

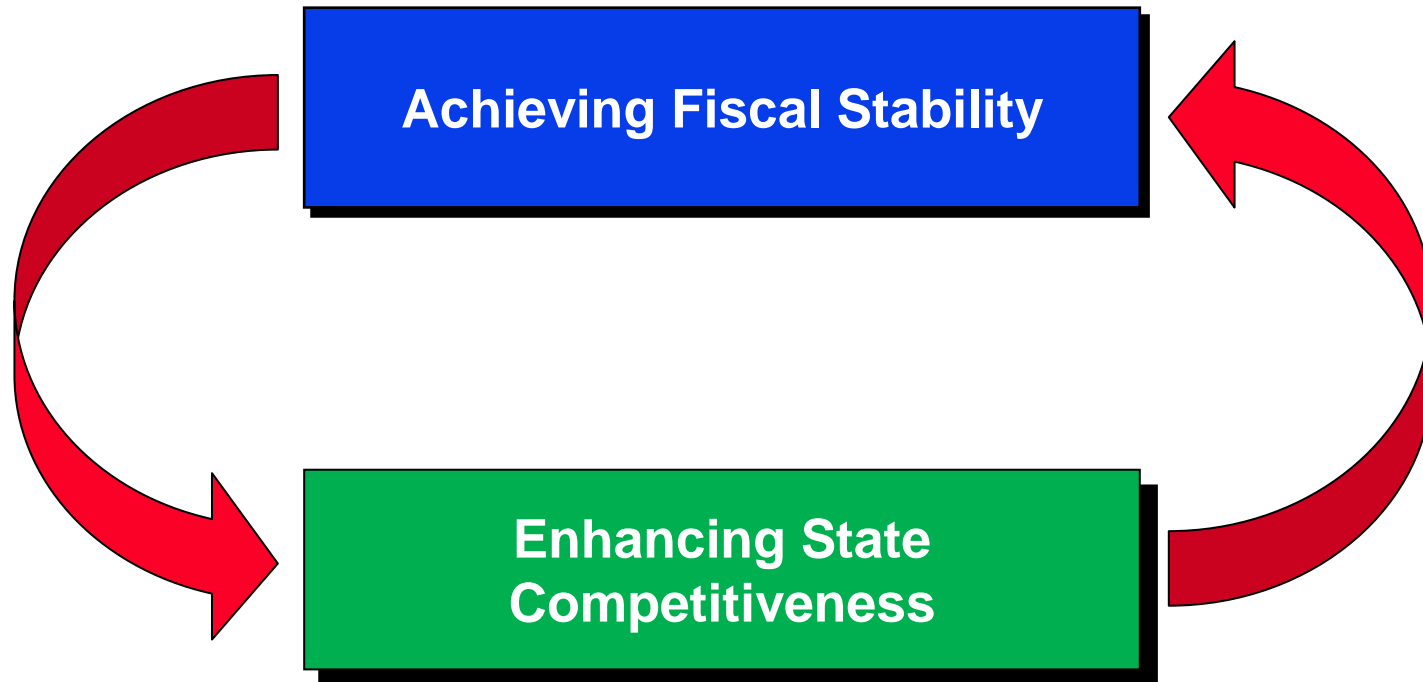
Michigan Competitiveness: Creating an Economic Strategy in a Time of Austerity



Professor Michael E. Porter
Harvard Business School

Mackinac Policy Conference
June 2, 2011

The Economic Challenge for States in 2011



What is Competitiveness?

- Competitiveness is the **productivity** with which a state utilizes its human, capital, and natural endowments to create value
- Productivity determines **wages, jobs, and the standard of living**
- It is not **what** fields a state competes in that determines its prosperity, but **how productively** it competes



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

Michigan Performance Scorecard

Position in 1998-1999

Trend

Current Position

Prosperity

GDP per Capita, 1999-2009

23

50

41

-18

Wages

Average Private Wage, 1998-2008

10

50

17

-7

Labor Productivity

GDP per Worker, 1999-2009

24

50

42

-18

Job Creation

Private Employment Growth, 1998-2000 and 2007-2009

27

46

48

-21

Labor Mobilization

Labor Participation Rate, 1999-2010

26

49

43

-17

New Business Formation

Traded Cluster Establishment Growth, 1998-2000 and 2006-2008

27

40

43

-16

Innovation

Patents per Employee, 1999-2009

11

14

10

+1

Cluster Strength

Employment in Strong Clusters, 1998-2008

18

42

27

-9

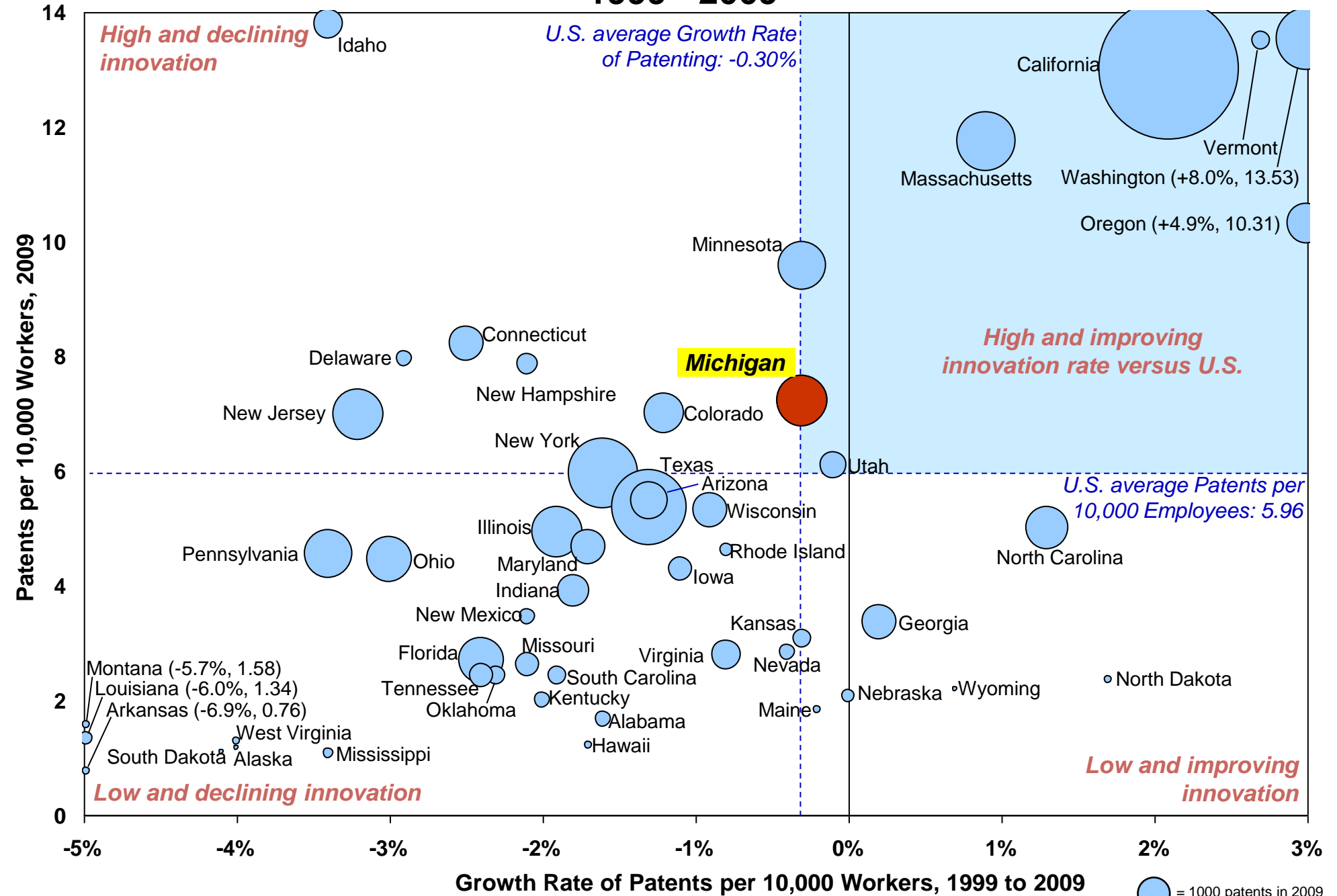
Leading Clusters

- Automotive
- Metal Manufacturing
- Plastics
- Production Technology
- Biopharmaceuticals



Comparative State Innovation Performance

1999 - 2009



Source: USPTO utility patents, Bureau of Labor Statistics. Note: Growth rate calculated as compound annual growth rate (CAGR).

