



# Where Do We Go From Here?

An Agenda-Setting Conference for the Economic Issues Facing Michigan

## Conference Summary Report

The objective of “Where Do We Go From Here? An Agenda-Setting Conference for the Economic Issues Facing Michigan” was to see if the conferees could arrive at a broadly acceptable, high impact, feasible policy prescription of our economy. Based on the work of nearly 250 attendees, 20 breakout sessions and discussions in morning and afternoon plenaries, it seems clear the conference achieved its objective.

Overall, conferees agreed that Michigan is, indeed, undergoing a massive, irreversible structural change in its manufacturing-based economy. Moreover, there emerged broad consensus that so far our state’s responses – tax policy, expenditure patterns, civic education and political leadership – have been inadequate to assist us through the transition, let alone lay the groundwork for a better economic future for us all.

Four large issue clusters emerged from our discussions.

- ▶ Our tax and budget systems appear incoherent, possibly irrational and largely focused toward the past instead of concentrating on where we need to go now and in the future.
- ▶ Given the recent history of systemic failure, Michigan may need to create a blue ribbon advisory commission(s) (BRAC) to undertake a comprehensive review of taxes, spending and the role of government. Many conferees endorsed a BRAC-type protocol, similar to those used to recommend military base closings, that would bundle the findings of a commission into a comprehensive report to be submitted for a no-amendment, up-or-down vote by the legislature.
- ▶ There is a severe lack of public understanding about the realities of Michigan’s present financial circumstances. The public must be educated on critical issues, including the facts that: a) Michigan is no longer a high tax state; b) Michigan has for years experienced a \$1 billion-plus chronic state budget deficit that, absent structural tax and spending reform, can only worsen in years to come; c) the steadily increasing share of general fund expenditures on corrections and health care (especially Medicaid) threaten to crowd out other investments in human capital and infrastructure. The entire subject of poor civic education and discourse struck many conference participants as fundamental.
- ▶ Michigan’s political system is exhibiting a marked lack of effective leadership, resulting in part from excessive partisanship and in part from structural defects such as term limits and reapportionment practices. This was a subject beyond the terms of reference for this conference and may offer an opportunity for a future inquiry.

## *TAXES*

The conference came to broad consensus on a number of specific tax reform proposals.

The Single Business Tax almost certainly needs significant reform or revision, although there was no consensus on the specific defects in the SBT nor, indeed, on whether the SBT itself affects economic growth. Most agreed the SBT has become so politically unpopular that any serious discussion of tax reform must take on the SBT.

An equally strong consensus was that any revenue loss resulting from SBT reform or repeal must be replaced. Two leading possibilities discussed were:

- a) Extend the sales tax to apply to services as well as goods, while at the same time reducing the rate from the current 6%. Exactly which services would be covered (e.g., health care) was not clear. Although detailed calculations were not available, many felt extending the sales tax could yield enough revenue to replace any revenue loss from revising the SBT and, perhaps, begin to address the state's chronic structural budget deficit. Taxing services would also make the state tax system more reflective of the current state economy.
- b) Modify the individual income tax, possibly by adding a higher rate band for people with high incomes (requiring a Constitutional amendment) and/or by adding exemptions to the low end of the income distribution. Arguments in favor of the income tax approach recognize the potential for increasing progressivity in the state's tax system and shifting to a system in which tax revenues more accurately keep pace with increases in income.

## *SPENDING*

Equally broad consensus emerged when the conference turned to state spending patterns. Participants expressed amazement at the magnitude and rate of growth in the corrections budget and in health care (especially Medicaid). While the conference did not come to any specific recommendations about expenditures, it clearly recognized that unconstrained increases in corrections and health care could only worsen the chronic structural budget deficit and crowd out other important parts of the General Fund budget.

An overriding question remained unanswered at the end of the conference: What are the relationships between the tax structure, state spending patterns, public investment and economic growth. Participants expressed skepticism that repeated tax cuts, by themselves, would do much to contribute to economic growth.

## *COMPETITIVE ADVANTAGE AND HUMAN CAPITAL*

When the conference turned to issues of competitive advantage for Michigan's industrial structure and the pattern of expenditures in labor force skills and education, participants expressed strong agreement that it is vital for Michiganders to come to terms with the fact that the state is deep into a fundamental transition from a relatively low skill manufacturing base to a higher skill and knowledge-based economy.

To that end, conferees agreed that Michigan needs to make a fundamental commitment to fostering a knowledge economy. This will involve expanded investment in education and knowledge infrastructure. Education, ranging from very early childhood through K-12, community colleges and four-year and graduate universities, was regarded as suffering from years of underinvestment, let alone actual cuts. Many conferees expressed the view that the entire human capital system needed to be refocused on what lies ahead rather than shoring up what some called legacies of the past. Several speakers made proposals for a system of life-long learning that earned broad agreement, especially when linked to the need for deep cultural changes involving the necessity of post high school education to succeed in a changing economic world and the importance of risk-taking and entrepreneurship.

Conferees agreed that an effective urban agenda was important, one that would both address equity and access issues and build cities that attract highly educated, younger knowledge workers.

Participants expressed frustration that many of the basic issues lying at the heart of Michigan's economic situation had not been addressed with sufficient depth or intensity by our state's leaders. There were calls for a mechanism that would facilitate expanded civic discourse on these issues that rises above the current political structure. Many Michigan citizens were yearning for a way to express their concerns and do something practical and concrete about our problems.

### **NEXT STEPS**

In the short term, this summary report is being emailed to all conference participants and invitees. This report, as well as a transcription of the notes from the various breakout groups, are available on The Center for Michigan ([www.thecenterformichigan.net](http://www.thecenterformichigan.net)) and CLOSUP ([www.closup.umich.edu](http://www.closup.umich.edu)) web sites. Conference participants and other interested individuals are encouraged to go to The Center for Michigan's web site to register and indicate how they wish to be involved in related and ongoing efforts.

Over the longer term, the conference organizers suggested a range of possible initiatives:

- ▶ Replicate this conference with other audiences to bring greater representation of the state's geographic and demographic diversity.
- ▶ Hold conferences on other subjects: the political process (both about the process and with practitioners); education, human capital and research; culture.
- ▶ Develop a serious civic education program involving schools, universities and the media.
- ▶ Explore opportunities for collaborative leverage between groups interested in carrying out this general agenda: The Center, CLOSUP, Detroit Renaissance, Michigan Future, Inc., etc.
- ▶ Create working groups of conference participants with continuing interest in further work on the subject areas of the conference.

Saying that a journey of 1,000 miles starts with taking only one step, Phil Power stressed that The Center for Michigan is in this effort "over the long haul" and invited people throughout the state to get involved. "This could be the start of something big," he said.