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SOS (TABOR) WILL NOT JUMPSTART MICHIGAN'S ECONOMY

By Karen Lyons and Iris J. Lav

Michigan's economy is in dire straits. Between 2000 and 2005, Michigan's six percent decline in employment was the lowest employment growth in the nation and its personal income growth was second lowest among the states. Proponents of the Stop Overspending (SOS) initiative — a constitutional amendment modeled after Colorado's Taxpayer Bill of Rights (TABOR) — have sought to take advantage of residents' concerns about Michigan's economic troubles by promoting their proposal as a cure for the economy. They argue that Colorado has experienced strong economic growth since TABOR's adoption in 1992 and therefore Michigan could be expected to have similar growth if it were to adopt SOS.¹ This is a flawed and misleading argument.

- Colorado's economic performance in the 1990s was not caused by TABOR. Colorado had a high growth economy prior to the amendment's adoption in 1992 and the conditions for continued high growth already were firmly in place.
- A comprehensive study by noted economists found that Colorado's economic growth was about the same as it would have been without TABOR. That study controlled for other factors that could have influenced economic growth in Colorado relative to other states, such as industry mix, educational attainment and military spending.

KEY FINDINGS

- Claims that the SOS proposal (similar to Colorado's TABOR) will improve Michigan's economy are unfounded.
- Colorado had a strong economy in the years after its adoption of TABOR, but research shows that TABOR was not the cause of this economic growth.
- Differences between Colorado's economic growth rate and that of Michigan are attributable to differences in the states' geographies, populations and economic bases that long predate TABOR; SOS would do nothing to change these factors in Michigan's favor.
- Far from improving the economy, SOS would likely hinder the state's economic development by preventing adequate investments in schools, higher education, infrastructure, and transportation.

¹ Such claims include: "The Stop Overspending amendment will re-invigorate Michigan's economy, and lead to the creation of more jobs and more prosperity for Michigan residents" (Ray Wilson, the Kalamazoo County Taxpayers Association, www.sosmichigan.org); "the proposal...would be an economic benefit to the state and help to lure more business investment" ("Report adds to debate about initiative to restrict state spending," March 24, 2006, Kalamazoo Gazette); and "Backers of the petition drive say the Colorado constitutional amendment ... boosted that state's economy, adding that Colorado is doing far better than Michigan" ("Group targets state spending," June 19, 2006, The Daily Oakland Press).

Business Leaders in Colorado Frustrated with TABOR

The effort to suspend TABOR for five years—known as Referendum C—was strongly backed by Colorado’s business community. After witnessing declines in the public services the business community cares most about (higher education, transportation, and infrastructure), over 80 businesses and business groups, including 10 Chambers of Commerce, endorsed the TABOR suspension. Some business groups suggest that the successful campaign to suspend TABOR already has had some positive impacts on the business climate.

- “For businesses to be successful, you need roads and you need higher education, both of which have gotten worse under TABOR and will continue to get worse.” — Tom Clark, Executive Vice President of the Denver Metro Chamber of Commerce¹
- “[Business leaders] have figured out that no business would survive if it were run like the TABOR faithful say Colorado should be run — with withering tax support for college and universities, underfunded public schools and a future of crumbling roads and bridges.” — Neil Westergaard, Editor of the Denver Business Journal²
- “The business community has said this is not good for business, and this is not good for Colorado.” — Gail Klapper, director of the Colorado Forum, an organization of 60 leading CEOs³
- “But while the unrealistically simplistic TABOR strategy is being executed, by constitutional edict, the decay of Colorado's balance sheet, its net worth, representing the publicly owned capital stock that provides the foundation for economic activity, is unprecedented. It will, if unchecked, eventually lead to economic decay.” — Rocky Scott, former president of The Greater Colorado Springs Economic Development Corporation⁴
- “The bottom line is that institutions of higher learning in Colorado will continue to suffer funding shortfalls under the present system. If you ask the business community, a strong system of higher education is at the top of the list for economic development and the creation of jobs.” — Dick Robinson, CEO of Robinson Dairy and member of the Colorado Economic Futures Panel⁵
- “[Colorado's higher education] system is at risk. The way we're going — because of TABOR and Amendment 23 — we're going to be basically out of public funds. . . . [S]peaking from a business standpoint, we're concerned because our success depends on the quality of the higher education system.” — Raymond Kolibaba, Vice President of Space Systems, Raytheon Company⁶
- "Referendum C's passage was a statement by the electorate that assured business that Colorado's transportation network and higher education system would be able to meet their needs. We saw a spike of activity of out-of-state businesses interested in relocating here when Referendum C passed." — Joe Blake president of the Denver Metro Chamber of Commerce⁷

¹ Quoted in Daniel Franklin and A.G. Newmyer III, “Is Grover Over?,” *Washington Monthly*, March 2005.

