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Michigan's Lessons for Ontario

Pro-growth reforms under Republican Gov. Rick Snyder have rescued the state.

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"It's wonderful to be back in Michigan," Hillary Clinton said as she opened an Aug. 11 economic speech in the Detroit suburb of Warren. Then, without a trace of irony, she added: "You can really feel the energy and dynamism that is driving this state's comeback."

Michigan is rising from the ashes, but no thanks to Democrats. The turnaround has been led by Republican Gov. Rick Snyder, who took office in 2011 and implemented a number of pro-growth reforms. Those policies are the opposite of the tax-and-spend-and-hyperregulate agenda that candidate Clinton wants to impose from Washington.

Last week Mrs. Clinton showed again that she has no clue what was behind Michigan's near-death experience when she named former Michigan Gov. Jennifer Granholm—who led the state's economic descent from 2003-10—to her transition team.

A new report from Canada's Fraser Institute, "Ontario vs. Michigan: Policy Lessons from the Wolverine State," describes Michigan's reversal of misfortune since 2011. Whereas the Ontario economy once outpaced Michigan, the tables are now turned and the turnabout coincides with key Michigan tax, spending and labor reforms. Comparisons between Ontario and Michigan are apt because both have traditionally large manufacturing bases and have struggled with challenges to growth under the burden of too much government.

As the Fraser report notes, Michigan's economy dramatically underperformed the U.S. average throughout the early- and mid-2000s. In the period 2000-07, for example, while real U.S. gross domestic product grew annually, on average, at 2.5%, Michigan's GDP grew at just 0.2%. From 2008-10, annual Michigan GDP contracted 2.8% versus the U.S. average of 0.4%. But from 2011-14 Michigan annually outperformed the U.S. average (2.1% vs. 1.9%).

The recovery is all the more impressive considering that Michigan was the only U.S. state to lose net population in the 2000s, according to the report. From 2003-10 Michigan's average unemployment rate was 1.7 percentage points higher than the U.S. average.

"From 2000 to 2011," the report finds, "Michigan underperformed the U.S. in private-sector job growth in most years." It notes that the state "was losing private sector jobs in absolute terms—

meaning the growth rate was negative—even in 2006 and 2007." It was not until 2012 that a "strong rebound" in private-sector employment materialized.

In 2006 and 2007 Michigan's economy contracted while Ontario's grew. Michigan lost more ground than Ontario in the recession years of 2008 and 2009. Yet since the end of the Great Recession, Michigan's growth has been faster than Ontario's despite the province's significantly faster population growth. In 2013 Michigan GDP grew 2.8% while Ontario grew only 1.3%.

Central planners claim that Michigan recovered because of the federal government's Troubled Asset Relief Program (TARP) for the auto industry and its program known as "cash for clunkers." It is true that GM, Chrysler and other automotive companies were beneficiaries of TARP loans and that Ford received a separate $5.9 billion loan. But those programs, at best, only "prevented catastrophe," the report finds.

They cannot explain the state's faster economic and job growth in subsequent years, and could have had the opposite effect. Cash for clunkers, for example, which subsidized auto purchases, was "designed to pull sales forward" and probably drew from future growth. It is also worth considering the possibility that without bailout protection big auto companies may have "emerged on a stronger footing" from normal bankruptcy proceedings, the report notes, citing the work of the Cato Institute's Dan Ikenson.

Three major reforms under Gov. Snyder have changed the environment for entrepreneurship. First, in March 2013 Michigan became the 24th "right to work" (RTW) state, which means that unions cannot force nonunion members to pay union dues. The report cites data from 2001-13 on states that adopted RTW legislation before 2001. It shows, on average, higher private nonfarm employment growth, economic output and real personal incomes. The causal link between RTW and these outcomes has not been proven. But Michigan previously lost a lot of investment to RTW states and Michigan RTW coincides with a return of investor interest in the state.

A second Snyder reform, in January 2012, lowered and simplified corporate taxes. A third reform that year cut state spending and employment, holding down public debt. Gov. Snyder grew the state's "rainy day fund," which had evaporated during Gov. Granholm's tenure.

Ontario hasn't had any remotely comparable labor, tax or spending reform. Its net debt has doubled since 2007 and its economy has sputtered while pro-growth Michigan is rediscovering its mojo. This is instructive for the neighbors to the north and for Americans. Mrs. Clinton's big-government solutions are failed left-wing populism. It didn't work in Michigan and it won't work for the nation.