

AMERICANS FOR PROSPERITY  
FOUNDATION™  
MICHIGAN

# Restoring Michigan Competitiveness

Prosperity in the Great Lakes State



# Did You Know?

- Michigan has the worst economic growth record of any state since 1990. Since 2002, its real GDP has decreased each year – even while the rest of the country was in an economic expansion.
- Job-seekers are leaving the state. Michigan has the third highest rate of out-migration, after New York and Louisiana.
- Since 2000, Michigan has lost 12% of its private sector jobs, a total of 484,000 jobs.
- Michigan's 15.2% unemployment rate is highest in the nation, well above the national average of 10.2% and 2.8% above the next worst state. From June 2008 to June 2009 Michigan lost the greatest number of jobs of any state, except California and Florida: 337,600.
- Had Michigan grown at the 50-state average since 1990, its economy would be \$88.19 billion larger. That's an extra \$8,815 per person.
- In 2009, Michigan ranked 48th on the Tax Foundation's Corporate Tax Index.
- Michigan's state government debt has grown, adjusted for inflation, from \$7.13 billion in 1980 to \$32.73 billion in 2007, a 359% increase.
- Michigan state and local debt works out to an astonishing \$7,032 owed for every man, woman and child in the state.

*COVER PHOTO: The Ambassador Bridge, built and maintained for 80 years by the Detroit International Bridge Company (DIBC), carries one-quarter of all trade between the U.S. and Canada. DIBC has begun a \$1 billion project to build a second span using no taxpayer funds. During construction alone, the project will create more than 20,000 private-sector jobs.*

*But the state has sued to stop construction so they can build the Detroit River International Crossing (DRIC) – using taxpayer money only. Building the DRIC would cost taxpayers \$1 billion, forcibly relocate hundreds of families and businesses, and be another example of Michigan's fiscal failure.*

The Great Lakes State was once one of the most economically vibrant and dominant in the country.

We have been suffering through the worst recession of any state every year since 2001.

Michigan's government is in trouble. Every year, debt and expenditures are increasing while revenues and population decrease.

Michigan has been slow to adapt to changes in the global economy, which is moving away from manufacturing and towards information services.

Michigan is heavily unionized, and unions have been slow to react to economic change, often hurting the workers they were formed to help.

- How can we restore Michigan's economic success?
- How can we improve the workings of our state government?
- How can we compete and bring prosperity to our citizens?



# A Lengthy Recession

## How bad is it?

From November 2001 through the end of 2007, the national economy was in an expansion. Michigan was the only state that saw important economic indicators shrink as the rest of country grew.

The best way to measure a state's prosperity is to calculate the value of all the goods and services produced within the state. This is measured for states in the same way it is for the national economy, in Gross Domestic Product, or GDP.



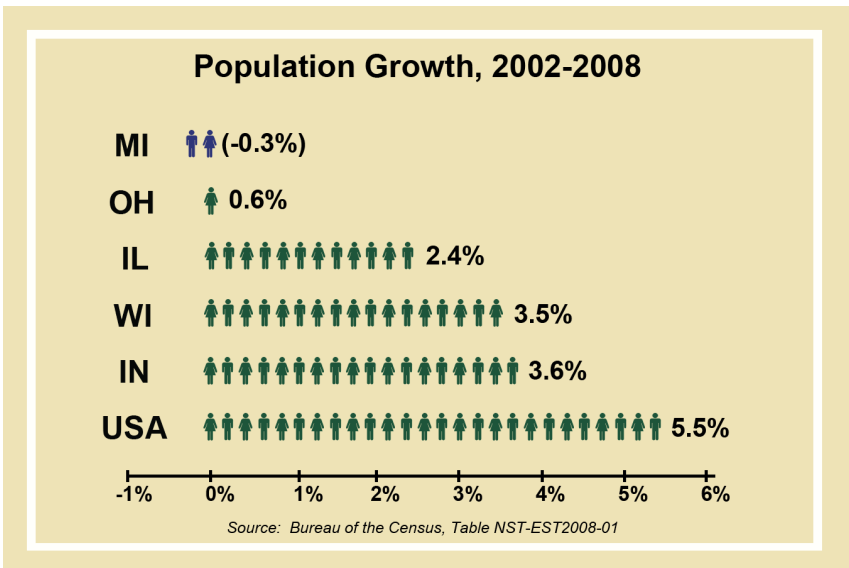
A recession occurs when an economy's total production actually declines in real terms. This has been consistently the case in Michigan this decade, as each year fewer goods are produced, less business is conducted, and fewer people have jobs.