² Neil Westergaard, “Business folks fed up with TABOR worship,” *Denver Business Journal*, July 22, 2005.

³ Will Shanley, “State businesses unite to urge TABOR deal,” *The Denver Post*, March 9, 2005.

⁴ Rocky Scott, “Lawmakers must end partisan politics and solve state's problems,” The Club for Growth, January 2005, <http://www.coloradoclubforgrowth.org/ACommonMission.htm>.

⁵ Dick Robinson, “Solutions to Funding Colorado's Colleges,” *The Denver Post*, April 17, 2005, p. E5.

⁶ Quoted in Suzanne Weiss, “Colorado Leaders on Education. Picking Their Brains,” *HeadFirst*, May 12, 2005, www.headfirstcolorado.org/adm/view_article.php?story_id=132.

⁷ “Ref. C aids economic recovery,” *The Denver Post*, June 30, 2006.

- As everyone knows, Michigan’s economic woes are in great part due to the declining auto industry. This traditional manufacturing industry is the cornerstone of Michigan’s economy and has been for roughly 100 years. Colorado, by contrast, has a strong concentration of high-technology, “knowledge-based” industries. Nothing in SOS would affect the competitive pressures bedeviling the auto industry, nor would it change the industrial mix in the state.
- While there is no reason to think SOS would cure Michigan’s economic troubles, there are grounds to believe it could exacerbate them. By restricting the state’s ability to develop and finance infrastructure and economic development plans, invest in education and improve the quality of life in the state, SOS would take away some of the most effective tools that can be used to stimulate economic growth. An inability to adequately fund higher education under SOS could have serious consequences for Michigan. For example, a new report released by Michigan Future, Inc—a nonprofit organization headed by business leaders, academics and educators—concluded that “the single most important thing policy makers can do for the future economic success of Michigan and its regions is to ensure the long-term success of a vibrant and agile higher education system.”² In Colorado, voters suspended TABOR in November 2005 largely because business leaders felt it was hurting their ability to operate profitably in the state. (See box on pg. 2.)

Evidence Shows that Colorado’s Economic Growth Not a Result of TABOR

Proponents of TABOR proposals like SOS often cite Colorado’s economic growth since TABOR’s adoption in 1992 as proof of TABOR’s ability to improve an economy. Such claims are misleading because they inappropriately suggest that TABOR *caused* the growth. It is true that Colorado had high economic growth during the same period in which TABOR had been in effect, but there is no evidence to support causation. And there is significant research suggesting that TABOR was *not* behind this growth. More recently, after more than a decade with TABOR and its requirements for ever larger expenditure reductions, Colorado business leaders have concluded that TABOR has impeded economic growth in the state.

