



# “Being Competitive”

## What Does It Really Mean?

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In reflecting on the subject of this piece, I wanted to find a contemporary example to help crystallize my thoughts about “competitiveness,” and how I want to approach and present the concept. I want to get across the idea that “competitiveness,” in theory and in practice, only truly exists as the sum of many important parts. To that end, I was reminded of a piece that appeared in the *New York Times*, almost a year ago now, about a Harvard Economist named Edward Glaeser. Professor Glaeser is regarded by a number of Nobel rank economists as a bright new light on the economic dynamics of urban centers and the various factors that make certain cities vibrant and successful and others stagnant and lackluster. The following passage, taken directly from the article, is a great way to kick off this discussion:

His desire to provide a persuasive, data-driven explanation for elevated home prices fits into a decade of research that he says he hopes will ultimately provide a broad and ambitious framework to explain the function and evolution of America’s cities. His view is that the life of the city cannot (and should not) be separated from its real estate market. “They mutually cause each other,” he says. “Housing supply determines to a certain extent what goes on with the economic life of the city; and the economic life of the city is intimately related to the demand for housing. And you cannot possibly understand that if you’re going to try and treat them as being separate.” Put another way, we shape cities; cities shape real estate; real estate shapes cities. And cities shape us too.

I agree with Professor Glaeser’s postulate in general and more specifically as it relates to the topic of this paper. In my words, success (or competitiveness) depends on a virtuous cycle that begins with a supply of the essential components of competitiveness and ends with true, robust

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economic competitiveness which creates a new supply of essential components of competitiveness and so on... If we can fully understand this and put it into practice, we will fully comprehend what being competitive really means. Many voices, both in the public and private sectors, speak in terms of the need for South Carolina to be competitive. If nothing else, the Palmetto Institute and the Council on Competitiveness, now known as New Carolina, have helped to focus the conversation about the economic wellbeing of South Carolina on “competitiveness in the global economy,” “raising the per capita income,” and “developing industry

clusters to support more innovative and efficient ways to build our economy.” We now have a competitiveness agenda for the business community; the Governor and the Legislature discuss issues in terms of being more competitive as well as using a variety of metrics we have offered to gauge improvement. All of this is encouraging, but I still wonder whether or not we really understand what it takes to be competitive. To borrow from and paraphrase the Glaeser article, do we have a complete understanding of the elements and broad framework of a holistically competitive state?

The challenge in evaluating South Carolina’s competitiveness is to be certain that we are measuring the key components of the whole and that we understand what the measurements mean. It is certainly important to record the number of new jobs created and large capital investment in South Carolina, but what does this measurement tell us? Are the jobs high skill positions? Do they help answer or further confound our state’s health insurance situation? Will they attract other high skill labor or encourage training or retraining for other high skill, high wage opportunities? Will we have sufficiently educated and trained individuals to

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sustain the new jobs? In other words, how do events that create new jobs and spur capital expansion mesh with the critical elements of competitiveness? The measurements of our competitiveness must include average wages, wage growth, unemployment and gross state product. In order to get a true and clear picture, metrics must also include innovation indicators such as patents, patent growth,

So then, what does it take to be competitive?

While I don't have all the answers, I can commend many of the excellent points made just last December in a report of the Commission on the Skills of the American Workforce, a special arm of the National Center on Education and the Economy. In that report entitled *Tough Choices or Tough Times*,

employers right here in South Carolina have access to a worldwide workforce of people who do not have to live and work in our state.

