State and Regional Competitiveness: New Learnings

Governor's Economic Summit

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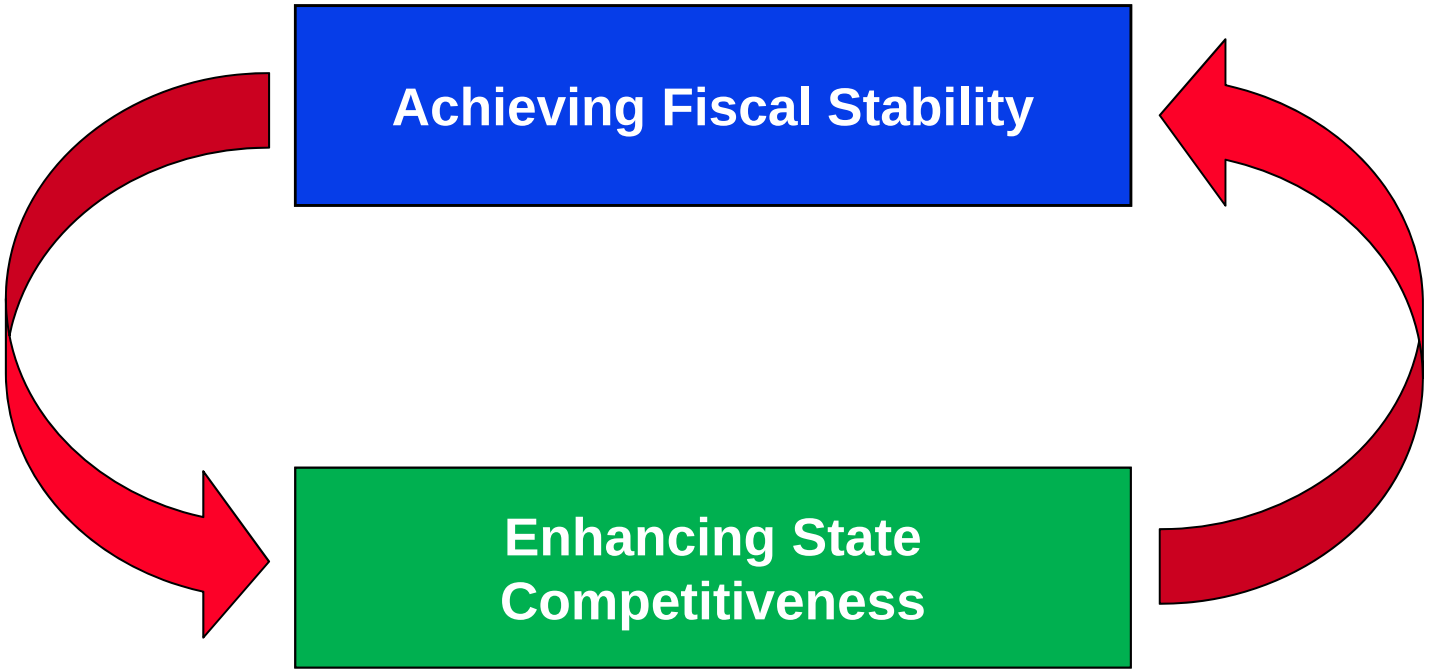
The Economic Challenge for States in 2011



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What is Competitiveness?

- Competitiveness is the **productivity** with which a state utilizes its human, capital, and natural resources to create value
- Productivity determines **wages**, **jobs**, and the **standard of living**
- It is not **what** fields in which a state competes in that determines its prosperity, but **how productively** it competes
- 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

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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

