

Profile of Michigan's Economy

Randall Eberts
Executive Director
Upjohn Institute
EBERTS@upjohninstitute.org
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The popular adage of the 1950s was: "What's good for General Motors is good for the country." At that time, the automobile industry powered the U.S. economy, and Michigan, as center of that industry and home of General Motors, played a key role in the nation's manufacturing prowess. Michigan was a highly prosperous state, because of its high concentration of manufacturing activity. Manufacturing workers received relatively high pay and benefits, manufacturing enterprises created tremendous wealth for their owners, and the state's overall prosperity created and supported an enviable infrastructure of public services, including a stellar higher education system.

Manufacturing, and more specifically the auto industry, still dictates the fortunes of Michigan. Unfortunately, during the past two decades or so, the economic picture has not been as rosy. Its continued dependency on manufacturing has subjected Michigan to wide gyrations in its business cycle, a reduction in per capita income relative to the nation, and a loss of its competitive edge as production has moved to lower-cost areas.

One of the key problems facing Michigan's economy has been the erosion in market share of the "Big Three" domestic auto makers. From 2000 to 2004, the combined share of the North American market for General Motors, Ford, and Chrysler fell from 66.7 percent to 60.2 percent. Much of the market share has been lost to foreign-based companies producing in the U.S. The problem for the state is that these foreign-based producers are not locating facilities in Michigan. Consequently, even though U.S. domestic light vehicle sales are solid, Michigan's auto industry continues to decline. Although the state accounts for 24 percent of the sector's total national employment, it suffered 45 percent of the sector's decline in employment nationwide during the period. To add a longer perspective, during the 1970s, the motor vehicle industry accounted for nearly half of the state's manufacturing output; today, it is less than a third.

The decline in the auto industry has a wide impact on other aspects of Michigan's economy. For every auto job lost, another 3.5 jobs in the Michigan economy disappear, and many of these jobs are from the high-paying professional and technical services ranks. The large multiplier effect of the auto industry portends well for the economy when times are good but has dire consequences during periods of retrenchment. Five short years ago, at the tail-end of the booming 1990s, Michigan boasted an unemployment rate well below the national average; today it has the highest. Yet, despite the loss of nearly 250,000 manufacturing jobs since 2000, Michigan has a higher concentration of the nation's manufacturing employment today than it did five years ago, primarily because its non-manufacturing sector is not keeping up with the nation's.

The loss of jobs in the auto industry also affects the income level and standard of living of workers in the state. With compensation in the auto industry nearly 70 percent higher than all the other manufacturing sectors in the state and 140 percent higher than the state's average compensation, the decline in auto jobs has led to an erosion in Michigan's per capita income relative to the rest of the nation. Once Michigan's per capita income was nearly 15 percent above the national average; today it's slightly below the national average. Also, manufacturing productivity has steadily declined relative to the U.S. average and is now slightly below the national average. The decline in Michigan's auto industry has wreaked havoc on several Michigan's cities, particularly on the east side of the state. Flint, a city of 120,000, for example, has lost 17,000 auto jobs in recent years, leaving a high level of unemployment and low-paying jobs. Central Detroit continues to struggle with job losses and high levels of poverty.

More than 80 percent of Michigan's 10 million residents live in metropolitan areas. However, there has been a significant shift out of the central cities into suburbs and fringe areas. This has created considerable urban sprawl and has eroded the ability of core cities to attract the population and resources needed to remain viable. The lack of attractive urban centers has also made it difficult to create the environment in which young professionals wish to live. The concern that Michigan's population is aging disproportionately and that it is losing its recent college graduates to other states has prompted the Governor to pursue a "cool cities" campaign to help revitalize the state's core cities.

While the auto industry remains a dominant force in Michigan, other industries have a significant presence in the state. Tourism plays a large role in Michigan's economy, capturing more than \$12 billion in travel expenditures as visitors flock to its 3,200 miles of coastline, inland lakes, and cultural attractions. Michigan has the nation's largest concentration of office furniture production, with Steelcase, Herman Miller, and Haworth headquartered on the west side of the state. Pharmaceutical research and manufacturing also has a strong foothold in the state. For example, Pfizer, the world's largest pharmaceutical company, maintains its largest manufacturing facility in Kalamazoo and a major research facility in Ann Arbor. Grand Rapids has established a large research institution devoted to basic biotech research. The state has sought to capitalize on its existing pharmaceutical industry and its top-ranked research universities by promoting life science research and biotech startups.

While Michigan struggles to diversify its economy to reduce its dependency on manufacturing and the auto industry, its future may still rest in part with its traditional strengths. The automotive industry is a high-tech industry, and because of its presence in Michigan, the state boasts considerable industrial research and development. Michigan has become the world center for research, engineering, and design of motor vehicles, claiming three quarters of the \$20 billion or so of automotive research and development spent in the United States. This places Michigan first in the nation in R&D expenditures as a share of gross state product and fourth in R&D per capita. Michigan also ranks first in the concentration of industrial high-tech employment—72 percent more concentrated than the nation. In addition to the traditional Big Three automakers, many

of the foreign-based manufacturers have research facilities in Michigan, including the recent of announcement that Toyota plans to locate its North American R&D headquarters in the Detroit area. With these and complementary resources, Michigan may be well positioned to embark on new and innovative activities that can help create a more diversified and robust economy.