

MICHIGAN'S EMERGING WORK FORCE
An Analysis of Policy Issues and Implications

....A Discussion Paper....

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Although optimism seems difficult in a period of record unemployment and recurrent state budget crises, it may nevertheless be justified now for Michigan. Unless the United States remains indefinitely in its current state of economic stagnation, Michigan can experience high levels of employment and prosperity by the end of the 1980s and throughout the subsequent decade. To achieve this, the state must undergo a drastic and difficult transition which will dramatically change its economic structure.

HISTORICAL PERSPECTIVE

Michigan has been the center of this country's growing automotive industry since the beginning of the present century. Ford, General Motors, Chrysler, and a host of related companies started here and provided employment to several generations of Michigan residents, particularly in the Detroit-Flint-Saginaw area. The relatively high wages, starting with Henry Ford's famous \$5 a day, attracted a steady stream of migrants from the south and southeast as well as from many foreign countries. Population growth, as a result, was high until the early 1970s and produced a major concentration of younger residents. The state's economy became closely linked with the fortunes of the automotive manufacturers, its major employer.

Indications that this link was weakening began to appear in the mid-1970s as an offshoot of changing consumer interests produced by the 1973 Arab oil embargo with its resultant dramatic increase in gasoline prices. Changing customer tastes facilitated increased market penetration of the domestic auto industry and eroded domestic auto sales. The recession also reduced sales and required massive layoffs within the U.S. auto industry. Indefinite layoffs due to reduced car sales have increased dramatically and in the "Big Three" alone are approaching 270,000 nationwide. This is nearly one-third of their workforce. In Michigan, 150,000-200,000 automotive-related jobs have been permanently lost. This factor alone accounts for one-fourth of the unemployment in this state. The spin-off effect of these job losses on Michigan's economy has been devastating.

As employment opportunities dwindle, more and more people leave Michigan to seek employment in other states. As a result, Michigan for the first time in its history is losing population. Out-migration from Michigan exceeded 100,000 in 1981. Combined with continuing low birth rates and growing life expectancy, this out-migration is producing a population whose average age is increasing rapidly. By 1990, one in ten Michigan residents will be 65 or older, and by the year 2000, one in eight will be over 65.

PROSPECTS FOR THE FUTURE

It is generally agreed that Michigan is facing yet another difficult year and that the economy will improve very slowly. Unemployment is likely to remain at or above 15 percent in 1983 (in excess of 600,000) and to stay at double-digit levels for several years. Even if the

demand for automobiles and trucks increases appreciably and leads to expanded output, increased automation of the assembly line will keep the number of Michigan workers recalled from layoff to a maximum of 35,000. Hiring for partial replacement of retirees should provide between 10,000 and 15,000 positions per year.

Michigan must recognize that most of these auto-related jobs are gone in developing plans for its future. Whether this fact presages continuing high levels of unemployment in Michigan depends on a number of interrelated factors and the actions of government, educational institutions, employers, and unions. Full employment, now generally considered to be an unemployment rate of 6.5 percent or less, is a distinct possibility in this state by the end of the 1980s.

While it is no longer dominant, the automotive industry surely will continue to be an important source of employment and revenue in Michigan. In the late 1950s and early 1960s, many manufacturers opened assembly plants in other parts of the country in order to be closer to customers. Production in these plants has proven to be more costly due to the expense involved in shipping parts from the midwest where suppliers remain concentrated. Further, a higher-than-average proportion of cars in use in California and New York are foreign made. Cars assembled in these and neighboring states commonly have had to be shipped elsewhere in order to be sold. As a result, virtually all of the plants there are in the process of being closed. California, for example, now has only one assembly plant which will be shut down in 1983. Ford closed its Mahwah, New Jersey plant in June 1980 and, in effect, has discontinued car production in the northeast.

It must be anticipated that the automobile industry will largely "come home" to Michigan and nearby states within a few years. Thus, even if the number of American-built cars remains near current levels, the number manufactured in Michigan should increase. Continuing automation will prevent comparable increases in jobs, but industry employment should stabilize at around 300,000.

