

MICHIGAN MIDWEST ASSESSMENT

Lansing, Michigan
June 4, 1998



Assessing the Midwest Economy: Challenges and Prospects for Michigan

I. Introduction

- A. Good morning, ladies and gentlemen, and welcome to this Federal Reserve Bank of Chicago symposium.
- B. I appreciate each of you taking the time to join us today.
- C. To begin the program this morning, I would like to take just a few moments to give a brief overview of the Chicago Fed study, which my colleague Bill Testa will describe in greater detail shortly.

II. Midwest Assessment

- A. First, let me provide some background on the study which we call “The Midwest Assessment.”
 - 1. Why did the Chicago Fed undertake this effort?
 - 2. One reason is that we’re a regional institution – uniquely positioned to study the Midwest and communicate information to policy makers.
 - 3. The other reason is that by gaining a better understanding of the Midwest economy, we can do a better job of contributing to national monetary policy.
- B. Our study focused on the five states that make up the Fed’s Seventh District – Illinois, Indiana, Iowa, Wisconsin, and, of course, Michigan.

- C. To help provide guidance to the effort, we established an advisory group, which included Governor John Engler as well as the governors of the four other states as honorary members.
 - 1. The group also included representatives from business, academia, labor and not-for-profit organizations.
- D. Among the representatives from Michigan who served as advisors on the study were:
 - 1. James Barrett, President of the Michigan Chamber of Commerce,
 - 2. Paul Courant, Chair of the Department of Economics at the University of Michigan at Ann Arbor, and
 - 3. Doug Roberts, Treasurer of the State of Michigan.
 - 4. I want to thank them and the many others here today who contributed to our efforts.

III. Study Findings

- A. The goal of The Midwest Assessment was to better understand the region's future by studying its past – specifically the Midwest's dramatic comeback since the early 1980's.
 - 1. You'll recall that back then people talked about the Midwest "Rust Belt." Many of the experts thought that progress had passed us by°that our economic base was declining°and that the future here was bleak.
 - 2. One of five Midwest manufacturing jobs had disappeared from mid-1979 through 1982. Unemployment in the region was almost three percentage points above the nation. People had written our epitaph.
- B. Today, the Midwest unemployment rate is a full percentage point below the nation – an almost unheard of 3.3 percent — versus 4.3 percent for the nation.
 - 1. Here in Michigan, it's at 3.5 percent.
 - 2. In fact, April marked the 50th straight month – more than four years — that Michigan's unemployment was lower than the nation's.
- C. How did we turn it around?
 - 1. Was it because of external factors that the region couldn't control, like a stronger dollar?
 - 2. Or was it due to internal factors, such as productivity improvements?
 - 3. In other words, were we lucky or were we good?
 - 4. Well, our study found that we were both lucky and good. But the important point for the future is that we were good.

- D. There's no doubt that the Midwest was helped by developments outside the region.
 - 1. Lower energy costs helped.
 - 2. So did growth in exports, especially capital goods and agricultural commodities.
- E. But we weren't just lucky. We helped ourselves.
 - 1. A critical factor in the Midwest's success was its willingness to re-invent itself.
 - 2. Midwest businesses reduced costs, created new product lines, and made remarkable productivity enhancements.
 - 3. Government leaders such as John Engler and members of the state legislature put in place prudent fiscal policies and innovative reforms in such areas as school financing and welfare-to-work.
 - 4. They cut taxes, removed regulatory burdens, and checked the growth of state and local spending.
- F. The source of our recovery was our old mainstays—basic manufacturing and agriculture.
 - 1. These economic sectors led us down into the valley—and they're leading us up the hill.
 - 2. We haven't changed what we're doing. But we've changed how we're doing it.
 - 3. We're operating much more efficiently—at a world class standard.
- G. Today, the Midwest is still heavily dependent on manufacturing.
 - 1. The Midwest's share of earnings derived from manufacturing industries was 27 percent in 1996, compared to the national average of 18 percent.
 - 2. In Michigan, it's the highest in the nation, with one third of total earnings derived from manufacturing.
 - 3. Since the recession year of 1991, Michigan's manufacturing payroll has increased 9.2 percent—much faster than the national average of 1.7 percent.
 - 4. Michigan's manufacturing has done very well, while the nation as a whole has barely managed to recover the jobs lost in the recession.
- H. But before we celebrate our success, you should know that the Midwest's job growth has faltered since 1993.
 - 1. Beginning in 1987, employment growth in the Midwest outpaced the nation for six years, largely due to our rejuvenated manufacturing sector.
 - 2. In 1994, national job growth caught up to the Midwest's.

