

How To Avoid Raising Taxes

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(Note: Legislative Analyst Jack McHugh has also discussed these ideas in detail in a [WJR-AM 760 radio interview](#).)

In facing budget challenges that are unquestionably daunting, the state's political establishment has concluded that tax hikes are necessary because it would be impossible to find enough cuts and reforms to close the gap between desired spending and expected revenue.

Not so fast! Below is a list of ways to achieve \$1.9 billion in savings with little heavy lifting. Some of these may take a few years to fully implement, but the total also exceeds the expected deficit for next year. Much of the savings comes from injecting competition into government operations, providing government employee fringe benefits comparable to (generous) private sector plans or eliminating non-core functions.

Change the higher education funding mechanism to a standard "per-pupil foundation grant" in which the money is attached to the students, rather than each university getting an amount determined by legislative maneuvering. As colleges were forced to compete for students, they would "sharpen their pencils," rein in costs and eliminate the kinds of inefficiencies highlighted in recent audit reports. If the effect was that costs fell by just 5 percent, the savings would be: **\$70 million**.

Shift state police road patrols to less expensive county sheriff deputies. With benefits and related expenses it costs more than \$100,000 per year to employ a state trooper; most sheriff deputies cost much less to employ. Effect on public safety: Zero. Savings: **\$65 million**.

Adopt the Hay Group report recommendations on rationalizing public school health insurance, including requiring co-pays and preferred provider networks. This could save: **\$422 million**.

Eliminate the Michigan State University cooperative extension service and agriculture experiment station to save: **\$61 million**.

The original version of this list recommended halting the so-called "21st Century Jobs Fund" before it borrowed and spent \$400 million. It's too late for that now: All but \$33 million was spent before the 2006 election, and taxpayers will be repaying the debt for decades. At the very least, the bleeding can be stanching — \$75 million of what is being characterized as a "\$1 billion state deficit" is new borrowing for this boondoggle. Skip it and save: **\$75 million**.

According to a Rio Grande Foundation report, if 5 percent of prisoners are placed in privately-managed prisons, the state saves 14 percent on overall prison spending because *government-managed* prisons have an incentive to "sharpen their pencils." Savings: **\$192 million**.

Eliminate "History and Arts" subsidies, and cut state library subsidies in half: **\$35 million**.

In 1999 the Citizens Research Council noted that "a number of changes have occurred over the past decade that have reduced the need for intermediate school districts." Let's help the ISDs catch up by reducing their operations grants: **\$32 million**.

Cut so-called "20j" payments to affluent schools in half. This extra money is a political response to the fact that under Proposal A certain wealthy school districts benefit less from per-pupil state foundation grant increases than other districts. (They still benefit, though.) Savings: **\$26 million**.

Cut transit funding in half. By eliminating protectionist regulations that restrict alternatives, empty buses driven by public employee union members can be replaced by private sector innovations like jitneys, commercial van pools, "call-and-ride" services, car-sharing and more. This will improve service for transit users at a much lower cost: **\$112 million**.

Repeal the "prevailing wage" law that requires above-market rate wages be paid on school construction projects: **\$150 million**.

Schools can realize huge savings by privatizing non-core functions like transportation, food service and custodial. Many have already done so: The Mackinac Center's most recent survey of school privatization shows that 38.5 percent of school districts already have a competitive contract in place for one of these functions. Some idea of the magnitude of these savings can be seen in the experience of one district that saved the equivalent of \$177 per student by contracting out for its custodial needs. Statewide, similar savings would add up to \$300 million annually! In the short term, it would not be unreasonable to expect: **\$65 million**.

Reduce the Merit Award Scholarships by 50 percent. Shockingly, at the governor's request, the Legislature just did the opposite and increased these non-need based college scholarships by \$64 million annually beginning in 2010. When families face economic hard times, the first thing they do is cut luxuries. This is a luxury Michigan can no longer afford. **\$60 million**.

The state spends almost \$15 billion on Medicaid and welfare, more than \$6 billion of which is from state taxes and fees. Medicaid in particular is a command-and-control monstrosity rife with perverse incentives. Reforming it in ways that give recipients an incentive to economize and take better care of themselves could save hundreds of millions of dollars, while actually giving recipients greater freedom and choice. If just 1.6 percent of the expense in these two programs could be reduced in this way, the state would save: **\$240 million**.

Thousands of private sector workers have given back painful wage and benefit concessions to save their jobs. The average state employee receives salary and benefits worth nearly \$75,000, compared to approximately \$58,000 in the private sector. Comparisons of specific job classifications produce similar comparisons. State workers should be grateful for their much greater job security and benefits, and more than willing to assume some of the burden through concessions. **\$300 million**.

Total: **\$1.9 billion**.

There is a common theme that runs through opposition to every one of these common-sense reforms: "That's not the way we've done it in the past."

That's not good enough anymore: Michigan has already passed the tipping point of going from relative decline in population and income to absolute decline. Without major reforms there's nothing to prevent the entire state from going the way of Detroit, with a declining population and an economy that is unable to support a government establishment that believes its residents exist to serve it — not the other way around.

None of the items above would be "devastating" to the state, to "vulnerable populations" or even to any particular interest group. Most people would not even notice that these changes had taken place. The alternative, a major tax hike, will only drive more people out of Michigan and hasten the impoverishment of a formerly rich state economy that in this decade has become a poor one.

Note: This list combines reductions from current budgets, and speculative savings that assume certain policy reforms. It is intended as a plausible illustration of what is possible, not as a precise roadmap.

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