Colorado Outperforms the Nation Decades Before TABOR

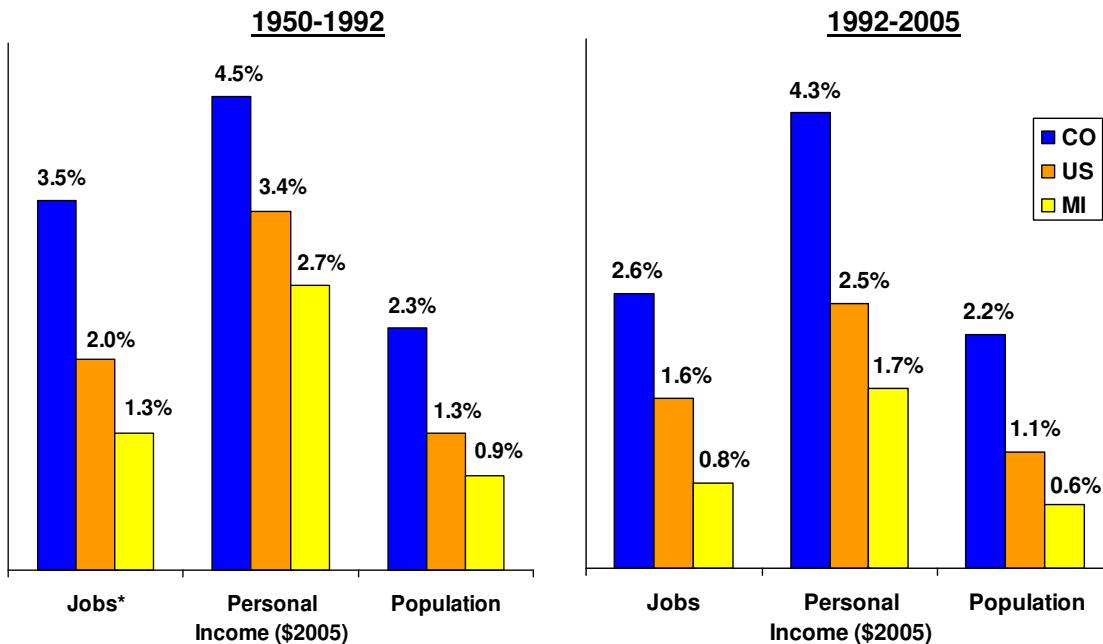
Colorado had strong economic growth long before TABOR was adopted. Since the 1950s, the state has outperformed the nation in employment, personal income and population growth. From 1950 to 1992, average annual job growth was 1.5 percentage points higher in Colorado than in the nation, personal income growth was 1.1 percentage points higher and population growth was 1.0 percentage points higher. (See Figure 1.)

Colorado owes much of this historically strong economic growth to a combination of public investment, private investment, and geography.

² Michigan Future, Inc., “A New Agenda for Michigan,” June 2006. Available at: <http://michiganfuture.org/Reports/NewAgendaFinalReportComplete.pdf>

FIGURE 1

MICHIGAN'S ECONOMIC GROWTH LOWER THAN COLORADO AND THE NATION BEFORE AND AFTER TABOR



*Jobs data is from 1956-1992, as the Bureau of Labor Statistics doesn't have earlier data for Michigan.

Source: CBPP analysis of data from the Bureau of Labor Statistics, the Bureau of Economic Analysis and the US Census Bureau

The first massive public investments in Colorado were made by the US military and date back to World War II and the Cold War era. They include the Lowry Air Force Base, the North American Aerospace Defense Command (NORAD), and the Air Force Academy. These investments spurred the growth of the private defense sector, with the Martin Company (now Lockheed-Martin) and Sundstrand (now Hamilton Sundstrand) both building plants in Colorado.

An analysis by the Federal Reserve Bank of Kansas City found that these investments also “attracted and produced scores of scientists, engineers, and computer specialists over the years, many of whom, in time, have started high-tech business of their own.”³ In addition, larger firms such as Hewlett-Packard, Storage Technology (now known as StorageTek, a unit of Sun Microsystems), and Texas Instruments also located in Colorado.

One significant draw for these high-tech firms was the quality and quantity of Colorado’s workforce. It consisted not only of those associated with the military installations, but also with graduates of the state’s institutions of higher education — Colorado State University and the University of Colorado. These universities’ strong research programs equipped students with the

³ Chad Wilkerson, “How High Tech Is the Tenth District?,” Federal Reserve Bank of Kansas City, *Economic Review*, Second Quarter 2002.

education and skills needed to succeed in the high-tech industry. Moreover, by 1991 more adults in Colorado had completed at least four years of college than in any other state in the nation.

Another draw was the mountainous landscape and host of recreational opportunities in Colorado. These made it an attractive place for workers and their families to move to, as well as a destination spot for tourists.⁴

All of these factors not only played an essential role in Colorado's strong economic performance before TABOR, but they also were crucial to Colorado's economic growth after TABOR's adoption. When the U.S. high-tech sector took off in the 1990s, Colorado was primed to enjoy a disproportionate share of the benefits. Also, as the nation became wealthier in this period, Colorado's tourism industry boomed as more people were able to travel and take advantage of the state's natural assets. It was these factors, not TABOR, that were responsible for Colorado's economic growth in the 1990s.

