The Sick Man of the Midwest

Michigan — a liberal failure

By Rich Lowry
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Liberals dissatisfied with the Bush economy have, through the wonders of federalism, an alternative. They can move to Michigan. The state represents a rough approximation of ideal liberal economic policy. It is heavily unionized, taxed, and regulated in a failed attempt to close its eyes to the dynamic forces of the market and globalization all around it.

This stew has helped make Michigan the economic sick man of the Midwest. It is suffering from a one-state recession all its own, mostly because it has failed to foster the most profound economic force in the universe — opportunity. The state has been losing out to more business-friendly environs both overseas and in other states for decades, but has refused to adapt accordingly.

That's why anyone moving to Michigan to enjoy the stifling taxes and burdensome unionization will be lonely. According to the free-market Mackinac Center for Public Policy's analysis of United Van Lines data, Michigan is now the No. 1 state in the continental United States for outbound traffic. An estimated 65 percent of the moving company's Michigan interstate traffic is families moving out of the state, headed to more economically open and vital destinations. As an official in Wyoming put it, "Michigan has been very good for us." http://www.mackinac.org/

This has given Michigan the rarest of breeds this election year, a vulnerable Democrat in the person of incumbent Gov. Jennifer Granholm. As Republicans often point out, Michigan was the only state in the country not hit by Hurricane Katrina to lose jobs between September 2004 and September 2005. The state unemployment rate just ticked up again to 7.1 percent, substantially above the nation's rate of 4.7 percent. The rate of growth of its per capita gross state product is 49th in the nation; lowly Mississippi is 44th.

Michael LaFaive of the Mackinac Center calls Michigan "the France of North America." Economically competitive states might have a personal income tax, or corporate income tax, or sales tax — Michigan has all three. It has long been the only state with a European-style, value-added tax — the Single Business Tax. A company can be in bankruptcy and still have a tax liability, making Michigan a bad state even to lose money in. In a 2002 filing for relief from the tax, General Motors explained that it would operate at a loss, but one of its projects would still create a $7 million-a-year tax liability.

Michigan recently repealed the Single Business Tax effective at the end of 2007, but has punted the decision about how to replace it. A relative moderate, Gov. Granholm has resisted general tax increases, but levied new fees, sin taxes and other "revenue enhancers." The state still insists on trying to target tax incentives and other special breaks to favored businesses, in a doomed replay of 1970s-era industrial policy.

Meanwhile, unions make the state an inhospitable place to do business. A company can be bankrupt in Michigan and still face threats of a strike, as Northwest Airlines and the auto-parts maker Delphi have learned. Michigan's unionization rate of 21.8 percent is much higher than the national average of 13.5 percent. This accounts for it having the second-highest unit-labor cost in the nation, according to the Mackinac Center. States with right-to-work laws, and consequently less unionization, experience more growth and create more jobs, at the expense of troglodytes like Michigan.

It used to be that unions could force unnaturally high wages and benefits on U.S. manufacturers, and the costs would be passed along to consumers. Those were the days prior to globalization when the U.S. auto industry had a lock on the domestic market and experienced little international competition. It was inevitable that Michigan would find the new competition disruptive, but not that it would react to it so poorly.

The way to thrive in a globalized environment is to create a low-tax economy without the rigidities that come with heavy unionization and regulation. For those who disagree, Michigan beckons.

— Rich Lowry is author of Legacy: Paying the Price for the Clinton Years.