

Four state policy levers to end Michigan's two-tier economy

Lou Glazer, President, Michigan Future Inc.

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Michigan's two-tier economy

The Michigan Association of United Ways recently reported that in Michigan's strong pre-pandemic 2019 economy 38 percent of Michigan households were unable to pay for basic necessities. So in what many called the best U.S. and Michigan economy ever, nearly four in ten Michigan households did not earn enough to pay for housing, child care, food, transportation, health care, and a smartphone plan, plus taxes and a miscellaneous contingency fund equal to 10% of the budget.

The cost of this basic necessity budget ranges from \$23,400 for a single adult to \$64,116 for a household with two adults, one infant and one preschooler.

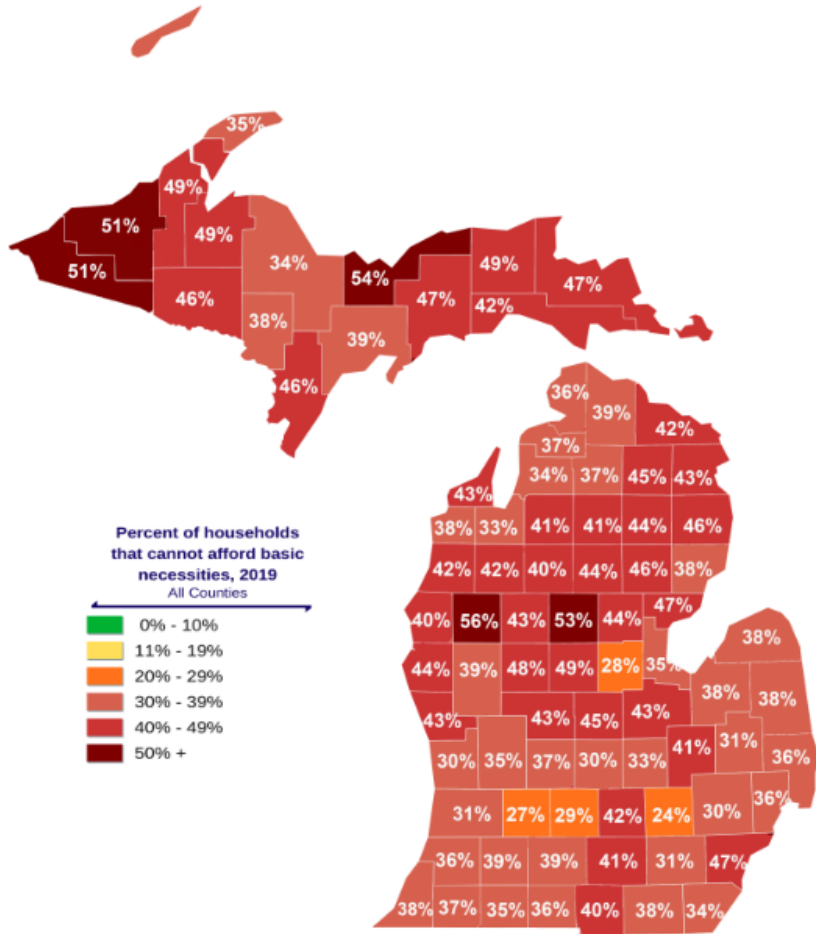
The United Way data make clear that Michigan has a two-tier economy that predates the pandemic. An economy where those at the top are doing well, but way too many Michiganders are struggling.

That two-tier economy is structural. A reality when the Michigan economy is expanding as well as when it is contracting. A reality when unemployment is low as well as when it is high. A reality when the stock market is booming as well as when it is collapsing.

The United Way data also demonstrates that this is an all Michigan problem. Urban, suburban, and rural. Only four Michigan counties had less than 30 percent of households unable to pay for the basics: Livingston, Barry, Midland and Eaton. While five had more that 50 percent: Lake, Alger, Clare, Gogebic and Ontonagan.

And it is a problem across race as well as geography. With 60 of Black households, 48 percent of Latino households, 34 percent of White households and 28 percent of Asian households unable to pay for the basics.

Michigan's Struggling Households, by County



Source: United Way ALICE in Michigan: A Financial Hardship Study, 2021 Update
Map by Michigan Future Inc.



