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Michigan's Economy: Persisting Problems, Popular Remedies, and a Strategy for Growth

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INTRODUCTION

Although Michigan's economy has improved considerably since the dark days of the recent recession, economic growth remains the state's central political issue. What can we do to encourage continuing economic growth? Can we reduce our vulnerability to the fluctuations of the larger economy? Many programs intended to cope with our economic problems are now in place, and much political energy is spent debating a variety of popular proposed remedies.

The most recent analysis of the Michigan economy and an outline of a strategy for development are contained in the November 1984 report of the Task Force for a Long-Term Economic Strategy for Michigan, prepared for the Governor's Cabinet Council on Jobs and Economic Development.¹ The following discussion comments on its recommendations, juxtaposing them with the more widely discussed

popular remedies, and suggests some additional considerations.

The Task Force report discussed several aspects of economic policy and potential: the need to strengthen the state's educational institutions, the question of state-controlled business costs, the crucial role of public expenditures in creating a climate conducive to economic growth, the importance of dealing with the social dimension of economic change, and the case for encouraging the development of innovative high technology to revitalize the state's traditional economic base in durable goods manufacturing.

Yet the question of how to create a more diversified economy, less susceptible to the fluctuations of the national economy, was given little attention. Similarly, the role that low-technology businesses and industries might play was neglected. It is, after all, innovation that is crucial, not high technology per

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se. In any case, it is clear that what is needed is not a general recipe for growth, but an approach that encourages the particular growth most conducive to a more prosperous and stable future in Michigan.

ECONOMIC RECOVERY AND PERSISTING PROBLEMS

During the recession of 1979-82 Michigan's unemployment rate reached its highest level since the Great Depression. Buoyed by a national economic recovery, the state has finally emerged into the light again, but Michigan's economy still faces two major problems. One, a chronic weakness, is the economy's extreme sensitivity to the fluctuations of the business cycle. The other problem, of more recent origins, is the erosion of the competitive position of some of the state's major industries.² The latter may appear the more threatening because it involves a decline in the state economy's most characteristic strength, its prowess in manufacturing.

Michigan's extreme sensitivity to business cycles is a result of exceptional dependence on industries that manufacture durable goods such as motor vehicles, factory machinery, household appliances, and office furniture. More than 760,000 of Michigan's approximately 1,000,000 manufacturing jobs are in durable goods production.³ Because such goods are expensive and last a long time, when incomes fall or interest rates rise, people postpone their purchases.

Michigan is also highly dependent on the production of a single durable good, motor vehicles. About 328,000 of Michigan's manufacturing jobs are in motor vehicle production, and approximately 222,000 additional manufacturing jobs are related to motor vehicle production.⁴ As a result, manufacturing employment in Michigan rises and falls with the fortunes of the motor vehicle industry (Figure 1). Particularly sensitive to the fluctuations of the business cycle, as are other durable goods industries, the motor vehicle industry is also among those

Michigan industries that have begun to lose ground to out-of-state competitors.

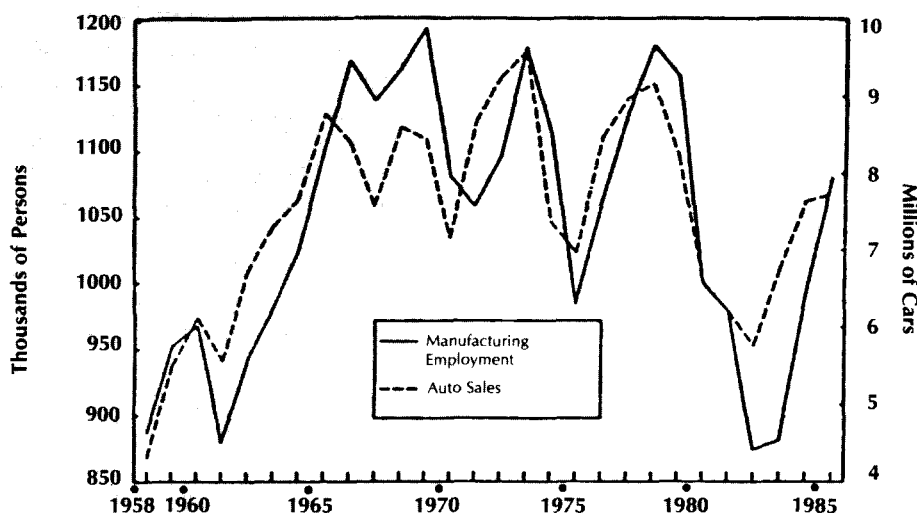
According to the Task Force report, Michigan's manufacturing base contains a number of industries that grew faster than the manufacturing sector as a whole during the 1970s. Because of this the state was able to maintain a rate of manufacturing growth roughly the same as the national average.⁵ However, this masked the fact that some of Michigan's major manufacturing industries--in particular, motor vehicles and nonelectrical machinery--were losing market share, in large part to competitors abroad and in the sunbelt states.⁶

