

# **State Competitiveness: Creating an Economic Strategy in a Time of Austerity**

*National Governors Association Winter Meeting  
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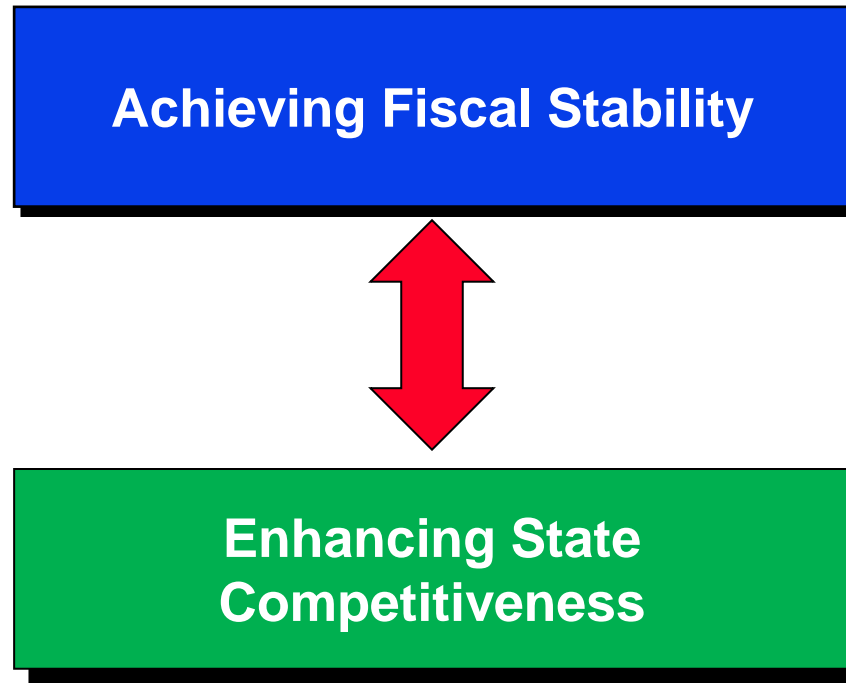


**Professor Michael E. Porter  
Harvard Business School**

For further material on regional competitiveness and clusters: [www.isc.hbs.edu/econ-clusters.htm](http://www.isc.hbs.edu/econ-clusters.htm)

For state economic profiles: [www.isc.hbs.edu/stateprofiles.htm](http://www.isc.hbs.edu/stateprofiles.htm)

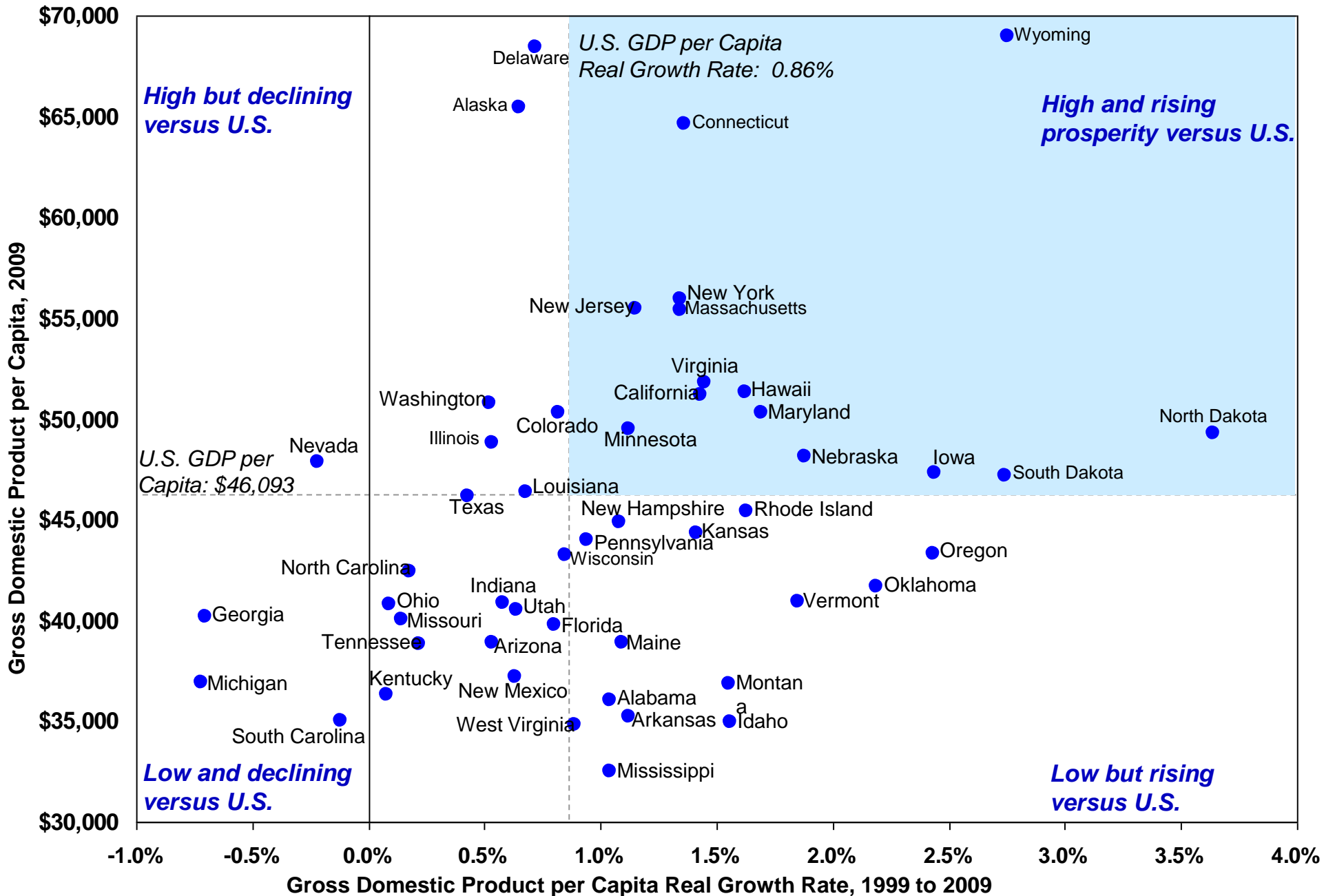
# The Economic Challenge for Governors in 2011



- **Competitiveness** is the only way to achieve sustainable job growth, improving wages, and stable public finances
- Creating a **clear economic strategy** for the state, that engages all stakeholders, is **even more important** in times of budget cutting and austerity

# Understanding State Economic Performance

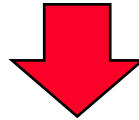
**1999 - 2009**



Notes: Real GDP figures in 2005 chained US dollars from the Bureau of Economic Analysis. Growth rate is calculated as compound annual growth rate. D.C. excluded  
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# What is Competitiveness?

- Competitiveness is the **productivity** with which a state utilizes its human, capital, and natural resources
- Productivity determines **wages** and the **standard of living**
  - Productivity growth determines sustainable **economic growth**
- Productivity depends on **how** a state competes, not what industries it competes in
- **Innovation** in products and processes is necessary to drive productivity growth



- Only **productive businesses** can create wealth and jobs
- States compete to offer the **most productive environment** for business
- The public and private sectors play **different but interrelated roles** in creating a productive economy

# New Jersey Competitive Performance

## Prosperity

### Gross State Product per capita, 2009

• In New Jersey:	\$55,464	Rank: 7
• In the US:	\$46,093	
• State difference to US:	20.3%	

### Growth in Gross State Product per capita, real annual rate, 1999-2009

• In New Jersey:	1.15%	Rank: 21
• In the US:	0.86%	

## Productivity

### Gross State Product per labor force participant, 2009

• In New Jersey:	\$106,667	Rank: 7
• In the US:	\$92,382	
• State difference to US:	15.5%	

### Growth in Gross State Product per labor force participant\*, 1999-2009

• In New Jersey:	1.06%	Rank: 31
• In the US:	1.09%	

### Average private wage, 2008

• In New Jersey:	\$50,923	Rank: 5
• In the US:	\$42,435	
• State difference to US:	20.0%	

