
U.S. COMPETITIVENESS AND IMPLICATIONS FOR OUR ECONOMIC FUTURE

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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

QUESTIONS FOR TODAY

- Does America really have a competitiveness problem?
- How did America get here?
- What should leaders do to restore U.S. competitiveness?

DOES AMERICA REALLY HAVE A COMPETITIVENESS PROBLEM? 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 supporting **high and rising 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

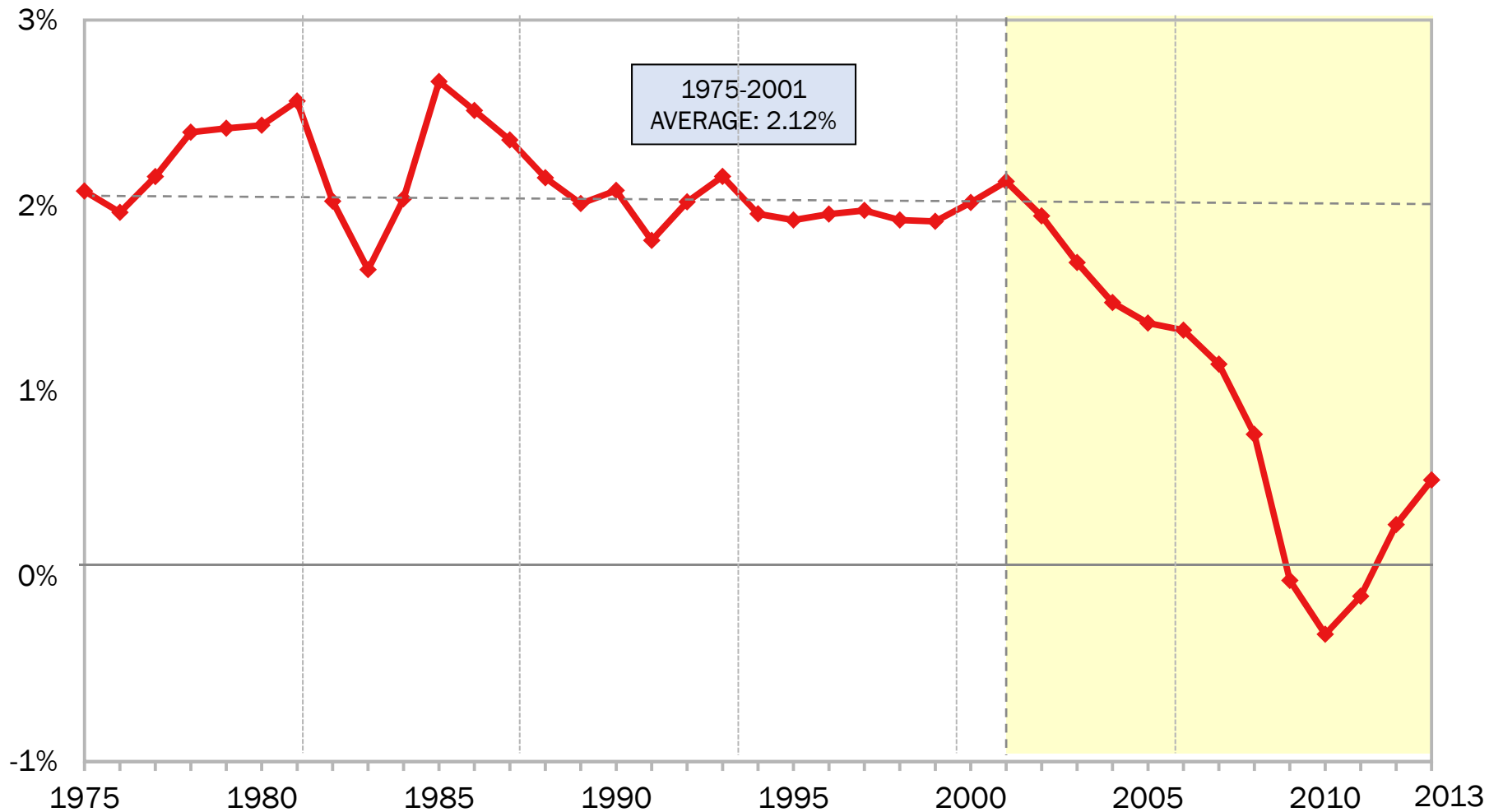
- The productivity of **existing** firms and workers
- The ability to achieve **high participation** of citizens in the workforce

Competitiveness is **not**:

- Low wages
- A weak currency
- Jobs per se

DOES AMERICA REALLY HAVE A COMPETITIVENESS PROBLEM?

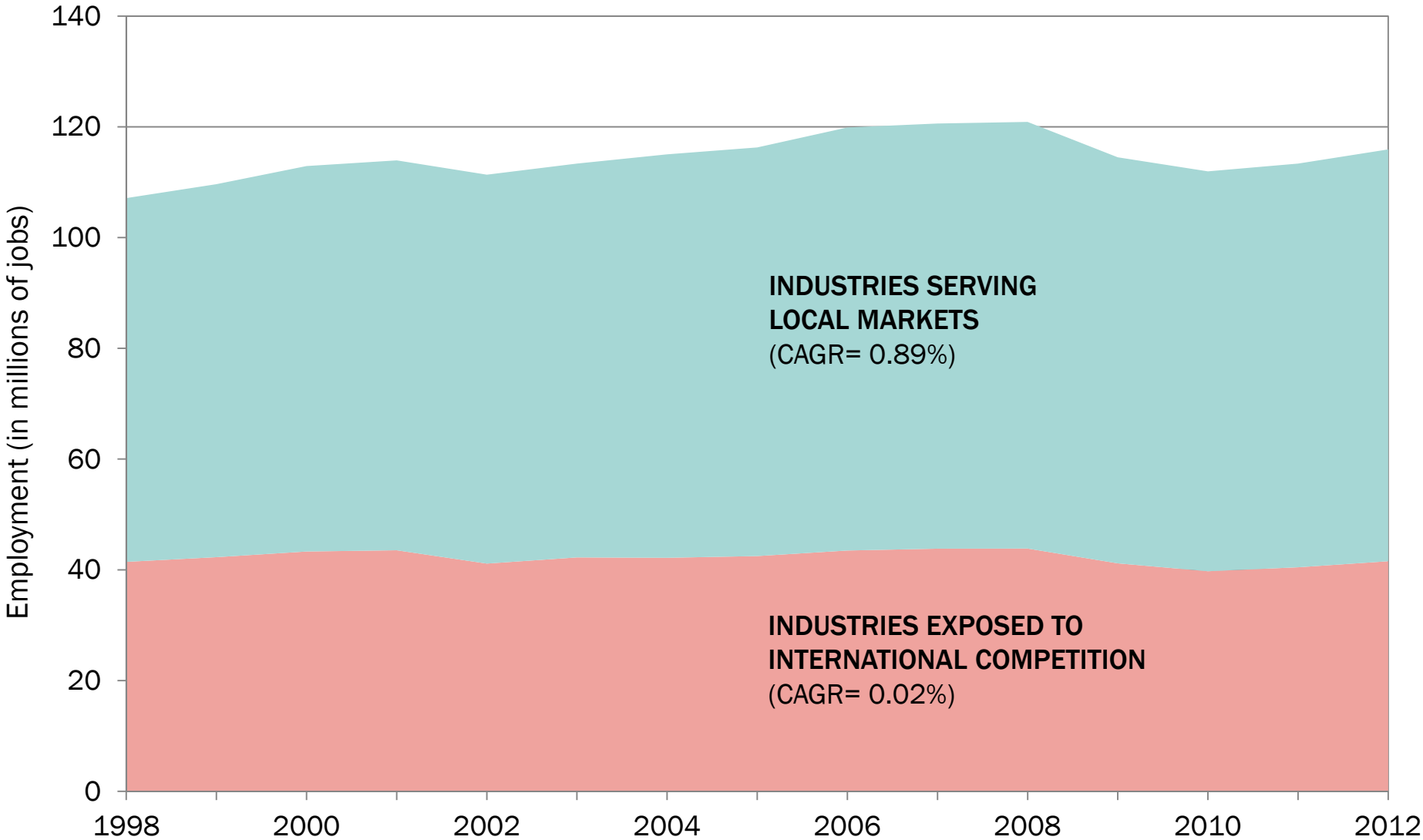
ROLLING 10-YEAR COMPOUND ANNUAL GROWTH RATE IN TOTAL NUMBER OF U.S. PRIVATE NONFARM EMPLOYEES



Source: Bureau of Labor Statistics, Current Population Survey; author's calculations.