Foreign competitors have, of course, been aided by U.S. fiscal and monetary policies. Tight monetary policy and the enormous federal deficit have combined to drive up interest rates. This not only has discouraged domestic sales of high-priced durable goods, it has also made the U.S. dollar an attractive investment for foreigners. The overseas demand for dollars has driven up the dollar's value relative to foreign currencies. This makes U.S. goods relatively expensive abroad and foreign goods relatively inexpensive in the United States. This has been especially apparent in the automobile industry: between 1978 and 1982 the change in the value of the dollar against the Japanese yen added \$1,500 to the price advantage of the Japanese on a \$10,000 car.⁷

Foreign competition has also become more vigorous because the increasing routinization of manufacturing processes in many industries has made it possible for foreign manufacturers to use unskilled labor at low wages. Competition from low-wage countries such as Korea, Singapore, and Mexico has taken jobs away from routine manufacturing industries in other advanced industrial countries--Japan and West Germany--as well as in the United States.⁸

Low manufacturing wages are also a key factor in the loss of manufacturing

FIGURE 1

Manufacturing Employment in Michigan and Domestic Auto Sales, 1958-1985^a

SOURCE: Joan P. Crary and Saul H. Hymans, "The Michigan Economy in 1984," Research Seminar in Quantitative Economics, University of Michigan, November 17, 1983.

^aData for 1984-85 are projections.

NOTE: Reprinted from *The Path to Progress: Findings and Recommendations of the Task Force for a Long-Term Economic Strategy for Michigan* (Lansing: Cabinet Council on Jobs and Economic Development, November 1984), p. 20.

jobs to Sunbelt states. While Michigan, Illinois, Indiana, and Ohio each have different state business taxes and policies, they have suffered comparable losses of manufacturing jobs in recent years, primarily to Sunbelt states. What these Midwest states have in common is high wages in traditional durable goods industries.⁹

The Task Force also emphasized, however, that certain states with average or higher than average wage rates--for example, Minnesota and Texas--like the low-wage states have been experiencing growth in manufacturing employment. This is ascribed to the fact that in these states manufacturers have turned to new locally developed products.¹⁰ This finding is reminiscent of another finding concerning Michigan industries: even within some declining industries, particular firms

have prospered. Examining the steel industry, for example, one finds that

the new or expanding steel companies are substantially different than the declining ones. They are smaller and more efficient. They produce specialty steel customized to buyer specifications. They use the most advanced processing technologies....¹¹

That is, innovative states and innovative firms have been able to stave off erosion of their market shares from both foreign and domestic competition. This observation is the basis for the Task Force's recommendations for a long-term economic strategy for Michigan. But before discussing the elements of the recommendations, it is appropriate to

consider the strategies and proposals that have been most in the public eye of late.

Popular Remedies for Michigan's Economic Ills

Certain strategies for solving Michigan's economic problems arise in any discussion of the issue. Among the popular remedies--new automobile plants, trade restrictions, financial incentives for new industries, lower business costs, high-technology industry--there are some useful suggestions but also some misconceptions and some partial truths.

