

FOCUSES FOR THE 80's

ECONOMIC DEVELOPMENT IN THE TMACOG REGION

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TOLEDO METROPOLITAN AREA COUNCIL OF GOVERNMENTS

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AN INSIDE-OUTSIDER'S VIEW

I want to thank you all for inviting me. I must admit that I am very apolitical and haven't spoken many times before a local committee group such as yours. I am more used to talking to Boards of Directors or people who own the company. They know more about the issues than I do, and they are usually laying for me when I get there. So, I hope not too many barbs are thrown at me as I speak.

Essentially, what I will speak about today is a focus on where I think we are, and where I think we are going in this region. It is what I would call the *inside-outsider's* view. I'm an insider because I live here in Toledo now; and I'm an outsider because I've only been here three years.

In the six focuses I will address today, I hope to pass on to you some of the feelings the area has passed on to me. I also plan to talk about the resources upon which you have to build here.

FOCUS 1:

IS THE GLASS
HALF-FULL OR
HALF-EMPTY?

I prefer to think of the current local economy in terms of the proverbial glass of water: Is it half-full or half-empty?

I grew up in a ghetto in Washington, D.C., and I was taught very quickly that if you had anything at all in your glass, that was a lot better than finding it empty. The fact that it might not be quite full really doesn't matter if you're thirsty. So, I would like to look at this situation here from the standpoint of what we have, rather than what we haven't got.

One of the things I want to point out is that we're surviving what I consider to be an economic depression. A lot of my fellow economists hesitate to call it that, but if you look at all the indicators and evaluate them reasonably, if this isn't a depression, then it is certainly the severest recession we have sustained in an awfully long time.

The point still remains that this area is

getting through it. Yes, the unemployment is as high as 20%. Looking at the other side of 20% unemployment, it means we've got 80% who are working. People are still earning a living. We need to focus on that.

With respect to this point, there are a number of companies in this region that are doing quite well. For example:

There are food processing manufacturers located in the Port Clinton-Sandusky-Vermilion area earning rates of return at 15% or more. We tried to buy one of these concerns for some investors this summer. We bid \$5.5 million and it went for \$9 million!

We're working with a company that manufactures electronic devices. It just landed a \$24 million contract with General Dynamics to build a new type of metering system. That company is located in Northwest Ohio.

A chemical company that is selling (but not yet operating) in this region is raising capital to construct four new chemical plants in this area. It started out three years ago with \$300,000. Today, it is doing over \$4 million a year in business in this region. It expects, in five years, to be doing \$20 million here.

Another company in the technical services area started 18 months ago. Now, they have about 55 people working for them and they're doing work all over the U.S. They are located in Sylvania, Ohio.

On the small side, we have a client — two women in their forties — who began their own type-setting business with \$10,000 a-piece from savings. This year they will do over \$200,000. They are from Toledo.

There's a heavy equipment company on whose board I sit. This year, they will do over \$6 million worth of business, a 50% increase.

And I could go on. There are companies that are doing quite well, yet many look at the other side of the coin, saying, "We'll move somewhere else. It's better there."

Well, I'm from "somewhere else" and my family is from "somewhere else" — so let me tell you a little about what's going on "somewhere else."

I spoke to my father-in-law the other night. He's a manufacturer's representative for several furniture companies in San Francisco. Business is the worst it's ever been since he located there in 1950. My brother-in-law is the western region marketing manager for Fairchild Semiconductor Corp. He said he's in the worst economic situation he's ever faced. He's already laid off a good bit of the staff in Los Angeles and San Francisco, with more lay-offs to come.

My family lives in Fort Lauderdale, Florida. My brother-in-law there is a major builder in Florida and the southwest. His operations have been shut down in the Miami-Fort Lauderdale area for more than a year. In fact, they don't know when it's going to turn around in that section of the country.

For still another perspective, look at forestry operations in Georgia, Alabama, and Oregon — a major industry for those states. They're all down with very high unemployment. Denver and Houston have very severe unemployment problems.

So, running to another area may well not be the answer.

Why has this area been harder hit — and, in some cases, a lot harder hit — than others?

One of the problems started in 1973: high oil prices. With the accelerating cost of cars, this led to the downturn in the need and demand for new automobiles and, in turn, for their parts.

