

The Economy in Michigan and the U.S.: Past, Present, and Future

Presented to:

**Federal Home Loan Bank of Indianapolis
Regional Member Meetings**

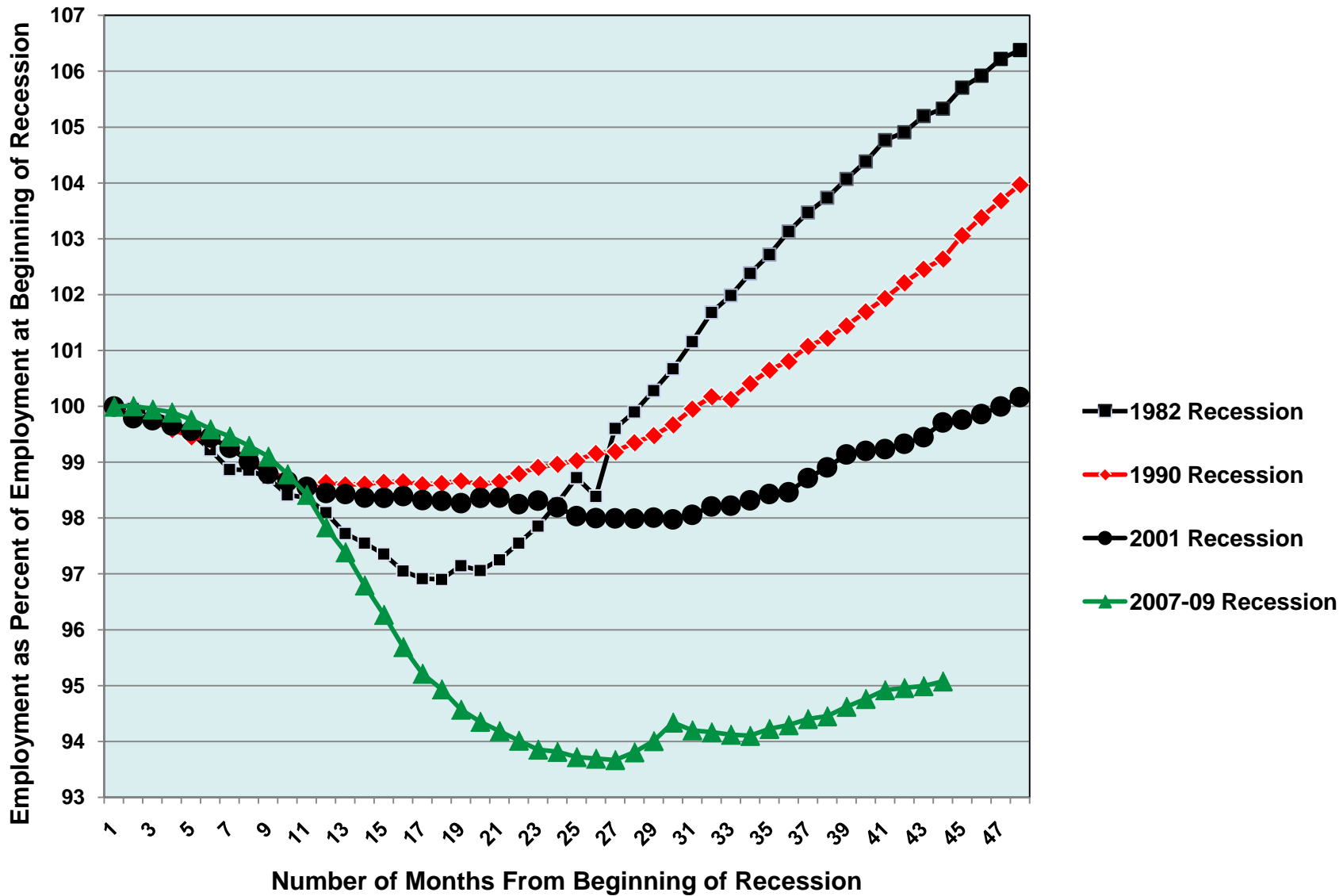
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**Charles L. Ballard
Department of Economics
Michigan State University
East Lansing, MI
ballard@msu.edu**

Recent Trends

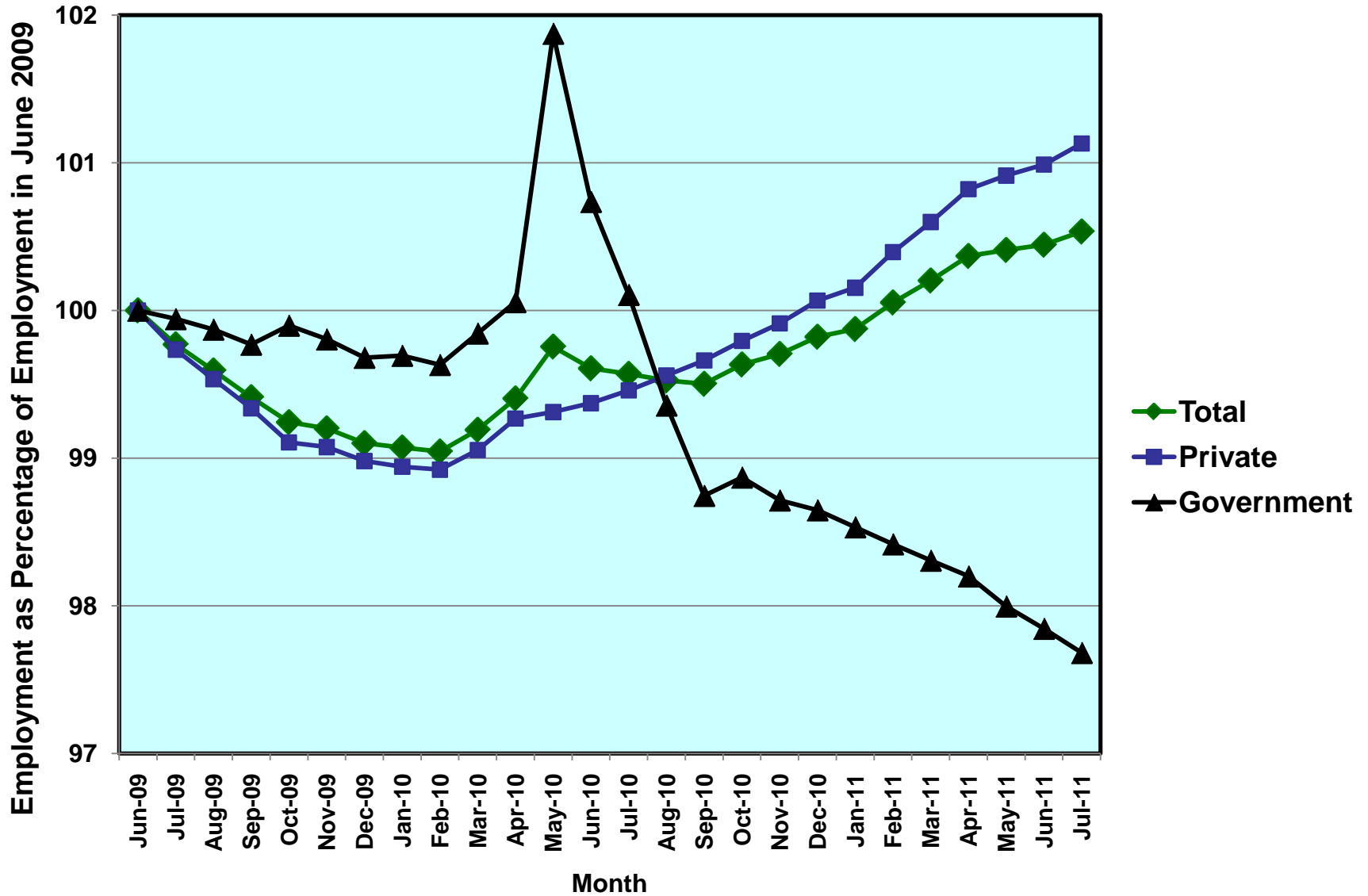
The recent recession is
BY FAR the worst since
the Great Depression, and
the recovery is likely to be
long and slow

Changes in U.S. Employment, During and After the Four Most Recent Recessions



**Since U.S. employment
bottomed out in February
2010, the private sector has
gained 2.4 million jobs, but
the public sector has
lost 440,000 jobs.**

Change in U.S. Employment Since the Official End of the 2007-09 Recession



Employment Losses During Michigan's Structural Transformation

June 2000 – December 2000:	26,800
2001:	172,200
2002:	20,900
2003:	64,400
2004:	3,900
2005:	27,800
2006:	78,800
2007:	49,300
2008:	197,500
2009:	204,300
Total for the Period:	845,900