There are other possible sources for expanded industrial employment. New blue-collar job opportunities should develop in plastic, lightweight metal (i.e. aluminum), and electronic fabricating. The manufacture of robots is also rapidly increasing in importance. These industries will be a growing source of material and parts for automobiles and other motor vehicles. Efficiency considerations require that these support industries be located in proximity to assembly plants. This strategy, developed and fostered in Japan, is known as kanban. This would encourage the development of industrial parks, particularly in Detroit's metropolitan area. General Motors has announced that it will implement this concept for its Buick Division in Flint. A number of smaller high-technology companies have been established successfully in these fields in recent years and, in many cases, will continue to expand. Others will join them in meeting the emerging needs of the automotive industry.

Michigan has the potential for major industrial development and expansion in a number of other fields. The state continues to send the

products of its farms, forests, and mines to other states for processing. They are then, in some cases, returned to Michigan for consumption. Instead of shipping apples and cherries, the state needs to provide facilities to produce and market applesauce, jellies, and cherry pies. Processing of food and other agricultural products remains substantially below potential capacity because of Michigan's historically higher production and transportation costs. This differential is now greatly reduced and has created the potential for increased sales to other states and to foreign countries. Processing plants, located close to their sources, not only offer the opportunity for appreciable job creation but also for expansion of farm income. This could help to stabilize the size of Michigan's farm population, a sector whose earnings have been seriously eroded by rising costs and falling prices for its products.

Similar potential exists in wood processing and fabricating. At one time Michigan's vast forests made it the center of the nation's furniture industry. Most companies have moved to North Carolina and other southern states, primarily for economic reasons. The trees are still here in Michigan, in greater quantities than at any time in the present century. With proper management, it will be possible to maintain cutting levels greatly exceeding current rates. The wood produced provides the potential for reviving long-dormant industries as well as establishing new manufacturing processes such as the production of specialty paper and related goods. Japan, which has virtually no forests, is a major importer of wood and wood products and could provide an important market for Michigan. By the year 2000, one in ten Michigan industrial workers could be engaged in processing wood-based products. Since much of the forested land consists of relatively small and independently owned parcels, this also could provide an important source of added income for rural residents.

According to a list recently released by the U.S. Environmental Protection Agency (EPA), Michigan has the dubious honor of having 46 of the 418 most dangerous industrial toxic waste sites in the nation, including one at Swartz Creek which is in the top 20. It ranks second among the states, exceeded only by New Jersey. The EPA's report, prepared in response to a request from the U.S. Congress, is a reflection of the growing concern with waste management in this country. Removing existing environmental dangers to the public health and preventing their recurrence ultimately may involve a massive and sustained effort requiring an expenditure in Michigan of hundreds of million dollars. Nationwide, the clean-up and protection of air, land, and water could cost as much as \$10 billion and will necessitate the manufacture and utilization of large quantities of sophisticated materials and equipment. The industry has the potential for substantial growth. Michigan's industrial know-how and its location in the center of one of the areas of greatest need provides the opportunity for significant economic expansion and job creation.

Manufacturing now accounts for 20.6 percent of the civilian labor force, making it the state's largest employer. This percentage should decrease to 16.6 by the year 2000. Despite an ongoing increase in the value of goods produced, the number of jobs in manufacturing is

shrinking and can be expected to continue decreasing an average of 7,500 or more per year from the current 888,000 to less than 750,000 by the end of the century. Jobs lost will be primarily those involving repetitive motions. These positions will be eliminated by robots which can perform the tasks cheaper and more efficiently. One example of this is production-line welding which, in effect, will cease to exist as an industrial job classification. The positions remaining will require high levels of skill and technical knowledge.

Major sources of sustained economic growth and job creation will be in business and finance, recreation, and service-related industries. Michigan has always been a business and finance center because of its large industrial capacity. Major economic expansion appears likely, in part, because of Michigan's central location. More than half of the total North American population and most of its industrial capacity is within twelve-hours driving time (660 miles) of the state. Access to foreign countries is readily available through the St. Lawrence Seaway and by direct rail link to Montreal and other Canadian ports.

