

## Proposed Budget Reductions for the Michigan Department of Agriculture

by Michael D. LaFaive

### Executive Summary

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State governments across the country are working to close sizeable budget deficits. Michigan officials late last year required \$460 million in budget cuts and one-time revenue enhancements to balance the 2002-2003 budget before Governor Engler left office. At a January 14 revenue estimating conference in Lansing budget experts announced that those cuts were still not enough to successfully balance the budget ending in September 2003. And the cuts may be dwarfed by the cuts that Gov. Jennifer Granholm will have to make in order to balance the state budget in fiscal year 2003-2004.

Throughout the budget balancing process, Michigan legislators will need to make some hard choices about which programs and functions deserve state funding and which are best scaled back or eliminated altogether so as to allow private citizens and institutions to perform them. Some of the programs will not find private-sector support and disappear altogether. Legislators must ask themselves, "Has government moved beyond the core functions it should perform into roles once reserved for 'civil society' — a society based around voluntary association?" If the answer is "yes," then restoring to the private sector responsibility for functions the state now performs should form a cornerstone of the strategy to bring Michigan through the current tough economic times while respecting citizens' traditional rights, liberties, and responsibilities.

### About the Author

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This policy brief analyzes the fiscal year 2002-2003 Michigan Department of Agriculture (MDA) budget and identifies \$34 million, or 35 percent, in spending reductions that can be made to help balance the budget, either in the current fiscal year or following years. It also recommends the sale of two parcels of state land that could net the Michigan Treasury more than \$59 million. The Mackinac Center for Public Policy is not singling out the MDA for cuts; similar cost-saving analyses of Michigan's 19 other departments will be published in early 2003.

### Terminology

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Each proposal within this policy brief contains information described as the "appropriation breakdown." The numbers in these breakdowns refer to the origins of the funds used to pay for the program. There are four general sources from which a program can be funded: Interdepartmental Grants, Federal Funds, General Fund/General Purpose (GF/GP) Funds, and Special Revenue Funds.

*Interdepartmental Grants* are exactly what the name implies: funds transferred from one state department to another. For example, if the Department of Commerce were to assume some of the computer processing responsibilities of the Department of Labor, Labor would issue a grant to Commerce to help pay for the provision of that service.

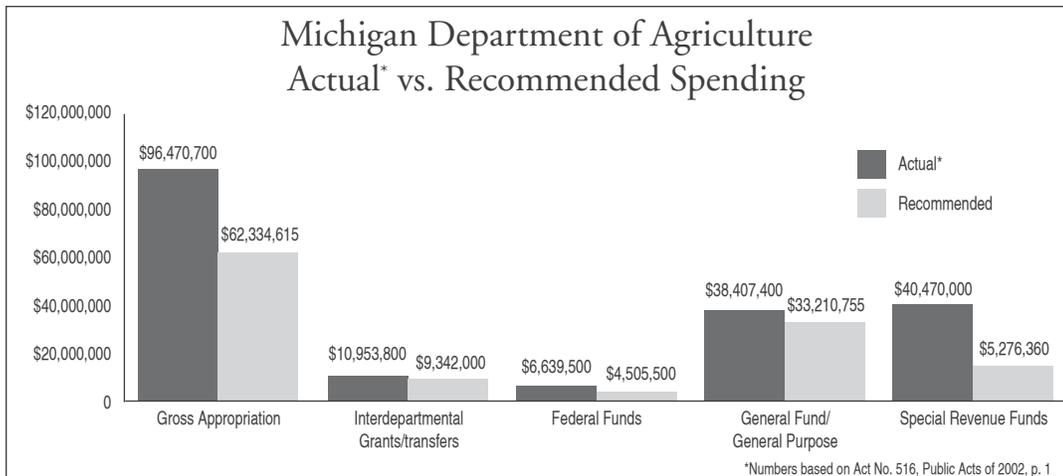
*Federal Funds* are funds sent from the federal government to the state government to subsidize the operations of various state programs. The source of Federal Funds is, of course, federal revenues, which are comprised of federal income tax, fuel tax, capital gains tax, and tariff receipts, just to name a few sources.

*General Fund/General Purpose Funds* are funds gained by the state from three main areas: state personal income taxes, state sales and use taxes, and single business and insurance taxes. These taxes are broad-based and (in theory if not always in practice) intended to fund programs that also have broad-based effects.

*Special Revenue Funds* includes many different types of state revenues. The most common type of Special Revenue Funds, however, are targeted taxes, user fees, and regulatory fees.<sup>1</sup>

## Introduction

Following is a list of Michigan Department of Agriculture (MDA) programs and recommendations to downsize, outsource, or eliminate them. The MDA was created in 1921 by the Michigan Legislature. According to the department's official web site, its mission is "to serve, promote and protect the food, agricultural, environmental and economic interests of



the people of Michigan.”<sup>2</sup> This sweeping statement effectively authorizes the department to involve itself in aspects of civil society in which government action may be unnecessary or counterproductive, distorting market mechanisms and incentives in the process. Accordingly, the Legislature should reduce and/or eliminate dubious or low-priority programs, including those listed below. Doing so will reduce the MDA budget by 35 percent. The items in this analysis can be found in the “as-enacted” budget for fiscal year 2002-2003 under each major heading shown in bold, and preceded by a roman numeral. One final note is in order. The as-enacted budget contained a series of appropriations vetoed by Governor Engler. Most of these line items were restored after passage of a 50-cent-per-pack cigarette tax hike in July 2002.

## I. Executive

### Program: Commissions and Boards

#### Gross Appropriation

\$63,300<sup>3</sup>

#### Appropriation Breakdown

Interdepartmental Grants \$8,800

Special Revenue Funds \$15,000

GF/GP \$39,500

### Program Description

The Commissions and Boards line item subsidizes the work of the Agricultural Commission, the Marketing and Bargaining Board, the Michigan State Fair Board, and the Upper Peninsula State Fair Board. The Agricultural Commission is a five-member bipartisan group of citizens appointed by the governor and subject to Senate confirmation. Members serve four-year staggered terms. By law not more than three members may be of one political party. The commission appoints the director of the MDA and approves all rules and regulations promulgated by the MDA.

