



Michigan's economy needs to catch up

High taxes and corporate welfare fail to bring back jobs; time to try something else

By James M. Hohman | March 2023

While 25 other states have fully recovered the jobs they lost during the pandemic, Michigan is still down 71,400 jobs, a 1.6% decrease. It doesn't look like the state is going to get above pre-pandemic levels any time soon, either. The state won't recover the jobs lost until 2026 at the rate of growth we have experienced over the past five months.

In other words, Michigan is falling behind. Lawmakers ought to improve the state's business climate in response. Gov. Whitmer is instead making it worse. She tried to prevent the tax cuts required by state law. Her alternative jobs strategy is not to improve the climate for everyone, but to shower a handful of businesses with large subsidies paid for by the taxpayer.

The state income tax is set to fall from 4.25% to 4.05%, thanks to a 2015 state law that pledged future rate reductions. Whitmer asked lawmakers in February to pass a convoluted law to avoid that rate reduction, but the effort failed.

The state can clearly afford to reduce the income tax rate. State revenue has been strong, lawmakers are sitting on more than \$8 billion in extra cash,

and the minor reduction in tax rates would save taxpayers \$673 million a year — very affordable, especially if lawmakers keep future spending increases at sustainable levels.

“**They should focus their attention away from their schemes to avoid tax cuts and toward improvements that make Michigan a more attractive place to add jobs.**”

Cutting taxes improves state competitiveness, and Michigan is falling behind here as well. Over the past two years, 21 other states have reduced their tax rates. Ohio now taxes income at lower rates than Michigan.

Tax cuts are a powerful way to improve the state's economic prospects. All businesses are subject to income taxes when they are profitable, so taxes affect a lot of employers. Small improvements that affect many people can make a big difference. Businesses added one million jobs in Michigan in 2021 and lost around 800,000 jobs. Lightening the tax burden for everyone encourages more job growth and discourages job loss.

Lawmakers should want to lower taxes. They were right to reject Whitmer's attempt to keep tax rates high.

States grow by enacting broad-based policies that make it easier for all of us to do business. Instead, Whitmer is working to increase selective business subsidies that have repeatedly failed to generate growth. Lawmakers already added billions to one program that allows administrators to write large checks to whatever company they'd like.

The states growing the most aren't the ones that hand out the most subsidies. They're the ones with the best business climate. Governors feel they need to hand out money when companies ask for it, though, and journalists write headlines about job growth from their announcements. The problem is that headlines aren't economic trends, and politicians can't buy their way to job growth.

Other priorities from Michigan's new Democratic leaders may harm Michigan's economic prospects. They have introduced bills that would force workers to contribute to unions whether they want to be members or not. This is bad for union members and hurts Michigan's economic growth. America is built on voluntary association, and lawmakers shouldn't get in the way.

There are many ways to improve the state's business tax climate. The state can change the tax treatment of a business's equipment purchases to encourage growth. It can eliminate occupational licenses when they serve more as a barrier to entry than a way to protect public health. It can encourage cheap and reliable electricity.

A better business climate would help Michigan attract people from around the country, especially those fleeing Illinois. It's a nearby state where lawmakers are driving people and businesses away with high taxes and poor governance.

But Michigan's lack of job growth is holding it back. Lawmakers can improve the state business climate. They should focus their attention toward improvements that make Michigan a more attractive place to add jobs.

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