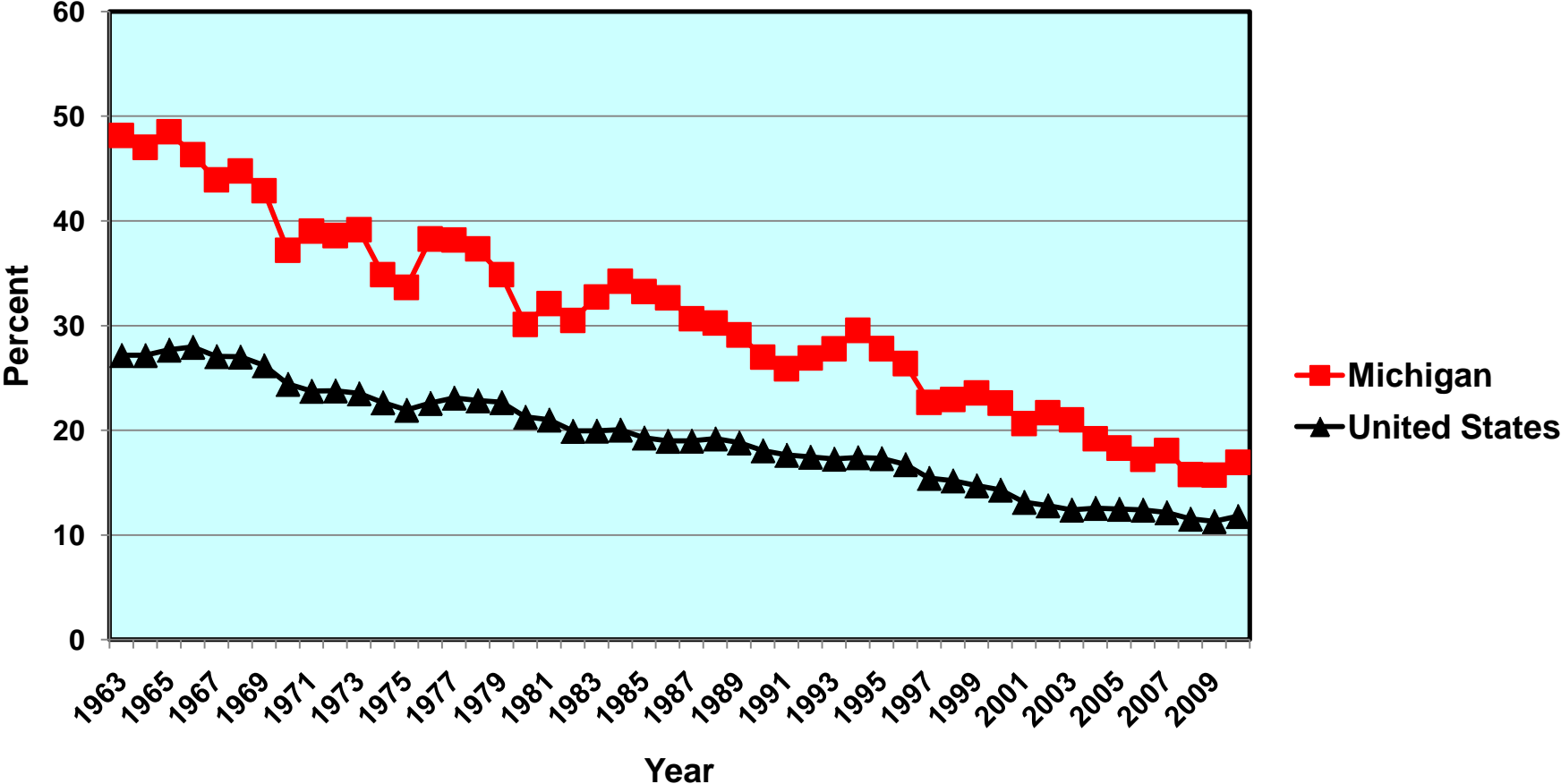
= 18% of the jobs in Michigan at the beginning of the slide.

- **But employment in Michigan increased in 2010, and has continued to increase in 2011.**
- **Michigan employment is now up by about 90,000 from its low point at the end of 2009.**
- **As a result, Michigan no longer leads the nation in the rate of unemployment.**

Longer-Term Trends in Michigan and Other States

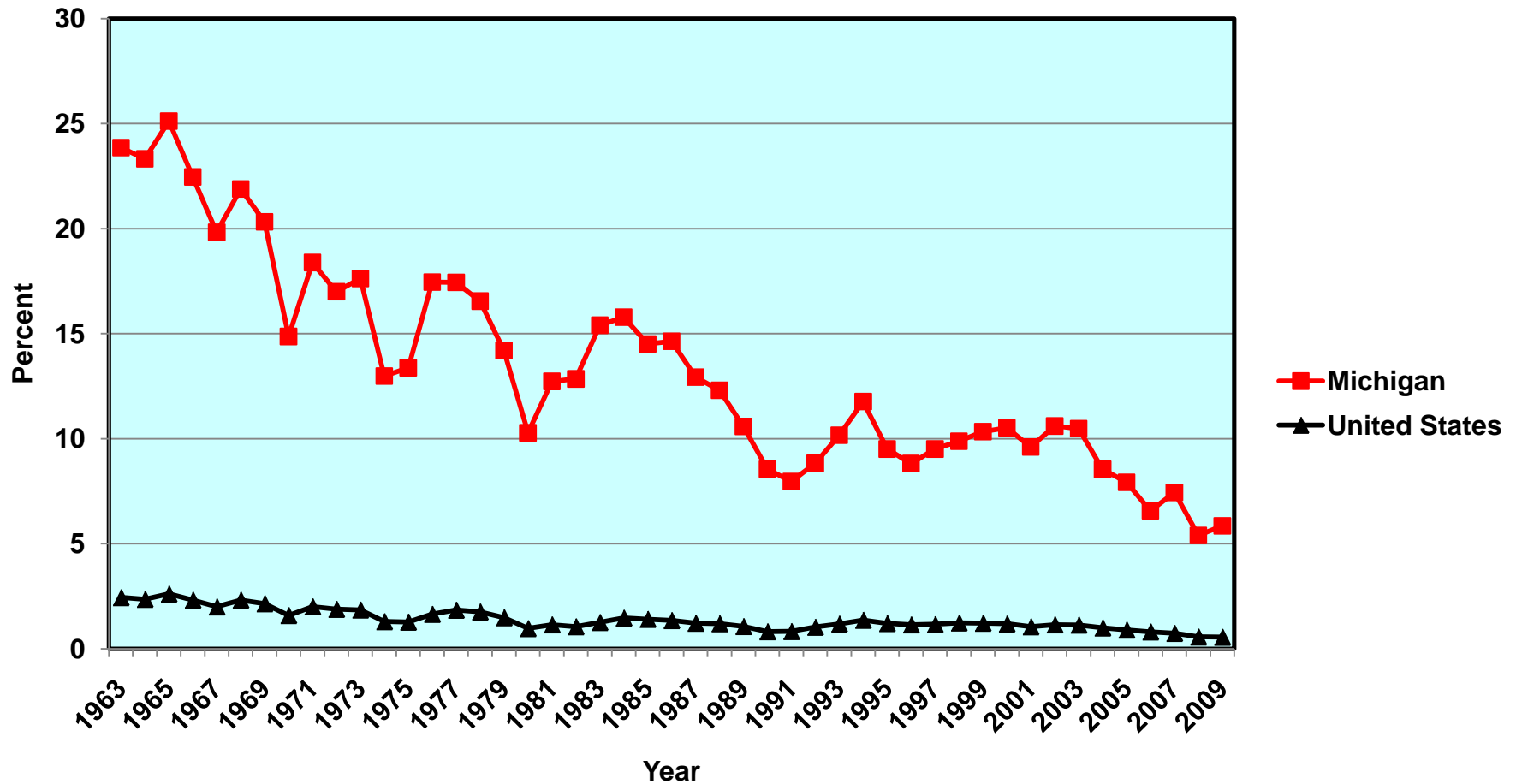
Manufacturing's Share of the Economy Has Shrunk Dramatically

Manufacturing as Percent of Gross Domestic Product, For Michigan and the United States, 1963-2010



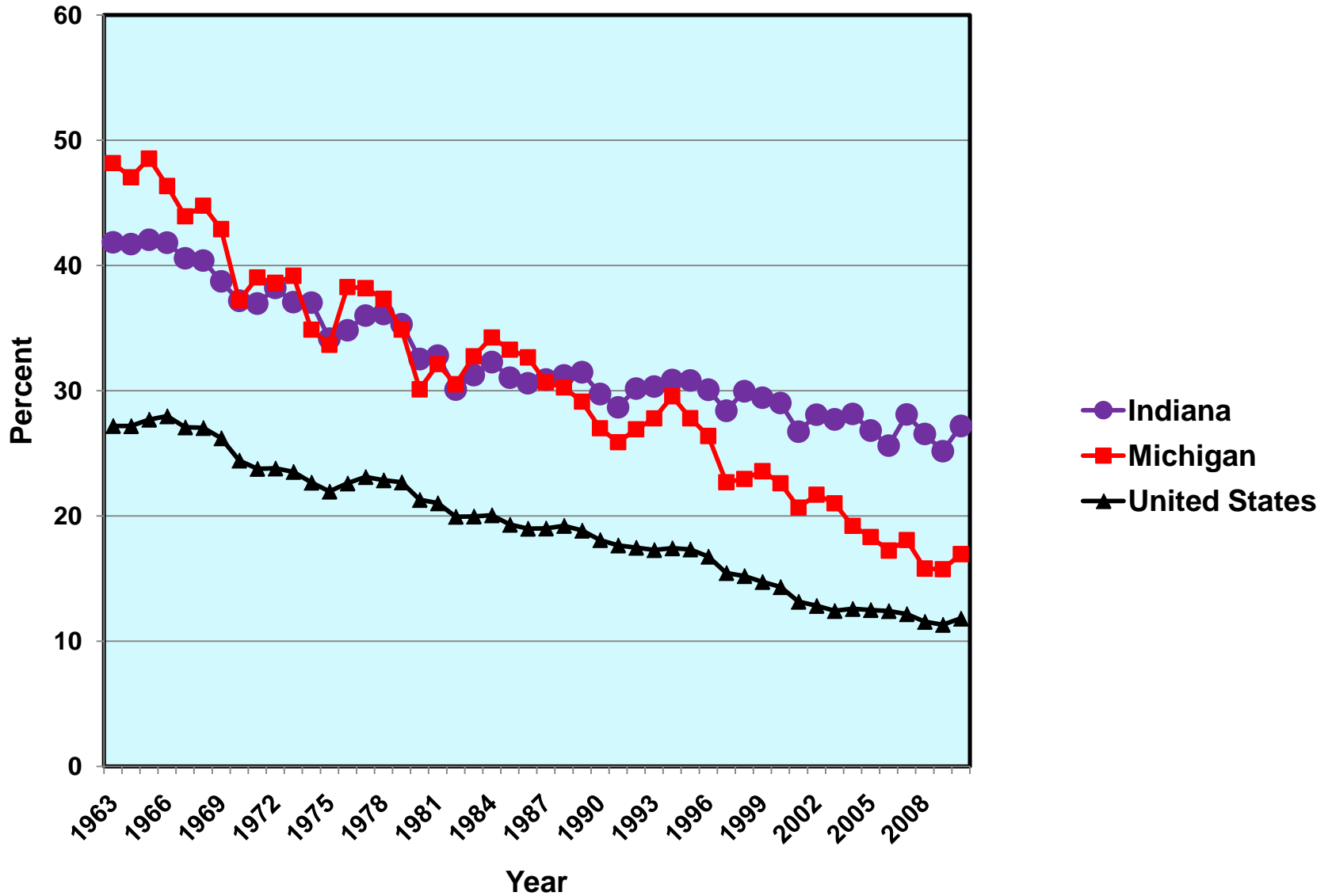
In Michigan, the Decline Has Been Especially Severe in Motor Vehicles

