



GOOD news

The Conference Board reported in August that the **consumer confidence** index soared from 107.0 to 109.4—the highest level in six years. The number of families expecting economic conditions to become worse in the next six months declined from 8.2 to 7.4 percent. Twenty-four percent expect family incomes to rise; this is up from 21 percent in July.

◆ The **national unemployment rate** fell from a seasonally adjusted 5.4 percent in July to 5.1 percent in August despite an increase of 178,000 private-sector jobs. Federal Reserve officials believe that the rate was depressed by a decline in the labor force (those with jobs or seeking work) of 296,000; economists believe that returns to school caused most of the decline.

◆ The U.S. Department of Labor reported that the **Consumer Price Index** increased by a seasonally adjusted rate of 2.9 percent in August. Analysts were surprised that prices had not gone up more, given the strong economy and the tight labor market, which often raise producers' labor costs.

BAD news

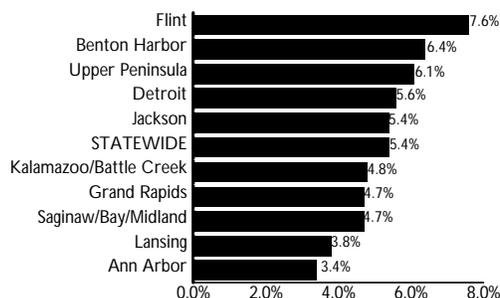
The **Michigan unemployment rate** inched up slightly, by 4,000 workers, to 4.8 percent in July, up only 0.3 from the June level. The Michigan Employment Security Commission attributes the increase to temporary layoffs—for short-term shutdowns and model changeover—at Michigan's automobile plants.

◆ August's total **vehicle sales** slipped by 2.3 percent, despite record sales in trucks and light trucks. Car sales were down 7 percent compared to the year-ago rate, while light-truck sales gained 5 percent. Sales by Buick, Oldsmobile, and Cadillac plunged by more than 20 percent, one of the worst monthly showings of the year for the three.

◆ The National Association of Realtors reported that U.S. **sales of existing single-**

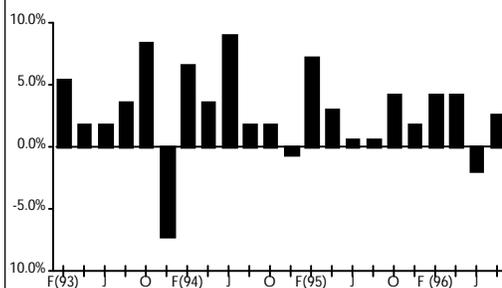
family homes fell by 0.5 percent in July to a seasonally adjusted annual rate of 4.14 million. Economists expected the resale rate of homes to drop this fall, anticipating that the record sales levels achieved this spring could not be sustained in the face of higher mortgage rates. Although sales dropped in July, they still exceeded the year-ago figure by 4.3 percent.

Unemployment Rates in Major Mich. Labor Markets, July, 1996 (unadjusted rates)



SOURCE: Michigan Employment Security Commission.

Detroit-Ann Arbor CPI, Percentage Change from Two-month-ago Period



SOURCE: Bureau of Labor Statistics.

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SPECIAL INSERT: ECONOMIC FORECAST

WHO GAINS FROM PRIVATIZATION?

According to a recent article in the *Wall Street Journal*,¹ government at all levels is trying to cut costs by privatizing work currently performed by civil servants. Surveys by the Mercer Group, an Atlanta-based consulting firm, find that from 1990 to 1995, local government use of contractual workers grew in approximately 20 service fields. (The exhibit presents data comparing the 1987 and 1995 share of the work held by contract workers in seven local public services fields.) In Virginia, one international management company reports that its clients' reliance on temporary workers and privatized services has more than doubled in the last two years, increasing from 9 percent to 24 percent.

Michigan, with such initiatives as the privatization of the Accident Fund and the liquor distribution system, seems to be following the trend.

The *Journal* points out that privatization results in both winners and losers.

Winners

Taxpayers appear to benefit most from privatization. The article explains that hiring outside of the traditional civil service system

yields big savings in wages and benefits. For example, on average, the public sector spends twice as much on health care and other benefits for civil servants than it does for short-term workers or private contractors.

