



Michigan COMMENTARY

The State Budget: Rewriting the Social Contract

by William Sederburg, Vice President

Recent agreements between legislative leaders and the governor over budget targets for FY 1992 point to two conclusions. First, the budget will remain approximately \$600 million over expected revenues, thereby extending the budget debate through the coming fiscal year. Second, the budget targets show a rewriting of the state's social contract with its residents.

Two critical questions are being asked by politicians in Lansing. The first is why do budgetary politics increasingly seem to consume so much time and energy? The second is why does the budget debate never end?

POLITICS OF THE BUDGET PROCESS

Political scientists and public administrators have long known the central role that budgets and budgetary politics play in state and national politics. The art of politics concerns not only power but also the distribution of resources. The budget, as an instrument for the distribution of resources, naturally becomes the focus of political rhetoric and strategy.

A budget, according to Aaron Wildavsky in *The Politics of the Budgetary Process*, is a number of things, including a spending plan, a management tool, an historical document, and a political statement. In contrast to business or personal budgets, the state budget is predicated on political posturing and priorities and strategically placing your opposition on the defensive. The political novice, especially one from the business world, is distrustful and disdainful of the way "politics" enters into distribution of resources to meet the state's program needs.

Politics in the state budget process is not new. It is there every year as the state attempts to collect and distribute more than \$19 billion (\$7.8 billion in the general fund). Why has this been a particularly difficult year? There are several reasons, which are discussed below.

THE SOCIAL CONTRACT

Jean Jacques Rousseau, a philosopher writing in the 18th century, gives us a clue as to why this particular budget is divisive. Rousseau, in attempting to explain the fundamental purposes of the state, theorized that individuals enter into a "social contract" with each other in order to promote the "general will." Rousseau, as a democrat, believed that no person had natural authority over another. Consequently, to form a society, individuals form "conventions" with each other as the basis of all legitimate authority.

According to political scientist Andrew Hacker, Rousseau's conventions or contracts among free amoral individuals both bind them to democratic decision making and free them to pursue their own goals. "Citizens

participate in framing laws; but whereas as autonomous individuals they behave like amoral animals, as citizens taking part in a joint endeavor they legitimize authority and liberate themselves.¹ Rousseau develops this premise in *The Social Contract*.

In addition to the Michigan state budget being a planning document, a spending plan, and a political statement, it is also the embodiment of the social contract within the state. As resources are distributed to meet various needs, state political leaders enter into legal contracts specifying how the distribution should occur. The budget contract represents a balancing of the interests of different regions of Michigan, diverse interest groups, the haves and have nots, and power brokers. When the state budget is finally passed, it reflects the social contract that should, in theory, give Michigan its identity and sense of community.

