Missouri Competitiveness:
Creating a State Economic Strategy

Professor Michael E. Porter
Harvard Business School

March 28, 2012

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
## Missouri Performance Scorecard

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

<table>
<thead>
<tr>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>45</td>
<td>35 -8</td>
</tr>
</tbody>
</table>

**Wages**  
**Average Private Wage, 1998-2009**

<table>
<thead>
<tr>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>44</td>
<td>25 -3</td>
</tr>
</tbody>
</table>

**Job Creation**  

<table>
<thead>
<tr>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>44</td>
<td>13</td>
<td>25 +19</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>46</td>
<td>28 -14</td>
</tr>
</tbody>
</table>

**Labor Productivity**  
**GDP per Workforce Participant, 2000-2010**

<table>
<thead>
<tr>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>32</td>
<td>41</td>
<td>39 -7</td>
</tr>
</tbody>
</table>

**New Business Formation**  

<table>
<thead>
<tr>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>18</td>
<td>24 +10</td>
</tr>
</tbody>
</table>

**Innovation**  
**Patents per Employee, 2000-2010**

<table>
<thead>
<tr>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>16</td>
<td>33 +1</td>
</tr>
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**Cluster Strength**  
**Employment in Strong Clusters, 1998-2009**

<table>
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<tr>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
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<tbody>
<tr>
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**Leading Clusters**  
**by employment size, 2009 (national rank)**

- Processed Food (10)
- Publishing and Printing (12)
- Chemical Products (7)
- Motor Driven Products (8)
- Biopharmaceuticals (12)

**State Rank**

- 1-10
- 11-20
- 31-40
- 41-50

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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
Comparative State Prosperity Performance
2000 - 2010

High but declining versus U.S.

High and rising prosperity versus U.S.

Low and declining versus U.S.

Low but rising versus U.S.

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.
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.

High but declining versus U.S.

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

Low but rising versus U.S.

Low and declining versus U.S.

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

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.

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

High and declining innovation

U.S. average Patents per 10,000 Workers, 2010

High and improving innovation rate versus U.S.

Low and declining innovation

Growth Rate of Patents per 10,000 Workers, 2000 to 2010


Missouri

= 2000 patents in 2010

= 500 patents in 2010

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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

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

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

Aerospace Vehicles and Defense

Transportation and Logistics

Power Generation

Communications Equipment

Hospitality and Tourism

Analytical Instruments

Education and Knowledge Creation

Information Technology

Sporting Equipment

Medical Devices

Biotech / Pharmaceuticals

Bioscience Research Centers

Traded Cluster Composition of the Missouri Economy

Overall change in the Missouri Share of US Traded Employment: -0.15%

Missouri Overall Share of US Traded Employment: 2.01%

Change in Missouri share of National Employment, 1998 to 2009

-8.0% -6.0% -4.0% -2.0% 0.0% 2.0% 4.0% 6.0% 8.0%

0.0% 1.0% 2.0% 3.0% 4.0% 5.0% 6.0% 7.0% 8.0%
Traded Cluster Composition of the Missouri Economy (continued)

Overall change in the Missouri Share of US Traded Employment: -0.15%

Missouri Overall Share of US Traded Employment: 2.01%


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Missouri Job Creation in Traded Clusters
1998 to 2009

Net traded job creation, 1998 to 2009:
-69,219

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 -38,425

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Missouri Wages in Traded Clusters vs. National Benchmarks

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

Missouri average traded wage: $45,784

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


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### 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>
<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>
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<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>
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<td>California</td>
<td>+9,573</td>
<td>349</td>
<td>9,224</td>
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<td>Maryland</td>
<td>+6,651</td>
<td>2,496</td>
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<td>Washington</td>
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<td>Virginia</td>
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<td>Texas</td>
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<tr>
<td>Delaware</td>
<td>+164</td>
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<td>Kansas</td>
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<td>Wyoming</td>
<td>-8,057</td>
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<td>Michigan</td>
<td>-8,176</td>
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<tr>
<td>North Carolina</td>
<td>-9,245</td>
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<td>-4,915</td>
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<td>Ohio</td>
<td>-9,284</td>
<td>-2,495</td>
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<tr>
<td>Rhode Island</td>
<td>-9,791</td>
<td>-2,290</td>
<td>-7,501</td>
</tr>
</tbody>
</table>

