Troubling Times: The Declining Economic Status of Michigan Relative to the Rest of the United States, High School Graduates Relative to College Graduates and Men Relative to Women

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Troubling Times: The Declining Economic Status of Michigan Relative to the Rest of the United States, High School Graduates Relative to College Graduates and Men Relative to Women

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Even before the “Great Recession” that began in December 2007, three long-term trends dating back to the early 1970s, shaped economic well-being in Michigan and the rest of the nation. These trends are evident for most economic outcomes, including employment, earnings, household income, poverty, and health insurance coverage.

1. In 1970, Michigan residents had higher economic status than residents of other states. This advantage eroded between 1970 and 2000 as economic growth was more rapid outside of, than inside, Michigan. The first decade of the 21st century has been especially problematic in Michigan, whose workers and households now have earnings and incomes that are below the national average and a poverty rate that is above the national average. For example, according to the Census Bureau’s American Community Survey, the official poverty rate in Michigan increased by 3.4 percentage points from 11.0 to 14.4 percent between 2002 and 2008, a greater percentage point increase than in any other state. Poverty in the U.S. increased by 0.8 percentage points over these years, from 12.4 to 13.2 percent.2

2. High school graduates have always had lower economic status than college graduates. However, since the early 1970s, male high school graduates have experienced not only declines relative to college graduates, but also absolute declines in their employment rate and inflation-adjusted earnings, both in Michigan and the rest of the nation.

3. Men have higher economic status than women. However, since the early 1970s, and especially during the recent recession, men’s employment, earnings and health insurance coverage have fallen relative to those of women. Women are now more likely to graduate from college than men, are less likely to be unemployed than men, and more likely to have health insurance. For example, in 1973, the national unemployment rate for women 20 years and older was 1.6 percentage points higher than that for men (4.9 vs. 3.3 percent); in 2009, it was 2.4 percentage points lower (7.5 vs. 9.6 percent).

1 This research brief was prepared for the Health Care Policy Forum sponsored by the University of Michigan School of Social Work and the Nokomis Foundation, April 15-16, 2010. Judy Mullin and Tedi Castelli produced the charts.
The Great Recession seems to be ending in that the gross domestic product (GDP) has been growing since the 4th quarter of 2009 and, for the first time in three years, the economy added 162,000 jobs in March 2010 and 290,000 in April 2010. To place these job increases in context, more than 8 million jobs were lost across the nation during the Great Recession: the national unemployment rate in April was 9.7 percent; the Michigan rate, 14.0 percent. The Congressional Budget Office forecasts that the economy will continue to grow in 2010, 2011 and 2012, but that the national unemployment rate will remain at about 8 percent at the end of 2012. Michigan’s Research Seminar in Quantitative Economics forecasts that Michigan’s unemployment rate will be 13.7 percent in 2011. This means that economic hardships for Michigan residents, especially those who have no more than a high school degree, will continue for the foreseeable future.

The Great Recession has increased the extent of economic hardship and highlighted the economic inequalities in our society. These economic troubles are not new; they have evolved as the economy has transformed over the last 35 years. The U.S. is much richer and workers are more productive now than in the early 1970s. However, the benefits of economic growth since the oil price shock of 1973 have accrued primarily to highly-educated and highly-skilled workers. The only exception was that for a few years in the late 1990s, when unemployment rates were around 4 percent in the nation and below 4 percent in Michigan, the inflation-adjusted wages of less-educated workers rose for several years in a row.

The workers who have lost the most economic ground over recent decades, who have the highest poverty rates, the lowest rates of health insurance coverage, and the lowest employment rates are those with no more than a high school degree, particularly males, whose post-World War II wage gains were largely the result of their employment in unionized, high-wage manufacturing jobs.

Most economists agree that several factors have contributed to the falling real wages of less-educated workers and increased earnings inequality. These include labor-saving technological changes that reduced employer demand for less-educated workers, the globalization of labor and product markets that lowered both consumer prices and the number of manufacturing jobs in the U.S., immigration of less-educated workers, the
declining real value of the minimum wage, and declining unionization. Unfortunately, most of these trends are likely to continue to disadvantage Michigan’s workers relative to workers in other states because of our greater reliance on industries that have been adversely affected by the economic changes of the past 35 years.

