

# **A NEW AGENDA FOR A NEW MICHIGAN**

**Report by:**  
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**[michiganfuture.org](http://michiganfuture.org)**

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Hundreds of Michiganians contributed to this report. Their ideas and insights greatly shaped our recommendations. There are six individuals who made huge contributions to the development of this report:

Steve Hamp (then President of The Henry Ford) was a member of our Leadership Council for most of this project. His ideas and perspective were, as always, enormously helpful to us.

Don Grimes of the Institute of Labor and Industrial Relations at the University of Michigan and Doug Drake of Public Policy Associates served as project staff. They did their usual terrific job in collecting and analyzing data as well as offering their insights on the content of the report.

Benita Melton of the Charles Stewart Mott Foundation was not only their program officer for this project, but participated fully in the development of the report.

James Duderstadt, President Emeritus of the University of Michigan, and Mark Murray, President of Grand Valley State University, provided guidance throughout the project and were particularly helpful in the development of the policy agenda.

## Executive Summary

Michigan's economy is reeling from an unprecedented six consecutive years of declining employment—maybe most worrisome, the past three years during a national economic expansion. There is widespread concern that what comes next will not be as good as what has been lost.

The need for a new agenda is clear. At Michigan Future, Inc. we have come to believe that Michigan's decline is caused, in large part, because Michigan—its citizens, enterprises, and communities—has been slow to adapt to a rapidly changing global economy. Today, leading-edge communities are leaving behind the Industrial Age. They are adapting quicker and better to a more knowledge-driven and entrepreneurial economy: what New York Times columnist Thomas Friedman has labeled the “flat world.”

This report is designed to answer the question, “What really matters in better positioning Michigan and its regions for success in a knowledge-driven and entrepreneurial economy?”

We started with a clean sheet. We didn't assume that state and local policy was the answer. Nor did we start with preconceived notions of what the right answers are.

Our basic conclusions are:

1. Our answer to the question, “Where do we want to go from here?” is a high-prosperity Michigan, best measured by a per capita income above the national average no matter how well the national economy is faring. This is a status we enjoyed for most of the first 70 years of the past century. After more than three decades of continuous decline compared with the nation, we are now consistently below the national average in both upturns and downturns.
2. The only reliable path to a high-prosperity Michigan is to be concentrated in knowledge-based enterprises. There is a clear pattern across the country that the states, and particularly metropolitan areas, with the most successful economies are those that are concentrated in high-pay, knowledge-based industries: information, financial services and insurance, professional and technical services, and management of companies.

In the past, Michigan was able to flourish with an economic base concentrated in factories, farming, and tourism. No more. In a flat world, these functions increasingly are either being done elsewhere or they are lower-wage industries.

Michigan is lagging the nation mainly because of our slow growth in the dynamic, high-wage sectors of the knowledge economy. That, combined with a still astonishingly high dependence on the now uncompetitive domestic auto industry, means that we almost surely will continue to lag the nation for the next several years.

3. Economies are regional. States and municipalities are political jurisdictions, they are not economic units. State economies can best be understood as the sum of their regional economies.
4. What most distinguishes successful areas is their concentration of talent, where talent is defined as a combination of knowledge, creativity, and entrepreneurship. Quite simply, in a knowledge-driven and entrepreneurial economy, the places with the greatest concentrations of talent win.

Metropolitan areas without concentrations of talent will have great difficulty retaining or attracting knowledge-based enterprises, nor are they likely to be the place where new knowledge-based enterprises are created. So in a flat world, economic development priority 1 is to prepare, retain, and attract talent.

Our agenda to help better position Michigan and its regions to succeed in a knowledge-driven economy is centered on (1) developing a culture, and (2) making key public investments that are aimed at preparing, retaining, and attracting talent.

First, we need to resist the pressure to try to save jobs and enterprises that are no longer competitive. Such efforts are tilting at windmills (they won't work) and, most important, they take time, energy, and resources away from doing what is needed to succeed in a flat world.

For the past dozen years, Michigan has centered its economic development strategy on cutting taxes. It didn't work. And there is no evidence that it will work: the most successful areas around the United States are not characterized by low taxes.

