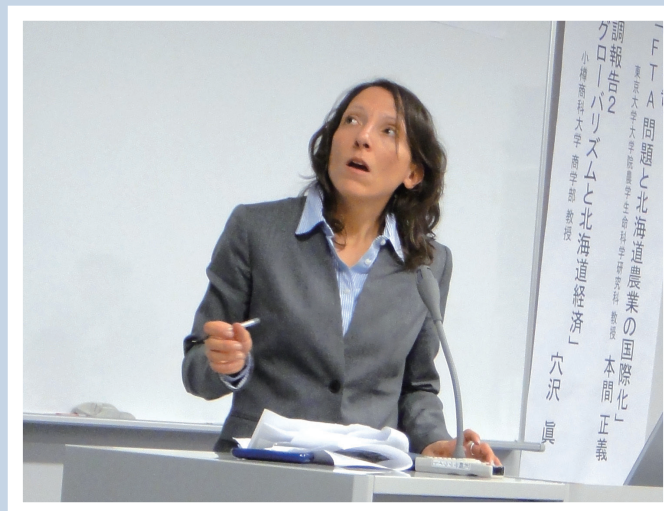


Economic Development Efforts in Michigan: Lessons for Hokkaido?



Christine Moser

Department of Economics,
Western Michigan University, US

Economic Development Efforts in Michigan: Lessons for Hokkaido?

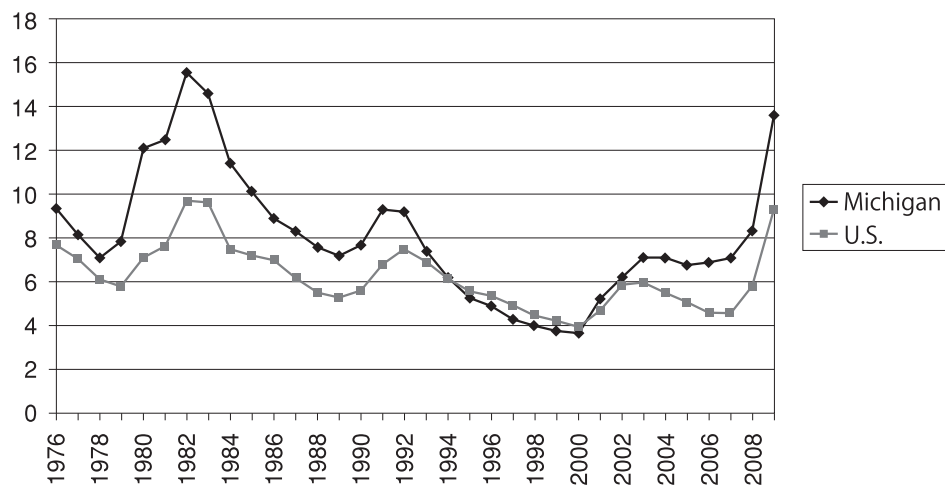
January 2011

Professor MOSER, Christine,
Department of Economics,
Western Michigan University, US

Well before the global recession hit in 2007, the state of Michigan was experiencing its own recession. Michigan and the city of Detroit have long been synonymous with the American automobile industry, but now Detroit is at least as well known for economic decline and decay. Since 2000, Michigan has lost 859,000 jobs, or 18.3 percent of its workforce. More than half of the jobs lost were in manufacturing (Perkins 2010). While Michigan has had some success attracting new investment and encouraging economic development, the state faces difficult challenges ahead. This brief note summarizes the economic situation and development efforts in Michigan and discusses some lessons learned in the state that may be helpful to the prefecture of Hokkaido as it faces its own economic challenges.