The Marketing and Bargaining Board administers Public Act 344 of 1972, which permits producers of perishable fruits and vegetables to be represented by an accredited association in negotiation with the handlers. Functions of the board include: determining the definition of a com-

modity bargain board unit, administering accreditation procedures, determining members of the accredited bargaining units, and protecting the rights of both growers and handlers.

The State and Upper Peninsula Fair Boards oversee the operations of their respective fairs.

### Recommended Action

The MDA should be restructured according to the design of many other departments of state government, which do not have commissions to oversee department management. This could be accomplished in part by eliminating the Agricultural Commission, allowing the

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governor to choose the director, and granting the director the responsibility for setting department policy.

The Marketing and Bargaining Board should be eliminated, with its functions handled by the private sector. Both the producers and the handlers of fruit and vegetables have every incentive to make sure that their negotiations go smoothly and without error. There is no reason to believe that agricultural producers, wholesalers, and processors are any less able to conduct commerce than producers, wholesalers, and users of other goods.

State funding of the fair boards should be eliminated along with state funding of the fairs themselves. There simply is no reason to maintain them once the fairs are privatized (see recommendation on pages 8-9). **Savings: \$63,300.**

#### Program: Unclassified Positions

##### *Gross Appropriation*

\$488,200<sup>4</sup>

##### *Appropriation Breakdown*

Special Revenue Funds \$80,500

GF/GP \$407,700

#### Program Description

“Unclassified Positions” provide support services to the director of MDA. In other words, they are the director’s staff.

#### Recommended Action

With the elimination of approximately 35 percent of the Agriculture budget comes the ability to downsize these appropriations commensurately, producing an additional savings of approximately \$170,870. **Savings \$170,870.**

#### Program: Executive Direction

##### *Gross Appropriation*

\$525,700

##### *Appropriation Breakdown*

All from GF/GP

#### Program Description

“Executive Direction” provides support services to the director of MDA. In other words, they are the director’s staff.

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#### Recommended Action

With the elimination of approximately 35 percent of the Agriculture budget comes the ability to downsize these appropriations commensurately, producing an additional savings of approximately \$183,995. **Savings: \$183,995.**

#### Program: Management Services

##### *Gross Appropriation*

\$3,697,200<sup>5</sup>

##### *Appropriation Breakdown*

Special Revenue Funds \$109,900

GF/GP \$3,587,300

#### Program Description

Management Services has historically provided financial administration and computer services. Now computer services are handled on a line item of their own.

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#### Recommended Action

With the elimination of approximately 35 percent of the MDA budget comes the ability to downsize the Management Services division commensurately, producing a substantial additional savings of approximately \$1,294,000. As a result of the state’s 2002 “early out” program, which allowed state employees to retire earlier than previous rules allowed, MDA has already reduced Management Services by 17 percent without eliminating any of the programs analyzed in this policy brief. The commensurate reduction of 35 percent may be a conservative estimate of what could be accomplished if policymakers adopt Mackinac Center for Public Policy recommendations. This is an estimate only, and a detailed analysis of the impact of programs reductions is needed to determine exact savings. **Savings: \$1,249,020.**

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**Program: Statistical Reporting Service*****Gross Appropriation***\$435,100<sup>6</sup>***Appropriation Breakdown***

All from GF/GP

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**Program Description**

The Statistical Reporting Service (SRS) maintains an agricultural database under an agreement with the United States Department of Agriculture (USDA). The agreement is designed to create and maintain a statistical service of use to the state and the USDA. The SRS attempts to “keep accurate, current, and historical data for all commodities in the program.”<sup>7</sup>

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**Recommended Action**

The state could extricate itself from its agreement with the USDA immediately. The functions associated with the agreement, if necessary, can be handled by the agriculture industry itself. Most non-agricultural industries provide market information without government assistance. There is no reason to expect any less from the agriculture industry. Indeed, private organizations exist in almost every area of commerce to survey producers and consumers and develop detailed and reliable market and safety information. This is true in every industry from automobiles, computers, and telephones, to snack food and insurance policies.<sup>8</sup> Indeed, both government and business routinely rely on private statistical survey research organizations, such as the Rockville, Md.-based WESTAT, or Mathematica, Inc., of Princeton, NJ. There is no reason to believe that the Michigan agricultural industry or federal and state governments could not look to organizations such as these for data collection and distribution.  
**Savings: \$435,100.**

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**II. Pesticide and Plant Management****Program: Michigan State University*****Gross Appropriation***\$210,000<sup>9</sup>***Appropriation Breakdown***

All from Federal Funds

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**Program Description**

This line item represents a grant from the federal government. It is designed to provide education and research for EPA plans involving the use of pesticides.

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**Recommended Action**

This line item could be struck from the budget. The MDA should not act as a pass through agency for any Michigan university. This sort of “hidden funding” obscures the true cost of operating Michigan’s extensive public university system. If Michigan State University has an interest in ongoing pesticide research it could appropriate the money from the \$326 million it will receive from the state in fiscal year 2002-03, or, federal law permitting, apply for a grant to the federal government directly.<sup>10</sup> An even better solution would be to use money from the considerable private donations MSU receives each year. Indeed, since July of 1999 alone MSU has raised \$80 million just for its endowment (which now stands at \$800 million); another \$420 million was raised in cash, pledges, and deferred gifts for annual expenditures; excluding the \$46 million that was raised privately just to fund facility repair and construction. Whether or not MSU would be willing to support the program with money it earned by soliciting donations for the university is the perfect litmus test for evaluating the importance of the EPA program to MSU. This will force MSU officials to look harder at whether its pesticides program is truly worthwhile.  
**Savings: \$210,000.**

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### III. Environmental Stewardship

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#### Program: Cooperative Resources Management Initiative

##### *Gross Appropriation*

\$1,000,000<sup>11</sup>

##### *Appropriation Breakdown*

Interdepartmental Grant

##### Program Description

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This appropriation helps coordinate efforts of local, state, and federal governments with private-sector conservation organizations. It is designed to match private landowners with government partners who help the landowners design an effective land management plan.