Motor Vehicles and Equipment as a Percentage of Gross Product, for Michigan and the United States, 1963-2009



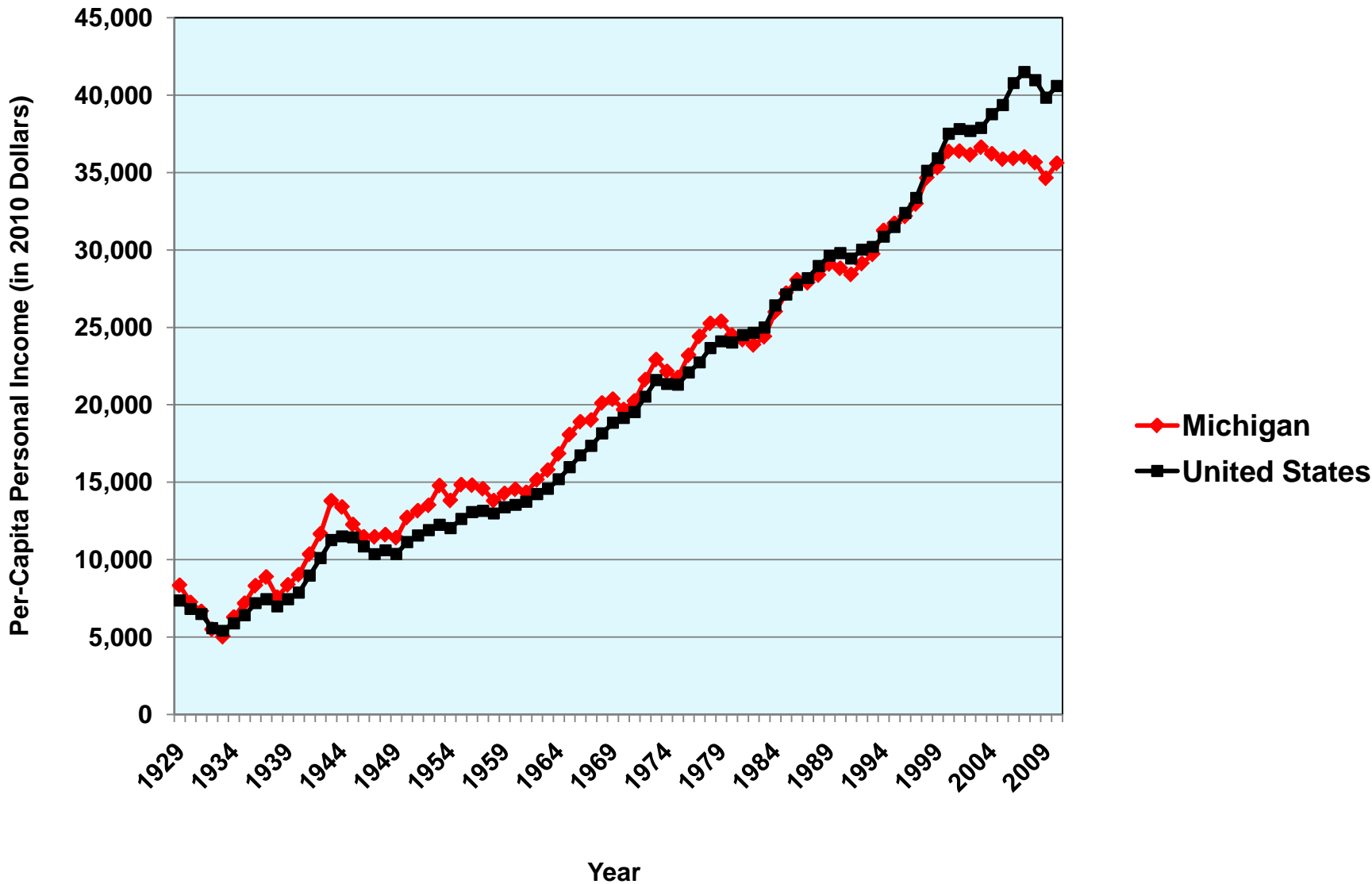
The relative decline of manufacturing has been slower in Indiana than in Michigan.

Manufacturing as Percent of Gross Domestic Product, for Indiana, Michigan, and the United States, 1963-2010



**Despite our struggles,
Michigan is not a
poor place.**

Inflation-Adjusted Per-Capita Personal Income, In Michigan and the United States, 1929-2010



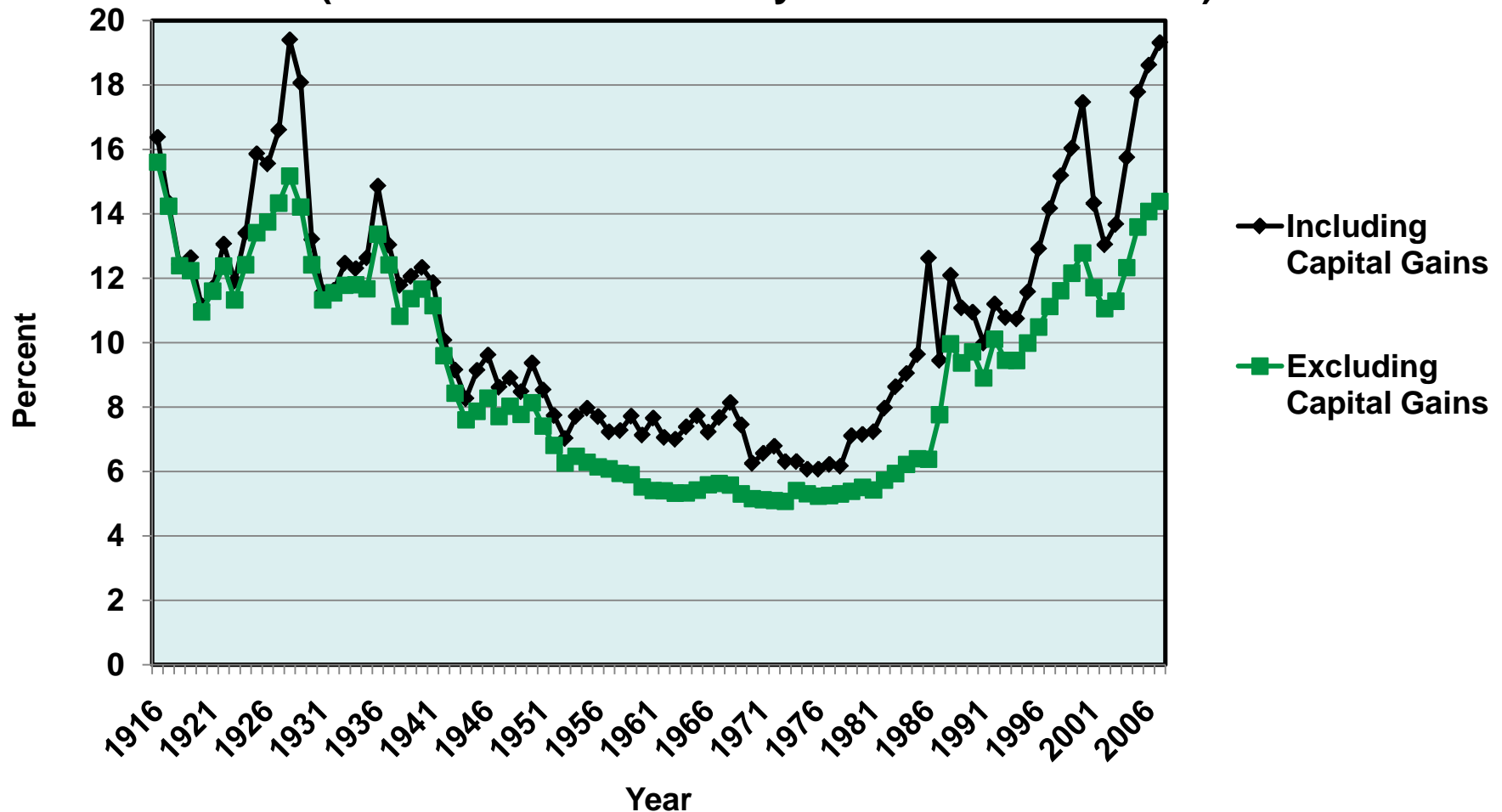
Although Michigan is not a poor place, there *are* poor people in Michigan (and other states).

Incomes are distributed *much* more unequally than they were 35 years ago.

The United States Has Returned to a Degree of Income Inequality Not Seen For 100 Years

Percentage of Income in the United States Received by the Top One-Half of One Percent of Households, 1916-2007

(Source: Thomas Piketty and Emmanuel Saez)



