



The Flexible State Budget

By James M. Hohman

Summary

Some people claim that Michigan government has no room to cut taxes. But it is possible, thanks to economic growth and the flexibility lawmakers have in shaping the state budget.

Main text word count: 602

The first criticism levied against lowering the state income tax rate is to question where the money will come from. After all, the argument goes, the state has to balance its budget, unlike the federal government. Similar calls to spend more don't get this knee-jerk reaction, but no matter.

A number of commentators, from leftist columnists to the Republican budget director, have pointed out that the state only gets \$10 billion in revenue from taxpayers for its unrestricted general fund. But lawmakers have direct control over three times that amount.

State policies that assess state taxes and fees raise \$32 billion in revenue. Lawmakers have added some strings to this money, but it is ultimately under their control.

Consider how some of this money is restricted. The income tax is Michigan's largest pot of state-levied tax revenue, raising \$10 billion from taxpayers. Lawmakers have earmarked portions of the tax to the School Aid Fund — which can go to K-12 schools, community colleges and state universities — and a portion of it will go to the transportation budget starting later this year.

If lawmakers wanted to put more money into the General Fund, they could eliminate some of the earmarks they have put in place. Doing so takes as many votes as passing a budget, so it's not an unsurmountable challenge.

The governor has proposed a series of new taxes to fund some specific programs. If he gets what he wants, the tax revenue would go to restricted funds.

There are still other ways to move money around in the state budget. People who pay the gas tax should know this. The Legislature and governor found \$402 million in general fund money to pay for road repairs in 2015. But when they were able to muster enough support to raise fuel taxes, they pulled the General Fund money out of the transportation budget, leaving only a modest increase in funding for road repairs.

While lawmakers have plenty of flexibility, they can't do just anything they want. State fuel taxes need to be spent on transportation, according to the Michigan Constitution. The constitution also requires 73 percent of the sales tax to go to schools and 10 percent to cities, villages and townships. Changing any of those constitutional restrictions would take a large political lift. But lawmakers have found wiggle room even within those



In deciding on tax rates, lawmakers have control over more than just the General Fund.

limits. They assess an extra fuel tax that goes to environmental cleanup, paying off debt, and other areas of dubious connection to transportation.

Government revenue is also not a fixed pie. It's growing, up \$6.9 billion from recessionary lows. That's a 27 percent gain. Economic growth gives officials even more freedom to spend more in one area without cutting back elsewhere.

Both growth and flexibility are important budgetary tools. But the spending interests treat government like it is run at top efficiency, with nothing to cut and everything a vital priority. "We don't have any money in the General Fund; we can't cut taxes," they argue.

Those arguments seem to have worked on our lawmakers. The governor opposed a small reduction in the state income tax rate last year, as did 12 Republican House members. But the size of that cut was so small it would have been outweighed by increased collections in the income tax, including earmarked tax collections. The point is this: People should be skeptical when state officials argue that there's no money in the budget, especially when they point to a stagnant General Fund to make their point. There is money in the state budget. And it's growing. So yes, the state can afford a tax cut.

#####

James M. Hohman is the director of fiscal policy at the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan. Permission to reprint in whole or in part is hereby granted, provided that the author and the Mackinac Center are properly cited.

Both growth and flexibility are important budgetary tools. But the spending interests treat government like it is run at top efficiency, with nothing to cut and everything a vital priority.

Attention Editors and Producers

Viewpoint commentaries are provided for reprint in newspapers and other publications. Authors are available for print or broadcast interviews. Electronic text is available for this Viewpoint at mackinac.org/pubs/viewpoints.

Please contact:

HOLLY WETZEL

Communications and
Marketing Associate

140 West Main Street
P.O. Box 568
Midland, Mich. 48640

Phone: 989-631-0900
Fax: 989-631-0964
wetzel@mackinac.org

Mackinac.org

Facebook.com/MackinacCenter

Twitter.com/MackinacCenter