##### Recommended Action

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The state could remove itself from this initiative entirely. Private conservation groups are formed around the self-interest of the individuals who agree with the groups' missions. As a result, private conservation groups maintain sufficient incentives to coordinate their own efforts without help from the state. **Savings: \$1,000,000.**

#### Program: Migrant Labor Housing

##### *Gross Appropriation*

\$550,000<sup>12</sup>

##### *Appropriation Breakdown*

All from GF/GP

##### Program Description

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According to the state of Michigan, the Migrant Labor Housing program has two components. The first component involves licensing and inspection of any site occupied by more than five migrant workers. The second component involves grants for the construction of migrant housing.

##### Recommended Action

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To former Gov. Engler's credit, he reduced the appropriation for this unnecessary program by 38.5 percent over the previous fiscal year (2001-2002), but Gov. Granholm could go further and remove the state entirely from this program. Migrants have been finding satisfactory places

to live on their own accord since long before the state began inspecting and licensing migrant housing in 1978.<sup>13</sup> Prior to 1978, every housing situation may not have been ideal — from either the observers' or migrants' perspective — but that does not mean people were worse off then as opposed to now, on net balance. The transitory needs and wants of employers and employees are too fluid and complex to be confined to the one-size-fits-all standardization model offered by a state program. The bottom line is that, unless adult migrant workers are being illegally defrauded or coerced, they are quite capable of accepting or rejecting housing based on how they themselves perceive the benefits and costs of living and working in a particular area.

In removing itself from this role, the state may wish to ease its financial and regulatory transition in one of two ways: by privatizing housing inspections in part or whole. The Mackinac Center for Public Policy has long recommended contracting out to private agencies for state and local inspections of housing and housing-related items. This form of partial privatization would work by having the MDA contract out inspection of the 950 sites under its jurisdiction. Such a move could shave 20 percent from this line item. (For more on this subject, see "Looking Over Private Inspections," in the Winter 2001 edition of Michigan Privatization Report.<sup>14</sup>) Full privatization would include making such inspections entirely voluntary.

The state could, at a relatively small cost, alert those companies whose clients include farmers with migrant housing to the fact that the state no longer intends to regulate migrant housing. This would serve to draw insurers' attention to the risk of having to make more payouts based on the provision of regulation-free housing by their clients. Insurers may or may not mandate similar private inspections and then reflect any concern that they may have by raising or lowering premiums paid by farmers to protect insured assets. **Savings: \$550,000.**

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## IV. Laboratory Program

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### Program: Laboratory Analysis Program

#### *Gross Appropriation*

\$6,321,500<sup>15</sup>

#### *Appropriation Breakdown*

Interdepartmental Grants \$181,900

Federal Funds \$300,000

Special Revenue Funds \$1,474,400

GF/GP \$4,365,200

#### Program Description

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The Laboratory Analysis Program provides chemical testing and diagnostic services for a variety of substances. These services are performed for the state ostensibly to protect the health and welfare of its citizens.

#### Recommended Action

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There are two specific areas in “laboratory analysis” that should be removed from the MDA budget: Equine Drug Testing and Seed Testing.

**Equine Drug Testing.** While it is true that the horse racing industry may wish to monitor drug levels in the bloodstreams of race horses to ensure the integrity and quality of the races, such an issue need not involve state government. Many sports monitor similar things without the benefit of state intrusion. For example, in weightlifting, swimming, and track and field, competitors are privately tested for legal and illegal consumption of performance enhancing drugs, and there has been very little trouble enforcing anti-drug rules. Major League Baseball soon may begin testing its players for anabolic steroids. The horse racing industry has, like the baseball and weightlifting industries, a vested interest in seeing their sport attain a high level of respect and legitimacy. Indeed, without spectator confidence in the legitimacy and fairness of the races, the horse racing industry would quickly perish. As a result of this incentive, the industry can be expected to regulate itself. **Savings: \$509,000.**

**Seed Testing.** The state Laboratory Analysis Program also analyzes seeds for farmers and seed dealers to ensure the quality of their seeds. This represents another corporate-welfare line item of the type found elsewhere in the MDA budget. For-profit industries have every incentive to ensure that the raw materials they use to make their products meet their standards of quality. If the industry believes that it needs a central source of analysis to check

the quality of its seeds, it should use one of the many existing private agricultural associations — or create a new one — to do so. **Savings: \$500,000** (\$97,000 from GF/GP).<sup>16</sup>

### Program: USDA Monitoring Program Funds

#### *Gross Appropriation*

\$1,824,000<sup>17</sup>

#### *Appropriation Breakdown*

All from Federal Funds

#### Program Description

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The USDA’s pesticide data program is a federal program administered by state governments. Michigan is one of nine states participating in the program voluntarily.<sup>18</sup> The program is designed to survey data and prepare reports on residue from pesticide chemicals.

#### Recommended Action

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This program could be eliminated. As noted above for the SRS program, most non-agricultural industries obtain market information without government assistance. There is no reason to expect any less from the agriculture industry. This program also raises the issue of whether the state of Michigan should accept federal funding for unnecessary or questionable programs, a practice which is commonly justified by the argument that if Michigan doesn’t take the money, someone else will and Michigan citizens somehow will be worse off. However, such federal funds should not be viewed as “cost-free” gifts that provide Michigan with jobs and benefits.<sup>19</sup> This is a destructive myth. The funding originates in Michigan as well as her sister states, where citizens pay the federal government an variety of taxes. Because the federal government redistributes money back to the states through its highly political and expensive bureaucracy, Michigan and other states may get back less than they send. This phenomenon led one commentator to remark that when our money goes to Washington it tends to have a night on the town before it comes back to us. **Savings: \$1,824,000.**

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## V. Market Development

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### Program: Market Development (Section 109)

#### Gross Appropriation

\$3,455,800<sup>20</sup>

#### Appropriation Breakdown

Interdepartmental Grants \$603,000

Federal Funds \$100,000

Special Revenue Funds \$260,000

GF/GP \$2,492,800

#### Program Description

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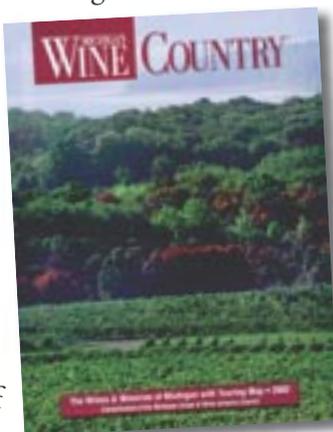
The Market Development program is effectively a marketing department for the state's private agriculture industry. It also subsidizes some charitable work with food banks in the state.

