Idaho Competitiveness: Creating a State Economic Strategy

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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
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
## Idaho Performance Scorecard

### Prosperity
**GDP per Capita, 2000-2010**
- **Start Position**: 45
- **Trend**: 29
- **Current Position**: 44 (+1)

### Wages
**Average Private Wage, 1998-2009**
- **Start Position**: 40
- **Trend**: 48
- **Current Position**: 47 (-7)

### Job Creation
- **Start Position**: 3
- **Trend**: 47
- **Current Position**: 46 (-43)

### Labor Mobilization
**Proportion of Working Age Population in the Workforce, 2000-2010**
- **Start Position**: 18
- **Trend**: 43
- **Current Position**: 27 (-9)

### Labor Productivity
**GDP per Workforce Participant, 2000-2010**
- **Start Position**: 48
- **Trend**: 18
- **Current Position**: 46 (+2)

### New Business Formation
- **Start Position**: 4
- **Trend**: 48
- **Current Position**: 48 (-44)

### Innovation
**Patents per Employee, 2000-2010**
- **Start Position**: 1
- **Trend**: 48
- **Current Position**: 4 (-3)

### Cluster Strength
**Employment in Strong Clusters, 1998-2009**
- **Start Position**: 10
- **Trend**: 50
- **Current Position**: 37 (-27)

### Leading Clusters
**by employment size, 2009**
(41-50)
- Information Technology (20)
- Agricultural Products (6)
- Processed Food (35)
- Heavy Machinery (31)
- Prefabricated Enclosures (31)
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 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.

Low but rising versus U.S.

Notes: Source BLS.

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

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

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

Proportion of Working Age Population in the Workforce, 2010

Change in Labor Force Participation Rate: -2.4%
Comparative State Labor Force Productivity Performance 2000-2010

Real Growth in Gross Domestic Product per Labor Force Participant, 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

Highly productive and productivity rising versus U.S.

High but declining versus U.S.

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

Gross Domestic Product per Employed Worker, 2010

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%

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

High and declining innovation

High and improving innovation rate versus U.S.

Low and declining innovation

Low and improving innovation

= 2000 patents in 2010
= 500 patents in 2010

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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**
- **Clusters 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
  - (e.g., Oil Field Chemicals, Drilling Rigs, Drill Tools)
- Oil & Natural Gas Completion & Production
  - (e.g., Drilling Consultants, Reservoir Services, Laboratory Analysis)
- Specialized Technology Services
  - (e.g., Surveying, Mud Logging, Maintenance Services)
- Subcontractors
  - (e.g., MIS Services, Technology Licenses, Risk Management)
- Equipment Suppliers
  - (e.g., Oil Field Chemicals, Drilling Rigs, Drill Tools)
- 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
- Business Services
  - (e.g., MIS Services, Technology Licenses, Risk Management)

Oilfield Services/Engineering & Contracting Firms
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.**

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
- U.S. Military
  - Transportation and Logistics
  - Aerospace Vehicles and Defense
- Bioscience Research Centers
  - Power Generation
  - Analytical Instruments
  - Education and Knowledge Creation
- Medical Devices
  - Communications Equipment
  - Information Technology
  - Biotech / Pharmaceuticals

Timeline:
- 1910
- 1930
- 1950
- 1970
- 1990
Traded Cluster Composition of the Idaho Economy

Overall change in the Idaho Share of US Traded Employment: 0.03%

Idaho national employment share, 2009

Information Technology

Change in Idaho share of National Employment, 1998 to 2009

Agricultural Products

Idaho Overall Share of US Traded Employment: 0.43%

Heavy Construction Services

Analytical Instruments

Medical Devices

Biopharmaceuticals

Heavy Machinery

Prefabricated Enclosures

Forest Products

Fishing and Fishing Products

Sporting, Recreational and Children’s Goods

Building Fixtures, Equipment and Services

Idaho Employees 2,700 =


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Traded Cluster Composition of the Idaho Economy (continued)

Overall change in the Idaho Share of US Traded Employment: 0.03%

Idaho Overall Share of US Traded Employment: 0.43%

Employment 1998-2009

Added Jobs

Lost Jobs

Employees 2,400 =

Change in Idaho share of National Employment, 1998 to 2009

Idaho national employment share, 2009


2012 – State Competitiveness – Rich Bryden

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Idaho Job Creation in Traded Clusters
1998 to 2009

Net traded job creation, 1998 to 2009: +6,588

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 814.

Idaho Wages in Traded Clusters vs. National Benchmarks

Financial Services
Information Technology
Chemical Products
Business Services
Distribution Services
Heavy Construction Services
Motor Driven Products
Production Technology
Analytical Instruments
Metal Manufacturing
Plastics
Heavy Machinery
Processed Food
Aerospace Vehicles and Defense
Forest Products
Oil and Gas Products and Services
Publishing and Printing
Automotive
Biopharmaceuticals
Medical Devices
Construction Materials
Transportation and Logistics
Agricultural Products
Sporting, Recreational and Children's
Building Fixtures, Equipment and Services
Furniture
Prefabricated Enclosures
Leather and Related Products
Fishing and Fishing Products
Textiles
Apparel
Education and Knowledge Creation
Hospitality and Tourism
Entertainment
Power Generation and Transmission
Communications Equipment
Aerospace Engines
Tobacco
Lighting and Electrical Equipment
Jewelry and Precious Metals
Footwear

Indicates average national wage in the traded cluster

Idaho average traded wage: $35,500

U.S. average traded wage: $56,906

## Productivity Depends on How a State Competes, Not What Industries It Competes In

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

### Table: Relative Cluster Wage Effect

<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>
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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.
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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

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

Wage Performance in Idaho Metropolitan Areas

Growth Rate of Private Wages, 1998-2009

Idaho Growth Rate of Wages: 2.45%
U.S. Growth Rate of Wages: 3.01%

Idaho Average Private Wage: $32,642
U.S. Average Private Wage: $42,403

Logging MSA*
Boise City MSA
Idaho Falls MSA
Lewiston MSA*
Coeur d’Alene MSA
Rest of State
Pocatello MSA

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

Growth Rate of Private Employment, 1998-2009

- Boise City MSA
- Idaho Falls MSA
- Lewiston MSA*
- Pocatello MSA
- Rest of State
- Coeur d'Alene MSA
- Logan MSA*

U.S. Growth Rate of Employment: 0.52%
Idaho Growth Rate of Employment: 1.52%

U.S. Average Private Wage: $42,403
Idaho Average Private Wage: $32,642

Average Private Wage, 2009

- $20,000
- $25,000
- $30,000
- $35,000
- $40,000
- $45,000

0.0% 0.5% 1.0% 1.5% 2.0% 2.5% 3.0%

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

*Idaho portion only
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

Geographic and Governmental Influences on Productivity
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   Action Steps
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Biggest Action Item of All
Define the Value Proposition

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?

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

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

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

### Task Forces
- Cluster Activation
- Research / Investment
- Distressed / Disadvant. 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.