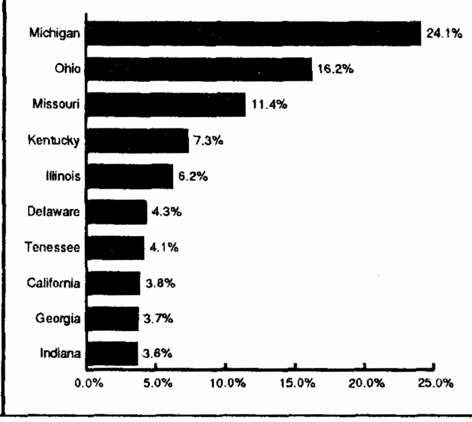
MICHIGAN ECONOMIC INDICATORS

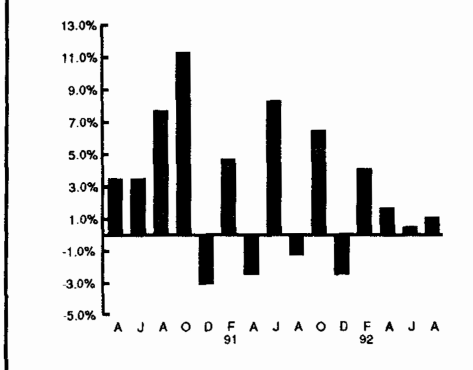
Michigan Monthly Unemployment Rates (seasonally adjusted)



Percentage of U.S. Car and Truck Production in Ten States, 1992 Model Year



Detroit-Ann Arbor CPI, Percentage Change from Two Months Ago (annual rate, not seasonally adjusted)



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

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MONTHLY FOCUS

Michigan's Low and Middle Incomes Decline

by Laurie Cummings

The Study

An August 1992 study by the Center of Budget and Policy Priorities has added a new twist to the old adage "the rich get richer while the poor get poorer."[1] The study on income distribution in the United States revealed that not only the poor got poorer, but also the middle class. The study ranked all families in each of the fifty states by real income and then divided them into quintiles. The average incomes of the poorest, wealthiest, and middle fifths in 1979 and the late 1980s were then compared to measure disparities.

Widening Income Gaps in the United States

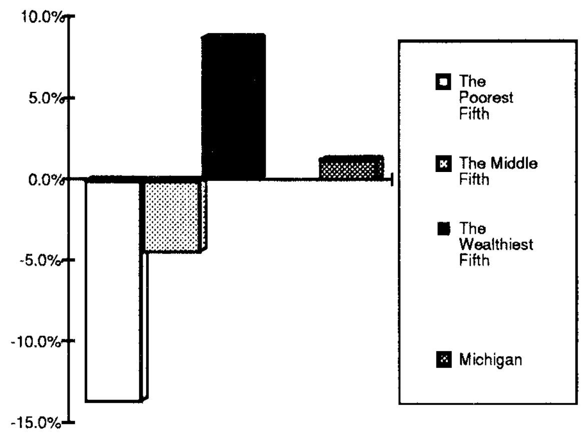
In 43 states the income gap between those in the wealthiest and poorest fifths grew between 1979 and the late 1980s. In 27 of these 43 states income gaps widened due to both the growth of the incomes of the wealthy and the decline in the incomes of the poor. In 11 of the 43 states incomes in both groups grew, but the incomes of the rich grew faster.

The rich are getting much richer than both the poor and the middle class. At the close of the 1970s, there were only 13 states in which the incomes of the wealthiest families were at least eight times greater than those of the poorest; in the late 1980s there were more than 29 states with such gaps. In all but four states, the gap between the incomes of the wealthiest fifth and the middle fifth widened. In 19 states this was because middle class incomes fell while the incomes of the wealthy rose. In 22 states the disparity increased because the incomes of the wealthy rose faster than those of the middle class.

Widening Income Gaps in Michigan

The exhibit shows that the adage held true in Michigan. The income disparities between rich and poor grew because the incomes of the poor declined while those of the rich rose. The poorest fifth of families in Michigan experienced an average loss of 13.7 percent of their incomes between 1979 and the late 1980s, while the wealthiest fifth enjoyed an 8.8 percent increase. By the late

Percentage Change in Real Incomes in Michigan: 1979 to the Late 1980s



1980s, the disparity between Michigan's wealthiest and poorest families was about the same as the national average, with incomes of the wealthy about nine times higher than those of the poor.

