
**A FRAMEWORK FOR ECONOMIC DEVELOPMENT IN
MICHIGAN'S UPPER PENINSULA**

by

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Including

**IMPLEMENTING A DEVELOPMENT STRATEGY
FOR THE UPPER PENINSULA**

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Despite this collective expertise, the normal caveats apply. The views expressed and errors committed are those of the author and should not be attributed to any other members of the team.

The final stage of this project was conducted by an Upper Peninsula Task Force on Economic Development. This task force was made up of a representative group of knowledgeable U.P. residents. The Task Force was directed to review the theoretical assumptions contained in the economic development framework and identify appropriate actions which would lead to its implementation. Part V of this report entitled "Implementing a Development Strategy for the Upper Peninsula" prepared by Dr. Robert Kulisheck and Dr. Alfred Joyal of Northern Michigan University contains a review of the Task Force's specific suggestions.

PREFACE AND ACKNOWLEDGEMENTS

This study builds upon the path-breaking studies of the Michigan economy conducted as the basis for the State's Path to Prosperity report, upon the continuing economic data collection and analyses conducted by the Michigan Department of Commerce, and upon studies of Upper Peninsula economic development by Northern Michigan University. Other studies undertaken as part of this research project include: Dr. Terry F. Buss, David Gemmel, and Dr. Roger Vaughan, *New Enterprise Development in Michigan's Upper Peninsula*, Northern Michigan University, 1989; Bruce Cochran, *Report on Upper Peninsula Financial Intermediation*, Northern Michigan University, August 1987; Pete Cambier, "Description of Upper Peninsula County Economies," May 23, 1988, and "Upper Peninsula Economic Development Efforts," May 3, 1988; Dr. Robert Kulisheck, *Report on Focus Group Meetings on U.P. Economy*, Northern Michigan University, August, 1988 (from which all anonymous quotations are taken), and "Rural Economic Development Analysis in Michigan's Upper Peninsula," paper prepared for the American Society of Public Administration, Springfield, IL, November 1987; Michigan Bell, *Upper Peninsula: Business Expansion and Retention Program*, September 1987; Kenneth Voytek, *Economic Profile of the Upper Peninsula*, Michigan Department of Commerce, September 1988; Richard D. Wright, *A Report on Demographic, Income, Employment, Labor Force and Industry Trends in Michigan's Upper Peninsula*, Northern Michigan University, September 1987.

The study has drawn upon the expertise and advice of the U.P. Steering Committee convened for the purpose: Penny Stump, Ken Voytek, and Pete Cambier (from the U.P. Office) from the Michigan Department of Commerce; Thomas Baldini from the Office of the Governor; Linda Nurmi from the Michigan Employment Security Commission; Dr. Robert Kulisheck, Political Science Department; Dr. Alfred Joyal, Department of Geography and Planning, and Richard Anderson, Northern Economic Initiatives Center from Northern Michigan University; Colletta Moser, Department of Agricultural Economics, Michigan State University; Ray Vlasin, Department of Resource Development from Michigan State University; and Hal Wolman, Center for Urban Studies from Wayne State University. Comments on earlier draft were received from Leslie Lokken of Cabinet Council on Jobs and Economic Development, State Forester Dr. Henry Webster, and Professor Dan Chappelle, Michigan State University.

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EXECUTIVE SUMMARY

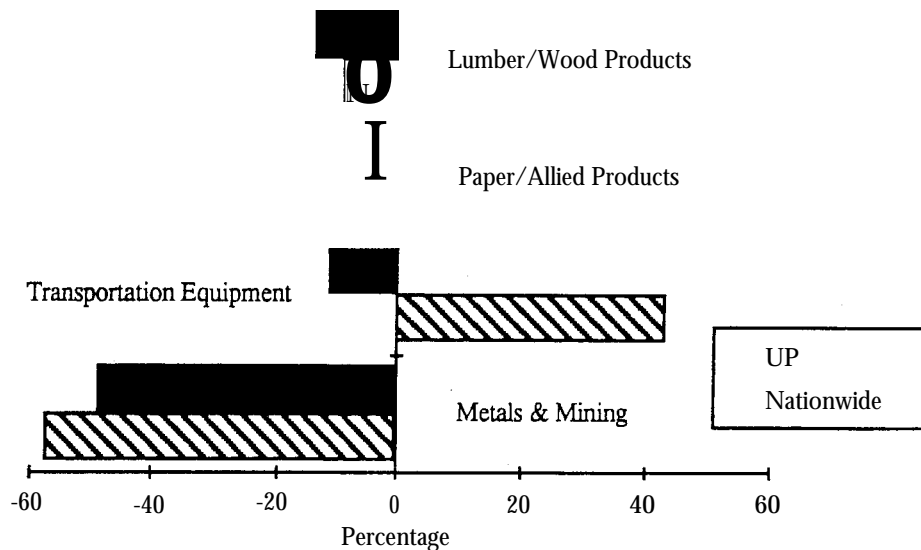
During the 1980s, the U.P. economy has undergone a painful and dramatic recession and transition. Ten years ago, prospects looked bright. Employment in the Peninsula had grown by nearly 25 percent during the 1970s and the region missed much of the cyclical instability that afflicted major manufacturing areas.

But between 1979 and 1982, one-third of the previous decade's employment growth disappeared. Mining--traditionally one of the major sources of growth, lost over half its jobs. Government--a second major source of growth in the 1970s--shrank as the State wrestled with its fiscal problems and as federal funds were cut. The unemployment rate soared and real incomes fell.

Even during the recession, the U.P. economy remained competitive

Industry-by-industry comparisons show that much of the job loss in the U.P. occurred because its employment was concentrated in industries that were growing slowly nationwide. The U.P.'s economic problems during 1979-83 do not reflect any relative weakness of its workforce, businesses, or business environment. In fact, the Peninsula exhibited surprising economic strength in some industries despite adverse national and international trends (Chart 1).

CHART 1:
Rate of Job Growth (Decline)
U.P. and Nationwide, 1979-1983

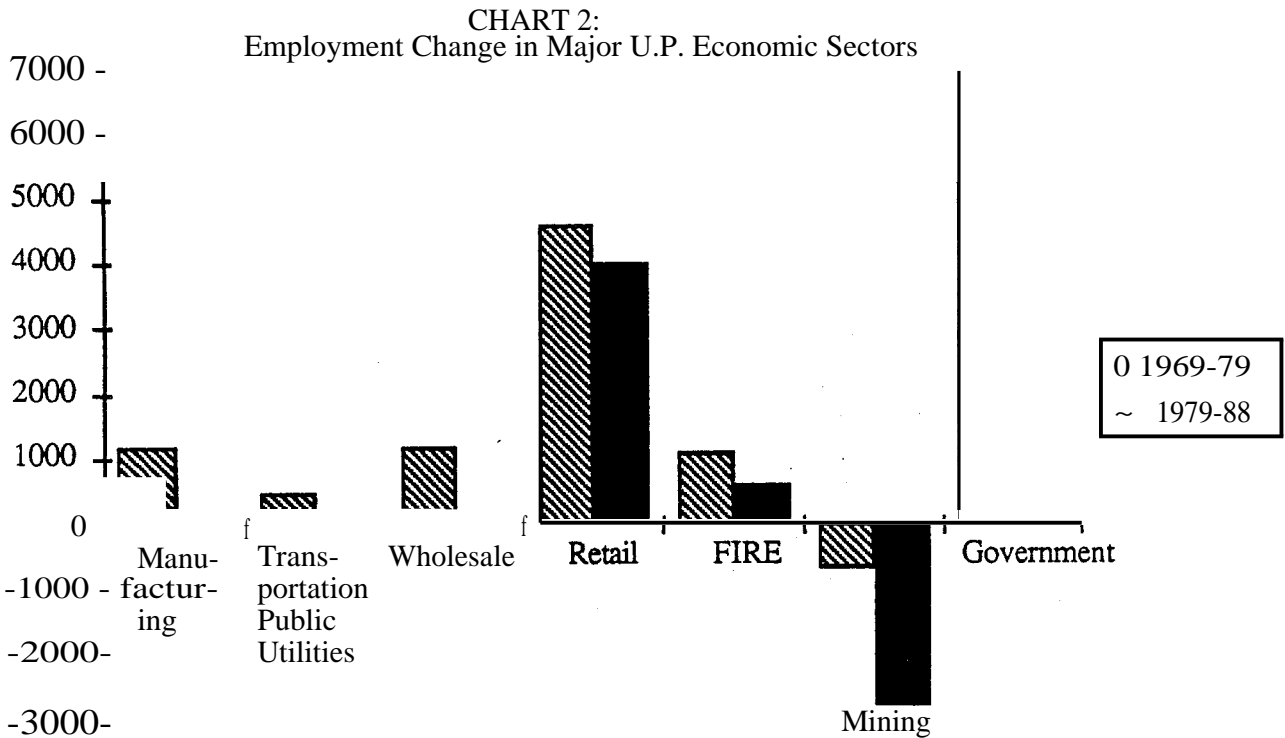


Source: Michigan Employment Security Commission

The recovery of the last 5 years was different from earlier periods: government and mining played smaller roles

Since 1983, the Upper Peninsula has been recovering from the sharp recession in the early 1980s. In the five years ending December 1988, employment in the Peninsula grew by 12,300 and the unemployment rate fell to 8.8 percent from its peak of 18.9 percent in 1982. New jobs came from many sources. Mining added 900 jobs; Pulp and Paper 200 jobs; wholesale 200 jobs; retail 3,700 jobs; services 2,800; finance 500; construction 600; and government 1,800.

Compared with earlier expansions, growth in the 1980s revealed some important differences (Chart 2): first, government played a smaller part in creating new jobs; second, despite recent expansion, employment in goods producing activities--manufacturing, mining, and construction--has not regained its 1979 peak because they declined so sharply between 1979 and 1983. Wholesale and Transportation and Public Utilities--sectors that had expanded during the 1970s--also failed to regain their earlier employment levels.



Source: Michigan Employment Security Commission

TO SUPPORT FUTURE GROWTH, THE U.P.'S DEVELOPMENT STRATEGY MUST INVEST IN HUMAN CAPITAL

How can businesses and government in the U.P. encourage continued economic expansion and reduce the Peninsula's vulnerability to deep recessions? By investing in its people--raising education and skill standards, allowing fewer people to enter the workforce unprepared, and fostering the local entrepreneurial spirit so that U.P. residents create more and better economic opportunities. By investing in its people, the U.P. can gain greater control over its own economic destiny.

Economic development in the U.P. results from investments by its 300,000 residents: high school students building their own skills, bank loan officers evaluating loan applications from local businesses, unemployed workers struggling to start their own enterprises, welfare recipients enrolled in training programs, high school principals experimenting with better ways to engage and teach students, elected officials voting budgets for investments in highways and water treatment capacity, and public agency staff weighing the environmental impacts of new developments. Economic development in the U.P. does not depend only on the actions of a few people. It is the accumulation of what everyone does to create new opportunities.

Public Investments Must be Coordinated with Private Investments

Some investment decisions require direct, immediate actions by state and local government. For example, the State Transportation Commission has requested the Upper Peninsula Highway Coalition to design an economic study of the value of an "east-west, north-south primary highway system in the U.P." as the first step to determining the value of the project. Because transportation infrastructure must support large-scale private investments, Michigan has created the Transportation Economic Development Fund for special projects that may not have been financed as quickly through traditional transportation programs. The Department of Transportation is also creating--in conjunction with local communities--an incentive program--Air Access Michigan to provide new or continued air services in the U.P. and other poorly-served communities.

Economic development is not just about jobs and income. It is about opportunity, and only a small part of the opportunities that matter to us are measured in economic statistics. Quality of life, safety, security, and choice are important to all of us. Development in the U.P., therefore, means managing resources--natural, human, and capital--to balance commercial demands with demands for an improved quality of life and with demands for broader opportunity to participate. An organization such as the Michigan Business

Partnership for Rural Development, announced by the Governor in 1989, could provide a forum for raising the specific issues confronting individual firms and industries and for developing creative solutions.

Public Policy Must Also Support Private Investments Indirectly

For other types of investments, the public sector does not make decisions directly, but provides the resources and the opportunities for people and businesses to invest themselves. These activities must be approached with a longer-term strategic perspective--based on analyzing the Peninsula's changing economic environment. For example, schools and colleges do not decide what education or training courses individuals should pursue. But the quality of local education and training programs, how closely they are linked to local employers, and how effectively they are marketed to potential students will influence people's decisions and the value of their human capital in the labor market.

State and local development agencies cannot decide what new avenues of opportunity local entrepreneurs should pursue. But need to be ensured that they can draw upon the services and sources of capital that are needed to support entrepreneurship.

The capacity to support individual investment decisions in these ways cannot be achieved overnight. They must be developed strategically--based on analyzing how our economic environment is changing, what new challenges it presents to our traditional ways of promoting development. Economic strategies must be prospective, not retrospective.

The U.P.'s Development Strategy Builds on Strong Foundations

The U.P. has developed a visible and well-regarded network of economic programs. Manufacturers have given state and local programs a 51 percent good or excellent rating. This network can deliver the new initiatives proposed below. The U.P. also boasts innovative and successful schools, universities that support new business development, and welfare agencies that train and place low-income people to enter the labor force. These programs must be more widely imitated. Businesses and public agencies must experiment--innovation by the U.P.'s schools, development agencies, and private enterprise will be central to sustained economic success.

THE U.P. ECONOMY IS CHANGING AND WILL CONTINUE TO CHANGE RAPIDLY

Despite its remoteness and strongly individual tradition, the U.P. is influenced by the same forces that are shaping and reshaping the national economy. The slow job growth and high unemployment the U.P. has suffered for most of the past decade are signs of the struggle waged nationwide to adapt to the rapidly changing economic environment. This adaptation is being driven by five forces that will continue to challenge the nation and the U.P.:

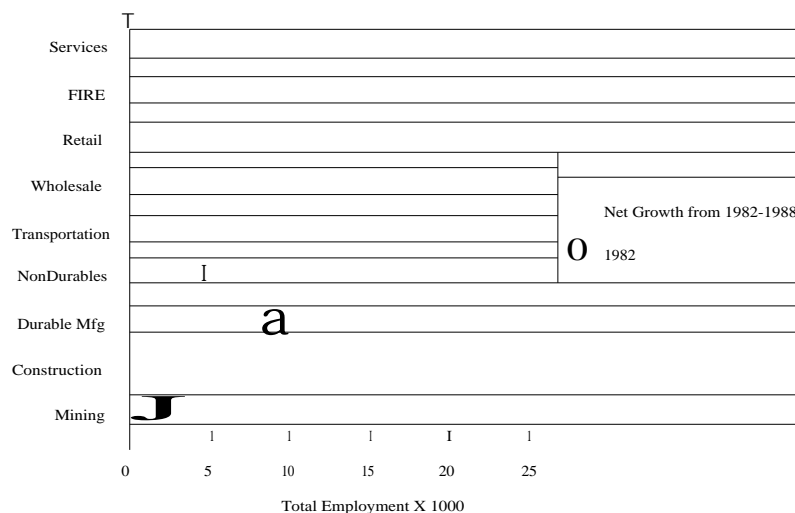
1. Global economic conditions will influence the U.P. more and more strongly. The expansion of trade requires the U.S. to concentrate, increasingly, on the production of goods and services that use skilled labor intensively. Unskilled jobs will continue to be "exported."

2. Technological advances will reduce demands for unskilled labor engaged in production, but increase demands for skilled labor.

3. Fewer people will be entering the labor force to fill emerging jobs. We have fewer new workers to meet our labor needs and must find ways to recycle older workers and people outside the economic mainstream.

4. Almost all new jobs in the U.P. will be created by local residents (Chart 5). In 1988, 15,303 (15 percent) of the people working in the U.P. were employed in 2,826 businesses created since 1982. Total job growth during this period was only 12,700. New businesses, therefore, accounted for about 120 percent of the new jobs in the U.P. These data are comparable to the results of similar studies performed in other rural states.

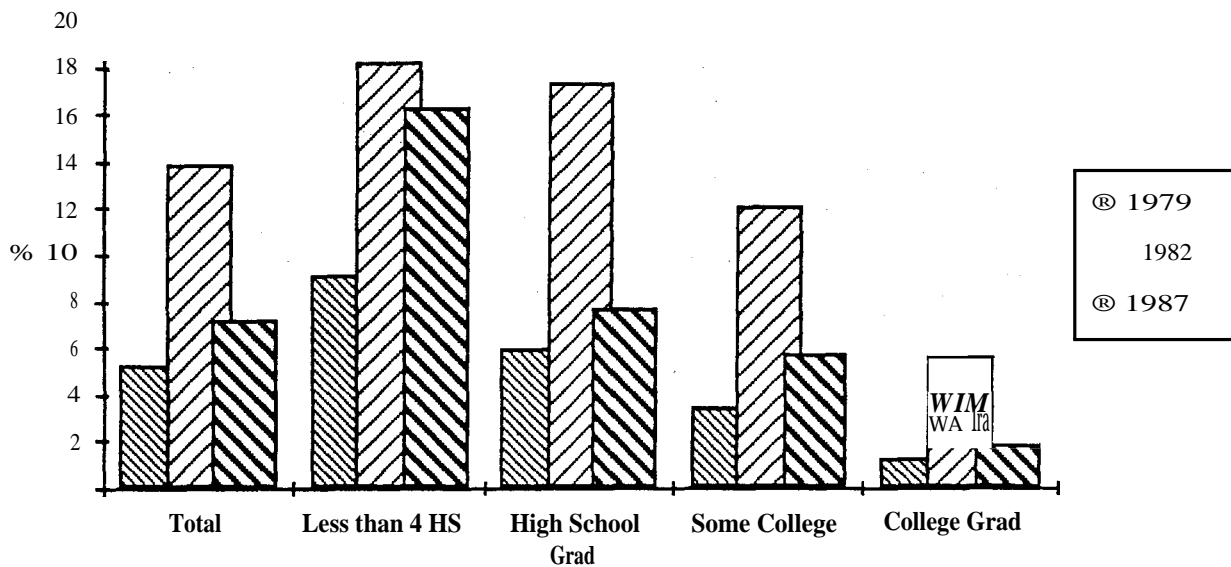
CHART 5:
New Businesses Created most of the
New Jobs in all Major Sectors



5. In the U.P., as in the nation, the benefits of growth are enjoyed by educated and trained people, while those without are left behind. As technological change continues and world trade expands, we are watching a painful, two-tier, labor market emerge. In one--the market for human capital--opportunities abound, unemployment is rare, and real incomes are rising. In the other--the market for unskilled labor--jobs are dwindling, unemployment is chronic, and poverty is growing. Unless the U.P. can prevent the development of these two tiers and prepare tomorrow's workforce with the skills needed for tomorrow's jobs, many residents will not benefit from growth and the economy will not protect itself from severe recessions in the future by diversifying.

Investments in people--in their ability to read, reason, and solve problems--are becoming more important than investments in plant and equipment (Chart 6). The strategy must include investments in craftsmen as well as in the tools they work with. And, as more and more new jobs and new income in the U.P. are created by people who live in the U.P., the strategy must support people alert to new opportunities and willing to take risks.

CHART 6:
Unemployment Rates by Educational Attainment
1979 - 1982 - 1987



Source: Michigan Employment Security Commission, various years

THE LONG TERM DEVELOPMENT MUST EMPHASIZE HUMAN CAPITAL AND ENTREPRENEURSHIP

A successful development strategy must be designed and implemented by local people--the business managers, employees, and public officials with the greatest stake in the future of the U.P. Its effectiveness will depend on teamwork: local enterprises and entrepreneurs will create the jobs; people will invest in the necessary human capital, the state will provide a secure fiscal and legal framework, and local development organizations--including universities, cities, and development corporations--will act collectively for the U.P.

In the future, growth will demand an emphasis on different investments from those that have been supported in the past. Programs and policies for the U.P. to consider for its strategy are outlined below. They are selected from the many examples of successful local initiatives that could be extended Peninsula-wide, and from model programs developed elsewhere. New initiatives must address three issues:

I. Prepare U.P. Employees for Tomorrow's Economic Opportunities

U.P. education institutions--from kindergarten to graduate school--will have to give their students stronger cognitive and occupational skills; retrain more people when skills become obsolete; and adapt curricula quickly as the demands of the workplace change. Because of the increasing importance of international trade and the speed of technological change, employers need better educated and trained employees.

To lay the foundations for tomorrow's workforce, the U.P. education system must improve the skills and competencies of all students passing through the K-12 system by making better use of the U.P. education system's talented teachers and administrators, by encouraging and rewarding those schools offering the most effective learning environment, and by promoting successful innovations.

To prepare people entering today's workforce, and to retool those with obsolete skills, post-secondary education and training institutions must increase the number of people investing in post-secondary education and training, make programs more directly relevant for employers' demands, and increase the flexibility and effectiveness of programs.

II. Support U.P. Residents When They Create New Businesses

New economic opportunities will be created, in large part, by the birth and expansion of new businesses--a process accelerated by the decentralization allowed by new communications technologies. The U.P. must support entrepreneurship.

To expand entrepreneurial awareness, U.P. schools must increase the awareness among high school students and other U.P. residents of how new jobs are created and of the skills needed in creating new businesses.

To germinate entrepreneurial initiatives, the U.P. must ensure that people considering starting their own businesses or who are in the early stages of business development can find sound advice.

And to make sure that new ventures have the best possible chance of growing, the U.P. must ensure that new businesses and expanding small businesses have access to finance but face the same market disciplines they would experience if they had secured private finance.

III. Raise Workforce Participation Among Low-Income People

The shrinking supply of new labor and the dwindling number of jobs for unskilled people mean that the U.P. must bring more economically disadvantaged people into the workforce. Programs should emphasize three characteristics that make them easier to manage effectively: hold clients responsible, give local agencies greater discretion, and hold program managers accountable.

To reduce long term poverty, the U.P. must place welfare recipients in education and training programs to improve their competencies, to increase the job placement rate, and to place as many clients in "mainstream," programs as possible.

Programs for the economically disadvantaged must be used to reduce the numbers of disadvantaged people without the equivalent of high school graduation and without job skills, and to increase the rate at which low-income people are placed in jobs.

There must also be an assurance that everyone can enroll in the education and training programs for which they are qualified regardless of- their personal financial resources.

