



## GOOD NEWS

In August, **new home sales** increased by 4.7 percent, the best rate since April 1986. The sale of approximately 832,000 new homes was a surprise to many, who expected a drop in demand given that long-term fixed mortgage rates are now a full point higher than at the beginning of this year.

◆ September's **light vehicle sales** rose 1.7 percent compared to the year-ago rate, largely due to model-year closeout incentives. The slight gain followed a 2.3 percent decline in August's sales. With the close of the 1996 model year in september, Chrysler's light vehicle sales were up 11.8 percent from the year-ago rate, while Ford's and General Motor's sales were down 1.7 percent and 0.2 percent, respectively.

## BAD NEWS

The Michigan Employment Security Commission announced that the **Michigan unemployment rate** fell to 4.7 percent in September; this is an improvement of 0.2 percentage points over the previous month. Despite September's increase in the jobless rate, the number of people employed in the state rose by 22,000, to a record high of 4,634,000, and the state's labor force grew 32,000, to 4,841,000.

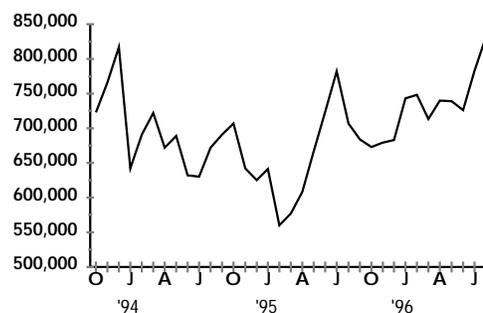
◆ The **national unemployment** rate inched up to 5.2 percent in September, up 0.1 percent from August's level. According to the U.S. Labor Department, payroll employment fell by 40,000 jobs last month, a sharp contrast to the 241,000 new jobs created in August. Although not good news for employees, investors felt otherwise, interpreting the decline as a sign that the Fed will not likely raise interest rates.

◆ The **consumer confidence index** slipped slightly in September, down to 111.8 from August's record high of 112. Despite the decline, the number reflects a far more positive consumer outlook in terms of em-

ployment and spending than was indicated by an index of 88.4 earlier this year.

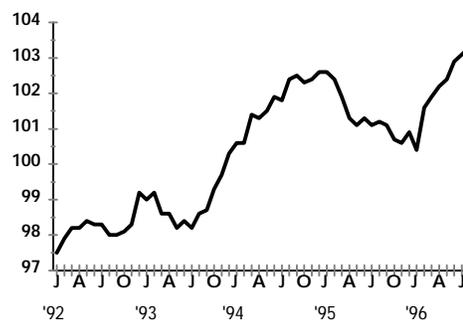
◆ The **consumer price index (CPI)** rose 0.3 percent in September over August's rate, for an annual growth rate of 3 percent. The moderate increase, in line with most predictions, was due mainly to rising costs for clothing, food, air fare, and new cars. Energy prices were unchanged from August, after falling during the previous three months. The September CPI was the last figure needed to calculate the 1996 Social Security cost-of-living increases—recipients will receive a 2.6 percent increase in 1997.

### New One-Family Houses Sold



SOURCE: U.S. Bureau of the Census.

### Index of Leading Economic Indicators



SOURCE: Bureau of Economic Analysis.

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# MONTHLY FOCUS

## BIPARTISAN PANEL EXPLORES SOCIAL SECURITY REFORM

According to a recent article in the *Wall Street Journal*, a private, bipartisan panel appointed by the Clinton administration has been working quietly for two years to formulate recommendations to overhaul the Social Security system.<sup>1</sup> The article reports that panel members agreed to present three reform plans (see table below) to the administration last summer—all of which allow some of the \$400 billion collected from yearly Social Security taxes to be invested in the stock market; under the current system, all funds are invested in government securities.

### Plan Components

According to the *Journal*, the first plan allows the federal government to invest Social Security tax

<sup>1</sup>Davis, Bob. "A Consensus Emerges: Social Security Faces Substantive Makeover." *Wall Street Journal*, July 9, 1996.

revenue in the stock market in order to increase revenue and maintain benefits for future retirees. This plan proposes that over 15 years the government invest in the stock market, instead of lower-yielding government bonds, \$800 billion of the monies collected. It also proposes that inflation adjustments of benefits reflect a recalculated consumer price index, which estimates inflation at a lower rate than the current index.

