

# A high road region?

Joel Rogers, UW-Madison and CSI

*Presented to Midwest (Great Lakes) Economic Development Summit  
Columbus, OH, 0/17/08*

**NOTE: This presentation is a joint effort with Dan Luria (MMTC) and Scott Bernstein (CNT). Steal freely. Try to attribute. Bother any of us for sources.**

***Two ways to compete: high road and low road. One's good for workers and the other's not. One's sustainable and the other's not. One's socially accountable and the other's not. Both are profitable.***

# High-road vs. low-road firms

## *Low Road*

Competition based on price,  
resulting in ...

- Economic insecurity
- Rising inequality
- Poisonous labor relations
- Little firm commitment to place
- Environmental damage

## *High Road*

Competition based on value (distinctive  
performance), requiring ...

- Continuous improvement/invention
- Better trained and equipped workers
- More varied and abundant public goods

and producing ...

- Higher worker incomes & profits
- Reduced environmental damage
- Greater firm commitment to place



# Some dashboard metrics

- Value-Added / FTE > average for its industry
- Avg. Hourly Wage  $\geq 3 * \text{Federal Minimum Wage}$
- Hourly Worker Payroll + Benefits  $\geq 0.5 * \text{Value-Added}$
- Healthcare Coverage for  $\geq 85\%$  of Hourly Workers
- Employer Healthcare Premium  $\geq \$5,000 / \text{Covered Worker}$
- Employees Using Computers  $\geq 67\%$  of Employees
- Employee Turnover Rate < 20%

**So what's the basic program?**

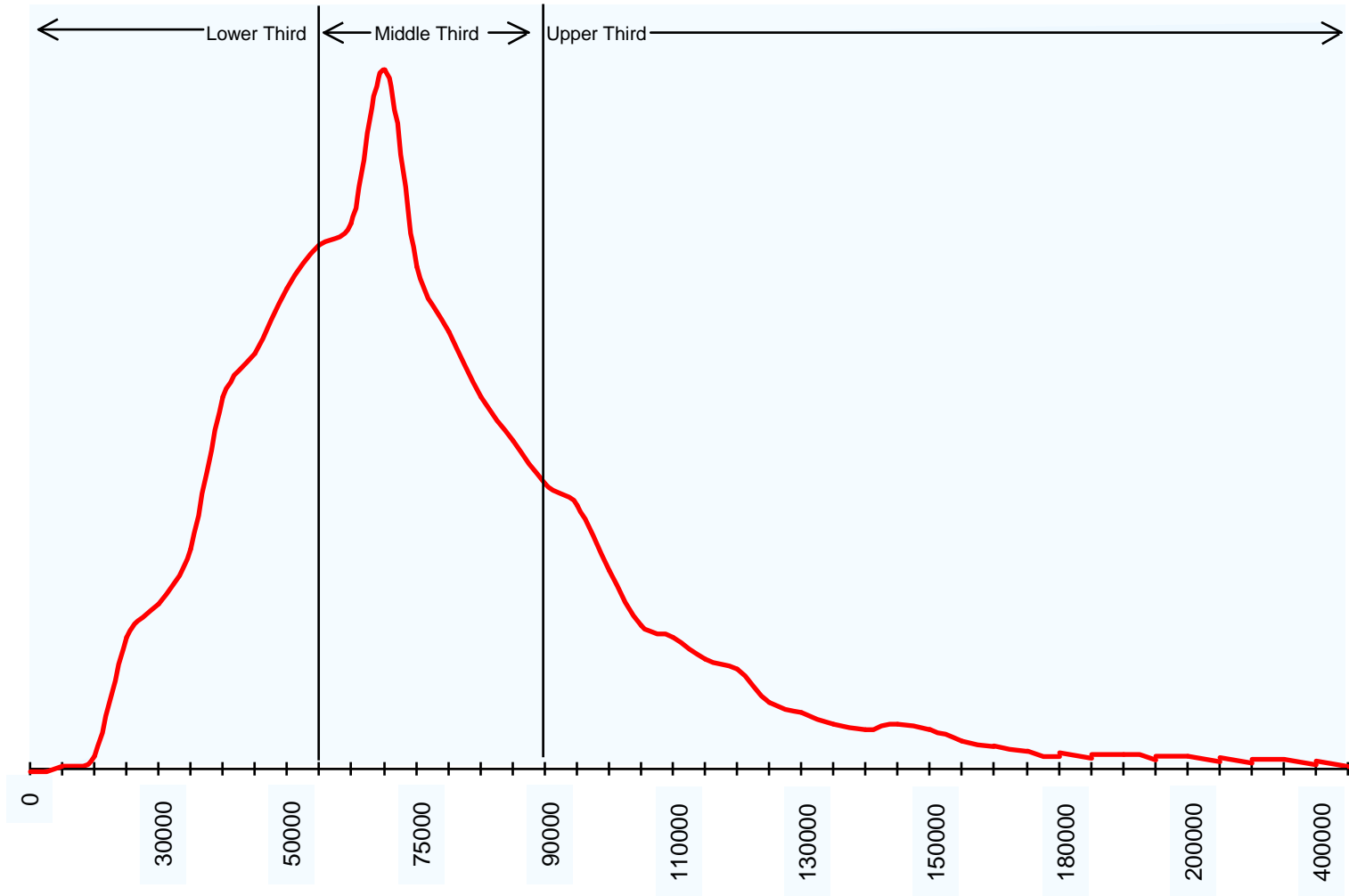
***Close off the low road,  
help pave the high road,  
help workers and firms  
stuck on the first to roll  
along the second.***



