THE STATE OF U.S. COMPETITIVENESS AND THE STAKES INVOLVED IN THE UNCONVENTIONAL ENERGY OPPORTUNITY

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Convening on America’s Unconventional Energy Opportunity
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DOES AMERICA HAVE A COMPETITIVENESS PROBLEM?

GDP GROWTH

Note: Eurozone does not include Latvia, which joined in 2014. US$ 2005 is reference year.
Source: OECD.
WHAT IS COMPETITIVENESS?

The United States is a competitive location to the extent that firms operating in the U.S. are able to compete successfully in the global economy while maintaining or improving wages and living standards for the average American.

Competitiveness depends on the long-run productivity of the U.S. 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
PRODUCTIVITY GROWTH

U.S. NONFARM BUSINESS LABOR PRODUCTIVITY,
4-YEAR ROLLING AVERAGE OF ANNUALIZED QUARTERLY GROWTH, 1951-2014

Notes: Shaded area indicates the recession of December 2007 to June 2009 as defined by the National Bureau of Economic Research. Sources: Bureau of Labor Statistics; author’s calculations.
DISTURBING TRENDS
ROLLING 10-YEAR COMPOUND ANNUAL GROWTH RATE IN TOTAL NUMBER OF U.S. PRIVATE NONFARM EMPLOYEES, 1975-2014

DISTURBING TRENDS
PRIVATE EMPLOYMENT BY TYPE OF INDUSTRY

Note: CAGR is over the period June 1990 through June 2014.
Source: Data from BLS QCEW; U.S. Benchmark Cluster Definitions (Delgado-Porter-Stern 2013); Prof. Michael E. Porter and Richard Bryden, Harvard Business School.
Note: Household income includes wages, self-employment, retirement, interest, dividends, other investment, unemployment, disability, alimony or child support, and other periodic income.
Note: Rolling 12-month average in civilian labor force (not seasonally adjusted) over civilian noninstitutional population. Shaded area indicates the recession of December 2007 to June 2009 as defined by the National Bureau of Economic Research. Source: Bureau of Labor Statistics, author's calculations.
JOB GROWTH BY COMPANY SIZE
INDEX OF TOTAL NUMBER OF EMPLOYEES BY FIRM SIZE

Source: U.S. Census Bureau Business Dynamics Statistics.
DISTURBING TRENDS
U.S. FIRMS CREATED AND DISSOLVED

Notes: Shaded area indicates the recession of December 2007 to June 2009 as defined by the National Bureau of Economic Research.
AN ECONOMY DOING HALF ITS JOB

PROSPERING

• Highly-skilled individuals

• International companies and high-tech startups

STAGNATING

• Middle and lower-middle class workers

• Many small businesses
IS THE DIVERGENCE SUSTAINABLE?

• Weak consumer demand

• Shortages of productive workers

• Slows the job creation engine and reduces the pool of middle class entrepreneurs

• Disgruntled voters

• Less support for pro-business policies

• Skirmishes around minimum wage laws, tax inversions
STATE OF THE U.S. BUSINESS ENVIRONMENT IN 2013-14

Current U.S. position compared to other advanced economies

Weakness but Improving

Strength and Improving

Weakness and Deteriorating

Strength but Deteriorating

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GLOBALIZATION
WHERE DOES AMERICA COMPETE WITH FOR BUSINESS INVESTMENT?

Source: HBS Survey on U.S. Competitiveness
HOW DID AMERICA GET HERE?
ADULT LITERACY COMPETENCY BY AGE COHORT

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ADULT LITERACY COMPETENCY BY AGE COHORT

