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# The misplaced overspending of Michigan's 2025 budget

As tax revenue stalled, Lansing spent surplus and skimmed on pension funding

By Vance Ginn and James M. Hohman | August 2024

Michigan is spending money at an unsustainable rate, and the state's latest state budget shows why this can't go on.

The state-funds budget for fiscal year 2024-25 is \$46.8 billion, a 0.4% decline from the previous year.

While this amount is below the Sustainable Michigan Budget level, it hides deeper problems threatening the state's economic future.

Lawmakers are spending less because of a lack of tax revenue, not a lack of desire. Lower revenue stems from a slow-growing state economy. Michigan's economic output ranked just 38th out of 50 states last year.

Without more taxpayer money, lawmakers irresponsibly skimmed on pension contributions to pay for questionable priorities. The state-managed public school retirement system is underfunded by \$29.9 billion, but lawmakers decided to lower pension contributions by \$670 million.

The new budget is loaded with pork. Local district grants amount to \$1 billion, taking resources away from the state's necessary purposes and putting them toward some lawmakers' political interests.

Pork projects in Michigan, whereby taxpayer funds are directed to specific legislative districts for political favor, represent another misuse of taxpayer money. These projects often fail to serve the broader public interest and divert resources from

critical areas such as infrastructure, education and health care. Eliminating these pork projects could free up funds for more pressing needs or make it possible to return money to taxpayers through tax relief, fostering long-term economic stability.

The demand for district grants is also leading lawmakers to another unsustainable practice: spending state savings. Legislators started their term with \$7 billion in cash in the state's accounts, but administrators expect the latest budget to reduce that to \$350 million.

“**Spending caps and mandatory budget reviews are essential tools to maintain fiscal discipline.**”

In short, lawmakers passed an unsustainable budget that deferred pension debts and wasted money on pet projects. There are better ways to run a budget.

Lawmakers have spent about \$19 billion more than sustainable levels since fiscal year 2018-19. Michigan taxpayers could have saved roughly \$4 billion from the current budget alone if lawmakers had budgeted sustainably over the period, and they could have avoided dipping into savings or underfunded pensions. As a result of unsustainable budgeting, the budget includes a massive amount of pork. Next year's Legislature will have plenty to cut if it needs to save money.

Lawmakers could do better if they abide by the Sustainable Michigan Budget, a strict budgetary method that aligns spending growth with the rate of population growth plus inflation. Spending caps and mandatory budget reviews are essential tools to maintain fiscal discipline. Legislators should allocate resources effectively and eliminate wasteful expenditures to create a more sustainable fiscal path.

Lawmakers could have let people keep an additional 0.2% of their income had they practiced sustainable budgeting. Gov. Gretchen Whitmer rescinded a modest tax cut in the tax rate, and the latest budget spends the money from the resulting tax hike. Lowering taxes would make Michigan's business environment more competitive, encourage job creation, spur higher wages and foster a more vibrant economy. This approach enhances economic freedom

and ensures that future tax increases are avoided, preventing additional burdens on residents.

Addressing the pension shortfall and eliminating inefficient pork projects would reduce unnecessary expenditures and allocate resources more effectively. This approach will prevent future fiscal crises and ensure the state does not have to raise taxes on its residents to cover shortfalls.

Reducing government spending is more than balancing the budget. It's about unleashing Michigan's full potential and ensuring a brighter future. A little restraint can go a long way. It can ease the burdens taxpayers face, catch up on what is owed and leaves money in the bank. Michigan would be better positioned if lawmakers kept a Sustainable Michigan Budget.

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