South Carolina 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
<table>
<thead>
<tr>
<th>Category</th>
<th>Start Position</th>
<th>Trend</th>
<th>Current Position</th>
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<td>46</td>
<td>45 -9</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>GDP per Workforce Participant, 2000-2010</td>
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<td>45</td>
<td>45 -6</td>
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<td><strong>New Business Formation</strong></td>
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<td>40 -4</td>
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<td>by employment size, 2009 (national rank)</td>
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<tr>
<td>- Heavy Construction Services (12)</td>
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<td>- Textiles (3)</td>
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<td>- Motor Driven Products (4)</td>
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<tr>
<td>- Plastics (17)</td>
<td></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.**

- Alabama
- Alaska
- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- Florida
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah
- Virginia
- Washington
- West Virginia
- Wisconsin
- Wyoming

**High Labor Force Participation and Participation rising versus U.S.**

- Alabama
- Alaska
- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- Florida
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah
- Virginia
- Washington
- West Virginia
- Wisconsin
- Wyoming

**Low and declining versus U.S.**

- Alabama
- Alaska
- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- Florida
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah
- Virginia
- Washington
- West Virginia
- Wisconsin
- Wyoming

**Low but rising versus U.S.**

- Alabama
- Alaska
- Arizona
- Arkansas
- California
- Colorado
- Connecticut
- Delaware
- Florida
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah
- Virginia
- Washington
- West Virginia
- Wisconsin
- Wyoming

Notes: Source BLS.

Change in Labor Force Participation Rate: 64.7%

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

Gross Domestic Product per Labor Force Participant, 2010

Highly productive and productivity rising versus U.S.

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

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.

South Carolina
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.
Comparative State Innovation Performance
2000 - 2010

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

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: 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

Gas Gathering

Gas Processing

Gas Trading

Gas Transmission

Gas Distribution

Gas Marketing

Oil Wholesale Marketing

Oil Retail Marketing

Oil Transportation

Oil Trading

Oil Refining

Oil Distribution

Gas Gathering

Gas Processing

Gas Trading

Gas Transmission

Gas Distribution

Gas Marketing

Oil Wholesale Marketing

Oil Retail Marketing
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

Bioscience Research Centers

Hospitality and Tourism

Transportation and Logistics

Power Generation

Communications Equipment

Information Technology

Medical Devices

Biotech / Pharmaceuticals

1910
1930
1950
1970
1990
**Traded Cluster Composition of the South Carolina Economy**

**Overall change in the South Carolina Share of US Traded Employment:** -0.29%

**South Carolina Overall Share of US Traded Employment:** 1.37%

**Change in South Carolina share of National Employment, 1998 to 2009**

- **Added Jobs**
  - Forest Products (+1.05%, 3.81%)
  - Motor Driven Products (+2.46%, 6.12%)
  - Automotive (+1.37%, 3.03%)
  - Prefabricated Enclosures
  - Aerospace Engines
  - Transportation and Logistics
  - Medical Devices
  - Fishing and Fishing Products
  - Aerospace Vehicles and Defense

- **Lost Jobs**
  - Textiles (-5.19%, 11.65%)
  - Power Generation and Transmission (-0.65%, 4.63%)
  - Construction Materials
  - Chemical Products (-2.87%, 2.41%)
  - Heavy Construction Services
  - Production Technology
  - Building Fixtures, Equipment and Services
  - Metal Manufacturing
  - Heavy Machinery
  - Leather and Related Products
  - Information Technology
  - Education and Knowledge Creation
  - Aerospace Engines
  - Prefabricated Enclosures
  - Motor Driven Products (+2.46%, 6.12%)
  - Automotive (+1.37%, 3.03%)
  - Forest Products (+1.05%, 3.81%)

**Employees 4,600 =**


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South Carolina Job Creation in Traded Clusters
1998 to 2009