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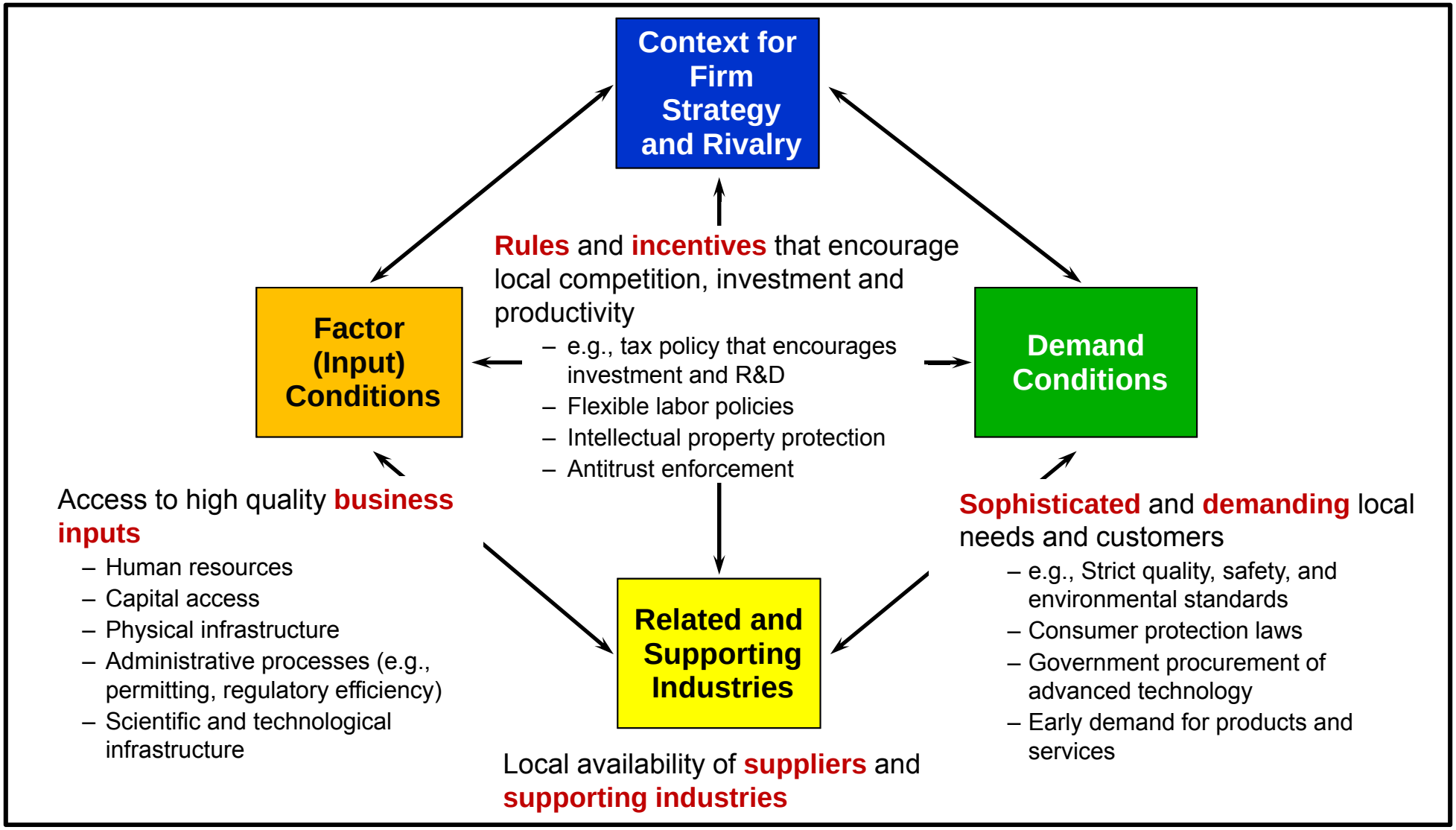
Quality of the Business Environment



- **Many things matter** for competitiveness
- Economic development is the process of improving the business environment to enable companies **to compete in increasingly sophisticated ways**

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Improving the Business Environment

Important Action Items for States

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 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

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Issues for Connecticut

- The Governor's "Jobs" tour has revealed a number of **key challenges** affecting Connecticut's attractiveness as a place to do business
  - Education
  - Workforce skills
  - Permitting
  - Recent tax increases

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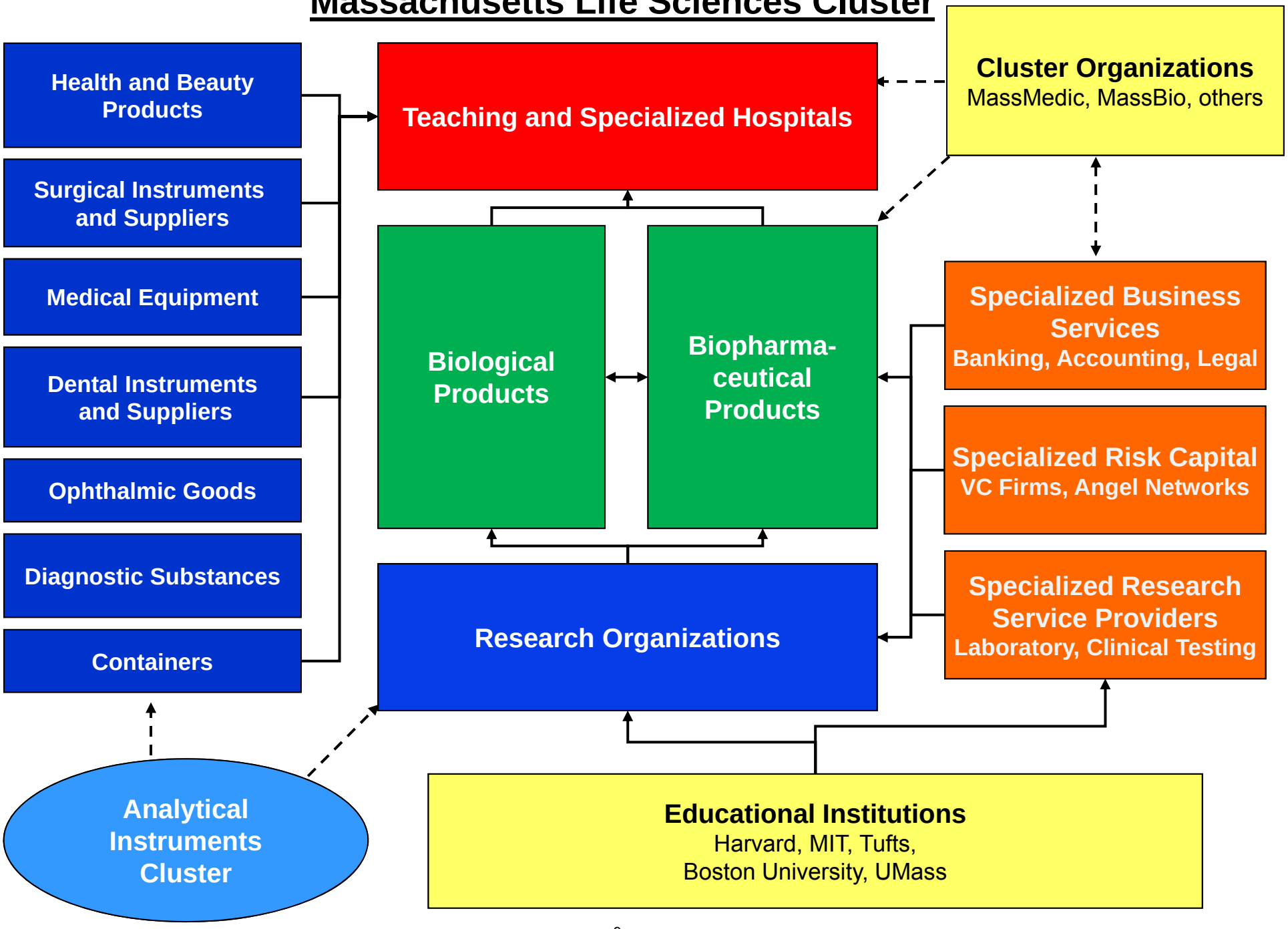
What is a Cluster?

