

# Ontario vs. Michigan: Policy Lessons from the Wolverine State

by Robert P. Murphy, Joel Emes, and Ben Eisen

In the early and mid-2000s, Michigan suffered a steep economic decline, such that it actually lost population, as many Michigan residents left the state in search of greater economic opportunity in jurisdictions like Texas and Florida that were flourishing economically. Yet a series of bold policy reforms would revitalize the Michigan economy. This amazing turnaround story offers lessons for Ontario.

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Home of the Detroit automakers, Michigan has historically been a manufacturing powerhouse in the United States. This fact, and its geographical proximity, make it a jurisdiction that invites comparisons to Ontario.

This paper begins by documenting the scope of Michigan's economic turnaround, relative both to the rest of the United States and to Ontario. Taken together, the evidence presented here demonstrates that the introduction of Michigan's reform package coincided with a resurgence in the economy overall, and in manufacturing in particular. Whereas in the pre-reform period Michigan was, generally speaking, an economic laggard within the United States, during the years since the economic reforms the Wolverine State has generally outperformed the rest of the union economically.

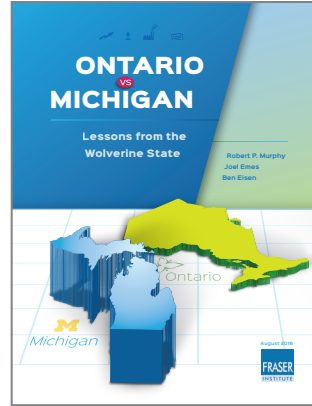
Michigan's strong economic performance since 2011 stands in contrast to Ontario, a jurisdiction that also has a large manufacturing base as a central feature of its economy but one that has not experienced an economic resurgence comparable to Michigan's in recent years. Between 2010

and 2014, Michigan's real economic output has increased slightly faster than Ontario's, despite slower population growth. Michigan's manufacturing output growth exceeded Ontario's significantly between 2011 and 2014. Furthermore, while Ontario has experienced a dramatic and economically harmful run-up in public debt since 2011, Michigan has actually seen a slight decline in net public debt as a share of its economy.

These results stand in stark contrast to the situation in the early years of this century, when Ontario consistently outperformed Michigan on most measures of economic performance.

The paper shows that Michigan's economic turnaround coincided chronologically with a period of substantial economic policy reforms. It documents some of the most important policy changes undertaken in the Wolverine State, and discusses how these reforms may have contributed to the economic turnaround in Michigan. Specific reforms examined include:

- The introduction of right-to-work legislation (signed in 2012 and taking effect in March 2013);
- The replacement of the complex and onerous Michigan Business Tax (MBT) with a simpler and lighter flat corporate income tax of 6 percent, effective January 1, 2012;
- Sharp budget cuts, which were undertaken in fiscal year 2012, followed by a period of spending restraint during which state spending increased only modestly.



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If Ontario policymakers seek to generate a comparable boost to their overall economy, labour market, and manufacturing sector, they should carefully study Michigan’s reform experience and determine which policies could be similarly helpful here. Given the severity of the fiscal problems facing Ontario, provincial policymakers should learn from the Michigan example and move quickly to reform and reduce provincial spending in order to finally begin reducing the province’s daunting debt load.

Ontario continues to perform below its full economic potential and remains burdened by substantial public debt. This comparison with the American state of Michigan provides

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further evidence that even steep economic downturns, such as were experienced in Michigan early this century, can be reversed. Michigan’s economic revival shows the power of policy reform to help jumpstart even seemingly moribund economies. If Ontario wishes to break out of its prolonged slump and resume its historical place as the economic engine of Canada, it should study Michigan’s example and embark upon a similarly ambitious pro-growth policy reform agenda.

Michigan vs. Ontario manufacturing output as a share of the economy, 2000–2014

