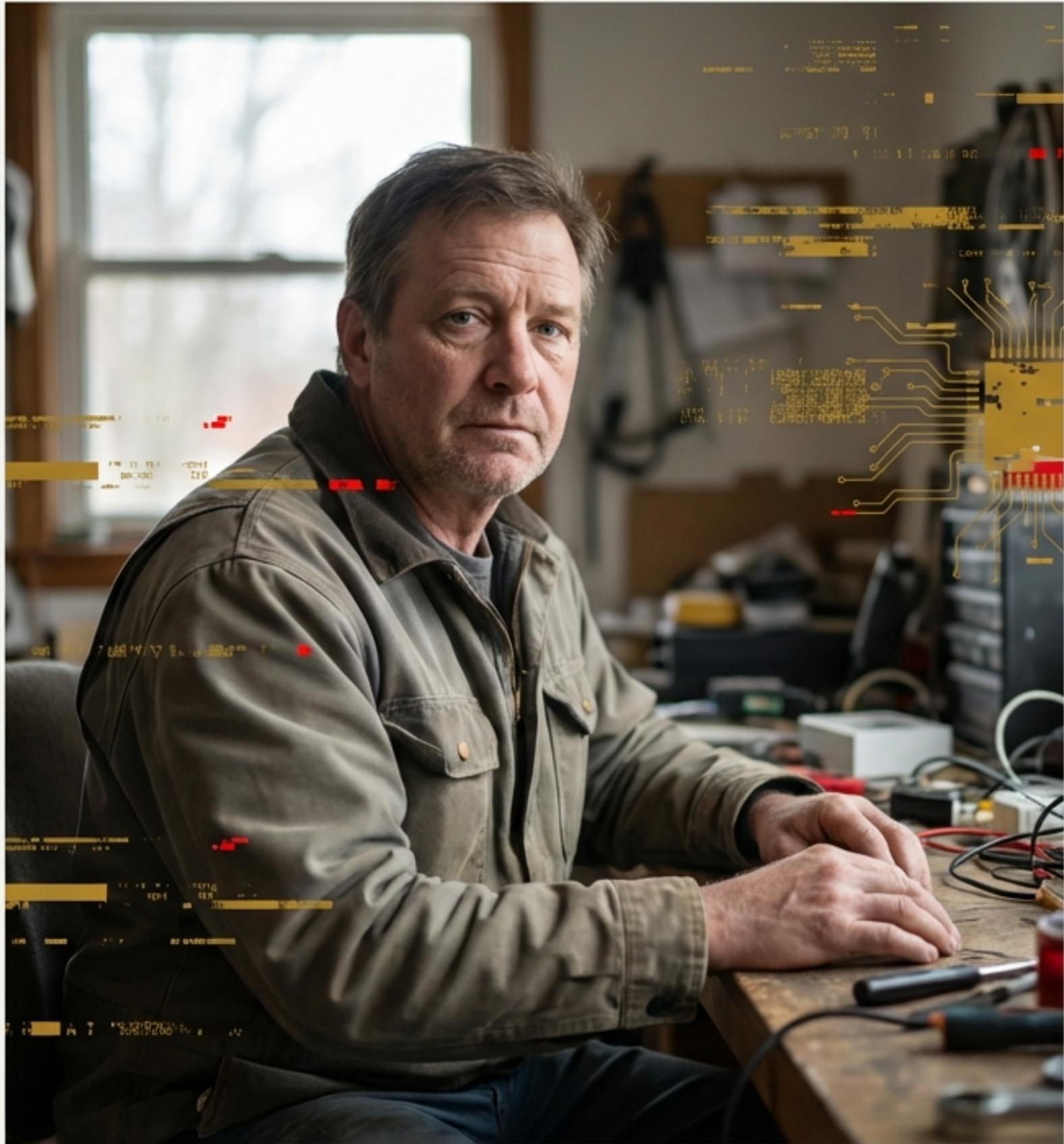# The Midas Flaw: How Michigan's Automated 'Gold Rush' Devastated 40,000 Lives

"How do you beat something you can't see? It's like swinging in the dark."

Introduction to Brian Russell, a security systems installer from Zeeland, Michigan. In 2014, he was accused of unemployment fraud by a computer system he knew nothing about. He received a bill for approximately $22,000, representing a supposed $4,300 overpayment plus penalties and interest.

