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

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H A R V A R D | B U S I N E S S | S C H O O L

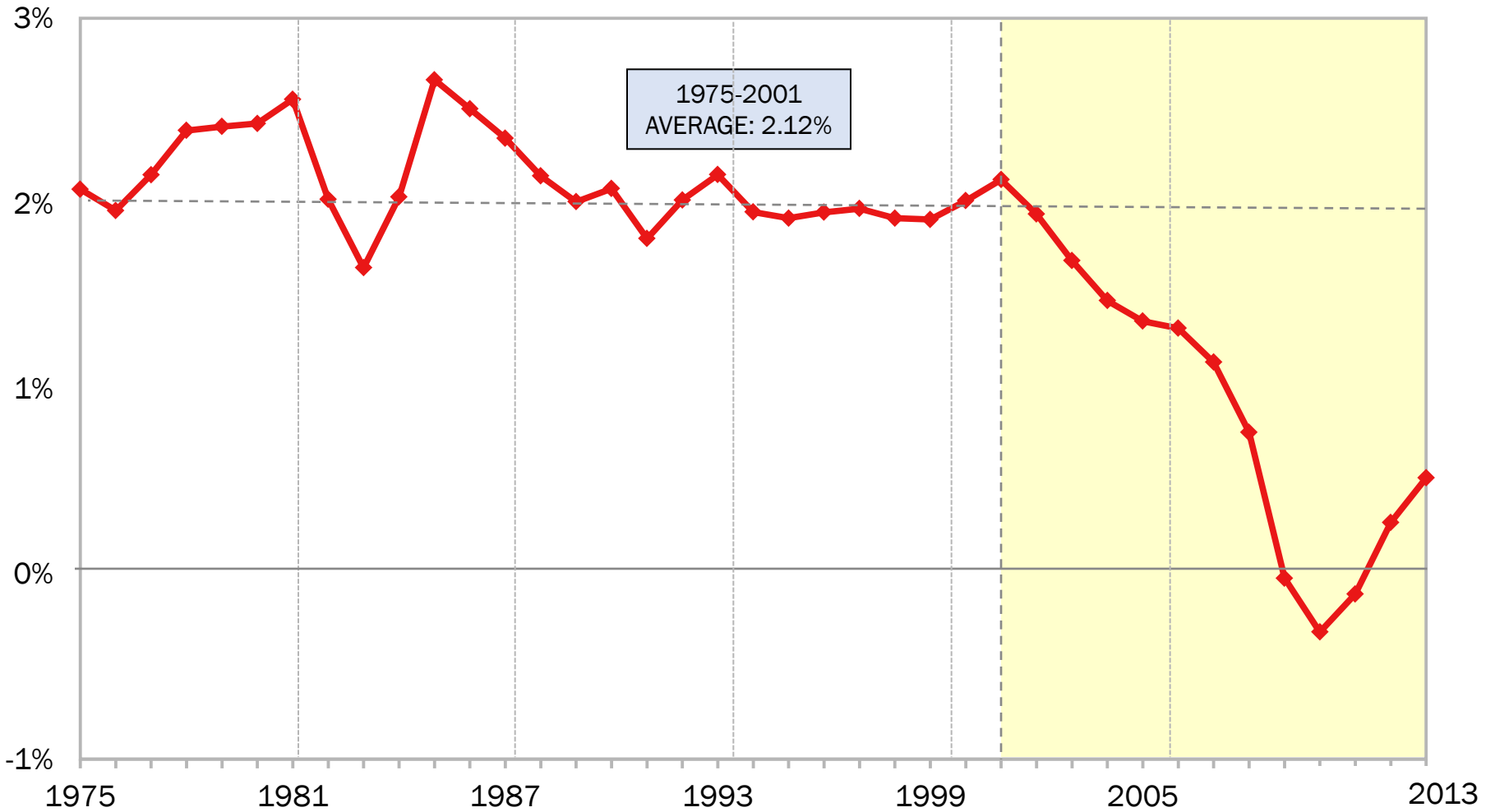
WHAT IS COMPETITIVENESS?

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

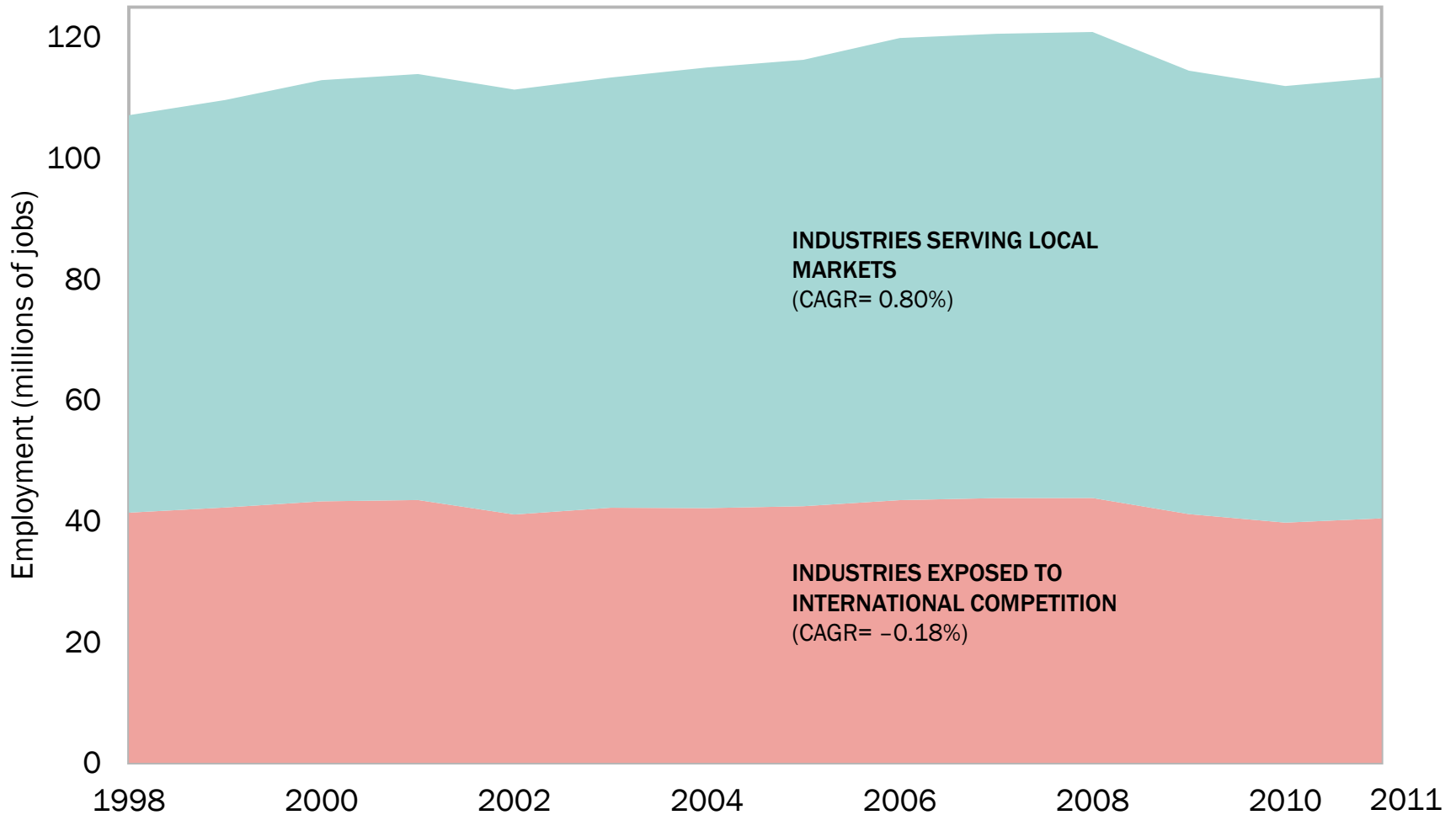
ROLLING 10-YEAR COMPOUND ANNUAL GROWTH RATE IN TOTAL NUMBER OF U.S. PRIVATE NONFARM EMPLOYEES, 1975-2013



Source: Bureau of Labor Statistics, Current Employment Statistics survey; author's calculations.