<table>
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<tr>
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<tbody>
<tr>
<td>Oregon</td>
<td>-10,359</td>
<td>-1,304</td>
<td>-9,056</td>
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<tr>
<td>Missouri</td>
<td>-10,427</td>
<td>-1,425</td>
<td>-9,002</td>
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<tr>
<td>Alabama</td>
<td>-10,934</td>
<td>-3,563</td>
<td>-7,371</td>
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<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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<tr>
<td>Utah</td>
<td>-11,992</td>
<td>2,072</td>
<td>-14,064</td>
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<tr>
<td>Tennessee</td>
<td>-12,172</td>
<td>-3,156</td>
<td>-9,016</td>
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<tr>
<td>Indiana</td>
<td>-12,554</td>
<td>-4,840</td>
<td>-7,714</td>
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<tr>
<td>Vermont</td>
<td>-13,368</td>
<td>-1,572</td>
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<tr>
<td>Oklahoma</td>
<td>-13,572</td>
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<td>-14,069</td>
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<tr>
<td>Nevada</td>
<td>-14,277</td>
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<tr>
<td>North Dakota</td>
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<td>-15,397</td>
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<tr>
<td>South Carolina</td>
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<tr>
<td>Arkansas</td>
<td>-15,378</td>
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<td>-10,818</td>
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<tr>
<td>Hawaii</td>
<td>-16,043</td>
<td>-12,555</td>
<td>-3,487</td>
</tr>
<tr>
<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>
<td>-5,024</td>
<td>-11,191</td>
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<tr>
<td>Maine</td>
<td>-16,379</td>
<td>-968</td>
<td>-15,412</td>
</tr>
<tr>
<td>Iowa</td>
<td>-16,606</td>
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<td>-13,885</td>
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<tr>
<td>West Virginia</td>
<td>-16,645</td>
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<tr>
<td>Idaho</td>
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<tr>
<td>Mississippi</td>
<td>-19,942</td>
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<td>-14,651</td>
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<tr>
<td>Montana</td>
<td>-20,073</td>
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<td>-17,815</td>
</tr>
<tr>
<td>South Dakota</td>
<td>-20,968</td>
<td>289</td>
<td>-21,257</td>
</tr>
</tbody>
</table>

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.
## Missouri Performance Scorecard

### Prosperity
**GDP per Capita, 2000-2010**
- **Start Position**: 27
- **Trend**: 45
- **Current Position**: 35, -8

### Wages
**Average Private Wage, 1998-2009**
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### Leading Clusters
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- Publishing and Printing (12)
- Chemical Products (7)
- Motor Driven Products (8)
- Biopharmaceuticals (12)
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

Neighboring State

State

Metropolitan Areas

Rural Regions

Neighboring State
The economies of states are often an aggregation of distinct economic areas with differing circumstances.
Wage Performance in Missouri Metropolitan Areas

Growth Rate of Private Wages, 1998-2009

U.S. Average
Private Wage: $42,403
Missouri Average
Private Wage: $37,652

Average Private Wage, 2009

<table>
<thead>
<tr>
<th>City</th>
<th>Average Private Wage, 2009</th>
<th>Growth Rate of Wages, 1998-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missouri portion only</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.</td>
<td>$42,403</td>
<td>3.01%</td>
</tr>
<tr>
<td>Missouri</td>
<td>$37,652</td>
<td>2.73%</td>
</tr>
<tr>
<td>Jefferson City MSA*</td>
<td>$37,652</td>
<td></td>
</tr>
<tr>
<td>St. Louis MSA*</td>
<td>$37,652</td>
<td></td>
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<tr>
<td>Kansas City MSA*</td>
<td>$37,652</td>
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</tr>
<tr>
<td>Springfield MSA</td>
<td>$37,652</td>
<td></td>
</tr>
<tr>
<td>St. Joseph MSA*</td>
<td>$37,652</td>
<td></td>
</tr>
<tr>
<td>Columbia MSA</td>
<td>$37,652</td>
<td></td>
</tr>
<tr>
<td>Joplin MSA</td>
<td>$37,652</td>
<td></td>
</tr>
<tr>
<td>Fayetteville MSA*</td>
<td>$37,652</td>
<td></td>
</tr>
</tbody>
</table>

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

Growth Rate of Private Employment, 1998-2009

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

Missouri Average
Private Wage: $37,652

Average Private Wage, 2009

-0.4% 0.0% 0.4% 0.8% 1.2% 1.6% 2.0% 2.4%

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

*Missouri 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
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

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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

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

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.