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Note to Michigan's population council: Research favors freedom

Ranking of states shows we need to change direction

By Michael D. LaFaive | October 2023

Gov. Gretchen Whitmer created her “Growing Michigan Together Council” with a goal of creating a blueprint to grow Michigan’s population and encourage economic growth. The governor rightly noted that people have fled the Great Lake State in search of opportunity elsewhere.

Unfortunately, many policies she and the Legislature have considered or pushed into law would damage the prospects for economic and population growth, not help them. That’s not just the opinion of an observer. It’s a statement supported by quite a bit of scholarly evidence.

The Fraser Institute has built an index of economic freedom for U.S. states that covers three major areas of public policy: taxes, spending and labor market regulation. Each of those areas contains subcategories, such as state marginal tax rates, expenditures by government as a percentage of income, and union density. All three areas are scored on a 10-point scale. Ten represents the most free and zero the least.

A state’s placement in the economic freedom ranking matters to overall well-being, and evidence suggests it also applies to population growth. Michigan is ranked 32nd among the 50 states in the Fraser Institute’s most recent study, which uses data from 2020. The Fraser Institute’s ten freest states are Florida, New Hampshire, South Dakota, Texas, Tennessee, Virginia,

North Dakota, Georgia, North Carolina and Idaho.

All of these states had higher population growth rates from 2020 to 2022, according to U.S. Census data. Michigan had a negative (0.4%) growth

rate. Nine of the 10 gained population from interstate migration, while Michigan lost 43,000-plus. Nine out of 10 had faster economic growth rates than Michigan as measured by inflation-adjusted gross state product. Maybe all of that is just a coincidence, but maybe not.

A 2011 article published in a European journal found a positive link between state economic freedom and economic growth. “From a policy perspective,” the authors concluded, “what emerges from these

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results is the importance of constraining excessive government expenditure within the economy and minimizing the tax burden faced by a nation's citizens. Further we see the importance of maintaining an open labor market.”

A 2016 Cato Journal article about economic performance of U.S. states and Canadian provinces found that economic freedom was associated strongly with “higher levels of income per capita, lower rates of unemployment and higher income inequality.” (It is worth noting that the research on income inequality is mixed.)

“In aggregate, the findings indicate that individuals migrate toward states with relatively higher government consumption expenditures, relatively lower tax burdens, and states with more freedom with respect to labor decisions in the form of less restrictive minimum wages, less concentration of unions, and less dependence on public employment,” according to a 2007 Southern Economic Journal article titled “Economic Freedom and Migration Flows between U.S. States.”

A 2020 economics journal article found that in-migration to a state was positively associated with a state's overall freedom score. The same study also zeroed in on the sub-category of labor market regulation scores by state. It found that an increase in a state's labor freedom score of one percentage point was “associated with a 2.8% increase in the gross in-migration rate.” Michigan's most recent labor market freedom score was an abysmal 5.26, putting the state in 40th place out of the 50 states.

Unfortunately, that score (and Michigan's prospects) may drop even further as the policies of the new legislative majorities take effect. The state has already repealed its right-to-work law and reinstated its expensive prevailing wage law. Both of these restrict labor market freedom, and the effects are likely to show up in the index's score.

Other proposals would put even more burdens on the economy. One proposal would provide a refundable tax credit to union members. That is, Michigan taxpayers could be forced to underwrite union activities. Another would permit the government to discriminate against non-union bidders on state projects.

There has been much research done and written about the determinants of economic growth. The vast majority of studies find that areas with higher economic freedom (meaning less government intervention in the economy) tend to have higher growth. It also affects population growth. The Growing Michigan Together Council should study that evidence and recommend policies to grow Michigan's population and put the state's economy in higher gear. Michiganders need more economic freedom, not less.

Available online at: www.mackinac.org/v2023-28



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