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REVIEW & OUTLOOK

The State of Joblessness

The tragedy of Jennifer Granholm's Michigan.

State lawmakers will soon face large budget deficits again, perhaps as much as $100 billion across the U.S. Here's some free budget-balancing advice: Steer clear of the Michigan model. The Wolverine state is once again set to run out of money, and it is once again poised to raise taxes even as jobs and businesses disappear.

In 2007 Governor Jennifer Granholm signed the biggest tax increase in Michigan history, with most of the $1.4 billion coming from business. The personal income tax—which hits nonincorporated small businesses—was raised to 4.2% from 3.95%, and the Michigan business tax levied a surcharge of 22%. The tax money was dedicated to the likes of education, public works, job retraining and corporate subsidies. Ms. Granholm and her union allies called these "investments," and the exercise was widely applauded as a prototype of "progressive" budgeting.

Some prototype. Every state has seen a big jump in joblessness since 2007, but with a 15.2% unemployment rate Michigan's jobs picture is by far the worst. Some 750,000 private-sector payroll jobs have vanished since the start of the decade. For every family that has moved into Michigan since 2007, two have sold their homes and left.

Meanwhile, the new business taxes didn't balance the budget. Instead, thanks to business closures and relocations, tax receipts are running nearly $1 billion below projections and the deficit has climbed back to $2.8 billion. As the Detroit News put it, Michigan businesses are continually asked "to pay more in taxes to erase a budget deficit that, despite their contributions, never goes away." And this is despite the flood of federal stimulus and auto bailout cash over the last year.

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OPINION | REVIEW & OUTLOOK

The Michigan Comeback Story

How business-tax reform helped revive the state's economy.

As Washington begins to debate tax reform in earnest, states can provide instructive policy lessons for better and sometimes worse—see the fiscal crack-ups in Connecticut and Illinois. Michigan, on the other hand, offers a case study in the pro-growth potential of business tax reform.

Former Michigan Democratic Gov. Jennifer Granholm was a progressive specialist in using the tax code to politically allocate capital, which depressed and distorted business investment. Between 2002 and 2007, Michigan was the only state to experience zero economic growth.

Ms. Granholm's Republican successor, Rick Snyder, recharged growth with tax and regulatory reforms. While Michigan's GDP has been expanding at roughly the national average since 2011, it has led the Great Lakes region.

Comparative Midwest Economics

Real average annual GDP growth in percent in the six years before the 2008-2009 recession and six years after a post-recession tax reform

All Industries	**2002-2007**	**2011-2016**
U.S.	2.7%	2.0%
Michigan	0.0	1.9
Great Lakes*	1.3	1.4
Illinois	1.8	1.0
Manufacturing	**2002-2007**	**2011-2016**
U.S.	4.4%	0.9%
Michigan	0.8	2.1
Great Lakes*	2.4	0.8
Illinois	2.7	-0.4

*Illinois, Indiana, Ohio, Michigan, Wisconsin

Source: Bureau of Economic Analysis THE WALL STREET JOURNAL

Michigan slipped into recession in 2003 as manufacturing contracted, which unions blamed on China and free-trade agreements. But misguided policies were arguably bigger contributors to Michigan's slump. Between 2002 and 2007, Michigan's manufacturing grew at a third of the rate of the Great Lakes region. During this period, motor-vehicle and parts manufacturing in Indiana increased five times as much as in Michigan. And Indiana's economy is nearly as dependent on vehicle production as Michigan's.