An article in the *Detroit Free Press* this morning caught my eye because it demonstrates how one's viewpoint can make the half-empty glass look half-full. The article is entitled "Assembly Line for Clunkers" and it tells of a new company in Detroit to repair old cars on an assembly line basis. For 5,500 bucks, they can repaint, derust, fix all the parts — literally remake it — for half the price of a new car. Even in this hard-pressed industry, someone has found a way to start a profitable business from it.

FOCUS 2:

THE ECONOMY:
RECESSION OR
REDIRECTION?

Is this a recession or a redirection? I think it's a combination of both, with real changes in store for the structure of this whole country. We're seeing companies which have gone on for years, not really concerned with control and management. So, when this turned adversely, the problem came to the forefront very quickly.

We were working with a company's financial statements last week. The president said, "We never had this problem before. It's the economy that's done it to us." In fact, the data showed the problem had been worse during the time the company had been doing well; they just never realized it. Now, they're blaming the economy when it was actually poor management over a long period of time that caused the problem.

Reorganization is of real industrial importance to this country. Our area has a lot more going for it with respect to reorganization that you may imagine. Sure, the auto, oil, and steel industries are going down — but there are a lot of other options opening up.

This area of the U.S. has the greatest expertise, probably in the world, in controlled process machinery and robotics. We are also big in computers and telecommunications. Right in this area are manufactured a good many of the parts of the Atari System — a company that has grown 22-fold in this recession. Apple Computer cases are all made here. A good bit of the electronic circuitry is made in this area. Lasers are another high-tech field with a strong future potential. Ann Arbor is in the forefront of this movement and the activity there is going to carry down below Ann Arbor into this region.

So, high technology industries are already in this region.

Fast-food and food processing equipment I see as offering real growth potential for this region. We are literally in the heart-

land of food processing manufacturers *in the world*, especially in Port Clinton, Vermilion, and Sandusky. An equipment manufacturing company is in Fostoria. Wendy's, Ponderosa's, Kip's, and Kewpees' are all fast food chains with home offices in Ohio, very high growth, and profitability.

Other developments in the economy will affect this region. There's a switch from an exclusively domestic to a foreign economy. The preponderance of thought among our national populace is to keep out foreign competition at all costs. That is the biggest mistake this country could ever make for two reasons: (1) Foreign competition is still going to be out there competing in *foreign* countries. Keep them out and all we do is make enemies with whom we still must compete on their own turf. (2) There's an awful lot of our products in their industries. For example, all of the design of the Toyota is done in the U.S. by a company in southern California. This is something to keep in mind: it's becoming a world-wide economic environment that will no longer be U.S.-dominated. We might as well grow with it rather than try to compete against it.

The federal government is another aspect. We have literally traded inflation and employment for high interest rates and unemployment. We must all ask ourselves: Would we rather have a dollar that's worth 30¢ or no bucks at all? I think Washington is beginning to realize that a 30¢ dollar is a reality, and one that has been lived with in a lot of countries in this world — and they've gotten by. However, with no dollars in our pockets, we all lose. You'll see a change here. Interest rates won't necessarily be low, but they won't get up as high as they were last year for a long time.

Finally, we have the change in thinking among federal, state, and local governments. To some extent, I think it's good to get things out of Washington and into the local communities. One major mistake has been to try and do it all at once. You have to give local communities the wherewithal and time to make the adjustment.

FOCUS 3: REGIONAL ASSETS

What has the TMACOG region got going for it?

One major thing this region has going for it is water. A new phrase has been coined: The Water Belt. This may not be the Sun Belt, but it certainly is the Water Belt of the country. About 16-17% of the total water under U.S. control is in the Great Lakes region, and we have about 70% of all the fresh water. There is only one thing worse than being cold — being thirsty. Cities in other parts of the country are really in trouble because they are running out of water. Industrial development and expansion in Denver, for example, will be extremely limited because they cannot supply water.

We also have outstanding port facilities: Toledo, Port Clinton, Sandusky — ports that are already developed. These are among the ports *closest* to the European markets of any in the country. And, these are the *only* ports to service this region. This is the sort of advantage upon which this area can develop.

