

The Next 50 Years in Michigan

Grand Valley State University Distinguished Lecture Series

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Preparing for this evening, I sought the counsel of Detroit's most esteemed demographer. I asked him if he used demographic trends over past years to predict a region's future. His answer was an unequivocal "no." The future is not determined by data measuring regional characteristics, he observed. The future is shaped by people —how individuals and institutions use their gifts, their assets, to tackle present and emerging challenges.

Thinking about what he said, I reflected on Grand Valley State University just 30 years ago, when I was a second-term legislator. Not only had the field house roof fallen in. Michigan's economy was tanking, and a growing state budget deficit led some policy makers to suggest that the young state college planted in Allendale cornfields should be closed as a cost-cutting measure. Even those who defended Grand Valley could not have foreseen the magnificent campuses in Allendale and downtown Grand Rapids, the robust enrollment and educational excellence that today are vital regional

and state assets—that is, no one except for a visionary college president, a small band of dedicated trustees, administrators and faculty and a handful of community leaders.

The Grand Valley story has been repeated over and over again here in West Michigan. For example: Grand Action's strategic focus on health care and research and now a medical school—health care now ranking as Michigan's largest private sector employer, with 77,000 more workers than in manufacturing; the preservation of green space in core cities and fragile dune areas; the corporate and civic commitment to sustain and enhance cultural institutions and programs; the West Michigan Strategic Alliance focus on economic and quality of life indicators to measure the region's progress; the economic development efforts of Right Place and others to connect the region to a global and green knowledge economy.

And I am not discounting the contributions of our manufacturing sector. Though the days when Michigan's economy was dominated by high wage, low skill manufacturing jobs are ending, we still enjoy the benefits of a 100-year manufacturing legacy—driven largely by

auto manufacturing and regional success stories like the office furniture industry in West Michigan. In the early 1900's, a number of small electric companies were the seeds from which Detroit Edison, now my employer DTE Energy, evolved. One of those companies, Edison Illuminating, hired a chief engineer who was skilled at working with engines. In his spare time at the electrical plant, he would routinely tinker with a little gasoline engine that he had built. The engineer's interest in engines and automobiles began to consume more of his time. So his boss at Edison Illuminating pushed him to choose between working with electricity—or autos. The employee's name was Henry Ford, and he chose the automobile.

A company in Holland where I worked as a college student some 40 years ago employed about 250 people at that time. Today the company operates worldwide with a workforce of 7,500. It was started by a Holland High School shop teacher who also liked to tinker. His idea was to build movable walls or partitions. His name was Gerry Haworth.

In short, the history of the region and our state has been all about people with vision, who innovate and take risks and build on assets. And our 50-year future will depend on today's and tomorrow's visionaries, innovators and risk takers.

Maybe it's time to take questions. I cannot predict whether or how work on an idea presently underway at this university or in a VanAndel Institute lab or on an advanced battery production floor will transform this region and state over the next five decades. And with the lightening speed of advancing technology, I certainly cannot predict how our jobs and everyday lives will change. It is safe to say that for all of us, learning will be a lifetime requirement as we adapt and adapt again to the explosion of applied knowledge.

Instead of forecasting what the next 50 years hold for West Michigan, permit me to share the conclusions of a report written four years ago by a non-profit group, Michigan Future. Entitled "A New Agenda for a New Michigan" the report addresses ideas about how we can shape a better future for the regions of our state. What prompted it was and is our economic reality: a decade-long downturn that reflects

structural, not cyclical change. In other words, many of the 435,000 high wage, low skill manufacturing jobs lost in Michigan since the year 2000 have been eliminated or exported elsewhere and will not return.

This is not to imply that advanced manufacturing has no future in West Michigan and our state. It does, but a recent Detroit Free Press article described well the change already underway: “Michigan’s advanced battery industry is reaching critical mass on both sides of the state... But job seekers need engineering degrees and experience for more technical jobs, or a manufacturing or skilled trades background for production work...Walk around a lithium-ion battery plant and it’s easy to conclude the nation would need thousands of these operations to offset more than a fraction of the nearly 5 million American jobs that disappeared...There’s more automation than people.”