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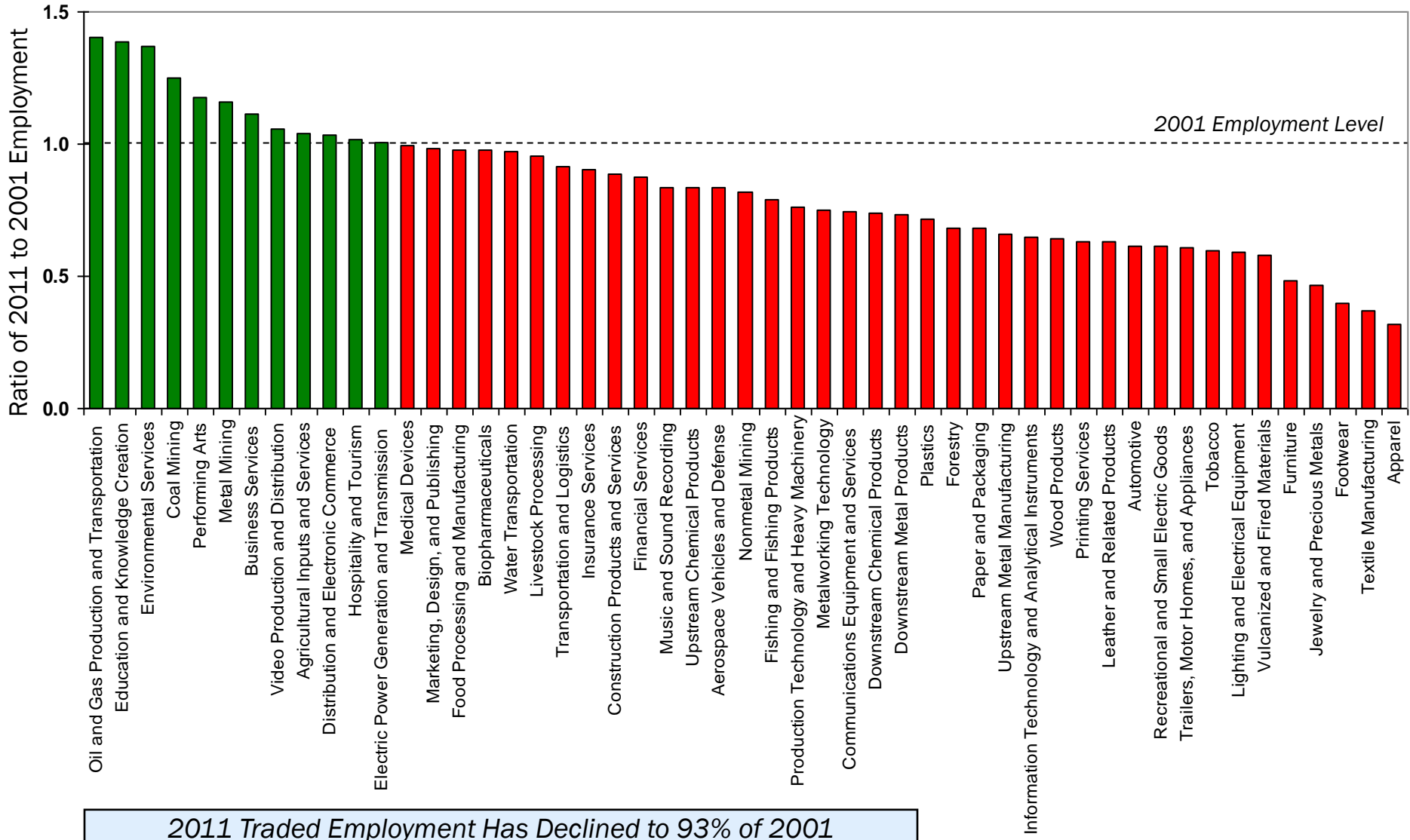
PRIVATE, NONFARM EMPLOYMENT BY TYPE OF INDUSTRY



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.

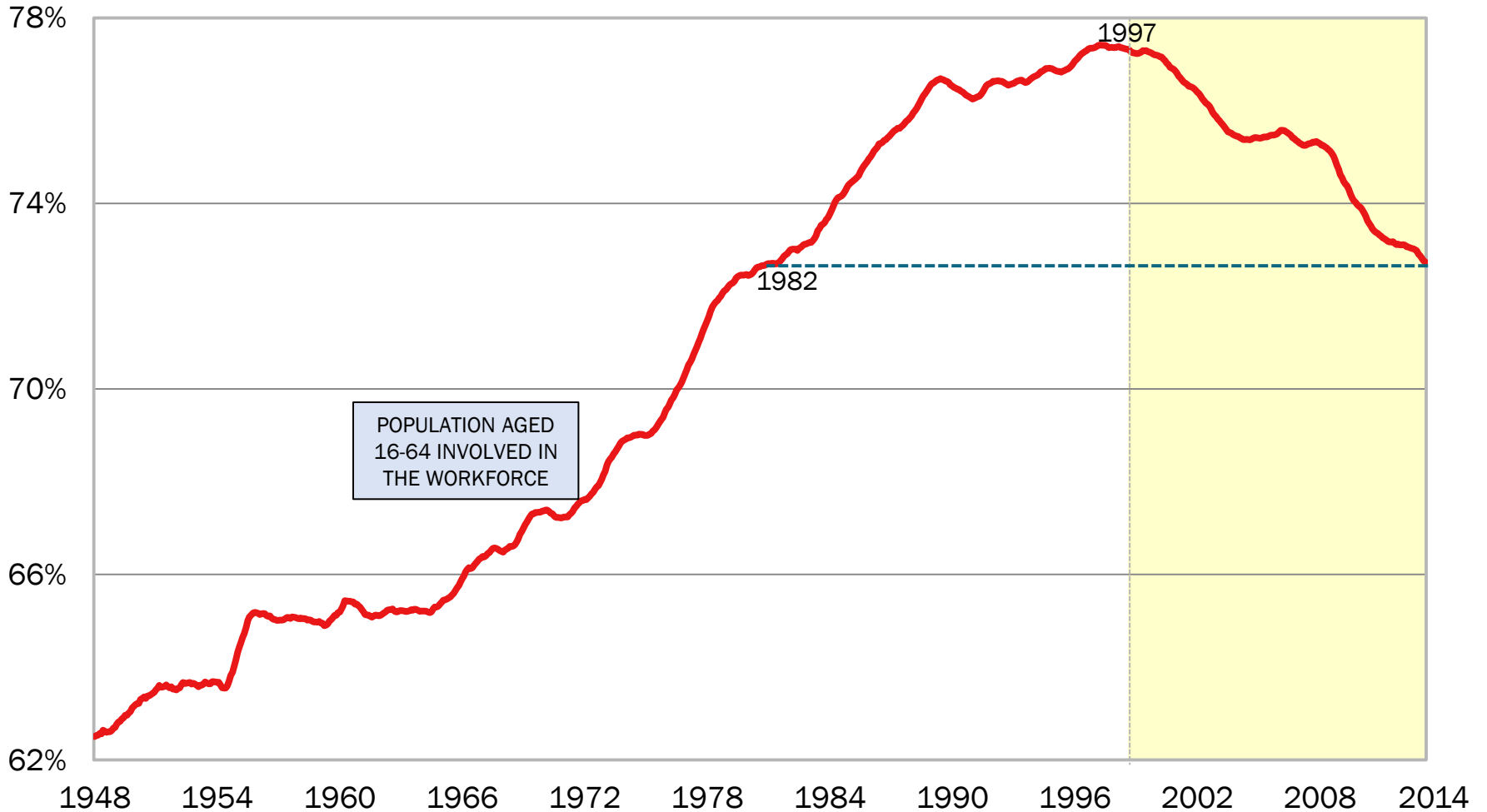
U.S. TRADED CLUSTER EMPLOYMENT 2011 VERSUS 2001



Source: Prof. Michael E. Porter, Harvard Business School; U.S. Cluster Mapping 2014 Benchmark Definitions (Delgado-Porter-Stern 2013), Richard Bryden, Project Director.

