

Michigan COMMENTARY

BLANCHARD AT THE TURN: A PERSONAL VIEW

by Gerald A. Faverman, Ph.D.

Adversity is opportunity disguised so that
fools will not recognize it.

As James J. Blanchard enters his sixth year as Michigan's political steward, the old order is dying, but the shape of the future cannot yet be clearly discerned. As a society, we have entered a period of uncertainty in economic and social policy and the politics that undergird them. The nation has enjoyed nearly sixty consecutive months of relative prosperity, the second longest post-recession recovery since 1946. Now, doubt pervades the land; the recovery may have been assassinated by the stock market crash of this past October. In the closing fourteen months of a besieged Reagan administration, questions abound, among them: Are we on the verge of a panic, a depression, a worldwide economic collapse? Who will be the political beneficiaries and the political casualties of this sudden turn of economic events?

This commentary speaks to the peril we face, the adversity to be overcome, the opportunity for success, and the sacrifice required. I contend that these perilous times require a higher order of political courage and leadership than that currently at hand and that the penalty for failure has not been greater since the Civil War.

Michigan, under Blanchard's leadership, has made a fair beginning at refashioning itself into a resilient economic force, but its future--like the nation's--remains uncertain; troublesome times curtail freedom of action. Our state is still one of the world's great economic bastions, and if the United States is to maintain its leadership among nations, Michigan and the other major wealth-producing states--New York, California, Illinois, Massachusetts, Ohio, Pennsylvania, and Texas--have important roles to play.

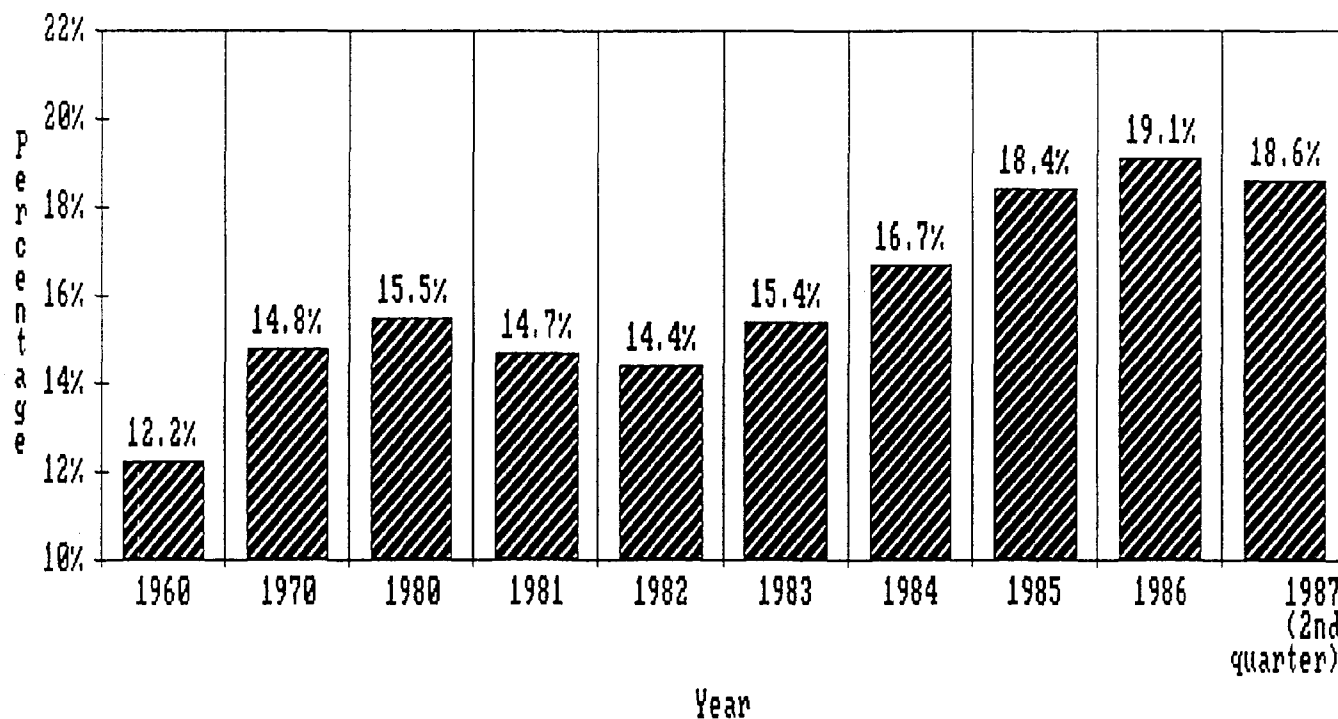
This nation faces challenges on all fronts: third-world nations have become increasingly successful in garnering low-cost production markets. Japan, Korea, France, and West Germany have become formidable competitors in applying research, development, and technology to producing durable goods. As Blanchard himself has pointed out, Michigan's real challenge is to compete successfully internationally. In debate about competitiveness and business climate, some observers see the contest as fought essentially against other states in the Great Lakes region. This narrow view seriously limits our comprehension of the magnitude of the task ahead. In the global fight for economic prosperity, Michigan's most valuable asset for the remainder of this century and well into the next will be its leadership role and production base in automotive manufacturing and related industries. There can be no doubt, however, that we also must move forward to diversify our employment base; restructure and reindustrialize our manufacturing sector; increase our public and private investment in education, training, research, and development; and