3. In 1996 and 1997, annual job growth in the Midwest was below the nation. Annual job growth for the nation was 2.3 percent, compared to 1.7 percent in the Midwest and 2.0 percent in Michigan.
- I. Why has the Midwest's job growth lagged the nation? Is it because of deteriorating economic conditions? Or a limited supply of workers?
 1. Chicago Fed economists recently looked at this question and found that demand for workers remains strong, but that available supplies are becoming limited.
 2. In short, we found there's a gap between the number of workers the region's employers want to hire and the number they will, in all probability, be able to hire.
 3. In other words, our region may be running out of workers. And it appears that the shortage of workers has affected our job growth.
 - J. Now, that's surely a challenge that Governor Engler would be prepared to swap for the double-digit unemployment challenges of the last decade. Nonetheless, it's a challenge that must be met if we are to continue to grow and prosper.
 - K. So, what is the key to maintaining the momentum in the Midwest revival and ensuring strong economic growth in the years to come?
 1. Well, we found a number of keys.
 2. But, essentially it's productivity and work skills that will be critical for our future success.
 - L. We found that workers must get the education and training they need to keep their skills current so that they can continue to be highly productive.
 1. That's what will distinguish the Midwest from other regions of the US.
 2. As you know, industries increasingly require computational and computer skills that weren't necessary or didn't even exist 20 years ago.
 3. This puts a premium on developing education and training models that prepare individuals to be life-long learners.
 - M. High-quality education is essential, and the Midwest has been an incubator for reform efforts.
 1. From standards and accountability...to charter schools and school choice, our region has led the way for other states seeking new paths to excellence in education.
 2. These reforms are beginning to pay dividends that will stretch well in to the future.
 3. Just last month, Michigan's schoolchildren posted the highest levels ever recorded on the Michigan Education Assessment Program (MEAP) reading and mathematics tests.

4. It's through educational improvements like these that the Midwest can retain its competitive edge in the years to come.

N. Workforce training is another key issue.

1. We need programs that reflect the new realities of the labor market.
2. Work place training has to match more closely the needs of employers.
3. Workers need to have certifiable skills that can be transferred from one employer to another.
4. Again, the Midwest has led the way, with the Council of Great Lakes Governors establishing a partnership to certify skills and credentials for workers in the metalworking industries.

VI. Conclusion

A. To sum it up, let me say that there's reason to be optimistic about the Midwest economy.

1. We've been hit especially hard by recessions in the past.
2. We shouldn't be too surprised since the Midwest specializes in manufacturing.
3. And manufacturing tends to be sensitive to downturns in the economy.

B. Perhaps we've broken that pattern. As I said, we haven't changed *what* we do. But we have changed *how* we do it.

1. We're more productive – a very effective competitor in the global marketplace.
2. Today, we're better positioned to withstand downturns in the economy.

C. So a look back indicates that we can influence our fate – we can affect our destiny. We have a window of opportunity that we can use to maintain our economic momentum.

D. Our study is a starting point for identifying the critical issues facing the Midwest and Michigan.

E. It's more a point of departure than the final word on the subject. But I believe it will be an essential first step in allowing us to build on our past successes.

F. With that, I will turn the podium over to William Testa, Vice President of the Federal Reserve Bank of Chicago. Bill will give us more on the study's findings for Michigan.

G. Thank you again for joining us today, and we would welcome any questions you may have after Bill's presentation. Bill.