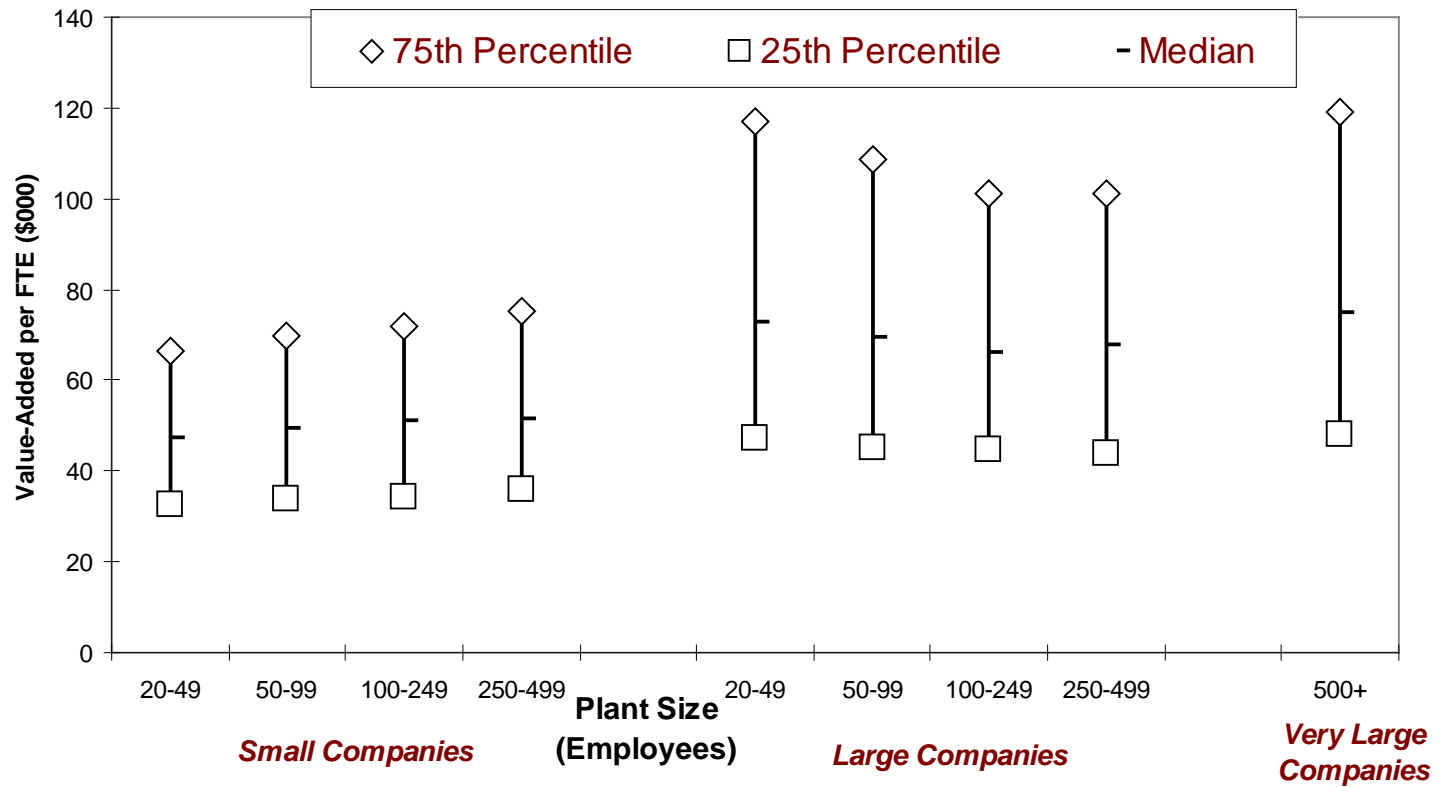
# Grounds for hope

1. Possible to increase firm productivity dramatically, raising wages and promoting investment here
2. Huge amount of wasteful consumption can be eliminated, increasing disposable income
3. National economy largely regional, and regions can be organized to provide the place-specific appropriate institutions and environments.
4. Doing (1) & (2) in (3) will increase competitiveness while grounding sources of value in the economy, which enables bargaining with capital on sharing benefits.

