

# **Michigan's Economic Competitiveness and Public Policy**

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# **Upjohn Institute's Report on Michigan's Competitiveness considers four topics:**

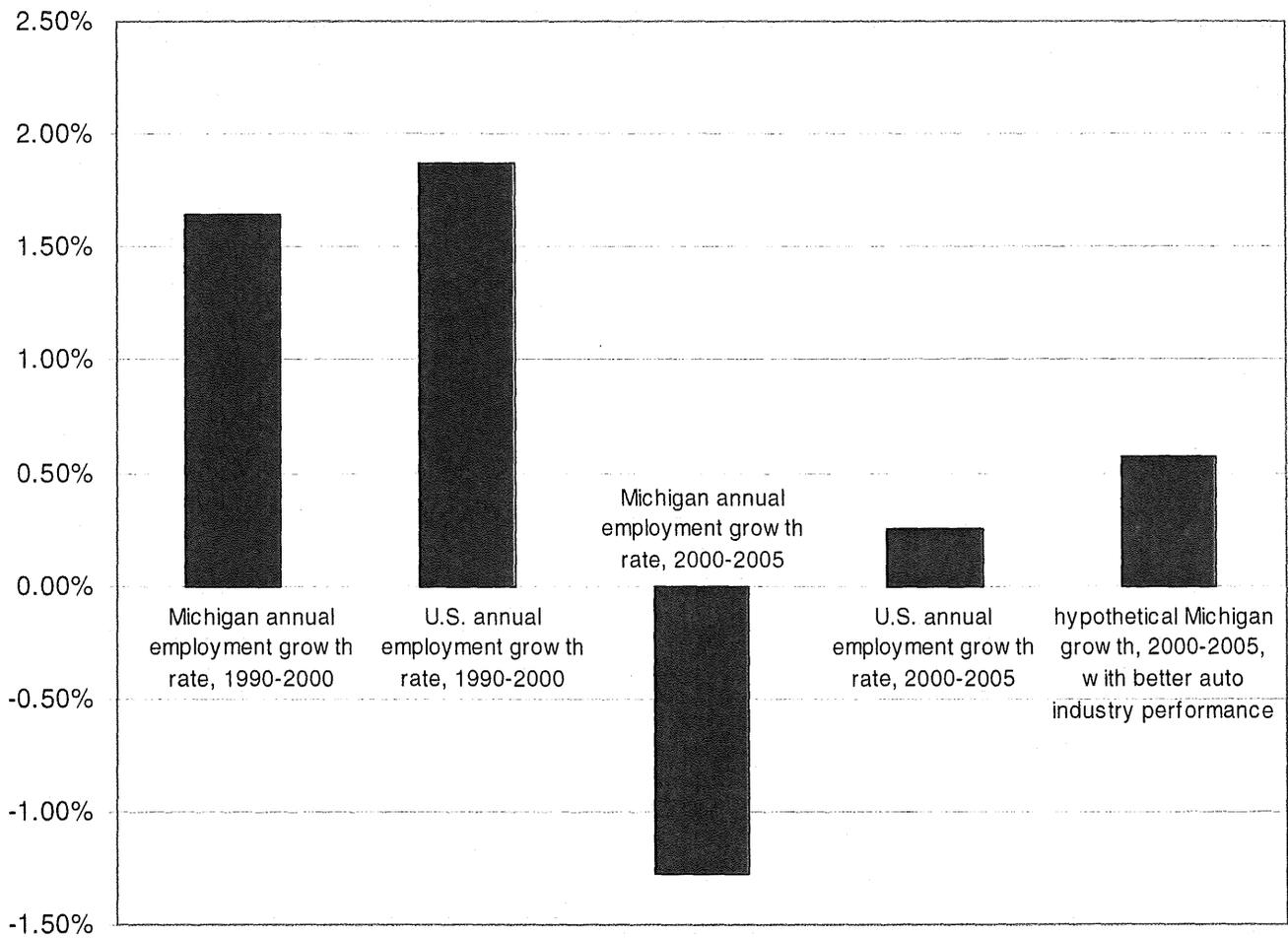
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1. Causes of Michigan's slow growth since 2000
  2. Michigan's competitiveness on taxes
  3. Potential effects of eliminating the Single Business Tax
  4. Potential economic effects of increasing Michigan's educational attainment
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## Topic 1

