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# Talent, not low taxes, drives growth

## Higher educational achievement leads to prosperity in knowledge economy

**Lou Glazer**

For most of the last century, Michigan was a place of high prosperity, enjoying a per capita income above the national average. No more!

We all want a Michigan that once again offers lots of good paying jobs. But many middle-class jobs of the past are now gone forever. How to replace them in the new global economy is the key economic challenge facing the state.

Two new state rankings shed substantial light on the central question of "what really matters in better positioning Michigan to succeed in a knowledge-driven economy?" And it turns out that talent surpasses low taxes as the key ingredient.

The first report comes from the Anderson Economic Group -- commissioned by the Michigan House of Representatives -- and ranks states by their level of business taxation. It rates Michigan as slightly above the national average on the level business taxation (compared with most rankings, which rate Michigan as slightly below average), but certainly not a high business tax state.

### **Do business taxes matter?**

Most important, it provides a list of the 10 states with the lowest business taxes, which it suggests Michigan should model itself after. Implicit is the notion if Michigan lowered its business taxes to the level of the lowest 10, it would substantially improve the Michigan economy.

Let's look at the evidence. Eight of the 10 states have per capita incomes below that of Michigan. And Michigan is more than \$1,000 below the national average.

The lowest business tax 10 includes Arkansas with the third lowest per capita income in the nation, more than \$6,000 below Michigan's. Even North Carolina, which the report cites as a model, is more than \$2,500 below Michigan.

Maybe most troublesome is that these states also are below the national average in adults with a four-year degree and employment earnings from knowledge-based industries (except for South Dakota). These are the key predictors of how well a state is positioned to succeed in a knowledge-driven economy.

### **College raises income**

The second state rankings come from the Census Bureau and include statistics on four-year degree attainment by state. It provides a stark contrast with the business tax rankings.

Nine of the top 10 in this ranking are also in the top 10 in per capita income. All 10 have per capita incomes above Michigan's, all the way to Connecticut, which is more than \$14,600 above us.

These rankings raise the question: "Which group of states do we want to be like -- those with low business

taxes and, by and large, below the national average prosperity or those with high education attainment and high prosperity?"

The answer is clear: Michigan should be a high prosperity state. The bottom line: It's talent -- not low taxes -- that matters most.

## **Talent matters most**

The think tank I lead -- Michigan Future Inc. -- has just released "A New Agenda for a New Michigan" ([michiganfuture.org](http://michiganfuture.org)) that concludes that what most distinguishes successful states from Michigan is their concentrations of talent -- 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.

States and metropolitan areas without concentrations of talent will have great difficulty retaining or attracting knowledge-based enterprises. They also are not likely to be the place where new knowledge-based enterprises are created. So in a flat world, economic development priority No. 1 is to prepare, retain and attract talent.

## **Where Michigan struggles**

This is an area where Michigan is struggling. The Census Bureau's survey ranks Michigan 34th on the proportion of adults 25 years and older with a four-year degree or more. Maybe more worrisome, there is disturbing polling data that suggest too many Michigan parents say post-secondary education is not a top priority.

In terms of retention and attraction, the Census Bureau also reports that between 1995 and 2000, Michigan had the third largest outmigration of the young, single and college educated (behind only Pennsylvania and Ohio). And this is the period when Michigan had its strongest economy in the postwar era and one of the lowest unemployment rates in the nation.

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. We all would like to pay lower taxes, but the truth is that there is no support for the idea that tax-cutting leads to a high-prosperity economy.

We need a new strategy, not lower taxes. As the data shows we don't have a chance of once again becoming a high-prosperity state unless we get civic, business and political leaders focused on what really matters -- preparing, retaining and attracting talent.

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