# Wide variation in productivity



# Size doesn't determine value-added



## TYPICAL HOUSEHOLD BUDGET IN 28 METROPOLITAN AREAS

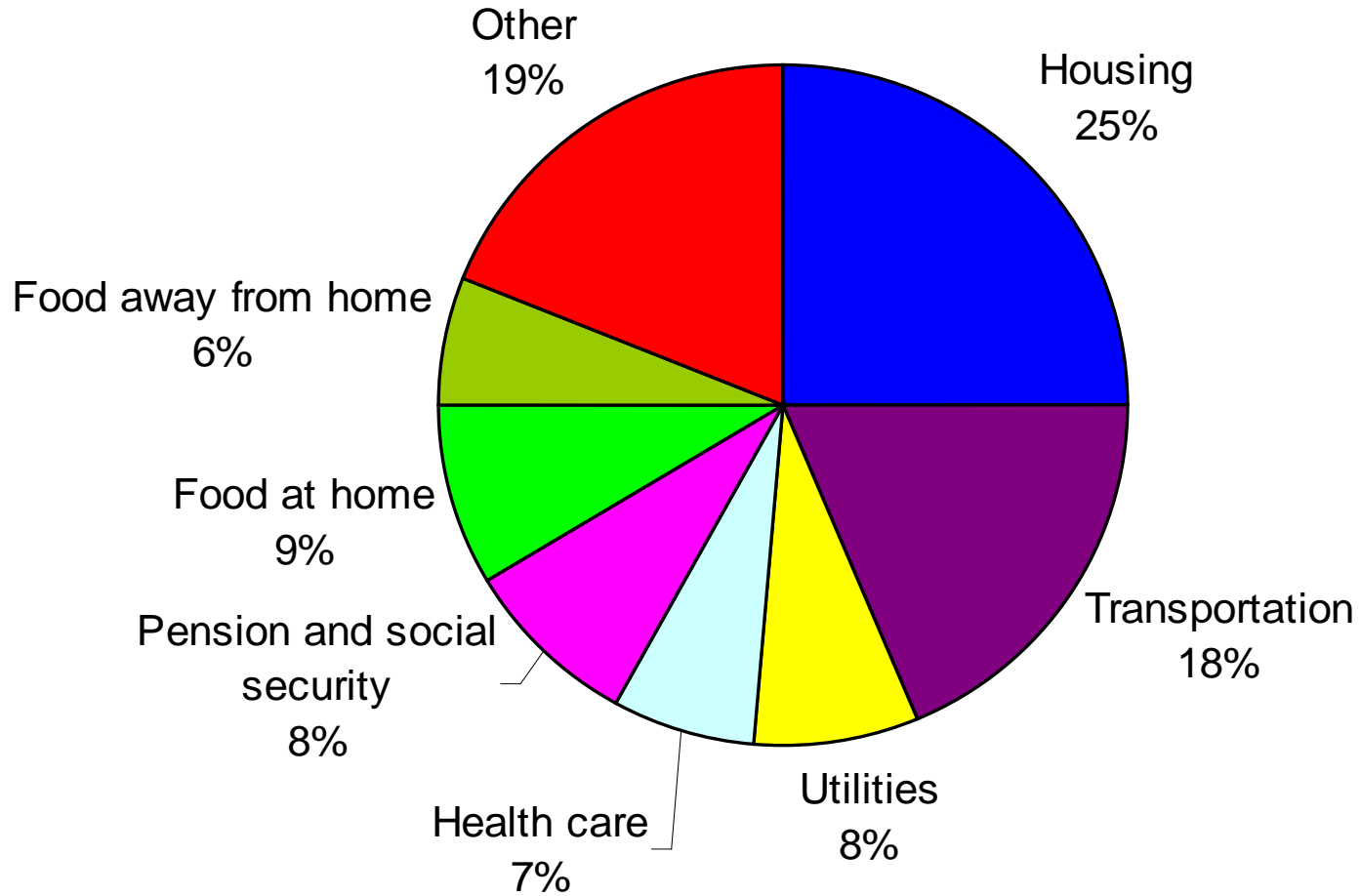
*(Expenses as a share of income)*

	All Households	Working Families Incomes \$20,000 – \$50,000
Housing	27.4%	27.7%
Transportation	20.2%	29.6%
Food	10.6%	15.1%
Healthcare	4.7%	7.7%

Note: Housing costs include mortgage payments, operating costs and utilities for homeowners and contract rent and utilities for renters; transportation costs include the cost of owning and operating a vehicle and the cost of public transit.

Source: Figures derived by the Center for Neighborhood Technology (CNT) and the Center for Housing Policy from the 2000 Census of the U.S. Census Bureau and the 2002 and 2004 Consumer Expenditure Surveys of the Bureau of Labor Statistics.

# Working class consumption



# Two ways of saying the same thing

A “**high road**” region is one that competes by systematically adding value and reducing waste and that uses an organized democratic public to do so in ways that are sustainable and promote shared prosperity.

