



Hard Times, Hard Choices

Introduction

Anyone living in Michigan today knows that these are hard times. The economic turmoil that has rocked the national economy is now known as The Great Recession in Michigan, touching citizens from all walks of life in all areas of the state.

Most people, by now, know the story. The foreclosure crisis, the automobile industry collapse, and double digit unemployment have crippled a state economy already suffering from declining government revenues and budget shortfalls. Even with federal stimulus dollars, diminished tax revenues left Michigan with a \$2.8 billion budget gap at the end of the last fiscal year. And for the second time in three years, the drop in the state's general fund led to a stalemate in Lansing over how to balance revenues with expenses. Unemployment, poverty, and a weakened education system are all issues touched by the crisis.

Beyond this, Michigan's local governments are facing declining property taxes and cuts in state revenue sharing. The result has been employee layoffs that have negatively impacted police forces, fire departments, educators, and health care workers, and led to cuts in social services. Private community groups have also felt the pain. Support of religious and non-profit organizations like food banks has been severely strained by the downturn.

Against this backdrop, many worry that the state and its cities are not doing enough to attract new businesses and workers that might be needed to reinvigorate the region. They are also concerned that the state is suffering from a defection of a large number of its "best and brightest" students who choose to leave Michigan after graduating from college.

There is also concern that underlying issues in the state may stymie the path to recovery. Citizens' waning faith in government, long-standing unresolved class and racial tensions, and competition for resources between urban and rural areas are all factors in addressing the state's problems.

Of course the picture is not entirely bleak, and there are pockets of growth in the state. But many wonder what can best be done to support and extend that momentum.

The Deliberation

So what can Michigan citizens do? Over the weekend of November 13-15, you will be asked to work with fellow citizens to explore how Michiganders should respond to these challenges. Clearly, hard times mean hard choices for state and local officials and for citizens throughout Michigan.

In the short term, how should Michiganders respond to this crisis? How best can we meet the immediate needs of all our citizens? And in the longer term, can we put off hard decisions about fundamental structural issues underlying Michigan's budget crisis, namely that revenues do not equal spending? What sort of long-term steps should we consider now to insure a vibrant economic future?

The alternatives below reflect a sample of different priorities and are meant to serve as a jumping off point for the conversation. They are certainly not all the alternatives available, and you may come up with other approaches in your discussion. However, you should remember, that while you may wish to achieve most or all of the aims mentioned in the alternatives, it is very likely that a greater emphasis on one approach will mean a lesser effort on another. Resources and capacities are limited, producing hard choices. So while some of these approaches can be combined, it is worth thinking about the reasons for pursuing each one to see what is most important.

Hard Times: Confronting the Crisis

Unemployment

Michiganders already know that the state's employment picture is bleak. This past summer, Michigan became the first state in more than 25 years to have an unemployment rate of over 15%-- the highest of any state in the nation. The jobless situation cuts across the entire state. Last year alone, Michigan lost more than 300,000 jobs, including significant drops in all of the state's major metropolitan areas. Newly laid-off workers from automobile and other manufacturing jobs have joined many citizens who have long been unable to find work, often because they lack training, education and opportunity.

How to address unemployment is the first major topic of our deliberation. Here are some alternatives you might consider:

- ✓ **The state should spend its limited resources on programs that spur industrial growth and create jobs.** It is critical to get newly laid-off workers back to work so they can become part of Michigan's economic life. For example, the state is giving more than \$100 million dollars in tax incentives to the developers who are turning a closed Ford plant in Wixom into a renewable energy equipment manufacturing center. *Critics of this approach worry that*

the government is picking winners and losers when deciding which industries to boost, and it's not clear how anyone can know which industries or sectors to "bet on."

- ✓ **The state should spend its limited resources on programs that get all potential workers, not just the recently unemployed, the training and support they need to get jobs.** For example, the \$50 million dollar Michigan New Jobs Training Program provides funds to community colleges so they can loan the money to businesses that train new employees. *Critics of this approach believe those who advocate for such a singular focus on adult education miss the point of boosting the real economy.*

Poverty

Poverty has long been an issue in Michigan, but in this decade alone, the state's poverty rate has jumped by an alarming 43%. More recently, Michigan has had the dubious honor of being the only state in the nation with an increase in poverty over two years.

Across the state, 14.4% of Michiganders live below the national poverty line. The rate is even higher among children, with about 20% of all children living in poverty. These numbers all exceed the U.S. poverty rate of 13.2%. (The government defines poverty as an annual income of \$22,025 for a family of four, \$17,163 for a family of three, and \$14,051 for a family of two.)