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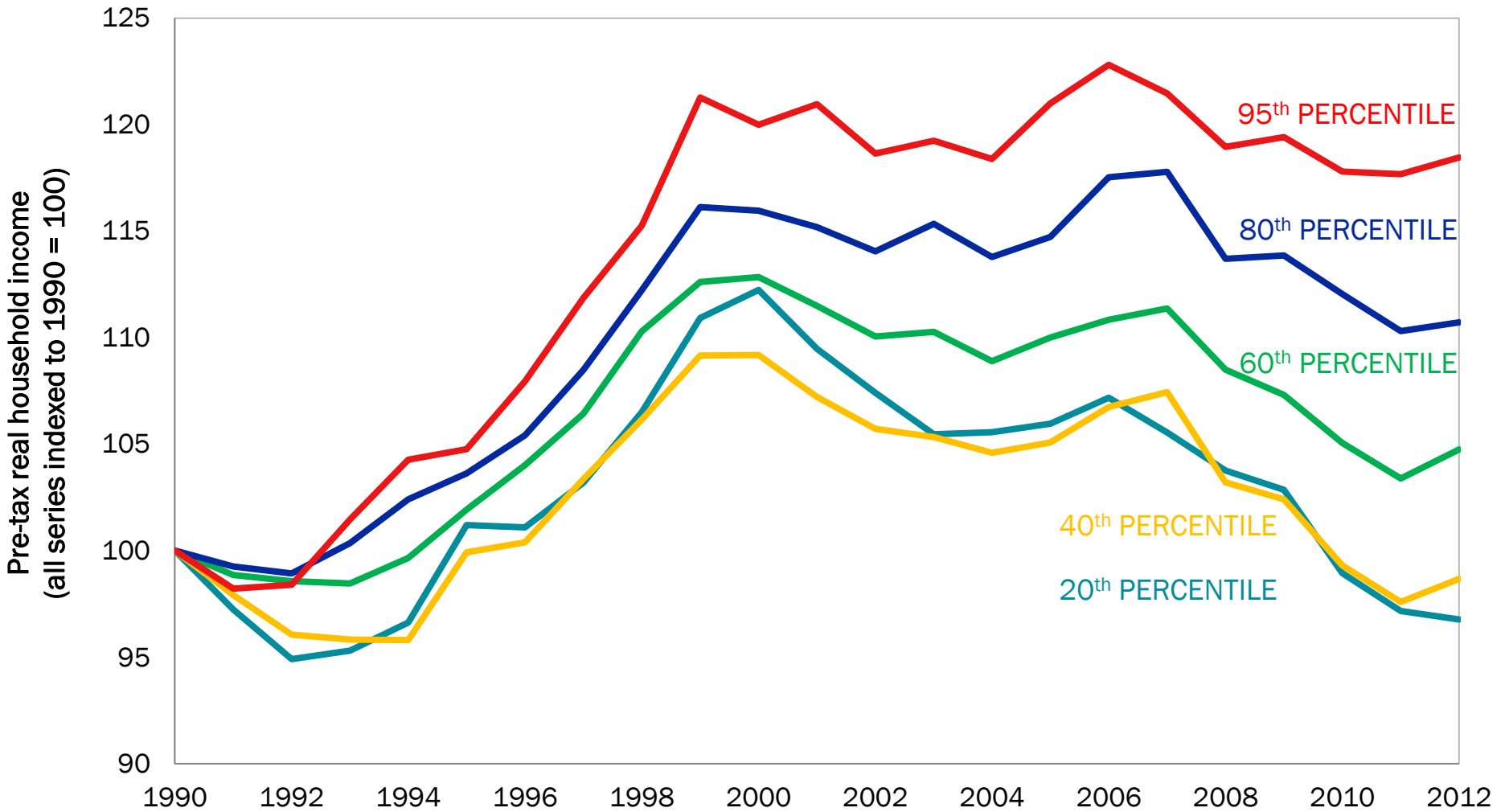
U.S. LABOR FORCE PARTICIPATION RATE



Note: Rolling 12-month average in civilian labor force (not seasonally adjusted) over civilian noninstitutional population.
Source: Bureau of Labor Statistics, author's calculations.

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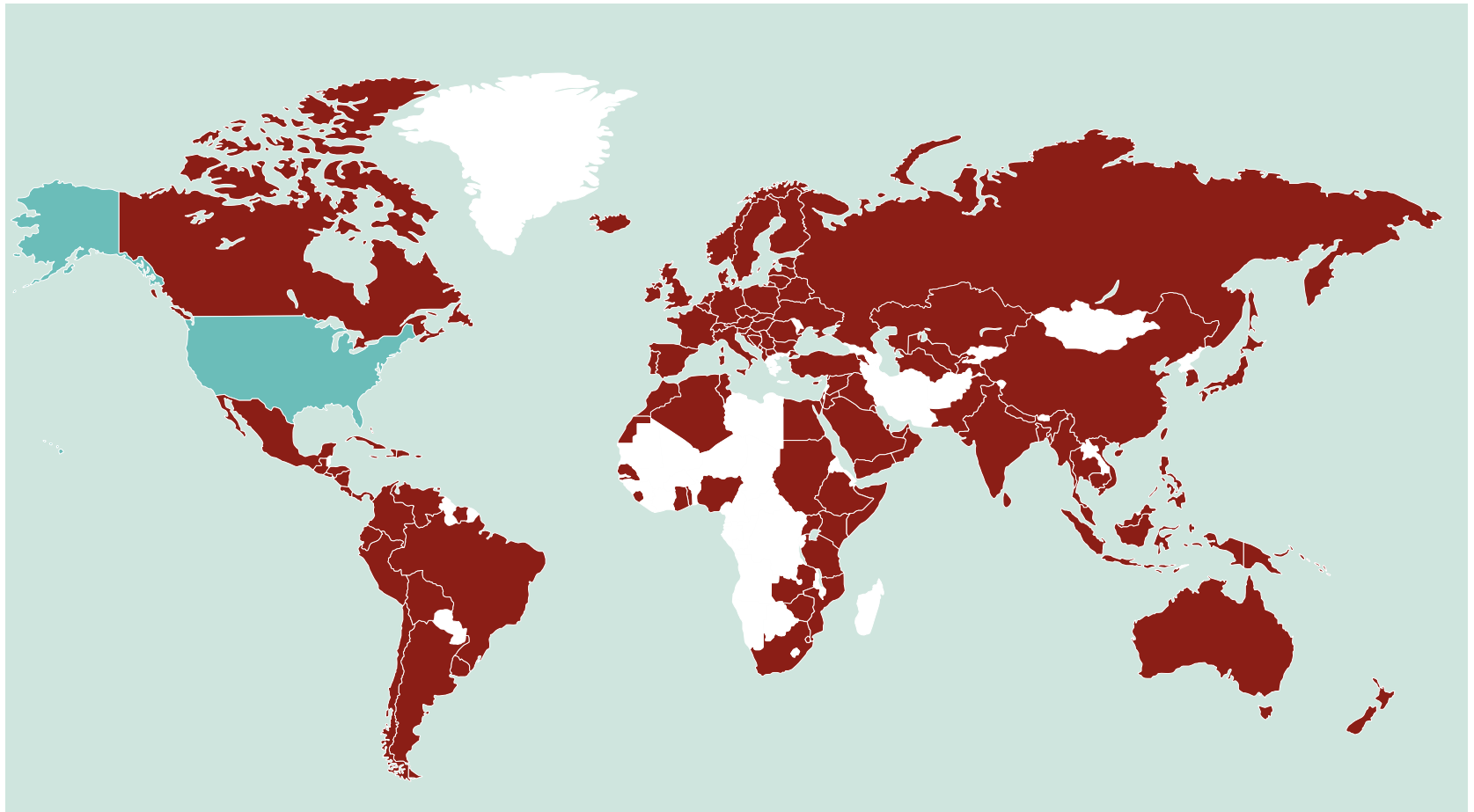
REAL HOUSEHOLD INCOME BY QUANTILE, 1990-2012 (INDEXED)



Note: Household income includes wages, self-employment, retirement, interest, dividends, other investment, unemployment, disability, alimony or child support, and other periodic income.