The key question driving the Michigan Future study was: “What really matters as we work to position Michigan and its regions for success in a knowledge-based, global economy?” Michigan Future Executive

Director Lou Glazer, U-M economist Donald Grimes and those of us serving on an advisory board identified the most successful regions in the country. We tried to learn what distinguished them from us. We read a lot, collected data and talked extensively with thought leaders in and outside of Michigan. This evening I won't focus on the data supporting our findings, but you can access the full report and updates validating it on our web site, michiganfuture.org.

Our starting point was this important premise: **“In a world where technology and globalization are driving fundamental structural change in the U.S. economy, Michigan’s slower job growth has not been caused by the loss of manufacturing jobs. The entire country is losing work done in factories. Michigan is lagging the nation because of our slow growth in the dynamic, high wage sectors of the knowledge economy.”**

We then asked ourselves: What are the characteristics of high prosperity, knowledge-based state economies? First, we concluded that state economies can best be understood not as political jurisdictions, but as the sum of their regional economies. Second,

prosperous regions are distinguished largely by what they export to the rest of the nation and world—goods and services, including what is sold to tourists, retirees, students and patients who come from elsewhere. Third, what distinguishes successful metro regions are significantly higher concentrations of knowledge-based industries and the proportion of adults with post-secondary, undergraduate and advanced degrees of study. Finally prosperous regions generally are anchored by vital core cities that attract highly skilled workers.

Through the lens of these high prosperity characteristics, think about our challenges in Michigan. Where too often Detroit vs. outstate regions or cities vs. townships have trumped regional economic strategies. Where what we export to the rest of the world even today remains highly dependent on auto-related manufacturing that will continue to adjust to global economics and a smaller market share. Where racial divisions, politics and demographic trends have resulted in educational decline and economic and social disinvestment in most Michigan core cities. These challenges are not a Detroit-only problem. In 2008, of the 55 U.S. metro areas with populations of one

million or more, Detroit ranked 33rd in knowledge-based industries concentration, 36th in per capita income and 37th in college attainment. Metro Grand Rapids lagged even more, ranking 54th in knowledge-based industries concentration, 53rd in per capita income and 45th in college attainment.

What matters most in turning around these measures and better positioning Michigan regions for success in a knowledge-driven, global economy? Our conclusion was (and is): **talent**. In what columnist and author Thomas Friedman has described as a flat world where work can be done anywhere on the planet, economic development priority #1 is to prepare, retain and attract talent.

We also concluded that this focus on talent requires a rethinking of our strategy to grow Michigan's economy. The results of our rethinking are six priorities we believe will expand Michigan's talent base and, therefore, the vitality of our regions.

1. Build a Michigan culture aligned with the flat world. More important than legislative policy changes are the attitudes and beliefs

of Michigan families about how to get ahead in a world of constant change. That the old Michigan economy worked so well for so many of us is now a barrier to our future success.

In an age when economic growth is driven by knowledge and innovation, the most prosperous regions are those that highly value learning, an entrepreneurial spirit and being welcoming to all. The evidence is that Michigan is having trouble with all three. One measure of learning is our ranking of 34th of 50 states in the percentage of adults with a four year degree. It is true that one of our state assets is the presence of more engineers per capita than anywhere else in the U.S. But over the past fifteen years, Michigan has been one of the leading exporters of college educated young adults. The just completed U.S. Census tells us that 21-34 year olds make up 17.6% of our state's population compared to 19.1% nationally—that we are becoming a less populated, older state. Survey research also indicates that too many parents—over 70 percent—do not believe there is an essential link between postsecondary education and their children's job prospects in today's economy.

Entrepreneurial spirit that launched great automobile, cereal, furniture, pharmaceutical and chemical enterprises based in Michigan over time has been replaced by a mindset that employment is less about risk taking and more about an entitlement to a long-term, well-paying job. Michigan venture capitalist Chris Rizik recently described this as an “employee mentality” culture as opposed to an owner’s mind-set. Rizik recalled interviewing an engineer who was employed by an auto supplier for a position at a young growth company. He noted that the engineer’s questions were “all about vacation, health care benefits and 401(k) plans and not about the venture’s growth prospects.”