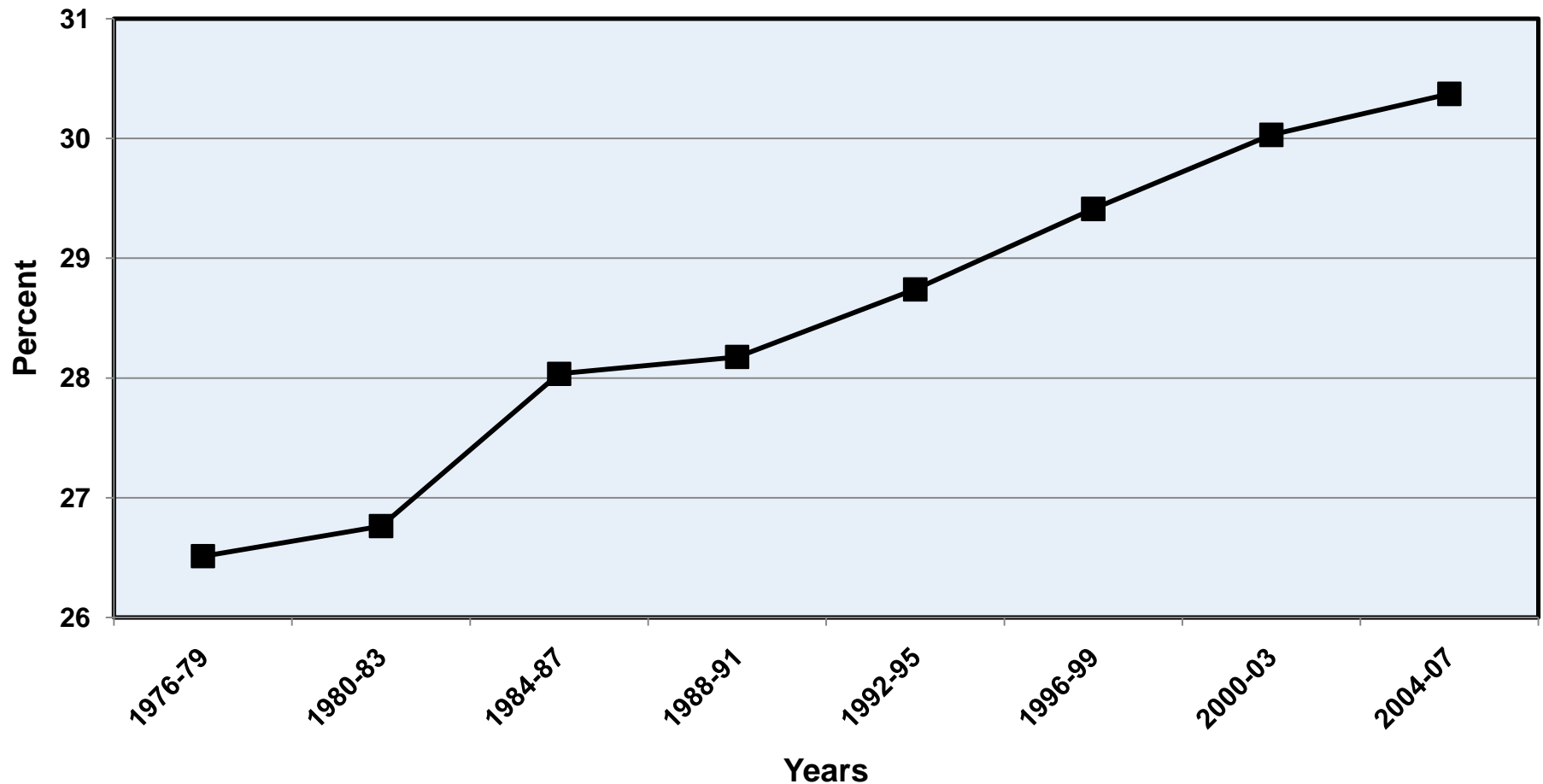
Nationally, the earnings gaps between groups with different levels of educational attainment are large, and larger than they used to be.

Average Earnings in 2009, for Those Aged 45-54 Who Worked Full-Time Year-Round (For the Entire U.S.)

	<u>Men</u>	<u>Women</u>
• Professional Degree	\$178,064	\$130,016
• Master's Degree	\$116,378	\$ 79,594
• Bachelor's Degree	\$ 95,787	\$ 60,266
• Associate's Degree	\$ 62,000	\$ 47,716
• Some College (No Degree)	\$ 61,072	\$ 42,068
• High-School Graduate	\$ 48,224	\$ 34,145
• Some H.S. (No Diploma)	\$ 36,239	\$ 23,987
• Less Than 9th Grade	\$ 28,067	\$ 19,591

Incomes Have Disequalized in Michigan, As In Most Other States

Percentage of Personal Income in Michigan Received by the Top 10 Percent of Households, Four-Year Averages, 1976-2007

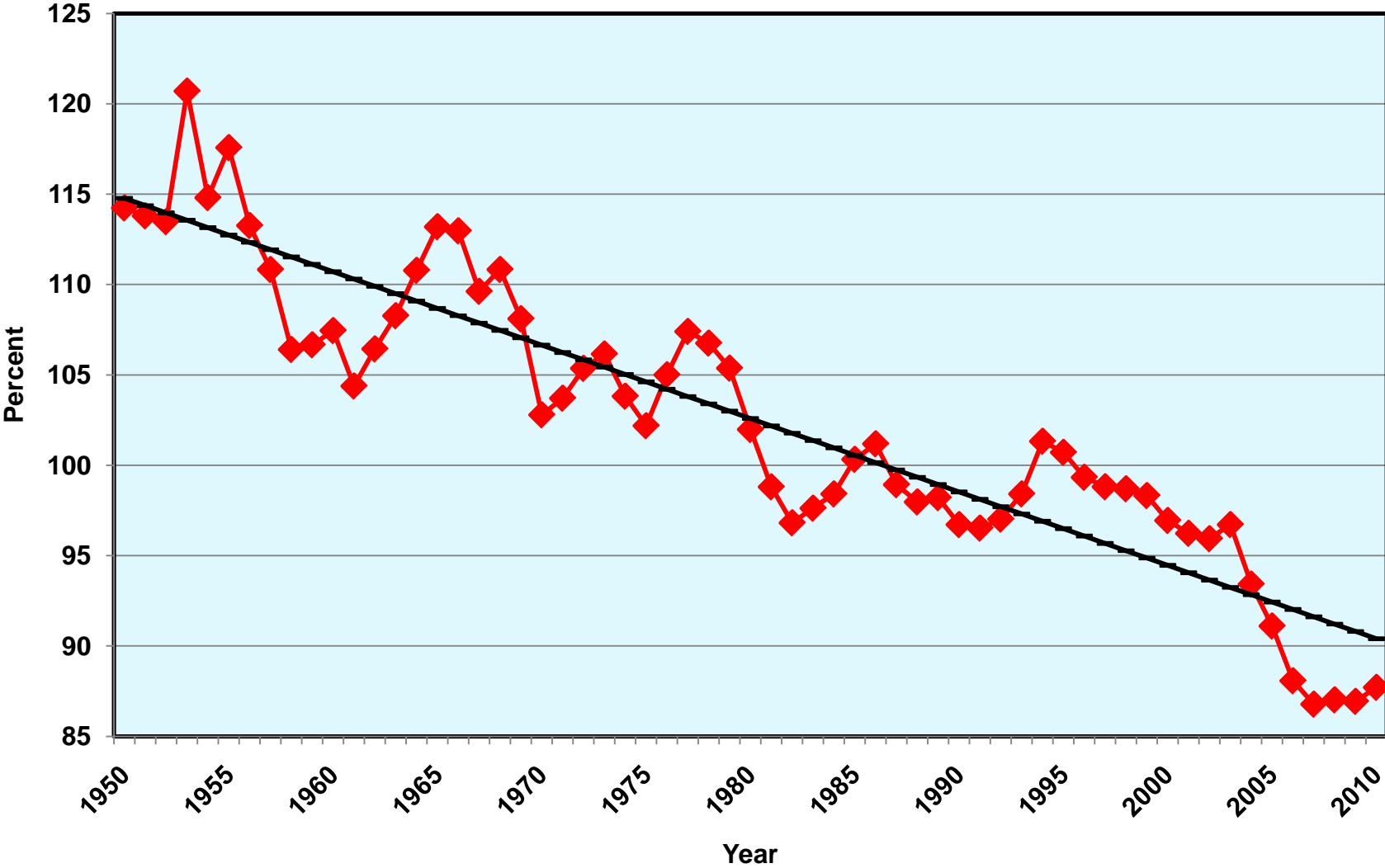


Michigan Has Big Regional Differences in Per-Capita Income (2009)

1. Oakland County	\$50,334
2. Midland County	\$41,853
3. Leelanau County	\$39,815
5. Washtenaw County	\$37,859
8. Macomb County	\$36,004
11. Kalamazoo County	\$34,502
<i>Michigan Average</i>	<i>\$34,315</i>
14. Ingham County	\$34,083
15. Kent County	\$33,635
22. Calhoun County	\$32,227
24. Wayne County	\$31,888
27. Marquette County	\$31,461
42. Genesee County	\$29,526
43. Jackson County	\$29,488
57. Shiawassee County	\$27,322
75. Ionia County	\$25,573
83. Oscoda County	\$22,934

Also, although Michigan is not a poor place, our economy has not grown as fast as the national average.

Per-Capita Income: Michigan as Percent of the United States, 1950-2010



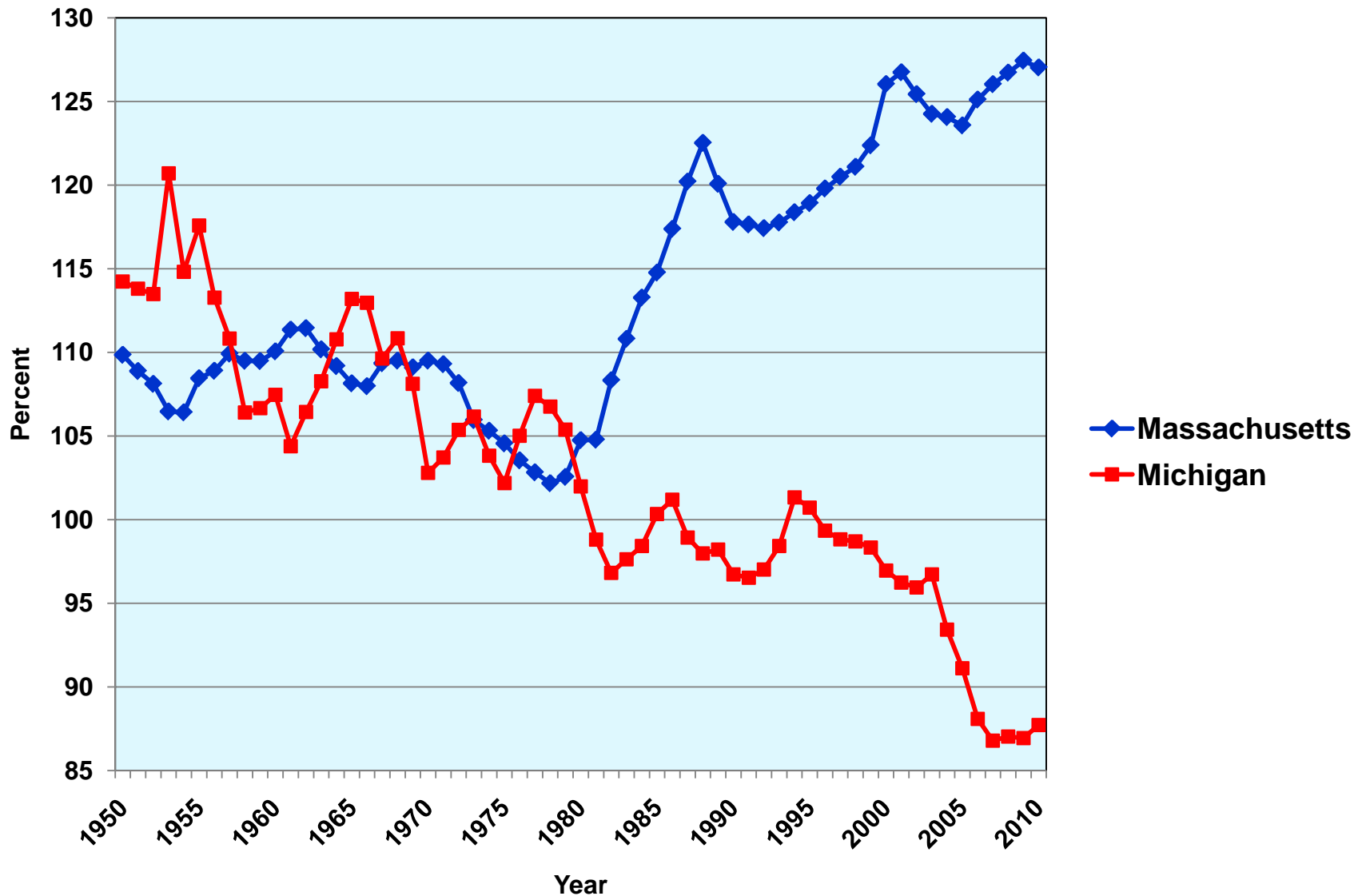
Per-Capita Income in Selected States, 2010: Top Five, Bottom Five, and Some Between