REWRITING THE CONTRACT

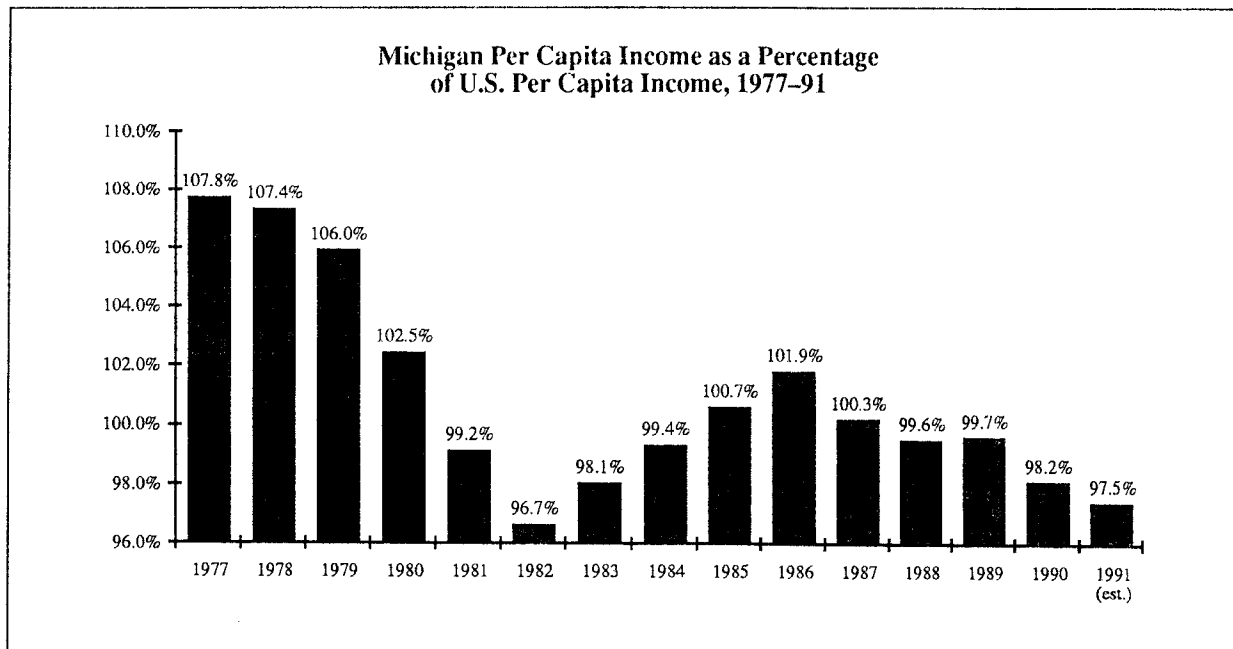
The state budget may be interpreted as a series of contracts. Thirteen individual budget bills ultimately will pass the legislature. Within each will be hundreds of smaller agreements detailing how state resources are to be spent and how societal needs are to be met. Budget bills are contracts because they are binding statements on behalf of all parties entering into the agreement.

Governor Engler's budget as presented in March proposes a dramatic rewriting of Michigan social contract as reflected in previous budgets. The history of Michigan's state budget has been for the state to assume an increasingly active role in meeting real or perceived needs of the Michigan electorate. Unfortunately, state revenue has not kept up with expenditures. The Senate Fiscal Agency projects a \$600 million imbalance in fiscal year 1991-92 between built-in cost and projected revenue. The House Fiscal Agency for several years has called attention to an ever-increasing, structural deficit. A structural deficit is a built-in disparity between the amount of revenue generated by the current revenue structure and the costs of state spending policies. This problem has existed for many years. To balance the budget each year, the state has employed a series of one-time or temporary revenue increases, borrowing, and accounting changes that averaged \$581 million annually for fiscal years 1980 to 1990, and it has approved the use of nearly \$750 million in one-time revenues in 1991.

The revenue imbalance is largely due to Michigan's personal income growth falling behind the national average, while the state's social infrastructure was built on higher than average expectations. (See exhibit.)

Michigan has attempted to maintain its social contract with different groups and regions without increasing the resources necessary to pay the bills. This is evident in almost every policy area. For example, Michigan's higher education system was 14th in the nation in per capita state support in the 1960s; it has since fallen to 35th. As a result, individual students and their families have paid to maintain the infrastructure through higher tuition. Michigan is second among all fifty states in the ratio of expected individual contribution to higher education to state support. Only one state expects individuals to pay a larger share of the total costs.

¹ Andrew Hacker, *Political Theory: Philosophy, Ideology, Science* (New York: Macmillan, 1961).



In policy area after policy area, Michigan government built up excellent delivery systems and supported a variety of activities, assuming it would be able to pay for these services in future years. Unfortunately, Michigan's taxable income no longer allows the state the freedom to maintain all services at the same level relative to the 1960s and 1970s. There is only one way to meet the same contractual obligations—through tax increases. Without these, the contract must be rewritten.

THE ENGLER BUDGET

Governor Engler's budget proposal can be best understood from the perspective of what contracts he wishes to renegotiate. There appear to be four basic contracts on the table. All four must be resolved prior to the budget being passed this fall. One already appears to be resolved.