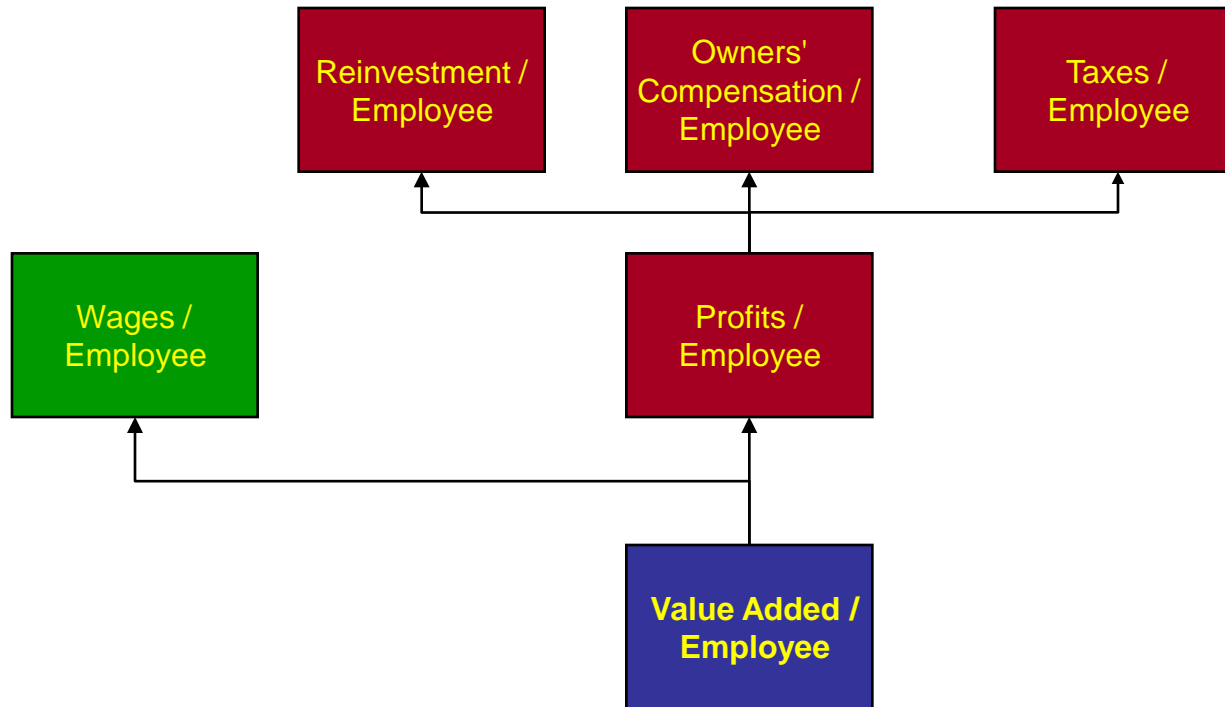
Or

A “**high road**” region is one that is dominated by high-roading firms, with public support of those firms over low-roaders, and of working families and the environment.