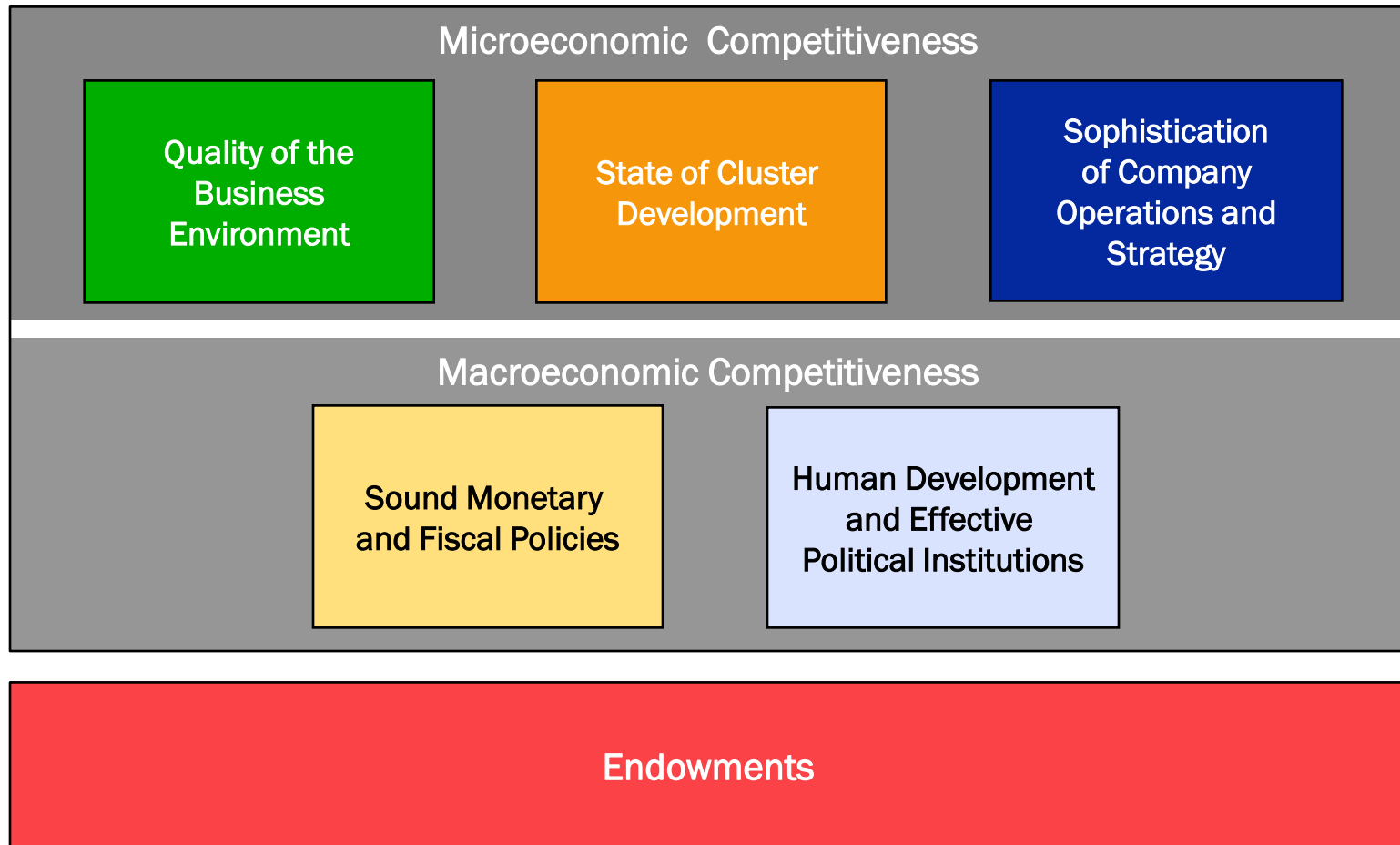
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

WHO COMPETES WITH THE U.S. FOR BUSINESS INVESTMENT?



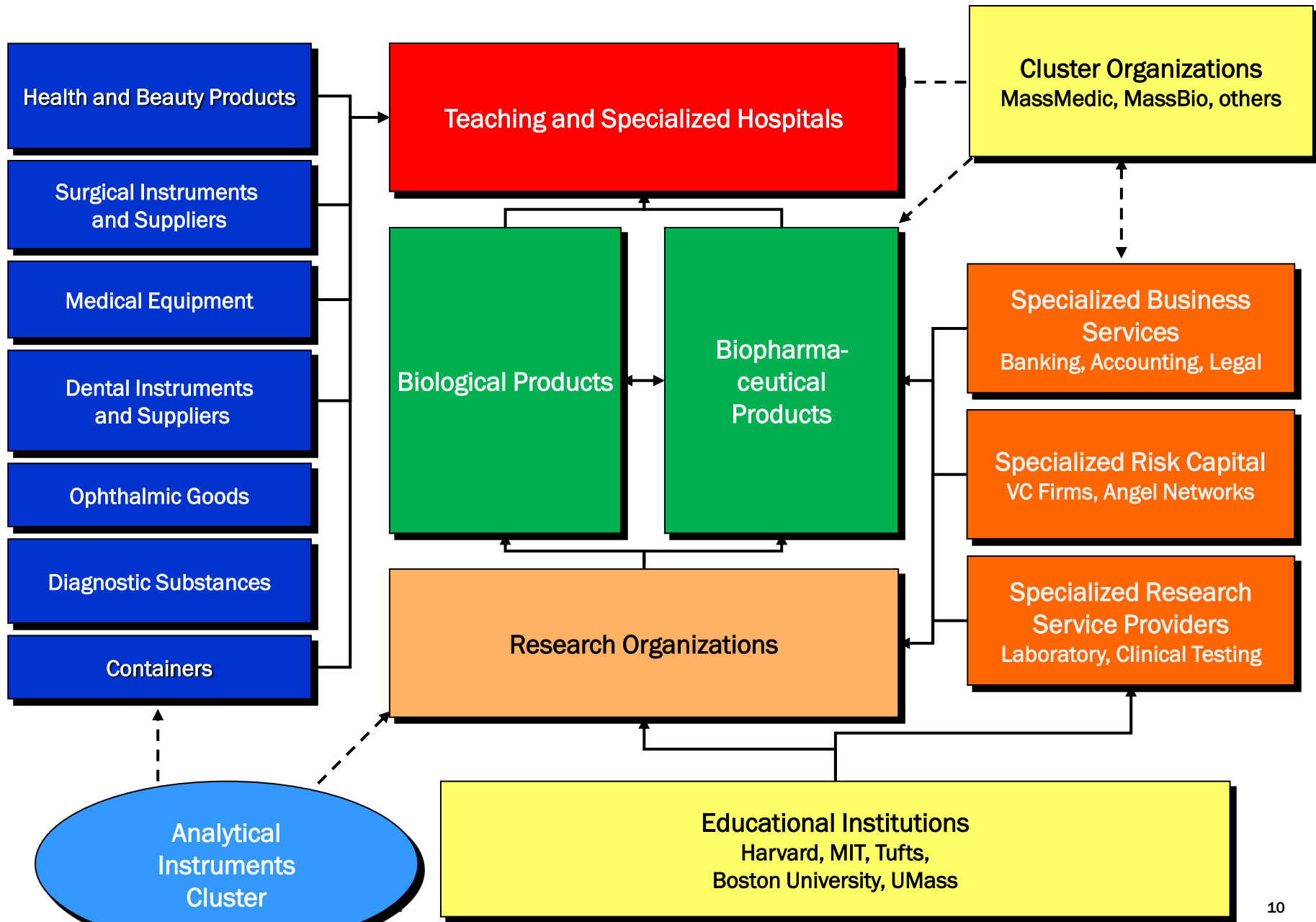
Source: HBS Survey on U.S. Competitiveness

WHAT DETERMINES COMPETITIVENESS?



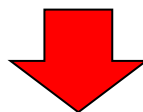
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition** revealed at the level of firms, clusters, and regions
- Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not 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



