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look at it, it's all new announcements to existing products, and now all of a sudden when everybody wants to go green, suddenly we're going to do this transformation overnight and we need \$25 billion, please, to do it.

Why didn't we do it over time? Was it as difficult to do? We could easily be replaced by other companies who have been moving more gradually towards this, Toyota or whatever, and that's the huge problem for Michigan.

There probably was a day when an argument could be made that the automotive industry in the U.S. was a strategically important industry for the country. That argument is less true today.

**Fabrizio:** Well, you could say that it's your one defense against oil and oil consumption.

**Scott:** Moves on to discuss the difficulty of replacing lost automotive jobs. I run three small businesses. One of my businesses has five employees, one of them has 20 and one of them has 200, so replacing jobs the auto industry loses requires a lot of small businesses.

**Senneker:** The question is, what happens to other small businesses in the community that are dependent upon not only the direct workers, but the supply chain that falls below that? We've seen that shrink dramatically with three companies with some stability over the last five years, but what happens when that's over?

**Fabrizio:** Right, you might say that a billion dollars a month to fund this might even make more sense for this state than to lose some of it.

**Pauline:** But the economic reality is still going to be there. We can all hope that two or three automobile companies are still based in Detroit and are going to recover and grow, but as a venture-capital client of mine often says, hope is not a strategy. You have to assume that if the economics are such that these businesses are not viable, they're going to shrink. There's too much capacity, not enough demand.

The demand is shrinking, so the economy here is going to change. And rather than cling to the past, we have to decide what we are going to do next and what may be the unfortunate reality that there are going to be a lot less people employed in what used to be low-skilled, high-paying jobs. It's going to be the job of the state to rather up the quality of the worker, which is better education, and get us into the kind of places that other more successful economies have found themselves, and in order to do that you have to let go.

**Scott:** I'm getting calls from people looking for jobs and their background is all finance, maybe some real estate, whatever, and they're really good at financial modeling and, you know, my standard advice is go to Alberta, they're hiring in the oil fields. The same thing can be applied to the automotive worker in Michigan. That person has a certain set of skills developed over the years, but my fear is that entrepreneurial people in that industry have already left and have gone somewhere else, somewhere else meaning geographically or into another kind of business, and so if the

worst case happens, we are going to be left with a bunch of people who can't figure out what to do and who have no places to go.

**Fabrizio:** You would have to say that the auto companies have proven to be very resilient. The destruction of the financial world and some of these major financial companies went a lot faster, I mean, how many Lehman reports did I read on the auto industry dying and then Lehman goes out of business?

**Scott:** I totally agree with you. All I was getting at was that people are going to have to transform. People are going to have to get used to the idea that the thing they used to do comfortably may not be there in the same way that it was, and so you're going to have to experience a degree of discomfort as you beat your way into some new business base.

### Relearning resilience

**Fabrizio:** The American worker has historically proven that he or she is resilient. We started off as a farming nation. The one thing you have to love about the financial people is that they have that entrepreneurial spirit, so maybe they'll create new businesses that need to be staffed.

**Senneker:** How do we do that and how do we bring that to Michigan? That's the question: How do we take the old, move it to the new — and how do we create something new consistently that would allow for those folks to come in and re-engineer what we're doing?

**Fabrizio:** We do have certain things that are to our advantage. Two of my businesses are Internet-based. Both are profitable and both of them needed the intellect of young programmers, and we have lots of them in Michigan. And the price point at which we are attracting these quality individuals is so much lower than in other cities.

**Senneker:** But how do we exploit that?

**Scott:** That's the fundamental thing. We have to become a lower-cost producer of high-value things.

We've got to get into the same thing that India and others are in: labor arbitrage. We have skilled laborers, which the transplants in Alabama and Mississippi and so on don't have, and they can't attract it. But we have people who want to live here, and they have certain skills.

**Fabrizio:** You have to focus on some of the negatives that are coming us more money. The MST is a seasonal capital gains tax and nobody seems to want to talk about it, but why as an entrepreneur would I want a business here that I'm going to have an additional 7 percent tax when I go to sell it?

I think one of the issues we have is we have young legislators who don't understand some of the implications of some of these taxes. Having a capital gains tax at a corporate level is going to be one of our biggest negatives.

**Scott:** Relative to the automotive industry, Michigan still has a large pool of talent, whether it be engineers or automobile workers. There's a lot of opportunities to attract automotive business.

**Senneker:** The key is to make it easy for people to want to do business here.