### Private wage Growth, annual rate, 1998-2008

• In New Jersey:	3.15%	Rank: 35
• In the US:	3.32%	

## Innovation Output

### Patents Per 10,000 Employees, 2009

• In New Jersey:	7.80	Rank: 13
• In the US:	6.83	

### Growth in total patents, annual rate, 1998-2009

• In New Jersey:	-2.54%	Rank: 44
• In the US:	0.23%	

### Traded establishment formation, annual growth rate, 1998-2008

• In New Jersey:	0.47%	Rank: 47
• In the US:	1.79%	

## Cluster

### Share of State Traded Employment in Strong Clusters, 2008

• In New Jersey:	68.5%	Rank: 2
• In the US:	41.8%	

### Change in Share of National Employment in Strong Clusters, 1998-2008

• In New Jersey:	-0.23%	Rank: 37
• In the US:	-0.06%	

## Labor Mobilization

### Labor Force Participation, 2009

• In New Jersey:	67.2	Rank: 21
• In the US:	65.4	

### Employment, 2010 (December)

• In New Jersey:	4,079,180	Rank: 10
• % of US:	2.93%	

### Employment growth, annual rate, 2000-2010 (December)

• In New Jersey:	-0.12%	Rank: 38
• In the US:	0.11%	

### Unemployment, 2010 (December)

• In New Jersey:	9.1%	Rank: 29
• In the US:	9.4%	

### Change in Unemployment, 2000-2010 (December)

• In New Jersey:	5.4%	Rank: 35
• In the US:	5.5%	

## Population

### Population, 2009

• In New Jersey:	8,707,707	Rank: 11
• % of US:	2.84%	

### Population growth, annual rate, 1999-2009

• In New Jersey:	0.41%	Rank: 39
• In the US:	0.96%	

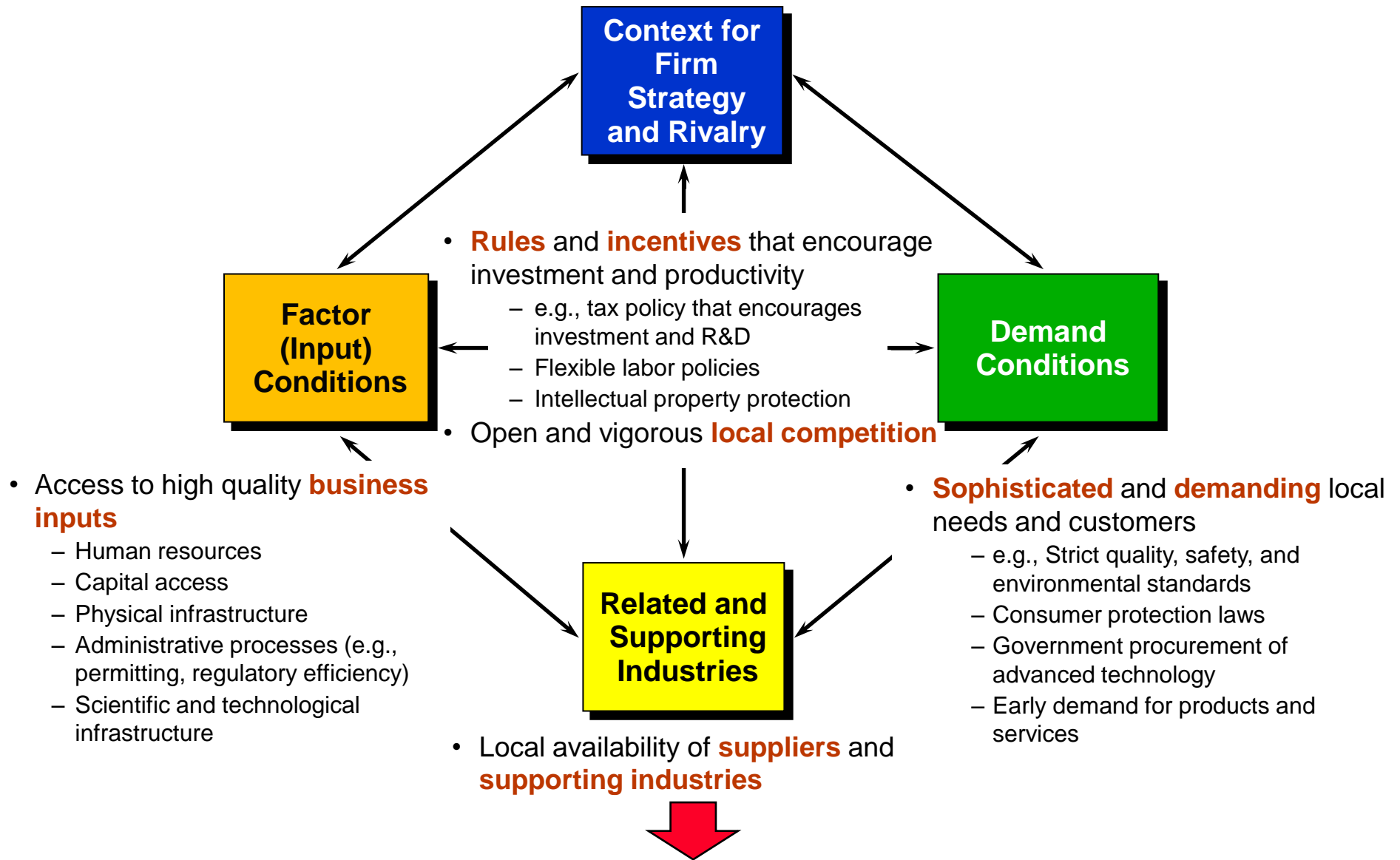
# What Drives State Productivity?

**Quality of the  
Overall  
Business  
Environment**

**State of Cluster  
Development**

**Policy  
Coordination  
among Multiple  
Geographic  
Levels**

# Quality of the Business Environment



- **Many things matter** for competitiveness
- Successful economic development is a process of improving the business environment to enable **increasingly sophisticated ways of competing**

# Improving Productivity in the Business Environment

## Key Issues for States

- Simplify and speed up **regulation** and **permitting**
- Reduce unnecessary **costs of doing business**
- Establish **training programs** that are aligned with the needs of the state's businesses
- Focus **infrastructure investments** on the most leveraged areas for productivity and economic growth
- Design all policies to support **small growth businesses**
- Protect and enhance the state's **higher education** and **research** institutions
- Relentlessly improve of the **public education** system, the essential foundation



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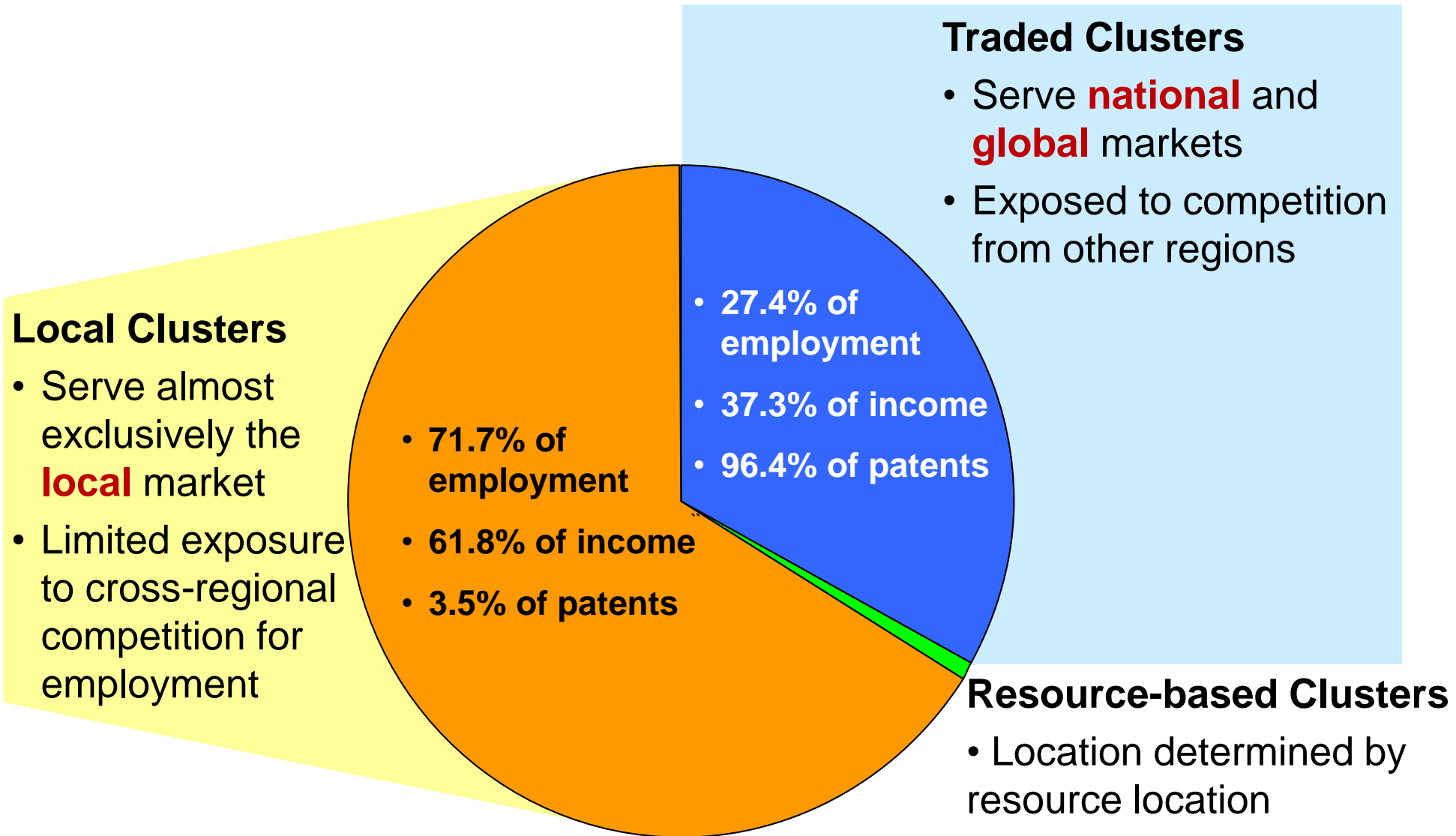
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# Composition of Regional Economies, U.S. 2008