So the reality is that the 2019 Michigan economy was not one of our best ever. It is far past time that we agree that when 1.5 million Michigan households cannot pay for the basics we do not have a good economy.

This is the prime economic challenge of our times: having an economy that provides family-sustaining jobs—not just any job—so that all working Michigan households can raise a family and pass on a better opportunity to their children.

We need a new economic strategy in Michigan. It is far past time that we commit to turning a two-tier economy into an economy that benefits all. We can—and should—debate how to achieve an economy that benefits all. What we should not and cannot ignore is that our economy structurally is leaving too many behind.

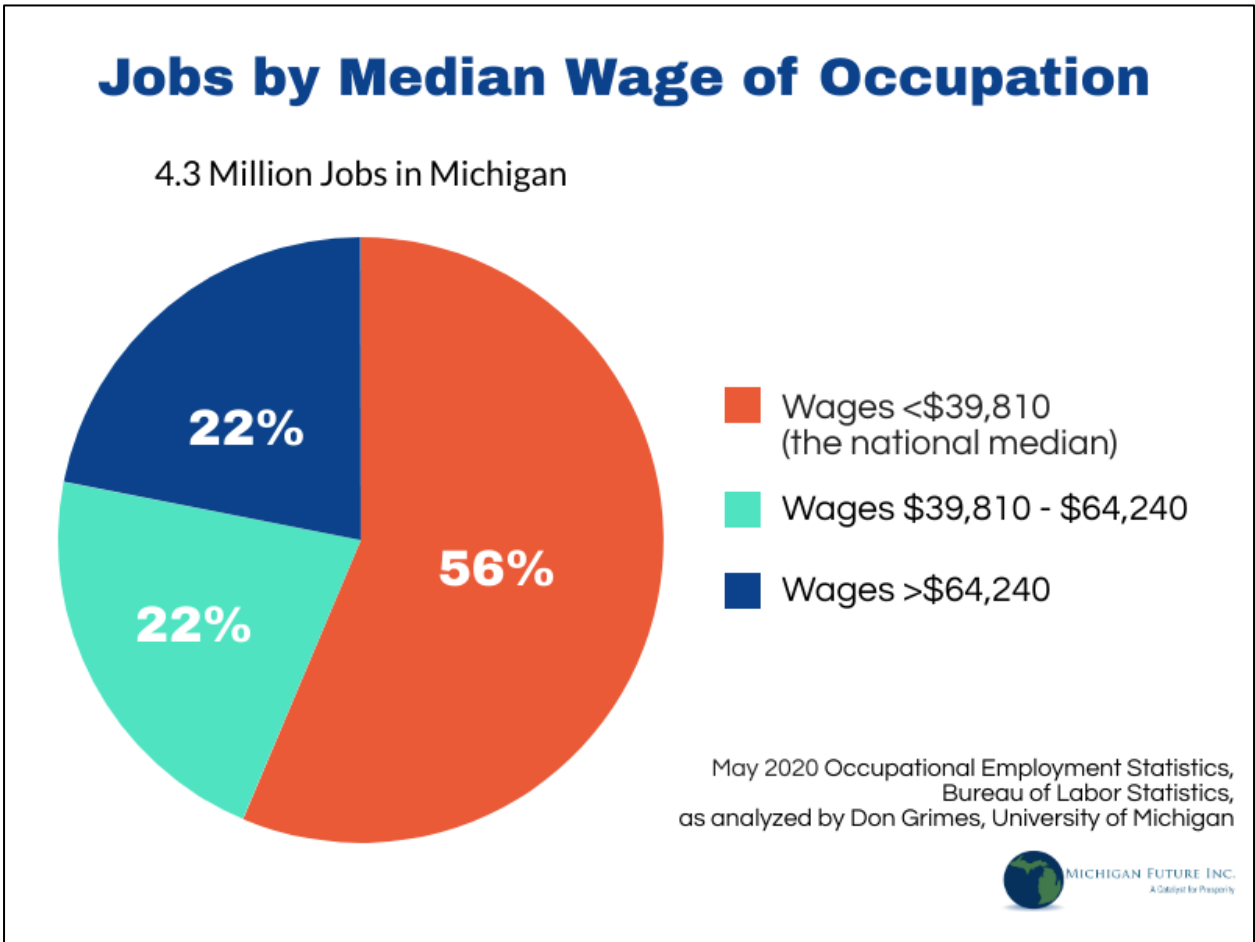
A new economic strategy must start with changing the definition of economic success: from a low unemployment rate and a growing economy to one that is based on a rising household income for all.

