



GOOD NEWS

Michigan's **unemployment rate** dropped to its lowest recorded level ever—4.4 percent—in October, as 49,000 new jobs were created. October is the seventh month in 1995 in which state unemployment has been below the national average. Total employment rose from 4.44 million in September to 4.49 million in October, while unemployment fell from 223,000 to 207,000.

◆ **Real gross domestic product**, which measures domestic output of goods and services as adjusted for inflation, grew at a brisk 4.2 percent rate during the third quarter. Growth was fueled by consumer and government spending and also by business and residential investment. Furthermore, the expansion was accompanied by a slowdown in inflation, suggesting that the economy will not overheat at current growth levels.

◆ The **federal budget deficit** has fallen to its lowest level since 1989. The estimated FY 1995 figure is \$163.8 billion, down from \$203.1 billion in FY 1994. Underlying the deficit reduction is federal revenue growth's outpacing expenditure growth.

◆ The pace of **corporate downsizing** slowed substantially during the year that ended June 30: A study by the American Management Association indicates that net work-force reductions reached a four-year low of 1.1 percent.

◆ Orders for **durable goods**, products intended to last longer than three years, surged 3 percent in September. The growth signals a strong economy in the months ahead.

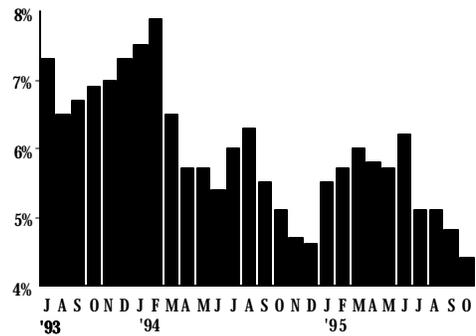
BAD NEWS

Through the first 10 months of 1995, **U.S. car and light truck sales** fell to 2.2 percent below last year's pace. The main contributor to the slide has been unusually weak light-truck sales, which declined 5.9 percent during October. Total motor vehicle sales were

off 5.3 percent in October; Japanese manufacturers were hit hardest as their sales slipped 13.4 percent, while the Big Three experienced a modest 3 percent decline.

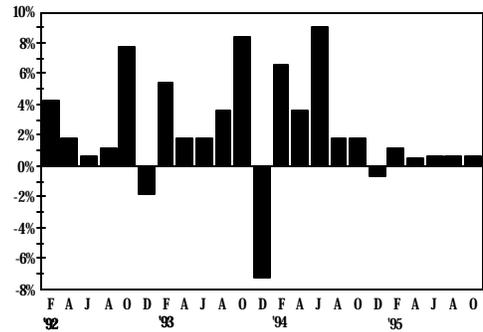
◆ **Retail spending** fell 2.7 percent in October, the first decline since July. Christmas sales also are expected to be weak, increasing only 2–3 percent above a year ago, compared with last year's gain of 6 percent.

Michigan Monthly Unemployment Rates (seasonally adjusted)



SOURCE: Michigan Employment Security Commission.

Detroit–Ann Arbor CPI, Percentage Change from Two-Month-Ago Period



SOURCE: U.S. Bureau of Labor Statistics.

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PRISON BOOM ERODES ECONOMIC STABILITY

According to economists, today's economy is very healthy: It is sustaining stable growth while experiencing low inflation. Many factors can erode stability, however, and economists recently have begun to more closely evaluate the effect of the size of the prison population on economic growth.

Economists always have postulated that a large prison population results in an inefficient allocation of resources and thus exerts a drag on economic growth. With prison populations escalating at an alarming rate (nationally, the number of prisoners has tripled since 1980), and the current 1.5 million inmates comprising a sizable and growing sector of the population, the economic effect warrants more attention.

Economists estimate that if male prisoners were counted as part of the labor force, the U.S. unemployment rate would jump

from 5.6 percent to 7.5 percent; failing to count them is believed by economists to overstate economic success. The employment picture is further skewed by the fact that although prison construction generates jobs, which boosts the employment rate, it is capital intensive, and if that capital were allocated to any other industry, more jobs likely would be generated. These facts mean that the labor market and the economy are not operating as well as the statistics indicate.

