Craig Ruff • *President*
William R. Rustem • *Senior Vice President*
Robert J. Kleine, Laurie Cummings, and Alec Rodney • *Editors*
Vol. 3, No. 12 • December 1993

Public Sector Reports

Michigan ECONOMIC BULLETIN

The Good News

➤ **U.S. vehicle sales** remained strong in November, rising 10.4 percent above November 1992 levels; however, the annualized rate of 13.4 million units dropped slightly from October's rate of 13.9 million units. November domestic car and truck sales increased 11.1 and 18.7 percent, respectively, while sales of imported cars and trucks fell 8.8 and 8.5 percent, respectively. The Big 3's combined market share for the first 11 months of 1993 was 73.9 percent, up 1.5 percentage points from a year ago.

➤ The U.S. job market registered strong gains in November. The **unemployment rate** dropped from 6.8 percent in October to 6.4 percent in November as the economy added 208,000 jobs. Production of durable goods and a boost in the housing sector led the surging recovery with the manufacturing and construction sectors adding 30,000 and 27,000 jobs, respectively.

➤ Orders for **durable goods** increased 2 percent in October after revised increases of 1.1 percent in September and 2.5 percent in August. Transportation equipment led all sectors with a 5.5 percent increase, and nondefense capital goods orders increased 4.4 percent. Despite the gains, analysts cautioned that a major improvement in factory employment is still six months off.

➤ **Sales of existing homes** rose 3.6 percent from September to October. The annualized rate of 4.08 million units was the highest monthly sales level in 14 years. Sales in the Midwest slightly outpaced the national average, registering a 3.8-percent increase. Low interest rates continued to attract large numbers of first-time buyers.

➤ The Conference Board's **consumer confidence** index shot up 10.7 points in November, registering 71.2, its highest reading since January; however, the confidence level remains well below the 85 to 100 range associated with a strong economy.

The Bad News

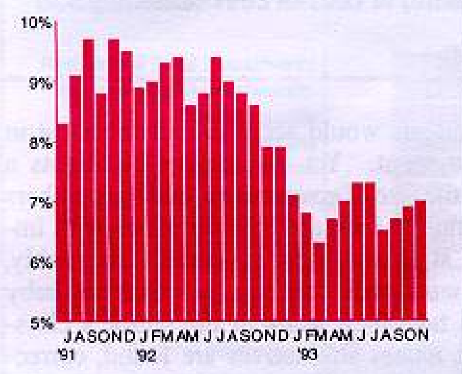
➤ **Michigan's unemployment rate** increased 0.1 percent in November to 7 percent, the third straight monthly increase since August, when the rate was 6.5 percent. The rate declined one percent from the November 1992 level. The number of employed people dropped 39,000 to 4.3 million; however, key sectors, including manufacturing, added jobs.

➤ The **U.S merchandise trade deficit** widened in September to $10.9 billion from $10 billion in August. For the first nine months of 1993 the deficit totaled $88 billion, up 44 percent from the same period last year. The stagnant economies of key trading partners continued to dampen exports. The higher-than-expected trade deficit was cited as a factor behind the downward revision of third-quarter growth in **gross domestic product** from 2.8 to 2.7 percent.

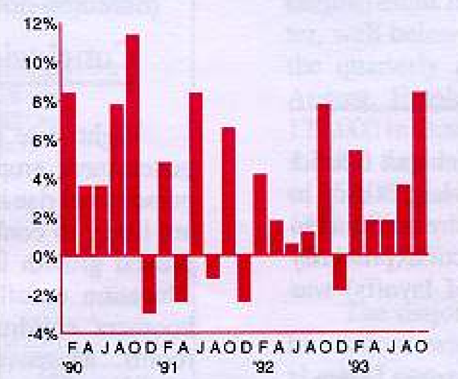
IN THIS ISSUE

MICHIGAN ECONOMIC INDICATORS

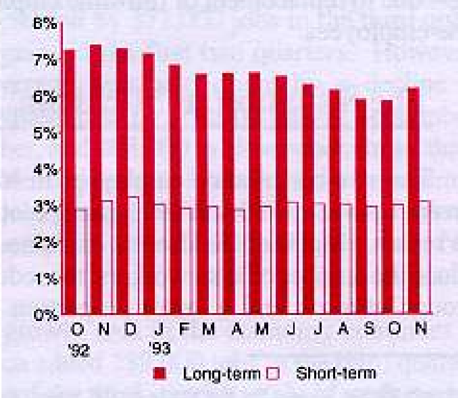
Michigan Montly Unemployment Rates (seasonally adjusted)



Detroit-Ann Arbor CPI, Percentage Change From Two Months Ago



Short-term and Long-term Interest Rates



SOURCES: Michigan Employment Security Commission, Bureau of Labor Statistics, and Federal Reserve Bank of St. Louis.