Studies Support the Conclusion That TABOR Was Not the Cause of Growth

Two analytical studies confirm that Colorado's economic growth cannot be attributed to TABOR. The first study was done by Colorado's nonpartisan Legislative Council. It finds that "Colorado typically outperforms the nation" and that "TABOR's contribution to the state's economic prosperity, if any, cannot be statistically quantified."⁵

The second study was conducted by two prominent economists in the area of state and local public finance, Therese J. McGuire of Northwestern University's Kellogg School of Management and Kim S. Rueben of the Urban Institute.⁶ McGuire and Rueben used statistical analysis to separate TABOR from other factors that were present in Colorado both before and after TABOR's enactment, such as the industry mix and the high levels of educational attainment and military spending. Their analysis finds that TABOR did little or nothing for Colorado's economy. Indeed, controlling for those other factors, their analysis finds that Colorado had only slightly better growth than would have been expected in the first five years after TABOR, but weaker-than-expected growth in the following five years. For the entire 10-year period, McGuire and Rueben report that Colorado's economic growth was about the same as what it would have been without TABOR.

Colorado's Post-TABOR Performance Similar to its Rocky Mountain Neighbors

While Colorado's economy outperformed the US average both before and after TABOR, its growth was not extraordinary when compared with its neighboring states—none of which have a TABOR. Nevada's average annual job growth in the post-TABOR years has been one and a half

⁴ For more information, see Karen Lyons and Nicholas Johnson, *Education and Investment, Not TABOR, Fueled Colorado's Economic Growth in 1990s*, Center on Budget and Policy Priorities, March 23, 2006, <http://www.cbpp.org/3-23-06sfp.htm>.

⁵ Colorado Legislative Council, "House Joint Resolution 03-1033 Study: TABOR, Amendment 23, the Gallagher Amendment, and Other Fiscal Issues," September 2003, www.state.co.us/gov_dir/leg_dir/lcsstaff/2003/research/03TaborFinalReport.pdf.

⁶ Therese J. McGuire and Kim S. Rueben, *An Examination of the Economic Effects of Colorado's TABOR Law*, Economic Policy Institute: 2006. Available at <http://www.epi.org/content.cfm/bp172>.

times that of Colorado's. Arizona, Idaho, and Utah also have had higher job growth than Colorado. Personal income growth and population growth have been higher in Arizona and Nevada than in Colorado in these last 13 years. (See Table 1.)

Furthermore, comparing Colorado's performance to that of its neighbors in the 12 years prior to TABOR to the 12 years since its implementation shows that Colorado's rankings on key indicators remained unchanged. In both periods, Colorado ranked 5th among its neighbors in job growth and 2nd in per capita personal income growth.

**TABLE 1: ECONOMIC INDICATORS:
AVERAGE ANNUAL CHANGE, 1992-2005**

	Jobs	Personal Income (\$2005)	Population
Arizona	3.9	4.9	3.3
Colorado	2.6	4.3	2.2
Idaho	3.0	3.6	2.2
Montana	2.2	2.7	1.0
Nevada	5.1	5.8	4.6
New Mexico	2.3	3.0	1.5
Utah	3.1	4.1	2.3
Wyoming	1.9	3.1	0.7
Mountain States	2.8	3.8	2.2

Source: CBPP analysis of data from Bureau of Labor Statistics, Bureau of Economic Analysis, and Census Bureau.

Colorado's Economic Growth Stalled in Early 2000s

Colorado's growth stalled in the early 2000s. Since the nationwide recession began in March 2001, Colorado is the only Rocky Mountain State that has experienced virtually no job growth in the ensuing 59 months. (See Table 2.) Nationwide, from 2001 to 2005, Colorado ranked 47th in per capita personal income growth and 40th in job growth.

Overall, since TABOR's adoption, Colorado's economic growth has been slightly lower than its growth in previous decades: job growth, personal income growth and population growth were all greater in the pre-TABOR years (1950-1992). (See Figure 1.)

Michigan's Economy is Very Different Than Colorado's

In addition to the extensive evidence that TABOR did not improve economic growth in Colorado, it is important to understand that Michigan and Colorado have very different economic histories, economic structures, and geographies. These variables have played an essential role in each state's economic growth pattern and continue to do so today. A proposal such as SOS that is modeled on Colorado's TABOR cannot alter the factors that form the basis of Michigan's economy.