Here are some alternatives for addressing poverty in the state:

- ✓ **Michigan must effectively deliver services to those in the most dire need and restore cuts that have heavily impacted aid to those most vulnerable.** Children and low income families are at risk today. General Fund spending for low income households may fall by as much as \$500 million in 2009. Similar cuts in the Department of Human Services budget passed by the Senate may reduce General Fund support by \$330 million. The cuts include reductions in cash assistance grants, the annual children's clothing allowance and child day care programs. *Critics of this approach note that given the current budgetary climate, many difficult cuts had to be made.*
- ✓ **Michigan must focus its scarce resources on restoring the economy and on lowering the state's unemployment rate to increase tax revenues.** The state is facing a cataclysmic economic crisis. All citizens must share in the pain of the unavoidable belt tightening now that the state increased its income tax rate in 2007 and added a business surcharge tax in 2008. *Critics argue that no matter the state's financial woes, the safety net must be left in place for struggling families, and especially children—those least able to weather the downturn.*

Education

Many suggest that to reinvent the Michigan economy for the 21st century, the state will need a more highly educated workforce, prepared by public schools to move successfully through post-secondary education.

Education spending on grades K-12 is the largest single component of the state budget. In 2008, Michigan spent \$12.8 billion to support K-12 programs. And currently, Michigan spends just under \$10,000 per student in public schools. However, a recent Michigan State University study of the recent National Assessment of Education Progress report found Michigan student achievement has remained flat for the past eight years while neighboring states are generating better results. Of particular note, the study found that Michigan is tied with Wisconsin for the worst white-black student achievement gap.

When it comes to post-secondary education, the state is known for its top-ranked universities, but currently half of Michigan's college graduates leave the state within a year of graduation. There has been a push to find ways to retrain—through vocational schools, community colleges, and other four year institutions-- recently laid-off workers to have the skills needed in the current and future economy.

Here are some alternatives for addressing education in the state:

- ✓ **Focus on improving the quality of K-12 education.** Ensuring that our K-12 system gives students quality basic skills, like reading, writing, mathematics, and the tools for critical thinking, is essential to creating a successful workforce for the state. This is the area the state should put highest among its educational spending priorities because it is the necessary foundation for preparedness for job placement and higher education, whether that includes vocational school, community college, or four year university programs. Furthermore the greatest inequalities in the state's structure of equal opportunity come from the inadequacies of some secondary schools. The recent \$165-per-student cuts already announced, with additional cuts possible in the near future, has many concerned. *Critics of this approach argue that more education spending does not necessarily yield more educated students. They advocate changes to the educational system including merit-based pay for teachers or K-12 school consolidation.*
- ✓ **Focus on developing a modern, trained work force.** The state cannot delay spending the necessary resources to retrain laid-off Michigan workers. Programs like No Worker Left Behind (which tries to help workers get the skills necessary for the 21st Century workforce) and the recently embattled Michigan Promise Scholarship (which gives up to \$4,000 to high school graduates for completing two years of postsecondary education) should be supported. However, more should be done to insure that all citizens have the opportunity to become full contributors to Michigan's future, including perhaps shifting resources to support community colleges. Recent cuts to the system-- \$3 million in vocational education

and \$2 million in adult education—are a step in the wrong direction. *Critics argue that budget realities don't allow for discretionary spending on these types of educational programs right now. Critics also wonder whether you will be spending resources retraining workers for jobs that ultimately might not exist. They also note that the state should focus on keeping the graduates from Michigan universities that it is losing to other states.*

Tax and Spend

The budget deadlock in the state legislature has had many causes. Some legislators believe that immediate action should be to reduce government, including revenue sharing to local governments, to close the budget gap. They also believe that program cuts combined with targeted tax reductions, like eliminating the business surcharge tax, would spur economic growth.

Others argue that programs that support the poor should not be cut further but that taxes should be raised to give the state the necessary revenue. The budget gap this year was 2.8 billion dollars. Next year when Michigan has no additional federal stimulus funds, it is estimated the budget gap will grow to over 2.5 billion dollars and be larger still in 2011.