Beyond this anecdote is the Small Business Association of Michigan Foundation’s sixth annual Entrepreneurial Score Card that ranks and rates the economies of all 50 states. In 2010, measuring entrepreneurial growth, vitality and climate, Michigan ranked 45th among the 50 states in overall entrepreneurial dynamism.

We also fall short in our embrace of diversity. Projections are that by mid-century American society will have become an even richer

tapestry of race, ethnicity and religion—with white Americans realizing minority status—yet we remain one of the nation’s most racially segregated states. This segregation is manifest by where we live and by wide gaps in our family income, educational attainment, even our health status and life expectancy.

We cannot legislate a change in culture, but we must address more openly cultural barriers to the reinvention of Michigan’s economy—and work intentionally to become more welcoming. In the Plymouth-Canton area where our family lives, the Michigan Roundtable for Diversity and Inclusion recently launched a series of community conversations about our area’s fast changing ethnic and racial mix. At the first meeting, those of us who are white described our towns with self-congratulatory adjectives like “accepting” and “inclusive.” The tone of our conversation changed as we listened to the results of focus groups of minority students in our schools and ethnic newcomers in our neighborhoods. What we heard were stories about racial harassment and stereotyping in school corridors and classrooms; stories about police pullovers for no other reason than the drivers’ skin color triggering suspicions. Eventually we turned to

the hard questions: Could we truly be an inclusive community if governing boards, school staffs and public safety forces did not begin to reflect our growing diversity?

Another initiative I'm excited about is Global Detroit—an effort to boost legal immigration in metropolitan Detroit. Why? Research by Global Detroit shows that 37% of foreign born state residents have earned a four year degree, compared to 24% of non-immigrant Michigan citizens. Nationally, immigrants are nearly twice as likely to start a new business as non-immigrants. We are a nation and state that have been built on waves of immigrants bringing their dreams and energy to our land. Prosperity over the next few decades will depend in part on our state keeping its doors of opportunity open to all.

2. Empower New Leadership. Transforming Michigan's culture will occur more rapidly if we invite into our regional leadership structures those who represent the change we are trying to achieve: the young, well-educated, and entrepreneurial. Here's an example of the problem. In a 2010 Crain's Detroit Business listing of the 25 most

connected leaders in metro Detroit, none were associated with new economy businesses and all but two were in their 50's or older.

The listing reminded me of a regional strategic planning meeting held by the Detroit Chamber a couple of years ago. A number of us reviewed survey data indicating that attracting and retaining young professionals should be a high regional priority. That survey also registered overwhelming pessimism about the region's future, except in one demographic group—24-35 year-old professionals living in Southeast Michigan. As we reviewed the data, I looked around a room of about 60 regional leaders, and observed there wasn't a single person under the age of 40 among us.

In contrast, consider the example of Art Prize, the incredibly successful event showcasing art and culture in downtown Grand Rapids venues—an event conceived and organized by Rick DeVos and 20- and 30-somethings who utilized social media to attract and connect talent and visitors to this region. We need to multiply that example and seek the inclusion of new and younger leadership in quality of life and regional economic development initiatives—

particularly entrepreneurs and those who are working in knowledge-based enterprises that compete nationally and internationally for talent, those who know firsthand what we must do better as regions to attract talent.

3. Align K-12 with a knowledge-driven economy. As a nation, we have expended so much effort to improve schools over the past decade. But no clear set of reforms with a high probability of success has emerged. Yet, if we are ever going to narrow the gap between rich and poor, between educated and uneducated families, we must insist on accessible, quality pre-K-12 schools throughout our regions. In fact, learning begins at birth. Scientific evidence is overwhelming that most of a person's brain development occurs in the first four years of life, and that those who experience nurturing and learning during infancy will be better prepared to succeed in school. When looking at competition between regions, those metro areas that are funding expansive pre-K learning programs, especially for disadvantaged children, will likely have the most solid learning foundations necessary to retain and attract talent in the years ahead.