Why?

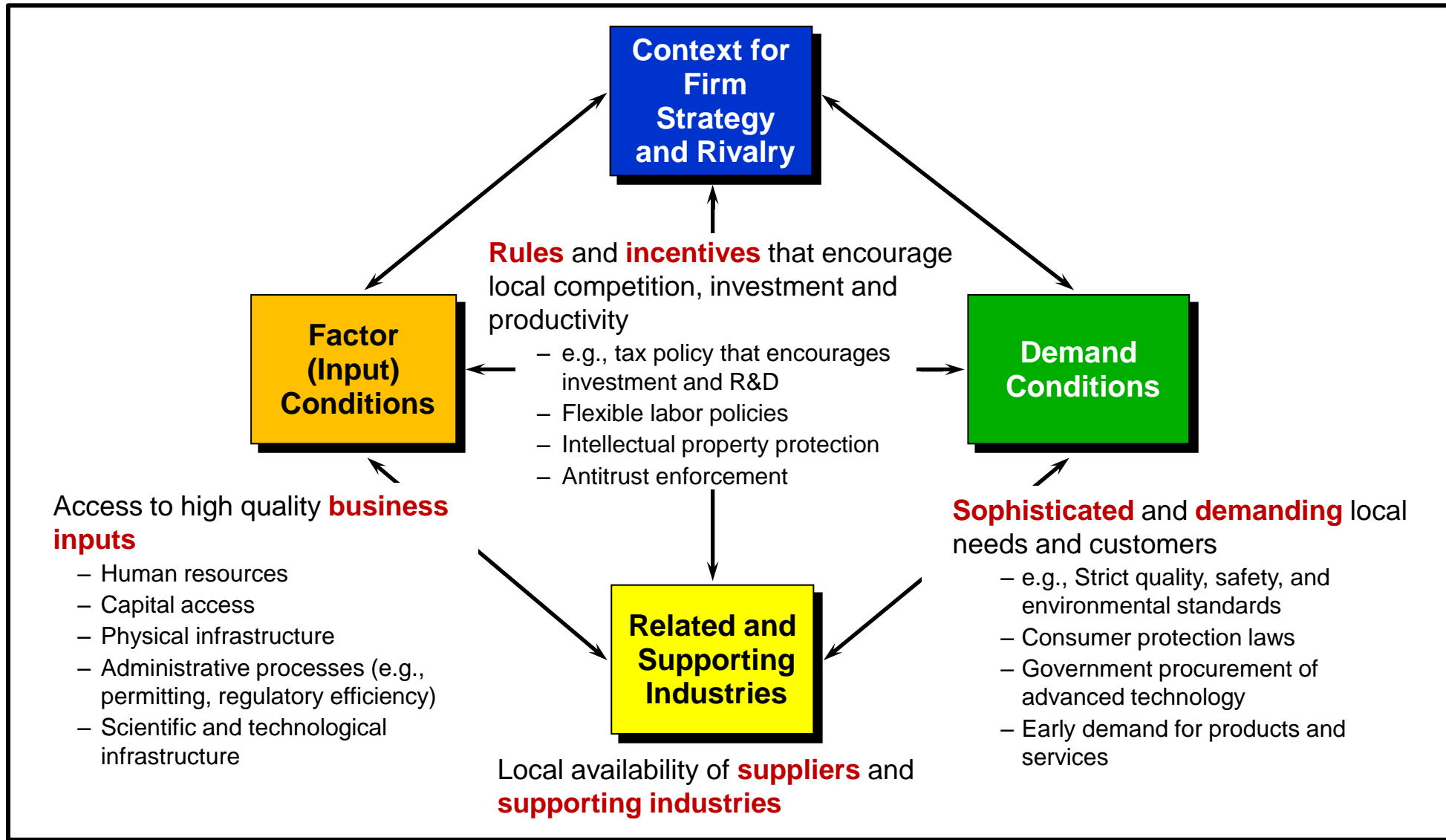
What Drives State Productivity?

**1. Quality of the
Overall Business
Environment**

**2. Cluster
Development**

**3. Policy
Coordination
among Multiple
Levels of
Geography/
Government**

Quality of the Overall Business Environment



- **Many things matter** for competitiveness
- Economic development is the process of improving the business environment to enable companies **to compete in increasingly sophisticated ways**

Improving the Business Environment

Action Items

1. Simplify and speed up **regulation** and **permitting**
2. Reduce unnecessary **costs of doing business**
3. Establish **training programs** that are aligned with the needs of the state's businesses
4. Focus **infrastructure investments** on the most leveraged areas for productivity and economic growth
5. Design all policies to support **emerging growth companies**
6. Protect and enhance the state's **higher education** and **research** institutions
7. Relentlessly improve the **public education** system, the essential foundation for productivity in the long run

Why?

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What is a Cluster?

A geographically concentrated group of interconnected companies and associated institutions in a particular field



Traded Clusters

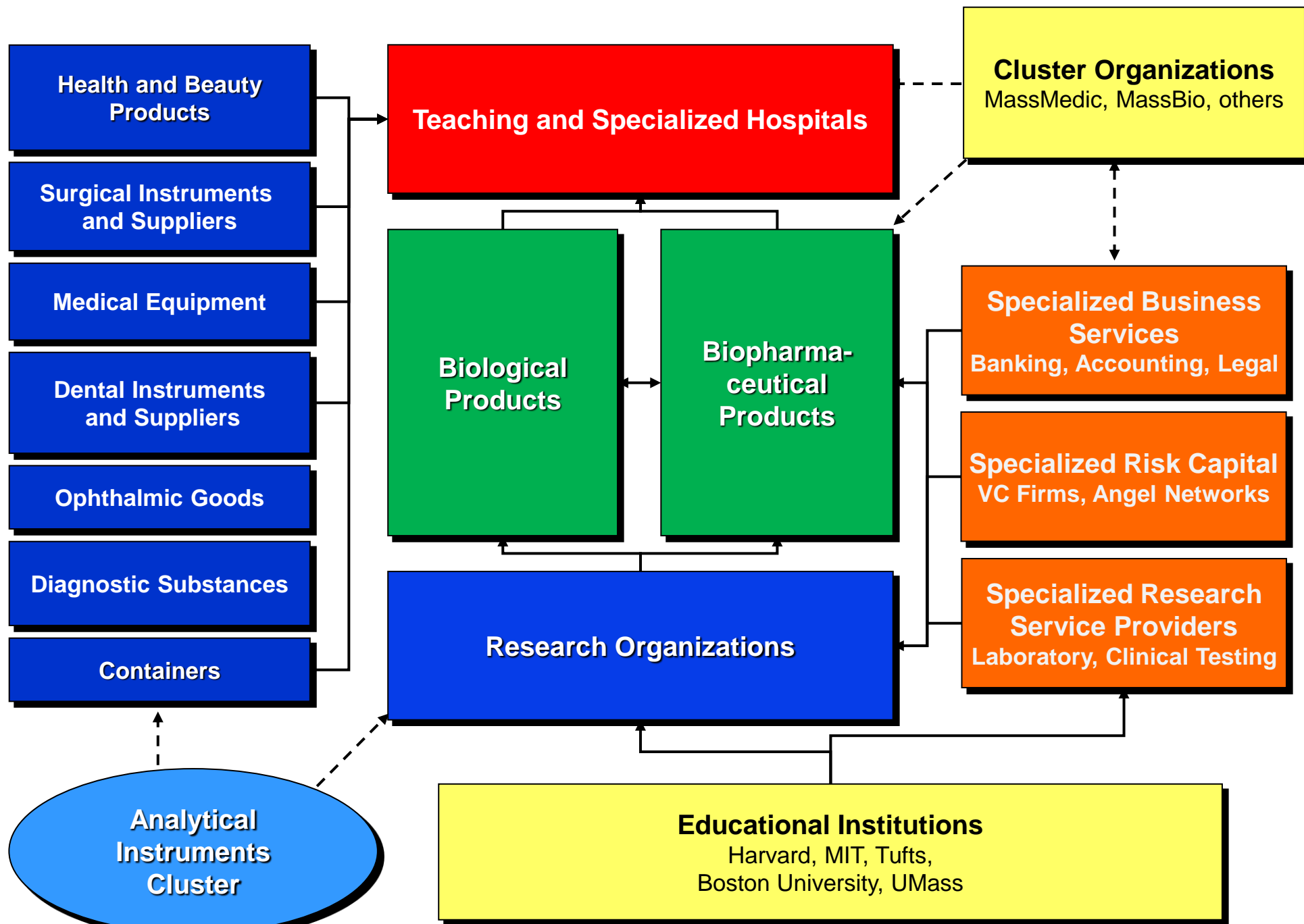
- Compete to serve **national** and **international** markets
- Can locate anywhere



