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11.481J / 1.284J / ESD.192J Analyzing and Accounting for Regional Economic Growth
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REGIONS AND THE NEW ECONOMICS OF COMPETITION

Michael Porter. 2001. “Regions and the New Economics of Competition,” In *Global City-Regions*, edited by Allen J. Scott. New York: Oxford University Press, pp. 139-157.

New Economics of Competition

- Six Transitions that are increasingly driving prosperity
 - ▣ From macro to microeconomics
 - ▣ From current productivity to innovation
 - ▣ From economywide to clusters
 - ▣ From internal to external sources of company success
 - ▣ From separating to integrating economic and social policy
 - ▣ From national/cross-national to regional and local

Economic Prosperity in the Modern Economy

- No longer based on natural resources, military power, political influence, or presence of large-scale firms.
- Instead, in the productivity with which an area can utilize its human, capital, and physical resources
- Competitiveness is determined by productivity
- $\text{Productivity} = (\text{Value} + \text{Efficiency})$
- Industrial policy thinking is obsolete as all industries offer possibilities to raise productivity, and with it improve prosperity
- Prosperous areas export intellectual capital, not natural resources or physical products

Clusters



- Geographic concentrations of interconnected companies, specialized suppliers, and service providers; firms in related industries; and associated institutions
- Not as much agglomeration of a single industry, but externalities across industries
- More than an economic organization facilitating production efficiency; instead promotes exchange of insights, knowledge, and technology ... to innovate

Mapping Clusters

- New way of conceptualizing economies
- Deciphering how to map externalities that cross industrial boundaries, and boundaries between categories such as components, machinery, and services
- Test for locational correlation of employment in pairs or groups of industries across states or economic areas (where there is employment in one industry in an economic area, do we find complementary industries)
- Mapping clusters across geography reveals strong concentrations in particular regions and cities

Mapped Cluster

Information Technology Cluster:
Locational correlation of employment with core industries in U.S. States

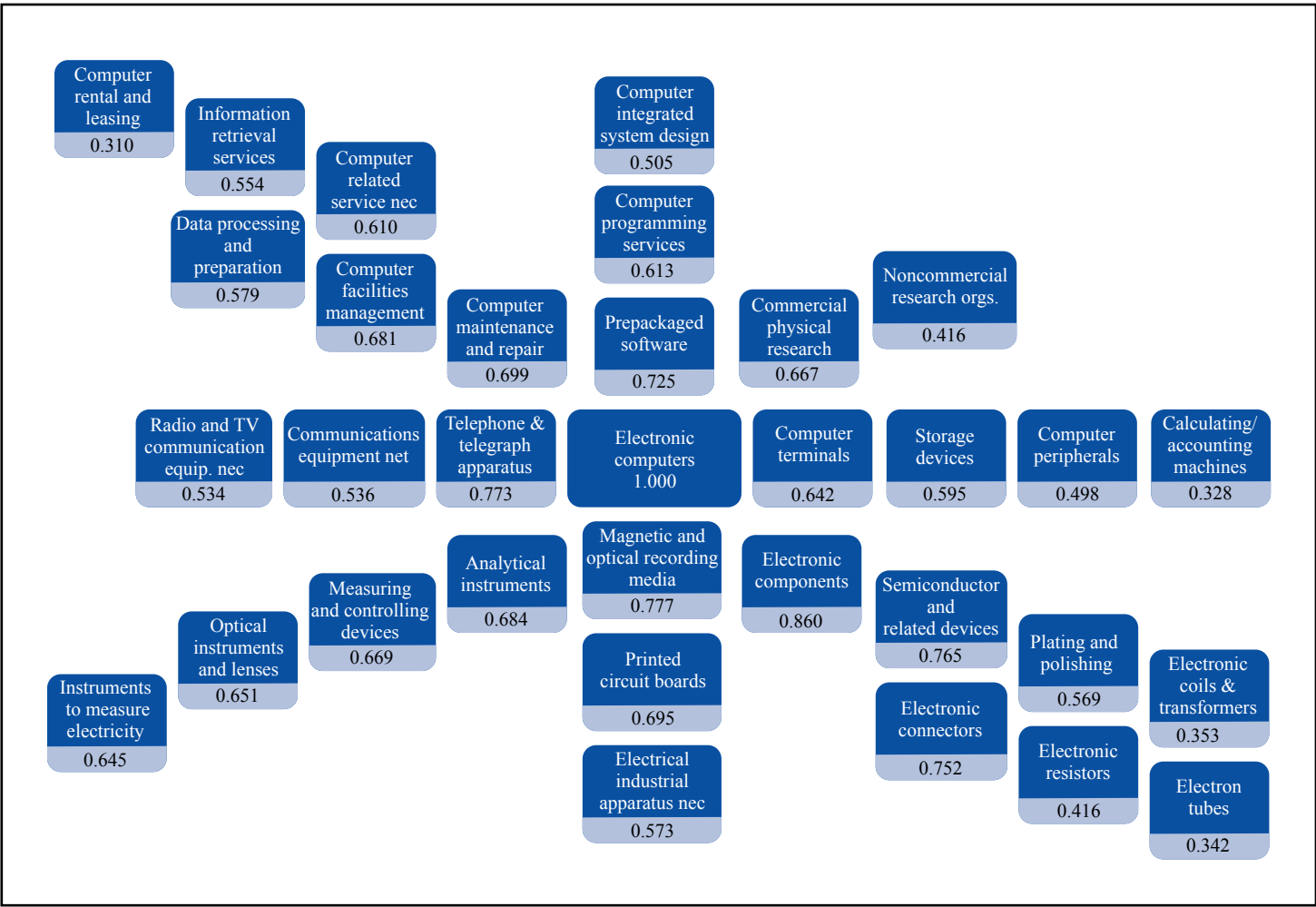


Figure by MIT OpenCourseWare.