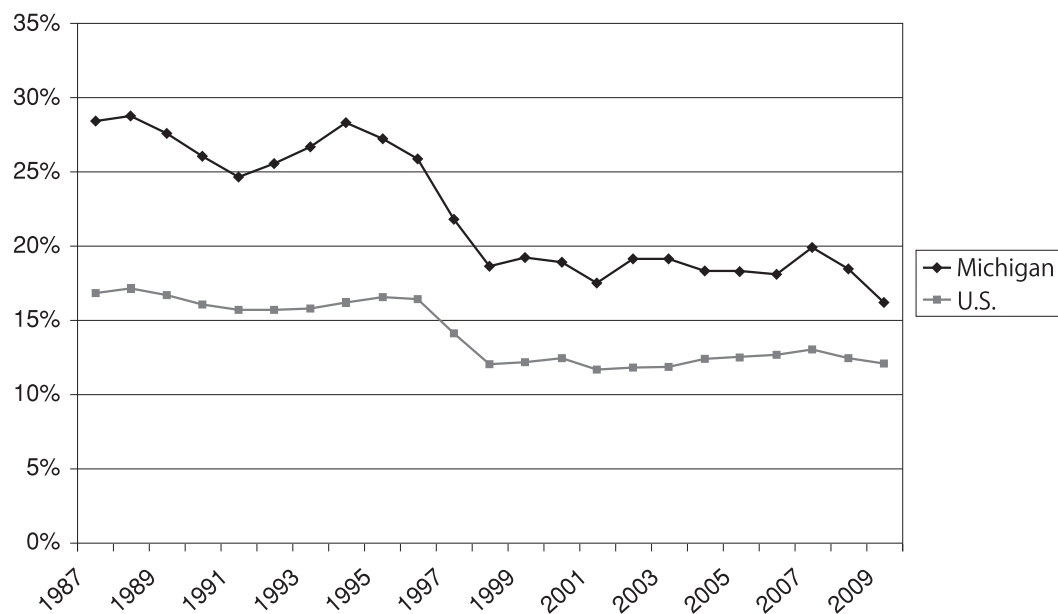
Michigan's economy

Michigan currently has the second worst unemployment rate in the U.S. at 13 percent and, as shown in table 1, its unemployment rate has been above the national average since 2001 (BLS 2010). Because Michigan relied more heavily on manufacturing than other states, the decline of this sector has hit the state particularly hard (see table 2). Not only were a large number of jobs lost, but because these were high paying jobs, the state's (inflation adjusted) median household income fell 21 percent over the past decade (Michigan Truth Squad 2010).



Source: Bureau of Labor Statistics 2010

Table 1. The unemployment rate in Michigan and the U.S. 1976-2009



Source: Bureau of Economic Analysis, 2010

Table 2. Manufacturing as a percentage of GDP 1987-2009

The latest census numbers suggest that while the US population grew about 9% over the last decade, the population of Michigan has remained flat (U.S. Census Bureau 2010). More troubling, however, is that there is a net-loss of approximately 5,000 college graduates annually who leave the state in search of jobs elsewhere (Collins 2010) in a state that is already in the bottom half of states

for the percentage of people with college degrees (U.S. Census Bureau 2010). In addition, the state has persistent budget problems related to falling tax revenue, and infrastructure (roads, bridges, sewer systems) in the state is in poor condition (ASCEMS 2009).

Because Michigan is known for its manufacturing sector, many people do not know about the large agriculture and tourism industries in the state. Agriculture is Michigan's second largest industry, generating \$63.7 billion for the state economy. Michigan is the second most agriculturally diverse state in the nation. For example,

- Michigan ranks first nationally in the production of tart cherries.
- Michigan also ranks first nationally for the production of pickling cucumbers, geraniums, petunias, squash and vegetable-type bedding plants.
- Michigan ranks 3rd in the nation in apple production.

Tourism is the third largest industry in Michigan. Surrounded by the Great Lakes, Michigan has more miles of shoreline than Florida or California. Lakes, campgrounds, wildlife refuges and state parks create a wide variety of recreational opportunities. There are also rivers for water sports, and thousands of miles of hiking, biking, cross-country skiing and snowmobiling trails. It is perhaps in these two areas—agriculture and tourism potential—that Michigan most resembles Hokkaido.

Economic Development Efforts in Michigan

Economic development programs in Michigan can be found at the federal, state and local levels. Most of the programs fall into the following categories:

1. Federal zone programs—community grants and employer tax credits for economically depressed areas
2. Community block grants—grants to towns and cities for downtown revitalization
3. Tax abatement or credits—such as for brownfield and commercial rehabilitation
4. Job training, especially for those who have lost jobs in manufacturing
5. Promoting the state to external investors, both foreign and domestic
6. Tourism promotion

Michigan, like all states, has a statewide economic development agency, in this case called the Michigan Economic Development Corporation (MEDC), that administers or oversees many of the above efforts. While the MEDC works with all types of businesses, the state (under the previous governor) identified the following as “growth sectors” for promotion: alternative energy, automotive engineering, life sciences, homeland security and defense, advanced manufacturing, and the film industry.

In addition, the former governor, Jennifer Granholm put a lot of effort into trying to bring foreign

investment to the state:

"As governor, one of my commitments to the people of Michigan is to go anywhere and do anything to bring business investment and jobs to Michigan. Since 2004, I've been on nine overseas trade missions, visiting business leaders in countries like Germany, Japan, Sweden and Belgium. These trade missions have resulted in 47 companies announcing nearly \$1.7 billion in new investment in Michigan and the creation or retention of almost 13,000 jobs here."

--Jennifer Granholm (2010)

While Michigan's development programs have brought some new business to the state and kept others from leaving, some have criticized the efforts. First, there has been a tendency to change economic development priorities every few years as new leaders are elected. This lack of continuity makes it difficult for businesses to plan and leads to high turnover and loss of institutional knowledge among program staff. Even very successful programs do not always maintain support. The award-winning "Pure Michigan" tourism promotion campaign lost funding in a political budget dispute in 2010 despite bringing an estimated \$2.86 in additional tax revenue for every dollar spent on the advertising campaign (Zimmermann 2010).

