



The Western Productivity Advantage

**Why Does California and the West Produce
More Per Worker Than the Rest of the U.S.?**

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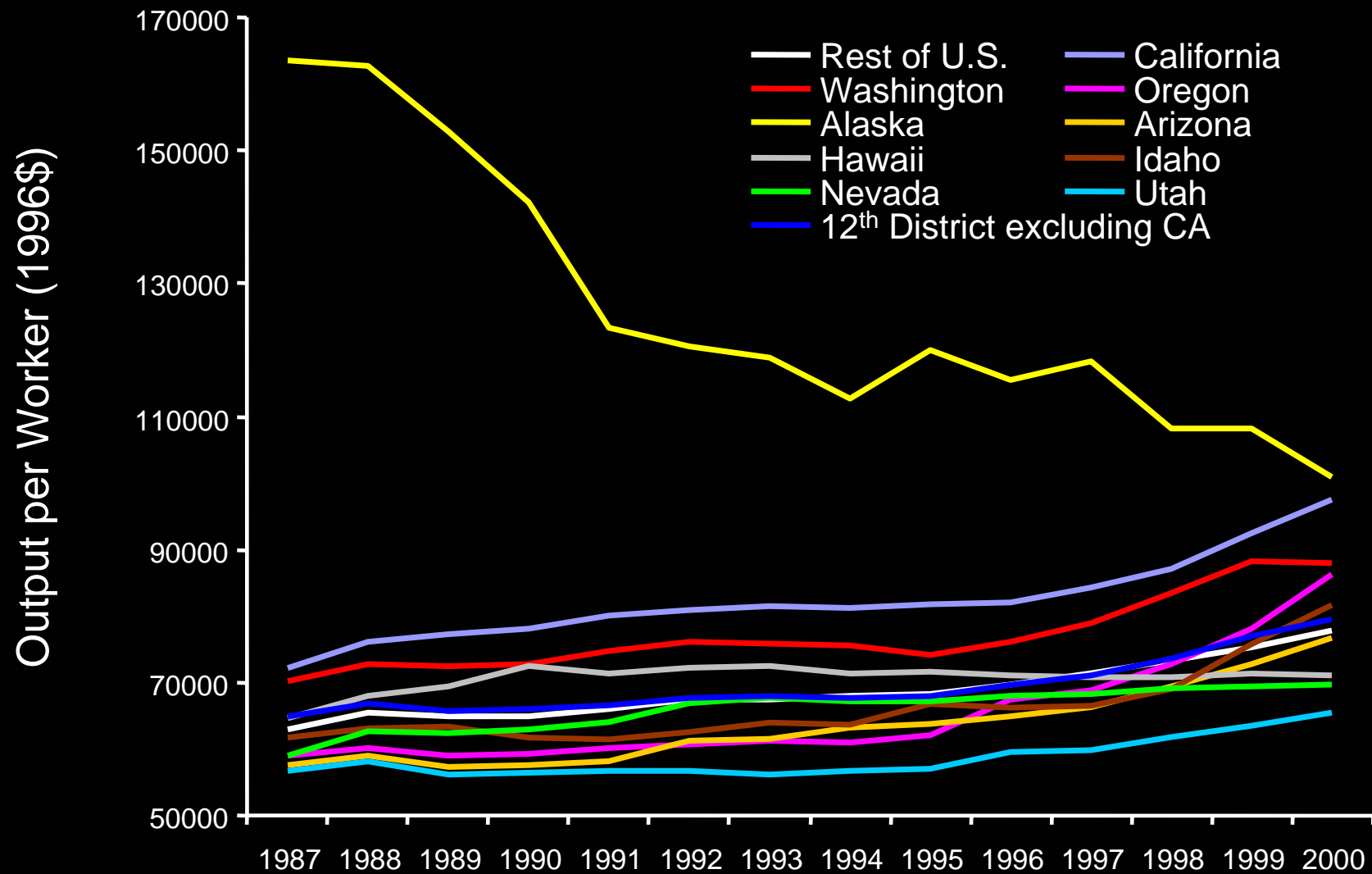
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Productivity Matters.

- Why?
 - Higher labor productivity means:
 - Higher wages & salaries
 - Higher corporate profits
 - Lower prices