HOW DID AMERICA GET HERE?

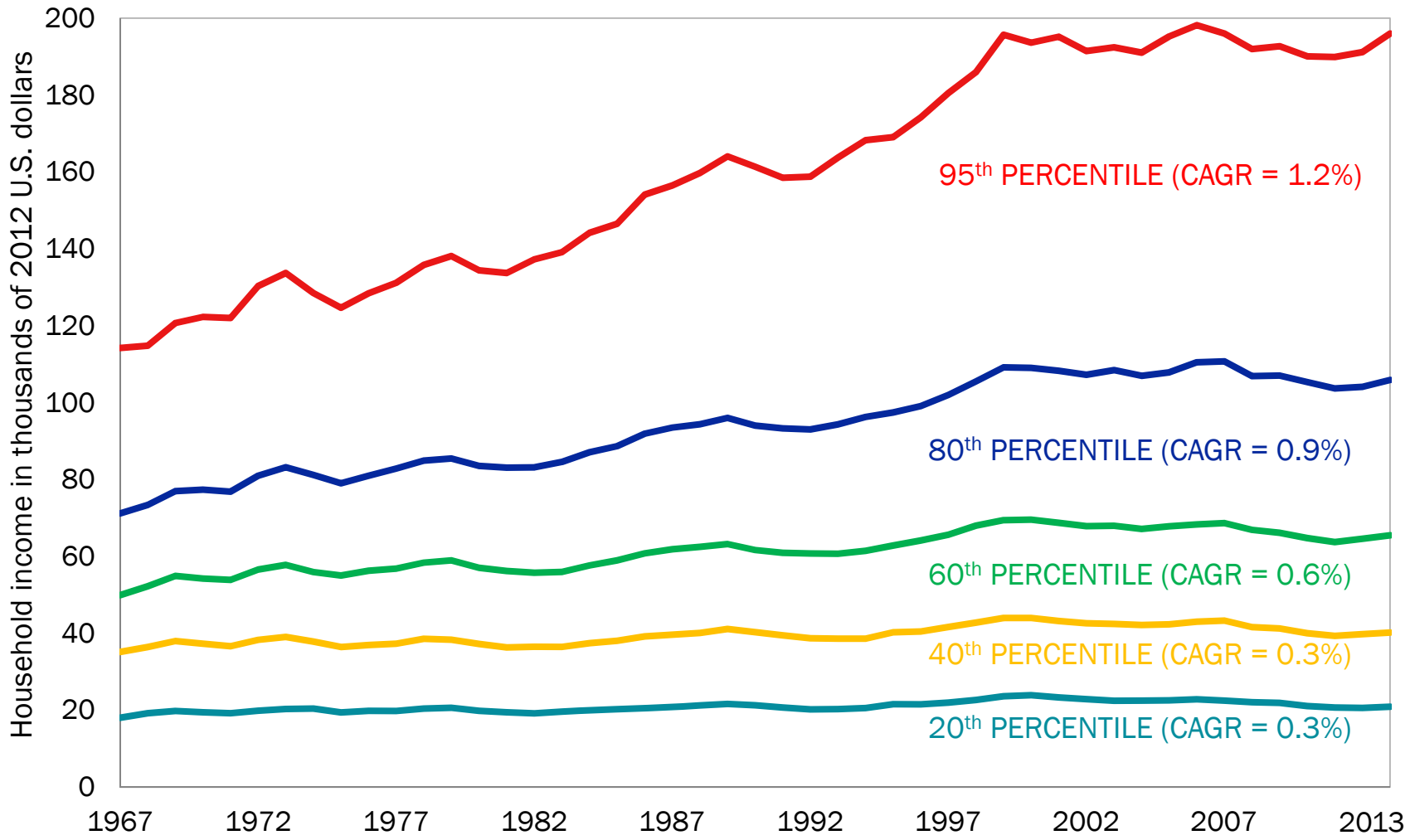
PRIVATE, NONFARM EMPLOYMENT BY TYPE OF INDUSTRY



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

DOES AMERICA REALLY HAVE A COMPETITIVENESS PROBLEM?

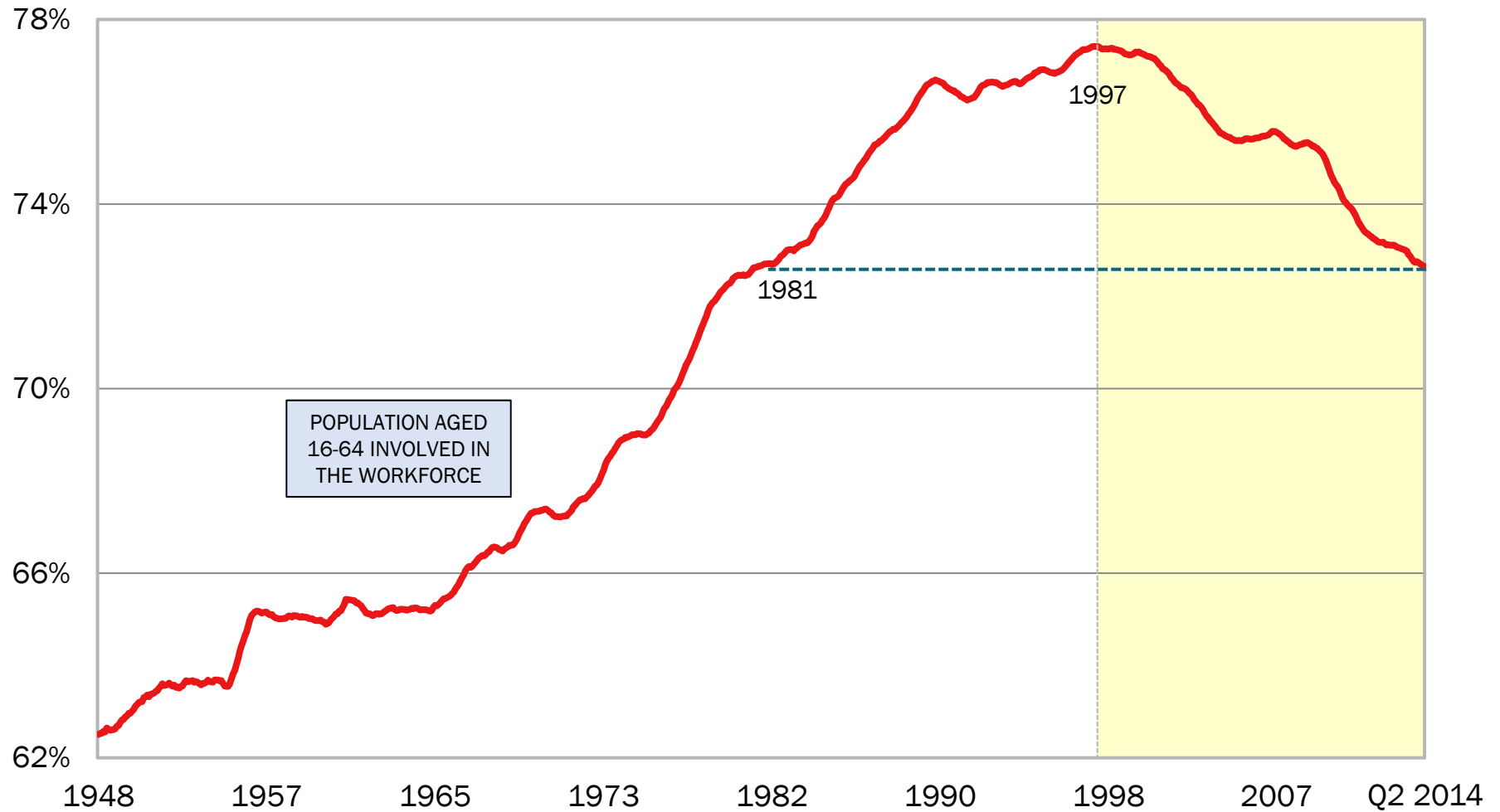
REAL HOUSEHOLD INCOME BY QUANTILE IN THE INCOME DISTRIBUTION



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.

DOES AMERICA REALLY HAVE A COMPETITIVENESS PROBLEM?