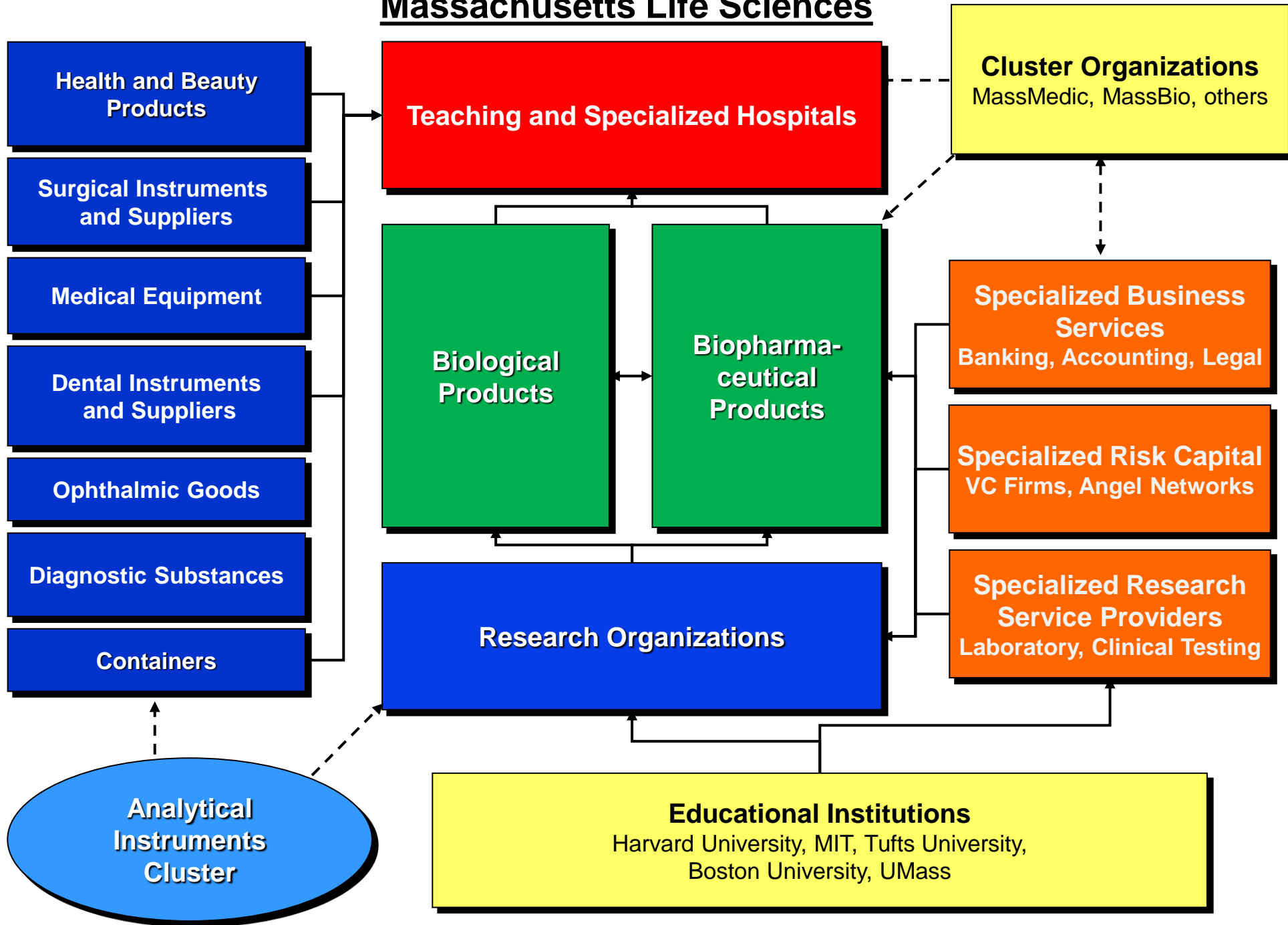


Note: Cluster data includes all private, non-agricultural employment.

Source: Michael E. Porter, Economic Performance of Regions, Regional Studies (2003); Updated via Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School (2008)

# State of Cluster Development

## Massachusetts Life Sciences

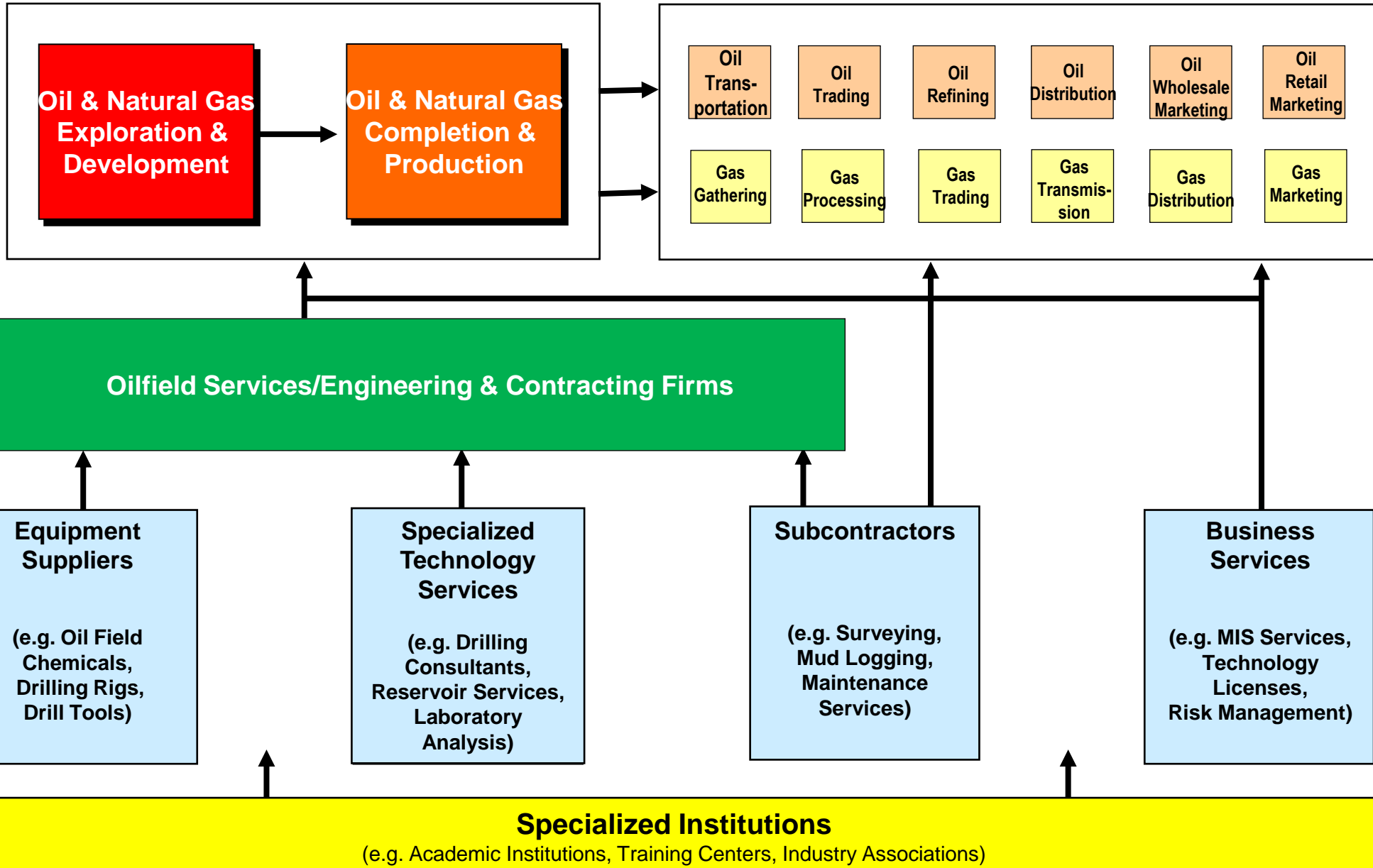


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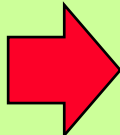
## Houston Oil and Gas

