
A New Economic Development Strategy for Michigan:

Put People and Place First to Create Good- Paying Jobs



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INTRODUCTION

Michigan faces the prime economic challenge of our times: creating an economy that provides enough household-supporting jobs so that all working households can raise a family and pass on a better opportunity to their children. A prosperous Michigan is a place with a broad middle class where wages and benefits allow everyone to pay the bills, save for retirement and the kids' education, and pass on a better opportunity to the next generation.

Even in Michigan's strong pre-pandemic economy, 43 percent of households—most with at least one working adult—could not pay for basic necessities. When more than four in ten Michigan families are struggling, our state is not succeeding—and our economic developers are failing. As long-time economic developers ourselves (who very much implicate ourselves when we talk about failing), we believe the primary goal of state economic policy should be rising household income for all Michigan residents.

Meeting this challenge requires not only that the State make rising income for all its top economic priority, but that it reevaluate and redesign its economic development infrastructure accordingly. This mission change will also require us to think differently not just about state and regional economic development efforts, but how they coordinate with community development, housing, and workforce development policies and programs as well.

Currently, Michigan's economic development programs and incentives are designed to support companies either relocating or expanding in the state in the hopes that good, high-paying jobs will follow. This has been the model for more than 40 years. But this strategy is not working. In Michigan, 60 percent of all jobs

today pay less than \$20 an hour—a far cry from the more than \$60,000 a family of two adults and two children need to pay for the basics.

While there is no magic bullet, both of us have come to believe economic developers in Michigan are looking at their task all wrong. For Michigan to be successful, we must flip traditional efforts on their head and adopt a bottom-up approach. Talent doesn't follow companies, it's the other way around. That means it's time to invest in human capital—our people.

PART ONE: A HUMAN-CENTERED APPROACH

In *Triumph of the City*, economist Edward Glaeser writes: “The bottom-up nature of urban innovation suggests that the best economic development strategy may be to attract smart people and get out of their way.” (When Glaeser writes, “attract smart people” he is talking about both current and potential future residents.) But attracting smart people and getting out of their way is not at all how state and local economic development officials approach the task of growing the Michigan economy, currently nor historically. The focus, almost exclusively, is on attracting business investment through some combination of being (and marketing) a low cost place and providing subsidies for corporate relocation or expansion.

And yet the evidence is on Glaeser's side. Across the country, the most prosperous states and regions share one common characteristic: concentrated talent. The new economic reality is that talent attracts capital, not the other way around. For employers, talent is the asset that matters most. So, what if we prioritized investment in our people, our human capital?

Anyone working in our field knows the work of the economic developer is not actually about creating jobs or attracting businesses or growing the economy. What an economic developer really does is remove barriers. Traditionally, efforts in Michigan have focused on removing barriers for companies to relocate in or expand here. We do this with incentives targeted to companies that have matured to include a variety of requirements about maintaining employment levels and investment over longer periods of time. We're by no means alone in this approach. Most state economic policies use similar strategies, which is part of why they're increasingly expensive and, simultaneously, decreasingly effective.

It's time for Michigan to focus on the other side of the equation. Rather than spending billions on corporate attraction, let's spend it on getting our people the skills and education they need to be successful while simultaneously making them an attractive labor force for high wage employers. This approach has the added, essential benefit of being intentionally inclusive. Rather than subsidizing the employees of a handful of companies, we advocate for policies that encourage the skills growth of all current and future Michigan workers. Giving all a foothold on the economic ladder of success.

We believe the most important thing Michigan can do in terms of growing our human capital is to advance practices and programs that remove barriers to the high-quality education systems that prepare the next generation for the economy they are going to live in and the workforce they will compete in.

This is a critical first step in developing Michigan's own talent and uncovering our hidden human capital. Of course, it does us no good to grow our talent base if our talented workers then flee for greener

pastures. If we are to retain our talent and eventually create a demand for and ability to attract more—a prerequisite for growth—we must also invest in the types of places where a globally mobile workforce wants to live and work.

PART TWO: PLACE MATTERS

In Michigan, as in most states, we've historically tried to attract and retain talented workers by creating and marketing jobs that would entice them. This is only one small part of the equation, however, and subsidizing this part is expensive. What a skilled workforce wants more than anything else is a place with high quality of life.

Then New York City Mayor Michael Bloomberg, in a 2012 *Financial Times* column, describes where talent is concentrating:

The most creative individuals want to live in places that protect personal freedoms, prize diversity and offer an abundance of cultural opportunities... Recent college graduates are flocking to Brooklyn not merely because of employment opportunities, but because it is where some of the most exciting things in the world are happening—in music, art, design, food, shops, technology and green industry. Economists may not say it this way but the truth of the matter is: being cool counts. When people can find inspiration in a community that also offers great parks, safe streets and extensive mass transit, they vote with their feet.

If Michigan is going to be competitive in retaining, attracting and creating high-paid 21st century jobs, it is going to require public investments to create places where high

skilled employees want to live and work. We know how to create welcoming communities. We know how to pay for and provide high-quality basic services, infrastructure and amenities. We know how to create high-density, high-amenity, transit-rich neighborhoods. There are models all over the country and the world.

Of course, the desirable mix of infrastructure, basic services and amenities differ from region to region. What makes small towns and rural communities attractive places to live and work are different than what makes big metros and their anchor cities attractive places to live and work. Michigan's diverse regions need the resources and flexibility to develop and implement their own strategies to retain and attract talent. It's an essential ingredient to their future economic success.

