

POINTS OF VIEW

For now, we're better off for some changes in how economy operates

A quick glance at the recent headlines suggests something big is happening in Michigan's economy.

- "High-tech firms find cash they need in Ann Arbor"
- "Property values skyrocket, led by Livingston County"

■ "State's low unemployment rate sets new record"

Although I'm not one of those who trumpet that the business cycle has been repealed, I do sense that a basic paradigm shift in the functioning of our economy has taken place over the past 20 years or so. Three factors in particular deserve attention: venture capital, the stock market (stock options in particular) and high technology.

In the old days, the way you started a business was to go into debt. You mortgaged your house or you took the receivables from your little company to your local flint-eyed banker. And you hoped the resulting interest payments didn't kill your company.

Today, you take your business plan to a venture capital firm, where equally flint-eyed folks poke and prod at every detail before deciding whether to invest. And you hope they don't take too big a chunk of your equity.

The shift from bank debt to equity investment as the basis for financing companies is fundamental. Banks, prohibited since 1933 from making equity investments and therefore concerned primarily with getting their loans paid off, had no particular incentive to support your company through hard times. But venture capital firms take a percentage of your stock, hoping to make a big score when you go public, which means they have an incentive to work with you through thick and thin.

And today there are a lot more venture firms with a lot more capital to invest than even a few years ago. According to PricewaterhouseCoopers, the big accounting firm, \$11.4 million in venture capital was invested in Michigan in 1996, \$65.2 million in 1997 and \$114.5 million in 1998.

Linked to changes in the capital basis for firms is the amazing stock market. It isn't just that the market is at an all-time high. It's that you can cash in on the success of your little company by going public in a buoyant market, which also gives the venture capital firm a way to make its score and thereby justify the risk of its original investment.

Moreover, most newly-formed companies today attract and retain skilled managers, engineers and computer jockeys, not by paying big salaries, but by granting stock options. In granting key employees the right to make a big killing if the stock price goes up, companies not only retain key people but create an enormously effective incentive system to motivate long hours and high output.

Certainly, stock options existed 20 years ago, but they were very limited in extent and offered nowhere near the opportunity of becoming an instant multi-millionaire they do today.



PHILIP POWER

Unlike venture capital and stock options, new technology has always been the basis for successful firms. Water power and, later, gas and electricity formed the technological basis for the prosperity that accompanied the Industrial Revolution in the 18th and 19th centuries. The gasoline-fueled internal combustion engine and mass standardized manufacturing were the core technologies behind Michigan's automobile industry. Both were developed just after the turn of the century.

What's different today is that the technological leaps are far more numerous than in the past, in large part because they are the product of a self-conscious process of research, invention and development that is quite new. Scientists in university or government laboratories today understand that one important consequence of discoveries is the possibility that they can be turned into commercial successes.

This is quite new. Policy at the University of Michigan, for instance, used to be that the university owned the rights to any inventions dreamed up in its labs. But the U-M changed the policy five years ago so that scientists could claim a stake in their inventions, and it's likely the big venture capital boom in Ann Arbor is rooted in the change. Whether it's information technology or software or microelectronic sensing or bioengineering, labs in Michigan are providing the technological underpinnings for all kinds of new companies.

I wouldn't argue all this prosperity will last forever. But I do think that we are witnessing today the outcome of fundamental changes in the way our economy works. And at least for the present, we are all the better for it.

Phil Power is chairman of HomeTown Communications Network Inc., the company that owns this newspaper. He welcomes your comments, either by voice mail at (734) 953-2047, Ext. 1880, or by e-mail at ppower@coonline.com

LETTERS

A public servant

Statements of dissenting views are a First Amendment way of life in America.

How sad some feel the need to do it in a negative, personal manner as evidenced in the helmet law letter that appeared in your newspaper last week. I read it with interest and then dismay as I saw Mrs. Bates' name and then the Commission for Children, Youth and Families described as her "pet project."

I hope the writer meant it as a compliment because it is a fine accomplishment. With a great deal of effort on her part that commission became the sponsor of the \$387,000 grant that funded our youth centers to the relief of local taxpayers.

But she didn't stop there. Mrs. Bates also initiated a community foundation that continues to raise private money from corporations and individuals that fund programs in our community to improve the quality of life for the people who live here.

I found many terms in that letter very offensive. The writer states that Mrs. Bates has said she is a "political animal." I don't know if that is true or not. If so, it is my fervent wish that our community be blessed with more political animals like her.

Many years ago Mrs. Bates was the organizing chairperson of the Commission on Aging. Senior citizens today still are enjoying the benefits of the works she started. A little later Mrs. Bates was appointed to serve as a charter member of the arts commission. While she was mayor in 1993, with the help of the late Gov. George Romney, Mrs. Bates established the volunteer center that continues to serve many organizations in our community, again providing work that is accomplished without taxpayers' money. Under her leadership the Commission for Children, Youth and Families began the annual "Family Days in the Park" and "Family Nights at

the Center." Again, she helped obtain private funding for these events. To date, thousands of families have enjoyed happy times together in our community at these events.

Political animal, indeed. The way I see it, public servant says it better. I believe she truly is a public servant, without any personal agenda, but simply a caring person trying to make our community a better place in which to live.

Thank you for reading this letter. I don't usually write letters to the editor, but some things just cannot go unanswered.

Stanley D. Salnick
Farmington Hills

Use them

The "Helmet law put on hold" article in the Sunday, July 11, Farmington Observer reminds me of this story:

A man named Bob was caught in a flood. As the waters rose to the level of his porch, a man in a boat came to rescue him. Bob refused to leave. He said, "No, I will stay here. The Lord will provide."

The water kept rising and Bob sat on the roof. Another boat came but Bob refused to budge. Again he said, "No thanks. The Lord will provide."

The water kept rising and Bob drowned. As he entered the nearby gates, Bob said to St. Peter, "All my life I was a devout Christian. I prayed to the Lord and kept the faith. Why then did the Lord not save me?"

St. Peter answered, "My son, he sent two boats and a helicopter. What more did you want?"

Parental rights are important. But isn't more important, as parents, to try to do what's right for our children? "He" sent bicycle helmets. Why not use them?

Betsy Beal
Farmington Hills

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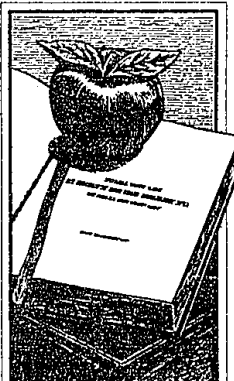
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