Arkansas Competitiveness: Creating a State Economic Strategy

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/econ-statesregions.htm](http://www.isc.hbs.edu/econ-statesregions.htm)
The Economic Challenge for Governors in 2012

Achieving Fiscal Stability

Enhancing State Competitiveness
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
Where Does Productivity Come From?

Businesses and government play **different but interrelated roles** in creating a productive economy

- Only **businesses** can create **jobs** and **wealth**
- **States** compete to offer the **most productive environment** for business
Agenda

1. How is your state doing?    State Performance Scorecard

2. Why?    Explaining your state’s performance, strengths, and weaknesses

3. Where to go from here?    Action Steps
## Arkansas Performance Scorecard

<table>
<thead>
<tr>
<th>Category</th>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
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</thead>
<tbody>
<tr>
<td><strong>Prosperity</strong></td>
<td></td>
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<tr>
<td>GDP per Capita, 2000-2010</td>
<td>47</td>
<td>21</td>
<td>47 +0</td>
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<tr>
<td><strong>Wages</strong></td>
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<tr>
<td>Average Private Wage, 1998-2009</td>
<td>46</td>
<td>4</td>
<td>43 +3</td>
</tr>
<tr>
<td><strong>Job Creation</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Labor Mobilization</strong></td>
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<tr>
<td>Proportion of Working Age Population in the Workforce, 2000-2010</td>
<td>48</td>
<td>15</td>
<td>46 +2</td>
</tr>
<tr>
<td><strong>Labor Productivity</strong></td>
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<td>GDP per Workforce Participant, 2000-2010</td>
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<td><strong>New Business Formation</strong></td>
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<td><strong>Innovation</strong></td>
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<tr>
<td>Patents per Employee, 2000-2010</td>
<td>46</td>
<td>47</td>
<td>49 -3</td>
</tr>
<tr>
<td><strong>Cluster Strength</strong></td>
<td></td>
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<tr>
<td>Employment in Strong Clusters, 1998-2009</td>
<td>8</td>
<td>41</td>
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<tr>
<td><strong>Leading Clusters</strong></td>
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<tr>
<td>by employment size, 2009 (national rank)</td>
<td></td>
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<td>• Heavy Construction Services (24)</td>
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<tr>
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<td></td>
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</tbody>
</table>

*State Rank:*
- 1-10
- 11-20
- 31-40
- 41-50

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Comparative State **Prosperity Performance**

**2000 - 2010**

- **High and rising prosperity versus U.S.**
  - Arkansas
  - California
  - Connecticut
  - Florida
  - Hawaii
  - Kansas
  - Louisiana
  - Maryland
  - Massachusetts
  - Nebraska
  - New York
  - New Jersey
  - North Dakota
  - Oregon
  - Rhode Island
  - South Carolina
  - South Dakota
  - Texas
  - Utah
  - Washington
  - Wisconsin
  - Wyoming

- **Low and declining versus U.S.**
  - Alabama
  - Arizona
  - Colorado
  - Delaware
  - Idaho
  - Illinois
  - Indiana
  - Iowa
  - Kentucky
  - Maine
  - Minnesota
  - Mississippi
  - Missouri
  - Montana
  - Nebraska
  - Nevada
  - New Hampshire
  - Nevada
  - New Mexico
  - Oklahoma
  - Oklahoma
  - Oregon
  - Pennsylvania
  - Rhode Island
  - South Dakota
  - Tennessee
  - Texas
  - Utah
  - Rhode Island
  - South Dakota
  - Tennessee
  - Texas
  - Utah
  - Virginia

- **Low but rising versus U.S.**
  - Alabama
  - Arizona
  - Colorado
  - Delaware
  - Idaho
  - Illinois
  - Indiana
  - Iowa
  - Kentucky
  - Maine
  - Minnesota
  - Mississippi
  - Missouri
  - Montana
  - Nebraska
  - Nevada
  - New Hampshire
  - New Jersey
  - New Mexico
  - New York
  - New York
  - North Dakota
  - Oklahoma
  - Oregon
  - Pennsylvania
  - Rhode Island
  - South Carolina
  - South Dakota
  - Tennessee
  - Texas
  - Utah
  - Vermont
  - Washington
  - West Virginia

Source: BEA. Notes: GDP in real 2005 dollars. Growth rate is calculated as compound annual growth rate.
Comparative State Labor Mobilization Performance
1999-2010

High but declining versus U.S.