Mapped Clusters Across Geography

Information Technology Cluster

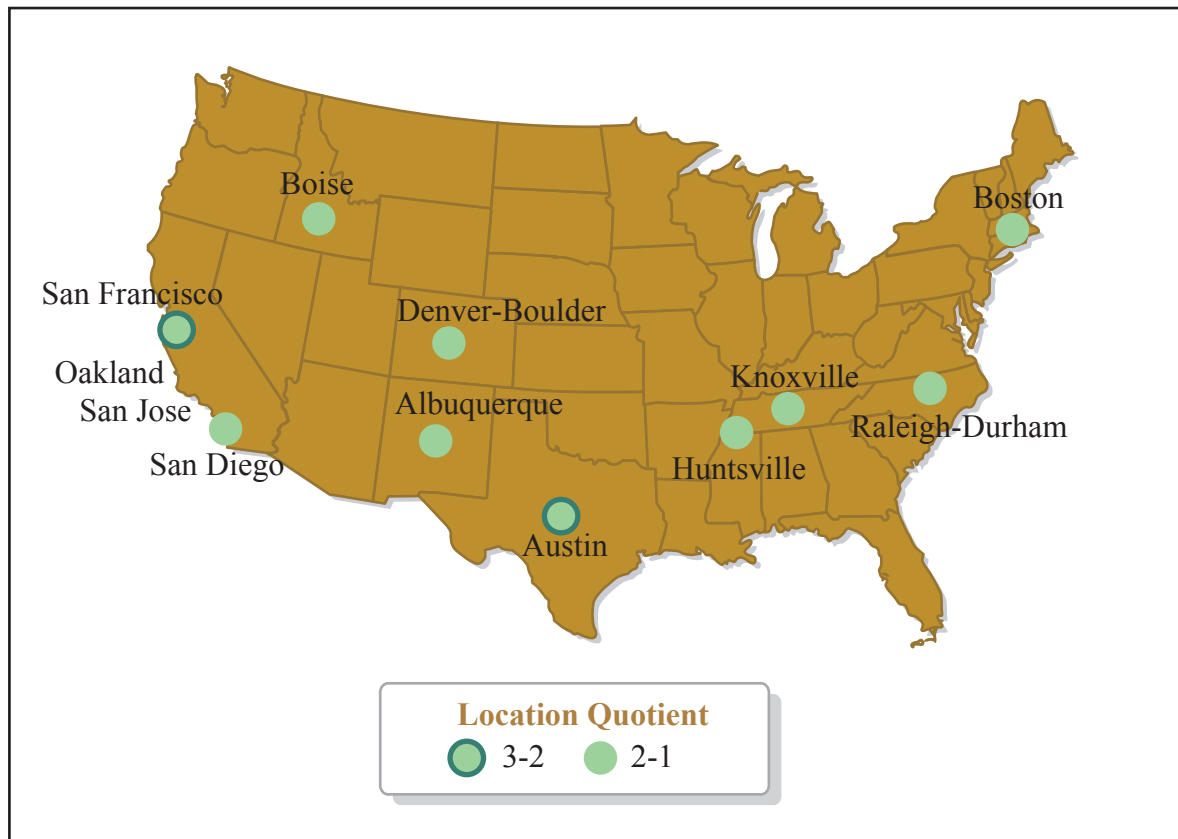


Figure by MIT OpenCourseWare.

Clusters and Government Policies

- Governments role:
 - Provide stable macroeconomic policy
 - Improve the microeconomic business environment
 - Improve quality of inputs and infrastructure (education, communications)
 - Integrate economic and social policy (improve lives of citizens by providing economic opportunity, not redistribution)
 - Begin to understand where they have areas of strength (e.g. medical device cluster in Minneapolis/St. Paul, Inner City Areas)
- Cluster Development ≠ Industrial Policy (all clusters, rather than a few industries, can contribute to rising prosperity)

CRITIQUE

- Clusters and Innovation: Is there causation?
- Geographical scale of clusters: Ambiguous
- Policy Implication: will a market-based approach be sufficient for inner-city revitalization?

Do Clusters = Innovation?

Competitive Advantage

- “Competitiveness is determined by productivity” (142)

Productivity

- “Sustained productivity growth requires the capacity to innovate” (140)

Innovation

- “Location within a cluster... creates pressure to innovate” (140)

Clusters

- “It appears that economic growth is lead by clusters” (145)

Clusters ≠ Innovation

- Key Question: What determines the capacity to innovate?
- Porter assumes that clusters inherently breed innovation; the US Auto industry clustered in MI tells us otherwise.

Geographical Scale Unclear

- “Clusters can be national in scope, arising almost exclusively within the borders of a single nation... Clusters also sometimes cross national borders, but more often they are geographically concentrated within nations” (145)
- His examples take on different scales: Norway (nation), Wine Country in CA (region), Houston (city)

Clusters and Inner-City Revitalization

- Argues that: “We need to focus on market opportunities, not community deficiencies”
- Argues for a market-driven approach, because “public and philanthropic spending on social programs” have been too narrow in seeing inner-city problems as social problems
- Argues for: “Clusters that benefit from an inner-city location include health care, entertainment and tourism, education, financial services, transportation and logistics, food processing and distribution, logistically sensitive manufacturing, recycling/remanufacturing, commercial support services, and consumer retailing and services”
(155)

Clusters and Inner-city Revitalization

- Assumes that the accumulation of wealth will trickle down
 - Economic productivity ≠ Social equity
- Assumes jobs in clusters will go to residents of distressed inner-cities
 - Even if they do, the jobs he describes are low-wage; inner-city revitalization will require more than that.