— Brian Russell, falsely accused of fraud by MiDAS.

A Lone Glitch Becomes a Systemic Catastrophe
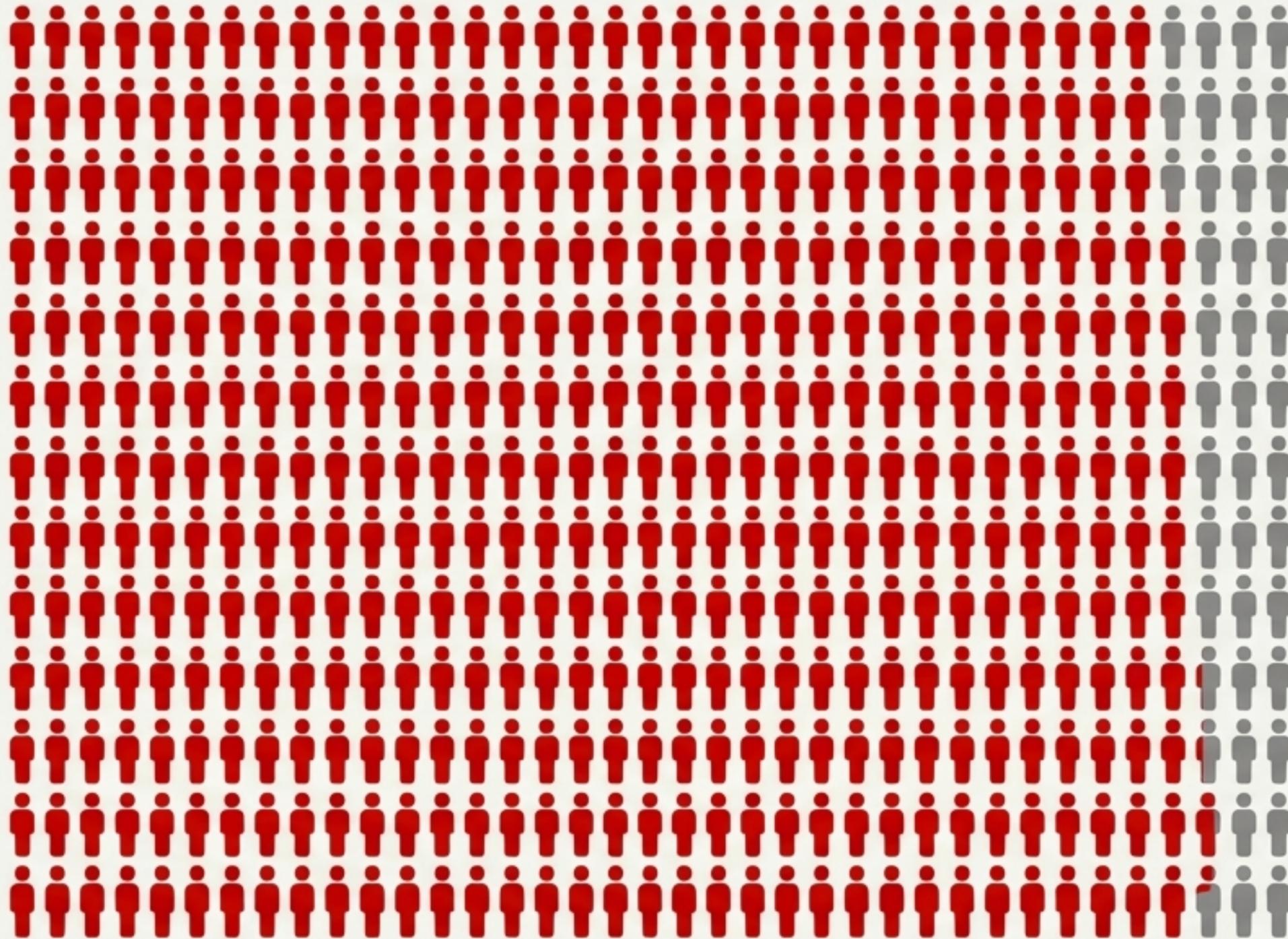
40,000

Michiganders **wrongly accused** of committing fraud between October 2013 and August 2015.