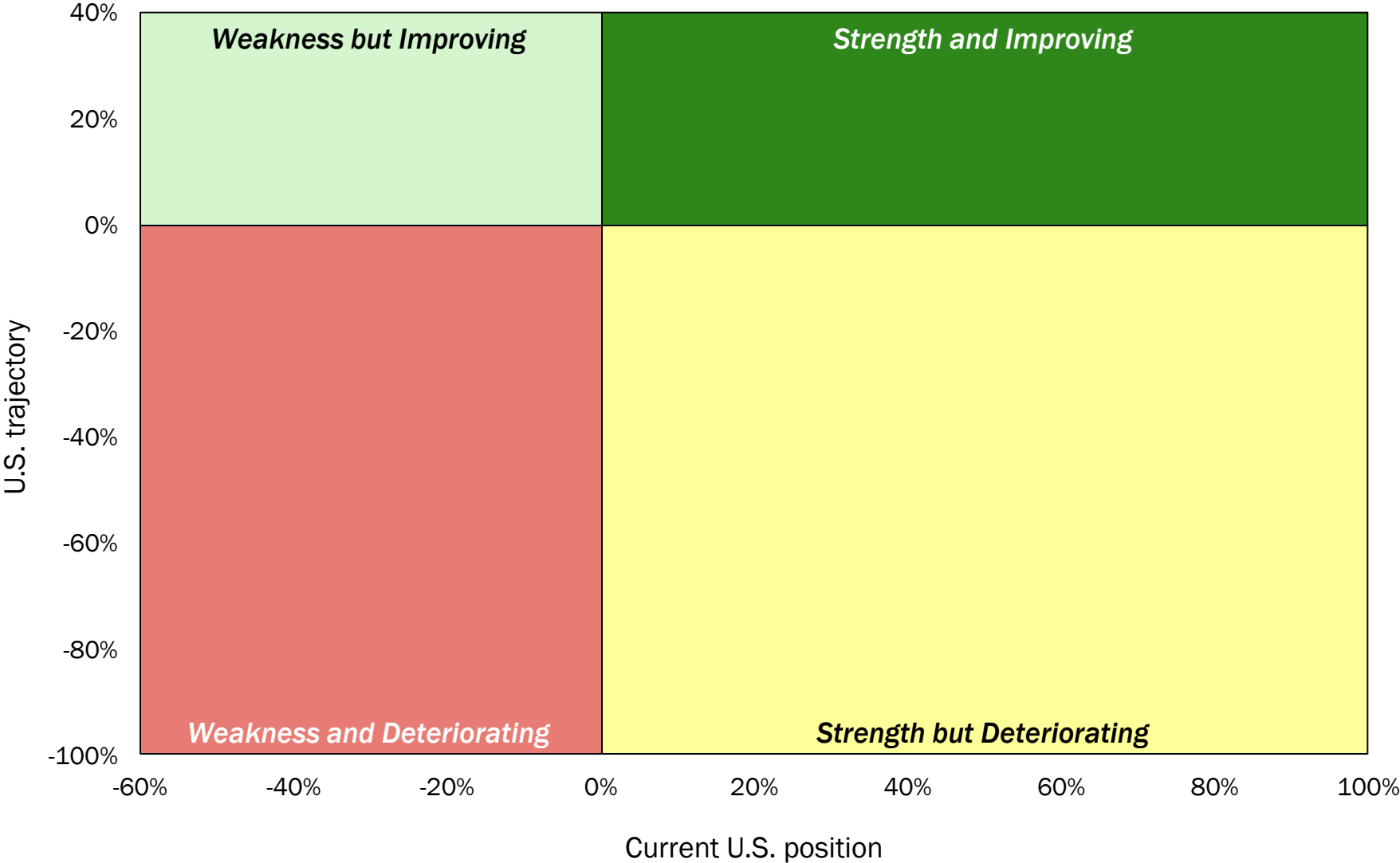
REGIONS AND COMPETITIVENESS

- 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

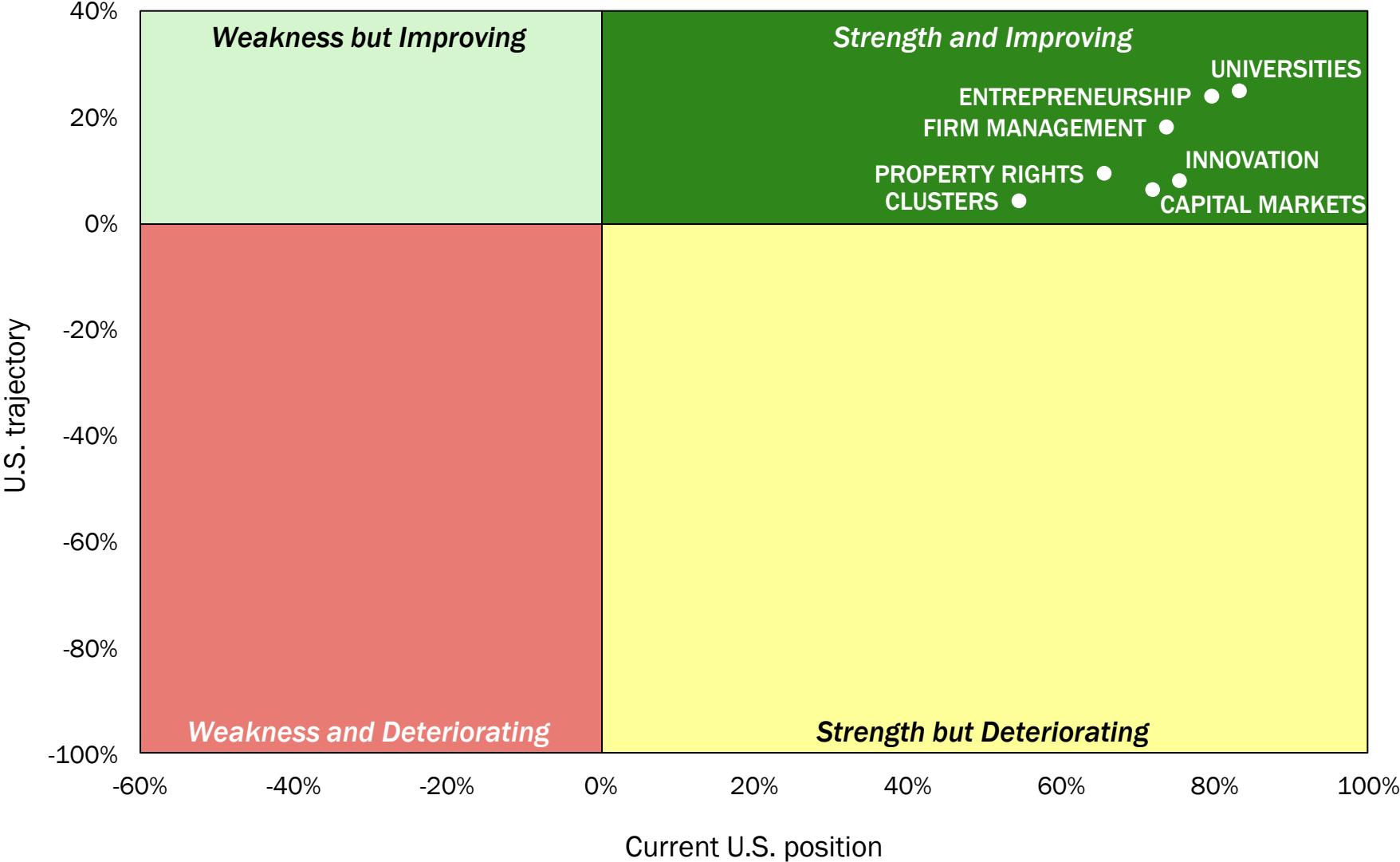


- Regions are a **crucial unit** in competitiveness
- Each region needs its own distinctive **strategy and action agenda**
 - Business environment improvement
 - Cluster upgrading
 - Improving institutional effectiveness

