

## **Eight Is a Start: Where Gov. Granholm's Budget Recommendations and the Mackinac Center's Agree**

*By Jack McHugh*

### **Executive Summary**

As Gov. Jennifer Granholm unveiled her proposals for state government earlier this year, Mackinac Center policy analysts realized that eight of her cost-cutting ideas were similar to — or even identical to — recommendations previously published by the Mackinac Center. The eight proposals, advanced in the governor's February 2009 State of the State Address and fiscal 2010 budget recommendations, were the following:

1. Eliminate supplemental financial support for the horse racing industry.
2. Eliminate state fair subsidies.
3. End state support to the Michigan Council for Arts and Cultural Affairs.
4. Eliminate the Department of History, Arts and Libraries.
5. Return enforcement of state wetlands protection to the federal government.
6. Cut state subsidies for university operations.
7. Eliminate the Office of Drug Control Policy and downsize the Office of Services to the Aging.
8. Cut funding in half for the Michigan State University Agricultural Experiment Station and Cooperative Extension Program.

This Policy Brief analyzes the recommendations and explains how they would improve the state government's balance sheet and better divide the responsibilities for

### **About the Author**

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public services between government and civil society. Nevertheless, the brief also acknowledges that these recommendations are only the first few steps on a long and necessary journey of reform.

Ultimately, these proposals stand out because of those who have embraced them: Gov. Granholm on one hand, and Mackinac Center policy analysts on the other — people who have not often seen eye-to-eye. These proposals thus represent the “low-hanging fruit” of state policy reform. If lawmakers find them too much to bear, it is hard to see how they will shoulder aside the myriad fiscal obstacles blocking the road back to prosperity.

### **Foreword**

Policymakers must confront two hard facts about Michigan government programs and spending: First, the state tries to do more things than its revenues can support; second, extracting more revenues will impose a greater burden on Michigan's struggling families and businesses, whose wealth has fallen below national norms. These facts lead to an inescapable conclusion: The state must cut spending.

Unfortunately, state lawmakers have only inched toward this goal. While the governor and the Michigan Legislature have kept some control over the growth of state government spending in recent years, they have been slow to make transformational changes that would promote lasting efficiency in key state activities and eliminate programs better left to local government, the private sector and civil society.\*

This hesitance may be changing with the national recession and the precipitous decline of the Big Three. This Policy

\* A number of proposals for transformational change have been summarized in a pamphlet recently published by the Mackinac Center for Public Policy. See Jack McHugh, “101 Recommendations to Revitalize Michigan,” (Mackinac Center for Public Policy, 2009), <http://www.mackinac.org/archives/2009/S2009-1.pdf>, (accessed May 28, 2009).

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Brief focuses on eight encouraging examples of genuine policy change from Gov. Jennifer Granholm's 2009 State of the State Address and executive budget recommendations for fiscal 2010. The proposals have one thing in common: They had all been previously recommended by analysts at the Mackinac Center for Public Policy.

The recommendations are admittedly quite modest relative to the reform necessary to revitalize Michigan's economy. They are significant to the extent that they indicate the first stage of recognition of unavoidable economic realities.

## How We Got Here

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Nearly all responsible participants and observers recognize that Michigan has a "structural" problem with its budget, which is a fancy way of saying that state policies predispose state government to spend more than it takes in.

For the past eight years, the difference has been made up with various stopgaps.