93%

The error rate of the automated fraud determinations, according to a review by the Michigan Auditor General of over 22,000 cases.

6 Years

The system was designed to look back for fraud, flagging people who had not had contact with the Unemployment Insurance Agency (UIA) for years.

MiDAS: Michigan's $47 Million Gamble on Automated Governance.

In October 2013, **Michigan's Unemployment Insurance Agency (UIA)** launched the **Michigan Integrated Data Automated System (MiDAS).**

30-Year-Old Mainframe (COBOL)

MiDAS

The Stated Goals

Modernise

Replace a 30-year-old mainframe system running COBOL.
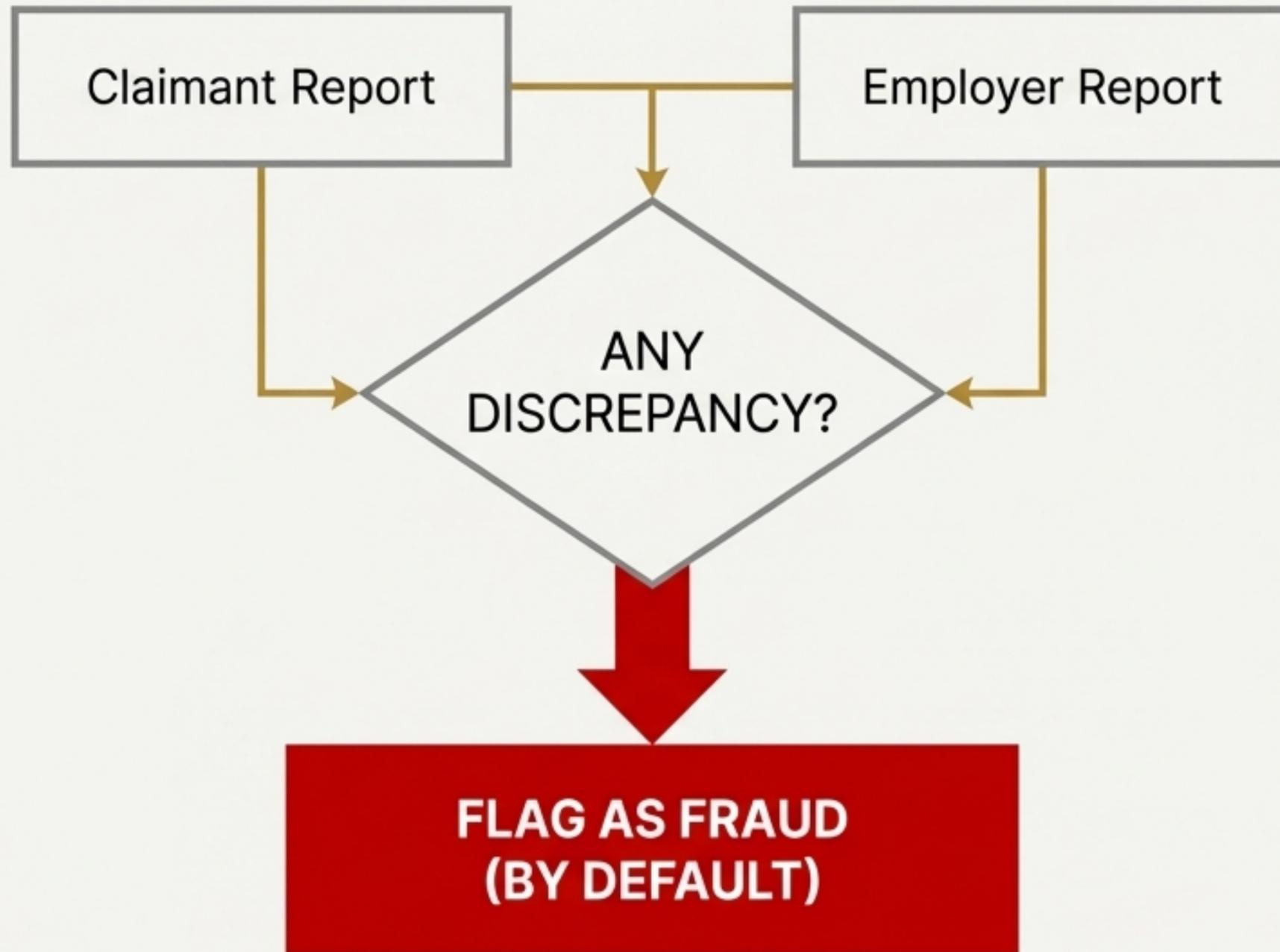
Prevent Fraud

Ensure benefits went only to those eligible.

