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MEMO TO: Subscribers and Interested Persons

SUBJECT: BUDGET WRAP-UP AND POLITICAL POSTURING

FROM: Public Sector Consultants, Inc.

Much of the rhetoric and theatrical activity that is transpiring between the Michigan Senate and the House of Representatives consists of political posturing rather than substantive difference. Now that the Legislature is divided with the Senate controlled by the Republicans and the House by the Democrats, the two chambers are struggling to determine which party and which chamber will initiate policy and control the tone and flow of legislation. While agency and institutional appropriation levels, and tax rates and their duration appear to be the pivotal points in the legislative logjam, the true conflict relates to philosophy: the appropriate role and scope of government.

If a deal on enacting the early income tax rollback is not negotiated within the next ten days, we believe the opportunity for such action will disappear. Republicans have gained maximum advantage by initiating the rollback proposal while simultaneously crafting a 1984-85 fiscal year all-funds budget which is some \$120 million over the governor's recommendation. The recipients of this largess are understandably pleased with this change of events. Senate Republicans have positioned themselves to benefit doubly from their conflicting revenue-expenditure expectations. Once the August primaries are concluded, the period for maximum political leverage will have passed and there will be considerably less incentive to approve a tax rollback. Notwithstanding the actions and positioning of the various legislative forces, the ultimate beneficiary of solvency, economic recovery, and stability will be Governor Blanchard in late 1985 and 1986 -- when it counts.

The income tax rollback discussion has been part and parcel of the FY 1984-85 budget deliberations. Overall, the governor's budget recommendations have met with amazingly little resistance. Few serious political issues have been involved except for the title of the 1984-85 budget itself, a "zero-growth" budget. As usual, most of the debate has hinged on allocation of funds between the education and social services budgets. We believe that education programs will receive greater financial support from the State. The social services budget is likely to remain relatively intact, but it may be held hostage to political considerations until the fall, after all the other appropriations bills have been approved and the August primary elections have been determined. There is little doubt in our minds that increases in appropriations for entitlements to deal with higher caseloads than projected will have to come later in the fiscal year.

A consultancy specializing in issue identification, policy analysis, statistical and fiscal analysis, and policy determination in the human service area.

The political gamesmanship and acrimony are related to long-term perceptions of advantage and the quest to win political hegemony in the future. The proposal to disqualify 100,000 able-bodied adults from the General Assistance rolls is unconscionable because it provides no viable alternatives for those who suddenly would find themselves denied income support. This policy change in the appropriation act is not a serious attempt to address a critical social dilemma in Michigan. It feeds on the dissatisfaction and distaste of the majority for welfare assistance to those currently enrolled.

Unfortunately, such a struggle detracts from the quality of public policy discussion and instead refocuses attention on its political manifestations. Such treatment encourages complacency by lulling the public into believing that welfare overutilization and fraud are Michigan's major problems. In truth, high levels of welfare utilization are symptomatic of underlying economic malaise and its unemployment consequences. The role of government is to serve the public interest. The public would be better served if Michigan's public officials addressed our long-term economic and employment ills and problems instead of using them as a platform to reap a temporary political advantage by pitting one group against another. The agenda for action on economic development, investment, diversification, and reindustrialization needs to be addressed. Political diversions that delay us in addressing these needs can only be regarded as destructive.

Michigan's strength and its quality of life were built on its preeminence as a heavy industrial economy, oriented to consumer durables. This sector of the economy, in Michigan as well as throughout the United States, has increasingly suffered adversity. The industries are old, their technologies well known and readily replicable; many of our factories are archaic and obsolete. The high wages, once a major attraction, have become a liability as the domestic market has been expanded internationally and domestic industries have had to compete head-on with more efficient foreign manufacturers paying lower wages. This situation promises to intensify as automation and economies of scale figure more prominently in the production process. All of these forces are likely to reduce further the number of jobs in heavy manufacturing industries throughout the United States.

If Michigan is to manage successfully this transition process, it must stop talking about economic diversification and set out to achieve it. We, as a state, must investigate the possibilities afforded by foreign trade, tourism, high technology, and agricultural processing. We must seize the opportunities provided by the rapidly growing service sector. Finally, we must reinvest in our educational systems and work harder to implement the research and development discoveries taking place there. We must also ensure that adequate resources and educational programs are available to provide the skills, training, and technological competency needed to move this state and this nation into the twenty-first century. The economic and political supremacy which we have enjoyed for more than four decades is neither guaranteed nor inevitable. As Shakespeare wrote in Julius Caesar:

There is a tide in the affairs of men,  
Which, taken at the flood, leads on to fortune;

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Omitted, all the voyage of their life  
Is bound in shallows and in miseries.  
On such a full sea are we now afloat,  
And we must take the current when it serves,  
Or lose our ventures.

Governor Blanchard has been in office for 18 months now. During that time we have made excellent progress toward solvency but little toward economic development and reindustrialization. Blanchard must be more vigorous in appearing before the public to advocate and explain his party's policies and positions and in soliciting support for them. Blanchard has made impressive progress in moving this state toward fiscal solvency. The restoration of public confidence in his administration is under way; in our opinion the decline in confidence has reached its nadir. However, the Governor needs to exhibit continued courage, demonstrate high energy, and forge a new political coalition to lead the state to economic revitalization. This will not be pleasant nor acceptable in all quarters.

One of the means used to determine the efficacy of the ruling political party is to measure the actions it has taken. To date, the dialogue has produced few choices. People need to understand that there is no free lunch. Every decision has a consequence, as does the act of not making a decision. The public must know what kinds of tradeoffs are presented by the various options. How much benefit will be provided, for whom, how long, and at what price? Effective leadership offers ideas and solutions which are of maximum benefit to the body politic for the longest period of time.

Michigan is in a precarious condition. We need better economic and industrial development strategies regardless of whether this state is ruled by Democrats or Republicans. We must rise above the politics of partisan advantage and seek some clear-cut lines of policy wherein the leadership can work together to restore and revitalize this state. This is a great state and it deserves quality leadership. Failure to create and exert such leadership could leave Michigan at a serious disadvantage nationally and internationally. The coterie of statewide interests must join in partnership to guarantee a better future.

We have designed these comments for a small and special constituency. We hope these insights will be of value to you. Our traditional election-time overview will be forthcoming next month.