Rhode Island 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
<table>
<thead>
<tr>
<th>Category</th>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
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<tbody>
<tr>
<td><strong>Prosperity</strong></td>
<td>28</td>
<td>10</td>
<td>23 (+5)</td>
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<td>GDP per Capita, 2000-2010</td>
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<td><strong>Wages</strong></td>
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<td>17 (+8)</td>
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<td>Average Private Wage, 1998-2009</td>
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<td><strong>Job Creation</strong></td>
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<td>38</td>
<td>35 (-12)</td>
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<td><strong>Labor Mobilization</strong></td>
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<td>Proportion of Working Age Population in the Workforce, 2000-2010</td>
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<td><strong>Labor Productivity</strong></td>
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<td>28 (-3)</td>
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<td>GDP per Workforce Participant, 2000-2010</td>
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<td><strong>New Business Formation</strong></td>
<td>49</td>
<td>19</td>
<td>47 (+2)</td>
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<td><strong>Innovation</strong></td>
<td>20</td>
<td>43</td>
<td>24 (-4)</td>
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<td>Patents per Employee, 2000-2010</td>
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<tr>
<td><strong>Cluster Strength</strong></td>
<td>28</td>
<td>49</td>
<td>43 (-15)</td>
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<tr>
<td>Employment in Strong Clusters, 1998-2009</td>
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<td><strong>Leading Clusters</strong></td>
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<td>by employment size, 2009 (national rank)</td>
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<td>• Automotive (10)</td>
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<tr>
<td>• Production Technology (6)</td>
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</tbody>
</table>
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.

Change in 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

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

Gross Domestic Product per Labor Force Participant, 2010

-0.5% 0.0% 0.5% 1.0% 1.5% 2.0% 2.5% 3.0% 3.5%

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.

Highly productive and productivity rising versus U.S.

U.S. GDP per Employed Worker
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

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

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

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

- Biological Products
- Biopharmaceutical Products

- Research Organizations

- 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

Analytical Instruments Cluster
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
- Oilfield Services/Engineering & Contracting Firms

**Downstream**
- 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)
- Equipment Suppliers
  - (e.g., Oil Field Chemicals, Drilling Rigs, Drill Tools)
- Specialized Technology Services
- Subcontractors
- Oil & Natural Gas Exploration & Development
- Oilfield Services/Engineering & Contracting Firms

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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

U.S. Military


Hospitality and Tourism

Transportation and Logistics

Power Generation

Communications Equipment

Information Technology

Aerospace Vehicles and Defense

Analytical Instruments

Education and Knowledge Creation

Medical Devices

Biotechnology / Pharmaceuticals

Bioscience Research Centers

San Diego U.S. Military Communications Equipment Sporting Equipment Information Technology Medical Devices Biotech / Pharmaceuticals Education and Knowledge Creation Climate and Geography Hospitality and Tourism Transportation and Logistics Power Generation Communications Equipment Information Technology Medical Devices Biotech / Pharmaceuticals Education and Knowledge Creation Bioscience Research Centers
Overall change in the Rhode Island Share of US Traded Employment: -0.05%

Rhode Island Overall Share of US Traded Employment: 0.37%

Change in Rhode Island share of National Employment, 1998 to 2009


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Rhode Island Job Creation in Traded Clusters
1998 to 2009

Net traded job creation, 1998 to 2009:
-18,232

* Percent change in national benchmark times starting regional employment. Overall traded job creation in the state, if it matched national benchmarks, would be -11,238

Rhode Island Wages in Traded Clusters vs. National Benchmarks

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>
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<tr>
<td>New York</td>
<td>+24,102</td>
<td>3,628</td>
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<td>Massachusetts</td>
<td>+16,169</td>
<td>4,391</td>
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<td>New Jersey</td>
<td>+13,535</td>
<td>3,761</td>
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<td>California</td>
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<td>9,224</td>
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<td>Maryland</td>
<td>+6,651</td>
<td>2,496</td>
<td>4,155</td>
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<td>Nebraska</td>
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<td>Indiana</td>
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<td>Vermont</td>
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<td>Oklahoma</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.
### Rhode Island Performance Scorecard