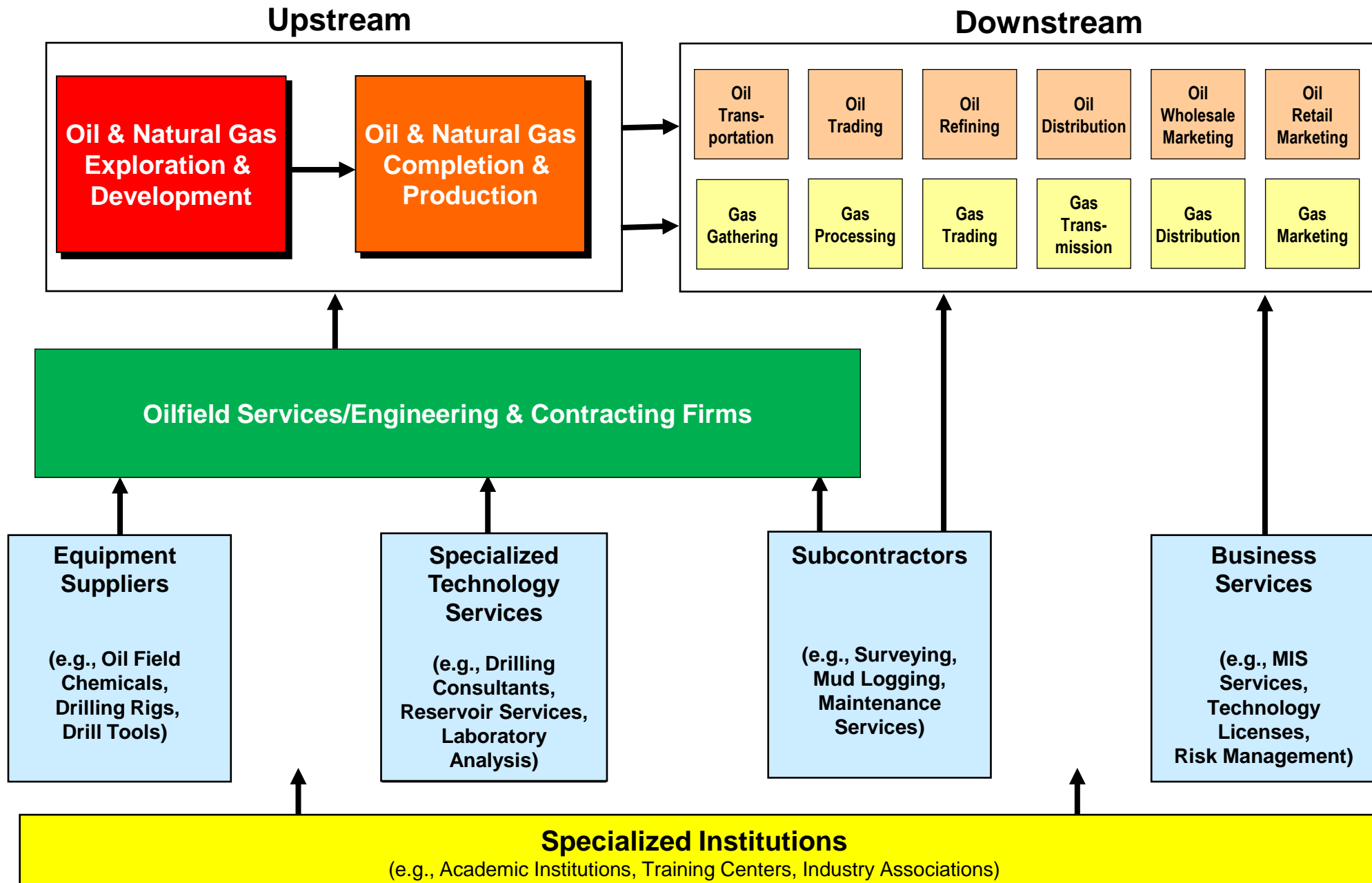
Local Clusters

- Serve almost exclusively the **local** market
- Not exposed to cross-regional competition

Example: Massachusetts Life Sciences Cluster

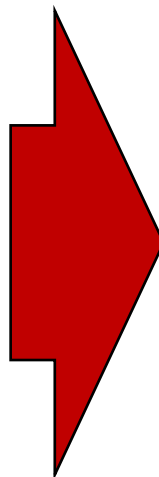


Example: Houston Oil and Gas Cluster



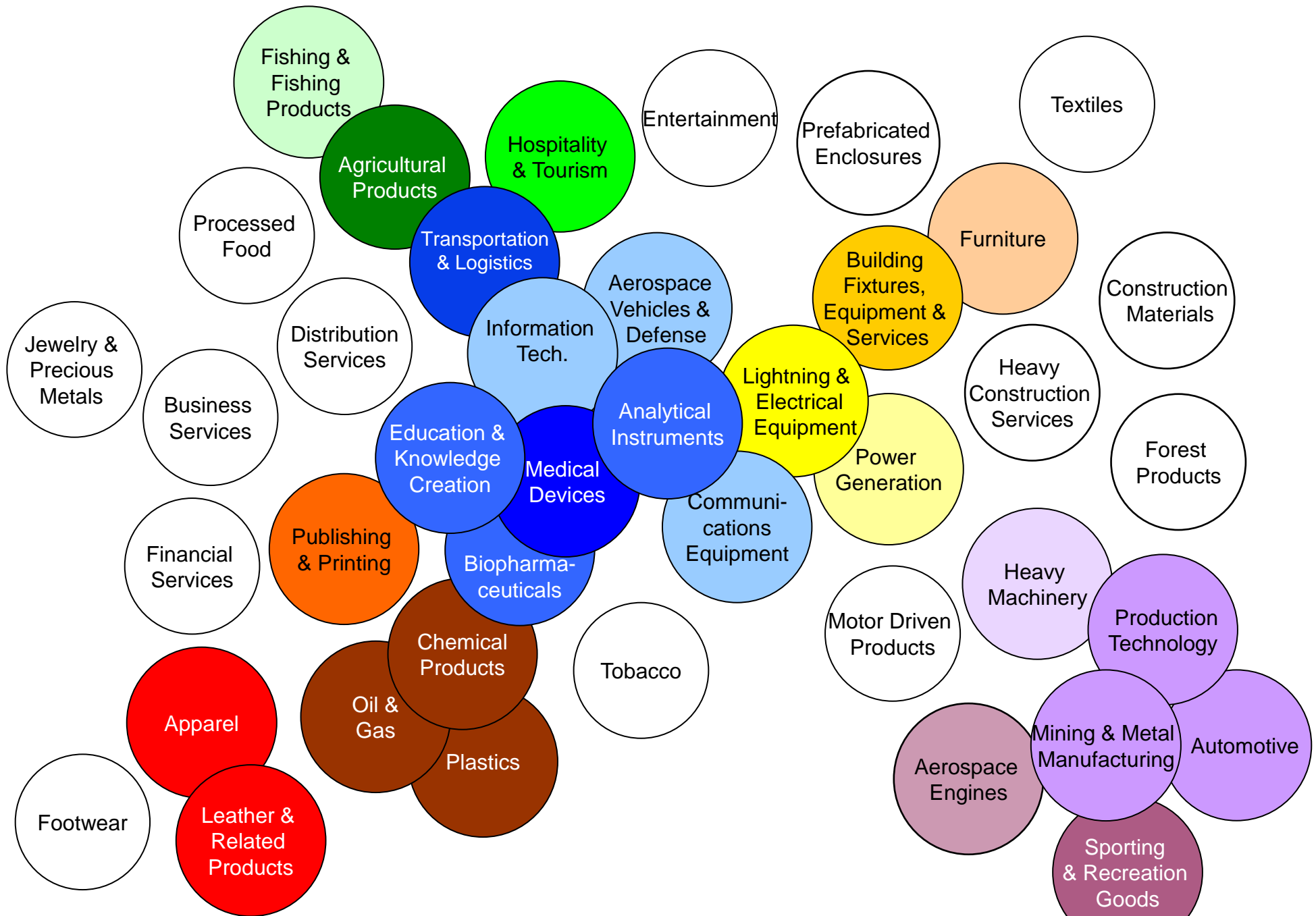
Strong Clusters Drive Regional Performance