Attracting New Auto Plants and Trade Protection

Understandably, Michigan is doing what it can to get a bigger share of the nation's jobs in automobile production. Mazda is here and Michigan leaders have done "all they can or should do" to vie for GM's Saturn plant.¹² Saturn is an opportunity that cannot be ignored, but bidding against other states for the favors of giant smokestack industries offers only partial and temporary relief from Michigan's economic problems. Further commitment to the motor vehicle industry will not help create a more diverse economy, more protected from the boom-and-bust cycle of durable goods production; and, while automobile manufacturing can be innovative, plant chasing does not in itself contribute to the economic innovation that the state needs to become more competitive in the national and world economies.

Automobile import quotas or domestic content legislation to shield U.S. automotive firms from foreign competition have been promoted in Michigan, but such measures do not strike at the heart of this ailing industry's problems. It is estimated that factors other than foreign competition--such as gasoline prices and the relative rise of the price of U.S. autos--were responsible for two-thirds of the 19.2% decline in U.S. auto industry employment between 1973 and 1980.¹³ This

is not to say that foreign competition is not a problem; simply that trade protection does not appear to be any more than a stopgap measure at best.

Finally, while the automobile industry will continue to be of great importance in Michigan and while the establishment of a single automobile plant provides an impressive number of jobs in one grand gesture, such newsworthy events involving giant firms are not the principle force in the process of job creation. David Birch's well-known 1979 study of job generation identified the great importance of small businesses.¹⁴ There has been some question about his specific findings, but there is still wide agreement that small businesses make a remarkable but often unrecognized contribution. It is estimated that in 1985 approximately 53% of the nation's employment gains will come from companies with less than 100 employees (Table 1).

TABLE 1

Sources of Projected U.S. Employment Gains for 1985

Size of Firm	Percentage of Employment Gain
Firms with 1 to 99 employees	52.7%
Firms with 100 to 999 employees	29.0
Firms with 1,000 or more employees	18.3

SOURCE: "Small Is Beautiful," *Business Week*, May 27, 1985, p. 90.

Financial Incentives

Financial incentives are often touted as the way to entice new firms and retain existing firms. The Task Force found that the relocation of manufacturing firms from one state to another has played a relatively small role in the regional shifts that have undermined Michigan's economy. Similarly, job loss in Michigan itself has been primarily the result of employment cuts in firms that have not left the state, rather than because entire firms have moved to greener pastures. Further, it is pointed out that government aids and services--for example, assistance with road, sewer or other infrastructure needs; labor training; or help with environmental permits--figure more often in new plant location decisions than direct financial incentives (Table 2). A survey of Michi-

gan business executives found that tax incentives ranked an unimpressive 16th among the 23 most important factors in plant location decisions (Table 3).¹⁵

Michigan already offers to firms building new plants or renovating old ones property tax incentives that are competitive in size and availability with those offered by other states.¹⁶ The Center for the Redevelopment of Industrialized States at Michigan State University found that a substantial proportion of a sample of Michigan business executives had received offers of either tax abatements, low-cost financing, or low rents to induce them to expand or locate in Michigan and that more had received such offers from Michigan than from other states.¹⁷ Michigan, then, is already doing much in this area, even though it is not clear that it is of fundamental importance.

TABLE 2

Public Assistance Used by New Plants

Types of Assistance	Percent of New Plants Using Assistance
Physical Aid	
Roads, sewerage, water mains, etc.	38
Labor training	30
Help with environmental permits	22
Zoning changes	12
Expansion of sewage treatment	10
Traffic, parking adjustments	6
Used at least one physical aid	61
Financial Aid	
Industrial revenue bonds	21
Industrial revenue bonds for pollution control	5
Tax abatements, holidays, or other tax concessions	14
Used at least one financial aid	30
Used at least one physical/financial aid	71

SOURCE: Roger Schmenner, "Location Decisions of Large Firms: Implications for Public Policy," *Commentary* 71 (January 1981).

NOTE: Reprinted from *The Path to Progress: Findings and Recommendations of the Task Force for a Long-Term Economic Strategy for Michigan* (Lansing: Cabinet Council on Jobs and Economic Development, November 1984), p. 40.

