Tax Increases Harmful to Michigan's Health

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Imagine you saw the victim of a car crash examined by an emergency room physician who noted the patient's wounds, broken bones and blood loss — and then heard the physician say: "I'm glad you stopped by. Our blood drive has fallen short, and we need to take a couple of pints." You would be appalled.

Yet this is exactly the type of warped policy that's being inflicted on Michigan by its elected leaders in Lansing. In a state with an ailing economy that's bleeding jobs, capital and residents, our caretakers in the state capital have returned to the same injurious procedure — bleeding the patient through a massive tax increase.

The budget agreement that passed in the dead of night on Oct. 1 will raise taxes on Michigan residents, businesses and service providers to the tune of $1.358 billion for the coming fiscal year — a projected $745 million from a 11.5 percent increase in the state income tax, and a projected $614 million from a new state sales tax on dozens of services. Against the backdrop of the nation's highest unemployment rate, plummeting home values and stagnant per-capita income growth, Michigan's new tax increases will propel our state and local tax burden from 14th highest in the nation to 11th, according to the nonprofit Tax Foundation of Washington, D.C.

The $614 million projected from the new state sales tax on services is probably wishful thinking by its proponents. When a similar service tax was first proposed by Gov. Jennifer Granholm earlier this year, the Mackinac Center asked the Beacon Hill Institute, an organization with expertise in state economic modeling, to analyze the likely impact. The Institute found that that tax would not only cost the state 19,000 jobs, but generate lower revenue than projected. The reason is simple: Raising the price on the same product will drive down demand and therefore expected tax revenue.

As if Lansing's latest potpourri of tax hikes weren't bad enough, lawmakers levied them after flouting voters' earlier express wishes on cutting taxes. Last year, a voter-initiated bill passed by the Legislature required state lawmakers to repeal the burdensome and anti-competitive Single Business Tax with a "more equitable" and "less costly" tax on employers. Policymakers nonetheless passed the Michigan Business Tax, which replaces the SBT dollar for dollar and may prove to be a net tax increase.

And to what end? A 2007 analysis by Mackinac Center Fiscal Policy Director Michael D. LaFaive found that state employees' salaries and benefits usually outpace those in the state's private sector. In fact, it was public sector unions like the American Federation of State, County and Municipal Employees, the Michigan Education Association and the American Federation of Teachers that lobbied aggressively for tax hikes and against spending reductions. In effect, the political class in Lansing would like taxpayers to tighten their own budgets so that government workers won't have to.

This agenda is clearly at odds with that of most Michigan voters. A survey conducted by Mitchell Research and Communications for the Mackinac Center in September found that 71 percent of likely state voters favored using more spending reductions than tax increases in eliminating the $1.75 billion budget deficit. In fact, spending reductions enjoyed strong majority support across every demographic group, including seniors, liberals and members of union households. Sadly, their voices were drowned out by the influence and contributions of the government-sector lobby.

Perhaps, in self-defense, legislators are now talking about unspecified "reforms." If policymakers are serious, they should begin by repealing the state's prevailing wage law, which benefits a small segment of mostly well-paid workers on state government construction contracts while adding $250 million annually to the cost of constructing state and local government roads, buildings and schools. The fact that this and other spending reductions went untouched belies the claim that tax increases were the only option.

In medical terms, Michigan's economy is in serious condition. Should the national economy slip into a recession, the state's economic problems will be compounded. If the patient is to survive, our elected officials must first disabuse themselves of the idea that bleeding the state will restore it to full health.

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