High Labor Force Participation and Participation rising versus U.S.

U.S. Labor Force Participation Rate: 64.7%

Low and declining versus U.S.

Change in Labor Force Participation Rate: -2.4%

Low but rising versus U.S.

Notes: Source BLS.
Comparative State Employee Productivity Performance
2000-2010

Highly productive and productivity rising versus U.S.

U.S. GDP per Employed Worker
Real Growth: 1.42%

High but declining versus U.S.

Low and declining versus U.S.

Low but rising versus U.S.

Real Growth in Gross Domestic Product per Employed Worker, 2000-2010

Sources: BEA, BLS. Notes: GDP in real 2005 dollars. Growth rate is calculated as compound annual growth rate.
Comparative State Innovation Performance
2000 - 2010

U.S. average Growth Rate of Patenting: +2.25%

High and improving innovation rate versus U.S.

Low and declining innovation

U.S. average Patents per 10,000 Employees: 7.77


Arkansas

High and declining innovation

Low and improving innovation

= 2000 patents in 2010

= 500 patents in 2010
Why?
What Drives State Productivity?

1. Quality of the Overall Business Environment
2. Cluster Development
3. Policy Coordination among Multiple Levels of Geography/Government
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

Context for Firm Strategy and Rivalry

Rules and incentives that encourage local competition, investment and productivity
- e.g., tax policy that encourages investment and R&D
- Flexible labor policies
- Intellectual property protection
- Antitrust enforcement

Factor (Input) Conditions

Access to high quality business inputs
- Human resources
- Capital access
- Physical infrastructure
- Administrative processes (e.g., permitting, regulatory efficiency)
- Scientific and technological infrastructure

Demand Conditions

Sophisticated and demanding local needs and customers
- e.g., Strict quality, safety, and environmental standards
- Consumer protection laws
- Government procurement of advanced technology
- Early demand for products and services

Related and Supporting Industries

Local availability of suppliers and supporting industries

• 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
Common 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?
What Drives State Productivity?

1. Quality of the Overall Business Environment
2. Cluster Development
3. Policy Coordination among Multiple Levels of Geography/Government
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
- 30% of employment

**Local Clusters**
- Serve almost exclusively the **local** market
- Not directly exposed to cross-regional competition
- 70% of employment
Example: Massachusetts Life Sciences Cluster

- Health and Beauty Products
- Surgical Instruments and Suppliers
- Medical Equipment
- Dental Instruments and Suppliers
- Ophthalmic Goods
- Diagnostic Substances
- Containers

Teaching and Specialized Hospitals

Biological Products

Biopharmaceutical Products

Research Organizations

Cluster Organizations
- MassMedic, MassBio, others

Specialized Business Services
- Banking, Accounting, Legal

Specialized Risk Capital
- VC Firms, Angel Networks

Specialized Research Service Providers
- Laboratory, Clinical Testing

Educational Institutions
- Harvard, MIT, Tufts, Boston University, UMass

Analytical Instruments Cluster
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

*On average, cluster strength is much more important (78.1%) than cluster mix (21.9%) in driving regional performance in the U.S.*

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

- Climate and Geography
- U.S. Military

- Bioscience Research Centers
- Hospitality and Tourism
- Aerospace Vehicles and Defense
- Transportation and Logistics
- Power Generation
- Communications Equipment
- Information Technology
- Medical Devices
- Biotech / Pharmaceuticals
- Education and Knowledge Creation

Traded Cluster Composition of the Arkansas Economy

Overall change in the Arkansas Share of US Traded Employment: -0.07%

Arkansas Overall Share of US Traded Employment: 0.81%

Traded Cluster Composition of the Arkansas Economy (continued)

