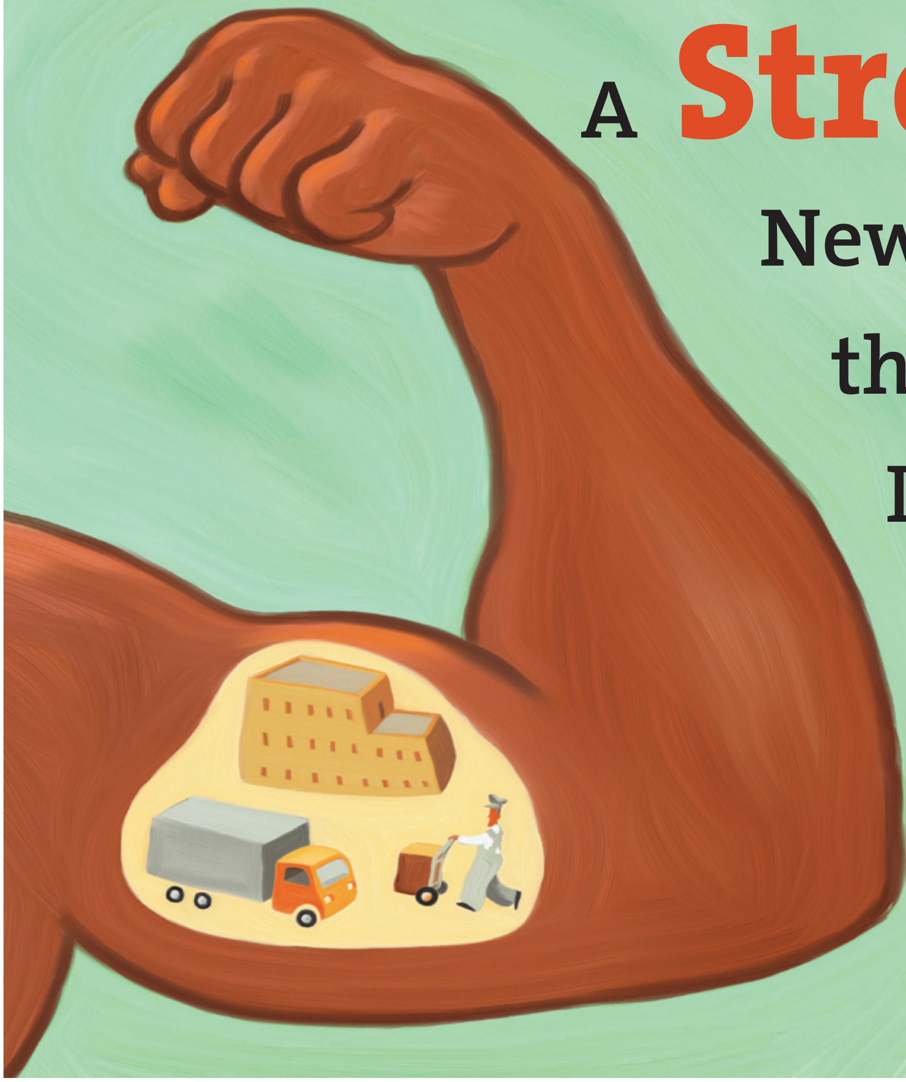

A Stronger New England through Industry Clusters

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States, by definition parochial, focus their economic development efforts within their borders and strive to keep their graduating students and company owners from leaving.

A few New England states, however, have initiatives to invigorate instate economies differently. When it comes to infrastructure sectors like telecom, broadband, transportation, and energy, they recognize that their interests are aligned with neighboring states' interests—and that it can make sense to address economic development distress by applying industry *cluster* strategies in partnership with neighbors.[1] Cluster initiatives can boost innovation; facilitate diversification; generate employment opportunities, higher wages, and productivity; stimulate regional entrepreneurship; and improve regional sustainability.[2]

Introducing Industry Clusters

Clusters come in two primary flavors. With *local clusters*, products and services are traded within local borders. Health-care services, tourism, retail, and transportation are typical. Oklahoma's hospitality, recreation, and tourism cluster and South Carolina's tourism initiative are examples.[3] With *traded clusters*, commerce occurs across local borders. Traded clusters that serve growing and global markets create potential to drive economic development in whole regions. Companies in traded clusters—technology, life sciences, consumer products—often fit the traditional venture capital model and so can be more rapidly developed.

Clusters are characterized by the relative proximity of suppliers, producers, and distributors. Although they are not entirely self-contained ecosystems, they derive considerable power from ease of participation in trade associations, networking events, and cluster-specific meetings. A cluster may be centered on a single city (Hartford: insurance and finance) or may be linked to adjacent cities or counties within a state (North Carolina: Research Triangle Park).[4]

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Sometimes clusters span multiple states. The Northwest Food Processors Association (Oregon, Washington, and Idaho) launched a multistate initiative in 2005 out of concern about thin profits, overcapacity, poor return on assets, erosion of margins, and industry consolidation. In another example, officers of metals companies in western Minnesota and eastern North and South Dakota organized the Tri-State Manufacturing Association to promote common interests.[5] Similarly, the Northern Border Regional Commission of Maine, New Hampshire, Vermont, and New York, although characterized as a sector-based initiative rather than a cluster initiative, intends to leverage existing sectors that span all four states, such as agriculture and the creative economy.[6]

Multistate cluster strategies—coupled with states' internally oriented cluster activities—may provide greater growth potential than the state-based model alone. In the current climate, collaboration that can leverage limited federal and state resources makes sense.