TABLE 3
Influences on Michigan Plant Location Decisions

Factor	Rank
Access to markets	1
Land, building, rent cost	2
Labor cost	3
Skilled labor pool	4
Local property taxes	5
Transportation	6
Specialized suppliers	7
Quality of living	8
Raw materials	9
Energy	10
Qualified professionals	11
State taxes on business	12
Financing and capital	13
Labor/management relations	14
Unemployment compensation cost	15
Tax incentives	16
Attitude of state government	17
Crime rates	18
Worker's Compensation cost	19
Licensing and state regulations	20
Water	21
State and local government services	22
Access to universities	23

SOURCE: Patricia A. Braden and Susan R. Rideout, "Location Decision-Making in Export-Oriented Business and Industry" (Ann Arbor: Division of Research, Graduate School of Business Administration, University of Michigan, 1978), p. III-13.

NOTE: Reprinted from *The Path to Progress: Findings and Recommendations of the Task Force for a Long-Term Economic Strategy for Michigan* (Lansing: Cabinet Council on Jobs and Economic Development, November 1984), p. 37.

State-Controlled Business Costs and the Business Climate

Michigan has a reputation as a state whose government is not friendly to business. It is instructive to examine one factor that has received a great deal of attention--state-controlled business costs--and to consider the need to target efforts at improving the business climate and to avoid pursuing oversimplified visions of a good business climate at the expense of real improvement in the environment for economic growth. There is a perception that state business taxes and the costs of unemployment compensation and workers' compensation are higher in Michigan than in other states.¹⁸ It pays, however, to examine the issue in more detail before assuming that we have found one of the roots of the state's economic malaise.

A study conducted by the W.E. Upjohn Institute for Employment Research, comparing such costs in Michigan to those in other Great Lakes states, highlighted the complexity of the issue. The study pointed out that tax burdens, including workers' compensation and unemployment compensation costs, vary considerably depending on the type of business in question. For half of the typical firms studied, Michigan's combined state and local tax burden is significantly higher than the average for the Great Lakes region (Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin). But for the others, the combined state and local tax burden in Michigan was found to be either slightly less or about the same (Table 4).

The Upjohn study acknowledged that, taken alone, workers' compensation costs

are a problem in Michigan. While the recent St. Antoine report to the Governor's Cabinet Council on Jobs and Economic Development found Michigan's workers' compensation costs to be slightly below the national average, they are at least 30% above the regional average. Property tax costs are also a problem, since without abatements Michigan would have displayed the highest property taxes in the region.¹⁹

However, while there is room for improvement, Michigan's business tax structure does not appear to be blatantly antibusiness. In addition to being within reach (or better) of regional averages it offers certain specific advantages: favorable treatment for small, new firms, a very low business portion of sales

taxes, and an unemployment insurance tax system that rewards firms with average or better unemployment records.²⁰ The 1982 reforms in the workers' compensation system have already lowered costs considerably for many Michigan firms, and some observers believe that the full impact of these reforms has not yet been felt.²¹

It also has been suggested that, whether they are high or low, state-controlled business costs alone do not appear to have a profound effect. According to the Upjohn report:

Minnesota has clearly had the best employment growth rate of any of the Great Lakes states in the last 26 years, yet Minnesota also has the highest state and

TABLE 4

Individual States and Local Business Tax Costs in Michigan Relative to the Great Lakes Average for Each Tax^a

Tax	Firm							
	1	2	3	4	5	6	7	8
Payroll	119	125	120	110	108	99	139	134
Workers' Compensation	132	137	124	153	128	129	210	167
Unemployment insurance	96	104	115	96	96	97	96	116
Nonpayroll	108	89	131	82	88	103	116	108
Single business	115	78	299	57	37	136	137	110
Property with abatements	127	122	113	111	106	113	108	130
Sales	23	32	34	55	58	70	41	47
Total state and local	113	99	124	101	98	101	127	121
Total federal, state and local	104	100	124	101	98	101	110	108

^aThe index numbers in this table reflect the extent to which the specific tax for each firm is higher or lower than the Great Lakes average for that tax and firm. For example, the first entry for firm 1 indicates that payroll taxes are 19 percent higher for this firm in Michigan than the Great Lakes average for payroll taxes for that firm.