Overall change in the Arkansas Share of US Traded Employment: -0.07%

Arkansas Overall Share of US Traded Employment: 0.81%

Change in Arkansas share of National Employment, 1998 to 2009

Arkansas Job Creation in Traded Clusters
1998 to 2009

Net traded job creation, 1998 to 2009:
-31,497

Indicates expected job creation given national cluster growth.*

* Percent change in national benchmark times starting regional employment. Overall traded job creation in the state, if it matched national benchmarks, would be -41,873
Productivity Depends on How a State Competes, Not What Industries It Competes In

<table>
<thead>
<tr>
<th>State</th>
<th>State Traded Wage versus National Average</th>
<th>Cluster Mix Effect</th>
<th>Relative Cluster Wage Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connecticut</td>
<td>+27,171</td>
<td>7,028</td>
<td>20,142</td>
</tr>
<tr>
<td>New York</td>
<td>+24,102</td>
<td>3,628</td>
<td>20,474</td>
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<tr>
<td>Massachusetts</td>
<td>+16,169</td>
<td>4,391</td>
<td>11,778</td>
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<td>New Jersey</td>
<td>+13,535</td>
<td>3,761</td>
<td>9,774</td>
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<td>California</td>
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<td>Maryland</td>
<td>+6,651</td>
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<td>4,155</td>
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<td>Delaware</td>
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<td>Minnesota</td>
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<td>Kansas</td>
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<td>Wyoming</td>
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<td>Rhode Island</td>
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<tr>
<td>Oregon</td>
<td>-10,359</td>
<td>-1,304</td>
<td>-9,056</td>
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<td>Missouri</td>
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<td>-1,425</td>
<td>-9,002</td>
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<tr>
<td>Alabama</td>
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<tr>
<td>Florida</td>
<td>-11,007</td>
<td>-1,559</td>
<td>-9,448</td>
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<tr>
<td>Wisconsin</td>
<td>-11,722</td>
<td>-3,516</td>
<td>-8,206</td>
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<tr>
<td>Nebraska</td>
<td>-11,777</td>
<td>241</td>
<td>-12,018</td>
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<td>Utah</td>
<td>-11,992</td>
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<td>Tennessee</td>
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<td>Indiana</td>
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<td>Nevada</td>
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<td>North Dakota</td>
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<tr>
<td>South Carolina</td>
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<td>Arkansas</td>
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<td>-4,560</td>
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<td>Hawaii</td>
<td>-16,043</td>
<td>-12,555</td>
<td>-3,487</td>
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<td>New Mexico</td>
<td>-16,123</td>
<td>-288</td>
<td>-15,835</td>
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<tr>
<td>Kentucky</td>
<td>-16,215</td>
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<tr>
<td>Maine</td>
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<td>Iowa</td>
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<td>West Virginia</td>
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<td>Montana</td>
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<tr>
<td>South Dakota</td>
<td>-20,968</td>
<td>289</td>
<td>-21,257</td>
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</tbody>
</table>

On average, cluster strength is much more important (78.1%) than cluster mix (21.9%) in driving regional performance in the U.S.

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.
## Arkansas Performance Scorecard

### Prosperity
*GDP per Capita, 2000-2010*

<table>
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<tr>
<th>Start Position</th>
<th>Trend</th>
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<tr>
<td>47</td>
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<td>47 +0</td>
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### Wages
*Average Private Wage, 1998-2009*

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<td>46</td>
<td>4</td>
<td>43 +3</td>
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### Job Creation

<table>
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<tr>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>14</td>
<td>17 +21</td>
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</tbody>
</table>

### Labor Mobilization
*Proportion of Working Age Population in the Workforce, 2000-2010*

<table>
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<tr>
<th>Start Position</th>
<th>Trend</th>
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</thead>
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<td>48</td>
<td>15</td>
<td>46 +2</td>
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### Labor Productivity
*GDP per Workforce Participant, 2000-2010*