**If the high road's so great, why aren't  
more firms on it?**

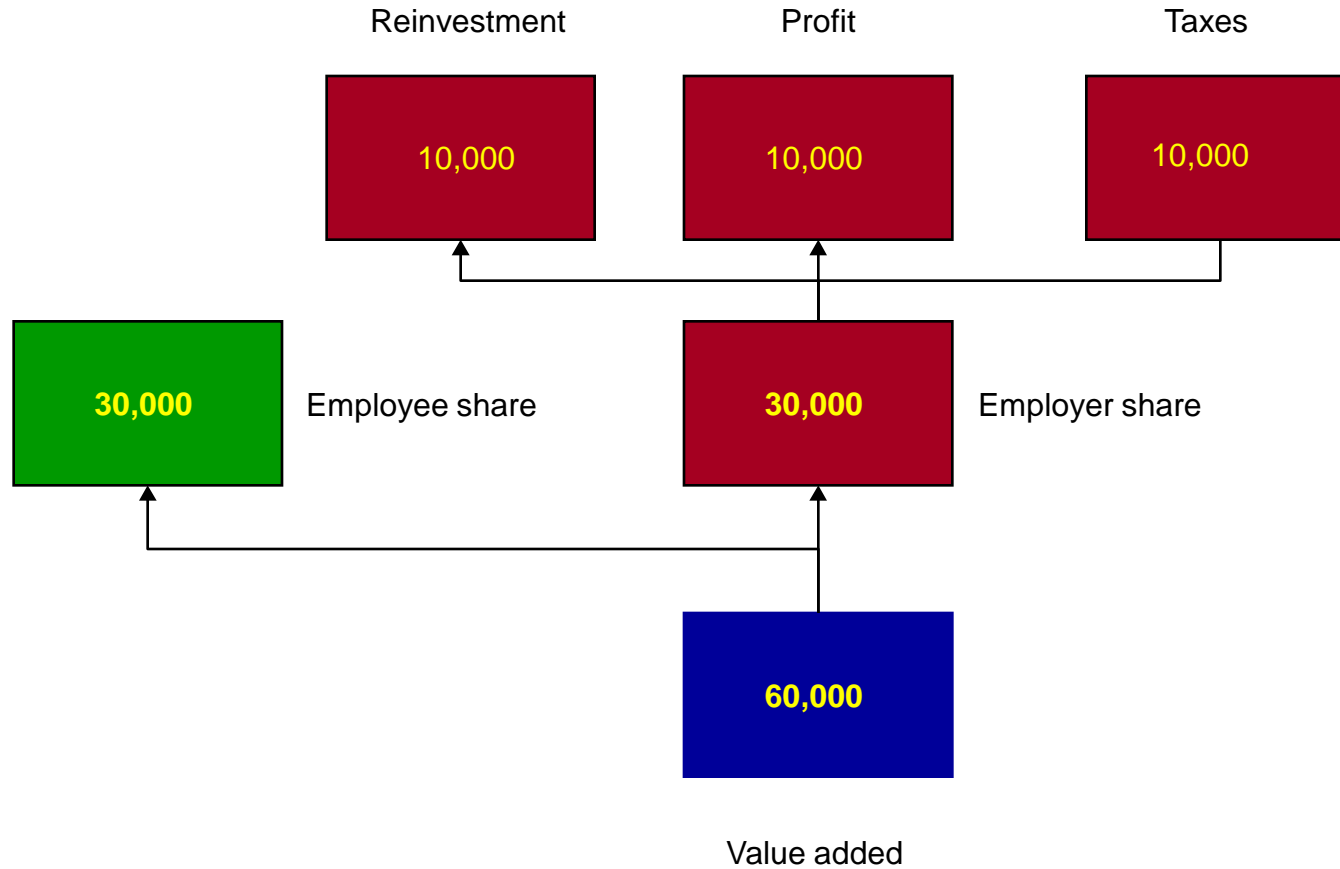
# The basic economics of the firm

*Value added/employee drives wages, owner return, and reinvestment*

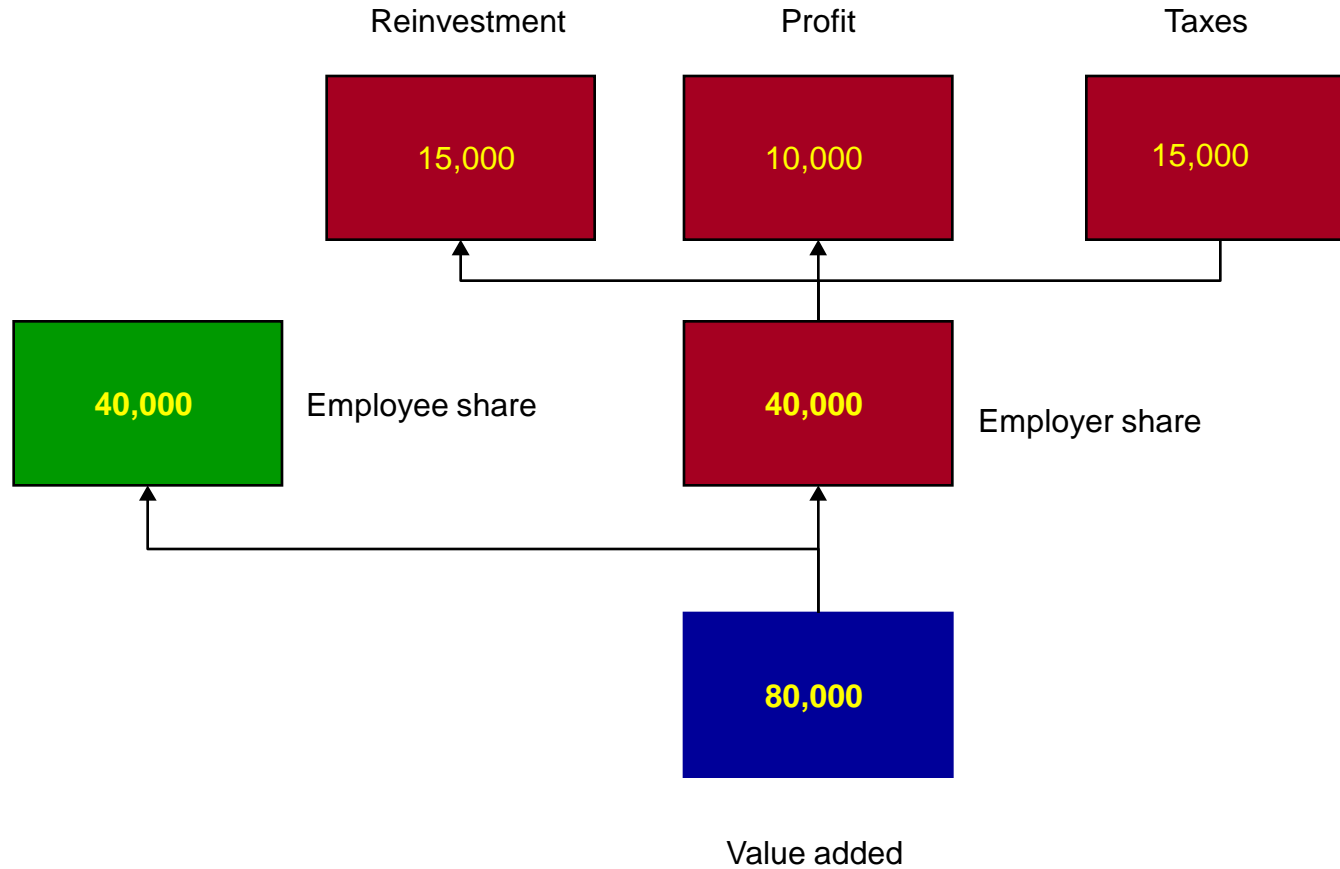