Public Sector Consultants, Inc.
Knapp's Centre • 300 S. Washington Sq • Suite 401
Lansing, MI 48933-2134 • (517) 484-4954

Surprise! Government Employment Is Rising

A recent report by the Rockefeller Institute of Government reveals that the number of public officials in the United States is growing.[1] In 1990 and 1993 the number of government workers at the state and local levels nationwide grew 3.3 percent and 5.1 percent, respectively. State employment increased in 30 states, and all but two recorded increases in local government employment. Several states registered double-digit increases in state and local public employment.

Percentage Change in Education and Noneducation Employment, Selected States, June 1990 to June 1993

	Local Employment		State Employment	
	Education	Non-education	Education	Non-education
Alabama	3.7%	12.0%	15.1%	7.5%
California	2.4	1.9	–2.3	4.2
Colorado	5.6	8.6	5.0	6.0
Delaware	9.8	11.1	7.3	2.8
Georgia	6.4	–3.3	11.5	1.4
Idaho	12.3	7.0	11.4	15.0
Illinois	3.9	2.6	–4.3	–8.3
Indiana	0.1	5.4	3.7	9.3
Iowa	1.2	7.0	na	na
Kentucky	15.6	10.8	11.6	5.2
Maryland	–0.3	2.4	na	na
Massachusetts	–3.5	–8.2	–7.1	–9.4
Michigan	**4.9**	**4.9**	**0.1**	**–9.4**
Minnesota	7.3	4.5	4.4	–0.3
Mississippi	7.0	5.1	27.3	4.0
Montana	6.5	16.3	–15.6	0.9
New Jersey	3.4	–1.1	1.3	–4.7
New Mexico	8.4	–5.0	14.3	9.0
North Carolina	–1.2	13.0	5.6	5.9
North Dakota	1.2	2.5	–1.8	8.2
Ohio	5.9	4.0	–3.9	–1.5
Oregon	7.5	10.2	1.5	2.2
Pennsylvania	7.7	–0.3	4.9	–11.3
South Carolina	8.9	13.6	6.9	7.4
South Dakota	8.1	4.2	6.5	–2.8
Tennessee	4.1	4.4	1.5	–2.2
Texas	na	na	14.2	9.1
Vermont	na	na	–2.1	–7.5
Washington	na	na	9.2	9.6
West Virginia	–3.0	10.8	20.3	9.5
Wisconsin	8.6	4.8	na	na
Wyoming	8.3	6.1	–2.0	1.2

na = Not available

Why the Growth?

Growing needs in two very different areas of government service explain much of the rise. First, the war on crime and higher incarceration rates have created a sizable jump in the number of corrections workers. In the 1980s the number of state and local corrections workers more than doubled, while general employment grew only 13 percent. (According to the report, more recent data are not yet available.)

Second, employment in both K-12 and higher education has grown. Education accounts for such a large proportion of total state and local employment (about 40 percent) that growth in this area can affect overall government growth figures substantially. The exhibit shows the difference between growth in education and noneducation employment for selected states. In over half the states the number of local education employees grew faster than the number of local noneducation employees. In 17 of 30 states in this analysis the number of state-employed education workers grew more or declined less than the number of state-employed noneducation workers.

Higher K-12 enrollments help to explain the growth in education employment in many states. From 1990 to 1993 the number of elementary and secondary students grew 4.3 percent nationwide. Higher education employment has grown as well, although the report cautions that higher education employment numbers may be misleading—due to replacement of full-time employees with part-time employees.