Increase Efficiency & Cut Costs

The state laid off over 400 workers, about one-third of the agency's staff, in favour of the new computerised processes.

Anatomy of a Failure, Part 1:
Logic Built on a Presumption of Guilt

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┌─────────────────┐              ┌─────────────────┐
│ Claimant Report │              │ Employer Report │
└─────────────────┘              └─────────────────┘
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ANY DISCREPANCY?

FLAG AS FRAUD (BY DEFAULT)

Core Flaw 1: Discrepancy = Fraud

MiDAS was programmed to flag any discrepancy between data reported by a claimant and their former employer. By default, the system assumed the claimant was at fault and intended to defraud the system.

Core Flaw 2: Flawed Formulas

The system used an "income spreading" formula that averaged a claimant's quarterly income across all weeks. If a claimant truthfully reported zero income for some weeks, MiDAS could automatically determine they had engaged in fraud.

Core Flaw 3: Corrupt Data

The system was trained on and operated with inaccurate data, including information that was not properly converted from the old legacy system and scanned files it could not read.
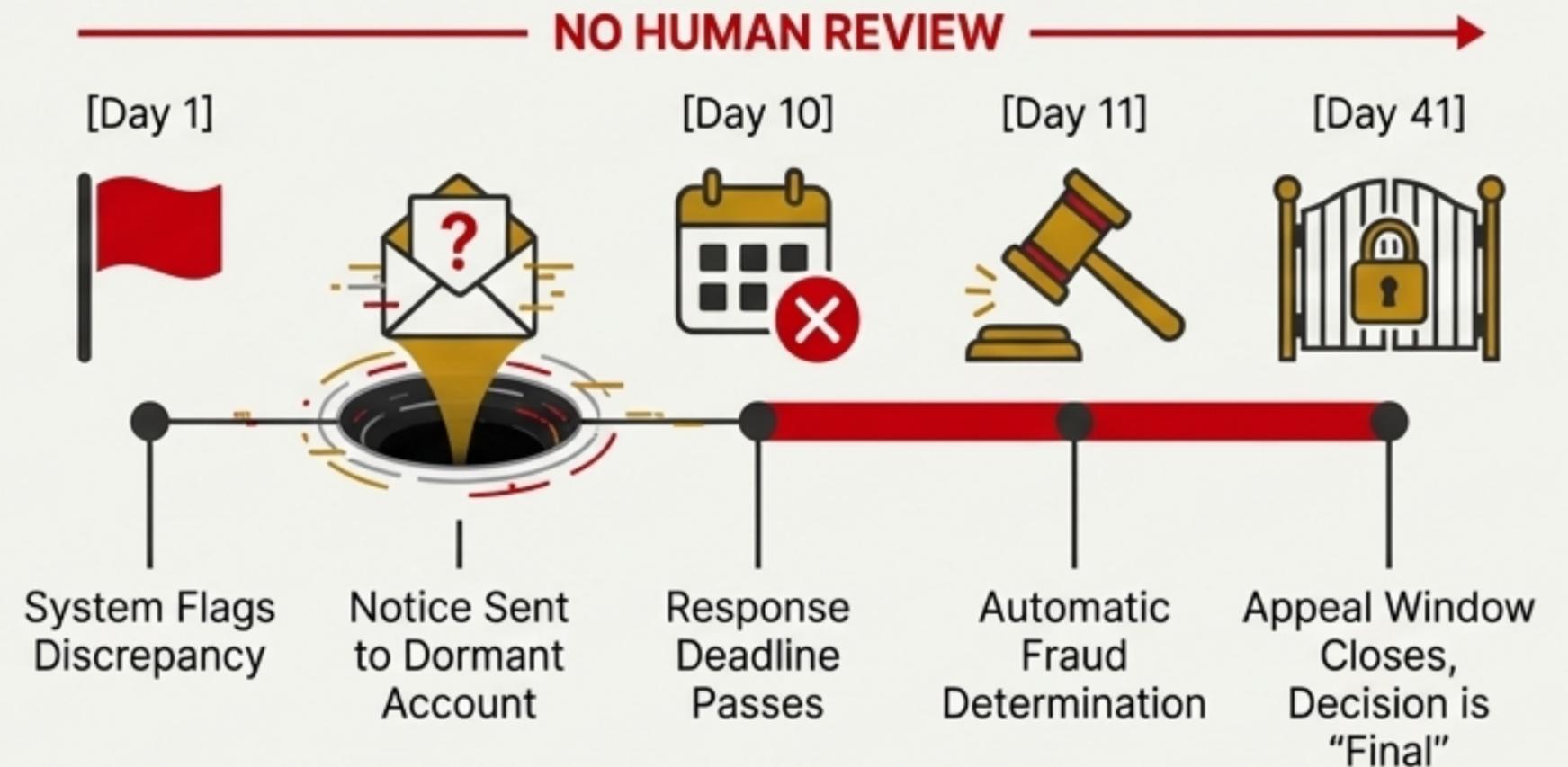
Anatomy of a Failure, Part 2: A Process Without Human Oversight.