- Specialization in **strong clusters**
- **Breadth** of industries within each cluster
- Presence of a region's clusters in **neighboring regions**
- Strength in **related clusters**



- **Job** growth
- Higher **wages**
- Higher **patenting** rates
- Greater **new business** formation, growth and survival

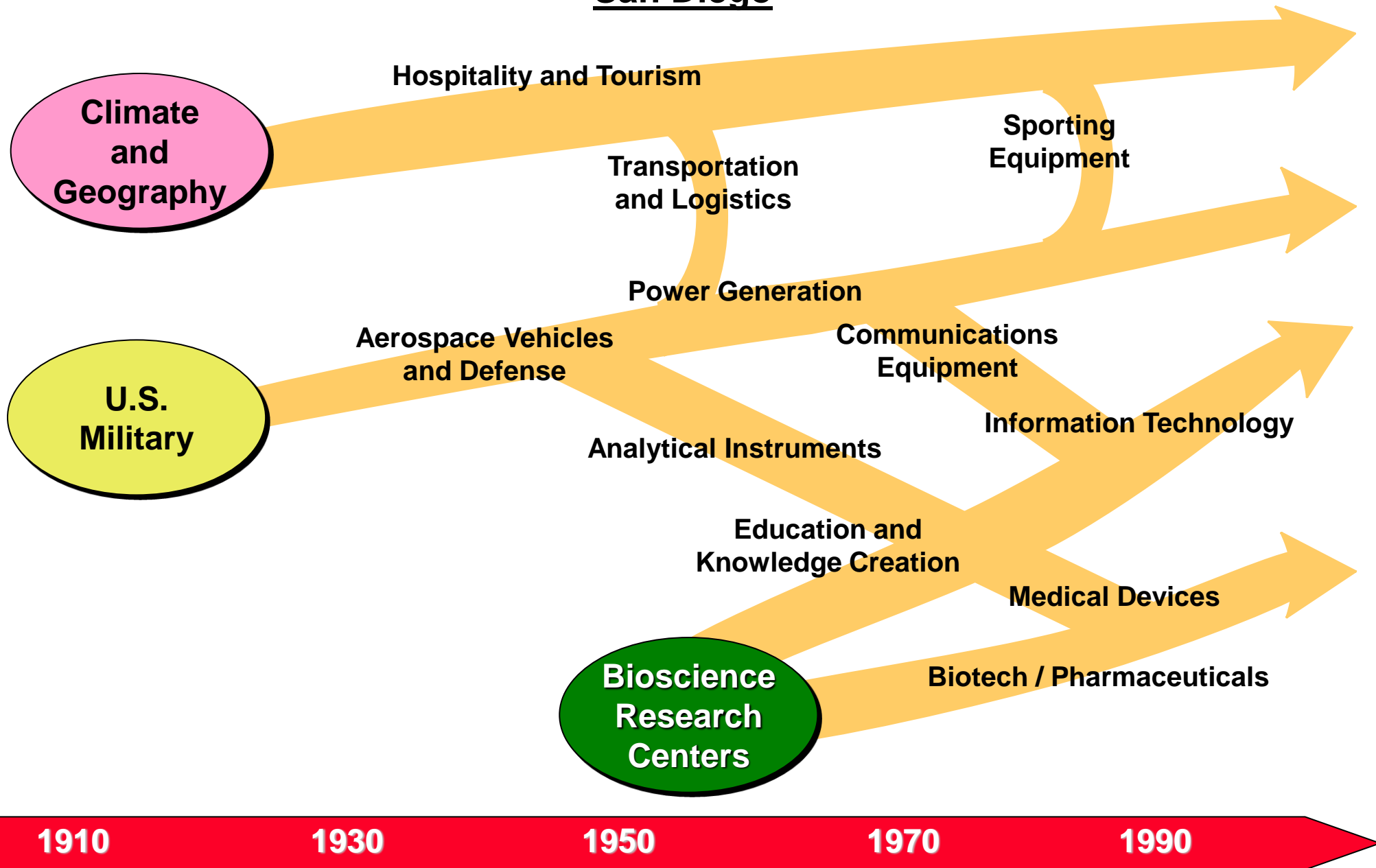
Clusters and Economic Diversification



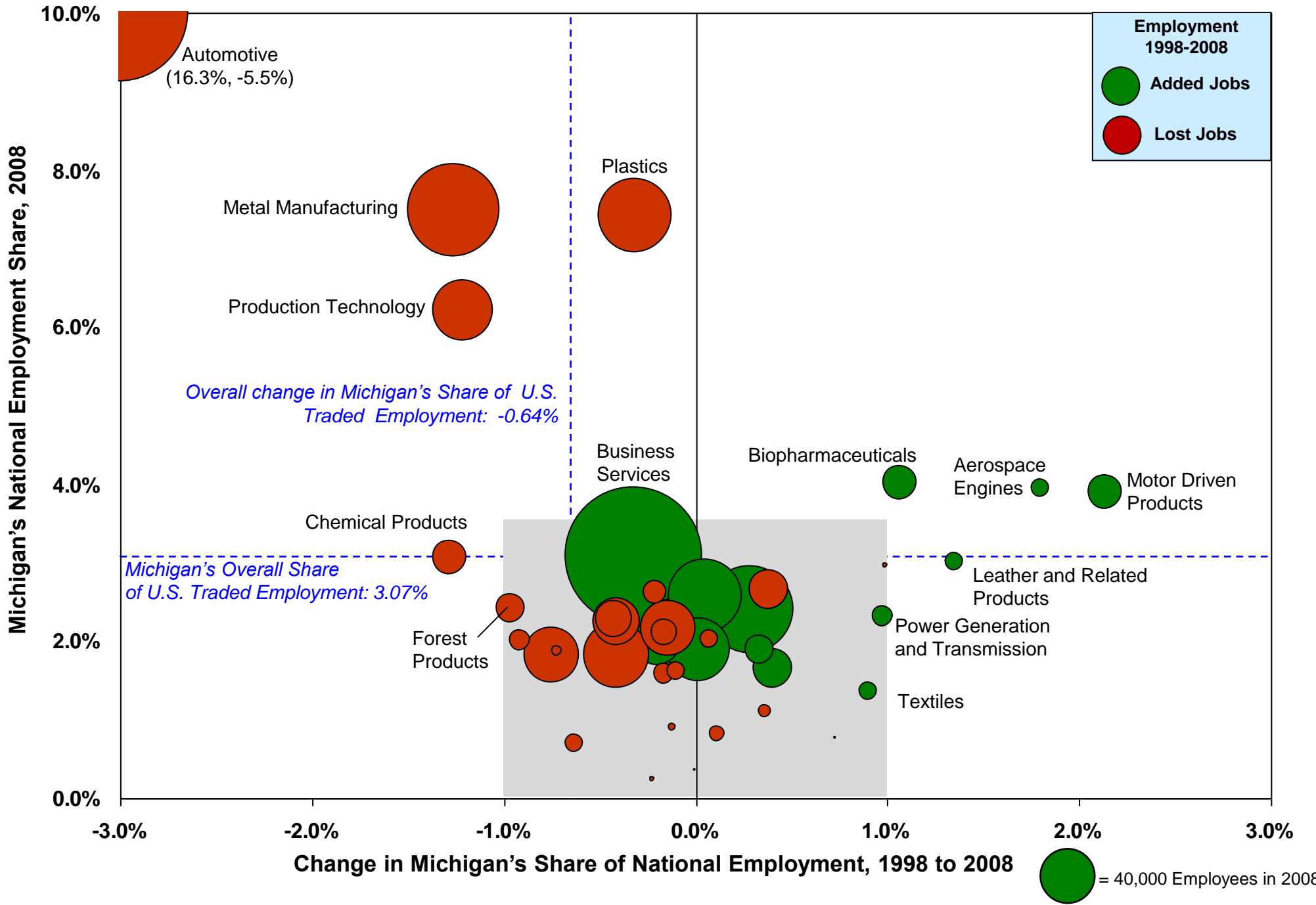
Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.