In the long-term, sustained economic growth in the U.P. will depend on how well the Peninsula can move people out of the low-skilled labor market into the human capital market. Unless we breach the growing barrier between the two markets, we shall pay rising economic and social costs of growing dependence on public aid. Starved of skilled labor, prosperity will founder.

1. THE U.P. ECONOMY TODAY

There is no section of the country where intelligent work is sure of better success than the Upper Peninsula of Michigan.

Cleveland Cliffs Recruiting Slogan, 18701

In 1988, the economy of the Upper Peninsula performed well as the recovery that began in 1983 gained new strength. Expansion by private businesses drove the unemployment rate down, raised incomes, and created many new jobs as mines reopened and pulp mills worked at full capacity. But will this recovery last? What economic challenges must the U.P. overcome? And how can the state, U.P. towns, counties, organizations, and businesses preserve and promote economic recovery? These questions provoked this study.

The unemployment rate has fallen steadily--from 15.1 percent in 1985, 13.4 percent in 1986, 10.6 percent in 1987, to 8.8 percent in 1988.² Although unemployment rates are not always reliable indicators--outmigration or dropping-out of discouraged labor drives down rates without reflecting growing economic strength--the 5 percent decline over the past year in the number of recipients of public aid (including AFDC, General Assistance, Energy Assistance, Emergency Needs, and Food Stamps) suggests a strengthening rather than a weakening economy.³

EMPLOYMENT HAS INCREASED BY MORE THAN 12,000 SINCE 1983

We have an optimistic view of the next five-ye-ars. We would not be buying banks if we were not op timistic. We aren't going to be a high-tech center ... but we should expand small businesses.

Banker, Central U.P.

In the 5 years ending December 1988, total employment in the U.P. grew by 12,300. The Peninsula had been recovering slowly since 1982 when wage and salary employment fell to only 91,500 jobs--a loss of over 7,000 from the previous peak in 1979. By 1985, 2,000 jobs had been added, and, by 1987, another 4,500, passing 1979's peak employment (see Table 1).

Table 1
Slump and Recovery Over the Last Economic Cycle in the U.P. Economy

Sector	U.P. Wage & Salary Employment			Percent Change:	
	1979	1983	1988	1979-83	1983-88
<i>Goods Producing</i>	25,600	19,100	22,300	-24.4	+16.7
Construction	4,200	3,400	4,000	-19.0	+17.6
Mining	6,400	2,700	3,600	-57.8	+33.3
Manufacturing	15,000	13,000	14,800	-13.3	+13.8
<i>Durable Manufacturing</i>	10,200	8,200	9,900	-19.6	+20.7
Lumber/Wood	3,300	3,000	3,800	-9.1	+26.7
Furniture	1,000	700	1,100	-30.0	+57.1
Metals	1,500	1,000	1,400	-33.3	+40.0
Non-Elec Machinery	2,600	1,400	1,300	-46.1	-7.6
Elec. Machinery	n.a.	700	700	n.a.	0
Transport. Equip	700	1,000	1,100	+42.9	+10.0
Other Durable	1,100	400	600	-63.6	+50.0
<i>Nondurable Manufacturing</i>	4,800	4,800	4,900	0	+2.1
Food	800	800	600	0	-25.0
Paper	2,700	2,900	3,100	+7.4	+6.9
Printing	900	800	700	-11.1	-12.5
Chemicals	n.a.	100	100	n.a.	0
Other Nondurables	400	200	400	-50.0	+100.0
Transport/P.U	5,100	4,800	5,100	-5.9	+6.3
Wholesale	3,200	2,600	2,800	-18.7	+7.7
Retail	17,000	17,300	21,000	+1.8	+21.4
Finance/Real Estate	3,100	3,200	3,700	+3.2	+15.6
Services	14,500	15,700	18,500	+8.2	+17.8
<i>Government</i>	29,900	29,100	30,700	-2.7	+8.9
Federal	3,100	3,300	3,200	+6.4	-3.0
State	9,000	8,600	9,200	-4.4	+7.0
Local	17,800	17,300	18,300	2.8	+5.8
Total U.P.	98,400	91,900	104,200	-6.6	+11.4

Source: Michigan Employment Security Commission Data, various years.

Unlike most rural areas, the U.P. economy is diversified, its workforce is well-educated, and average earnings are high. It does, however, remain heavily dependent on lumber and ore. Many of the new jobs between 1983 and 1988 came from three sectors: *manufacturing* (an increase in employment of 1,800); *wholesale* and *retail trades* (adding 3,900 new jobs), and *government* (1,800 jobs). *Mining* added 900 jobs, *financial services* 500, and *construction* 600 jobs.⁴

Its economic recovery has not been obvious to Peninsula residents for several reasons. Net job growth since 1979 has been slower than during the previous decade (see Table 2). Some communities--especially in the western U.P.--have yet to participate in the recovery. The unemployment rate in 1988 remains above the state average--8.8 percent compared with 7.6 percent. And employment in goods producing industries--among the best paying and most visible jobs--have not regained their 1979 peak of 25,400: manufacturing, mining, and construction employed only 22,300 people in 1988.

Wage and salary employment peaked in 1979 at 98,400 and fell by 6.6 percent over the next four years.⁵ The sectors suffering the greatest job losses over the next four years were *mining* (losing 3,700 jobs--over half the 1979 employment), *durable manufacturing* (losing 2000 jobs--19 percent of the sector's 1979 total) and *government* (losing 800 jobs--2.7 percent of the total). Only *paper* and *transportation equipment*, among manufacturing industries, added new jobs. Between 1979 and 1985, employment nationwide grew by 8.6 percent, but shrank by 7.7 percent in the U.P. (a loss of 5,308 jobs).⁶

Table 2
Jobs Gained and Lost in the U.P. Over Two Economic Cycles
(selected industries)

Sector	Change in Jobs		Increase in Employment as % of Gross Job Growth (Adds to more than 100 because some sectors lost jobs)	
	1969-79*	1979-88*	1969-79	1979-88
Manufacturing	1,200	-200	6.0	
Durables	1,100	-300	5.0	
Lumber	200	500	1.0	8.6
NonDurable	100	100	0	0
Paper	400	400	2.0	10.0
Construction	-300	-300		
Transport/Public Utilities	500	-300	2.5	
Wholesale	1,200	-100	6.0	
Retail	4,600	4,000	23.0	69.0
FIRE	1,100	600	5.0	10.3
Services	5,700	4,000	28.5	69.0
		800		
Government	7,000	800	35.0	13.8
Federal	-400	100		1.7
State	2,800	200	14.0	3.4
Local	4,600	500	23.0	8.6
TOTAL	20,000	5,800		

Source: Michigan Employment Security Commission data, various years.

* Columns may not add because of rounding.

Comparing job growth 1969-1979 with job growth 1979-1988 (1969 and 1979 were both peak employment years--followed by recessions of different magnitude), reveals some important differences between the two decades (see Table 2). Employment expansion over the bust and boom cycle was slower in the 1980s than during the 1970s because the job loss in the recession was ten times more severe and because the present expansion may not have yet reached its peak. During the 1970s, expansion was spread throughout most sectors--few lost jobs between 1969 and 1979; in the 1980s, several major sectors--including *manufacturing* and *wholesale*--lost jobs. *Government* added 7,000 jobs between 1969 and 1979 but only 800 jobs between 1979 and 1988.

There were also some important similarities. *Mining* lost employment over both periods, but four times as many jobs during the 1980s as during the 1970s. *Retail trade* and *services* were major sources of new jobs in both periods.

Pockets of Unemployment and Low-Income Remain Today

All regions of the U.P. have experienced some of the benefits of growth, but the greatest economic improvement has been experienced in the central part of the Peninsula. Unemployment and dependence on public support remains high in both the western and eastern Peninsula--although lower in all areas than earlier in the decade.

Table 3
In 1988, Unemployment Rates Varied Among Counties

<i>Western</i>		<i>Central</i>		<i>Eastern</i>	
<i>Bars</i>	10.1	Alger	8.3	Chippewa	10.1
Gogebic	8.5	Delta	9.0	Luce	10.9
Houghton/Keweenaw	7.4	Dickinson	7.8	Mackinac	18.0
Iron	10.2	Marquette	6.9		
Ontonagon	8.4	Menominee	6.6		
		Schoolcraft	13.4		

Source: Michigan Employment Security Commission data.

THE LOSS OF JOBS IN THE 1980s WAS DUE PRIMARILY TO THE SECTORS CONCENTRATED LOCALLY, NOT BECAUSE FIRMS IN THE U.P. PERFORM LESS WELL THAN COMPARABLE FIRMS ELSEWHERE

Industry-by-industry comparisons show that much of the job loss in the U.P. occurred because its employment was concentrated in industries that were growing slowly nationwide. The U.P.'s economic problems during 1979-83 do not reflect any relative weakness of its workforce, businesses, or business environment. In fact, the Peninsula exhibited surprising economic strength in some industries despite adverse national and international trends.

Unlike Most Rural Areas, Agriculture is a Small Part of the U. P. Economy

In 1986, agriculture directly provided only 3.4 percent of U.P. employment and 1.7 percent of U.P. earnings from work (even when agricultural services, forestry, and fisheries are included). In Great Lakes non-metro counties, by comparison, agriculture generated an average of 10.1 percent of jobs and 6.4 percent of income from work, and, in all U.S. non-metro areas, 10.3 percent of jobs- and 7.8 percent of income from work.

Mining Output is High, But Employment Is Unlikely to Regain its Peak

How well we do is ultimately going to depend on how well we control our costs ... The next few decades should see none of the huge swings we have suffered in the past ... But we don't see it as a growth industry.

CCI Executive, December 1988

Mining experienced the greatest rate of job loss of any sector in the U.P. between 1979 and 1983--57.8 percent. But this matched the heavy job loss nationwide in metals mining, the type of mining heavily concentrated in the U.P. and which lost half its jobs nationwide during the same period. Since 1983, mining has recovered strongly, adding nearly 900 jobs and now employing 3,600 people. But this is half the total number of mining jobs in the U.P. 20 years ago. Employment has grown far less than output since 1983 because of the introduction of labor-saving technology.

Mining today employs just over 3 percent of the workforce, and generates just over 5 percent of the income, compared with 2.4 percent and 2.4 percent respectively for other Great Lakes metro counties, and 2.8 percent and 3.5 percent for all U.S. non-metro areas.

Government Continues as the Largest Employer, but is No Longer the Leading Source of Job Growth

Three out of ten members of the U.P. workforce are employed by federal, state or local governments, and their paychecks accounted for 28.9 percent of total earnings. But government is no longer as important a source of new jobs as in the past: government added 7,000 new jobs in the 1970s--35 percent of the increase. Government employment increased by only 800 between 1979 and 1988--13.8 percent of total growth.

The U.P., as a whole, was much more dependent on public jobs than the average Great Lakes non-metro county, where the public sector provided only one job in seven. But the U.P. is not typical of those non-metro counties that are characterized by the U.S. Department of Agriculture as dependent on government: these typically exhibit below average wages, above average population growth, and a concentration of economic activity in low-wage activities--exactly opposite of the U.P.'s overall characteristics.

The number of government employees has grown by only 1,200 since 1983. In those communities where new prisons are being built, government will be a major source of new jobs--250 people were added to the payroll in 1988 when the first new prison in Chippewa County opened and by a further 250 in

early 1989 when the second prison opened. When the new state prisons open in Baraga and Alger Counties in 1990 each will add 300-400 correctional employees directly on the payroll, creating a further 100 jobs in the community linked to the spending of these public payrolls. Overall, however, government will not be as important a source of new jobs in the next decade as it was in the 1970s.

The Peninsula has been able to turn the loss of some public jobs into new opportunities for private development. When the Kincheloe Air Force Base was closed in 1977, pulling out 3,000 military jobs and ending 750 related civilian jobs, Chippewa County redeveloped the base as an industrial park employing 2,000 people today. The Urban Land Institute recently ranked this effort as "one of the most successful base conversions in the country," and as a model for coping with other military bases to be closed as part of Congress's plan to cut federal spending.⁸

Manufacturing Jobs have Been Diversifying in the U.P. Despite Low Growth of Manufacturing Employment Nationwide

Our business is good and our forecasts for next year are good but things can change quickly. We moved to the UP. because of low cost power and because it offered skilled and innovative workers ... and our turnover is low. It should be possible to encourage new business and to expand existing business in the UP ...but we need a more innovative financial sector.

Factory Manager, Southern U.P.

For nearly two decades, manufacturing firms have performed relatively well in the U.P. when compared with other non-metro areas. Between 1973 and 1986, manufacturing employment shrank as a share of total non-metro employment--from 20.9 percent to 17.3 percent--while manufacturing's share of total non-metro earnings remained almost constant--23.1 percent in 1973 and 23.2 percent in 1986. In the U.P., the share of manufacturing employment declined only slightly--from 12.5 percent to 12.0 percent, paralleling the national decline in manufacturing employment--while manufacturing's share of earnings increased from 14.5 percent to 16.8 percent. The sector will continue to provide well-paid new jobs but for a shrinking number of people.

Five important industries have performed better in the U.P. than they did nationwide since 1979. The first three are those that are relatively concentrated in the U.P.--employing a share of the U.P. workforce that exceeds the share of the nation's workforce employed in these industries. The last two are not concentrated in the U.P. (their location quotients in 1979, were 0.26 and 0.47). These patterns show that the U.P.'s distance from markets is not an insurmountable handicap:

Lumber and Wood Products: In 1988, lumber and wood products employed 3,800 people, up 800 from 1983. During 1979 to 1983, industry employment shrunk, but by only 300, or 9.1 percent--less than the nationwide loss of nearly 14 percent. The growth of craft-based industries using the region's rich lumber resources has been slow, although, in recent months, a U.P. employment expert observed: "It is encouraging that there are new small businesses using wood products." New technologies have greatly expanded the uses of the region's plentiful supply of low-grade hardwoods--in wood composites, for example. In addition, new process technologies allow the use of much higher percentages of total tree fiber--in some cases 100 percent. These developments should strengthen and expand the output and employment of wood products industries in the future.

Paper and Allied Products: Employment expanded in the U.P. by 200 between 1979 and 1983 (about 7.4 percent), while shrinking by 5.6.., percent nationwide. By the end of 1988 an additional 200 jobs had been added and the sector now employs 3,100 people. The construction of the new paper machine at Quinnesec Champion International will create 1500 jobs during the construction phase, and will add 100-200 permanent manufacturing jobs at the plant.

Furniture and Fixtures: Between 1979 and 1983, *furniture making* shrunk by 300 jobs, but those have since been regained and an additional 100 jobs created--many in new, small businesses meeting the growing demand for hand crafted household furniture. Nationally, employment in furniture-making fell by 13 percent between 1979 and 1988.

Metals: Employment in *primary* and *fabricated metals* declined from 1,500 in 1979 to 1,400 in 1988, but nationally, the decline was by 33 percent.

Transportation Equipment: Nationwide, the industry lost 11.3 percent of its total jobs. The U.P., however, added 300 jobs between 1979 and 1983, a 42.9 percent increase. Since 1983, employment has grown by 10 percent and the industry now employs about 1,100 people.

The U.P. performed relatively poorly during the 1983-88 recovery in *apparel* and *textiles* (losing two-thirds of total employment), *printing and publishing* (falling from 900 to 800 jobs while growing nationally), and *non-electrical machinery* (shrinking from 2600 to 1400 jobs). The first two are not concentrated in the U.P. The latter was relatively concentrated in the U.P. in 1979, but its location quotient fell to 0.70 by 1985. It continued to lose jobs after 1983, but has recovered modestly, and today employs about 1,300 people.

U.P. manufacturers are about twice as dependent on government contracts as are manufacturers statewide: about a third depend on federal, state, and local governments.⁹ The current reductions in federal defense contracts and continued

fiscal restraint at the state and local levels may require companies to expand into new markets. Michigan is predicted to lose \$600 million in defense contracts during the 1989 fiscal year.

Wholesale Trade Provides Relatively Few Jobs in the U.P.

Wholesale trade lost over 600 jobs between 1979 and 1983--18.7 percent of the total--while the sector expanded nationally. This probably reflects the decline in goods production--most of the decline was in durable goods wholesale--as well as the slow growth of population coupled with the labor-saving techniques made possible through computerized inventory-keeping. This has allowed reduced inventories in relatively remote communities. There has been modest growth since 1985, and the sector employs about 2,800 people today.

Retail Trade, in Contrast, Offers Many Jobs & the Number is Growing

The U.P. has more of the nation's retail employment than its share of population would lead us to, predict--probably the result of growing tourism. This may be the result of the dispersed population and of the lack of alternative economic opportunities.¹⁰ Between 1973 and 1986, the share of the retail sector in total U.P. employment grew from 17.1 percent to 19.0 percent. But the sector's share of earnings fell from 11.5 percent to 10.6 percent, indicating that many of the jobs pay low wages--and may be seasonal. The same pattern was observed in other non-metro areas, and in the national economy, where retail trade accounted for 18 percent of jobs and 11 percent of earnings. Between 1983 and 1988, retail trade added 3,700 jobs and employed a total of 21,000 people.

Producer Services--a Sector That Offers Well-Paid Jobs--Is Growing More Rapidly Nationally than in the U.P.

Nationally, producer services are one of the fastest growing and best paid sectors. But among producer services industries in the U.P., only business services kept pace with national trends between 1979 and 1985--more than doubling employment to 850 people. Employment in banking increased by 112 in the U.P., or 25 percent, but increased by 30 percent nationwide. Between 1983 and 1988, *finance, insurance, and real estate*, combined, added 500 jobs.

Social Services

Nationwide, private employment in *social services*, which include health, education, social services, and membership organizations--grew by about 25 percent between 1979 and 1985. In the U.P. the increase was only 5.5 percent--with most of the growth occurring in the health care industry.

Employment in Personal Services Is Growing More Slowly in the U.P. Than Nationally

Employment in personal services grew by about 17 percent nationwide. Growth in the U.P. was slightly slower--reflecting the low rate of population growth--about 14 percent. The U.P. matched the national employment growth rate in eating and drinking places (which added over 1,000 jobs during the period). The only major personal services industry to outpace the nation was auto repair establishments, which added over 100 jobs--a natural compensation for the 600 jobs lost in auto dealers during economic hard times.

Tourism is One of the Most Important and Rapidly Growing Industries But Its Benefits are Concentrated in Two Counties

To attract entrepreneurs, you have to sell them on the lifestyle. Tourism plays an important part in this, because people may move here once they have vacationed here.

Banker, Central U.P.

In 1986 tourists spent nearly \$600 million in the U.P.--about 8 percent of the statewide total. The U.S. Travel Data Center estimates that these expenditures generated payrolls of about \$158 million for 14,955 jobs, and \$5.4 million in local taxes, making it one of the U.P.'s most important sectors (Table 4).¹¹ The economies of Mackinac, Schoolcraft, and Gogebic counties are the most heavily dependent on tourism.

Table 4

County	All U.P. Counties Received		Some Economic and Fiscal Benefit from Tourism			
	<i>Tourism Expenditure:</i> Total 1986	<i>% Increase</i> 1983-86	<i>Tourism Jobs:</i> Payroll		<i>Number %Total</i> <i>Employment</i>	<i>Local</i> <i>Taxes</i>
Alger	\$19.7	33	\$3.6	423	17.3%	\$0.18
Baraga	4.4	39	0.8	81	3.2	0.04
Chippewa	36.1	30	6.7	777	7.9	0.32
Delta	26.0	-19	4.7	524	4.4	0.42
Dickinson	21.8	14	4.4	447	4.1	0.21
Gogebic	40.0	16	7.2	804	14.8	0.34
Houghton	37.5	39	7.2	790	8.4*	0.33
Iron	6.6	-74	1.2	126	3.7	0.06
Keweenaw	9.2	-1	1.6	185	*	0.08
Luce	5.0	19	0.9	104	5.3	0.04
Mackinac	189.1	34	36.9	4480	121.1	1.74
Marquette	148.5	264	37.9	2228	8.9	1.79
Menominee	7.6	4	1.2	118	1.5	0.06
Ontonagon	14.2	-12	2.6	302	9.2	0.12
Schoolcraft	23.3	45	4.3	500	20.8	0.21
<i>U. P.</i>	589.0	n. a.	158.2	14,955	14.6	n.a
MICHIGAN	7625.4	36	1,570.0	139,238	3.7	74.64

Source: U.S. Travel Data Center, The Economic Impact of Travel on Michigan Counties, 1986, prepared for Michigan Travel Bureau, May 1988, Tables 1 and 3.

* Data for Keweenaw and Houghton Counties are combined.

Between 1982 and 1986, tourism spending grew slightly faster in Michigan and in the U.P. than nationwide. Mackinac and Marquette Counties account for about 60 percent of tourist activity. Marquette has attracted nearly one-half the increase in tourist spending since 1983.

The quality of the environment is the basis of the healthy and growing tourist industry. Among respondents to a summer tourism survey of 2000 people crossing the Mackinac Bridge into the U.P., 1616 named natural attractions--lakes, fishing, camping, etc--as purposes for their trips, 750 named historical and cultural attractions--from the Soo locks to local festivals--while casinos were named as an attraction by only 16.12

The natural resources that are attractive to tourists are also one of the U.P.'s most valuable economic development assets. Not only do natural resources support important industries, but the environment itself is the most strongly positive recruiting asset reported by manufacturers. 13 47 percent reported that the quality of life aided their efforts to attract employees, only 5 percent reported it exerted a negative impact. By comparison, only 32 percent reported the cost of living was a positive influence (12 percent negative), 29 percent reported low housing costs (7 percent negative), and 27 percent the high quality of K-12 education (5 percent negative).

The U.P.'s Economic Diversity Has Contributed to its Resilience and Growth

The economies of industrially-diversified rural labor market areas performed better in 1969-84 than those with specialized economies. Of the industrially-specialized areas, only public education administration specialty areas did as well as diversified economies. Areas specializing in durable manufacturing did the worst, on average.