- The first recourse when revenue growth failed to keep up with desired spending was to spend-down surpluses that had accumulated during the high-growth 1990s. That expansion ended in 2001. Over the next two years, more than \$1 billion that had accumulated in the state's budget stabilization fund (known as the "rainy day fund"), was drained to avoid reductions in state spending.<sup>1</sup>
- Less-forthright "fund raids" tapped money set aside for special purposes in order to subsidize general spending. In one instance, money was diverted from a gas tax surcharge that had been levied to clean up leaking underground fuel tanks.<sup>2</sup>
- Nibble-around-the-edge tax increases helped support spending in mid-decade. In 2004, property owners were nicked by a sudden advance in the collection date of county property taxes.<sup>3</sup> Smokers also saw a 75 cents-per-pack cigarette tax hike, and some hospitals and health care providers — and inevitably, their paying customers — paid a new "bed tax" that indirectly extracted more Medicaid money from the federal government, but reduced the net revenue of health care providers with fewer Medicaid patients.<sup>4</sup>
- "Watering the soup" of state programs has been a common feature of this failure to address the underlying imbalance — *ad hoc* cuts made not with any consistent vision of "right-sizing" state government, but rather with a misguided desire to retain all existing programs regardless of whether they are still justified.

In this vein, state revenue-sharing to local governments declined from around \$1.5 billion annually at the start of the decade to about \$1.1 billion in the past several years.<sup>5</sup> Spending on universities and community colleges was around \$2.2 billion in 2001, fell to around \$1.9 billion in 2004 and then hovered around \$2.0 billion thereafter.<sup>6</sup> While spending on Medicaid and related health programs for the poor has skyrocketed from \$8.2 billion in 2000 to nearly \$13 billion this year, health care providers perennially complain that their reimbursement rates are well below market rates and haven't kept up with inflation. Reportedly, increasing numbers refuse to take Medicaid patients.<sup>7</sup> The state's public school officials likewise complain that their budgets have not kept up with costs, which have been inflated by rapidly rising expenses of unfunded school employee retiree health benefits.<sup>8</sup>

In early 2007, the state budget "hit the wall." All these stop-gaps either had been exhausted or no longer sufficed. Revenues for the year did not match appropriated spending. A temporary budget deal in the spring employed a questionable trifecta of reducing employee pension fund contributions, pushing higher education disbursements into the following budget year through an unusual accounting arrangement,<sup>9</sup> and borrowing more than \$400 million against future tobacco lawsuit settlement revenues — arguably a stealth form of deficit financing banned by the Michigan Constitution's balanced budget requirement.\* When these expedients weren't enough, the governor and the Legislature imposed a \$1.4 billion increase in personal income and business taxes.†

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\* The state borrowed \$407 million against future revenues from the 1998 tobacco lawsuit settlement that occurred between most states and four major tobacco companies. Michigan's share of the revenue is approximately \$300 million per year through 2025. House Bill 4850, Public Act 18 of 2007, pledged a portion of that future revenue stream to borrow \$407 million; the House Fiscal Agency estimated annual debt service payments of between \$40 million to \$46 million for 20 years. (See "MichiganVotes: 2007 House Bill 4850 (Borrow to Pay for Current Spending)," Mackinac Center for Public Policy, <http://www.michiganvotes.org/2007-HB-4850> (accessed May 28, 2009).) The Michigan Constitution's balanced budget requirement appears in Article 5, Section 18: "Proposed expenditures from any fund shall not exceed the estimated revenue thereof." (See "Article V, Section 18: State Constitution (Excerpt): Constitution of Michigan of 1963," Michigan Legislature, [http://www.legislature.mi.gov/\(Sv3il1345m5hienjmfjl0zg45\)/mileg.aspx?page=getObject&objectName=mcl-Article-V-18](http://www.legislature.mi.gov/(Sv3il1345m5hienjmfjl0zg45)/mileg.aspx?page=getObject&objectName=mcl-Article-V-18) (accessed May 28, 2009).)

† At the time, Mackinac Center analysts predicted that the dynamic disincentive effects of higher taxes would further weaken Michigan's ailing economy. (See, for instance, Jack McHugh and Lawrence W. Reed, "Replacing Michigan's New Taxes With Budget Reductions: Curing \$1.358 Billion in Overspending With 55 Specific Recommendations," (Mackinac Center for Public Policy, 2007), <http://www.mackinac.org/archives/2007/mchughOCTreplace.pdf>, (accessed May 28, 2009).) While larger forces are clearly responsible for the rise in the state's unemployment rate from 7.2 percent at the time to more than 12 percent now, the tax increase has likely contributed to the rate of job losses here being almost double the national job loss rate since U.S. employment peaked in December 2007.