Simply reducing the prison population, however, creates an economic catch-22. Most studies postulate that if all prisoners were released, only one-fourth would get jobs; the other three-fourths would be unemployed and a drag on economic growth.

The stigma of having been imprisoned partly accounts for former inmates' limited work opportunities, but the fact is that even before they were incarcerated, most prisoners were poor employment candidates. A 1991 survey of 14,000 prisoners found that only about half (56 percent) had been full-time workers; of all prisoners, 70 percent had earned less than \$14,000 a year, and 32 percent had earned less than \$5,000 a year. Moreover, they generally had low levels of academic achievement: 65 percent did not graduate from high school.

In another study, Jeff Groger, of the University of California at Santa Barbara, investigated post-incarceration income and employment trends, and he finds

that prison time significantly diminishes employment prospects; moreover, arrests without convictions also impair earning potential—first-time arrestees' income drops 7 percent and takes 18 months to return to prior levels. This creates a vicious circle: When former inmates and arrestees have financial problems, they may return to crime, which lands them back in trouble and further diminishes their future prospects.

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Conclusion

The incarceration boom is expected to continue as a result of tougher sentencing ("three strikes and out" legislation) and bigger police forces. Consequently, the problems it presents—and the policy questions raised—also will continue, probably into the next millennium. One problem is how to integrate former prisoners into the labor force, and a rational solution seems to be to alter and expand prisoner training and work programs. Although expensive in the short run, it could pay off in the long run.

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SCHOOL CHOICE MOVES TO BACK BURNER

As the result of a realignment of House priorities, SB 639—which would broaden school choice—faces a delay until next year. The bill has passed the Senate and is now in the House Education Committee, which has opted to give its attention to revising the school code. Committee members also say they want more time to examine a House substitute for the Senate-passed choice bill.

The House substitute for SB 639 differs from the original Senate bill in that it would restrict the number of students that may leave a district to attend a nondistrict school of their choice, and it would restrict the number of nondistrict students a district can accept. It also would enact guidelines regarding rejecting applicants and athletic recruiting.

Even with the likely delay and the possibility of modifications, Sen. Bill Schuette (R-Midland), the sponsor of SB 639, continues to lobby fervently for choice as a mechanism for giving parents more control over their children's schooling. Although the bill likely will not be taken up in the legislature for a year, public debate on the subject is intense, and it is clear that the issue is here to stay.

PRODUCT LIABILITY BILL NEARS PASSAGE

After years of struggle, business leaders may achieve reform of Michigan's product liability law. Senate Bill 344, which has returned to the Senate for concurrence after passing the House 59-48, will substantially limit manufacturer liability. Specifically, Sen. Joel Gougeon's (R-Bay City) bill will prohibit injured parties from collecting damages if they altered the product or used it while under the influence of drugs or alcohol. The legislation also reduces manufacturers' culpability if the injury occurs from a product, such as an approved drug, that meets federal standards, and it excuses them from having to warn consumers of obvious dangers. Damages will be capped at \$280,000 for claims of pain and suffering and \$500,000 for death or loss of major body functions.

WORKERS' COMP REFORM BILL DIES IN COMMITTEE

Representative Walter DeLange (R-Grand Rapids) has opted not to move for several months, if at all, on HB 5105, his bill to reform

workers' compensation. The bill would address concerns arising from 13 state supreme court decisions viewed as adverse by the business community. Among the bill's provisions are measures to narrow the definition of disability, strengthen workers' compensation as employees' exclusive remedy against an employer for work-related disabilities and injuries, and establish new standards for mental and physical disability.

In the weeks preceding Representative DeLange's announcement, the bill had gained momentum from a report by PHH Fantus Consulting, which cites workers' compensation costs as a major impediment to attracting businesses to Michigan. However, the Fantus forecast was insufficient to sway public sentiment or refute the data released by the Jobs Commission, which show Michigan's workers' comp costs ranking 37th among all states and expected to fall an additional 16 percent in 1996. The rates have indeed begun to drop, and it appears unlikely that reform will move to the front burner any time this year or next.