U.S. Department of Agriculture, 1988⁴

During the first part of this decade, the U.P. shared with other rural areas a reversal of economic fortunes. During the 1970s, non-metro had outpaced metropolitan areas in employment and population gains and in reductions in poverty. Non-metro employment grew by only 4 percent between 1979 and 1986, compared with 13, percent for metro areas. The non-metro unemployment rate has averaged about one percent above the metro rate but was nearly two percentage points above by 1986.¹⁵

But most non-metro areas were by-passed by the economic recovery beginning in 1983--although employment began growing in the U.P. Researchers have explained the gap between metro and most non-metro areas through "long-term structural factors, such as foreign competition in agriculture, labor intensive manufacturing, and forestry products." ¹⁶

Most non-metro economies are not as diversified as the U.P. and have been, therefore, even more vulnerable to the declines in commodity prices or to regional or national recessions.¹⁷ Peter Drucker has argued that technological advances have loosened, perhaps severed permanently, the link between raw materials and economic growth by reducing the volume of raw materials needed in manufacturing activities.¹⁸ Although the *lumber and wood products industry*, for example, has been an important part of the economic recovery since 1983, it may not continue to generate additional jobs as strongly. New composite materials, for example, that blend plastic and wood may reduce overall demands for wood even though they extend the range of products in which it can be used, and fiber optic cable is replacing copper cable in communications systems. Ceramics and polymers will replace much of the steel used in automobiles and other products, reducing the demand for iron ore.

THE U.P.'S WORKFORCE IS WELL-EDUCATED AND WELL-PAID

The company buys its raw materials from Canada and from western states. But it stays in the U.P. because it needs our trained and reliable workforce.

City Manager, Central U.P.

The U.P. population is well-educated and well-trained. In 1980, 67 percent of the over-25 population had finished high school compared with only 59 percent for all non-metro counties, and 11.8 percent had four or more years of college compared with 11.2 percent in other non-metro counties. 22.4 percent of the U.P. workforce were in the *Managerial, Professional and Technical* category compared with only 19.7 percent in other non-metro counties, and 18.6 percent were in sales compared with 11.7 percent in other non-metro counties. This reflects the large public sector. As a result, earnings in the U.P. are above the national average--\$16,200 per worker in 1986 and also above the national average for non-metro areas (Table 5). The Peninsula's high wages are largely the result of the pulp and paper industry where hourly earnings averaged \$15.00 in 1988. The new prisons and new jobs in paper may drive up relative wages in the U.P.

Table 5
Annual average wages in the U.P. have traditionally been above the national average for non-metro areas (in thousands of 1986 dollars)

Year	U.S	Michigan	U.P
1970	\$14.9	\$16.7	\$16.7
1975	15.4	16.7	17.3
1980	15.1	16.1	16.5
1983	15.0	15.6	15.6
1986	15.4	16.3	16.2

Source: U.S. Department of Commerce, Bureau of Economic Analysis, 1988.

There are, however, wide variations within the U.P. While the central region enjoyed average annual wages of \$20,500, those in the eastern region averaged only \$13,700, and in the western region, \$17,500. Wages have proved most volatile in the west, where, in constant 1986 dollars, they peaked at \$22,100 in 1973 and have been falling, erratically, since. Wages in the east peaked at \$14,700 in 1978 and have fallen only \$1,000 since. Wages in the central region reached \$21,300 in 1973 and have fallen slowly since. High wages have not deterred development in the Peninsula. Many employers cite the low cost and high productivity of skilled labor as a reason for their success in the U.P. At the same time, some managers complain that it is difficult to attract highly-qualified people to live in the U.P. and it is difficult for those technical and managerial employees in the Peninsula to keep up to date in their fields.

But Some Have Moved Away

But the U.P., with non-metro areas nationwide, has been losing population during the 1980s, carrying away educated and skilled people. During the 1970s, net migration had flowed into non-metro areas nationwide at a rate of about 350,000 each year. The U.P. gained 847 new residents between 1970 and 1980. The U.P. lost 10,357 people--3.2 percent of its population during the first 7 years of the 1980s.¹⁹ Nationwide, of the one million more people moving from non-metro to metro areas between 1986 and 1987, one-third were 18-24 year olds and one-half of the adults had at least one year of college.²⁰

Table 6
Only 3 of the 15 U.P. Counties Gained Population Between 1980 and 1987

<i>County</i>	<i>Population 1987</i>	<i>% Change 1980-87</i>	<i>County</i>	<i>Population 1987</i>	<i>% Change 1980-87</i>
<i>Alger</i>	8,688	-6.8	Baraga	8,200	-3.3
<i>Chippewa</i>	28,300	+1.0	<i>Delta</i>	38,000	-2.4
<i>Dickinson</i>	26,200	+3.4	<i>Gogebic</i>	18,300	-7.0
<i>Houghton</i>	36,100	-4.7	<i>Iron</i>	13,600	0.0
<i>Keweenaw</i>	1,800	-0.3	<i>Luce</i>	5,700	-14.4
<i>MacIcnac</i>	10,400	+2.2	Marquette	70,200	-5.3
Menominee	25,700	-1.9	Ontonagon	9,000	-8.7
Schoolcraft	8,100	-4.4			
<i>U. P.</i>	309,400	-3.2			
<i>Michigan</i>	9,200,000	-0.7			

Source: U.S. Bureau of the Census, "U.P. Population Down 3.2 Percent Since 1980," *Mining Journal*, November 12, 1988.

Skill shortages, which are beginning to occur in some regions, even in the U.P., may be slower to spread through the Peninsula--just as overall economic recovery was slower to arrive. There are many people who may be brought into the workforce by the promise of well-paid work and migrants attracted back. The labor force participation rate in the U.P. is low: 50.2 percent in 1980 compared with 57.3 percent for other non-metro areas and 61.5 percent in

Michigan statewide--perhaps reflecting the tradition of male-dominated resource industries and few opportunities for women. Raising the labor force participation rate may provide U.P. employers with a ready source of workers as the overall rate of growth of the nation's labor force [slows in](#) the future.

Few U.P. high school students drop out and the relatively well-educated population is better-suited for emerging jobs and new technologies than the workforces in many metropolitan areas. These strengths will be challenged by the increasing skill demands of employers trying to remain competitive.

CONCLUSION

In 1979, the U.P. economy looked healthy. It had grown 20 percent in the previous decade, and had avoided the recession in the middle of the decade that had hit the rest of the state. But during the next four years, the U.P. "economy entered a steep recession that cost one-third of the job gains of the previous decade.

The steepness of the recession was not the result of the U.P.'s lack of competitiveness as a place to do business, the sluggishness of its firms, or the cost of its workforce. Most industries performed as well, or even better, in the U.P. as they did nationwide. Most of the job losses were the result, therefore, of the type of industries concentrated in the Peninsula--particularly mining and certain manufacturing industries.

Since 1983, the U.P. has more than recovered its overall job losses. But growth in the 1980s is different from growth in the 1970s. Even after the reopening of some mines, mining employment today is only one half its average level during the 1970s. And the state's fiscal problems have greatly reduced the importance of government as a creator of new jobs. As a result, retail and services are the leading sources of new jobs--driven, in part, by expanding tourism.

The challenge to the U.P. is to sustain its economic recovery and to extend it to those people and to those communities that have not felt the benefits of renewed growth--where there are few jobs and incomes are low.

NOTES TO CHAPTER 1

- 1 Cited in John Bartlow Martin, *Call it North Country*, Detroit, Wayne State University Press, 1944, p.124.
2. These estimates are based on monthly employment data from the Michigan Employment Security Commission.
3. Calculated from Michigan Department of Social Services, *Assistance Payments Statistics*, Lansing, MI, August 1988, Table 1. This table gives the sum of the number of recipients of each program--therefore many people are double counted. Although the totals do not represent the number of dependent people in the U.P., the rates of change are useful indicators.
4. These may not add due to rounding--job totals are given to the nearest 100 jobs.
5. These data are from Ken Voytek, *Economic Profile of the Upper Peninsula: Working Paper No.1*, Center for Local Competitiveness, Michigan Department of Commerce, September 1988, Appendix.
6. Shift-share analysis conducted by Voytek, *Op.Cit.*, pp.30ff.
7. Mark Allen, "Iron Future Looks Rosy," *The Mining Journal*, December 4, 1988, p.1.
8. "Loss of an Air Base Didn't Spell End of Line for Eastern U.P.," *The Mining Journal*, December 12, 1988, p.1.
9. Michigan Bell, *Op.Cit.*
10. The location quotients reported for food stores (perhaps the easiest type of retail operation to set up), show an increase from 1.6 in 1979 to 1.76 in 1985 (Voytek, *Op.Cit.*, Table 9). Location quotients measure the ratio of the share of the U.P.'s total employment in that industry to the share of the nation's total employment in that industry.
11. Data provided in U.S. Travel Data Center, "The Economic Impact of Travel on Michigan Counties: 1986," Draft, May 1988.
12. ConnieWalt, 1988 Mackinac Bridge Summer Survey, Northern Data Research Institute, Northern Michigan University, October 1988.
13. Michigan Bell, *Upper Peninsula: Business Retention and Expansion Program*, September 1987.
14. Lloyd Bender et al., "The Diverse Social and Economic Structure of Nonmetropolitan America," *Economic Research Service*, U.S. Dept. of Agriculture, Washington D.C., 1985.
15. William O'Hare, *The Rise of Poverty in Rural America*, Washington D.C., Population Reference Bureau, 1988, p.5.
16. Kenneth Deavers, Robert A. Hoppe, and Peggy J. Ross, "The Rural Poor: Policy Issues for the 1980s," U.S. Department of Agriculture, 1988.
17. O'Hare, *Op.Cit.*, p.6.
18. Peter Drucker, "The Link Between Raw Materials and Development," *Foreign Affairs*, September 1986.
19. U.S. Bureau of the Census, report issued in 1988. (Estimates the previous year placed the population loss higher--over 13,000, see Richard Wright, *Op.Cit.*, Table 1.11).
20. *Ibid.* O'Hare believes that this estimate may be high. There are no estimates of the education characteristics of outmigrants from the U.P.

2. THE PUBLIC ROLE IN ECONOMIC DEVELOPMENT

The substitution of knowledge for manual effort as the productive resource in work is the greatest change in the history of work, which is, of course, a process as old as man himself.. Education has move from having been an ornament, if not a luxury, to becoming the central economic resource of the technological society.

Peter Drucker, 1977

The U.P. economy has more than recovered from recession. But what should the people, businesses, and public agencies do to preserve this recovery and promote future development in the U.P.?

In the past, successful development programs in the U.P. have encouraged investments in physical capital--plant, equipment, and public infrastructure. In the future, the development strategy must encourage investments in human capital--education, skills, and entrepreneurship.

The U.P. will grow as a result of investment decisions by its 300,000 residents. High school students learning skills they will apply in life and in the workplace, bank loan officers evaluating loan applications from local businesses, unemployed workers struggling to start enterprises, corporate officers assessing the strengths of a new product or process, welfare recipients enrolling in training programs, school principals experimenting with better ways to engage and teach students, elected officials voting budgets for investments in highways and water treatment capacity, and public agency staff weighing the environmental impacts of new developments all shape development in the U.P.

Economic development, therefore, does not depend on the actions of only a few people. It is the accumulation of what everyone in the U.P. does to improve their prospects or create new opportunities. In tomorrow's economy, the U.P. can wrest much greater control over its own economic destiny by supporting these individual efforts.

For Some Investments, State and Local Public Agencies Play an Immediate and Direct Role

To government belongs the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual to erect and maintain: because the profit would never repay the expense to any individual although it may frequently do much more than repay it to society.

Adam Smith, 1776

Some investment decisions require direct, immediate actions by state and local government. Standards must be set for hazardous wastes produced by new plants. The benefits of new public infrastructure investments must be assessed and compared. Increased high school graduation standards must be determined by the state agency and local school boards. These decisions require careful analysis by the people directly involved in the issue with the experience and expertise to evaluate competing claims. For example, the *State Transportation Commission* has requested the Upper Peninsula Highway Coalition to design an economic study of the value of an "east-west, north-south primary highway system in the U.P." as the first step to determining the value of the proposed project.

Sometimes it is necessary to change the decision making process as the economic environment changes and to place greater weight on economic development considerations. For example, reflecting the importance of transportation infrastructure for large-scale investments, Michigan has created the *Transportation Economic Development Fund* to fund special projects that may not have been financed in such a timely fashion through traditional transportation programs. The Department of Transportation is also creating--in conjunction with local communities--an incentive program--*Air Access Michigan* to provide new or continued air services in the U.P. and other poorly served communities.

Economic development is not just about jobs and income. It is about opportunity, and only a small part of the opportunities that matter to us are measured in economic statistics. Quality of life, safety, security, and choice are important to all of us. We must be concerned with those people who want jobs, but we must also recognize the interests of those who were described by a local labor leader as "set in their ways--they don't want new industry because it may interfere with fishing and hunting."

Development in the U.P., therefore, means managing resources--natural, human, and business capital--to balance commercial demands with demands for an improved quality of life and with demands for broader opportunity to participate. Balancing inevitably means failing to satisfy the demands of any one group. The growing complexity of environmental issues, therefore, and their

impact on private investment may require setting up special procedures for large scale projects. Many U.P. residents believe that the time taken to reach permitting decisions--especially where federal, state, and local issues are entangled--jeopardizes important projects.

Organizations such as The Michigan Business Partnership for Rural Development, announced by Governor Blanchard in 1989, would be a forum for raising the specific issues confronting individual firms and industries and for developing creative solutions.

For Investments in Human Capital and Entrepreneurship, State and Local Agencies Play a Less Direct, but Equally Vital Role

The nation's ability to compete is threatened by our inadequate investment in our most important resource: peopl. Put simply, too many workers lack the skills to perform more demanding jobs.

BusinessWeek, September 19, 1988

For other types of investments, the public sector does not make decisions directly, but provides the resources and the opportunities for people to invest individually. For example, schools and colleges do not decide what education or training courses individuals should pursue. But the ability of employers to meet the growing demand for skilled employees and how much people can invest in themselves depends on the quality of local education and training programs, their links to local employers, how effectively they are marketed to potential students, and access to financing. Similarly, state and local development agencies cannot decide what new avenues of opportunity local entrepreneurs should pursue. But they can ensure that entrepreneurs can draw upon the services and sources of capital they need to support their new ventures.

The capacity to support these individual investments is not achieved overnight. It must be developed strategically--by analyzing how the economic environment is changing, and by identifying the challenges it presents to our traditional ways of promoting development. The U.P.'s economic strategy must be prospective, not retrospective.

The following chapter analyzes how five forces--accelerating technological change, our deepening involvement in world trade, the slowing growth of the labor force, the growing role of new business, and the diminishing economic prospects of poorly-educated people--will require increased emphasis on education, training, and entrepreneurship as part of the U.P.'s development strategy.

Investments in people--in their ability to read, reason, and solve problems--are becoming more important than investments in plant and equipment. The U.P. will need not only the tools, but the skilled workforce to use them. More and more of the new jobs and new income in the U.P. are home grown--created by entrepreneurs who already live in the U.P. The strategy must support people alert to potential opportunities and willing to take risks. The U.P. needs investors as well as investments.

The U.P.'s Development Strategy Can Build on Strong Foundations

The legitimate object of government is to do for people what needs to be done, but which they cannot by individual effort do at all, or do so well for themselves.

Abraham Lincoln, 1858

All economic development occurs in communities--and those communities bear a major responsibility for making it happen. Only community leaders and local residents know the type of development they want to promote and the strengths they can bring to the process. The state can support local initiatives, but it cannot substitute for them.

The U.P. has developed a visible and well-regarded network of economic programs. Manufacturers surveyed by *Michigan Bell* were more familiar with local programs in the U.P. than in the rest of the state, and the programs achieved a 51 percent good or excellent rating: those in the rest of the state were voted good or fair by only 40 percent. This network must deliver the programs described below. The U.P. can also boast schools employing new ways of helping children learn more effectively, universities that are involved in supporting craftspeople and new businesses, and welfare agencies that train and place low-income people to enter the labor force. These programs must be more widely imitated. Businesses and public agencies must experiment--innovation by the U.P.'s schools, development agencies, and private enterprise will be central to sustained economic success.

The fourth chapter describes the type of new initiatives and successful models that public and private leaders in the U.P. should consider when putting together their local development initiatives. These build on the successful and energetic efforts already underway through state and local agencies and through local chambers of commerce. The initiatives are new directions that must be dealt with cooperatively--involving state and local governments, and private as well as public actions.

3. WHAT ECONOMIC CHALLENGES MUST THE U.P OVERCOME?

There is much anxiety about food, energy, space, and other physical properties of the earth. Such anxiety is not new ...I reject them because a valid assessment must reckon with the abilities of man to deal with changes in the physical properties of the earth. Increases in the acquired abilities of people throughout the world and advances in useful knowledge hold the key to future economic productivity and to human well-being.

Nobel Laureate economist, Theodore Schultz, 1960

Despite its remoteness and strongly independent tradition, the U.P. is influenced by the same forces that are shaping and reshaping the national economy. The job loss and high unemployment the U.P. suffered' at the beginning of the 1980s was part of the struggle waged nationwide to adapt to the rapidly changing economic environment. This adaptation is being driven by five forces that will continue to challenge the nation and the U.P:

1. Global economic conditions will influence the U.P. more and more strongly.
2. Technological advances will reduce labor demanded in goods producing industries and raise the skills demanded by employers.
3. Fewer people will be entering the labor force to fill emerging jobs.
4. U.P. residents must create most new jobs in the region.

In the U.P., as in the nation, the benefits of growth are enjoyed by educated and trained people, while those without are left behind.

Responding to each of these forces will require the state and communities in the U.P. to adapt quickly and to extend their economic development initiatives to include greater emphasis on investing in people.

CHALLENGE 1: GLOBAL ECONOMIC CONDITIONS WILL INFLUENCE U.P. DEVELOPMENT MORE AND MORE STRONGLY

Keen international competition has made a capacity for making and marketing products from new technologies critical for survival. Success often hinges on an ability to react quickly, to provide consistent quality, or to tailor products to highly specific applications...the composition of a nation's trade is increasingly a function of the skills and education of its workforce.

U.S. Congress, Office of Technology Assessment, 19881

In an area conscious of its distance from U.S. markets, to talk of the internationalization of the economy may seem misplaced. Yet the U.P. is part of the world economy: changes in the value of the dollar, trade agreements, and shifts in world commodity prices create and destroy jobs as rapidly in the U.P. as in any other area of the country. Although only about 4 percent of the customers of U.P. manufacturers are outside the U.S., international events affect the U.P. indirectly through their impact on domestic customers.² Two out of three U.P. manufacturing businesses serve customers in the lower Peninsula and elsewhere in the Midwest--many of whom are engaged directly in trade.

The influence of international trade is growing for the U.S. as a whole and for all its regions. In 1950, exports totalled about 5 percent of GNP and imports 4 percent.³ By 1979, both imports and exports accounted for about 10 percent of GNP. Since that date, exports of goods have remained at about the same share while imports have grown to 14 percent--and durable manufactured goods have increased from one-third to one-half of imports.⁴ Growth in the trade deficit of durable goods accounted for 80 percent of the growth of the trade deficit between 1979 and 1986. The belated fall of the dollar since then has stimulated exports and also encouraged U.S. producers to switch to domestic suppliers of many metals, pulp, and paper.

The recovery of iron ore mining, the reopening of copper mines, and the boom in wood pulp and paper products, therefore, are the result of events occurring outside the U.P.'s or even the nation's boundaries. Copper prices and the Peninsula's competitive position are determined by the actions of producers in Peru and Zambia and by world currency [markets.in](#) Tokyo, London, and New York.

Close international competition is forcing local producers to reduce capacity and to cut costs in order to survive. Iron ore capacity, for example, is expected to decline nationwide over the next five years by about 22 percent.⁵ An analysis by Paine Webber predicts the survival of Cleveland Cliffs' Empire Mine but that the viability of the Tilden mine depends upon continued cost cutting. CCI's Iron Ore Mine is experimenting with iron ore trucks that can carry 170 tons to replace its 85 ton trucks. It has also designed a computerized dispatching system for the trucks that reduces waiting time. Because hauling ore from the

mine to the processing plant is the most labor intensive part of the operation, these changes will reduce its manpower needs for each ton of ore.

The new trade agreement with Canada that began taking effect in January 1989 will pose immediate challenges to some U.P. businesses from greater Canadian competition, but will offer others opportunities from expanded markets. Although 80 percent of the trade between the U.S. and Canada is already free of tariffs, certain industries will be affected in the long-term, as tariffs and production-duty remissions programs are phased out:⁶

U.S. import duties on raw materials such as steel, paper, lumber, and chemicals from Canada will be lowered. Firms using these materials will enjoy lower prices--but the U.P. businesses that produce them will be compelled to reduce costs to remain competitive. The phasing out of Canadian duties on lumber, pulp, and paper products should extend markets for U.P. producers because for most of these products, the U.P. and Ontario do not compete, but produce complementary goods.

In the long-term, energy costs will be held down by access to inexpensive Canadian sources--enhancing the U.P.'s advantages to, energy intensive industries. In 1986, Michigan imported over \$655 million in crude petroleum, petroleum and coal products, and natural gas--4 percent of the state's energy expenditures.

The elimination of high Canadian tariffs on office furniture and fixtures will benefit that industry in Michigan as a whole and could lead to expansion in the strategically placed U.P.

Over one-half the new manufacturing jobs created nationwide since 1980 are directly linked to imports and exports. U.S. trade with Canada is expanding faster than with any other country and the two nations already form the largest trading partnership in the world.

However disruptive, growth of trade cannot be resisted. U.P. residents gain from the growing diversity and lower prices of the goods and from the infusion of foreign capital to finance projects that domestic investors were less willing to back. But the U.P. will also lose jobs--particularly well-paid jobs for less skilled workers. Two researchers who reviewed the relationship between skills and earnings for two decades have concluded recently that the rapid growth of the trade deficit since 1979 has been the primary force in driving up the demand for educated and trained labor and in erasing many well-paid jobs for unskilled people.

How successfully U.P. businesses compete in Canadian and world markets, therefore, depends on how quickly they adapt to changing market conditions, adopt cost-saving technologies, and train and retrain their employees. The state and U.P. educational institutions must alert businesses to the implications of the new trade arrangements.

Challenge 2: Technological Progress Will Continue to: 1) Conserve Labor in Manufacturing; and 2) Increase the Skills Demanded by Employers

A century ago, a high school education was thought sufficient for factory workers and a college degree was the mark of an academic or a lawyer. Between now and the year 2000, for the first time in history, a majority of all new jobs will require post-secondary education. Many professions will require nearly a decade of study following high school and even the least skilled jobs will require a reading, computing, and thinking that was once necessary only for the professions.

