# An Economic Development Strategy for the 21st Century: The Role of State Policy in Strengthening the Economy

by William Schweke
Vice President of Learning and Innovation
Corporation for Enterprise Development



*State legislatures can play a critical role in responding to the challenges of the new economy by targeting five major goals: (1) Policymakers need to understand the big picture. (2) Policy can minimize the free fall when job loss occurs. (3) Policy can provide access to reemployment options. (4) Policy can offer access to training and education. (5) Policy can support new enterprise development. A preventive strategy for dealing with economic change depends upon agile people—both workers and entrepreneurs. To foster agile people, the #1 economic development priority should be building a seamless system for lifelong learning beginning in early childhood.*

## What is the New Economy?

Economies in Wisconsin, the United States, *and* the world are all undergoing one of the most fundamental transformations in history. The forces propelling these changes are creating economic turmoil. Due to a number of monumental economic trends such as globalization and the information technology explosion, we may be entering a new economic era. More specifically, the economic landscape is being altered by:

- The increased use of information technologies in a variety of ways across firms and industries (from fishing to airplane design);
- The shift from a manufacturing to a service economy;
- Increased global opportunities for financial and capital investment;
- The negotiation of much more far-reaching trade and investment agreements that increase direct foreign investment and global competition for goods and services;
- A weakening of an independent, sovereign, national economy;
- An acceleration of the product life cycle, leading from idea to commercialization to mature market (and "then it starts over again");
- The growing importance of high-performance workplaces engaging in continuous improvement with new occupational expectations for the frontline worker; and
- The emergence of new basic skills for thriving in the new economy.

*Economies in Wisconsin, the U.S., and the world are all undergoing one of the most fundamental transformations in history.*

In response to the new economy, entrepreneurs are driven to innovate, leading to automation, increased trade, new product development, and outsourcing. These in turn raise productivity, foster competition, create new jobs domestically, and spur income growth. But plant closings, mass layoffs, and economic dislocation inevitably accompany these processes. Overall, more persons benefit from such change than lose. But some communities, workers, firms, and shareholders are harmed, and those who lose opportunities and wealth due to economic restructuring are concentrated in certain industries and certain geographic areas. (If somebody is coming out ahead, this does not mean that one should not have distributional concerns or worries about losing an emerging industry to some other nation.)

## What is a Good Framework for Dealing with this New Economy?

To start, a framework for dealing with these problems needs to fit today's economy. The new economy is characterized by fierce competitive pressures, volatile industries, stagnating wages for the less skilled, falling unionization rates, and the information technology revolution.[1,2] Also, many more women are in the workforce, and many more families are struggling to balance their obligations at work with their responsibilities to children at home.

New policy strategies should promote efforts that invest in today's education and work skills; aid career shifts for older and less educated workers; help individuals stay employed and advance; encourage employers to hire, train, and support dislocated and other struggling workers; and pursue an agreed-upon set of goals that is coordinated across education, workforce development, human services, and economic development policies.[3] Policymakers and employers are also investing in policies to support working parents such as child care, flexible work arrangements, and paid family leave to care for sick children or take them to a doctor's appointment. (Paid family leave has now been enacted in six states and is pending in several others.)

For decades, states, counties, municipalities, and localities throughout the U.S. have conducted a variety of employment training and economic development programs. Lack of coordination and integration has often resulted in people being trained for jobs that do not exist.

*Achieving an international and high value-added state economy requires an educated, skilled workforce.*

We need much more integrated economic, workforce, and social services program systems. Achieving a state economy that is international, high value-added, and inclusive requires a workforce in which virtually all are educated and skilled, as well as motivated to pursue lifelong learning. An agile and entrepreneurial economy requires agile and entrepreneurial people employed in high-performance, high-wage workplaces.

## What is Policymakers' Role in the New Economy?

In times of recession and major plant closings, state and local policymakers face a situation that is, in some respects, tougher than that of the business community. Deficits are ballooning, budgets have been slashed but, unlike private companies, their "customers" are demanding more services: more citizens need food stamps, health care, housing assistance, retraining, and other costly services. State and local governments are forced to make tough choices about spending and taxes.