Grand Valley's own Board of Trustees Chair, Kate Pew-Wolters, is one of the community leaders of a Grand Rapids regional early childhood coalition. The coalition, First Steps, aspires to provide a medical home for every child, make home visits to assist new parents and coach child care providers outside of organized centers. The early childhood effort underway here is a model for other Michigan regions and bodes well for the quality of life and economic competitiveness of West Michigan in the years ahead.

As for K-12 success, we found no evidence of a strong correlation between the amount of spending on schools and better student achievement. It also is clear that the form of school governance does not pre-determine performance either: there are successful and mediocre public, publicly-chartered and private schools.

In the end, our Michigan Future report concluded that reform efforts must include how we educate and reward educators. We need to attract, develop and reward with merit pay teachers and administrators who have a passion for preparing students for the flat world, who instill in children a love of learning and the ability to be

curious, adaptable lifelong learners. And because children are wired differently for learning, we must make available more school and learning path options for students.

4. Invest in higher education first and foremost. This is what Bill Gates recently told the National Conference of State Legislatures: “Take the two big leading industries...biology and medicine, that’s one, and computer technology, that’s two. The job creation and the success for those industries have been overwhelmingly in the locations where there is a great university. There’s an almost perfect correlation between the number of jobs in a region and the strength of universities.”

As Michigan Future assessed the assets Michigan presently possesses to prepare, retain and attract homegrown, national and international talent, our higher education system—both universities and community colleges—was at the top of our list. If you question this, try to imagine the future of Grand Rapids and the region without Grand Valley State University and the other higher education institutions located here.

Unfortunately, after decades of building a world-class system, more recently Michigan has been under-investing in our universities and community colleges. Over the past ten years, state funding for higher education has been cut by 27%. Michigan is now 42nd among the 50 states in per capita support, reflecting the fact that higher education has been a less important state priority than prisons and tax cuts.

The Michigan Future report calls for a restoration of our commitment to higher education institutions, but in a manner that reflects the number of students enrolled at each university and the research funds they attract. This funding allocation would reward success while recognizing the important role of our research institutions.

Today, Michigan universities bring in more than \$1.5 billion of federal research dollars annually and employ thousands of knowledge workers. In addition, our research universities are major attractors of talent from around the world. Michigan's future economic health is tied to our investment in higher education.

5. Support export based business investment. Higher education graduates will not stay in Michigan if job opportunities are not

available. To grow businesses that export goods and services to consumers from other states and the rest of the world, our report recommends a state business tax structure with a broad base and low rate. As Governor Snyder describes the strategy, let's focus on gardening—nurturing—the businesses that are expanding here in our state rather than emphasize hunting, or trying to woo out-of-state businesses to Michigan by throwing expensive incentive packages at them.

Second, state and local regulations should be minimized and streamlined to encourage competition and innovation.

Finally, state government should not concentrate all of its economic development efforts on trying to choose industries of the future to invest in. Our report concludes that a better idea than overly prescriptive state investments is to support basic research at our universities and non-profit research institutions and push them to drive commercialization efforts—and then support emerging businesses with competitive taxes, reasonable regulation and talent development, retention and attraction policies.

6. Build regions that are attractive places to live. You probably have read or heard about Richard Florida's book, "The Rise of the Creative Class." In it he credibly advances the theory that young professional, new economy workers seek first urban centers that are alive with diversity, culture and other quality of life amenities—and that knowledge-businesses seek the places where talent settles. Whether it is jobs that attract talent or talent that attracts jobs—or more likely a combination of the two—the fact is today's fastest growing regions have vital, core cities where young professional workers live, learn and play.

This is why business groups like Detroit Renaissance in Detroit, Grand Action in Grand Rapids, and the West Michigan Strategic Alliance have been so focused on school reform, loft housing, transit, arts and cultural amenities, attractive public gathering places and the commercial businesses that follow in our core cities. It is also why we need a renewed federal and state commitment to urban policy strategies designed to create more livable, sustainable cities.