The Evolution of Regional Economies

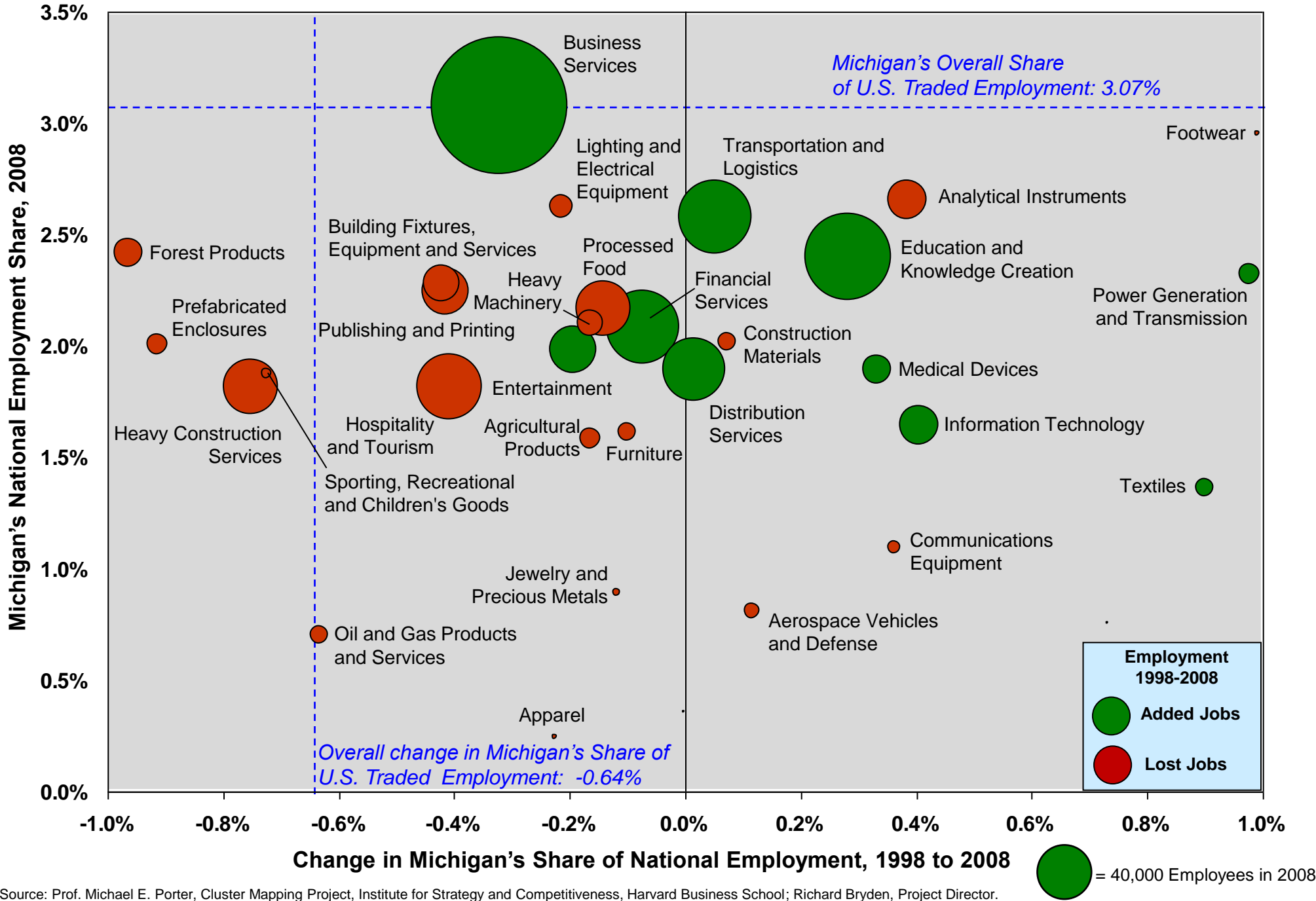
San Diego



Cluster Composition of the Michigan Economy

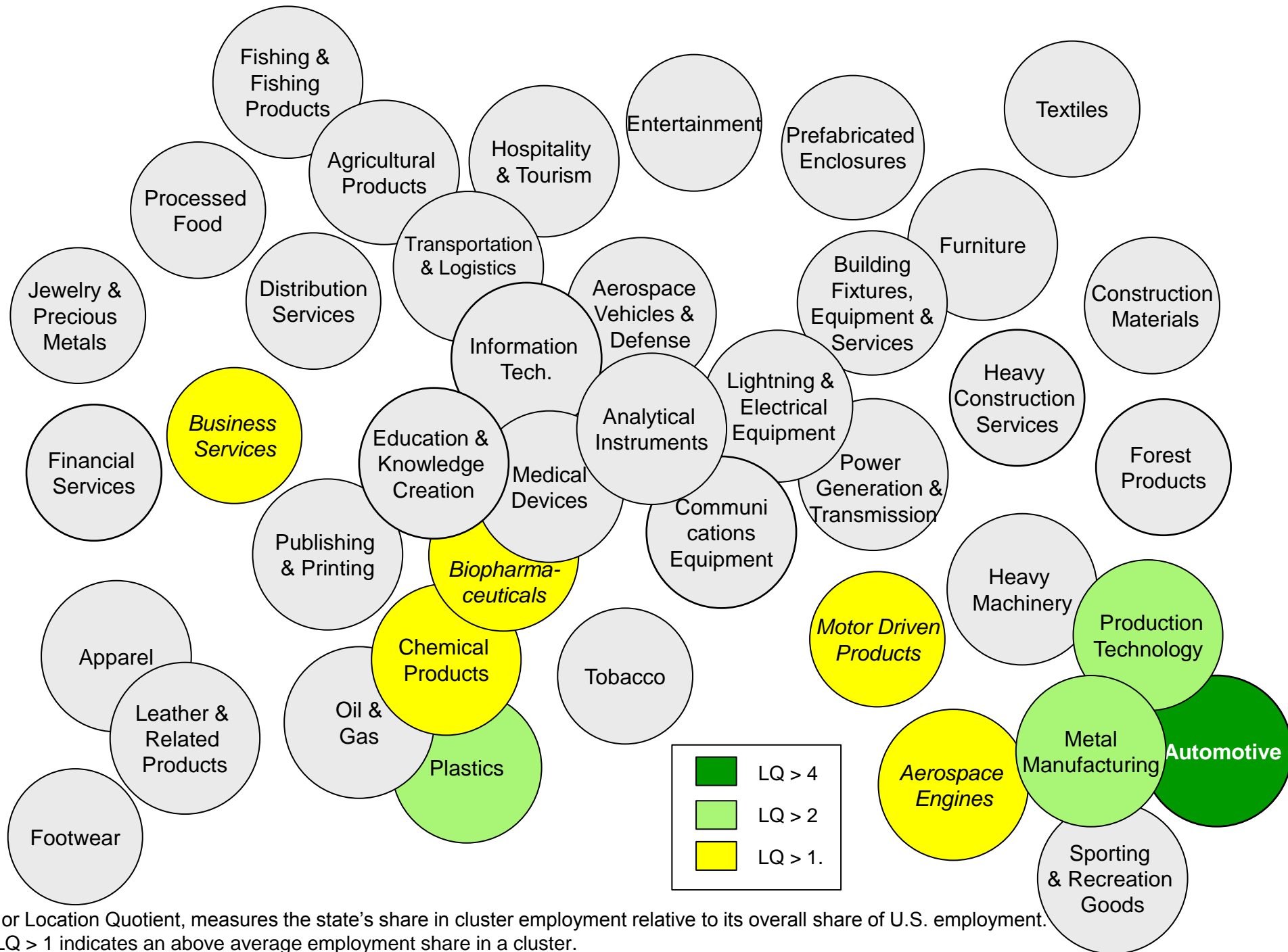


Cluster Composition of the Michigan Economy (continued)



Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.
20110602 - Michigan State Competitiveness - Rich Bryden