The severity of the recession led the Obama administration to propose a series of policy changes that were included in the American Recovery and Reinvestment Act of 2009 (ARRA). It has also proposed additional policy changes for FY2010 and FY2011, but many have not yet been enacted by Congress. The reforms that were enacted by the ARRA and the recent passage of Health Insurance Reform, taken together, are broader in scope than anything that the Federal government has done in decades to raise the economic status of low-income Americans. The ARRA dramatically increased food stamp benefits, unemployment insurance benefits, tax credits for poor families with children, and funding for preschool education and college tuition. Within several years, millions of the uninsured will be enrolled in Medicaid or receive subsidies for insurance.

While these are important policy changes, they can only offset some of the negative effects of the Great Recession on workers and families. As a result, even if ARRA’s temporary policy changes are made permanent, the poverty rate, like the unemployment rate, will stay high through at least 2012. And, it is not certain that most of the poverty-reducing policy changes in the stimulus package will be kept in place once the economy recovers, as there is already more discussion in Congress about reducing the deficit than there is about helping the poor and jobless.

We now turn to some data that document why these are such troubling economic times, not only for the poor, and not only for Michigan residents, but for many Americans.

Unemployment. Figure 1 plots the unemployment rate for each year from 1976 to 2009 for Michigan and for the United States. Michigan’s unemployment rate has been higher than the national rate in most years since the mid-1970s. Its rate was near or below the national average only from about 1993-2003, the most robust national economic recovery since the late 1960s. Michigan was hard hit in the recession of the early
1980s and in the recent recession. During both recessions, it had the highest unemployment rate in the nation; during both, the number of domestic auto sales declined dramatically.

It took more than 10 years after the recession of the early 1980s for Michigan’s unemployment rate to fall back to the national average. And, it is very likely that economic recovery in Michigan in the next few years will again be slower than that in the rest of the nation, primarily because we have lost so many jobs. According to the Bureau of Labor Statistics (www.bls.gov), the rest of the nation has about 6 percent fewer non-farm jobs today than in 2007; in contrast Michigan has 9 percent fewer jobs. And, while the number of jobs in the rest of the nation is only 1 percent below the number in 2000, Michigan has 18 percent fewer jobs than it did when President Clinton left office. In addition, Michigan still has a larger percentage of its jobs in industrial sectors (for example, durable manufacturing) that have been declining and a smaller percentage in sectors that have been increasing (for example, computer and scientific services) over the last decade.

*Figure 1. Unemployment Rate, Michigan and U.S. 1976 - 2009*
Median Household Income. Figure 2 shows the erosion of the economic status of Michigan’s households relative to that in the rest of the nation. In 1980, the median Michigan household’s income, $56,493 in inflation-adjusted 2008 dollars, was 13 percent higher than the median for households in the rest of the nation ($49,898). Michigan’s advantage eroded during the 1980s and 1990s; by 2000, household income in Michigan was 7 percent above the national average. Michigan’s workers and households never recovered from the 2001 recession, which was mild in most of the rest of the nation. By 2008, the last year for which we have data, the median Michigan household had an income 7 percent below the median in the rest of the nation ($48,256 vs. $51,934).

Figure 2. Median Income for All Households in Michigan and the U.S.: 1980, 1990, 2000 and 2008 (constant 2008 dollars)
Some analysts have labeled, the first decade of the 21st century as the lost decade—a decade with no increase in the stock market and no increase in household incomes or in the number of jobs. Figure 2 shows that Michigan has experienced three lost decades—the typical Michigan family in 2008 had an income that was 15 percent lower than the typical Michigan family in 1980 ($48,256 vs. $56,493).

**Relative Earnings of Male and Female Workers.** A major source of rising economic hardship in Michigan and the nation has been the erosion of the economic status of men with a high school degree or less relative to men with a college degree or more. The era of steady economic growth and rising real wage rates that raised living standards for most workers in the quarter century after World War II ended in the mid-1970s. Particularly hard hit were workers with a high school degree or less whose post-war wage gains were largely based on unionized, high-wage manufacturing jobs.