The Situation in Michigan

The number of state employees in Michigan fell 5.1 percent between 1990 and 1993, the seventh largest drop in the nation. Much of the drop is explained by an effort to reduce the number of state workers; the reduction (primarily through attrition and a small proportion of layoffs) was almost entirely in noneducation employment, which fell 9.4 percent in this three-year period. Michigan's local government employment grew 4.9 percent, just under the national average of 5.1 percent. In total, the number of Michigan state and local government jobs grew 2.4 percent during 1990 and 1993, the 36th highest growth rate in the nation.

Conclusion

Tight state budgets would seem to call for a cut in government employment. Yet, this report highlights a paradoxical rise in the size of government, and the numbers are likely to continue to increase in most states with improved growth in state and local revenues. Inevitably, education enrollments will continue to climb as baby boomers' children take their seats in the nation's classrooms. Moreover, unless alternatives are found, corrections spending will continue to draw public resources away from other needed services.

1 Sarah Richie, Center for the Study of the States, Rockefeller Institute of Government, "State-Local Employment Continues to Grow," *Senate Fiscal Brief*, no. 15 (Albany, N.Y.: The Center, November 1993).

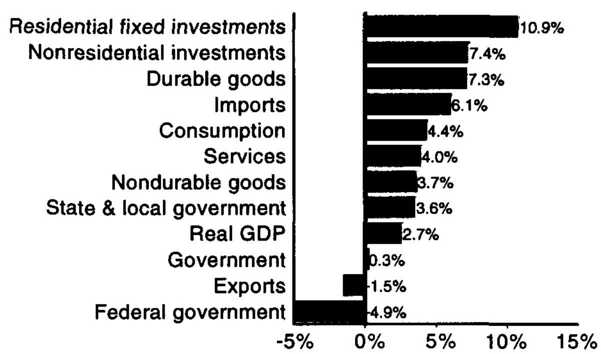
Economic Forecast

INTRODUCTION Third-quarter economic indicators provide strong evidence that although the economy is not improving by leaps and bounds, it is starting to pick up momentum. Furthermore, the growth continues to be relatively inflation free, setting the stage for further improvement. Home buyers are finally beginning to respond to historically low interest rates, and housing starts are showing strong improvement. Interest rates and pent-up demand are keeping auto sales strong, and sales of other durable goods are showing signs of life as well. If it had not been for the unusually low farm production resulting from flooding in the Midwest and drought in the Southeast, growth in the third quarter would have been even stronger.

Of course, the economy still has its weak spots. Employment figures for the third quarter were discouragingly low. This was due primarily to a slow August, however, and subsequent figures show that job growth is beginning to turn around. Consumers are still wary of the nation's economic future even though personal income is rising and consumers are spending more. Uncertainty about the job market is the primary source of this low consumer confidence, but recently improved employment figures may help reverse consumer skepticism. Defense cutbacks, weak exports, and effects of the midwest flooding continue to weigh on the economy, and the recovery is uneven across the nation.

GROSS DOMESTIC PRODUCT (GDP) GDP grew at an annual rate of 2.7 percent (revised from 2.8 percent) in the third quarter, up nearly one percentage point from the second quarter. (See Exhibit 1.) This is in line with our previous forecast of third-quarter growth of between 2.5 and 3 percent. Third-quarter growth, however, was better than it appears, as the U.S. Commerce Department estimates that midwest flooding and drought in the Southeast cut 0.6 percentage points off GDP growth. The growth rate was still the highest quarterly rate since the end of last year, when 5.7 percent growth was recorded.

EXHIBIT 1: GDP Percentage Change in Selected Components, 1993 II–1993 III (inflation-adjusted)



SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce.

Interest rates seem to have been the impetus for much of the growth, as improvement occurred primarily in interest-rate driven sectors, such as durable goods purchases, business investment in capital equipment, and new home purchases. Personal consumption was up 4.4 percent in the third quarter from the second. Businesses increased their investment in new equipment by 7.4 percent from the second quarter, although growth was not as robust as it was earlier this year. Exports remained a drag on the economy, primarily because the economies of the nation's major trading partners remain weak.

Outlook We predict stronger growth in the fourth quarter than in the third, with annual rates between 3.2 and 3.7 percent. This optimism is based partially on November's encouraging drop in unemployment of 0.4 percentage points. Also, continued low inflation and interest rates, improvements in the housing sector, and falling fuel prices will help boost the growth rate. Although manufacturing remains a weak spot in the economy, the third quarter's improvement in durable goods orders is a plus.

