

## What Defines an Economic Cluster?

Wisconsin has identified nine industrial “clusters” that will inform future economic growth and development efforts. These range from biotechnology, plastics and printing to dairy and food products and processing. But what exactly is an industrial or economic cluster? Forward Wisconsin, which from 1984 to 2012 was the state’s official nonprofit marketing entity, states that “[c]lusters are geographic concentrations of interconnected companies, specialized suppliers, service providers and associated institutions in a particular field. Clusters develop because they increase the productivity with which companies can compete in an increasingly more competitive global market and they are the source of jobs, income and export growth. The philosophy behind clusters is that large and small companies in a similar industry achieve more by working together than they would individually. Clusters give businesses an advantage by providing access to more suppliers and customized support services, skilled and experienced labor pools, and knowledge transfer through informal social exchanges. In other words, clusters enhance competitiveness.”

The idea is that a viable economic cluster is more than a geographic concentration or “hot spot” of particular types of businesses is important. Ed Feser (1998: p20) argues that [e]conomic clusters are not just related and supporting industries and institutions, but rather related and supporting institutions that are more competitive by virtue of their relationships.” This is similar to Michael Porter’s (2000: p254) define of a cluster “is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by

In a 2009 study of the Wisconsin agricultural economy Deller and Williams documented that the food processing industry generates about 252,000 jobs and \$15.5 billion in income. This represents just over seven percent of all employment and just less than seven percent of all income in Wisconsin. In addition, the economic activity associated with food processing generated just over \$1 billion in state and local government revenues. This series of factsheets is aimed at helping better understand the food processing industry in Wisconsin and identify policies that may enhance the competitiveness of the industry.

Agricultural process manufacturing, such as cheese making, vegetable canning and freezing and breweries as well as wineries, remains an important part of the Wisconsin economy. Equally important, the products that are associated with food processing, in particular cheese and beer, are an integral part of the Wisconsinites self-identity. Curly Lambeau, one of the founders of the Green Bay Packers, used funding from his employer, the Indian Packing Company, a meat canning processor, to fund the early operations of the team. The Milwaukee Brewers are named in recognition of the city and state’s long tradition in making beer.

commonalities and complementaries.” Firms within a particular industry are competitors, as competition drives innovation which in turn spurs economic growth and development, but are willing to collaborate for their own self-interests.

There are two important elements of these descriptions, or definitions, of economic clusters: complementary institutions and integration across the industry. Complementary institutions can be private organizations such as a professional or business association, private-public partnerships, and public organizations such as universities and technical schools. Here the span of institutions work together for the enhancement of the industry. This could range from professional networking opportunities to customized training programs aimed at the industry or even general education programs that feed into or complement the specific labor and technical needs of the industry.

Within the food processing industry this could be university based research aimed at developing new production methods and technical schools providing the training required for those new production methods. It could also be as simple as a community working with the industry to provide child care services to workers who may be working 2<sup>nd</sup> and 3<sup>rd</sup> shifts. But these working relationships must be complementary and confrontational. Firms that demand tax incentives or exemptions from regulatory rules do not fit well into the notion of an effective economic cluster. Rather firms within the cluster work together to help move the industry and broader community forward together.

Integration across the industry can simply mean that individual businesses are willing and able to support industry wide initiatives such as the formation of public-private partnerships aimed at promoting the skill sets of industry workers. It can also mean competitors entering into contractual agreements that are beneficial to each firm. It can also mean vertical integration where firms focus on the input supply chain with the goal of maximizing the use of local/regional suppliers. The strategy here is along the lines of import substitution.

Firms within a cluster can either use local/regional input suppliers or import from outside the region. Firms that import may elect that option for several reasons. It may be possible that the input is simply not available; this could be called a “gap”. The policy question is if that “gap” should be targeted for development? Alternative, firms may import because they are unaware of local/regional suppliers; this could be called a “disconnect.” A potential policies could be aimed at bridging that disconnect. Or it could be that regional suppliers simply do not meet the needs of the business.

In the end, viable economic clusters are so much more than similar types of firms that happen to be geographically clustered. Viable clusters can be engines of innovation which in turn spurs growth and development. The policy question is how to move geographically clustered firms into viable economic clusters?

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