The MEDC, in particular, has been criticized for its lack of focus. It is charged with both promotion of the state to external investors and oversight of many of the grants and incentive programs. It has a complex structure that is vulnerable to political influence over its direction and staffing. Finally, many of the tax incentive programs are complicated and take too long to process (Ballard 2006; Tamerica 2010).

Development efforts at the local level vary, but there is growing interest in what is called "economic gardening." Economic gardening involves supporting existing businesses in a community rather than searching for external investors. In addition to more traditional tax abatements for business expansion, specific efforts include fostering networking among businesses, developing information technology tools, providing access to market information, and providing or facilitating access to capital (The Center for Local, State, and Urban Policy, 2010).

The newly elected governor, Rick Snyder, has already signaled a new direction in Michigan's economic development programs. The governor has suggested, for example, that no one industry or sector should be singled out for special tax breaks and that the focus of his administration would be on the economic gardening approach to help business already in the state. However, with a large budget deficit in the state and a reluctance to raise taxes, it is unclear how much money will actually be devoted directly to economic development programs or to investments in infrastructure and education.

Lessons for economic development efforts elsewhere

The first lesson to draw from the state of Michigan is that relying too heavily on one sector leaves an economy more vulnerable to downturns and structural changes in that industry. These problems are compounded when the tax base is also not diversified. A second lesson is that even in a downturn, the government must continue to invest in infrastructure and human capital. Businesses look for more than tax reductions when looking for a place to locate; they also value such things as a quality work force and good labor relations, quality of life, access to markets and good transportation systems. Furthermore, in the case of Michigan, highly ranked programs at its colleges and universities help attract investment by supporting advances in engineering, automotive technology, and life sciences (Ballard, 2006).

A third lesson from the experience in Michigan is that there needs to be a long-term vision and continuity of development efforts that can remain focused and (at least partially) independent of political changes. This long-term vision need not be a commitment to a small, fixed set of growth sectors, but development efforts do need time to demonstrate success, build a reputation among potential investors and entrepreneurs, and institutionalize clear and efficient processes for investor support.

A final lesson is that it is a mistake to focus all effort on the “big fish,” the large, international firms in high profile industries. Local firms and entrepreneurs need to be cultivated and supported where there is potential for growth and innovation. Agriculture gets relatively little attention in economic development, but the increasing popularity of locally grown foods and farmers markets in the U.S. has opened up new opportunities for small farmers and food processors. Both agriculture and tourism can support the rural and remote areas unlikely to attract external investors.

The state of Michigan continues to struggle to find a way to turn its economy around after a long decline in its manufacturing sector, made worse by the recent recession. In both message and actions, Michigan has so far failed to make a clear and consistent case for why the state is a great place grow or locate a business.

References

American Society of Civil Engineers, Michigan Section (2009). 2009 Michigan Infrastructure Report Card. accessed 21 November 2010: <http://www.michiganreportcard.com/>

Ballard, Charles (2006). Michigan's Economic Future. Michigan State University Press. Lansing, Michigan.

Bureau of Labor Statistics (2010). “Unemployment Rate for States.” accessed 21 November 2010: <http://www.bls.gov/web/laus/laumstrk.htm>

The Center for Local, State, and Urban Policy (November 2010). "Local government leaders say economic gardening can help grow their economies." Michigan Public Policy Survey, The Gerald R. Ford School of Public Policy, the University of Michigan.

Collins, Charles (26 January 2010). "Talent Retention, Attraction, and Growth in Michigan: Policy Implications and Proposed Strategies." Michigan State University Center for Community and Economic Development

Granholm, Jennifer (April 9, 2010). Governor's weekly radio address. 21 November 2010: http://www.michigan.gov/gov/0,1607,7-168-23442_21974-235106--,00.html

Michigan Truth Squad (19 October 2010). "Rick Snyder - Jobs 2 TV Ad." accessed 21 November 2010: <http://michigantruthsquad.com/rick-snyder-jobs-2-tv-ad/>

Perkins, Tom (8 October 2010). "Michigan tax structure needs overhaul, Senate Fiscal Agency director tells EMU audience." accessed 21 November 2010: <http://www.annarbor.com/news/michigan-senate-fiscal-gency-director-updates-emu-students-on-michigans-economy-and-budget/>

Tamerica (June 2010). "Policy Recommendations for the Improvement of Statewide Economic Development in Michigan." White paper.

United States Census Bureau (2010) accessed 21 November 2010: <http://quickfacts.census.gov/qfd/states/26000.html>

United States Census Bureau (2004), compiled by Statemaster.com accessed 21 November 2010: http://www.statemaster.com/graph/edu_bac_deg_or_hig_by_per-bachelor-s-degree-higher-percentage

Zimmermann, George (2004) September Travel Industry News accessed 23 November 2010: <http://ref.michigan.org/mtr/enewsletter/combo.asp?ContentId=DC3A3CFA-8CED-4B9F-B2EE-FBE8AAAE6FF2>