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Kalamazoo County: Looking to our past for the future

George A. Erickcek

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Executive Summary

This executive summary highlights the findings of a study conducted by the W.E. Upjohn Institute for Employment Research on the Kalamazoo County economy. This research effort has been generously supported by the Kalamazoo Consortium for Higher Education. The purpose of the study is to assess the current state of Kalamazoo County's economy, examine the sources of job growth during the past decade with particular emphasis on the role of start-ups, compare the economic growth of Kalamazoo County with similar and high-performing metropolitan areas that have done better than expected, and offer board policy recommendations to the county's economic development community.

The key recommendation derived from the report is that Kalamazoo County should refocus its attention on innovation and entrepreneurship. The greater Kalamazoo County area has a rich and proud history of growing the companies that compose a large share of its current economic base—Upjohn (now Pfizer), Stryker, Checker, and its few surviving paper companies. This report encourages Kalamazoo County to revisit its past and try to recapture a part of its former self, from a time when it was a center of innovation and invention. Of course, much has changed over the past 100 years. The cutting-edge industries of yesterday - for example, automobiles and paper - are the commonplace commodities of today. It is not the products but the sense of discovery and invention that the county must rekindle. Efforts in this direction are already happening with the Southwest Michigan Innovation

Center, related activities at Western Michigan University, private venture capital firms, and start-up companies.

Our analysis shows that during the 1990s a healthy number of start-ups have hatched and thrived in Kalamazoo County. Yet they have been overshadowed by the success of past entrepreneurs. The growth of the Upjohn Company, First of America, Stryker and a host of other companies allowed us to enjoy the fruits of success without the bother of tilling the soil for the next crop of new industry. These successes not only formed the employment and economic base for the region, they also dominated the labor and credit markets in the area as well. As with many other communities dominated by large mature companies, Kalamazoo County has focused more on retaining these companies than on starting new ones. Moreover, as these dominant companies which were rooted in the age of industrialization grew, the county became highly dependent upon manufacturing. In 1969, with the area's paper mills, the Upjohn Company, Checker Motors, and the General Motors stamping plant in full operation, manufacturers generated 45.5 percent of the county's total non-farm earnings and accounted for 34.4 percent of the county's employed workforce.

Today manufacturing is in decline worldwide. Growth is not found in the manufacturing sectors, but rather in services. Mergers and consolidations have restructured the nation's financial, communications, and health care fields. Kalamazoo County has not been immune to these rounds of mergers, closures, and downsizing. Indeed, the Upjohn Company, First of America and General Motors are no longer part of the county's economic landscape.

In summary, our analysis of the Kalamazoo County economy reveals that the county's small businesses are still thriving and that the area's economic strengths remain strong. Even though the county is facing a harsh manufacturing environment and is situated in a multistate region that is not perceived as an area of inventive change, we conclude that the current multifaceted effort of encouraging goods-production, small business development and innovation is the right approach.

Current Situation

Kalamazoo County is performing better than expected, given the sluggish national economy and the county's current industrial base. Still, the county's economy is in the midst of a structural transition brought on by the globalization of manufacturing activity and the changing corporate strategies of several of its major employers. In short, many of the industries that lost jobs during the 2001 recession will not recover them. Employment will continue to expand in the county, but not in the same industries where it was lost.

Since the end of the last recession that officially ended in November 2001 to November 2003, the Kalamazoo-Battle Creek MSA has lost 2,000 jobs, a decline of 0.9 percent. This jobless recovery has been especially hard on the area's manufacturing base, which lost 2,100 jobs during the period, a 5 percent decline.

Still, relative to the nation as a whole, the Kalamazoo-Battle Creek MSA is holding its own. While the MSA's total employment fell by 0.9 percent during the first two years of the recovery, it

remained close to the nation's rate of decline, 0.6 percent. Moreover, manufacturing employment nationwide has declined by a more substantial 8.2 percent during the period, relative to the 5 percent drop in the Kalamazoo-Battle Creek MSA. Finally, Kalamazoo County's unemployment rate in 2003 was 5.2 percent, compared to 6 percent for the nation.

These current trends do not fully capture the significant structural shift that is changing the face of the nation's economy, however. Due to impressive gains in productivity, the increasing globalization of production, and the shifting consumer demand from goods to services, the nation's manufacturers employ fewer workers today than in the 1950s. Historical trends and current economic forecasts, including our own, suggest that only a fraction of the 1.3 million jobs lost in manufacturing during the past 43 months will be coming back.

These long-term trends are not favorable to Kalamazoo County where, as of 2001, manufacturers accounted for 28.4 percent of all non-farm earnings and 16.3 percent of all non-farm jobs. In contrast, the nation's manufacturers generated only 13.4 percent of the nation's non-farm earnings and employed only 10.4 percent of its workers.

Revisiting Entrepreneurship and the Role of Start-ups

From the second quarter of 1990 to the first quarter of 2000, an average of 114 new small businesses (those employing fewer than 50 employees) opened their doors every three months in Kalamazoo County. Moreover on average more than 50 percent of the businesses that opened their

doors between 1991 and 1995 survived to celebrate their fifth birthday. The county's survival rate for small businesses is higher than the national average.

Small businesses are very vulnerable to swings in the business cycle, however. The survival rate of businesses starting in the years 1998 through 2000 dropped off dramatically in the county.

The county's small business start-ups occurred in 396 industries, clearly showing that entrepreneurs can be found in almost every sector. Approximately 75 percent of the small business start-ups were in sectors that serve primarily local residents. These include, for example, restaurants, retail stores, and residential construction firms. The remaining 25 percent of the county's start-ups were in industries that compose the county's economic base.

Most small businesses stay small. During the 1990s, the fastest growing 10 percent of small business start-ups accounted for 52 percent of total jobs created. Moreover, these "gazelles" could be found in 53 different industries, and only 13.2 percent were in economic base activities (i.e., those producing goods or services that are sold to customers located outside the county.)

Identifying the Practices of Successful Communities

Many metropolitan areas are successful because of unique factors that are not transferable. Clear examples include metropolitan areas situated in the Rocky Mountains, the Pacific Northwest, or Florida. Other metropolitan areas house world-class universities. We developed an economic model that

captured the impact of a standard set of factors that influences the expected growth rate of metropolitan areas.¹ These factors included climate, size, quality of the area’s workforce, industrial structure, and historical performance. Based on these factors, we then identified the metro areas that had better-than-expected performance. These metro areas are not necessarily the best overall performers, but they are the best performers given the resources that they have to work with. In addition, we added two high-performing metropolitan areas, Austin and Provo, just for comparison purposes.

The following are the metro areas that we identified as areas to study in hopes of finding effective economic development strategies that may prove useful to Kalamazoo County.

Austin, Texas	Green Bay, Wisconsin
Cedar Rapids, Iowa	Hamilton/Middletown, Ohio
Chattanooga, Tennessee	Lexington, Kentucky
Eau Claire, Wisconsin	Provo, Utah
	St. Cloud, Minnesota

As shown in Table 1 below, all of these areas experienced stronger employment growth during the 1990s than Kalamazoo County. Except for Austin, Texas, which was much larger than the other metro areas and is excluded from the calculated average, the comparison areas are slightly larger in population than Kalamazoo County; however, the average manufacturing base for the comparison areas is smaller. All of these areas have better-than-average environments for entrepreneurship according to the National Commission on Entrepreneurship (NOCE). NOCE has calculated a Growth Company

¹ Hannah McKinney, Professor of Economics at Kalamazoo College, is coauthor in the research effort that developed this model.

Index that highlights areas having a high concentration of high-growth companies. The average score of the comparison group, excluding Austin, is 167, which is higher than Kalamazoo-Battle Creek's score of 156. Still, the Kalamazoo-Battle Creek score is impressive, given that the average score for all metro areas in the country is 100.

Table 1

Economic Characteristics and Performance of the Comparison Metro Areas

City <i>(primary county)</i>	2000* Population	Employment* Growth - 1990s	Percent* Manufacturing	Growth** Company Index
Austin, TX (<i>Travis</i>)	820,123	59.2%	11.0%	193
Cedar Rapids, IA	192,223	27.9%	15.8%	164
Chattanooga, TN (<i>Hamilton</i>)	308,013	23.0%	14.0%	153
Clarksville, TN	207,619	61.3%	12.3%	178
Eau Claire, WI	148,615	37.1%	8.6%	140
Green Bay, WI	227,411	37.7%	17.9%	166
Hamilton/Middletown, OH	333,682	38.8%	14.2%	Na
Lexington, KY (<i>Fayette</i>)	480,778	21.5%	9.0%	153
Provo, UT	370,863	62.3%	10.0%	200
St. Cloud, MN	168,082	24.7%	14.5%	186
<i>Average (excl. Austin)</i>	<i>270,810</i>	<i>37.1%</i>	<i>12.9%</i>	<i>167</i>
Kalamazoo County	238,877	11.9%	17.4%	156

Source: *BEA, **National Commission on Entrepreneurship

Of course, every metropolitan area is unique, and an effective economic development policy at one location may not be as effective when applied to another geographic area. Still, in our examination of these areas we found the following factors, which may be important to note as we explore new economic development avenues for Kalamazoo County.

The economic development organizations of the identified metro areas all use standard economic development strategies, including targeting and attraction and retention policies. Austin and Provo, in particular, are trying to target industries that will diversify their economic base, which has slowed dramatically since the 1990s.

In Lexington, Austin, and Cedar Rapids, efforts are underway to develop productive partnerships between the regions' higher education and economic development communities.

The smaller metro areas, St. Cloud, Eau Claire and Cedar Rapids, promote their rural life styles; while Hamilton/Middletown benefits from the growth of the neighboring metro areas of Cincinnati and Dayton.

Finally, several of the metro areas have developed unique strategies that may also be worth considering in Kalamazoo County. Cedar Rapids developed a "bring them back home" strategy aimed at luring professional workers back to Cedar Rapids. Green Bay has developed several successful small business incubators and has created a well-regarded entrepreneurial environment.

Possible Avenues to Explore

Before turning to our recommendations, it is important to highlight Kalamazoo County's strengths. It houses solid higher-education institutions that have shown a strong commitment to the economic well-being of the county's economy. Second, its manufacturing base is competitive and the county remains a highly competitive location for goods production. Third, it has active nonprofit organizations, extensive civic involvement, and a good quality of life because of its many cultural activities and available outdoor activities

I. Stay the Course in Manufacturing

While the area's manufacturers will generate few of tomorrow's new jobs, they will continue to play a key role in the county and should remain a focus for the area's economic development efforts. Indeed, the area's manufacturers continue to be a major component of our economic base and, through the sale of their goods, bring new money into the economy. Area manufacturers, at the very least, will still generate job openings to replace retiring workers. These job openings will create job chains that have a greater likelihood to reach down to under- and unemployed workers than would the hiring of a highly-trained professional worker. In addition, manufacturers still offer, on average, more promising career paths for the area's low- to medium-skilled workers than many service industry alternatives.

Moreover, the area has numerous assets and resources that can support further growth. These include the technical training programs at Kalamazoo Valley Community College, the Midlink Business

Park, and the aggressive attraction and retention policies of the Michigan Economic Development Corporation.

II. Refocus on Small Business Development

Kalamazoo County has always had an active small business sector, and the data suggest that during the 1990s its small business environment was better than average. A major recurrent problem with small business development activities is the difficulty in focusing the area's limited resources on businesses that are developing, marketing, and producing goods and services to customers located outside the county. With nearly 75 percent of all small businesses serving the local market, it is hard for small business service providers to focus on those that can bring new business to the area.

The Southwest Michigan Innovation Center and its linkages to the WMU engineering and business schools form an exciting new element to the county's economic development strategy. At the same time, we must be careful to control expectations. Small business development in cutting-edge technologies is extremely risky. Product development can take years, and successful ventures can be absorbed by major corporations and production moved out of the area. Still, the Center and the other more traditional incubators in the county are at the heart of the county's effort to regain its status as an innovation center.

Finally, it may be prudent for the county's small business development organizations to review the quality and scope of available small business support services, such as legal and marketing consulting services, to ensure that the area's small business services infrastructure is complete.

Many entrepreneurs in the more advanced fields of biotechnology, computer software design, medical equipment, and communications depend upon venture capital to provide needed financial and business assistance during the first several stages of their existence. Unfortunately, the state of Michigan lags behind the nation in terms of the value of venture capital investment and venture capital deals.

III. Keeping All of Us Around – Especially Our Young Adults.

One of the more difficult challenges facing the county is its lack of population growth because of net out-migration. From 1995 to 2001, 3,200 households, on net, moved out of the county. This net outflow of population lowered the county's overall income by \$390 million during the period. Moreover, available demographic statistics suggest that many of the movers are adults in their prime working age, 25 to 34 years of age. It is important to note that these negative trends occurred before the recent downsizing at Pfizer.

The jury is still out regarding what makes some areas more “sticky” than others. Thick labor markets, an energized entertainment center, strong inner-city neighborhoods and a solid housing stock climb to the top of most lists. Still, if the county could extend the period for which graduating seniors and graduate students from Western Michigan University and Kalamazoo College stay in the area, it could make a real difference in the county's perceived quality of life.

