Economic Bulletin

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GOOD news

The **U.S. unemployment rate** slid to a six-year low of 5.3 percent in June from May's rate of 5.6 percent. The lower jobless rate was due primarily to the addition of 239,000 new jobs nationwide, most of which were in the service sector—retail jobs alone expanded by 75,000 and temporary-employment jobs by 38,000. Although the number of manufacturing jobs declined by 6,000 in June (likely a result of strikes) the average weekly hours worked by factory employees rose slightly to 41.8.

◆ Despite higher mortgage rates, **sales of existing homes** in May spiraled 17.7 percent from the year-ago rate. Sales were at a seasonally adjusted annual rate of 4.26 million in May, tying a record high set in December 1993. **Sales of new homes** also escalated in May, climbing 7.5 percent to a record annual rate of 828,000 sales. Most industry analysts do not expect sales to maintain this stellar pace, calling May's record a likely peak.

◆ **Consumer spending** rose 0.8 percent in May, and spending on autos and other big-ticket items climbed 3.9 percent from April's rate. The increased spending, which comes on the heels of a thrifty fall and winter, is good news for manufacturers, which have already seen an increase in activity. The spending spree is not likely to remain at such a high level given that personal income rose only 0.4 percent, half of the increase in spending.

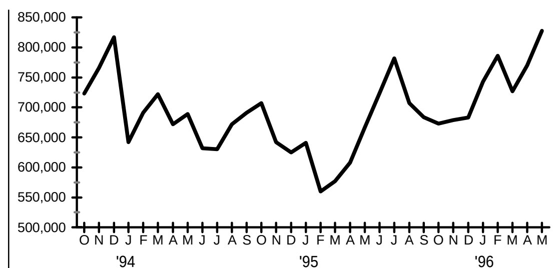
BAD news

Much to the disappointment of automakers, **auto sales** fell 4.8 percent in June to an annual rate of 14.4 million vehicles. June's sales rate, which marked the first time since November 1995 that sales did not keep up with the year-ago rate, reflects a drop in sales of both cars and light trucks—car sales fell 7 percent and trucks 1.6 percent. Despite June's slump, total auto sales for the first six months of the year bettered sales for the first half of 1995 by 4.3 percent.

◆ The Conference Board recently announced that **consumer confidence** fell in June to 97.6, the lowest rate since January when a government shutdown and harsh winter weather dampened expectations. The decline is somewhat of a paradox since consumers are continuing to shell out dollars for cars, homes, and other big-ticket items despite expressing fears about the economy's future.

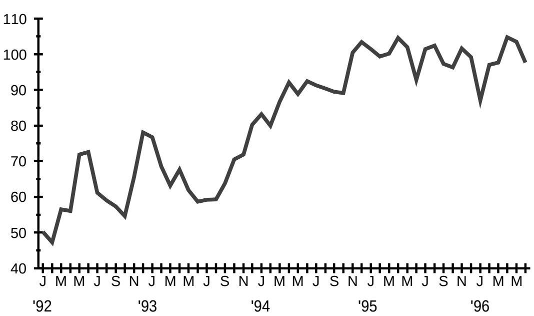
◆ The MESC recently announced that Michigan's unemployment rate crept up slightly in May to 4.7 percent from 4.6 percent the previous month. Despite the slight increase, the number of workers in the state rose by 6,000 during May from April's rate and 92,000 from May 1995. The higher jobless rate was due to an increase in the labor force (the number of people working or looking for work) of 9,000 persons.

New One-Family Houses Sold



SOURCE: U.S. Bureau of the Census.

Consumer Confidence, January 1992 to June 1996



SOURCE: Conference Board.

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FOCUS

STEADY RETURNS VS. SOCIAL CONCERNS

By Lisa D. Baragar

A recent *State Policy Reports* article discusses "social responsibility" in pension fund investments.[1] It describes how state officials claim that investing in the tobacco industry is a socially "bad," or harmful, investment, yet they invest public monies in tobacco companies and use the returns to fund state programs. It points out that while state shares in tobacco and other "socially harmful" industries are relatively small, evidence is mounting that the social costs of supporting the tobacco industry can no longer be ignored.

