



Frank A. Conte, director of communications & information services at the Beacon Hill Institute

Minnesota ranks third in nation on competitiveness index


A Civic Caucus Focus on Competitiveness Interview

September 6, 2013

Present

Fred Zimmerman, Pat Davies, David Broden, Audrey Clay, Janis Clay, Rick Dornfeld, Paul Giljie (coordinator), Randy Johnson, Sallie Kemper, Dan Loritz (chair), Paul Ostrow, Clarence Shallbetter.

Summary

Since 2001, the Beacon Hill Institute (BHI) at Suffolk University has produced an  [annual index on state competitiveness](#). The report analyzes 43 indicators divided into eight sub-indexes - government and fiscal policy, security, infrastructure, human resources, technology, business incubation, openness, and environmental policy.

Frank A. Conte, director of communications and information services at the Beacon Hill Institute, discussed the drivers of state competitiveness and the limits of their study. He argued that competitiveness is the ability of a nation, state, or region to generate economic growth. Generally, this conception favors economically resilient areas with diverse economies (e.g. Massachusetts).

Background

Conte manages the Beacon Hill Institute's State Competitiveness Project. He is responsible for all aspects of BHI's computer infrastructure and the Institute's web site.

Prior to joining BHI, Conte was a contributing columnist to the *East Boston Sun-Transcript*, and *Journal-Transcript Newspapers*. He holds a B.S. in English and Government from Suffolk University and a M.S. in Public Policy from the University of Massachusetts, Boston.

Discussion

Economic diversity is key to resiliency. Conte argues that cities such as Boston and states like Massachusetts and Minnesota did not suffer as much as other places during the Great Recession due to their diversified economies, which helped them better weather the downturn. More broadly, he attributed this ability to thrive in several different economic sectors as the basis for their competitiveness.

Conte said that "competitiveness" is a broad term with varying meanings. Generally, competitiveness is the ability of a nation, state, or region to generate high per-capita income, while at the same time generating economic growth. And during this struggle for competitiveness, high performers try to maintain their position, while low-performers are looking to develop a comparative advantage in some economic sector.

The Beacon Hill Institute competitiveness index measures the capacity of states to promote economic growth in the form of higher personal income. First published in 2001, the index was developed by [Dr. Jonathan Haughton](#) of Suffolk University. He based the index on research by [Dr. Michael Porter](#) of the Harvard Business School. Porter was interested in ways that business firms best deploy their capital to increase their competitiveness.

[Critics of competitiveness](#) argue that in the race to be more competitive, states would implement bad policies such as protectionist trade measures. However, at the state or regional level, governments are unable to set trade policy and generally operate under the same macroeconomic conditions nullifying much of this particular criticism.

What makes Minnesota competitive? According to Conte and the BHI index, Minnesota is a highly competitive state. In 2012, Minnesota ranked third in the United States. Of the 43 indicators that make up the index, Minnesota has three primary strengths:

1. Highly-educated population
2. Reputation for reform-oriented government
3. Strong labor force that attracts businesses

There are limitations to the indicators of the index, but it remains a strong predictor of competitiveness. Minnesota does generally well in many of the measures. However, Conte cautioned that the utility of the indicators is limited. Though weighted equally, the decision to include some indicators over others is subjective.

Conte also admitted that getting up-to-date information and determining what indicators are most useful also presents challenges to creating an accurate index. In the past, the Beacon Hill Institute competitiveness index used the number of phone lines in a state to measure connectivity, but then replaced it with cell phones due to the rise of mobile technology. However, it is unclear whether this is an adequate replacement.

In fact, there is a debate in macroeconomics about whether recent technologies, such as cell phones and tablet computers, actually drive economic growth. For further information on this topic, Conte recommended the research of [Dr. Robert Gordon](#) at Northwestern University.

Conte did note that despite the limitation of the Beacon Hill Institute index, it continues to be a strong predictor of personal income growth.


Where can Minnesota improve? Conte outlined four areas where, according to the BHI competitiveness index, Minnesota could improve, including:

1. State and local taxes per capita
2. Unemployment insurance payments
3. Academic science and engineering
4. Cost of labor adjusted for educational attainment

Conte added that while Minnesota has improved its overall ranking during the past six years, these measures do not paint a full picture either. For example, while Minnesota ranks low in academic science and engineering, the state does well in other science and engineering measures such as "employment in high-tech industries."

Why these indicators? There is great debate among economists about whether tax cuts impact business relocation decisions, but Conte believes that any serious survey needs to include fiscal measures. Additionally, measures like unemployment insurance payments are included because they function as a fiscal drag if they discourage the unemployed from seeking work.

There are limits to the ability of a state to affect its competitiveness. Conte suggested (as has columnist Thomas Friedman and others) that the world is getting "flatter," which has increased the flow of global trade and capital. The end result is that that fiscal resources readily and regularly enter markets that present the greatest opportunities for profit. This phenomenon has reduced the ability of states and countries to control their economic competitiveness.

Conte also explained that human capital is more mobile than in the past. Citing Charles Tiebout's 1956  *Pure Theory of Local Expenditures*, Conte suggested that cities and states price the cost of public services to attract taxpayers - similar to the way business prices goods or services to attract customers. While this hyper-competitive environment may reduce the ability of states or regions to control their destiny, Conte argued that we should view this increased openness as a positive.

Manufacturing no longer drives prosperity. As Conte explained, high-tech employment traditionally has been an area of strength for Massachusetts. The state first attracted these jobs by investing in the biosciences and then subsidizing pharmaceutical manufacturers like Bayer. And despite this large investment by Massachusetts, a recent report from the Beacon Hill Institute reports that computer manufacturing, life science, and pharmaceutical jobs are declining in Massachusetts.

According to Conte, states or regions were once able to create broad prosperity through manufacturing jobs and in more recent years - through high-tech manufacturing. However, the availability of these jobs continues to decline even in places like China. The primary driver of this demise has been technology.

What can states do? Conte suggests that in this new reality, where technology and fierce global competition are the driving economic forces, states should adopt new strategies. And considering the difficulty in predicting what new industries may drive future prosperity, Conte argues that states should

try to develop the foundations of growth: providing high-quality public education and infrastructure, and doing their best to provide for the poor.

Who drives competitiveness, business or government? Conte argued for a middle position - that neither business nor government alone can drive competitiveness. He explained that while the primary driver of competitiveness is indeed business, that does not diminish the role that government can play.

Conte pointed to evidence showing that research institutions (colleges and universities) are critical to developing innovation, new technology, and eventually new businesses. Public institutions also can be drivers of human capital. For example, Massachusetts is a net importer of students and hospital patients, providing both an educated population and customers for health care providers.

With the decline of manufacturing, Conte suggested that states should be thinking about "tradable" vs. "non-tradable" jobs. Health care and research are good examples of "non-tradable" sectors because the infrastructure and start-up costs make moving financially prohibitive. Though these industries are unlikely to generate broad prosperity like manufacturing once did, they can help to anchor a state or regional economy.

The competitiveness debate is certain to continue. Conte ended by explaining that there is a rich current debate in economics about competitiveness. He argued that competitiveness is not an end in itself that leads to prosperity, but, instead, it is a starting point. Conte said he believes that by studying competitiveness, we can better understand the issues that states currently face.