HOW DID AMERICA GET HERE?
ADULT COMPETENCIES BY AGE COHORT

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

DISTURBING TRENDS
REAL HOURLY WAGE GROWTH BY EDUCATIONAL ATTAINMENT,

HOW DID AMERICA GET HERE?
ASSESSMENTS OF ELEMENTS OF THE U.S. BUSINESS ENVIRONMENT

Current U.S. position compared to other advanced economies

HOW DID AMERICA GET HERE?
ASSESSMENTS OF ELEMENTS OF THE U.S. BUSINESS ENVIRONMENT

Current U.S. position compared to other advanced economies

**HOW DID AMERICA GET HERE?**

**RELATIVE ASSESSMENTS OF ELEMENTS OF THE U.S. BUSINESS BY RESPONDENT’S FIRM SIZE**

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>1-99</th>
<th>100-999</th>
<th>1,000-9,999</th>
<th>10,000 or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 education</td>
<td>-</td>
<td>+++</td>
<td>+++</td>
<td>-</td>
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<tr>
<td>Communications infrastructure</td>
<td>-</td>
<td>+</td>
<td>++</td>
<td>-</td>
</tr>
<tr>
<td>Macroeconomic policy</td>
<td>-</td>
<td>+</td>
<td>+++</td>
<td>+++</td>
</tr>
<tr>
<td>Regulation</td>
<td>-</td>
<td>+++</td>
<td>++</td>
<td>+</td>
</tr>
<tr>
<td>Health care</td>
<td>+</td>
<td>+</td>
<td>++</td>
<td>-</td>
</tr>
<tr>
<td>Innovation</td>
<td>-</td>
<td>++</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Logistics infrastructure</td>
<td>-</td>
<td>++</td>
<td>+++</td>
<td>-</td>
</tr>
<tr>
<td>Tax code</td>
<td>-</td>
<td>++</td>
<td>+++</td>
<td>-</td>
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<tr>
<td>Universities</td>
<td>-</td>
<td>++</td>
<td>++</td>
<td>+</td>
</tr>
<tr>
<td>Political system</td>
<td>-</td>
<td>+++</td>
<td>+++</td>
<td>-</td>
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<tr>
<td>Entrepreneurship</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>+</td>
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<tr>
<td>Capital markets</td>
<td>-</td>
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<td>+</td>
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<tr>
<td>Clusters</td>
<td>-</td>
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<td>+</td>
<td>-</td>
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<tr>
<td>Hiring and firing</td>
<td>+</td>
<td>-</td>
<td>++</td>
<td>++</td>
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<tr>
<td>Legal framework</td>
<td>-</td>
<td>++</td>
<td>++</td>
<td>-</td>
</tr>
<tr>
<td>Property rights</td>
<td>-</td>
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<td>++</td>
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<tr>
<td>Skilled labor</td>
<td>-</td>
<td>++</td>
<td>++</td>
<td>+</td>
</tr>
<tr>
<td>Firm management</td>
<td>+</td>
<td>-</td>
<td>-</td>
<td>+</td>
</tr>
</tbody>
</table>

Compared to the average respondent in 2013-14, respondents in this firm-size class placed this element:

- 10 or more points to the left
- 5 to 10 points to the left
- 0 to 5 points to the left
- 0 to 5 points to the right
- 5 to 10 points to the right
- 10 or more points to the right

COMPETITIVENESS FOR TRADED JOBS

Note: CAGR is over the period June 1990 through June 2014.
Source: Data from BLS QCEW; U.S. Benchmark Cluster Definitions (Delgado-Porter-Stern 2013); Prof. Michael E. Porter and Richard Bryden, Harvard Business School.
THE ROLE OF BUSINESS

1. Drive *productivity and competitive advantage* within the business
   - Position the company to draw on U.S. strengths
   - Move activities back to the U.S. that can be productive here

2. Collaborate with government and other stakeholders to improve the local business environment ("The Commons")
   - Support consensus *regional economic plans* in the company’s major locations
   - Enhance regional *cluster strength*
   - Engage strategically in *public education*
   - Restructure the *talent sourcing supply chain*
   - Enhance the local supplier base
   - Support *innovation and entrepreneurship* in the company’s field

3. Stop *narrowly self-interested actions* that undermine the commons, especially in government relations
THE STRATEGIC AGENDA FOR WASHINGTON

1. Simplify the corporate tax code with lower statutory rates and no loopholes
2. Tax overseas profits earned by American multinational companies only where they are earned
3. Ease the immigration of highly skilled individuals
4. Aggressively address distortions and abuses in the international trading system
5. Improve logistics, communications and energy infrastructure
6. Simplify and streamline regulation
7. Create a sustainable federal budget, including reform of entitlements
8. Responsibly develop America’s unconventional gas and oil reserves

# THE NEED FOR CONSENSUS
APPROVAL RATES FOR PROPOSED FEDERAL POLICIES

<table>
<thead>
<tr>
<th></th>
<th>U.S. business leaders</th>
<th>General public</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>Liberal</td>
</tr>
<tr>
<td>Corporate tax reform</td>
<td>91%</td>
<td>91%</td>
</tr>
<tr>
<td>Sustainable federal budget</td>
<td>90%</td>
<td>92%</td>
</tr>
<tr>
<td>High-skill immigration</td>
<td>89%</td>
<td>90%</td>
</tr>
<tr>
<td>Streamlined regulations</td>
<td>86%</td>
<td>71%</td>
</tr>
<tr>
<td>Infrastructure investments</td>
<td>85%</td>
<td>92%</td>
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<tr>
<td>International trading system</td>
<td>80%</td>
<td>81%</td>
</tr>
<tr>
<td>Responsible energy extraction</td>
<td>79%</td>
<td>75%</td>
</tr>
<tr>
<td>Territorial tax code</td>
<td>58%</td>
<td>34%</td>
</tr>
</tbody>
</table>