Michigan's Worsening Eight-Year Depression:
Paying the Price for -$1 Trillion in US Auto-Trade Losses

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Michigan has experienced the ups and down of business cycles throughout its history. But it may never before have experienced such a long depression of economic activity as it is suffering today. And with the US economy now in or near recession and facing the worst debt crises since the early 1930s, Michigan's long depression seems likely to continue and to worsen -- perhaps severely -- unless there are urgent and strong changes in economic and trade policies.

Michigan lost -489,900 jobs from July 2000 to July 2008. This -10.6% job loss is more than three times worse than the state's only other 8-year period of recorded job losses during the oil-shock-induced "rust belt" crisis from 1974-1982.

There are no data for state jobs during the period of the Great Depression. Certainly the chaotic -24.6% US job loss from 1929 to 1932 was vastly more severe than losses in any subsequent three year period. But strong New Deal policy changes restored jobs over the next five years to within -1% of 1929 levels. That is, eight years after the start of the Great Depression, US job totals in 1937 were -1% below pre-depression peak levels.[1]

From July 2000 to July 2008, total US jobs increased by only 4.1%, the weakest 8-year period of job growth since 1930-1938. The loss of -3.8 million manufacturing jobs, -21.9%, is the worst on record.

Similarly, US GDP plunged by -26.5% from 1929 to 1933 but fully rebounded after seven years, in 1936, and never again fell below pre-depression levels. Michigan's recent GDP never plunged precipitously but neither has it recovered, falling -1.9 over the seven years from 2000 to 2007 and almost certainly declining further in 2008.

From 2000-Q2 to 2008-Q2, total US GDP grew by only 18.8%; the weakest 8-year period of economic growth since World War II demobilization from 1945 to 1953 when growth was just 16.4%.

And yet, expanded debt stimulus and dis-savings over the past eight years are unprecedented. Total federal debt soared by $4 Trillion (from $5.7 to $9.7 Trillion) while household debt, including mortgages, rocketed by another $7.2 Trillion (from $7.4 to $14.6 Trillion.) This $11.2 Trillion in new debt stimulated just $4.4 Trillion in nominal GDP growth and just 5.1 million in new US jobs -- $2.2 million per job. Ratios of federal and household debt to GDP, to disposable incomes, net worth and every other financial indicator, have soared to far above any past levels even during World War II.

Along with record debt levels, total US household savings from current after-tax income has virtually disappeared. The total savings rate over the past eight years is just 1.3%; less than half the 2.9% average rate from 1929 to 1937. Over the past four years, the average savings rate is just 0.5%, about one-third of the 1.4% average rate even during the worst four years of the Great Depression.

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[1] Early job and employment data are available in US Department of Commerce, Bureau of the Census, Historical Statistics of the United States; Colonial Times to 1970, (Washington, DC: GPO, 1975) Volume I, Series D-127, page 137 and D-5, page 126.

Global commercial pressures are key factors in Michigan's depression and for the soaring debt and weak growth throughout the US. Past surpluses in production and trade were lost to anti-regulatory ideology in 1982 with large production shortages, trade deficits and net foreign borrowing ever since.

Although US GDP growth has been slower than world growth in each of the past eight years, over this time the US accumulated production shortages/current account deficits totaling -$4.4 Trillion, including (non oil) manufacturing deficits of -$3.5 Trillion. Of importance to Michigan, over the past eight years US production shortages/trade deficits in the vehicles and parts sector exceed -$1 Trillion.

Remarkably naive or cynical claims of well-promoted "experts" have been used to ignore the actual experience and to promote deregulation of global commerce and investments. As a result, the US now imports half again as many autos from Mexico (1,009,300 in 2007) as the US exports to the entire world (673,100 in 2007,) including to Mexico. Record US production losses and trade deficits to China have tripled over the past eight years, totaling over -$1.4 Trillion and eliminating two million jobs, one million in the last eight years. US net imports from China are concentrated in electronics, machinery and advanced technology products, with auto sector imports now accelerating very rapidly.

Michigan has lost -$8.6 billion of annual production and -65,500 jobs to net imports from China. Over the past eight years, Michigan lost -315,200 of its manufacturing jobs, an unprecedented -35.5% loss.

Average annual compensation per job in Michigan is -33.4% less than for manufacturing jobs and that gap is widening with the downgrading of the state's job structure. That is, although most business sectors are losing jobs in Michigan, the overwhelming majority of new jobs pay far less than manufacturing and most new jobs pay less even than the state's overall average.

Most new jobs are in private health care and education bureaucracies, debt collection agencies, and in bars and restaurants where the average compensation is far less than the state's average. The only industry segments adding jobs with higher average compensation than in manufacturing have been in the financial sector for stock brokers and fund managers where job growth was limited even before the most recent financial downturn.

As a result of the downgrading job structure, Michigan's per-capita income has fallen from its historic status at-or-above the national average to a record low now of only 93% of the US average income.

All of Michigan's metropolitan areas have fewer jobs today than they had eight years ago. The worst job losses are in Detroit-Livonia (-16.6%,) Flint, Jackson and Saginaw. The worst manufacturing job losses are in Flint (-54.6%!) Ann Arbor, Saginaw and Detroit-Livonia. As throughout the US, every manufacturing industry and almost every other industry facing imports or outsourcing is losing jobs.

Michigan's worsening eight-year depression, the weakest overall US economy in 55 years, and the unprecedented mountain of unsustainable debt accumulated in recent years demand forceful and immediate measures on the scale of those undertaken in 1933. Continued failure of political leaders to address these urgent matters with appropriate industry and trade policy actions could have lasting consequences for Michigan, for the US and for the world economy.

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