Mississippi 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

Professor Michael E. Porter
Harvard Business School

March 28, 2012
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
Mississippi Performance Scorecard

Prosperity
GDP per Capita, 2000-2010

Start Position: 50
Trend: 18
Current Position: 50 (+0)

Wages
Average Private Wage, 1998-2009

Start Position: 47
Trend: 20
Current Position: 49 (-2)

Job Creation

Start Position: 48
Trend: 15
Current Position: 33 (+15)

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

Start Position: 47
Trend: 34
Current Position: 48 (-1)

Labor Productivity
GDP per Workforce Participant, 2000-2010

Start Position: 49
Trend: 14
Current Position: 47 (+2)

New Business Formation

Start Position: 46
Trend: 9
Current Position: 36 (+10)

Innovation
Patents per Employee, 2000-2010

Start Position: 28
Trend: 45
Current Position: 48 (+0)

Cluster Strength
Employment in Strong Clusters, 1998-2009

Start Position: 16
Trend: 16
Current Position: 14 (+2)

Leading Clusters
by employment size, 2009
(national rank)

- Heavy Construction Services (29)
- Furniture (3)
- Automotive (20)
- Motor Driven Products (15)
- Oil and Gas Products and Services (13)
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%

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

Notes: Source BLS.

Change in Labor Force Participation Rate: -2.4%

Low and declining versus U.S.

Low but rising versus U.S.
Comparative State Labor Force Productivity Performance
2000-2010

Real Growth in Gross Domestic Product per Labor Force Participant, 2000-2010

Highly productive and productivity rising versus U.S.

U.S. GDP per Labor Force Participant: 0.803%

Highly productive and productivity rising versus U.S.

U.S. GDP per Labor Force Participant: $85,229

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.

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Comparative State Employee Productivity Performance
2000-2010

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

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

Gross Domestic Product per Employed Worker, 2010

High but declining versus U.S.

Highly productive and productivity rising versus U.S.

U.S. GDP per Employed Worker: $94,315
Real Growth: 1.42%

Low and declining versus U.S.

Low but rising versus U.S.

Mississippi

Delaware

Wyoming

U.S. GDP per Employed Worker

Connecticut

New Jersey

New York

California

Massachusetts

Louisiana

Hawaii

Alaska

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Comparative State Innovation Performance
2000 - 2010

High and declining innovation

High and improving innovation rate versus U.S.

Low and declining innovation


Mississippi
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

- Specialized Business Services
  - Banking, Accounting, Legal
- Specialized Risk Capital
  - VC Firms, Angel Networks
- Specialized Research Service Providers
  - Laboratory, Clinical Testing

- Cluster Organizations
  - MassMedic, MassBio, others

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

- Analytical Instruments Cluster
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)

Business Services
(e.g., MIS Services, Technology Licenses, Risk Management)

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
Completion & Production

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

Transportation and Logistics

Power Generation

Communications Equipment

Information Technology

Analytical Instruments

Education and Knowledge Creation

Medical Devices

Bioscience Research Centers

Biotech / Pharmaceuticals

U.S. Military

Aerospace Vehicles and Defense

Sporting Equipment

Transportation and Logistics

Power Generation

Education and Knowledge Creation

Medical Devices

Bioscience Research Centers

Biotech / Pharmaceuticals

Climate and Geography

Hospitality and Tourism

Transportation and Logistics

Power Generation

Communications Equipment

Information Technology

Analytical Instruments

Education and Knowledge Creation

Medical Devices

Biotech / Pharmaceuticals

Traded Cluster Composition of the Mississippi Economy

Change in Mississippi share of National Employment, 1998 to 2009

Overall change in the Mississippi Share of US Traded Employment: -0.23%

Mississippi Overall Share of US Traded Employment: 0.67%

Mississippi Employees 3,500 =


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Traded Cluster Composition of the Mississippi Economy (continued)

Overall change in the Mississippi Share of US Traded Employment: -0.23%

Mississippi Overall Share of US Traded Employment: 0.67%


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Mississippi Job Creation in Traded Clusters

1998 to 2009

Net traded job creation, 1998 to 2009: -80,675

* Percent change in national benchmark times starting regional employment. Overall traded job creation in the state, if it matched national benchmarks, would be -57,554

Mississippi Wages in Traded Clusters vs. National Benchmarks

Mississippi average traded wage: $34,910

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>
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<tr>
<td>New York</td>
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<td>-17,815</td>
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<tr>
<td>South Dakota</td>
<td>-20,968</td>
<td>289</td>
<td>-21,257</td>
</tr>
</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.
# Mississippi Performance Scorecard

<table>
<thead>
<tr>
<th>Category</th>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
</tr>
</thead>
</table>
| **Prosperity**
  GDP per Capita, 2000-2010       | 50             | 18    | 50 +0            |
| **Wages**
  Average Private Wage, 1998-2009| 47             | 20    | 49 -2            |
| **Job Creation**
| **Labor Mobilization**
  Proportion of Working Age Population in the Workforce, 2000-2010 | 47 | 34 | 48 -1 |
| **Labor Productivity**
  GDP per Workforce Participant, 2000-2010 | 49 | 14 | 47 +2 |
| **New Business Formation**
| **Innovation**
  Patents per Employee, 2000-2010 | 28 | 45 | 48 +0 |
| **Cluster Strength**
  Employment in Strong Clusters, 1998-2009 | 16 | 16 | 14 +2 |
| **Leading Clusters**
  by employment size, 2009 (national rank) |                   |       |                  |
  - Heavy Construction Services (29)
  - Furniture (3)
  - Automotive (20)
  - Motor Driven Products (15)
  - Oil and Gas Products and Services (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.

Mississippi Metropolitan Areas

- Memphis MSA
- Jackson MSA
- Hattiesburg MSA
- Gulfport MSA
- Pascagoula MSA
Wage Performance in Mississippi Metropolitan Areas

**U.S. Average Private Wage:** $42,403
**Mississippi Average Private Wage:** $31,472

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

- **U.S. Growth Rate of Wages:** 3.01%
- **Mississippi Growth Rate of Wages:** 3.11%

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

Mississippi Growth Rate of Employment: -0.33%

U.S. Growth Rate of Employment: 0.52%

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

Mississippi Average Private Wage: $31,472

Pascagoula MSA
Jackson MSA
Gulfport MSA
Hattiesburg MSA
Memphis MSA*

*Mississippi portion only
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
- Hydrogen / Fuel Cells
- Textiles
- Apparel
- Agriculture
- Travel and Tourism

Task Forces

- Cluster Activation
- Research / Investment
- Distressed / Disadvantaged 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.