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**MICHIGAN
FUTURE INC.**

A Catalyst for Prosperity

Michigan Future report shows factory-based economies losing out to knowledge-based services

Michigan Future Inc. today issued a new report examining how Michigan can return to prosperity. “The New Path to Prosperity: Lessons for Michigan from Two Decades of Economic Change,” reviews the changing patterns of employment and private sector income from 1990 to 2011 in the United States, Michigan and Minnesota.

The report is co-authored by Michigan Future President Lou Glazer and Don Grimes, Senior Research Specialist at the University of Michigan’s Institute for Research on Labor, Employment and the Economy

The report details the dramatic changes in employment and employment earnings over the last 20 years in five sectors of the economy: manufacturing; other goods producing (construction and natural resources); knowledge-based services (private health care and social services; finance and insurance; information; professional services; and management of companies); other private services; and government

The authors conclude: “We do not know if the coming decade or two will be more like 1990-2001 or 2001-2011 or someplace in between. What we are confident of is 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 are almost certain to be where job growth is the strongest and average wages are the highest.”

The state data shows how Minnesota’s knowledge-based economy has propelled it greater job growth and prosperity, while Michigan’s reliance on manufacturing has been an important factor in its economic decline.

Over the two decades manufacturing employment in the U.S. fell by nearly 5.8 million jobs, a decline of 32 percent. The share of workers in manufacturing fell from 13 to 7 percent.

In contrast employment in knowledge-based services grew by nearly 16.5 million an increase of 55 percent. Knowledge-based services share of American employment grew from 21 to 26 percent.

The change in employment earnings (wages and employer paid benefits) was even more pronounced. U.S. employment earnings per capita from manufacturing, adjusted for inflation, declined 29 percent over the two decades. The share of private sector employment earnings per capita from manufacturing fell from 21 percent to 12 percent.

(MORE)

U.S. employment earnings per capita in knowledge-based service grew by 52 percent. The share of private sector employment earnings per capita from knowledge-based services grew from 33 percent to 41 percent, almost completely offsetting the decline in manufacturing's share.

"Factory jobs and their contribution to a middle-class society have tumbled dramatically across the nation, while jobs and employment earnings in knowledge-based services have become the key driver of prosperity," said Lou Glazer, president of Michigan Future Inc.

"The lesson Michigan needs to learn is clear: The places that are doing best today and almost certainly will do the best in the future are those states and regions that are concentrated in knowledge-based services, not factories. In a global economy, knowledge-based sectors are now, and are likely to be even more so in the future, the core of the more and better jobs Gov. Rick Snyder has rightly identified as the state's economic goal," Glazer said.

Over the two decades Michigan substantially lagged the nation in both employment and employment earnings growth. Employment up seven percent compared to 27 percent nationally. Private sector employment earnings corrected for inflation grew by \$1,000 compared to \$4,300 for the nation.

In contrast Minnesota, the most prosperous Great Lakes State, had job growth from 1990-2011 of 29 percent and private sector employment earnings corrected for inflation growth of \$7,400.

The driver of Minnesota's outperformance compared to Michigan (and the country) in employment and real private sector employment earnings per capita came from knowledge-based services. Employment grew in the sector by 60 percent in Minnesota compared to 30 percent in Michigan. Private sector employment earnings corrected for inflation growth in the sector in Minnesota was 43 percent compared to 25 percent in Michigan.

According to report co-author Don Grimes, "States such as Minnesota show the path for Michigan to return to prosperity. The data are clear: The absolute and relative increase in employment earnings per capita in knowledge-based services, which is a combination of strong job and wage rate growth, means that knowledge-based services are now the key to a growing and more prosperous middle-class in America over the long run."

Michigan Future, Inc. is a non-partisan, non-profit organization located in Ann Arbor, Michigan. Its mission is to be a source of new ideas on how Michigan can succeed as a world class community in a knowledge-driven economy. Its work is funded by Michigan foundations. The entire report can be found at www.michiganfuture.org.

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