1. Connecticut	\$56,001	24. Florida	\$39,272
2. Massachusetts	\$51,552	27. Wisconsin	\$38,432
3. New Jersey	\$50,781	34. Ohio	\$36,395
4. Maryland	\$49,025	36. Michigan	\$35,597
5. New York	\$48,821	41. Indiana	\$34,943
11. Illinois	\$43,159	46. Arkansas	\$33,150
12. California	\$43,104	47. West Virginia	\$32,641
13. Minnesota	\$42,843	48. Utah	\$32,595
16. Pennsylvania	\$41,152	49. Idaho	\$32,257
23. Texas	\$39,493	50. Mississippi	\$31,186

United States Average: \$40,584

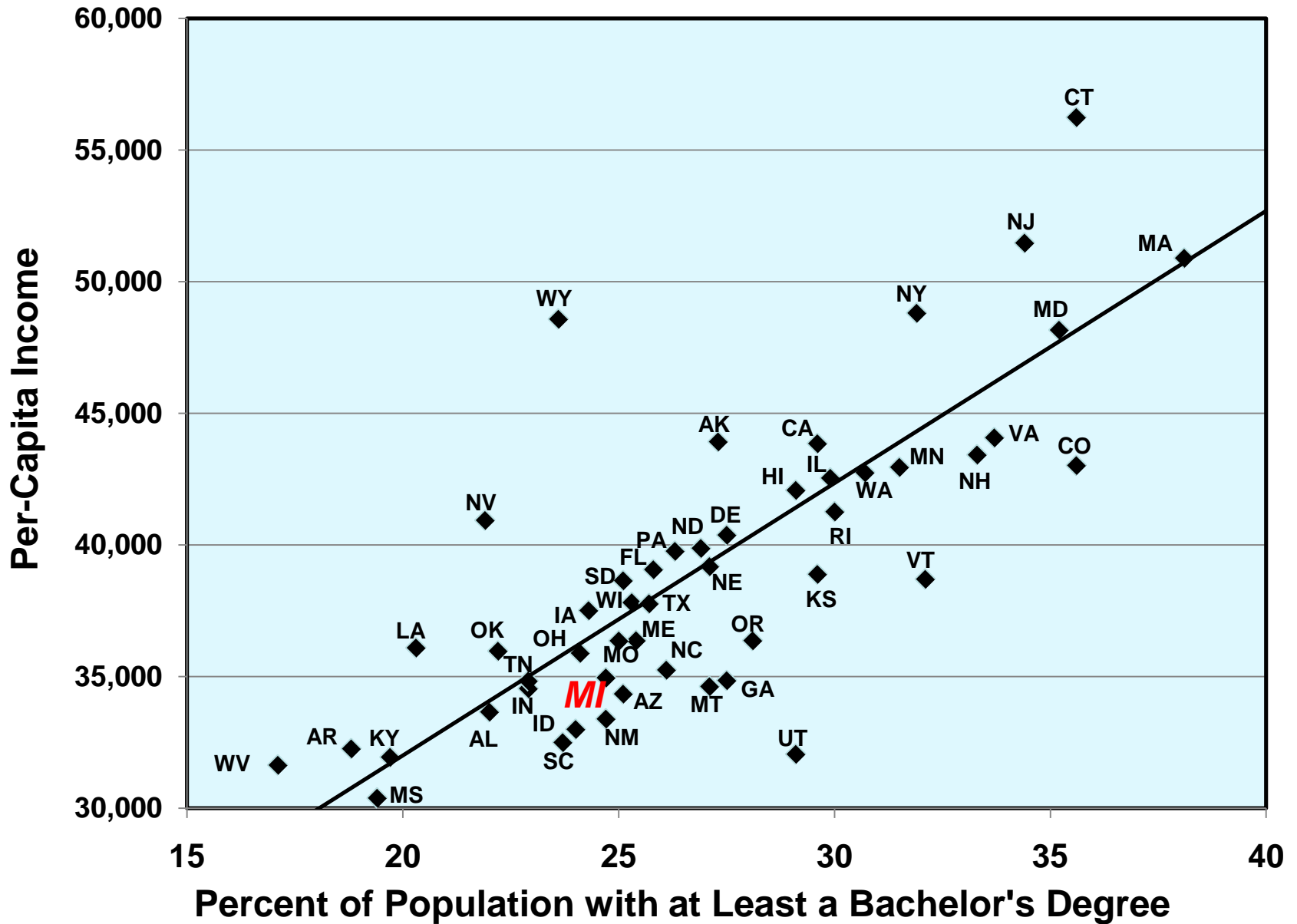
**Many of the most
successful states
have high levels of
educational
attainment.**

**Per-Capita Personal Income in Massachusetts and Michigan,
As Percent of the United States, 1950-2010**



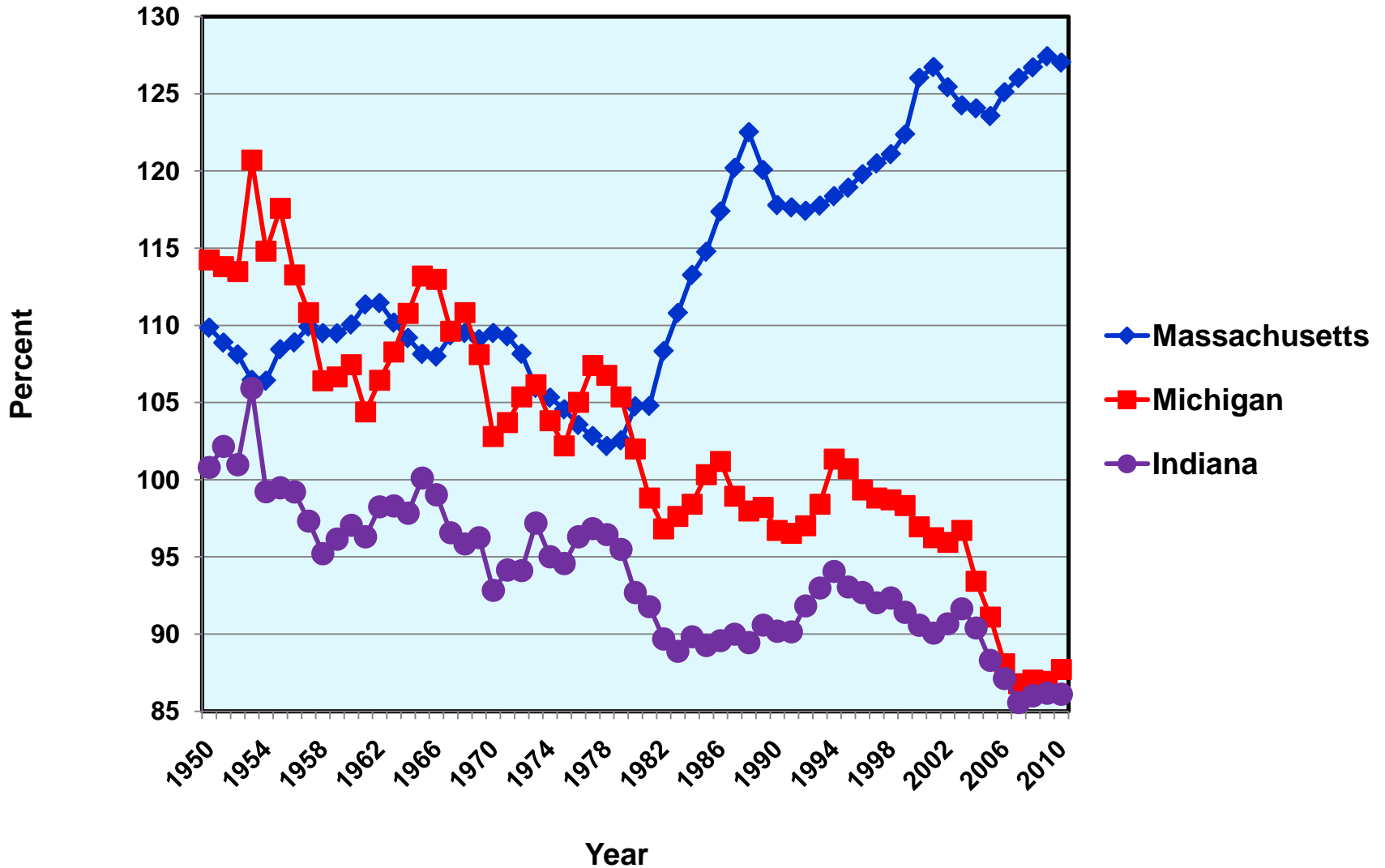
**College attainment
has a decisive
influence on
per-capita income**

Income and College Attainment for the 50 States, 2008



The gap between Michigan and Indiana is smaller than it once was, but per-capita incomes in Indiana remain below those in Michigan.