The change in the position of the middle class relative to the wealthy sets Michigan apart from most states. Since 1979 Michigan's middle quintile has experienced a substantial decline in income relative to the wealthiest quintile. Through the 1970s Michigan's middle class enjoyed the 9th highest average income in the country; ten years later, the average middle class income had fallen to 17th highest, earning Michigan a place among the ten states where disparity between the wealthy and middle class grew the most. In 1979 Michigan's middle-class families held the second largest share (18.5 percent) of total state income in the country; by the late 1980s, however, that share fell to 17.5 percent of total state income, ranking Michigan 19th among the states.

Implications

While increasing income disparity is due largely to lower wages and other economic trends, policy makers can take steps to combat the erosion of incomes. Tax policies, income support, and job training programs are a few of the tools available to elevate low and middle incomes. Whatever the tool, it is clear that action must be taken if a further widening of the gaps between the rich, poor, and middle class is to be averted.

1 Center on Budget and Policy Priorities, *"Where Have All the Dollars Gone?: A State-By-State Analysis of Income Disparities Over the 1980s"* (Washington, D.C., August 1992).

Senate Moves to Repeal Intangibles Tax; Supreme Court Negates Categorical Aid Elimination

Repeal of the Intangibles Tax

Before adjourning earlier this month, the Senate voted 23–13 to pass a bill that would phase out the tax levied on income derived from intangible assets, such as stocks, bonds, and mutual funds. Under current law, an intangibles tax return must be filed if the dividends and interest earned from intangible property exceeds $5,000 or if the person owns nonincome-producing tangible property valued at $175,000 or more for a single filer or $350,000 for a joint return. The tax is the greater of 3.5 percent of the value of the income produced by the property or one-tenth of one percent of the property's value. Senate Bill (SB) 981 would result in a 10 percent annual reduction in the tax beginning in 1994 and continuing through 2004, when the tax would be repealed. The cost to the state is estimated at $120 million, including more than $9 million in local government revenue-sharing payments.

The Department of Treasury has said that it does not support the proposal. Those favoring the legislation argue that it would stimulate economic growth and benefit middle-income seniors reliant on returns from such assets for much of their income. Opponents charge that it is a tax break for the wealthy and "supply-side economics at its worst." The bill now moves to the House, where it likely will be referred to the House Taxation Committee.

School Aid Categorical Funding

The Michigan Supreme Court has issued a ruling that could stymie any further attempts by the administration or the legislature to equalize funding between the state's school districts through categorical recapture. The ruling, however, does not require the state to reimburse districts for the costs of Social Security.

In its ruling, the court said that the Headlee amendment to the Michigan Constitution requires the state to pay each school district a portion of the total cost of providing mandated programs, such as special education. (The Headlee provision requires that the state pay for mandated services at at least the level of support provided in FY 1978–79, the year the amendment became effective, and that the funds be distributed to local governments to pay for these programs.) Each district is entitled to a payment at least equal to the statewide average payment made in FY 1978–79; if in that year, for example, the state remunerated districts for 35 percent, on average, of the cost of providing special education, the state must continue pay each district for 35 percent of its special education costs. The state had maintained that individual districts were not entitled to any fixed percentage as long as total payments equaled the statewide average. The court ruled that districts are not entitled to the same reimbursement for the cost of Social Security, however, as it is not a state-mandated cost. (The current school aid formula redistributes some Social Security funds from out-of-formula districts to in-formula districts [those receiving state aid].)

The ruling was in part the result of a lawsuit filed last year by the Macomb County Taxpayers Association that alleged that the provisions of last year's school aid bill, which included a tax base sharing agreement, were unconstitutional on the grounds that they comprised a new tax that had not been approved by voters. One facet of the plan was the elimination of $72 million in categorical recapture funds. Based on a formula, recapture reduces categorical funding that each out-of-formula district is slated to receive and uses the resources to supplement the school aid fund. (For additional details on the tax base sharing plan, refer to the February *Michigan Economic Bulletin.*)

The court's ruling will require a review of the appropriateness of the elimination of the $72 million in recapture funding. The supreme court left to the appeals court the matter of whether or how much of the lost recapture funding must be reimbursed.