Massachusetts Life Sciences Cluster



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Strong Clusters Drive State and Regional Performace

- 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 explaining regional performance in the U.S.*

Source: Porter/Stern/Delgado (2010), Porter (2003)

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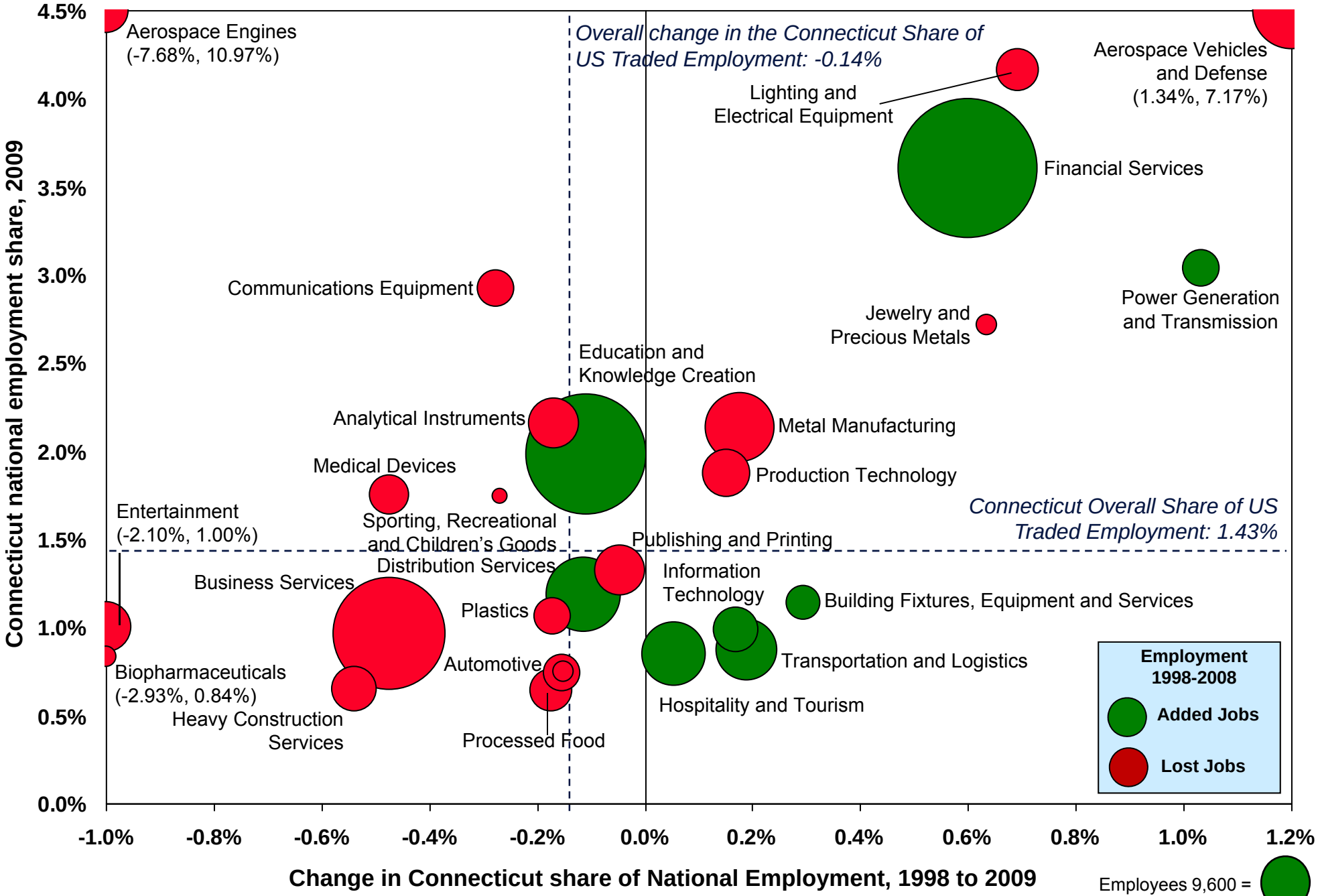
Cluster Composition of the Connecticut Economy



Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.

