Michigan Future Inc.
A Catalyst for Prosperity

Executive Summary

Michigan's Transition to a Knowledge-Based Economy 2007-2014

Michigan from 2010-2014 has been one of the nation's leaders in job growth, ranking seventh with job growth of 8.6 percent compared to 6.9 percent for the nation. This reverses a decade of job losses.

In terms of personal income per capita, from 2010-2013 Michigan has grown at a similar rate as the nation.

The state reached a low in personal income per capita of 38th in 2008 and 2009 and moved to 37th in 2013. Each year from 2007-2013 Michigan's per capita ranged from 35th to 38th. If you take out government transfer payments Michigan ranked 41st in 2013 and between 38th and 42nd in each of those years.

So despite a good stretch of job growth, Michigan is now structurally one of the nation's low-prosperity states. Whether the nation's economy has expanded or contracted since 2007 Michigan has been in the bottom third of states in per capita income and bottom quarter of states if you don't include transfer payments.

Michigan's two biggest metropolitan areas are also low-prosperity regions. Metro Detroit is 38th in per capita income and metro Grand Rapids 49th of 52 metropolitan areas with populations of one million or more.

What stands out in the economic and education data we analyzed is that in the fifth year (2014) of a national expansion—and an even stronger domestic auto industry recovery—Michigan, on nearly all the metrics, is a national laggard. Gone are the days when the auto industry—still the prime engine of the Michigan economy—could propel Michigan to being one of the most prosperous states as was true for most of the 20th Century.

For most of the 20th Century Michigan enjoyed the benefits of being the center of the auto industry. And that industry's near collapse the past decade is something no other state suffered through. It was a major part of what mired Michigan—and no other state—in a decade long recession.

There was nothing Michigan could have done to avoid the severe downturn of the domestic auto industry. But we can learn some clear lessons from high prosperity states. A few like North Dakota, Alaska and Wyoming have achieved high per capita income because of high energy prices. The common characteristics of all other high prosperity states are:

- They are over-concentrated, compared with the nation, in the proportion of total wages coming from knowledge-based services
- They have a high proportion of adults with a four-year degree or more
- They have a big metropolitan area with even higher per capita income than the state
- In that big metropolitan area, the largest city has a high proportion of its residents with a four-year degree or more.

Michigan and its two largest metropolitan areas are laggards in both the proportion of total wages coming from knowledge-based services and proportion of adults with a four-year degree or more.

The result: In 2000, at the end of the boom years, Michigan still ranked 18th in per capita income. We were 34th in bachelor's degree attainment. In many ways, 2000 marked the end of an era when you could have high prosperity with low education attainment. No more. In 2013, Michigan ranked 37th in per capita income and 33rd in the proportion of adults with a four-year degree or more.

The key to high prosperity is in increasing employment earnings. Growing employment earnings is the only sustainable path of long-term improvement in economic well-being. The metric reflects both the number of folks working (more jobs) and their compensation—both wages and benefits (better jobs).

The data are clear: Knowledge-based services now are the center of mass middle class American jobs. Knowledge-based services contribute both strong job growth and high wages. The sector is now the high wage sector of the American economy.

Jobs in goods-producing industries—particularly manufacturing—are experiencing a long-term structural decline that almost certainly is irreversible. The sector no longer is the source of mass middle class jobs—because low education attainment goods-producing industries wages and benefits no longer carry the premium they did decades ago compared to the rest of the economy, and because the sector will continue to employ a far smaller proportion of the American economy.

As goods-producing work has declined what has grown are services. This is particularly true in what we call knowledge-based services: education; health care and social assistance; information; finance and insurance; professional services, and management of companies.

We are confident that, primarily due to the ongoing force of globalization and technology, the American economy will become more and more service, rather than goods-producing, based. And, in that economy, knowledge-based services will be where average wages are the highest and wage growth will be the strongest.

Notwithstanding the current auto recovery driven manufacturing rebound here in Michigan, the long term trends are clear: The defining characteristic of those places with the most prosperous economies today—and almost certainly even more so in the future—is their concentration in the knowledge-based sectors of the economy. The only exceptions have been and likely will be those states with commodity-based economies, particularly energy-related commodities.

To be clear, we are not advocating that Michigan abandon goods-producing industries. They are and will be important parts of the Michigan economy, especially in smaller regions and rural communities, and as such deserve support. But they are not a path to high prosperity or a broad middle class.

Nor is tourism, the other anchor of what has been thought of as the most important industries in Michigan. It is characterized by job growth, but low wages. The new reality is if the Michigan economy of the future is built on a base of factories, farms, and tourism, we will be a low prosperity state.

The world has changed fundamentally. We either adjust to the changes or we will continue to be poor compared to the nation.

As the data in this report make clear, the new path to prosperity is the broad knowledge-based service industries. High prosperity is occurring chiefly in those places where knowledge-based enterprises across many sectors are concentrating. They are concentrating in areas with a high proportion of adults with a bachelor's degree or more.

Our basic conclusion: What most distinguish successful areas from Michigan are their concentrations of talent, where talent is defined as a combination of knowledge, creativity, and entrepreneurship. Quite simply, in a flattening world where work can increasingly be done anyplace by anybody, the places with the greatest concentrations of talent win.

Human capital is the asset that matters most to knowledge-based enterprises. Governor Snyder summed it up best when he wrote in his Developing and Connecting Michigan Talent special message: "In the 20th century, the most valuable assets to job creators were financial and material capital. In a changing global economy, that is no longer the case. Today, talent has surpassed other resources as the driver of economic growth."

Our fundamental economic challenge is that we rank 33rd in the proportion of adults with a four year degree. States without concentrations of talent will have great difficulty retaining or attracting knowledge-based enterprises, nor are they likely to be the place where new knowledge-based enterprises are created.

Michigan has lagged in its support of the assets necessary to develop the knowledge-based economy at the needed scale. Building that economy is going to take a long time, and it will require fundamental change. But we believe it is the only reliable path to regain high prosperity.

The choice we face is, do we do what is required to build the assets needed to compete in the knowledge-based economy or do we accept being a low prosperity state?