A corollary to these six priorities is the role of taxes and a public investment strategy. If we cannot legislate needed change from an entitlement culture to a learning, entrepreneurial, welcoming culture, neither can we simply tax-cut our path to prosperity. In the past dozen years, state and local taxes have been reduced by what is now over \$6 billion annually, moving Michigan to a tax burden below the national average, government spending more than \$7 billion below the Headlee constitutional limit, and state general fund revenues 42% less in inflation adjusted dollars than when I left the State House fourteen years ago. Yet lower taxes and spending have been accompanied by slower economic growth in Michigan than in the rest of the nation.

I stated earlier that our business tax burden must be competitive with that of other states. At the same time, tax policy should not undermine our ability to invest in the human and physical infrastructure necessary for economic growth: investments like higher education, early childhood learning, quality of life amenities such as green space and greenways, good roads and convenient public transit and vital urban centers with thriving arts and cultural life.

Michigan Future's analysis of extensive tax and economic data found that the most successful states are not characterized by low taxes. If anything, they tend to be more high tax states than low. On the other hand, states with the lowest taxes tend to have lower per capita incomes, lower concentrations in knowledge-based enterprises and lower proportions of adults with four-year degrees or more. Again, I quote Bill Gates in his presentation to state legislators: "The industries that I think about the most, information technology and biological industries...are more sensitive to the quality of talent in a location than they are to the tax policies."

We all would like Mississippi's taxes and Minnesota's social and economic infrastructure, but there is no state in the nation that has both. Which fiscal strategy will we choose?

So there you have the essence of our report, "A New Agenda for a New Michigan." It's not an agenda that will be easily accomplished, because moving from an entitlement to an entrepreneurial culture is economically, socially and politically painful.

What lies ahead for West Michigan and the state? I hope that we'll treasure our stunningly beautiful and bountiful land and water resources; our world class institutions of learning, health care and research; our rich heritage of culture and the arts; the importance of our core cities. That our quality of life, vitality of central cities and competitive business climate will retain and attract talented people and growing, innovative companies—companies like those in the fledgling clean energy sector which employs only 23,000 Michigan citizens today but currently ranks in the top ten of our fifty states. I hope that we'll finally find a way to consolidate public services, reduce the number of school districts—553 today—and local governmental units—1800 today—and inspire greater citizen confidence in self-governance at all levels. My wish is that we'll become more welcoming to all and celebrate the diversity of cultures and ideas without losing our common purpose as communities, a state and nation.

What I know is that Michigan's quality of life and prosperity will depend on a willingness to take risks, to change and think longer

term than a short-term election or economic cycle. That change begins with the aspirations we hold for ourselves and our children—and the aspirations we hold for our state and regional communities. I also believe that the successful reinvention of Michigan regions will depend not only on our personal values and innovative private and non-profit sectors, but on public policy and the community investments we make—investments in the assets necessary to keep and attract talent and grow a knowledge-based economy.

I'll close with the wise advice of my friend, the demographer, but on a more personal note. Our daughter Sarah is a beneficiary of one of Michigan's assets. Last year as a junior at The University of Michigan, Sarah signed up for the school's Detroit semester. She lived on the Wayne State University campus, participated in urban studies classes and interned at an amazing job training and human services organization, Focus Hope. At the end of the term, Sarah and her classmates reported on their internship experiences to a group of teachers and parents. Their stories were a mixture of humor, sadness and triumph—stories of idealism bumping up against the painful realities of urban poverty. After their presentations, the students

answered our questions. When it was my turn, I asked them, “After what you’ve experienced in Detroit, are you optimistic about the city’s future? If so, why?” Following an awkward silence, a voice in the back of the room answered, “I am optimistic. What the negative newspaper stories and television newscasts don’t cover are the wonderful people I’ve met, people who are working every day to improve their neighborhoods, their city, their lives.” Here’s the rest of the story. As I turned around to hear this beautiful answer, I realized that the voice of hope was Sarah’s.

In that moment, our daughter reminded me that the next 50 years will depend on each of us, and how we decide to engage in the defining and building of our future.