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Michigan's Fate Hangs on a Big Three Bailout

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Michigan's economic fate -- troubled before its home-grown auto industry sought a Congressional bailout -- could turn bleak with a bankruptcy by [Ford Motor Co.](#), [Chrysler LLC](#) or [General Motors Corp.](#)

With an unemployment rate of 9.3%, Michigan is tied with Rhode Island for the country's worst jobs picture. The state already has been hit by home foreclosures, is losing population and its one thriving sector -- health-care employment -- is slowing.

"Michigan has been in a seven-straight year recession," says Patrick Anderson, chief executive of Anderson Economic Group, an East Lansing, Mich., consulting firm.

The Big Three are Michigan's largest employers, with production workers as well as engineers, designers and managers on the payroll. In addition, many companies statewide rely on the Big Three for a good portion of their business.

In 50 of the nation's metropolitan areas, 1% or more of all jobs are in auto manufacturing or parts, according to a report by Howard Wial, a Brookings Institution economist who does research on urban and regional issues. Through business related to the auto industry, such as dealerships and professional services, that 1% translates into an effect of 3% on the area's overall jobs.

"The loss of the Detroit Three companies would have a large impact on employment in auto and auto parts manufacturing nationwide," Mr. Wial wrote.

The specter of bankruptcy underscores a vulnerability in Michigan's economy: its over-reliance on the manufacturing industry. Manufacturing jobs have been in decline for decades; Michigan's fortunes have followed, picking up the pace during the recession.

The state has about 4.2 million nonfarm jobs. Roughly 600,000 of those involve manufacturing, such as making appliances, medical devices, tools or vehicles. Manufacturing jobs in Michigan often pay above-average wages, often with retirement and health benefits that are surpassed by few sectors except

government.

The state has lost 331,000 manufacturing jobs since 2000, but gained 70,000 jobs in health care over the same period, according to Moody's Economy.com. Health care now accounts for 11% of the state's jobs, compared with about 14% in manufacturing.

As of the summer, Michigan's tally of vehicle-manufacturing jobs stood at 200,000. The average weekly wage for an auto-production worker in the state is \$1,200, or more than \$60,000 a year, according to Mr. Anderson. These jobs -- which don't require a college education -- pay far more than the national median income for a college-educated worker. If a bankruptcy filing forced many auto workers to seek new positions, they would be unlikely to find ones with comparable benefits and pay.

The fallout from a bankruptcy by one or all of the Big Three could hamstring Michigan's economy for decades. Bankruptcy might dissuade potential buyers from choosing Ford, Chrysler or GM vehicles, and the ripple effects among parts suppliers could temporarily halt all U.S. auto production. Foreign car makers likely would step in to meet demand, possibly affecting consumer preferences for years.

New York University economist Thomas Philippon says the argument that if GM went into bankruptcy it would kill sales misses the point that sales have already been killed by the anticipation of bankruptcy. "That's happened already," he said. "It's past, let bygones be bygones."

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