The Consequences of Successful Entrepreneurship

1990 to 1910: The Spirit of Entrepreneurship

A hundred years ago, manufacturers in Kalamazoo faced a rapidly changing environment that was not that dissimilar from today. The advent of the internal combustion engine threatened the livelihood of several of the county's major employers. The rapid and creative response of the county's business community during those volatile times set the groundwork for a long period of economic success for the county.

At the turn of the century, Kalamazoo County was home to a thriving cart and buggy industry. In 1887, the area's wagon and buggy companies produced 47,000 units and had attracted companies to locate in the county from as far away as New York State.² Unfortunately, but not surprisingly, most all of the 17 cart and buggy makers were not able to make the transition to gasoline propulsion and closed.³ However, several of the area's entrepreneurs took the challenge.

The Blood and Fuller Brothers, for example, successfully made the leap to the auto age. The Blood brothers, bicycle makers, teamed with the Fullers to manufacture "The Michigan." The new partnership was brief; the Blood Brothers formed their own firm in 1904 and introduced "The Cornelian." The Fuller Brothers used their experience in designing the transmission of "The Michigan" to begin their own highly success business, the Fuller Transmission Company (later purchased by

² Larry B. Massie and Peter J. Schmitt, *Kalamazoo: The Place Behind the Product* (Sun Valley California: American Historical Press Sun Valley California, 1998) p.109.

³ Willis Dunbar, *Kalamazoo and How It Grew and Grew*, Kalamazoo, Michigan: Western Michigan University 1969) p122.

Eaton). The Cornelian was not very successful, however and the Blood brothers turned their attention to manufacturing universal joints and moved their operation to Allegan.

In 1901, Frank Burt and Walter Cannon incorporated the Burt Manufacturing Company, and in 1903 the “Cannon Flyer” rolled out onto the market. Three models and a unique engine with a “full ball-bearing crank shaft” were insufficient to keep the company going, and car production stop in 1908.⁴

The Michigan Buggy Company was one of the few buggy companies that attempted to leap from the old technology to the new, and in 1909 it introduced the “Mighty Michigan.” The car was modestly successful, but the company closed by 1916.⁵ The final local entry into the auto industry came as late as 1923 with the introduction of the “Handley” – “If it carries handles it’s a Handley” – but it closed after a year.⁶

While the county’s homegrown attempts at producing cars never took hold, the area was able to attract other auto entrepreneurs to the county. In 1917, Albert C. Barley moved his plant to Kalamazoo from Illinois and produced the “Roamer,” advertised as “America’s smartest car.”⁷ The car company had a pretty good run, compared to other efforts in the county, but in 1928 it closed its doors as well. Five years before Barley’s company closed, the city succeeded in attracting Checker Motors, which proved to be the county’s only successful auto company. Checker Motors moved into the former production facilities of the Handley and virtually cornered the public taxi-car market with its extremely durable cars.

⁴ Larry B. Massie and Peter J. Schmitt, p145.

⁵ Ibid, p145.

⁶ Ibid, p174.

⁷ Ibid , p145.

As the auto industry matured, the number of independent auto companies dwindled and the survivors clustered in the Detroit area. Many of the first autos produced were for local markets and as the nation's roads improved these markets became vulnerable to outside competition. While the Roamer had a national marketing campaign, most of the county's other entries into the industry did not. In addition, with the advent of the production line, the industry was transformed from a "cottage industry" into a large-scale, fully-integrated manufacturing assembly operation requiring major capital investment. Kalamazoo County kept and attracted several major auto suppliers along with Checker Motors, but as the industry stabilized the role of the entrepreneur was limited.

The dynamic churning witnessed in the county's auto industry was repeated in the area's older paper industry. Although the paper industry had started in 1868 with the formation of the Kalamazoo Paper Company, the turn of the century was a time of dynamic change for that industry as well. Partnerships were formed and broken and older firms hatched future rivals. For example, in 1901 John King walked out of Bryant Paper, which had formed only 6 year earlier, to form King Paper that year and later Rex Paper Company in 1915.⁸ At nearly the same time, Gibson Paper hatched only to die and be reborn as Monarch Paper. Numerous other mills opened in the county during this time, including Lee Paper Company in Vicksburg, Kalamazoo Vegetable Parchment (KVP) in Parchment, and Hawthorne Paper Company in Kalamazoo. The industry gave birth and attracted numerous supplier and finisher companies as well. Western Paper Makers Chemical Company and Kalamazoo Paraffin Company provided the chemicals necessary for the production of paper, Birmingham-Prosser warehoused the

⁸ Massie and Schmitt p 151.

paper, and the Kalamazoo Stationary Company, the Illinois Envelope Company, Crescent Engraving Company and the Kalamazoo Paper Box Company put on the finishing touches.⁹

The spirit of entrepreneurship was alive across a wide range of other sectors as well. Orville Gibson, who started out as a mandolin maker, but would revolutionize the guitar, opened the Gibson Mandolin-Guitar Company in 1902. William Shakespeare Jr. invented a well-regarded fly-fishing reel, and his company grew became a large manufacturer of outdoor and sporting equipment. In 1900 the Kalamazoo Stove Company opened. It prospered for 50 years with the famous slogan “Kalamazoo Direct to You.”

Of course, the best-known entrepreneur of the age was Dr. W.E. Upjohn, who in 1885 developed the “friable pill” - a major breakthrough in that it was the first pill that could be easily absorbed. The pill carried the company for nearly 20 years; however, in 1908 the Upjohn Pills and Granule Company had fallen on hard times as tablets were replacing pills in the marketplace. Dunbar relates a story that when asked what was going to happen since the sale of pills was plunging. Dr. Upjohn said, “Why yes, it was a big thing, but never mind; some day we shall have another big thing.”¹⁰ He was right, for soon afterwards the company capitalized on a new discovery and started producing Phenolax Wafers, a laxative, which was a company mainstay for years to come.

Growth and Stability

In hindsight, it could be argued that much of the entrepreneurial development and churning witnessed at the turn of the last century was simply an outcome of the birth of the automotive age.

⁹ Dunbar, p. 126.

¹⁰Ibid, p.131.

The auto industry, which would later revolutionize the way we make nearly all goods, was just beginning and with its birth came a lot of false starts, discoveries, and, most importantly, the development of an environment of creativity and invention. Kalamazoo County was unsuccessful in its attempt to stay a major player in the industry, as the industry consolidated in the Detroit area in the 1920s and 1930s.

However, that argument does not carry much weight, because the entrepreneurial spirit grew in industries far removed from autos. The area's established paper industry prolonged its "teenage years" as entrepreneurs broke away from existing companies to set up their own enterprises. Moreover, area entrepreneurs excelled across a wide variety of industries from guitars to stoves to fishing reels and, of course, pharmaceuticals. It was a formative time and its fruits supported the county for a long time.

During the 1950s, Kalamazoo County experienced impressive growth. Employment rose by 27.5 percent, which more than doubled the national rate. Moreover, the county's robust manufacturing sector was clearly in the driver's seat as its employment rose by 23.4 percent, again more than double the nation's percent change. Manufacturing accounted for more than 38 percent of the county's total workforce during the decade (Table 2).

The county's stable paper industry employed 41.6 percent of the total manufacturing workforce in the county, some 8,500 workers. One out of every six Kalamazoo County workers labored in the county's paper industry (Chart 1). Checker Motors and Fuller Transmission were in full production. And the Upjohn Company continued to expand, although in 1950 the entire chemical sector, which also

included suppliers to the paper industry, accounted for only 12.4 percent of the county manufacturing base, or 2,500 jobs.

The 1950s was also a period of rapid population growth in Kalamazoo County. From 1950 to 1960, the population rose by 34 percent, compared to 18.4 percent nationwide.

The county's growth continued to exceed the nation's through the 1970s. Total population rose by nearly 19 percent, surpassing the nation's increase of 13.4 percent, and the county's employment increased by 26.1 percent compared to an 18 percent rise nationwide. Despite General Motors building a massive metal-stamping plant in the county in 1964, the manufacturing sector's share of total employment slipped in the decade from 38.4 percent in 1960 to 33.4 percent in 1970.

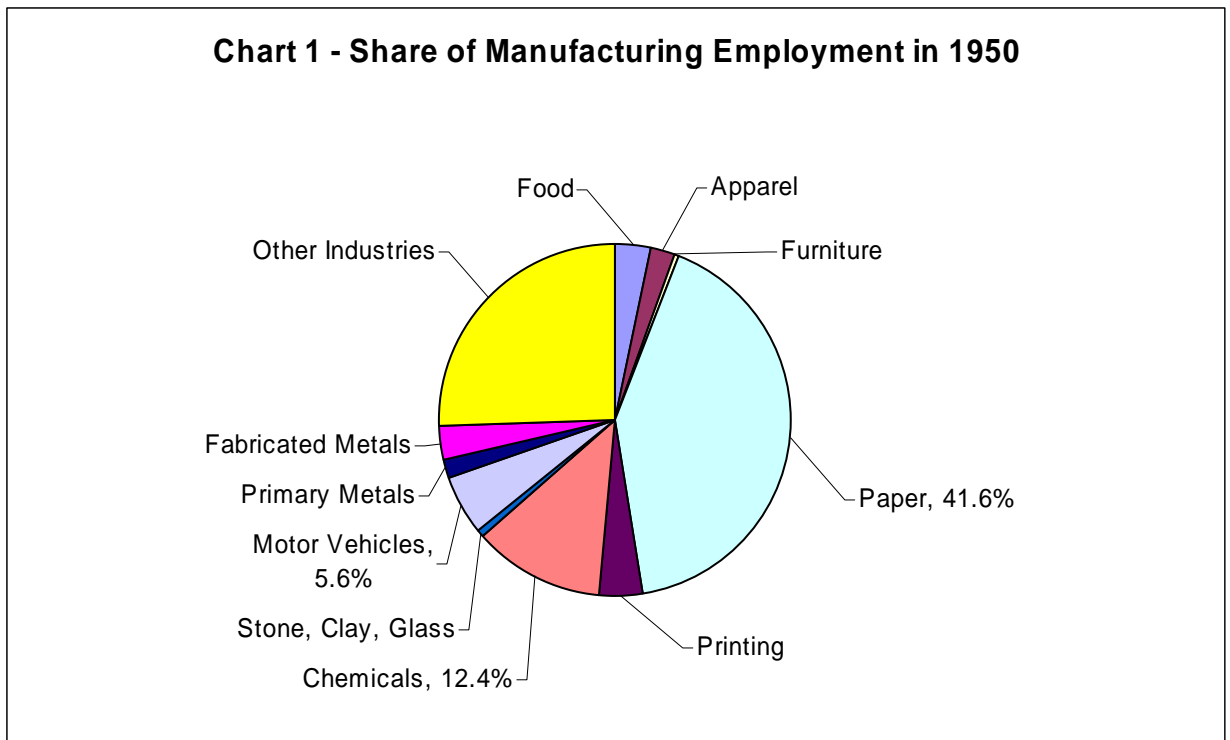


Table 2
Population and Employment Growth 1950 to 2000

Kalamazoo County	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
Population	126,707	169,712	201,550	212,378	223,411	238,603
Percent Change		33.9	18.8	5.4	5.2	6.8
U.S. Percent Change		18.5	13.4	11.4	9.8	13.2
Total Employment	49,177	62,712	79,098	98,941	110,927	120,740
Percent Change		27.5	26.1	25.1	12.1	8.8
U.S. Percent Change		11.6	18.0	26.2	16.5	12.1
Manufacturing	19,532	24,102	26,393	27,235	26,713	24,648
Percent Change		23.4	9.5	3.2	-1.9	-7.7
U.S. Percent Change		10.0	23.8	5.8	-6.7	-10.6
Manufacturing share of County empl.	39.7	38.4	33.4	27.5	24.1	20.4

Source: U.S. Census Bureau and *Michigan Statistical Abstract*, Bureau of Business and Economic Research, MSU.
All employment is by place of residence.

Although the overall employment numbers do not show it, the county's manufacturing base was changing substantially in the 1960s. Starting in 1958 with Eaton buying Fuller Transmission and continuing well into the 1990s, mergers, buyouts and the opening of branch plants became much more common than the announcements of new start-ups. In the paper industry, KVP and Sutherland (founded in 1917) merged in 1960 but that company was then purchased by the Brown Company in 1966, and the resulting firm was purchased by Gulf and Western in 1968.¹¹ The Sutherland plant was later to become Graphic Paper, and part of KVP became Crown Vantage before that plant closed. The Kalamazoo Paper Company, the mother company for the industry, was purchased by Georgia Pacific in 1967 and closed in 2000. The Rex Paper Company was purchased by Allied Paper, which was then bought by SCM.

¹¹ Dunbar, p. 216.

