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Introduction

With the year 2010 at a close, the U.S. economy enters 2011 on a positive note as indicated by GDP growth in the second half of 2010. Key reasons for optimism into 2011 include continued growth in domestic automobile sales, the Republican landslide in November, President Obama's two year extension of the Bush Tax Cuts, unexpectedly strong retail sales for the fourth quarter of 2010, a personal savings rate which continues to remain north of 5.0% and a revised third quarter 2010 GDP of 2.6%. We are still concerned about the mounting U.S. National Debt which surpassed \$14 trillion dollars and the mixed signals being sent regarding future inflation by the price of gold and recent CPI data. Amidst all of this economic analysis we pause and pay tribute to those who lost their lives in the recent tragedy in Arizona. As we do, we hope Americans will not forget the unity formed across all political ideologies during this somber time and carry this unity forward in our pursuit of political and economic progress.

Key November/December Data

Positive Signs

According to the latest Manufacturing ISM Report on Business, the manufacturing sector of the U.S. economy continued to grow in December as evidenced by the Purchasing Managers Index which increased to a healthy level of 57.0%. U.S. productivity remains near record levels while cash balances for non-financial based U.S. corporations is at \$1.93 trillion. The Dow Jones Industrial Average rose 218 points in the month of December, an increase of nearly 2%, while the survey of consumers intending to purchase an automobile over the next 6 months remained positive in December. The December Conference Board Global Leading Economic Indicators report shows U.S., Europe and China were positive, growing at 1.1%, .7% and .9% respectively. The U.S. savings rate continues to be strong realizing a rate of 5.3% in December. Automotive sales trended upward in December finishing the year in strong fashion. CPI data for November suggests that inflation is running at an

annualized rate of less than 1.5%. Pending home sales rose 3.5% in November but are still down 5.0% from November 2009. Finally, fixed mortgage interest rates fell slightly in December to 4.79% and remain near record lows.

Negative Signs

While the national unemployment rate made progress in December, falling by .4%, it still stands at a sobering 9.4%. Gold surged in December threatening previous record highs but retreated at the end of the month to around \$1,370 an ounce, while silver surpassed \$31 an ounce then experienced a similar regression trading around \$27.60 an ounce by the end of December. These price movements coupled with recent FED policy gives us further reason to be concerned regarding future inflation. Unemployment benefits remain at record highs and will continue at such levels for the next 13 months as part of the compromise for the extension of the Bush Tax Cuts. Finally, the Conference Board's report on Consumer Confidence fell in December to 52.5, a reversal of the positive trend seen over the last several months.

Current Issues

Don't Forget State Budget Issues

Like the federal government, most of our 50 states have budget challenges which must be addressed head-on in 2011. Take Michigan as an example, it had a projected budget shortfall of more than \$800 million for the current fiscal year which began on October 1, 2010. The deficit was handled with money from Washington, tax increases, and service reductions. As states like Michigan struggle to regain their economic footing, innovative policy changes are a must...here are five policy suggestions for recently elected Governor Rick Snyder and Michigan's new legislature to consider in order to make Michigan government more efficient and effective.

Five Policy Suggestions

(1.) The tax structure in Michigan is not friendly to business and must be reformed. The non-partisan Tax Foundation ranks Michigan's corporate tax system third worst nationally. Michigan policymakers need to act quickly to reduce burdensome business taxes and simplify the tax code. A first order of business should be to eliminate the 22% surcharge on the Michigan business tax in order to promote a better business environment.

(2.) Michigan has one of the highest unemployment rates in the country at 12.4 % at the time this went to print and was recently ranked last nationally in economic performance in the 2010 edition of *Rich States, Poor States*. Michigan needs to create labor policies that give those employed the right to choose whether to financially support or join a union, while giving employers more freedom to hire employees that best fit their needs. This is imperative, given Michigan has lost more than 730,000 jobs since 2000 and needs to create a more entrepreneur friendly environment.

(3.) The Mackinac Center for Public Policy found that Michigan's private sector has lost 70 times more jobs than its government counterparts since 2007. The state now has 635,300 people holding public sector jobs, making government the largest single source of employment in Michigan. Thus, a 10% reduction in public sector jobs would fuel increased innovation in government, while providing substantial cost savings to Michigan taxpayers.

(4.) The Detroit Regional Chamber of Commerce has argued repeatedly that Michigan can save more than \$800 million annually by a) privatizing prison functions like food services, and b) normalizing sentencing and parole guidelines to those of other Midwestern states.

(5.) Legislators should consider changing the retirement system for new hires in Michigan's K-12 public school system from a defined benefit plan to a

“401k style” defined contribution plan. Almost all private sector companies have moved to 401k plans and many state and local governments are facing reality and doing the same. Under such a system, the state could match teachers' contributions at a set rate with the pension assets owned and controlled by the teachers and managed by a private company. Over time, the state would exit the pension business for teachers and avoid the massive unfunded liabilities that plague the financial solvency of numerous states.

Conclusions

Given Michigan's and other states ongoing fiscal crunch, innovative reforms must be part of the solution. The five reforms outlined above would serve as a strong foundation for a state government that makes the most of its limited tax dollars.

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