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Clearly, policymakers have gone to considerable lengths to avoid a fundamental restructuring of state spending. Given that context, it was with a measure of relief that Mackinac Center policy analysts heard Gov. Granholm propose in February eight policy ideas, or variations on them, previously advanced by the Center. As noted above, the proposals are quite modest, but they represent progress.

What follows is a brief description of the governor's recommendations and a recap of what Center analysts have said about them over the years.

## **The Governor's Eight Recommendations**

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### **1. Eliminate supplemental financial support for the horse racing industry**

Horse race subsidies come from a "sin tax" on various forms of casino gambling, including off-track betting on races. Under the governor's proposal, that \$9.1 million in revenue would now support State Police crime labs.<sup>10</sup> Money from state taxes and fees currently financing the crime labs would then be available for other purposes.

The governor is right to propose this. Horse racing is not a core government function. Police work is. Realigning this casino tax revenue to an activity like police labs is a necessary recognition of basic state priorities.

Horse racetracks claim that the current subsidy helps create jobs in their industry and in related businesses, benefitting Michigan directly and indirectly. But this argument can be made by industries that don't receive subsidies, and unsubsidized industries can legitimately question why they should pay taxes, thereby lowering their own ability to create jobs, in to support someone else's business. In fact, there is no good economic evidence that they should.<sup>11</sup>

The horse racetracks also complain that their form of legal gambling has been harmed by competition from Indian casinos. Yet horseracing long enjoyed a state-granted monopoly on legal gambling in Michigan. The fact that this extraordinary privilege has been taken away and that horse racetracks must now compete for business is not a reason they should get a subsidy.

Given numerous statements from officials in recent years to the effect that state government has been "cut to the bone," the sin tax revenue that pays for this subsidy should have been diverted to essential government functions long ago. The governor should be applauded for recommending it.

### **2. Eliminate state fair subsidies**

Gov. Granholm observed in her State of the State Address that "while they are a wonderful tradition, the state fairs are not an essential purpose of government."<sup>12</sup> She proposed ending the state's subsidies to the two state fairs, one in Detroit and one in Escanaba, yielding \$7.98 million in savings for the state budget.<sup>13</sup>

Ending this subsidy would place responsibility for financing state fairs back on the individuals and communities who organize and benefit from them. This step is appropriate. As Michael D. LaFaive, the Mackinac Center's fiscal policy director, wrote in 1996, "[S]ponsoring fairs is not a proper function of government in a civil society." Rather, it is a proper function of civil society itself. Government subsidies can weaken the ties that bind a community in these common activities, and they deplete needed government revenues.

A 2003 article by LaFaive observed that fairs would not end if the state stopped subsidizing them. Seven Michigan counties and another 80 communities and associations run their own fairs. In Barry County, the privately owned and operated Prairieville Farms has held the "Prairieville Old Fashioned Farm Days" since the late 1970s and featured such country-fair events as animal shows and races, craft shows, dancing, live country music and a tractor-pull competition.\*

Indeed, the logical step at this point would be to sell the state fair property in Detroit. The 2004 Mackinac Center budget study, "Recommendations to Strengthen Civil Society and Balance Michigan's State Budget — 2nd Edition," presented evidence that a sale could yield more than \$50 million,<sup>14</sup> although this number may have fallen with the recent decline in real estate prices.

### **3. End state support to the Michigan Council for Arts and Cultural Affairs**

The governor's recommendation to no longer support a Michigan Council for Arts and Cultural Affairs would save approximately \$5.9 million in state money.<sup>15</sup> This money is currently distributed to dozens of organizations and institutions for art and culture programs.