Here are some alternatives to the tax/spend conundrum:

- ✓ **Raise revenue to support vital programs and services.** As a state and as a community, we must stand together and support all our citizens, including those most in need. Raising selected taxes, such as a tax on bottled water, will give additional revenue for the state which can be used to support local revenue sharing programs that provide vital social services. This revenue will also ensure that programs, like Michigan's Promise college scholarships continue for all citizens. *Critics don't see how additional revenue can be raised from a citizenry already in such financial distress. They also see these taxes as additional disincentives for new citizens and businesses to move to and remain in the state.*
- ✓ **Cut Programs.** We have no choice but to cut programs back because we have to balance the budget. No one wants to see the poor suffer, but Michigan is in a crisis that requires tough steps now to lead to a balanced budget and effective economy. Raising taxes will slow our economic growth, discourage investment, and prolong this statewide downturn. *Critics wonder how programs can be cut in these times of need across the state.*
- ✓ **Change the government decision processes.** Even though the state government only closed for two hours early in the morning on October 1st, this is the second time in two years Michigan has failed to start the new fiscal year with a balanced budget, as required by the state constitution. We need to hold government at all levels more accountable and perhaps change some of the workings of our state government. Ideas for "changing government" include: 1) Adopting a "pay as you go" plan in the legislature that pairs new spending and

revenue increases, 2) Adopting multi-year budget planning as they do in Oakland County. *Critics worry that fixing the process is not enough to fix the fundamental budget problems.*

Hard Choices: Fundamental Challenges

Now that we've explored the ways in which we might handle Michigan's crisis in the near-term, we turn our attention to the long-term challenges facing the state. Our fundamental question is: What does Michigan have to do so that it can successfully care for its citizens and effectively compete in regional, national, and international markets in the years to come?

No matter which government-funded programs you may favor as priorities for Michigan's citizens, there is an inescapable fact confronting Michigan citizens and policymakers: the cost of government programs, state and local, exceeds the state's revenue. This budget gap, which has proven painful and politically difficult to resolve this year, will worsen significantly in 2011 when federal stimulus money runs out. And, it is estimated that the budget shortfall will grow to \$9.6 billion by 2017, almost equal to Michigan's present \$10 billion dollar General Fund. Many would argue that any vision for the state's future must cope with this problem in some way.

But beyond this issue, what is the best vision for Michigan's future that will ensure good-paying jobs and high quality of life in the coming decades?

Below are some approaches that have been suggested by many throughout the state. Again, these are meant to be a jumping off point for the conversation, as these are certainly not all the approaches that you might consider. We welcome you to think about which of these you prefer, as well as other approaches that might come up in your discussion.

- ✓ **Get our Fiscal House in Order by Re-Evaluating Spending.** The money Michigan brings in does not cover the money spent on services. As any family with a budget knows, when this happens, cuts to expenses must be made. Advocates of this approach suggest there are many creative ways to cut the budget that would not necessarily result in cutting necessary services. Just a couple of examples are:

1) **Bring the Michigan criminal justice costs in line with neighboring states by reducing the amount of money spent on prisons.** Although Michigan's crime rate is on par with its neighbors, the state has a larger per-capita prison population than do other Great Lake states, and Michigan tends to give prisoners longer sentences, raising costs. Increased privatization and shared use of facilities would also lower costs. *Critics of this approach say the safety of our citizens should be a higher priority than cost-cutting.*

2) **Lower the annual health care costs the state pays for its employees by creating a unified health care system for state, local, and school employees.** All public employees

in Michigan — those working for state government, public schools, universities, community colleges and local governments — would be required to consolidate into one health insurance system, thus saving money through economies of scale. *Critics of this approach are unconvinced that the state bureaucracy could manage the system well enough to generate significant cost savings.*

- ✓ **Reform our Tax Structure.** Many believe that to create a positive climate for business growth and for attracting new businesses from outside the state, Michigan must reform its tax structure. Others see tax reform as a way to generate much-needed additional revenue. A couple of approaches to tax reform, but certainly not all, include:

- 1) **Reform the tax structure to make the state more attractive to businesses and employees.** This will in turn bring new and keep current jobs in the state. Ways to do this include reducing the Michigan Business Tax (MBT) and eliminating its surcharge. (The MBT consists of a business income tax, a gross receipts tax, and a 22% surcharge.) In addition to overburdening businesses, many say the tax generates inconsistent revenues from year to year for the state. Some advocates for this plan suggest revenue lost through the MBT cut could be replaced by extending the state's sales tax to services, which would reflect the changing nature of the state economy. Still others would like to see a reduction of local property taxes up for discussion as well. *Critics say the current environment is not the time to cut taxes.*

- 2) **Reform the tax structure to raise much-needed revenue.** To raise revenue in the shorter term, some are discussing ideas like putting a freeze on the earned-income tax credit and creating new sales taxes on items like tobacco products and bottled water. Other longer-term, more structural solutions include moving to a graduated income tax (which would replace the flat tax with a graduated one that would require wealthier taxpayers to pay a larger share). *Critics say freezing the earned-income tax credit would only hurt the working poor. They argue that taxing tobacco, which is already taxed highly (the state's cigarette tax is the 11th highest in the nation) can hit a point of diminishing returns because of decreased demand and smuggling from other states. They also suggest that there are better things to tax than water, which is a healthy commodity. Finally, they argue that taxing the wealthy at a higher rate will discourage their spending and further slow the state economy.*