Net traded job creation, 1998 to 2009:
-106,029

*Percent change in national benchmark times starting regional employment. Overall traded job creation in the state, if it matched national benchmarks, would be -102,702.*

South Carolina Wages in Traded Clusters vs. National Benchmarks

South Carolina average traded wage: $40,142

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

Footwear
Fishing and Fishing Products
Tobacco
Aerospace Engines
Communications Equipment
Oil and Gas Products and Services
Agricultural Products
Motor Driven Products
Education and Knowledge Creation
Prefabricated Enclosures
Jewelry and Precious Metals
Entertainment
Hospitality and Tourism
Apparel
Oil and Gas Products and Services
Communications Equipment
Aerospace Engines
Tobacco
Fishing and Fishing Products
Footwear


2012 – State Competitiveness – Rich Bryden

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

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<tr>
<th>State</th>
<th>State Traded Wage versus National Average</th>
<th>Cluster Mix Effect</th>
<th>Relative Cluster Wage Effect</th>
</tr>
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<tbody>
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<td>+27,171</td>
<td>7,028</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>
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<tr>
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<td>+13,535</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>
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<td>4,155</td>
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<tr>
<td>Oregon</td>
<td>-10,359</td>
<td>-1,304</td>
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<tr>
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<tr>
<td>Hawaii</td>
<td>-16,043</td>
<td>-12,555</td>
<td>-3,487</td>
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<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>
</tr>
<tr>
<td>Maine</td>
<td>-16,379</td>
<td>-968</td>
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</tr>
<tr>
<td>Iowa</td>
<td>-16,606</td>
<td>-2,721</td>
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<td>West Virginia</td>
<td>-16,645</td>
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<tr>
<td>Idaho</td>
<td>-18,671</td>
<td>-787</td>
<td>-17,884</td>
</tr>
<tr>
<td>Mississippi</td>
<td>-19,942</td>
<td>-5,291</td>
<td>-14,651</td>
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<tr>
<td>Montana</td>
<td>-20,073</td>
<td>-2,259</td>
<td>-17,815</td>
</tr>
<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.
# South Carolina Performance Scorecard

## Prosperity
**GDP per Capita, 2000-2010**
- Start Position: 41
- Trend: 47
- Current Position: 48 (-7)

## Wages
**Average Private Wage, 1998-2009**
- Start Position: 36
- Trend: 46
- Current Position: 45 (-9)

## Job Creation
- Start Position: 34
- Trend: 42
- Current Position: 44 (-10)

## Labor Mobilization
**Proportion of Working Age Population in the Workforce, 2000-2010**
- Start Position: 38
- Trend: 42
- Current Position: 45 (-7)

## Labor Productivity
**GDP per Workforce Participant, 2000-2010**
- Start Position: 39
- Trend: 45
- Current Position: 45 (-6)

## New Business Formation
- Start Position: 22
- Trend: 28
- Current Position: 28 (-6)

## Innovation
**Patents per Employee, 2000-2010**
- Start Position: 36
- Trend: 37
- Current Position: 40 (-4)

## Cluster Strength
**Employment in Strong Clusters, 1998-2009**
- Start Position: 10
- Trend: 34
- Current Position: 20 (-1)

## Leading Clusters
**by employment size, 2009**
- Heavy Construction Services (12)
- Automotive (11)
- Textiles (3)
- Motor Driven Products (4)
- Plastics (17)

### State Rank
- 1-10
- 11-20
- 21-30
- 31-40
- 41-50
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 South Carolina Metropolitan Areas

South Carolina Growth Rate of Wages: 2.60%

U.S. Growth Rate of Wages: 3.01%

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

South Carolina Average Private Wage: $33,523

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

South Carolina Growth Rate of Employment: 0.10%

U.S. Growth Rate of Employment: 0.52%

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

South Carolina Average Private Wage: $33,523

Growth Rate of Private Employment, 1998-2009

Average Private Wage, 2009

*South Carolina 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?

[Diagram: 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?

**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 / 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.