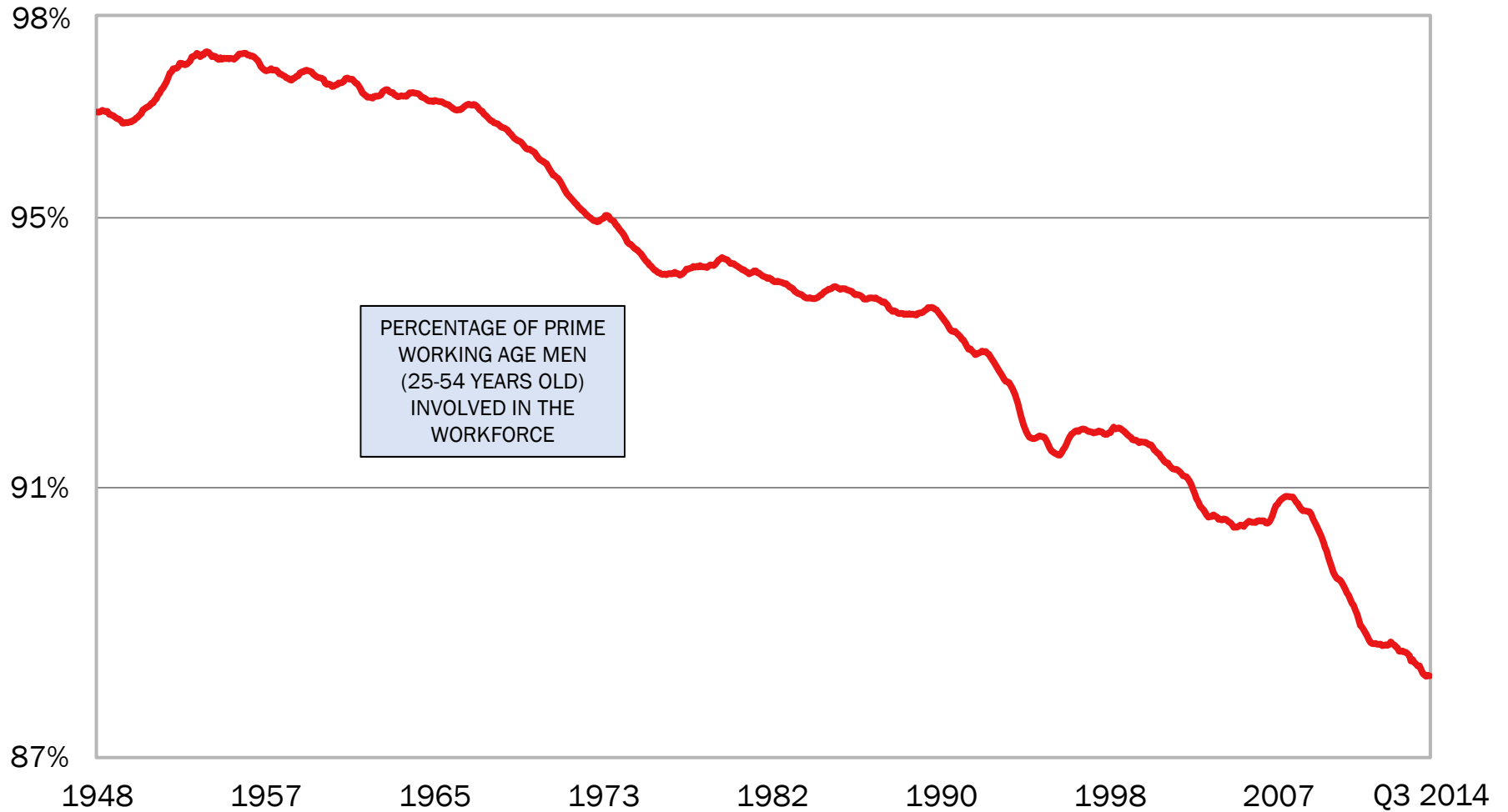
U.S. LABOR FORCE PARTICIPATION RATE



Note: Rolling 12-month average in civilian labor force (not seasonally adjusted) over civilian noninstitutional population age 16-64.
Source: Bureau of Labor Statistics, author's calculations.

DOES AMERICA REALLY HAVE A COMPETITIVENESS PROBLEM?

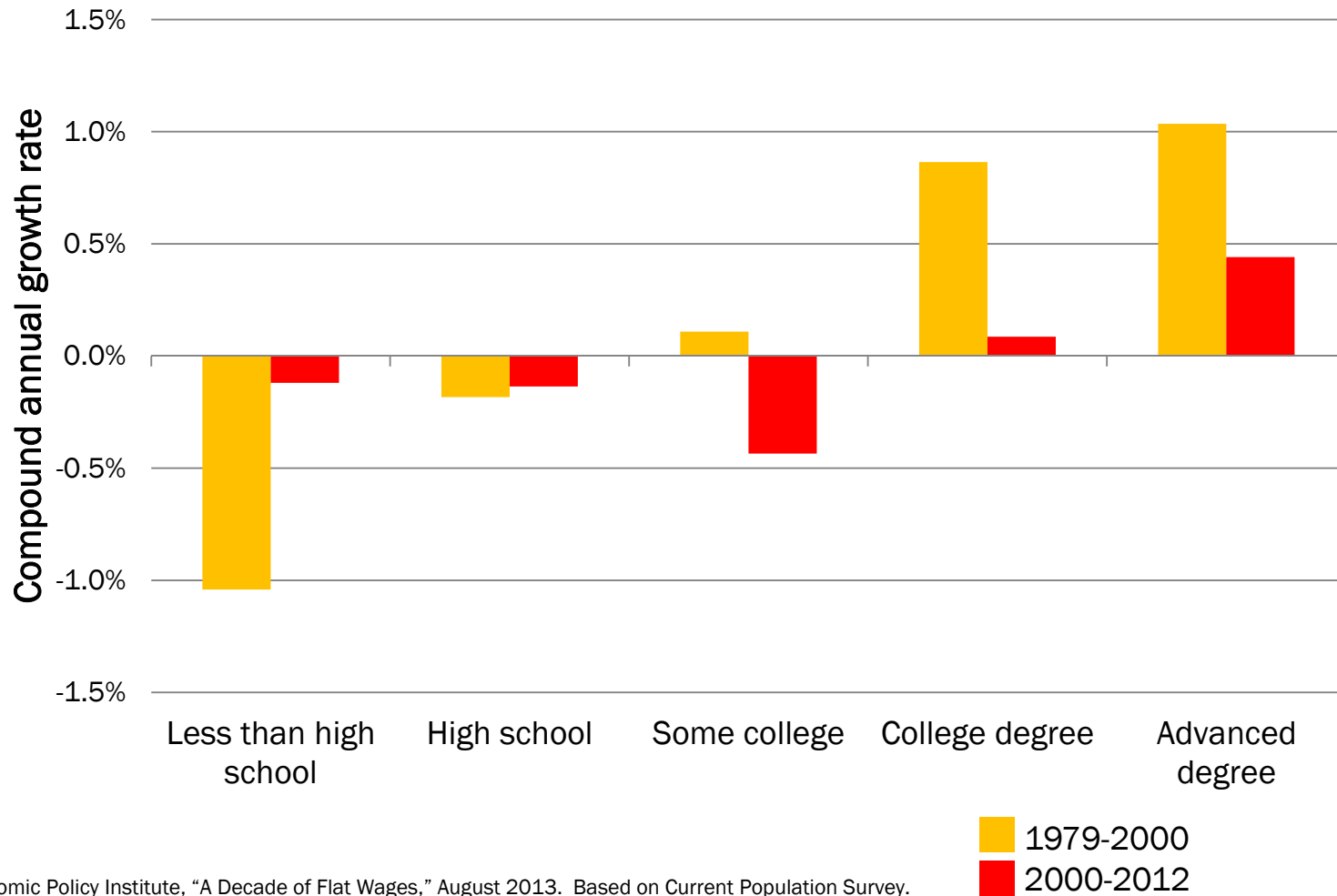
U.S. LABOR FORCE PARTICIPATION RATE FOR PRIME WORKING AGE MEN



Note: Rolling 12-month average in male civilian labor force age 25-54 (not seasonally adjusted) over civilian noninstitutional population age 25-54.
Source: Bureau of Labor Statistics, author's calculations.

DOES AMERICA REALLY HAVE A COMPETITIVENESS PROBLEM?

