

## Boom is over, and with it fun and games in state budget

Next year's election will be the biggest in years. With Gov. John Engler leaving office, the governorship is up for grabs.

Term limits will purge most sitting members of the state Senate. Ambitious House members are jostling to move up. Poised to run for the state House are shouls of local politicians.



Phil Power

Instead, financial experts are predicting Michigan's economy is heading into a downturn comparable to the tough times in the 1970s and early 1980s produced by the Arab oil embargo and the Gulf War in 1991.

Tax collections were headed south even before the terrorist attacks on Sept. 11. With a full-blown recession almost certainly in the cards, the revenue picture looks very, very bleak. It's clear the state budget that begins this week (on Oct. 1) is based on wildly optimistic revenue estimates, and some in Lansing are saying the budget for next year could be out of balance by \$1 billion or more.

That puts candidates who were looking forward to more fun and games while in office in a real bind. The obvious financial policy remedy is to cut costs and — gasp! — raise revenue. But advocating the obvious becomes tough in a competitive and uncertain election year.

When it comes to cutting appropriations, most Democrats roll their eyes and look for ways to sidle out of the room. Most Republicans are fixated on cutting taxes. Both are utterly unprepared to answer the simplest questions about what they would do about the state's financial situation if elected. In an attempt to be helpful to those running for office, I offer two modest proposals.

First, postpone the scheduled reduction in income and business taxes until the economy picks up. Freezing the present rates at current levels would yield around \$200 million in revenue this fiscal year and almost \$600 million next year. Although this isn't going to cure budget shortfalls of \$1 billion, it ain't chicken feed.

Second, stop burying our heads in the sand about imposing sales taxes on purchases made over the Internet.

There is no doubt that shopping on the 'Net is the wave of the future.

Customers accustomed to pointing and clicking with their mouse are perfectly aware they aren't paying sales tax when the FedEx package arrives.

The Michigan tax form has a line where taxpayers can enter the 6-percent sales tax owed on purchases made from retailers who do not have a physical presence in Michigan. Hands up, everybody who has meticulously kept records and entered the appropriate 6 cents on every dollar spent!

Treasury estimates that not taxing purchases made on the Internet will cost Michigan \$240 million this year. With retail sales still surging on the Internet, the revenue lost is likely to increase substantially in years to come. (While we're at it, consider that not taxing out-of-state retailers is in fact a 6-percent penalty against companies that

**The fact is that the 10-year boom that made holding office so much fun — plenty of revenue to pay for both tax cuts and more spending — is over. Done. Finished.**

have stores in Michigan and provide jobs to our residents.)

From his position as chairman of the National Governors Association, Gov. Engler is leading an attempt to set up a collection system for taxes on Internet purchases. Some 20 states have already signed up, not including Michigan, yet.

The bill stalled in House Tax Policy Committee this spring, where conservatives assailed it as a new tax that will stifle the promise of e-commerce. Leadership managed to bypass Tax Policy by running a new bill through House Commerce. Once it reached the floor, representatives narrowly approved the measure in a 57-50 vote.

I realize neither of my modest suggestions are as much fun as having it both ways, as we did in the 1990s. But any candidate with even a shred of responsibility is going to have to come up with some plausible policy for resolving what, as of now, looks like a very tough economic dilemma.

**Phil Power is chairman of HomeTown Communications Network Inc., the company that owns this newspaper. He welcomes your comments, either by voice mail at (734) 953-2047, Ext. 1880, or by e-mail at ppower@homecomm.net**



Mike Malott

## Bennett, Shulman top business hero list this week

Depending on who is telling the story, Sen. Loren Bennett, R-Canton, and Rep. Marc Shulman, R-West Bloomfield, might just rank as the heroes of the business community this week.

Either that or it was just another day of budget negotiations.

Bennett and Shulman were key players in the debate over who should be covering the costs of administration of workers compensation. Earlier this year, Gov. John Engler began pushing to drop the state's \$15.8 million support for the office and cover the costs through an assessment levied on businesses.

Business people, who already cover the entire cost of benefits paid to workers injured on the job, reacted strongly to the proposal. They argued that both the state and workers derive some benefit from the program, so it would not be unreasonable for the state to continue paying for administration from the General Fund through the budget for the Department of Consumer and Industry Services.

The debate, which started in the spring and caused the delay of passage of the \$570 million CIS budget, had to be settled before the Oct. 1 start of the new fiscal year.

Bennett, who initially drafted the CIS budget with funding for workers comp in it, and Shulman, head of House Appropriations, both opposed the governor's plans.

As Rich Studley of the Michigan Chamber of Commerce tells it, the pair of lawmakers became the target of intense lobbying by the administration as the budget bill neared a final vote on the House floor. The two were reportedly dragged into Sen. Harry Gast's office in the Capitol building and subjected to some heavy arm-twisting.

The administration spelled out the choices: Assess the cost to businesses through some new form of tax on businesses, or draw money from a penalties and interest account in the unemployment compensation system.

That wasn't much more acceptable, Studley contended, because it would be inappropriate to use money intended for unemployed workers to pay for services to injured workers. Essentially, that would constitute mingling the accounts.

Bennett and Shulman countered with an ultimatum of their own, according to Studley's version. Either the administration could find the money somewhere else in the budget in one hour or lawmakers would go in search of another place to cut

themselves.

Todd Harcek, chief of staff for Shulman, goes along for the most part with Studley's version.

The two lawmakers had to be firm with the administration that the bill was not going to pass without financing for workers compensation administration in it. Lawmakers got only two shots at passing a bill.

Having been rejected once before, had the bill failed again, it would have had to be rerafted, and the process would have had to start all over again.

They told the governor's office that to come up with the money, they would have to "look within."

**It can be pretty uncomfortable when lawmakers find themselves in the position of facing down their own governor.**

But Bill Sullivan, aide to Bennett, says there is only a kernel of truth to the story. Yes, Bennett and Shulman went to Gast's office to meet with the administration, but only because it was the only office available for them to use.

He says there were no ultimatums, no arm-twisting. Yes, Shulman and Bennett did give the administration one hour to find money from elsewhere in the budget, but only because time was running out and the bill was on deadline for passage. It took a little longer — an hour and half — for Engler's office to find enough money to cover cost from two lapsing accounts in Securities and Corporations, Sullivan explained, but it was enough of a compromise to allow the bill to pass.

It can be pretty uncomfortable when lawmakers find themselves in the position of facing down their own governor.

Of course when it happens, they also are not eager to point out that there has been dissension in the party ranks either.

Either way, it appears the business community won the day, and folks in business have Bennett and Shulman to thank for it.

**Mike Malott reports on the local implications of state and regional events. He can be reached by phone at (810) 227-0171 or by e-mail at mmalott@homecomm.net**

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The family of Robert G. McIlvaine wishes to thank all those who have joined them in remembering their dear son.

*When a young life, like Bob's, is extinguished just as it has begun to burn at its brightest... our whole world is that much darker.*

*But the pain of our loss is soothed by the knowledge that Bob's spirit shines on in the hearts of the thousands of friends and strangers who have expressed their love and support to lighten these darkest of days.*

The family asks that any further support be directed to the Robert G. McIlvaine Memorial Fund at Princeton University, c/o George F. Schmucki, Princeton University, P.O. Box 140, Princeton, NJ 08544-0140. Checks should be made payable to Princeton University and include mention of the Robert G. McIlvaine '97 Memorial Fund.