Taxpayers also benefit when privatization improves the quality of service and provides it at lower cost. For example, in Indianapolis, privatization cut the cost of garbage collection per home by 37 percent over three years, and complaints about service fell 30 percent.

Losers

Public employees frequently are negatively affected by privatization. Their unions claim that privatization often circumvents the collective bargaining agreements that are meant to protect civil jobs from being eliminated in efficiency moves or filled by contract employees when a vacancy naturally occurs (e.g., when someone retires).

Another group that loses because of privatization is temporary and contract workers, whose wages and benefits, as mentioned above, often are much less than those enjoyed by permanent employees.

Conclusion

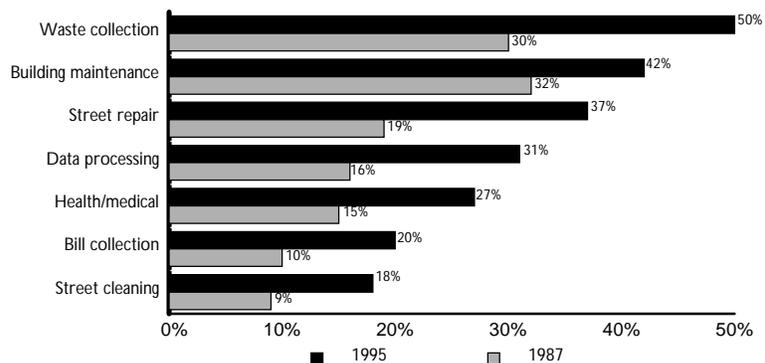
Sometimes privatization benefits all involved. Recently, employees of the Wayne County Road Commission won a contract by bidding 30 percent under the amount that the commission originally charged for the project. Not only did employees protect their jobs, but program costs were greatly reduced. Whether the quality of service will improve is not yet known.

As long as any uncertainty surrounds privatization, lawmakers will have to proceed cautiously with each new initiative.

Only time will tell whether privatization ultimately will be a win or lose proposition.

The Economic Bulletin is written by Robert J. Kleine, Laurie A. Cummings, and Lisa D. Baragar

Share of Local Public Services Handled by Contract Workers



SOURCE: Mercer Group, Inc.

¹Zachary, G. Pascal. "Two-Edged Sword." *Wall Street Journal*, August 6, 1996.

NEWS FROM THE STATE CAPITOL

LEGISLATORS VOTE TO RAISE MINIMUM WAGE

The Michigan House of Representatives recently voted to raise Michigan's minimum wage from \$3.35 an hour to \$5.15. The hourly increase will occur in two steps, jumping to \$4.75 on October 1, 1996, and then to \$5.15 on September 1, 1997. The bill (HB 4180) passed, 94–12, and will affect approximately 133,000 minimum-wage workers in the state.

Democrats had wanted to take up the measure earlier this year, but they did not gain Republican support until after Congress passed a national minimum wage hike.

Republicans added several provisions to their own version of the Democrat-sponsored bill. One is a training wage, which permits businesses to pay \$4.25 an hour for up to 90 days to employees who are under age 20. Democrats added one provision that could cost employers of workers

earning tips a total of more than \$150 million annually.

In addition, some provisions were added to mirror federal legislation: Michigan legislators voted to lower, from 18 to 14, the age at which an individual is eligible for the minimum wage and also to prohibit employers from firing employees before the end of the 90-day training period in order to avoid paying the full minimum wage.

Opponents of the legislation believe the market, not the government, should set wages. Some fear that businesses will react to the increase by hiring fewer people.

Proponents argue that the legislation is necessary to help wages keep pace with the cost of living and also that few employers will be affected by its passage since only 133,000 workers will receive the higher wage.

Senate leaders have not yet decided whether to act on the bill. If it does move, it likely will undergo change.

NONRESIDENT VOTER BILL OF RIGHTS PROPOSED

Michigan Senator Doug Carl proposes to end taxation without representation in Michigan. Cur-

rently, property owners have no say in tax matters in a jurisdiction in which they do not reside; owners of a business or a second home located in a tax jurisdiction in which they do not live cannot vote in that jurisdiction. Also, nonresidents who work in a jurisdiction that levies a city income tax are not allowed to vote in city millage elections, although they are taxed—and usually at a higher rate—when millages are approved. Carl's Nonresident Bill of Rights responds to nonresidents' complaints of unfairness by giving everyone who pays property taxes in a given jurisdiction the right to vote on local tax matters.