#### Recommended Action

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All line items underneath Section 109 of the MDA budget for the 2002-2003 FY should be eliminated. There are no functions in this section of the budget that cannot or are not already being performed by private for-profit and nonprofit organizations. The following is a description of each individual program, and the amount that could be saved by elimination.

**Marketing and Emergency Management.** This program is designed to "serve as a catalyst, coordinator, and resource to provide promotional marketing, and economic development opportunities for Michigan's food and agricultural industry." It is also dedicated to "protecting the state's food and agriculture resources in times of emergencies."<sup>21</sup> Unfortunately, the marketing component of this line item is best described as corporate welfare for the agriculture industry. Agriculture is a profit-making industry and should not receive what are essentially marketing subsidies any more than the auto, computer, and defense industries should. A prime example of the department's unnecessary marketing efforts is the free distribution of Michigan Wine Country, a trade publication of the Michigan wine industry. (See subsequent discussions on the state's export marketing program on page 8.) **Savings: \$2,005,600.**



Michigan Wine Country is distributed by the Michigan Department of Agriculture to help support the Michigan wine industry. There should be a wall of separation between wine and state. The industry can market its product without state aid.

**Agriculture Development.** The Agriculture Development Office was created in 1997 to help improve "economic and environmental sustainability and viability of Michigan's food and agriculture industry ..."<sup>22</sup> The office also "focuses on expansion of food and agricultural value-added processing ..."<sup>23</sup> For example, in September 2000, the MDA reached a grant agreement with the Midwest Nut Producers Council where it would grant \$82,255 in federal and state money to "develop, test and devise a marketing strategy for two products, a chestnut puree and chestnut crumble."<sup>24</sup> The grant will help the industry "work with 15-20 Michigan chefs to test and evaluate new chestnut products"<sup>25</sup> and prepare recipes in their own restaurants using chestnuts, interview customers about the dishes, and provide feedback to the grantee.

Private industry has its own incentives for adding value to agricultural products — profit being one of them. By providing government money for such research the state is, in effect, socializing the risk of the agriculture industry while helping to ensure profits that the industry may not otherwise see.

In addition, the Agriculture Development Office may actually *hurt* agricultural processing businesses. It has used its own resources in conjunction with the Michigan Economic Development Corporation (MEDC) to grant special favors to particular firms, while giving none to their in-state rivals. The Summer 2002 issue of the Mackinac Center's Michigan Privatization Report, described how "Agricultural Processing Renaissance Zones" may do more harm than good:

The newest type of renaissance zone in Michigan is known as Agricultural Processing Renaissance Zones, of which there are three, two in Oceana County and one in Ionia. All underscore two basic problems with state favoritism in the name of "economic development": 1) It's unfair to businesses that do not receive the tax advantages offered; and 2) Officials can't prove that the development they claim as proof of the zone's success wouldn't have taken place without their interference.

Targeted tax relief places at a competitive disadvantage those businesses that do not get the state favors. This is why some Michigan agricultural companies, in January 2001, actively opposed zones being granted around the properties of their competitors, Peterson Farms, near Shelby, and Gray & Company in Hart.

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One of the zones' critics, who asked to remain anonymous for fear of state retribution, told Michigan Privatization Report, "The state has put me at a terrible disadvantage by giving my competition substantial tax relief. How can Lansing bureaucrats possibly believe that hurting me will help the economy?" This was generally the nature of other processing companies' opposition, though several firms' officers noted that they were not opposed to the idea of helping the agricultural industry. The state took testimony in person and by letter from businesses opposed to the way these zones were being used, but plowed ahead anyway.

All of this might be tolerable if state officials could prove that renaissance zones actually produce a positive net benefit to the economy. But the literature on the subject is very clear: Enterprise zones have no measurable impact on economic growth and employment — but they do have huge costs.

Nationwide, research indicates that enterprise zones have had a negligible impact on economic growth and development. Professors Thomas Lambert and Paul Coomes of Spalding University and University of Louisville, respectively, studied one of the nation's oldest and biggest enterprise zones in Louisville, Ky., and used "many measures to try and give the program every chance of success." Yet the evidence, published last May, showed that after 14 years "it is difficult to document that this program has been effective."

Other studies concur. In their paper, "Enterprise Zones and Local Employment: Evidence from the States Programs," published in *Regional Science and Urban Economics*, Daniele Bondonio and John Engberg found "zero impact" on local employment from enterprise zones and that "the level of the monetary value of the incentives awarded to zone businesses does not noticeably contribute toward enhancing the impact on local employment."<sup>26</sup>

(For more on this subject, see "Make Michigan One Big Renaissance Zone," in the Summer 2002 Michigan Privatization Report.<sup>27</sup>) **Savings: \$742,400.**

**Export Market Development Program.** This program is similar to the marketing line item above, with an international flair. In a time of fiscal crisis, should the state of Michigan subsidize dried fruit seminars in Taiwan? Promote dried blueberries in Japan? Should it market pickles in Korea, apples in Israel, and cherries in Germany? Past MDA grants have also been used

to help "develop bakery recipes that utilize processed cranberry products."<sup>28</sup> Indeed, should the state do these things at *any* time? The case that it should is an extremely weak one.

In February 2002, the MDA gave a grant to the Michigan Food Processors Association for \$5,950 to attend a food show in Canada.<sup>29</sup> In March, a delegation from the Michigan Potato Industry Commission flew to tropical Costa Rica with the help of a \$5,600 MDA grant.<sup>30</sup> The goal? To educate Costa Rican snack processors on the use of Michigan potatoes in their respective businesses.