Instead, we believe the priority actions that can best position Michigan to succeed in the context of a flat world are as follows:

**Strategic Priority 1: Build a culture aligned with the flat world.**

Culture trumps policy. Our expectations about the economy and how one constructs a good-paying career are a big driver of how successful we will be in the future. Long-standing Michigan beliefs about the economy are now impediments to our future success.

In a world where economic growth is driven by knowledge and innovation, the most successful regions will be those which highly value:

- *Learning.* Instilling the love of learning may well be the most important foundation for economic success in a world characterized by accelerating creative destruction of both jobs and enterprises.
- *An entrepreneurial spirit.* This is more than starting a business, although we need far more of that. It is a community that stops thinking of employment as a long-term entitlement to a good job and starts valuing competition and constant reinvention of one's career.

- *Being welcoming to all.* The places that do the best in attracting talent from anywhere on the planet win. This means building a culture that condemns rather than tolerates discrimination and segregation, as well as welcoming, with open arms, talented people from outside Michigan.

**Strategic Priority 2: Invest in higher education first and foremost.**

Our higher education institutions, both universities and community colleges, are the most important assets we have in developing the concentration of talent we need to be successful in a knowledge-based economy. This is particularly true of our major research universities.

We propose a dramatic new structure for state support of higher education built around three principles:

- Institutional independence (autonomy) at public universities and community colleges.
- Rather than funding institutions, state higher education funds should go to students—no matter where they come from.
- Provide a substantial state match for federal research funding.

**Strategic Priority 3: Build regions that are attractive places to live.**

The most successful regions across the country are those where both the suburbs and central cities are prospering. Our framework for developing metropolitan areas that are attractive places to live for talented individuals:

- Create vibrant central city neighborhoods that offer something different from the suburbs, neighborhoods characterized by an active street life: safe, with high densities, a mix of residential and commercial uses, an active arts and entertainment scene and a walkable environment.
- Provide a quality infrastructure throughout our metropolitan areas. Traditionally this has meant physical infrastructure such as transportation, water, and sewer. These are still important, but it may turn out in a knowledge economy that the elements of infrastructure that matter most are (1) advanced connections to the Internet; (2) international airports;—both for their connections to the global economy—and (3) green infrastructure (system of open spaces) as a key amenity in retaining and attracting talent.

**Strategic Priority 4: Attract export-based business investment.**

Our framework for how best to attract export-based business investments:

- Business taxes should be easily understood and have the broadest base and lowest rate possible to raise needed revenues.
- Regulations should be minimized so as to encourage competition and innovation. This can and should be done without reducing worker or environmental protections.

- Stay away from government deciding on industries of the future to invest in.

**Strategic Priority 5: Align K-12 education with a knowledge-driven economy.**

There are no shortcuts. We are going to have to do the hard work to develop a quality flat-world K-12 system. We need to develop educators, from superintendents to classroom teachers, who are thoroughly grounded in the realities of the flat world. And we need to give them the ability to experiment and innovate to help all students develop a love of learning and the academic and soft skills that are required to succeed in the flat world.

**Strategic Priority 6: New leadership.**

It's inconceivable to us that the big changes we are recommending can happen without strong civic and business (and ultimately political) leadership. If this project is going to avoid just sitting on the shelf, there needs to be some group with clout that takes ownership of this agenda. It is an essential ingredient in our future economic success.

Given that so much of what needs to be done is regional, new leadership should be organized on a metropolitan area basis with the groups networked together for state action. The most likely place to start building a new leadership is with leaders of those enterprises that are competing nationally or, better yet, internationally for talent. They are the enterprises who care most about our ability to prepare, retain, and attract talent.

We at Michigan Future, Inc. have made a long-term commitment to this effort. We are going to work hard at sharing our ideas with Michiganders—particularly those in leadership positions. Our initial goal is to change the public conversation in Michigan: switching to a discussion about how we do well in the economy of the future, rather than what we can do to save the past, or even worse, who is to blame for the decline of the old economy. In the longer term, we will try to be a catalyst for the formation of the kind of regional leadership structure we think is vital for our ultimate success.

We are willing to make this commitment because we know the payoff from success is huge. As scary and difficult as this change is, the evidence is that, just as it was a century ago, if Michigan is successful in making this transition we can become once again a place where if you are smart and willing to work hard, most Michiganders can and will earn a good income to raise a family and pass on a better opportunity to their children.