Reading Tips and Study Questions
CLASS 22

Required reading

1. **Porter,** "Clusters and the new economics of competition," *Harvard Business Review* (1998).

2. **(textbook) Moretti,** *The new geography of jobs* (2010)*.* Chapters 2 and 7.

3. **Erikson**, "Big ideas for small businesses: A regional jobs accelerator," Center for American Progress blog (December 1, 2011).

4. **Initiative for a Competitive Inner City**, "The Promise of Local Clusters," Inner City Insights, vol. 1, issue 1 (January 2011).

Recommended reading

1. SPUR, Bay Area Economic Prosperity Strategy (2014)
2. Delgado, Porter and Stern, "Clusters, convergence and economic performance," Institute for Strategy and Competitiveness. Cambridge, MA: Harvard Business School (2011).
3. Nancy Scola, "Tech and the City: New York's Latest Mega-Project is a Campus for Home-Growing Technologists, but Can a City Really Engineer and Innovation Economy?" *Forefront* vol. 1, issue 21 (2012).
4. Christopherson and Clark, *Remaking Regional Economies: Power, Labor and Firm Strategies in the Knowledge Economy* (Routledge, 2007), pp.3-13, 108-117, 137-149
5. Held, "Clusters as an economic development tool: Beyond the pitfalls." *Economic Development Quarterly* (1996).
6. Weissbourd and Muro, *Metropolitan Business Plans: A New Approach to Economic Growth* (Brookings, 2011).
7. Joseph Cortright, Making Sense Of Clusters: Regional Competitiveness And Economic Development (Brookings, 2006)

Session overview

In this final session of our economic development segment, we'll examine the concept of developing and implementing regional economic strategies, with a focus on fostering successful and inclusive regional *clusters*. As part of this effort, we will also take a close look at manufacturing in America.

For HCED, *regions* are an important, intermediate level of analysis and intervention. In terms of economic activity, regions are "real" economies, with a complete, defined local land and labor market (thus "Greater Boston" or "metro Biloxi"), as distinct from the political-administrative units that are municipal, State, or national and frequently don't coincide with real economic units. Regions and region-level

action matter, and so do links "upward" and "downward" from neighborhoods to regions and back. Regional economic changes are consistently found to be the first-order predictors of neighborhood-level patterns, for example concentrations of wealth, joblessness, and job locations.

Yet because regional governments are traditionally weak in the U.S, regions are also tricky in terms of economic governance and execution (deciding things and getting them done). Forging enough consensus, adopting policies regionwide that make sense for the region, and connecting local interests—including those of disadvantaged neighborhoods and towns—to the regionwide conversation are all challenging to do. As the material on cluster development makes clear, so is figuring out what direction a region's economy *should* take and why. That entails some hard analytics but also a certain amount of guess work and luck.

Cluster-driven thinking emerges from a basic insight about sources of economic growth and, over the long run, engines of employment growth. It centers on *agglomeration economies*—the value of concentrating activities spatially. The idea goes back more than a century, to economist Alfred Marshall's theories of "industrial districts." But economic geographers developed the modern business cluster idea over a generation ago, and economist and business strategist Michael Porter helped advance, test and popularize the concept, beginning with his *The Competitive Advantage of Nations* (1990).

One specific source of economic value and therefore growth is commodities, which come from *harvesting* something renewable (usually agricultural products but potential renewable energy as well) or permanently *extracting* something (e.g., shale gas or oil, coal, diamonds). Commodities "work," or work for a time, as a source of prosperity in some regions of the world; they pose a set of challenges, from whether and how to harvest (or extract) in environmentally sustainable ways to how to allocate profits and what kinds of jobs get created and for whom.

Brazil, for example, has profited enormously over the past decade from China's growing appetite for fossil fuels, minerals, and agricultural commodities, such as soybeans. Brazil's commodities-driven prosperity is concentrated in particular regions – the farm belt, the coal belt, and so on – creating spatial inequalities of wealth. Similarly, a number of U.S. regions are in the early stages of a growth spurt thanks to technological breakthroughs in the extraction of natural gas and oil from shale rock. Pittsburgh appears to be on its way to becoming the "Houston of shale" because of its financial and technological capacity and its proximity to the Marcellus Shale, one of the biggest deposits in North America.

But the other major source of growth—the other fundamental driver of value—is innovation: new and better products and services, including new practices that drive up productivity. Economic research suggests that an important source of regional competitive advantage in the innovation game is developing successful clusters—spatially concentrated networks of related firms and support institutions, such as for workforce or infrastructure development.