The Hudson Institute, Workforce 2000, 1987

The U.P. economy has been as severely buffeted by the impacts of technological change as any area of the Midwest. Quantum reductions in the cost of collecting, processing and communicating information are creating widespread changes. The computer allows the more rapid processing of customers' orders, the acceleration of engineering design, the speeding of production process planning, much tighter inventory control, closer monitoring of shop-floor production and speedier product delivery.

New Technologies Often Reduce the Number of Production Jobs--Particularly Low-Skilled Production Jobs

New technologies change the types of goods and services available to consumers and restructure the way goods and services are produced. Some new developments are the result of the inexorable progress of science. Others are the deliberate result of applied research, motivated by the changing economic environment. Therefore, the U.P. should anticipate technological progress to emphasize measures to conserve or recycle waste and to save labor.

For over two thousand years, new technologies have eliminated jobs in goods producing industries. But firms that do not employ the most modern technologies will not be able to survive. Manufacturing workers today are working with three times as much capital equipment as they used only a decade ago--which has raised their productivity. Nationally, computer-assisted design and production has halved the share of manual labor jobs in the manufacturing workforce from 75 percent to 34 percent while doubling the number of technical and managerial workers.¹⁰

New Jobs Will Need Employees with Greater Skills

In manufacturing we are creating a big gap. All the skilled people are senior and there are few young people in apprenticeships. When skilled jobs open up we have no one to fill them.

U.P. Labor Leader

In the 1960s, the prospect of applying automation to mechanization led many to predict that technological change would "deskill" jobs¹¹ and create inhuman workplaces. But the reverse has occurred. Far from "deskilling" jobs, new technology usually "upskills" jobs--often very rapidly. Workers--in all occupations--must be technologically literate.

Occupational projections for job growth between 1985 and 1995 for the U.P. emphasize managerial and technical jobs and those requiring post-secondary education and training (Table 7).

Table 7
Projected U.P. Job Openings, 1985-1995, Emphasize Occupations Demanding Education and Training

<i>Occupation</i>	<i>Projected Employment: 1995</i>	<i>Projected Openings: 1985-1995</i>	<i>Percent Growth 1985-1995</i>
Managerial	12,125	1,550	14.6
Physical Scientists	525	80	18.4
Social Scientists	175	20	10.8
Social/Recreational	1,475	210	16.4
Lawyers	750	160	26.9
Teachers	8,400	970	13.1
Health Workers	3,525	470	15.5
Artists/Athletes	1,200	90	7.6
Technical	3,975	400	11.8
Sales	12,025	1,460	13.8
Clerical	17,550	850	5.1
Services:	24,875	2,950	13.4
Janitorial	2,900	140	5.3
Food preparation	10,675	1,680	18.8
Health	2,800	350	14.5
Personal	2,125	260	14.1
Private household	2,350	-70	-3.1
Protective	2,650	390	17.0
Other	1,400	190	15.9
Agric, Forest, Fish	5,575	190	3.4
Blue Collar Supervisor	1,800	60	3.6
Construction Trades	4,125	390	10.5
Precision workers	2,075	70	3.4
Mechanics	5,525	490	9.7
Machinists	3,625	160	4.6
Assemblers	1,600	-170	-9.9
Plant & Systems	575	50	8.8
Transport operators	6,500	480	8.0
Helpers	4,475	240	5.6
Total U.P.	123,825	11,330	10.1

Source: Michigan Non-Metropolitan Areas Occupation/Industry Outlook, 1995, Michigan Employment Security Commission.

Although average education attainment in the U.P. is high, 17 percent of the Peninsula's residents have less than 8 years of schooling and only 11.8 percent are college graduates. This compares with 15.1 percent and 14.3 percent for Michigan statewide. The U.P. has made considerable progress since 1970 in reducing the share of its population without any high school education, but has fallen further behind with respect to the share of its people with college degrees.¹² But other states have engaged in sweeping educational reforms intended to raise achievement levels. Michigan and the U.P. will have to fight to maintain their relative position.

The Hudson Institute estimates that three-quarters of those entering the workforce between 1985 and 2000 will be qualified only for what the Department of Labor classifies as Level 1 and Level 2 jobs--those requiring limited verbal and **writing skills. But they** will be competing for only 40 percent of the new jobs. Only one-quarter of new entrants will be qualified for three-quarters of the new jobs.

The emerging skills shortage is already reflected in sharp increases in the relative earnings of well-educated people.¹³ The earnings of college graduates (during their first five years in the labor market) relative to similarly experienced high school graduates had slowly declined from 150 percent in 1965 to 130 percent in 1979. But those relative earnings leapt to 180 percent by 1986.

By most measures, primary and secondary education in the U.P. are major assets. The public high school drop out rate during the school year 1985-86 was only 2.8 percent in the U.P. compared with 5.8 percent statewide and almost 10 percent in Wayne County.¹⁴ And U.P. students perform better on the Michigan Educational Assessment Tests than do students statewide. The percentages of Grade 10 students failing to answer 75 percent of questions correctly were:¹⁵

	U.P.	Statewide
Mathematics	26.8%	31.6%
Reading	15.7	18.9
Science	73.5	77.6

That U.P. students perform better than Michigan students statewide should not be cause for complacency. Fewer than two out of three U.P. manufacturing employers report favorably on the job done by local high schools.¹⁵ The test scores against which U.P. students perform relatively well do not reflect high absolute levels of competence.¹⁶ Nationally, only one in four young adults tested by Education Testing Service in 1986 could summarize in writing arguments made in news articles and only one in ten could use a bus schedule or estimate the cost of groceries from unit price information.¹⁷ A U.P. retailer complained: "When we hire high school graduates, they cannot do basic arithmetic. The educational system has to improve." Scoring above average against these overall

standards fails to measure the dramatic increases in educational competence made among the workforces of our trade competitors.

The poor performance of U.S. students on math, reading, science, and other topics relative to students in other developed countries has been well documented.¹⁸ Last year, an international comparison of 14 year old students ranked the U.S. 14th out of seventeen countries.¹⁹ All workers will be required to understand mathematics and scientific concepts better than they do today if they are to hold down well-paid jobs.

Nationwide, the shortage of educated and skilled people is particularly severe in science and engineering. Only about 4 percent of bachelors degrees awarded are in sciences or engineering. The National Science Foundation estimates the nation may face a shortage of 27,000 science Ph.Ds by the end of the century.

Although the type of occupations that will be in demand in the U.P. and the skills that people will need for those occupations cannot be predicted accurately, it is safe to predict that employers will demand people with stronger basic skills in the future, that people will need more frequent training and retraining, and that occupational curricula will need updating more often. The school system will have to deliver better qualified graduates and deal more effectively with at-risk students with poor grades. And the post-secondary training system will have to be more flexible in the type of students it serves, the type of training it provides, and its links with local employers. By one estimate, over half of the nation's productive assets are now held in the form of human, not physical, capital.²⁰ Education and training institutions--not Wall Street bankers--will be responsible for making most of the nation's productive investments.

CHALLENGE 3: THERE WILL BE FEWER PEOPLE ENTERING THE LABOR FORCE

We are facing a labor shortage wages are going up ... employers paying less than \$4.50 are losing employees. Many employers are training employees in house and paying them more in order to retain them.

U.P. Work Force Specialist

As U.P. employers demand better educated and trained workers, they will have fewer people to choose from. For two decades the UT has wrestled with the problem of finding jobs for its willing and well-trained workforce. Soon, developers will have to focus on finding workers for the growing number of unfilled job slots.

The era of labor shortage is inexorably replacing the era of job shortage--at least for those people with the basic skills and aptitude needed for technologically-sophisticated jobs. "We try to train people to fill the needs of local employers," says the director of a U.P. Employment Program. "For the first time we are getting job calls we cannot fill."

Since World War II, increased demands for human capital have been met from larger generations of better-trained workers. We can no longer do this. The American workforce is growing more slowly and the rate continues to fall. In 1970, the workforce--the number of people working or looking for work--was growing at about 2.5 percent annually, and nearly one-half the new entrants were white men. About two-thirds of the new workers were graduating from high school or college, about one-sixth were women entering or re-entering the workforce, and about one-sixth were immigrants. Today the workforce is growing by less than one percent annually.

With a slow growing labor force nationally, the U.P. will not be able to "import" skilled workers when bottlenecks are encountered. It also means that U.P. employers will have fewer applicants for each job, making it more difficult to match the increasingly complex job-skill demands with the skills of the applicant. As labor becomes scarce, the U.P.'s advantage in lower-cost labor--20 percent for high-skilled workers according to the *Michigan Bell* survey--may be eroded. Since wages and salaries comprise over 60 percent of value-added in manufacturing, any narrowing of wage differentials could affect the area's competitive position for some industries. The addition of several hundred well-paid prison jobs over the next two years will further narrow any wage advantage the U.P. may now have for private development.

Skills shortages are already occurring in New England, the Southwest, and in many urban areas. In Southern Michigan and Wisconsin, outside the large urban areas, work at \$5 and \$6 an hour plus fringe benefits is not hard to find. As the pace of the U.P.'s recovery intensified in October, newspapers began reporting that firms were finding it difficult to fill job slots.²¹ A banker from Sault Ste. Marie observed that: "Chippewa County is already an employee's market." In western communities, unemployment is still a major problem--but the prospects for continued improvement are strong. One U.P. furniture manufacturer has contracted out work in Illinois for the first time because he could not hire enough labor locally.

The number of 16-19 year olds in the workforce is declining absolutely and the share of the workforce aged 20-34 is falling. In the future, therefore, a growing share of the new skills industry needs must be met by retraining existing workers. Not surprisingly, experienced workers with more education and training can be retrained more effectively than those without classroom credentials.

CHALLENGE 4: U.P. RESIDENTS WILL CREATE MOST NEW JOBS

We learned the hard lessons of diversifying when the Ford plant closed in 1952.

U.P. City Manager

Entrepreneurship creates most new jobs in the U.P. People starting new firms create new goods and services, develop new and more competitive ways of making things, and help open new markets. They are also diversifying the U.P. economy and changing people's attitude toward economic development--demonstrating that people can create opportunities. Many new ventures fail, although few go bankrupt. These ventures are important learning experiences---demonstrating what does not work, and, often, providing experience that makes the entrepreneur's next venture successful.

In 1988, 15,303 (15 percent) of the people working in the U.P. were employed in 2,826 businesses created since 1982.²² Total job growth during this period was only 12,700. New businesses, therefore, accounted for about 120 percent of the new jobs in the U.P. These data are comparable to the results of similar studies performed in other states.

In North Dakota, 20 percent of all jobs in the state today are in businesses created since 1980--the highest percentage in the four states studied by the Council of State Policy and Planning Agencies.²³ Total employment had grown by only 11 percent during the period. In Maine, where employment has grown rapidly, 18 percent of all jobs were in businesses less than five years old.

Although rural Iowa suffered heavily in the Midwestern agricultural crisis, new businesses created over 108,000 new jobs between 1980 and 1986, 12.8 percent of total employment in 1986.²⁴ The rate of employment creation by new businesses was above the statewide average in the most hard-hit agricultural communities.

Businesses in the U.P. were created in all sectors, as they were in other states studied. Of the hundreds of entrepreneurs interviewed by telephone in the U.P. and in three other states, retail and services were the leading fields of endeavor (Table 8):

Table 8
The Majority of New Enterprises were Created in Retailing and Services

<i>Sector</i>	<i>Maine</i>	<i>North Dakota</i>	<i>Iowa</i>	<i>Upper Peninsula</i>
Agric, Forest, Mining	1	2	4	4
Construction	8	12	7	9
Manufacturing	8	3	8	5
Transportation	5	5	6	5
Wholesale & Retail Trade	50	34	46	41
FIRE	3	7	5	5
Services	20	37	24	26
Other	6	0	1	5

Source: Terry Buss, David Gemmel, and Roger Vaughan, *New Enterprise Development in the Upper Peninsula*, Northern Michigan University, April 1989.

The jobs in new businesses were responsible for a large part of the employment gain in all sectors (see Table 9). It exceeded the net job gain in non-durable manufacturing, transportation and public utilities, retail, and services, indicating that new businesses had captured some of the markets from existing businesses.

Table 9
New Businesses Created Most New Jobs in all Sectors Between 1982 and 1988

<i>Sector</i>	<i>Total Employment (000)</i>		<i>Net Change</i>	<i>Empl. in New Businesses</i>
	<i>1982</i>	<i>1988</i>		
Mining	3.3	3.6	0.3	
Construction	3.6	7.5	3.9	943
Durable Manuf	8.2	9.9	1.7	1,587
Non Durable	4.7	4.9	0.2	354
Trans/PU	4.7	5.1	0.4	779
Wholesale	2.6	2.8	0.2	261
Retail	17.0	21.0	4.0	6,646
FIRE	3.2	3.7	0.5	322
Services	15.5	18.5	3.0	4,006
Total	91.5	104.2	12.7	15,303

Source: Buss, Gemmel, Vaughan. Op.Cit.

Displacement is an important part of economic development--even though it may be painful for the managers and employees of the "displaced" businesses. By capturing- existing markets, the new businesses prove they are able to offer better or cheaper products or services--a benefit to their customers in the U.P. Although there were 2,826 businesses operating in 1988 that- had been started since 1982, the net increase in the number of businesses was only 643 (see Table 10). In retail, the formation of 990 new businesses between 1982 and 1988 was associated with a net increase of only 72 establishments. The new businesses that displace existing businesses must offer more attractive goods and services, and therefore are contributing to economic development in the Peninsula.

Table 10
The Number of New Businesses Operating in 1988, Created Between 1982 and 1988, was More Than Four Times the Net Increase in the Number of Businesses over that Period

<i>Sector</i>	<i>Total No. Businesses</i>		<i>Net Change</i>	<i>No. New Businesses</i>
	<i>1982</i>	<i>1988</i>		<i>Open in 1988</i>
Agriculture	64	79	15	58
Mining	23	18	-5	4
Construction	473	543	70	334
Durable Manuf	398	457	59	206
Non Durable	83	83	0	37
Trans/PU	253	313	60	153
Wholesale	291	309	18	71
Retail	1773	1855	72	990
FIRE	377	388	11	115
Services	1455	1788	333	856
Total	5190	5833	643	2826

Source: Buss, Gemmel, Vaughan, Op.Cit.

Many businesses close because the proprietor retires, finds a more attractive opportunity, or moves away. New businesses fill these gaps.

Some new businesses have been created as a result of increased "contracting out" for goods and services by large firms--made possible by improved monitoring and communications technologies. At the same time, for some products, the share of transportation in value added has declined sharply. The manager of a foundry located in the U.P. noted that: "Many companies now come to us for specialized products. Caterpillar and GM foundries are no longer competitive with Toyota and Honda. Decentralization will help places such as the U.P." Entrepreneurship encourages the exploration and exploitation of market niches--flexibility. The growing importance of the entrepreneur is beginning to offset the shrinking workforce of some of the Peninsula's large employers.²⁵

The productive marriage of new telecommunications systems with computers is allowing many service firms to locate near sources of labor or in places that offer a high quality of life, often far from their customers: in Breda Iowa, 43 people work for an insurance company--selling credit cards by phone; in Linton, N.D., a major travel agency employs 40 people making reservations by computer; and home-appliance warranties are processed in Carroll, Iowa.²⁶ The U.P. will be able to exploit similar opportunities that would take advantage of its untapped supply of women workers.

Contrary to conventional wisdom, new businesses endure. Two-thirds of a sample of new enterprises created since 1980 in North Dakota were still operating in mid-1987. Ninety percent of 4,000 new businesses created in Montana between 1984 and 1986 survived at least two years.²⁷

The new businesses examined in these studies are not simply part-time operations. All had reached a level of activity where at least one employee was

covered by unemployment insurance. Most (over 60 percent) were not home-based ventures. The average Upper Peninsula business created between 1982 and 1988 employed nearly 7 people. By comparison, the average North Dakota start up involved 3.8 jobs by mid-1988. The U.P.'s above average size was the result of one mining company employing 176 people, one furniture business with 178 employees, and 12 other manufacturing concerns each employing over fifty people.

51 percent of the U.P.'s new businesses were started by one person and 31 percent by two people. In North Dakota, by comparison, one-fifth were one person operations. In Iowa, only 14 percent were one person operations, half employed one or two people, and the average new firm employed 3.7 people.

Overall, three-quarters of the U.P.'s new businesses were started by full time entrepreneurs. Craft businesses tend to be, much smaller and more likely to be part time operations--selling to tourists or neighbors. A survey by the Northern Economic Initiatives Center of craft businesses found that 90 percent of the respondents worked alone, three-quarters devoted less than 30 hours a week to their business, and only 12.6 percent earned more than one-quarter of their total income from sales. One-third of the new businesses were seasonal--so that average employment varies from 5.7 full-time equivalent employees to 7.8 employees (6.2 full-time and 3.6 part time).

A healthy entrepreneurial economy needs three ingredients: people willing to take the risks of creating new businesses; money to capitalize new ventures; and advice and assistance in starting and running new businesses.

Can U.P. Residents Become Entrepreneurs?

Most entrepreneurs, the CSPA studies have found, are long-term local residents. In background, education, age, experience they are very similar to the rest of us with one important exception: they are twice as likely to have a father who was self-employed.²⁸ The high fraction of the U.P.'s workforce that is in public employment may dampen the entrepreneurial spirit. A banker in the eastern U.P. believes: "Local people don't see what is happening. Developers from Traverse City may take advantage of the situation before local people figure out what is going on."

Adversity, however, may spur entrepreneurial initiative. In the Iron Mountain-Kingsford area, where the economic base disappeared in the mid 1950s with the closing of the Ford plant, new businesses have flourished with little additional public employment--in fact, city employment has been cut by 50

percent since 1976.²⁹ A banker from the western U.P. argues that: "Severe economic conditions have produced scrappy entrepreneurs who developed 'street smarts' in order to survive."

Most entrepreneurs are between 30 and 49 years old, and men outnumber women two-to-one (Table 11).

Table 11
Entrepreneurs in the U.P. Resemble Entrepreneurs in Other States
(percent distribution)

<i>Characteristic</i>	<i>Maine</i>	<i>North Dakota</i>	<i>Upper Peninsula</i>
0-11 Years Schooling	8	13	
High School Graduate	38	32	33
13+ Years Schooling	54		
Male	66	63	69
Female	33	37	32
Age less than 30	11	16	10
30-39	41	41	
Age 50+			31
Average Age	19	19	16
	41	40	40

Source: Buss, Gemmel, and Vaughan, Op.Cit.

More than one-third of those starting U.P. businesses had previously started another business--comparable to 27 percent in North Dakota and 38 percent in Maine.

Can the U.P. Finance Entrepreneurship?

Banks in isolated markets were used to having customers come to them. Now they will have to go after the customers.

Michigan banking consultant

As in the other states examined, the two most important sources of finance for new businesses are personal savings and bank loans (Table 12). This is similar to the financing patterns in Maine, North Dakota, and Iowa. Although venture capital (as seed capital or as equity and stock) is used by a small fraction of new businesses, these tend to be large and account for a larger share of new jobs.

Table 12
Surveys of New Entrepreneurs in Four States Show that Financing Patterns in the U.P. are Typical

	(percent using each source)			
	<i>Maine</i>	<i>N. Dakota</i>	<i>Iowa</i>	<i>Upper Peninsula</i>
Personal Savings	57	55	55	60
Family	17	14	20	17
Friends	3	6	5	3
Bank Loans	60	55	52	55
Venture Seed	2	3	1	2
Equity/Stock	3	4	4	4
Government Loans	7	5	8	4
No Salary	20	14	22	20
Average Capital(\$000)	\$85	\$85	\$43	\$97

Source: Buss, Gemmel, and Vaughan, Op.Cit.

One half of the new businesses required less than \$26,000, and one fourth required less than \$7,000. Four firms required at least \$1 million to start operations. Entrepreneurial clients of the Women's Economic Development Corporation (below) needed, on average, \$5,000 to start up.³⁰

Nearly one out of four new entrepreneurs in the U.P. (23 percent) reported that obtaining start-up capital was a serious problem.. Only 18 percent reported that they had been turned down by banks, and three quarters eventually negotiated a loan. One U.P. businessman claimed that: "It was hard to get the money to expand. For someone new it is next to impossible. It took me four years to get the financing for my expansion."

Other problems, however, were rated as more important than access to capital by the 200 survey respondents. The most frequently cited serious problems were: high health insurance costs (37 percent); finding good workers (31 percent); and cash flow (26 percent). But these respondents had all managed to start-up successful business ventures. They cannot answer for the those would-be entrepreneurs whose business aspirations were thwarted by lack of capital.

There is some evidence that access to bank financing may be a problem in the U.P. for larger start-ups, because banks are relatively conservative and small.³¹ Since banks can lend no more than 15 percent of their capital to any one borrower, many banks cannot easily accommodate requests for \$200,000 to \$500,000. One Houghton banker admitted that many U.P. banks lack the capital to take risks on small businesses and cannot easily syndicate such loans.

U.P banks have earned a lower average return on equity than small banks nationwide. Capital to assets ratios are higher in the U.P., indicating that banks have not exploited their full lending capacity. And, most important, bank lending is heavily weighted toward real estate. Nationally, small banks make about 40

percent of their loans for the acquisition of real estate, 30 percent for commercial borrowers, and 25 percent for consumers. In the U.P., banks made 53 percent of their loans for real estate, and only 20 percent for commercial and 20 percent for consumer loans. This low rate of commercial lending may be offset, in part, by the higher loan-to-asset ratios of local banks. This may reflect the low demand for commercial loans or, as one U.P. banker observed, "bankers have been trained to avoid risk."

In view of the central role that bank lending plays in supporting entrepreneurship, the U.P. must evaluate the lending policies of local banks. This will allow the financial needs of entrepreneurs to be better understood. It should provide the basis for state development finance initiatives to promote new business formation.

Another reason why U.P. banks may have not built commercial loan portfolios as large as comparable banks nationwide is that, until 1988, their flexibility was limited by Michigan's Home Office Protection Provision that prohibited banks from opening branches in an area more than 25 miles from their headquarters or in a town already served by another bank or its branch.³² Lack of competition may have led to less aggressive lending policies.

