THE LOOMING CHALLENGE OF U.S. COMPETITIVENESS: IMPLICATIONS FOR PHILADELPHIA

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A nation or region is competitive to the extent that firms operating there are able to **compete successfully** in the regional and global economy while maintaining or improving **wages and living standards** for the average citizen.

- Competitiveness depends on the **long-run productivity** and efficiency of a location as a place to do business:
  - The productivity of existing firms and workers
  - The ability to achieve high participation of citizens in the workforce

- Competitiveness is **not**:
  - Low wages
  - A weak currency
  - Jobs per se
DISTURBING TRENDS
ROLLING 10-YEAR COMPOUND ANNUAL GROWTH RATE IN TOTAL NUMBER OF U.S. PRIVATE NONFARM EMPLOYEES, 1975-2013

DISTURBING TRENDS
PRIVATE, NONFARM EMPLOYMENT BY TYPE OF INDUSTRY

INDUSTRIES SERVING LOCAL MARKETS
(CAGR = 0.80%)

INDUSTRIES EXPOSED TO INTERNATIONAL COMPETITION
(CAGR = -0.18%)

Note: CAGR is over the period 1998-2011.
Source: Prof. Michael E. Porter, U.S. Cluster Mapping Project, Harvard Business School; Richard Bryden, Project Director; 2014 Benchmark Cluster Definition (Delgado-Porter-Stern 2013)
Underlying data drawn from U.S. Census Bureau County Business Patterns.
U.S. TRADED CLUSTER EMPLOYMENT
2011 VERSUS 2001

2011 Traded Employment Has Declined to 93% of 2001

Note: Rolling 12-month average in civilian labor force (not seasonally adjusted) over civilian noninstitutional population.
DISTURBING TRENDS
REAL HOUSEHOLD INCOME BY QUANTILE, 1990-2012 (INDEXED)

Pre-tax real household income (all series indexed to 1990 = 100)

95th PERCENTILE
80th PERCENTILE
60th PERCENTILE
40th PERCENTILE
20th PERCENTILE

Note: Household income includes wages, self-employment, retirement, interest, dividends, other investment, unemployment, disability, alimony or child support, and other periodic income.
WHO COMPETES WITH THE U.S. FOR BUSINESS INVESTMENT?

Source: HBS Survey on U.S. Competitiveness
WHAT DETERMINES COMPETITIVENESS?

Microeconomic Competitiveness

- Quality of the Business Environment
- State of Cluster Development
- Sophistication of Company Operations and Strategy

Macroeconomic Competitiveness

- Sound Monetary and Fiscal Policies
- Human Development and Effective Political Institutions

Endowments

- Productivity ultimately depends on improving the microeconomic capability of the economy and the sophistication of local competition revealed at the level of firms, clusters, and regions.
- Macroeconomic competitiveness sets the economy-wide context for productivity to emerge, but is not sufficient to ensure productivity.
- Endowments, including natural resources, geographical location, population, and land area, create a foundation for prosperity, but true prosperity arises from productivity in the use of endowments.
STATE OF CLUSTER DEVELOPMENT: MASSACHUSETTS LIFE SCIENCES

- Health and Beauty Products
- Surgical Instruments and Suppliers
- Medical Equipment
- Dental Instruments and Suppliers
- Ophthalmic Goods
- Diagnostic Substances
- Containers

- Teaching and Specialized Hospitals
- Biological Products
- Biopharmaceutical Products
- Research Organizations

Cluster Organizations
- MassMedic, MassBio, others

Specialized Business Services
- Banking, Accounting, Legal

Specialized Risk Capital
- VC Firms, Angel Networks

Specialized Research Service Providers
- Laboratory, Clinical Testing

Educational Institutions
- Harvard, MIT, Tufts, Boston University, UMass

Analytical Instruments Cluster
REGIONS AND COMPETITIVENESS

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Regions **specialize** in different sets of clusters

• Regions are a **crucial unit** in competitiveness
• Each region needs its own distinctive **strategy and action agenda**
  • Business environment improvement
  • Cluster upgrading
  • Improving institutional effectiveness
ASSESSMENT OF THE U.S. BUSINESS ENVIRONMENT

U.S. trajectory

Current U.S. position

-100% -80% -60% -40% -20% 0% 20% 40% 60% 80% 100%

Weakness but Improving

Strength and Improving

Weakness and Deteriorating

Strength but Deteriorating
ASSESSMENT OF THE U.S. BUSINESS ENVIRONMENT

- Strength and Improving
- Weakness but Improving
- Strength but Deteriorating
- Weakness and Deteriorating

