

MMTC White Paper
Loosening Legacies:
An Agenda for Regional Renewal

In the age of NAFTA, GATT, WTO, and corporate PAC giving, “free trade” is more or less a bipartisan fact of life. Resulting job losses and pressures on US-based manufacturers to move work and sourcing offshore are highly uneven in their impact. The first wave of impacts from increased openness to trade (1979-85) was heavily northeast- and north-central-centric, and particularly hard on large urban areas. The second wave (1989-94) was equally hard on urban and rural factories and less regionally focused.

The current wave (2001-date) is different: there is broad national manufacturing job loss from sharply increased imports of both consumer and capital goods in China and elsewhere in Asia, but also more significant losses caused by market share gains by foreign-based manufacturers producing in North America but with much lower US content in their products.

Manufacturing Employment

	US	US, Union	US, Non-Union	17 NEMW Cities	US, Elsewhere	IL-IN-MI-OH-WI	US, Elsewhere	US, Elsewhere, excl Textile/Apparel
1978	19.3	6.6	12.7	3.9	15.4	4.5	14.8	12.9
1980	18.8	6.1	12.7	3.0	15.8	3.8	15.0	13.3
1988	17.9	4.5	13.4	2.6	15.3	4.0	13.9	12.4
1990	17.1	4.0	13.1	2.3	14.8	3.9	13.2	11.8
1997	17.4	3.9	13.5	2.4	15.0	4.0	13.4	12.3
mid-2006	14.3	3.1	11.2	1.9	12.4	3.1	11.2	10.7
chg, 78-97	-9.8%	-40.9%	6.3%	-38.5%	-2.6%	-11.1%	-9.5%	-4.7%
chg, 78-06	-25.9%	-53.0%	-11.8%	-51.3%	-19.5%	-31.1%	-24.3%	-16.7%

Traditional US-based manufacturers – including the largest suppliers to icons GM, Ford, Caterpillar, and the large machine-tool builders – have responded with increased offshoring and the use of bankruptcy to escape legacy retiree healthcare and pension liabilities.

2001-2005 research by Luria, Vidal, Rogers et. al. for the Alfred P. Sloan Foundation used location quotient, trade, and input-output analyses to document the existence of a Great Lakes region composed of Wisconsin, Illinois, Michigan, Indiana, and Ohio, plus metropolitan St. Louis, Louisville, and Buffalo, plus 20 Iowa counties abutting western Illinois. This region shares a high dependency on two sectors – auto parts and “equipment” (construction and farm, plus machine tools), but a declining export position and fast-shrinking self-supply in those sectors. The latter is also accelerating the erosion of what had long been viewed as an advantage of agglomeration: an unparalleled pool of skilled workers and engineers in competing-but-cooperating firms serving large, stable customers with most of their facilities within the region.

This 27-year trek from agglomerated, stable oligopoly to globalization-enabled hyper-competition is thus in significant part about two legacies: a loosening legacy of agglomeration and skill, and a tightening legacy of fixed costs for large firms required to provide employee and

retiree benefits that nearly all other countries provide universally. If this analysis is correct, a region such as the Great Lakes has only two ways forward:

1. “Wait it out” and let another decade of job cuts and bankruptcies discipline the working and middle classes to accept sharply lower living standards, and count on those lowered expectation to rescue existing employers or attract new ones
2. Find a way to loosen the noose of legacy costs and re-tighten the legacy of skill and regional inter-firm cooperation¹, while improving the performance of the region’s companies and the efficiency with which private and public services are performed

In this program, we will lay bare the economics of the region’s legacies. This will include acquiring and analyzing time series data on shipments and employment by sector, on healthcare and pension costs in both manufacturing and government, and on occupational structure by skill levels. These data will be compared to similar data for the dominant competitor region to the southeast, which is moving toward critical mass in the Great Lakes region’s core industries but without the agglomeration/skill and private welfare legacies.

These data will support analysis of the relative viability of the two paths and their several variants. At least as important, they should make it possible to determine and describe the private and public policy requirements of the second path:

- How can the legacy cost noose be loosened? From an economic, legal, and governance standpoint, what would be required to create large, efficiently run benefit pools to replace and/or supplement private pools? To what extent are such pools viable at the single-state versus multi-state region basis? What are the legal obstacles to establishing such pools, mandating participation in them, and funding them?
- How can the agglomeration-driven legacy of product and process expertise be updated and leveraged to competitive advantage? To what extent are these “skill pools” broadly regional, as opposed to tied to particular sector mixes (e.g., auto in Michigan and northern Ohio, construction machinery in Wisconsin, Illinois, and eastern Iowa)? To what extent are they a region-wide resource, rather than tied to particular sub-regions or metropolitan areas? Are the skills the right ones for the industries and processes of 2007 ... and 2020? What would a coherent, efficient program of skill-legacy repair look like?

The second path, if it has any legs at all, also assumes that the economy of the Great Lakes region can be stabilized enough to induce important economic actors to recommit to the region or, at the very least, to slow the rate at which they disinvest from it. Satisfying this requirement may require important experiments in governance and public finance: surely public sector help in relieving punishing legacy costs justifies requiring of those whose costs are reduced to pledge, in return, to purchase more of the content of their products within the region. Stabilized or increased in-region purchasing, in turn, provides the most promising context for training and credentialing a new generation of skilled workers and engineers. This path also requires attention to limiting the cost, while improving the performance, of the service and government sectors.

¹ Many planners, influenced by the pop-regional writings of Richard Florida, have suggested a third path that is silent on both legacy costs and legacy advantages. Instead, it argues, regions win by being attractive to young new-economy professionals. We don’t see this as a path, merely as a recommended feature for regions following either of the two paths we describe.