



## Migration Trends, Indiana Campaign Show Need for Policy Changes in Michigan

By Michael D. LaFaive and Michael Hicks

### Summary

While Lansing fiddles, Michigan residents and businesses are fleeing the state. Recognizing the opportunity, lower-tax Indiana promises greener pastures.

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Michigan residents and job providers did not need another reason to consider moving out of the state in favor greener pastures, but in 2007 the state Legislature gave them several anyway. These included a new complicated business tax (Michigan Business Tax) to replace the old complicated business tax; a service tax that was passed and repealed and a \$1.4 billion net tax hike. Indeed, it is possible that the new MBT was the first tax ever to be raised before it had even taken effect.

The political theater that took place from October through December 2007 over the state budget and tax system angered a lot of people — including taxpayers, political pundits, business people and homeowners. But this anger stopped at the Michigan border. Other states — notably Indiana — appear to be delighted with Lansing's folly. In December, Indiana erected billboards along borders with Michigan and Illinois that practically taunted their tax-happy neighbors with the message: "Come on IN for lower taxes, business and housing costs."

Indiana is running radio advertisements in Michigan along the same vein. You can listen to the ad at the Mackinac Center Web site at [www.mackinac.org/9159](http://www.mackinac.org/9159). Indiana takes pains to underscore that this advertisement was not funded with taxpayer dollars.

The highly respected Tax Foundation, whose data has been cited prominently by both the Mackinac Center and Gov. Jennifer Granholm's administration, ranks Indiana at 25 among the 50 states in overall tax burden. Before the recent tax hikes, Michigan was ranked as having the 14th highest tax burden, but the increased levies have likely moved us into the 12th worst slot.

Of course, while taxes do impact a state's economic well being, they aren't the only variable that matters. In December, economists Stephen Moore and Arthur Laffer completed a study for the

American Legislative Exchange Council titled, "Rich States, Poor States: ALEC-Laffer Competitiveness Index." It contains competitiveness indices ranking the states on 16 variables, including taxes, regulation and right-to-work status.

Describing the findings in a Dec. 10 Wall Street Journal column, Moore and Laffer report that over the past 10 years, "... the 10 states with the highest taxes and spending, and the most intrusive regulations, have

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Indiana is using billboards like this one to try and lure Michigan residents and businesses.



half the population and job growth, and one-third slower growth in incomes, than the 10 most economically free states."

Among those top 10 states is Florida, which not only has a lower state and local tax burden than Michigan, it also has no individual income tax and a right-to-work law. This may help explain why it is the number one destination state of Michigan's outbound migrants. According to Internal Revenue Service data, 14 percent of all 2004 Michigan moves were to the Sunshine State, double that of the second and third choices of Ohio and Illinois. It is worth pointing out that Florida is such a dominant draw for Michigan residents that there is probably more than retirement-inspired migration occurring here.

Today, Michigan has the worst unemployment rate in the nation at 7.7 percent, but even that figure is masked by the state's ability to export its unemployed. Over the past four years the nation has enjoyed significant economic growth while Michigan has endured a historic decline in economic output and job loss.

The impact of Michigan's diaspora may be starting to sink in with lawmakers. State Demographer Kenneth Darga was scheduled to speak at the state's annual Consensus Revenue Estimating Conference on Jan. 11, which prepares the revenue projections that lawmakers use in formulating the next state budget. This is the first time a demographer has been invited to testify at this conference since at least 1980. (It may be the first time ever.)

Indeed, if the state's economic landscape doesn't change soon it may need to change its official motto from "If you seek a pleasant peninsula, look about you" to "If you seek a pleasant peninsula, move to Florida."

Economic history over the centuries and from around the world makes it clear that only by making the state inviting by lowering the tax and regulatory burden, and adopting measures like voluntary unionism will restore Michigan's status as a magnet for people and commerce. History also shows what happens to places that fail to attract these.

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