PUBLICATION OF INTEREST

• **The Consortium on Productivity in the Schools, *Using What We Have to Get the Schools We Need* (Columbia University: The Institute on Education and the Economy/Teachers College, 1995). 212/678-3091.**

• This study argues that the fundamental challenge facing educators today is how to maximize productivity and efficiently deliver education services. It defines productivity as the relationship between a student's achievement and the resources the school used to generate it. The text's stated objective is to change the delivery of education, to increase its productivity and maximize student learning. It draws productivity lessons from other fields and applies them to education. The report also identifies eight "subsystems" in education and problems in each that affect productivity.

M I C H I G A N
 R E V E N U E
 R E P O R T

Revenue growth continued to be solid in October (preliminary data). Personal income tax withholding collections (adjusted) increased 7.9 percent above the year-ago level. Single business tax collections continued strong, increasing 15.9 percent. The

volatile use tax jumped 16 percent (largely reflecting business purchases). However, the consumer continued to be reluctant to spend as sales tax collections increased only 3.9 percent. Excluding a 9 percent jump in motor vehicle collections, sales were up only 3.1 percent.

Cigarette tax collections continued to recover from the shock effects of the 50-cent per pack increase in May 1994; collections were even with the year-ago month and ended the year down

only 12.7 percent (adjusted) compared with the consensus estimate of a 19 percent decline.

Lottery sales began the new year the way they ended the old year, on a weak note. October sales (preliminary) were down nearly 8 percent from the year-ago level.

Fiscal year 1994-95 is complete, but final revenue totals are not yet available due to accruals of taxes and book closing adjustments. Final numbers should be available next month.

*October 1995 Revenue Collections
 (Adjusted month end, millions)*

October 1995 Tax Revenue	October 1995			Percentage Change from Yr. Ago (baseline)	Percentage Change FY-to-Date (baseline)	FY 1994-95 Consensus Est. Base % Chg. (5/15/95)	October 1994 (baseline)
	Gross	New	Baseline				
Income Tax							
Withholding	471.9	-36.0	507.9	7.9 ^a	9.3	8.8	487.6
Quarterly	3.7	-0.2	3.9	-20.4	7.0	3.8	4.9
Annual	15.0	-0.6	15.6	105.3	29.1	13.9	7.6
Subtotal Gross Income Tax	490.6	-36.8	527.4	9.1 ^a	10.2	8.7	500.1
Sales Tax	426.9	139.2	287.7	3.9	6.4	6.2	277.0
Use Tax	82.5	30.8	51.7	16.4	3.8	5.4	44.4
Cigarette Tax	49.1	32.7	16.4	0.0	-12.7	-19.0	16.4
SBT	214.9	-15.5	230.4	15.9	17.4	9.4	198.8
Insurance	29.9	0.0	29.9	-15.3	1.9	3.0	35.3
Subtotal SBT + Insurance	244.8	-15.5	260.3	11.2	15.6	8.9	234.1
State Education Property Tax	234.0	234.0	0.0	—			220.5
Real Estate Transfer Tax	14.5	14.5	0.0	—			0.0
Estate/Inheritance Tax	6.3	0.0	6.3	-47.1	23.3	36.8	11.9
Intangibles Tax	2.5	0.0	2.5	56.3	8.7	6.1	1.6
Severance Tax	2.4	0.0	2.4	-11.1	-12.5	-7.5	2.7
TOTAL	1,553.6	398.9	1,154.7	7.8 ^a	9.3	7.6	1,088.2
S-U-W	981.3	134.0	847.3	7.0 ^a	7.9	7.6	809.0
Sales Tax - SOS	58.2	19.4	38.8	9.2	4.0		35.5
Sales Tax - All Other	368.7	119.8	248.9	3.1	6.8		241.5

^aThere was one less Thursday this year compared with last year, so October 1995 was increased by \$18.4 million.

**FY-to-date percent changes reflect prior month adjustments made in September.

SOURCE: Senate Fiscal Agency, 11/15/95.