No Human Review: Between October 2013 and August 2015, MiDAS exclusively determined fraud with zero human intervention in the decision-making process.

Inadequate Notice: Automated questionnaires were sent to online accounts that were often dormant, as many claimants had not interacted with the UIA for years. No additional steps (email, mail, phone) were taken.

Impossible Deadlines: Claimants were given only 10 days to respond to a vague questionnaire. Failure to respond resulted in an automatic fraud determination.

Finality Trap: If a claimant did not appeal within 30 days—often because they never received the notice—the incorrect fraud decision was considered "final" and could not be heard on its merits.

NO HUMAN REVIEW

[Day 1]
System Flags Discrepancy

Notice Sent to Dormant Account

[Day 10]
Response Deadline Passes

[Day 11]
Automatic Fraud Determination

[Day 41]
Appeal Window Closes, Decision is "Final"

The Human Cost: A 400% Penalty That Shattered Lives

400% PENALTY

Once accused, claimants were billed for all benefits **received plus a 400% penalty**—the highest in the nation—plus compounding interest. A disabled veteran who collected $8 in benefits was charged an additional $43,846.

The Collections

Without a hearing, the state began aggressive collections, garnishing wages and intercepting state and federal tax refunds. For Brian Russell, this meant over $10,000 seized from his tax refunds.

The Fallout

Bankruptcies (at least 11,000 families)