Instead of the steady wage growth that Americans came to expect, the real annual earnings of less-educated men have been falling for four decades. In 1970, the typical male worker in Michigan with a high school degree or less earned $53,123 (in 2008 dollars); by 2008, he earned only $32,588, 39 percent less. Workers with at least a college degree experienced a much smaller loss in real earnings in Michigan, about 10%.

Figure 3 shows that in 1970, male workers in Michigan with a high school degree or less earned 72 cents for every $1.00 earned by a male worker with a college degree or more; by 2008, they earned only 49 cents for every $1.00. One of the reasons household income (Figure 2) did not fall more than it did in Michigan and the U.S. is that the contribution of working wives to household income has increased dramatically.

Women have increased their hours of work and wage rates relative to both men and the inflation rate over the past four decades. Figure 3 shows that in 1970 among Michigan’s workers with a high school degree or less, women earned 39 cents for every $1.00 earned by a comparable male worker; by 2008 they earned 63 cents. Female college graduates also increased their annual earnings from 57 to 66 percent of that of male college graduates.
Figure 3. Changes in Relative Earnings of Male and Female Workers in Michigan, Ages 25 - 29

<table>
<thead>
<tr>
<th></th>
<th>1970</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male High School Degree or Less</td>
<td>72%</td>
<td>49%</td>
</tr>
<tr>
<td>Male College Degree or More</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female High School Degree or Less</td>
<td>39%</td>
<td>63%</td>
</tr>
<tr>
<td>Male High School Degree or Less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female College Degree or More</td>
<td>57%</td>
<td>66%</td>
</tr>
</tbody>
</table>

Uneven Employment Losses across Michigan. Figure 4 documents the very large job loss in Michigan relative to that in the rest of the nation in the period between April 2000 and December 2009. Whereas Michigan lost 18.4 percent of its non-farm employment, the loss in the rest of the nation was only 1 percent. Within Michigan, the Ann Arbor, Kalamazoo, and Lansing metropolitan areas lost less than 10 percent of their jobs; the Detroit, Flint, Holland-Grand Haven, Jackson, Niles-Benton Harbor and Saginaw metropolitan areas lost more than 16 percent of their jobs.

Figure 4. Percent Change in Non-Farm Employment in Michigan Labor Areas and in the Rest of the U.S.: April 2000 to December 2009
Uneven Employment Changes by Major Industry. Figure 5 shows that Michigan lost a greater percentage of jobs in most industries than the rest of the U.S. between April 2000 and December 2009. For example, Michigan lost 54.2 percent of all of its durable goods manufacturing jobs, compared to a 33.9 percent loss in this sector in the rest of the nation. The only sectors for which employment increased in the U.S. in this decade were state government, local government, health care, leisure and hospitality.

Figure 5. Percent Change in Employment, April 2000 to Dec. 2009, by Major Industries, Michigan and the Rest of the U.S., and Percent Employed in Each Sector, 2008

<table>
<thead>
<tr>
<th>Industry</th>
<th>Michigan</th>
<th>Rest of USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>INFORMATION SERVICES</td>
<td>1.4%</td>
<td>-24.5%</td>
</tr>
<tr>
<td>TRANSPORT, WAREHOUSING &amp; UTILITIES</td>
<td>2.9%</td>
<td>15.3%</td>
</tr>
<tr>
<td>STATE GOVERNMENT</td>
<td>3.7%</td>
<td>19.3%</td>
</tr>
<tr>
<td>NON-DURABLE MFG.</td>
<td>4.6%</td>
<td>-20.8%</td>
</tr>
<tr>
<td>WHOLESALE TRADE</td>
<td>3.8%</td>
<td>-44.3%</td>
</tr>
<tr>
<td>FINANCIAL SERVICES</td>
<td>3.5%</td>
<td>-15.2%</td>
</tr>
<tr>
<td>CONSTRUCTION</td>
<td>3.8%</td>
<td>0.2%</td>
</tr>
<tr>
<td>LEISURE &amp; HOSPITALITY</td>
<td>4.3%</td>
<td>20.7%</td>
</tr>
<tr>
<td>HEALTH CARE</td>
<td>4.9%</td>
<td>-15.9%</td>
</tr>
<tr>
<td>LOCAL GOVERNMENTS</td>
<td>3.1%</td>
<td>-52.7%</td>
</tr>
<tr>
<td>RETAIL TRADE</td>
<td>4.4%</td>
<td>-51.7%</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics
Differences in Economic Status by Education, Race, and Gender. The remaining tables present data on the poverty rate, the employment rate, median earnings, and health insurance coverage for adults between the ages of 25 and 59 in Michigan in 2008 using data from the American Community Survey. For each of these four aspects of economic well-being, we show the data for 16 subgroups who are in the prime working years: whites/blacks x men/women x four education categories.