Michigan's Cluster Portfolio, 2008



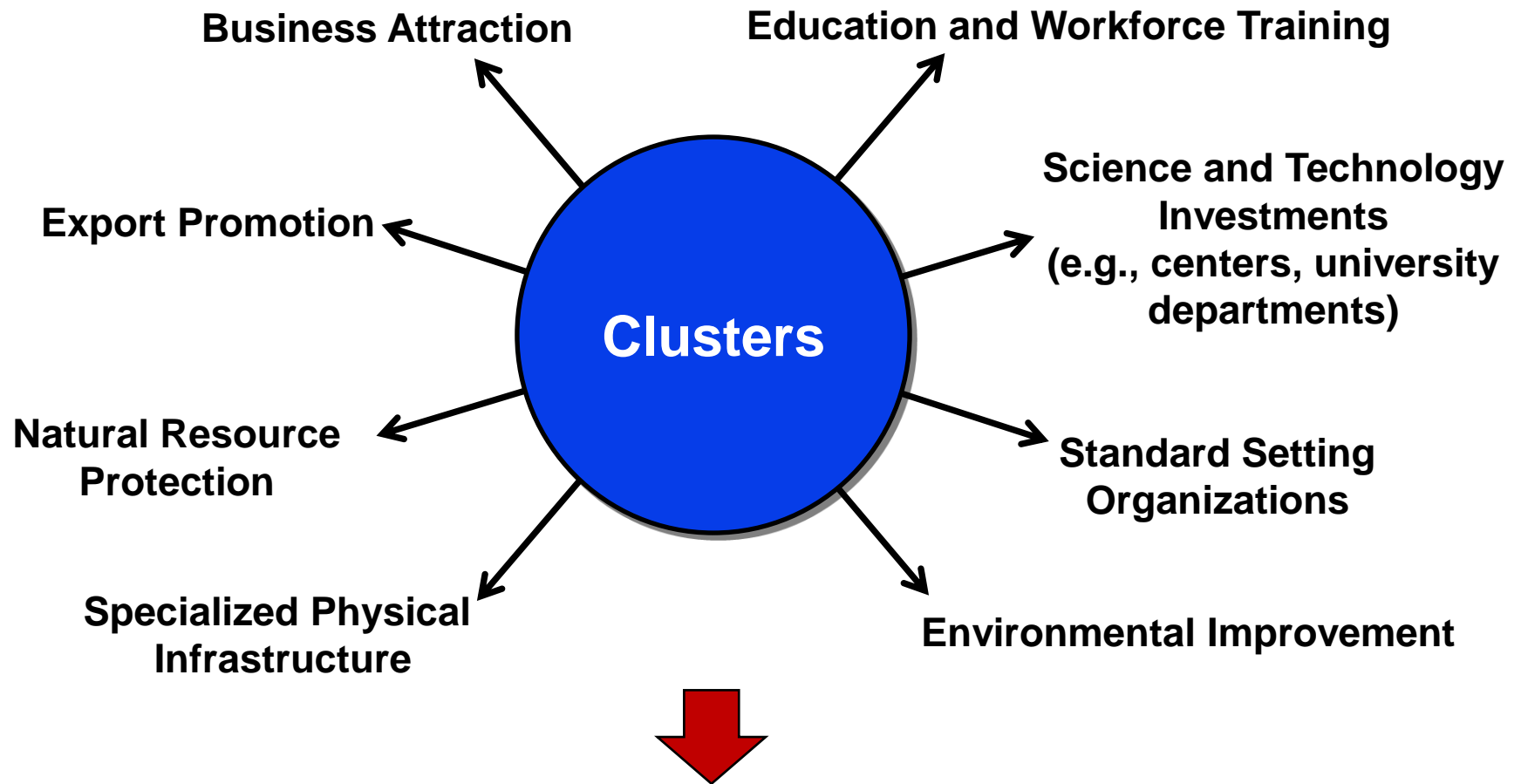
LQ, or Location Quotient, measures the state's share in cluster employment relative to its overall share of U.S. employment. An LQ > 1 indicates an above average employment share in a cluster.

Cluster Development

Action Items

1. Build on the state's **existing and emerging clusters** rather than chase “hot” fields
2. Pursue economic diversification **within clusters** and **across related clusters**
3. Create a private sector-led **cluster upgrading program** with matching support for participating private sector cluster organizations
 - Government should **listen** and **remove obstacles** to cluster improvement
4. **Align** other state economic policies and programs with clusters

Aligning Economic Policy and Clusters



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

Why?

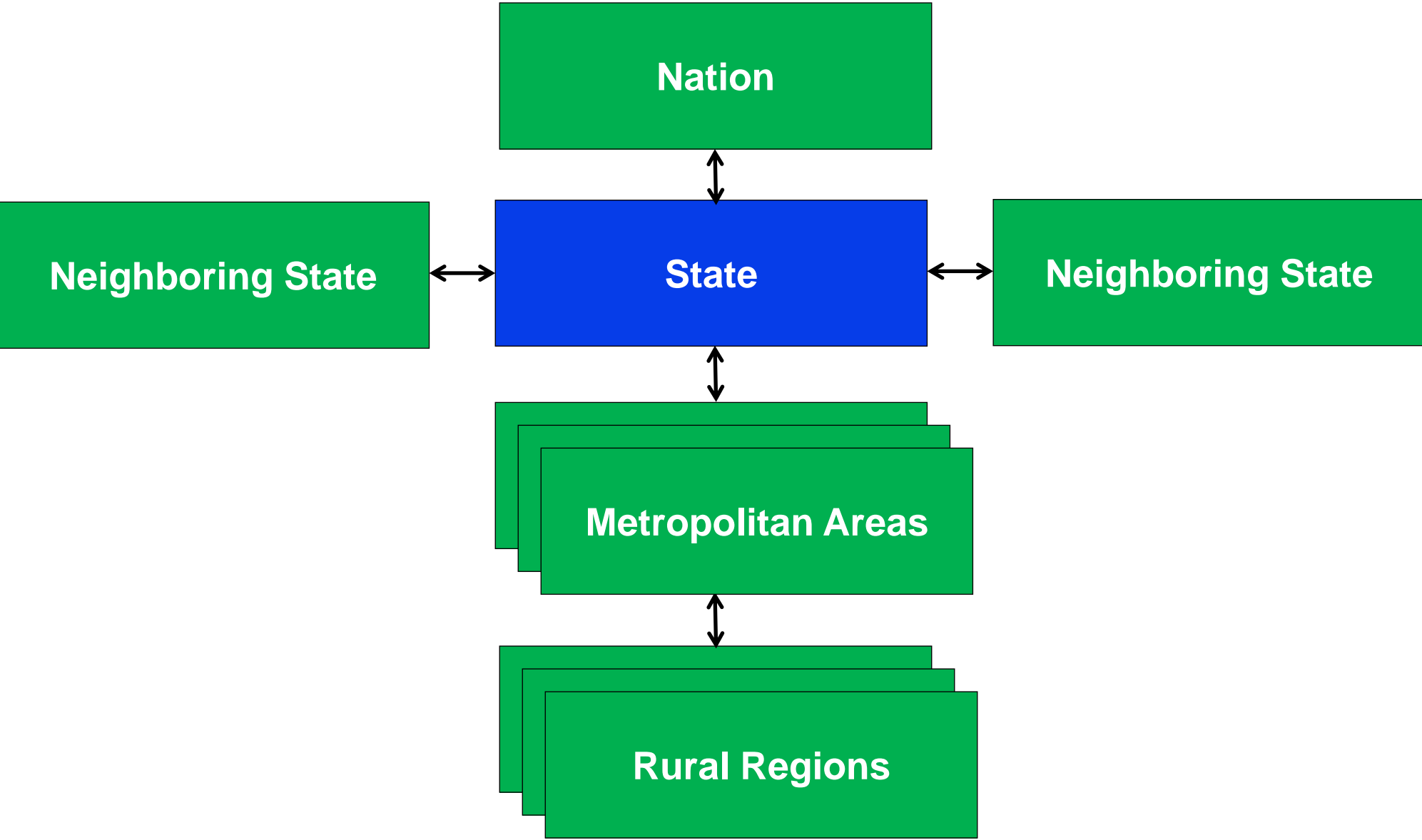
What Drives State Productivity?