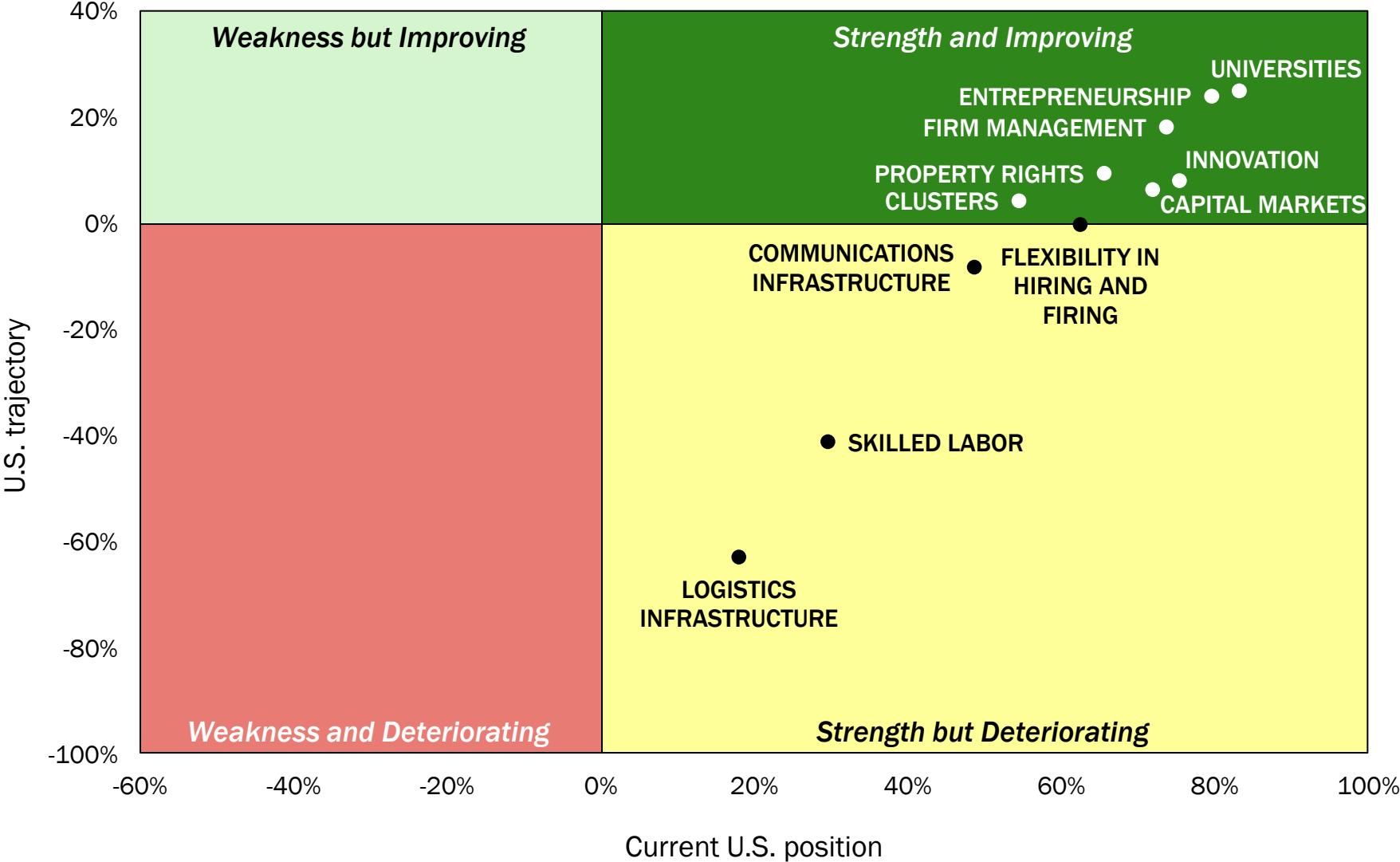
ASSESSMENT OF THE U.S. BUSINESS ENVIRONMENT



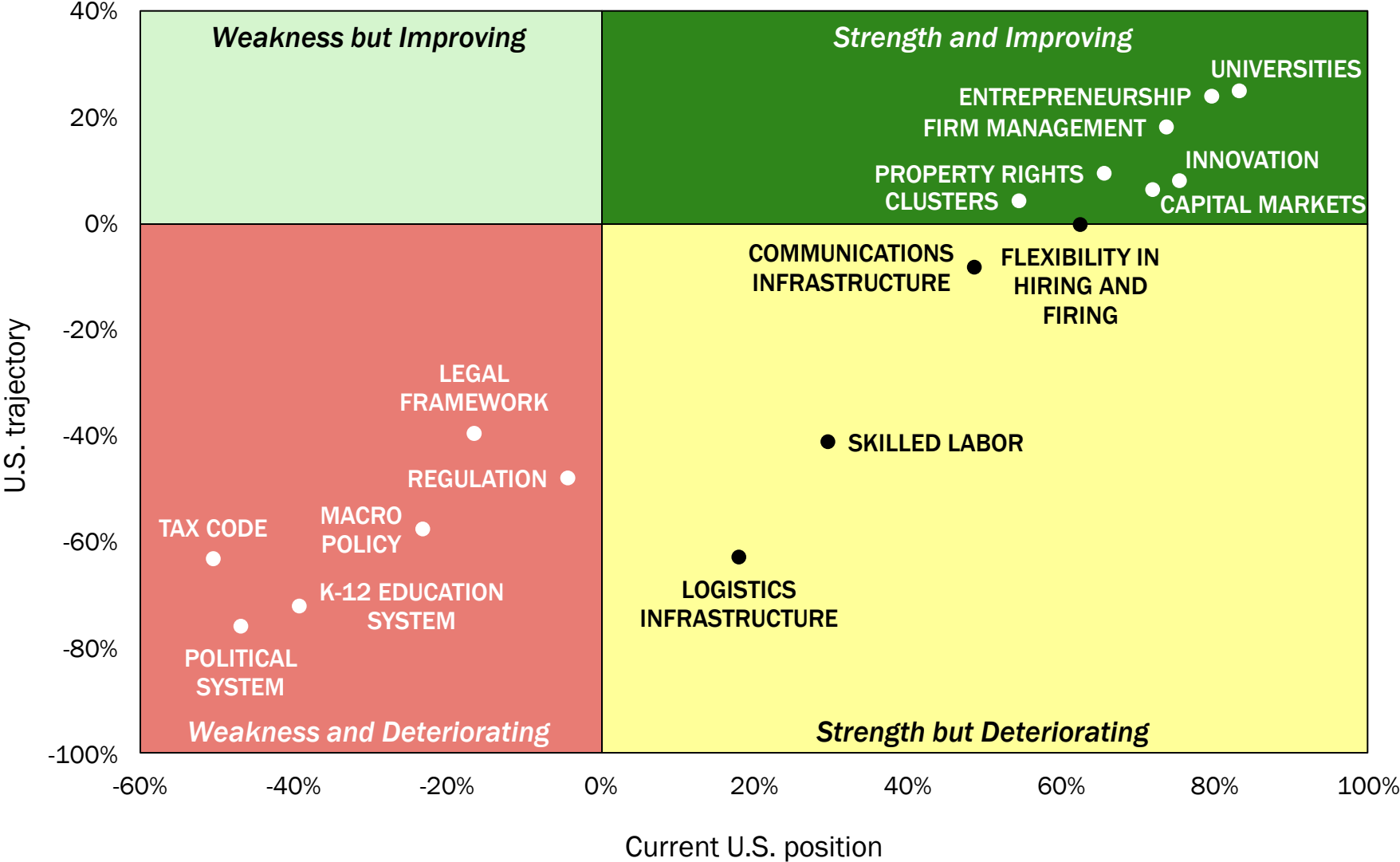
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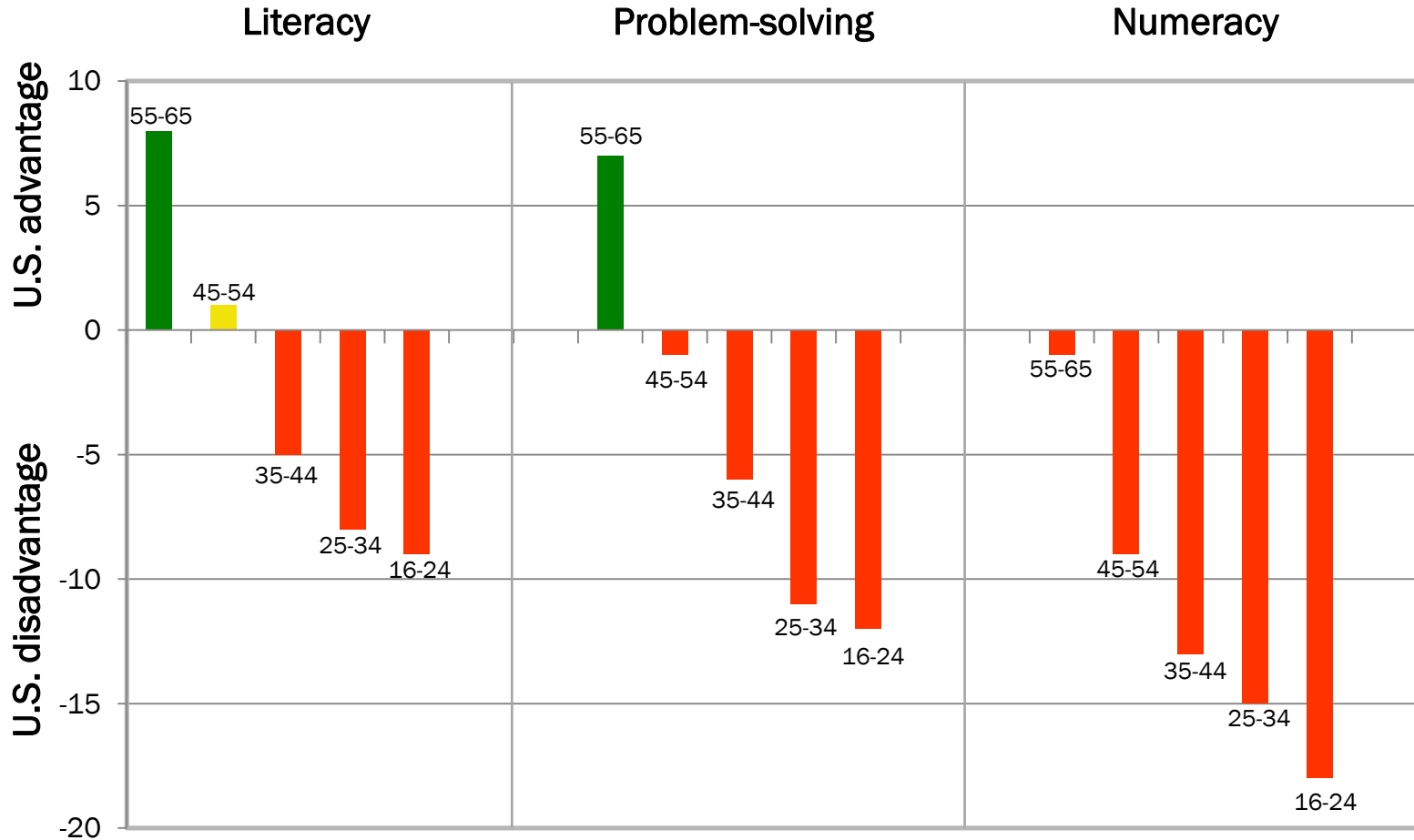
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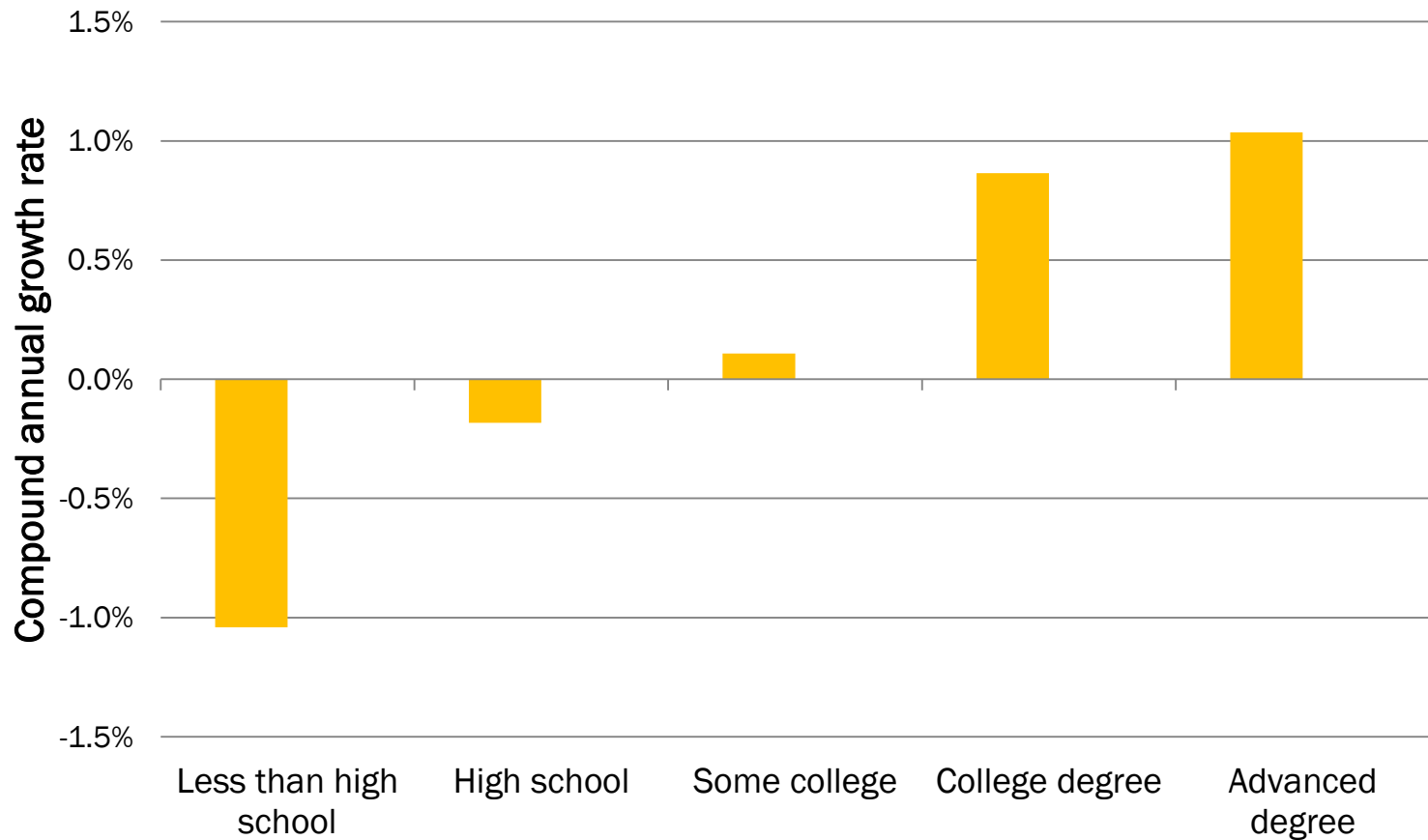
ADULT EDUCATIONAL COMPETENCY U.S. VS. INTERNATIONAL PEERS, BY AGE COHORT