Michigan's primary economic challenges

Why are so many Michigan households struggling in a strong economy? There are three big challenges that must be dealt with if we are to have an economy that as it grows benefits all.

Too many low-paid jobs.

The core reason 38 percent of Michigan households cannot pay for basic necessities is that the economy is producing too many low-wage jobs. In the strong 2019 Michigan economy 56 percent of payroll jobs were in occupations with median wages below the national median of \$39,810.



This is structural. Lots of businesses that employ lots of people have business models based on low-wage workers. As Eduardo Porter wrote in a New York Times article the economy is characterized by “a sea of less educated workers who are stuck at businesses like hotels, restaurants and nursing homes that generate much smaller profits per employee and stay viable primarily by keeping wages low”.

We are not growing are way out of too many low-wage jobs. The 2019 Michigan economy demonstrated that a low unemployment rate will not drive wages, benefits and hours worked up enough to substantially dent the proportion of struggling Michigan households.

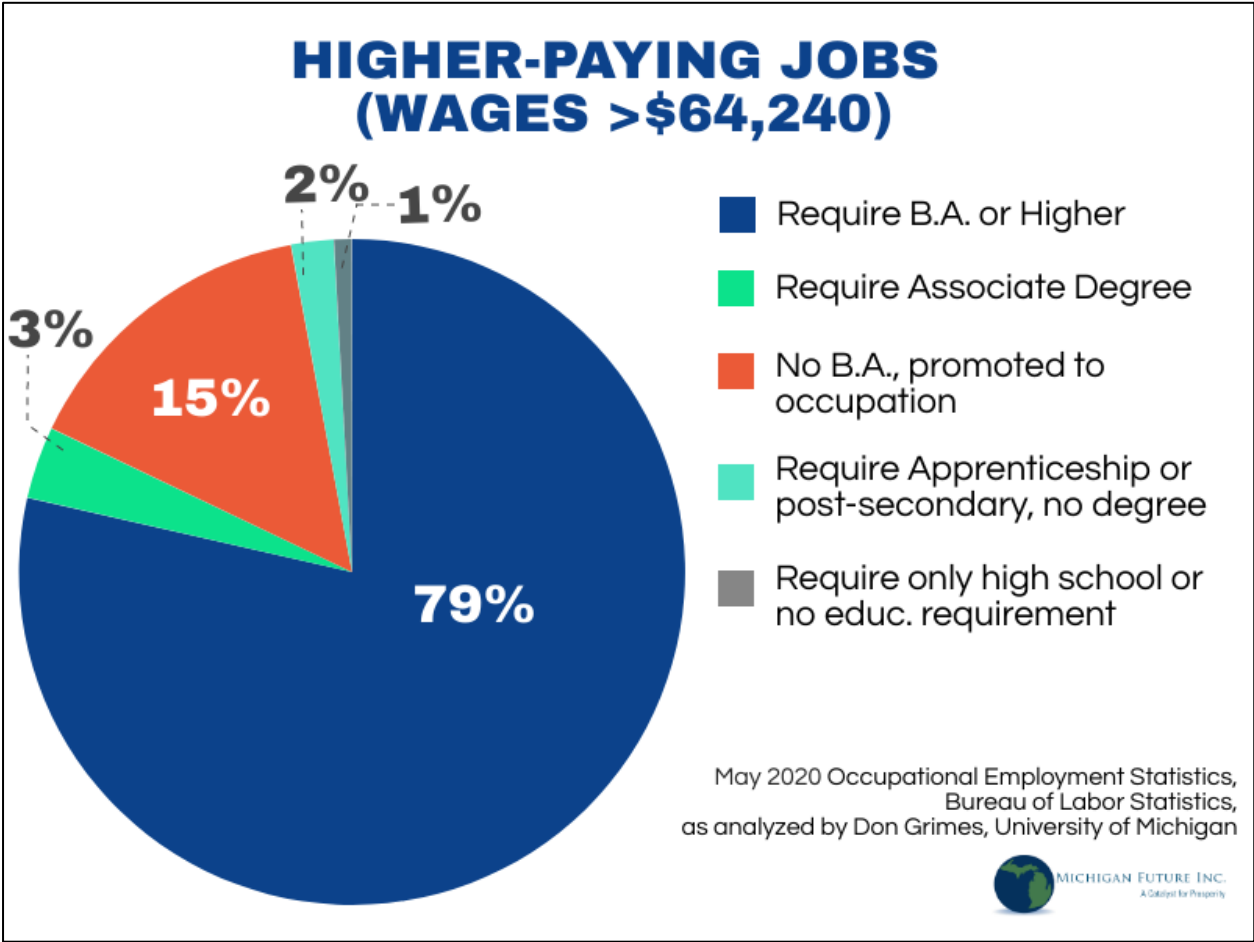
Clearly the pandemic has made things worse. As low-wage workers and low-income households have borne the brunt of the pain from the economic lockdown, and are, almost certainly, going to have the slowest recovery as the economy reopens.