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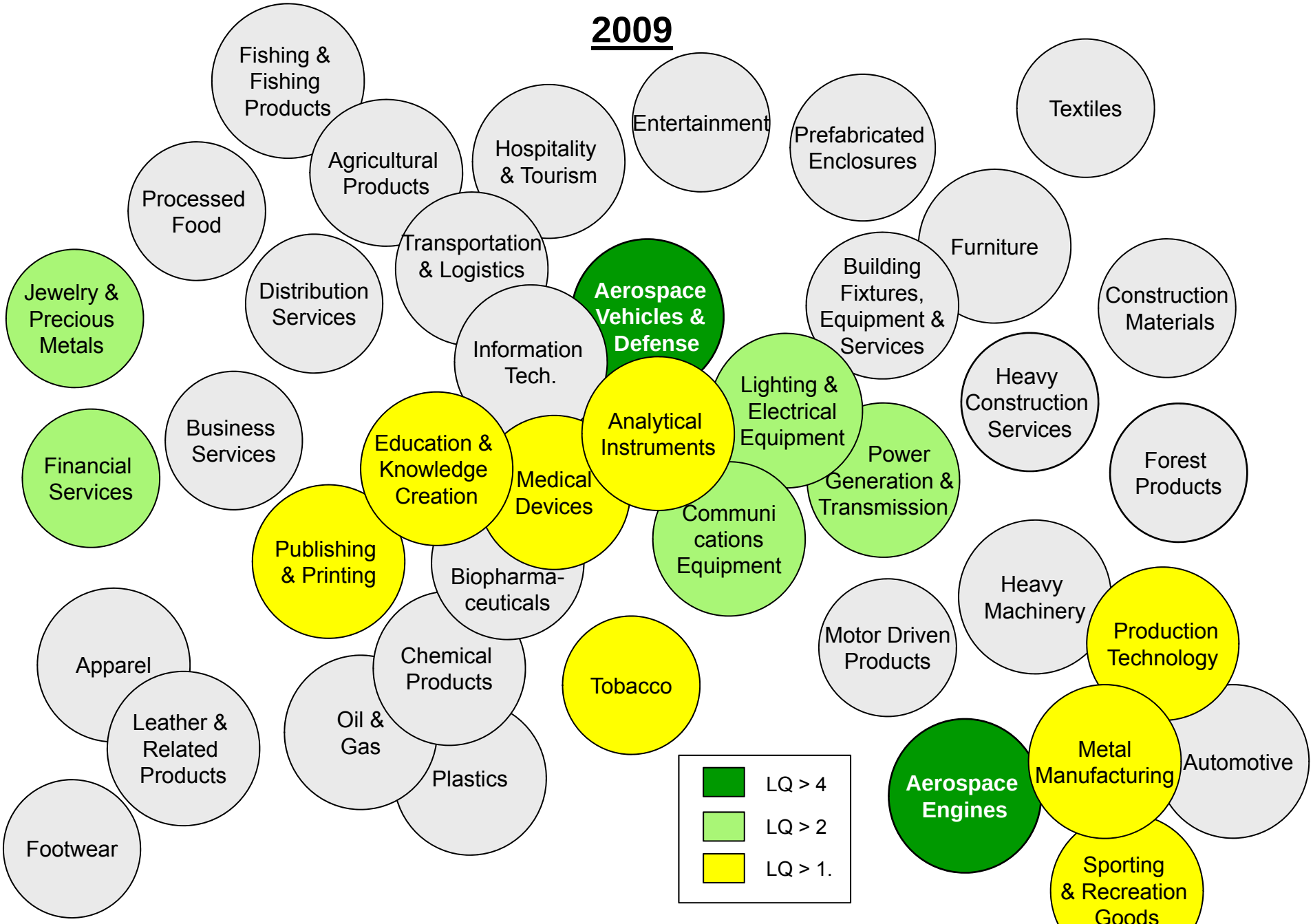
Connecticut Cluster Portfolio