The governor correctly recognizes that this \$5.9 million constitutes spending on noncore government functions

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\* Michael D. LaFaive, "Privatizing State Fairs Could Save Michigan Nearly \$60 Million," Mackinac Center for Public Policy, <http://www.mackinac.org/5853> (accessed May 28, 2009). The Prairieville Old Fashioned Farm Days is now in its 31st year; see "The Prairieville Old Fashioned Farm Days Website!" Prairieville Farms, <http://prairievilleoldfashionedfarmdays.groups.homepagenow.com/> (accessed May 28, 2009).

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that the state cannot afford. Although five full-time employees and \$1 million under this program would be retained and transferred to the Michigan Strategic Fund for a newly proposed arts and cultural planning grants program,<sup>\*</sup> the governor's recommendation still represents significant progress in limiting state spending to items that can be considered essential functions of government.

There are good reasons to conclude that the arts should be financed exclusively by the private sector anyway. LaFaive and other Center scholars have repeatedly explored this idea, advancing it in all three of the Center's state budget studies, published in 1996, 2003 and 2004.

The 2004 study explained that state art subsidies are unfair in two ways: They diminish the opportunity for citizens "to choose for themselves what types of arts and cultural projects they will support" by instead placing those choices in the hands of state officials and their designees. Second, the subsidies have the "perverse effect of forcing the poor to subsidize the rich . . . since art museums, operas, and symphonies are frequented predominantly by people of high socio-economic status. . ."

As LaFaive has also explained, the arts are arguably too important to be subjected to the political interference that inevitably accompanies state subsidies. In a 2006 article, LaFaive cited an old maxim, "With the shekels come the shackles." He wrote, "Government may mandate restrictions that limit the artistic license afforded to politically sponsored works."<sup>16</sup>

It's important to note that because the Mackinac Center policy analysts and Gov. Granholm do not support continuation of these government art subsidies does not mean that they think that the arts are not important. Mackinac Center scholars also do not support subsidies for food producers, yet they are certainly in favor of food.

The needs of art and government are at cross-purposes. Good art requires a freedom of expression that is compromised by government subsidies, while good government requires a focus on core functions that is compromised by art subsidies. For the sake of good art and good government, it is wiser for the state to avoid political entanglement with art, especially at a time of growing state budget deficits and falling state revenues.

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<sup>\*</sup> The five employees presently distribute money and perform other administrative functions at a combined cost of \$1.4 million from the general fund: See Mitchell E. Bean et al, "Review and Analysis of the FY 2009-10 Executive Budget Recommendation," (House Fiscal Agency, 2009), 98, [http://house.michigan.gov/hfa/PDFs/rev\\_analy09-10.pdf](http://house.michigan.gov/hfa/PDFs/rev_analy09-10.pdf), (accessed May 28, 2009).

## 4. Eliminate the Department of History, Arts and Libraries

The governor's proposal to end the Department of History, Arts and Libraries is consistent with her recommendation regarding arts grants.<sup>17</sup> Beyond ending the state arts grants discussed above, the most significant impact of this proposal would be the elimination of more than a dozen employees and other administrative expenses that currently consume \$1.8 million.<sup>18</sup>

Beyond that, however, not much will change. It appears that only one program overseen by HAL would be completely eliminated: a book distribution center program, for a savings of \$360,000.<sup>19</sup> The remainder of the department's \$39.7 million in spending from state revenue sources would be reassigned to other state departments and agencies. When the small program cuts are added to the administrative savings and the art subsidy cuts described above, the net savings from eliminating the department amount to less than \$10 million, leaving more than \$30 million in state taxpayer funding.

Like the previous three recommendations, ending this department and reducing the state government's remaining involvement in cultural programs represents a needed prioritization of state activities. Indeed, it would probably be better to eliminate or privatize all of the department's current programs. For example, the Michigan Historical Program has 83 employees, more than half of whom work in the Michigan History Museum. As the Mackinac Center's 2004 budget study explained, these functions "may be worthy and important; however, it does not follow that the state should assume all the costs associated with owning and operating them. Museums funded entirely through private philanthropy and attendance fees exist throughout the country."<sup>20</sup>

Supporters of this spending may argue that it would be difficult for them to replace taxpayer dollars with voluntary contributions and attendance fees. In a state facing severe economic challenges, that's an insufficient rationale for continued government spending on what ultimately is a luxury.

