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Using Clusters to Help Guide Regional Economic Development Policy

Dr. Larry “Chip” Filer
Chairman and
Associate Professor
Department of Economics
Old Dominion University

Types of Regional Economic Development

- ❖ **Whale-Hunting**
- ❖ **Grow-Your-Own**
- ❖ **Grow-Your-Best**

Cluster Analysis

Cluster Analysis Helps Inform a “Grow-Your-Best” Strategy

- Clusters organize a regional economy by its industrial strengths.
- Clusters organize by groups of firms and not just individual firms in a sector.
- Clusters exist due to existing regional advantages
- Clusters highlight the interconnectedness of seemingly unrelated economic activity
- New economic activity is likely to emerge as a spinoff or diversification of existing cluster activity

What Can We Learn from Silicon Valley and Detroit?

- Steve Klepper analyzed the dynamics of clustering in Silicon Valley (Semiconductors) and Detroit (Autos)
- Only 34% of the new automobile firms in Detroit were true startups (1895-1966). A majority of the firms were spinoffs - usually from Olds Motor Works.
 - Other states (PA, NY, OH, IN) were more reliant on startups than spinoffs.
- Only 20% of new semiconductor firms in Silicon Valley were true startups (1957-1990). A majority were spinoffs - usually from Fairchild Semiconductor.
 - Other metro areas (Boston, LA, New York City) were also more reliant on startups

What Can We Learn from Silicon Valley and Detroit?

- Clustering often begins with a few “parents.”
- The spinoffs benefit from proximity to parents, so they locate in the same geographic location.
- The initial cluster activity occurred as a result of comparative advantage or serendipity - it was not picked.
- The policies that help grow the existing cluster(s) also help create new clusters.

Why Do We Need Cluster Policy?

- ❖ In general, if an activity is worthwhile it will be accomplished. So, why would strong clusters need assistance?
- ❖ Cluster policy is NOT a way to incentivize activities that are ongoing.
- ❖ Businesses may be reluctant to cooperate with each other.
- ❖ Cluster policy should incentivize cooperation, capacity-building and information transfers.
- ❖ This will allow the cluster to “scale” much faster than trying to grow any individual firm.

Examples of Cluster Policies

- ❖ Creation of research centers, industry groups and industry events to promote networking within the cluster.
- ❖ Creation of cluster level workforce development. For example, a life science cluster needs:
 - ❖ Nurses, Scientists but it also needs Patent Attorneys
- ❖ Creation of cluster level promotion and branding

Policy Implementation

- ❖ Much of what the cluster needs can be provided outside of government intervention. This is both good and bad.
 - ❖ It is good in that there are no delays in implementation.
 - ❖ It is bad in that government is often seen as the convener. Government is so entrenched in society that business often doesn't know it can proceed without government blessing.
- ❖ Regional business groups need to take an active role in implementation of cluster initiatives.
 - ❖ Action must be more than just "lobbying" legislators!!

Concluding Remarks

- ❖ **Clusters Should Not Be Developed to “Match” Similar Clusters in other Regions**
 - ❖ Advanced Manufacturing cluster in Hampton Roads will look different than the same type of cluster in Pittsburgh.
- ❖ **Region Must Pursue Expansion of Existing Firms, Attraction of Firms and Creation of New Firms**
 - ❖ The Cluster’s Supply Chains provide clear opportunities.
 - ❖ Innovation must be a significant part of cluster growth
- ❖ **Workforce Development Should be Cluster and Not Industry Focused.**
- ❖ **Regions Must Create a Mechanism for Continuous Evaluation of Cluster**