Loss of homes and evictions

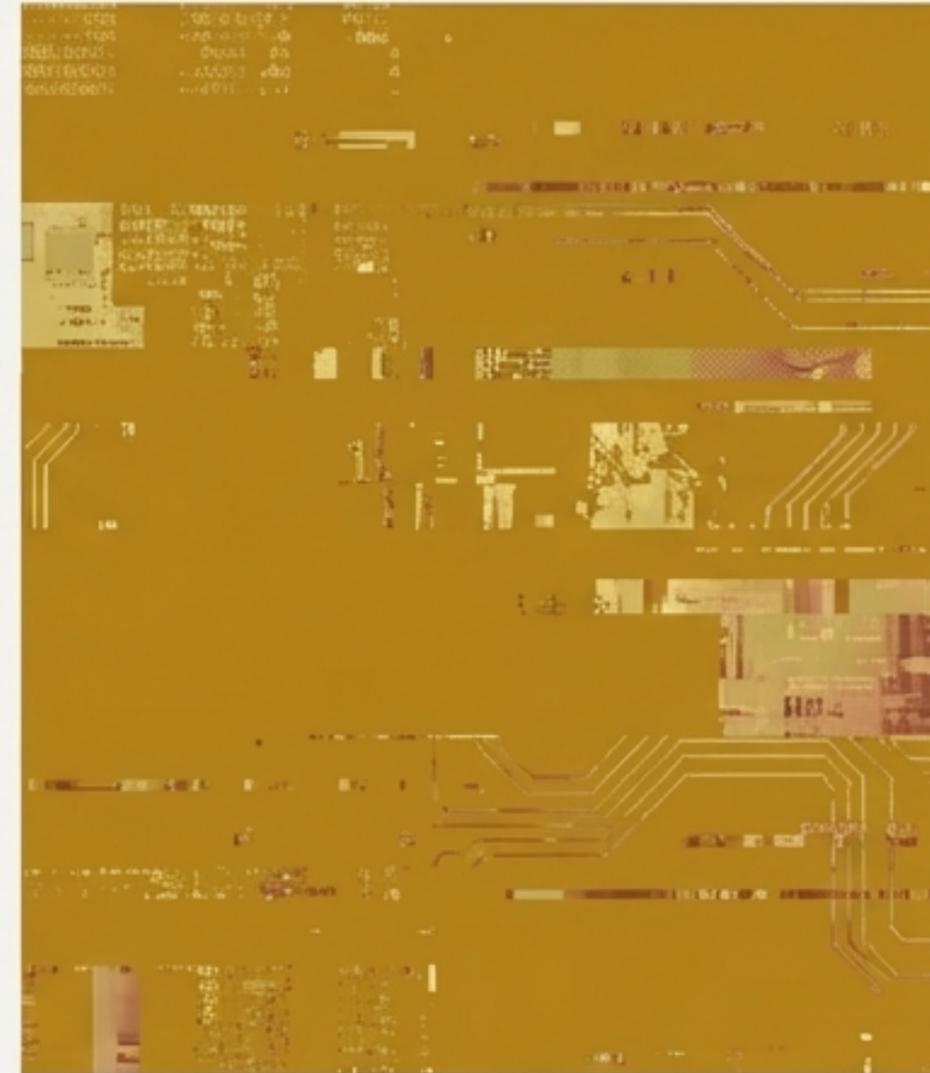Ruined credit and failed background checks

The State's Windfall: An Automated Gold Rush

While tens of thousands of Michiganders faced financial ruin, the MiDAS system generated a massive financial windfall for the state.

~$69 million

~$3 million

Pre-MiDAS

Post-MiDAS

A third-party vendor stated the system worked as the state intended: **"It was only when it got to be a big enough issue in the papers that people came to us and said, "I guess maybe you should turn it off now.""**

More Than a System Failure: Introducing the Theory of Stategraft.

Professor Bernadette Atuahene of the NYU School of Law provides a theoretical framework to understand events like the MiDAS scandal.

Stategraft

The practice of state agents transferring property from persons to the state in violation of the state's own laws or basic human rights. It captures the corrupt practice of the state illegally preying on its community to solve fiscal management issues.

Source: Bernadette Atuahene, *A Theory of Stategraft*, 98 N.Y.U. L. REV. 1 (2023).

MiDAS as a Case Study in Stategraft

1. Who qualifies as a state agent?

The UIA and its high-ranking officials who oversaw the system and ordered collections to continue despite knowing of the high error rate. Private contractors (like FAST Enterprises and CSG Government Solutions) who designed and implemented MiDAS components were also found to be state actors.

2. What counts as a transfer of property?

The garnishing of wages and the interception of state and federal income tax refunds from 40,000 citizens.

3. When does the state benefit?

The state's penalty fund grew by more than 20x, from $3 million to over $69 million.

4. Has the state violated its own laws?

Yes. Federal courts found the state violated the 14th Amendment of the U.S. Constitution, and the Michigan Supreme Court found violations of the state constitution.

The Fight for Due Process

The legal battle centred on a cornerstone of constitutional law: the right to procedural due process. This guarantees that the government cannot deprive a person of property without constitutionally adequate procedures.

The Core Violation: The courts found that MiDAS violated this right by terminating eligibility and seizing property (tax refunds, wages) *before* providing adequate notice and a meaningful opportunity for a hearing.

Key Legal Finding: From *Cahoo v. SAS Analytics Inc.*, the Sixth Circuit Court of Appeals affirmed that the right to a pre-deprivation hearing was "**clearly established.**" This means any reasonable official should have known the automated process was unlawful.