NOTE: Reprinted from Timothy L. Hunt, *Michigan's Business Tax Costs Relative to the Other Great Lakes States* (Kalamazoo: W.E. Upjohn Institute for Employment Research, February 1985), p. 157.

local business tax costs of the region. On the other hand, the economic performances of Indiana and Michigan appear to be identical in terms of employment growth rates, yet business taxes are higher in Michigan than Indiana.²²

This is not to say that levels of state-controlled business costs should be ignored. There is no point in being known as a state with unusually high taxes; but, given the complexity of the issue, neither does it make sense to polarize the debate by making specific proposals concerning a particular aspect of tax costs--for example, workers' compensation--political litmus tests of alleged probusiness or antibusiness sentiment. It is clearly important to understand that the impact of the tax structure varies with the type of firm in question.

Studies that attempt to construct a single index of a state's attractiveness for business may not be good guides to a state's economic problems. The Alexander Grant and Company studies--which recently ranked Michigan lowest among the 48 contiguous states in terms of its attractiveness to manufacturing firms--are ques-

tionable because these rankings are at best only weakly correlated with such measures of economic growth as employment growth rates, and in some cases the rankings are negatively correlated.²³ Michigan Department of Commerce Director Doug Ross commented that the recent Alexander Grant study is "not a rating of climates for the new high-tech, high-skilled, flexible-process manufacturing."²⁴

It is difficult to generalize about a good business climate because different types of industries have different needs.²⁵ For example, a firm looking for a headquarters or research and development location is likely to be primarily interested in good air transportation and factors that attract and retain professional and scientific personnel--good universities, good schools, well-maintained public facilities, active cultural life. In seeking production sites, a firm will give greater weight to such factors as proximity to markets and materials.²⁶

Again, this is not to say that business climate issues can be ignored, but neither can state government be held solely responsible. Some problems--such as Michigan's high average wage costs (Table 5)--are largely beyond the control

TABLE 5

Average Manufacturing Wages in Michigan and the United States (1984)
(\$ per hour)

	Michigan	United States
All manufacturing	\$12.18	\$9.17
Durable goods	12.67	9.72
Nondurable goods	10.24	8.37

SOURCES: Michigan Employment Security Commission and **Employment and Earnings** (Washington, D.C.: U.S. Department of Labor, Bureau of Labor Statistics, March 1985).

of state government. Efforts to improve both the substance and the image of Michigan's business climate, such as business paperwork reduction or franchise law reform, however, are laudable.²⁷

Proximity to markets, materials, and needed services and the availability of skilled labor are advantages of doing business in Michigan that should be emphasized.²⁸ It should be remembered that attempts to improve the business climate in aid of economic growth should include consideration of what kinds of industries and business activities are to be encouraged. It is counterproductive to spread resources too thin, trying to be all things to all types of businesses.

The High-Tech Alternative

High-technology industries are currently very attractive as a means of generating economic growth. There is evidence that they are generating jobs at as much as twice the average rate of manufacturing in general;²⁹ but it is also the case that many of these jobs are not of the kind on which every state would like to depend. In high-technology industries there is an important distinction between nonroutine activities--research and development, prototype manufacturing, or small-scale production of innovative products that continuously incorporate technological advances--and routine, standardized manufacturing of such products as microelectronic chips or personal computers.³⁰

This distinction is vital because the latter not only provides less attractive jobs, it is also increasingly mobile: within the United States it gravitates to low-wage rural areas; globally it is shifting to Mexico, Taiwan, and other Third World nations.³¹ Nonroutine activities in high-technology industries do not by themselves generate large numbers of jobs, but they tend to be relatively stable geographically.³² In addition, the application of high-technology solutions to the problems of traditional industries

is a potential benefit of considerable value.