Likewise, governments are limited in their ability to create healthy economies, because policymakers and economic development practitioners do not create private sector jobs and development. Businesses and entrepreneurs do.

But these elected and appointed officials, in fact, are improving and marketing their own product—locations and conditions for private investment. They do so by providing capacity building services and financing, with the aim of helping firms and industries succeed in the marketplace.

Governments play a large role in shaping the attractiveness of a community through education, governance, property rights, physical infrastructure, predictability of the investment climate, and tax laws. Public action should address the twin goals of minimizing costs and risks, and creating the conditions for competition, innovation, and productivity.[4]

*Government can create the conditions for competition, innovation, and productivity.*

The specific role of the state legislator in the Economic Development Enterprise is to serve on its "board of directors." The state legislature's job is not only to propose and enact legislation for creating new economic development programs, but to monitor the state's economic development tool kit and decide if it's working or not and, if required, how to fix it. Ideally, this means state legislatures need to:

- Invest for the long haul;
- Raise the rate of return of the overall development portfolio and its specific programs;
- Move from compliance accountability to performance accountability;
- Don't play "gotcha"; instead, be a collaborator, working with the administration and agencies/organizations in getting results (e.g., more middle class job opportunities, quality of life, and wealth);
- View programs as experiments, not final, once-and-for-all solutions; and
- Embrace the long-term game of "continuous improvement" through the application of promising practices.

## A Strategy for Policymakers to Deal With the New Economy

What strategy can policymakers use to deal with the new economy? Any comprehensive state effort to address the challenges of a new economy should target five major goals. Table 1 lists the five goals and specific policy initiatives under each. In this chapter, I highlight a couple policies under each goal. For an expanded discussion, see my paper, *Promising Practices to Assist Dislocated Workers* at http://www.cfed.org/imageManager/blog/PromisingPractices1.pdf.

*The new economy requires understanding the big picture, minimizing the free fall when job loss occurs, improving worker access to and training for employment, and supporting entrepreneurship.*

Table 1. A Framework for Policymakers to Deal with a New Economy

| Five Major Goals of a Comprehensive State Effort | Policy Initiatives for Addressing These Goals |
|---|---|
| Understanding the Big Picture and Taking Preventive Actions | • Establishing Economic Dislocation "Radar"<br>• Mature Industries Commission |
| Minimizing the Free Fall When Job Loss Occurs | • Modernizing Unemployment Insurance<br>• Boosting Incomes<br>• Mobilizing a Community-wide Crisis Intervention<br>• Restoring Health Benefits<br>• Mitigating Foreclosures<br>• Tapping the Talent of the Workers<br>• Running Worker Service Centers<br>• Dealing with State and Local Revenue Loss |
| Improving Dislocated Workers' Understanding of and Access to Reemployment | • Using Management Innovations to Improve Job Brokering Services in One-Stop Centers<br>• Soft Skills: A Bridge to Employment<br>• Involving the Business Community in Customized Employment Services<br>• First-Source Hiring Agreements<br>• Targeted Job Creation Grant Programs |
| Improving Dislocated Workers' Appreciation of and Access to Training and Education | • Delivering Quality Incumbent Worker Training<br>• Applying Effective Practice Models to Retraining Dislocated Workers<br>• Tailoring Educational Services for Older Student/Workers<br>• Linking Manufacturing Modernization Programs with Workforce Development |
| Extending and Supporting New Enterprise Development | • States with an Entrepreneurial Vision<br>• Self Employment for Dislocated Workers<br>• Community Development Capacity-Building<br>• Expanding Employee Ownership |

## 1) Understanding the Big Picture and Taking Preventive Actions

In tough times, there is a natural tendency for policymakers to act fast, do what they have always done, and/or copy their neighbors. But it is also important to step back and try to understand how the current downturn is affecting their state's economic base and what sorts of strategic actions foster comparative advantage.

### *Establishing Economic Dislocation "Radar"*

States need better "intelligence" on what is happening both within their borders and in national and international arenas. This section offers three ways to get that information.

The first method is to create an "observatory" that tracks state performance relative to the other 49 states. A new "virtual" organization could examine industry trends, identify promising prospects, and track Wisconsin's record of policy accomplishments rather than simply its goals. Intellectual resources (e.g., academic researchers, private sector consultants, and nonprofit analysts, etc.) could be linked through a central Internet site and hold occasional meetings in the form of consensus-building sessions and policymaker/media briefings.