**TABLE 2: JOB GROWTH:
AVERAGE ANNUAL CHANGE,
MARCH 2001- JANUARY 2006**

Arizona	12.8
Colorado	0.2
Idaho	10.3
Montana	7.5
Nevada	19.1
New Mexico	8.7
Utah	8.0
Wyoming	9.8
Mountain States	9.3

Source: CBPP analysis of data from Bureau of Labor Statistics

Michigan is Middle of the Road on Tax and Spending Measures

Proponents of SOS often paint Michigan as a high tax and spending state. However, a comparison of Michigan to other states shows that this claim is unfounded. Michigan is in the middle of the pack on tax and spending measures. (Please note that a low ranking corresponds to a relatively high level of taxes or spending.)

- According to the US Census Bureau, Michigan ranked 27th highest in the nation on state and local spending as a share of personal income for FY 2004. (That is, 26 states had higher spending.) It ranked 34th highest in state spending.
- According to the National Association of Budget Officers (NASBO), Michigan ranked 35th in the nation in state spending as a share of personal income in FY 2005. NASBO data also shows that Michigan's spending is the lowest it has been since 1997.
- According to the US Census Bureau. Michigan ranked 29th in the nation on state and local taxes as a share of personal income.
- According to the Council on State Taxation (COST) study produced annually by Ernst and Young, Michigan ranks 36th on state and local business taxes as a share of Gross State Product.

Michigan's Economic Growth Lags Behind Colorado and the Nation

Unlike Colorado, which has consistently outperformed the national economy on job growth, personal income growth and population growth, Michigan's performance on these three indicators has been below the US average since the 1950s. (See Figure 1.) The differences between Colorado and Michigan are substantial during this time period. For example, average annual job growth from 1950 to 1992 was 2.2 percentage points lower in Michigan than in Colorado, and 1.8 percentage points lower from 1992 to 2005.

Much of these differences can be attributed to the auto industry, an industry that provides the greatest contrast between the economies of Michigan and Colorado.

Michigan's Economic History is Intimately Linked with the Automobile Industry

While Colorado's economy was shaped by military investments motivated by WWII and the Cold War, Michigan's economy was shaped by the invention of the automobile. The auto industry has been the cornerstone of Michigan's economy for over 100 years. According to Michigan's nonpartisan Senate Fiscal Agency, "Michigan's economic fortunes have historically been very closely linked with sales of domestically produced light vehicles."⁷ This link has brought Michigan both prosperity and hardship.

The automobile industry boomed for the first 30 years of the century, declined during the Great Depression, transformed to a prodigious producer of war material in the 1940s, and grew with

⁷ Senate Fiscal Agency, "Michigan's Economic Outlook and Budget Review: FY 2004-05, FY 2005-06, and FY 2006-07." January 11, 2006.

suburbanization in the post-war years. After a slump in the 1970s, Michigan's automobile industry partially rebounded thanks to America's growing wealth and newfound love of SUVs. Between 1980 and 1994, Michigan motor vehicle production increased by 58 percent and by 1994, Michigan's share of domestic motor vehicle production was 28 percent. Its share of worldwide production was seven percent, lower than it had been 40 years prior, but still substantial.

In the 1980s and 1990s, Michigan's economy also began to become more diversified, as the share of service sector jobs increased from 43 percent in 1970 to 63 percent in 1999.⁸ These new service jobs helped the unemployment rate fall from a high of 15.6 in 1982 to 3.8 in 1999.

Unfortunately, the story does not end there. International competition and a national recession in the early 2000s again combined to devastate the auto industry and Michigan's economy. Between 2000 and 2005, Michigan's vehicle production fell by 21 percent, its employment declined by six percent (the lowest employment growth in the nation), and its personal income grew by less than one percent (the second lowest personal income growth in the nation).⁹ According to the Federal Reserve, auto industry employment in the state fell by 23 percent from 2001-2005. The Federal Reserve also estimates that for every job lost in the auto industry, Michigan loses another 3.5 jobs.¹⁰ In 2005, GM announced plans to close a number of Michigan plants and in early 2006, Ford announced similar plans.

Michigan's Current Economic Structure Differs Greatly from Colorado's

Although the auto industry has declined over the last few decades in Michigan, Michigan's economy is still dependent on the actions and performance of the auto industry.¹¹ According to the Michigan Senate Fiscal Agency, transportation equipment manufacturing (i.e. the motor vehicle sector) is the largest industry in Michigan and many "nonmanufacturing sectors rely heavily, either directly or indirectly, on activity in the motor vehicle sector."¹² This sharply contrasts with the structure of Colorado's economy.