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Environment**

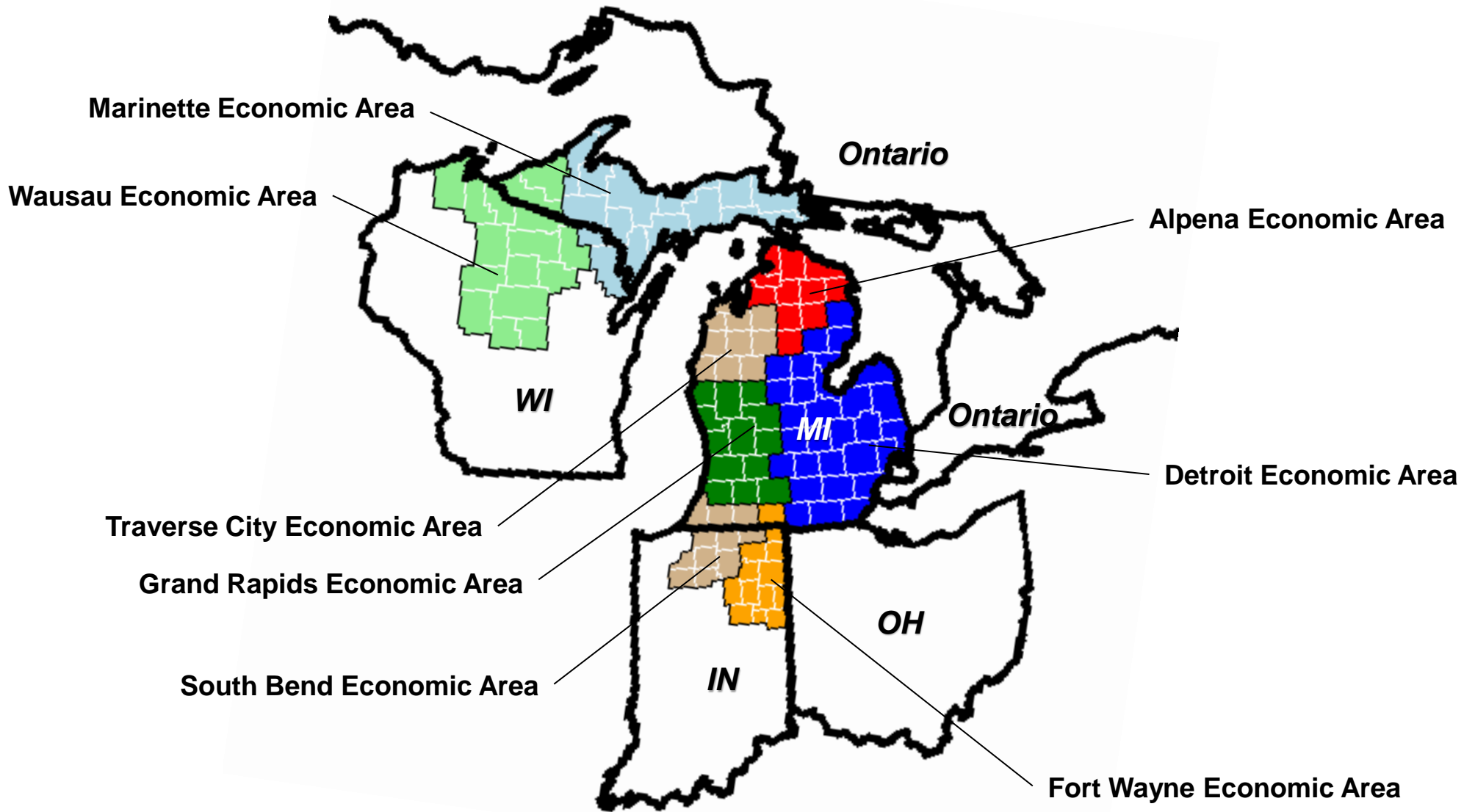
**2. Cluster
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Geographic and Governmental Influences on Productivity