The second and third options allow taxpayers to do their own investing in the stock market through individual retirement accounts financed by a portion of their Social Security taxes. Depending on the plan, payroll taxes of 1.6 percent or 5 percent may be diverted to these accounts; taxpayers may invest in the stocks or bonds of their choice.

### Pros and Cons

According to the article, proponents of the panel's recommendations argue that allowing Social Security funds to be invested in the stock market will yield greater

return for program beneficiaries. Historically, the stock market has provided returns 2–3 times higher than those from government securities. Such substantial returns, the article explains, may reduce the need in the future to raise Social Security taxes or lower benefits in order to maintain the program's current benefit payments.

Opponents argue that privatizing Social Security is too risky—bad investments by the government or individuals could reduce retirees' future benefits. There also is concern that through its investment of the multi-billion dollar Social Security funds, the federal government will gain too much control over the stock market.

### Conclusion

Even opponents of the panel's recommendations agree that policymakers no longer can avoid dealing with Social Security reform: By 2029 the fund will be bankrupt. Given the severity of the situation, the *Journal* concludes, the next president has no choice but to put Social Security reform high on his policy agenda.

## Summary of the Advisory Panel's Options on Social Security

|                             | Plan 1  | Plan 2  | Plan 3  |
|-----------------------------|---|---|---|
| <b>Goal</b>                 | Maintains current benefits.                                     | Creates large-scale IRAs.   | Creates small-scale IRAs.   |
| <b>Finance changes</b>      | Invests \$800 billion in Social Security funds in stock market. | Diverts 5% of collected Social Security taxes into IRAs.                                    | Increases Social Security tax from 12.5% to 14.1%.                        |
| <b>Benefit changes</b>      | No major changes  | Retirees are guaranteed a payment from the government, plus individual investment earnings. | Slightly reduces guaranteed benefits for some; allows investment in IRAs. |
| <b>Effect on individual</b> | Minimal   | Retiree benefits depend largely on investment skills; raises retirement age.                | Benefits depend somewhat on investment skills; raises retirement age.     |

SOURCE: *Wall Street Journal*, July 9, 1996.

# NEWS FROM THE STATE CAPITOL

## COURT DECISION COULD COST STATE BIG BUCKS

The Michigan Supreme Court recently denied the state the right to appeal a lower court decision that ultimately could cost the state budget more than \$3 billion. The case in question—*Durant, et al. v. State of Michigan, et al.*—began more than 15 years ago, when a number of school districts filed a complaint about the state’s requirement that schools absorb the full cost of special education, driver’s training, and breakfast/lunch programs.

The school districts argue that requiring them to pick up such costs is a violation of the so-called Headlee amendment (Article IX, section 29, of the Michigan Constitution). The lower court agreed that the Headlee amendment applies to

the school programs cited in *Durant*, and thus the state must reimburse schools for their costs.

Governor Engler has said that the state will file a petition for a rehearing of *Durant*. If the supreme court again refuses to take up the case, the state will have no further legal recourse and must pay the judgment against it, estimated at \$493 million. If other districts in the state file similar suits, the cost could rise to as much as \$3.5 billion. The state may attempt to work out an agreement with school districts to reduce the required payment and/or spread it over several years. If agreement is not reached, state officials claim they may have to make substantial budget cuts to satisfy any final judgment against the state.

## TRANSPORTATION PACKAGE PASSES SENATE

The Michigan Senate recently approved a four-bill transportation package designed to reduce the state’s transportation costs and generate funds to improve the poor quality of Michigan roads. The package could save the state

\$40–100 million. The bills limit state tort liability, increase diesel fuel revenue, facilitate state condemnation of private lands for transportation purposes, and privatize various functions of the state transportation department.

The package now moves to the House, where Democrats say they will oppose it unless it is accompanied by a statewide vehicle-fuel tax increase. They argue that without such a tax hike, the package will be insufficient to meet the costs of state transportation needs. Republicans argue that the package should be adopted now and not tied to a gasoline tax increase; reducing transportation costs now, they argue, will keep any such tax increase to a minimum.

The package likely will be taken up in the House during the lame-duck session scheduled to begin on November 12. Legislators expect House votes to fall mostly along party lines, as they did in the Senate.

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**PUBLICATIONS OF INTEREST.** United States General Accounting Office, Health and Human Services Division. *School Facilities: Profiles of School Condition by State*. GAO/HEHS-96-148. Washington, D.C., June 1996.

