

# Michigan budget crisis looms over gubernatorial election

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The three Michigan gubernatorial debates between former Amway executive Richard DeVos (now principal of a closet organizer company) and Democratic incumbent governor Jennifer Granholm have been a shameless groveling before Michigan's corporate interests.

Among the major issues ignored by the debaters was the looming budgetary crisis triggered by the elimination of Michigan's Single Business Tax (SBT) and the hemorrhaging of the state's tax base during the past five years. This massive deficit was not even hinted at, as both candidates vied for promising the most lucrative tax cuts for corporations in the next administration.

The reaction to the steady collapse of the Michigan economy by the politicians, Democratic and Republican alike, has consistently been to cut business taxes. Since 2000 the state has both reduced business tax rates and failed to offset federal tax cuts. If these changes had not been made Michigan's General Fund would be \$2 billion richer, according to the Citizens Research Council of Michigan.

But this is just the beginning. On August 9, the Michigan legislature approved a "voters' initiative" to repeal the Michigan SBT as of January 1, 2008. The "initiative" was a petition campaign led by the Oakland County executive, Republican Brooks Patterson, following Governor Granholm's veto of a similar bill. The elimination of the SBT deprives the state of \$1.9 billion of funding, nearly a quarter of its \$9 billion general fund.

In a move reminiscent of California's infamous Proposition 13, Michigan's old funding structure was eliminated without a replacement, and more importantly without the alternatives—additional taxes and drastic budget cuts—spelled out by the advocates of the "voters' initiative."

The 1978 California measure, originally sold to the voters as property tax relief, resulted in the bankrupting of the state's educational funds; California schools ranked No. 1 nationally in the 1960s have now fallen to 49th in many surveys of student achievement. Other state services such as fire departments were also gutted as a result.

Likewise, in Michigan, a cabal of businessmen, led by

Patterson as well as DeVos, have engineered the breakup of corporate tax policy that now threatens the state with bankruptcy unless measures are taken immediately. As it presently stands, businesses will be exempt from corporate taxation after December 31, 2007.

Republicans led the "voters' initiative" to abolish the SBT through a little-known circumvention around both the governor and the voters. The voters' initiative is a provision authorized under the Michigan Constitution which enables a bill to become law with only legislative approval if petitions signed by 8 percent of the state's voters in the previous gubernatorial election support the measure. In this way, the Republicans avoided both a repeat veto by the Granholm administration or the necessity of placing the proposal on the general election ballot.

Moreover, the way this petition drive was executed was anything but an exercise in democracy. First of all, the financing was provided by the leading Republican politicians and businessmen. The parents of Republican gubernatorial candidate Dick DeVos donated \$50,000 to the effort, likely the largest single donation. House Speaker Craig DeRoche, Republican of Novi, created a business advocacy group which contributed \$65,000 and many other corporate heads chipped in \$25,000 apiece, including executives from Waste Management, Walbridge Aldinger, Soave Enterprises, etc.

After amassing this petition war chest, the actual work of soliciting signatures was handed over to the company National Petition Management, which was paid a whopping \$723,467 to collect signatures. Workers were routinely told that they were signing to promote more jobs for Michiganders; while solicitors were unemployed workers themselves who were paid upwards of \$1 per signature.

Having crudely purchased this tax repeal, Republican legislators, who hold a majority in both houses, had already said they want a replacement business tax that results in substantial tax cuts. But they have no intention of spelling out the cuts until after the elections, although DeVos mentioned replacing at least half of the current SBT

revenues, meaning cutting nearly \$1 billion in programs. The Michigan Chamber of Commerce is calling for \$500 million in “tax relief.”

Granolm, no enemy of tax cuts for corporations, has already cut, according to difference sources, between \$600 million and \$1 billion in tax liability for Michigan business during her term of office. Belatedly, she has now added her support to the repeal of the SBT tax, calling for a more “targeted” tax system, adding her stamp of approval to the hijacking of the state’s economy in order not to alienate big business, especially in view of the extremely tight governor’s race.

What programs will be cut? The major programs supported by Michigan’s General Fund are: higher education, supporting Michigan’s public colleges and universities (\$1.9 billion); community health—mental health, public health and Medicaid (\$2.9 billion); and human services, including family services, juvenile justice and public assistance (\$1.2 billion). In addition the department of corrections spends \$1.8 billion a year.

In addition, the pressures on the General Fund also impact K-12 educational aid, reducing per pupil spending an estimated \$250 or a total of \$420 million in fiscal year 2007. The state will also find it difficult to cover the employee health insurance for school workers under the current projections.

Additionally, the Republican majority in the state legislature is calling for property tax relief for business, a move that will directly reduce funding for K-12 education.

The crisis in the General Fund will most likely impact higher education the most. Already revenues for colleges have been cut by 14 percent in the last two years and, because of federal mandates on Medicaid and the rising number of prisoners, it is the easiest target. Tuition hikes at Michigan public colleges is already rising at nearly double-digit rates annually.

The disastrous levels of unemployment in Michigan—the highest in the nation—have forced state-related Medicaid costs up 40 percent in the last four years with 27 percent more cases as more and more workers fall into destitution. Presently 1.35 million individuals qualify for Medicaid, which means they have no job and no more than \$2,000 in assets. Cuts in these programs affect the neediest layers.

The state’s “growth industry,” however, is prisons. Corrections spending, also rising in tandem with poverty, has grown \$253 million, a rise of 17 percent in four years. It has risen from 3 percent of the General Fund budget in 1980 to 20 percent of it today. Michigan is one of a minority of states to incarcerate more than 500 people per 100,000 residents. Corrections now accounts for 30 percent of all state workers, receiving the largest increase of any category.

Overall the state workforce has declined by 8,500 in three years.

Other sources of tax revenues, such as state income tax, are also declining precipitously. Michigan is now 50th among the states in unemployment, 49th in the index of economic momentum, 49th in personal income growth. The state had lost one in four manufacturing jobs—from 908,200 in 1999 to 775,900 in January 1992 to 664,500—as of March 2006 before the latest round of job losses, which included GM cutting 30,000 and Ford 44,000, with substantial numbers of these jobs located in Michigan.

These figures translate into the worst budget problems for the state since World War II and operating deficits for six straight years. Last year there was a one-time series of resources used to plug a \$6.8 billion deficit, but no such “Rainy Day” funds exist this year.

The SBT was adopted in 1975 during a severe budget crisis. Its “value-added” approach was selected because of its non-cyclical character; tax rates remain stable even when companies report a loss. The profitability of the auto industry also allowed it to pay what were higher average corporate tax burdens than other states. Moreover, this counter-cyclical effect provided Michigan a revenue cushion in years of downtown, but the current downtown in industry is now so prolonged and deep that the crisis can no longer be postponed.

Millions of Michigan residents will face desperate conditions in the aftermath of the elections, when the politicians will reveal the planned tax cuts for Michigan’s elite and draconian attacks on education and social programs in the state.



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