**Because at current levels of productivity and adoption, it's often harder and not more profitable**

# A stylized low-road firm

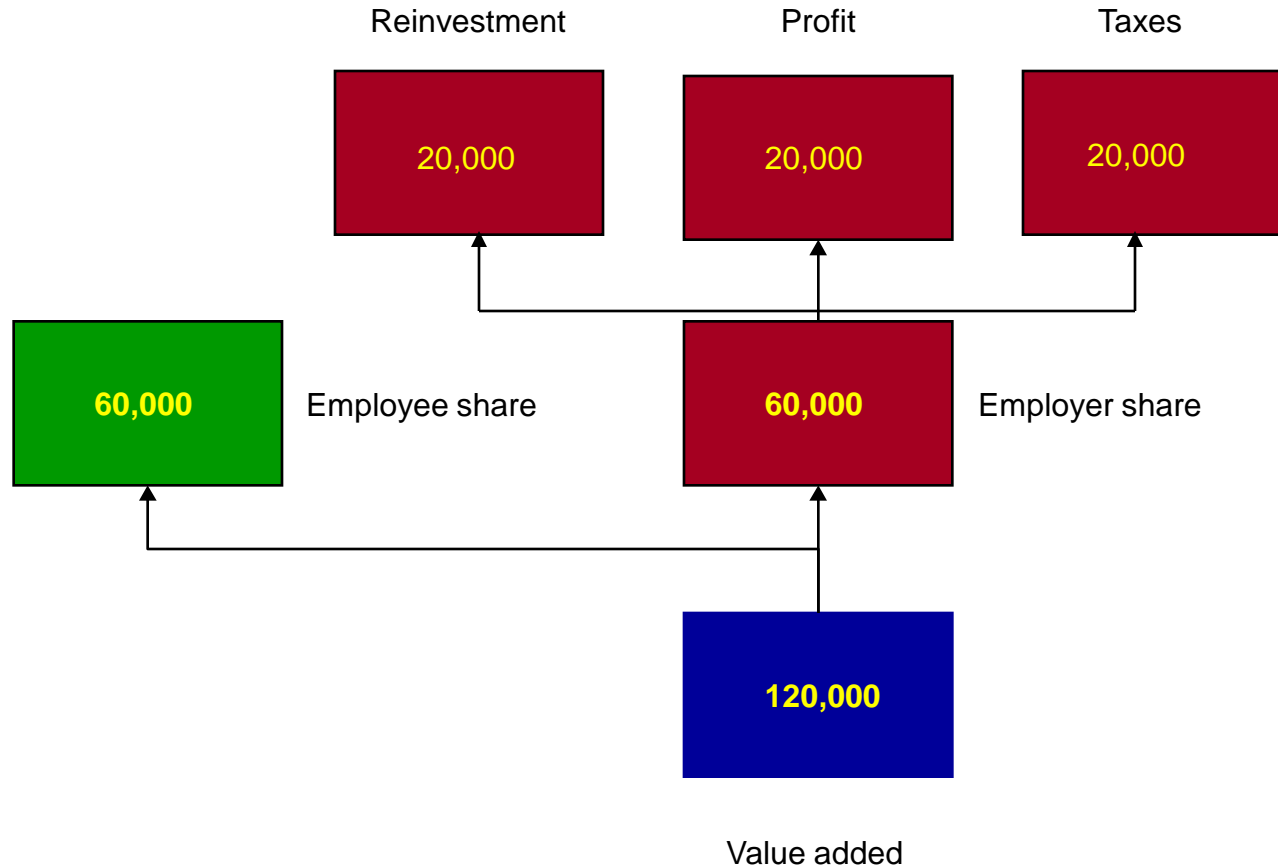


# A stylized union firm



# A stylized high-road firm

*Where you want to be*



# Basic recipe on productive regions

***Specialize in something:*** Do more of something than other regions, and do it better and with a richer mix.

***At scale:*** Do enough of it to create demand for the public goods that support continued success in the specialization.