If the effects of midwest flooding are not taken into account, wages and income are rising at a respectable rate. With continued low inflation, the purchasing power of U.S. consumers is improving. Consumer's may be regaining some of their faith in the economy—the index of consumer confidence registered its biggest rise in nearly a year in November. Indeed, figures show that consumers are spending more and are cautiously returning to stores and showrooms across the nation. These factors imply slow but steady growth in the months ahead. We are projecting that real GDP will increase 3.25 to 3.5 percent in 1994.

EMPLOYMENT AND INCOME **U.S. nonfarm employment** increased by 377,000 jobs in the third quarter, well below gains in the first two quarters. However, the quarterly average was held down by a decline in August. Employment rose by 162,000 jobs in September, 177,000 in October, and 208,000 in November. In all three months the number of jobs rose by more than the average of 156,000 new jobs per month for the first nine months of 1993. The economy has added 1,926,000 jobs since November 1992.

The major growth area in the economy continues to be services, which added 289,000 jobs in the third quarter, about 77 percent of the third-quarter total. Manufacturing continues to be a drag on the economy, as employment in this sector fell by 95,000. There was a small gain in manufacturing employment in October, however, and a 30,000 gain in November. All other major sectors registered employment gains in the third quarter, with retail trade employment rising by 108,000.

The **U.S. unemployment rate** fell from 7 percent in the second quarter to 6.7 percent in the third. The rate increased to 6.8 percent in October from 6.7 percent in September, but then fell to 6.4 percent November, the largest one-month decline in a decade. The October 1992 rate was 7.4 percent. The rate during the current business cycle peaked at 7.7 percent in June 1992. Because of revisions in the household employment survey, beginning in January, the reported unemployment rate is expected to increase as much as 0.5 percent from current levels.

Michigan wage and salary employment continued to edge upward in the third quarter, increasing one percent above the year-ago level; employment also increased one percent in the second quarter. The strongest sector was construction, where employment rose 5.5 percent as record low interest rates spurred building activity. Employment in the services sector increased 3.4 percent, a small improvement over the second-quarter gain of 2.8 percent. Manufacturing employment fell 0.6 percent, the second straight quarterly decline, due mainly to a 4.8 percent drop in motor vehicle employment. The only major manufacturing sectors with strong employment growth were rubber and plastic (5.5 percent) and industrial machinery (3.1 percent). The only other major sector to lose jobs was government, as employment fell 0.8 percent. (See Exhibit 2.)

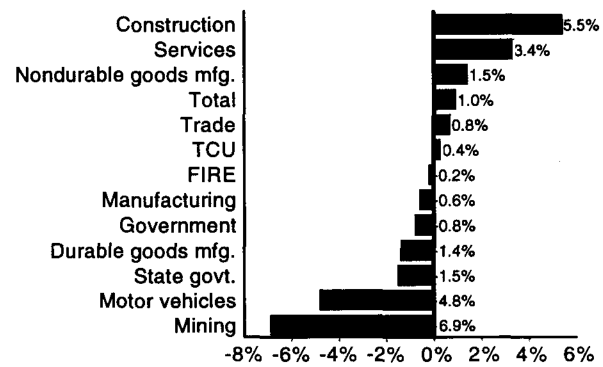
The **Michigan unemployment rate** averaged 6.9 percent in the third quarter (seasonally adjusted), unchanged from the second quarter. The rate was 6.9 percent in October, up from 6.7 percent in September, then increased to 7 percent in November. Although Michigan had the fourth highest unemployment rate among the 11 most populous states in October, its rate fell to the fourth lowest in November.

U.S. personal income increased at an annual rate of only 2.7 percent in the third quarter due to a sharp fall in farm income caused by the midwest floods and southeast drought and declines in interest income due to falling interest rates. This is down sharply from the 9 percent rate of increase in the second quarter. These ups and downs disguise an upward trend of about 5 percent on an annual basis; third-quarter personal income was 5.3 percent above the level in the third quarter of 1992. (See Exhibit 3.)

Michigan personal income increased a robust 8.4 percent, at an annual rate, in the second quarter of 1993 (latest data available). This strong performance was due to a 13-percent (annual rate) increase in wages and salaries. Dividends, interest, and rent and transfer payments, which in total account for about one-third of personal income, increased only one percent and 3.7 percent, respectively.