**Upstream**

**Downstream**

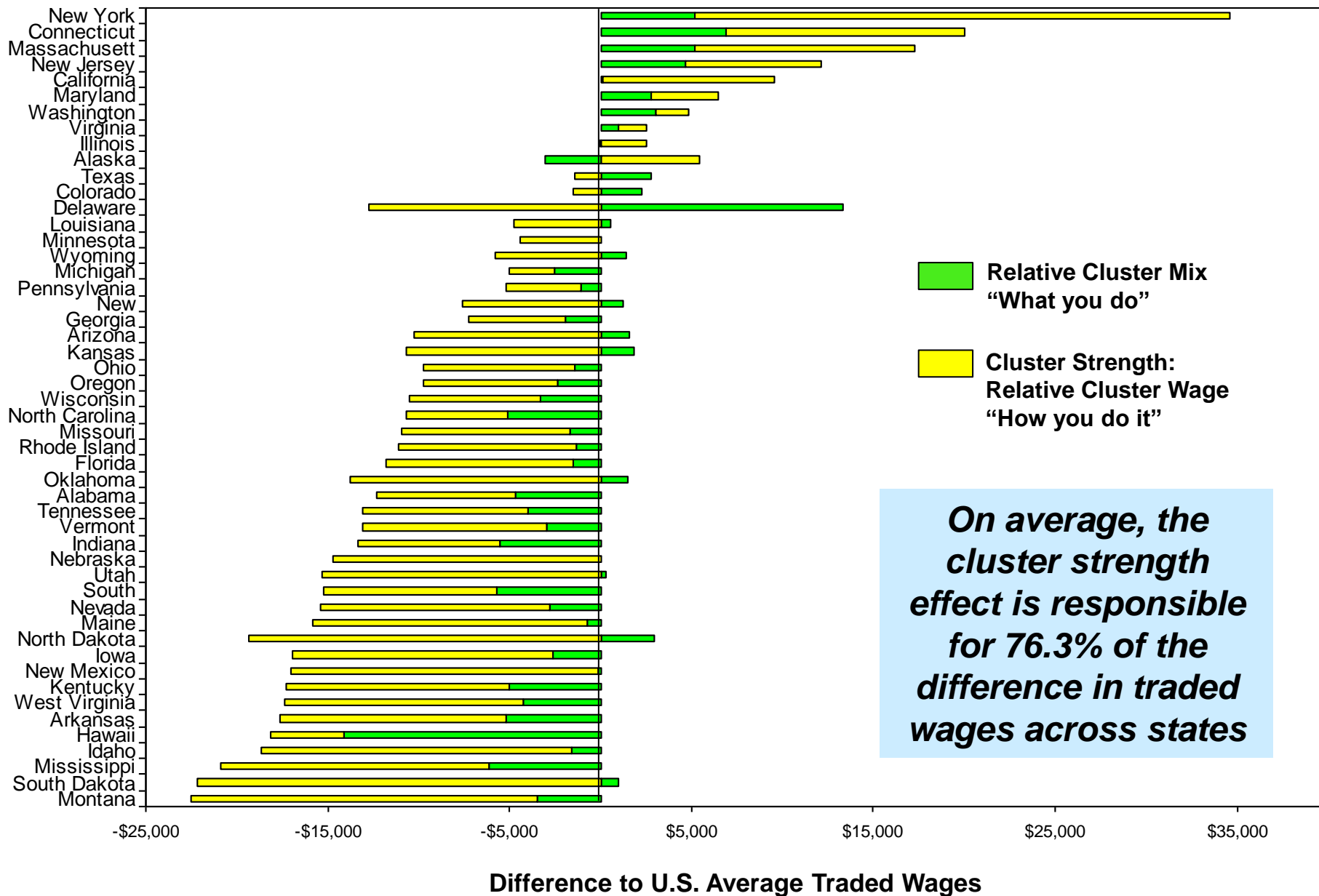


# Strong Clusters Drive Regional Performance

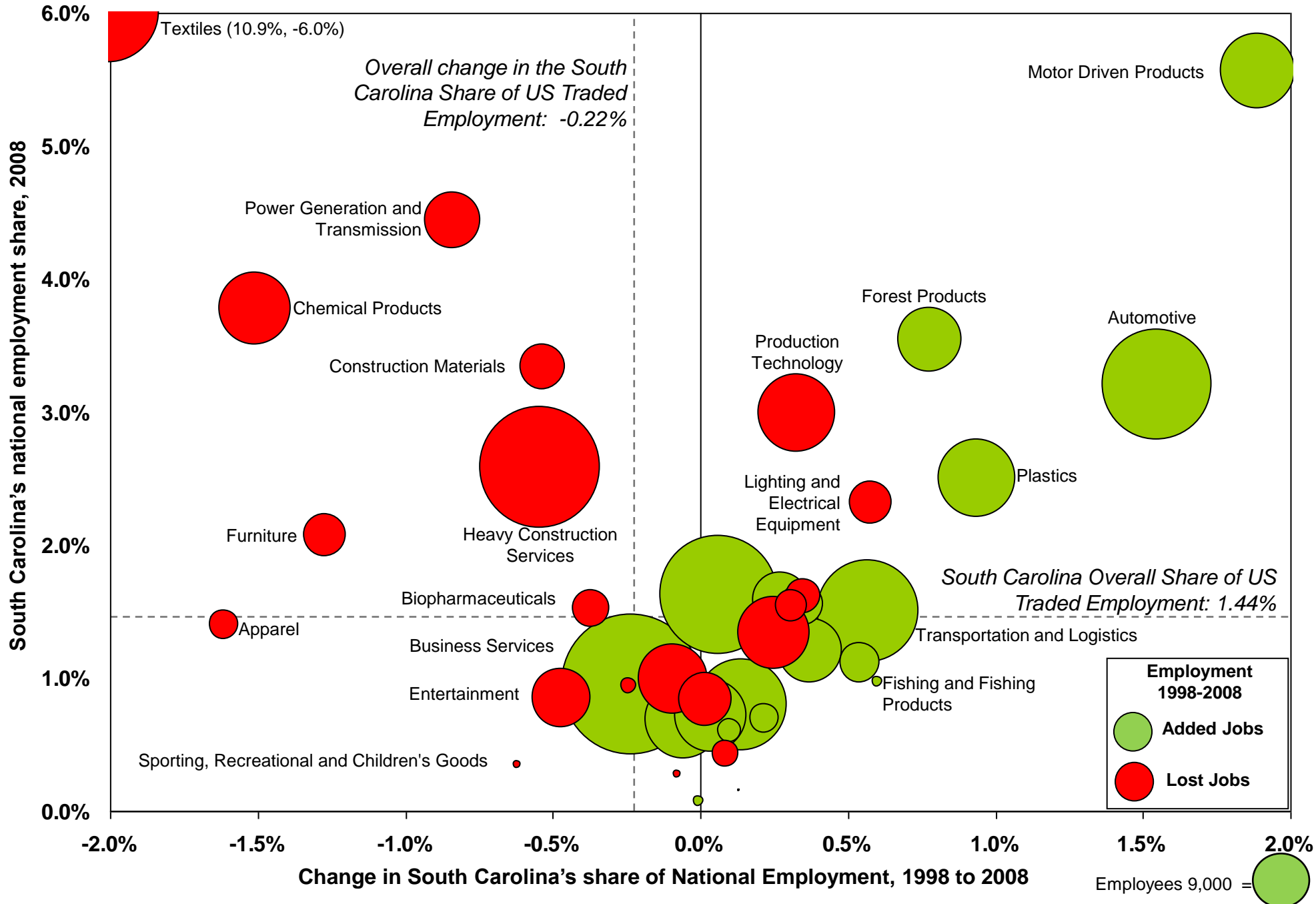
- Specialization in **strong clusters**
  - **Breadth** of industries within each cluster
  - Strength in **related clusters**
  - Presence of a region's clusters in **neighboring regions**
- 
- **Job** growth
  - Higher **wages**
  - Higher **patenting** rates
  - Greater **new business** formation, growth and survival