As the chart shows, Michigan's economy has been shrinking in real terms, even when the rest of the country was enjoying robust economic growth, even taking into account 2008, the first year of the national recession. During this period, Michigan's economy shrank 6.0%, while the national economy grew 17.1%. While other states in the region also lagged the national average, they dramatically outperformed Michigan over this period.

Another way to measure the economic situation in a state is to look at population growth. A state's population usually grows relative to other states when it provides a welcoming environment for people to live, work, and start businesses.

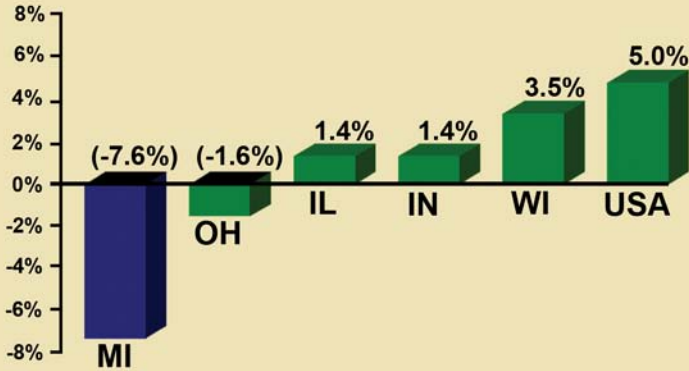
Michigan was once a very popular state but is currently lagging far behind most of its neighbors, in a region that itself lags substantially behind the national average.



Some factors that affect population growth, such as climate and geographic features, lie beyond the control of individuals and lawmakers, but lawmakers are responsible for taxes, government spending, and the intrusiveness of government regulation, all of which have a major impact on where people choose to live.



### Private Sector Job Growth, 2002-2008



Source: U.S. Department of Labor, Bureau of Labor Statistics, Current Employment Statistics

One of the most striking examples of Michigan’s dramatic economic decline is its ranking among the fifty states in personal income per person. According to the Bureau of Economic Analysis, Michigan’s high point was in 1965, when it ranked number nine. As recently as 2000, Michigan ranked 17th. In 2008, Michigan dropped to number 34 and is estimated to be 41st for 2009. This is a stunning change for a state that was once the machine shop of the nation.

### Michigan Per Capita Personal Income Decline 1965-2009

Year	State Rank
1965	9th
2000	17th
2008	34th
2009	41st (est.)

Source: Bureau of Economic Analysis, Regional Economic Accounts, State Annual Personal Income



# What Drives Prosperity?

History tells us that respect for the rule of law and protection of private property rights are a formula for prosperity. Let's explore what these ideas mean.

In the American system, respect for the rule of law means that government must operate within its constitutional limits. A government that has respect for the rule of law behaves in a predictable way, allowing businesses and families to plan and take economic risks without fear of undue interference.

Protections for private property mean that the government won't take away what you own or place onerous restrictions on the way you can use it. Private property includes everything you own: your house, your savings, your investments and your car.

A government that is dedicated to private property protections and the rule of law respects individual freedom: the right to do what you want—as long as it doesn't harm others—and to enjoy the fruits of your labor. This freedom **encourages trade, investment and wealth creation.**

When allowed to make decisions about their own property, people will make a few bad decisions along the way. But on the whole, individuals will make better decisions than government institutions.

While it's possible for governments to entirely follow the rule of law, people never have complete control of their property—government always takes some of it in taxes. Although government has some role to play in our lives, we should remember that **taxes limit freedom.**