Table 3
Major Acquisitions or Mergers of Local Firms
With Outside Corporations

Original Company (or last local ownership)	New Firm	Year
First of America Bank	National City	1997
Durametallic	Flowserve	1997
National Water Lift	Parker	1996
Upjohn Company	Pharmacia & Upjohn	1995
Kalamazoo Paper Company	Georgia Pacific	1967
Allied Paper	SCM Corporation	1967
Sutherland Paper and KVP	Brown Paper Co.	1966
Fuller Transmission	Eaton	1958

Compiled by the W.E. Upjohn Institute

Dunbar notes that in the 1960s

mergers were not confined to the paper companies. There were many others. Among them was the acquisition of Doubleday Brothers and Company by Standard International Corporation, the merger of the Kalamazoo Pant Company with Philips-Van Heusen Corporation and the sale of the St. Regis Panelyte Division including the old Bryant Paper mill, to Reliance Universal.¹²

In short, the county started to lose its traditional stakeholders, companies that community leaders could call on for community service and economic development activities.

¹² Dunbar p 214.

This is not to say that all the news has been bad since the 1950s. In the 1960s as mentioned earlier, General Motors selected Kalamazoo as the site for its huge two-million-square-foot metal stamping facility. Employment at peak production reached more than 3,000 workers, and the plant provided well-paying jobs up until its closure in 1999. In addition, other manufacturers continued to expand, most notably Stryker, and the county's educational community grew.

The 1980s was not a good time for the county and marked a significant change in its performance relative to the rest of the nation. The decade began with a punishing recession which knocked the wind out of the county's manufacturing base. Eaton Transmission (formerly Fuller Transmission) closed and although Checker Motors survived, it was forced to discontinue the assembly of its own vehicles. Starting in 1983, the nation entered a long-term expansion, but the damage had been done. As shown in Table 2, for the decade the county's population rose by only 5.4 percent - less than half the national rate. Total employment in the county increased by 12.1 percent during the 1980s, which was below the nation's 16.5 percent. The manufacturing base eked out a 3.2 percent increase for the decade, and its share of total employment dropped to 27.5 percent.

The 1980s was the first decade in which the county's population gain clearly fell behind that of its employment, as more of the county's workers chose to live outside its borders.

In the 1990s, total employment increased by 8.8 percent, well below the national rate of 12.1 percent. The county's manufacturers lost 7.7 percent of their workforce. In the 1980s the county had suffered major declines in its manufacturing base, but the trend continued in the 1990s and early 2000s, unfortunately. In the past five years, the area has witnessed the final closing of most of the county's

major paper companies: Georgia Pacific, Crown Vantage, Portage Paper (the former Bryant plant) and the plants in Vicksburg and Plainwell. In the first quarter of 2003 the paper industry's employment level fell to just 2,000, a far cry from the 8,500 it employed in 1950. In addition, the General Motors plant closed in 1999.

Given the county's sluggish employment growth, it is not surprising that its population growth also lagged behind the nation's. Population in the county increased by only 6.8 percent compared to 13.2 percent nationwide. Moreover, the county witnessed the loss of local ownership of two of its larger employers when National City Bank bought First of America and Pharmacia merged with the Upjohn Company and was later purchased by Pfizer.

Geographic Consequences of a Product Life Cycle.

In many respects, the economic history of Kalamazoo County, like many communities of its size, can be summarized by examining where its major employers are located in their product life cycle. Chart 2 shows the four stages of a product's life cycle.¹³

Like all living beings, businesses go through several distinguishable stages in their lives. They are hatched in Stage 1. At this stage, there is little or no production being carried out. Products or services are being designed, tested, marketing plans developed, partnerships formed. Losses are being endured. Unlike humans and most creatures, businesses seldom have a guardian looking over them

¹³ Chart 2 is from Ann Markusen's *Profit Cycles, Oligopoly, and Regional Development* (Cambridge, Mass.: MIT Press, 1985).

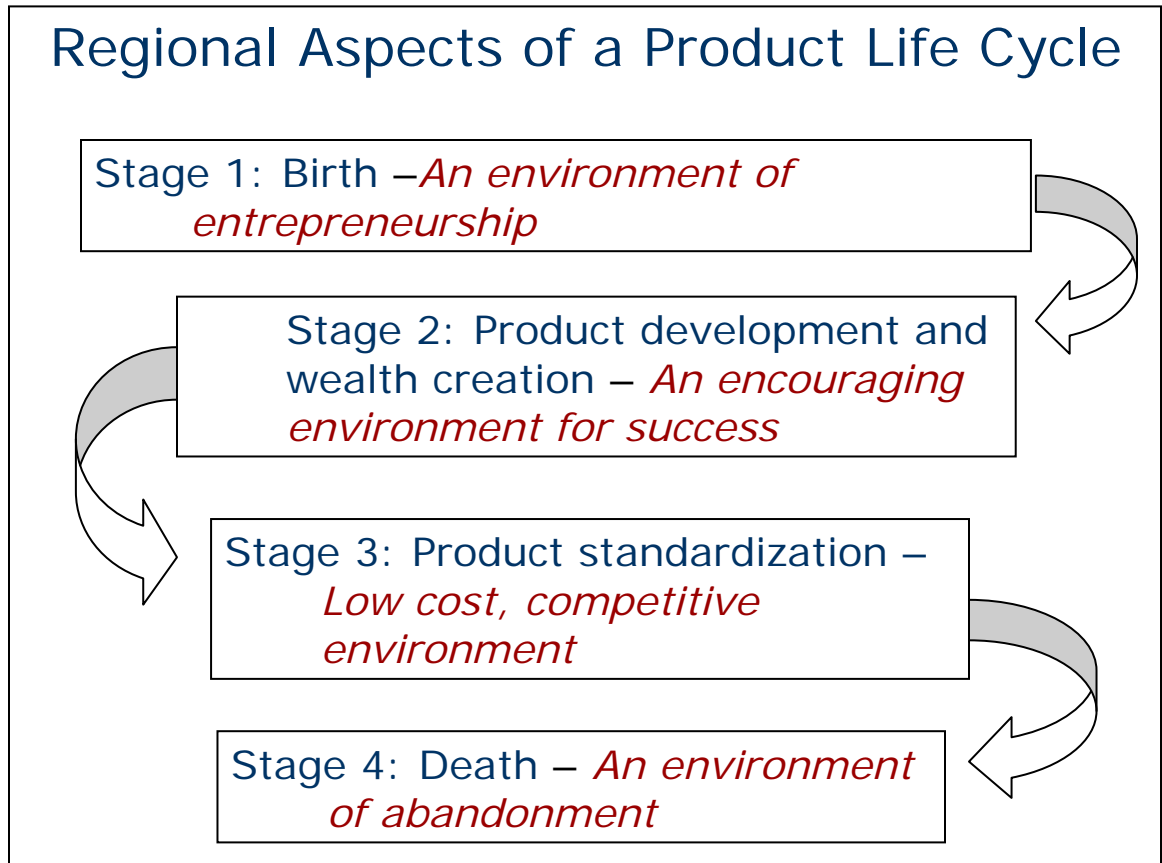
during this first stage and therefore, not surprisingly, many firms do not survive. In fact, while business births are important, evidence suggests that it is not the number of new start-ups that is important but the number of new start-ups that survive to enter the second stage.

Stage Two can be considered the “teenage years” of the firm. If it has a unique product or service and a solid marketing and production plan, then high profits and strong employment growth can occur. At this stage, costs are not an issue; quality control is. In many respects the success of Kalamazoo County in the 1900s occurred because many of its companies across a wide range of industries were in Stage Two. From Gibson Guitars to Kalamazoo Stoves to, of course, the Upjohn Company, the county’s firms were making money through innovation.

The market is quick to respond to change. This is one of its greatest strengths, but it also limits the good times any company will have before its rivals catch up to it. The friable pill is a great example for, it launched the Upjohn Company, but within 20 years the company would have likely disappeared if it had not found the “next big thing.”

When the market catches up to a firm, profits slip and the firm faces a major decision. The easier and often-traveled route is to look for ways to lower production costs. Production design is limited to cost-saving measures. For large companies, finding low-cost branch site locations becomes key. In many respects Stage Three represents the “middle-aged” years of the firm, and it can last for a long time in some industries. In others, it can be very short.

Chart 2



The more difficult route was taken by Dr. Upjohn: “Look for and develop the next big thing.” Firms have one advantage over humans and other living creatures - they can become young again. The paper industry in Kalamazoo County was nearly 40 years old in 1905 and yet it was still acting as though it were in Stage Two by developing new production methods and new products.

The final stage is, of course, death. Death can occur through merger or closure. The firm may move the plant offshore, be bought out or, simply close.

All communities have companies in all four stages. However, the community is often defined by what stage its primary employers are in. Flint and Gary, Indiana, for example, may have several firms in stages 1 or 2; however, both are defined by the stage that their primary industry - vehicles and steel respectively, is in. Not only does the community get labeled as a “branch plant location” or an “industry town” but its workforce and general support services change. Entrepreneurship is not encouraged, and financial institutions may become overly conservative. Moreover, the environment is not conducive to attracting creative individuals who may come up with the “next big thing.”

Small Business Activity in Kalamazoo County

Fortunately, the entrepreneurial spirit was not lost in the county during the past 30 years; it was simply overshadowed. More than 110 small businesses were created each and every quarter from 1991 to 1997 in Kalamazoo County.¹⁴ The majority of new start-ups survived to see their fifth birthday, which is better than the national average. Of the new small establishments starting in 1992, 58.7 percent saw their fifth birthday, the high percentage for the decade (Table 4).

¹⁴ Table 4 is based on the state’s Department of Labor and Economic Growth ES-202 files, which contain quarterly employment statistics for all establishments in the state, that pay unemployment insurance. A birth occurs when a new establishment that employs fewer than 50 workers is listed. It is possible an in-state move can be mistaken for a birth. In addition, it is possible that some of these births are the openings of branch facilities, such as bank branches, of large companies.

Table 4
Survival Rate of Small Start-ups
 Percent still operating after each year

Starting	Percent Surviving				
	1st year	2nd Year	3rd Year	4th Year	5th Year
1990	82.6	68.6	57.9	46.8	42.2
1991	87.6	77.2	63.1	57.1	53.3
1992	87.3	79.8	72.8	67.9	58.7
1993	85.5	73.9	64.3	57.6	56.2
1994	77.7	62.7	52.9	49.4	45.7
1995	83.7	75.2	69.8	62.9	53.3
1996	83.3	74.8	32.1	15.9	8.4
1997	60.0	42.1	16.0	4.2	
1998	45.0	25.0	5.0		
1999	43.8	18.4			
2000	42.4				

Establishments that started with fewer than 50 workers

Source: DLEG – ES 202

The 2001 recession hit the county’s small business sector early. The survival rate of new small establishments dropped dramatically in 1997, when only 60 percent survived to see their first anniversary. In the following years the first-year survival rate dropped even lower, until finally only 42.4 percent of the firms opening in 2000 made it to see their first birthday.

This result is not too surprising and it should be expected, since many new businesses are either breaking new ground with an improved product or service or trying to enter into an established market. When business and consumer spending slows, it is likely that purchasing retrenches to traditional patterns. Visits to new restaurants are postponed; new businesses services are not required because orders have slowed.

From 1990 to 2000 small business start-ups occurred in 396 industries in the county, from construction to professional services. Approximately 75 percent of the small business start-ups were in sectors that primarily serve local residents. These include restaurants, retail stores, and residential construction firms. The remaining 25 percent of the county's start-ups were in industries that compose its economic base.

This is an important but difficult distinction to make. Businesses that cater to the local market can advance the area's quality of life, e.g., a better restaurant or a new grocery serving an ignored neighborhood. They can also improve the productivity and products of the area's larger firms by supplying better services or components. However, they do not directly bring new money into the area. To do that, they must sell their product or service to customers outside the area. In other words, they must become part of the county's economic base.

Traditionally, an area's economic base was considered to be primarily its manufacturing sector; however, this is no longer the case. While manufacturers are still a major component of any area's economic base, they share that role with a growing number of service providers, which can include medical, professional and business services, warehousing, higher education institutions and unique retail outlets or clusters. In Kalamazoo County, Bronson and Borgess hospitals, Western Michigan University, and Kalamazoo College are all vital parts of the county's economic base.

Size, by itself, does not make a firm part of an area's economic base, either. A software developer working by herself producing specialized software applications for a national market is as much a part of the county's economic base as Pfizer. On the other hand, Meijer, which employs

thousands of workers in the county, is not. According to the Upjohn Institute's economic model for the county, economic base activities employ one-third of the county's workers.

While small business created the majority of new jobs in the county during the period, substantial job growth occurred in only a small number of firms. During the 1990s, the fastest growing 10 percent of the small business start-ups accounted for 52 percent of total jobs created. These "gazelles" could be found in 53 different industries and only 13.2 percent of them were in economic base activities (i.e., producing a good or service that is sold to customers located outside the county).

As discussed previously, the typical successful firm advances through four life stages (see Chart 2 on page 23). Many small start-ups stay in Stage 1 or, at least, do not experience the dramatic growth that can occur in Stage 2. In short, most small businesses stay small. This cannot and should not be taken as a sign of failure, however. Many business owners want to stay small, and small firms can be extremely profitable. Nevertheless, as will be shown in a following section where Kalamazoo County performance is compared to other metro areas, areas where a higher-than-average percentage of establishments employ fewer than 20 workers experience slower growth than similar areas where a higher-than-average percent of establishments employ between 20 and 40 workers. Establishments of this size may be approaching the takeoff point of the high growth typically seen in Stage 2. Of course, not all establishments of this size will experience substantial growth; however, the probability of such growth is increased.