New England Clusters

Several New England states have recognized the utility of clusters for economic development. Massachusetts—particularly east of Route 495—is furthest along in activating a cluster-based economy.[7] Worcester, in central Massachusetts, has developed a life sciences cluster to which it has dedicated real estate, incentives, university partnerships, and the like. A cluster outlook also meshes with Vermont's economic development strategy, which embraces such diverse sectors as green technologies and cheese making.[8]

In Maine, a 2006 state-funded Brookings Institution economic development report included a cluster analysis.[9] Cluster expert and former venture capitalist Karen Gordon Mills was chairing Maine's Council on Jobs and the Economy at that time and worked with public- and private-sector leaders to implement the recommendations. She helped to secure a $15 million federal grant to support the boat-building cluster. Additionally, in her affiliation with Maine's CEI Community Ventures (a for-profit subsidiary of Coastal Enterprises Inc.), she helped to catalyze development of a specialty-food cluster.[10]

A Super-Regional Approach

Historically, U.S. cluster initiatives have been conducted with support from an economic development agency at a level no higher than a state.[11] But in the current economy, states might consider the potential of multistate efforts and try to identify cross-border opportunities.

Cities in Connecticut and Massachusetts formed the Hartford-Springfield Economic Partnership in 2000, aiming to "advance projects with regional implications and further the economic progress of the interstate region by capitalizing on historic economic, natural, and cultural ties." Similarly, commuting patterns (say, between Worcester in Massachusetts and Providence via Route 146) could give other economic development agencies ideas for potential cross-border activity beneficial to each side.

With government, the private sector, foundations, and individuals pulling back in varying degrees from funding entrepreneurship and start-ups, multistate partnerships could make scarce resources go further. If two states are developing competencies in clean technologies, why not look at how both could gain, rather than have one "win" at the expense of the other? Instead of competing for every business to locate within their borders, states should appreciate that when a business settles on one side, commuting residents may offer benefits on the other side—property tax revenue and local consumption. Of course, finding ways to ensure that a given cluster provides fairly balanced benefits to all parties is also important.

Although it might seem daunting to

try to coordinate efforts with competitive neighboring states, a super-regional approach would likely be a capital magnet for federal programs and, over time, should make a region more competitive in the global economy. New England is less than the size of California. If New England were to pursue multistate initiatives in addition to in-state initiatives, each state and the region as a whole could benefit more.

Finding the Right Cluster

Whether local or traded, rural or urban, clusters need to be properly researched and activated. Not every region is a Greater Boston with access to core cluster elements such as broadband, a highly trained workforce, and capital.

To find the most suitable model, a region should first evaluate its assets. Monitor Group's report on entrepreneurship development, which defines four cluster models, may be helpful.[12] In the *classic* model, intellectual property gets developed by individuals or a university, then funded by angel investors or venture capitalists. In the *anchor-firm* model, new companies emerge from a larger existing company. The *event-driven* model emerges from a major industrial or economic event that throws people out of work, forcing a search for solutions. The *local-hero* model arises when a local entrepreneur gains national or international prominence and catalyzes an entrepreneurial network and culture.

The U.S. Department of Commerce's Economic Development Administration has long used cluster theory as part of making grants to stimulate economic activity; the new administration also is supportive of regional clusters. Moreover, now that Karen Gordon Mills heads up the U.S. Small Business Administration, clusters may receive more attention in economic initiatives.

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Endnotes

[1] The Northern Borders Regional Commission—a Maine, New Hampshire, Vermont, and New York initiative to address economic development malaise in the states' northern counties—is seeking federal funding to address outmigration of young college graduates, the aging population, and ways to replace dying industries.

[2] Clusters are defined as a group of companies, related economic actors, and institutions located near one another and drawing productive advantage from their mutual proximity and connections. See Council on Competitiveness, *Cluster-Based Strategies for Growing State-Based Economies* (National Governors Association: Washington, DC, 2006); and http://www.nga.org/Files/pdf/0702innovationclusters.pdf.

[3] See http://staging.okcommerce.gov/test1/dmdocuments/Hospitality_Recreation_Tourism_Cluster_Report_3006051541.pdf and http://www.scprt.com/our-partners/competitivenessiniative.aspx.

[4] See http://www.rtp.org.

[5] See http://www.tsma.org.

[6] Cluster-based economic development represents a more holistic approach than sector-based development, taking into account the ecosystem of suppliers, trade associations, and universities.

[7] In 1991, Governor Weld created the Council on Economic Growth and Technology, an outcome of Michael Porter's state-funded *The Competitive Advantage of Massachusetts.*

[8] *State of Vermont: Strategic Plan for Economic Development*, http://www.thinkvermont.com/Portals/0/Stategy-doc-booklet2.pdf.

[9] *Charting Maine's Future: An Action Plan for Promoting Sustainable Prosperity and Quality Places* (Washington, DC: Brookings Institution, 2006), http://www.brookings.edu/reports/2006/10cities.aspx.

[10] CEI Community Ventures collaborated with Mills to launch a Food for Thought Forum, which brought together nearly 100 participants interested in mutually advantageous, coordinated efforts. A food industry cluster award was granted by Maine Technology Institute in February 2009, partly as a result of that event.

[11] The U.S. Department of Commerce's Economic Development Administration has helped to fund cluster research. The Obama administration proposed additional funding.

[12] *Path to Prosperity: Promoting Entrepreneurship in the 21st Century*, http://www.compete.monitor.com/App_Themes/MRCCorpSite_v1/DownloadFiles/NED_report_final.pdf.

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