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

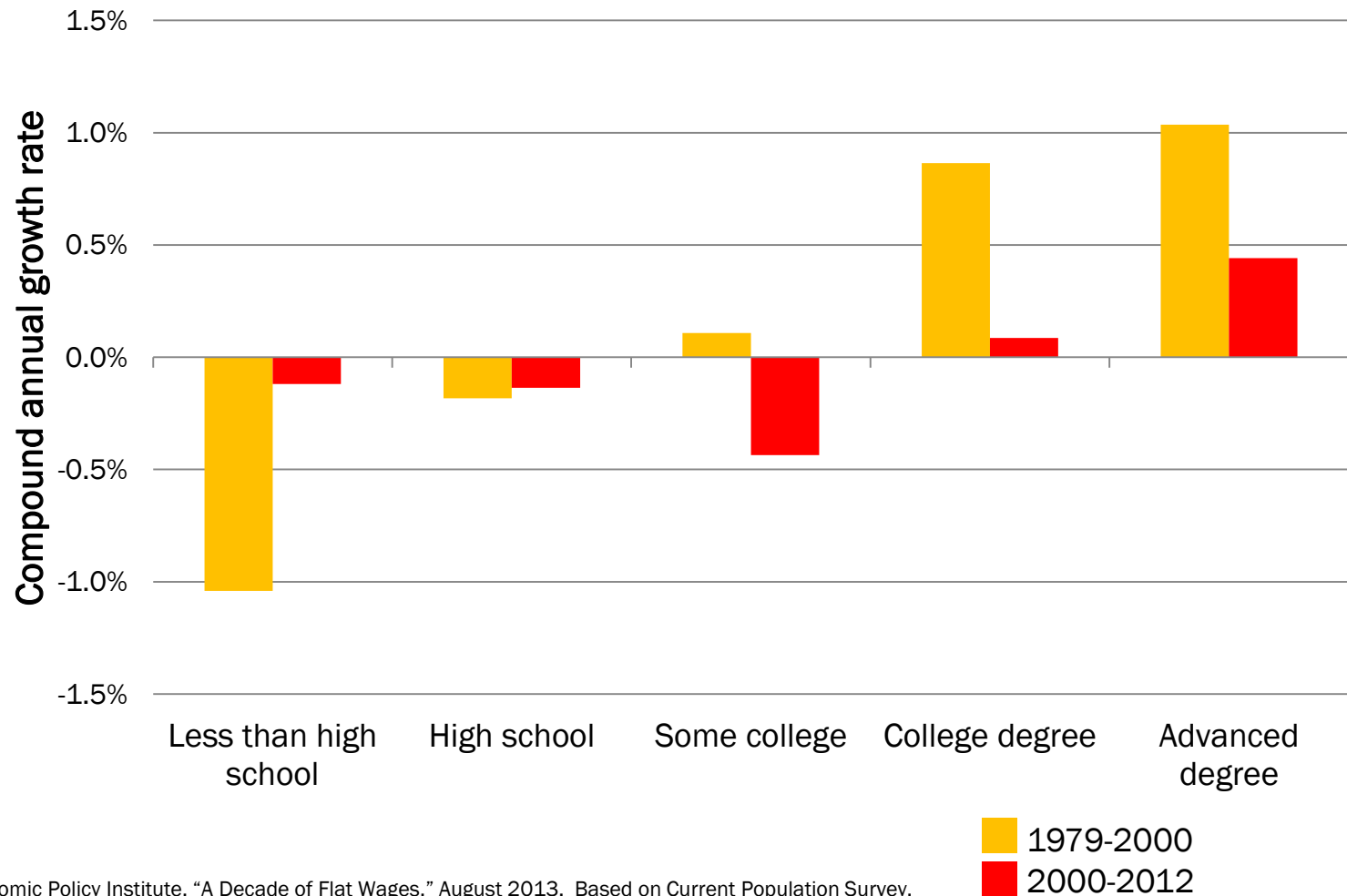
Source: Goodman, M., Finnegan, R., Mohadjer, L., Krenzke, T., and Hogan, J. (2013). Literacy, Numeracy, and Problem Solving in Technology-Rich Environments Among U.S. Adults: Results from the Program for the International Assessment of Adult Competencies 2012: First Look (NCES 2014-008). U.S. Department of Education. Washington, DC: National Center for Education Statistics.