This exemplifies our strategic location nationally. Within one day's truck driving distance of Toledo (which takes in the whole general region), you can reach more than 60% of the total U.S. population. There is not another place in the U.S. from which you can do that. I can drive to my office in St. Louis in 11 hours; to a plant in Atlanta in 12; to Washington, D.C., Baltimore, New York — you name it — in the same time. Our location makes us very, very important.

We've got excellent roads and rails. This is a mini-hub of the rail system, an advantage you're not going to get if you locate in Albuquerque, New Mexico. Those people have not realized this, but you should!

We're in close proximity to energy. There is potential development of oil and gas here, in Michigan, and close-by in Canada. There is coal in Pennsylvania and shallow gas in southern Ohio. Even when these energy supplies are on the edge of the region,

they are a lot closer than shipping, for example, from Louisiana to Idaho.

We have outstanding manufacturing expertise, which is not available anywhere else in the country — perhaps, in the world — except in Japan and Germany. There are hands-on experts in equipment manufacturing, transportation, computers, and production specialties.

That brings me to educational institutions. Better-developing areas have done it around their universities: Boston, Texas, Florida, and California. We have excellent universities, as well: The University of Michigan and Ohio State; and middle-level institutions like Toledo, Dayton, and Bowling Green, to name a few. Other so-called developing regions can't match us. If you have a problem in Arizona, Colorado, New Mexico, or Wyoming, you have a big problem. You might have to travel 500 miles to find one moderate sized university. Here, you travel 20!

There's a lack of congestion in this area. I moved here from St. Louis. We had one million people in my neighborhood — and one four-lane highway to serve them. I would get up planning to spend 4½ hours on the road, leaving home at 6:00 A.M. and arriving at work promptly at 10:00 A.M. It was also 4½ hours back home. Did you ever spend nine hours in one day commuting in Toledo? That is a huge advantage.

There is also better planning for growth in this area than you find elsewhere. Let me give you an example from another place I've lived: in Houston, they don't have any zoning laws. I came home one day to my little apartment complex, and my apartment was on fire because there was a lumber yard on the other side of the fence, burning lumber. A spark flew over and set my apartment on fire. But, don't worry, that lumber yard isn't there any longer. They ripped it out and built two 45-story buildings on each side of those little apartments.

Look at New Orleans. They can't grow. They have problems with zoning, transportation, and swamps. Expanding for them is very expensive.

The weather is another advantage. People find that hard to believe. My family gets on the phone and asks, "What's the weather?" I tell them it's 3° and they respond that it's 85° there. Fantastic — *but call them in the summer*. It's 95° and the humidity is 96% and Mom's having trouble breathing. The same with summers in St. Louis, or Washington, D.C., or Houston. People stay indoors because their ability to function is so impaired. And, they still get snowstorms in Washington, D.C. and St. Louis. They also have hills you slide down. At least if you start sliding here, it's flat and you stop!

Lack of pollution. This region does not have the same kind of pollution problems as elsewhere. In Houston, Denver, and other cities, pollution shuts everything down regularly. Businesses think very hard about that.

There are over 7,000 companies within a one hour drive of Toledo (not including Ann Arbor or Detroit) that do a million dollars or more in sales a year. That's a lot of companies and an awful lot of different kinds of businesses.

Finally, this is a pleasant place to live. My wife and I have lived in about seven cities in the U.S., although I neither look that old nor could I have been run out of so many places so many times. We've lived in San Francisco, Chicago, St. Louis, Washington, D.C., Atlanta, Houston, and here. We like it here.

A European bank offered me a job as an Executive Vice President a year after I came to the University of Toledo, and kept raising the offer until it was very enticing. I accepted with two stipulations: they had to guarantee me the same interest rate I have on my house here (10%); and they had to take over my house in Toledo. Basically, we really did not want to move and were looking for a graceful out.

A lot of people from a lot of pleasant places, once they get here, don't want to leave. But you have to get them here first, because it's a very closely-held secret.

FOCUS 4: WHO'S THE COMPETITION?

There are 11 areas in the U.S. competing on a comparable basis. One of them is this area. Others are the Cleveland area; Minneapolis-St. Paul; St. Louis, St. Louis County and southern Illinois; and Columbus-Cincinnati is another area, close to home, which is competing effectively nationally.