Western Productivity Over Time



Productivity Advantages

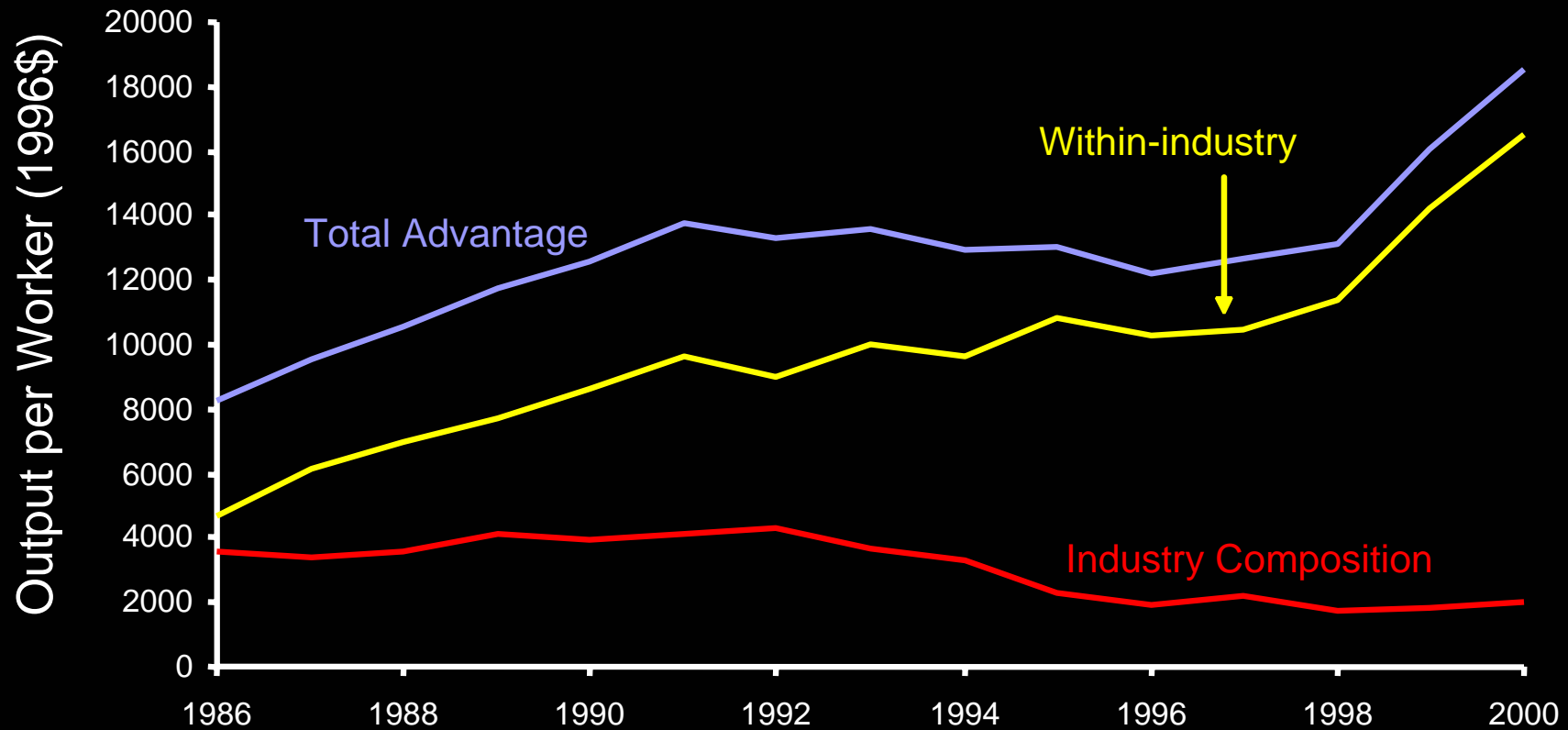
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graph TD; A[Productivity Advantages] --> B[Industry Composition]; A --> C[Micro-Level (Establishments) Advantages]; B --> D[More Employment in High Productivity Industries]; B --> E[Less Employment in Low Productivity Industries];
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Industry Composition

More Employment in High Productivity Industries
Less Employment in Low Productivity Industries

Micro-Level (Establishments) Advantages

Decomposition of Productivity Advantage (California vs. US - CA)



- Two-thirds of 57 "2-digit" industries have higher productivity in CA

Two-thirds of industries have higher productivity in CA than rest of U.S.

- Examples:
 - Retail Trade (~ 20% of employment)
 - Printing and Publishing (~1.5%)
 - Industrial Machinery (~2%)
 - Electronic Equipment, inc. computers (~2%)
 - Real Estate (~2%)
 - Finance & Insurance (~2%)

Productivity Advantages

Industry Composition

More Employment in High Productivity Industries
Less Employment in Low Productivity Industries

Micro-Level (Establishments) Advantages

More and/or Better Quality Capital
(i.e. Buildings, Equipment, and Software)

Higher Skilled Workers

Workplace Practices
(e.g., more team-oriented decision-making)

Institutional Structure
(e.g., laws allowing workers increased mobility)

Spillover/Density/Agglomeration Effects
(Case in point: Silicon Valley)

Higher-Productivity Activities (e.g., R&D) Within Firms

Summary

- Labor productivity is quite high in many of the Western states.
- The productivity advantage in California has three distinctive features:
 - 1) It is **big**
 - 2) It is **persistent** over time
 - 3) It is **broad-based** across industries

Going Forward...

- Since 2000, U.S. **productivity has remained high** despite the downturn.
- Regional productivity data not available.
- What we know:
 - The West still has a high share of employment in IT sectors.
 - Productivity growth in IT has been high.