design and deploy a strategic master plan that will identify and establish new industries and activities which will result in a competitive, diversified economy.

While the nation and Michigan stand at this historic crossroad, we can learn much by looking back at recent events; as the philosopher George Santayana said, if we do not learn from history we will be condemned to relive it. When Blanchard took office in 1983, he immediately set out to restore the state government's credit, repay the outstanding debt of \$1.8 billion, and carry out an agenda to reestablish Michigan as a viable economic force. It took enormous political courage to push through the legislation required, and there was a short-term political penalty for these actions. It turned out that the times were right; a national surge in the economy increased the state's revenues enough not only to pay off the deficit but also to create surpluses to invest in education at all levels, research and economic development, and infrastructure programs. National attention was focused on the governor. In 1986, Michigan voters returned his administration to office in an unprecedented landslide. Truly, he seemed to be the right man for dangerous times.

It is instructive to contrast events in Michigan with those on the national scene. Under Ronald Reagan, the nation went on a binge; we borrowed too much, spent too much, and rewarded speculators inappropriately. We also failed to encourage investment in the tools of production and in the research and education that undergird future productivity. These transgressions led to the well-deserved market correction of October. The exhibit below demonstrates the disturbing growth of consumer credit as a percentage of disposable income in the United States during the last 27 years.

U.S. INSTALLMENT CREDIT AS A PERCENTAGE OF U.S. DISPOSABLE INCOME



In my opinion, the crash of October 1987 will stand as a major fiscal landmark in the psyche of the nation and may well have great political ramifications in the nation and in Michigan. Clearly, the events on Wall Street result from a loss of confidence in Reagan administration economic policy similar to the crisis that gripped the nation at the end of the Coolidge-Hoover era.

Between now and the November 1988 elections, politicians of both parties will find it difficult indeed to do what is required: reduce domestic and international programs and increase taxes to pay for the irresponsible spending frenzy that led to a national debt of \$2.4 trillion at the end of fiscal year 1986-87.

Until a national mandate is delivered by the electorate, an agenda of fiscal stabilization is not likely to be enacted. The majority of changes will be cosmetic, political, and lacking in rigor. The course is clear: we must increase productivity, create tax policies that maximize industrial investment, develop a rational energy policy, end the lingering agony of third-world insolvency through realistic debt-repayment schedules, encourage personal savings, reduce consumption, increase taxes, and move toward a balanced federal budget. The question is, do we have the national will to sacrifice and the quality of political leadership to show the way? It is a time for uncommon courage. A new political and economic agenda will have to be constructed not only in Washington but also in Lansing.

