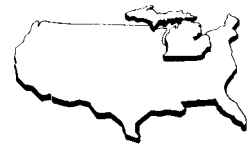


# FISCAL AWARENESS SERVICE



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## A LETTER OF POLITICAL AND SOCIAL COMMENTARY

January 24, 1985

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MEMO TO: Clients and Interested Parties  
SUBJECT: 1985 -- LEGISLATIVE COOPERATION OR STALEMATE  
FROM: Gerald A. Faverman and Cheryl Parish

The year 1985 marks the fourth anniversary of this letter of political and social commentary. In these letters we attempt to analyze and discuss the meanings underlying political and social events so that our clients and subscribers have a context within which to evaluate current events. The letters also try to share the rationale and assumptions of its writers in arriving at their sometimes controversial conclusions. Although our letters have been praised for their commentary, we do not claim that we will ever be 100 percent accurate in predicting and interpreting events. However, we do believe readers find the letters to be useful sources of informed commentary to weigh in formulating their strategic objectives. The challenge to intelligent observers is always to question underlying assumptions and to assess those assumptions in order to arrive at their own conclusions about what is true.

A year ago we said that if Governor Blanchard's administration didn't get its act together soon, it would be seriously damaged and have to be considered a one-term government. While it may not be apparent to out-state observers, Jim Blanchard has done exceptionally well in the past year and appears ready for yet another promising year in 1985. His success has been widely attributed to the solid contributions of a cadre of his closest aides, chief among these being Phil Jourdan, Rick Cole, Bob Bowman, and Bob Naftaly. The Blanchard team has turned in a very steady and low-key performance.

In addition, the major departments -- particularly education, commerce, mental health, and agriculture -- have done an excellent job. A true measure of the success of cabinet agencies is a lack of public abuse, not of praise. The administration also shows signs of being strengthened by the recent addition of Doug Ross at the Department of Commerce, and former Democratic House Floor Leader Joe Forbes as director of the Office of Job Training and Retraining. The number of personnel changes at the halfway mark -- usually very high -- has been quite low with the loss of only S. Martin Taylor, Ralph Gerson, and Conrad Mallett, Jr. While they will be missed, the administration has shown every sign of moving ahead with high morale and esprit de corps.

Governor Blanchard has tried hard to appear publicly as objective and dispassionate, but he can't resist participating in a few street fights, some of which he has handled with significant success. Blanchard has

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demonstrated an ability to build a Washington-style rapport with the Michigan Legislature. Some complain that he has not done well with the Legislature, but we do not concur. He has used the reach and prerogative of his office in the most aggressive manner this state has seen in a very long while. He has shown a single-minded determination to end the deficit position of the state. As a result, by the end of this year, Michigan's fiscal position will be the most promising it has been in more than a decade.

The national business press has attributed this budgetary turnaround to the performance of State Treasurer Bob Bowman, but inspection shows that it was the combined efforts of Blanchard, Bowman, and Naftaly. The resurrection of the state's fiscal health has been received more favorably in Washington, D.C., and New York than in Michigan. This has caused some sensitivity on the part of the Blanchard administration. In view of the past Republican onslaught against the income tax, Blanchard and his associates are not sure how to maximize the political advantages of solvency and fiscal responsibility. They are uneasy about the political repercussions of good news and concerned about the political fracas resulting from the additional tax rollback efforts and discussions concerning the expenditure of potential surplus funds.

The fundamental Republican position is a classic one. Republicans seem to believe there is never a good circumstance to trust government with extra money. The only way to keep government lean and efficient is to keep it poor and constrained, always providing less money than required to maintain needed services.

Knowing that prosperity is tied to the peaks and valleys of the business cycle, we suggest that, in contrast, the soundest, most conservative position is to keep government solvent, not poor. We are pleased at the amazing progress that has been achieved during the past two years. We are also impressed that elected officials had the courage to recognize the importance of the required taxes and to forego the temporary advantage of increasing expenditures in favor of the more rigorous requirement of paying off government's \$2 billion plus of accumulated obligations. In 1986, when people see the results of what leaders in the legislative and executive branches have done, the Blanchard team will receive a great deal of public credit for its political and fiscal courage.

We have been impressed by this administration's recent proactive role in economic development. In the past we have been harsh critics of its inaction. We regard as very positive signs the recruitment of Mazda to Flat Rock, the aggressive pursuit of General Motors' proposed Saturn project, and the creation of the Michigan Strategic Investment Fund.

The Governor's Commission on the Future of Higher Education in Michigan did an excellent job in outlining badly needed educational reforms in this state. Many of its ideas may be implemented. The commission is to be commended on having the courage to deal with issues whose popularity has not always been high. The last time these problems were addressed was in 1970 under Governor William Milliken. Milliken had the right issue and the right answer, but the time was wrong. The public failed to understand the need and failed to come to grips with the problems. The state is still suffering from the failure to meet our needs in K-12 education.

It is hoped that the report by the Commission on Higher Education will create a positive climate for legislative action and help us meet the needs of education at all levels in the twenty-first century.