A review of the commission's spending indicates part of its grant was spent before and after their trip on meals at the Budweiser Brew House in Detroit and a Bob Evans restaurant in Romulus. These are particularly troubling uses of grant funds. Even if subsidizing this travel was a legitimate function of the state, is it not fair to assume that commission members would have eaten something, and paid for it themselves?

These are just a few examples of how Michigan subsidizes the international marketing efforts of private business. For-profit businesses should be required pay for their own marketing efforts. It is a basic issue of fairness. Most business owners do not receive state help marketing their own businesses yet they are forced to pay taxes to support those who do. **Savings: \$100,000.**

**Food Bank Council.** This appropriation provides a General Fund/General Purpose subsidy to the Food Bank Council of Michigan for handling items donated for charity. The Food Bank Council of Michigan is a private, nonprofit charity that is comprised of 10 smaller food banks in the Great Lakes State. Each bank provides food and funds to low-income people through 2,500 charities.<sup>31</sup> This is a seemingly kind, but unnecessary, state appropriation. Europe, America, and Michigan have a long and generous tradition of private charity. If the state took less money from taxpayers, private citizens would have more to give to private food banks and similar organizations, voluntarily.

Michigan's "Harvest Gathering" program is a case in point. Harvest Gathering is a private, nonprofit foundation founded by then-director of MDA Bill Schuette in 1990. Schuette and other state officials used their high-profile positions to help raise private funds and food for Michigan families. Last year alone, Harvest Gathering collected and redistributed 650,000 pounds of food at 100 locations across all 83 counties in Michigan. **Savings: \$487,400.**

**Southwest Michigan Tourist Council.** This line item also markets Michigan agricultural products, but only in southwest Michigan. One marketing tool the council uses to get its message out is color brochures, featuring dates and locations for fairs and festivals in southwest Michigan.



The Southwest Michigan Tourist Council distributes agricultural products from Southwest Michigan free-of-charge at the New Buffalo state lavatories. The giveaways can include anything from apples (shown here) to Christmas Tree corsages.

Another technique used by the council is to hand out Michigan agricultural products free of charge at the New Buffalo Welcome Center in New Buffalo. The state maintains a variety of lavatories for Michigan travelers and one is in New Buffalo. The Southwest Michigan Tourist Council uses money from this line item to buy products — such as strawberries and asparagus — and distribute them *gratis* on Saturdays to travelers who have stopped at the center. During the fall and winter the Council gives away Christmas tree corsages. **Savings: \$60,400.**

**Future Farmers of America.** This line item subsidizes the Michigan chapter of the Future Farmers of America. Future Farmers of America is a private, nonprofit organization whose mission is to make a “positive difference in the lives of students by developing their potential for premier leadership, personal growth and career success through agricultural education.”<sup>32</sup> The state should no more appropriate funds for this organization than it should for future economists, accountants, or computer scientists of America. To subsidize one career choice over others, the state effectively gives its blessing to a single job category as if farming is more important than other work choices. Government should be neutral with respect to how free young men and women choose their occupations. In addition, career opportunities are of sufficient importance that young people have every incentive to find career information without government involvement. **Savings: \$60,000.**

## VI. Fairs and Expositions

### Program: Fairs and Expositions (Section 110)

#### *Gross Appropriation*

\$20,192,300<sup>33</sup>

#### *Appropriation Breakdown*

All from Special Revenue Funds

#### Program Description

The Michigan state budget contains 20 separate line items under Section 110 (“Fairs and Expositions”) in the MDA budget, denoting exactly where this \$20 million is spent. Expenditures in this area include money to state fair operations, prize money for fair contests, and “purses” for horse racing victories.

#### Recommended Action

Section 110 also should be eliminated from the state budget entirely. The following is a list and description of each line item.

**Michigan State Fair.** The official fair of the state of Michigan was the first of its kind in the nation. It was originally held in a different city each year, but since 1905, it has been located at the corner of Eight Mile and Woodward in Detroit. Its 2002-03 appropriation is \$5,110,200.<sup>34</sup> Most of the revenue for the state fair is generated by its own ticket sales, but that has not always been the case. From 1970 to 1995, for example, the fair lost an average of \$2 million annually,<sup>35</sup> which the Legislature ultimately subsidized with additional appropriations. From 1995 to 2002, fair attendance and revenue improved, but not by much. In 2002, the fair eked out “a \$28,000 profit.”<sup>36</sup> This is not a cause for celebration, however. Due to the collapse of a lease arrangement between the state, fair officials, and a private developer, the cost of maintaining the fairgrounds will increase by about \$900,000 in 2003, excluding necessary capital improvement costs. The state should remove itself from fair operations entirely and sell the 200 acres of state land on which it operates.

What revenue might the sale of state fairgrounds generate? It is impossible to tell precisely without actually selling the land. Still, a general idea of possible sales prices can be formed by extrapolating data from the offers made on properties adjacent to the fairgrounds. In April 2000, developer Joseph Nederlander agreed to purchase 36 acres of government-owned land adjacent to the state fairgrounds in Detroit for \$6.1 million.

Before the deal was legally final, Nederalander sold it to another developer, Bernie Schrott, for \$10.5 million. While both of these deals ultimately fell through, they still give an indication of what a mere 36 acres might sell for. What if the parcel for sale was 5.5 times larger, as is the fairgrounds? The potential for \$57 million in revenue is worth exploring a sale of the fair land and its buildings. **Savings: \$5,110,200.**



The state fair has many interesting attractions, including a ferris wheel and special characters on stilts. It won't be enough, however, to generate the additional \$900,000 in maintenance and utility expenses it is expected to incur in 2003. The fair should be closed and the land on which it now rests should be sold.

**Upper Peninsula State Fair.** The Upper Peninsula (U.P.) State Fair, located in Escanaba, was not created by the Legislature until 1927. Its 2002-03 appropriation is \$1,214,400.<sup>37</sup> During the last fiscal year it required a General Fund/General Purpose subsidy of \$177,900 in 2001 to pay its bills.

