

Taxing Away Michigan's Future

Robert Genetski

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Defenders of Michigan's recent tax increases argued that additional revenue is necessary to provide much-needed government services. This was the same argument used when the State established the Single Business Tax in 1965. Two years later, it was the same argument used when Michigan established the State's income tax.

Do new taxes aid the State's economy, as proponents suggest? Looking at history, the answer is obvious. From 1940 to the mid-1960s, Michigan's economy consistently produced between 4½% and 5% of the nation's income.

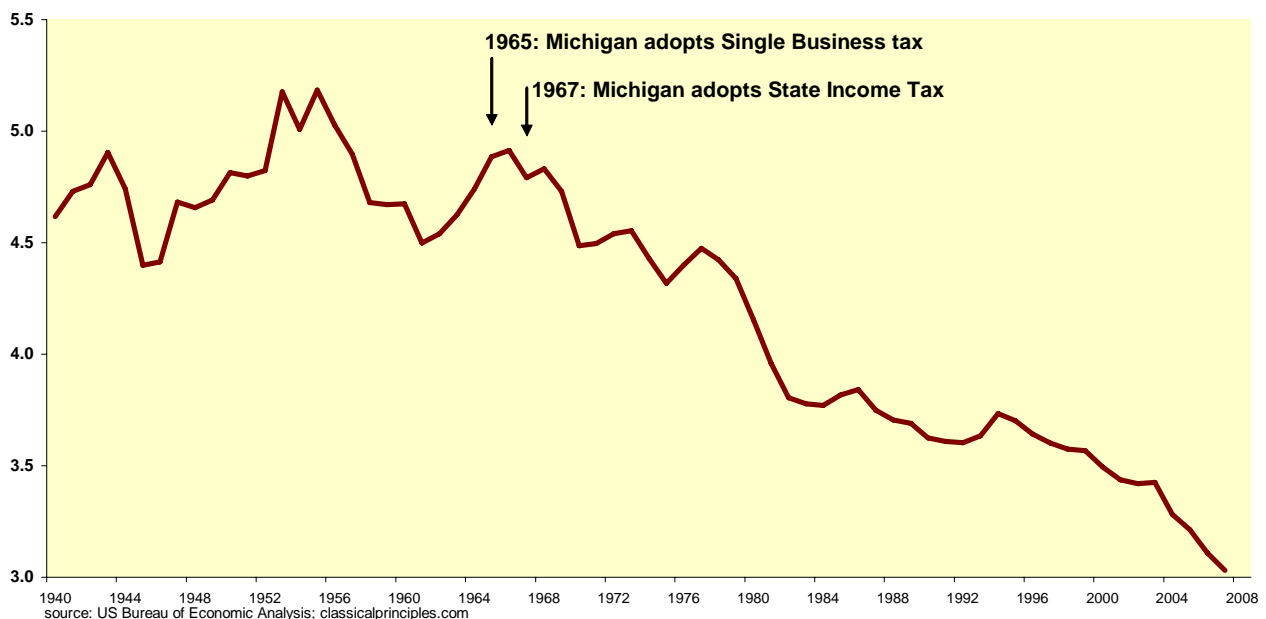
In 1965, Michigan introduced the Single Business tax. Two year's later it adopted a State income tax. Since that time, Michigan's

economy has lost jobs and income relative to the rest of the nation.

Michigan is not alone. A substantial body of economic research shows that states that raise the tax burden on their citizens tend to lose incomes and jobs to those states that reduce tax burdens.

Unfortunately, Michigan's politicians fail to understand that raising taxes begins a vicious cycle. As individuals and businesses leave the State, the economic climate deteriorates. With the loss of business and jobs, tax receipts suffer and government services have to be curtailed. Raising taxes to make up for this shortfall accelerates the loss in jobs and income. This in turn accelerates both a loss in tax receipts and cuts in state services.

Michigan Personal Income as a Percent of US



Since 1965, the only period of significant tax relief for Michigan citizens occurred from 1984 to 1994. During these years the state income tax was cut from 6.35% to 4.4%. As the chart shows, these are the only years since the mid-1960s that Michigan did not experience a major decline in income relative to the rest of the country. This period is also the only time in the past 30 years that the state experienced a sustained growth in new jobs.

Today Michigan is in the midst of this vicious cycle. Over the past year US personal income increased by 6.3%. In some states, income grew faster. In others, it grew slower. Michigan has the dubious distinction of having the worst economic performance of all 50 states. It has the slowest growth in income and the highest rate of unemployment. And this is before the Governor insisted up a major new increase in taxes.

While Michigan tax receipts should increase in response to the latest tax hikes, the increase will be temporary. It takes time for businesses to relocate. As they relocate, Michigan will lose jobs and incomes to other states. Before long, Michigan's politicians will again be faced with a shortfall of revenue. With less revenue they will once again be forced to cut government services and jobs.

To reverse this vicious cycle, Michigan must do what other states have done to attract jobs and businesses. It must significantly reduce the tax burden on our citizens. Doing so will help reverse the economic deterioration of the past forty years.