# Impact of Cluster Mix and Cluster Strength on Average Traded Wages

## U.S. States, 2008



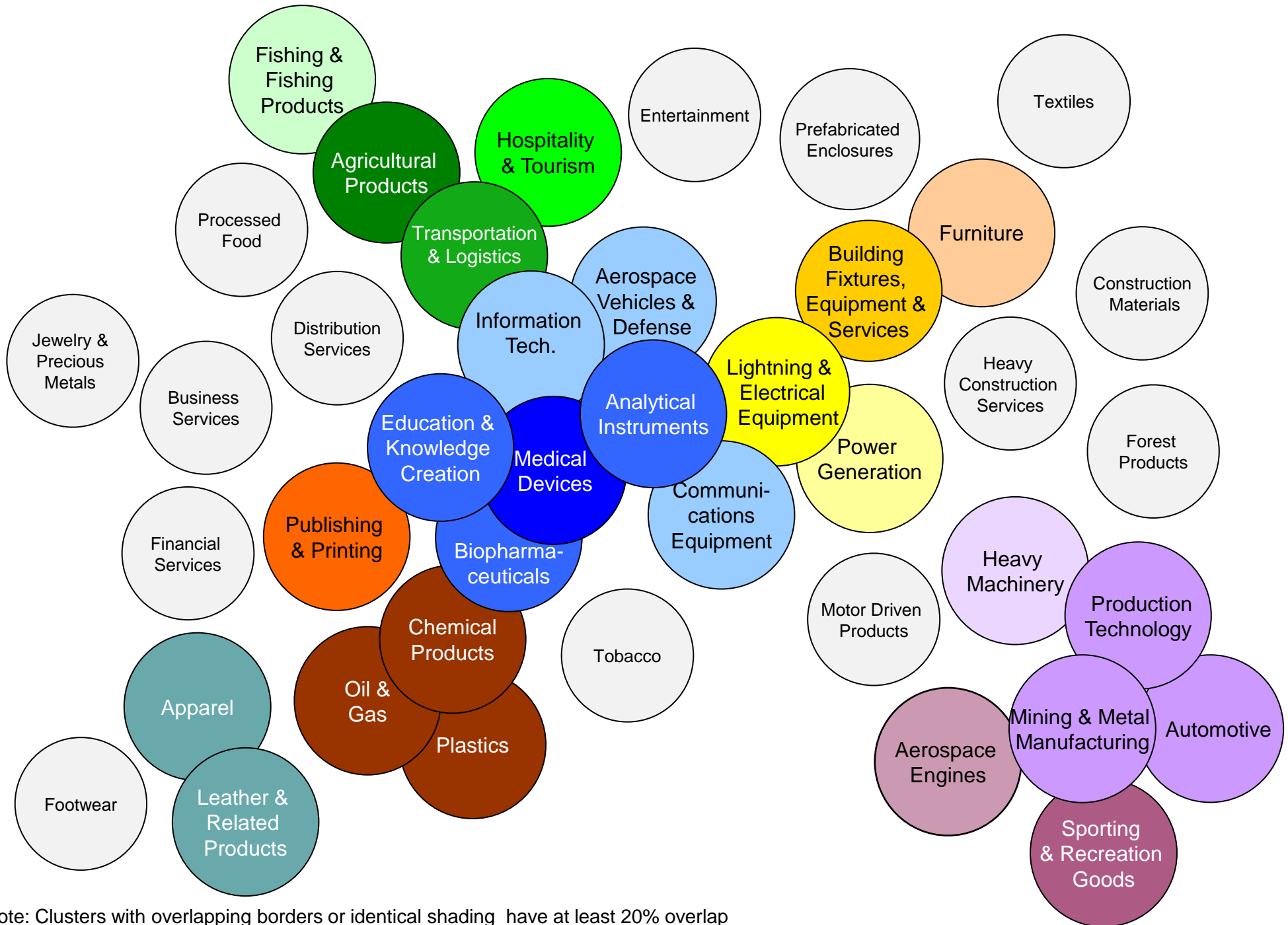
# Composition of the South Carolina Economy Specialization by Traded Cluster, 1998 to 2008



Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.

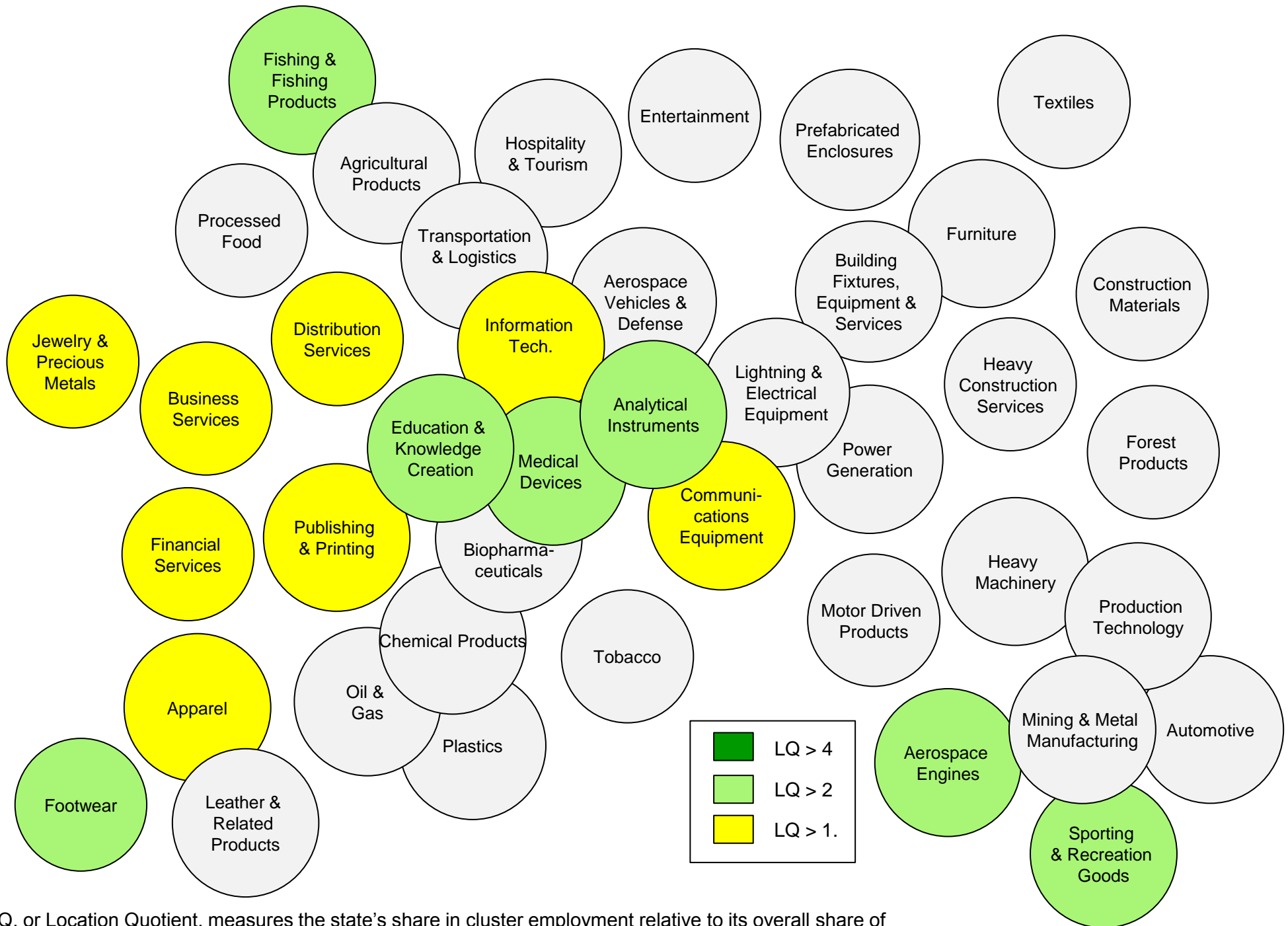


# Related Clusters and Economic Diversification



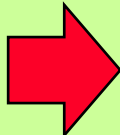
Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.