The state of Michigan should remove itself from U.P. state fair activities entirely, and the 100 acres of state-owned land on which this fair operates could be sold. That's because, as with other forms of private entertainment, state fairs should sink or swim on their own merit. If there is demand for these summer festivals, the people who value them the most will be willing to fund and operate them without state influence. Even if the state were to remove itself from fair involvement, it would hardly result in a dearth of fair fun. Seven Michigan counties and another 80 communities and associations run their own fairs, too.<sup>38</sup> Ottawa County alone has three different community fairs. Barry County's Bill Ackerman has run a private, *for-profit* fair for 24 years. The "Prairieville Old Fashioned Farm Days Show Grounds" plays host to nearly every imaginable fair event every August. Animals are on display for show and racing; there are craft shows, dancing, live country music, cow-chip golf ball driving contests, and a "National Truck Pull" competition. It is situated on 140 acres of land owned by Ackerman. His fair is so popular it often fills the 3,000-space camping area set aside by Ackerman for overnight guests.

The sale of the U.P. land would generate dramatically less revenue than the state fairgrounds in Detroit, given

the abundant supply of undeveloped land in and around Escanaba. According to Kevin Dubord, assistant assessor for the city of Escanaba, land adjacent to the fair sold two years ago to Gordon Foods Inc. for \$2,000 per lineal foot of street frontage. That is, it cost \$2,000 for every one of the 250 feet of land available along North Lincoln Road, on which the Gordon Foods property, and the fair, are located. At \$2,000 per lineal foot, the UP fairgrounds might fetch \$2,600,000.<sup>39</sup> **Savings: \$1,214,400.**

### Other Line Items under Fairs and Expositions

In early 2002, Gov. Engler used his veto pen to remove most of the following expenditures from the state budget over a disagreement with the sizes and source of the appropriations. On September 17, 2002, he asked the Legislature to reinstate the funding at the levels he originally requested. After some haggling, the funding was reinstated.

**Fairs and Racing.** This line item funds five full-time state employees to "oversee" other fairs, particularly with respect to how state "premiums" are used (see "Premiums — County and State Fairs," below). It also provides assistance to county and community fairs. According to MDA Horse Racing Analyst Bob Woodman, state employees advise fairs on how to maintain records and help them "keep business."<sup>40</sup> They also administer "Michigan Bred" programs that are funded for pari-mutuel breeding programs (see "Standardbred Breeders' Awards," below, for more information).

The Michigan Bred program is sold as a way to improve Michigan horse racing by helping to subsidize Michigan "winners." The truth is that it actually harms Michigan's racing industry by excluding superior racing bloodlines from outside Michigan borders. It is not illegal to breed a Michigan horse with one from Kentucky, but doing so will exclude the owners of champion race-horses from collecting larger purses. **Savings: \$612,500.**

**Building and Track Improvement — County and State Fairs.** This is a line item to help improve the racing tracks or buildings and grounds at Michigan fairgrounds. **Savings: \$963,200.**

**Premiums — County and State Fairs.** "Premiums" are generally used as award monies to children who win prizes for such things as raising the best livestock, having the best crafts, or winning the "antique tractor pull" contest, to name just a few examples. **Savings: \$1,614,000.**

**Purses and Supplements — Fairs and Licensed Tracks.** According to Michigan Deputy Racing Commissioner James Bowes, this line item enlarges the potential winnings for horse owners who enter their animals in races around Michigan. This is designed to improve the number and quality of races by providing a greater incentive for horse owners to run their animals at Michigan racetracks. **Savings: \$2,969,000**

**Standardbred Fedele Fauri Futurity.** This line item reflects money that is appropriated to subsidize a par-



“Schmoopy,” a [then] four-year old filly, was named “2000 Michigan Thoroughbred of the Year” after winning 7 races at Great Lakes Downs. The state subsidizes awards for race winners born in Michigan, to Michigan-born parents. This keeps out superior bloodlines from other states and harms the overall industry.

ticular race, known as the “Fedele Fauri Futurity,” at just one fair, the Kinross Fair in the Upper Peninsula, just outside of Sault Ste. Marie. **Savings: \$98,400.**

**Standardbred Michigan Futurity.** This line item is also appropriated to subsidize a specific “harness” race, which was held at Mecosta County Fair in Big Rapids in 2002. Harness racing involves jockeys being pulled by horses on two-wheel carts. **Savings: \$98,400.**

**Quarterhorse Programs.** A “Quarterhorse” is a specific breed that is raced in Michigan in “flat back” style (that is, without a harness and carriage to pull). The appropriation is used to subsidize the award for winners. **Savings: \$48,300.**

**Quarterhorse Programs Breeders’ Awards.** Breeders’ awards are granted to Michigan owners of horses whose offspring go on to win a race in Michigan. **Savings: \$5,000.**

**Licensed Tracks — Light Horse Racing.** This program supplements winning purses for the owners of horses who are four years old. It is essentially an age-specific category. **Savings: \$93,500.**

**Standardbred Breeders’ Awards.** Breeders’ awards are granted to Michigan owners of horses whose offspring go on to win a race in Michigan. **Savings: \$1,503,200.**

**Standardbred Purses and Supplements — Licensed Tracks.** The state adds supplements to winning purses to increase the incentive for Michigan standardbred own-

ers to enter their horses and compete. This line item is similar to the purses and supplements for fairs and licensed tracks, listed above. **Savings: \$336,700.**

**Standardbred Sire Stakes.** This appropriation subsidizes the purse of a race run annually and by a specific breed of horse that is also sired in Michigan. The finals have been held at Hazel Park Raceway the last two years. **Savings: \$1,259,400.**

**Thoroughbred Sire Stakes.** This is a specific race at Great Lakes Downs in Muskegon run by a specific breed of horse that is also sired in Michigan. **Savings: \$1,259,400.**

**Standardbred Training and Stabling.** This line subsidizes fairgrounds that provide stables and training tracks for standardbred horses. **Savings: \$53,200.**

**Thoroughbred Program.** This is a fairly sweeping program that encompasses various purses and awards for owners of Michigan bred horses. **Savings: \$2,203,900.**

