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## Michigan's War on the Middle Class

*That battle was lost long ago—and now the young and talented are leaving.*



By WILLIAM MCGURN

The new Republican governor of Michigan, Rick Snyder, likes to say that he's not interested in the confrontation with organized labor that we see in Wisconsin. That may be. Nevertheless, Mr. Snyder has become Public Enemy No. 1 for the protesters in Lansing carrying signs demanding that he "End the War on the Middle Class."



Associated Press

Michigan Gov. Rick Snyder

have: defined-contribution pensions such as 401(k)s and health-care plans that require them to pay at least 20% of their premiums.

The tax proposals on pensions (he also wants to remove the partial exemption for private pensions) and his tax reductions for business have opened him up to the charge that he is balancing the budget on the backs of the middle class. His most controversial step, however, was last

Here's a news flash: That war was lost long ago.

The costs of defeat are reflected in grim statistics that show a state that was once a powerhouse of the American economy sinking into stagnation reminiscent of the Old South. Today, average per capita income in the Wolverine State ranks just 37th in the nation—down from ninth in 1965. In terms of adults holding college degrees, Michigan ranks 36th. The areas where it ranks near the top are not happy ones: unemployment (fifth from the top) and outbound moves (second only to New Jersey).

And let's not even mention Detroit.

Michigan today is not a struggling state like California or New Jersey or even Wisconsin. It is a basket case, with worse to come if things do not change quickly—especially in the relation of the public to the private sector.

"Many of the protesters seem to think the war is between rich and poor," says Michael LaFaive, director of the Morey Fiscal Policy Initiative at the Michigan-based Mackinac Center. "But the real class war today is between government and the people who pay for it. And the government's been winning."

Here's a telling anecdote from Monday's Detroit Free Press: An article on Michigan-bred Red Robin restaurants quoted its owner as saying he could not see expanding in Michigan, given its tax climate. An accompanying photograph drove home the point. It features the company accountant holding up its tax returns for Ohio and Michigan: While the former is five pages long, the latter clocks in at 270.

In response, Gov. Snyder has laid out plans to cut spending, eliminate the tax exemption for public-employee pensions, replace a job-killing business tax with many carve-outs for a cleaner 6% corporate tax, rein in corporate welfare such as a refundable tax credit for the film industry, and so on.

On Monday, he went further. At a meeting in the Grand Rapids City Hall, he offered localities financial incentives in exchange for their shifting all new hires to something most Michiganders who work for private businesses already

week's signing of a financial managers bill. This legislation allows him to appoint emergency financial managers to struggling cities and schools.

His dilemma here is twofold. Because these emergency managers have the power to rip up collective-bargaining contracts, organized labor thinks this bill makes him another Scott Walker—but without the real structural reform that Gov. Walker has gained in Wisconsin. Meanwhile, the long-term effect of shifting hard decisions to appointees will likely make local officials only more feckless.

Still, where Mr. Snyder has a plan, his opponents mostly offer excuses. Even at this dire stage, few seem able to grasp the most salient challenge of Michigan life today: It is the only state in America to lose population over the last decade. That's especially true among college graduates. More than half the young men and women from the state's two leading universities, Michigan and Michigan State, leave within a year of earning a degree.

Not that it has to be this way. For every dreary statistic, Michigan has a real advantage: a large freshwater coastline, a farm sector that could be an even larger export industry, a rising health-care industry, energy reserves waiting to be tapped, and affordable communities. The point here is not that if you build it they will come. The point is if you get off their backs, they will come build it themselves.

David Littmann, an economist and colleague of Mr. LaFaive at Mackinac, says he's deeply skeptical of whether Mr. Snyder's reforms go far enough. But about Michigan's potential he has no doubts, if government would only let the market decide.

"If we created a climate where the risks and rewards were attractive to capital, we'd find entrepreneurs from all over the world finding their way to Michigan," he says. "They in turn would be a catalyst for other industries we can't even imagine now—and the kind of Michigan that could be even more dynamic than it was when the auto industry was at its peak."

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