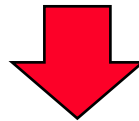
# Massachusetts Cluster Portfolio, 2008



LQ, or Location Quotient, measures the state's share in cluster employment relative to its overall share of U.S. employment. An LQ > 1 indicates an above average employment share in a cluster.

# Strong Clusters Drive Regional Performance

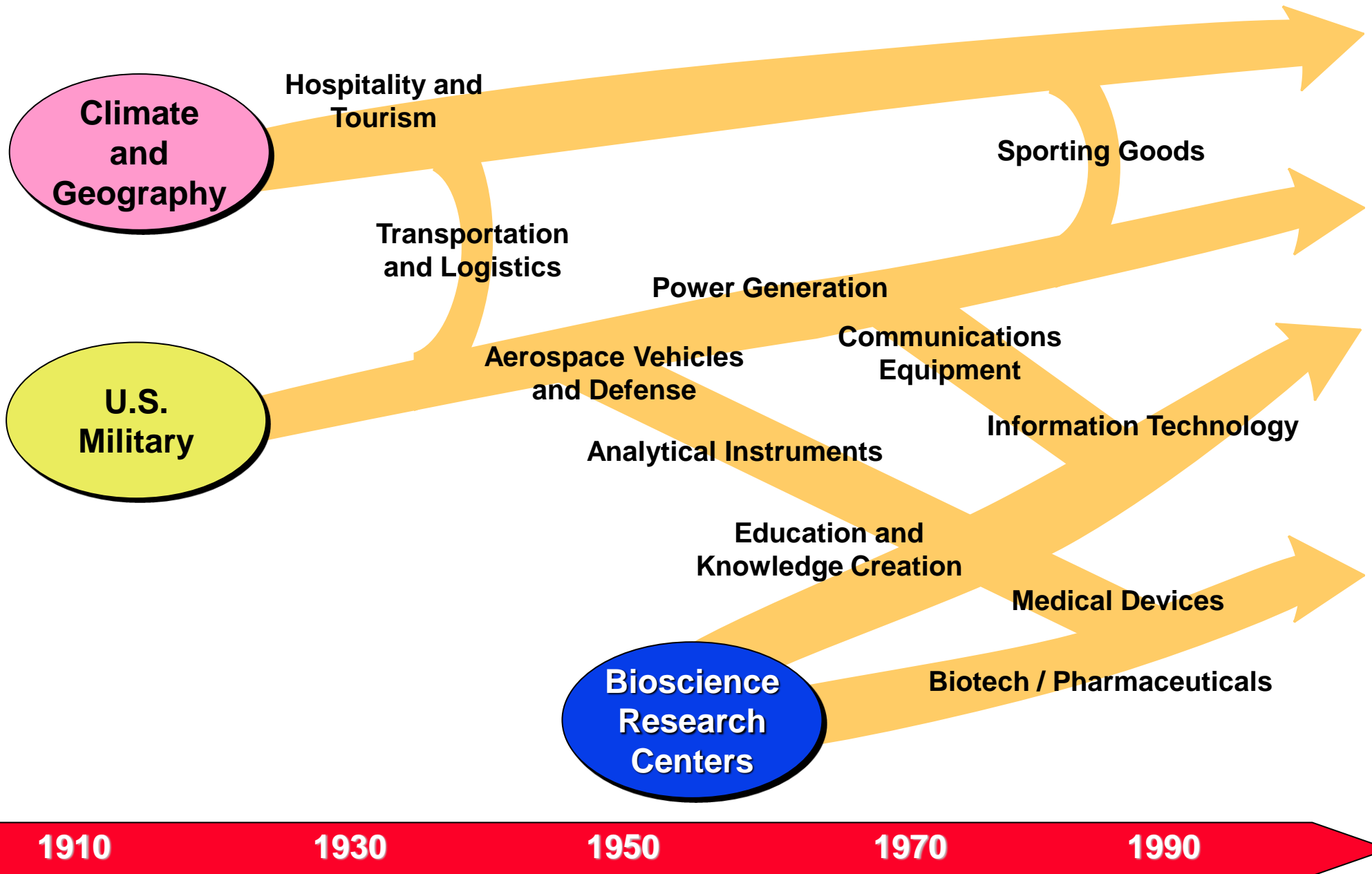
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- Build on the state's **existing and emerging** clusters in the state rather than chase hot fields
- Economic diversification usually occurs **within clusters** and **across related clusters**

# The Evolution of Regional Economies

## San Diego



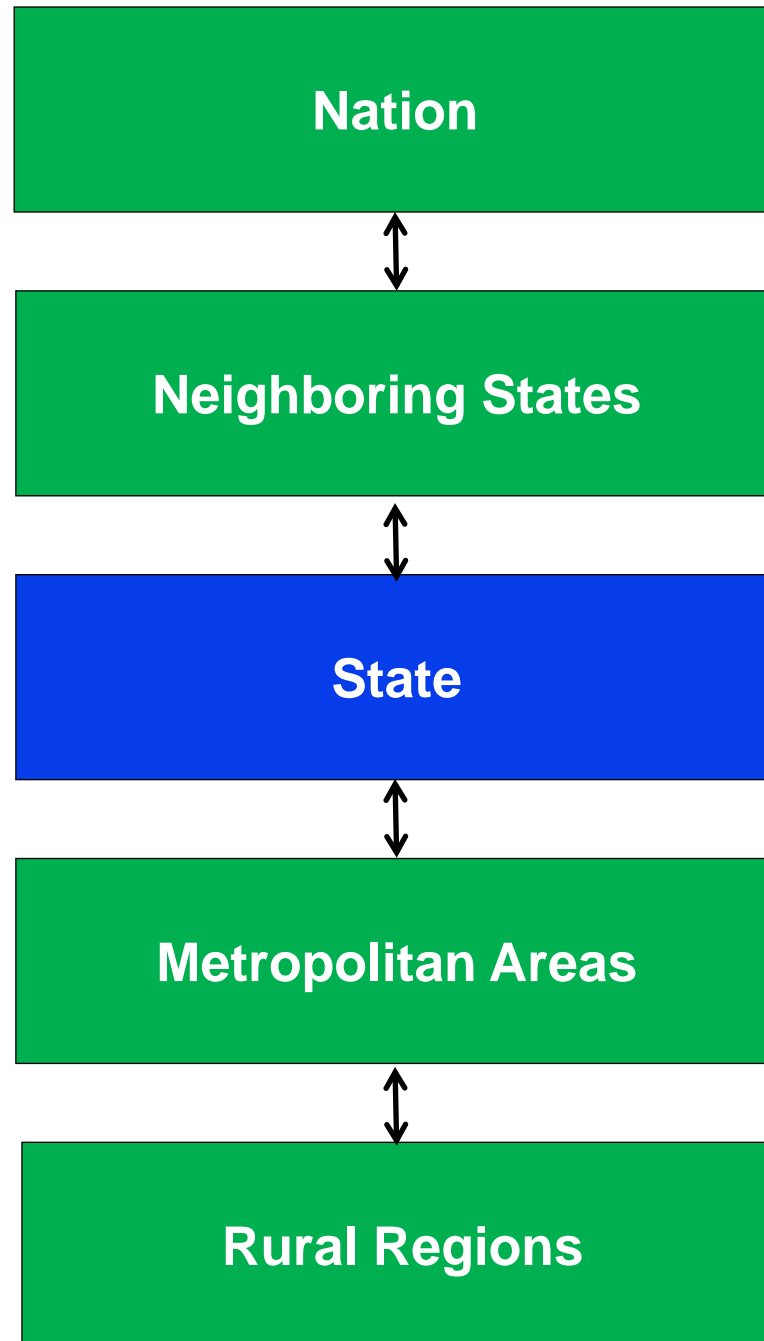
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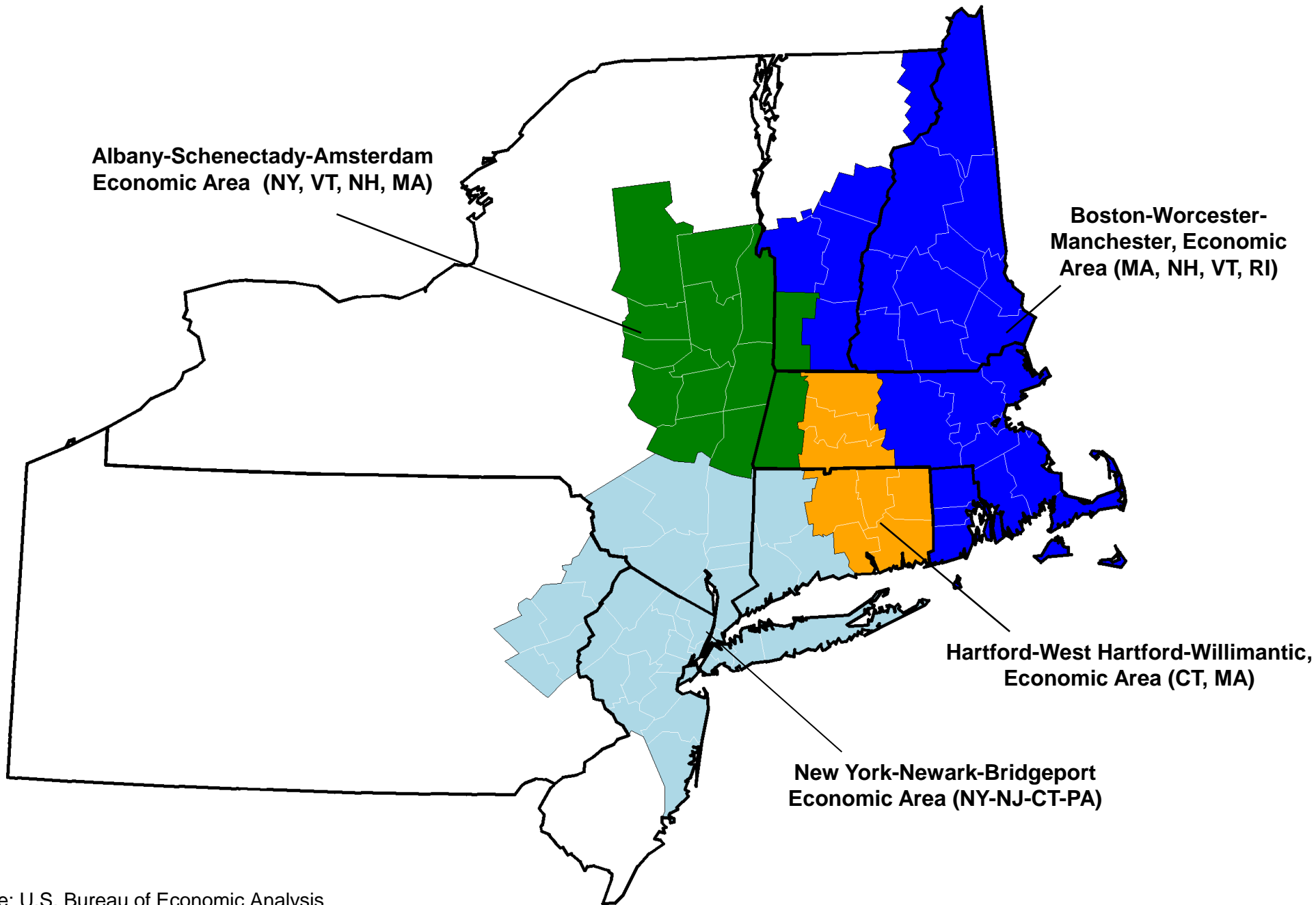
**Policy  
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# Geographic Influences on Competitiveness