All wage and salary sectors except government recorded strong increases. Wage and salary payments in government increased only 2.2 percent from the first quar-

EXHIBIT 2: Michigan Wage and Salary Employment by Sector, Percentage Change, 1992 II–1993 II



FIRE: Finance, insurance, and real estate
TCU: Transportation, communications, and utilities

SOURCES: Michigan Employment Security Commission (special release) and Public Sector Consultants' estimates.

EXHIBIT 3: Michigan Personal Income, Selected Components, 1989–93 II (dollars in millions)

Year	Total Personal Income	Wages and Salaries	Manufacturing Wages	Services Wages	Transfer Payments	Dividends, Interest, and Rent
1989	$162,159	$98,875	$34,581	$19,494	$24,306	$27,745
1990	170,554	102,741	102,742	21,233	26,547	29,298
1991	175,968	103,645	33,404	21,929	29,952	29,468
1992	185,713	110,087	35,175	24,036	31,901	29,350
1993 I	189,750	111,267	35,258	25,133	32,403	30,483
1993 II	193,735	114,887	36,088	25,998	32,705	30,560
Percentage change 1992 II to 1993 II	4.9%	0.5%	2.7%	9.9%	2.6%	4.7%

SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Calculations by Public Sector Consultants, Inc.

ter and 1.7 percent from the year-ago quarter. Every other sector recorded a double-digit increase, except manufacturing, which increased 9.4 percent.

Compared with the second quarter of 1992, personal income is up 4.9 percent, and wage and salary income is 5 percent higher. Wages and salaries paid by the manufacturing sector are up only 2.7 percent, while wages in the services sector are up a robust 9.9 percent.

The reader should be aware that these numbers are preliminary and subject to large revisions. Our view is that the economy is not as strong as these numbers indicate, and downward revisions are likely.

Outlook The outlook for the economy continues to improve. Consumers are still cautious, but the debt burden is down sharply from the 1989 peak, and motor vehicle sales are turning in solid gains. Consumer installment debt was 16.1 percent of disposable personal income in the third quarter, down from 19.1 percent in 1989. Consumers are now willing to take on new debt, as evidenced by the $30 billion increase in installment debt in the past year compared with only a $17 billion increase from 1989 to 1992. Motor vehicle sales are on target to increase about 8 percent in 1993 after a 10.4 percent gain in November, the largest annual increase since 1985.

These positive developments combined with lower interest rates and progress on reducing the federal deficit pave the way for a solid economic performance in 1994. Gains in employment and income, however, will be held down by continued cutbacks in the defense industry, little or no growth in government employment, a slowdown in employment gains in the health care industry due to cost containment efforts, and continued downsizing at many large corporations in response to increased global competition.

Nationally, we expect employment to increase about 1.5 percent in 1993 and 2 percent in 1994, the largest gain since 1989. The unemployment rate is expected to average about 7 percent in 1993 and 6.5 percent in 1994. Although the motor vehicle industry will continue to due well in 1994, employment growth in Michigan will be slightly below the national average because of our above-average reliance on the slow growing manufacturing sector. We are forecasting an increase of 1.25 percent in 1993 and about 1.5 percent in 1994. The Michigan unemployment rate is expected to average slightly under 7 percent in 1993, the first year since 1966 that the Michigan rate will not exceed the U.S. rate, and between 6.5 and 7 percent in 1994.

Stronger employment growth will result in improved personal income growth. U.S. personal income is forecast to increase about 5.25 percent in 1993 and 5.5 to 5.75 percent in 1994. Michigan personal income is projected to increase slightly more than 5 percent in 1993 and about 5.5 percent in 1994. Wage and salary income will grow a little faster than total income, as interest income and transfer payments will increase at below-average rates.

AUTOMOBILE SALES AND PRODUCTION
Motor vehicle sales remained a bright spot in the economy during the third quarter of 1993, although growth was slightly less impressive than in the second quarter. We had predicted motor vehicle sales growth of between 8 and 10 percent in the third quarter. Sales of cars and light trucks hit the lower end of this range, and together rose 8 percent from the year-ago period, down slightly from the 10.3 percent increase in the second quarter. Car sales were relatively strong, increasing 5.5 percent from the third quarter of 1992. This is slightly lower than the 6 percent growth in the second quarter, however. Truck sales also grew a bit slower than in the second quarter but still rose a hefty 12.2 percent in the third quarter from the same period last year.