Now, look at robotics and other developments for the future, and they exist on both sides of this region. Three out of the four biggest robotics manufacturers (and seven out of the top ten) are located in Ann Arbor and Cincinnati.

The Charlotte, N. C., and the Research Triangle areas are attracting a lot of business. Many of the companies leaving Michigan are going to Charlotte. What's Charlotte done to prepare for them? *Nothing*. They haven't developed a road system, an infrastructure, a tax structure, or any of the things that need to be done. Once they do, watch their taxes go up.

Richmond, Virginia, is another competing area, as are three areas in California: (1) San Diego-Los Angeles, which is growing. (2) San Jose, which is pricing itself out of the market. We thought of moving there until I looked at what it would cost me to buy a home. For a home possessing 2400 square feet, without air conditioning, without a basement, and with a one-car garage, it would have cost me over \$300,000. That's going to hurt the area eventually, although it's now a growth area. (3) the Sacramento-Reno strip. An awful lot of the Silicon Valley companies are moving there, as are a lot of Japanese companies.

Basically, each of these areas have a large number of small, growing businesses — and I wish to emphasize *small* and *growing*. There is also the ability and willingness on the part of the community to expand in their locale. Finally, each is attractive to business in one way or another: taxes, cooperation, geography, resources, etc.

FOCUS 5: REGIONAL WEAKNESSES

As an inside-outsider, I see nine things hindering our ability to compete:

(1) Businesses, rightly or wrongly, experience a fear of union control when they think of coming into this area. Good managers or not, they know there's a lot of unionization and are concerned about losing control of the management of their businesses. This fear is something that everyone, unions included, will have to recognize, deal with, and accept. There needs to develop a working relationship to keep the negativism from preventing overseas as well as domestic companies from locating here.

(2) This region has a poor outsider image. Go up to the man in the street from Anywhere, U.S.A., tell him you're from Toledo, Ohio — and he'll start to laugh. People don't know this area, but they conceive of it vaguely in terms of smokestacks and crime. "My God," they ask, "why would you want to live there?" But once they get here (and most of my neighbors are from the outside), they find quite a different situation. We all have a responsibility to combat this poor image. When people laugh, challenge them to come and see for themselves!

(3) High energy costs. Local utilities will have to recognize that they have got to be competitive. They have to offer rates that are fair, reasonable, and in conformance with what people can get anywhere else. We had a French company that was going to come to this area, and it came down to a situation where Ohio Edison offered them a 17% lower rate than Toledo Edison did. So, they went down to another city which certainly is not going to be as oriented towards foreigners as this city would have been.

(4) There is a lack of strong financial services. In fact, that is one of the reasons I moved here. When you see as many companies as exist in this region, and yet there are no corporate financial consultants

here, it's like turning the chicken coop over to the fox. Basically, the banking system in Toledo is small- to medium-sized, but the biggest ones think of themselves as being major banks. In reality, they are very small compared to banks in New York, Chicago, and so forth.

(5) Outmoded plants and equipment. These do two things: (a) decrease the competitiveness of area industry; (b) make it easier for companies to consider relocating. We must replace the plants and equipment that are deteriorating to convince companies that it's worth their while to stay here.

(6) There is a de-emphasis on education. I don't see the same commitment to education here as in other parts of the country. And that does attract business.

(7) There is an excessive emphasis on Fortune 500 firms. It's false to think that because Owens-Illinois, Chrysler Corp., or General Motors are in trouble, we are all in trouble. A lot of smaller companies are doing quite well. Of the 67,000 businesses in Ohio, 65,000 of them employ fewer than 250 people. Across the U.S., 98% of all employees work for companies that size. That is where the potential for growth is. You can see it in other ways: big companies are trying to get smaller, selling off divisions.

(8) We have a lack of effort in this area to attract new business. This may be part of the apologetic image of Toledo. There is nothing to apologize for; see the good features of this area!

(9) There is a lack of cohesion and coordination. It's important for us all to work together. We need to develop a group image. We can't afford to fight among ourselves. Go down to Houston. They won't tell you that Houston and Huntsville are battling back and forth. They'll get together and tell the most beautiful story of cooperation you can imagine, not that they hate each other's guts. That's what we need to do: tell the common story. It's critical.

