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MICHIGAN | *Commentary*

Michigan could move to a critical new economic development strategy

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Michigan Capitol | Susan J. Demas

Twenty-five years ago, then-Gov. John Engler, a Republican, created the Michigan Economic Develop Corp. as a public-private partnership that would ensure continuity in state economic development strategy regardless of which political party was in charge in Lansing.

The MEDC was structured to receive most of its financial support from the Michigan Strategic Fund, which then-Gov. James Blanchard, a Democrat, and the state Legislature launched 40 years ago.

Those two agencies continue to serve as the backbone of state government's efforts to attract business investment and jobs.

They represent a remarkably consistent economic development strategy that has survived throughout Democratic and Republican administrations: shell out billions of dollars in cash and tax incentives to businesses promising to create jobs.

And every governor since Blanchard has claimed success.

Michigan Economic Development Corp. | Susan J. Demas

Yet business leaders regularly complain they can't count on predictability in state economic policy. Each time there's a political switch in the governor's office, which has happened every eight years for decades, economic strategy changes, they claim.

"They call that the Michigan-180, and it's not the auto race out at Jackson," John Rakolta, chairman of industrial construction giant Walbridge, said at a Detroit Regional Chamber conference in January.

Rakolta said when Michigan lost out on a new Volkswagen plant to Tennessee in 2008, a Volkswagen executive told him that Michigan "lacks cohesion" in political, racial, city-suburb and labor-management relations.

"This song plays out to the whole world," Rakolta said at the conference. "Michigan doesn't present itself as a strategic partner" to businesses seeking to invest in the state.

In the lead-up to the chamber's Mackinac Policy Conference last month, chamber chief executive Sandy Baruah, complained political squabbling has prevented Michigan from creating a unified vision for the state.

"It doesn't really matter which strategy you choose to grow the state," Baruah told Detroit News editorial page Editor Nolan Finley. "What matters is consistency. Pick a strategy and stick to it."

Actually, strategy does matter. Michigan's decades-long practice of picking business winners and losers has largely failed to grow the population and make Michiganders more prosperous.

Michigan's population has been hovering around 10 million for 25 years. And a study earlier this year by Michigan Future Inc. and the University of Michigan found the state's per capita income in 2022 was 13% below the national average, the lowest it's been since the data was first collected in 1929.

A lot of the carping by business leaders, many of them Republicans, is a result of Gov. Gretchen Whitmer and legislative Democrats finally addressing the elephant in the room. They're also upset over Whitmer and the newly Democratic-controlled Legislature eliminating the state's Right to Work law and restoring prevailing wage provisions on state construction projects.

While Whitmer still wants to continue spending hundreds of millions of dollars a year on business attraction incentives, there's a growing consensus among Democrats — and even among many business leaders — that the state needs to expend far more resources on attracting and retaining talent.

"Absent policy changes and investments, Michigan's current path will lead to a shrinking population and continuing declines in the state's competitiveness and quality of life," an in-depth look at Michigan's challenges last year by the Citizens Research Council of Michigan and Ann Arbor-based research institute Altarum concluded.

House Democratic lawmakers are responding with a series of bills that would substantially change spending priorities of the Strategic Outreach and Attraction Reserve (SOAR) fund, Whitmer's signature effort to boost the electric vehicle industry.

> Just throwing money at corporations to get them to build factories here doesn't cut it anymore, if it ever did.

– Rick Haglund

The House bills would boost SOAR funding to $600 million a year for 10 years. But the legislation would cut spending on business attraction to $250 million annually — half of current spending.

The remainder would make sizable investments in transit and mobility ($200 million), housing and community development ($100 million) and placemaking ($50 million). Similar legislation has been introduced by Senate Democrats.

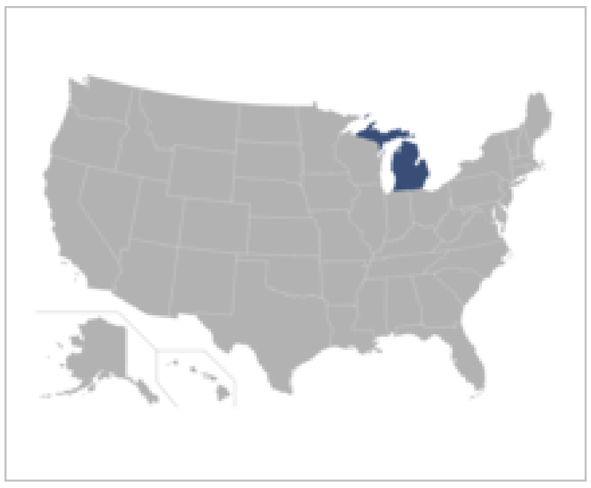
While Whitmer is said to be leery of slicing up the SOAR fund, the Democratic legislation dovetails with the governor's own plan to increase Michigan's population and boost prosperity.

The Growing Michigan Together Council, which she commissioned last year, settled on three priorities: make Michigan a nationally recognized innovation hub; build a lifelong learning system focusing on "future-ready" skills; and "create thriving, resilient communities that are magnets for young talent."

Although Michigan's economic development strategy has been centered on incentivizing businesses to locate and grow here, individual programs have come and gone as party control of state government has changed. That can be frustrating to companies seeking consistency in economic policy.

But what's happening now is fundamentally different. The Democrats' SOAR reform legislation is responding to the new reality that Michigan's economy cannot grow and get wealthier unless it becomes more attractive to working-age people, particularly those with college degrees and technical skills.

Just throwing money at corporations to get them to build factories here doesn't cut it anymore, if it ever did.



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