- ✓ **Reinvent Michigan's Economy.** Instead of “managing the decline” of the state, Michiganders should be looking at ways to reinvent the region. Proponents of this approach think that in place of focusing on old manufacturing jobs, the state should work to develop a new economy. A couple of examples include:

- 1) **Focus on a knowledge-based economy.** The state should accept the fact that manufacturing jobs will never be able to drive the economy as in the past and that the

high paying jobs of the future are in knowledge-based enterprises. The state should work to attract and keep knowledge-based jobs in the state and prepare its workforce to transition to this work. The numbers in the state show some promise. From the end of 2007 until the start of 2009, low-education attainment industries (like manufacturing, construction and retail) suffered job losses of almost 3.75 million. But during that same period, jobs that required higher education grew slightly, although still suffering recent losses. *Critics worry that shifting resources toward a knowledge-based economy will leave many workers—the ones without sufficient education to take on these jobs-- out in the cold.*

- 2) **Focus on green jobs.** The state should work to offset the loss of traditional manufacturing jobs by pushing Michigan as the place to invest in alternative energy projects. This summer, the Obama Administration, promised to give more than \$1 billion for the development of next-generation batteries and electric vehicles. The number of Michigan green jobs has risen by 8% since 2005, while construction and manufacturing jobs have dropped 20% and 14%, respectively. *Critics wonder just how many green jobs can be created and who will be qualified to take these jobs. They also note that the 35,000 green jobs are less than 1% of the state's jobs, and that an emphasis on green jobs may primarily continue Michigan's manufacturing economy, but potentially with lower wage jobs.*

There are also those who criticize the emphasis on building a "new economy" altogether, whether it's based on green jobs or a knowledge-based economy. They believe the state should spend its resources creating a climate to support and grow the businesses, particularly the entrepreneurs, already in the state.

There are others, still, who note that agriculture, Michigan's second largest industry, has been overlooked and should be supported. Agriculture employs more than one million Michiganders, contributes more than \$70 billion to the state economy, and is one of the few sectors of the economy that is expanding. The state is one of the nation's top producers of corn, wheat, and soybeans. Many feel support of agriculture will not only enhance one of the state's best assets, but it will also help break down the urban-rural divide and potentially increase access to healthy food in urban centers.

- ✓ **Make Michigan an Attractive "Place."** Move beyond taxing and spending and think about investing in and positioning Michigan as an attractive place for businesses and individuals to work, live, and visit.

- 1) **"A New Urban Michigan".** The state should consider public investments to remake its cities into vital urban centers with strong transportation hubs and public services, affordable and attractive housing, and an environment that welcomes communities that are inclusive and diverse. Many believe this approach will not only attract and keep citizens and businesses in the state, but it will keep our young "best and brightest" who

are leaving the state in large numbers. *Critics worry about such a city-focused approach which will not be supportive of those choosing to live outside the urban areas.*

- 2) **Focus on Michigan's North Coast.** Working with other states in the Great Lakes region, Michigan would give incentives and funding to support the growth of tourism and develop residential and retirement destinations in the area. *As in the above alternative, critics worry that this alternative has limited appeal to those in the region.*
- ✓ **Focus on Addressing Tensions within Michigan's Citizenry.** Racial tensions as well as the urban vs. rural citizen divide have long plagued the state. Michigan should focus on diffusing these tensions as a way to create a unified vision for the future. The state should rethink the ways in which it approaches zoning, housing, education and allocations of other resources that can contribute to inequity across race and place. *Critics say that it's not the role of the state to make these choices. Others wonder if it is too burdensome a job for government in this time of need.*
 - ✓ **Restore Faith in Government.** No matter how you approach Michigan's current problems, government must play a role in any solution. Unfortunately, the public's faith in government today is low. Some approaches to addressing this problem include **revising term-limits** that, because of the frequent turnover of elected officials, leave our government with a lack of long-term vision; **Embracing measures like a part-time legislature**, which would decrease government strength, and some would say, increase individual responsibility; and **having individuals take on more responsibility to hold government accountable**, by undertaking government transparency initiatives which share government activities with the community through new and old media. *Critics say that while restoring faith in government may be a positive step for the state, this alone will not refocus our priorities to build a stronger Michigan.*