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Daniel Howes

Commentary: Is gov tax swap plan easy out?



In her State-of-the-State address a whopping six weeks ago, Gov. Jennifer Granholm exhorted Michigan to summon the "courage to abandon the old ways that no longer serve us."

Which evidently means backing a plan to replace the state's flat 4.35 percent income tax -- one of the most competitive in the country, according to the Tax Foundation -- with a graduated income tax as a condition of dumping a 22-percent surcharge on the jobs-killing Michigan Business Tax.

Isn't this the same governor who vowed not to raise taxes again, who said the battle was "too hard," who talks change but often avoids the most difficult structural issues facing the state? Yes, it is.

The proposed tax swap would require a constitutional amendment provided the measure could survive a gauntlet of lobbyists, a skeptical Legislature and make it onto a ballot this year or next. The state constitution adopted in 1963 bars a graduated income tax, a prohibition twice upheld by voters.

Is this abandoning "old ways that no longer serve us?" Or is this just a convenient way to tap the prevailing mood (i.e., numbing economic fatigue) and exchange a 46-year-old constitutional protection for repeal of an ad hoc business tax grudgingly accepted by exasperated business leaders?

"It sends the signal that we're not serious about solving our real problems -- which are structural," says Patrick Anderson, president of Anderson Economic Group. "Our governor is willing to trade away the one aspect of our tax system where we're better than our competitors."

"The only place we're competitive is in the tax investors, entrepreneurs and individuals pay," says Anderson, whose firm issued its third study of state-by-state tax burdens. "Flat income taxes are attractive to entrepreneurs and investors because they know it's hard for politicians to play class warfare against them."

You mean, like, now? When "business" needs a stay in rehab, "Wall Street" is a dirty word and "success" feels as if it's the moral equivalent of exploitation? Except that it mostly isn't, and the last thing an economically depressed Big Mitten needs is another policy choice that gives folks one more reason to leave -- or to not come at all.

Michigan's "lost decade" is wearing people out, starting with Granholm. The national economy, mired in recession, isn't likely to improve soon enough to drive a turn in Michigan before Granholm leaves office in 2010.

The most frequently called political play in Lansing over the next 20 months or so is likely to be "the Big Stall" -- anything, be it Obama stimulus money or cynical tax trade-offs, that runs out the clock and position things for new leaders and a new economy.

Does this mean the graduated tax push won't get off the ground? Possibly, but not likely in this revenue-parched environment. Does this mean there should be a lively and informed debate about the relative merits of graduated income taxes in the context of overall state tax burdens? Yes, there should.

Anyone who's spent any time looking at these issues knows that competitiveness, economic growth and new investment -- foreign concepts around here -- do, in fact, occur in states with graduated income taxes. North Carolina, for one, tops Anderson's latest ranking of competitive state business tax climates. Shhhh, it has a graduated income tax, too.

So does Michigan's arch-rival, Ohio, fourth in Anderson's survey. But the Buckeye state, in a sweeping reform of business taxes, nixed its personal property tax as part of the plan to capture new automotive investment from non-Detroit players, among other things. It's working.

If all this, dear reader, sounds like yet more bickering between elected officials in Lansing and business interests, it's because that's exactly what it is. It's situational tax reform more interested in keeping Michigan in the middle of the pack instead of using this lengthening crisis to chart a new, cohesive direction.

Guess that's too hard.

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