The second trend relates to how companies now operate. According to the report, a century ago the United States led the world in the process of "vertical integration" where

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venture capital investments and the formation of fast growth companies. In fact, when you compare these numbers in the above-referenced categories to the national averages and the statistics of our neighboring states, you realize the simple truth. The road to competitiveness for South Carolina is a long, challenging one, and we are just beginning our journey.

two trends were highlighted in an effort to focus us more accurately on the challenges America now faces. First, new technology has made the world so much smaller. Because of the computer and the volume of work we do that ends up in a digitized form, it is easy to transmit instantly over the internet to any place in the world of work involving engineering or architectural drawings, x-rays and a whole list of other work-related activities. What that means is

corporations did all of the work from mining the raw materials to the final retail sale to the consumer. Today, the United States leads the world in the break-up of the vertically integrated corporation. Corporate analysts determine who can best do each step in the process not only at the lowest cost but also at the level of quality demanded. The corporation then contracts with the best providers of each of these steps in the process and keeps

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only those functions it can do best. It is what we have come to call “outsourcing.” Unfortunately, corporations that do not take this approach will not be competitive and eventually will be put out of business. Moreover, it is not just workers in other countries – as technologies continue to develop, more and more computer-driven equipment and robots are being developed to take over even more jobs.

This is the environment we face and, unfortunately, we face it at a time when the quality of our workforce is being challenged. Again, according to the report *Tough Choices or Tough Times*, while the United States could previously claim having the best educated workforce in the world, this is not true today. Over the last 30 years, country after country has surpassed us in the percentage of individuals entering the workforce with the equivalent of a high school diploma. Even more disturbing, thirty years ago 30% of the world’s population of college students was in the United States. Today, only 14% are in the U.S. and the number continues to decline.

The bottom line is not only that we are being challenged by foreign workers making lower wages, but we are also being challenged by workers equally, if not better, qualified. If you were an employer in the digital world we live in, would you hire an American engineer at \$45,000 a year or an Indian or Chinese engineer at \$7,500 a year if they were equally qualified?

This environment changes the dynamics of being competitive. It is not enough just to provide for a higher educated and skilled workforce. Today, we are competing for jobs with countries that are offering large numbers of highly educated workers willing to work for low wages. Even if jobs are not outsourced, we are still faced with technology driven systems replacing large segments of our workforce.

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in order to capture a premium in the world market. That is why in addition to the economic performance indicators, we must also track innovation output indicators.

This new economy is difficult to grasp, especially in a state that has developed its workforce to produce specific products for companies in the most efficient, cost-effective method possible. And, with the strong work ethic of our citizens and a technical education system with an excellent ability to train specific workers for specific jobs, we have been very successful. Unfortunately, as the world becomes more competitive, competitors in foreign countries with lower labor costs will copy any jobs described as routine or repetitive. No longer will just producing a shirt, regardless of how inexpensively or efficiently, be enough. We now must find ways, for example, to produce the same shirt with fabrics that protect or medicate us. We have to find ways to produce agriculture products not just as commodities but also for new usages in energy and medicine. The list goes on and on from high technology to basic jobs.

That is why the Palmetto Institute along with other organizations commissioned Professor Michael Porter's group to develop for South Carolina a long-term economic strategy based upon the global economy. That is why New Carolina is working so hard to build industry clusters that help South Carolina recruit, expand and create more innovative businesses. That is why the Palmetto Institute has worked with the South Carolina Commerce Department to help improve the state's approach to workforce training. That is why the research universities have been asked to take a greater role in creating new entrepreneurial opportunities for businesses. That is why the technical education colleges are committing to programs to help them improve individual student achievements and the overall workforce quality. That is why the Education and Economic Development Act was passed to help guide and encourage students to expand their opportunities for better jobs and careers. And, that is why there is a competitive agenda today to recommend legislative

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initiatives to give South Carolina the tools necessary to become more competitive. This isn't about being popular! These changes are absolutely necessary to be more competitive, and if we cannot become more competitive, we cannot offer a more prosperous life for ourselves and, more important, for our children. It is that simple.

To bring you full circle, success depends on a virtuous cycle which begins with supply – supply of a highly skilled and ready work force, supply of cutting-edge innovations, supply of worthy opportunities for venture capital investment, and the environment to patent new creations and seed fast growth companies.

Therefore, the next time an issue arises regarding whether or not we need to continue working toward changes to be more competitive, think about the worker in China making a dollar an hour wanting desperately to take a South Carolina worker's job away so he or she can work extra hours. This example will help us all remember what being competitive really means and why we have to continue to work toward that goal.



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