FOCUS 6: TRENDS AND OPPORTUNITIES

One big trend is towards high technology, but we don't have to attract Silicon Valley. We have plenty already going for us: automated equipment, robotics, lasers, electronic devices — all here, and all to be sought after in the future. *These* comprise our comparative advantage on which we should concentrate, rather than try to attract something for which the relocation prospects are really very small.

There will be a move to convenience products: telecommunications, home computers, word processing, fast food, and fast food equipment. Many of these are in this area already. A company which is the world-wide manufacturer of special floors for computers and computerized equipment is located right here.

The University of Michigan is at the forefront of a move towards more sophisticated services, for example, in financial planning, management planning, inventory and production control. Other new technologies opening up are space, genetics, and satellites.

There will be a greater emphasis on foreign over the mature, domestic markets. Growth will occur in Thailand, Korea, and some of the African and South American countries you can't even pronounce. They will need our expertise. Every time I hear an educator or a politician push to "protect" our economy, I shudder. I shudder because it means, at a time of huge expansion, we are withdrawing.

We need to recognize where new development comes from: the guy who takes his \$300,000, borrows another million, and works till 4 o'clock in the morning seven days a week. Success is based on effort. A neighbor of mine, who is German, told me, "There's not another country in this whole world where there's the same capabilities, interest, and effort made to develop entrepreneurship like the U.S. If you go to Germany, you don't see little companies, you see little shop-keepers and huge conglomerates. This is the only country in the world where I've ever seen medium-sized companies operate successfully."

We need to think about that because this region right here is the heartland of such success with 7,000 small companies. People tell me that there are as many as 20,000 companies here. My wife and I are developing our own mailing list of such concerns, and we already have over 5,000 companies in our data base.

We are going to see a greater emphasis on employees as contributors, and a de-emphasis on unions. Just why is it that unions are here in the first place? Because management hasn't gotten the job done. Management is coming to the perception that it is time they started *working with* their employees instead of *fighting with* them.

There will be a reorientation of the automobile industry in the U.S. It's pulling out of the regions stretched around the States and moving back to the Midwest. The long process of sending parts out to California, making the car, and then sending it back to this area is just too expensive. While the Japanese are making an inroad into this Western sector, we will get the auto industry back into this area because we are located near 60% of the total population.

There will be a move back to the Water Belt from the Sun Belt. In fact, a few companies hedged their bets by moving down while still keeping part of their operations here. The plant may be closed down for now — but it's there.

We'll have a new and different baby boom. We focus on the fact that the baby boom of the 40's and 50's is aging, but forget that we in that baby boom are starting to have our own kids. It's important that most of us waited until we were in a stable economic situation before having children, because it means we are now in a position to spend more on them. A whole new set of industries — educational, entertainment, etc. — will grow up around this fact.

We will still see high interest rates. The cost of operating a bank is over 10%. With the new money market certificates, a bank's costs are going to go up. The federal deficit is running at over a trillion dollars.

With interest at 10%, this means a *hundred million dollars a year* will be needed just to pay the interest on the debt. As a result, to keep raising capital, interest will stay up.

There will be less emphasis on debt financing by consumers. They have over-extended themselves. This recession-depression has taught people to stay within their means. That bodes well for this area because people will buy on a more steady basis in the future.

There's going to be a re-emergence of educational support. We have been moving away from that, but if there's one single thing that has made this country great, it's that we have always been able to figure a way to do things better than other people in the world. We have got to maintain that emphasis on education if we're to continue out-technologizing everyone else.

I see an end to the Social Security System as we know it. We can't afford it the way it is. What you will see is a replacement of it by individual, tax-protected instruments. This is good because it will mean there will be a lot of new ways for companies to raise capital in a tax-exempt environment. It will also help people plan for their retirement, in addition to giving rise to a lot of new types of financing.

Finally, along this line, there will be a lot of new types of financial instruments developed as people think of new and creative ways to attract capital.

It behooves this area to reach out and pluck some of these new approaches and then to pluck some of those companies who need such capital, and match them up.

That's my overview of the 1980's and this region from an inside-outsider's perspective — one man's ideas, for whatever they're worth. In the three years I've been here, I've never once turned around and said, "I'm sorry I came." I'm glad I'm here. And I'm glad you've given me the opportunity to come here today and tell you so!

Thank you.

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