The fact that the area's fastest growing small establishments are scattered across a wide array of industries clearly has strong economic-development policy implications. It is extremely hard to pick

winners. The area's next big homegrown employer could hatch exactly where you are not looking. Economic policies that promote an entrepreneurial environment may be more effective than trying to pick winners.

The second finding is that only 13.2 percent of high-growth firms in the county were in industries that have historically sold a high percentage of their goods or services to customers outside of the area. The large majority of the county's "gazelles" are successful, because they are able to better serve the local market. Again, a better restaurant, a more efficient print shop, and a more conveniently located bakery all improve an area's quality of life; however, the displacement costs are large. The success of firms serving the local market comes, in large part, at the expense of existing businesses. This is especially true in Kalamazoo County, where current population and employment growth is modest.

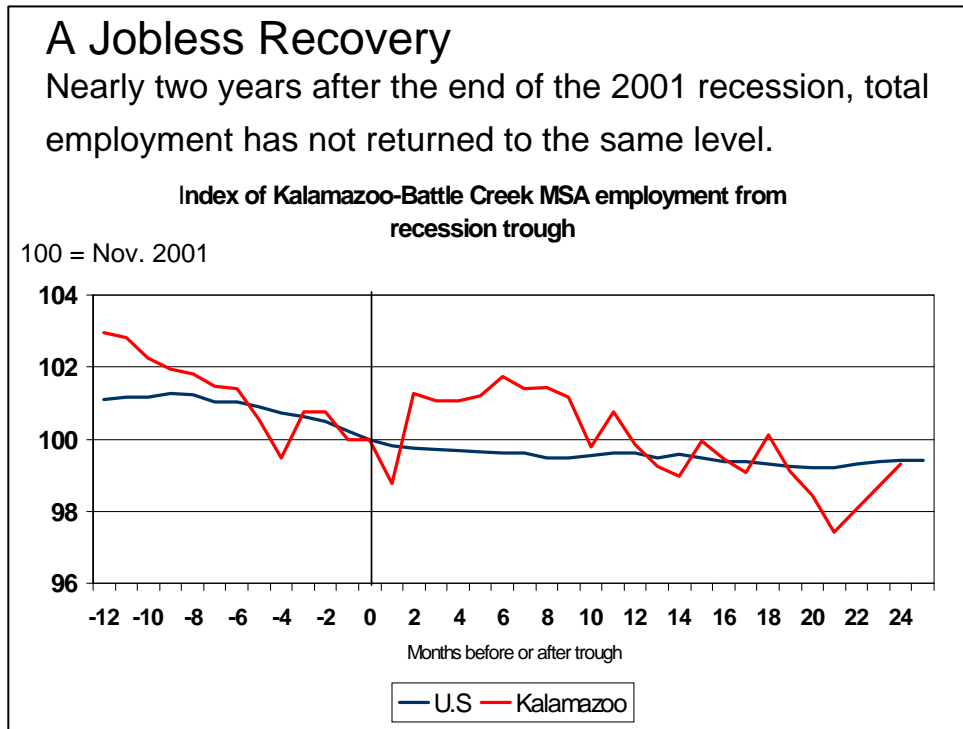
Current Conditions

Overall, Kalamazoo County is performing about as well as can be expected given the sluggish national economy and its current industrial base. As will be shown, the county's economy is in the midst of a structural transition brought on by the globalization of manufacturing activity and the changing corporate strategies of several of its major employers. Still, the county's unemployment rate remains low and the long-term economic outlook (discussed in the following section) is positive. This is both good and bad news. Although our analysis of the structure and performance of Kalamazoo County does not identify anything "wrong," at the same time it suggests that this could be "as good as it gets."

Since the end of the last recession in November 2001, the Kalamazoo-Battle Creek MSA has lost 2,000 jobs, a decline of 0.9 percent. This jobless recovery has been especially hard on the area's manufacturing base, which lost 2,100 jobs during the period, a 5 percent decline. Still, relative to the nation as a whole, the Kalamazoo-Battle Creek MSA is holding its own. While the MSA's total employment fell by 0.9 percent during the first two years of the recovery, it remained very close to the nation's rate of decline, 0.6 percent.

In charts 3 and 4, the employment performance of both the United States and the Kalamazoo-Battle Creek MSA are indexed so that 100 equals the employment level of each in November 2001. Although the data are seasonally adjusted, the employment path of the MSA has been more rocky than that of the nation. This is not surprising given the restructuring that has occurred in the area during this time.

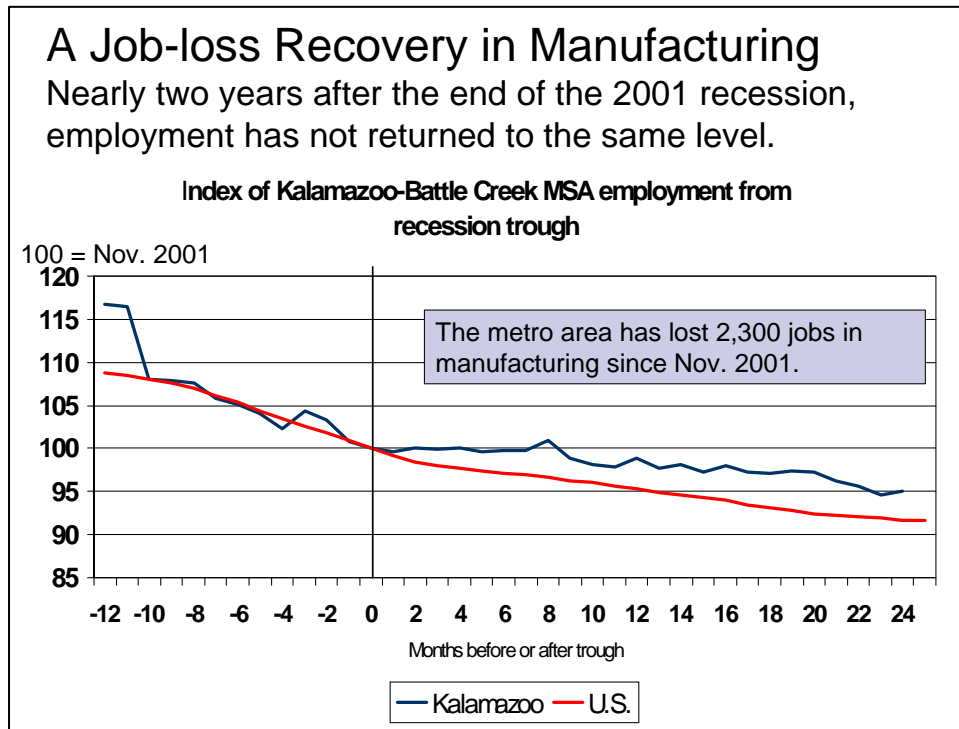
Chart 3



Part of the reason why the Kalamazoo-Battle Creek MSA has been unable to keep up with the nation during this lackluster recovery is that it is more heavily concentrated in manufacturing activity. In 2001, manufacturers accounted for 28.4 percent of all non-farm earnings in Kalamazoo County compared to only 13.4 percent nationwide. More recent statistics for the three-county MSA show a similar concentration: in 2003, 19.5 percent of the MSA's employed workers toiled in manufacturing compared to 11.2 percent nationwide. A key point is that the county's sluggish economic performance is due to its strong concentration in manufacturing and not because of the performance of its manufacturing companies. This can be clearly seen in Chart 4. While manufacturing employment nationwide declined by 8.2 percent from November 2001 to November 2003, manufacturing employment in the Kalamazoo-Battle Creek MSA declined by 5 percent. If the MSA's manufacturing

sector had performed no better than the nation as a whole during this period, it would have lost an additional 1,800 workers.

Chart 4



To obtain a better understanding of the underlying components of relative change in the MSA during the recovery, we prepared shift-share analysis of the area's employment growth from the fourth quarter of 2001 to the fourth quarter of 2003. In a shift-share analysis an area's growth is separated into three components.

The first is its National Growth. This component captures the amount of growth that can be expected in the local economy due solely because of the overall growth of the nation. The second

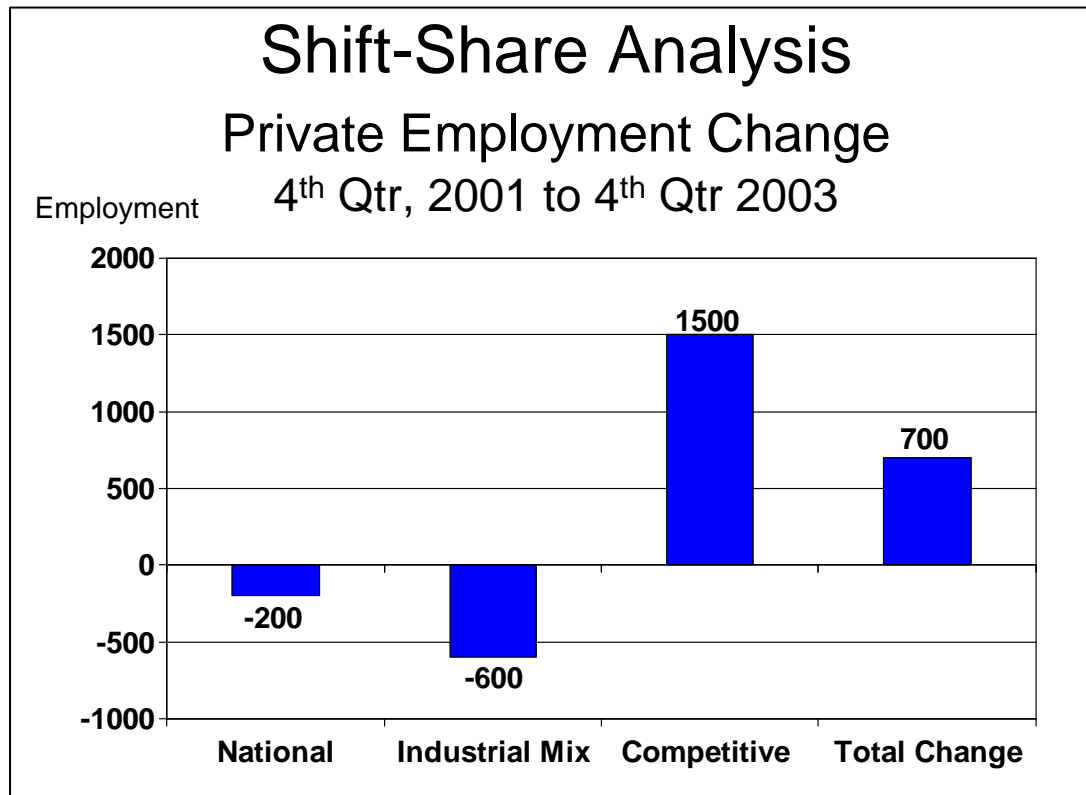
component is its Industrial Mix. This component accounts for the part of the area's employment growth (or decline) that is due to its mix of fast- and slow-growing industries. If an area's firms are in industries that are performing well nationwide, then regardless of how strong or weak the area's firms are in those industries, they can be expected to grow. Likewise, if a high proportion of the area's firms are stuck in national industries that are declining, then it is likely - again regardless of how well the local firms are doing - that the area's economic performance will be lackluster.

It is important to note that the National Growth and Industrial Mix components of the shift-share analysis do not reflect at all on the relative performance of the area's firms. These components of the shift-share directly relate to Wilbur Thompson's famous line, "Tell me your industries, and I will tell you your future." The final component is both the most interesting and the most frustrating. It shows the amount of job growth in the area that can be attributed to the competitiveness of its firms, relative to their national counterparts. The results are frustrating because shift-share does not provide any clues as to why the area's firms performed better (or worse) than the national average.

The result of the shift share analysis is shown in chart 5, below. From the fourth quarter of 2001 (the trough of the recession) to the fourth quarter of 2003, private employers in the Kalamazoo-Battle Creek MSA hired 700 more workers. If the MSA's private sector employers had performed no better than the overall average growth rate for the nation, they would have lost 200 jobs. Because of the MSAs strong concentration in manufacturing activities, it is no surprise that its industrial mix is negative as well. The national performances of the MSA's major industries, taken as a whole, were below average. However, although the MSA was dealt a hand of slow-growing industries, its firms in these industries, on average, outperformed their national counterparts. In short, the MSA houses competitive

firms. Some of its more competitive firms can be found in its automotive industry (concentrated in Calhoun County), wholesale (the Target Distribution Center), and finance. However, weakness was detected in nondurable goods besides paper (which includes Pfizer), health care besides hospitals, and leisure activities (restaurants, lodging).

