

Governor's Economic Strategy

Challenge

Michigan is in the midst of a three decade-long transition
(1980s, 1990s, and 2000s)...

- 1) From a state dependent upon (and catering to) the Big 3 & UAW
to a state whose economy will be determined by
tens of thousands of small, dynamic companies
competing in a broad spectrum of world markets
- 2) From low skill, high pay jobs to
...high skill, high pay jobs...
or...perhaps (and unfortunately)
...low skill, low pay jobs (or "no pay" jobs)...
- 3) From a "transportation industry" state to
...a "communication industry" state
- 4) From the Industrial Age to
...the Age of Knowledge

Unfortunately, over many decades, the state has evolved
...in tax policy, regulatory policy, investment strategy, politics
to serve 3 companies and one union.

It now must restructure itself to support (attract or create)
thousands of new companies which must function in
a rapidly changing and intensely competitive world marketplace.

Tax Policy

Michigan's present tax system is both unfair and burdensome
...particularly to small business

But the state as a whole is NOT overtaxed
...indeed, its per capita tax has now dropped
below the national average

Rather its tax system is unfair
...SBT penalizes small business to benefit Big Three
...excessive reliance on property tax

Further, the tax system is not strategic
...subsidizes and perpetuates the past

...does not invest in the future

Tax “expenditures”

...also subsidize the past

...at the expense of the future

Hence, the strategy should not be simply to cut taxes

since this could well destroy the strategic investments

in areas such as education and infrastructure that will be critical to

Michigan’s future.

Rather the goal should be to restructure Michigan’s tax system

...to make it less burdensome to small business

...more fair to taxpayers

...and capable of supporting key strategic investments in the future

NOTE: An interesting model here is provided by Indiana,

which did a massive restructuring of its tax system,

without destroying key investment needs.

State Expenditures

For decades, Michigan was fabulously wealthy...

It developed a culture of expensive practices and expectations

...employee benefits, health care, social services, education...

Yet today, Michigan has a so-so economy

...and yet it is attempting to support a Cadillac appetite

with a Ford income

Further, it is not using its resources strategically

...tending to deploy them to pay for past sins

...corrections

...social services

...entitlements

...or appease special interest groups

...political

...geographical

It is not INVESTING in its future

...to create new skills

...to create new jobs

...to build the economy of the future

Job Protection vs. Job Creation

Face Reality:

The Michigan component of the American automobile industry is declining...and will only continue to decline, regardless of what we do.

Increasing competitiveness will retain market share and build profits ...but will NOT retain jobs (since doing things with less people is a key component of competitiveness)

Further,

competitiveness ==> job protection (at best)

That is, things like TQM, shorter cycle time, just-in-time inventory, will not create new jobs, but may preserve existing jobs.

Instead, in an Age of Knowledge, new knowledge will create new jobs
R&D, inventions ==> job creation

The new jobs in Michigan are certainly not going to be spawned by the automobile industry...and probably not by any existing industry.

Instead they will be created by entirely new activities such as

...genetic medicine

...computer/communications

...optical technology

...biotechnology

Hence it is clear that the state's most important resources in competing in this Age of Knowledge are its two research universities

...the University of Michigan

...Michigan State University

The Threat of Disinvestment

Despite this reality, the state has been systematically disinvesting in these research institutions

...state appropriations today--in real terms--are 20% below 1970s

...state appropriations haven't kept pace with the CPI for 6 years

...campuses are crumbling because of inability of state to
fund critical infrastructure needs (almost unique among the
states)

...state has been unable to invest in key R&D efforts
for many years (e.g., ITIC, MSU Ag Sciences)

A data point: U of M

i) UM has become nation's leading research university
...attracts more federal R&D than any other university (\$300 M)
...clearly the nation's leader in key technologies
...genetic medicine
...computer networking
...optics, lasers, ultra high speed science

ii) Yet, UM's state support has deteriorated today to the point
where the state appropriation is less than 12% of UM's budget

iii) Further, in sharp contrast to essentially every other
public university in the nation,
UM has received only token state support for facilities...
...two academic facilities in 25 years
...averaging \$3 M/y...compared to \$30 to \$40 M/y year
for UC, OSU, UI, UW, UM...

iv) Indeed, key facilities that could have great impact on the
state's future have been deferred for years because
of state impasse in capital outlay
...use ITIC as example
...paralyzed...irrational...building indoor football stadiums
rather than key R&D facilities!

Ditto for MSU...

Once again the same dilemma is painfully apparent:

...the state simply has not demonstrated
...an understanding
...a capacity
...or a willingness
to invest in its future!

Most states would key their eye-teeth for UM and MSU.

Yet, our state, for almost two decades, has ignored
the needs of these marvelous institutions

Forcing them to evolve from

...state-supported

...to state-assisted

...to state-related

...and now just to “state-located” institutions...

A great tragedy--and shows the bankruptcy of public policy

...and the tyranny of porkbarrel politics...

An Idea: University Enterprise Zones

UM is now the #1 research university in nation

Why don't we built an “enterprise zone” around Washtenaw County

that draws on the best practices of other high tech areas

(both U.S. and worldwide)

UM would commit to aggressive spinoffs,

...making strategic investments

...attracting key people to Michigan

...building knowledgeable advisory boards

State would commit to

...making key investments in UM R&D facilities

...helping with key university-industry partnerships

...protecting zone from excessive

...regulation

...union impact

...taxation burdens

Ditto: MSU and East Lansing

Bottom Line

It is not enough to simply cut, cut, cut...

...and restructure, restructure, restructure

Instead, the state MUST invest if it wishes to create

...new knowledge

...new industry

...new jobs

...and make the transition to prosperity
in the next century

Notes:

UM has commissioned IPPS to conduct
...a “clean sheet” analysis of Michigan’s future
...to provide radically new ideas for tax policy,
regulatory policy, public investments
...also to study how Ann Arbor might be transformed
into economic engine of Midwest