As with other proposals in this list, eliminating this department — even if parts of it remain in other forms — is a step forward. It may be that in the future, when a governor or legislature is prepared to further prioritize, the governor's current recommendation to farm out the various HAL programs to departments that provide competing government services will make it easier to distinguish the "nice to haves" from the "need to haves."

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## 5. Return enforcement of state wetlands protection to the federal government

Russ Harding, director of the Mackinac Center's Property Rights Network and former director of the Michigan Department of Environmental Quality, first proposed ending the state's separate wetland enforcement regime in 2005. In her 2009 State of the State Address, Gov. Granholm concurred, saying, "I will recommend returning enforcement of wetlands protections to the federal government[,] where more staff exists to effectively safeguard our natural resources."<sup>21</sup>

Harding has offered two important reasons why this makes sense.

First is the one the governor cited: It would save money. The Army Corps of Engineers operates wetland programs in every state except Michigan and New Jersey. Harding notes that the Corps has streamlined its process, so that there is no advantage to wetlands permit applicants in having the state operate the program. In 2007, Harding estimated that returning the program to the federal government could save between \$1 million and \$2 million.<sup>22</sup> The governor agrees. In her executive budget, she stated, "[A]n ongoing savings of \$2.1 million will accrue to the state general fund. ..."<sup>23</sup>

The second reason is that Michigan's operation of the program also imposes another kind of cost: lost jobs. Overzealous interpretation of state wetland regulations by Michigan Department of Environmental Quality staff has contributed to Michigan's reputation among investors and job providers as a state to avoid. As Harding has written, if businesses think they may face unreasonable regulatory enforcement when they need an environmental permit in this state, they will bypass Michigan and create jobs in locations offering reasonable and predictable regulation.<sup>24</sup>

In 2008, the Mackinac Center published "Hart Enterprises: A Wetland Case Study," which explored an example of such abuse.<sup>25</sup> Hart Enterprises is a growing, cutting-edge medical device manufacturer employing around 100 people and headquartered outside Grand Rapids. In 2006, the DEQ tried to stop the company when it began to expand its parking lot to accommodate its larger workforce. The DEQ claimed the area of the proposed expansion was a wetland, a view that came as a surprise to Hart Enterprises. The area had long been subject to civil engineering, and it was part of a parcel zoned for industrial activity. Moreover, the area was only occasionally wet, and neither local officials nor the environmental or construction professionals engaged in the project had warned of a wetland there.<sup>26</sup>

That was the beginning of a long and painful saga for Hart Enterprises owner Alan Taylor over a so-called "wetland" that is, according to the DEQ, less than one acre in size.<sup>27</sup> In September 2008, Taylor, who had proceeded with the expansion and refused to file for a wetland permit, was convicted in Kent County District Court for the criminal misdemeanor of filling in a wetland. The case is under appeal, but whatever the result, such decisions send a message to potential job providers about Michigan's regulatory climate. The ultimate losers are those on Michigan's growing unemployment rolls. As Harding and LaFaive have explained, "Denial of a required environmental permit means no business, no jobs and no hope for Michigan's failing economy and struggling workforce. It's the equivalent of a 100 percent business tax rate. ..."<sup>28</sup>

Fundamentally, Michigan's wetland enforcement decisions are impossible to predict. Although there is a DEQ "inventory" of Michigan wetlands, it contains a warning that its map of the state's wetlands is not accurate, and that it is not legally binding.\* The DEQ states that the only way to determine whether a resident's home or business property qualifies as a wetland is to apply for a wetland permit for the area and allow a DEQ official to inspect it for a binding determination.<sup>29</sup> Worse, the state's wetland enforcement does not even have the advantage of shielding Michigan residents from the possibility of independent, aggressive federal enforcement of stringent federal wetland regulations.<sup>30</sup>