Automated Accusation

Due Process
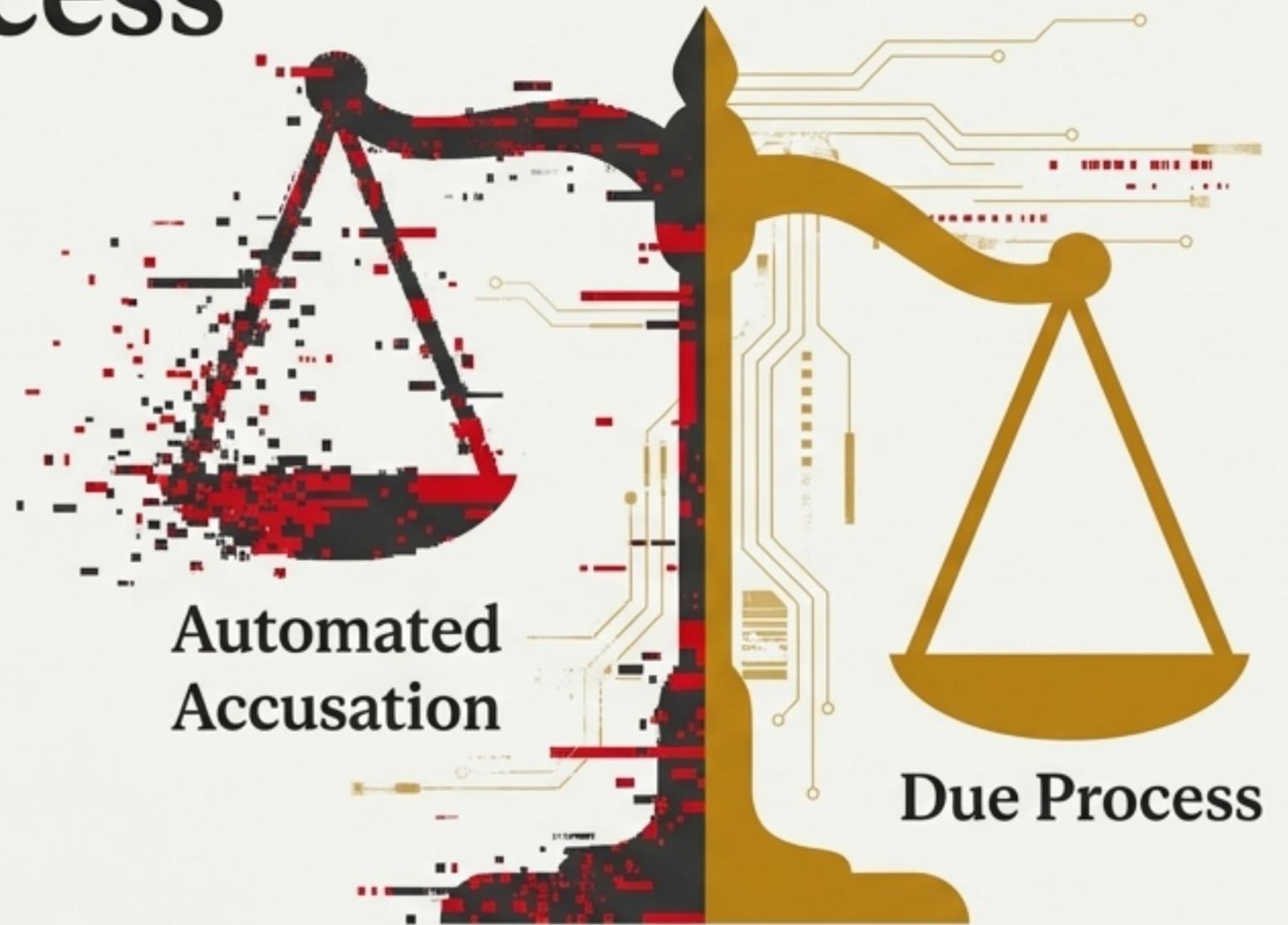
"The Court rejects the Individual Agency Defendants' attempt to evade responsibility for their actions by deflecting blame away from themselves and onto the computerized system that they implemented and oversaw..." — *Cahoo v. SAS Analytics Inc.* (6th Cir. 2019)

NotebookLM

A Seven-Year Struggle for Accountability

The fight for justice was not swift. For years, the state of Michigan argued that victims had sued too late, citing procedural rules. The legal battle went **all the way to the state's highest court.**

[2015]
First lawsuits filed.

[2019]
Cahoo ruling on due process.