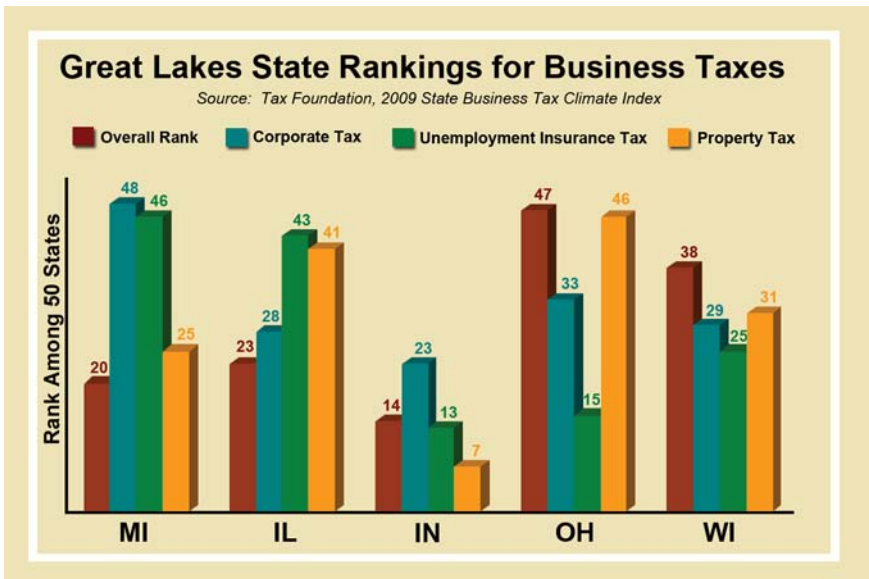
Every dollar government spends is one that an individual who worked for it cannot spend as he or she wishes.


# Taxed Out?

High taxes adversely affect a state's economy. All other things being equal, states that have high taxes create less wealth and see lower rates of economic growth.

This chart illustrates that though Michigan's business tax climate is better than the median for taxes in the Great Lakes, the region on average is higher than the rest of the country. It is significant to note Michigan's abysmal corporate tax and unemployment insurance rankings and to compare that to its GDP and private sector job growth.

These rankings matter. The ten states with the best tax climates from 1997 to 2007 gained 2.3 million residents, while the ten states with the worst tax climates lost 3 million. Because of these shifting populations over the same period, the best tax climate states gained \$88.7 billion in real income, while the worst states lost \$82 billion.



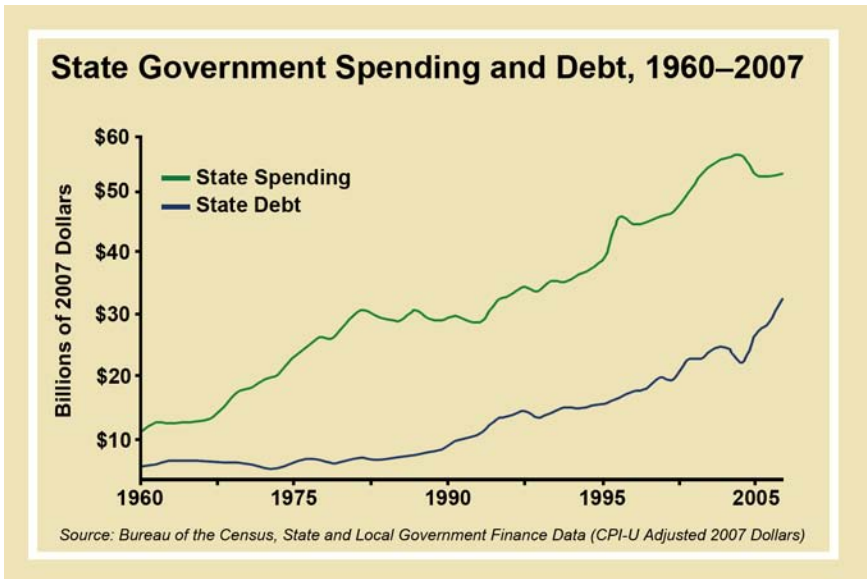


Corporate taxes in Michigan are the third highest in the country. High businesses taxes deter business investment and entrepreneurship in Michigan. This high tax burden will continue to drive manufacturing jobs, including automobile manufacturing, out of the state and into lower tax, lower regulation states. It will also discourage high-value added service jobs in sectors like finance and information technology from locating in Michigan. Given the economic woes facing Michigan with the evolving economy and outsourcing, high tax rates are very detrimental.

In 2008, Michigan replaced its much-maligned Single Business Tax with the new Michigan Business Tax (MBT). The MBT was advertised as helping to “set Michigan on the path to economic recovery.” Unfortunately, it did no such thing. It resulted in increased revenues for the state of Michigan and in turn a greater burden on Michigan businesses. More disturbingly, the MBT failed to eliminate the gross receipts tax. Gross receipts taxes are highly distortionary, resulting in the repeated taxation of complex products as they move through the economy. This should be of particular concern in a state like Michigan, which is focused on producing complex manufactured goods.

# Growth of Government

The graph below charts the growth of Michigan's state government spending and debt.