REAL HOURLY WAGE GROWTH BY EDUCATIONAL ATTAINMENT 1979-2000



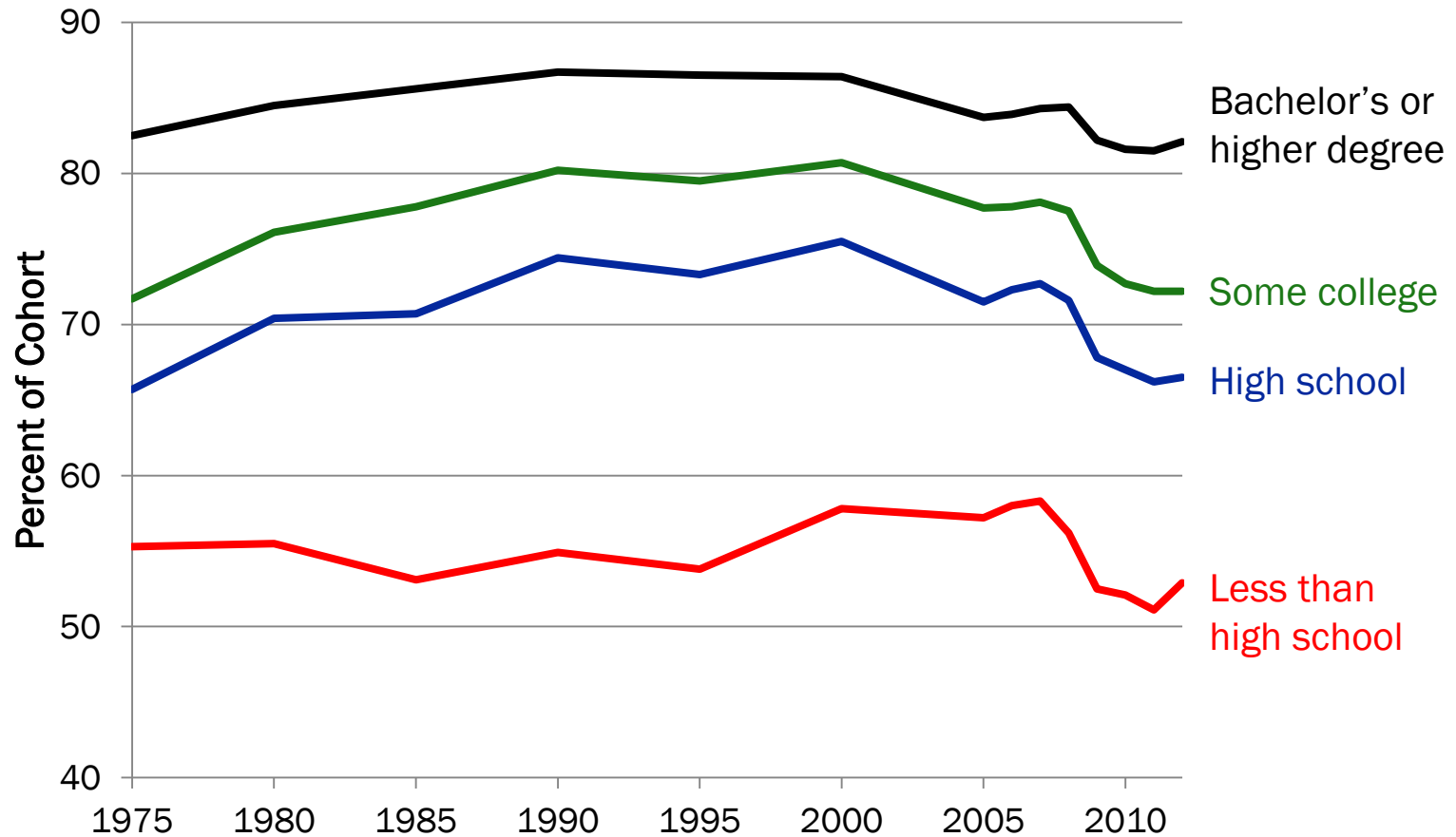
Source: Economic Policy Institute, "A Decade of Flat Wages," August 2013. Based on Current Population Survey.

REAL HOURLY WAGE GROWTH BY EDUCATIONAL ATTAINMENT 1979-2000 VERSUS 2000-2012



Source: Economic Policy Institute, "A Decade of Flat Wages," August 2013. Based on Current Population Survey.

EMPLOYMENT TO POPULATION RATIOS BY EDUCATIONAL ATTAINMENT



Note: Cohorts include persons 25 to 64 years old.

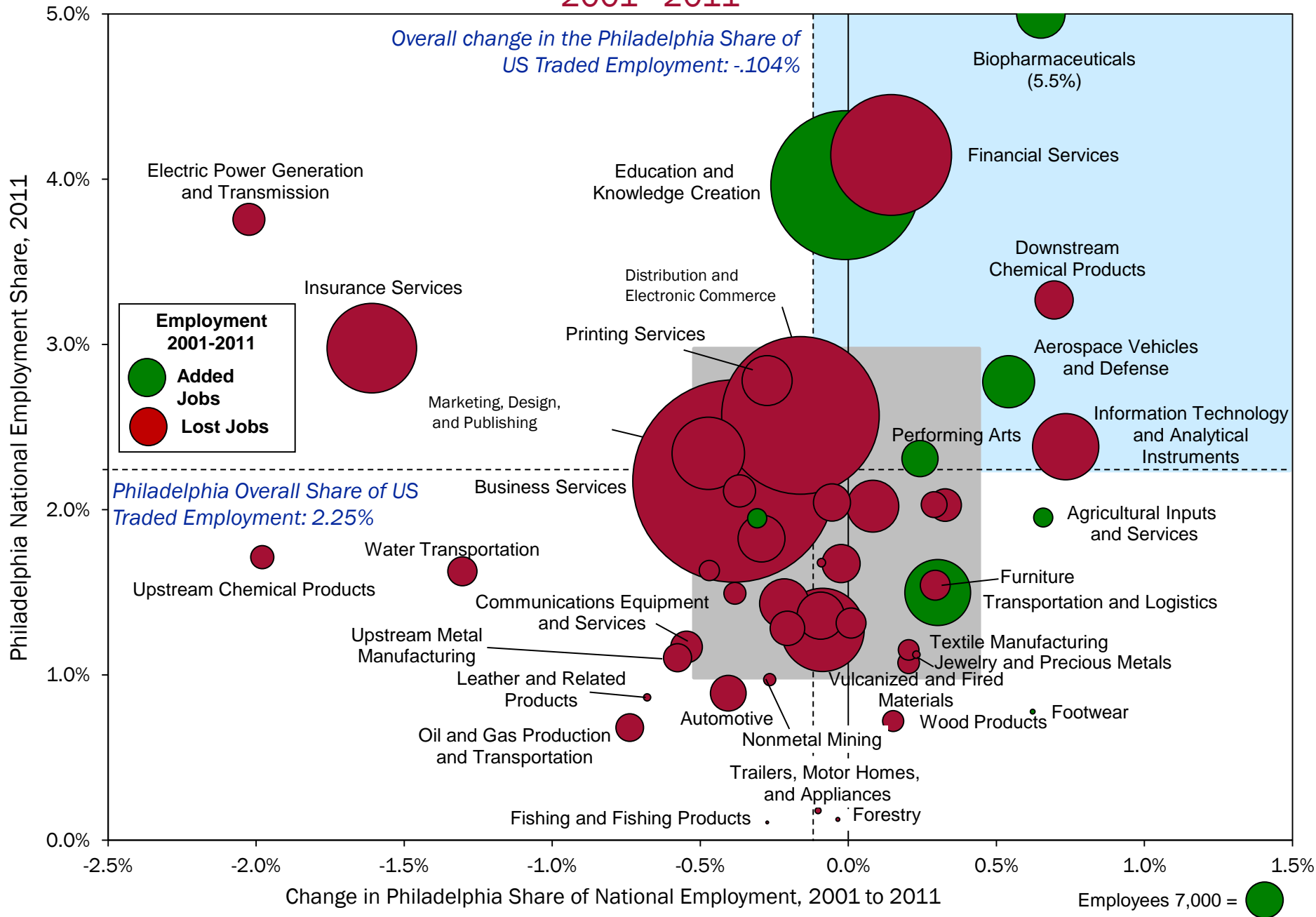
Source: National Center for Education Statistics, Digest of Education Statistics, 2012. Based on U.S. Department of Labor, Bureau of Labor Statistics, Office of Employment and Unemployment Statistics.

COMPARATIVE METRO LABOR MOBILIZATION PERFORMANCE

2008 - 2012



TRADED CLUSTER COMPOSITION OF THE PHILADELPHIA REGION 2001 - 2011



Source: Prof. Michael E. Porter, Harvard Business School; U.S. Cluster Mapping 2014 Benchmark Definitions (Delgado-Porter-Stern 2013), Richard Bryden, Project Director.

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**

MACRO

MICRO

Source: Porter, Michael, and Jan Rivkin. "An eight-point plan to restore American competitiveness." *The Economist: The World in 2013*. (Nov 2012).

STRATEGIC PRIORITIES FOR FEDERAL POLICY: APPROVAL PERCENTAGES

	U.S. business leaders			General public		
	All	Liberal	Conservative	All	Liberal	Conservative
Sustainable federal budget	90%	92%	85%	60%	62%	63%
Corporate tax reform	91%	91%	92%	72%	75%	73%
Infrastructure investments	85%	92%	75%	68%	74%	70%
International trading system	80%	81%	79%	60%	67%	58%
Responsible energy extraction	79%	75%	80%	64%	65%	64%
Streamlined regulations	86%	71%	95%	52%	43%	62%
High-skill immigration	89%	90%	88%	42%	55%	38%
Territorial tax code	58%	34%	75%	25%	19%	30%

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