With the rapid evolution of the financial services industry, commercial banks will offer a wider and wider array of financial services--including brokerage, underwriting, and insurance. The combination of services may make lending to smaller businesses more profitable. With more branches available and greater competition, new and small businesses in the U.P. may find loans and a wider range of financing options more readily available than before. The U.P., however, may not benefit as much as other areas from this evolution. Researchers have found that in sparsely populated rural areas, increased competition in banking (as a result of repealing legislation prohibiting branch banking, for example) has, on occasion, led to increased concentration in banking (because markets are too small to support many independent banks), higher interest rates, and lower loan to asset ratios.³³ In general, banks that are affiliated with larger bank holding companies are less averse to risk, offer a wider range of services to borrowers, and have higher loan-to-deposits ratios.³⁴

Is Good Business Advice Available?

You can only do so much with course work. After a point you must provide hands-on, personal advice. In terms of start-ups, production, and marketing, we do not have enough assistance in the U.P.

U.P. Economic Developer

New businesses need advice and assistance in solving problems. Most turn to friends and associates--some are advised by bankers or by others investing in their enterprise. Relatively few use formal courses or specialized training (Table 13). The use of different sources of advice used by new entrepreneurs in the UP is similar to the use in North Dakota and Maine.

Table 13
Relatively Few Entrepreneurs Seek and Use Advice

Percent Using Workshops or Courses in Starting a Business:	
North Dakota	13
Upper Peninsula	12
Percent Using Specialized Training for Owner:	
Maine	20
North Dakota	19
Upper Peninsula	21
Percent Helped in Preparing Business Plan and Management:	
North Dakota	11
Upper Peninsula	9
Percent Helped in Preparing Marketing Plan:	
Maine	10
North Dakota	6
Upper Peninsula	11
Percent Helped in Training Employees:	
Maine	7
North Dakota	7
Upper Peninsula	8
Percent Helped in Finding Workers:	
Maine	13
North Dakota	12
Upper Peninsula	17

Source: Buss, Gemmel, and Vaughan, Op.Cit.

Those not seeking help, for the most part, did not believe they needed it, although many were not aware of programs (Table 14).

Table 14
Few Non-Users Have Had a Poor Experience with Technical Assistance Programs for Entrepreneurs

	Maine	N. Dakota	Upper Peninsula
Did not need assistance	4	37	5
Assistance not available	6	11	7
Unaware of Programs	30	14	25
Programs not helpful	2	8	3
Bad a previous experience		0	3
Did not have time	11	6	7

Source: Buss, Gemmel, and Vaughan, Op.Cit.

CHALLENGE 5: THERE WILL BE FEWER OPPORTUNITIES FOR PEOPLE LACKING EDUCATION AND TRAINING

The people of the United States need to know that individuals who do not possess the levels of skill, literacy, and training essential to this new era will be effectively disenfranchised, not merely from the material rewards that accompany competent performance, but also from the chance to participate fully in our national life.

Nation at Risk, 1983

The increasing demand for skills will place uneducated people at a disadvantage. Employers are much less likely to invest in job training for their less educated employees and are more likely to lay them off when demand slackens.³⁵ If current trends continue, the Office of Technology Assessment calculates, then jobs for people without high school diplomas will fall from 18 to 14 percent by the year 2005. At the same time, the share requiring college degrees will grow from 21 percent to 28 percent.³⁶

Many of the people trapped in low-income jobs or unable to find stable work are victims of local economic conditions and of their own lack of education and training. Rural researchers concluded: "Aggregate levels of poverty in both urban and rural areas are closely tied to the overall performance of the general economy. The odds that a given individual will be poor at any point in time, however, are influenced by his or her personal and demographic characteristics."³⁷

Creating opportunity for many low-income people in the U.P. depends upon education and training. Although the Peninsula's economic recovery has created new opportunities for some poor people, the long-term poor will need more extensive help to escape from dependence.

Poverty in the U.P. is Declining but Pockets Remain

Poverty in the U.P. is less widespread than in most non-metro areas, and the recent economic recovery has reduced the numbers of people dependent on public programs (Table 15). In 1980, over 12 percent of the U.P. population lived below the poverty level, compared with only 10.4 percent of the state's population. But the rate is far below the 18 percent poverty rate in 1986 for non-metro areas nationwide.³⁸ There are no more recent estimates of the poverty rate in the Peninsula, but caseloads of human service programs--the 1988 "dependence rate"--was lower for the U.P.--9.1 percent--than for the state as a whole--10.5 percent. The dependency rates were calculated by adding the caseloads for 6 programs.³⁹ Non-metro populations, however, traditionally have a much lower utilization rate of social programs than metro populations. Average payment per family declined in the U.P. (by 2.3 percent over 12 months

ending in August 1988) while increasing statewide (by 1.4 percent)--an indication that U.P. household incomes were improving rather than getting worse.

Table 15
Poverty in the U.P. Varies Among Counties, but Decreased in 13 U.P. Counties Last Year

<i>County</i>	<i>Poverty Rate 1980</i>	<i>Recipients</i>		<i>Dependence Rate</i>	<i>Percent 8 yrs+ Schooling</i>
		<i># 1988</i>	<i>Percent Change 8/87-8/88</i>		
Alger	12.9%	638	-18.0%	7.4%	19.0
Baraga	12.0	1057	-1.0	12.9	21.0
Chippewa	14.6	3406	-3.0	11.6	18.6
Delta	11.6	3912	-1.1	10.1	17.8
Dickinson	8.7	1963	-2.1	7.4	16.2
Gogebic	12.1	2229	-7.0	11.8	18.1
Houghton	17.0	4152	-5.2	11.1	22.6
Iron	11.9	1357	-5.2	11.2	20.5
Keweenaw	13.2	152	+8.3	7.6	35.0
Luce	12.6	726	-8.1	12.3	25.3
MacIcnac	13.0	840	-7.0	8.0	20.2
Marquette	9.8	4756	-9.0	6.7	11.9
Menominee	9.8	1669	-10.1	6.5	18.6
Ontonagon	12.6	911	+10.2	10.2	21.3
Schoolcraft	13.8	1071	-3.0	12.1	21.4
U. P.	12.0	28 839	-5.1	9.1	17.0
MICHIGAN	10.4	216,950	-0.3	10.5	15.1

Source: Calculated from Michigan Department of Social Services, Assistance Payments Statistics, August 1988. Estimates of population by county (1986), poverty rates for 1980, and percent of adults with less than 8 years schooling (1980) were obtained from Richard Wright, Op.Cit, Tables 1.11, 1.20, and 2.11.

Low income households are a constantly changing population: nationwide, one household in four will suffer periods of poverty during a decade. But only one in twenty will be poor for half of that time, and only one in thirty for eight or more years. While all will need income maintenance, most will leave the welfare rolls without further assistance--when they have dealt with their problems: a divorce or death of a spouse, serious family illness, or loss of a job, for example. Others will need help.

The Most Important Reason Why People Are Unable to Find Well-Paid Work Today is Lack of Basic Skills

Although the U.P. population, as a whole, is well-educated, many people lack high school diplomas and have little work experience. As unskilled work disappears, anyone without at least a high-school diploma will be trapped in poverty. Without evidence of education attainment, employers judge them as unable to acquire the skills or the behavior needed for most jobs.

A strong economy creates fewer and fewer opportunities for people without basic skills. Well-educated people enjoy much lower unemployment rates

than uneducated people (Table 16). The economic recovery in Michigan has reduced the unemployment rate among high school graduates from 17.3 percent in 1982 to 7.7 percent in 1987, but rates among those who did not graduate from high school fell only from 18.3 percent to 16.3 percent.⁴⁰

Table 16
In 1987, Unemployment Rates in Michigan were Much Lower for Well-Educated People

	<i>1979</i>	<i>1982</i>	<i>1987</i>
Total	5.3%	13.9%	7.2%
Less than 4 Years of High School	9.1	18.3	16.3
High School Graduate	5.9	17.3	7.7
Some College	3.5	12.1	5.7
College Graduate	1.3	5.6	1.9

Source: Michigan Employment Security Commission, various years.

The Upper Peninsula must invest in remedying the educational and skill deficiencies of its disadvantaged residents. "The nation's ability to compete," BusinessWeek recently concluded, "is threatened by our inadequate investment in our most important resource: people. Put simply, too many workers lack the skills to perform more demanding jobs. And as the economy comes to depend more and more on women and minorities, we face a massive job of education and training--starting before kindergarten. Can we afford it? We have no choice."⁴¹

U.P. employers cannot remedy the skill deficiencies of poorly educated people. Basic skills and occupational training are complementary: employers hire and train those employees with the best education and experience.⁴² Those with little education or training have little chance of remedying their deficiency on the job: only 45 percent of high school drop-outs receive any occupational training from employers, while 70 percent of high school completers and 80 percent of those with some post-secondary education are trained by their employers.⁴³

Some poor people work and in non-metro areas a larger share of workers are poor. In 1987, a larger share of poor adults in rural areas than in urban areas worked (62 percent to 54 percent). The rate of poverty increased between 1979 and 1986 despite a declining number of people in rural areas who were unable to work for family reasons.⁴⁴ The fraction of the poor who did not work because they could not find a job grew from 10 percent to 23 percent. And the number of poor adults working part time rose by 70 percent.⁴⁵

Many of the U.P. poor already work.⁴⁶ For the working poor, therefore, escaping from poverty does not require finding a job, but becoming better qualified for better-paying jobs. They may need greater relative emphasis on how to deepen job skills or how to create their own employment opportunities.

NOTES TO CHAPTER 3

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2. Michigan Bell, Upper Peninsula Business Expansion and Retention Program, September 1987.
3. Office of Technology Assessment, Op.Cit, p.283.
4. Kevin Murphy and Finis Welch, "Wage Differentials in the 1980s: The Role of International Trade," Paper presented at the Mont Pelerin Society General Meeting, September, 1988, p.4.
5. Peter F. Marcus and Karlis M. Kirsis, World Steel Dynamics, Report prepared for the State of Michigan Department of Commerce by Paine Webber, April 1987.
6. Dan Weingarten, "How Will Trade Pact Affect U.P.?" The Mining Journal, August 28, 1988; Patti Samar, "Its Academic: Educational Leaders See the Good in Free Trade Pact," Michigan Business, September 1988; Teresa J. Taylor, The U.S.-Canada Free Trade Agreement, Washington D.C., Northeast Midwest Institute, 1988; and U.S. Department of Commerce, Benefits of. the U.S.-Canada Free Trade Agreement for Michigan, Washington, D.C., March 1988.
7. OTA, Op.Cit.
8. Murphy and Welch, Op.Cit.
9. Dennis Swyt, "U.S. Manufacturing Systems: Factories, Past Present, and Future," Washington D.C., U.S. Bureau of Standards, 1987.
10. The Economist, May 21, 1988, p.80.
11. Jacques Ellul, The Technological Society, New York Bantam, 1967.
12. Richard Wright, Op.Cit, table 1.20.
13. Murphy and Welch, Op.Cit.
14. 1986-87: Michigan Educational Assessment Program, Intermediate School District Reports.
15. Michigan Bell, Op.Cit.
16. For example, schools report drop out rates which are used in computing the level of state aid.
17. The National Assessment of Educational Progress, "Literacy: Profiles of America's Young Adults," Educational Testing Service, Princeton, NJ, 1986.
18. In 1983, the National Commission on Excellence in Education's report, A Nation at Risk, (Washington D.C.) in 1983 made education a top priority in most states and spawned many comparative studies. See Diane Ravitch and Chester Finn, What Do Our Children Know, New York, Basic Books, 1987.
19. International Association for the Evaluation of Educational Achievement, Science Achievement in Seventeen Countries, Washington D.C., 1988.
20. U.S. Congress, Joint Economic Committee, Economic Growth and Total Capital Formation, Washington D.C., U.S. Government Printing Office, 1976.
21. "Some Employers Hardpressed to Find Workers," The Mining Journal, October 23, 1988.
22. The data discussed in this section are based on two sources. First, Unemployment Insurance data compiled by the Michigan Employment Security Commission was analyzed. The cooperation, hard work, and expertise of Linda Nurmi of the MESCC are gratefully acknowledged. The methodology and data are described in full in a companion report completed as part of this study by Terry F. Buss, David Gemmel, and Roger Vaughan. New businesses are identified as those employing at least one worker covered by U.I. given new account numbers. In some instances, these are the purchase of an existing business by a new entrepreneur. Second, over two hundred people heading businesses created in the last five years were interviewed by telephone.
23. Terry F. Buss and Mark G. Popovich, Growth from Within, Washington D.C., Council of State Policy and Planning Agencies, November 1988.
24. See Mark G. Popovich and Terry F. Buss, Rural Enterprise Development: An Iowa Case Study, Council of State Policy and Planning Agencies, Washington D.C., 1987.
25. One-third of the companies on the 1970 Fortune 500 list have since left the list. Since 1980, the Fortune 500 companies have reduced their workforces within the U.S. by over 2 million employees.
26. Bill Richards, "Telemarkets Take Root in the Country," The Wall Street Journal, January 28th, 1989.
27. Montana Department of Labor, Business Birth and Death Study, Helena, MT, 1987.
28. Richard Bingham and July Melkers, Cleveland State University, unpublished research.
29. Ken Silven, "Ahead of the Rest," The Mining Journal, July 10, 1988.
30. Roger J. Vaughan, "Eat More Salsa," Washington Monthly, May 1988.

31. This data, although not the interpretation, are drawn from Dr. Bruce Cochran, Report on Upper Peninsula Financial Intermediation, 1977-1986, Northern Michigan University, August 1987.
32. The repeal does not affect banks chartered outside Michigan (except federally chartered banks), credit unions or savings and loans. See Ken Silven, "You Can Bank on it: State Law Can Lead to More Branch Offices," *The Mining Journal*, July 31, 1988.
33. Heggstad, A., and Steven Rhoads, "Multi-Market Interdependence and Local Market Competition in Banking," *Review of Economics and Statistics*, Vol.LX, November 1978.
34. Recent studies are reviewed in Deborah Markeley, "Availability of Capital in Rural America," Washington D.C., National Governors' Association, 1988, p.4.
35. The widespread literature is summarized in Jacob Mincer, *Human Capital Responses to Technological Change in the Labor Market*, Columbia University, National Center on Education and Employment, forthcoming.
36. Congress of the United States, *Technology and the American Economic Transition*, Office of Technology Assessment, Washington D.C., 1988.
37. Deavers, Hoppe, and Ross, *Op.Cit.* p.4.
38. Families and unrelated individuals are classified as being below the poverty level on the basis of comparing their money income (in kind benefits are not included) with an index constructed by the Social Security Administration in 1964. This is based on the 1961 Economy food plan of the U.S. Department of Agriculture and reflects the consumption needs of families based on their size and composition. Since a 1955 survey found that the typical family spent, on average, about one-third of their income -on food, the poverty level is three times the economy food plan. In 1986, for a family of four, the level was \$11,203. See O'Hare, *Op.Cit.*
39. The total number of recipients of AFDC, Emergency Needs Program, General Assistance, Energy Assistance, and Food Stamps--which involves double counting since many families qualify for more than one program--is obtained from Michigan Department of Social Services, *Assistance Payment Statistics*, Lansing MI, August 1988, Table 1.
40. In booming Boston, for example, the overall unemployment rate fell to 3.5 percent in 1988,' but among blacks (who included a much larger share of people without high school education) the rate was 10.6 percent--four times the rate among whites. Nationally--where the overall unemployment rate is about 6 percent, the ratio of black to white rates was only 2:1. New England's sustained economic boom created few opportunities for those without educational or occupational skills.
41. *BusinessWeek*, November 19, 1988, Cover Story.
42. See Roger Vaughan and Susan Beryman, *Employer-Sponsored Training: Summary and Policy Implications*, Washington D.C., National Assessment of Vocational Education, March 1989.
43. *Ibid.*
44. O'Hare, *Op.Cit.*, p.22.
45. Nationally, the average able-bodied, employed, poor male worked 34 hours a week. Had they worked an additional six hours at their prevailing wage, few would have escaped poverty. They averaged only three weeks of unemployment a year. Had they avoided any spells of unemployment, only ten percent would have avoided poverty.
46. Only 32 percent of the non-metro poor lived in "no-worker" households compared with 46 percent of the metro poor. And 29 percent of the non-metro poor lived in two-worker households compared with 15 percent of the metro poor.

4. A FRAMEWORK FOR THE U.P.'S ECONOMIC DEVELOPMENT STRATEGY

Society teaches us to try and solve problems with one big solution, the 100 percent solution. We're looking for 50 two-percent solutions.

Jack McCall, Missouri Extension Service, 1988

The basis for development in the U.P. is the energy and skill of its people. They provide the workforce, the entrepreneurs, the business managers, and the public administrators. And they are the elected officials who must manage the complex and often conflicting process of growth. A successful development strategy, therefore, must be designed and implemented by local people--the individuals, businesses, employees, and public agencies with the greatest stake in the future of the U.P. Its effectiveness will depend on teamwork: local enterprises and entrepreneurs will create the jobs, people will invest in the necessary human capital, the state will provide a secure fiscal and legal framework, and local development organizations--including universities, cities, and development corporations--will act collectively for the U.P.

In the future, growth will demand an emphasis on different investments from those that have been supported in the past. The following pages illustrate the types of programs and policies that the U.P. may consider as it develops its strategy. They are selected from the many examples of successful local initiatives that could be extended Peninsula-wide, and from model programs developed elsewhere.

Therefore, the U.P. must develop a strategy to meet three new development goals:

I. To Prepare U.P. Employees for Tomorrow's Economic Opportunities: educational institutions will have to give their graduates stronger cognitive and occupational skills; will have to retrain more people when skills become obsolete; and will have to adapt curricula quickly as the demands of the workplace change. Because of the increasing importance of international trade and the speed of technological change, employers need better educated and trained employees.

II. To Support U.P. Residents When They Create New Businesses: new economic opportunities will be created, in large part, by the birth and expansion of new businesses--a process accelerated by the decentralization allowed by new communications technologies. The U.P. must support entrepreneurship.

III. To Raise Workforce Participation Among Low-Income People: the shrinking supply of new labor and the dwindling number of jobs for unskilled people mean that the U.P. must bring more economically disadvantaged people into the workforce.

Measures that could be employed to pursue each of these goals are discussed in the following sections.

I. PREPARING U.P. RESIDENTS FOR TOMORROW'S ECONOMIC OPPORTUNITIES

It is no exaggeration to say that the struggle in which we are engaged may well be won or lost in the classroom.

Governor James J. Blanchard

Jobs will continue to dominate the U.P.'s economic goals in the future--but the concern will be providing its people with the human capital they will need to perform the new jobs that will be created, not trying to attract jobs to the Peninsula. The most important element in the development strategy--and for any region--will be equipping people to meet the growing demands for basic and occupational skills. Each year, investments in human capital add more to our national product than investments in capital equipment. ¹ And differences among people in educational attainment and skills training account for most differences in earnings.² How much and how well the U.P. invests in human capital, therefore, will determine whether it can achieve its economic and social objectives.

The U.P. already has a wide network of education and training institutions and thousands of professional teachers, instructors and professors. Each year, the state and local governments invest over \$170 million in adding to the Peninsula's stock of human capital. The result is a strong school system. But, in the face of rapidly increasing demands by employers, this will not be enough to keep the Peninsula competitive.

Human capital investments require cooperation among the many different types of public institution and between the education "industry" and local employers. Graduating high school students must have skills needed by employers or the aptitude to pursue further education or training. The quality and relevance of higher education must be sharpened. Training programs must be flexible enough for people wanting to upgrade their skills or to learn new ones. The U.P.'s economic success depends more heavily on how successfully it harnesses these resources than upon any other element of its development policy.

Laying the Foundations: Kindergarten through High School

THE GOAL: to improve the skills and competencies of students in the K-12 system by making better use of the U.P. education system's talented teachers and administrators by encouraging and rewarding those schools offering the most effective learning environment and promoting successful innovations.

DISCUSSION: Educational excellence is a top priority for the Blanchard Administration as it is for most governors. In 1989, Governor Blanchard proposed a four-point strategy to revolutionize the way we think about education and to move Michigan aggressively into the next century:

- 1) Expand access to a quality education by starting early and keeping kids in school. Increased grants for preschool education will be needed. In Michigan, all students must be educated to higher levels of education.
- 2) Insist on quality. Set tougher standards to challenge our students, teachers, and schools, and measure our achievements through the *Michigan Education Assessment Program*.
- 3) Reward success. The pupils, teachers, and schools that are performing well deserve our support. The *Governor's Achievement Incentive* rewards schools that raise their performance levels or reduce drop-outs.
- 4) When the system for rewarding quality is in place, let people on the front line figure out how to get the job done. Restructure our schools by encouraging innovation, choice and the creative use of technology.

Enacting and implementing these initiatives will lay the foundation for a more skilled and responsive U.P. workforce. These changes will take time and will encounter stiff opposition. But most experts agree that, in the words of Marc Tucker, who headed the Carnegie Forum on Education: "We do not believe that the educational system needs repairing; we believe that it must be structurally changed, reflecting the structural changes taking place in our economy to prepare our children for productive lives in the 21st century. "3

This ambitious agenda can be achieved only with the commitment and cooperation of the state, school districts, schools, teachers, parents, and the business community. The state will develop a core curricula that sets required

subjects for each grade and recommended achievements for each subject and grade. Local school districts must develop their own detailed curricula to meet these objectives. School boards must prepare and distribute annual reports that show test performance (including a Basic Employability Skills Test), drop out rates, and the local curriculum.

When parents can choose where to send their children, they will remain more involved in the school and in the child's education. Children appear to learn more when they have had some influence over which school they attend, as shown by the dramatic increases in test scores, even in schools in very poor communities.⁴ Schools will strive harder to teach more effectively and to meet students' and parents' demands. In a major policy statement in 1986, the nation's governors called for states to work toward education systems in which parents can select the schools their children attend.⁵ Several states, including Minnesota and Arizona, already allow parents to choose among high schools.

In many communities, choice may not be possible because the distances between competing institutions is too great. In some situations, choice could be made possible by reducing the size of existing schools and allowing more than one school to share a common facility. Many middle and high schools in the U.P. include more than 500 students, although there is little evidence that larger schools are either better learning environments or cheaper to operate. A more competitive environment could be created by allowing single schools to break up into two or three schools to meet the needs of different students more effectively. Offering parents and students choice has proved successful in several states.