2009



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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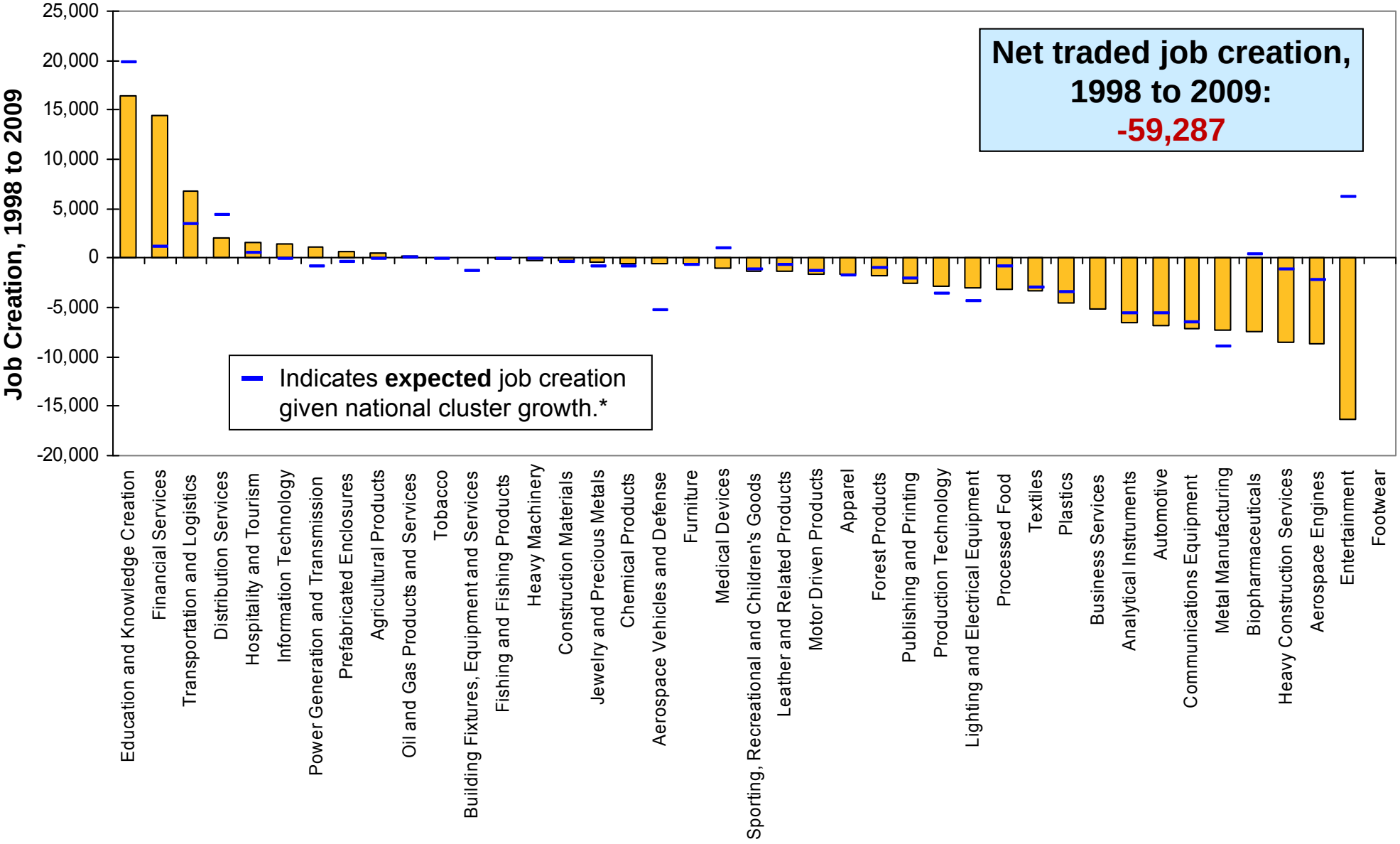
Connecticut Job Creation in Traded Clusters

1998 - 2009



* Percent change in national benchmark times starting regional employment. Overall traded job creation in the state, if it matched national benchmarks, would be -7,727

Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.

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The Role of Cluster Development

- **Collaboration** between the private sector, trade associations, government, educational, and research institutions to upgrade each cluster
- Brings together **firms of all sizes**, including SME's
- A **mechanism** for **constructive** business-government dialog
- A means to **identify problems** and **solutions**
- **Leverages** public investment to strengthen **multiple companies** and **institutions** simultaneously
- Raises **productivity** rather than distorting the market

- A way to **organize** the implementation of existing economic development-related programs