AN ECONOMIC STRATEGY FOR MICHIGAN

The Task Force for a Long-Term Economic Strategy for Michigan found the remedy to Michigan's economic ills not in "smokestack chasing," nor protectionism, nor unfocused tax cuts, nor attempting to become another Silicon Valley. While reducing the federal deficit and dealing with the overvalued dollar would do much to help Michigan, little can be done about these issues at the state level. The Task Force did, however, recommend a strategy for increasing the competitiveness of Michigan's manufacturing base through shifting toward forms of manufacturing that are less vulnerable to low-wage competition because they depend on highly developed human skills in research, technology, production, and management--skills which create and implement a stream of innovative products and processes.³³

It is not recommended that Michigan abandon its durable goods manufacturing industries, but that it build on the still strong manufacturing base and become a center for the creation of innovative industrial technology and its application to new and existing industries. This would require innovation not only in industrial technology but also in labor skills, labor management relations, and managerial styles.³⁴ The report notes that state government can properly play a role in accelerating economic transition and helping individuals and firms adapt to a transition, but in the end private industry must take the lead. Seventeen more specific recommendations follow.

Education

Of 17 recommendations, 7 (more than 40%) pertain in some way to the state's educational system. The report speaks of state support for applied research in institutions of higher education, making

university-based technological expertise more readily available to business, encouraging university personnel to become involved in commercializing research advances, strengthening secondary education, vigorously recruiting the best students ("particularly those bent toward science and engineering") for Michigan's own colleges and universities, recognizing the importance of quality schools in attracting and retaining businesses, and dealing with the need for training and retraining of those who lack the skills to participate in the emerging economy. It is clear that the economic transition which national and world circumstances demand of us is a novel one in which development of intellectual resources will be fundamental.

These recommendations are timely. About 68% of Michigan residents 25 years old or older have completed high school. While this is higher than the national average of 66.5%, it is lower than the high-school completion rate in New England

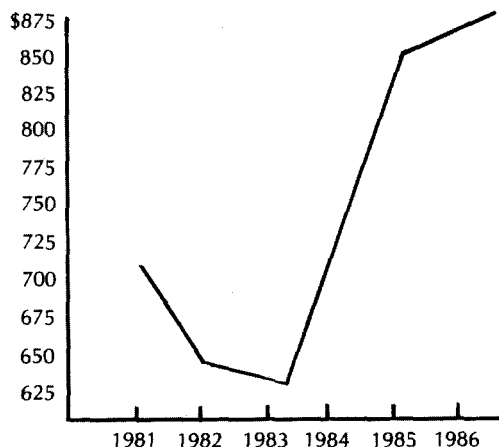
(70.5%) or in the Pacific states (74.3%), the areas that have led the nation in the commercial application of new technologies. About 30% of Michigan residents 25 years old or older have one or more years of college education. This is slightly below the national average of 31.9% and substantially below the rates for New England (34.6%) and the Pacific states (40.9%).³⁵

The level of state aid per elementary and secondary student in Michigan actually declined in the early 1980s, and Michigan's rank in the nation in per capita state appropriations for higher education declined steadily throughout the 1970s and into the early 1980s (Figure 2). These trends have now been reversed (Figure 2), although Michigan's per capita investment in higher education remains well below the national average.³⁶

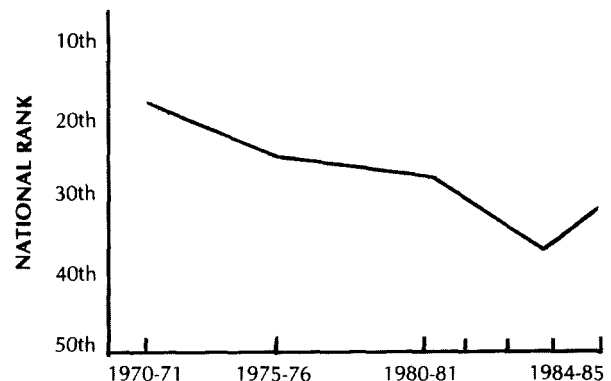
Despite the pressing need for investment in the scientific and technological foundations of the economy, some observers

FIGURE 2

Real State School Aid Per Student, Fiscal Years 1981-1986 (in 1981 dollars)



Michigan's National Rank in Per Capita State Appropriations for Higher Education



SOURCE: "Fiscal Year 1986: Budget Overview," Michigan Department of Management and Budget, Lansing, 1985.