Michigan has many seasonal and year-round recreational sites in all parts of the state. In many instances these sites are minimally developed and utilized. There is a potential for substantial growth of a broad range of resort facilities and supportive services since these areas are within six-hours driving time of more than 25-million residents. In addition, the number of Michigan residents 65 and older is increasing by 15,000 a year and will exceed one million by the end of the century. Many of these individuals have the resources and motivation for a variety of recreational activities. The state must continue to vigorously bring the opportunity for development to the attention of individuals and corporations with the required financial resources and entrepreneurial skills. Recreation should provide sustained employment growth for individuals in skilled and semiskilled occupations.

Business and finance are in a state of rapid transition. Many clerical positions are being replaced by automated procedures. Information storage and retrieval is becoming a computerized function with transmission through telecommunication processes. This will generate a substantial demand for personnel capable of maintaining and handling sophisticated equipment due to rapid expansion in commercial, residential, and personal insurance; local and international trade; finance and credit management. This should lead to high total employment levels in business and finance, equaling or exceeding current figures.

The service industry presently is Michigan's second largest employer, exceeded only by manufacturing. It is the only major industry in which the number of jobs increased during the current recession. Employment in the service sector should continue to grow, from the current 668,000 to more than 850,000 by the year 2000. It will then supersede manufacturing as the largest labor force category.

The service industry encompasses a broad range of occupations, from those catering to the health and social needs of the elderly to

those maintaining and repairing automobiles as well as a wide and growing variety of other mechanized equipment. Demand for such services is continuing to increase rapidly with the introduction and utilization of new and more complex products. For example, it has been projected that 90 percent or more of the three million telephone receivers will be individually owned within five years. Maintaining this equipment will require a new category of skilled and specialized technicians. Appreciable employment growth is projected also in the cable television industry since the number of homes hooked up is projected to double by 1985.

Continued growth of Michigan's elderly population will increase the demand for skilled and semiskilled personnel in the health care field. Those aged 65 and over require a greater-than-average amount of health-related services. While the level of demand will depend in part on the extent of third-party payment coverage, demographics point to an inevitable growth.

DEMOGRAPHY, THE HIDDEN FACTOR

Michigan's current rapid increase in the size of its labor force has been an important factor in its high unemployment rate. Approximately 175,000 young men and women presently reach working age each year compared with about 85,000 who leave the work force because of retirement or death. In addition, the proportion of all women in the labor force has grown dramatically from 40.2 percent in 1970 to 52.4 percent (November 1982), an average increase of 40,000 per year due to higher participation. The resultant growth rate (an annual rise of 3 percent in the total number of workers) is temporary, largely a reflection of relatively high birth rates in the late 1950s and early 1960s and the changing role of women. It has not been possible to provide sufficient entry level jobs for youth and women, particularly those with limited or no marketable skills. This has resulted in unemployment rates in the 18-24 age group which exceed that of all other population segments. Youth unemployment has been moderated somewhat in recent years by an estimated 50,000-60,000 men and women of working age who annually enter the armed forces or migrate to other states in search of jobs.

By the end of the 1980s, the number of young men and women entering the labor market each year will have decreased dramatically, to 125,000 or even less due to birth rates which decreased steadily beginning in the middle of the 1960s. Also, the proportion of women in the labor force should increase at a much lower rate than in preceding years, because of the rapid increase in the number of older retired females as well as the continuing desire and ability of some women to be full-time homemakers. The loss due to retirement, death, and out-migration should nearly equal this number and result in limited or no growth in Michigan's labor force. Without appreciable in-migration, a higher average retirement age, or a greater than anticipated rise in the proportion of employed females, the number of workers will actually decrease moderately during the 1990s. By the year 2000, the size of Michigan's labor force will be only about 5 percent (215,000) higher than the current 4,300,000 and should approximate the number of

available positions. Unemployment will then be at minimal levels, the 6.5 percent or less generally accepted as full employment.

Those entering the work force in the 1990s will have a much higher level of education and training than those retiring. It has been postulated that this will prevent them from seeking and obtaining "blue-collar" industrial employment. This does not appear likely since such work will require sophisticated knowledge and skills and therefore will be radically different from that generally prevailing now. Despite shrinking industrial employment, death and retirement should produce 25,000-30,000 job openings per year. The young men and women seeking such work should be highly qualified to fill these slots and should have no difficulty obtaining desired positions.