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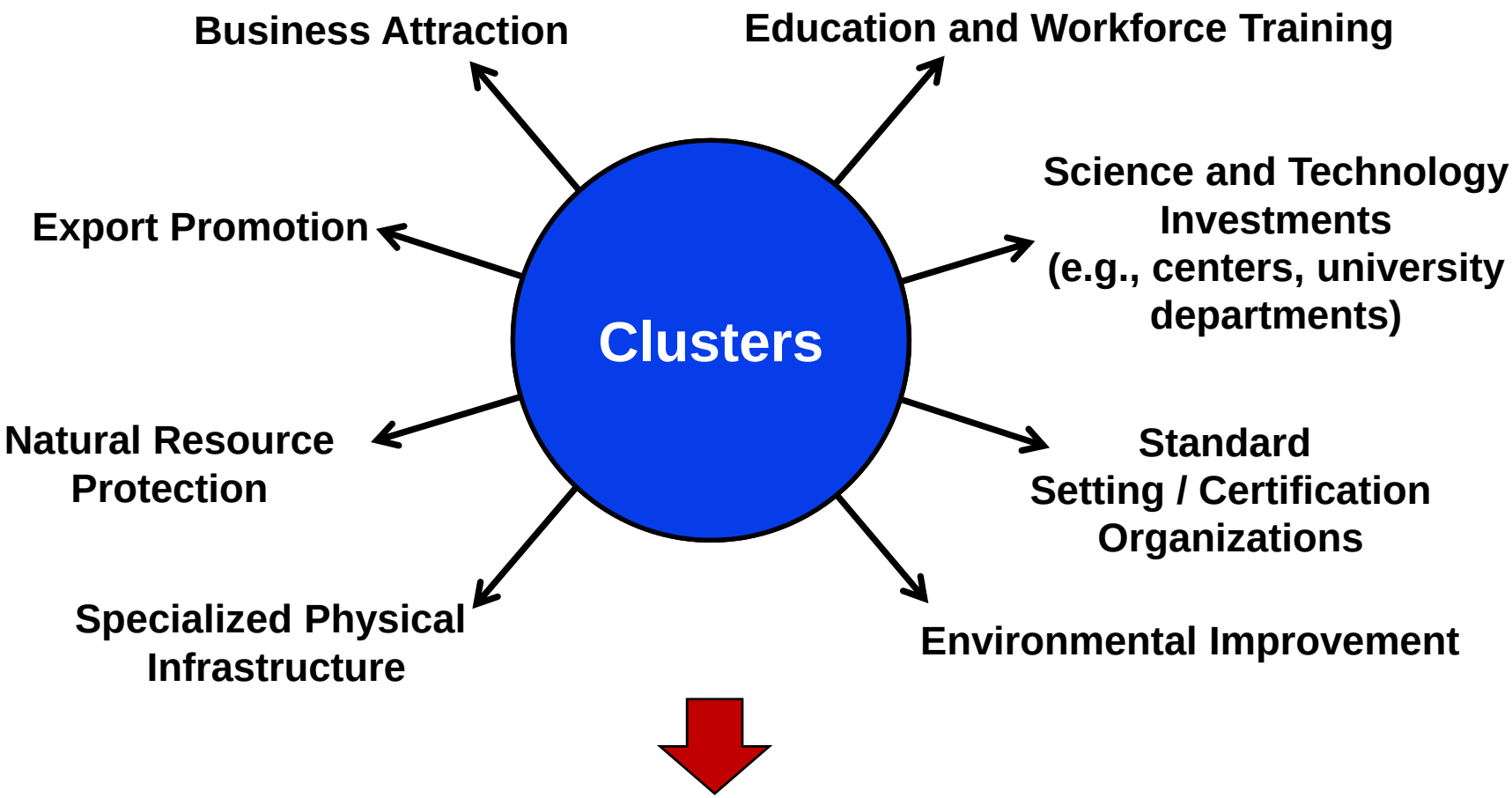
Aligning Economic Policy and Clusters



- Clusters provide a framework for **organizing the implementation** of many public policies and public investments to achieve greater effectiveness

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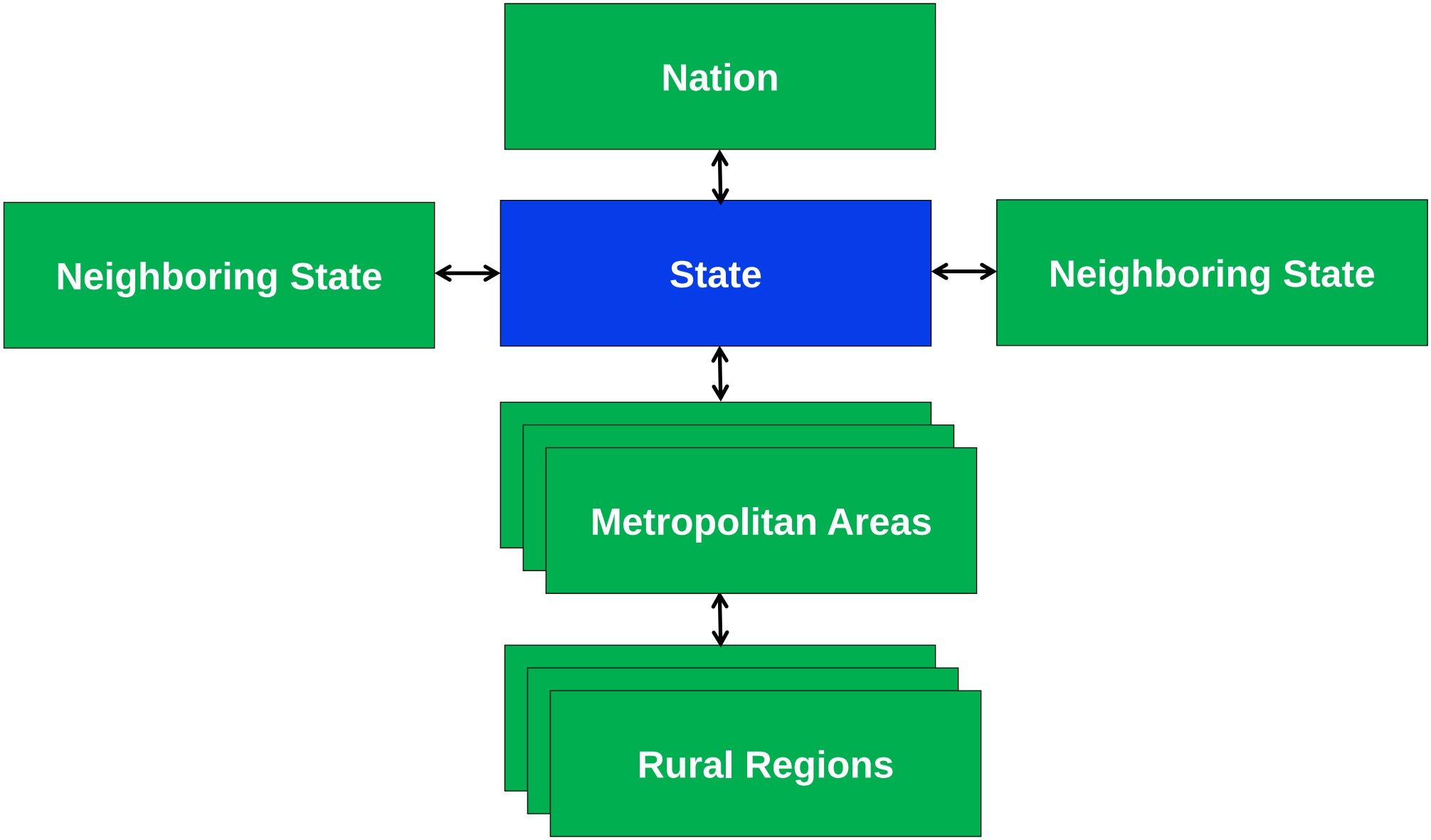
Geographic and Governmental Influences on Productivity



