Maine 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
Why?
What Drives State Productivity?

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

#### Prosperity
**GDP per Capita, 2000-2010**
- **Start Position**: 40
- **Trend**: 30
- **Current Position**: 42

#### Wages
**Average Private Wage, 1998-2009**
- **Start Position**: 35
- **Trend**: 27
- **Current Position**: 37

#### Job Creation
- **Start Position**: 9
- **Trend**: 24
- **Current Position**: 14

#### Labor Mobilization
**Proportion of Working Age Population in the Workforce, 2000-2010**
- **Start Position**: 28
- **Trend**: 23
- **Current Position**: 25

#### Labor Productivity
**GDP per Workforce Participant, 2000-2010**
- **Start Position**: 42
- **Trend**: 35
- **Current Position**: 48

#### New Business Formation
- **Start Position**: 11
- **Trend**: 38
- **Current Position**: 26

#### Innovation
**Patents per Employee, 2000-2010**
- **Start Position**: 44
- **Trend**: 2
- **Current Position**: 35

#### Cluster Strength
**Employment in Strong Clusters, 1998-2009**
- **Start Position**: 35
- **Trend**: 43
- **Current Position**: 47

#### Leading Clusters
**by employment size, 2009 (national rank)**
- Education and Knowledge Creation (38)
- Forest Products (20)
- Textiles (28)
- Fishing and Fishing Products (12)
- Footwear (3)
Comparative State Prosperity Performance
2000 - 2010

High and rising prosperity versus U.S.
High but declining versus U.S.
Low and declining versus U.S.
Low but rising versus U.S.

U.S. GDP per Capita: $42,346
Real Growth Rate: 0.63%

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.

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

Low and declining versus U.S.

Notes: Source BLS.
### Comparative State Labor Force Productivity Performance
#### 2000-2010

**U.S. GDP per Labor Force Participant**
- **Real Growth:** 0.803%

**Highly productive and productivity rising versus U.S.**
- Delaware
- Pennsylvania
- New York
- Maryland
- Virginia
- Massachusetts
- Hawaii
- Wyoming

**High but declining versus U.S.**
- Texas
- Louisiana
- California
- Alaska

**Low and declining versus U.S.**
- Connecticut
- Washington
- New Jersey
- North Carolina
- New Mexico
- Nevada
- Georgia

**Low but rising versus U.S.**
- South Dakota
- Nebraska
- South Carolina

**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

High but declining versus U.S.

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

Highly productive and productivity rising 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 Patents per 10,000 Employees: 7.77

High and declining innovation

Low and improving innovation

Low and declining innovation

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

High and improving innovation rate versus U.S.

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
- Biopharmaceutical Products
- Biomedical Products
- Research Organizations
- Analytical Instruments Cluster
- Educational Institutions
  - Harvard, MIT, Tufts, Boston University, UMass
- 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
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

Oil & Natural Gas Transportation
Oil & Natural Gas Trading
Oil & Natural Gas Refining
Oil & Natural Gas Distribution
Oil & Natural Gas Wholesale Marketing
Oil & Natural Gas Retail Marketing

Oil & Natural Gas Exploration & Development
Oil & Natural Gas Completion & Production

2012 State Competitiveness – Rich Bryden

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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

Aerospace Vehicles and Defense

Analytical Instruments

Education and Knowledge Creation

Medical Devices

U.S. Military

Sporting Equipment

Information Technology

Bioscience Research Centers

Biotech / Pharmaceuticals

Hospitality and Tourism

Transportation and Logistics

Power Generation

Communications Equipment

Information Technology

Aerospace Vehicles and Defense

Analytical Instruments

Education and Knowledge Creation

Medical Devices

Biotech / Pharmaceuticals

Hospitality and Tourism

Transportation and Logistics

Power Generation

Communications Equipment

Information Technology

Aerospace Vehicles and Defense

Analytical Instruments

Education and Knowledge Creation

Medical Devices

Biotech / Pharmaceuticals
Traded Cluster Composition of the Maine Economy

Overall change in the Maine Share of US Traded Employment: -0.02%

Footwear

Fishing and Fishing Products

Aerospace Engines

Forest Products

Maine Overall Share of US Traded Employment: 0.39%

Change in Maine share of National Employment, 1998 to 2009

Traded Cluster Composition of the Maine Economy (continued)

Overall change in the Maine Share of US Traded Employment: -0.02%

Maine Overall Share of US Traded Employment: 0.39%

Change in Maine share of National Employment, 1998 to 2009


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Maine Job Creation in Traded Clusters

1998 to 2009

Net traded job creation, 1998 to 2009: -11,485

Job Creation, 1998 to 2009:

-6,000
-4,000
-2,000
0
2,000
4,000
6,000

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

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 -11,313
Maine Wages in Traded Clusters vs. National Benchmarks

Maine average traded wage: $38,842
U.S. average traded wage: $56,906

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>
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<tbody>
<tr>
<td>Connecticut</td>
<td>+27,171</td>
<td>7,028</td>
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<td>New York</td>
<td>+24,102</td>
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<td>Massachusetts</td>
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<td>California</td>
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<td>Rhode Island</td>
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<td>Oregon</td>
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<td>Florida</td>
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<td>Wisconsin</td>
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<td>Oklahoma</td>
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<td>-15,276</td>
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<td>Arkansas</td>
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<td>Hawaii</td>
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<td>New Mexico</td>
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<td>Kentucky</td>
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<td>Maine</td>
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<td>South Dakota</td>
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<td>-21,257</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.
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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
  - State
  - Metropolitan Areas
  - Rural Regions
  - Nation
Defining the Appropriate Economic Regions

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

Wage Performance in Maine Metropolitan Areas

Average Private Wage, 2009

Growth Rate of Private Wages, 1998-2009

U.S. Growth Rate of Wages: 3.01%
Maine Growth Rate of Wages: 3.02%

U.S. Average Private Wage: $42,403
Maine Average Private Wage: $35,112

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

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

Maine Average
Private Wage: $35,112

U.S. Growth Rate of Employment: 0.52%
Maine Growth Rate of Employment: 0.62%

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

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
- Apparel
- Hydrogen / Fuel Cells
- Agriculture
- Textiles
- Travel and Tourism

Task Forces

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