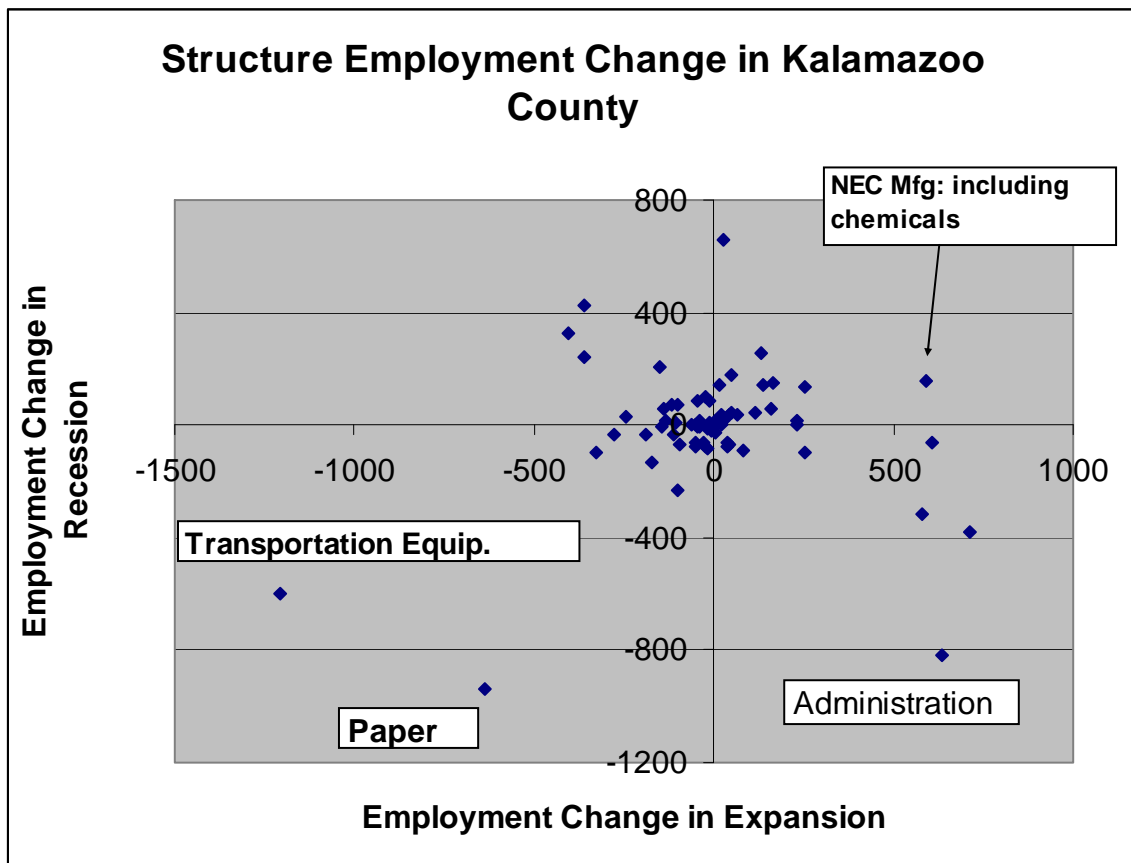
Chart 5



While the findings of the shift-share analysis are helpful in gaining a better understanding of the MSA's performance and are somewhat encouraging, they do not fully capture the significant structural shift that is changing the face of both the national and the local economy. Although not as drastic as the 1981 and 1983 recessions, the 2001 recession resulted in a significant structural change in the county. Jobs that were lost in many of the county's major industries are not coming back in those same

industries. New jobs are being generated but in industries that did not, in the main, experience employment declines during the recession. This is shown in chart 6, below. The vertical axis shows the number of jobs gained or lost by certain industries from the second quarter of 2000 to the second quarter of 2002 (the period of the downturn). The horizontal axis shows the jobs gained or lost by these same industries from the second quarter of 2002 to second quarter of 2003 (the period of the recovery). For instance, the county's transportation equipment industry lost 600 jobs during the downturn but then lost another 1,200 jobs during the recovery. At the same time, manufacturing not elsewhere classified (NEC), but including chemicals (before Pfizer's downsizing) gained 160 jobs during the recession and another 590 jobs during the recover. In the standard recession, jobs come back in the industries where they were lost. While it is still true for some of today's industries, such as administration, it is not true for most.

Chart 6



Demographic Shifts

Kalamazoo County's unemployment rate in 2003 reached 5.2 percent which was still below the national rate of 6 percent and the state rate of 7.0 percent. In 2001 and 2002, the county's rate stayed below 4.5 percent. While the county's consistently low unemployment rate is welcomed, in some respects it results from the "wrong reasons."

It appears that many of the county's job losers have left the workforce, if not the county, and thus did not show up in the county's unemployment rate statistics. For example, in 2002 the number of employed county residents declined by 2,800 individuals. At the same time the number of unemployed individuals rose by only 200. So what happened to the 2,600 workers who are no longer employed, but who are not looking for work either? In a steady state economy, the number of retirees should roughly match the number of new of new entries, so it is highly unlikely the 2,600 simply retired. In 2001, the same discrepancy occurred, with the number of employed residents dropping by 3,900 individuals but the ranks of the unemployed growing by only 1,700. In that year, 2,200 people are unaccounted for.

Indeed, the county's low unemployment rate partially reflects one of its biggest long-term problems: lack of population growth. During the 1990s, Kalamazoo County's population increased by only a 0.5 percent annualized rate. In the more recent 2000 to 2002 period, the U.S. Census estimates that the county's population rose at an even slower 0.4 percent annualized rate. In comparison, the nation's population rose at a 1.x percent annualized rate during both periods.

As shown in Table 5, the county experienced substantial out-migration of households and income during the latter half of the 1990s. From 1995 to 2001, the county suffered a net loss of 3,192 households, as 44,730 households left Kalamazoo County while 41,538 moved into the county. The county's loss of households cannot be explained by households leaving the county for more rural settings in surrounding counties. In fact, during the period, 11,166 households moved into Kalamazoo County from Allegan, Calhoun, St. Joseph and Van Buren, while only 10,852 moved out.¹⁵ The movement of households is surprisingly equal between Kalamazoo County and its neighbors. For example, during the six-year period, 3,865 households moved from Kalamazoo County to Van Buren County, while 3,726 households in Van Buren County packed up their gear and headed to Kalamazoo County. On net, only 23 households move a year from Kalamazoo County to Van Buren County during the period.

The problem of the county losing households is compounded by the fact that the movers are taking more income with them than the new households are bringing. On average, during the six-year period, the average household leaving the county took with it \$38,980 in annual income, not adjusting for inflation. At the same time, the newcomers brought in only an average of \$32,599. Combine the net loss of households and the income difference between leavers and arrivals, and during this period the county lost nearly \$390 million in household income.

It is not surprising that the county is a net loser in terms of households, given that many retirees move to warmer climates, although many "snowbirds" maintain their "permanent" residences in the state and thus are not counted among the movers. Unfortunately, it is likely that a large share of the

¹⁵ These statistics do not address the issue of urban sprawl, however. Inside Kalamazoo County there continues to be a movement of households to the more rural townships. Nevertheless the statistics do suggest that since rural settings can be

movers are working-age adults. This conclusion is supported by the changing age profile of the county's population.

Households	Allegan	Calhoun	Kalamazoo	St. Joseph	Van Buren	Total area	Total
						Out-Migration	Out-Migration
Allegan	X	156	3,225	100	1,496	4,977	20,363
Calhoun	164	X	2,564	203	90	3,021	20,152
Kalamazoo	3,223	2,335	X	1,429	3,865	10,852	44,730
St. Joseph	87	247	1,651	X	137	2,122	9,669
Van Buren	1,638	124	3,726	134	X	5,622	12,899
Total area In-Migration	5,112	2,862	11,166	1,866	5,588	X	X
Total In-Migration	22,198	20,545	41,538	8,904	12,475	X	X
Income	Allegan	Calhoun	Kalamazoo	St. Joseph	Van Buren	Total area	Total
						Out-Migration	Out-Migration
Allegan	X	5,729	93,546	2,941	36,438	138,654	644,212
Calhoun	5,799	X	86,706	4,900	3,065	100,470	687,896
Kalamazoo	111,395	73,217	X	45,686	132,002	362,300	1,743,556
St. Joseph	2,472	6,759	45,565	X	4,232	59,028	260,396
Van Buren	41,359	3,714	103,956	3,392	X	152,421	347,394
Total area In-Migration	161,025	89,419	329,773	56,919	175,737	X	X
Total In-Migration	800,812	679,526	1,354,104	269,840	383,926	X	X
Average Household Income	Allegan	Calhoun	Kalamazoo	St. Joseph	Van Buren	Average Area	Average
						Out-Migration	Out-Migration
Allegan	X	36,724	29,007	29,410	24,357	29,874	31,636
Calhoun	35,360	X	33,817	24,138	34,056	31,842	34,135
Kalamazoo	34,563	31,356	X	31,971	34,153	33,011	38,980
St. Joseph	28,414	27,364	27,598	X	30,891	28,567	26,931
Van Buren	25,250	29,952	27,900	25,313	X	27,104	26,932
Average area In-Migration	30,896	31,349	29,580	27,708	30,864	X	X
Average In-Migration	36,076	33,075	32,599	30,305	30,776	X	X

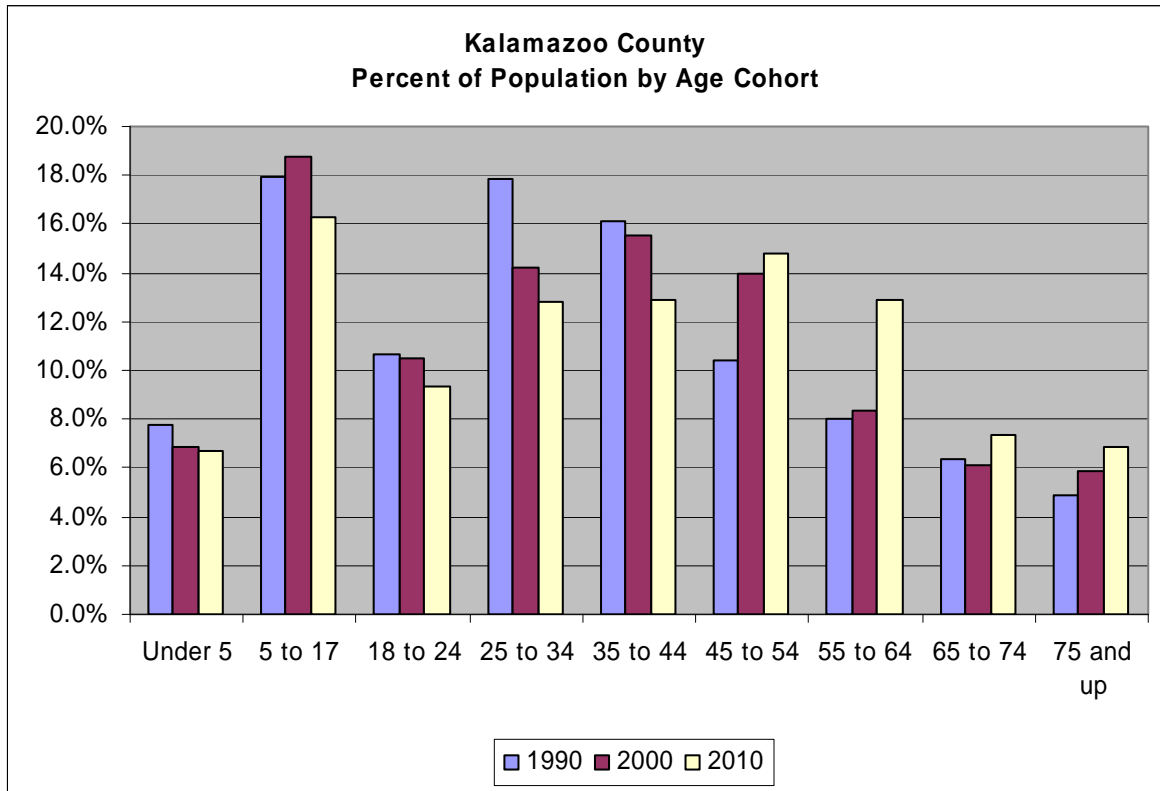
Source: IRS

Chart 7 shows the percentage breakdown of the county's population by age cohort for 1990, 2000, and our 2010 projection, which will be further described in the following section. The aging of the baby boom generation, individuals born between 1946 and 1964, is clearly seen in the data as boomers move from the 25-to-35 age group in 1990 to the 35-to-45 age group in 2000 to the 45-to-54 and 55-to-64 age cohorts in 2010. While this demographic shift has left a smaller percentage of the

found in the county, there is less need for households to look beyond the county line.

county's population in the 25 to 34 year age group, it important to note that this is a national trend. The question is whether Kalamazoo County's experience is any different from the nation's.