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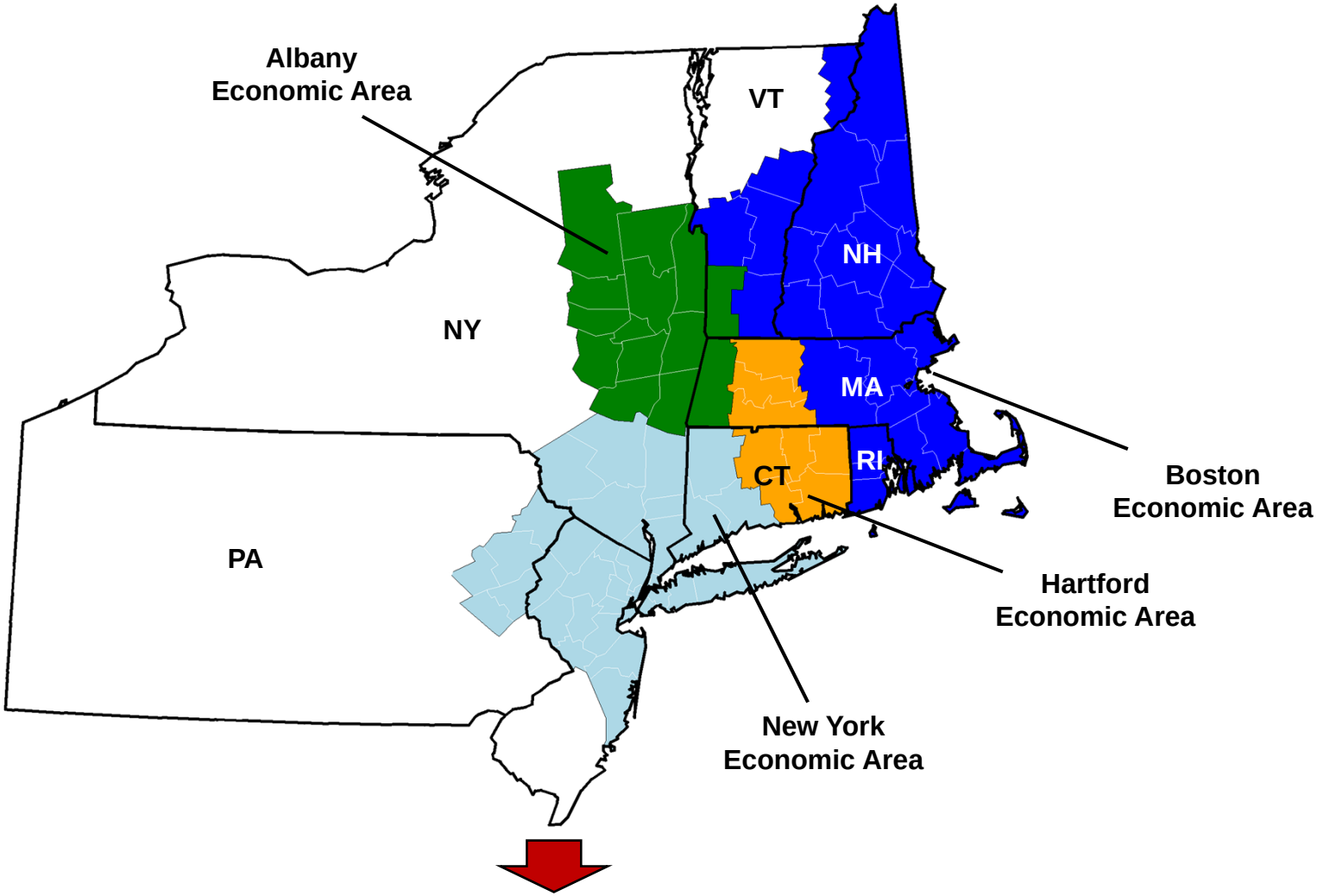
Defining the Appropriate Economic Regions



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

Source: Data from Bureau of Economic Analysis 2010. Prof. Michael E. Porter, Cluster Mapping Project, Harvard Business School; Richard Bryden, Project Director.

