



TARGETING REGIONAL ECONOMIC DEVELOPMENT

A JOINT INITIATIVE OF THE REGIONAL RURAL DEVELOPMENT CENTERS

<http://nercrd/psu.edu/TRED/index.html>

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About Clusters

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About clusters:

- New way of thinking about local, rural, regional new economy
- Organizing framework for community/discussion starter
- One way of identifying new economic opportunity
- Building on current and historical economic strengths

One key reason for the renewed interest in targeted regional economic development (TRED) has been the introduction of cluster development principles into regional economic development policy discussions by Harvard business economist Michael Porter. While the ideas underlying the notion of clusters have been around for nearly 100 years, Porter has almost singlehandedly spurred the interest in thinking differently about economic development policy. One important outgrowth of this new thinking is the concerted movement away from the approach of “shoot anything that flies, claim anything that lands” to more strategic behavior in identifying the specific types of industry that should be promoted at the local and regional levels.

While there have been many attempts to define what a cluster is and is not there are several overlapping characteristics that define a cluster: interconnected industries, regional concentration, specialized input suppliers, thick labor markets (i.e., abundant supplies of specialized labor), complementary institutions, and entrepreneurial spirit. Popular examples include computers in Silicon Valley, the garment and financial districts in New York City, NASCAR racing teams in North Carolina and Formula One racing teams in England or gaming in Las Vegas. Most clusters, however, tend to be more mundane, such as cheese processing in Wisconsin, chemical manufacturing in Louisiana, or crab fishing off the coast of Alaska.

The key here is that certain regions have what economist call a comparative advantage. Specifically, given a particular community's resources broadly defined, the community can be more productive at

supplying a particular good or service when compared to another. For example, large parts of Illinois have a comparative advantage in crop production over northern New England because of their soils and geography. A key element of clusters and TRED analysis is the identification of what a community's comparative advantage is, or is not. Once those comparative advantages are identified, appropriate policies can be crafted to build on them.

Much of the work on economic clusters hinges on trying to better understand how comparative advantages are self-reinforcing. In other words, we observe that once a cluster is established, the cluster tends to feed upon itself, growing larger and more robust. A central question that economists worry about is why this self-reinforcing process takes place and whether can policies be crafted to influence the development of clusters. Indeed, although Paul Krugman is best known for his social and economic commentary, his Nobel Prize in Economics was for his work in attempting to answer this question. Unfortunately, clusters are much like art: we know it when we see it.

This latter observation serves as a foundation for “market” economist who argue that attempts to “pick winners” (i.e., the right cluster) is prone to failure because our ability to “out-guess” the markets is very weak. This line of thinking had resulted in what is called the “Washington Consensus” in terms of free international trade. For example, policies such as NAFTA removed barriers for free movements of the markets across North America. As in the case of cluster development, the Washington Consensus held that countries have a comparative advantage in certain industries and should be allowed to specialize in those industries and then trade in international markets. In the simplest terms, the markets know best.

Cluster development and targeted regional economic development (TRED) is more about identifying established industries that with nurturing could develop into thriving clusters. “Market” economists are right if the aim of policy is to form new clusters from whole cloth. By undertaking a TRED analysis we suggest that local industries that are on the verge of forming a vibrant cluster can be identified and nurtured. Here historical strengths can be analyzed with an eye toward the future. Existing clusters that may be threatened or are not viable in the long-term can be identified and discussed. Policies could range from forming public-private partnerships to facilitating communication within and across businesses in the cluster to networking with local institutions of higher education to custom craft research and educational programs to working with small businesses to fill gaps in the local cluster network.

Independently of the free markets debate, the TRED process and analysis can help decision-makers and concerned citizens better understand their local economy. One positive aspect that has come about from the adoption of Porter's notion of clusters at the local level is that communities function within a larger regional economy. Clusters do not respect the political boundaries of municipalities, counties or even states. Here communities are coming to appreciate the need for cooperation

across the region. By promoting clusters in a strategic manner many communities have come to realize that blind industrial recruitment is a misuse of limited resources. By focusing its efforts on targeted clusters the community, or more correctly partnerships of communities, can move forward.

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