



Marilyn Fitchett editor/591-2300

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Michigan beyond 2000

Anti-cooperative attitude between Detroit, suburbs to haunt economy

By Kevin Brown
staff writer

Detroit area suburbs in the year 2000 will be languishing as their tax bases decline, populations age and racial compositions change.

That's the prediction of the Hudson Institute, an Indiana-based company commissioned by the Michigan Senate to predict state economic changes. The findings have been discussed in several economic forums around Michigan, including one Friday at Eastern Michigan University in Ypsilanti.

The report adds that the interdependency of city and suburbs, and of older and newer suburbs, must soon be recognized as more than a platitude if the state is to negotiate the difficult period of the next century.

State Senate Majority Leader John Engler outlined the Hudson report before area business leaders at EMU.

"It's fairly blunt in its observations," Engler said. "I commissioned it. I reviewed it. But I don't stand

behind everything in it."

Among Hudson Institute predictions as highlighted by Engler:

- By 2005, service jobs will comprise more than three-fourths of jobs in Michigan. More people will work in finance, real estate and insurance than auto manufacturing.

- Auto production is not only shifting overseas, but also to lower cost out-of-state plants. The report said this is due in part to "an inflated wage structure" in the auto industry that has spilled over into most other state occupations and industries. This makes Michigan "less competitive with other regions of the country and the world," according to the report.

- Decades of boom and bust "have conditioned the state's residents to believe that better times are just ahead, making it harder to recognize when major changes or sacrifices are needed."

Engler said no senate action on the report is scheduled, other than a probable summit conference to discuss it.



Reduced factory employment in the future should spark 'a re-evaluation of the approach of vocational education.'

John Engler
R-Mount Pleasant

THE REPORT said that factionalism among state interest groups — including conflicts among metro Detroit suburbs — makes future planning difficult. Engler said the report predicts Michigan's economy will

grow 2.5 percent annually, as the U.S. economy grows at 3 percent. As a result, the state will suffer more severe recessions than the rest of the country.

And while the state economy will

continue to rely heavily on manufacturing, factory employment won't grow because highly automated auto plants mean "half as many workers will be needed to produce the same number of vehicles," the report states.

Engler said these factors should spark "a re-evaluation, I think, of the approach of vocational education."

In addition to the hard realities the Hudson report suggests the state will face, it also lists assets and suggests policy choices that could improve Michigan's economic outlook. (See related story.) The report encourages support of the growing robotics industry, saying growth is possible due to a large manufacturing capacity. Michigan also is home to 9.1 million people, "the eighth largest market in the country."

ENGLE highlighted a section of the report suggesting privatization of several state services. "This would deliver government

services more effectively," Engler said. "You have an opportunity in privatization to do away with the rigidities of the civil service system."

State treasurer Robert Bowman called the report "good for the most part." Bowman recalled the Blanchard administration's effort to balance the state budget and extolled the benefits of state budget solvency.

"Solvency is important — it gives business, civic groups / . . . and government time to plan," he said.

With six prisons currently under construction around the state, the number of early prison releases will drop, Bowman said, tying that construction to budget solvency, which improved Michigan's credit rating.

He also praised Republican lawmakers who have aided the state's economic comeback and entrepreneurs who showed confidence in the state's future by starting 23,000 businesses in 1985 — "the highest (number) ever in the state of Michigan."

Report blisters state's wage structure, social policies

The Hudson Institute recommends a number of policy choices. They include:

- The first and most important task for Michigan policy makers is to re-establish Michigan as the lowest-cost location for auto manufacturing in the United States.

- Michigan cannot expect food processing, forest products or any other non-automotive industry to have more than a trivial impact on the state's future over the next two decades.

- The four most important steps to regain the state's competitive position are: readjust the wage structure to reflect the competitive realities; continue the effort to reduce business costs; become a full partner with labor and management in the drive for competitiveness; increase state investments in advanced technologies and engineering education.

The development of a larger base of research and technology to support the auto industry is at least as important as the \$600 million the state offered General Motors in incentives to build the Saturn plant here. Michigan should systematically seek to attract the leading educators and the most talented students in these areas.

The goal now should be to insure that key Michigan universities offer not just equivalent but superior salaries, facilities, fellowships, equipment and consulting opportunities to outstanding professionals and students in the targeted fields.

Michigan should not accept the possibility of being second in this area. The state should concentrate on automobile-related technologies. It should not compete for scholars across the board.

- Short of a "withering away of government," the state must find a way to provide more with less.