Per-Capita Personal Income in Indiana, Massachusetts, and Michigan, As Percent of the United States, 1950-2010



What does the future hold?

In the words of Yogi Berra:

**“It’s tough to make
predictions, especially about
the future.”**

2011 has been a bumpy year:

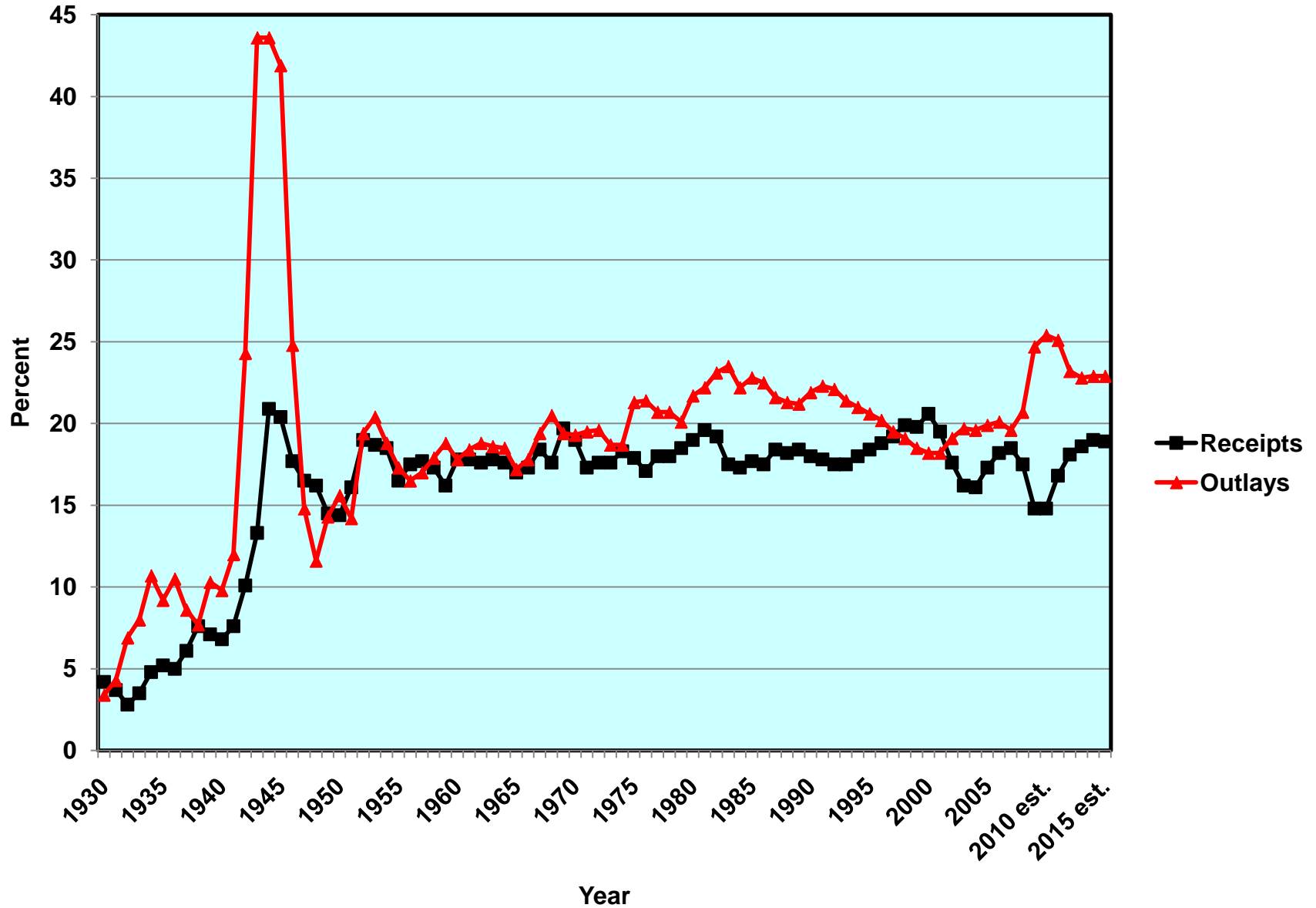
- **Tsunami in Japan**
- **Turmoil in the Middle East**
- **Debt worries in Europe**
- **Sluggish growth in the U.S.**
- **Debt-ceiling circus in Washington**

Historically, the recovery from a financial crisis has often been long and slow.

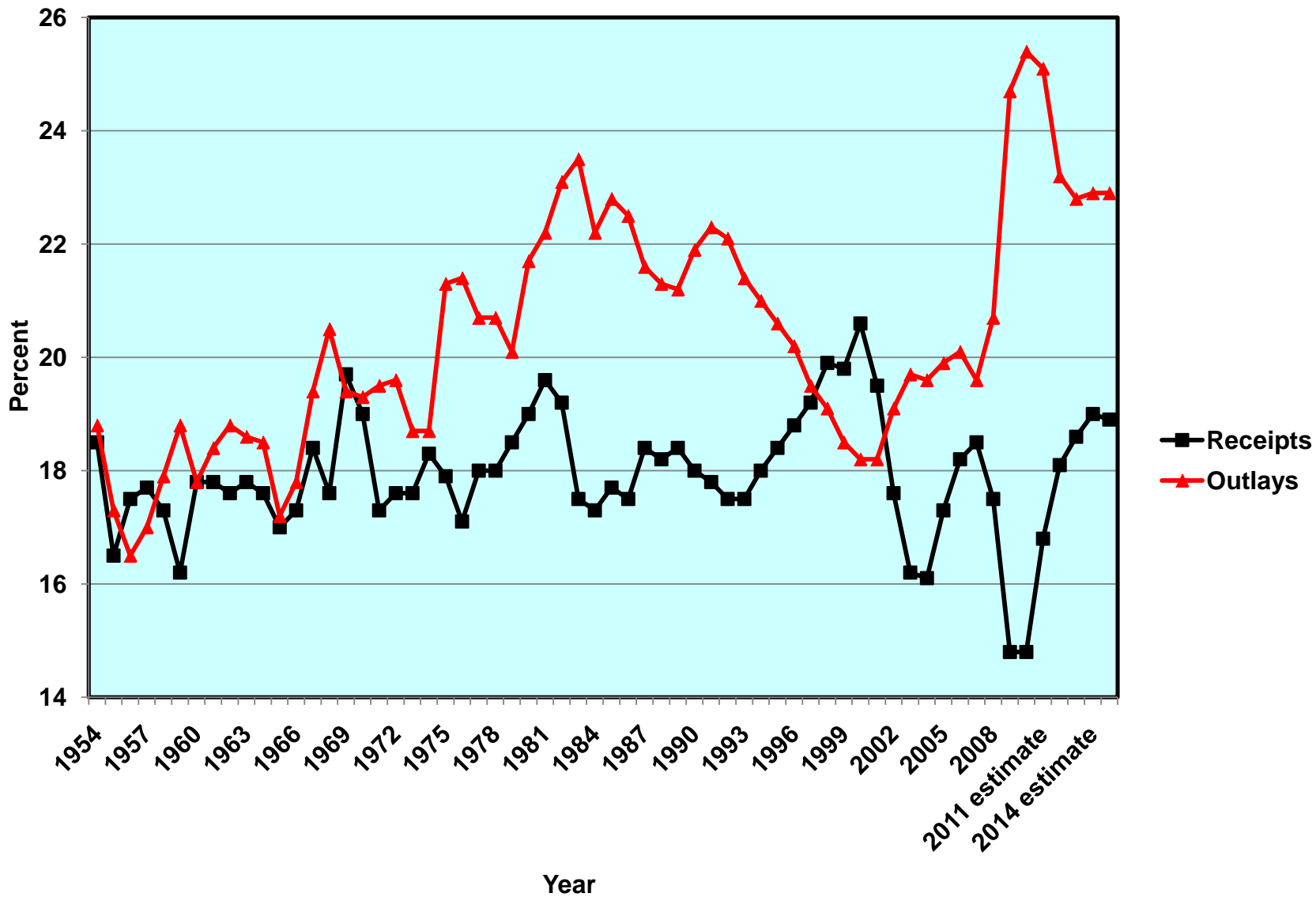
The growth of federal government debt is the biggest concern for the U.S. economy in the medium to long term.