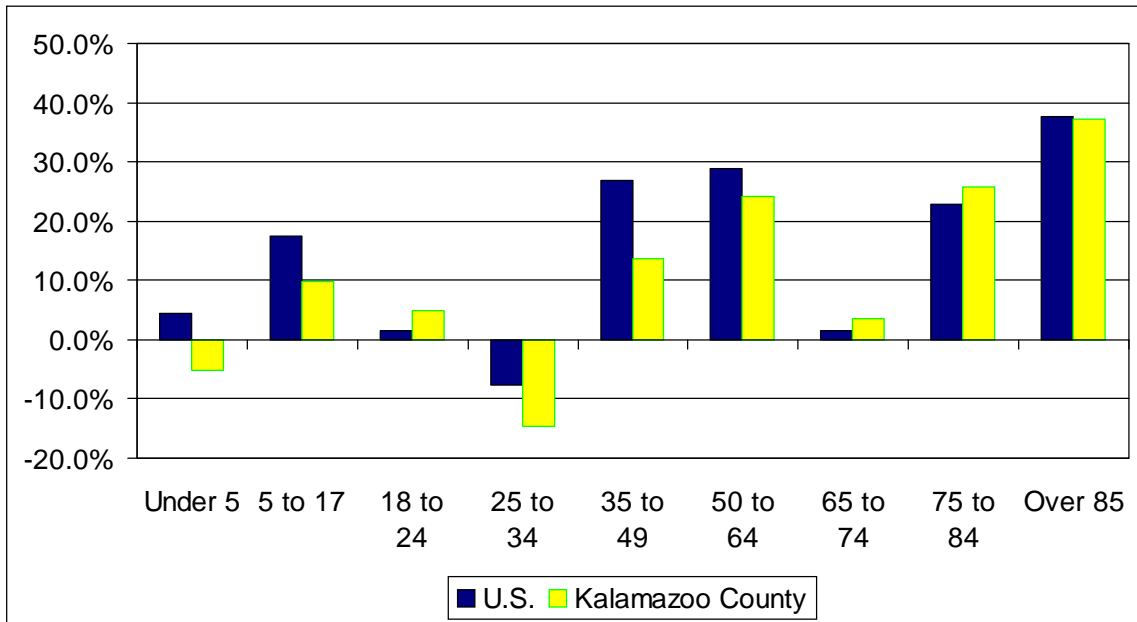
Chart 7



Unfortunately, it is. Because of the out-migration of young adults, the wake of the aging boomers is more unsettling in Kalamazoo County than in the nation. As shown in Chart 8, while the number of individuals between the ages of 25 and 35 dropped by 7.6 percent nationwide, it plunged by nearly double that in Kalamazoo County, 14.6 percent. Moreover, while the number of people in the 36-to-45 age group rose by 26.8 percent across the country in the 1990s, it increased by only half of that percentage in Kalamazoo County, 13.6 percent. Clearly, the county is losing its working-age adults because of to out-migration. At the same time, the county's strong higher-education community continues to bring young adults into the county. One of the opportunities presented to the county is to

find successful strategies that will increase the likelihood that its college students will join the county's workforce, instead of moving elsewhere to start their careers.

Table 8
Population Growth by Age Category
1990 to 2000 Kalamazoo County vs. U.S.



U.S. Census

Long-Term Forecast

The Upjohn Institute maintains an economic simulation and forecasting model for Kalamazoo County. The model was constructed for the Institute by Regional Economic Models Incorporated (REMI).

The long-term economic outlook for Kalamazoo County calls for a continuation of its below-average growth during the current decade, 2000-2010. As shown in table 6 below, we are forecasting total employment in the county to increase at an average annual rate of 0.3 percent during the decade. In comparison the United States is forecasted to grow by 0.5 percent.

The modest employment growth forecast for the decade is due, in large part, to the 2001 recession. Even through the recession ended more than two years ago, employment levels, nationwide as well as in Kalamazoo County, have not yet returned to their levels at the end of the recession, November 2001, let alone to the peak in 2000. During the latter half of the decade both the county and the nation are predicted to grow at a 1.0 percent annual rate.

The forecast, which factors in estimates of the county's relative production costs and productivity for the nation, calls for the county's manufacturing sector to perform slightly better than the national average during the decade. Over the course of the decade manufacturing employment is forecast to decline at a 0.4 percent annual rate, compared to a 1.0 percent annual decline for the nation.

Again, during the latter half of the decade, manufacturing employment is forecasted to increase slightly in the county as well as in the nation. However, employment in manufacturing is not expected to ever reach its pre-recession high in the county or the nation.

	2000	2010	Avg. Ann. Change	
			Kalamazoo	U.S.
Total Employment	149,000.00	153,800.00	0.3%	0.5%
Construction & Mining	7,800.00	6,500.00	-1.8%	-0.5%
Manufacturing	26,600.00	25,600.00	-0.4%	-1.0%
Transportation and Public Utilities	4,800.00	5,000.00	0.4%	0.3%
Retail Trade	26,800.00	27,100.00	0.1%	0.4%
Wholesale Trade	5,800.00	6,100.00	0.5%	-1.1%
Finance, Insurance and Real Estate	9,700.00	9,200.00	-0.5%	-0.1%
Serivices	47,800.00	54,900.00	1.4%	1.5%
Health	12,300.00	15,500.00	2.3%	2.1%
Government	19,700.00	19,400.00	-0.2%	0.9%

W.E. Upjohn Institute

The county's population is forecasted to remain flat during the decade. As discussed previously, the county is losing many young to middle-aged adults because of net out-migration. Since these individuals are in their prime child-raising years, the county is also witnessing a decrease in the number of children. These trends are forecasted to continue during the decade, pushing down the area's predicted growth in retail trade and governmental services. At the same time, the continued aging of the area's baby boomers is expected to generate more demand on health services, which could become the major growth engine for the county.

Forecasts are seldom correct. Their major contribution is to identify possible threats to an area and this one is no different. Although the county's manufacturing base is expected to modestly outperform the nation as a whole, it will add only slightly to the county's employment growth. The barrier to the area's growth is not its manufacturing sector, nor its higher-than-average concentration in manufacturing; it is its inability to attract and retain young professional workers. That is a challenge that we take up in the concluding chapter.

Comparison Analysis

As mentioned earlier, Wilbur Thompson, a pioneer in the field of regional economics, once wrote. “Tell me your industries and I will tell you your future.” This highly deterministic and somewhat discouraging statement has a strong element of truth and is strongly tied to the business product cycle theory introduced earlier. Many clear examples can be given to support this statement: Gary, Indiana; Austin Texas; and Flint, Michigan, are all seriously tied to the fortunes of their key industries. Of course, counterexamples can be given where a metropolitan area has been able to “change its stripes,” but they are unique.

It was with this in mind that we set to identify a group of comparison areas that are similar to Kalamazoo County but performed better than expected given their mix of industries and geographic place.¹⁶ This is a different approach than is taken in most studies, where the goal is simply to identify the fastest growing areas. Areas with a robust industrial mix of high-growth industries and attractive amenities will grow, almost in spite of itself. The more interesting metropolitan areas to study are those that outperform expectations, after you control for industry mix, amenities, educational achievement levels of workers, and past growth trends. This is the approach taken here.

Starting with all metropolitan areas housing between 100,000 and 500,000 people,¹⁷ we tried to statistically control for the areas’ mix of industries, climate, geographic location, educational

¹⁶ This analysis is based on an ongoing research project of Hannah McKinney and George Erickcek that is attempting to identify the reasons why some cities grow (or decline) beyond what is expected given their industry mix and geographic place.

¹⁷ Because Kalamazoo County is part of a metropolitan area that has two urbanized areas, Kalamazoo and Battle Creek, we included in the sample metropolitan areas where the major urbanized area housed between 100,000 and 500,000 residents, even if the large MSA had more than 500,000 residents.

achievement levels, and past performance. Controlling for these factors, we then “forecasted” the expected performance of all of the metropolitan areas in the sample for the 1990s. For example, as shown in Table 7 which lists the areas where our model predicted income growth between 15 and 25 percent in the 1990s, we predicted that personal income in Green Bay would increase by 23.1 percent during the decade. In fact, it increased by 45.4 percent. At the same time, our model predicted that personal income in Elkhart-Goshen would increase by 24.6 percent; it grew by 23.4 percent. The area grew substantially in the decade; however, it was fully forecasted to do so, given its economic development assets and characteristics. Finally, turning to Kalamazoo County, the model predicted that personal income in the county would grow by 19.5 percent in the decade, when in fact it increased by only 12.5 percent.

The next step in our selection process of finding suitable comparison communities was to those that did not have a strong manufacturing presence. Finally, we added Austin, Texas and Provo, Utah to the mix, just to contrast their performance with the other areas, which were more similar to Kalamazoo County. These cities make up the final list of comparison areas:

Austin, Texas	Green Bay, Wisconsin
Cedar Rapids, Iowa	Hamilton/Middletown, Ohio
Chattanooga, Tennessee	Lexington, Kentucky
Eau Claire, Wisconsin	Provo, Utah
	St. Cloud, Minnesota.

Table 7

Areas that were predicted to grow between 26 and 15 percent in the 1990s.					
	Employment Change in the 1990s	Predicted Employment Change	Difference	Employment Change in the 1980s	
Green Bay, WI MSA	45.4%	23.1%	22.3%	25.1%	
Hamilton--Middletown, OH PMSA	40.6%	19.5%	21.1%	13.5%	
Eau Claire, WI MSA	32.1%	25.4%	6.7%	19.7%	
Wausau, WI MSA	31.2%	21.0%	10.2%	14.3%	
Cedar Rapids, IA MSA	29.9%	25.5%	4.4%	9.8%	
Oshkosh Winnebago WIS	29.2%	23.5%	5.7%	15.6%	
Lafayette, IN MSA	26.2%	25.5%	0.6%	18.0%	
La Crosse, WI--MN MSA	25.4%	24.1%	1.3%	18.2%	
Sheboygan, WI MSA	24.8%	17.9%	6.9%	10.2%	
Chattanooga Hamilton TN	24.4%	22.6%	1.9%	9.3%	
Elkhart--Goshen, IN MSA	23.4%	24.6%	-1.2%	34.6%	
Waterloo--Cedar Falls, IA MSA	22.5%	22.0%	0.5%	-8.5%	
RockfordWinnebago Ill	19.5%	21.0%	-1.5%	9.3%	
Janesville--Beloit, WI MSA	19.0%	17.7%	1.3%	8.2%	
Jackson, MI MSA	18.2%	15.8%	2.4%	-0.6%	
Evansville Vanderburgh Indiana	18.0%	21.7%	-3.7%	6.0%	
South Bend, IN MSA	17.9%	22.8%	-5.0%	13.6%	
Ann Arbor Washtenaw MI	17.9%	20.7%	-2.8%	25.8%	
Allentown Lehigh PA	17.8%	16.9%	0.9%	18.0%	
Davenport Moline--Rock Island, IA--IL MSA	17.3%	19.3%	-2.0%	-3.2%	
Canton Stark OH	16.5%	17.9%	-1.4%	4.3%	
Huntington--Ashland, WV--KY--OH MSA	14.3%	15.3%	-1.0%	-2.9%	
Terre Haute, IN MSA	14.0%	18.0%	-4.1%	-1.0%	
Parkersburg--Marietta, WV--OH MSA	13.1%	19.9%	-6.8%	5.6%	
Lima, OH MSA	13.0%	16.1%	-3.0%	7.1%	
Kalamazoo County	12.9%	19.5%	-6.6%	19.9%	
Areas that exceeded predicted rate by more than 5%					

Source: W.E. Upjohn Institute

As shown on Table 8, the nine selected metropolitan areas were top-notched performers during the 1990s. On average, total employment grew by 28.6 percent and manufacturing employment rose a robust 25.5 percent. In comparison, total employment grew by only 9.9 percent in the Kalamazoo-Battle Creek MSA with manufacturing employment posting a 3.6 percent gain for the decade.

It is interesting to note, however, that the economic performance of the comparison areas has slowed drastically during the current economic slowdown and lackluster economic recovery. Total employment for these areas declined by 1.4 percent, and manufacturing employment retreated by 14.4

percent. In the Kalamazoo-Battle Creek MSA, total employment dropped by 4.3 percent and manufacturing employment fell by 17.8 percent.

Finally, as a further check to see if our selection process generated an appropriate set of areas for comparison, we examined the rankings of high-growth entrepreneurial cities prepared by the Nation Commission on Entrepreneurship. As shown in Table 9, all of the cities ranked high in the standings. While the average U.S. city was indexed at 100, Provo and Austin scores climbed above 190. All of the comparison areas had index scores that were well above average, as did the Kalamazoo-Battle Creek MSA.

Table 8			
Employment Growth 1993 to 2000 and 2000 to 2003			
Metropolitan areas		1993 to 2000	2000 to 2003
Austin, TX	Total	48.3%	-1.1%
	Mfg	45.3%	-27.8%
Cedar Rapids, IA	Total	26.5%	-5.8%
	Mfg	8.9%	-16.5%
Chattanooga, TN	Total	12.6%	-2.3%
	Mfg	0.7%	-18.8%
Eau Claire, WI	Total	24.4%	0.2%
	Mfg	27.6%	-15.0%
Green Bay, WI	Total	25.8%	1.9%
	Mfg	18.5%	-4.8%
Hamilton-Middletown, OH	Total	32.7%	0.6%
	Mfg	23.7%	-4.9%
Lexington, KY	Total	21.8%	-4.7%
	Mfg	31.9%	-17.1%
Provo, UT	Total	41.6%	0.0%
	Mfg	44.1%	-16.1%
St. Cloud, MN	Total	23.5%	-1.0%
	Mfg	28.8%	-8.7%
Average	Total	28.6%	-1.4%
	Mfg	25.5%	-14.4%
Kalamazoo County	Total	9.9%	-4.3%
	Mfg	3.6%	-17.8%
Source: BLS			

We found that the economic development organizations of the identified metro areas all use standard economic development strategies, including targeting and attraction and retention policies. Austin and Provo, in particular, are trying to target industries that will diversify their economic base, as their growth has slowed dramatically since the 1990s.

