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The following is a public policy position paper on the Michigan economy written for the Ash Institute at Harvard University. This is one in a series of papers published by the Ash Institute regarding potential public policy solutions to the economic and political problems facing key states across the country.

Analysis of Current Michigan Public Policy

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Introduction

As of October, 2009, Michigan had a projected budget shortfall of \$2.8 billion for the current fiscal year. In recent history, the governor and Michigan legislature have used tax increases and service cuts as the primary approach for putting its fiscal house in order. The following are five policy suggestions Michigan's political leaders should consider to help the state become more efficient and more effective.

Five Policy Suggestions

1. The tax structure in Michigan is not friendly to business and must change.

According to the Public Policy Institute of New York, Michigan ranks 48 out of 50 states in

terms of its corporate tax burden. Michigan needs to reduce its top marginal corporate income tax rate from 9.01% to 5% or less and eliminate the 22% surcharge on the Michigan business tax.

2. Michigan has the highest unemployment rate in the country at 15.2% and was ranked last in economic performance by the American Legislative Exchange Council for 2009. Michigan needs to encourage labor policy that gives those employed the right to decide whether to financially support or join a union while giving employers more freedom to hire employees that best fit their needs. This is imperative given Michigan has lost more than 750,000 jobs since 2000 and needs to create a more entrepreneur friendly environment.

3. The state has 637,000 people holding public sector jobs making government the largest single source of employment in Michigan. The Michigan economy will lose more than 291,000 jobs in 2009 with most coming from the private sector. A 10% reduction in public sector jobs would fuel increased innovation in government while providing substantial cost savings to the state economy.

4. The Detroit Regional Chamber of Commerce has argued for more than a year that the Michigan state government can realize more than \$800 million dollars in savings annually by a) privatizing prison functions like food services and b) normalizing sentencing and parole guidelines to those of other Midwest states.

5. Change the retirement system for Michigan K-12 public school teachers from a defined benefit plan to a defined contribution plan. Under such a system the state would match teachers' contributions at a set rate with the pensions owned and controlled by the teachers and managed by a private company. Over time, the state would exit the pension business for teachers and not have to back-fund the pension program.

Conclusion

Given the ongoing fiscal crunch facing state and local government, innovative practices must be part of the solution. Michigan House Speaker Andy Dillon's proposal to pool health care for all state employees is a good start. The five reforms outlined above would serve as a strong foundation for a state government that makes the most of its limited tax dollars.

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