This report provides a comprehensive review of the condition of America’s school facilities in all 50 states. The report presents information on the roles that states play in maintaining the quality of their school facilities, including the extent of financial and technical assistance provided. Each profile also presents state-specific results from a 1994 survey of school facilities that explored such issues as the condition of school buildings, adequacy of environmental conditions, extent to which facilities meet functional needs of education reform and technology, and monies needed to adhere to federal mandates for providing access to programs for the disabled.

United States Census Bureau Home Page. <http://www.census.gov/>.

This home page provides direct access to U.S. population counts from the 1990 census as well as the federal government’s most recent population estimates and current economic indicators. This regularly updated site also provides links to federal statistical agencies and state information centers as well as foreign trade, health, immigration, demographic, and employment statistics. In addition, the site includes information pertaining to household type, school enrollments, and business ownership.

# MICHIGAN REVENUE REPORT

September state revenue collections were surprisingly strong across the board, with total tax collections up a robust 10.1 percent.

Personal income tax collections rose 8.2 percent from the year-ago level, and quarterly collections also were strong.

Sales tax collections increased 10.1 percent, the strongest performance since May. Motor vehicle collections jumped 13.7 percent while all other collections increased 9.5 percent. The companion use tax rose 7.8 percent.

SBT collections increased 26.2 percent above September 1995.

Lottery sales figures for September were not available as this was being written, but, based on partial data, the month looks strong.

FY 1995–96 ended on September 30, but final revenue figures will not be available until December, in part because some collections received September 30 are accrued back to the previous fiscal year. About 95 percent of the collections are in, however, and it appears that revenue will be close to state officials' consensus revenue estimate of a 4.2 percent increase in General Fund-General Purpose and School Aid fund revenue.

## September 1996 Revenue Collections (millions)

| Source                          | September 1996 Collections | % Change Year-ago | % Change Year-to-date | September 1995 Actual | FY 1995–96 Consensus Est. (% Change) |
|---------------------------------|----------------------------|-------------------|-----------------------|-----------------------|--------------------------------------|
| Income tax                      |                            |                   |                       |                       |                                      |
| Withholding                     | \$453.5                    | 8.2%              | 4.1%                  | \$419.0               | 4.9%                                 |
| Quarterly                       | 122.7                      | 10.2              | 12.8                  | 111.3                 | 9.1                                  |
| Annual                          | 4.0                        | 207.7             | -5.0                  | 1.3                   | -6.1                                 |
| Subtotal: gross income tax      | 580.2                      | 9.1               | 4.2                   | 531.6                 | 4.5                                  |
| Sales tax                       | 459.1                      | 10.1              | 6.3                   | 416.8                 | 5.3                                  |
| Motor vehicles                  | 73.1                       | 13.7              | 5.8                   | 64.3                  | —                                    |
| Other                           | 386.0                      | 9.5               | 6.4                   | 352.5                 | —                                    |
| Use tax                         | 95.5                       | 7.8               | 9.1                   | 88.6                  | 7.2                                  |
| Subtotal: sales/use/withholding | 1,008.1                    | 9.1               | 5.5                   | 924.4                 | 5.3                                  |
| Cigarette tax                   | 51.3                       | -13.3             | -6.6                  | 59.2                  | -4.8                                 |
| SBT                             | 77.1                       | 26.2              | -2.0                  | 61.1                  | 3.3                                  |
| Insurance                       | 0.5                        | 150.0             | 3.5                   | 0.2                   | -2.6                                 |
| Subtotal: SBT + insurance       | 77.6                       | 26.6              | -7.0                  | 61.3                  | 2.7                                  |
| State education property tax    | 179.1                      | 14.1              | -1.6                  | 157.0                 | 3.8                                  |
| Real estate transfer tax        | 18.3                       | 19.6              | 136.1                 | 15.3                  | 21.8                                 |
| Estate/inheritance tax          | 9.3                        | 82.4              | 12.2                  | 5.1                   | -5.0                                 |
| Intangibles tax                 | -0.4                       | -166.7            | 19.3                  | 0.6                   | 12.9                                 |
| Severance tax                   | 3.3                        | 50.0              | 31.9                  | 2.2                   | 6.6                                  |
| <b>TOTAL</b>                    | <b>\$1,473.3</b>           | <b>10.1%</b>      | <b>4.4%</b>           | <b>\$1,337.7</b>      | <b>4.3%</b>                          |
| Gross lottery sales (prel.)     | NA                         | NA                | 2.0%                  | \$99.2                |                                      |

SOURCE: Senate Fiscal Agency.