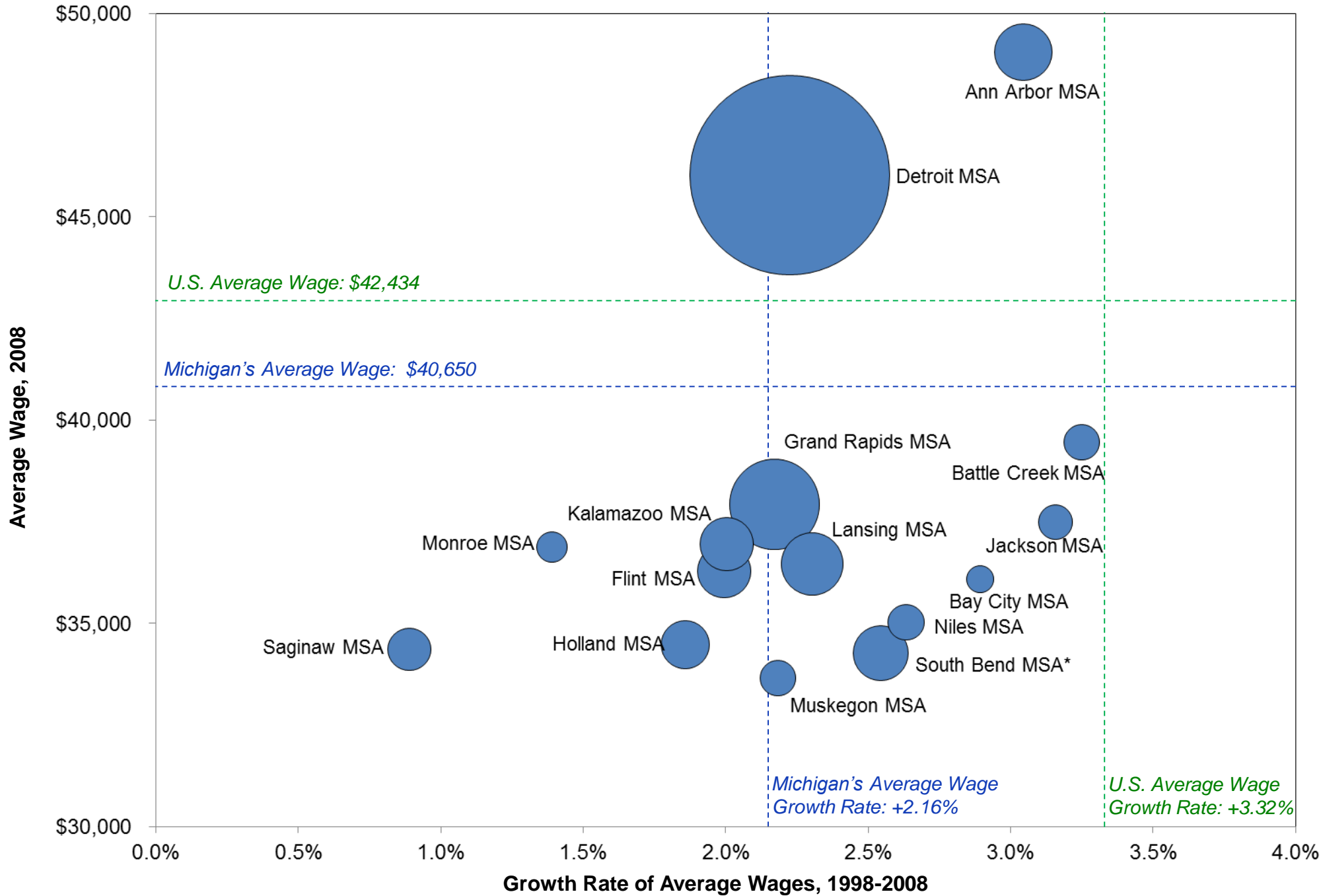


Defining the State's Economic Regions



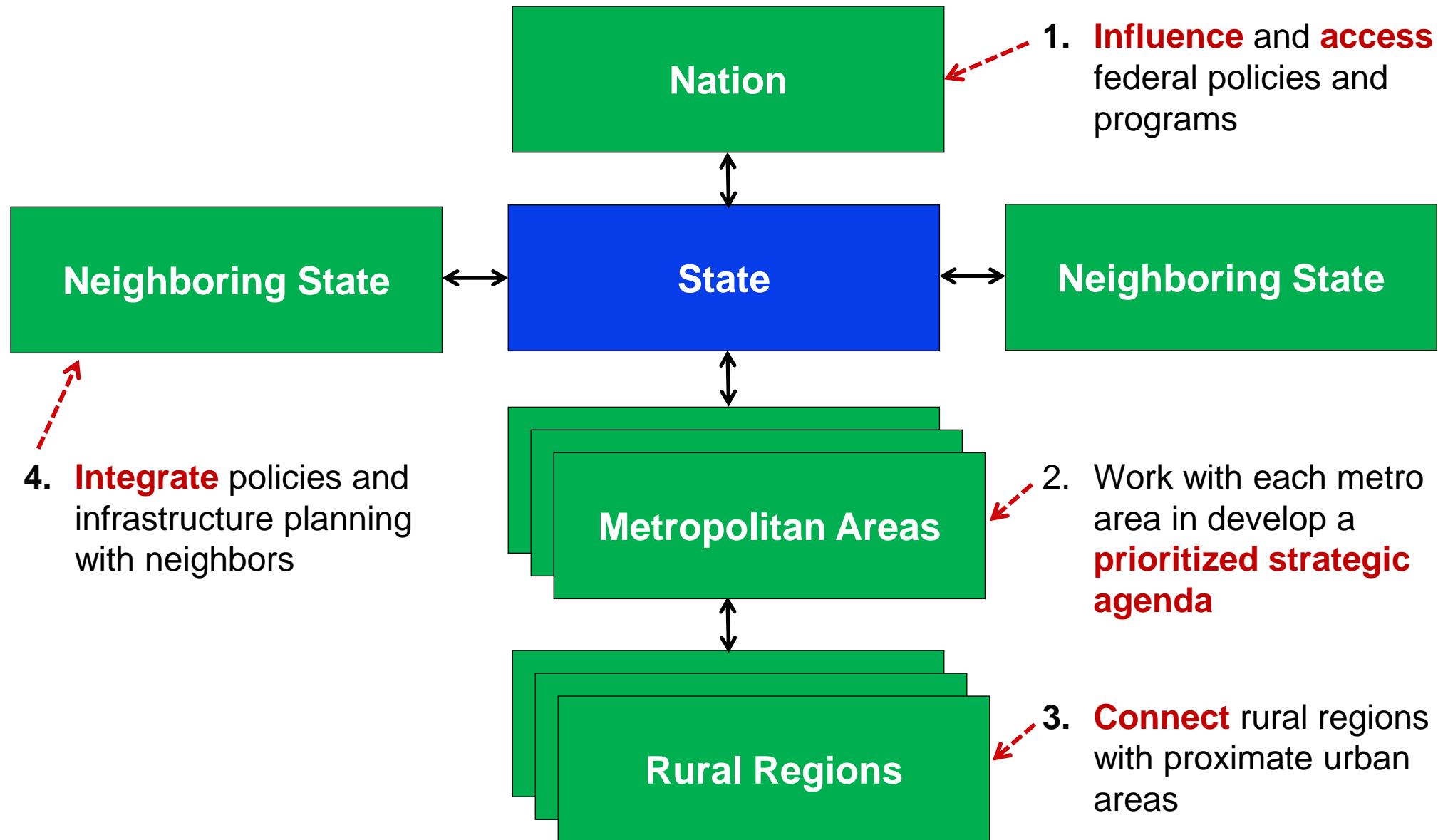
Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.
Economic Areas depicted are from the U.S. Bureau of Economic Analysis 2010.

Michigan's Economic Performance in Metropolitan Areas



Source: Census CBP private employment; author's analysis. Note: "Bubble" size in chart proportional to employment in 2008. *includes Cass County, Michigan

Geographic and Governmental Influences on Productivity



Create an Economic Strategy

- What is the **distinctive competitive position** of the state or region given its location, legacy, existing strengths, and potential strengths?
 - What unique value as a business location?
 - For what types of activities and clusters?

Define the Value Proposition

Develop Unique Strengths

- What **elements of the business environment** can be unique strengths relative to peers/neighbors?
- What **existing** and **emerging clusters** represent local strengths?

Achieve and Maintain Parity with Peers

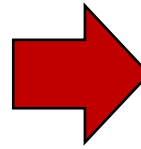
- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?

- Economic strategy requires **setting priorities** and **moving beyond** long lists of separate recommendations.

How Should States and Regions Compete for Investment?

Tactical (Zero 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



Strategic (Positive Sum Competition)

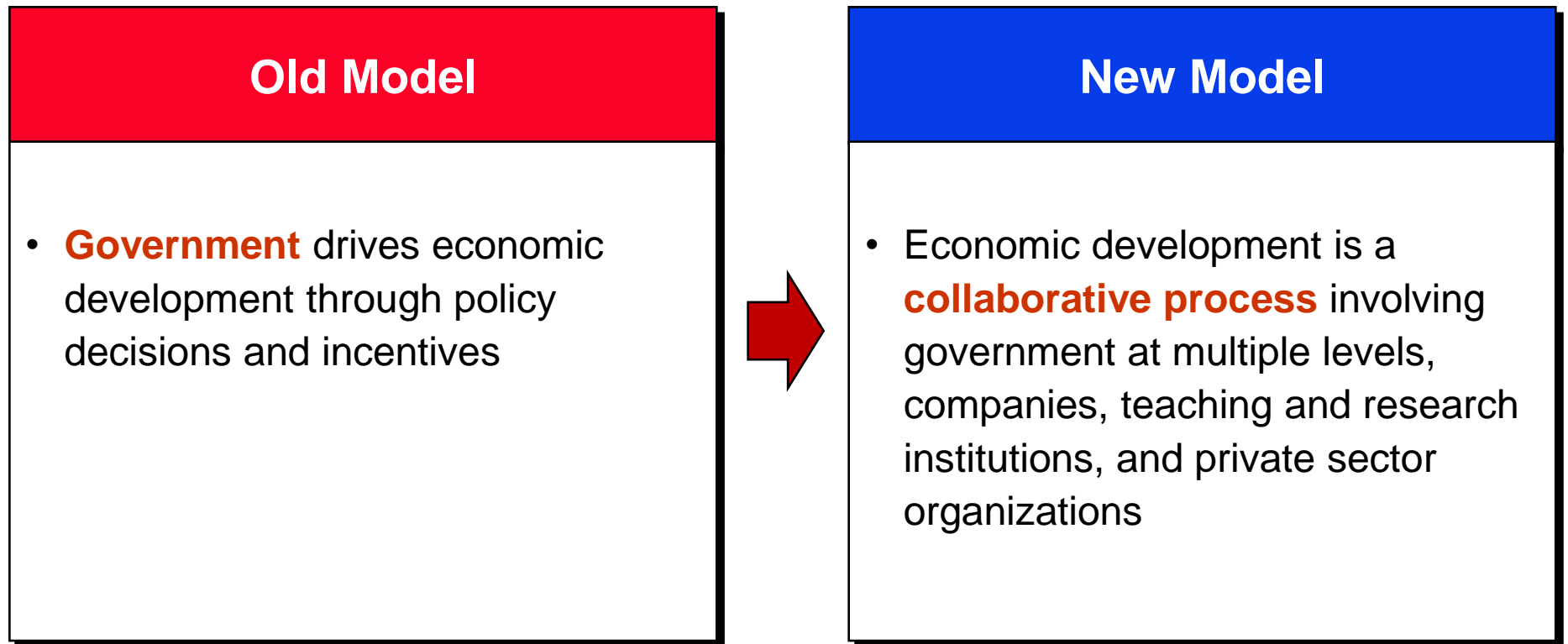
- Also support greater local investment by **existing** companies
- Reinforce areas of **specialization** and emerging cluster strength
- Provide state support for training, infrastructure, and institutions with **enduring local benefits**
- Improve the **efficiency of doing business**
- Harness efficiencies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



The same principles apply to municipal competition **within** states

Harnessing the New Process of Economic Development

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



Summary

- The goal of economic strategy is to enhance **productivity**. This is the only way to create jobs, rising wages, and wealth in the long run
- Improving **productivity** and **innovation** must be the guiding principles for every state policy choice
- Improving productivity often does not require new public resources, but **using existing resources better**
- Improving productivity demands that leaders **mobilize the private sector**, not rely on government alone
- Economic strategy is non-partisan and about getting **results**



Take advantage of Harvard Business School data and tools to support this effort.

- For further materials on the competitiveness of states and regions:
www.isc.hbs.edu/econ-statesregions.htm
- For state economic profiles:
www.isc.hbs.edu/stateprofiles.htm
- For the U.S. Cluster Mapping Project:
data.isc.hbs.edu/isc/