Leaving Michigan's wetland enforcement exclusively to the federal government would at least put business and property owners in Michigan on an equal footing with those in 48 other states, since Michiganders would need to deal with only one unpredictable enforcement regime, rather than two. Exclusive federal enforcement would also present potential investors from outside Michigan with only federal wetland regulation, a system they already know. Thus, this recommendation by the governor would produce a benefit not just for the state budget, but for the state's economy as well.

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\* Specifically, the language says, "The wetland inventory maps show potential and approximate locations of wetlands and wetland conditions. ... The maps are not intended to be used to determine the specific locations and jurisdictional boundaries of wetlands for regulatory purposes. Only an on-site evaluation performed by the DEQ in accordance with Part 303 can be used for jurisdictional determinations" (emphasis in original). See "Wetland Inventory Maps," Michigan Department of Environmental Quality, [http://www.michigan.gov/deq/0,1607,7-135-3313\\_3687-11178--,00.html](http://www.michigan.gov/deq/0,1607,7-135-3313_3687-11178--,00.html) (accessed May 27, 2009). Earlier language was even more explicit; see Russ Harding, "Hart Enterprises: A Wetland Case Study," (Mackinac Center for Public Policy, 2008), 12, <http://www.mackinac.org/archives/2008/sp2008-04.pdf>, (accessed May 27, 2009).

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## 6. Cut state subsidies for university operations

Gov. Granholm's fiscal 2010 executive budget recommendation presentation contains this: "Due to Michigan's on-going economic challenges, state university operations are funded at \$1.4 billion — a 3 percent reduction."<sup>31</sup> Many observers expected the funding to be restored with money from the federal "stimulus" spending bill, but the actual executive budget bill language included a condition: "It is expected that a public university or community college receiving federal stimulus funds will not raise tuition and fees charged to Michigan residents for the remainder of 2008-2009 and for 2009-2010."

In other words, the governor recognizes that with or without stimulus money, state universities should discipline their spending. She is correct.

Higher education is currently the third highest general fund budget area,<sup>32</sup> behind Medicaid and prison spending. Despite relatively stagnant growth this decade in state higher education appropriations,<sup>33</sup> evidence suggests that for many decades, *overall* revenues and spending by these institutions have greatly exceeded inflation. For example, a 2007 Mackinac Center Policy Brief co-authored by Ohio University Distinguished Professor of Economics Richard Vedder found that as Michigan was sliding into a "one-state recession" between 2000 and 2004, revenues per full-time equivalent student were higher at the end of that period for every state university except Ferris State.<sup>34</sup>

Similarly, the Mackinac Center's 1996 and 2004 state budget studies both calculated that the rate of increase in higher education spending had far exceeded the rate of increase in enrollment and inflation.<sup>35</sup> Those studies recommended retroactively indexing spending to enrollment and inflation, which would encourage state universities to increase productivity. The 2004 study also noted that between 1985 and 2002, average tuition and fees increased from approximately \$1,786 per student to \$5,365, or 73 percent more than what would have been expected if the charges had just kept pace with inflation.<sup>36</sup>

These trends have continued. The amount of tuition and fees plus state operations funding received by the 15 state

universities increased from \$3.6 billion in 2004-2005 to approximately \$4.3 billion in 2007-2008.<sup>37</sup> And between the school years 2005-2006 and 2008-2009, average tuition and fees for resident undergrads rose from \$6,915 to \$8,753, a 26.6 percent increase.<sup>38</sup> It's been tough times for Michigan students, citizens and taxpayers, and it seems appropriate that the recipients of the money feel some of the same pressure to tighten their belts.

