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Return of the Rust Belt

The current U.S. expansion has lifted the fortunes of nearly every state in the country, with the notable exception of Michigan, which is busy reclaiming its 1970s's title as home of the rust belt. Sad to say, politicians in both parties are only making things worse.

Amid the decline of the Big Three auto companies, Michigan ranked last in income growth last year and was the only state not hit by a hurricane to have lost jobs. United Van Lines reports that more people moved out of Michigan last year than in any year since 1982, when the state jobless rate hit 14%. Today it is 6.1%, well above the national rate of 5%.

Political disarray in Lansing has only compounded the trouble. The year started with some promise, as the Republican-controlled legislature debated broad-based tax cuts to help spur a recovery and aid such struggling manufacturers as Delphi Corp., the auto parts maker. But if you think the Republicans in Washington have bumbled things, take a look at the muddle in Michigan.

On November 30, GOP leaders sent a compromise economic development bill to Democratic Governor Jennifer Granholm. Republicans would get a few business tax cuts—temporary and targeted—in exchange for a \$400 million corporate welfare fund that Ms. Granholm could parcel out to her political allies, right on the eve of the 2006 election. The cuts amounted to a 1/750th reduction in the tax burden.

But then Ms. Granholm outfoxed Republicans again when she discovered a loophole in the law allowing her to enact the investment fund and scrap the tax cuts. So Ms. Granholm will now be able to romance big business with taxpayer aid, while the small business and technology companies that have been keeping the state afloat have to continue to endure the state's current tax burden.

The Granholm strategy of chasing smoke stacks with a fistful of dollars isn't likely to yield much in the way of an economic rebirth in Michigan. A version of this corporate-welfare strategy was first tried by former Gover-

nor John Engler, who was otherwise a highly successful reformer and tax cutter over three terms. But after spending \$3 billion over 10 years, there was "no improvement in Michigan's per capita income, jobs, or unemployment," according to a study by the Mackinac Center, the state's leading think tank.

This week Republicans are expected to pass their tax cut package once again. But Ms. Granholm, after agreeing to the tax relief in negotiations, is now threatening another veto. Her latest excuse is that the Republicans in Washington, D.C., are cutting \$1 billion in federal cash that goes to Michigan's "needy farmers, families and students," and thus the state will have to make up the difference. A veto would be an act of political bad faith, but in any case these nickel-and-dime tax cuts aren't enough to help the state's economy.

How many more Michigan companies have to file for Chapter 11 or flee the state before the politicians in Lansing get serious about a growth agenda? Step one should be to speed up the elimination of the state's single business tax, which is scheduled to expire in 2009. Michigan has the fifth highest business tax burden in the country, and it is the only state to levy a tax on business production. Delaying tax cuts is like a store announcing a future sale: It provides an incentive to postpone purchases and investment. A cap on the growth of annual spending would also help constrain the political class.

For too long Michigan has let itself be hostage to the fortunes of the Big Three auto firms, which would be like Pittsburgh waiting for the steel mills to come back. The only thing less likely is that the Detroit Lions will make it to the Super Bowl sometime soon.

The state needs to make its economic policies more attractive to all business, including the growth industries of technology, financial services and communications. If that doesn't happen, says Hillsdale College economist Gary Wolfram, "expect the flow of businesses and the talent sector of the state to become a stampede Southward in the years ahead."

|| *Chasing the last century's jobs in Michigan.* ||