There has been good news for Michigan auto producers in the past few months. General Motors continues to dig itself out of a pattern of losses and expects its North American operations to break even this year. The continued improvement in car sales bodes well for the state, since Michigan produces a greater portion of the nation's cars than trucks. Michigan and U.S. automakers alike can celebrate the continued declining Japanese market share of U.S. auto sales. The Japanese share of car and truck sales for the year is down about half of a percentage point from last year. The strong yen and U.S. productivity and quality improvements indicate that this trend will continue. Also, the United States maintained its domination of the light-truck market in the third quarter and should continue to do so in the foreseeable future.

Outlook Auto sales should remain strong but will continue to slow slightly as pent-up consumer demand abates. We predict growth between 8 and 10 percent in the fourth quarter to complete a year of strong improvement in the industry. If employment and income gains continue as expected, next year should again be strong for the automotive industry, although it will be hard to top the 1993 growth spurred by a turnaround in U.S. sales. For 1994 we predict growth in motor vehicle sales of between 7.5 and 8.5 percent to slightly over 15 million units.

MONETARY AND FISCAL POLICY The benchmark discount rate of the New York Federal Reserve Bank has remained at 3 percent since July 1992, marking the longest period without a rate change since 1989–90. During that stretch interest rates on three-month treasury bills have ranged between 2.69 and 3.48 percent. Fed Chairman Alan Greenspan has voiced concern that short-term interest rates are too low for an economy this far into an expansionary phase. A move by the Fed to increase the discount rate should be interpreted by financial markets as a move to keep down output-driven inflation. Such a move would renew confidence in the Fed's commitment to low inflation, which should in turn hold down long-term interest rates. The Fed has also maintained a firm grip on money supply, allowing M-2 (the sum of currency, demand deposits, travelers checks, money market deposit accounts, and small time deposits) to grow only 1.9 percent from January through November.

The budget deficit for FY 1993 totaled $254.9 billion, down from $290.3 billion in FY 1992. Outlays increased 2 percent while receipts increased 5.7 percent. The 1993 budget package is expected to cut the deficit to just over $200 billion in FY 1995. In the short run deficit reduction will dampen growth in GDP, but in the long run reduced government spending will free up resources for private sector expansion.

To prevent any further short-term drag on growth, President Clinton defeated efforts by lawmakers in both houses of Congress to trim an additional $90 billion in spending over the next five years. The president also claimed that these plans would imperil health care reform, which will take center stage in the new year. Congress is also expected to resurrect efforts to pass a balanced budget amendment.

Outlook The Fed will continue to keep inflation fighting its highest priority. This necessitates letting short-term interest rates rise by as much as half a point over the next year to approximately 3.5 percent. Long-term interest rates should remain within the current range of 6.1 to 6.3 percent, with the outlook for low inflation and continued commitment to deficit reduction. Low rates will boost investment demand and improve the long-term growth picture. Health care reform will increase costs to many businesses, which will dampen short-term growth. Long-term effects depend on whether reform can deliver cost cuts in Medicare and health care administration that exceed the short-term cost increases.

PRICES The **U.S. consumer price index (CPI-U)** rose at an annualized rate of 1.4 percent in the third quarter. Including a 0.4 percent jump in October due largely to the 4.3-cent federal gasoline tax hike, prices have increased at an annual rate of 2.9 percent since January. Prices should increase little in the last two months of 1993, as the price of crude oil plummets; OPEC oil is currently selling at around $13.50 a barrel compared with its year-to-date average of $16.50 per barrel.

Michigan consumer prices (as measured by the Detroit-Ann Arbor CPI, released every two months) shot up at an annual rate of 7.8 percent between August and October, led by a surge in fuel, apparel, and fresh produce prices. Prices increased at an annual rate of 3.6 percent in August following 1.8 percent increases in June and April. Michigan prices are up 3.2 percent from last October due mainly to a large increase in apparel prices. Food and housing costs have increased slightly faster than the national average, but medical care has increased at a slower rate.

Producer prices, which generally foreshadow changes in consumer prices, dropped 2.5 percent between June and September and one percent between March and September (annualized rates). Excluding food prices, which increased due to the midwest floods, producer prices for consumer goods dipped at a 6.4 percent annual rate in the third quarter. October prices were down 0.2 percent from September.