FOLLOWUP: ADULT EDUCATION VETO

As we reported in July, many legislators were unhappy with Governor Engler's veto of \$83 million in adult education funding for FY 1996–97. The veto left the coming fiscal year's adult education funding at only 55 percent of the current year's. A recent Senate attempt to override the veto fell short: a 16–21 vote along party lines defeated the override. Additional attempts to restore the funding no doubt would meet a similar fate.

PUBLICATION OF INTEREST

Michigan Employment Security Commission. Michigan Statistical Abstract, 1996. Order # 0472-08370-8. University of Michigan Press, Business Office, 839 Green Street, P.O. Box 1104, Ann Arbor, MI 48106; 313/764-4393.

This reference guide to Michigan's economy and institutions contains more than 350 tables relating to such topics as the state's labor market, population and housing, health and vital statistics, education, income, government, law enforcement, and environment. Using both government and nongovernment data as sources, this book provides current and historical data useful for research in a variety of public policy fields. It also provides data breakdowns by county for some indicators.

MICHIGAN REVENUE REPORT

August revenue collections increased only 2 percent above a year ago, but collections were stronger than indicated by this number. The weakness was due a 15.7 percent drop in combined SBT and insurance tax revenue, which jumped sharply last month (see below). Excluding these sources, collections increased 6.4 percent.

Personal income tax withholding collections rose 5.2 percent after dipping 1.5 percent in July; year-to-date collections are up only 3.7 percent, well below state officials' consensus forecast of 4.9 percent.

Sales tax collections were up a robust 8.6 percent in August, despite only a 3.5 percent gain in motor vehicle collections; for nonmotor vehicles, receipts were up 9.6 percent, one of the best performances of the year. Use tax collections were up only one percent. Year-to-date collections for these two important revenue sources are about on target with the consensus estimate.

SBT collections declined 15.2 percent in August, following a 13.9 percent increase in July. August's weakness was due to timing: the quarterly payment was due the last day of July, and a larger share of the collections fell in July this year than last year. For the two months combined, SBT collections were down 1.4 percent.

Lottery sales, fueled by large Lotto jackpots, surged 26.4 percent in August, following a 20 percent gain in July; this was the fifth consecutive monthly increase. Year-to-date sales are up 2 percent, the first time this year cumulative sales have exceeded year-ago collections.

August 1996 Revenue Collections (millions)

Source	August 1996 Collections	% Change Year-ago	% Change Year-to-date	July 1995 Actual	FY 1995-96 Consensus Est. % Change (May 1996)
Income tax					
Withholding	\$419.7	5.2%	3.7%	\$398.8	4.9%
Quarterly	5.0	8.7	13.6	4.6	9.1
Annual	10.2	-10.5	-5.7	11.4	-6.1
Subtotal: gross income tax	434.9	4.8	3.6	414.8	4.5
Sales tax	448.9	8.6	5.7	413.4	5.3
Motor vehicles	73.1	3.5	5.2	70.6	—
Other	375.8	9.6	5.8	342.8	—
Use tax	91.7	1.0	9.3	90.8	7.2
Subtotal: sales/use/withholding	960.3	6.3	5.0	903.0	5.3
Cigarette tax	54.2	6.3	5.8	51.0	-4.8
SBT	205.0	-15.2	-2.7	241.7	3.3
Insurance	15.3	-21.9	3.3	19.6	-2.6
Subtotal: SBT + insurance	220.3	-15.7	-1.3	261.3	2.7
State education property tax	41.6	-24.2	-5.2	54.9	3.8
Real estate transfer tax	19.0	66.7	172.8	11.4	21.8
Estate/inheritance tax	20.1	258.9	6.9	5.6	-5.0
Intangibles tax	1.0	-37.5	20.5	1.6	12.9
Severance tax	2.3	-23.3	30.3	3.0	6.6
TOTAL	\$1,334.0	2.0%	3.8%	\$1,307.6	4.3%
Gross lottery sales (prel.)	\$132.7	26.4%	2.0%	\$105.0	—

SOURCE: Senate Fiscal Agency.