The second approach that **California** has used is establishing a permanent **Joint Select Committee on Trade, Democracy, and the Economy**. This bipartisan body held hearings, commissioned research, and monitored developments on trade and investment agreements, industries most vulnerable to trade-induced job loss, best practices in economic adjustment, ongoing trade negotiations, and activities of the Congressional Trade Committees, etc. This type of body enhances legislative leadership's ability to work with their Congressional delegation, and play more intensive advisory roles in associations such as the National Conference of State Legislatures.

The third approach is to create an early warning system, which would endow state decisionmakers with the ability to intercept worrisome signals in time to make appropriate interventions. Early warning systems can enable states, regions, and localities to anticipate—rather than merely react to—important economic events, trends, and disasters. The actual form of early warning systems can include keeping a pulse on a wide range of operating establishments through regular but informal communications and visits; a formal, fully-automated, data-driven system can be developed that provides a series of standard indicators pertaining to industrial sectors, individual firms, and geographic locations.

An interesting early warning model can be found in **Pennsylvania**. In 1993, Pennsylvania's Department of Labor and Industry helped launch the **Strategic Early Warning Network** (SEWN) in 21 counties in the western part of the state. The program's mission is to save jobs and retain manufacturing firms. SEWN offers confidential and professional "layoff aversion" services in such areas as operational and financial restructuring, turnaround, buy-out, the high-performance workplace, and labor management. To date, it has worked with about 300 firms in all major industry sectors with a focus on small and middle-market enterprises employing 25-500 workers. SEWN claims to have helped save 12,724 jobs.

*Mature Industries Commission*

Creative retrenchment of mature industries, especially manufacturing, is important to many states' and our nation's future for a variety of reasons. Robert Scott in a recent paper documents that Wisconsin lost 94,000 manufacturing jobs since March 1998. This is important because the state is very dependent on the manufacturing sector for employment. In fact, Wisconsin has the second highest share of total employment in manufacturing—17.2%; only Indiana can boast more.[5] This is dangerous because the downfall of these mature industries, many that have provided jobs with decent wages and benefits, is harmful both to our international competitiveness and regional economies.

*Since March 1998, Wisconsin has lost 94,000 manufacturing jobs.*

A **Mature Industries Commission**, modeled on one created by **Massachusetts** almost two decades ago, would bring together government, business, civic, labor, and academic leaders to focus on stabilizing and modernizing a state's traditional economic base and helping those firms to operate profitably in a specific niche. The Commission would seek ways to strengthen and assist these industries, and improve services to dislocated workers.

## 2) Minimizing the Free Fall When Job Loss Occurs

In the wake of the personal pain and suffering of a job loss comes the struggle to maintain one's home, feed one's family, and pay the bills. Further, a major plant closure can spark a larger downward spiral: as the unemployed spend less, other small businesses shrink or fail, tax revenues fall, and underfinanced public services deteriorate in quality. The cumulative effects of all these changes can worsen the overall business climate of a place, thereby weakening the economy still further. It is important to break this vicious cycle.

### *Modernizing Unemployment Insurance*

*Unemployment compensation* ***is the first line*** *of defense for workers who lose their job.*

The first line of defense for workers dislocated from their jobs is the unemployment compensation (UI) system. Established in 1935, it is a joint federal/state program that has a number of objectives: to assist individual workers in times of unemployment,[6] to provide the unemployed with exposure to alternative job opportunities, to stabilize the supply of labor by keeping available a supply of skilled labor for employers faced with seasonal or irregular employment, and to contribute to general economic stability by maintaining unemployed workers' purchasing power.