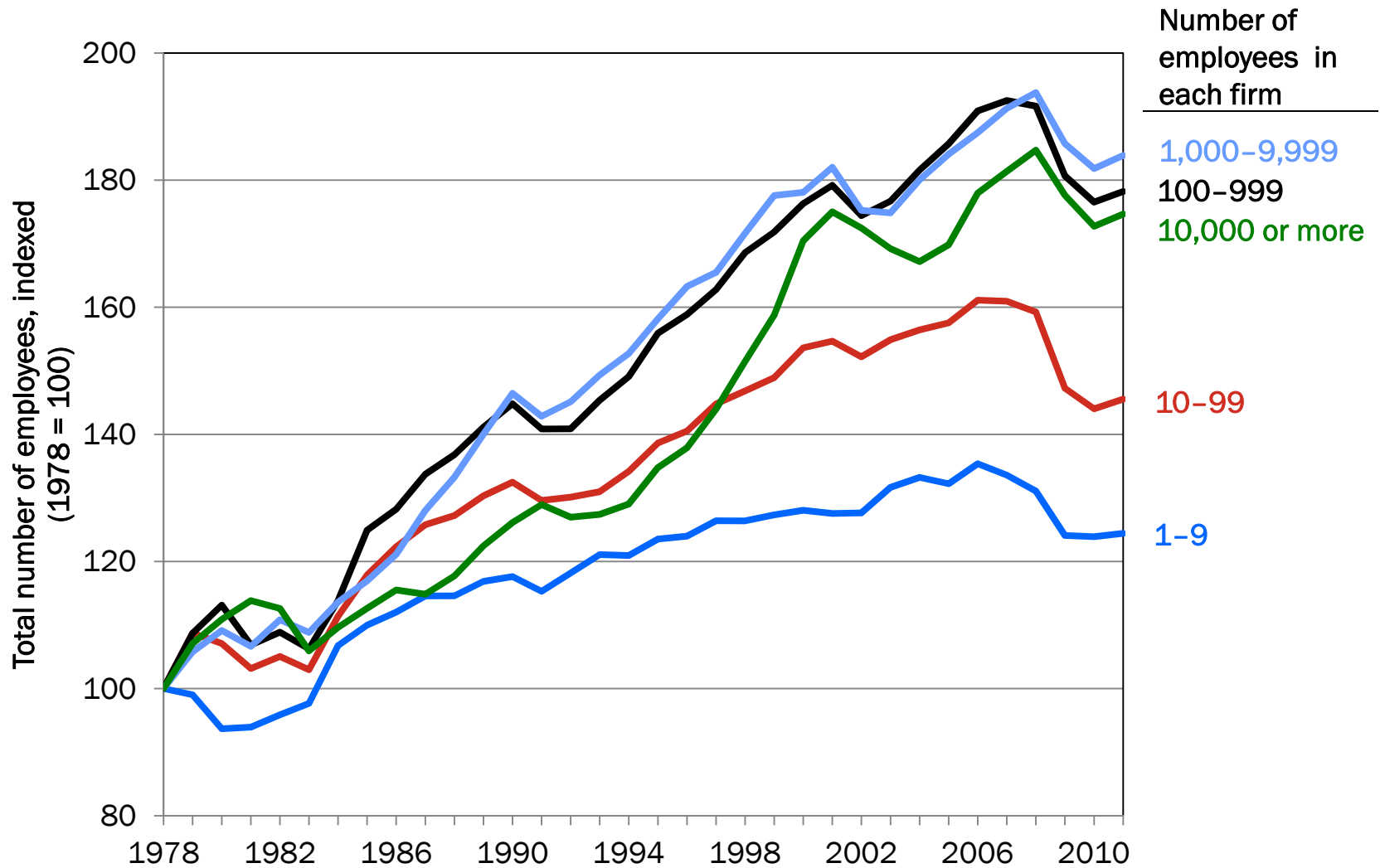
REAL HOURLY WAGE GROWTH BY EDUCATIONAL ATTAINMENT, 1979-2000 VS. 2000-2012



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

DOES AMERICA REALLY HAVE A COMPETITIVENESS PROBLEM?

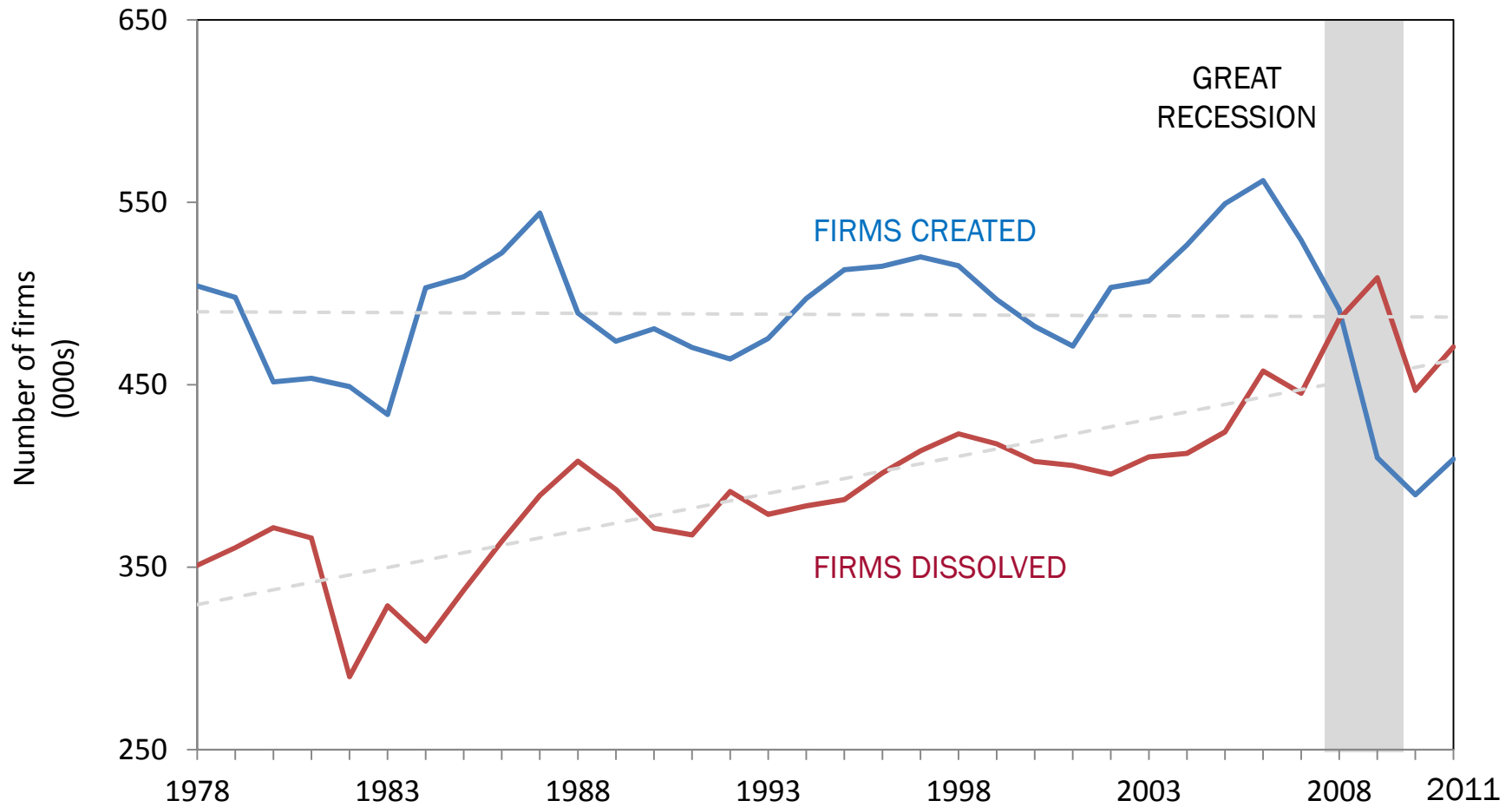
INDEX OF TOTAL NUMBER OF EMPLOYEES IN FIRMS OF VARIOUS SIZES



Source: U.S. Census Bureau Business Dynamics Statistics.

DOES AMERICA REALLY HAVE A COMPETITIVENESS PROBLEM?

