Increasing Employment and Productivity through Innovation Clusters

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Innovation clusters are geographic concentrations of firms

• **Definition:** Innovation clusters are created when firms in the same industry locate near each other.

• **Examples:** Information technology in Silicon Valley, Manufacturing in the Pacific Northwest, Life sciences in Massachusetts.

• **Incentives:** In the U.S., local governments provide incentives to attract large firms.

• **Global expansion:** Innovation clusters are being built in over 52 countries all over the world from China to Brazil.
How does attracting a large plant impact local productivity and employment?

• **Co-authors:** Enrico Moretti (UC Berkeley) and Richard Hornbeck (Harvard).

• **Method:** Identify 82 openings of very large plants where counties provided incentives to attract plants. Compare the sites they ultimately selected and the runner-up sites (second choice).

• **Question:** What are the local productivity and employment impacts of attracting a large plant?
Attracting a large plant increases productivity

- 12% increase in productivity 6 years after the plant opening.
- This is equivalent to $430 million increase in output.
Attracting a large plant increases employment

- 9% increase in employment 6 years after the plant opening.
Policy proposal to improve employment and productivity

Federal Innovation Cluster Fund

• Provide federal funding to support innovation clusters through a cost sharing program (e.g., 20% federal funding).

• Build on local government knowledge about which sites are suited to particular industries.