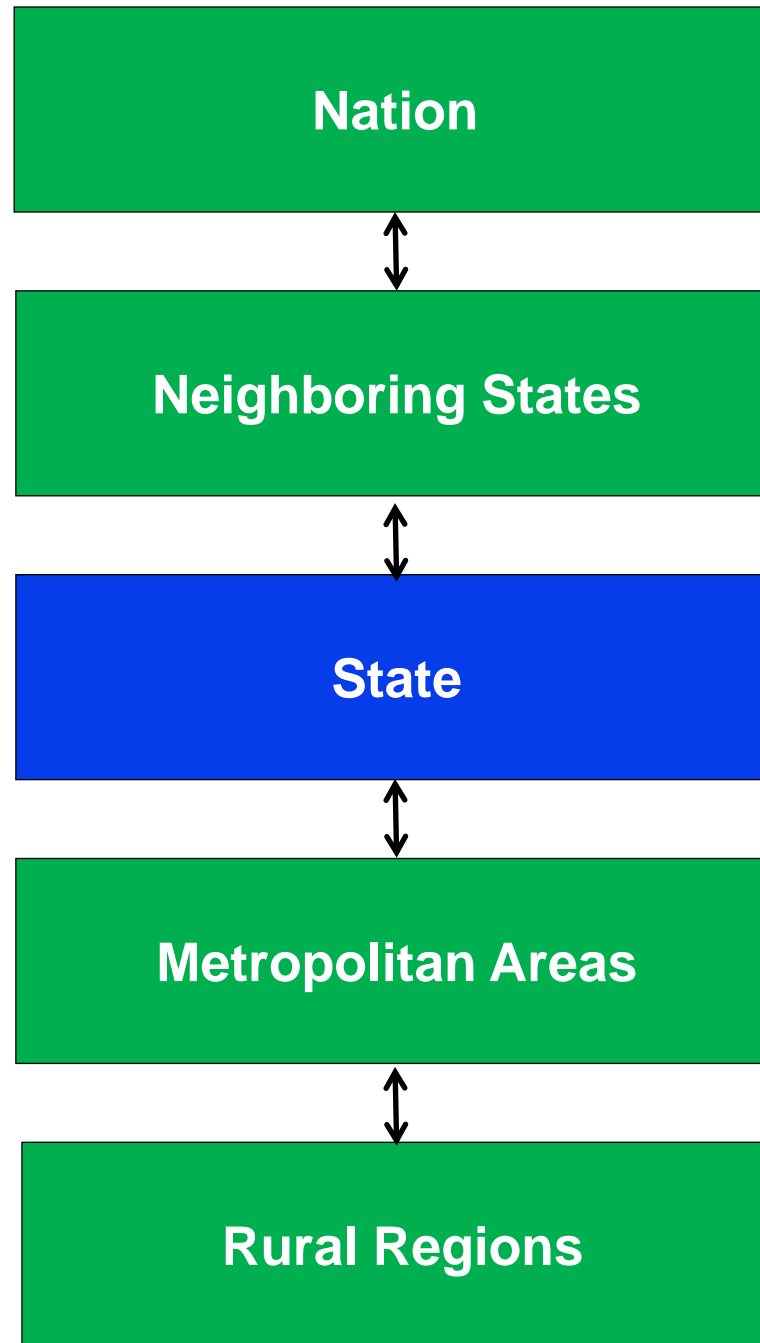


# Defining the State's Economic Regions

## Massachusetts in BEA Economic Areas



# Geographic Influences on Competitiveness



- **Influence** and **access** federal policies and programs

- Integrate policies and infrastructure with neighbors

- Assist each metro area in developing its own strategy

- Connect rural regions with urban areas



# Creating a State Economic Strategy

## State Value Proposition

- What can be the **distinctive competitive position** of the state given its assets, location and potential strengths?

## Developing Unique Strengths

- What elements of the business environment can be **distinctive strengths** relative to peers?
- What **strong** or **emerging clusters** can be built upon?

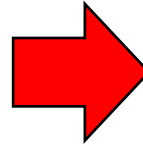
## Achieving and Maintaining Parity with Peers

- What **weaknesses** must be addressed to relax key constraints and achieve parity with peer locations?