Colorado's economy is more concentrated in knowledge-based industries—work done in offices, school and hospitals—while Michigan's economy is more manufacturing-based—work done in factories, making products.¹³ In Colorado, these knowledge-based industries include large computer hardware, software, telecommunications, and aerospace sectors. In Michigan, much of this manufacturing work is related to the automobile industry. According to data from the Bureau of

⁸ Department of Treasury, "2000 Economic Report of the Governor- Progress in the 1990s," February 2001.

⁹ Economic and Revenue Forecasts, FY 2006 and FY 2007. Consensus Revenue Estimating Conference.

¹⁰ Randall Eberts, "Profile of Michigan's Economy," September 1, 2005. Federal Reserve Bank of Chicago.

¹¹ All economic forecasts conducted for Michigan (e.g. by the Senate Fiscal Agency or the Research Seminar in Quantitative Economics at the University of Michigan) take into account the behavior of automobile industry.

¹² Senate Fiscal Agency, "Michigan's Economic Outlook and Budget Review: FY 2004-05, FY 2005-06, and FY 2006-07." January 11, 2006.

¹³ These include wholesale trade, information, financial activities, professional and technical services, management of companies, education, health care and assistance, and government, except education. Glazer and Grimes. "A New Path to Prosperity? Manufacturing and Knowledge-Based Industries as Drivers of Economic Growth," July 2004.

Economic Analysis, the manufacturing sector's share of total employment in Michigan is three times that of Colorado.

This structural difference has significant consequences, affecting the outlook for both employment growth and income growth. Jobs in the manufacturing sector nationally have been declining since 1998 due to increases in productivity, lower demand and foreign competition.¹⁴ This trend is unlikely to reverse, suggesting that Michigan cannot depend on a strong rebound in its traditional sectors. Moreover, Lou Glazer of the nonpartisan organization Michigan Future, Inc. and Donald Grimes of the University of Michigan, found that in almost all states where earnings from manufacturing jobs as a share of their total job earnings were greater than the national average in 2001(such as in Michigan), per capita income was below the national average.¹⁵ And of the 13 states where earnings from jobs in knowledge-based industries as a share of their total job earnings were greater than the national average (such as in Colorado), 12 of them had per capita income above the national average.

Another important difference between the two states is the education level of their workforce. In 1991, the year before TABOR was adopted, Colorado ranked first in the nation in the percentage of its population over 25 with a bachelor's degree. In 2004, Michigan ranked 36th on this measure.¹⁶ As described above, an educated populace played a large role in Colorado's economic growth: it attracted high tech firms to locate in Colorado, as jobs in knowledge-based industries require more education. Moreover, these jobs were also higher-paying. In contrast, the manufacturing jobs in Michigan employ less educated workers and are lower-paying.¹⁷

Finally, there is tourism, which contributed substantially to Colorado's growth in the 1990s. In this case, the two states share some similarities, as tourism is important to both of them. However, it plays a relatively larger role in Colorado's economy: in 2003, tax revenue in the travel and tourism industry equaled 14 percent of all state and local tax revenue in Colorado, compared to just 7 percent in Michigan.¹⁸

¹⁴ Congressional Budget Office, "What Accounts for the Decline in Manufacturing Employment?," February 18, 2004, <http://www.cbo.gov/showdoc.cfm?index=5078&sequence=0>.

¹⁵ For example, 23.8 percent of all Michigan earnings come from manufacturing jobs, while the national average is only 13.8 percent. In Colorado, 27.6 percent of all job earnings come from jobs in the knowledge-based industries, while the national average is 23.3 percent.

¹⁶ Source: U.S. Census Bureau, Current Population Survey.

¹⁷ While compensation is higher in the automobile industry, due to unionization, this is not true for all manufacturing sectors within the state. Furthermore, since it is the highly compensated automobile sector jobs that have been lost, per capita income in Michigan has declined compared to the rest of the nation. See Randall Eberts, "Profile of Michigan's Economy," September 1, 2005. Federal Reserve Bank of Chicago.

¹⁸ This includes federal, state, and local taxes generated by both domestic and international travel and tourism in calendar year 2003. State and local tax revenue is for FY 2004. Sources: US Census Bureau data. US Chamber of Commerce and the Travel Industry Association of America, "The Impact of Travel and Tourism on the U.S. and State Economies, 2005."