A "Bad" Investment

Although states are beginning to respond to criticism of their tobacco investments, they are reluctant to limit their investments. In April the American Medical Association (AMA) launched an all-out campaign against tobacco. Both the AMA and constituents increased pressure on policy makers to avoid this "bad" investment area. The response from state investors, however, has been less than overwhelming. Only Maryland's pension system has divested tobacco stock for social reasons. Meanwhile, at least eight attorney generals have filed lawsuits against tobacco companies to retrieve Medicaid costs attributable to tobacco-related conditions.

[1] State Policy Research, Inc. "Socially Responsible State Investments." State Policy Reports, June 1996.

Michigan's Investments

Michigan policy makers also continue to struggle with the tobacco issue. Department of Treasury officials support tobacco investments, contending that the state has a legal and ethical responsibility to pursue the greatest return on investments possible. Administrators have invested $31.8 billion in retirement system holdings, 1.3 percent of which are tobacco assets. Despite this seemingly low percentage, legislation has been introduced to curb investments in the tobacco industry. House Bill 5995, introduced this month, would prohibit any further state investments in this area and require the gradual divestiture of any current tobacco holdings. Certainly, opinions are strong on both sides of the tobacco question.

State of Michigan Tobacco Fund Holdings

Tobacco Company	% Company Owned	Current Holdings Value (in millions)
American Brands	0.1%	$4.33
Loew's Corporation	0.1%	4.75
Philip Morris	0.4%	322.95
UST, Inc.	1.4%	86.20
Universal Corporation	0.1%	0.29
TOTAL TOBACCO INVESTMENT		$418.52

SOURCE: Michigan Department of Treasury.

Conclusion

The absence of federal governance over the administration of pension plans leaves states to settle this issue for themselves. Most state laws forbid officials to base investment decisions solely on social policy. Regardless, many continue to use reasonable social criteria when placing their pension funds. Officials who wish to avoid the contradiction of investing in tobacco and paying for associated health care costs down the road seek various investment alternatives. As long as tobacco returns prove lucrative, however, states will be faced with the challenge of balancing their financial policies with the social costs of their investments.

Public Sector Reports

This publication is part of the *Public Sector Reports* subscription service, which provides timely information on emerging state and national public policy and commentary on political matters. Policy topics include legislative, fiscal, and regulatory aspects of health care, the environment, education, public finance, and the economy.

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NEWS FROM THE STATE CAPITOL

BROWNFIELDS MAY PUT GREEN IN CORPORATE POCKETS

A package of bills intended to encourage cleanup and development of contaminated sites ("brownfields") has passed the legislature. The package allows businesses investing in brownfields a 10-percent SBT credit for the cost of the investment and an SBT credit tied to the payroll of qualified employees working at the site. The tax credit program is capped at $1 million a year and expires in four years. The legislation also creates funding mechanisms to pay for the tax credits and the cleanups and redevelopment of contaminated sites, including earmarking revenues raised from Michigan's bottle deposit law. Also, a revolving loan fund from which local governments may borrow will be funded from transfers of money from existing environmental cleanup funds.

Although the legislation received broad bipartisan support, it did not pass without debate. Republican supporters claim that brownfield development, in concert with renaissance zones (see next article), constitutes an effective state urban revitalization policy. Critics assert that the legislation is not sufficient to help declining urban areas revive. Opponents also object to diverting funds from other pollution prevention and remediation efforts, such as the recycling grant program. Despite these contentions, the bills received overwhelming legislative approval in both the Senate and House and the governor is expected to sign them. The bills will take effect immediately upon signing.

RENAISSANCE ZONES BECOME REALITY

Governor Engler signed into law legislation creating "renaissance zones." Renaissance zones are designated areas in which state and local property, income, and other taxes usually paid by businesses and households are virtually eliminated. Legislative approval of the tax-free zones, designed to attract residents and businesses to blighted urban areas, was held up more than a year by debate on the fairness of singling out particular areas for tax breaks as well as the negative effect tax breaks have on local revenue needed to pay for police and other city services.

The renaissance zone law lifts most taxes for 15 years. Although the state will reimburse local schools in the tax-free zones for lost property tax revenues, it will not reimburse local governments for lost property and income tax revenues that otherwise would pay for city services.