[July 2022]
The Turning Point: In July 2022, the Michigan Supreme Court ruled in *Bauserman v. Unemployment Insurance Agency* that workers falsely accused of fraud **can sue the state for money damages** for the violation of their constitutional rights.

[October 2022]
The Result: This landmark decision finally paved the way for meaningful accountability and compensation. In October 2022, the state announced a $20 million settlement with one class of plaintiffs.

NotebookLM

A Cautionary Tale with a National Reach

MiDAS was one of the first "modernised" unemployment systems, and its code provided a foundation for commercial programming that other states could purchase and use.

The Proliferation of "Robo-Adjudication":

- A majority of states have contracted with third parties that perform similar automated "flagging" of benefit claims.

- Australia's Centrelink programme rolled out a similar system in 2016 with similar results, wrongly accusing tens of thousands of benefit recipients.
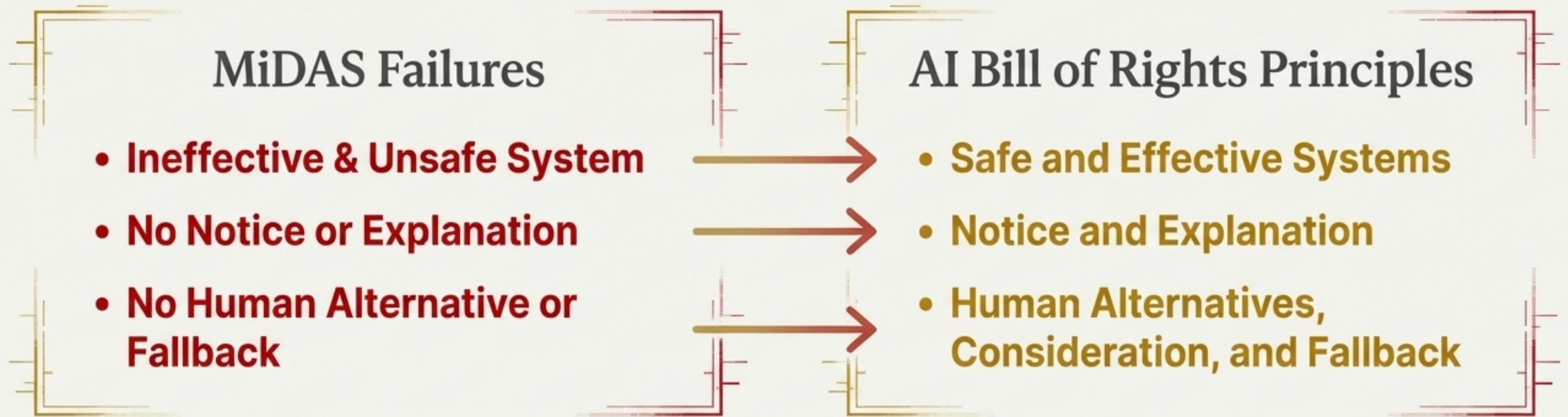
Federal Guidance: In response to these failures, the U.S. Department of Labor has now issued guidance that explicitly prevents states from using these systems to automatically make fraud determinations without human review.

From Digital Disaster to a Blueprint for AI Rights

The MiDAS scandal serves as a crucial real-world case study, demonstrating the urgent need for a framework to govern automated systems. In October 2022, the White House released its **Blueprint for an AI Bill of Rights**.

Principles Forged in Failure

MiDAS Failures

- **Ineffective & Unsafe System**
- **No Notice or Explanation**
- **No Human Alternative or Fallback**

AI Bill of Rights Principles

- **Safe and Effective Systems**
- **Notice and Explanation**
- **Human Alternatives, Consideration, and Fallback**

NotebookLM

The Algorithm Is Not the Authority.

The MiDAS fiasco demonstrates that delegating civic functions to automated systems without embedding principles of due process, oversight, and human-centric design is not an upgrade in efficiency, but an abdication of responsibility. The central challenge is not merely to butter algorithms, but to build more accountable and just systems of governance, regardless of the technology used. As one lawyer investigating the case concluded:

"I think a judge or a jury should decide the question of intent. When assessing credibility, it should not be done by an algorithm. I don't think that a computer looking at a series of numbers is capable of determining intent."

— Jennifer Lord, Civil Rights Attorney