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IN OUR OPINION

Focus on building opportunity in state

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For the last 20 years, Michigan's economic growth strategy and political wars have centered on tax policies. It's pretty easy to see what the state has to show for that. Businesses, investors and entrepreneurs look at far more than tax rates.

While arguing over taxes, the state has pursued development policies more fitted to the 1950s, failed to invest in cities, and in the process effectively spurned the new knowledge-based industries and young skilled workers that are drawn to vital urban areas.

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Gov. Jennifer Granholm's land-use strategy and Cool Cities initiative had promise, but cool is hard to manufacture. That effort also lost focus and turned into a mini-pork program for some cities that didn't have a shot at becoming cool. Nor did Cool Cities begin to make up for revenue sharing cuts to central cities.

Granholm, reeling from the recent budget brawl, called last week for a shift in the public policy debate, from taxes to jobs. She pointed out that, even with a higher income tax rate and a 6% sales tax on services, Michigan's tax burden is moderate. In fact, nearly all states boasting the highest per-capita incomes have taxes higher than Michigan, but they also have invested heavily in education, transit and urban centers that attract young, skilled workers.

"We will never be the lowest-cost place on the planet to do business," Granholm said. "... The question is, how can states be competitive, and it's by investing in our talent."

In an interview with the Free Press, Daniel Gilmartin, executive director of the Michigan Municipal League, called Michigan's tax strategy a "race to the bottom." It's a race Michigan can't win against Alabama, Mississippi or China -- places that this state doesn't want to become anyway.

"We're never going to win the cheap game," Gilmartin said. "Too often, we try to recreate yesterday. Our laws and abatements are set up to go out and capture plants, but that's not how we're going to rebuild Detroit or Michigan. Knowledge-based jobs are driving the new economy, and vibrant communities attract and retain those workers."

Counterproductive incentives

Unfortunately, Michigan's economic development tools are exacerbating the problem.

A recently released study, conducted for the Land Policy Institute at Michigan State University, found that PA 198, an economic development and tax break tool allowing 12-year property tax abatements to companies, had cost local governments more than $1 billion while doing little to attract and retain companies. The incentives also spurred sprawl and disinvestments in cities.

Moreover, cuts in state revenue sharing over the last five years have cost cities and villages roughly $2 billion, forcing them to lay off police officers and firefighters, as well as reduce other basic services needed to attract and retain the residents and businesses that build a strong tax base.

Michigan needs a new economic development strategy to compete in the 21st Century. Developing a skilled workforce and rebuilding central cities must be at the core of it.

That means not only restoring cuts in revenue sharing, but also targeting public investments to the places that are best positioned to attract young, educated workers: cities.

Revenue sharing, for example, was initially targeted at distressed cities and at communities willing to raise local taxes to match state investments. Instead, revenue sharing is now doled out based more on population. That may make good politics, but it doesn't make a sound program for economic development and jobs.

"We've lost focus," said William Rustem, president and CEO of Public Sector Consultants in Lansing. "It's important to target public expenditures to cities because cities are important."

Target investments

A good first step, advocated by the Michigan Municipal League, is for the Legislature and governor to target investments to local communities that can most benefit the state's economy. So-called commerce centers -- cities, villages and urban townships where roads, sewers and schools are already in place -- would receive priority for grants, loans, tax abatements and other state and federal assistance. Revitalizing those older communities would also control sprawl and preserve green space.

"Educated young people want to live in cities," said Arnold Weinfeld, public policy director for the Michigan Municipal League. "They want density and vibrant, walkable downtowns. It makes sense to focus our economic development resources on those communities that already provide those things."

To be sure, taxes will remain part of the public policy debate. They are part of the economic development equation. But a skilled workforce, public safety, strong cities and quality-of-life issues are more important.

"If you don't have a central city where young talent is concentrated, you won't have a strong knowledge-based economy, period," said Lou Glazer, president of Michigan Future Inc. "So this matters to entire regions."

Michigan has spent the last 20 years debating how much taxes should be cut. Now the state has an aging population, aging industries and the nation's highest unemployment rate.

The state needs a new agenda for a new century -- one that really does move the debate from taxes to jobs, and from cutting back to growing forward.

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