In Lexington, Austin, and Cedar Rapids, efforts are underway to develop productive partnerships between the region’s higher education and economic-development communities.

The smaller metro areas, St. Cloud, Eau Claire, and Cedar Rapids, promote their rural life styles, while Hamilton/Middletown benefits from the growth of the neighboring metro areas of Cincinnati and Dayton.

Finally, several of the metro areas have developed fairly original strategies that may be worth considering in Kalamazoo County. Cedar Rapids developed a “bring them back home” strategy, aimed at luring successful professionals back to that city. Green Bay has developed several successful small-business incubators and has created a well-regarded entrepreneurial environment.

Table 9

High Growth, Entrepreneurial Cities	
City	Growth Company Index
Provo, UT	200
Austin, TX	193
St. Cloud, MN	186
Clarksville, TN	178
Green Bay, WI	166
Cedar Rapids, IA	164
<i>Kalamazoo-Battle Creek</i>	<i>156</i>
Chattanooga, TN	153
Lexington, KY	153
Eau Claire, WI	140
<i>Average for all cities</i>	<i>100</i>
Hamilton/Middletown, OH	na

Source: National Commission on Entrepreneurship.

Austin, Texas

Austin achieved extraordinary growth in the 1990s as it rode the high-tech innovation wave.

Employment in the MSA soared 48.3 percent, an annualized rate of 5.8 percent, from 453,600 in 1993 to 672,700 in 2000. Since 2000, however, its economy has slowed dramatically. In 2003, employment stood at 665,600, a drop of 1.1 percent for a loss of 7,100 jobs. The area's unemployment rate now stands at 5.5 percent, compared to 2.0 percent in 2000.

The economic development arm of the area's chamber of commerce has developed a new economic development strategy to grow the economy. The key elements of the strategy include:

1. Refocus efforts on retaining and expanding locally-owned companies, with a focus of engaging the area's "most influential business leaders in the process of economic development."
2. Refocus efforts to provide support to its computer cluster of industries, including strengthening the ties between the cluster and the University of Texas, creating a public-private wireless resource consortium, and promoting federal funding for semiconductor research.
3. Target medical products as a growth industry, "pursue synergies with the biotechnology sector" and coordinate efforts with the University of Texas's College of Pharmacy to facilitate commercialization of university research.
4. Promote entrepreneurship and new enterprises by creating an entrepreneur's network linking venture capitalists with entrepreneurs and "institutionalize business creation in Austin." In

addition, the strategy calls for the establishment of funding partnerships between universities, the private sector and the state of Texas.

5. Exploring the potential for forming a “super-regional corridor” between Austin and San Antonio to leverage the region’s strengths in electronics, computers and nanotechnology.
6. Ensure that workforce training and education programs remain first class.¹⁸

While the chamber is refocusing on small business development, the region is already being served by several small business assistance programs including BigAustin (BiG) and Community Development Financial Institution (CDFI), which provides education and miro-loans to small businesses. The area’s small businesses are also served by the Austin Small Business Development Center – the area’s Small Business Development Center (SBDC). The Austin Community Development Corporation aims at meeting the needs of the area’s women- and minority-owned businesses. Finally, the state also offers a Capital Access Fund which is very similar in structure to the Michigan Capital Access Fund. The Fund provides a reserve loss account for financial institutions which allows them to make riskier loans.

¹⁸ *Opportunity Austin: A Five-year Economic Development Strategy*, Market Street Services Inc. Sept., 2003.

Cedar Rapids, Iowa

Priority One is the economic development division of the Cedar Rapids Area Chamber of Commerce.

The organization is funded through multi-year pledges from area businesses and governments.

The area's economic development approach offers two unique strategies. Like almost all Midwestern communities, Cedar Rapids fears it is losing its younger, more highly skilled or educated workers to larger metropolitan areas, especially Chicago. Therefore it has started its "Come back home" campaign to promote the area's rural quality of life to former students (University of Iowa in Iowa City) and residents. It is not known how successful the program has been; however, it is a solid attempt to address an issue that is on the minds of Kalamazoo's leaders as well.

The second strategy involves an economic development partnership between Iowa City and Cedar Rapids, which are approximately 25 miles apart and connected by Interstate 380. They have joined forces and developed a regional marketing effort that focuses on the development of the interstate corridor. The corridor's existing industrial clusters include personal hygiene companies such as Procter & Gamble and Oral B Laboratories and electronics makers including Rockwell Collins and Skyworks Solutions. These corporate leaders are viewed as magnets, serving as proof of the corridor's economic viability and the availability of a skilled workforce.

The two-city partnership also promotes the research and development opportunities available at the University of Iowa. Indeed, the corridor houses several data and financial services, insurance, educational testing and biotechnology companies attracted to or spun out of the University of Iowa, according to Priority One.

The corridor is not promoted as the next high-tech center for the nation. Local economic developers attempt to build off the existing industrial mix, its central location in the nation and its rural setting. They are looking for well-paying companies that want to be in the Midwest - not simply high-tech. Small business assistance is provided by the Entrepreneurial Development Center (EDC), a non-profit organization dedicated to economic development in the Cedar Rapids/Iowa City technology corridor. EDC's primary function is networking connecting the need of entrepreneurs with qualified community resources.

Finally, the organization offers the standard set of economic development incentives, including a program that offers low interest or forgivable loans to businesses that hire more workers, tax increment financing (TIF), property tax exemptions, infrastructure grants and loans, and new job tax credits.

Chattanooga, Tennessee

Chattanooga shares many of the same challenges facing Kalamazoo County, according to a recent study prepared by the Wadley-Donovan Group. It has a “neutral image” when recruiting professional workers, and the city’s smaller size makes it difficult to find suitable jobs for professional and executive “trailing” spouses. It’s population growth is sluggish. The area’s air service and cost are again neutral when compared to other similar-sized metro areas. The area’s vocational-tech programs are hurt by a lack of interest and understanding by students and parents regarding career opportunities and earning potential they offer.

The Chattanooga Area Chamber of Commerce is the area’s primary economic development organization and it offers the standard set of economic incentives, through its Global Business Development Team, which is the “sales force for the Chattanooga region.” In fact, the area’s economic development community is considering a Wadley-Donovan Group recommendation to target its efforts on five industry groups. The targeted industries are similar to those in many communities and include food processing, fabricated metals, industrial machinery, plastics, high-end office (IT), and medical equipment manufacturing. In addition, the Chamber offers standard programs including workforce development and assistance to existing industry.

At the same time, Chattanooga is seeking to rekindle its small business and entrepreneurial sector. Area developers speak highly of the Chattanooga, Hamilton County Business Development Center, which, is a 125,000 square-foot business incubator, and is among the top 10 percent of all business incubators in the United States in square footage and number of companies served. The center is serviced by the

area's Small Business Resource Center (SBRC) and Small Business Development Center (SBDC), both of which have offices in the incubator. The two organizations offer a business library, and business planning, as well as, management consulting services free of charge.

Clarksville, Tennessee

Clarksville's economic development organization, the Clarksville Economic Development Council, recently launched *Aspire Clarksville*, a \$2 million, multi-year strategic marketing plan funded by nearly 170 business and community leaders. The program's 2003 budget was just short of \$500,000. Tourism and business development separately account for a quarter of the annual budget. The program's major goals are to increase external awareness of Clarksville, while internally raising the city's self-image. Part of the internal marketing campaign is "Faces of Success" which are being placed in local publications to highlight the importance of economic development to the area's quality of life.

Austin Peay State University maintains the area's Tennessee Small Business Development Center which offers the standard set of programs. In addition, the areas Chamber of Commerce offers small business assistance and there is an active SCORE office.

Eau Claire, Wisconsin

The Eau Claire Area Economic Development Corporation (ECAEDC) is the lead economic development organization for the area and offers the standard programs available throughout the state. The community takes advantage of the Wisconsin Technology Zones program which provides tax abatements to high-tech companies that choose to locate in select locations along I-94 in Wisconsin. Zones have a 10-year lifespan and offer up to \$5 million in possible tax credits. Tax credits are based on the wages offered and the community investment made by the firm.

ECAEDC offers the traditional SBA and revolving-fund loans. However, the organization also promotes advantage of several interesting initiatives. To encourage entrepreneurship it conducts an annual “Create Your Own Business Contest” with cash awards going to “emerging” or high growth potential businesses. In addition, the community has established an Eau Claire Area Technology Loan Pool to provide loans of \$50,000 to \$250,000 to high-tech firms that would not otherwise qualify for traditional financing. The county and local industrial parks have also agreed to provide some loan guarantees on a pool created by ten local banks.

Also, the University of Wisconsin-Eau Claire Small Business Development Center provides information, training and counseling to small business owners and managers. Finally, the Chippewa Valley Innovation Center offers incubator-type programs that provide assistance, reduced rent, and financing to manufacturing start-ups.

Green Bay, Wisconsin

Success for Green Bay rests on its entrepreneurs. Indeed, it was the area's good fortune to be the longtime home of Don Schneider of Schneider Transport and Logistics. The area's two major insurance companies which employ 5,000 people in the area are also homegrown.

The Green Bay Advance is the area's economic development organization. It is a public-private partnership that promotes new business startups, helps existing firms continue to grow, and recruits businesses interested in relocating or expanding in Green Bay. The community offers the standard economic development tools, including Industrial Revenue Bonds, a revolving loan fund program, and CDBG Float Loan Programs.

Advance has also effectively managed an incubator that has hatched more than 100 companies, which in turn have generated approximately 1,000 jobs.¹⁹ The Green Bay Incubator does not target any industrial sector for the use of its facility, and it charges rent. The unique feature of this incubator is that the rent increases each and every year and the tenants are further encouraged to leave in three years. Rent starts at \$9.50 asquare foot and rises to \$11.50 in the third year. The average tenure is 2.6 years. The incubator offers two meeting rooms, copiers and fax machines. The area's Small Business Development Center and SCORE office are located in the building. Partnerships with other service providers include SCORE and University of Wisconsin at Green Bay.

The community also has a seemingly effective faith-based program called Urban Hope which couples a leadership development program with intensive entrepreneur development training. To admit someone to the program, staff must first agree that the business idea is feasible. Second, the would-be entrepreneur enters a two-session credit and budgeting class that teaches basic home and business budgeting techniques. Finally, the would-be entrepreneur enters an 12-week entrepreneur development program where he/she completes a comprehensive business plan, has the opportunity to meet with successful business leaders and obtains a good financial understanding of how to operation their business.

¹⁹Sammis White, *An Economic Tale of Two Cities*, Wisconsin Policy Research Institute, Inc. March 2003, Volume 16,

Hamilton, Ohio

Hamilton (Butler County) benefits from its location between Cincinnati and Dayton on Interstate 75. In fact, its primary economic development organization, the Economic Development Association of Butler County (EDABC), cites the county's location as one of its prime advantages. EDABC was formed in 1998 and is the successful result of a two-year collaborative effort to consolidate the county's economic development activities. EDABC is a non-profit entity led by a 15-member board of trustees, represents 25 governmental organizations and all five of Butler County's chambers of commerce. The EDABC was established in 1998 to unify the economic development marketing activities of the various communities.

One of the major focuses of EDABC is to create a positive business environment for foreign investment. It already has 29 foreign-owned companies employing 2,700 people.

The area has also been successful in attracting several major research and development centers, including Armco Technology Center, Procter & Gamble, and Ethicon Endo-Surgery – a division of Johnson and Johnson.

A second major effort of EDABC is providing bandwidth to the business community. A fiber-optic backbone of 96 strands of fiber extends nearly 100 miles throughout the county. The combined cost of this network is from \$8 to \$10 million. Butler County is contributing \$2.75 million to the project, with the remainder coming from a private business partner.

Finally, EDABC is trying to foster an entrepreneurial culture. The county has two incubators: the BizTech Center and the “We Can Business Incubator.” Both offer the standard shared services and program assistance. Finally, Miami University of Ohio, which is located within Butler County, recently opened its Page Center for Entrepreneurship.

Lexington, Kentucky

Lexington United is the area's primary economic development organization and its focus is highly concentrated on capitalizing on two major resources. On the traditional economic development front, the area continues to promote the I-75 and I-64 corridors as "America's Auto Axis." A Toyota auto plant is located 14 miles from Lexington and Lexington United markets the area to auto suppliers to Toyota, as well as to six other auto plants located within one-day delivery of a Lexington location. The standard set of incentives, tax credits, and low-interest loans are available.

Lexington's second focus is to successfully harness the resources of the University of Kentucky for business development. The university's Advanced Science and Technology Commercialization Center (ASTeCC) has hatched more than 30 businesses. Several ASTeCC companies have graduated to multi-tenant facilities located at UK's Coldstream Research Campus.

ASTeCC is a \$17 million, 80,000-square-foot facility that opened in 1994 on Kentucky campus. It is designed to offer an innovative environment for multidisciplinary research, technology transfer, and new business start-ups. It offers both faculty labs and labs for high-tech business start-ups that have a connection to UK faculty or staff, or that use licensed UK intellectual property. ASTeCC currently houses eleven start-up companies and all pay the total cost for space, including any instrument time, and must relocate from ASTeCC in three years.