NOTE: Reprinted from **Putting Our Minds Together: New Directions for Higher Education** (Lansing: Governor's Commission on the Future of Higher Education in Michigan, December 1984), p. vi.

fear that fiscal and political pressures are leading policymakers to focus on science, engineering, math, and technological training at the expense of, rather than in addition to, providing a well-rounded education including English, writing, and analytic reasoning.³⁷ These latter skills are vital. Knowledge of languages, the liberal arts, the humanities, and the social sciences is surely essential to understanding and coping with the profound social changes--in the workplace, in communities, and in the society at large--which accompany fundamental economic change, as well as to survival in the world marketplace. We can no more afford to be sociologically naive and culturally provincial than we can afford to be technologically backward.

Public Expenditures, Taxes, and Economic Growth

Education, basic research, and job training all cost money. So do investments in infrastructure--roads, bridges, sewers, public facilities--and so do "quality of life" investments--in public safety, cultural, and recreational resources. These are more important in attracting and retaining business and industry than we usually imagine. As the Task Force report pointed out:

...more than two thirds of all manufacturing plants relocating in the U.S. during the 1970's moved into communities with higher property tax rates than those they abandoned. The point is not that businesses like higher taxes, but that they are prepared to select areas with higher taxes if those taxes produce a high quality of living and supportive economic environment.³⁸

The gains from the more traditional methods of encouraging business, such as tax reductions and abatements, must be weighed against the need for sufficient public revenues to provide the other elements of the desired business climate.

Small Business

The Task Force report made no specific mention of small business; however, promoting high-technology development is compatible with promoting small-business development. Approximately one-third or more of the nation's top 100 small companies, as ranked in a recent issue of Business Week, are involved in computers, electronics, telecommunications, or other high-technology fields.³⁹ But whether they promote high technology or low technology, development policies should take account of the importance of small businesses.

Michigan has improved the climate for small business in recent years. Business Incubation Centers were created to provide technical and financial advice and to help fledgling businesses cope with fixed costs by sharing essential facilities and services; a Small Business Lending Corporation, which is part of the Michigan Strategic Fund, will provide access to long-term, fixed-rate loans to small businesses on terms generally available only to larger firms; and a Small Business Assistance Center program now provides technical and managerial assistance.⁴⁰

In addition, the Upjohn Institute study found that Michigan's business tax structure should be attractive to small, new firms noting that their Single Business Tax liability is generally less than they would pay under the corporate income taxes of other Great Lakes states and that Michigan shares the lowest unemployment insurance rates for new firms with one other state in the region.⁴¹ Such advantages should be preserved and publicized.

Social Issues

The Task Force report's recognition of the importance of innovation in the social as well as the technological dimension of industry--research and training in new forms of management and labor relations and new management styles--is far-sighted.⁴² We have learned from the Japanese that new ways of working together can be as important as new machines, and here

also we should strive to be innovators and not merely imitators. Also farsighted is the call for measures to lessen the danger that economic growth will merely sharpen the disparity between the fortunate and the disadvantaged--measures which include training programs for those with no skills or obsolete skills, giving unemployed central-city residents access to jobs outside the city by providing adequate public transportation as well as skill training, and revenue-sharing policies to enable central cities to restore a quality of life that can attract a share of economic growth.⁴³

It is also well to remember that some existing high-technology industries have aggravated environmental problems through mishandling of toxic wastes and have been slow to recognize and deal with their special occupational hazards.⁴⁴ While it is very costly to address these problems, it is cheaper in the long run to anticipate them than to face them only after they have grown to crisis proportions.

Economic Diversity and the Role of Low Technology

The Task Force report dismissed rather casually the question of the Michigan economy's extreme sensitivity to business cycles, stating only that

for the foreseeable future state economic and social policy must continue to assume sharp business cycles in Michigan as the natural result of an economic engine dominated by auto production and other durable goods industries.⁴⁵

In support the report observes that "the development of new nondurable and nonmanufacturing base industries employing large numbers of workers will require some years."⁴⁶ All the more reason to begin to address this problem now.