As mentioned, notwithstanding the rapid growth in total university revenues, the portion that comes from state appropriations has been relatively flat in recent years. Many argue that if state appropriations were higher, tuition would increase less rapidly, but Vedder's research suggests the contrary:

"You might assume that every time the state legislature gives one dollar more in money per student to the universities that that would lead to one dollar lower tuition charged to the student than otherwise. But the empirical evidence for the United States . . . shows that that is not really true.

"The best I can tell . . . roughly thirty cents out of every new dollar in gross appropriations per student end up in lower tuition charges per student. In other words, the student gets thirty cents relief out of that new dollar. The other seventy cents goes to the universities for . . . higher levels of spending of some sort."<sup>39</sup>

University lobbyists and spokespersons also assert that more college graduates and higher education spending are keys to reversing Michigan's economic decline. Yet the 2007 Policy Brief by Vedder provided "strong econometric evidence" based on nationwide statistics covering almost 50 years that state-level higher education appropriations do not positively impact economic growth in the state. "Indeed," wrote Vedder, "greater appropriations for universities are associated with lower state economic growth." He illustrated this finding with case studies of Illinois, Ohio and Michigan.

Advocates of university spending sometimes rely on simplistic "snapshot" comparisons alleging a cause-and-effect relationship between more graduates and higher per-capita state incomes. But multiyear trend data tell a very different story: Between 2001 and 2006, none of the 10 states with the highest proportion of college graduates was also among the 10 states with the fastest growing per-capita personal income. Only four states with an above-average number of college graduates were in the top 10 states with the fastest growing per-capita state gross domestic product.<sup>40</sup>

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\* "House Bill No. 4441: Executive Budget Bill (Introduced)," (Michigan House of Representatives, 2009), <http://www.legislature.mi.gov/documents/2009-2010/billintroduced/House/pdf/2009-hlb-4441.pdf>, (accessed June 1, 2009). On April 2, the Michigan House passed House Bill 4441 with amendments that added the stimulus money and stripped out the no-tuition hike "expectation" (see "MichiganVotes: 2009 House Bill 4441 (Appropriations: 2009-2010 Higher Education Budget)," Mackinac Center for Public Policy, <http://www.michiganvotes.org/2009-HB-4441> (accessed May 29, 2009).) However, this early in the budget bargaining, the vote marks more of an opening position than a final statement.

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There is also an issue of fairness in using general tax money to confer benefits on a few. In the Center's 2004 budget study, LaFaive observed that college students who reap the considerable direct benefits of postsecondary education could reasonably be asked to carry the burden of paying for it.<sup>41</sup>

Central to all these concerns about higher education spending is accountability. As the author explained in a May 2006 Detroit News Op-Ed:

“Colleges have little incentive to cut costs, so they don't try very hard to do so. Faculty members receive ever-higher salaries (up 50 percent in inflation-adjusted terms since 1980) and ever-lighter workloads. ... At the University of Michigan, Michigan State University and Wayne State, there was an average of one nonfaculty employee for every nine students in 1977. By 2002, the ratio had increased to one for every seven students.”<sup>42</sup>

The author recommended changing state university funding to a standardized per-pupil “foundation grant” system similar to that used for Michigan's public schools, with the money following a student to whichever state school he or she chooses. This would increase accountability by sharpening the incentives for the universities to contain costs and add value to students. If the Legislature wanted to give some schools additional money for research purposes, it could do so.<sup>43</sup>

As the governor's budget recommendation tentatively acknowledged, Michigan can't afford the status quo anymore. The best solution is to change the incentives in a way that forces state universities to increase value and provide more for less. Reduced state subsidies are one step toward that end.

## 7. Eliminate the Office of Drug Control Policy and downsize the Office of Services to the Aging

The governor proposed these two changes together in her 2010 executive budget recommendations, so they are listed together here.<sup>44</sup> In addition, there's actually less than meets the eye in these proposals — to some extent they represent program consolidations rather than outright eliminations of government functions.