Historically, only seven states have adopted the Total Unemployment Trigger permanently (offering the maximum Extended Benefits to jobless residents during economic downturns): **Alaska, Connecticut, Kansas, Oregon, Rhode Island, Vermont, and Washington.** In 2003, as Congress debated proposals to extend federal jobless benefits, several states adopted various measures to extend unemployment benefits to the long-term jobless:

- **Kansas** provides workers two weeks of state-funded extended benefits;
- **Massachusetts** liberalized the eligibility for qualifying for federal jobless benefits so that more than 3,000 persons could take advantage of them;
- **New Hampshire** added 13 weeks of state-funded benefits that follow the 13 weeks of federal benefits;
- **New Jersey** allows more workers to collect the full regular 26 weeks of state unemployment insurance, which automatically makes them eligible for federal help;
- **Oregon** now provides 20 weeks of state-funded extended benefits, supplementing the national program; and
- **Utah** is entitling the jobless to receive five weeks of state-funded benefits.

Another way in which states are using their UI systems is "worksharing," an arrangement under which employees reduce their work time and receive partial UI benefits for the hours that they do not work. Starting in **California**, about one third of states now allow worksharing. Shared work seeks to maintain the workforce and yet contain costs. It also allows workers to receive more income than they would on UI alone, to remain employed, and to avoid the stigma of being laid-off.



Other unique and allowable UI support approaches include customized training and self-employment, an arrangement under which workers continue to receive benefits while launching their microenterprise ventures.

### *Boosting Incomes*

One broad approach to raising reemployed worker incomes is boosting them directly. Typically, reemployment does not make up for wages lost during unemployment or lead to a job that pays as well as the lost one. In fact, for the lowest fifth of earners, much of the loss in real wages over the last 20 years is because the minimum wage has, for the most part, not kept up with inflation.

*Earned Income Tax Credit is the nation's most effective anti-poverty policy.*

A state Earned Income Tax Credit (EITC), modeled on the federal EITC, would boost the incomes of dislocated workers with families that are working in a low-paying job. EITC has become the nation's most effective anti-poverty policy because it is efficient in reaching families that are most in need of assistance. EITC recipients pay into the same tax system as everyone else, and state EITCs may either be refundable or non-refundable. (Refundable means that when a credit exceeds a family's total income tax liability, the difference is returned to the family.) **Wisconsin** is one of 21 states with a refundable state EITC. Since 2006, five states have enacted a state EITC, bringing the total up to 24.[7] Other solutions that boost income directly include: taking full advantage of the new federal Alternative Trade Adjustment Assistance program which targets workers 50 years or older who suffer significant wage losses in their new jobs. Policymakers can increase the state minimum wage and mandate livable wages for state and local government employees, private contractors, and companies that receive business incentives. Other available supports for low-income workers range from food stamps to Medicaid.

### *Restoring Health Benefits*

Worker displacement adds to the number of uninsured. Even if their former employers are covered by COBRA and continue paying their past employer-sponsored insurance, dislocated workers must now pay the full premium—about $553 for family coverage and $255 for individual coverage. With Unemployment Insurance averaging $1,066 monthly, few can afford this price tag. So while 65% of all workers qualify for COBRA, only 7% of those who lose their jobs enroll in it. Indeed, more than 46% of the jobless lack health insurance. Household budget data documents that those workers without insurance, for even short-term periods such as six or less months, face action by a collection agency for nonpayment of medical bills (37%), do not see a doctor although sick (31%), and do not fill prescriptions (35%).[8]

States are pursuing a number of strategies for restoring health benefits. One possibility is tapping into the latest version of Trade Adjustment Assistance (TAA). This 2002 version, part of President Bush's Trade Promotion Authority Bill, provides a health insurance tax credit. This is a refundable and advanceable tax credit that covers 65% of a premium. Thousands of Americans could potentially take advantage of this program, called the Health Coverage Tax Credit (HCTC).

This is not a government insurance program; private insurers selected by the state or by employers through COBRA provide the insurance. Further details on the specifics, including its limitations, are available at http://www.cfed.org/imageManager/blog/PromisingPractices1.pdf.

Senators Baucus and Snowe have introduced a major TAA reform bill that makes the tax credit more affordable, as well as makes the application for all types of TAA aid easier and presumably faster.

### 3) Improving Dislocated Workers' Understanding of and Access to Reemployment Options

Adjustment efforts are needed to speed the process of reemployment and cut the private and social costs of joblessness. Several steps can be taken to reduce the mismatch between the availability of specific job opportunities and dislocated workers' awareness of and capacity to fill them:

- Assist workers to seek jobs in new, growing industries through one-stop centers that provide job search training, job clubs, job development, help in resume preparation, help with rehearsing job interviews, etc.;
- Provide training in soft skills, that is the nontechnical skills, abilities, and traits that work settings require;[9] and
- Create needed support services in areas such as transit and child care.