The report did note in passing that new technology can also contribute to the expansion of the state's agriculture.⁴⁷ Such application of new technology to the development of agriculture could add to the diversity of the state's economy and help mitigate its great sensitivity to business cycles due to dependence on durable goods production. The Michigan Biotechnology Institute, whose new facility is scheduled to have construction begin near East Lansing in August, will contribute to this goal. The state would also do well to support other efforts to build on its agricultural resources, for example, promoting and expanding the food processing industry by supporting endeavors such as Michigan State University's new Food Industry Institute. The Institute draws on MSU faculty expertise in a variety of fields--from engineering to marketing to nutrition--to provide technical assistance to Michigan food producers and processors.

It is important to remember that high technology is not the only source of innovation. Economic diversity can also be served by recognizing the importance of low-technology business and industry. The Wall Street Journal reports that many venture capital firms have begun to set aside sizable portions of their funds for investment in low-technology businesses, ranging from frozen desserts to jewelry to children's clothes, to diversify their portfolios.⁴⁸ The top-ranking small business in the country produces greeting cards, personalized stationery, pens, and key chains.⁴⁹

To use the agriculture and food industry again as an example, some innovative new businesses arise not from technological breakthroughs but from taking advantage of emerging trends in consumer preferences, for example, the increasing popularity of so-called gourmet varieties of mushrooms.⁵⁰ Looking beyond durable goods and high-technology industries would help the state achieve needed economic diversity. Encouragement of small, innovative low-technology businesses is important.

CONCLUSION

It is clear that Michigan cannot just wait for its economic strength to be restored by a national economic recovery. Michigan is suffering not simply from the familiar cyclical difficulties, painful as these are, but also from long-term changes in the climate of national and world competition. Meeting this competition requires a long-term strategy for transition to a new kind of economy, one that builds on the state's traditional strengths but also encourages new departures.

Promoting the high-technology sector is at the heart of the strategy proposed by the Task Force for a Long-Term Economic Strategy for Michigan. This means creating a well-educated citizenry as well as supporting the individual researcher or entrepreneur. It means balancing the need to make doing business in Michigan affordable with the need to provide the other aspects of an environment for economic growth that depend on public investment--quality education and other public services. It means recognizing that economic transition is also social transition and so facilitating social innovation

and anticipating social problems. A long-term strategy also should recognize the important role played by small business and, while investing in the conditions of high-technology innovation, remember that low-technology fields can also give rise to innovation and that this can add valuable diversity to the economy.

This is a large order. The fact of limited resources means that goals must be defined as precisely as possible--what kind of favorable business climate do we need, what kind of high technology do we wish to encourage, how can research funds for institutions of higher education be allocated to best effect--and hard decisions will have to be made.

State government cannot by itself do all that needs to be done; nor, with limited resources, can it serve each interest equally. Proposals for encouraging economic growth will always be occasions for debate. It is important that each debate take place in the context of a strategy that eschews the partial truths of popular economic remedies and sets priorities with well-considered goals in mind.

NOTES

¹The Path to Prosperity: Findings and Recommendations of the Task Force for a Long-Term Economic Strategy for Michigan (Lansing: Cabinet Council on Jobs and Economic Development, November 1984).

²Ibid., pp. 4-22.

³Ibid., p. 19.

⁴Ibid.

⁵Ibid., p. 10.

⁶Ibid., pp. 12-15.

⁷Ibid., p. 33.

⁸Ibid., p. 32.

⁹Ibid., pp. 29-30.

¹⁰Ibid., p. 27.

¹¹Ibid., p. 18.

¹²Patrick Fitzgerald, "Saturn Site Could Be Key to Lucas' Future," Lansing State Journal, May 19, 1985, p. 13A.

¹³Path to Prosperity, pp. 41-42.

¹⁴David L. Birch, The Job Generation Process (Cambridge, Mass.: MIT Program on Neighborhood and Regional Change, 1979).

¹⁵Path to Prosperity, pp. 38-40.

¹⁶Ibid., p. 40.

¹⁷Neal Schmitt, "How Business Leaders View Plans for Plant Expansion and Relocation" (East Lansing: Center for the Redevelopment of Industrialized States, Michigan State University, May 1, 1985), p. 7.

¹⁸Schmitt, "How Business Leaders View Plans," p. 7.

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