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Using Clusters to Help Guide Regional Economic Development Policy

Dr. Larry “Chip” Filer
Chair 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.
Application to Hampton Roads

- Hampton Roads has unique assets.
  - Water, Port, Military, History

- Existing clusters are successful because they are linked to those assets.

- Growth stems from new firms relocating to the area to be near the cluster, existing firms expanding or new firms relocating to the area in a related industry within the cluster.
  - “Filling out the supply chain”
  - Advanced manufacturer producing the next generation of robotic technology for terminals.
Concluding Remarks

- Economic development should not pick winners and losers.
  - Clusters have already been winners.
- Clusters are specific to geographic areas
  - Water Management cluster in Louisiana would look different than the same type of cluster in Virginia.
  - That provides some opportunities to see how the cluster could grow.
- Cluster development should require less public spending.
  - Firms want to be near the cluster.
- Workforce development should be cluster and not industry focused.