Higher Education in Colorado Deteriorated Under TABOR

Colorado's system of higher education was particularly hard hit under TABOR. In fact, higher education experienced the greatest declines in state funding of all major budget areas. This lack of state funding had serious consequences.

- Between 1992 and 2005, Colorado declined from 35th to 48th in the nation in higher education funding as a share of personal income. In 1992, Colorado spent close to the national average on higher education by this measure; by 2005, it spent just 55 percent of the national average.¹
- Between 1995 and 2005, funding per resident higher education student in Colorado dropped by 31 percent (from \$5,188 to \$3,564) after adjusting for inflation. Funding per resident student in Colorado is now lower than at any time in the past 20 years, after adjusting for inflation.²

One reason for this decline is the fact that revenue from tuition is counted towards the TABOR limit. Thus, as TABOR began to squeeze the budget and legislators were forced to cut state funding to higher education, universities couldn't make up the difference by raising tuition. Any money they would have raised would have been above the limit and thus, not available to spend. As a result, higher education became starved for funds. The SOS proposal treats tuition in the same way and thus higher education in Michigan is likely to experience a similar deterioration if SOS is adopted.

¹ CBPP analysis of data from the Center for the Study of Education Policy, Illinois State University and the Bureau of Economic Analysis.

² CBPP analysis of Colorado Joint Budget Committee (JBC) data. Funding is expressed as General Fund appropriations for the Department of Higher Education in 2004-05 (fiscal year 2005) dollars per resident student full-time equivalent. The comparison starts in 1995 because that is the first year that fully comparable data are available by institution.

Can Tabor Make a Difference?

Michigan's economy arguably will need significant transformation and diversification if it is to be prosperous into the future. SOS is unlikely to be able to help that process, and could impede it. As the comments of the business leaders in the box on p. 2 make clear, economic growth is dependent on strong public schools, excellent colleges and universities, and on a high quality of infrastructure and transportation. For Michigan's economic future, higher education is particularly important. The Michigan Lieutenant Governor's Commission on Higher Education and Economic Growth "believes that Michigan's long-term economic and fiscal health can only be secured if it makes the development of a highly educated population an overarching policy."¹⁹ Similarly, Michigan Future, Inc. finds that "higher education institutions, both universities and community colleges, are the most important assets we have in developing the concentration of talent we need to be successful in a knowledge-based economy."²⁰ Without a strong higher education system, as well as the other attributes mentioned above, Michigan is unlikely to be able to attract the new businesses it needs to

¹⁹ Lieutenant Governor's Commission on Higher Education and Economic Growth, "Final Report," December 2004, <http://www.cherrycommission.org>.

²⁰ Michigan Future, Inc., "A New Agenda for Michigan," June 2006. Available at: <http://michiganfuture.org/Reports/NewAgendaFinalReportComplete.pdf>

diversify its industrial mix and move to a business and employment profile more consistent with today's knowledge-based economy — and thereby position itself for future economic growth.

Far from helping this process, SOS would force steep budget reductions that could cause the quality of education to decline and infrastructure to deteriorate, just as it did in Colorado. SOS is likely to take Michigan in precisely the wrong direction in this regard. In the words of Tom Clark, Executive Vice President of the Denver Metro Chamber of Commerce, “TABOR [SOS] does not allow the public sector to be an effective partner with the private sector in creating and maintaining a strong economic climate; instead it becomes an anchor that hinders businesses’ ability to be competitive.”

Conclusion

Proponents of SOS claim that their initiative can bring economic prosperity to Michigan, citing Colorado’s economic growth under TABOR as proof. However, this claim rests upon a faulty assumption. Colorado’s economic growth is not a product of TABOR, as evidenced by the fact that Colorado experienced growth before TABOR, its economic growth since TABOR has its roots in private and public investments made 50 years ago, and its post-TABOR growth has been on par with that of its Rocky Mountain neighbors, none of which have a TABOR.

Turning around a depressed economy is not an easy task, as citizens of Michigan know all too well. This is particularly true when the sector driving the economy is faltering. Michigan’s economic fate, however, is not sealed. Michigan can emerge from the economic doldrums, but doing so will require time, thoughtful discussions and careful fiscal policymaking. The adoption of SOS would short-circuit this process, as fiscal policy would be driven by a rigid formula and new investments in education, health care, transportation, public safety and economic development would be all but impossible.