ADULT ED FUNDING CUT IN HALF

The debate over adult education funding, seemingly an annual event in Michigan's budget process, has been settled for this year. Governor Engler, a strong critic of Michigan's adult education system, eliminated from his proposed budget nearly all of the $180 million funding for school districts to provide free adult education. Engler and other critics claim that Michigan spends more than other states on adult education without realizing sufficient benefits. A majority of legislators disagree, however, and restored $185 million in adult education funding to the school aid bill. Governor Engler vetoed $83 million of these funds, leaving FY 1996–97 funding at $102 million or 55 percent of the current year's funding. Although some legislators have expressed interest in trying to get the two-thirds majority vote necessary to overturn the veto, most observers agree that an override is unlikely.

PUBLICATION OF INTEREST

Hovey, Harold. *CQ's State Fact Finder: Rankings Across America 1996.* State Policy Research, Inc. and Congressional Quarterly (Washington, D.C.: CQ, 1996). 614/447-9443

This 400-page report supplies state data and rankings among states for all 50 states and the District of Columbia. It replaces the widely circulated annual publication *States in Profile*, a less comprehensive version of *State Fact Finder*. The book provides a one-year snapshot of major indicators of state economic, social, and physical well-being. The data are intended to answer questions about the best states in which to live and do business and which states have the best-designed policies. Some of the specific subjects covered include population, economics, environment and recreation, government, taxes, education, health, crime, transportation, and social welfare. Technical notes and referrals to sources of further information are provided for each table of data.

MICHIGAN REVENUE REPORT

June revenue collections appear to be fairly strong, but because of problems with an adjustment that normally is made when there is an extra Thursday or Friday in a month, revenue may be weaker than indicated by these numbers.

Personal income tax withholding collections were up 7.6 percent, but if an adjustment is made for an additional Thursday and Friday this year, collections were down 4.8 percent. However, it appears that the adjustment to June collections may be incorrect as the level of economic activity is stronger than indicated by the income tax data. As a result, the Senate Fiscal Agency and the Department of Treasury have elected not to make the normal adjustment to SUW collections.

Sales tax collections increased only 3.2 percent despite a 6.1 percent increase in motor vehicle collections. Use tax collections were up only 3.8 percent.

SBT collections fell 14.6 percent in June, but this is not very significant as June is a light month for collections. This, however, continues a pattern of weakness as SBT sales are down 2.4 percent year-to-date.

Lottery sales increased 4 percent in June, the third consecutive monthly increase. Sales, however, are still down 2.2 percent year-to-date.

June 1996 Revenue Collections (millions)

Source	June 1996 Collections	% Change Year-ago	% Change Year-to-date	June 1995 Actual	FY 1995–96 Consensus Est. % Change (1/11/96)
Income tax					
Withholding	$453.0	7.6%	4.2%	$420.9	4.9%
Quarterly	112.5	16.3	13.6	96.7	9.1
Annual	2.2	-48.8	-5.9	4.3	-6.1
Subtotal: gross income tax	567.7	8.8	4.0	521.9	4.5
Sales tax	453.6	6.7	5.2	425.0	5.3
Motor vehicles	71.6	6.1	4.7	67.5	—
Other	382.0	6.9	4.8	357.5	—
Use tax	90.2	3.8	10.8	86.9	7.2
Subtotal: sales/use/withholding	996.8	-6.9	5.2	932.8	5.3
Cigarette tax	52.2	-6.1	-3.2	55.6	-4.6
SBT	59.2	-14.6	-2.4	69.3	3.3
Insurance	-1.6	-357.1	6.0	0.7	-2.6
Subtotal: SBT + insurance	57.4	-18.0	-0.6	70.0	2.7
State education property tax	19.3	-32.0	-3.7	28.4	3.8
Real estate transfer tax	16.8	69.7	300.0	9.9	21.8
Estate/inheritance tax	5.1	-16.4	-24.9	6.1	-5.0
Intangibles tax	1.0	-47.4	23.5	1.9	12.9
Severance tax	4.3	30.3	29.7	3.3	6.6
TOTAL	$1,267.6	4.8%	4.1%	$1,209.0	4.3%
Gross lottery sales (prel.)	$113.6	4.0%	–2.2%	$109.2	

SOURCE: Senate Fiscal Agency.