- 
- State economic strategy requires **setting priorities** and **moving beyond** long lists of discrete recommendations

# How Should States Compete with Each Other?

## Tactical (Zero Sum Competition)



## Strategic (Positive Sum Competition)

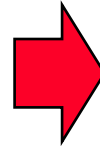
- Focus on attracting **new** investments
- Compete for **every** plant
- Offer **generalized** tax breaks
- Provide subsidies to **lower / offset** business costs
- Every city and sub-region **for itself**
- **Government** drives investment attraction

- Also support greater local investment by **existing** companies
- Reinforce areas of **specialization** and emerging cluster strength
- Provide state support for training, infrastructure, and institutions with **enduring benefits**
- Improve the **efficiency of doing business**
- Harness efficiencies and coordination **across jurisdictions**
- Government and the private sector **collaborate** to build cluster strength

# The Shifting Process of Economic Development

## Old Model

- **Government** drives economic development through policy decisions and incentives

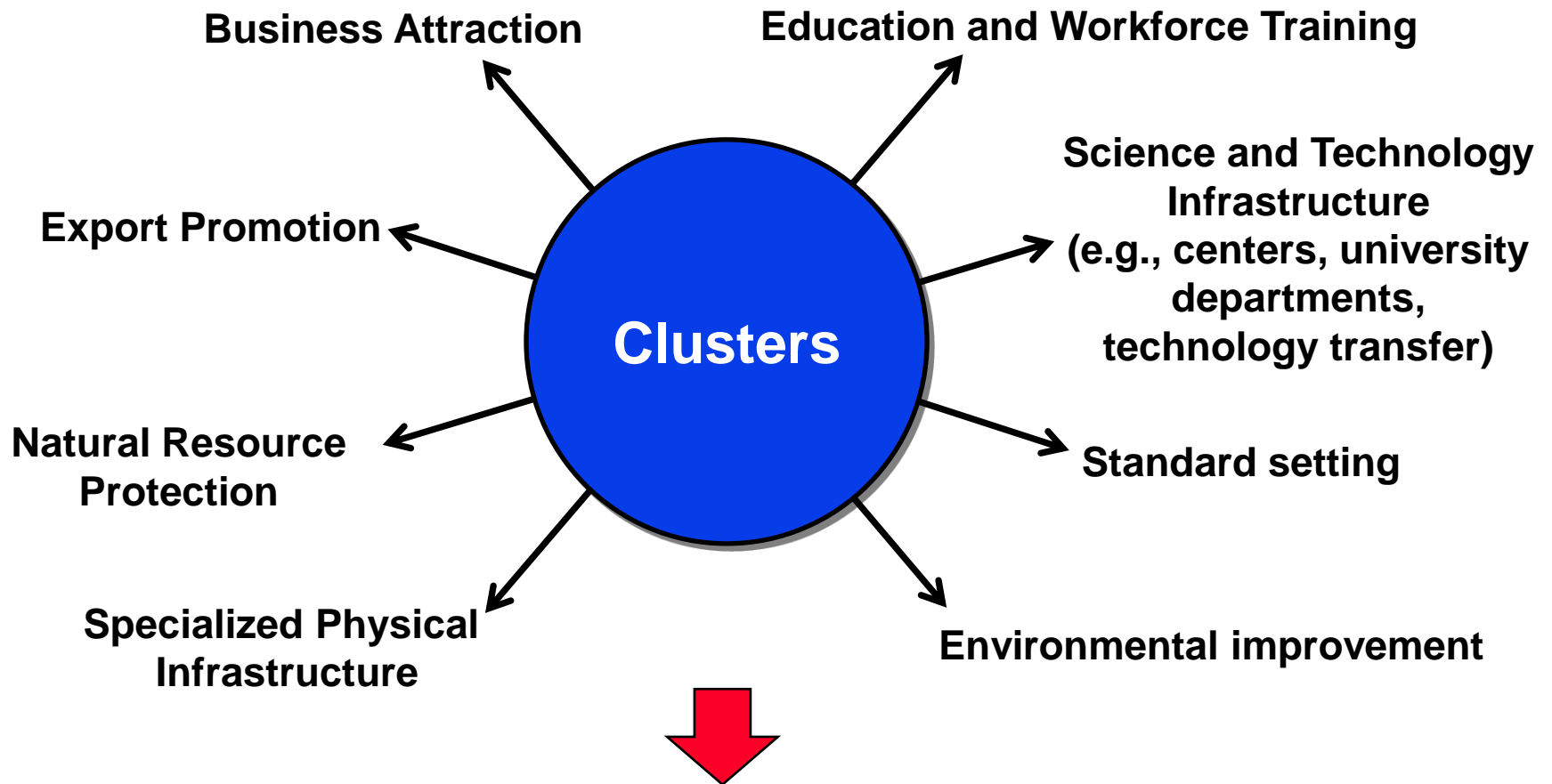


## New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and private sector organizations

- Competitiveness is the result of both **top-down** and **bottom-up processes** in which many companies and institutions take responsibility

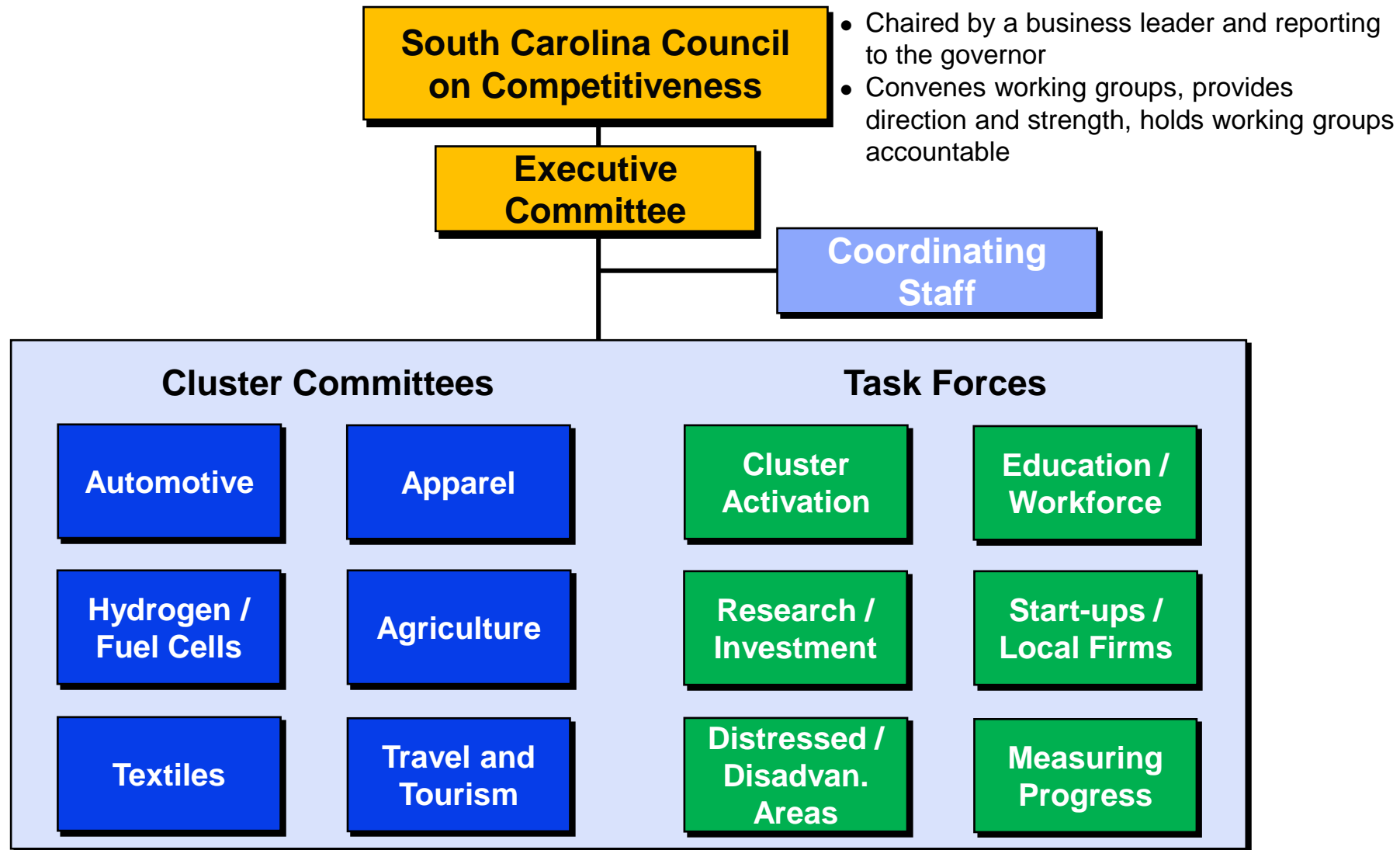
# Aligning Economic Policy and Clusters



- Clusters provide a framework for **organizing the implementation** of many public policies and public investments directed at economic development to achieve greater effectiveness

# Organizing for Economic Development

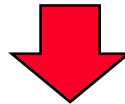
## South Carolina Council on Competitiveness



- Effective economic policy also requires coordination **within government**

# Concluding Remarks

- The goal of economic strategy is to enhance productivity and thus fundamental **competitiveness**. This is the only way to create jobs in the long run
- Improving **productivity** and **innovation** must be the guiding principles for every state policy choice
- Improving competitiveness does not require new resources, but **using existing resources better**
- Improving state competitiveness will require governors to **mobilize the private sector**, not rely on government alone
- Economic strategy is not about ideology, but getting **results**



- The prosperity of the **U.S. economy** will depend more on the success of states in improving competitiveness than what happens in Washington