Holding education constant, the economic status of white men exceeds that of black men, white women, and black women. Holding education constant, white women and black women have very similar employment rates and median annual earnings.

Poverty. Figure 6 shows that poverty rates are relatively low for college graduates (5 percent or less) and very high for those with a high school degree or less (19 percent or more). The poverty rate is much higher, holding education constant, for black women than for white women, primarily because 64 percent of white women between the ages of 25 and 59 are married and living with a spouse, compared to only 24 percent of black women. Poverty is based on total family income, so families with two adults, and hence two potential workers, have much lower poverty rates than those with only one adult.

Employment. Figure 7 shows that the percent of prime-age adults who were working during the survey week in 2008 increases dramatically with education for all four race/gender groups. For example, among white males, 71 percent of those with less than a high school degree had a job compared to 93 percent of college graduates. This reinforces the increased importance of higher education in the 21st century labor market. The most dramatic finding in Figure 7 is the low employment rates of black men in every education group, not only compared to white men, but also to white women and black women.
Figure 6. Percent of Persons Poor, Ages 25 to 59 in Michigan, by Education, Race and Gender, 2008

Figure 7. Percent of Persons Employed, Ages 25 to 59 in Michigan, by Education, Race, and Gender, 2008
Median Earnings. Figure 8 shows that median earnings increase dramatically with education--college graduates earn about twice as much per year as high school graduates. Annual median earnings range from a low of $10,595 for black women with less than a high school degree to $66,191 for white men with a college degree or more.

Figure 8: Median Earnings of Workers Ages 25 to 59 in Michigan, by Education, Race and Gender, 2008

Health insurance coverage. Figure 9 shows that about 80 percent of Michigan residents between the ages of 25 and 59 have some health insurance coverage. Women are more likely to be covered than men, in part because low-income women with children are more likely than men to be covered by Medicaid. Again,
those with a high school degree or less are least likely to be covered, in part because they are the least likely to have a job, and among those who have a job, they are less likely to work for firms that provide coverage than are more-educated workers.

Figure 9. Percent of Persons with Health Insurance, Ages 25 to 59 in Michigan, by Education, Race and Gender, 2008

Summary. We are living in troubling economic times in the nation and in Michigan in particular. The Great Recession hit Michigan residents particularly hard. However, the erosion of Michigan’s economic status relative to that in the rest of the country began more than 30 years ago. The oil price shocks of the 1970s and the severe recession in the early 1980s provided early warning signs that it would be risky for Michigan to
continue to place most of its economic bets on the high-paying manufacturing jobs that were its source of prosperity in the quarter century following World War II. While there have been some attempts to diversify and modernize Michigan’s economy over the last several decades, it seems that Michigan’s firms and workers were too slow to accept the changing economic reality. The recent bankruptcies of General Motors and Chrysler signal the end of Detroit’s industrial dominance and seem to have laid to rest visions of a return to the “good old days.”

We do not know if, in the coming decade, Michigan can reinvent its economy and regain some of its lost prosperity. We do know that unemployment rates and poverty rates will remain high for the foreseeable future.

The economic troubles we have documented have been less severe for those with at least a college degree and for those working in growing sectors, such as health care and business services. To the extent that there is a noncontroversial policy prescription that follows from the data we have reviewed, it is that the government and citizens of Michigan should be doing more to improve the education and skills of our workforce. Among Michigan residents between the ages of 25 and 39, 29 percent have a college degree (25.7 percent of men and 31.4 percent of women). This is just below the national average of 30 percent, and well below that of a number of other industrialized states—Massachusetts, 46 percent, New Jersey and Connecticut and Maryland, 40 percent, Minnesota 38 percent, Illinois, 36 percent. A highly skilled workforce is necessary if Michigan is to move forward and regain the economic stature it had 40 years ago.