The mission of the ASTeCC program is “to support the university strategic plan by fostering interdisciplinary collaborations that will lead to economic development opportunities for the Commonwealth.”

Research and development activities at ASTeCC are focused on five areas: biotechnology: health and agricultural, medical devices, and instruments, advanced materials, nanotechnology applications, and drug discovery and delivery systems.

A second incubator is planned in downtown Lexington.

Provo, Utah

Provo enjoyed tremendous growth during the 1990s. In many respects Provo is a poor comparison community for Kalamazoo because much of its success rode on its geographic location near the Rocky Mountains. In fact, one of the more interesting findings uncovered in reviewing the area's economic development programs is that they do not provide any special services or products. The standard small business assistance programs are offered, e.g., SBA loans and SCORE assistance. Utah Valley State College operates a small business development center which provides the standard needs assessment, planning, marketing, loan applications, and workshops.

Other economic development services are offered by the Utah Valley Economic Development Association (UVEDA), which is the county economic development organization for Provo-Orem and surrounding area. Finally, Utah County Business Development is the umbrella organization that houses the visitors' bureau, UVEDA, and the Central Utah Film Commission.

ST. CLOUD, MINNESOTA

St. Cloud's economic development efforts have focused on creating a welcoming environment for entrepreneurs and to capitalizing on its closeness to Minneapolis. It promotes itself as being part of the "Golden Corridor" a fast-growing area along Interstate 94 that connects the two cities.

The area's lead economic development organization, the St. Cloud Area Economic Development Partnership, is a public-private membership organization that includes representatives from several cities, counties, colleges, universities, public utilities, and other organizations. The Partnership is "an organization moving well beyond business development and expansion efforts as part of a more holistic approach to economic development." It is actively involved in housing, workforce training, and transportation as well as business development.

The community offers the standard economic development package to interested firms, including tax incremental financing. It plays heavily on its have a rural quality of life yet being right next door to the Twin Cities

For small businesses, it offers the standard incentives including SBA-sponsored programs for small businesses and the state's Capital Access Program, based in large part on Michigan former program in which the state contributed to a loan-loss reserve that allowed banks to take on slightly riskier loans.

In addition the state and federal programs, the St. Cloud area has the Initiative Foundation, which provides a business loan program, and a loan guarantee program and several revolving loan funds for small business.

One of the economic development advantages enjoyed by St. Cloud employers is the area's relatively low wage rates. According to the *Central Minnesota Labor Force Assessment Study*, prepared by Mary Edwards and Mark Partridge both of St. Cloud State University, wages in the St. Cloud MSA are, on average, 26 percent lower than in Minneapolis-St. Paul, regardless of occupation.²⁰

Finally, St. Cloud State University also houses the Minnesota Economic Development Center which provides technical assistance for area economic development efforts.

²⁰ Mary Edwards and Mark Partridge, *Central Minnesota Labor Force Assessment Study-Region 7W Labor-Force*, St. Cloud State University.

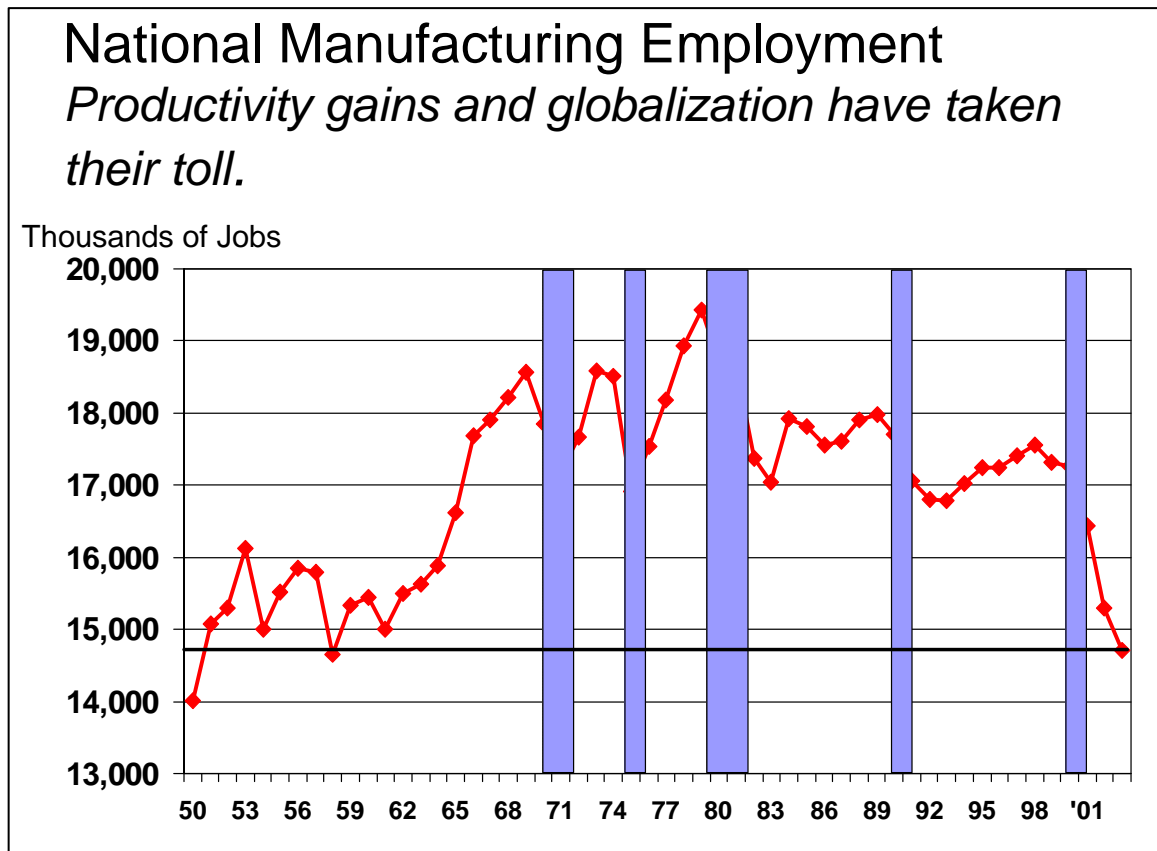
Conclusions and Recommendations

Kalamazoo County in 2004 is a dramatically different place from what it was in 1904. Many of the products manufactured in the county in 1904, including automobiles, were for local markets and consumption. Today, very few markets and products are spared the intense pressure of international trade. Our standard of living has vastly improved during the past one hundred years, but at the same time current gains in productivity are limiting employment growth in the short run.

It is difficult to long for the good old days except on one aspect: their air of entrepreneurship. The question is whether we, as a community, can rekindle the entrepreneurial spirit that was present one-hundred years ago. It is a tough question. Globalization leaves very few protected markets for entrepreneurs to tinker in.

One-hundred years ago manufacturing was open to entrepreneurs; today, it is clearly not as inviting. Because of impressive gains in productivity, the increasing globalization of production, and the shifting consumer demand from goods to services, the nation's manufacturers employ fewer workers today than in the 1950s. Historical trends and current economic forecasts, including our own, suggest that only a fraction of the 1.5 million jobs lost in manufacturing, during the past 43 months (as of February 2004) will be coming back.

Chart 7



While the area's manufacturers will generate few of tomorrow's new jobs, they will continue to play a key role in the county and should remain a focus of the area's economic development efforts. Indeed, area manufacturers continue to be a major component of our economic base and, through the sales of their goods bring money into the economy.

Area manufacturers, at the very least, will still generate job openings to replace retiring workers. These job openings will create job chains that have a greater likelihood to reach down to under- and unemployed workers than would the hiring of a highly trained professional worker. When one of the area's major manufacturers, be it Pfizer, Stryker or Flowserve, hires new employees, these individuals

are seldom drawn from the ranks of the unemployed. Instead, they move up from lower-wage positions at other firms. It is these other firms which pay lower wages and demand less skills that generate jobs for unemployed person. The same story cannot be said of professional hires. In such cases, the new hire often comes from out of the area, and the chain stops almost immediately. In addition, manufacturers still offer, on average, more promising career paths for the area's low- to medium-skilled workers than many service industry alternatives.

Today's entrepreneurs will most likely come from advanced service-providing sectors, such as research and development of new processes and products. It is possible that a new process or product will lead to new production jobs; however, it is unclear whether such jobs would occur in the same area as their invention or discovery. Many new products and processes are quickly purchased by industry leaders and transferred to their existing production facilities.

Before turning to our recommendations, we think it is important to highlight Kalamazoo County's strengths. It houses solid higher-education institutions that have shown a strong commitment to the economic well-being of the county's economy. It has a strong manufacturing base and remains a highly competitive location for goods production. It has active nonprofit organizations, extensive civic involvement, and a good quality of life because its many cultural and outdoor activities.

I. Stay the Course in Manufacturing

While manufacturing cannot be expected to power the local economy as it did in the past, it will still have a major role in bringing new dollars into the economy. Moreover, the area has numerous

assets and resources that can support further growth. These include the technical training programs at Kalamazoo Valley Community College, the Midlink Business Park, and the aggressive attraction and retention policies of the Michigan Economic Development Corporation.

II. Refocus on Small Business Development

Kalamazoo County has always had an active small business sector, and the data for the 1990s suggest that its small business environment was better than average. A major recurrent problem with small business development activities is the difficulty in focusing the area's limited resources on businesses that are developing, marketing and producing goods and services for customers located outside the county. With nearly 75 percent of all small businesses serving the local market, it is hard for small business service providers to focus on those that can bring new business to the area.

Many entrepreneurs in the more advanced fields of biotechnology, computer software design, medical equipment and communications depend on venture capital to provide needed financial or business assistance during the first several stages of their existence. Unfortunately, the state of Michigan lags behind the nation in terms of the value of its committed venture capital investment and venture capital deals, according to Price Waterhouse & Cooper. Although the state houses 3.3 percent of the nation's business establishments, from 1995 to 2003 it attracted only 0.5 percent of the nation's venture capital investment and 0.8 percent of the nation's venture capital deals (Table 9). The same story is repeated in Ohio, Indiana and Illinois.

Yet Midwest start-ups are able to attract venture capital from other regions. Price Waterhouse & Cooper found that an estimated 50 percent of venture capital investments in Midwestern states were funded by venture funds from outside of the region. In other words, geographic location need not be a barrier in obtaining funding. It appears that promising ideas, solid business plans, and the infrastructure of business services to support these start-ups are necessary ingredients to growing successful businesses.

Table 9

Venture Capital Activity in Michigan Relative to the U.S. 1995 to 2003 (3Q)			
	Value of Investment.	Number of Deals	Percent of Establish- ments
Total	0.5%	0.8%	3.3%
Telecommunications	0.6%	1.2%	3.2%
Software	0.5%	0.7%	2.4%
Semiconductors	0.1%	0.4%	2.1%
Retail & Distribution	0.5%	1.4%	3.5%
Other Industries	0.0%	1.2%	NA
Networking Equip	0.0%	0.2%	5.1%
Medical Equip	0.3%	0.5%	3.4%
Media	0.3%	0.8%	3.1%
Industrial/Energy	1.4%	1.5%	NA
IT Services	0.1%	0.5%	2.3%
Healthcare	0.2%	0.3%	3.6%
Financial Services	0.0%	0.2%	2.4%
Electronics	1.1%	1.0%	2.6%
Consumer Products/Svcs	0.7%	0.7%	NA
Computers	0.1%	0.2%	1.9%
Business Products	1.0%	0.9%	NA
Biotech	1.1%	2.2%	NA

The Southwest Michigan Innovation Center and its linkages to the WMU engineering and business school form an exciting new element to the county's economic development strategy. At the same time, it is very important to control expectations. Small business development in cutting edge technologies is extremely risky. Product development can take years, and successful ventures can be absorbed by major corporations and production moved out of the area. Still, the Center and the other more traditional incubators in Kalamazoo County are at the heart of the county's effort to regain its status as an innovation center.

Finally, it may be prudent for the county's small business development organizations to review the quality and scope of available small business support services, such as legal and marketing consulting services, to ensure that the area's small business services infrastructure is complete.

III. Keeping All of Us Around – Especially Our Young Adults.

One of the more difficult challenges facing the county is its lack of population growth because of net out-migration. From 1995 to 2001, 3,200 households, on net, moved out of the county. This net outflow of population lowered the county's overall income by \$390 million during the period. It is important to note that these negative trends occurred before the recent downsizing at Pfizer. Moreover, our population forecast for the county calls for little-to-no growth in population up to 2010.

The jury is still out regarding what makes some areas more “sticky” than others. Thick labor markets, an energized entertainment center, strong inner-city neighborhoods, and a solid housing stock

climb to the top of most lists. Still, if the county could extend the time in which graduating seniors and graduate students from Western Michigan University and Kalamazoo College stay in the area, it could make a real difference in the county's perceived quality of life.

There has been much debate in the economic journals regarding whether jobs come before people or people before jobs. The point is that a thriving community needs both. An advantage Kalamazoo holds is that through primarily through Western Michigan University and Kalamazoo College, we welcome thousands of young adults to our community each year and every year. By establishing better links between these students and employers and the community at large, we could tap into an excellent source of qualified workers and future entrepreneurs.

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