**Thoroughbred owners’ awards.** This program supplements winning purses for horse owners whose thoroughbreds are Michigan bred and obtain a certain amount of points based on their year-long racing performance. **Savings: \$189,600.**

**Distribution of Outstanding Winning Tickets.** Every year a percentage of winning tickets from horse bets goes uncollected. Money that would have been collected is now divided between the owners of racing tracks and the owners of the horses involved in each race. Rather than appearing under “Fairs and Expositions” in the MDA budget, this appropriation could accrue to, and be distributed by, the Michigan Gaming Office.<sup>41</sup> **Transfer: \$500,000.**

## VII. Office of Racing Commissioner

### Program: Office of Racing Commissioner

#### Gross Appropriation

\$3,747,700<sup>42</sup>

#### Appropriation Breakdown

All from Special Revenue Funds

### Program Description

The Office of Racing Commissioner (ORC) serves as regulating body and marketer for Michigan's horse racing industry.



The Michigan Office of Racing Commissioner oversees an annual "Michigan Equestrian Princess Pageant," from which it chooses a young woman to represent the state's equestrian industry. The 2002 winner, Ms. Laura Kendrick of Marysville, and the other contestants help host the "Michigan Horse of the Year Ball" at the state fair.

try. Its duties include assigning race dates for tracks, hiring stewards and veterinarians, and investigating irregularities in racing.<sup>43</sup> It also coordinates the annual "Michigan Equestrian Princess Pageant." The pageant helps winnow a list of competitors from whom a young woman is chosen as princess.<sup>44</sup> The 2002 Equestrian Princess is Laura Kendrick of Marysville. She and other competitors helped with the 2002 annual "Michigan Horse of the Year Ball" at the Kellogg Center in Lansing. The Commission spent about \$10,000 from its promotional budget on the latter two items.<sup>45</sup>

### Recommended Action

The office could be eliminated and several of its most vital functions transferred to other departments. Duties to be eliminated include any marketing-related activity, such as involvement with pageants. The office also issues racing schedules, appoints veterinarians, and grants approval of track officials; these functions also could be handled by the industry. (Organizing schedules, hiring doctors and trainers, and approving facilities for competition are all matters routinely handled by private sports groups, including the national leagues of hockey, football, basketball, and baseball.)

If the state must be involved in the gaming business, then all other ORC matters, such as occupational licensure, tax and license revenue collection, and all matters involving fraud or any other irregularity, logically could be handled by the already existing Michigan Gaming Commission, not the MDA. **Savings: \$3,747,700.**

### Conclusion

Adopting the recommendations outlined in this policy brief could trim \$34 million from the MDA's \$96 million budget — just over 35 percent savings. This figure does not include the nearly \$60 million in revenue that might be generated through the sale of the state fairgrounds in Detroit and Escanaba, nor the new tax revenue that would be generated by the properties after sale. The table below highlights the actual appropriations made by the legislature for fiscal year 2002-2003, the appropriations recommended by the Mackinac Center for Public Policy, and the estimates savings generated from Center recommendations, by appropriation category.

Michigan public officials have faced state deficits before. How they handled those deficits is now part of Michigan's economic legacy. Will the state legislature be willing to make very reasonable cuts in the state budget, or will they look to higher taxes? Their decision has important implications for Michigan's future. According to the Washington D.C.-based tax foundation, Michigan citizens already rank 9th among the fifty states in the amount of taxes they pay per capita. Increasing that tax burden will not make Michigan more attractive to job providers and talented workers, two key ingredients in making the Great Lakes State a more prosperous place to live.

Michigan citizens will benefit if officials use the occasion of the current budget troubles to rethink the often-sprawling state apparatus that citizens are taxed to support. If lawmakers have to choose between reaching deeper into the pockets of Michigan taxpayers or cutting programs that are best left to free, private citizens, they should not hesitate to do the latter.

Appropriation Summary	Actual <sup>46</sup>	Recommended	Savings
Interdepartmental Grants/Transfers	\$10,953,800	\$9,342,000	\$1,611,800
Federal Funds	\$6,639,500	\$4,505,500	\$2,134,000
General Fund/General Purpose	\$38,407,400	\$33,210,755	\$5,196,645
Special Revenue Funds	\$40,470,000	\$15,276,360	\$25,193,640
<b>Gross Appropriation</b>	<b>\$96,470,700</b>	<b>\$62,334,615</b>	<b>\$34,136,085</b>

This guide provides Michigan lawmakers with reasonable solutions to the current fiscal crisis. The task of balancing the budget without raising taxes may be difficult, but the people who pay the bills of government

perform an equivalent task every day. As families must live within their means, Lansing must be equally prepared to do the same.

### Total Savings by Program and Source of Funding

Program	Total Savings	Interdepartmental Grants	Federal Funds	GF/GP	Special Revenue Funds
Commissions and Boards	\$63,300	\$8,800		\$39,500	\$15,000
Unclassified Positions	\$170,870			\$142,695	\$28,175
Executive Direction	\$183,995			\$183,995	
Management Services	\$1,294,020			\$1,255,555	\$38,465
Statistical Reporting Service	\$435,100			\$435,100	
Michigan State University	\$210,000		\$210,000		
Cooperate Resource Management Initiative	\$1,000,000	\$1,000,000			
Migrant Labor Housing	\$550,000			\$550,000	
Laboratory Analysis (Equine & Seed)	\$1,009,000			\$97,000	\$912,000
USDA Monitoring Program Funds	\$1,824,000		\$1,824,000		
Market Development (Section 109)	\$3,455,800	\$603,000	\$100,000	\$2,492,800	\$260,000
Fairs and Expositions	\$20,192,300				\$20,192,300
Office of Racing Commissioner	\$3,747,700				\$3,747,700
<b>TOTAL</b>	<b>\$34,136,085</b>	<b>\$1,611,800</b>	<b>\$2,134,000</b>	<b>5,196,645</b>	<b>\$25,193,640</b>

