Lecture 10
Monday, October 9
High Road Capitalism
Figure 1. Health Expenditures in the United States and Canada as Percent of Gross National Product

1971: Enactment of Canadian National Health Insurance
Figure 2. Costs of Health Insurance and Administration as Percent of Gross National Product
Main Features of the Canadian Health Care System

- Universal = for all citizens
- Comprehensive = covers all necessary medical services
- Portable = recognized in other provinces
- Accessible = no special limits, no special charges
- Publicly administered = no private insurance: A doctor who receives any private fees is barred from receiving any government fees.
AVERAGE WEEKLY EARNINGS
(IN 1982 dollars, adjusted for inflation)
Patterns of Job Growth in the US, 1960s versus 1990s
Patterns of Job Growth in the 1960s and 1990s in Durable and Nondurable Manufacturing
What should be done?

Close off the low road, pave the high road, and help firms and workers move from the first to the second.
## High Road versus Low Road Capitalism

<table>
<thead>
<tr>
<th></th>
<th>“Low Road”</th>
<th>“High Road”</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basis of firm competition</strong></td>
<td>Primarily price</td>
<td>Primarily quality</td>
</tr>
<tr>
<td><strong>Nature of product market</strong></td>
<td>Mass goods, homogeneous products</td>
<td>Specialized/customized goods</td>
</tr>
<tr>
<td><strong>Typical jobs</strong></td>
<td>very specialized</td>
<td>multitask</td>
</tr>
<tr>
<td><strong>skills</strong></td>
<td>low skill: “trained gorilla”</td>
<td>high skill</td>
</tr>
<tr>
<td><strong>training</strong></td>
<td>job specific &amp; concrete skills</td>
<td>meta skills transferable across jobs</td>
</tr>
<tr>
<td><strong>Training process</strong></td>
<td>short job training provided by employers</td>
<td>life-time training and retraining provided by employers and public institutions</td>
</tr>
<tr>
<td><strong>Job autonomy</strong></td>
<td>Low</td>
<td>high</td>
</tr>
<tr>
<td><strong>hierarchy</strong></td>
<td>rigid differentiation of managers and workers with many managerial layers</td>
<td>low differentiation of managers and workers with few layers</td>
</tr>
<tr>
<td><strong>wages</strong></td>
<td>relatively low wages</td>
<td>relative high wages</td>
</tr>
</tbody>
</table>
The Relation of skill levels of workers to profits of firms

Profits

Low

High

Skill Level of Workers in a firm
Two ways to increase profits

- Deskilling
- Skill enhancement

Profits vs. Skill Level of Workers in a firm
THE TRANSITION THROUGH TRAP

Time

Low Road

Transition trough from low road to high road

Ability to compete in international competition

High road
The Training Deficit Trap: a free riding problem (from lecture 4 & 5)

<table>
<thead>
<tr>
<th>All other firms provide training</th>
<th>You provide training</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>YES</td>
</tr>
<tr>
<td>YES</td>
<td>$20,000</td>
</tr>
<tr>
<td>NO</td>
<td>-$10,000</td>
</tr>
</tbody>
</table>

Training costs = $10,000
Extra Gross Profits with trained workers = $30,000
Net extra profits if you provide training and keep workers = $20,000
Net extra profits if you provide training and workers leave = -$10,000
The anti-union trap: The relationship of union strength to competitiveness of firms

Strength of worker organization and participation

Competitiveness

Low

High
The anti-union trap: The relationship of union strength to competitiveness of firms

The USA today

Strength of worker organization and participation

Competitiveness

Low High

continuing the low road

Moving toward the high road

The anti-union trap: The relationship of union strength to competitiveness of firms

The USA today