Florida Competitiveness: Creating a State Economic Strategy

For further material on regional competitiveness and clusters:  www.isc.hbs.edu/econ-clusters.htm
For state economic profiles:  www.isc.hbs.edu/econ-statesregions.htm

March 20, 2012
The Economic Challenge for Governors in 2012

Enhancing State Competitiveness

Achieving Fiscal Stability
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
## Florida Performance Scorecard

### Prosperity
**GDP per Capita, 2000-2010**
- **Start Position:** 37
- **Trend:** 37
- **Current Position:** 37 (+0)

### Wages
**Average Private Wage, 1998-2009**
- **Start Position:** 31
- **Trend:** 16
- **Current Position:** 30 (+1)

### Job Creation
- **Start Position:** 4
- **Trend:** 48
- **Current Position:** 47 (-43)

### Labor Mobilization
**Proportion of Working Age Population in the Workforce, 2000-2010**
- **Start Position:** 45
- **Trend:** 7
- **Current Position:** 37 (+8)

### Labor Productivity
**GDP per Workforce Participant, 2000-2010**
- **Start Position:** 29
- **Trend:** 40
- **Current Position:** 35 (-6)

### New Business Formation
- **Start Position:** 18
- **Trend:** 33
- **Current Position:** 35 (-17)

### Innovation
**Patents per Employee, 2000-2010**
- **Start Position:** 28
- **Trend:** 31
- **Current Position:** 32 (-4)

### Cluster Strength
**Employment in Strong Clusters, 1998-2009**
- **Start Position:** 2
- **Trend:** 29
- **Current Position:** 4 (-2)

### Leading Clusters
*by employment size, 2009 (national rank)*
- Business Services (4)
- Hospitality and Tourism (2)
- Transportation and Logistics (3)
- Distribution Services (5)
- Agricultural Products (2)
Comparative State Prosperity Performance
2000 - 2010

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 Labor Force Participation and Participation rising versus U.S.

High but declining versus U.S.

Low and declining versus U.S.

Low but rising versus U.S.

Notes: Source BLS.

U.S. Labor Force Participation Rate: 64.7%

Change in Labor Force Participation Rate: -2.4%

50%
55%
60%
65%
70%

del187c4749b211b

50% 55% 60% 65% 70% 75%

-7% -6% -5% -4% -3% -2% -1% 0% 1% 2%

Change in Proportion of Working Age Population in the Workforce, 1999-2010

Notes: Source BLS.
Comparative State Innovation Performance
2000 - 2010

High and declining innovation

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

Low and declining innovation

Comparative State Labor Force Productivity Performance 2000-2010

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

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

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

Highly productive and productivity rising versus U.S.

High but declining versus U.S.

Low and declining versus U.S.

Low but rising versus U.S.

Sources: BEA, BLS. Notes: GDP in real 2005 dollars. Growth rate is calculated as compound annual growth rate.
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

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

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

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

Analytical Instruments Cluster

Educational Institutions
Harvard, MIT, Tufts, Boston University, UMass
Example: Houston Oil and Gas Cluster

Upstream

Oil & Natural Gas Exploration & Development

Oil & Natural Gas Completion & Production

Oilfield Services/Engineering & Contracting Firms

Equipment Suppliers
(e.g., Oil Field Chemicals, Drilling Rigs, Drill Tools)

Specialized Technology Services
(e.g., Drilling Consultants, Reservoir Services, Laboratory Analysis)

Subcontractors
(e.g., Surveying, Mud Logging, Maintenance Services)

Specialized Institutions
(e.g., Academic Institutions, Training Centers, Industry Associations)

Downstream

Oil Transportation

Oil Trading

Oil Refining

Oil Distribution

Oil Wholesale Marketing

Oil Retail Marketing

Gas Gathering

Gas Processing

Gas Trading

Gas Transmission

Gas Distribution

Gas Marketing

Example: Houston Oil and Gas Cluster

Oil & Natural Gas Exploration & Development

Oil & Natural Gas Completion & Production

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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

Hospitality and Tourism
Transportation and Logistics
Power Generation
Communications Equipment
Information Technology
Education and Knowledge Creation
Medical Devices
Biotech / Pharmaceuticals

U.S. Military

Aerospace Vehicles and Defense
Analytical Instruments

Bioscience Research Centers

Traded Cluster Composition of the Florida Economy

Florida national employment share, 2009

Overall change in the Florida Share of US Traded Employment: 0.42%

Florida Overall Share of US Traded Employment: 4.61%

Traded Cluster Composition of the Florida Economy (continued)