The world's most famous cluster is the Silicon Valley, and greater Boston's version is likewise renowned and highly productive.Both of those clusters and others like them are post-war phenomena and mainly products of information and communication technology and biotech. But some clusters are not "high" tech at all. For example, North Carolina (still) has a furniture cluster, with roots that go back to the colonial era. And some of the country's largest urban economies, such as metro Chicago and NYC, are now looking to aggressively develop innovation-driven, city-centered clusters in health, renewables, and other fields. So are governments worldwide; see Seoul's media city and Guadalajara's nascent innovation district, the Creative Digital City. Digital media is a particularly hot target for policymakers and investors.

As we will see, the cluster approach faces several key critiques and challenges. In terms of challenges, it remains unclear just how much clusters can be "made" through intentional effort. The Silicon Valley wasn't designed to emerge as such, for instance. It evolved around huge WWII and Cold War R&D spending by the federal government, especially at the Stanford and Berkeley engineering and science schools; ditto for the MIT-centered Massachusetts technology clusters. So there's an efficacy question and a related what-works-best set of questions.

But there are also who-benefits questions. "Incubating" innovation in a given place does not guarantee that the economic benefits will be enjoyed in that place—as opposed to some other region, where companies can be developed, devices or medications manufactured, and so on. I may discover something in Peoria but quickly move its commercialization to the Silicon Valley, because the cluster assets are already in place there—venture capital, product development talent, etc. And even if there *is* growth locally, it may not be job-intensive growth or produce all that many *good* jobs, at least directly; remember that those employed by an "economic driver" will spend some of their money locally, consume goods and services, and thereby create *multiplier effects*. In part for these reasons, the late Alice Amsden, a DUSP economist, focused on how forward-looking governments secured agreements from private investors and producer firms to create strong linkages with local firms and create employment, especially in good, middle-skill jobs. Alice captured these lessons, and debated Krugman, The World Bank, and other influential forces, in books such as *The Rise of the Rest*.

Summing up: For our purposes, two equity-driven questions confront the cluster-driven "turn" in economic development: How to make it inclusionary? And related to that, how to link regional drivers to disadvantaged areas (their workers and businesses) so that prosperity is more widely shared in the places that, for a variety of reasons, tend to get left behind with each new growth spurt?

Discussion questions

1. Why, according to **Porter**, do clusters change the game for both businesses and policymakers?

2. What does **Moretti** add to Porter's account? In particular, what does Moretti emphasize about the importance of human capital? How compelling are his recommendations? Moretti focuses on skills, productivity, and innovation "output" (e.g. measured by patents and successful commercialization) but not cost of living or other impacts of local economic growth, which are hardest on the disadvantaged.

3. The blog post by **Erikson** illustrates how research, policy and practice are increasingly touting cluster development as opposed to, say, isolated small business assistance.

   This piece in fact highlights the "DNA" of much Obama-backed local economic innovation policy. For example, the federal government has linked major R&D investments, especially in energy, to workforce and other efforts to advance clusters. A leading example is the Energy Efficient Buildings Hub, based at the Philadelphia Navy Yard, thanks to the first-of-its-kind federally backed, multi-agency Regional Innovation Cluster initiative.

4. What key strategies does **ICIC** (a nonprofit launched by Harvard Business School professor Michael Porter) outline for connecting inner-city neighborhoods to cluster-led growth? What capacities or other ingredients do such strategies depend on? On what fronts are political conflicts or other barriers likely to be most important?

Highlights of some of the **recommended readings**:

SPUR, a Bay Area think tank, just published its strategic plan for regional economic "prosperity." This plan considers how to maintain the region's vibrant tech cluster and how to spread the benefits to lower income workers.

In **Scola**, note the critical perspectives on NYC's efforts to expand its tech innovation capacity, centered on human capital (a world-class engineering school) and a place ("innovation district") to be built on donated land.

In *Remaking Regional Economies*, **Christopherson and Clark** point to big gaps in the much-touted "knowledge economy" thinking of the past two decades. The authors highlight specific reasons why innovation-oriented development strategies tend to fall short, for example because the benefits of growth migrate elsewhere and because big companies tilt the playing field to their advantage. The authors also outline the keys to a "progressive regionalism," including a number of strategies we have discussed in recent weeks: strong human capital development and work standards (to grow talent as well as promote job quality), equitable approaches to infrastructure development, an intentional focus on growing local businesses and hiring local talent, a concern for public health, and more.

Held identifies some major pitfalls for cluster development approaches and why those pitfalls appear and re-appear. This is a useful but early piece in the field of planned cluster development or "cultivation," published in 1996.

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