There are several examples of growing cooperation between business and schools. For example, the Copper Country Intermediate School District recently trained nine people for Mercury Manufacturing in the afternoon, before their evening shift.⁶ A corporate officer for Mercury said: "We needed a second shift to get the company going here. And while these guys were training they were also taking home a paycheck." The program was funded through the State's "Quik Start" program--funds were made available within a few weeks--and the instructor was a senior research assistant from MTU.

In the long run, because many of its schools are small, improving the quality of education will require the state and school districts to take advantage of telecommunications systems. There are three important projects already underway. One is a consortium of REMC 22, the Eastern Peninsula Intermediate School District, and Lake Superior University working on a two-way interactive system for their region. Northern Michigan University initiated another project through its PBS station WNMU, Channel 13, requesting an NTIA grant to be matched by state funds to create a four-city microwave interconnect for

Escanaba, Houghton, Iron Mountain, and Marquette. And an association of interested U.P. groups has formed the Upper Great Lakes Educational Technologies, Inc. All these projects will allow the U.P. to share and deliver educational programs to U.P. schools.

Preparing for the Workplace: Post Secondary Education and Training

THE GOAL: to increase the numbers of students investing in post-secondary education and training, to make programs more directly relevant for employers' demands, and to increase the flexibility and effectiveness of programs.

DISCUSSION: Post-secondary education and training will play an increasingly important role in supporting development in the U.P. Nationwide, three-quarters of the people entering the labor force will find their first job in a company hiring less than 100 people. Yet small entrepreneurial companies are less likely to offer their employees training on the job and more likely to hire employees trained externally. Yet traditional education programs cannot easily keep up with the rapidly changing skills needed by micro-businesses.

A focus on the contributions of colleges and universities to economic development should not detract from their basic role in providing U.P. students with a sound basic education. High quality programs--from liberal arts to entrepreneurship business courses--is their most valuable single contribution to preparing tomorrow's workforce.

Michigan already boasts one of the best state university systems in the nation and one of the forest post-secondary vocational education programs. But neither the state nor the U.P. can rest on these achievements. To fill their development role, public and private institutions will have to achieve three objectives: continued improvement in quality, greater flexibility, and serving a more diversified clientele.

Institutions will have to continually improve the quality of education and training programs and modify teaching methods and equipment as the workplace changes. This will require the state to offer financial incentives for excellence--as it is proposing for high schools--measured by the academic performance of students, and other factors such as performance of graduates in the labor market.

Institutions that emphasize training will have to increase the flexibility with which they meet changing economic circumstances--developing new courses and new teaching methods, and, perhaps, reducing the emphasis on structured degree courses. This will require the state to offer institutions greater administrative

discretion in return for holding institutions accountable for their performance. The state should find ways to reduce the administrative burden on institutions that govern hiring and firing, and curriculum development.

Finally, they will have to serve an increasingly diversified population, including the economically disadvantaged, displaced workers, retirees, and others.

These changes will require much more comprehensive measures of what happens to graduates of programs when they seek work. Administrators need this information to assess which courses should be expanded, which to cut back, which need managerial attention, and to evaluate faculty effectiveness. Potential students need the information to help choose academic or occupational fields and to select the best institutions for their studies. And the state needs performance data to determine budget allocations. These data do not guarantee that jobs will be available when today's new student enters the job market. But some data is better than no data, and measures of performance will create constructive competition.

In December 1984, the *Governor's Commission on the Future of Higher Education* recommended: "That a uniform data base be implemented ... housed in the Department of Education, developed in cooperation with the Departments of Commerce, Labor, Management and Budget, and the legislative fiscal agencies. The data should be easily accessible on computer statewide."

The most important data are placement data on college and university graduates that show employment status by degree level and field of study, and earnings by geographic location. This data would facilitate greater communication between employers and institutions and provide essential career planning to students. Collecting this data should be based on the successful procedures developed at Michigan State University. Most post secondary training institutions report placement rates of graduates, but these are based on mail and telephone follow-up, yielding very small and biased samples.

Arizona and Kansas have developed systems that use the social security numbers of program graduates, which are then matched with the states' unemployment insurance files, allowing them to determine employment status and earnings. The Michigan Opportunity Card Program proposes the same approach. The program does not violate privacy and is much cheaper than requiring administrators to collect data.

Information is valuable only when it is in the hands of people who can act on it. The information contained in these new performance measures must

somehow reach the hands of prospective enrollees as well as the system's administrators. The program required the publication of the data (and appropriated \$14,000 for the purpose) and the distribution of the booklet to all students registering for post-secondary vocational education programs.\$

If the state encourages competition among education and training institutions--by allowing people (and employers investing in their workforces) greater choice and by publishing performance data, the institutions themselves will market their programs more aggressively.

II. ENCOURAGE U.P. RESIDENTS TO CREATE NEW BUSINESSES

Political leaders want to land one big fish. But we need more small businesses to develop and expand.

Manufacturer, Western U.P.

Most new jobs in the U.P. will be created in small new businesses, and most of those new businesses will be created by people already living in the U.P. But encouraging entrepreneurship is not easy, nor does it offer such visible political rewards as attracting large businesses from other states. It_ also requires cooperation among many different public agencies and between the public and private sectors.

Fortunately the U.P. does not have to sacrifice recruitment in order to promote entrepreneurship. It has demonstrated in the last decade that, even during adverse times, its resources--natural and human--can attract major employers such as Louisiana Pacific, Champion, and others. But recruitment cannot bring enough opportunities for all those seeking well-paid work because the number of expanding or relocating businesses is small. A U.P. community that hired a national consulting firm to prepare a recruitment plan was recommended to pursue small, labor intensive firms that manufactured items that were cheap to transport--such as electrical tools and hospital supplies and was provided a long list of target businesses. Despite their best efforts of the City and of local economic development organizations, no new jobs have been recruited.⁹

Support of entrepreneurship is, for the most part, support of people already living and working in the U.P. It is also support for increasing diversity of the economy. The U.P. has already laid much of the groundwork needed to promote a more entrepreneurial economy. Some of the activities described below aim at improving the overall entrepreneurial climate--by making people more aware of the role that new businesses and people willing to take risks play in economic development. Others are more direct--working one-on-one with people struggling to begin their own businesses. In the future the U.P. must build upon these promising initiatives.

Sowing the Seeds: Expanding Entrepreneurial Awareness

GOAL: to increase the awareness among high school students and other U.P. residents of how new jobs are created and of the skills needed in creating new businesses.

DISCUSSION: Our attitudes toward creating economic opportunity-- and our own capacity to participate--depend on how we believe the economy works. Our personal economic models are a product of our own experiences, the type of community in which we live, and, in part, on our formal economic training. For many years, high school students learned economics in an abstract curricula whose relevance to day-to-day life were tenuous at best.¹⁰ A Youth Employment Director in- the Central U.P. urged: "Schools should make students aware of entrepreneurial skills. This will improve the U.P. economy. Without it, development may not help local people. New people will capture the new jobs."

The Center for Economic Education at Northern Michigan University has begun an innovative program to improve the quality of economic education in high schools. The Center has offered 22 programs over the last year that have served 866 teachers. The initiatives include Decisionomics, a course that integrates math and language skills with basic economics, and Applied Economics--sponsored by local Junior Achievement and a W.K. Kellogg Foundation grant--that offers 11th and 12th grade students exposure to local business people, applied computer skills, and basic economics concepts.¹¹ Munising High School is setting up a business in which students make and market wooden pallets to provide them with hands-on business experience.¹² The National Governors' Association recently concluded: "Students will be better prepared for the 21st century if they have the ability to spot "niches" and develop business plans and the entrepreneurial skills to start their own small businesses."¹³

In addition to education, awareness of the opportunities for creating businesses (or entering self employment) can be heightened through the media. The Small Business Development Center at Michigan Technological University, for example, ran a series of newspaper columns: "It's Your Business.

Germinating the Seeds: Giving Good Advice

GOAL: to ensure that people considering starting their own businesses or who are in the early stages of business development can find sound advice on business problems.

DISCUSSION: Good advice and entrepreneurial training can help people evaluate risks and master the mechanics of setting up and managing a business. A banker from Escanaba recommended: "We need more educational efforts to provide people with business skills." Advice can also help some people realize that they are not cut out to be entrepreneurs.

Most advice will be through private firms--accountants, banks, and business consultants. The state can play an important role in creating this private infrastructure through its own technical assistance programs.

The U.P. houses several successful business assistance programs that demonstrate that these problems can be overcome (perhaps because lack of success is less easy to hide in the U.P.) and that also show the value of state involvement in the entrepreneurial process. Their basic commodity is information in a wide array of issues:

Management. Training seminars and consulting advice can help people starting their own businesses to learn basic management techniques [and to](#) deal with problems specific to their business.

Finance. Advice on preparing a loan application, finding a loan, or using state or local financial assistance can make the creation of a new business possible.

Marketing. Small and new businesses--particularly in a geographically remote community--may find it costly and difficult to explore markets. The Bureau of Industrial Development at Michigan Tech has set up a marketing assistance program targeted at selected manufacturing firms--paid for in part from fees as well as from a revolving fund. NEIC has helped U.P. craftsmen penetrate downstate and national markets by preparing businesses to enter trade shows and paying stipends to defer travel costs. Universities can collect, process, and disseminate data and so can distribute marketing information useful to business. NMU President James Appleberry argues: "We can alert the business community to the opportunities that are going to be forthcoming as a result of the Canada-U.S. Free Trade Agreement."

Engineering. Engineering faculty can sometimes help small businesses with technical problems such as how to deal with waste products or how to improve the production process. They can also advise on the potential benefits of new technologies. The Bureau of Industrial Development at MTU, for example, recently won a national award for its work in assisting Peninsula Copper Industries in establishing and growing a business manufacturing copper oxide from scrap copper. The Department of Commerce contracts with MTU to help transfer technologies into the business sector.

Winning Government Contracts. The Department of Commerce contracts with Private Industry Councils to help local businesses get government contracts--their success can be measured in the fact that U.P. businesses are twice as likely to have public sector clients as Lower Peninsula businesses.

New businesses can find this information from several sources:

Department of Commerce: Professionals from the Northern Economics Initiatives Center at NMU under contract from the Michigan Modernization Service visit local firms in the U.P. to assess their problems or expansion needs and to identify what local, state, or federal programs would be useful. The Michigan Department of Commerce also helps companies experiencing problems with state regulatory policies through the Office of the Ombudsman.

The Northern Economic Initiatives Center: NEIC was established at NMU in 1985. In three years, 129 NMU faculty, students, and staff have committed over 12,000 hours to projects ranging from engineering consulting and help with advertising to auditing and conferences on micro-business.

Bureau of Industrial Development (BID): Set up at Michigan Technological University, BID provides technological and engineering services to entrepreneurs and to established businesses. BID also helps to finance projects through the SBA, Small Cities, and other public programs. For example, Superior Polymer Products, Inc, a manufacturer of a chemical anchor that fastens bolts to concrete, received planning assistance from MTU and has negotiated venture capital from a large building [company.la](#)

Central Upper Peninsula Business Development Center. CUPBDC provides consulting services to thousands of individuals and small businesses.

State or local support for entrepreneurial assistance programs in the U.P. should, in the long term, be contingent on the success of programs in creating enduring and unsubsidized new businesses and in attracting private support. Some private support has already been tapped in the U.P. The Business Development Center in Escanaba receives contributions from most of its banks, and the BID at MTU is partially supported by the Keweenaw Industrial Council, local banks, and other businesses.

As the entrepreneurial climate strengthens in the U.P., private, for profit business assistance services will develop. When the British and French created the programs for their unemployed, neither required business plans nor provided directly for business planning assistance, but the programs led to the development of local business assistance initiatives.¹⁵

Growing from Seed: Financing Entrepreneurship

GOALS: to ensure that new businesses and expanding small business have access to finance but face the same market disciplines they would experience if they had secured private finance.

DISCUSSION: Banks are the single most important external source of finance to new businesses. If U.P. banks are conservative in their lending--either because of their small size or because of the lack of competition--then the rate of formation of new businesses may be slowed.

The State of Michigan has created two important new financial programs nationally recognized as models that combine fiscal responsibility with improving access to capital: the Capital Access Program and the Business Industrial Development Corporation. Because these programs operate through privately-managed institutions, they avoid many of the problems of traditional public development finance initiatives. U.P. banks, however, have not yet used these programs to make loans to new business, although some banks have enrolled. Small banks in the Lower Peninsula have shown much greater readiness to participate in the program. One quarter of them are below the average size of U.P. banks. The problem appears to be the inherently conservative tradition of U.P. financial institutions--one U.P. banker observed: "the guy who needs \$50-200,000 is out of luck."

A fund like the Michigan Business Partnership for Rural Development--proposed by Governor Blanchard in 1989--would serve an important catalytic role encouraging entrepreneurial lending in the U.P.:

The program will be privately-managed, requiring the commitment of private capital (like the WEDCO programs, described below). Local business development programs will be eligible to use its funds to encourage more small and new business lending by local banks. They will not supplant banks' efforts. A thorough study of the present lending policies of U.P. banks should be part of the development of the state's new initiatives.

The fund could support programs that embody elements of the Women's Economic Development Corporation in St. Paul, MN--although need not be limited to women or minorities. WEDCO provides a unique combination of hands-on training and consulting, with members of WEDCO's small staff helping prospective entrepreneurs prepare marketing strategies and business plans, apply for bank loans and SBA guarantees, and link up with potential

investors. WEDCO combines financial assistance with workshops and offers manuals on starting a business, building a service firm, and setting up a professional practice.¹⁶

The fund could also be used to capitalize local seed capital funds for micro-businesses too small for bank loans. After WEDCO had clearly demonstrated its ability to prepare its clients for the business world, WEDCO raised two small loan funds from which it can assist its clients directly (see below).¹⁷ About 65 percent of its budget comes from corporations and foundations; 35 percent is earned from consulting, sale of workbooks, interest income, and fees tied to successful financings.¹⁸

If funded, this Partnership for Rural Development could provide the U.P. with a valuable opportunity to combine public and private resources to finance new business development.

III. HELPING PEOPLE MOVE FROM WELFARE TO WORK

Marquette's program is more successful because of the great variety of opportunities it offers, its comprehensive job training program, and the input it encourages from its clients.

Robert Robarge, Marquette Department of Social Services

Economically disadvantaged people must be brought into the workforce. Many already make the transition from dependence to work. In the future, greater efforts must be made to helping long-term poor. The U.P. cannot afford the fiscal cost of prolonged dependence nor the economic cost of forgoing their contribution to the workforce. As educated labor becomes scarce, sustaining economic development in the U.P. will depend upon the community's ability to tap non-traditional sources of labor.

Nationwide, of the rural poor who come into contact with public programs, most use food stamps. Others draw on the many different cash and in-kind benefits offered. But they use these programs much less frequently than the urban poor. With one-third of the nation's long-term poor, rural areas house only 13 percent of long-term welfare recipients. The low rate of participation may be the result, at least in part, of a larger share of the rural poor living in married-couple families, which are ineligible for major welfare programs.¹⁹ Nationwide, three-fifths of those eligible for, but not using, welfare do not participate because they did not know they were eligible. The remainder had difficulties with transportation or were adverse to using the programs, on principle. Improving the access of the disadvantaged to programs must be an important part of the overall strategy.

Programs should emphasize three characteristics that make them easier to manage effectively: hold clients responsible, give local agencies greater discretion, and hold program managers accountable.

Make clients responsible for developing and carrying out their plans for economic independence. The purpose of human services programs is to empower their clients to enter the mainstream economy. Clients should be given the greatest possible choice among alternative ways they can increase their earning capacity and among the organizations that offer the helpful services but should be held accountable for their choices. David Berns, director of the successful Marquette County Social Service programs, states that his caseworkers do not "place clients in jobs" but are there to help clients develop their own opportunities. Choice and responsibility encourages participants to commit themselves to achieving independence, and encourages agencies to be more responsive to their clients' needs. But choice only works if people are given accurate information about their capabilities, their options, and about the efficacy of different programs.

Grant local agencies discretion over how they manage' their programs. Decentralization of programs encourages administrators to innovate and allows programs to be tailored to local needs and resources. Federal welfare reform--passed in 1988--offers states the opportunity of granting local agencies greater discretion. An example of what can be achieved by the creative use of existing resources is provided by the Eastern UP Employment and Training Consortium combines JTPA, vocational education, and funds managed by the Bay Mills Indian Community. This creates a unique, flexible, and effective human investment system that gives participants much wider access to high quality training opportunities. It could provide a model for what will be possible under the Michigan Opportunity Card system.

Hold administrators accountable for performance. All agencies should be accountable for how well they serve their clients. Performance should be measured and used to help people choose and as the basis for funding. The State Department of Human Resources should provide budgetary bonuses to successful agencies.-

Focus on the Problems of the Hard to Employ. Most poor people return to the mainstream economy when they have overcome whatever problem cost them their self sufficiency. Staff and money will never be enough to help everyone. Therefore education and training programs should target on those who--because of their lack of education and skills--are likely to have the greatest problems in finding work.

Marketing Education & Training Opportunities to Low-Income People

GOALS: to place as many welfare recipients in education and training programs, to improve their competencies more effectively, to increase the placement rate, and to place as many clients in "mainstream" programs as possible.

DISCUSSION: Education and training are probably the most important tools in raising the incomes and improving the employability of the poor. The Family Support Act of 1988 places much stronger emphasis on enrolling welfare recipients in education and training programs. The state will be required to extend child care assistance to welfare clients with children. The strategy to invest in the education and training of the long-term poor must overcome several barriers. First, poor people may not know the requirements for enrolling in different programs. They may be unaware of what programs are available. From past experience, those who are graduates of training programs may have little confidence in the value of training. Some may be unable to afford to enroll. A local strategy must address all of these concerns.

Many low-income people performed poorly in school. Sometimes this reflects low aptitude for academic work. But it may also reflect circumstances that have since changed--teenage pregnancy, poor motivation, or low self-esteem, for example. For the latter, a second try at further basic education or at acquiring occupational skills may succeed. But people must know what they lack, what is expected of them, and how to remedy their deficiency. The new federal welfare law mandates client assessment. Agencies should use this as an opportunity to improve their ability to match programs with the aspirations and capabilities of their clients and to place as many clients as possible in mainstream programs.

Marquette County's award-winning MOST (Michigan Opportunity Skills Training) Program demonstrates how these barriers can be overcome.²⁰ All adults must register. But, having registered, they are tested to help them determine what kind of work they are suited to, and asked what they want to do. Those who dropped out of high school must obtain GEDs as part of their programs. They are offered a wide choice of options from classroom training, on-the-job training, work experience, and job search assistance. Marquette's MOST program manages to place more than 100 people each month, and, as important, has reduced the share of welfare recipients who have been dependent long-term and has also reduced to 20 percent the number of welfare recipients without the equivalent of a high school diploma.

Enrolling the poor in education programs will require aggressive outreach, including publicizing successful role models--people who have gained a high-school equivalence in mid-life--through awards and articles in local papers. These people could also offer "one-on-one" counselling to poor adults through volunteer organizations--peer advice is often easier to accept advice from public employees.²¹ For example, in Washington State, Carol Sasate has established HOME (Helping Ourselves Means Education) supported in part with state Employment Service funds.²² HOME runs counselling sessions for low-income women that assess their needs and explain the different programs they can use. It has helped more than ten thousand to enroll in further education. In addition, to assessments of their own abilities, people can benefit from information including: 1) the placement rates and earnings of graduates from different programs and institutions so that they can reconcile their own aspirations with a realistic picture of the local labor market; 2) costs and requirements for enrollment and graduation in each program; and 3) a "how-to" guide to financial aid programs. Some demonstration programs are tackling the difficult task of linking training programs, welfare programs, and Employment Services.

Caseworkers may know little about education and training opportunities--financial aid, the quality of different programs, and how enrollment affects eligibility for continued benefits.²³ College is rarely considered although, nationwide, 13 percent of AFDC recipients, 19 percent of General Assistance, and 40 percent of the unemployed have some college experience.²⁴ Educational systems, for their part, have little contact with the transfer-payment system and its clients, potential clients, and practices.

Maine, a largely rural state, has successfully linked its public assistance and education systems through the Work Employment, Education, and Training (WEET) program set up in 1981. WEET provides employability assessment, counseling and plan development, referral to training and education, support groups, job search, On-the-Job-Training contracts, and help with child care, transportation, and related services. From April 1982 to January 1985, WEET helped 3,287 AFDC recipients find jobs at an average entry wage that rose from \$3.49 to \$4.38 per hour. WEET enrolled another 2,620 recipients in training and education courses, raised the number of AFDC recipients passing General Education Development (GED) exams annually from 72 to 171, enrolled 319 in post-secondary vocational technical institutes, and more than doubled the number attending the University of Maine from 269 to 648 by excluding counting student loans as an asset.

Improving the Quality of Programs for the Economically Disadvantaged.

GOAL: to reduce the numbers of disadvantaged people without the equivalent of high school graduation and without job skills, and to increase the rate at which low-income people are placed in jobs.

DISCUSSION: Marquette County is an outstanding example of how to reduce public dependence by transforming dependent people into productive members of the workforce. There are, however, examples in the U.P. In the future, Michigan should consider providing financial bonuses to local agencies that perform well. Performance-based funding is often opposed on the grounds that it ignores need and encourages agencies to "cream"--that is, to serve the easiest to place. Yet allocating funds according to "need" does not necessarily lead to effective services for the poor, and the tendency of institutions to cream should be harnessed, not opposed.

A social services agency in a poor community in the U.P.--where "need" is great--may be unable to place many graduates because its budget is small and there are few local jobs. Should it receive additional funds to compensate for its meager resources or be required to compete for additional funds based on performance? The opportunity to increase its funding by raising its placement rates and the earnings of its graduates may encourage the institution to develop innovative new programs, to reach out to serve non-traditional clients, and to work more closely with local employers.²⁵ Community colleges and vocational institutions in rural areas across the nation have demonstrated that mobile classrooms and the acquisition of temporary space allows imaginative schools to serve small communities well even in the absence of a permanent facility.