Outlook Inflation appears to be well under control. Falling oil prices and slowly rising labor costs should hold the 1993 increase down to about 3 percent, about half a point lower than our last forecast. Michigan prices are on track to increase between 3 and 3.25 percent. The current drop in producer prices will moderate consumer price inflation in 1994 despite the continued surge in economic activity. We forecast a 3.1 percent rise in consumer prices for 1994, both for Michigan and nationally.

HOUSING A long-awaited turnaround in national housing statistics has begun, as low mortgage rates are finally beginning to pull buyers back into the market. Further good news is that home sales are healthier even in the West, where defense cutbacks and drought had stunted the housing market.

Improvement is evident across the spectrum of housing statistics. Residential fixed investment jumped at a 10.9 percent annual rate during the third quarter, after falling at a 9.5 percent annual rate in the second quarter and rising only 1.5 percent in the first. Seasonally adjusted annual sales of existing homes rose in August and September, after falling slightly in July. Housing starts increased in all three months of the third quarter, and construction is beginning to improve as a result.

In Michigan, the recovery is strong as well. Michigan's building permits should increase by about 10 percent this year to a total of approximately 40,000. Construction led the state's employment growth in the third quarter; growing two percentage points more than services, which is usually Michigan's leader in job growth.

Outlook The housing recovery is expected to continue in 1994. Growth should match or exceed the current level in the next quarter and well into next year. Although mortgage rates recently rose for the first time in many months, rates are not expected to surge soon. Pent-up demand for houses combined with improvements in income and employment will drive much of the recovery. Michigan's housing recovery should follow suit. The state's economy has greatly improved this year, and employment and income gains should help sustain the recovery. Reduced property taxes could also help Michigan's housing market. We predict housing starts will grow at a rate of 11 to 12 percent in 1993 over the 1992 level. Growth in 1994 should be in the 10 to 12 percent range.

School Reform Progress; Merit Pay for State Employees

School Reform Progress

The House passed a school finance plan in the wee hours of the morning on December 10 after a marathon session. The plan now goes to the Senate, where a tough battle is expected. The House plan, which provides $10.2 billion in school spending, will give the voters a choice between two financing packages. One, the statutory plan, would levy 16 mills of state and local property taxes on residences and 20 mills on nonresidences. In addition, it would raise the single business tax (SBT) rate 0.5 percentage points to 2.95 percent and levy a one-percent transfer tax on home sales and a 16-percent tax on the wholesale price of tobacco products.

The other option, the constitutional plan, would take effect only if a two-cent increase in the state sales tax were approved by voters. If voters agree, the second plan would levy no mills on residential property and would also tax nonresidential property at 20 mills. Under the constitutional plan the SBT would not be raised, transfer taxes would remain as they are, and there would be no new taxes on tobacco products.

Both plans raise the income tax from 4.6 to 6 percent, raise the state income tax exemption to $3,400, improve homestead credits for renters, and allow some school districts to ask for additional voted mills to enhance state funding.

Although passage of the school finance package is a substantial step forward, many hurdles lie ahead. The House has not yet worked out an agreement on schools of choice, and Governor Engler has hinted that he will not sign any package without them. Also, Senate approval of the plan in its present form is uncertain at best, and the Senate bipartisan team is still working on a plan of its own.

Merit Pay for State Employees

Starting next year, high-level state managers must do well on their performance appraisals to receive pay increases. A limited merit pay program has been introduced in state government to provide performance incentives and promote efficiency. Also, performance incentives are continual—merit pay is awarded for only one year at a time and must be earned anew each year. Other changes were made to streamline executive-level pay ranges and employee classifications.

For now, merit pay is planned only for the deputy directors and bureau chiefs of the Senior Executive Service (about 200 positions). The Civil Service plans to expand the program, however, and will likely extend it to the next lower level of managers (about 600 jobs). The remaining Civil Service workers may see some form of merit pay in the coming years, although much will have to be worked out first, such as fair and objective evaluation criteria, and union objections could impede implementation.

Publications of Interest

Office of Revenue and Tax Analysis, Michigan Department of Treasury, ***Economic Report of the Governor, 1992*** (Lansing, Mich.: October 1993).