Helping the Needy

First, the governor is recommending a dramatic rewriting of Michigan's contract with the needy. During the 1970s Michigan enacted an aggressive program to provide social services for its residents. The share of the budget going into social services increased from 16.4 percent in FY 1967-68 to 34.5 percent in FY 1983-84. Social services included Medicaid, general assistance, Aid to Families with Dependent Children, and myriad special programs for abused spouses, displaced homemakers, child care providers, and so forth. The number of social service employees grew from 9,751 in FY 1972-73 to a peak of 15,800 in FY 1980-82. Employment fell to 13,500 in FY 1982-83 and has remained at about that level.

Former Governor Blanchard began to rewrite the 1970s social contract with the needy by ratcheting down state support, at least relative to other state programs. During his term, state spending for the Department of Social Services increased only 6.4 percent, the smallest increase of any part of the state budget. During his last few years in office advocates for Detroit and other liberal Democrats began to question this change in the state's commitment. The Engler budget, in calling for eliminating general assistance and the emergency

needs program and reducing AFDC grant levels and other programs has focused public attention on the state's commitment to the poor.

Will the state significantly reduce its commitment to the needy? The outcome depends on internal politics of the Democratic House caucus and whether the liberals carry the day or conservative lawmakers give the governor the votes to rewrite and scale back Michigan's contract with its disadvantaged.

Detroit

The second critical contract being placed on the table for renegotiation is aid for the City of Detroit. When Michigan's largest city had a fiscal crisis in the 1970s the legislature agreed to "bail out" Detroit by picking up the cost of cultural programs, including the Detroit Institute of Arts and the Detroit library. The state has honored this contract for the past decade.

The Engler and Senate-passed budgets propose to rewrite this agreement. Funding for the Detroit Institute of Arts was eliminated as was funding for the Detroit library.

Naturally, Detroit legislators and the mayor oppose these recommendations. While legislatures cannot bind future legislatures, individuals involved in the original "deal" understand the controversy associated with reducing Detroit funding substantially. Unfortunately for Detroit, its political clout is much less than it was in the 1970s and 1980s. Its best hope comes from striking a deal with outstate legislators such as the outstate equity package enacted shortly after Republicans took control of the Senate.

Arts and Culture

The best example of social contract theory in Michigan politics is the state's commitment to the arts. State support for the arts is a voluntary act. While spending for public health, safety, and education is mandatory, Michigan chose to provide support for the arts and has done so for the past 27 years. Funding through the Arts Council reached a peak of \$13.925 million in FY 1989.

Governor Engler originally recommended eliminating funding for the arts, arguing that it should be financed through private foundations and by individuals, as there are higher priorities for state funds. While the governor's plan is plausible, the arts community has responded with vigorous opposition. It has done so, not only because of the money involved, but because of the fundamental issue of whether the state will continue to be a partner in promoting the arts.

The contract paradigm is evident in the arts organizations selling tickets for future performances based on the understanding that state money would be there. The midyear decision to cut off funding has left many organizations without the means to fulfill their contract with ticket purchasers. Breaking the social contract is disruptive and has significant ramifications.

Ultimately, arts organizations will continue to receive state support. Arts advocates are a political and social elite essential to the success of any governor or legislator. While it may take a different form, the contract with the arts is likely to be maintained.

The Education Contract

Social contracts may be strengthened as well as weakened. The governor's call for exempting education from budget cuts has been positively received by almost all segments of the political community. Few voices have been raised in opposition to strengthening the state's commitment to education.

The lack of criticism is fascinating. One might surmise that this would not have been the case ten or twenty years ago. In the early 1980s education spending was reduced substantially in order to protect the social "safety net." This is not the case ten short years later.

Strengthening the education contract is Governor Engler's strongest political point in his effort to renegotiate the state contract. He would prefer that House Democrats oppose his education budget. So far, they have avoided this temptation and potential political trap.

The verdict is still out as to whether the budget agreement reached for the current fiscal year provides for a temporary reshuffling of payments to colleges and universities or an actual reduction in aid to postsecondary institutions. While budget officials argue that the agreements create a delay in payments, many university officials, reflecting on the effect of "forward funding" used in the early 1980s, believe the delay in payments is an actual budget reduction. It would appear the contract with K-12 schools may be strengthened but not extended to postsecondary institutions.