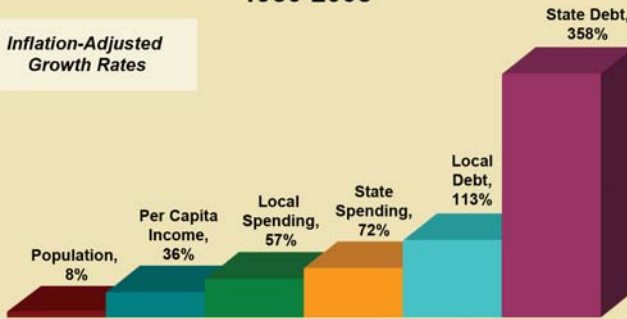
Since 1960, adjusted for inflation, state government spending has increased by 376% and state government debt has grown by 519%.

While increased population accounts for some of the increase in spending, it cannot fully explain the explosive growth in the size of Michigan government.

Local governments have also increased spending at an unsustainable rate. Between 1980 and 2005, local government spending, adjusted for inflation, increased an astonishing 57% while local debt increased by 71%. The population is shrinking, and the economy is receding while the government is rapidly expanding.

## Michigan Government Outgrows Private Economy, 1980-2008

*Inflation-Adjusted  
Growth Rates*



*Source: Bureau of the Census (see charts above)*

What's more astounding than the increased spending is the debt that is also being accumulated by Michigan governments. In 1980 state debt was only \$7.1 billion (in inflation-adjusted 2007 dollars) but by 2008 it had increased to over \$32 billion, a 358% increase. Local government borrowing is even greater than state debt as local governments owed \$20 billion (in inflation-adjusted 2007 dollars) in 1980 and an incredible \$41 billion in 2008. Michigan state and local governments owe a combined \$73 billion, almost \$7,300 per Michigander.

Debt of that magnitude has its costs; local governments in Michigan spent more on interest payments in 2006 than on fire protection.

The State of Michigan is spending money that it doesn't have at a greater and greater pace. Notice that with a flat population and contracting economy the government has produced a very large increase in spending and debt. As this trend of increased spending continues and the economy struggles, the burden for all of these government expenditures will fall on the hard-working Michigan residents who are trying to turn the state around.

Expansive government spending and borrowing perpetuates the cycle of recession and unduly burdens the economy. To break this vicious cycle the state of Michigan needs to rein in its spending and adopt a policy of fiscal restraint and responsibility.

High spending drives up taxes and harms the economy.

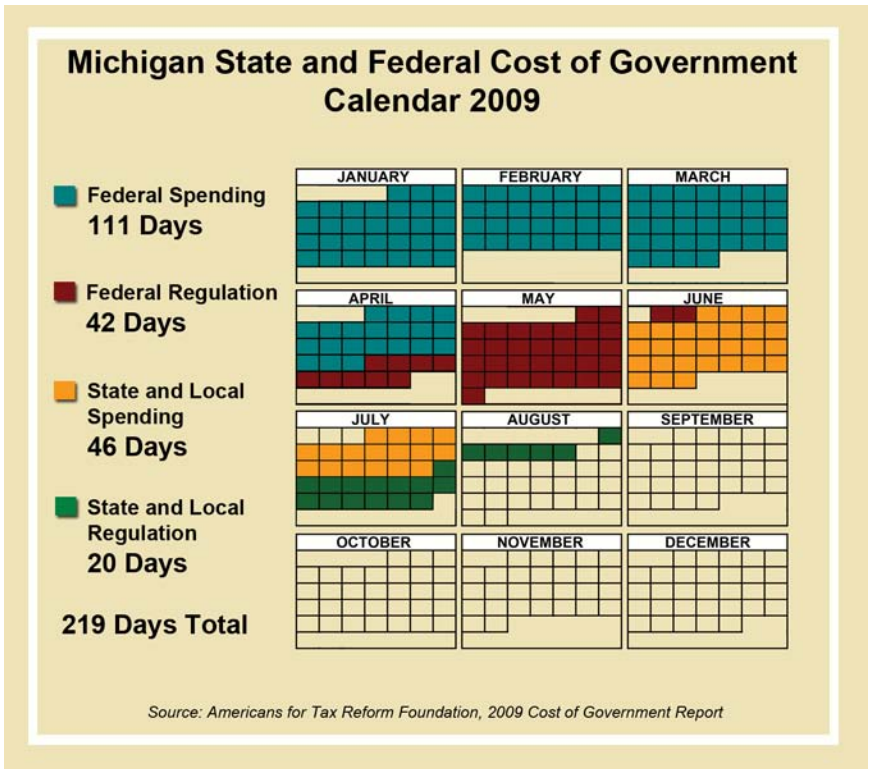
### Consider the following:

- Taxes and regulations from federal, state, and local governments eat up more than half of an average family's income.
- When government attempts to create jobs by spending tax dollars, it is simply destroying jobs the free market would otherwise create and misallocating resources.
- Every local government bond approved is in fact a delayed tax increase.
- Government cannot create prosperity. Every dollar spent by government, every new government employee, and every bond issued by government equates to a job lost or paycheck cut in the private sector.
- Governments exist to protect rights and individuals' opportunity for economic opportunity; thus promoting wealth creation.



# The True Costs of Government

The calendar below shows the number of days Michiganders work to pay their share of the costs of government. It includes both the visible costs of government spending at all levels and the hidden costs of state, local, and federal regulation.

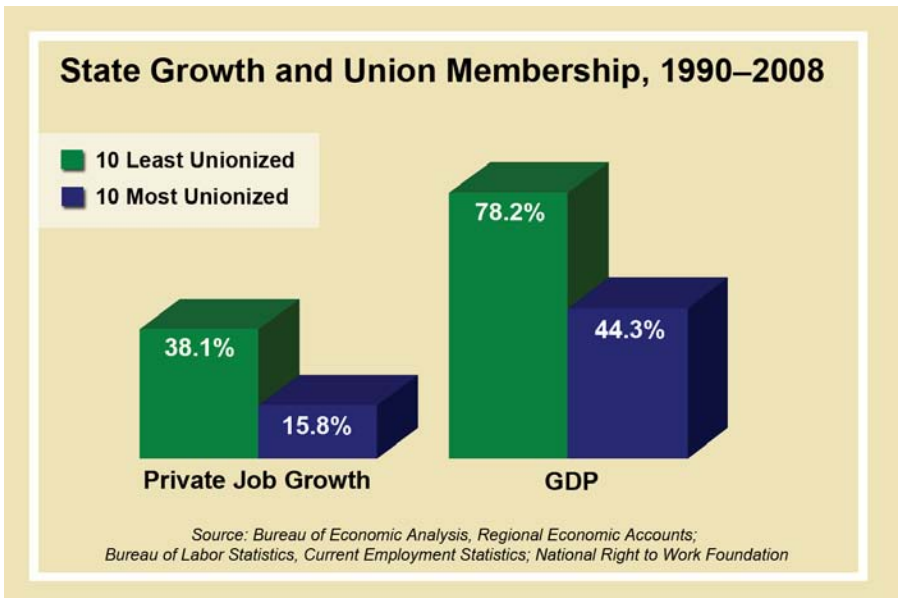


Michigan taxpayers have to work more than half the year to pay for government. **We directly control less than half of the money we earn.**

# Do Unions Help or Hurt Michigan Workers?

Labor unions clearly played an important historical role in improving the training and skill development of workers and ending abusive labor practices. In more recent years, however, the value they provide for workers has been called into question even by liberal stalwarts like former U.S. Senator and presidential candidate George McGovern. He has criticized unions for pursuing demands that can bankrupt companies and leave their workers out of jobs. Michigan, the historical center of union power, is the leading state for this sort of anti-worker union overreach.

The following chart compares economic growth in the ten states with the greatest percentage of the private sector workforce in unions (Michigan is in this group) to the ten states with the lowest percentage.