The Office of Drug Control Policy's mission is to reduce the use of illegal drugs through a combination of social services, education and law enforcement. Under this proposal, its staff will be transferred to the Mental Health and Substance Abuse Services Administration of the

Department of Community Health.<sup>45</sup> The Office of Long-Term Care Supports and Services — into which the Office of Services to the Aging was recently folded — provides money to local agencies for in-home services to the elderly, various community activities and other programs for senior citizens. These functions would be “integrated” within the Department of Community Health.<sup>46</sup>

The Mackinac Center recommended eliminating these programs in its 2003 and 2004 budget studies, on the basis that such government spending (and the taxes that support it) crowds out private solutions to social ills that arguably are more effective. For example, the 2004 study said the following about the drug office: “This program has laudatory objectives, but it takes money from local communities, passes it through federal and state bureaucracies, and returns the remainder of it, strings attached, to programs which often duplicate existing school-based or community-based programs. One lesson of the last 30 years of anti-drug policy is that illicit drug use is most effectively reduced through efforts financed by local community organizations and individuals.”<sup>47</sup>

Nevertheless, the proposals do involve genuine budget cuts, and there's virtue in consolidating and rationalizing the delivery of government services as well.

## 8. Cut funding in half for the Michigan State University Agricultural Experiment Station and Cooperative Extension Program

Gov. Granholm's fiscal 2010 executive budget recommendation states: “[T]he Governor combines the Agriculture Experiment Station and Cooperative Extension Service and funds them at \$32 million.”<sup>48</sup>

All three of the Center's state budget studies have recommended eliminating these Michigan State University programs. The experiment station conducts agricultural research at 15 branch offices throughout the state. Some of the work represents a reasonable government function in that it addresses problems associated with true public goods, such as dealing with the ash borer insect that has decimated the state's ash trees. However, programs like this could be easily accomplished by the state Department of Agriculture (which in fact has received appropriations for this very function).<sup>49</sup>

But much of the MSU programs' spending is little more than a subsidy for the state's agricultural business sector. Other prominent Michigan industries, including automobiles, furniture and chemicals, are responsible for conducting their own research. That the same is not true

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for agriculture is an outmoded historical relic Michigan can no longer afford.

In addition, taxpayer funding has produced work that was not obviously necessary. For example, one project had MSU researchers working to grow “the perfect Poinsettia.”<sup>50</sup>

Similar arguments apply to the Cooperative Extension Service, which provides classes to Michigan residents on such topics such as sewing, gardening and pottery. This program is a luxury that Michigan can no longer afford. Its classes may be nice for those who take advantage of them, but like horse racing and state fair subsidies, they are not essential functions of state government.

## **The Road Ahead**

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Michigan’s pressing fiscal challenges underscore a truth policymakers must recognize: This state has more government than it can afford. Nonessential, sometimes duplicative functions and programs have been adopted due to political dynamics, not as part of any rational, considered vision of what government should — and realistically *can* — do.

These modest budget reductions can be considered a small down payment on the greater transformational restructuring of state government that Michigan’s plight now demands. In fact, all the cuts described in this brief total less than \$100 million. In comparison, Michigan will soon see budget gaps of at least \$2 billion out of some \$27.7 billion in state spending from state revenue sources. Arguably, even after these gaps are closed, another \$2 billion or more should be carved from the budget to permit tax cuts and other reforms that are prerequisites to restoring Michigan’s economic vitality.

Among the hundreds of savings opportunities lawmakers can utilize if they choose, the eight recommendations above represent “low-hanging fruit.” Indeed, these are areas where Gov. Granholm and Mackinac Center analysts concur, even though the governor and the Center’s analysts have often disagreed over state policy.

Lawmakers should therefore think carefully before rejecting these proposals. The longest journey begins with a single step — or in this case, with the eight steps detailed here. If these steps are too many, it is difficult to see how Michigan will travel the road back to fiscal discipline and prosperity.



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## Endnotes

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