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## Endnotes

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- <sup>1</sup> Definitions excerpted from the Mackinac Center for Public Policy study “Advancing Civil Society: A State Budget to Strengthen Michigan Culture,” April 1996, p. 4.
- <sup>2</sup> Michigan Department of Agriculture, “Roles, Mission, and Guiding Principles,” accessible on the Internet at <http://www.michigan.gov/mda/0,1607,7-125-1572-7773--,00.html>.
- <sup>3</sup> Act No. 516, Public Acts of 2002, p. 2.
- <sup>4</sup> Ibid.
- <sup>5</sup> Ibid.
- <sup>6</sup> Ibid.
- <sup>7</sup> Tim Aben and Julie Stapelman, “Line Item and Boilerplate Summary,” p. 4. Lansing: House Fiscal Agency, January 2002.
- <sup>8</sup> Aaron Steelman and Joseph P. Overton, excerpted from “Advancing Civil Society: A State Budget to Strengthen Michigan Culture,” April 1996, p. 9.
- <sup>9</sup> Act No. 516, p. 3.
- <sup>10</sup> Act No. 144, Public Acts of 2002, p. 2.
- <sup>11</sup> Act No. 516, p. 3.
- <sup>12</sup> Ibid.
- <sup>13</sup> Michigan Department of Agriculture, “Migrant Labor Housing Program, FY 2001 Annual Report,” p. 1.
- <sup>14</sup> Accessible on the Internet at <http://www.mackinac.org/3161>.
- <sup>15</sup> Act No. 516, p. 3.
- <sup>16</sup> Author interview of Dan Wyant, director of Michigan Department of Agriculture, Dec. 17, 2002.
- <sup>17</sup> Act No. 516, p. 3.
- <sup>18</sup> Aben and Stapelman, p. 16.
- <sup>19</sup> Steelman and Overton, p. 93.
- <sup>20</sup> Act No. 516, p. 4.
- <sup>21</sup> Aben and Stapelman, p. 18.
- <sup>22</sup> Ibid.
- <sup>23</sup> Ibid.
- <sup>24</sup> Michigan Department of Agriculture, Agriculture Development Division, “Inter-Office Purchases & Services Requisition,” Sept. 24, 2002.
- <sup>25</sup> Ibid.
- <sup>26</sup> Michael LaFaive, “Make Michigan One Big Renaissance Zone,” Michigan Privatization Report, summer 2002, p. 5. Accessible on the Internet at <http://www.mackinac.org/4473>.
- <sup>27</sup> Ibid.
- <sup>28</sup> Michigan Department of Agriculture, “Summary of 2002 Export Grants,” obtained through Freedom of Information Act in October 2002.
- <sup>29</sup> Ibid.
- <sup>30</sup> Letter to Paul Burke of the Michigan Department of Agriculture from the Michigan Potato Industry Commission, Sept. 20, 2002.
- <sup>31</sup> Food Bank Council of Michigan, “Who We Are,” accessible on the Internet at <http://www.fbcmich.org>.
- <sup>32</sup> Future Farmers of America, “The FFA Mission and Strategies,” accessible on the Internet at [http://www.ffa.org/about\\_ffa/organization/html/mission.html](http://www.ffa.org/about_ffa/organization/html/mission.html).
- <sup>33</sup> Act No. 516, p. 4. A \$60,000 line item for fairs and festivals promotion was vetoed by Gov. Engler in July, 2002. The item was not subtracted from the total to ensure that the Gross Appropriation, above, would match the MDA budget, Act No. 516. Doing so would reduce the Mackinac Center’s projected savings by \$60,000.
- <sup>34</sup> Ibid.
- <sup>35</sup> Gary Heinlein, “Fair’s low turnout puts it in jeopardy,” The Detroit News, Sept. 22, 2002. Accessible on the Internet at <http://www.detnews.com/2002/metro/0209/22/c01-593735.htm>.
- <sup>36</sup> “State Fair Succeeds Again,” The Detroit News, Oct. 21, 2002. Accessible on the Internet at <http://www.detnews.com/2002/editorial/0210/21/a08-617449.htm>.
- <sup>37</sup> Act No. 516, p. 4.
- <sup>38</sup> Author interview with Barb Hensinger, director of fairs, racing and expositions, Michigan Department of Agriculture, Sept. 17, 2002.
- <sup>39</sup> Author interview with Kevin Dubord, assistant assessor, Escanaba, Mich., Sept. 30, 2002.
- <sup>40</sup> Author interview with Bill Woodman, horse-racing analyst, Fairs and Racing Division, Michigan Department of Agriculture, Sept. 23, 2002.
- <sup>41</sup> Ibid., Interview with Barb Hensinger.
- <sup>42</sup> Act No. 516, p. 5.
- <sup>43</sup> Aben and Stapelman p. 24.
- <sup>44</sup> Press release, Michigan Office of Racing Commissioner, “Racing Commissioner Announces Michigan Equestrian Princess Pageant,” June 7, 2002. Accessible on the Internet at [http://www.michigan.gov/documents/MDA\\_PRINCESSrelease\\_6144\\_7.pdf](http://www.michigan.gov/documents/MDA_PRINCESSrelease_6144_7.pdf)
- <sup>45</sup> In a Jan. 17, 2003 interview with Office of Racing Commissioner Robert Geake, author Michael LaFaive was told that the Equestrian Princess Pageant had been eliminated. No documentation was provided.
- <sup>46</sup> Act No. 516, p. 4.

## Additional Research

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\$5.00    ■ S2002-01    † [www.mackinac.org/4198](http://www.mackinac.org/4198)

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■ VP 1999-45    † [www.mackinac.org/2595](http://www.mackinac.org/2595)

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■ VP 2002-24    † [www.mackinac.org/4385](http://www.mackinac.org/4385)

**Farm Subsidies: The Courage to Say No**

■ VP 1995-20    † [www.mackinac.org/92](http://www.mackinac.org/92)

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■ VP 1998-33    † [www.mackinac.org/1280](http://www.mackinac.org/1280)

**Market-Oriented Approach to Farmland Preservation Best Bet for Michigan**

■ VP 1998-21    † [www.mackinac.org/484](http://www.mackinac.org/484)

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