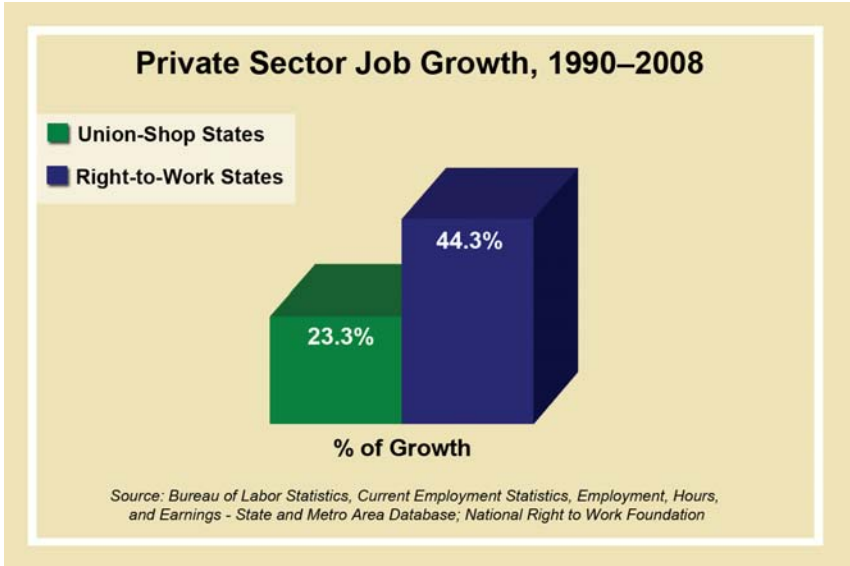
The ten most heavily unionized states saw 15.8% job growth and a 44.3% increase in GDP. The ten states with the lowest union concentration had substantially better economic performance: a 38.1% increase in private sector jobs and a 78.2% increase in GDP.

In 2008 Michigan had the fifth highest percentage of its workforce in a union. This is partially due to our heavily pro-union laws. These laws and the powerful unions they have created may help workers who keep their jobs, but they also keep thousands of workers on the sidelines and discourage businesses from investing in Michigan.

Since the Taft- Hartley Act of 1947, individual states have been able to draft their own laws allowing workers to choose whether they want to join a union. Twenty-two states protect the freedom to work without being forced to join a union. Michigan and 27 other states have “union shop” laws. These give unions the power to require all employees pay union dues or lose their jobs. Do “union shop” rules benefit or harm the workers and overall population of a state?



As the chart shows, people vote with their feet, and right to work states have had more than double the population growth of union shop states since 1990. The right to work states saw, on average, a 74.6% increase in GDP over the 18 year period while states with union shops laws only experienced an average of a 49.5% increase. While one system protects unions, the other actually benefits workers.



Forced unionization laws are not as conducive to economic growth as those that allow workers the political freedom to join a union if they wish and to abstain if they so choose. States that have allowed this freedom experienced tremendous growth as businesses move their operations to states that promote a friendly business environment. Under current law, the Michigan government has taken the side of unions and their anti-business policies. A Michigan right to work law would do much to encourage businesses to come to Michigan and create jobs, reviving the economy. This policy would benefit middle and lower income brackets as new jobs are created and per capita wages rise. Reforming the state's union law would go a long way towards halting the current economic decline and promoting a recovery.



*“A wise and frugal government, which shall leave men free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned - this is the sum of good government.”*

*- Thomas Jefferson*



# What Can You Do?

- ✓ As citizens, you can support initiatives that speak for and defend the taxpayers of Michigan.
- ✓ Let government officials know that Michigan has higher taxes and government spending than most states in the region and the United States.
- ✓ Share information on the value of being a “Right to Work” state.
- ✓ Join Americans for Prosperity—Michigan ([www.AFPMI.org](http://www.AFPMI.org)) and see how you can help.

We know the possibility of change exists, but it is you, the taxpayer and voter, who determines what will happen. Will Michigan continue to fall behind or will we **Restore Michigan’s Competitiveness?**

**All numbers are current at time of publication. Spending and GSP numbers are adjusted for inflation in 2007 dollars according to the CPI-U, unless noted.**



Sources for data include:

Americans for Tax Reform <http://www.atr.org>

Bureau of Economic Analysis <http://bea.gov>

Bureau of Labor Statistics <http://www.bls.gov>

Census Bureau <http://www.census.gov>

National Right to Work Foundation <http://www.nrtw.org>

Small Business and Entrepreneurship Council <http://www.sbsc.org>

Tax Foundation <http://www.taxfoundation.org>



# Can Michigan Keep Up?

*Are you concerned about prosperity in Michigan?*

## DID YOU KNOW

Michigan ranks near the bottom of the country on growth rates of important prosperity indicators such as:

- Private Sector Jobs
- Gross Domestic Product
- Population
- Personal Income

## DO YOU KNOW

What drives prosperity?

What Michigan's tax climate is like?

How much the state and federal government cost?

*Michigan was once a successful and prosperous state, but has not kept up with the rest of the country. Read this booklet to find out what you can do to make Michigan more successful and prosperous.*

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[www.AFPMI.org](http://www.AFPMI.org)

*"I predict future happiness for Americans if they can prevent the government from wasting the labors of the people under the pretense of taking care of them."*

*-Thomas Jefferson*