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<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
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<tr>
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<td>20</td>
<td>44 +1</td>
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### New Business Formation

<table>
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<tr>
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<th>Trend</th>
<th>Current Position</th>
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<tbody>
<tr>
<td>39</td>
<td>10</td>
<td>17 +22</td>
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### Innovation
*Patents per Employee, 2000-2010*

<table>
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### Cluster Strength
*Employment in Strong Clusters, 1998-2009*

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### Leading Clusters
*by employment size, 2009 (national rank)*

- Heavy Construction Services (24)
- Processed Food (28)
- Metal Manufacturing (26)
- Motor Driven Products (11)
- Forest Products (13)
Cluster Development
Common 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

• Clusters provide a framework for organizing the implementation of many public policies and public investments to achieve greater effectiveness.
Why?
What Drives State Productivity?

1. Quality of the Overall Business Environment
2. Cluster Development
3. Policy Coordination among Multiple Levels of Geography/Government
Geographic and Governmental Influences on Productivity

- Nation
- State
- Metropolitan Areas
- Rural Regions
- Neighboring State
Defining the Appropriate Economic Regions

The economies of states are often an aggregation of distinct economic areas with differing circumstances.

Wage Performance in Arkansas Metropolitan Areas

U.S. Growth Rate of Wages: 3.01%
Arkansas Growth Rate of Wages: 3.62%

U.S. Average Private Wage: $42,403
Arkansas Average Private Wage: $34,062

Source: Census CBP, authors’ analysis. Note: “Bubble” size in chart is proportional to employment in 2009.
Employment Performance in Arkansas Metropolitan Areas

**Arkansas Growth Rate of Employment: 0.25%**

**U.S. Growth Rate of Employment: 0.52%**

**U.S. Average Private Wage: $42,403**

**Arkansas Average Private Wage: $34,062**

### Employment Performance Across Arkansas Metropolitan Areas

- **Fayetteville MSA**
- **Little Rock MSA**
- **Pine Bluff MSA**
- **Fort Smith MSA**
- **Texarkana MSA**
- **Memphis MSA**
- **Jonesboro MSA**
- **Hot Springs MSA**
- **Rest of State**

**Source:** Census CBP, authors' analysis. Note: “Bubble” size in chart is proportional to employment in 2009.

*Arkansas portion only*
Geographic and Governmental Influences on Productivity

1. **Influence** and **access** federal policies and programs

2. Work with each metro area to develop a **prioritized strategic agenda**

3. **Connect** rural regions with proximate urban areas

4. **Integrate** policies and infrastructure planning with neighbors
1. How is your state doing? State Performance Scorecard

2. Why? Explaining your state’s performance, strengths, and weaknesses

3. Where to go from here? Action Steps
Agenda

1. How is your state doing?  State Performance Scorecard
2. Why?  Explaining your state’s performance, strengths, and weaknesses
3. Where to go from here?  Action Steps

Biggest Action Item of All
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 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 benefits*
- Improve the *efficiency of doing business*
- Harness efficiencies and coordination *across jurisdictions*, especially with neighbors
- **Government and the private sector** *collaborate* to build cluster strength
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.

**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
Example: Organizing for Economic Development

<table>
<thead>
<tr>
<th>Cluster Committees</th>
<th>Task Forces</th>
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<tr>
<td>Automotive</td>
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<tr>
<td>Textiles</td>
<td>Measuring Progress</td>
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</tbody>
</table>

- Chaired by a business leader and reporting to the governor
- Convenes working groups, provides direction and strength, holds working groups accountable

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

• The goal of economic strategy is to enhance **productivity**. This is the only way to create jobs, high income, and wealth in the long run.

• Improving **productivity** and **innovation** must be the guiding principles for every state policy choice.

• Improving productivity does not require new public resources, but **using existing resources better**.

• Improving productivity demands that governors **mobilize the private sector**, not rely on government alone.

• Economic strategy is non-partisan and about getting **results**.
Next Steps

1. Reach out to your team

2. Reach out to the business community


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