- The state should experiment with privatization of public services. Virtually no system or program in the state should be immune from consideration. The results of these experiments have often been highly favorable, with typical savings reported as ranging from 10 percent to more than 50 percent. Despite the potential drawbacks, the benefits of contracting more than outweigh the costs.

- Michigan must adopt an investment strategy to reallocate state spending. Michigan's spending has been increasingly biased toward consumption rather than

investment. Michigan spent 95 percent more per capita on welfare than the average for all other states in 1983, and its welfare spending has grown almost twice as fast since 1970 as the national average. By contrast, spending for education and highways has waned.

- Michigan's capital programs in the areas of higher education, transportation, economic development, advanced training and industry development deserve high priority, while those aimed at providing social and public services, and income transfers deserve more careful scrutiny.

- In order to better exploit its natural advantages, Michigan should more consciously seek to attract and live those people with the greatest choice of where to live: college students, young professionals and retirees.

The state should focus more attention on developing the facilities needed to attract tourists to the state.

- More state resources should be devoted to the "Say Yes to Michigan" campaign, to highways and airports serving recreational areas, to parks and recreation, to low-interest mortgages for first-time buyers.

- The state's objective should be to see that Detroit and Michigan cities — seen as metropolitan regions rather than the currently defined jurisdictions — are self-sustaining, growing, urban centers. Rather than treating the cities as expensive problems, the state should design its policies to encourage regional decision makers to focus on shared opportunities and collective responsibilities. In some areas, it might mean action to promote annexation and mergers.

Western Wayne-Oakland County

1985 (through 3-31)	1986 (through 3-31)
No. of sales 3,594	No. of sales 4,523 +25.6%
Ave. price \$81,347	Ave. price \$70,635 +15%

Western Wayne-Oakland figures represent Western Wayne Oakland County Board of Realtors sales. Source: Michigan Association of Realtors.

Home sales, prices soar

By Larry O'Connor
staff writer

As the real estate market continues to heat up, prices for individual homes in the area have risen substantially.

But the boom means mixed blessings: Homeowners looking to sell will see a bigger return on their investment, but they will be paying more for their next house.

Statistics provided by the Western Wayne Oakland County Board of Realtors show large profits for home sellers. From January of 1985 to January of 1986, homes in this area increased 13 percent in value, according to their figures.

From January to March of this year, the average price for a home has jumped from \$67,444 to \$70,635, a 4.7 percent gain.

Homes sold in areas covered by the South Oakland County Board of Realtors show more modest price increases. The average price of a home in that area sold for \$58,699 during the first three months of 1986. A year later, the average price was \$62,997, a 7.3 percent rise.

A national survey among some 400 brokers estimates that home values could rise by some 20 percent by 1990.

THE AVERAGE price of a home nationwide is \$98,100 now. If the brokers' prediction holds true, the average home in this country could cost \$120,000 in 1990.

Joanne Bryngelson, president of Metro Multiple Listing Service and the Western Wayne Oakland County Board of Realtors, said this area is already close to that 20-percent gain.

"Whether we're going to see the prices go up more, I'm not sure," said Bryngelson. "I don't think we're going to see the same thing that happened in 1975-80 when home values doubled in price. We could see another 5 percent increase this summer if the interest rates stay down."

But numbers can't reflect the immediate impact on home buyers and sellers alike.

One of the major drawbacks is the time it takes to process the financing of a sale. With lower interest rates and high volume of home sales, lending institutions are swamped with new mortgage and refinancing applications.

IN JANUARY, Bryngelson told prospective buyers and sellers to expect a 45-day wait. In February she told them it takes 60 days.

Currently, credit applications and appraisals are taking at least 10 weeks to be processed.

"That's a long time to make sure the credit has been approved after your home has been sold," said Bryngelson. "There's nothing we can do about it."

With homes being gobbled up as fast as they're put on the market, some buyers are forced to make quick, if not hasty, decisions. It's not unusual for homes to be sold in less than a week, and there are reports of homes being sold the same day they are listed.

Homes along the I-275 corridor in Canton, Plymouth, Northville, Novi, Livonia and Farmington Hills are those going the fastest. They're also the most expensive. "The further north you go the (more) prices rise," said Bryngelson. "Presumably because they're building larger homes."

BUT, ACCORDING to Bryngelson, there are advantages to buying a used house instead of a new one. With a new house, there are hidden costs that cannot be avoided, such as putting in a new lawn.

Plus, there are still some bargain used houses to be found in places like Garden City, Redford and Detroit. Buyers, she said, seem to gravitate toward the three-to-four bedroom house with basement and garage. Anything deviating from that might be harder to move. Although, Bryngelson added, "everything is selling."

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