The *Economic Report of the Governor*, published annually until 1985, has been revived. Published in October of this year, the report provides analysis of the global, U.S., and Michigan economies and discusses historical trends and recent developments. Most of the analysis centers on the state's economy. General economic indicators, such as Michigan employment, income, production, and prices are discussed in detail. The report also examines the conditions in Michigan's major industries, including automobile manufacturing, services, and housing. A list of selected 1991 and 1992 public acts and several tables of historical economic data are included.

Office of Economic and Tax Policy, Department of Finance and Revenue, Government of the District of Columbia, ***Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison*** (Washington, D.C.: June 1993).

This annual report provides data and analysis on tax burdens, roughly defined as the percentage of a person's income that is paid out in taxes. Tax burdens in the largest city of each state are compared overall and for a family of four. The tax burden for each of these cities is divided into income, property, sales, and auto taxes for a more in-depth comparison. The authors discuss the ramifications of and possible reasons for the variability in burdens across the nation.

Both the national and the Michigan economies continue to improve, and this is reflected in state revenue growth.

Personal income tax withholding collections increased 10.4 percent in November, adjusted for an extra state payday in November last year. This offsets the minimal increase in October. For the last three months, collections are up an adjusted 6 percent, which is in line with economic activity.

Sales and use tax collections increased 5.2 percent in November, a weaker than expected performance. Collections were held back by a 0.5-percent decline in motor vehicle receipts. This decline occurred despite continued strong auto sales nationally. A solid gain is likely in December. Sales tax collections excluding motor vehicles and use taxes (up 15.4 percent) rose only 4.6 percent.

Increasing payrolls and profits means higher single business tax collections, which increased 15.8 percent in November and 12 percent for the last three months. This revenue source should continue to be strong.

Lottery collections increased only 0.5 percent above the year-ago level (preliminary data) due, in part, to strong sales in late November 1992 resulting from a large Lotto jackpot. Lottery sales are up only 0.9 percent for the last three months.

Several months ago we projected about a 5-percent increase in FY 1993–94 general fund/general purpose and school aid fund revenues (adjusted for repeal of the inheritance tax). Due to an improved economic outlook, we now expect revenues to increase about 6 percent in FY 1993–94, or about 4.5 percent excluding inheritance tax revenues.

MONTHLY TAX COLLECTIONS (dollars in thousands)

Type of Revenue	Preliminary November 1993	% Change from Last Year	Past 3 Months' Collections	% Change from Last Year	FY 1993–94 Year-to-Date	% Change from Last Year
Personal Income Tax						
Withholding	$414,364	6.4%	$1,164,158	4.4%	$414,364	6.4%
Quarterly and Annual Payments	5,269	15.2	132,502	7.9	5,269	15.2
Gross Personal Income Tax	419,633	6.5	1,296,660	4.8	419,633	6.5
Less: Refunds	–10,445	–51.0	–47,620	–12.8	–10,445	–51.0
Net Personal Income Tax	409,188	9.8	1,249,040	5.6	409,188	9.8
Sales and Use Taxes	292,506	5.2	909,313	7.4	292,506	5.2
Motor Vehicles	38,599	–0.5	142,246	7.5	38,599	–0.5
Single Business Tax	269,689	15.8	446,830	12.0	269,689	15.8
Cigarette Tax	20,848	0.5	62,816	3.4	20,848	0.5
Public Utility Taxes	17,006	0.0	75,214	NM	17,006	108.2
Oil and Gas Severance	2,625	–9.6	8,803	–15.2	2,625	–9.6
Lottery[a]	42,104	0.5	120,631	0.9	86,108	6.3
Penalties and Interest	963	74.1	17,795	7.4	963	74.1
SUW—Annuals and Undistributed[b]	–888	–144.2	1,577	–30.7	–888	–144.2
Other Taxes[c]	34,962	–2.2	118,014	–19.2	34,962	–2.2
TOTAL TAXES (GF & SAF)[d]	$1,089,003	9.4%	$2,975,510	8.0%	$1,089,003	9.4%
Motor Fuel Tax (e)	$61,613	2.6%	$190,106	–1.2%	$61,613	2.6%

SOURCE: Data supplied by Michigan Department of Treasury.
NM = Not meaningful
[a]The state share of lottery sales is 38 percent (FY 1993). 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.

Printed on recycled paper.