**In the last 42 years, the
Federal Government has
balanced its budget only
four times.**

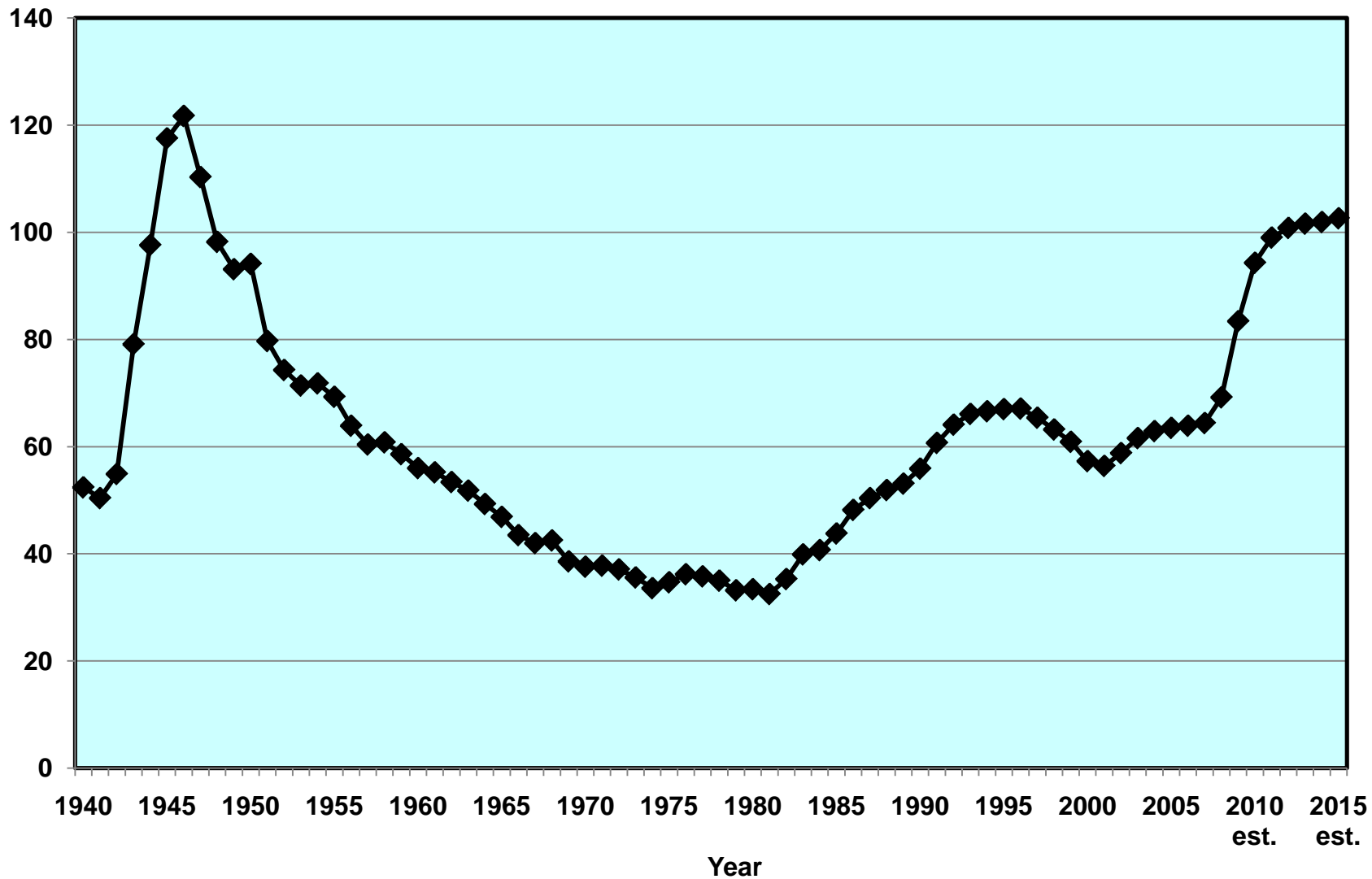
Federal Government Receipts and Expenditures as Percent of GDP, 1930-2009, with Estimates to 2015



Federal Government Receipts and Expenditures as Percent of GDP, 1954-2009, with Estimates to 2015



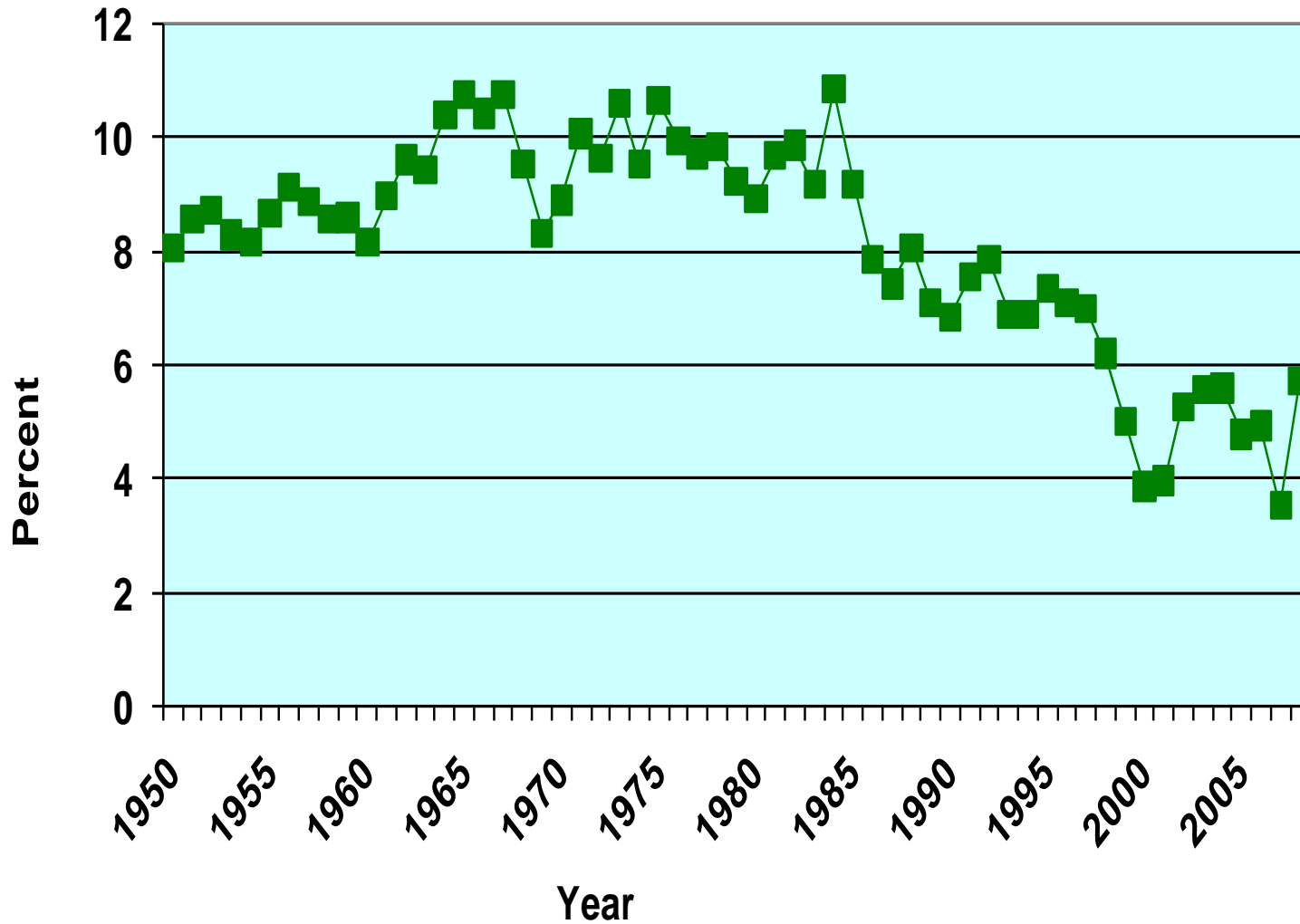
Gross Federal Debt as Percent of GDP, 1940-2009, with Estimates to 2015



**It's not just the Federal
Government that forgot how
to save.**

**Private citizens in the U.S.
also forgot how to save.
That's why we borrow so
much from abroad.**

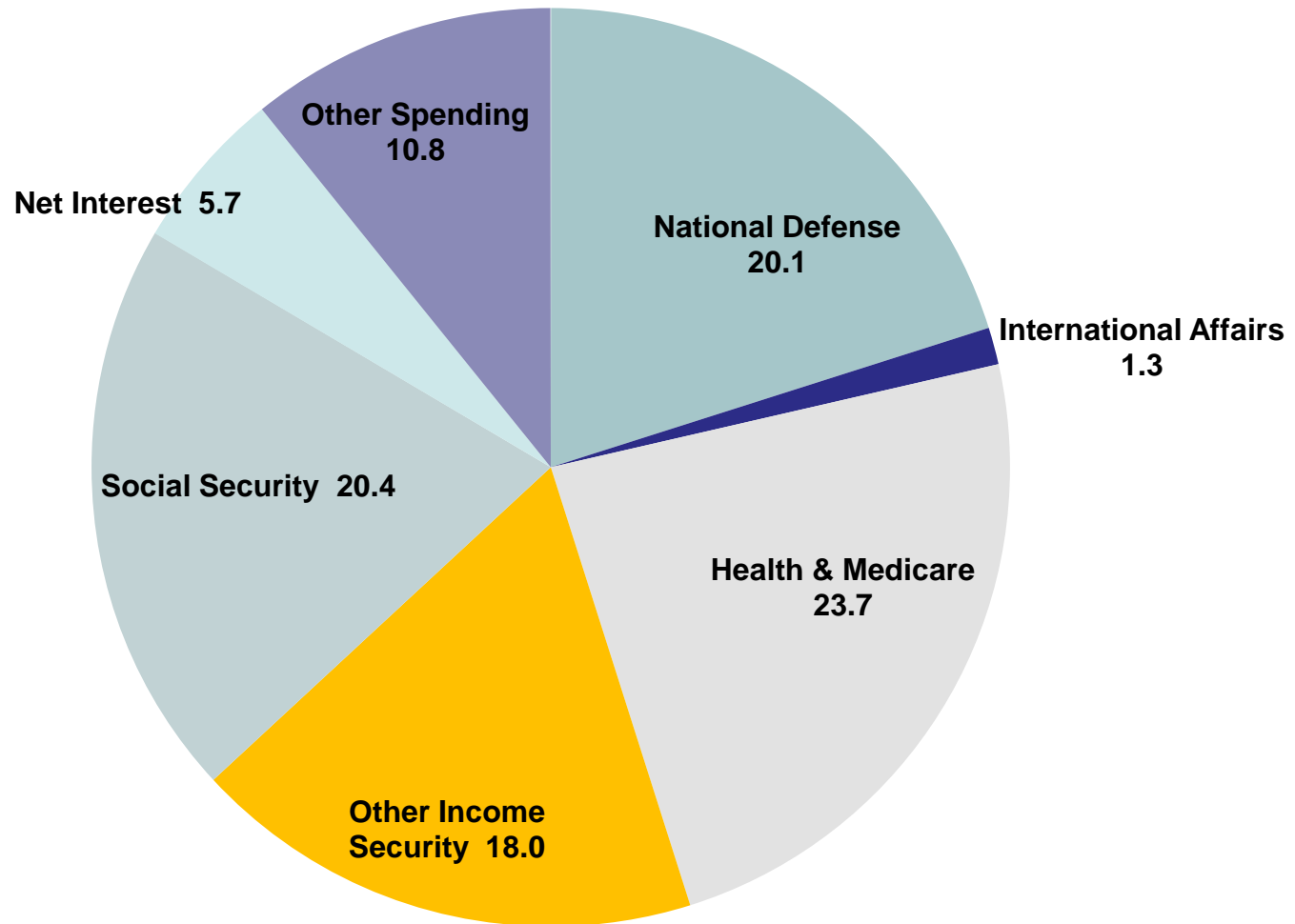
Net Private Saving As Percent of Gross National Income, For the United States, 1950-2008



Any serious attempt to balance the federal budget will involve revenue increases.