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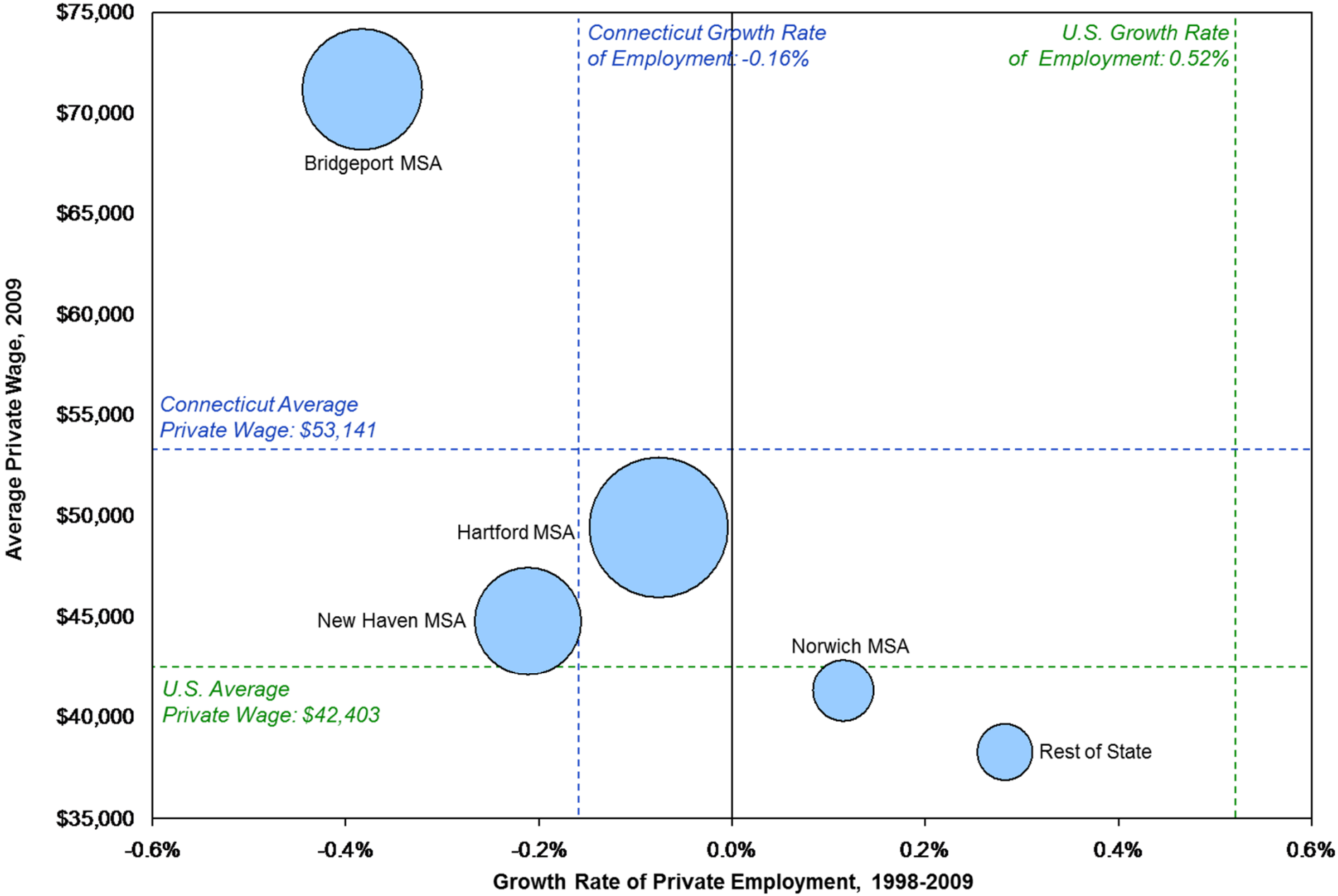
Employment and Wage Performance

Connecticut Metropolitan Areas



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

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Creating an Economic Strategy

- What is the **distinctive competitive position** of the state or region given its location, legacy, existing strengths, and potential strengths?
  - What is the 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** are present?

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 discrete recommendations

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Organizing for Economic Development

Competitiveness is the result of both **top-down** and **bottom-up processes** in which many companies and institutions take responsibility

Old Model	New Model
• **Government** drives economic development through policy decisions and incentives	• Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and private sector organizations

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