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Michigan Future report reveals close links between prosperity and college attainment

Michigan’s inability to prepare, attract, retain college grads preventing it from increasing prosperity

Michigan’s struggles during the first decade of this century and its failure to make the turn to a knowledge economy that is vital to becoming prosperous is painfully evident in a new study from Michigan Future, its fifth “progress report” on Michigan’s transition to a knowledge-based economy. (The report, along with extensive data used to generate its findings, is available at [www.michiganfuture.org](http://www.michiganfuture.org))

From January 1990 to July 2012, employment nationally in knowledge-based sectors rose 34 percent compared to 14 percent in the rest of the economy. So for more than two decades, whether the nation’s economy is expanding or contracting, the American economy has been going through a profound structural transformation from an industrial to a knowledge-based economy.

Using data from the statistical agencies of the federal government, the report’s authors – Michigan Future President Lou Glazer and senior research specialist at the University of Michigan’s Institute for Research on Labor, Employment and the Economy Don Grimes – conclude that going forward knowledge-based industries will continue to be where job growth is the strongest and average wages are the highest.

They write: “The inescapable conclusion is that what made Michigan prosperous in the past is no longer a path to prosperity. If the Michigan economy of the future is built on a base of factories, farms, food processing 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.”

Glazer and Grimes conclude that human capital is the asset that matters most to knowledge-based enterprises. The report’s findings reinforce Michigan Future’s past research linking prosperity to the state’s and region’s share of college educated adults – the raw material of the knowledge economy. “The new path to prosperity is the broad knowledge-based economy,” the report states, noting that high personal incomes are found where knowledge-based enterprises are concentrating – places with a high proportion of adults with a bachelor’s degree or more.

In 2000 Michigan ranked 18th in per capita income. The state was 34th in college attainment. In many ways, 2000 marked the end of an era when you could have high prosperity with low education attainment. In 2010, Michigan ranked 39th in per capita income, an unprecedented drop of 21 places in a relatively short ten-year period.

Glazer and Grimes have come to believe that the measure long term that matters most to both the country’s and each state’s prosperity is non-natural resources private sector employment earnings per capita. (There are only a handful of states that have sufficient natural resources available from farming, mining, forestry and fishing to be a key driver of their state’s economy. Michigan, for example, gets only a minuscule 0.7% of its per capita income from those sectors.)

For most states and regions, private employment earnings is an essential ingredient in being prosperous in the long term, and it is what policy makers at the state and local level are primarily focused on when they put forward economic development policy and programs.

The report shows Michigan’s private sector employment earnings growth per capita was the slowest in the nation over the last decade – actually, the state had the nation’s largest decrease in private sector employment earnings growth.

The report found the following states in the Top 10 in non-natural resources private sector employment earnings per capita. They tend to rank high in college attainment.

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| --- | --- | --- |
|  | Private sector employment earnings per capita  (not including natural resources) | Rank in % with bachelor’s degree or more |
| Massachusetts | $34,082 | 1 |
| Connecticut | $33,460 | 4 |
| New York | $31,510 | 9 |
| New Jersey | $29,036 | 5 |
| Minnesota | $26,823 | 10 |
| New Hampshire | $26,347 | 8 |
| Illinois | $26,081 | 12 |
| Delaware | $25,982 | 22 |
| Colorado | $25,322 | 2 |
| California | $24,882 | 14 |
|  |  |  |
| Michigan (33rd) | $19,817 | 34 |

Conversely, the Bottom 10 states in non-natural resources private sector employment earnings tend to rank low among the states in college attainment.

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| State | Private sector employment earnings per capita  (not including natural resources) | Rank in % with bachelor’s degree or more |
| Mississippi | $14,358 | 49 |
| West Virginia | $14,545 | 50 |
| New Mexico | $15,130 | 36 |
| Idaho | $16,553 | 39 |
| Arkansas | $16,636 | 48 |
| Montana | $16,689 | 18 |
| South Carolina | $16,756 | 38 |
| Kentucky | $17,021 | 47 |
| Oklahoma | $17,078 | 42 |
| Alabama | $17,121 | 44 |

“Michigan has lagged in its support of the assets necessary to develop the knowledge-based economy at the needed scale,” the report concludes. “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?”

Michigan Future, Inc. is a non-partisan, non-profit organization. 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 along with detailed information about states and metropolitan areas can be found at [www.michgianfuture.org](http://www.michgianfuture.org). *The report was funded by the Hudson-Webber and the W.K. Kellogg foundations.*