Another development has given us cause for optimism in 1985. The work of the Detroit Chamber of Commerce in conjunction with Mayor Coleman Young and county executives Lucas (Wayne), Murphy (Oakland), and Franchuk (Macomb) in soliciting the after-market of the Japanese auto industry to Michigan is encouraging. While it is too early to know whether or not these efforts will succeed, we feel that the cooperation and singleness of purpose provide hope that the antagonism and divisiveness that have long characterized these local governments can be laid aside in favor of common goals and mutual cooperation.

Blanchard has done a good job and is getting politically stronger. In contrast, the Reagan administration's political strength will wane in the months ahead. The latter's political acme occurred during the November election. Military spending and the federal budget deficit are too high. The administration doesn't have sufficient votes in Congress to protect its spending plans. The budget deficit and the huge balance-of-trade gap hold great potential for extraordinarily high rates of inflation or for an unprecedented recession. These are issues of concern to economists and other serious observers, but we regard these issues as bargaining positions in budget negotiations between the White House and Congress. We view tax reform as a certainty, with "tax reform" being a euphemism for "tax increase." We predict new federal taxes will be in place by next fall, with the only remaining issue being determination of who receives the credit and who receives the blame.

For Reagan to come to terms with these problems, he must be practical, and he must make choices. Each choice will create a loser. As choices are made and losers determined, the popularity of the Reagan administration will decline.

As the national economy slows in 1985 and then declines in 1986, Michigan Democrats could pick up significant wins. They could benefit from the consequences of the national administration's decisions and from its distance and disinterest in Michigan and the Midwest.

Republicans may disagree with this assessment, since they tend to view the events of the recent past more favorably than we do. They believe Reagan's reelection will enhance strong conservative trends and suggest that the time for political centrists like former Governor Milliken is long past. They believe that conservatives will look increasingly to the Republican party, which in Michigan is led by people such as Richard Headlee and L. Brooks Patterson, either of whom would run strong and well against Blanchard. While it is risky to predict events 23 months away, we believe the Democrats could be in a strong position for the 1986 elections, with Blanchard reelected with a wider vote margin than in 1982 and Democrats regaining seats in the State House and control of the State Senate.

Even in 1985, we believe that a victory by the Republicans in the March 26 election to fill the State Senate seat from Grand Rapids is not

certain. There is a potential for a Democratic victory based on the following factors: the divisive nature of a primary fight between three well-known Republican candidates (Vern Ehlers, Victor Krause, and Hank Fuhs); the length of the primary and the short time between the primary and general elections; and the name recognition and regard for the Democratic candidate, Stephen Monsma, in the Grand Rapids area. Notwithstanding the historical Republican tradition of Grand Rapids, a well-run campaign could result in a narrow victory for Monsma.

In contrast, Republicans allege that Grand Rapids is the Republican heartland of this state. They argue that a conservative candidate is more in line with the area's political constituency. Furthermore, the party's political and organizational strength is greatest in Pete Secchia's (GOP National Committeeman from Michigan) bailiwick. Finally, they note that in 1984, Republicans showed great skill in winning targeted races. Since the outcome in Grand Rapids will determine whether numerical control of the State Senate rests with the Democrats or the Republicans, there is little doubt that this will be a tightly fought race with ample campaign chests for both sides. Our advice to readers is to watch this race with interest and not view the outcome as a foregone conclusion. We would not be surprised if Monsma won; a 19-19 Senate is not out of the question. Until the contest in Grand Rapids is over, everyone must wait to see if the Senate can be wrested from the Republicans.

The real action and challenge of the year will rest in the Michigan House of Representatives where coalition politics will be required for the orderly flow of legislation. The experience of 1967 is applicable to the current situation in the House. Then, with the lower chamber split 55-55, House Speaker Bob Waldron, with Representatives Bill Hampton, Roy Spencer, and Cliff Smart showed enormous skill in building bipartisan coalitions. In 1985 as well, coalitions must be built to obtain the 20 or more swing votes needed to move legislation.

Although politics will grab the lion's share of the headlines, key issues in this legislative session will be economic development, tax rollback and revenue policy, urban transit, health care cost containment, banking organization, branch banking, and interest rates.

The margin of control in each chamber is about three votes. The outcome of any particular vote will depend on the issue, the time of day, and the attendance at session. To date, House Speaker Gary Owen has shown himself to be a bright and aggressive leader able to use his personality and vision to influence his caucus. If he is to succeed in this new environment, Owen must develop greater diplomatic and conciliative skills than he has so far evidenced. Majority Leader John Engler faces an analogous challenge in a Senate that historically has been ungovernable. To manage the Senate, Engler must develop more networking and exercise better diplomatic technique. Both of these young, promising leaders will find that 1985 will offer great opportunities for growth and severe penalties for failure. The sine qua non for the two political parties in both legislative chambers will be to work at moving ahead rather than getting even. Failure to do so will lead to guerrilla warfare, deadlock, and ambush.

Despite this possibility, we regard 1985 as the most promising time since 1970 for looking ahead and crafting the vision that will enable this

state to deal with the decade ahead. It is time for young leaders and ideas, both nationally and on a more local level. Michigan will benefit from increasing industrial vigor. In future years, we may look back and see 1985 as the key year in which Michigan showed itself to be a leading, rather than a marginal state.

We have prepared these comments for a small and special constituency. We hope you will find them interesting and helpful.

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