Florida national employment share, 2009

Change in Florida share of National Employment, 1998 to 2009

Prefabricated Enclosures
Sporting, Recreational and Children's Goods
Chemical Products
Plastics
Processed Food
Production Technology
Textiles
Automotive
Lighting and Electrical Equipment
Construction Materials
Motor Driven Products
Heavy Machinery
Metal Manufacturing
Furniture
Forest Products
Aerospace Vehicles and Defense
Apparel
Oil and Gas Products and Services


Employees 24,000 =
Florida Job Creation in Traded Clusters
1998 to 2009

Net traded job creation, 1998 to 2009:
+87,287

* Percent change in national benchmark times starting regional employment. Overall traded job creation in the state, if it matched national benchmarks, would be +61,370
Florida Wages in Traded Clusters vs. National Benchmarks

Wages, 2009

Florida average traded wage: $46,064
U.S. average traded wage: $56,906

Indicates average national wage in the traded cluster

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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<tr>
<td>New Jersey</td>
<td>+13,535</td>
<td>3,761</td>
<td>9,774</td>
</tr>
<tr>
<td>California</td>
<td>+9,573</td>
<td>349</td>
<td>9,224</td>
</tr>
<tr>
<td>Maryland</td>
<td>+6,651</td>
<td>2,496</td>
<td>4,155</td>
</tr>
<tr>
<td>Washington</td>
<td>+5,652</td>
<td>2,692</td>
<td>2,960</td>
</tr>
<tr>
<td>Virginia</td>
<td>+5,319</td>
<td>1,617</td>
<td>3,702</td>
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<tr>
<td>Illinois</td>
<td>+2,658</td>
<td>16</td>
<td>2,642</td>
</tr>
<tr>
<td>Colorado</td>
<td>+1,662</td>
<td>2,416</td>
<td>-754</td>
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<tr>
<td>Texas</td>
<td>+352</td>
<td>2,494</td>
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<tr>
<td>Delaware</td>
<td>+164</td>
<td>11,060</td>
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<tr>
<td>Alaska</td>
<td>-930</td>
<td>-2,417</td>
<td>1,487</td>
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<tr>
<td>Pennsylvania</td>
<td>-3,970</td>
<td>-995</td>
<td>-2,975</td>
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<tr>
<td>Louisiana</td>
<td>-4,280</td>
<td>95</td>
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<td>Georgia</td>
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<td>Minnesota</td>
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<td>New Hampshire</td>
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<td>Arizona</td>
<td>-7,021</td>
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<td>Kansas</td>
<td>-7,705</td>
<td>2,241</td>
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<tr>
<td>Wyoming</td>
<td>-8,057</td>
<td>1,040</td>
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<td>Michigan</td>
<td>-8,176</td>
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<td>-5,633</td>
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<tr>
<td>North Carolina</td>
<td>-9,245</td>
<td>-4,330</td>
<td>-4,915</td>
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<tr>
<td>Ohio</td>
<td>-9,284</td>
<td>-2,495</td>
<td>-6,788</td>
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<tr>
<td>Rhode Island</td>
<td>-9,791</td>
<td>-2,290</td>
<td>-7,501</td>
</tr>
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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.
### Florida Performance Scorecard

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<tr>
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<td><strong>New Business Formation</strong></td>
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<td><strong>Innovation</strong></td>
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<td>Patents per Employee, 2000-2010</td>
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<td>31</td>
<td>32 -4</td>
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<td><strong>Cluster Strength</strong></td>
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<td>Employment in Strong Clusters, 1998-2009</td>
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</table>

*State Rank:*
- **1-10:** Green
- **11-20:** Yellow
- **31-40:** Orange
- **41-50:** Red

*State Rank: 21-30*
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 Florida Metropolitan Areas

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

- **U.S. Average Private Wage**: $42,403
- **Florida Growth Rate of Employment**: 1.61%
- **Florida Average Private Wage**: $36,924
- **U.S. Growth Rate of Employment**: 0.52%

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

**Growth Rate of Private Employment, 1998-2009**
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
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
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

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

Executive Committee

Coordinating Staff

Cluster Committees
- Automotive
- Hydrogen / Fuel Cells
- Textiles
- Apparel
- Agriculture
- Travel and Tourism

Task Forces
- Cluster Activation
- Research / Investment
- Distressed / Disadvan. Areas
- Education / Workforce
- Start-ups / Local Firms
- Measuring Progress

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.