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## **Michigan personal income grows twice as fast as state-funded spending**

### ***“Out of control” state spending exposed as a myth***

Michigan’s personal income has increased nearly twice as fast as spending from state taxes and fees since 2000, a new analysis of Michigan’s budget shows, even after including the 2007 tax increases. And the state’s bite out of the average family’s paycheck today is about 15 percent less than in 2000.

State spending from state taxes and fees has increased by only 10 percent since 2000. Meanwhile, state personal income has increased during that period by 19.3 percent and inflation has increased by 17.4 percent.

Even after passage of the 2007 tax increases, data from the Senate Fiscal Agency shows state taxes are taking about 16 percent less of Michigan paychecks than in 2000. Today state government takes about 8 cents from every dollar earned in Michigan; in 2000, it took, 9.49 cents.

These facts were unveiled today in an analysis prepared by the Michigan Fiscal Responsibility Project, a coalition that seeks to provide factual information about taxes and government spending in Michigan.

“Michigan’s budget reality is far different than some special interest groups and many lawmakers are portraying,” said Dan Gilmartin, executive director of the Michigan Municipal League. “Michigan isn’t living beyond its means. What is happening is that decision makers from both parties are cutting the means regularly, planting the seeds for the budget chaos that is destroying our state’s ability to invest for the future.”

State revenue sharing for Michigan’s communities has been cut 31 percent since 2000, the analysis shows, a major factor in police and fire fighter layoffs. State funding for Michigan universities has been cut 10.5 percent in that same period, pressuring universities to raise tuition even as they have reduced programs in some areas. The analysis shows how those cuts have not been required by the state’s economic doldrums, but are the result primarily of tax cuts imposed in the late 1990s and during this decade, including major reductions in state income tax rates, increases in state income tax deductions, elimination of estate taxes on the very wealthy, and business tax reductions.

“It’s no wonder Michigan is experiencing fiscal chaos,” said Michael A. Boulus, executive director of the Presidents Council, State Universities of Michigan. “State tax cuts imposed during this decade, coupled with huge spending increases on health care for the poor and corrections, mean most other areas of the budget have been cut dramatically – and will continue to be cut for the foreseeable future.”

Kyle Caldwell, president and CEO of the Michigan Nonprofit Association, said that the cuts have diminished the ability of private sector nonprofits to address growing needs in communities around the state. “A recent survey of our members found that nearly half had cut staff due to state budget cuts, and nearly 40 percent said they were unable to serve as many constituents as previously. This means lawmakers cannot expect to find nonprofits picking up the slack if they cut state government further.”

The chaos in the state budget is affecting Michigan’s economy, creating an impression of crisis that has been more political than economic in nature. National headlines warning of state shutdowns and headlines that lead the public to believe they are paying more – not less – in taxes than in 2000 are counterproductive as the state seeks to rejuvenate itself.

The members of the MFRP recommended that the state:

1. **Adopt a “Pay as you go” approach to state tax cuts.** Any recommendation of further tax cuts or tax expenditures should be accompanied by a proposal for what programs would be cut to pay for the tax cut.
2. **The Legislature should put a priority on finding reforms that will result in taxpayers getting high quality services at the lowest cost.** All areas of the budget should be examined for possible reforms that lower costs without sacrificing essential services.
3. **The state should complete a serious review of tax expenditures.** All should be reviewed carefully, and reasons for continuing them should be specifically expressed by lawmakers – or they should be eliminated.
4. **This year’s budget discussions should recognize what has already been cut since 2000.** Clearly further cuts in revenue sharing, higher education and human services are unwarranted given the significant cuts those areas have already absorbed since 2000.

“It’s time to break the myths, so we can move our state forward instead of fighting battles based on misinformation,” Gilmartin said. “It’s clear we need to transform Michigan into a state that creates and attracts talent. Maintaining a high quality of life, investing in higher education and cities and helping those down on their luck to get back on their feet is vital if we are going to return to prosperity.”

Among the myths busted by the MFRP analysis:

**Myth One: State personal income is falling.**

**FACT: From 2001 to 2008, state personal income has increased by 19.3 percent.** Inflation has increased by 17.4 percent.

**Myth Two: State taxes and state spending are growing faster than personal income.**

**FACT: State personal income growth has almost doubled the rate of spending from state resources, i.e., state taxes and fees.** State personal income has grown by nearly 20 percent. Spending from state resources – even after the tax increases of 2007 – has increased by 10 percent.

**Myth Three: Every segment of the state’s budget has seen huge increases in state spending.**

**FACT: Only two major areas of state government have seen growth faster than the rate of inflation: Medicaid spending to cover health care for the poor, and corrections.** Every other area has increased slower than the rate of inflation, and far slower than the growth of incomes in our state.

**Myth Four: The overall state budget, including federal funds, has increased faster than Michigan can afford.**

**FACT: Since 2000, the overall state budget has increased by less than the rate of state personal income – even after taking into account the 2007 tax increases.** And the only way the overall budget has been able to increase at a rate even near state personal income or inflation has been because of a massive infusion of federal funds, the majority earmarked to cover health care for the poor.

**Myth Five: State government is taking a larger bite out of our paychecks than ever.**

**FACT: The bite out of each paycheck today is far lower than it was in 2000.** In 2000, state government took 9.49 cents out of every dollar a Michigan family earned. This year, that tax bite is about 8 cents.

**Myth Six: State spending has gone out of control since 2000 – before that, the state budget was under control.**

**FACT: From 1994 to 1999, state spending from state resources rose faster than the rate of inflation and faster than the growth in personal income during that period.** According to the Senate Fiscal Agency, state spending from state resources grew 25.5 percent during that period, while state personal income increased by 24.8 percent. That is contrasted with the period since 2000, when state spending from state resources grew by 10 percent, compared to a 19.3 percent increase in state personal income. The reality is government spending has grown far slower since 2000 than during the late 1990s.