In addition, some states have implemented successful programs to enhance reemployment prospects of dislocated workers.

#### *First-Source Hiring Agreements*

First-source hiring agreements require private companies that receive public monies to use the public sector (and its nonprofit contractors) as their "first source" for new job hires. The state identifies, screens, and trains these potential hires, who are dislocated workers, people moving from welfare to work, and so forth. Private companies are not obligated to hire these workers, but must interview them before any other applicants. Most are run at the city level, such as Portland, **Oregon's** successful **JobNet** program which screened more than 16,000 individuals and filled over 2,000 jobs during the mid-1980s. Oregon also has a state program linked with its enterprise zones.

#### *Targeted Job Creation Grant Program*

*Labor subsidies may be a more cost-effective way to create jobs than capital subsidies.*

One of the paradoxes of business incentives is that most development subsidies are capital-based, even though they are intended to create jobs. Capital subsidies *can* generate increased employment but usually as a byproduct of increased production. Labor-targeted subsidies offer more direct and potentially cost-effective ways of creating jobs. More than a dozen such labor-based programs have been run nationally, statewide, or as particular demonstration projects.

One example of a successful state-level employment subsidy that is linked to a job referral system for hiring the unemployed is the **Minnesota Emergency Employment Development** (MEED) program. Passed in 1983 in response to the state's worst depression since the 1930s, MEED began as a two-year, $70 million program to create temporary jobs in government and nonprofit agencies, and permanent jobs in the private sector. MEED offered employers up to $4 per hour in wage subsidies and $1 per hour in benefits for 26 weeks to hire state residents who were unemployed and ineligible for unemployment insurance and workers' compensation. Over its existence, MEED enrolled about 42,000 people, with more than 64% filling private sector jobs. By the end of the program, the initial cost was partially offset by reductions in general assistance payments and increases in state tax revenues. MEED created over 18,000 permanent jobs (more than was projected) at a net cost per permanent job of around $3,100. According to an evaluation by Bartik,[10] 90% of participating employers said that the program rules were easy to understand, and more than 80% were satisfied with MEED workers.

## 4) Improving Dislocated Workers' Appreciation of and Access to Training and Education

The American workplace is undergoing profound changes that are requiring many more workers to acquire advanced skills to stay competitive in a global economy. A skilled workforce is key to maintaining the nation's productivity and economic competitiveness.[11] Moreover, it can raise worker incomes, augment their marketable skills, and improve the profitability and survival prospects of their employers.

Yet, employers often under-invest in training, especially for the non-college educated segment of their workforces. Understandably, employers often invest less than society needs (and the firm needs) because employees that are better trained and more productive are the most tempting targets for workforce "piracy."

Employees are also likely to invest "sub-optimally." Training is unattractive to workers because of low quality and inaccessible information on the types of specific training or education that pays off along with risk aversion. For the less affluent, cash flow challenges make training unattractive to workers.

### *Delivering Quality Incumbent Worker Training*

Training existing workers, primarily in on-the-job training, can improve profitability and prevent plant closings. **California's Employment Training Panel Program**, created in 1982, provided customized job training for dislocated or potentially dislocated workers. It was creatively funded by reducing the state portion of unemployment insurance (UI) taxes paid by employers by 0.1%, and enacting a new equivalent state Employment Training Tax of 0.1% on employers with positive reserves in their UI accounts. A trainee is required to complete the program and hold for 90 days a training-related job that meets certain wage and benefit standards.

*California funded worker training by reducing employment taxes by 0.1% and enacting a 0.1% employer training tax.*

In the first year after training, the program improved the trainee's employment stability, which saved the state $2 million and increased productivity by $48 million through higher trainee earnings and employment at other California firms. These positive impacts ended up saving $61 million in UI, averted $167 million in earnings losses to trainees, and prevented $167 million in losses to other California firms.

