

State of Michigan faces government shutdown

Legislators debate massive cuts

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28 September 2007

The State of Michigan faces a government shutdown midnight October 1 unless the state legislature adopts an agreement to overcome a \$1.75 billion shortfall.

Democratic Governor Jennifer Granholm has ordered preparations for a closure that could furlough up to 50,000 state workers.

The drama in this showdown is not staged; Michigan is genuinely tobogganing into fiscal chaos and bankruptcy. The implications of the current crisis extend far into the future.

A shutdown of non-emergency services would include closing Secretary of State business offices and state health departments, halting agriculture inspections and Medicaid reimbursement. Public schools are expected to remain open for at least three weeks before most would run out of funding, although some programs might be immediately affected. In the event of a continued shutdown, public universities and colleges would have to borrow money should they decide to stay open after October 16.

There is a near perfect party split by state lawmakers on the impasse, disputing among themselves as to how to make the working class pay for the deficit.

The Democrats attempted to pass a bill on Wednesday, September 26, calling for a hike in the state income tax from 3.9 percent to 4.6 percent, falling four votes short. Republicans, on the other hand, passed a bill in the Senate on Sunday, September 23, calling for a devastating \$950 million in cuts.

As the Constitutionally mandated deadline approaches, no doubt Michigan residents will be presented with a deal that includes both increased tax burdens and vastly reduced services in the name of fiscal restraint.

Democratic Governor Granholm says she will not agree to massive cuts in these programs, *unless* there is

also a tax increase, making it clear that there are only mild tactical differences between the two parties.

This comes at a time when one in nine Michigan residents receives food assistance, with food stamp caseloads doubling since fiscal year 2000. For the month of August, Detroit posted a Depression-level foreclosure rate of one filing for every 87 households. And the Michigan jobless rate just hit 7.4 percent, the highest level in 14 years. Under conditions where workers require state assistance the most, the remaining social programs are being dismantled.

The cuts proposed in Senate Bill 511, passed last week in the upper house only, are a stark warning of the potential damage from the deal in the works by the political swamp in Lansing. The most devastating measure is a \$367 million reduction in *school aid funding*. School employee health and pension funds are especially targeted by both Democratic and Republican plans.

Next in severity in SB511 is a \$207.5 million cut to the *Department of Human Services*, which affects the poorest and most vulnerable Michigan citizens. This measure includes changes in daycare reimbursement and other welfare-related cuts.

Higher education subsidies would decline by \$35.9 million, under conditions where Michigan colleges have raised their tuition an average of 10 percent this year. In the last seven years, Michigan has cut state funding for higher education by \$2,666 per student. The average college student is now graduating with \$19,566 in debt. Under the proposed bill, Michigan's community colleges would lose another \$7.1 million.

This bill also cuts \$116.8 million from *Community Health*, with wide-ranging targets including axing teenagers from Medicaid, reducing physical fitness and nutrition programs for young people (Michigan is one

of the top states for obesity), and reducing childhood lead poisoning prevention. Environmental Quality would be cut \$7.9 million, the Department of Education \$3.5 million, the Department of Civil Rights by \$1.8 million, libraries by \$6.9 million (a 50 percent cut), Department of Natural Resources by \$1.1 million, and many more, leaving no state service untouched.

The scale of the state crisis is not restricted to the \$1.75 billion deficit, moreover, because the state has scrapped its business tax, the Single Business Tax, and hurriedly substituted a hybrid Michigan Business Tax, which is designed to provide rich tax breaks to the manufacturing industry alongside very significant reductions to property taxes for business. The net decline in revenues to the state coffers will not be known for some time.

The current crisis is not just the product of the economic downturn; there have been bountiful handouts to big business. The abolition of the Single Business Tax continues a pattern of tax cuts that began in the 1980s and 1990s and were embraced by both Democrats and Republicans. In 1994, Proposition A was adopted, substantially reducing state revenues and putting K-12 education funding on a trajectory for inevitable deficits.

According to statistics available from the Michigan Department of Treasury, tax cuts even since Proposal A now total \$3.2 billion. Additionally, local property taxes have been cut a whopping \$5.4 billion.

In other words, corporate interests and their government partners handed themselves rebates, exclusions and credits, while setting the stage for the state's bankruptcy. Since 1990, the share of all taxes borne by Michigan businesses has dropped from 43 percent to 37.9 percent. Cuts from the federal government state revenue sharing have also declined by 29 percent in the past four years.

Meanwhile Michigan is the epicenter of the loss of American manufacturing jobs. In the last five years, job losses in the state, as compiled by the Citizens Research Council of Michigan, are 228,000 in manufacturing, 62,000 in retail and wholesale trade and 19,000 in government. This is a staggering 6.9 percent drop in total employment and a 26 percent drop in industrial jobs. Clearly this decline in both business and individual tax bases has decimated state revenues.

Not insignificant in the growth of the state's deficit is

the obscene amount of money spent to incarcerate Michigan citizens. The state is among the most punitive in the nation, one of a handful that imprisons more than 500 individuals per 100,000 residents. The incarceration rate has grown by 1.3 percent a year and the state prison workforce has tripled since 1980. Prisons are by far the largest area of state employment, costing \$1.5 billion a year in payroll.



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