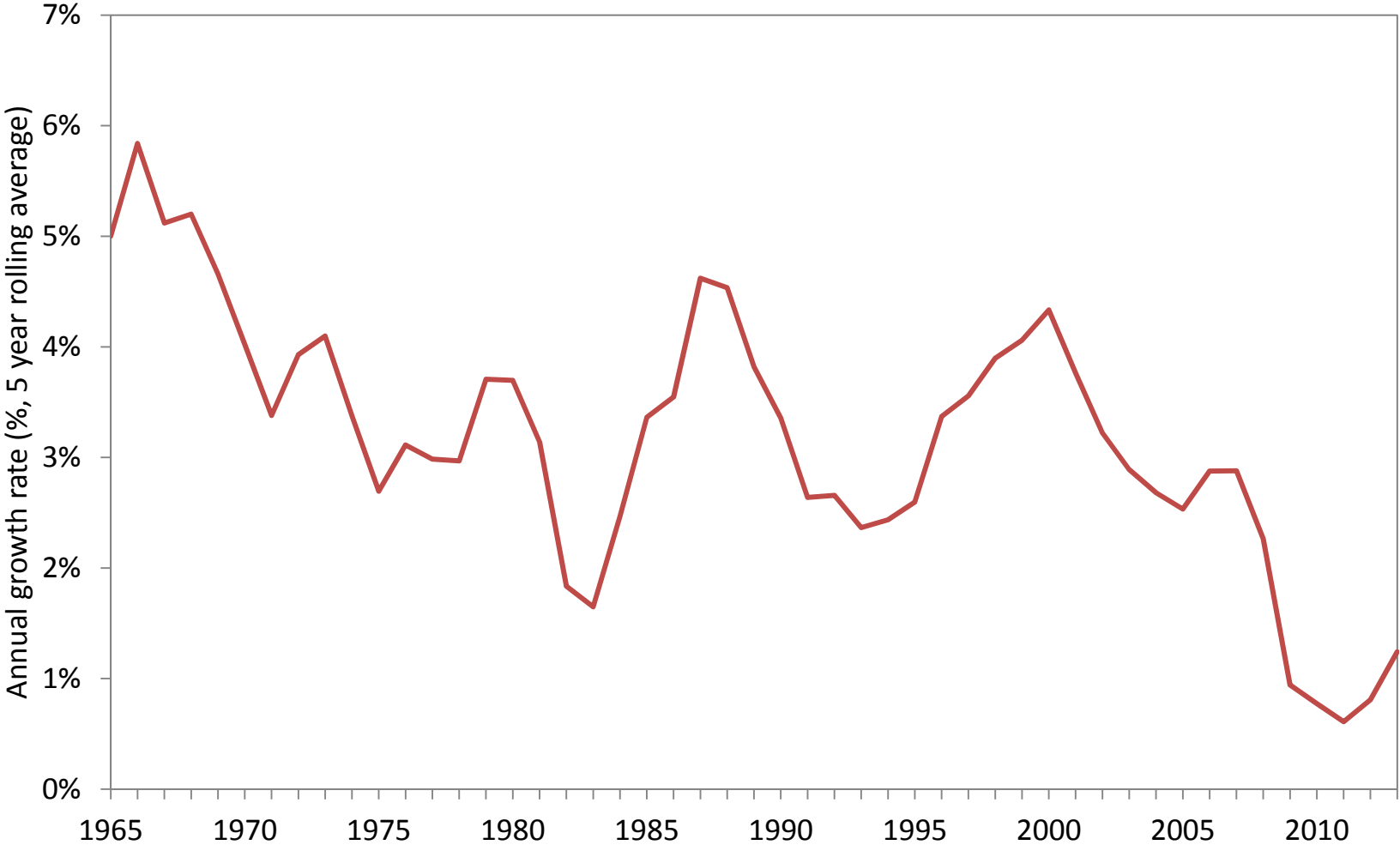
U.S. FIRMS CREATED AND DISSOLVED



Notes: Shaded area indicates the recession of December 2007 to June 2009 as defined by the National Bureau of Economic Research. Chart adapted from Ian Hathaway and Robert E. Litan, "Declining Business Dynamism in the United States: A Look at States and Metros," *Economic Studies at Brookings*, May 2014.

DOES AMERICA REALLY HAVE A COMPETITIVENESS PROBLEM?

ANNUAL U.S. GDP GROWTH RATE, 5-YEAR ROLLING AVERAGE (1961-2013)



Source: The World Bank.

DOES AMERICA REALLY HAVE A COMPETITIVENESS PROBLEM? IS THE DIVERGENCE SUSTAINABLE?

- Shortages of productive workers
- Weak consumer demand
- Disgruntled voters



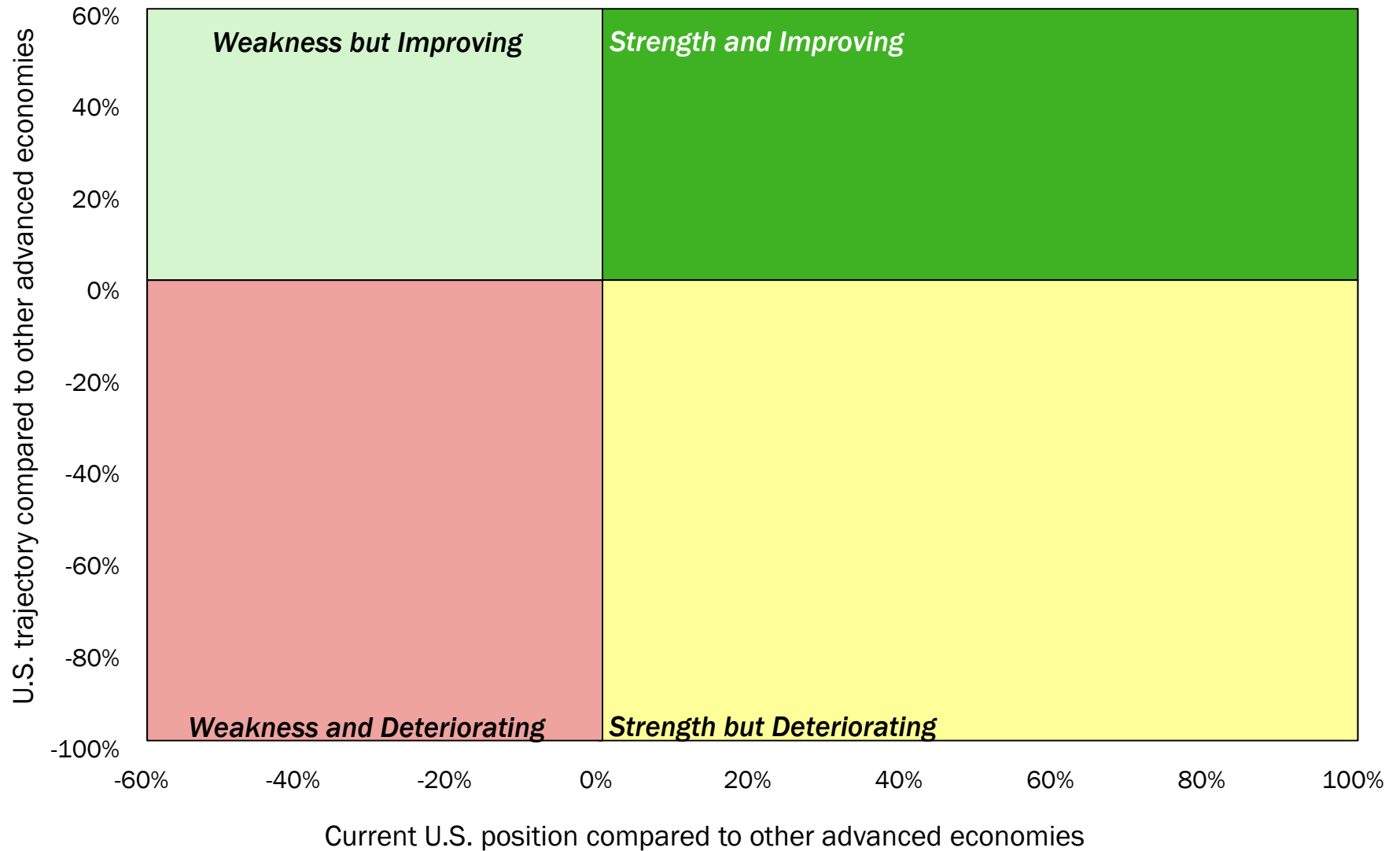
- Less support for pro-business policies
- Skirmishes around minimum wage laws, tax inversions

