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Responding to Michigan’s Population Slide

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By John R. LaPlante

The Great Lakes State is on the path to losing its status as a “great” state — at least in terms of population. According to projections from the U.S. Census Bureau, by 2030 Michigan will no longer be one of America’s 10 most populous states. Not only is Michigan growing more slowly than other states; it is expected to peak at a population of 10,713,730 in 2025 before falling to 10,694,172 in 2030. Michigan will then be the nation’s 11th largest state, down from eighth in 2000.

So what should Michigan do?

The migration from the Midwest and Northeast to the Sun Belt is a decades-long phenomenon. Michigan’s policy-makers can’t do much about some things — such as the weather — that influence people’s choice of residence. But they certainly have a say in how large Michigan’s government is, which in turn affects the size of the state’s tax burden.

State tax burden, as it turns out, is a significant factor in population shifts. To see this in rough terms, compare the states that had the greatest population percentage gains during the 1990s with those that had the lowest gains. The states with the top 10 gains — Nevada, Arizona, Colorado, Utah, Idaho, Georgia, Florida, Texas, North Carolina and Washington — tended to impose a lower burden on their citizens in terms of state and local taxes. Figures from the Washington, D.C.-based Tax Foundation show that when the states are ranked from 1 to 50, the top population-gainers had an average ranking that indicated lower tax burdens.

In contrast, the states with the weakest percentage gains in population — Massachusetts, New York, Iowa, Ohio, Rhode Island, Maine, Connecticut, Pennsylvania, West Virginia and North Dakota — had an average ranking that indicated higher tax burdens. The averages for the top 10 and bottom 10 population-gainers are provided in the chart below for the years 1990, 1995 and 2000. Though the two groups begin fairly close together, the tax burden rankings diverged noticeably as the decade wore on, with lower average tax burden rankings for the states that gained population more quickly.

Average Ranking in State-and-Local Tax Burden

States	1990	1995	2000
10 Quickest Population-Gainers From 1990 to 2000	23.6	27.1	29.7
10 Slowest Population-Gainers From 1990 to 2000	22.1	14.6	15.8

Note: Calculations are based on population data from the U.S. Census Bureau and tax data from the Tax Foundation.

In 2003, Dr. Richard Vedder of Ohio University conducted a more rigorous analysis that showed that high taxes do indeed affect migration. He began by noting that during the 1990s, the top 25 high-tax states experienced a relative decline in population, while the 25 lower-tax states saw a relative gain in population. The pattern continued through 2002 (the last year for which data were available).

Vedder calculated the tax burden imposed by each of the states. He found that a 1 percent increase in state-and-local tax burdens leads to an out-migration from a state of more than 150,000 people during a decade. When looking at why migration totals varied across states, he found that 46 percent — nearly half — of that variation was due to the tax burden.

So why aren’t tax cuts used more often as economic development tools?

A politician can attend ribbon-cutting ceremonies at a new taxpayer-funded building and get credit for delivering an important “community service.” Press conferences announcing government efforts to develop “new jobs” by granting tax credits or subsidies to a select few draw attention too. But low tax rates are abstract and make it hard for public officials to create the appearance that they’re doing something.

Also, while low tax rates are good for an economy as a whole, their benefits are dispersed across the population. On the other hand, an “iron triangle” of legislators, bureaucrats and recipients of government benefits have a strong interest in loudly decrying any spending cuts or even spending reforms that could produce cost savings.

The governor wants to cut taxes on manufacturers while raising them an equivalent amount on other job-creators. She also proposes putting the state $2 billion deeper in the red by selling bonds so the state can subsidize certain firms and industries. No serious analysis can argue that redistributing the tax burden or putting the state deeper in debt so it can pick winners and losers could possibly make Michigan better off.

The overall tax burden makes a big difference, and it can't be cut substantially unless the size of state government is dramatically reduced. It's time to begin the hard work of taking on the iron triangle, thereby strengthening civil society and giving average citizens a reason to come to, and stay in, Michigan.

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John R. La Plante is an adjunct scholar with the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Mich.