



Lower Taxes, Less Regulation Key to Twenty-First Century Economy

by Larry Schweikart

Summary

Michigan's "number one" ranking in economic development does not take into account the state's failure thus far to attract many new high-tech firms. For Michigan to compete in the twenty-first century economy, policy makers must continue a course of cutting taxes and removing regulatory barriers to the information-based businesses of the present and future.

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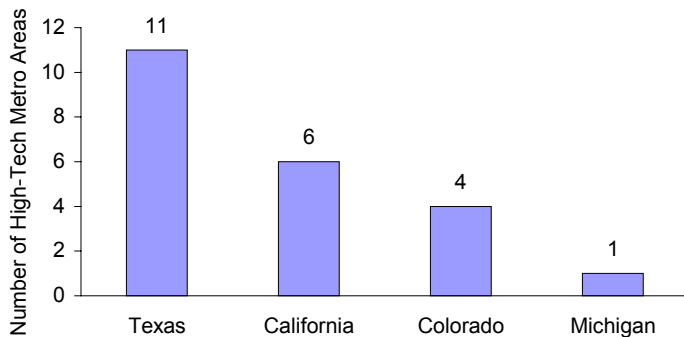
Michigan proudly proclaims itself as "number one in economic development," based on *Site Selection* magazine's surveys of new and expanded business facilities in 1997 and 1998. Without a doubt, the Engler administration's policies of cutting taxes and pruning regulations have attracted many new jobs to the state and helped re-establish Michigan as one of the premier manufacturing/business regions in the world.

Since 1991, some 26 tax cuts have returned at least \$11 billion to Michigan families and businesses. The Single Business Tax is slowly being phased out. More than 3,000 rules and regulations have come off the books. But what do these things mean for the future of entrepreneurship in the state?

Most observers believe the engine driving the twenty-first century economy will be *information*—that is, the manufactured goods and services related to the computer/information revolution. A better term for this wide range of businesses and technologies is "high-tech" industry. Where does Michigan fit in the "high-tech" world?

Data from the *Site Selection* surveys reveal an expansion of

Michigan Lags behind Other States in Attracting High-Tech Firms



Source: The Milken Institute

existing, big businesses—especially the auto companies—rather than a surge in new "cutting-edge" high-tech firms. In fact, a recent study by the Milken Institute that assessed overall high-tech growth areas in the United States did not rank Michigan highly. The high-tech leader among cities was Albuquerque, New Mexico, with a rating of 437 (the national average is 100). Texas had 11 cities or regions among the top 50; California, 6; Pennsylvania, Georgia, and Colorado, 3 each; and Arizona, Arkansas, Iowa, and Idaho, 2 each.

Where did Michigan rank? It tied with North Dakota, Louisiana, and Kentucky, with only one center of high-tech growth in the top 50 (Flint). Measured another way, according to "technology concentration," Michigan does not even show up in the Milken ranking, although Rochester,

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Minnesota; Phoenix, Arizona; and Philadelphia, Pennsylvania each had measurable areas of high-tech concentration. Again, California and Texas led the nation in high-tech concentration.

For Michigan, there is both good news and bad news in the Milken report. The bad news is that despite tax cuts and deregulation, Michigan remains in the bottom half of all states on the report's "economic freedom index," trailing places like Idaho, which registered twice as many "high-tech" growth concentrations and placed first. A similar survey, the Small Business Survival Index, which measures a wide range of taxes, regulatory burdens, and other factors related to the success of firms, ranks Michigan 21st nationally, significantly behind states with "high-tech growth centers" such as Texas and Pennsylvania.

The good news is that once an atmosphere of openness to entrepreneurs is established, a sort of "hothouse effect" may be in store. One indicator is the number of smaller establishments created in Michigan in areas such as manufacturing, retail trade, and services. As early as 1992, in three critical categories for high-tech growth (manufacturing, finance/insurance, and services), the number of small establishments—one to nine employees—was high. In manufacturing, 48 percent of all establishments in the state were in this category; in finance, 78 percent; and in services, 77 percent.

Why the emphasis on these "small fry?" Won't General Motors, Ford, DaimlerChrysler, Kellogg, and many other mega-companies account for the lion's share of Michigan's economic growth? Yes and no. These industry giants may generate growth today, but if history is any guide, it is a certainty they will not produce the next-generation breakthroughs in transportation, food products, or financial instruments. Instead (as has been the case with every one of the 50 top technological breakthroughs of the twentieth century), the new products and technologies will come from small, entrepreneurial firms.

To join California and Texas in the top tier of "high-tech" concentration, Michigan leaders will need to focus continued attention on deregulating the economy and lowering taxes. If they do, Michigan could indeed produce clusters of entrepreneurs whose inventions and innovations would feed off of each other, achieving a kind of critical mass.

These "new Fords and Kelloggs" will *not*, however, receive university grants, or be the recipients of special tax concessions. Rather, they will bloom naturally, out of the hothouse climate created by an overall commitment on the part of government to "doing more" for the economy by "doing less" in terms of direct intervention.

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