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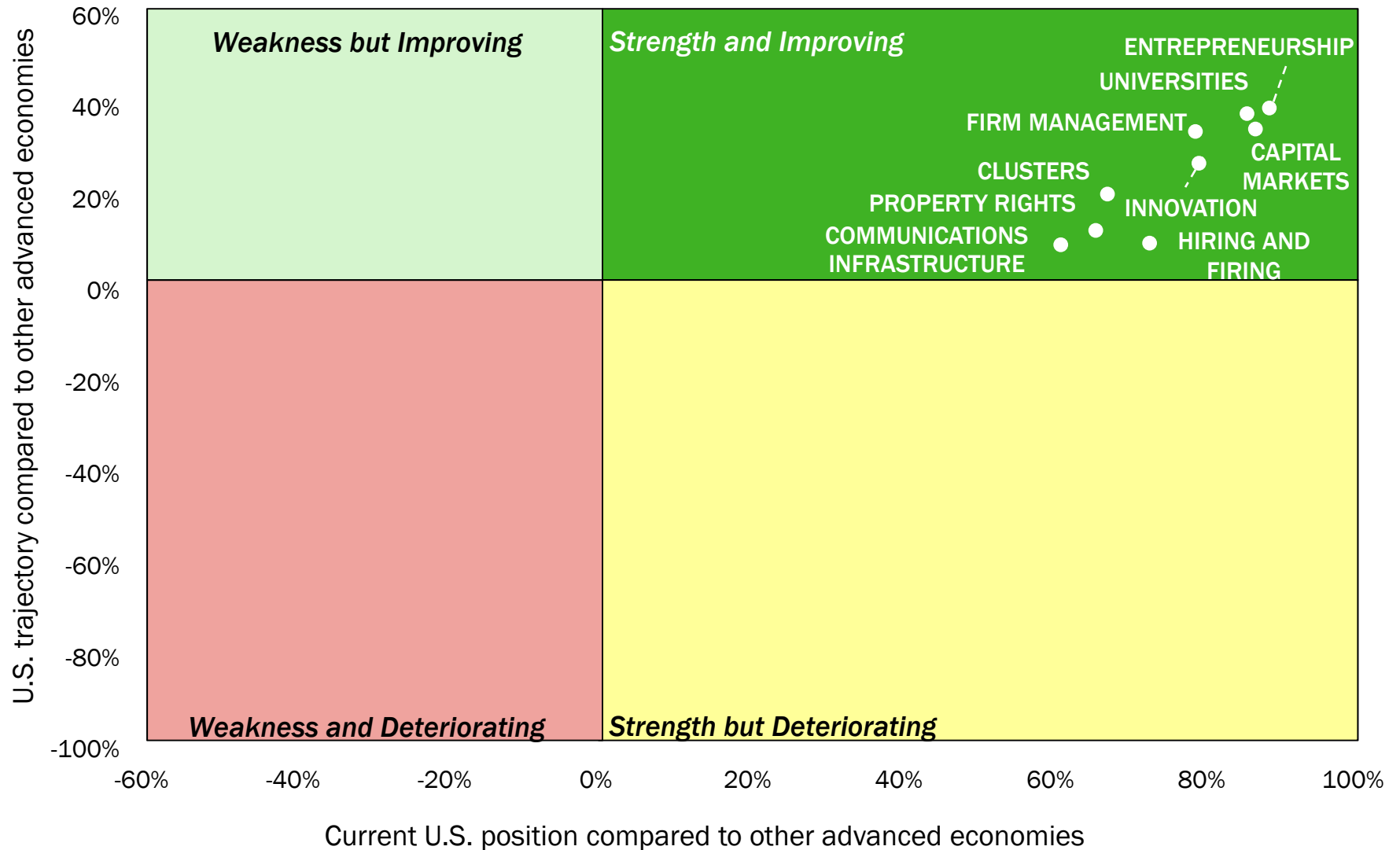
ASSESSMENTS OF ELEMENTS OF THE U.S. BUSINESS ENVIRONMENT



Source: Harvard Business School 2013-14 Survey on U.S. Competitiveness.