"Creaming" occurs when institutions enroll those students they judge most likely to graduate and easiest to place. Overall, 'creaming' is an efficient process--it uses education and training resources where they are likely to be most effective. But this efficiency is achieved at the cost of the social objective of expanding opportunities for the disadvantaged. State funding agencies must specify program goals that require local agencies to serve people most in need.

If the education and training system is innovative and new institutions are allowed to compete, the presence of an unserved group of people--providing they have access to financial aid--should attract new programs and new schools. For example, the Eastern UP Employment and Training Consortium and Lake Superior State University work together to train JTPA eligible people as corrections officers--placing scores of economically-disadvantaged people in highly-paid jobs. It has also allowed new prisons to "staff-up" in record time.

Performance measures should recognize that different people need different types of assistance. For example, the state should pay more for someone graduating from an occupational course who enrolled with only a fourth grade reading level than for someone who began with a high school diploma. By monitoring performance data, the state and local agencies can identify groups that are not well served and increase the financial inducements for meeting their needs. Overall, therefore, funding should be based on enrollment and performance, not on need or costs.

At the same time, the barriers that make it costly for welfare recipients to return to work should be lowered. The Governor's Blue Ribbon Commission on Welfare Reform identified seven disincentives built into the welfare system for people to pursue financial independence. For example, the AFDC system does not allow recipients to deduct the full costs of child care from earned income when assessing their eligibility for grants.

Financing Training and Education for the Disadvantaged

GOAL: to ensure that everyone can enroll in the education and training programs for which they are qualified regardless of their personal financial resources.

DISCUSSION: Even limited costs may prevent poor people from investing in themselves. They cannot easily borrow because they lack collateral. As a result, the limits on federal college grants and loans has led to a sharp decline in the share of low income students in freshman classes. At the same time, employers are reluctant to train their workforce in widely marketable skills because employees can move on to other firms before they have recovered their investments.

In 1986, the State created the *Michigan Education Trust* to allow families to guarantee future tuition costs for their children in Michigan. Last year the state created the *Tuition Incentive Program* to pay tuition at the state's 29 community colleges for any low-income students who stay in high school and graduate. This is one of the most comprehensive state finance programs for post-secondary training in the country. It provides local institutions with more enrollees for mainstream education and training programs. No person in Michigan can claim that he or she cannot afford to enroll in post secondary education. The U.P. should take full advantage of these programs.

Helping Low-Income People Start Their Own Businesses

GOAL: to offer low-income people the opportunity to create their own job as a way to achieve self-sufficiency.

DISCUSSION: Several communities across the country have developed successful programs to help poor people start their own business. There are no fully-developed programs yet operating in the U.P. although some of the business development programs do serve low-income clients.

Nationwide, eight percent of the 2.8 million dislocated workers who were re-employed between 1979 and 1984 did so by self-employment. Many welfare recipients surveyed in Minnesota already earn some income through entrepreneurial efforts and many more are interested. One-third of AFDC single parents said they were interested in starting a business and specified the business they wanted to start. In addition, twenty-five percent of General Assistance recipients, 30 percent of AFDC-UP recipients, and 36 percent of Food Stamp recipients expressed interest in starting businesses. Encouraging entrepreneurship among poor people exposes them to risks, especially since they may have little training and few resources. But many have few alternatives so the relative risk is low.

Entrepreneurship has not, traditionally, been a part of strategies to promote rural development or to raise the incomes of the rural poor. Yet several states have developed successful entrepreneurship programs for disadvantaged people. To finance these programs, they often use JTPA Titles IIA and III and AFDC Work Incentive (WIN) program funds to pay for training and consulting services of eligible people.

Technical assistance can make a difference. Although the Women's Economic Development Corporation (described above) was not intended as a program for the poor, one-third of its clients--and an equal share of its successful clients--have been low-income women. There are other examples of programs deliberately aimed at welfare recipients and the unemployed.

During 1986 WEDCO initiated two special programs designed to help low-income women start their own businesses. Self-Employment Training Opportunities (SETO), is targeted to Aid to Families with Dependent Children (AFDC) recipients and operates in cooperation with local welfare departments. The three-year demonstration project will allow recipients who have a business idea to achieve economic independence through self-employment. It includes 80 hours of training in business and 20 hours in personal effectiveness coaching. If the project appears sound, SETO will provide financing through either a leasing

company or a loan fund. Since federal regulations reduce welfare grants if clients acquire assets, WEDCO created SETO as a leasing company to purchase equipment, inventory, and supplies for women starting a business while on welfare. SETO will help at least 30 women a year leave welfare. Funding for the program began with a grant from the Dayton Hudson Foundation.

The second special program is Create Your Own Business (CYOB), a joint project with a local community college and a vocational institute. It is aimed at displaced homemakers and single parents eligible for the Job Training and Partnership ACT (JTPA). The program provides college credit and classroom training backed by support groups, business consulting, and financing from WEDCO.

The Hawaii Entrepreneurship Training and Development Institute (HETADI) has been operating since 1977, using U.S. Department of Labor funds to train low income people to set up businesses. It provides more structured training than WEDCO. During the first class, participants describe their proposed ventures, and about half drop out either because they lack commitment or their idea is impractical. Survivors are put through a two to three.: month course--meeting once a week--learning to put together a business plan for their enterprise.

About fifty percent of those completing the course set themselves up in business and have enjoyed a survival rate above that of comparable micro-businesses set up by the population at large. HETADI has successfully set up similar programs in Africa and in Pacific Rim countries showing that the techniques of entrepreneurship assistance can be exported to different nations and cultures.

Indiana has a successful program to improve the management skills of former farmers interested in starting new businesses. A private firm was hired to offer the assistance--which reflected the extensive self-employment experience of former farmers. The contractor was paid up to \$4000 for each of the 55 original enrollees who created a successful business.

Improving Access to Programs

Because the U.P. is sparsely settled and some poor people may live long distances from education, training, and business development centers, program administrators may experience problems in reaching everyone. Regulations and logistics will raise barriers. But barriers should not be regarded as reasons for not doing new things. They are challenges demanding innovative solutions.

For example, local administrators often complain of the transportation problems created by their widely scattered clients. But local ingenuity can be tapped to overcome access problems. If agencies receive credit and even fiscal rewards for serving more people, they are likely to experiment more vigorously with adaptive uses of existing transportation resources and with ways to apply new communications technologies to improve services in rural areas.²⁶

Cooperative Clearinghouse. Agencies pool data on clients' transportation needs and match them with existing services. Agencies can also reschedule programs to cure transportation problems.

Cooperative Transportation Management. Bookkeeping, accounting, client records, and other services can be managed cooperatively for all agencies.

Cooperative Vehicle Purchase, Maintenance, and Repair.

Consolidated Transportation Cooperatives. All transportation functions, from purchase to maintenance and route management, can be undertaken for all agencies by a single cooperative.

Service Club Cooperatives. Civic organizations can operate voluntary or non-profit transportation cooperatives to serve the poor.

Postal Contract Routes. Rural post offices often employ private carriers to pick-up and deliver mail. These carriers could add passenger transportation to their tasks at low cost.

The extension of fiber-optics, satellite earth stations, and microwave telecommunications systems to almost all areas provides a network through which education and training programs as well as health services can be offered in remote areas. Tapping the potential of these technologies will require greater budgetary flexibility than many state agencies enjoy. Cumbersome procurement processes and rigid line item budgets make it difficult for agencies to adopt and develop new techniques for delivering services--witnessed by the slow pace at which the electronic classroom or even the desktop computer have been introduced into agency operations.

Afterword

The framework for economic development in the Upper Peninsula, outlined in the preceding pages emphasize investing in the workforce and in encouraging entrepreneurship. These investments will form, over time, the basic building blocks of development--in the U.P. as in all other communities. The framework deliberately avoids industry-by-industry initiatives, that would pit one community against another or one part of the core economy against another. Instead, the purpose of the framework is to create an environment in which all firms and industries can grow.

The framework echoes important themes that have not formed a major part of traditional development policy. But the changing economic context--the growing importance of trade, the shrinking number of new workers, the rapid adoption of new technologies, and the diminishing number of jobs for our less educated citizens--demand a change. How much and how well we invest in human capital, not our investments in plant and equipment, will determine the economic health and vitality of the U.P.

Most new economic opportunities in the U.P. will be created by the people and the businesses already located here. The entrepreneurial spirit that built the Peninsula's economy from its abundant natural resources in the past must be rekindled. The state itself creates few new opportunities, but working with business and labor leaders, with local communities, and with the U.P.'s natural and human capital, the state can create the environment that allows entrepreneurial efforts to flourish.

U.P. leadership and state government must work together in the coming months to build a strategy to advance U.P. development and build a better life for all residents for today and into the next century.

NOTES TO CHAPTER 4

1. Edward Denison, *The Experience of U.S. Growth, 1929-82*, Washington D.C., The Brookings Institution, 1985.
2. See Jacob Mincer, "Investment in Human Capital and Personal Income Distribution," *Journal of Political Economy*, August 1958.
3. Marc Tucker, "Facing the International Economy," in Stuart Rosenfeld, ed., *Technology, the Economy and Vocational Education*, Research Triangle Park, Southern Growth Policies Board, 1986.
4. NGA Op.Cit.
5. *Ibid.*
6. Cyndi Perkins, "Employee Training Program Hailed," *The Daily Mining Gazette*, November 9, 1988, p.8.
7. A program, implemented temporarily in Arizona, demonstrated a simpler and more reliable approach. Legislation passed in 1985 stated:
 - A. The Center for Vocational Education [located in Northern Arizona University] shall:
 1. By the end of each calendar year publish and distribute a report of the placement rates and average salaries earned by persons completing vocational programs in this state during the prior fiscal year. This report may include information on a program which would be a vocational program except that it was not completed by at least 25 persons during the calendar year.
 - B. The Governing Board of each community college district shall:
 1. Transmit to the Center for Vocational Education the following information within thirty days of the end of the fiscal year:
 - (a) The Social Security number of each person who completed a vocational program during the previous fiscal year.
 - (b) Such information as the center may require in order to conduct a follow-up survey of a sample of vocational program completers.
 2. Make available to students prior to or at the time of registration the report distributed by the Center for Vocational Education.
8. Roger J. Vaughan, "Using the Market to Grade Colleges," *The Wall Street Journal*, April 12, 1986. The program does not violate the privacy of students because it publishes only data on program averages. Graduates moving out of state are not covered (although they could be through the same type of reciprocal arrangements which tracks relocating U.I. claimants). Arizona tracked over 90 percent of graduates.
9. Memo from Ted Graham Tomasi to Pete Cambier, May 3, 1988.
10. George Stigler, *The Economist as Preacher and Other Essays*, University of Chicago Press, 1978.
11. The Kellogg grant is available only for the first year. After that, local business support must be offered.
12. Wooden, pallets may not prove a product with a long market life because composite pallets have been developed at MTU. But, if the program is firmly-rooted, students and teachers should develop alternative goods or services.
13. National Governors' Association, *Rural Development: The Role of the Public Schools*, Washington D.C., 1988, p.28.
14. Letter from Howard Greenley, manager of MTU Small Business Center, to Dr. Norman Schlafmann, State Director, SBCs, 1/12/88.
15. Under Britain's Enterprise Allowance Scheme, more than 200 local enterprise agencies and a number of state funded entrepreneurial training programs have emerged. For example, the Blue Circle Trust in Gravesend, Kent (set up by the Blue Circle Cement Company) has nursed 88 new enterprises since 1981 and has experienced only one failure. Seventy-seven percent of the surviving firms and only 57 percent of the firms going out of business reported using technical assistance. Forty Boutiques de Gestion (Management Shops) followed the creation of France's Unemployed Entrepreneur program. Survival and job creation rates in both countries have increased as a result. See Robert Friedman, *Safety Net as Ladder*, Washington D.C., Council of State Policy and Planning Agencies, 1988.
16. Training programs cover such topics as: homebased businesses for rural communities, pricing for crafters, artists co-operatives in rural communities, business planning for family day care providers, and self-employment for the unemployed.

17. WEDCO operates two finance programs:
 - The Seed Capital Fund (\$350,000). Loans ranging from \$200 to \$10,000, averaging \$5,500, are made to new businesses needing working capital. Interest rates are below market and terms range from 30 days to three years. Applicants are reviewed by a volunteer Loan Fund Committee, which includes members of the local business community:
 - The Growth Fund (\$300,000). Loans are made to existing WEDCO businesses that are expanding and do not have access to traditional venture capital. The borrowers are also loaned a "roving CEO" who trains management in growth strategies.
18. Because of its outstanding track record, unique combination of services, and partnership with local banks, WEDCO has attracted the attention of over 40 states and numerous foreign countries, who have contacted WEDCO with the intention of replicating its program.
19. O'Hare, Op.Cit., p.25.
20. See Dan Nielsen, "MOST Program Creates Workers," The Mining Journal, October 23, 1988.
21. For example, the Steelworker Challenge program in Northeastern Ohio has succeeded in helping unemployed steelworkers. Displaced steelworkers served as counsellors.
22. See Peter Monaghan, "Former Welfare Mother Now Guides Others to Degrees," Chronicle of Higher Education, December 3, 1986.
23. See Margaret Dunkle, Higher Education and Lower Expectations: The Dilemma of Funding College for AFDC Recipients, Washington D.C., The Equality Center, 1985.
24. College Entrance Examination Board, 1985.
25. If the institution fails to improve its services, the poor may be better served by a program that pays their room and board at a school elsewhere in the Peninsula that offers better job prospects to its graduates.
26. See Eileen Stommes, "The Cooperative Organization and Rural Passenger Transportation: An Approach to Community Development," paper presented at the Annual Meeting of the Rural Sociological Society, 1985, and Francis C. Brown, "Televised Classes Help Rural High Schools Offer Fuller, More Rewarding Curricula," Wall Street Journal, November 12, 1985, and Karen Davis and Ray Marshall, "New Developments in the Market for Rural Health Care," in Research in Health Economics, Vol.1, 1979.

5. IMPLEMENTING A DEVELOPMENT STRATEGY FOR THE UPPER PENINSULA

This chapter of the report identifies specific ideas designed to encourage economic development in the Michigan's Upper Peninsula. This supplement was written by Alfred N. Joyal, Ph.D. and Robert Kulisheck, Ph.D. of Northern Michigan University with assistance by Sarah Ekdahl.

Background

In the Fall of 1987 Governor Blanchard commissioned a study of the U.P. economy. A team of analysts was formed and directed to take a fresh look at conditions in the region. This team was told to challenge conventional wisdom, to compare the U.P. with similar regions, and to propose a strategic framework to encourage and sustain economic development. The team of analysts assembled to do this research was diverse in terms of technical expertise, geographic representation and philosophical points of view. The team included representatives of Northern Michigan University, the University of Michigan, Michigan State University, Wayne State University, the Department of Commerce, the Michigan Employment Security Commission, and the Office of the Governor. Roger Vaughan of Vaughan and Associates, served as the primary research analyst and prepared the final report. In addition to the research team, this effort also drew on the expertise of people living and working in the region. These U.P. residents met with the research analysts in a series of focus group meetings which were held in Bruce Crossing, Escanaba, Sault Ste. Marie, and Marquette during the summer of 1988.

Following a detailed analysis of the data, a report entitled A Framework for Economic Development in Michigan's Upper Peninsula was prepared and submitted to the public in June of 1989. This report provided an in-depth analysis of the causes and consequences of the region's economic problems. It also set forth general goals and strategies intended to foster a prosperous and stable economy.

The major theme emerging from the Framework for Economic Development in Michigan's Upper Peninsula report was that investment in human capital was the key to the region's economic future. The human resource model was presented as the most appropriate way to improve the performance of the U.P. economy both in the aggregate and at the level of personal prosperity and security. In terms of aggregate performance of the region, raising education and skill standards, allowing fewer people to enter the work force unprepared, and fostering local entrepreneurial capacity was said to create the foundation for sustained economic expansion and growth. In terms of personal prosperity, and security it was noted that benefits of economic growth would be enjoyed by educated and trained people, while those who are unprepared would be left behind. With the emergence of a two tier labor market, opportunities abound, unemployment is rare and real incomes are high for people with the requisite skills, but for those without the requisite skills unemployment is chronic and poverty is persistent.

While the Human Resource Model puts prime emphasis on investing in people, this does not mean that other approaches to economic development which put prime emphasis on the creation of plants and equipment are wrong. Rather, advocates of the Human Resource Model believe that successful exploitation of a region's natural resources and geographic location requires that the region's population should be prepared and willing to create the enterprises and work in the plants which will provide the basis for a sound, stable, and diverse economy. For example, proposals to revitalize and expand the U.P.'s mining, manufacturing, wood product, and tourism industries are predicated on the assumption that the region's work force will have the necessary skills and motivation to fill the new jobs and that a sufficient number of local entrepreneurs will be prepared to create these new employment opportunities.

In accord with this "Human Resources Model" the first goal set forth in the report was "The need to prepare U.P. employees for tomorrow's economic opportunities." The second goal was "To support U.P. residents when they create new businesses." The third goal was "To raise the work force participation among low-income people."

The final stage of this research project was completed during the summer of 1989. This stage involved the creation of a "U.P. Task Force on Economic Development." This Task Force was made up of a representative group of U.P.

business and community leaders. The group was directed to review the theoretical assumptions and goals contained in the Framework for Economic Development in Michigan's Upper Peninsula report, and identify specific actions which would facilitate the implementation of the report's recommendations.

Delphi Study Methodology

The goal of this study was to produce a set of specific ideas for actions which would lead to the realization of the three major goals identified in the Framework for Economic Development in Michigan's Upper Peninsula. A modified Delphi Method survey procedure employing a series of three questionnaires was used to elicit and refine ideas for specific actions from the Task Force members.

The Delphi Method is a group communication process which takes its name from a Rand Corporation study which started in the early 1950's. The objective of the original Rand study was to obtain a reliable consensus of opinion of a group of experts by a series of questionnaires. Over the years this procedure has been used and refined in an extremely large number of studies covering a broad variety of topics. The major characteristics of the Delphi method or technique include: selection of knowledgeable participants as panel members, independence and anonymity of panel members, reinterviewing after disclosure of preliminary results, and developing a consensus position based on panel member's responses.

The initial questionnaire presented Task Force members with a series of ten questions designed to generate specific suggestions for implementing the major goals set forth in the Framework for Economic Development in Michigan's Upper Peninsula. Task Force members responded with a total of 310 separate suggestions. The responses from this first questionnaire were reviewed and categorized by major theme.

The second questionnaire contained all of the suggestions generated by the first questionnaire. These were organized according to the initial question they were associated with, and by theme as discussed above. The task force members were directed to score each of the suggestions with respect to both applicability and feasibility using a five point scale for each. The higher the score on the applicability scale, the more inapplicable the suggestion, and similarly, the higher the score on the feasibility scale, the more difficult the suggestion would be to

implement. The responses from this round were analyzed to produce a mean applicability score and a mean feasibility score for each suggestion.

The third and final questionnaire contained only the 156 suggestions which, on average, were rated as "good" to "excellent" on the applicability scale used in the second questionnaire. Task Force members were directed to select and rank what were, in their opinion, the best-of-the-best or top 30% of the suggestions under each question. The responses from this questionnaire were analyzed to produce a ranked listing of the final 156 suggestions. The rank of each suggestion is a function of how often respondents selected it to be in their "best-of-the-best" list.

Commentary On Delphi Findings

This commentary provides a brief summary of the major themes which emerged in response to each of the ten Delphi questions. Each of these questions was intended to prompt suggestions which would advance the goals put forth in the Framework for Economic Development in Michigan's Upper Peninsula report. The narrative presented below is based on the rankings which emerged following Round 3 the Delphi survey and a careful review of the verbatim transcripts of specific recommendations submitted by the task force members during Round 1 of the Delphi survey.

Goal 1 Preparing U.P. Employees for. Tomorrow's Economic Opportunities

The first UP'. economic development goal was to prepare U.P. employees for tomorrow's economic opportunities. In response to this goal task force members were asked to make general suggestions on ways to improve the regions K-12 and post-secondary education systems. Members, were also asked for specific suggestions on ways to inculcate young people with entrepreneurial awareness and the skills needed to create new businesses.

Question 1 Laying the Foundations for Tomorrow: Kindergarten through High School

In response to this question task force members provided a wide range of suggestions. A dominant theme was the need for students to acquire skills and knowledge in areas such as reading, writing, mathematics, computers, humanities, and social sciences. These fundamentals were considered to be prerequisites for any form of future success. Acquisition of skills and

knowledge in these areas was considered to be so important that there was strong support for rigorous outcome assessments with corresponding rewards for school districts and individual teachers based on their student's performance.

Another theme was the need for all school districts to have up-to-date equipment facilities and staff. Here the most frequent suggestion was the consolidation of small inefficient school districts. Task force members were also of the opinion that K-12 education would be improved if students were provided with more exposure to the free enterprise system through applied economic courses, simulations and the use of business men and woman as resource people and guest lecturers.

Question 2 Preparing for the Work Place: Post-Secondary Education

Interestingly, the most common responses to the question on how to improve post-secondary education related to convincing K-12 students of the need for higher education and training. Teachers, business people, and recent high school graduates were all cited as people who could stress the value of continued education. It was also suggested that students would be more likely to seek higher education if they were permitted to take college courses for advanced credit while still in high school. Starting early and reinforcing this message throughout high school and elementary school was considered to be of extreme importance.

As with K-12 programs, task force members called for outcome assessments of post-secondary programs. They suggested that programs that succeed in producing quality graduates with appropriate skills and training should be rewarded with financial incentives and public recognition.

The method of delivery of post-secondary education and training was cited as an area in need of improvement. There was considerable support for the delivery of instruction through satellite centers, mobile classrooms, cooperative education, and business internship programs.

Question 3 Showing the Seeds for Business Growth: Expanding Entrepreneurial Awareness

The major theme that emerged in the responses to this question was the need for applied economics. It was thought that an understanding of applied economics principles and practices could be transmitted to students in variety of ways. For example, the expertise of successful business people should be drawn upon during the development and the delivery of programs. Students should participate in hands-on junior achievement type business programs and business internship opportunities should be expanded.