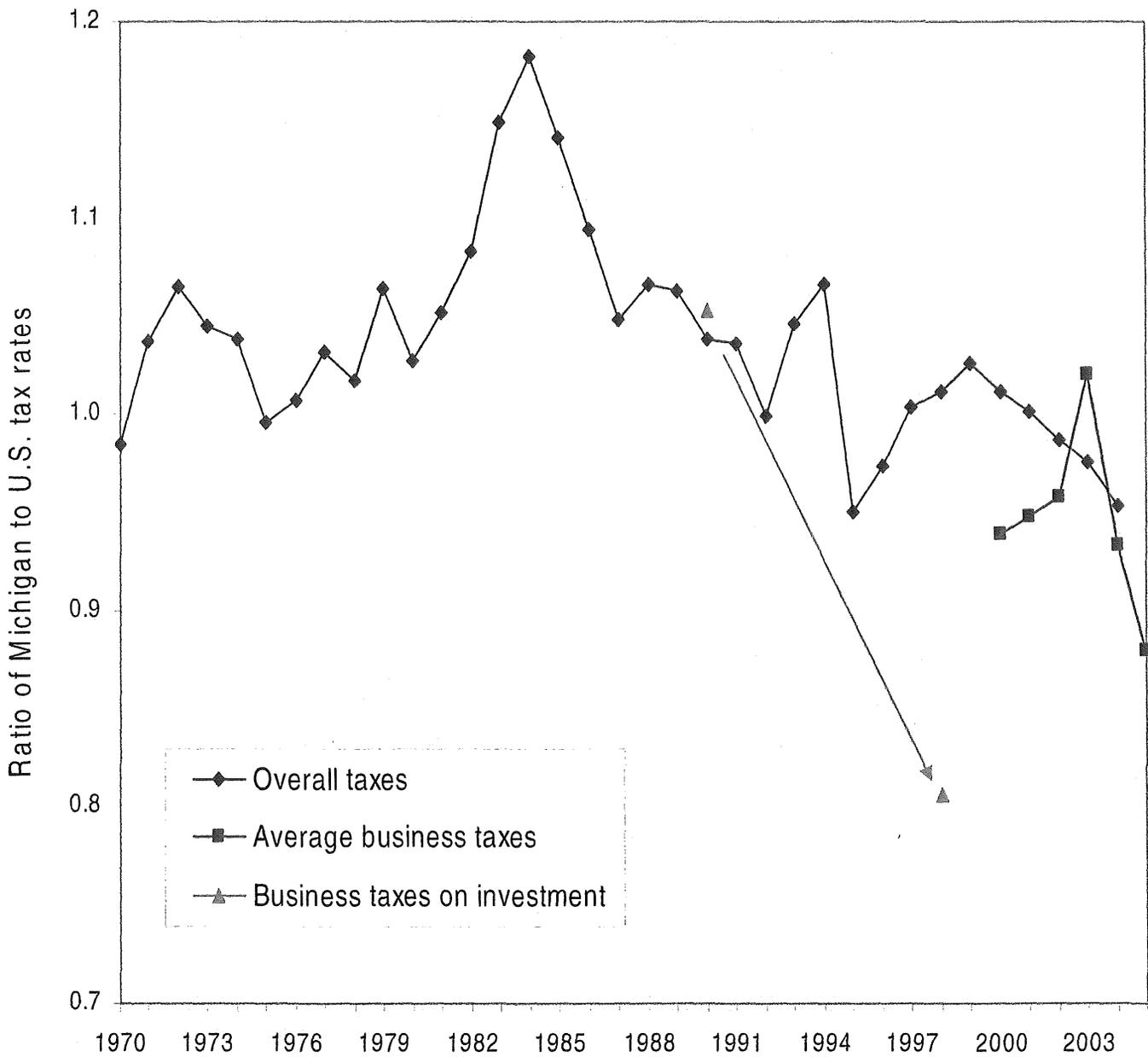
Michigan's economic problems since 2000 can be totally explained by our specialization in the Big 3

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## Topic 2

Michigan is at or below national average in taxes, and Michigan taxes have trended downward over time



## **Topic 3, Part 1**

Eliminating the SBT, financed by cutting public spending, is unlikely to have large net positive effects on Michigan's economy

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- Under most optimistic assumptions (public spending cuts have no effect on business location decisions), SBT elimination only boosts growth slightly, by 0.09% per year. This is less than 1/15<sup>th</sup> of Michigan's lag behind U.S. growth.
  - Under more pessimistic assumptions (public spending cuts allowed to have some effects on business location), SBT elimination reduces growth by 0.01% per year.
  - Effects of SBT elimination are so small for two reasons:
    1. SBT only small proportion of business costs: SBT elimination equivalent to cutting hourly wages by \$0.27.
    2. Public spending affects economic development. Cuts in public spending have demand-side effects by cutting publicly financed jobs, with multiplier effects on suppliers and retail. Cuts in public spending have supply-side effects of making Michigan less attractive location to businesses and households.
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## **Topic 3, Part 2**

Eliminating the SBT is not close to self-financing

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- Even under most optimistic scenario for economic effects, resulting fiscal benefit for state and local taxes and public spending needs is no more than \$137 million per year even after 10 years.
  
  - So, SBT elimination after 10 years might only require public spending cut of \$1.7 or \$1.8 billion, not the full \$1.9 billion.
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### **Topic 3, Part 3**

Business tax reforms that retain current revenue levels, but lower effective tax rates on new business investment, have more positive effects

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- Big differences can occur between average business tax rates, and what the tax burden is on new investment, or reinvestment in existing businesses. Differences are due to investment tax credits or tax deductions.
  
  - Keeping same overall business tax revenue, but increasing investment tax credit sufficiently that tax code would be neutral towards new business investment would boost Michigan's employment growth by 0.16% per year.
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## **Topic 4**

Increases in educational attainment could significantly affect Michigan's growth, but requires long-term policies to boost educational attainment and change migration patterns.

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- Economic research literature shows that higher regional proportion of college graduates is associated with higher state growth.
  - Michigan is below average in percent college educated: only 24% vs. 28% in U.S.
  - To close Michigan's 1.5% annual employment growth gap vs. U.S. would take increase in Michigan's college grad % to 50%, about double the current level.
  - To double college graduates would require sizable increase in educational attainment among Michigan's youth, which would take 40 years to affect entire labor force.
  - In addition, would also have to alter migration patterns, as research suggests that for every 100 additional college graduates produced by a state, number of college graduates in the state only increases by 30.
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# Summary

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- Michigan's growth problems can be largely explained by specialization in auto production
  - Tax reforms can make modest differences in growth, but only if avoid economic problems due to cutting public spending and public services
  - Business tax reforms need to focus on preserving public services while reducing tax burden on investment
  - Increases in educational attainment can make major differences in growth, but need long-term commitment to increasing educational attainment of Michigan's youth and changing migration patterns.
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