BUDGET DYNAMICS

The dynamics of the budget debate also can be understood by using the social contract paradigm. House Democrats have been maneuvered by the governor into a very uncomfortable position. Presumably, House Democrats would like to maintain all of the four major social contracts (education, social services, the arts, and Detroit). Two options would be preferred by more liberal House Democrats. One would be to increase revenue to meet "critical" state needs. However, the governor's strong opposition to a tax increase has led most liberals and moderates to dispense with this option as both unlikely to occur and potentially politically damaging. The second option is to reduce budgets "across the board" with all segments experiencing reductions. The governor's position of exempting education from cuts has reduced the attractiveness of this option since it would give House Republicans a major campaign issue in 1992.

House Democrats, then, are faced with the dilemma of cutting arts, social services, and Detroit aid or attempting to protect one or two of the three. At this time the governor has backed off his opposition to the arts, preferring to accept a reduction but not elimination in arts funding. This leaves as the primary issue in resolving the FY 1992 budget the state's commitment to Detroit and the needy. It is these areas that are likely to make budget resolution very difficult.

THE PERPETUAL BUDGET

Budgets, in order to be useful management tools, must have some sense of permanency. Typically, state budgets are for one fiscal year. Some state legislatures pass two-year budgets. Constitutions and state law typically spell out the budgetary process. In Michigan the process now results less in an annual budget with

clearly defined timetables (that is, the governor proposing in February, the legislature deciding by June) than in a "perpetual budget" without clearly discernable checkpoints. The budget process never ends!

At one point this past spring Michigan lawmakers were (a) debating executive orders and transfers to complete the FY 1991 budget, (b) debating the governor's proposed budget for FY 1992, and (c) approving year-end book closing transfers for FY 1990. Governor Engler was forced to prepare a budget for FY 1992 without knowing the final decisions on the FY 1991 budget, thereby making the FY 1992 budget a theoretical document since assumptions had to be made about the base appropriation levels.

Given the targets agreed to by legislative leaders, the perpetual budget will be with us in FY 1992. To offset lower revenues, midyear appropriation supplementals will be needed to fund the social service system, corrections, and school aid. Educators cannot be sure their 4 percent increase will not be sheared through executive order reductions. Grant recipients will wonder if midyear budget decisions will negatively affect their state monies. In short, the social contract will be threatened because the contract no longer is valid for a specific period.

To resolve the perpetual budget dilemma two things need to occur. First, the legislature must come to grips with the structural imbalance of the state budget. This can be done through a 5 percent reduction in state spending or a small increase in taxes. Second, the legislature and governor need to resolve the rules of the budgetary game. Specific timetables should be set and adhered to. Only one supplemental appropriation bill should be allowed each year. More precise rules should be established, defining the administration's authority to transfer funds.

The perpetual budget is a result of Michigan's full-time legislature and difficult fiscal times. The legislature, complete with hundreds of professional staffers, now has more people working full time on the budget than does the governor and in many areas has greater expertise on state budget issues than does the Department of Management and Budget. Since budgets are such an integral part of politics and the social contract and because of the limited financial resources available it is likely that legislative activism in the budget will continue. The perpetual budget is likely to be with us for the foreseeable future.

CONCLUSION

It is important for the entire Michigan community to understand the nature of the budget debate in Lansing. The FY 1991 and FY 1992 budgets are the first major rewriting of the social contract in more than twenty years. The agreement on the FY 1991 budget and targets for FY 1992 continue the structural deficit in Michigan budgets. Rewriting contracts is difficult, time-consuming, and often controversial. Don't be surprised if these contract negotiations are protracted, bitter, and politically explosive.

The perpetual budget leads to the perpetual budget debate. The rewriting of the social contract debate is likely to continue through the 1992 House elections. People interested in achieving certainty in the state budget will be disappointed. Only when the social contract is renegotiated or reconfirmed will predictability return and perhaps, but just perhaps, the perpetual budget debate will take a breather.