Business and finance should also be attractive for young men and women who have acquired appropriate skills in high schools and colleges. The rapidly expanding service industry also will be competing for the limited number of young men and women entering the labor force. Retail stores, fast food establishments, and recreational facilities which require large numbers of minimally trained personnel will experience increasing difficulty in hiring and retaining employees because of a rapid decrease in the number of younger people seeking such work. Many, for the first time, will have to look to the elderly and to middle-aged women entering or reentering the job market as a primary source of workers. This shortage should raise the relatively low wages prevailing in these industries to earning levels available elsewhere, as well as increase the amount of capital investment per worker.

POLICY ISSUES AND IMPLICATIONS

Schools must reorient their educational programs to prepare students to perform the tasks emerging in commerce and industry. Mathematics, computer technology, and the sciences must be core courses emphasized in high school and college curricula. Foreign language proficiency will be important because of rapid trade expansion and the exchange of knowledge with other countries. State government will need to develop and enforce guidelines as well as provide required funding for meeting these objectives. The state and its colleges of education must assure that an adequate number of instructors is available in these subjects.

Massive retraining efforts need to be initiated by government, employers, and unions for workers whose jobs in industry and commerce have disappeared. They will have to focus on providing marketable skills as well as orienting trainees to job settings which, in many cases, will be radically different from previous work sites. Based on national estimates, the number to be retrained could exceed 800,000 in Michigan by the year 2000, one-sixth of the projected total labor force. Others will require on-site training to update and expand work skills in order to maintain their jobs.

Michigan's excellent transportation network--its highways, railroads, seaways, and airways--has been an essential factor in its

economic prosperity. This network has deteriorated dangerously because of reduced funding for construction, maintenance and operation in the current recession. The Transportation Package, signed by Governor Milliken as one of his last acts in office, should produce 15,000 jobs in transportation-related industries and 39,000 in other industries by 1987. The financing which this legislation will provide will be reinforced by increased federal funding resulting from recently enacted legislation.

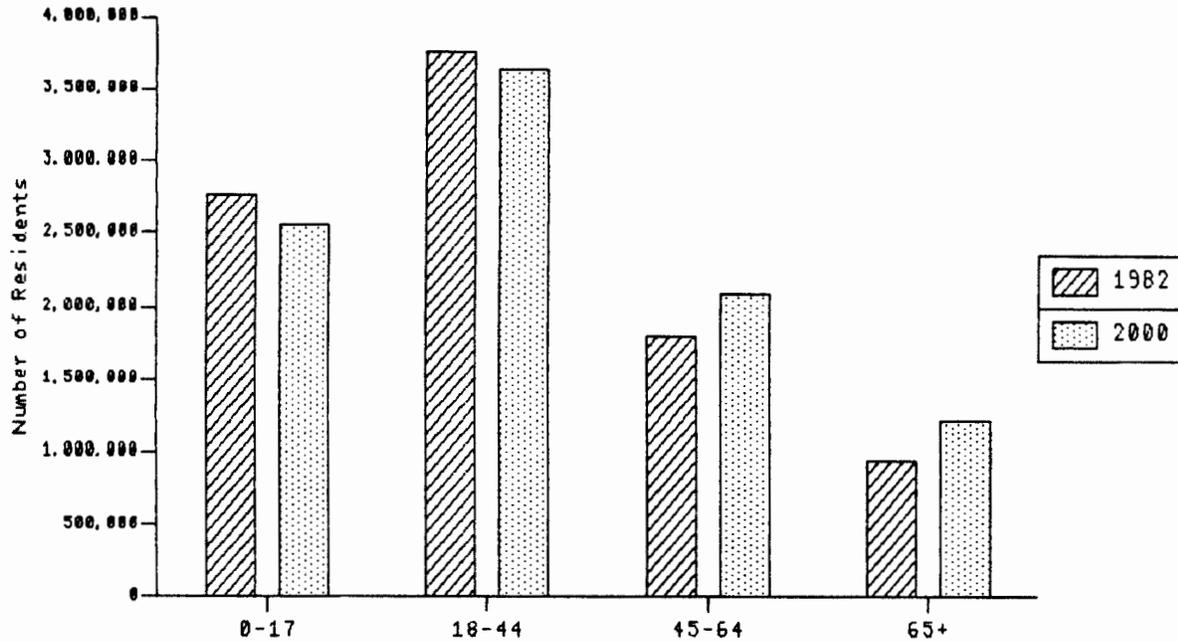
Government, labor, and management now recognize that Michigan must foster a wage and tax structure competitive with other states. The state can no longer isolate itself and ignore wage and benefit levels prevailing elsewhere. Renegotiation of union contracts with major employers in Michigan represents recognition of this fact. Recent revisions in the Unemployment Insurance and Worker's Compensation Acts also reflect a response to this issue. Health care costs are higher in Michigan than for the United States as a whole. They constitute a growing proportion of total business costs and must be moderated. Other costly fringe benefits provided workers may also have to be reviewed and scaled down through negotiation.