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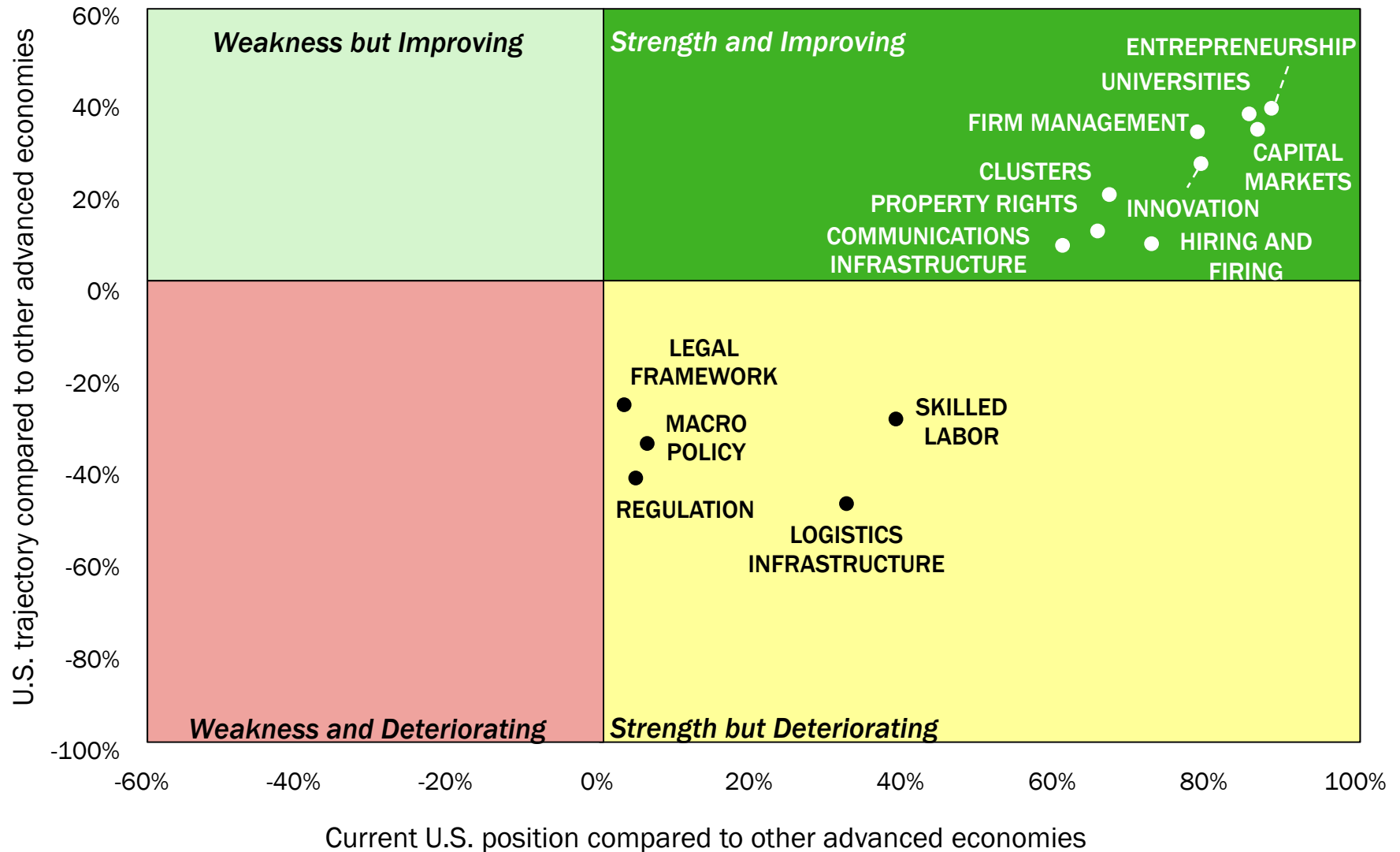
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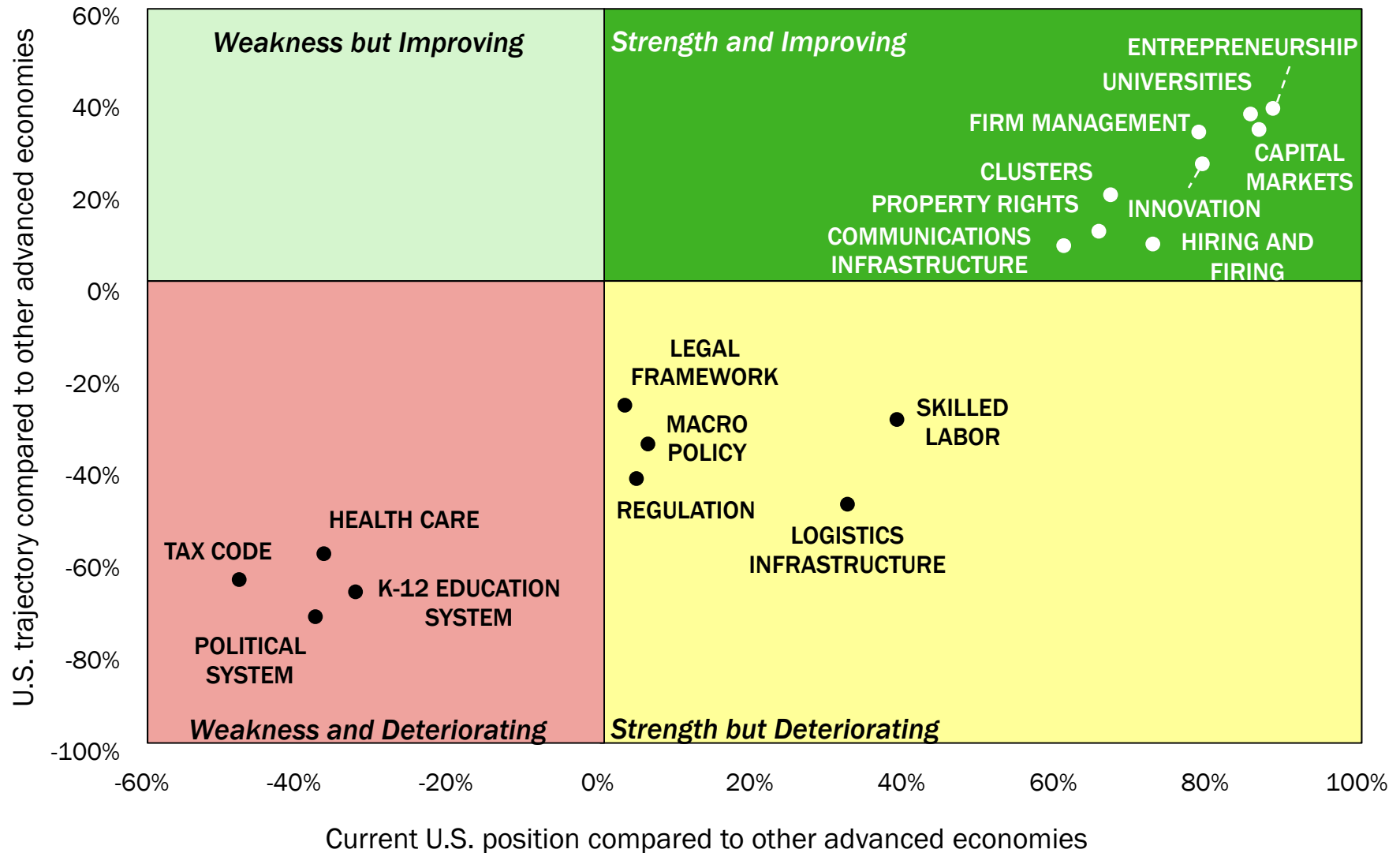
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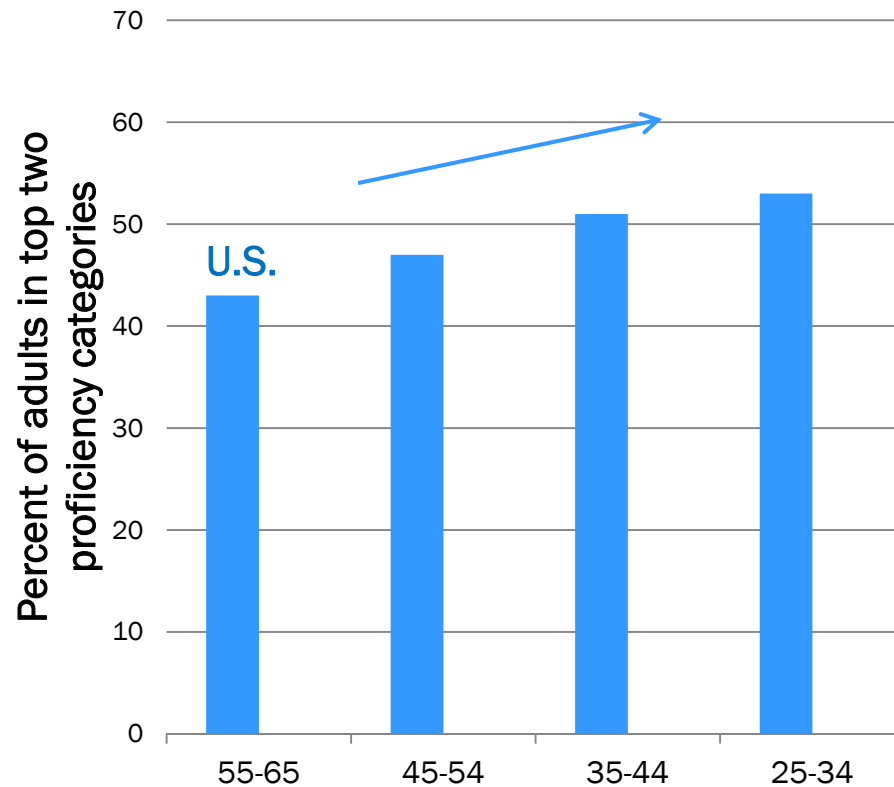
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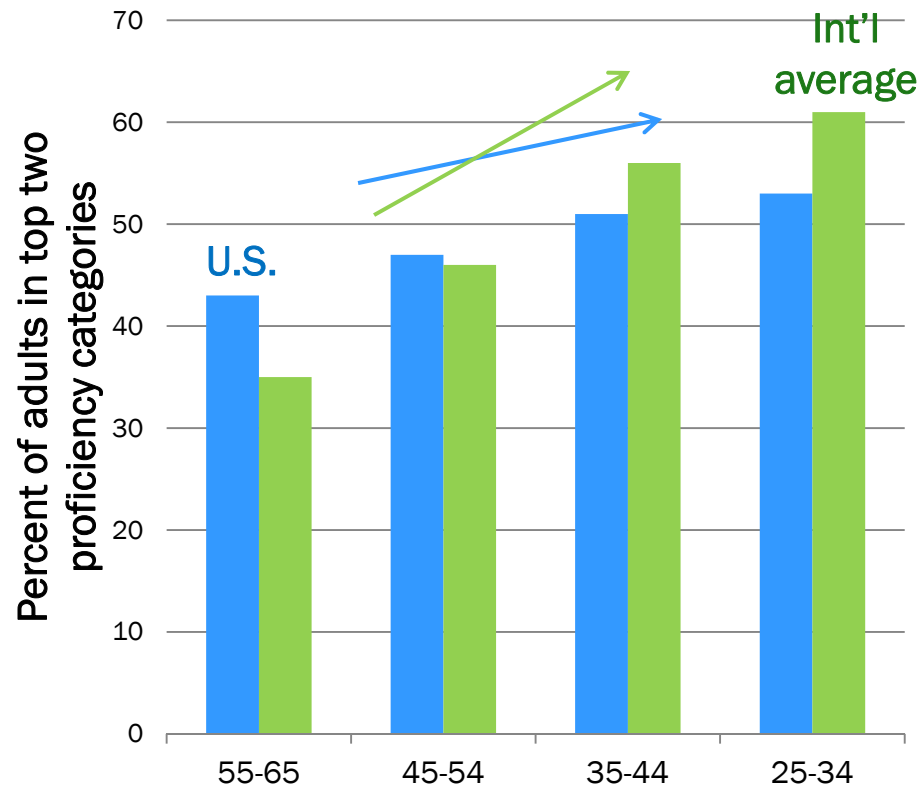
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HOW DID AMERICA GET HERE? ADULT LITERACY COMPETENCY BY AGE COHORT