**Prosperity**
- GDP per Capita, 2000-2010
  - Start Position: 28
  - Trend: 10
  - Current Position: 23 (+5)

**Wages**
- Average Private Wage, 1998-2009
  - Start Position: 25
  - Trend: 6
  - Current Position: 17 (+8)

**Job Creation**
  - Start Position: 23
  - Trend: 38
  - Current Position: 35 (-12)

**Labor Mobilization**
- Proportion of Working Age Population in the Workforce, 2000-2010
  - Start Position: 34
  - Trend: 3
  - Current Position: 15 (+19)

**Labor Productivity**
- GDP per Workforce Participant, 2000-2010
  - Start Position: 25
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  - Current Position: 28 (-3)

**New Business Formation**
  - Start Position: 49
  - Trend: 19
  - Current Position: 47 (+2)

**Innovation**
- Patents per Employee, 2000-2010
  - Start Position: 20
  - Trend: 43
  - Current Position: 24 (-4)

**Cluster Strength**
- Employment in Strong Clusters, 1998-2009
  - Start Position: 28
  - Trend: 49
  - Current Position: 43 (-15)

**Leading Clusters**
- by employment size, 2009 (national rank)
  - Processed Food (5)
  - Metal Manufacturing (8)
  - Forest Products (1)
  - Automotive (10)
  - Production Technology (6)
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

Aligning Economic Policy and Clusters

- Business Attraction
- Education and Workforce Training
- Export Promotion
- Science and Technology Investments (e.g., centers, university departments)
- Natural Resource Protection
- Standard Setting / Certification Organizations
- Specialized Physical Infrastructure
- Environmental Improvement

- 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

- Geographical and governmental influences on productivity
- State competitiveness
- Rural regions vs. metropolitan areas
- Neighbor states and nation's impact
Defining the Appropriate Economic Regions

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

Rhode Island Metropolitan Areas

Providence MSA
Wage Performance in Rhode Island Counties

Average Private Wage, 2010

Rhode Island Average Private Wage: $42,185

U.S. Average Private Wage: $44,128

Growth Rate of Private Wages, 2000-2010

U.S. Growth Rate of Wages: +2.64%

Rhode Island Growth Rate of Wages: +3.36%

Source: Census CBP, authors’ analysis.

Note: "Wage and employment levels are reported for Bristol County in 2010, but insufficient data is available to calculate rates of change over the time span of the chart. "Bubble" size in chart is proportional to employment in 2010; growth rate of wages is on nominal values."
Employment Performance in Rhode Island Counties

Rhode Island Average Private Wage: $42,185

U.S. Average Private Wage: $44,128

Growth Rate of Employment:
- Rhode Island: -0.40%
- U.S.: -0.19%

Sources: Census CBP, authors' analysis.

Note: Wage and employment levels are reported for Bristol County in 2010, but insufficient data is available to calculate rates of change over the time span of the chart. "Bubble" size in chart is proportional to employment in 2010; growth rate of wages is on nominal values.
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
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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

- **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?

<table>
<thead>
<tr>
<th>Tactical (Zero Sum Competition)</th>
<th>Strategic (Positive Sum Competition)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Focus on attracting <strong>new</strong> investments</td>
<td>• Also support greater local investment by <strong>existing</strong> companies</td>
</tr>
<tr>
<td>• Compete for <strong>every</strong> plant</td>
<td>• Reinforce areas of <strong>specialization</strong> and emerging cluster strength</td>
</tr>
<tr>
<td>• Offer <strong>generalized</strong> tax breaks</td>
<td>• Provide state support for training, infrastructure, and institutions with <strong>enduring benefits</strong></td>
</tr>
<tr>
<td>• Provide <strong>subsidies</strong> to lower / offset business costs</td>
<td>• Improve the <strong>efficiency of doing business</strong></td>
</tr>
<tr>
<td>• Every city and sub-region <strong>for itself</strong></td>
<td>• Harness efficiencies and coordination <strong>across jurisdictions</strong>, especially with neighbors</td>
</tr>
<tr>
<td>• <strong>Government</strong> drives investment attraction</td>
<td>• Government and the private sector <strong>collaborate</strong> to build cluster strength</td>
</tr>
</tbody>
</table>

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2012 State Competitiveness – Rich Bryden
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

*2012 State Competitiveness — Rich Bryden*
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.