Goal 2 Support U.P. Residents When they Create New Businesses

In that it would be inappropriate to expect the traditional educational system to carry full responsibility for economic development in the Upper Peninsula, additional programs and resources must be available to assist U.P. residents when they create or expand their businesses. Consequently, the task force was asked for suggestions about ways to provide potential entrepreneurs with access to sound business advice and appropriate financial backing.

Question 4 Germinating the Seeds: Giving Good Business Advice

By far the most common response to this question concerning advice to people starting or expanding a business was to increase the coordination of and cooperative efforts between existing planning agencies, colleges, local governments and EDC's. This suggestion is both encouraging and discouraging. On the positive side, most of the respondents seem to believe that resources are currently in place which have the capacity to deliver adequate business advice. Unfortunately, there is also the implication that these resources are not being effectively utilized. There appears to be a need for better publicity for existing programs, a reduction in the duplication of services, and more coordination in the delivery of seminars and one-on-one business counseling. A number of respondents believed that banks and other lending institutions should provide more initial counseling and continuing accounting and financial management assistance throughout the terms of their loans.

Question 5 Growing from Seed: Financing Entrepreneurship

When asked what could be done to ensure that new businesses and expanding small businesses have access to adequate finance without being given an inappropriate advantage most of the task force emphasized that new business loan applications should have a sound business plan. In responding to this question task force members noted that many complaints about the absence of adequate financial support for business start-ups in the U.P. could be avoided if the loan applicants submitted more thorough and carefully thought out business plans. To the extent that this is true, improved access to capital will require that lending institutions and economic development organizations provide entrepreneurs with more information and assistance during the preparation of business plans and loan applications.

There was agreement that there is a shortage of venture capital in the U.P. and there was a consensus in support of the creation of a multiple-lender pool of funds reserved for new business loans. There was also substantial support for an annual program where venture capitalists and entrepreneurs could get together to explore joint projects in the region.

Question 6 Improving Access to Programs

Once again the majority of task force members noted that improved access to education, training and business development services would require greater publicity about existing programs and more coordination in their delivery. Suggestions for specific improvements involved modifications and refinements of existing programs rather than the introduction of major new efforts. For example, it was suggested that a single toll free number should be listed as a common source for economic development information in the U.P., training sessions should be delivered during the weekend, a volunteer program should be created and staffed by retired business persons and business training and education should be made available utilizing home computers, videos and two way interactive *communication* systems.

Goal 3 Raise the Workforce Participation Among Low Income People

If the U.P. is to prosper as a region and if impoverished individuals are going to break the cycle of dependence then the workforce participation among low income people must be increased. The task force was asked to consider ways to involve welfare recipients in education and training programs and make suggestions about how their training should be financed. The members of the task force were also asked how low income people could be helped in starting their own businesses.

Question 7 Marketing Education and Training Opportunities to Low Income People

Most of the suggestions concerning encouraging low income people to take advantage of education and training opportunities involved restructuring incentives. The task force was of the opinion that work rules associated with assistance should be changed so that people who start work can keep more of their income. There was also the belief that welfare recipients would be more likely to enroll, if training programs were tailored to existing opportunities and resulted in actual employment. In addition, it was suggested that low income parents would be more willing to become involved in training programs if affordable convenient child care were provided.

Question 8 Financing Education and Training for Low Income People

When asked how we can ensure that everyone can enroll in the education and training programs for which they are qualified regardless of their personal financial resources, task force members suggested that welfare recipients should be required to attend state supported educational programs. Beyond this, the task force suggested that employers should be encouraged to pay for a low income person's specialized education on the assumption that the person would be required to

payback the firm for the cost of their education if they quit their job. More generally there was a call for a partnership between federal and state welfare agencies, private industry, schools, and training centers.

Question 9 Helping Low Income People Start Their Own Business

This question about how to offer low income people the opportunity for creating their own job as a way to achieve self-sufficing generated the lowest number of suggestions. In fact many respondents questioned whether this was a valid approach to solving the problems of low income people. Those ideas that emerged were rather general in nature. Included among the four suggestions considered to be either good or excellent by a majority of the task force were; first, the provision of appropriate education and training programs, second, the reduction in the amount of red tape required to start a business, third, the creation of a simplified tax structure and fourth, the need to concentrate efforts on skilled workers regardless of income. Thus, even though programs in other parts of the country have focused on helping low income people start their own businesses there does not appear to be support for this type of program among the members of the U.P. Task Force on Economic Development.

Question 10 Additional Suggestions

When asked to provide additional suggestions which were not directly related to the human resource economic development model task force members were most likely to suggest that we should use and enhance the agencies and institutions we have rather than create new ones. Beyond this, other suggestions included calls for improvements in highway and air transportation, directing state assistance to industries that have growth potential, aggressive advertising of U.P. products and marketing of the U.P. as a prime investment location.

Delphi Study Findings

All of the ideas listed here were designated as "good" or "excellent" ideas during Round 2 of the survey. In Round 3, respondents were asked to identify which of these ideas were the "best-of-the-best" (in the top 1/3 of the ideas presented for each question). The rankings (Rank presented in this document are based on the number of times an idea was included in the best-of-the-best grouping under each question. The percentage (%) values indicate the percentage of respondents who included the idea on their best-of-the-best list for that question. Feasibility scores are measured on a five-point scale; the higher the score the more difficult to implement. These are aggregate scores that represent the consensus view of the Task Force.

Question 1. Laying the Foundations for Tomorrow: Kindergarten through High School

How can we do this? What ideas do you have?

Rank	%	Feasibility	Idea
1	54	1.7	Make greater use of community and business people as resource people and guest lecturers.
2	51	1.8	Put more emphasis on basic learning skills.
2	51	1.7	Encourage the consolidation of small, inefficient school districts.
1	2	2.1	Encourage school systems to provide students with greater exposure to the free enterprise system by setting up a "micro economy" within each school district where students learn about risk, decision making, and profit through hands-on experiences in developing and running their own businesses.
5	50	2.1	Reward teachers, students and schools based on outstanding performances.
6	46	2.2	Provide merit-based incentives and opportunities for teachers to keep up-to-date.
7	43	2.5	Analyze existing programs' strengths and weaknesses in order to decide where additional emphasis should be placed.
8	41	2.3	Provide better career counseling.
Q	43	~\$	Recognize effective and creative teachers and administrators and get rid of those that aren't.
1Q	32	1.1	Rigorously test and evaluate skill levels and advancement success rates within the K-12 system.
11	32	3.2	Develop programs to help parents instill in their children proper pro-education values and attitudes.
12	12	2.1	Identify good teachers and help them pass on their skills.
11	12	2.2	Modify traditional contracts to encourage innovation.
14	12	5.a	Change the current millage funding system.
15	**	2.4	Update archaic methods and equipment in vocational education programs to keep pace with the state of the labor marketplace.

Question 1. Laying the Foundations for Tomorrow: Kindergarten thru High School (cont.)

Rank	%	Feasibility	
18	33	2.6	Provide better linkages with higher educational programs.
11	2	2.4	Be more selective when graduating candidates from schools of education.
18	28	3.8	Move away from the traditional concepts of tenure for teachers.
19	26	2.2	Develop a range of programs to serve the needs of all types of students.
24	24	2.2	Consider cost effective head-start programs to improve the competency of students.
2	22	3.4	Adjust salaries of teachers so they won't be lost to business.
22	22	3.2	Employ a cumulative point-based incentive system based on good citizenship and motivation that allows students to gain financial assistance toward higher education.
21	24	4.0	Emphasize English language proficiency before foreign language training.
24	20	3.1	State should provide financial incentives to innovate programs.
2i	20	1A	Provide more funds to small, rural schools so they can afford up-to-date equipment and other facilities.
26	20	3.5	Provide additional funding for Upper Peninsula schools because of extensive federal and state land holdings in the region.
21	24	2Q	Develop programs through which students help students.
28	20	2.8	Develop more programs to serve the needs of talented students.
22	11	2.2	Require a practical government class in all high schools.
3Q	11		Provide up-to-date, state of the art facilities.
31	11	2.4	Schools should seek grants and endowments to provide additional educational experiences.
31	Q	2.8	Develop student and teacher exchange programs with downstate and other U.P. school districts.

Question 2. Preparing for the Work Place: Post Secondary Education and Training

- a. *What can be done to increase the numbers of students investing in education and training beyond high school?*
- b. *What ideas do you have for making post-secondary programs more relevant for employers' needs?*
- c. *How can the programs we have be made more flexible and effective?*

Rank	%	Feasibility	
1	59	11.	Inform and educate K-12 students about the need for higher education and training (start early and continue to reinforce the message).
	52	2.5	Reward successful programs with financial incentives and public recognition.
3	48	2.2	Offer more cooperative education and internship programs.
4.	41	2.5	Develop a joint high school-college curriculum where students may take college courses for advanced credit while still in high school.
5	48	1.8	Employers should visit high schools and emphasize the importance of higher education.
.k	45i	2..	Develop incentives for public and private institutions that tailor programs to meet the needs of local employers.

Question 2. Preparing for the Work Place: Post Secondary Education and Training (cont.)

Rank	%	Feasibility	
2	41	2.2	Create a task force of business and educational leaders to recommend appropriate higher educational programs for the region.
8	43	3.2	Deliver classes to the students through satellite centers, mobile classrooms and college-without-walls programs.
2	32	2.2	Allow successful and unsuccessful high school graduates or even dropouts to visit current high school students with "real life" experiences to relate, stressing the importance of education.
14	32	2-7	Have private sector people teach courses as adjunct instructors.
>	37	?	K-12 education should be of high quality and instill confidence in students.
12	37	2.2	Encourage teachers and administrators to work in the private sector from time to time.
13	21	3-2	Tax incentives should encourage businesses to help pay for their employees' higher education.
14	U	2.1	Hold regular meetings with business and educational representatives to explore the higher educational needs in the region.
1i	U	3.1	Improve the performance of teachers.
16	30	3.2	Reduce the number of students who drop out of high school.
17	2.5	2.7	Provide a more diversified high school education, including computer and foreign language courses.
1\$	a	2.0	Improve the performance of administrators.
12	26	2.7	Offer classes and programs at times that are convenient for working students.
20	26	2.4	Use the media to inform the people about the growing need for higher education.
21	21	2.2	Create additional entrepreneurial centers to encourage experimentation.
22	24	2.9	Tax incentives should encourage parents to help pay for their children's higher education.
23	24	3.1	Government assistance should be provided to low and middle income students who can't afford higher education and training.
24	24	L. a	Improve the performance of career counselors.
25	22;	2.6	Standardize accreditation for courses so that credits transfer more easily and fairly between colleges.
2A	22	2.2	Business should be willing to pay for relevant classes taken by their employees.
27	17	2.5	Aid the middle class in funding post-secondary education for their children.
8	17	2.3	Simplify the complex financial forms currently being used.
22	11	1.1	Make sure that employers really know what their own needs are before they make recommendations.
30	15	2.1	Use focus groups to explore higher educational needs in the region.
i	Li	2.2	Offer classes and programs in ways that are not demeaning for adult students.

Question 3. Sowing the Seeds for Business Growth: Expanding Entrepreneurial Awareness

How can we increase the awareness among high school students and other Upper Peninsula residents of how new jobs are created and of the skills needed to create new businesses?

<u>Rank</u>	<u>%</u>	<u>Feasibility</u>	
1,	U 22		Draw on the expertise of successful business people in K-12 programs.
2	6j: 2.2		Offer summer business internship opportunities.
3	46 2.4		Hold periodic workshops and brainstorming sessions involving business, community, and educational representatives.
4	3Q 2.2		Offer hands-on business programs in high schools, e.g., Junior Achievement, DEEP, etc.
5	37 2.6		Establish entrepreneurial assistance centers at colleges and universities in the region.
J	31 2.4		Develop an awareness of how to retain existing jobs as well as create new jobs.
7	33 2.5		Require applied economics units in courses throughout the K-12 program.
8	26 2.0		Encourage economic development professionals to make more presentations to nonbusiness groups, unions, PTAs, etc.
Q	26 2.6		Draw on the expertise of college and university instructors in K-12 programs.
10	24 2.8		Require high school social studies and business teachers to have formal training in applied economics.
U	22 2.4		Use successful high school business and economics teachers as mentors for programs.
U	20 2.3		Require an applied economics course in high school.
1	17 2.1,		Require career awareness units in a high school course.
14	1Z 2.4		Offer a video training tape and companion workbook on entrepreneurial skills as part of an existing core class for high school seniors.
15	17 2.4		Hold a "U.P. Expo" where students and small businesses could interact.
jb	1 1 2,		Develop a summer Business Week for middle school students to demonstrate how business works and the effects of economic expansion and change.

Question 4. Germinating the Seeds: Giving Good Business Advice

What can be done to ensure that people considering starting a business or in the early stages of business development can find the sound advice they need to solve their business problems?

<u>Rank</u>	<u>%</u>	<u>Feasibility</u>	
L	22 2.4		Increase coordination and cooperation efforts between existing planning agencies, colleges, local government, and EDC's.
2	46 2.6		Both NMU's NEIC and MTU's BID should offer business assistance seminars and workshops throughout the U.P..
3	41 2.0		Better publicity for the services already in place.

Question 4. Germinating the Seeds: Giving Good Business Advice (cont.)

<u>Rank%</u>	<u>Feasibility</u>	
4		Banks and other lending institutions should provide accounting and financial management assistance to new businesses throughout terms of loans.
5	Q	2.5 Set up regional business round tables and make these accessible to new business start-ups.
§	3C	Li Inform high school and college students of services available and how to utilize them.
7	74	?2 Banks and other lending institutions should employ one or more persons trained to work with people interested in starting new businesses.
\$	2.4	2,Q A form letter listing available services should be distributed by agencies and institutions who receive inquiries about loans and business opportunities.

Question 5. Growing from Seed: Financing Entrepreneurship

What can be done to ensure that new businesses and expanding small businesses have access to adequate finance without being given an inappropriate advantage?

<u>Ran</u>	<u>%</u>	<u>Feasibility</u>	
			Require new business loan applicants to have a sound business plan.
2	34	3;j	Develop a multiple-lender pool of funds reserved for new business loans.
3	54	2.4	Set up a central information center in the Department of Commerce to make information on financial assistance sources available to new businesses.
4	46	2.3	Run an annual program where venture capitalists and entrepreneurs get together to explore potential joint projects.
5	31	2.2	Banks and other lending institutions should publish specific criteria for new business loans and be willing to lend to those applicants which meet the criteria.
6	2.6	34..	Have revolving funds and grants available under the direction of a competent administrator.
7	Q	2,1	Reduce the time it takes to process loan applications.
8	Q	2.	Encourage new business owners to join business associations and economic clubs and subscribe to trade journals.

Question 6. Improving Access to Programs

What innovations would lead to improved access to education, training, and business development services?

<u>Rank</u>	<u>Id</u>	<u>Feasibility</u>	
1	61	2.4	Coordinate existing business development programs offered by U.P. colleges and universities to eliminate overlap and wasted expenditures.
2	2	2.4	Develop a toll-free business information number and publicize it often and widely.
3	52	2.9	Universities and colleges should deliver more intense but shorter training/education programs using weekends.
4	J2	2.4	Develop a volunteer 'circuit-rider program staffed by retired persons with business experience.
5	48	3.3	Make business training and education available utilizing home computers, two-way interactive videos, and other technology through an expanded, possibly U.P.-wide telecommunications network.
6	41	2.5	Offer more entrepreneur training courses through high school adult education programs.
7	3_Q	2.3	Involve employers in the development and delivery of training and education materials.
\$	a	2.4	Encourage administrators and faculty of local colleges and universities to "let their hair down" and become team players with their communities.
Q	3	3.6	Encourage the consolidation of school districts.
jQ	2.S	2.2	Distribute training and education materials on audio tapes and video cassettes.
11	21	4.2	Implement the N-S, E-W , four lane highway system across the U.P..
2	24	2.8	Use satellite hook-ups to conferences in metro areas to remain abreast of innovative concepts in economic development.
13	Q	2.4	Update current educational programs to include an emphasis on the importance of post-secondary education for women.

Question 7. Marketing Education and Training Opportunities to Low-Income People

How can we increase the placement rate of welfare recipients in education and training programs and improve their competencies more effectively?

<u>Rank</u>	<u>Id</u>	<u>Feasibility</u>	
1	63	2.8	Change the work rules associated with assistance so that those on assistance that do start working can keep more of their income; compute assistance deductions on a more liberal basis.
	J.	2J	Create relevant training programs that reflect existing opportunities and result in actual employment.
3	X4	2	Offer recipients a stipend for educational involvement leading to actual employment with additional aid requisite upon successful academic achievement.
4	4c	\$,1	Provide affordable, convenient child-care for low-income persons in training and education programs.
5	48	2.9	Eliminate disincentives to leave welfare by the threat of losing support or having to work for it.

Question 7. Marketing Education and Training Opportunities to Low-Income People (cont.)

Rank	%	Feasibility	
.	41	2,Q	Emphasize basic (reading, writing, math) skills.
7	41	?8	Make welfare recipients perform needed public service work for their income, goods or services.
8	37	2,2	Each welfare recipient should be required to inventory education and skills and correct deficiencies.
2	31	2i	Make participation in an educational skill development program mandatory.
10	21	2,1	Raise recipients' motivation and self-esteem through positive experiences such as the opportunity to work toward a high school diploma or participation in volunteer work.
11	~Q	2A	Develop more coordination between existing programs.
12	Z\$	2.6	Reexamine current programs for greater accountability.
11		2,,2	Create awareness of the higher education levels needed for the available jobs.
14	11	3.1	Provide more individualized training and education programs.
11	11	27	Enforce current laws and policies with respect to training and assistance.
16	11	M	Provide entrepreneurial and small business management courses.
11	4	3,1	Provide better public transportation.

Question 8. Financing Education and Training

How can we ensure that everyone can enroll in the education and training for which they are qualified regardless of their personal financial resources?

Rank	%	Feasibility	
1,	52	2.9	Attach required educational program attendance to maintenance on the welfare system.
2,	14	2,2	Develop worker-employer contracts; the worker agrees to stay with the firm for a certain period of time following training in return for financial support from employer.
3	50	3.0	Provide affordable, convenient child-care for trainees.
	46	2,\$	Develop a partnership between the federal, state government and private industry to provide more training funds with cooperation between welfare agencies, schools and training centers.
5	46	••	Create better awareness of current low income education support programs.
.	41	==	Rejuvenate the K-12 system to assure the development of basic skills.
7	37	2,1	Survey employers for their willingness to 'adopt' students in specific training areas.
8	35	2,4	Ensure a more accountable check-and-balance system with current disbursement of funds.
2	2\$	1,2	Publish a comprehensive Upper Peninsula scholarship guide to assist students in locating funding.
14	2¢	2.	Set up local 'educational trust funds' with contributions from labor, business and individuals.
11	20	3.3	We must insure the development of jobs in our area.
12	2.Q	2.2	Make available low interest loans with tax incentives for early repayment.
13	20	3,,1	Provide state equalized funding for rural post-secondary education and training.

Question 9. Helping Low-Income People Start Their Own Business

What can be done to offer low-income people the opportunity to create their own job as a way to achieve self-sufficiency?

Rank	% ⁴	Feasibility
	*	2.7 Provide appropriate training and education programs on entrepreneurship and business management.
2	*	2. Reduce the amount of red tape required to start a business.
3	*	3.1 Create a simplified business tax structure.
4	*	2.4 Concentrate efforts on skilled workers regardless of income.

⁴Respondents were asked to rank all four ideas so the percentages are equal and 100% for all four ideas.

Question 10. Additional Suggestions

Most economic development recommendations can be subsumed under the human resource development model put forth in this report, however, if you have additional suggestions which you have not set forth in response to any of the previous questions, please note them here.

Ran	!	Feasibility
1.	2A	1,Q Use and enhance the agencies and institutions we have rather than create new ones.
1	63	3.7 Improve the transportation infrastructure - highway and air.
	45	2. It is essential that the Department of Commerce work with the various educational institutions of the Upper Peninsula to target certain industries and actually establish and expand both new and existing companies by direct action.
4	37	2 Promote effective U.P. labor-management relations and advertise as a lure to new business and industry.
	g_1	Place greater emphasis on the State's role in developing the U.P. economy, particularly in relation to highway development.
6	35	2.4 Devote some attention to the quality of jobs.
2.	31	2_2 Proudly promote the quality and cost effectiveness of U.P. -manufactured goods and agricultural products throughout the world.
8	33	2.4 Encourage foreign investments and idea exchanges, especially with Canada.
Q	2,6	2,1 Develop inter-city and inter-county joint ventures, possibly involving winter sports activities.
13	24	2.4 Encourage chambers of commerce across the U.P. to give greater recognition and assistance to very small businesses operating under the direction of only one or two people.
I	2.2	3 4 Equalize educational opportunities across the Upper Peninsula.
II	22	2.1 Expand the Michigan Bell Jobs 2000 project across the U.P..
13	17	2.0 Add small business people to this committee who have either failed in their U.P. business venture or are marginally surviving.
14	17	2.0 Encourage academically gifted high school students to take one or more business courses.

Conclusion

The findings generated during this series of Delphi Surveys provide a wealth of specific recommendations which will contribute to the implementation of the objectives put forth, in the Framework for Economic Development in Michigan's Upper Peninsula report. The Task Force on Upper Peninsula Economic Development has provided a picture of what U.P. business and community leaders consider to be the most appropriate and feasible ways to improve the aggregate performance of the U.P. economy and advance the personal prosperity and economic security of residents of the region.

This Delphi Report along with an appendix containing the complete transcripts of all the suggestions submitted during Round 1 of the survey will be forwarded to the Governor and the Director of the Department of Commerce. These documents in conjunction with the Framework for Economic Development in Michigan's Upper Peninsula report will guide the state in the development of new programs and the modification of existing programs. While implementation of these recommendations requires support at the state level a successful U.P. Economic Development strategy requires the continued advocacy and active involvement on the part of people from communities across the U.P.

In the final analysis, economic development in the U.P. results from investments by its 300,000 residents: high school students building their own skills, bank loan officers evaluating loan applications from local businesses, welfare recipients enrolling in training programs, high school principals experimenting with better ways to engage and teach students, elected officials voting budgets for investments in roads and water treatment facilities, and public agency staff weighing the environmental impacts of new developments. Economic development in the U.P. does not depend only on the actions of a few people. It is the accumulation of what everyone does to create new opportunities.