***Supply yourself:*** Capture the value of specializing within the region by not needing to import many inputs.

***Capture gains from density:*** Cluster the specialized activities and supporting public goods for efficiency and agglomeration effects (shared labor pool, services, innovation networks, etc).

***Discriminate:*** Actively and transparently favor firms that provide good jobs, purchase within the region, and help enrich the activity mix in the specialization

# Manufacturing

- Get clear, get lean, get busy
- Map the region thoroughly for supply chains, value flows, emerging new sectors
- Make applied university research available to HR or HR-aspiring firms
- Apply common discrimination/scoring matrix to firms for all firms getting state contracts, subsidies, etc.
- Give HR firms favored regulatory treatment
- Launch a multi-state clean tech auto initiative and deepen transplant portfolio
- Launch a multi-state equipment initiative to increase local self-supply

# Transportation

- Change basic criteria of system and project approval from speed of throughput to wealth (increase in local real estate or other value) or even health (reduction in carbon or other emissions); use life-cycle accounting to judge whether, on these criteria, existing major assets should be continued, upgraded, or replaced
- Adopt policies and build internal capacity for this and for alliances with cities, metros, the private sector, and labor. Make the region a TOD-favoring one, and mobilize attention to that.
- Upgrade commitments in multi-state compacts to accelerate inter-city passenger and cargo capacity, screen for transportation capacity, efficiency, and economic value capture.
- Do bulk-purchase system for vehicles, rails, electronics, electrical distribution systems; harmonized regulations to standardize what's being ordered and to guarantee inter-operability for interstate operations.
- Coordinate multi-state on Congressional ask; coordinate within state with housing, energy, workforce policies

# Energy

- Serious effort on efficiency, starting in public buildings and industry CHP
- Facilitate private action through revolving loan funds and regulatory reform
- Serious effort in transportation and TOD (see transportation), starting with criteria and project review
- Serious effort in renewables, starting with wind, PV; grow the supply chain, not just the particular project
- Upgrade appliance efficiency standards, construction and building codes; build markets while reducing costs through mass joint purchases
- Throughout: job standards, encouragement of in-region production, harmonization of production and other standards, favored treatment for the efficient

# Revenue and subsidies

- Capitalize future gains from TOD
- Get immediate gains from lower VMT and greater energy efficiency
- Doing “value purchasing” in all state contracts, and joint purchasing with other states in region
- Always incent within-region purchasing
- Get transparency and standards on subsidies; develop a regional strategy on attraction and retention, not just a state one
- Modernize state taxes to widen base (getting services as well as manufacturing), capture multi-state firm revenue (combined reporting)
- Align tax system goals with high road goals: tax waste not work, scofflaws not good corporate citizens
- Encourage and diversify local ownership
- Establish state or regional capital pools (diversifying with inter-state or regional compacts); insist on state payback from public pensions

# Using the universities

Don't just think of them first or only as high-tech centers for breakthrough product development, but as sources of varied expertise for use in implementing strategy. E.g.:

- Business consulting (engineering and management) for challenged firms
- Applied research on area industry needs
- Information on emerging industry challenges
- Management training for government personnel
- On-hand expertise for state government loaned for particular projects and initiatives (government fellows)
- Producers of your future workforce, aligned with regional industry demand

# Government reform

- Make decisions evidence-based
- Insist on performance management
- Share results and benchmark
- Align sectoral work with career ladder work
- Leverage money, don't just spend it (act like an investment banker, not a social service provider)
- Take internal capacity problems seriously, invest in meeting them, seek economies of scale and scope in doing so (e.g., shared recruitment and training of HR coordinators)
- Use your universities better in above (see universities)