PUBLICATIONS OF INTEREST

Public Sector Consultants, Inc., ***Michigan in Brief: 1992–93 Issues Handbook*** (Lansing, Mich.: PSC, 1992).

This biennial publication presents and discusses the 70 issues deemed of greatest importance and interest to Michigan residents. Topics include AIDS and HIV infection, schools of choice, health care access and costs, property taxes, and unemployment. Available from Public Sector Consultants for $29.95 (plus shipping and handling); contact Jeff Fillion at 517/484-4954.

Congressional Budget Office, Congress of the United States, ***Economic Implications of Rising Health Care Costs*** (Washington, D.C.: CBO, October 1992).

This report examines the special characteristics of health care markets and the causes of the rapid escalation of spending on health care in order to analyze the economic effects of health care costs on workers, businesses, and government. You may obtain a copy of the report by writing the CBO at Second and D Streets, S.W., Washington, D.C. 20515 (Attention: publications) or calling 202/226-2621.

Revenue collections weakened slightly in September (mainly August activity); personal income tax withholding collections fell 36.9 percent. Adjusted for accelerated withholding and fewer paydays this year, however, it appears that collections increased about 3 percent. Sales and use tax collections increased 4.1 percent; however, excluding the volatile use tax, which rose about 30 percent, sales tax collections increased only 0.7 percent. Motor vehicle collections, which have been strong in recent months, fell 1.9 percent below the year-ago level.

Single business tax collections declined 14.3 percent, but this weakness may be misleading, as year-ago collections were inflated by payments that had been delayed pending resolution of the court case concerning the capital acquisition deduction.

Lottery collections continued strong in September, increasing an estimated 12 percent. For FY 1991–92, sales rose about 6.7 percent. The final figures on the profit to the state are not in yet, but it appears that revenue will exceed the consensus revenue estimate of $460 million by at least $15 million.

The large increase in other revenue is due to receipt of about $35 million in additional inheritance tax revenue resulting from an acceleration of the payment due date. The FY 1991–92 budget assumed an additional $50 million in revenue from this accounting change.

MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary September 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	$303,312	–36.9%	$1,049,002	9.0%	$3,986,891	0.4%
Quarterly and Annual Payments	105,097	–2.2	128,412	5.4	719,247	–2.6
Gross Personal Income Tax	408,409	–30.5	1,177,414	–7.6	4,706,138	–0.1
Less: Refunds	–21,340	–6.6	–83,236	–20.2	–1,231,068	8.5
Net Personal Income Tax	387,069	–31.5	1,094,178	–0.1	3,475,070	–2.8
Sales and Use Taxes	279,265	4.1	850,373	4.6	2,930,465	2.4
Motor Vehicles	41,186	–1.9	139,722	10.0	434,240	7.8
Single Business Tax	43,612	–14.3	377,700	–13.1	1,408,426	–6.8
Cigarette Tax	19,486	–12.7	64,354	–5.1	225,104	–4.8
Public Utility Taxes	616	ERR	73,812	NM	146,761	1.3
Oil and Gas Severance	3,985	4.0	10,967	–5.1	38,685	–15.1
Lottery[a]	39,899	12.0	130,413	7.1	487,175	6.7
Penalties and Interest	792	–8.9	12,266	–28.9	72,362	–7.4
SUW—Annuals and Undistributed[b]	30,953	702.3	25,322	598.3	50,081	82.6
Other Taxes[c]	44,678	345.8	128,106	77.8	491,249	20.3
TOTAL TAXES (GF & SAF)[d]	$850,356	–11.5%	$2,767,491	–0.6%	$9,325,378	–0.2%
Motor Fuel Tax[e]	$57,467	–1.9%	$182,836	0.3%	$639,626	1.4%

SOURCE: Data supplied by Michigan Department of Treasury.
NM = Not meaningful
[a]The state share of lottery sales is 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.

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