On the national scene, the outcome of the contest to succeed President Reagan is unclear and murky. Bush--like other incumbent vice presidents--is disadvantaged by living in the shadow of the president. While he most likely will win the nomination, he is hostage to events and at risk from a fickle media. Robert Dole is clearly the favorite of a minority who believe that he could present a vigorous new image and attract Democratic votes, but a major political catastrophe would have to occur to give him the edge.

On the Democratic side of the ledger, we are down to six candidates of whom Jackson, Gephardt, Dukakis, and Simon are the front-runners. It appears that for the first time in more than a generation we may end up with a brokered convention and the attendant excitement and uncertainty of a horse race. None of the candidates has yet established a persona that projects the capacity to lead and manage the nation's affairs. Democratic party stalwarts will seek to identify a candidate who can beat the Republicans in 1988. I lean toward the belief that Governor Michael Dukakis of Massachusetts will be the nominee, but in considering the Democratic field, one is struck more by weakness than by strength. My instincts tell me that the presidency will be won in the Midwest and that Michigan, Ohio, and Illinois will be the pivotal states.

In Michigan in 1988, as in 1964, the Democrats could reap great benefits. U.S. Senator Donald W. Riegle, Jr., who will head the Democratic ticket, could win with as much as 56 percent of the vote. This, coupled with an economic recession credited by Democrats to Reagan, could tip the state to the Democratic standard bearer. Thus, Blanchard could be at his peak in November 1988, with much political capital to invest in his--and Michigan's--future. If he is as cautious as he has been for the last eleven months and fails to invest his political capital wisely, the governor could find himself in the 1990 gubernatorial election with far less promise and advantage than he had in 1986.

It appears that the governor will have to deal with another fiscal crisis by the end of 1988. Economic growth in general and automobile sales in particular will be relatively weak, and Michigan will lose an estimated 71,000 high-wage jobs by the third quarter of 1988 due to plant closings announced by General Motors. Concomitant lower revenues mean that the state budget will be exceedingly tight for the next two or three years and that Michigan's ability to provide a high level of public services will deteriorate before the state has had the chance to realize the benefits of its recent investments in education, economic development, and infrastructure.

Jim Blanchard is at the turn. He needs to show that his administration can provide leadership, imagination, vision, and courage; he must prove that he is the man to lead the state in dangerous times. If not, he and his colleagues could be superseded by others who can convince the public that they can be leaders for dangerous times.

Contrary to popular wisdom, I believe that there is a political constituency that will support tax increases, particularly increases in the sales tax. (The base--goods and services to which the tax applies--can be enlarged by statute. The rate--now at four percent--can be increased only with voter approval.) Thus, instead of just reducing spending through vetoes, budget cuts, revenue adjustments, and hiring freezes, the governor should ask for higher taxes to maintain the state's hard-won momentum. Blanchard himself is fond of pointing out that Michigan's future economic success depends on enhancing research and development and transferring technology to the marketplace. He urges investment in industrial technology and biotechnology, in advanced industrial materials such as polymers and ceramics, in super conductivity, and in new information technology. Clearly, the state cannot progress if the governor allows a recession to frighten him away from increasing expenditures on these very programs and on education, environmental quality, economic development, and job training.

Blanchard must invest his political capital and create a new mood for tough times by asking the people of Michigan to become the first in the nation to throw off the shallow, showy excesses of the "Roaring '80s" and respond to the challenge and opportunity of the 21st century. The next 36 months will be instructive indeed. The future waits: will leaders make events, or will events make leaders?

Whatever the outcome of the recent troubling events in world financial capitals, one thing is clear: Michigan stands at a dangerous crossroad, and its political leaders must make difficult choices. James Blanchard has already demonstrated that he has the courage to choose the difficult path. It is my hope that he will once again summon that courage--and more than a little wisdom--to keep Michigan moving with hope toward the 21st century.

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