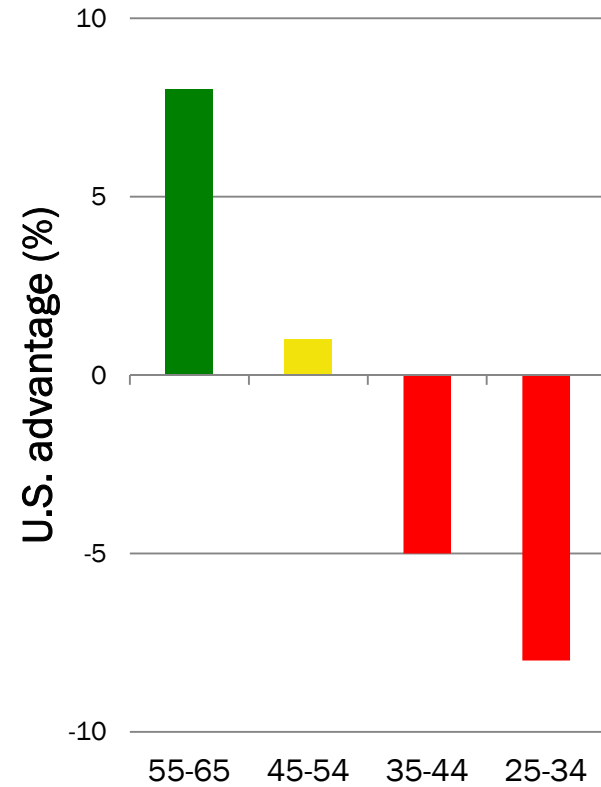
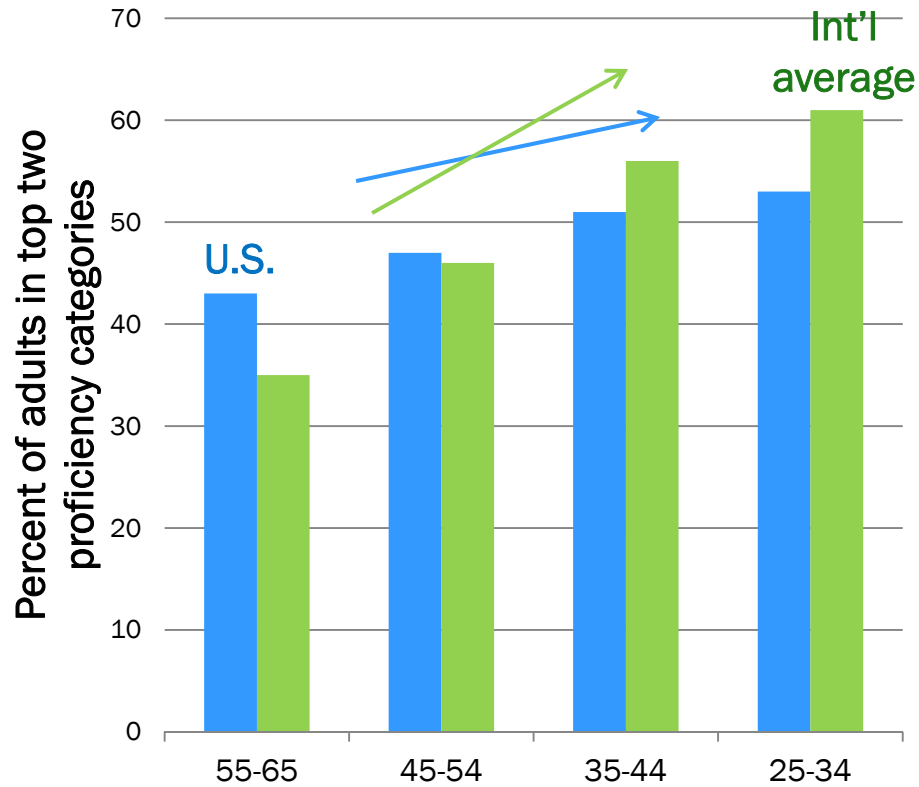
Source: Goodman, M., Finnegan, R., Mohadjer, L., Krenzke, T., and Hogan, J. (2013). Literacy, Numeracy, and Problem Solving in Technology-Rich Environments Among U.S. Adults: Results from the Program for the International Assessment of Adult Competencies 2012: First Look (NCES 2014-008). U.S. Department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

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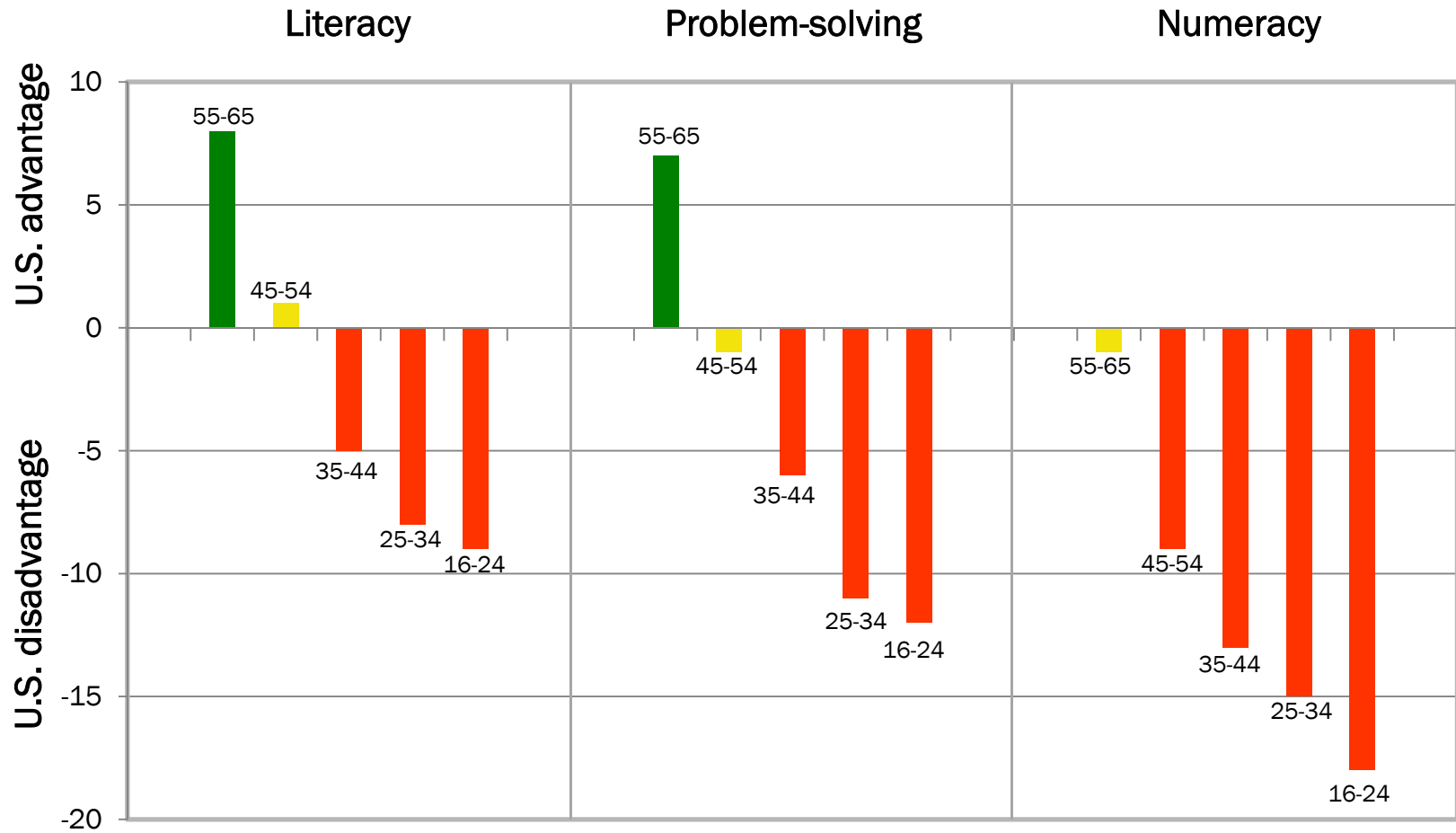
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HOW DID AMERICA GET HERE? ADULT COMPETENCIES BY AGE COHORT



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

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.

HOW DID AMERICA GET HERE?

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

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

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



Source: Harvard Business School 2013-14 Survey on U.S. Competitiveness.

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WHAT SHOULD LEADERS DO TO RESTORE U.S. COMPETITIVENESS? IMMEDIATE FEDERAL POLICY PRIORITIES

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 revenue increases and cost control
8. Responsibly develop **America's shale-gas and oil reserves**

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

WHAT SHOULD LEADERS DO TO RESTORE U.S. COMPETITIVENESS? APPROVAL RATES FOR PROPOSED FEDERAL POLICIES

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

Source: Harvard Business School 2012 Survey on U.S. Competitiveness.

WHAT SHOULD LEADERS DO TO RESTORE U.S. COMPETITIVENESS?

ROLE OF BUSINESS LEADERS

1. Vigorously pursue productivity and profitability within the business
 - a. **Position** the company to draw on U.S. strengths
 - b. **Move back to the U.S.** business activities that can be productive here
2. Tap the many opportunities to build the **commons** and benefit the business
 - a. Enhance **cluster strength** and **regional economic strategy**
 - b. Improve **skills**, through apprenticeships, training programs, and partnering with educational institutions
 - c. Upgrade and tap the **U.S. supply chain**
 - d. Support **innovation and entrepreneurship** in the company's field
3. Stop narrowly self-interested actions that undermine the commons, especially in **government relations**

Source: Porter, Michael, and Jan Rivkin. "What Business Should Do to Restore U.S. Competitiveness." *FORTUNE*. (Oct 2012).