



Can Michigan Attract Knowledge-Based Industries?

By David Littmann

Summary

Michigan must reform its tax and labor policies in order to attract the high-tech business of the 21st century.

Main Text Word Count: 670

Michigan's auto industry is in decline. Along with it, many of our tool and die shops and basic auto part suppliers have disappeared. But crises often catalyze new opportunities. What are the chances that a thriving knowledge or information-based economy will arise from these ashes?

Info-industries deal in the high-tech collection, organization and dissemination of data and information in order to raise client productivity. In a globally connected universe, those who are first to the trough with state-of-the-art techniques and networking capacity gain market advantage.

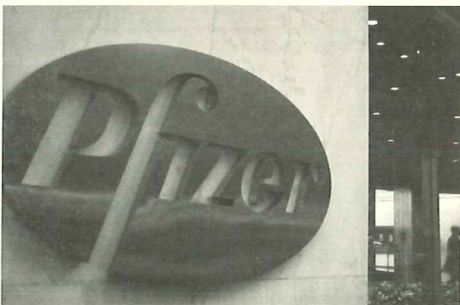
At first glance, Michigan may appear ideally suited to profit from the transformation to a knowledge-based economy and away from its traditionally heavy reliance on manufacturing. For one, info-firms are rarely unionized and can adapt quickly to changing technology. Second, info-sciences don't require large facilities, purchases of land or heavy equipment. Some are home-based or housed in low-cost office space. Third, much of the prerequisite infrastructure already exists: reputable colleges and universities and well-established transportation/communication systems.

However, with any economic balance sheet, the advantages must be set against liabilities in the minds of prospective employers, employees, investors and venture capitalists. When it comes to attracting or retaining knowledge-based firms, it is utterly essential that "human capital" be treated well. Why? As we know from painful out-migration of college graduates from Michigan over the past decade, human capital, or brainy, ambitious entrepreneurs, are fleet-footed. They have the least difficulty pulling up stakes and migrating across borders if they sense a hostile environment.

For Michigan to appeal to any industry as a headquarters, low-tech or high-tech, the economic fundamentals are the same: low operating costs and profitable growth prospects.

Does Michigan match the "better-faster-cheaper" business paradigm sought by start-up firms and customers around the globe? You be the judge. In 2007, Michigan raised business taxes by 22 percent. Also, the Reason Foundation ranked Michigan the sixth most burdensome state

continued on back



Pfizer, which in 2007 announced it would close three Michigan facilities, represents the high-tech companies that Michigan would be able to attract were the state to reform its business climate and lower taxes.

AP Photo/Mark Lennihan

in the imposition of occupational licenses on entrepreneurs. Moreover, with real personal income levels falling sharply, especially in the private sector, Lansing legislated another \$1.7 billion in tax burdens — including an 11 percent hike in personal income taxes — with the possibility of more on the way as a national recession looms.

Knowledge or info-based industries deal in the most mobile, flexible, competitive, cost-sensitive and fungible resource available in an economic system: human capital. Cross-pollination is the key. Creative human beings, especially when clustered and stimulated by the presence of other innovators, will generate new ideas and become the critical mass from which old industries are transformed and new industries are born. That's what iPods, laptops, cell phones, DVDs, radar, automatic pilots, genetically-modified foods and polio vaccines are all about.

To achieve critical mass, Michigan's economy first must be forthcoming to the best, the brightest, the most energetic, and the most mobile of our people. Venture capital will follow! It searches for the most profitable businesses in the best markets.

Unfortunately, 21st century Michigan turns economic incentives on their head. Like so many other misconceived policies, Michigan puts the cart before the horse. Lansing creates huge bureaucracies that subsidize politically favored businesses and individuals, rather than improving pocketbooks statewide by lowering overall taxes and regulations. Similarly, Lansing keeps throwing billions of dollars into the public education arena without return on "investment." The monies, instead, simply drive tuitions and other costs higher by bloating unfunded pensions and health care benefits of academic and non-instructional personnel. It has become a swinging door policy: Students get a Michigan diploma and land jobs out-of-state.

True reform can only come when we first secure a more rewarding business climate as the source of all new job creation. By catering to special interest industries, Michigan has, instead, showcased to the world its lack-of-knowledge-based "policymakers."

When Michigan's politicians treat its private sector economy — income, profits and savings — with the respect shown a stallion or even a work horse, rather than as the cart onto which the burdens of government are heaped, then Michigan will restore its rightful place among the most productive, prosperous places on earth.

#####

David Littmann is senior economist for the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Mich. Permission to reprint in whole or in part is hereby granted, provided that the author and the Center are properly cited.

True reform can only come when we first secure a more rewarding business climate as the source of all new job creation.



**Attention
Editors and Producers**

Viewpoint commentaries are provided for reprint in newspapers and other publications. Authors are available for print or broadcast interviews. Electronic text is available at www.mackinac.org. Please contact:

Michael D. Jahr
Director of Communications
140 West Main Street
P.O. Box 568
Midland, Mich. 48640

Phone: 989-631-0900
Fax: 989-631-0964
www.mackinac.org
Jahr@mackinac.org