*Applying Effective Practice Models to Retraining Dislocated Workers*

The lessons and benefits of retraining dislocated workers are clear.

- Advance notice helps.
- Access to the plant and the workers before shutdown is needed.
- On-site service delivery works best.
- Joint management/employee involvement improves planning, participation, and implementation.
- Technical and financial support is needed.
- A strong communication network helps to keep workers informed and motivated.
- Workers need to be convinced that this is a final layoff and they will not be called back.
- Participation in transition programs can be high—100% for orientation on services and benefits, 70% for testing and assessment, and 30%-35% for education and training.
- The preferred ways for workers to get a new job are job search training, personal networks, the employer's respect and contacts, and a professional job developer hired to serve the workers.
- On-the-job training is more effective than classroom training.
- Workers tend to be reluctant to access remedial education/literacy programs; however, if combined with on-the-job training, it seems to happen and be effective.
- Earlier wages are not matched. In the best programs, however, those who have obtained assistance have better wages than those who did not.
- In some cases, 90% of workers felt services were helpful, effective, and well publicized, and even have positive views of their employer.[12]

*Annual earnings increased between $4,923 and $7,457 for Project Quest participants, most of whom were low-income.*

**Project Quest** in **San Antonio, Texas** originated in part from a major plant shutdown. Project Quest sought to help these workers and later, those in the workforce that fit the profile of a potential dislocated worker, but one who was still holding down a job and wanted to advance up a career ladder. Project Quest provides up to two years of training, requires a high school diploma, and screens its applicants. During their training, participants are linked to various support services they may require: child care, counseling, and even veterans' assistance programs. Many participants are supported during training by public income support, some live with family members, and some work. Financed by government, foundations, and corporate contributions, they place graduates in more than 50 employer partners. Jobs start at a minimum of $7.50 per hour. Continuing labor market research, combined with job pledges from corporate partners, assures that such jobs will be waiting for graduates.

Pre-program incomes are low; however, according to one MIT evaluation, annual earnings for participants increased between $4,923 and $7,457.

### 5) Extending and Supporting New Enterprise Development

Economic development is a process through which wealth is created, and wealth is generated by innovation. According to Vaughan, "entrepreneurs try to capture customers' spending with innovations in goods and services, methods of production, or markets. It is an endless discovery process" (p. 5).[13]

Entrepreneurs are made, not born. The extent to which they are made depends on the degree to which they are (a) perceived by society—and by themselves—as potential creators of wealth, and (b) receive the encouragement, educational investment, and access to capital to hone their entrepreneurial talents.

A full-blown state effort to nurture and support its entrepreneurial talent might set these goals:

- Bring entrepreneurial education programs to a large proportion of school districts within five years;
- Offer credit (and continuing education) courses in entrepreneurship in all of the state's four-year universities;
- Increase enrollment in entrepreneurship education classes in community colleges;
- Make training opportunities for fledgling entrepreneurs readily available;
- Ensure affordable, convenient, and effective sources of information and technical assistance to entrepreneurs across the state;
- Promote an entrepreneurship culture within the most economically disadvantaged parts of the state;
- Raise the profile of state entrepreneurs and the state's entrepreneurial climate (such as an annual award for entrepreneurial development);
- Ensure access to equity and debt capital in all parts of the state; and
- Make entrepreneurship a high-priority economic development strategy (e.g., creating a standing entrepreneurship commission, publishing an annual report on progress regarding the above goals, and acting as the advocate and guardian of the agenda).[14]

#### *Expanding Employee Ownership*

Employee ownership of business is one of the most rapidly growing phenomena in the U.S. economy,[15] and is one of the few direct ways that public policy can foster "good" jobs. Almost unknown a couple of decades ago, there are now approximately 11,400 employee stock ownership plans and stock bonus plans. This major and largely unheralded experiment in broadened ownership has succeeded in putting an estimated $650 billion in company assets into the hands of some 10 million white- and blue-collar workers, giving workers the added bonus of a second source of income beyond their wages.

*Employee ownership of business is one of the few direct ways that public policy can foster "good" jobs.*

Employee ownership can be an excellent method of avoiding the closing or liquidation of profitable or potentially profitable businesses, thereby preserving jobs. Employee ownership is also a way to enhance local control of economic development. Such firms are much less likely to relocate than an absentee-owner branch plant.