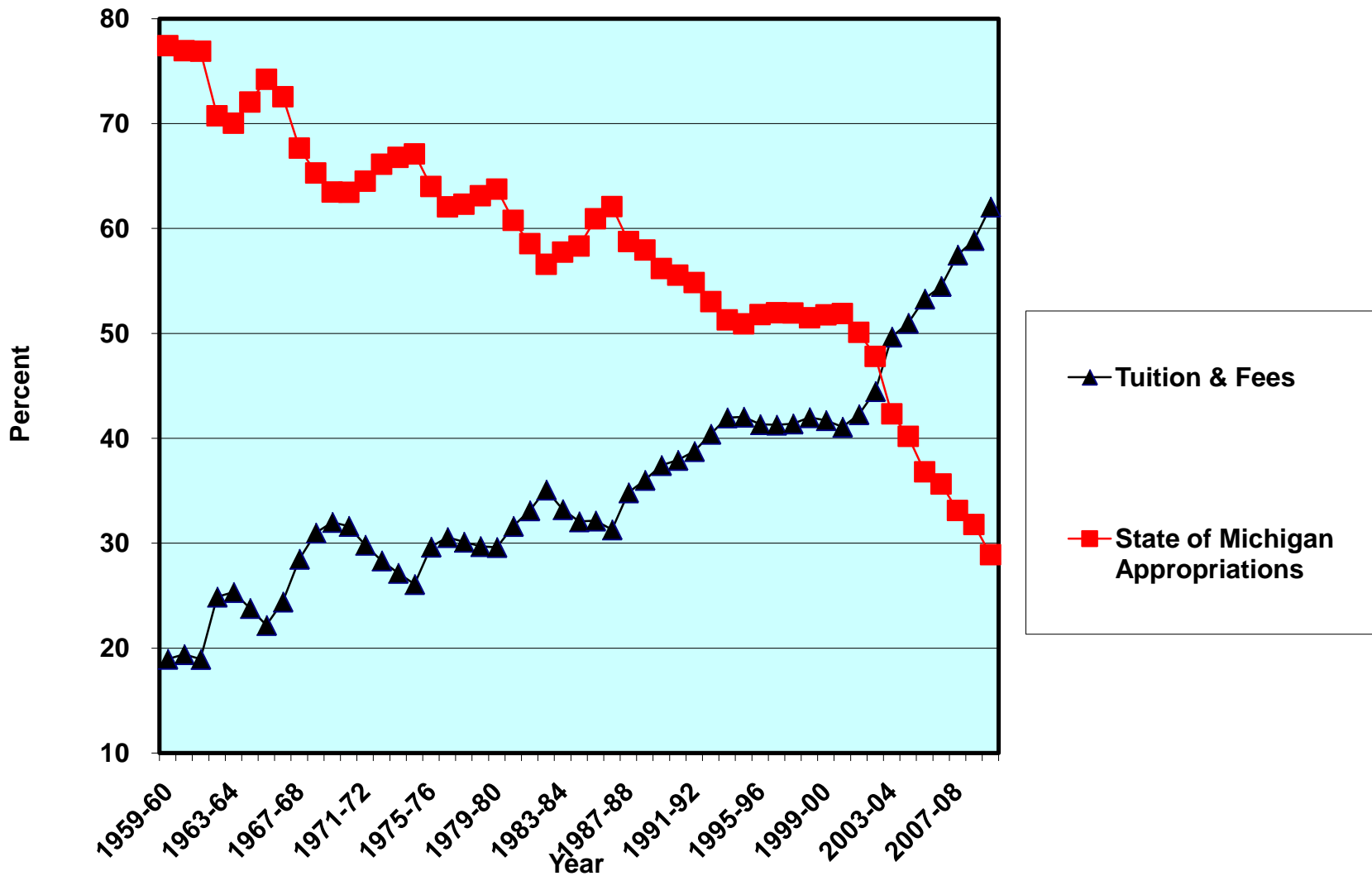
And, any serious attempt to balance the federal budget will involve reductions in entitlement spending.

Percentage Composition of Federal Spending, FY 2010



**At a time when education is
so crucial to our future,
Michigan has pursued a
policy of systematic
disinvestment in education.**

Sources of Funds for Michigan State University, 1959-60 to 2009-10



In order to be equivalent to the real budget reductions of the last eight years, we would have to cease state support for:

**Eastern Michigan,
Ferris State,
Grand Valley State,
Lake Superior State,
Michigan Tech,
Northern Michigan,
Oakland,
Saginaw Valley State,
UM-Dearborn, and
UM-Flint.**

- **Michigan is Underinvested in Education, Training, and Skill, From Pre-School to Ph.D.**
- **In addition to the big premium for a Bachelor's degree, the social returns are very large for**
 - (1) early-childhood education, and**
 - (2) high-school completion.**

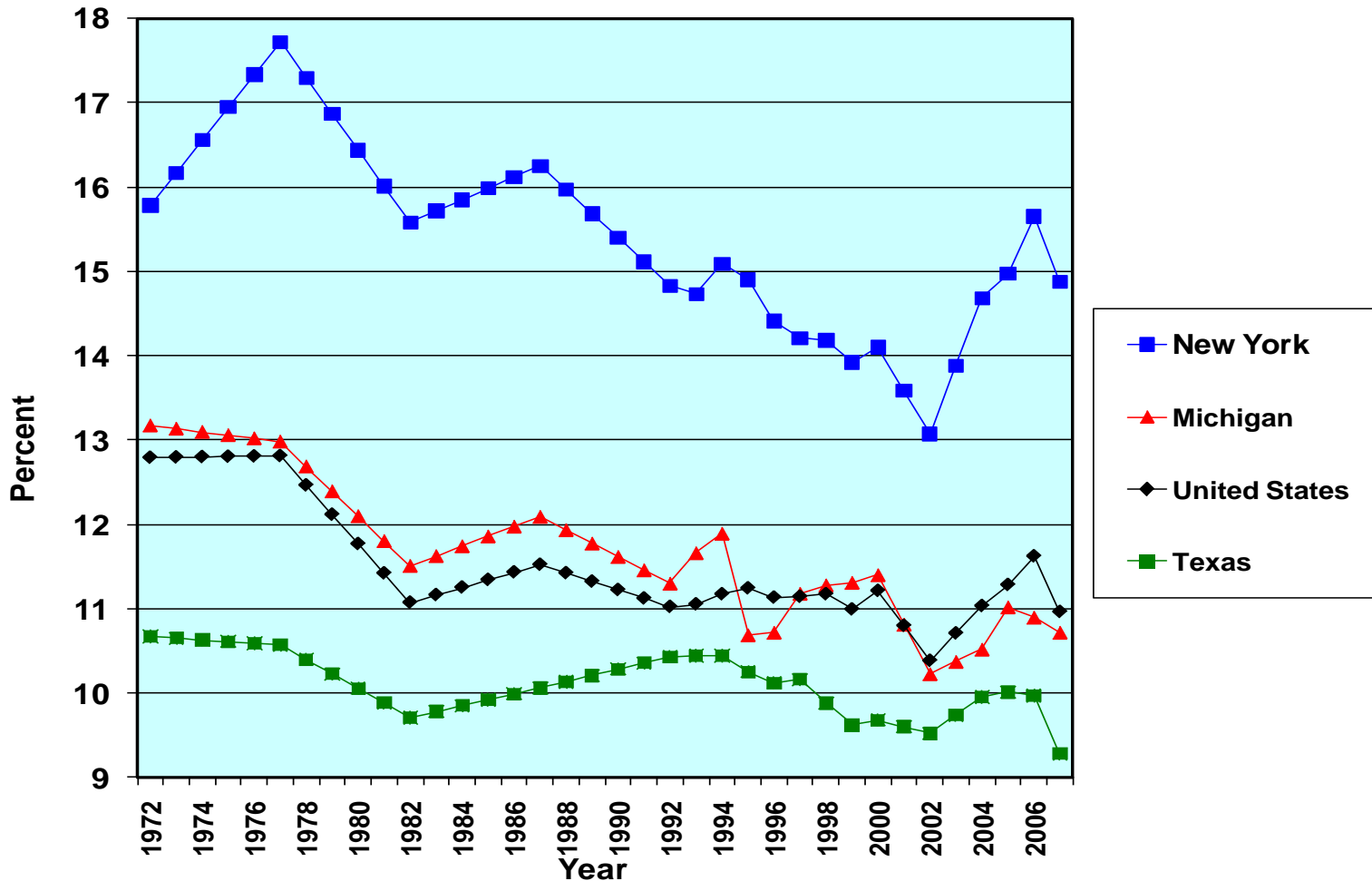
As long as we stick with a nineteenth-century school year of only 180 classroom days, we simply cannot claim that we are serious about preparing for the workforce needs of the future.

State and Local Taxes As Percent of Personal Income:

- **Michigan used to be above the national average, but is now below**
- **The national average has fallen substantially**

Tax Effort Has Reduced Substantially

State and Local Taxes as Percent of Personal Income, 1972-2007



The Structural Deficit:

None of the major sources of revenue for state and local governments in Michigan keeps up with the economy.

Potential Sources of Tax Revenue for Michigan:

- **Extend the sales tax to services and entertainments.**
- **Establish a graduated income tax, or at least raise the flat rate of the current income tax.**

Better Attitudes for a Better Michigan

- **A Culture of Lifelong Learning**
- **Innovation and Entrepreneurship**
- **An End to Bitter Partisanship**
- **A Positive Attitude, to Keep Going
Through Difficult Times**

Michigan, My Michigan

A song to thee, fair State of mine,
Michigan, my Michigan.

But greater song than this is thine,
Michigan, my Michigan.

The whisper of the forest tree,
The thunder of the inland sea,
Unite in one grand symphony
Of Michigan, my Michigan.