

# MICHIGAN FUTURES RESEARCH SEMINAR

## EXECUTIVE SUMMARY

**PROBLEM:** Michigan's economy lags the entire nation in critical areas: job creation, retention, and has a dismal outlook for creating new, high-tech jobs.

### DICHOTOMY OF ECONOMIC DEVELOPMENT EFFORTS

**OLD ECONOMY:** Taxes

Labor

Manufacturing

**NEW ECONOMY:** Regulatory Efficiency

Clustering of High-Tech Businesses

Student Retention

Seed Capital and Venture Capital Networks

### TASKS TO CREATE THE NEW ECONOMY

- Reduce barriers to entry
- Overcome seed capital dilemma
- Retain an educated workforce
- Facilitate linkages between universities and businesses
- Create and maintain an entrepreneurial environment

**SOLUTION:** Successful economies are able to solve the above dilemmas with a variety of tools. We propose a state-led effort that intimately involves our university system to capitalize on the smart people here in Michigan. The recommendation takes a four-pronged approach:

### REDUCING THE BUREAUCRACY: THE MICHIGAN ONE-STOP SHOP

All successful economies capable of creating first-generation, high-wage labor are able to quickly and efficiently negotiate the business regulatory structure. Michigan must streamline its regulatory processes and eliminate any unique barriers to job growth, like the Single Business Tax.

The best solution is to create a "Michigan One-Stop Shop." This agency would need the power of the Michigan Department of Labor and Economic Growth (DLEG) to negotiate deals for new businesses and businesses looking to relocate. It must also be autonomous and separate from the political appointment process, similar to the Michigan Economic Development Corporation (MEDC). In Michigan, navigating the regulatory process from the municipal to state level is too complex and makes businesses hesitant to enter the market. By giving the power to one institution, all levels would be winners.

In Michigan, too many actors are involved in the start-up of a business. Giving one agency the authority to negotiate everything a business needs is critical to Michigan's ability to compete in the global economy. In fact, a potential business in Singapore can make one phone call and *eight days* later have a location in their name, skilled workers ready to work (or skilled laborers ready to work?), tax incentives negotiated, all of the regulatory paperwork completed, contacts for further investment opportunities, and contacts throughout the rest of the value chain for their industry. Michigan is literally years behind.

### **CLUSTERING HIGH-TECH BUSINESSES: SMART ZONES AND THE RESEARCH PARKS**

Silicon Valley is the perfect example of the effect clustering high-tech firms can have on an economy. This success has been duplicated in areas all over the United States and the world- Massachusetts, Texas, North Carolina, Singapore- *even Michigan*. At the height of its influence, the automotive industry's clustering effects on Detroit made it world-renown for its economic prosperity and future prospects. It is time that we encourage similar successes across the state to bring that success back to Michigan.

Obviously, it is impossible to pick the winners that will develop into the clusters that drive innovation and job growth. However, we can create the environment that will allow these clusters to succeed. Research parks are designated areas equipped with specific incentives to attract the types of firms that create high-skilled, high-paying jobs. By encouraging the development of research parks, we can grow new industries while re-energizing old ones.

The best way to make a formidable network of research parks is to revamp the existing SmartZones program to respond to the demands of the new economy. We suggest giving the universities associated with each SmartZone the autonomy to act as a "One-Stop Shop" in these areas. The universities are the perfect actors for this solution, because they are a highly respected, public institution built on merit, not political appointees. This will create the incentives they need to fill their research parks with the types of firms that will benefit from the research that is produced at our top-notch research universities. Furthermore, the wide spectrum of choices will provide diverse locations for business to locate and spread economic growth.

### **STUDENT RETENTION: GIVING OUR GRADUATES THE INCENTIVES TO INNOVATE**

Michigan has a net *outflow* of 22-29 year old graduates with a bachelor's degree, one of the most important demographics in creating and attracting high-tech business. Young, educated people are far more effective at making cities "cool" than any government program. . There are several possibilities to keep graduates in the state: have an economy that can provide exciting job opportunities after graduation; give young people the tools they need to start their own business; and give them an education that reflects the realities of our high-tech, globalized economy.

Implementing the entire package will provide graduates with the jobs they need to succeed, but there are smaller tasks that we can accomplish in order to make all of our graduates potential entrepreneurs and make sure that they enter tomorrow's economy with something more than yesterday's education. Universities around the world are

developing entrepreneurship classes, specializations, and even majors. These programs teach undergraduates and graduates the lessons they need to innovate and start the businesses that drive our economy.

Our recommendation involves, as previously stated, giving the universities ownership over the SmartZones and research parks. The possibilities here for undergraduates and graduate students are enormous. A university like MSU would benefit immensely by establishing an interface where businesses could readily tap the resources they need for research and the cheap, highly motivated and highly educated flexible employees- students. The state can work to encourage internship programs, such as establishing benefits for businesses that maximize the possibilities for interns to work with them on research or practical business projects. The students gain the real-world experience that is increasingly required to be competitive and keep that experience and knowledge in state. We have the opportunity to increase the quality of our educational systems to world-class status and have the most competitive workforce in the nation.

### **SEED AND VENTURE CAPITAL: A POSITIVE-SUM APPROACH TO GROWTH**

As our failing grades in economic performance over the past few years have shown, the pursuit of retaining impossibly overpriced jobs or the zero-sum game of capturing jobs relocated from other states is not a strategy that Michigan should pursue in the future. Michigan can be a successful case of economic growth if we create an entrepreneurial environment that will grow businesses in Michigan using all of the aforementioned tools: the one-stop shop, research parks, and highly educated students.

However, there is another area where Michigan is behind its peers in the creation of high-tech jobs: seed and venture capital. Michigan has plenty of venture capital *potential*, but this capital is not networked to the extent that other states have connected their venture capitalists, and there is a collective dilemma to invest in unknown ventures in Michigan. The state can help overcome the collective dilemma of seed financing by financing the earliest stages of idea development, so venture capitalists can more easily locate possible ventures within Michigan. We cannot afford to go down the middle- either we must commit to funding ventures ourselves, or give the state *everything* it needs to bring ventures to the market.

**CONCLUSION:** Each of these alternatives is a critical, but not comprehensive, solution to bringing Michigan back to economic prosperity. In fact, our research shows that almost all of these components were present in each of our successful cases. . We believe that the ‘linkages’ between each component contribute to economic success. Businesses need venture capital, an amenable regulatory environment, easy access to an educated workforce and the materials for research, and a place to fit within the value chain of their industry to grow exponentially. Action needs to be taken on these fronts, for Michigan’s economy is starting to look more like Mississippi than Massachusetts.