Fueled by federal legislation that granted several major tax benefits, 28 states have acted to provide assistance for employee ownership of business. The **Ohio Employee Ownership Center** is probably the premier nonprofit in this field. Located at Kent University, it is funded by grants from state government, private foundations, dues from member companies, income from training contracts, and donations. The Center conducts research, writes reports, and provides such services as preliminary technical assistance and pre-feasibility studies to companies and unions exploring this ownership option. The Center also provides standardized and customized training for employee-owned firms, succession planning, and educational forums for network members.

## Hope for the New Economy

More economic restructuring is coming our way (both the good and bad kind). Much of it is driven by international trade and other business agreements. We have to be aware and anticipatory. We have to be ready to take the offense or defense. Already legislatures in 14 states have created legislative, executive, or public commissions to examine and monitor international trade agreements for the state.

The fiscal challenges of the new economy may have a silver lining. Hard times are never welcome, but they do create opportunities for positive changes in governmental structures, revenue policies, service delivery methods, and spending priorities. Long, put-off changes often can rise to the top of the list of essential actions.[16]

*Hard times can create opportunities for positive change in government structure, revenue policies, service delivery, and spending priorities.*

One example is the response of **Washington State** to a massive budget shortfall of $2 billion in 2002. Initially, Governor Locke implemented fiscal "first aid" measures such as delaying program expansions and examining tax loopholes, credits, and deductions to see if any should be suspended or terminated. Then he began a "results-based" budgeting process that changed the definition of the problem from "cuts" (how best to trim 10% to 15%) to "keeps" (how best to spend the 85% or 90%). In this way, they were able to build a budget from the ground up, eliminating an entitlement mentality, and prioritizing programs that addressed state benchmarks.

## Conclusion

By virtue of their responsibilities in education, employment security, training, and economic development, states can play critical roles in easing America's economic transition. Some specific activities a state can undertake include:

- Understanding the big picture and taking preventive actions;
- Minimizing the free fall when job loss occurs;
- Improving dislocated workers' understanding of and access to reemployment;
- Improving dislocated workers' appreciation of and access to training and education; and
- Extending and supporting new enterprise development.

Don't forget that the most fundamental way to create jobs for the long haul is good government—investing in people, the physical infrastructure, and technology; running quality public services; having a modern, adequate, fair, but not excessive tax system; and delivering professional, predictable, low-hassle, time-sensitive regulation.

Finally, a more preventive strategy is needed, because changes in employment often accompany the inevitable changes in this new economy. The long-term answer ultimately lies in *agility*—agile people—both workers and entrepreneurs. This agility begins early in life through policies that support families. As aptly put by Folbre, ". . . if parents don't create and nurture children, schools can't educate them, employers can't hire them, and governments can't tax them" (p. 179).[17]

Getting there is largely a matter of investing adequately in citizens of the state via early childhood education, K-12 education, community colleges, and institutions of higher learning. Building a more customer-friendly and seamless system for lifelong learning should be the #1 economic development priority.

*A seamless system for lifelong learning beginning in early childhood should be the #1 economic development priority.*

In sum, as the economy continues to change, it is time to move even more assertively in the direction of acting to make positive changes, not just reacting to undesirable changes. Together, we can move proactively into a new economy for the 21st century.

*William Schweke is Vice President of Learning and Innovation at the Corporation for Enterprise Development (CFED) at Durham, North Carolina. Mr. Schweke has a master's degree from the University of Texas at Austin. He has over 30 years of experience and has written over 100 publications including books, monographs, reports, pamphlets, manuals, and articles. His expertise spans development finance, economic development report cards, entrepreneurship, environmentally compatible development, plant closings, small business initiatives, and rural and urban development. He has consulted with chambers of commerce, community-based organizations, corporations, European-based economic development organizations, foundations, private utilities, trade unions, and state governments including Illinois, Indiana, Massachusetts, Michigan, Minnesota, North Carolina, Oregon, Tennessee, Texas, and Washington. He is currently studying the potential impacts of global trade, and state approaches for addressing plant closings and mass layoffs.*

This chapter draws primarily from two references:

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