CONCLUSION

Michigan's economy is closely linked with that of the United States, more so than most other states because of its large industrial base. This state is not a separate entity, and future prosperity here depends on an end to the national recession and stagnation.

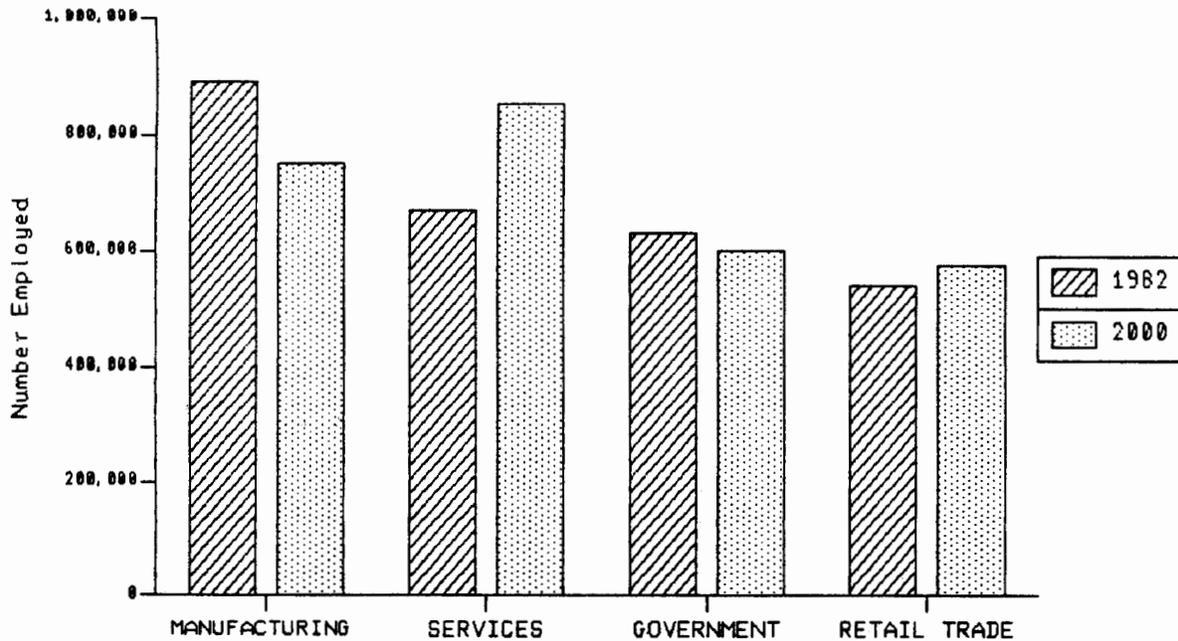
While state and local government must expand innovative efforts to compete effectively in attracting and retaining manufacturing facilities, it must recognize that this will not increase employment to any appreciable degree. Cooperative efforts by government, management and labor to reduce unemployment must focus on expansion of business and finance, recreation, and, above all, service-related industries. These offer the opportunity for Michigan's economic renewal and continuing prosperity.

NUMBER OF MICHIGAN RESIDENTS BY AGE,
1982 and 2000



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EMPLOYMENT IN MICHIGAN BY SOURCE
1982 and 2000



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