For three decades under leadership of both major political parties, however, we have done the opposite, balancing state budgets by cutting funding for exactly these priorities. While much attention has been paid to the fact that Michigan spends less on its roads and public transit than almost any other place in the nation, fewer people know that cities and towns have been systematically starved as well. From 2002-2017, revenue sharing payments from the state to local municipalities have declined by a whopping \$8 billion in aggregate. That's \$8 billion that didn't get invested in local public safety, parks, roads, libraries, transit systems, main streets, and all of the other amenities that make city living attractive to so many.

One of the painful lessons the pandemic has taught us is that locally owned, local services small businesses are an important component of the places where people want to live, play and work. So another aspect of placemaking where state economic policy needs to change is its focus on large

businesses. The vast majority of state economic dollars are spent helping large companies relocate or expand in Michigan, however the majority of jobs created are by small businesses opening or growing organically on main streets across the state. State economic development policy has largely ignored these businesses, save for those in select high tech industries. This is a huge oversight.

There are certainly advantages to the presence of more base economic businesses—those that export and bring in capital from outside the economic region. But there are also important advantages to businesses that are owned by and largely employ local residents. More dollars spent at those businesses stay in the local community. They provide jobs and opportunities and, importantly, amenities for local residents. They break cycles of intergenerational poverty and they can help generate wealth in traditionally underserved or discriminated-against communities. And, of course, local businesses add more to the character of their communities than national chains, creating the types of places where a globally mobile workforce and, therefore, high-wage businesses want to locate.

A new economic development approach must prioritize -- and direct significant investment toward -- the startup and growth of thousands of locally owned businesses along main streets across the state. At the crux of this effort is removing barriers to their success by developing an ecosystem to ensure that entrepreneurs have access to the training, funding, and technical assistance they need, and it should have an intentional focus on ensuring that people can start businesses in their own neighborhoods.

This policy shift is not just about activating empty storefronts and bringing amenities into communities, however. According to

data from the Global Entrepreneurship Monitor, more than 80 percent of funding for new neighborhood businesses comes from personal savings, friends and families. It's no surprise then that, in our current climate, the entrepreneurs who are most likely to succeed come from positions of privilege with intergenerational wealth and personal and familial networks of resources. This policy shift, then, is a tangible and realistic way to make good on politicians' promises that every Michigander will get to participate in our economic recovery.

PART THREE: SMARTER INCENTIVES STILL WORK

There is still a place in today's economic development toolbox for traditional incentives. Using some of the marginal tax revenue generated by new investments from external companies to make further investment in their success in Michigan is still good policy as long as it meets other criteria. In general, these incentives should be smaller, only used to catalyze investment that would not happen but for the investment, be more front-end loaded, and have stiff penalties for failure to perform. Additionally, they should only be used for higher-wage jobs, the kind that pay more than the state's median wage and won't be lured away in three to five years by some other state with a bigger pocketbook. Of course, this is easier said than done.

Still, it's not hard to see how investments in the areas above can reduce the need for traditional incentives. In 2017, the City of Detroit and the State of Michigan offered Amazon more than \$4 billion to bring its HQ2 to Detroit. One of the winners, Northern Virginia (NOVA), offered less than \$2 billion and the majority of that (\$1.1 billion) was really just increased investment in Virginia's existing transit and education

infrastructure—something that benefits all Virginia residents.

How was NOVA able to outbid Detroit for a fraction of the cost? They touted their talent:

Greater Washington is the country's most educated region (~49% of those 25 and older have at least a bachelor's degree), and it produces more computer science graduates than any other metropolitan area," their proposal begins. "The region also has a ready base of talent, with the country's third-largest pool of software developers and fourth-largest pool of management and legal professionals.

They also highlighted their diversity: "Women are twice as likely, and African Americans five times as likely, to work in the technology sector in NOVA than in Silicon Valley." And they described the tremendous quality of life available with professional sports, cultural amenities, a dynamic food and wine scene, and "a diversity of housing options, some of the country's top-ranked public schools, and one of the country's top-rated public transit systems."

In short, they didn't need to give specific investments to Amazon, because they'd already made the investments in a way that benefits all of the residents in NOVA.

Not only that, the future investments they offered Amazon were to build more of those assets. The major investments proposed by state and local government were not cash incentives, but rather increased spending on K-16 STEM education, transportation with an emphasis on transit, and affordable housing.

We are realists. We understand that cash incentives probably are needed to land sizable new business investments. But

those cash incentives should be a small component of a Michigan's new model of economic development for the 21st century. And cash incentives should only be offered for jobs that are full time, high-wage and with good benefits. Why provide incentives for jobs that actually bring down our median income?

A NEW ORIENTATION

If Michigan is going to compete with regions like Northern Virginia for high-wage employers, we need to completely redesign our economic development strategy and practice. What Michigan needs, first and foremost, is a human capital-centered economic strategy, not a business creation-, retention-, attraction-centered economic strategy. The cornerstone of any successful economic development strategy today is high-quality education systems that prepare the next generation for the economy

they are going to live in and communities where a diverse, mobile workforce choose to live and work. As Northern Virginia teaches us, this is what positions cities, regions and states to win economically in the 21st century.

We hope this essay will serve as a catalyst for economic development practitioners and policymakers to join with us in reorienting Michigan toward a human capital- and talent-centered economic development strategy and practice, and we welcome further discussion about exactly how these tenets should be applied more specifically. We know what needs to be done. It's time to get to work.

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