The pandemic also made clear that these essential workers live paycheck to paycheck not because they are irresponsibly buying “unnecessary” luxuries, but because they are in low-wage jobs that leave them struggling to pay for the necessities. The reality is that most of those struggling economically, in good times and bad, are hard working Michiganders. Who like us get up every day and work hard to earn a living.

Neither a strong economy nor a high-prosperity state change the reality that no matter how strong the economy, there will be lots of low-wage jobs. The data are clear: you cannot have an economy that benefits all without increasing income and benefits of low-wage workers.

Too few with the education attainment to get better-paying jobs.

The most reliable path to the middle class is a four-year degree. About eight in ten Michigan jobs in occupations with median wages above \$64,240 (the national 75th percentile) require a four-year degree. And for the two in ten that don't require a four-year degree there are too few Michigan adults with the skills required to get those jobs.



Even more worrisome is that our education system is almost certainly not preparing way too many of our children for the good-paying jobs of the future. This is particularly true for children growing up in lower-income households and for Black and Latino children.

In Michigan today the education that is provided for affluent kids is, by and large, designed and executed differently than it is for non-affluent kids. One system delivers a broad college prep/liberal arts education, the other delivers an increasingly narrow education built around developing discipline and what is on the test or to narrowly preparing non-affluent children for a first job.

Michigan cannot make good on its commitment to equal opportunity for all children without eliminating education attainment inequality, particularly four-year degree attainment

Too low talent concentrations to attract high-wage employers.

Michigan needs more high-wage jobs. But you can't retain, attract and grow high-wage jobs without large talent concentrations. This is an economy where talent attracts

capital. Not the other way around. That is the core lesson of Michigan's failure to have any region make the final twenty considered for Amazon HQ2.

The asset that matters most to high-wage employers are deep pools of workers with four-year degrees—particularly young professionals. Talent is also entrepreneurial, so where it is concentrated increasingly are the places with the most high-wage business start-ups.

Where you have concentrations of high-wage workers you get increased demand for local services. Their spending power ripples through the region's economy via increased demand for retail, hospitality, construction and other locally provided goods and services. So concentrated talent is the key ingredient to creating prosperous regions.

Michigan Future's rising income for all policy recommendations

So the big picture of the Michigan economy is that these are the challenges Michigan most needs to deal with if we are to have an economy that as it grows benefits all. It is way past time that we reject the belief that you cannot have both: a growing economy and shared prosperity. It is time we get to work, on a bi-partisan basis, on creating an economy with both.

What follows are Michigan Future's recommendations for state policy changes that we believe matter most to achieving the goal of rising income for all. Ours is a pro-growth, work-based agenda. More specifically, a good-paying jobs and careers agenda.

The recommendations were designed to confront at scale each of the three structural challenges listed above. To increase income and health coverage for today's low-wage workers; to substantially increase the opportunity for Michigan's children growing up in non-affluent households to obtain good-paying jobs and careers; and to create more high-wage jobs by making Michigan regions more attractive to high-wage employers.

We believed before the onset of the pandemic—and even more so now—that this is the time to make fundamental change in the state's playbook to increase the economic well-being of all Michiganders. That now is the time for a transformative redesign of our approach to the economy. To us mid-course adjustment in what we have been doing is not the path to achieving rising income for all.