Current U.S. position vs. U.S. trajectory

- Universities
- Entrepreneurship
- Firm Management
- Innovation
- Property Rights
- Clusters
- Capital Markets

-100% to 100%
ASSESSMENT OF THE U.S. BUSINESS ENVIRONMENT

- Strength and Improving
  - Universities
  - Entrepreneurship
  - Firm Management
  - Property Rights
  - Innovation
  - Capital Markets
- Strength but Deteriorating
  - Communications Infrastructure
  - Flexibility in Hiring and Firing
- Weakness but Improving
  - Skilled Labor
- Weakness and Deteriorating
  - Logistics Infrastructure

Current U.S. position vs. U.S. trajectory

- 100%
- 80%
- 60%
- 40%
- 20%
- 0%
- -20%
- -40%
- -60%
- -80%
- -100%
ASSESSMENT OF THE U.S. BUSINESS ENVIRONMENT

Strength and Improving:
- Universities
- Entrepreneurship
- Firm Management
- Property Rights
- Clusters
- Innovation
- Capital Markets

Strength but Deteriorating:
- Communications Infrastructure
- Flexibility in Hiring and Firing

Weakness and Improving:
- Skilled Labor

Weakness and Deteriorating:
- Skilled Labor
- Regulation
- Legal Framework
- Macro Policy
- Tax Code
- Political System
- K-12 Education System
- Logistics Infrastructure
- Current U.S. position

U.S. trajectory
Definition of Y axis (performance) = % of U.S. adults in top two proficiency categories - % of all int'l. adults in top two proficiency categories.

REAL HOURLY WAGE GROWTH BY EDUCATIONAL ATTAINMENT
1979-2000

REAL HOURLY WAGE GROWTH BY EDUCATIONAL ATTAINMENT

Note: Cohorts include persons 25 to 64 years old.

COMPARATIVE METRO WAGE PERFORMANCE 2001 - 2011

U.S. Average Wage Growth Rate: +2.8%

High but declining versus U.S.

Low and declining versus U.S.

High and rising wages versus U.S.

Low but rising versus U.S.

Notes: Average wage for private, non-agricultural employment. Growth calculated as compound annual growth rate. 50 largest MSAs displayed.

Source Census CBP
COMPARATIVE METRO LABOR MOBILIZATION PERFORMANCE
2008 - 2012

Source: BLS. 50 largest MSAs displayed.

High but declining labor force participation versus U.S.

Low and declining labor force participation versus U.S.

High and rising labor force participation versus U.S.

U.S. Change in Labor Force Participation Rate: -2.3%

U.S. Labor Force Participation Rate: 63.7%

Low but rising labor force participation versus U.S.
Change in Philadelphia Share of National Employment, 2001 to 2011

Philadelphia National Employment Share, 2011

Overall change in the Philadelphia Share of US Traded Employment: -.104%

Philadelphia Overall Share of US Traded Employment: 2.25%

RESTORING U.S. COMPETITIVENESS
WHAT WASHINGTON SHOULD DO

1. Create a **sustainable federal budget**, combining greater revenue (including fewer exemptions) and less spending

2. Ease the **immigration of highly skilled individuals**

3. Simplify the **corporate tax code** with lower statutory rates and no loopholes

4. Tax **overseas profits** earned by American multinational companies only where they are earned

5. Aggressively address distortions and abuses in the **international trading system**

6. Simplify and streamline **regulation**

7. Improve **logistics, communications and energy infrastructure**

8. Responsibly develop **American shale-gas and oil reserves**

## STRATEGIC PRIORITIES FOR FEDERAL POLICY: APPROVAL PERCENTAGES

<table>
<thead>
<tr>
<th>Issue</th>
<th>U.S. business leaders</th>
<th>General public</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>Liberal</td>
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<tr>
<td>Sustainable federal budget</td>
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<td>Corporate tax reform</td>
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<td>Infrastructure investments</td>
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<td>International trading system</td>
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<td>Responsible energy extraction</td>
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<td>Streamlined regulations</td>
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<td>High-skill immigration</td>
<td>89%</td>
<td>90%</td>
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<tr>
<td>Territorial tax code</td>
<td>58%</td>
<td>34%</td>
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THE ROLE OF BUSINESS
RESTORING U.S. COMPETITIVENESS

1. Vigorously pursue **productivity and profitability** within the business
   a. Position the company to draw on U.S. strengths
   b. Perform in the U.S. those activities that can thrive here

2. Tap opportunities to build the **commons and benefit the business**
   a. Improve skills
   b. Upgrade supporting industries and the U.S. supply chain
   c. Support innovation and entrepreneurship
   d. Bolster cluster and regional strength

3. Stop **narrowly self-interested actions that undermine the commons**, especially in government relations