So our recommendations are explicitly designed for fundamental change. To rethink what is foundational to state policy and programming to achieving rising income for all

and go big in building that foundation. To identify the state policy levers that can have the highest impact on ending Michigan's two-tier economy. To improve the economic well being of all struggling households in Michigan.

To us that means a state economic policy laser-like focused on good-paying jobs and careers. We need policies designed so that all Michigan workers have wages and benefits that allow them to pay the bills, save for retirement and the kids' education and pass on a better opportunity to the next generation.

To achieve the goal of rising income for all we recommend:

High-impact policy lever 1. Increase income and health coverage for today's low-wage workers through an expanded and no red tape safety net.

Michigan cannot substantially reduce the proportion of households that cannot pay for basic necessities unless it finds ways to increase the amount of work and the pay and benefits for those who work in low-wage jobs.

What low-wage workers need more than anything is more income and health coverage. We need cash-based benefits for those who are working. And we need cash-based benefits for those who have lost their jobs. We also need to make safety net benefits far easier to get. The struggles today that way too many Michiganders are going through to get safety net benefits make clear that we need to go to no red tape cash benefits.

High-impact policy lever 2. Prepare all Michigan children for good-paying forty-year careers by making the 6Cs the foundational skills for all students from birth through college.

To thrive in the new economy, workers have to be adaptable, have a broad base of knowledge, be creative problem-solvers and be able to communicate and work well with others. In other words, workers need to be really good at all of the non-algorithmic skills computers aren't good at yet.

The best definition we have found for this complex set of skills comes from the book [*Becoming Brilliant*](#), by learning scientists Roberta Michnick Golinkoff and Kathy Hirsh-Pasek, who label these skills the 6Cs: collaboration, communication, content, critical thinking, creativity and confidence.

Michigan needs to make the 6Cs the foundational skills for all students from birth through college. This requires access for all Michigan children to high-quality, 6Cs-focused early childhood, K-16 and out of school programming, but also fundamental

redesign of both curriculum and pedagogy. Only then can we say that we're providing all Michigan students with an education that will prepare all for good-paying forty-year careers.

High-impact policy lever 3. In addition to current education funding, an annual grant for all children in households unable to pay for the basics from birth through college.

We strongly believe Michigan under invests in its children. Particularly its non-affluent children. And even more so its Black and Latino children. There is no path to income equality and racial equality that does not include, front and center, far better education outcomes.

To us the evidence is clear: The formula for ending what is increasingly becoming an education caste system—where for the first time in American history parents' education attainment is the best predictor of a child's education attainment—is both far higher quality teaching and learning and substantially more funding for children growing up in non-affluent households from birth through college.

We believe that under investment starts at birth and continues through college. So we propose Michigan substantially increase its investment in the education of every child growing up in a household struggling to pay for basic necessities each year from birth through the age of 21.

Think of this as something that operates, for education related expenses, like a health savings account. An annual government deposit, above and beyond current education spending, for each child 0-21 growing up in a Michigan household struggling to pay for the basics. Where the decision on education-related programming is controlled by parents and students. Including the option of utilizing those funds for extracurriculars and out of school programming.

High-impact policy lever 4. Create more high-paid jobs by creating places where people want to live and work.

Every Michigan region needs more high-wage jobs. This is an economy where talent attracts capital. Creating a place where people want to live and work is what matters most to retaining, attracting and creating more high-wage jobs. Those regions without the quality of place that mobile talent is looking for will be at a substantial disadvantage.

It is also clear that the desirable mix of infrastructure, basic services and amenities differ from region to region. What makes small towns and rural communities attractive places

to live and work are different than what makes big metros and their big central cities attractive places to live and work. So Michigan's diverse regions need the resources and flexibility to develop and implement their own strategies to retain and attract talent. It's an essential ingredient to their future economic success.

Responsibility and funding should be moved from the state to regions for all modes of transportation (except state highways); water; parks and outdoor recreation (except state parks); housing; and all other local/regional infrastructure, basic services and amenities. Responsibility and funding should be returned with little or no state mandates on how funds can be used. The goal is to empower regions to develop and fund their own strategies for creating places where people want to live and work.