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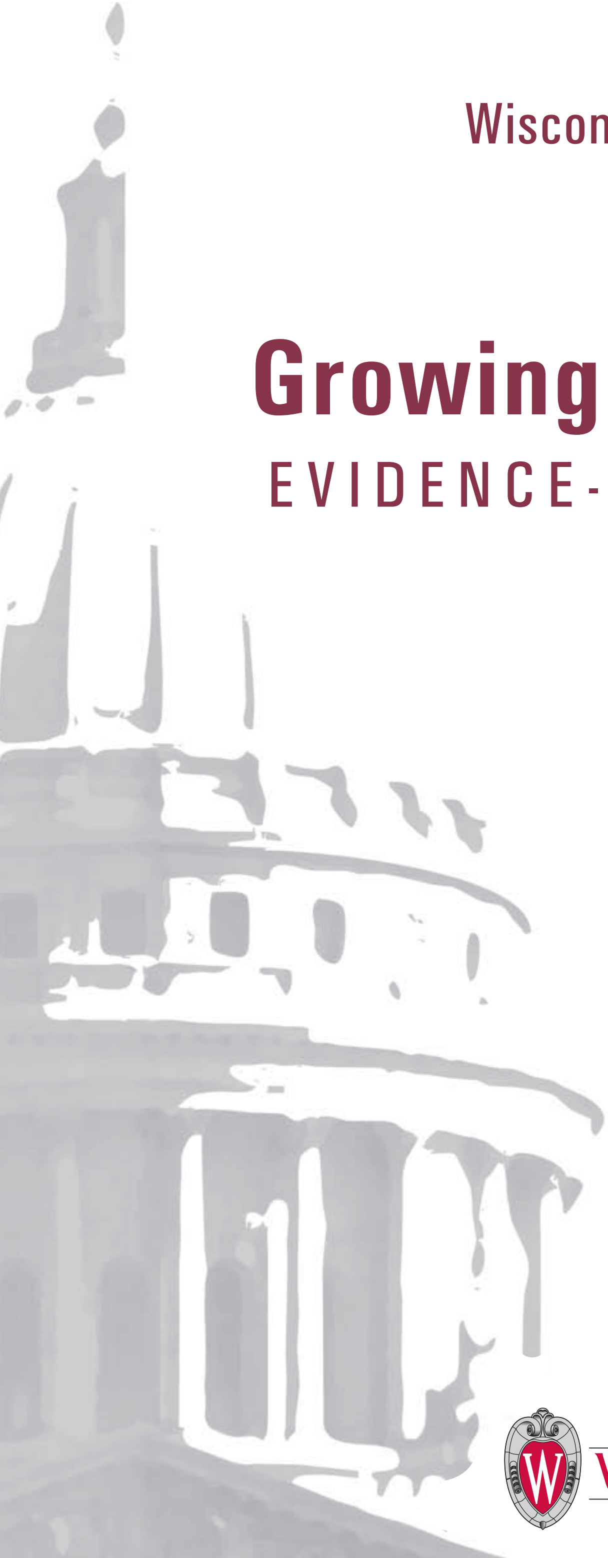
Wisconsin Family Impact Seminars



# Growing the State Economy

## EVIDENCE-BASED POLICY OPTIONS

THE UNIVERSITY of WISCONSIN MADISON

UW Extension

# Growing the State Economy: Evidence-Based Policy Options

*First Edition*

Wisconsin Family Impact Seminars

*A collaborative of the Center for Excellence in Family Studies in the UW-Madison School of Human Ecology and UW-Extension*

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## Purpose and Presenters

In 1993, Wisconsin became one of the first states to conduct Family Impact Seminars modeled after the seminar series for federal policymakers. The Wisconsin Family Impact Seminars provide objective, high-quality research on family issues to promote greater use of research in policy decisions and to encourage policymakers to examine the family impact of policies and programs. Family Impact Seminars highlight the consequences that an issue, policy, or program may have for families. Because of the success of the Wisconsin Family Impact Seminars, Wisconsin is now helping 29 states conduct their own Seminars through the Policy Institute for Family Impact Seminars at the University of Wisconsin-Madison/Extension.

The Family Impact Seminars are a series of presentations, discussion sessions, briefing reports, and newsletters that provide high-quality, solution-oriented research on family issues for state legislators and their aides, Governor's office staff, legislative service agency staff, and state agency representatives. The Seminars present objective, nonpartisan research and do not lobby for particular policies. Seminar participants discuss policy options and identify common ground where it exists.

"Growing the State Economy: Evidence-Based Policy Options" is the 27th Wisconsin Family Impact Seminar. For information on other Wisconsin Family Impact Seminars topics or on Seminars in other states, please visit our web site at http://www.familyimpactseminars.org.

The 27th Wisconsin Family Impact Seminar featured the following speakers:

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## Briefing Reports

Each Family Impact Seminar is accompanied by an in-depth briefing report that summarizes the latest research on a topic and identifies policy options state policymakers may want to consider. Since 1993, 27 Seminars have been conducted on topics such as corrections, early childhood education and care, Medicaid, prisoner reentry, and school funding. For a list of the seminar topics and dates, please visit the Wisconsin Family Impact Seminar web site at http://www.familyimpactseminars.org (enter a portal and click on State Seminars). Each Seminar has a page on which you can view the list of speakers, download a briefing report, and listen to the audio of the seminar presentations.

If you would like to purchase a bound copy of any report, please contact the UW Cooperative Extension Publications office at (877) 947-7827 or http://learningstore.uwex.edu. Legislators can request a free copy directly from the Wisconsin Family Impact Seminars at (608) 263-2353.

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FIS 17 Early Childhood Care and Education: What Are States Doing? .......... January 2002

FIS 16 Designing a State Prescription Drug Benefit: Strategies to Control Costs .......... March 2001

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# Executive Summary

The economy may be undergoing one of the most fundamental transformations in history. According to the Wisconsin Taxpayers Alliance, Wisconsin ranks low compared to other states in new business creations and venture capital per worker. Wisconsin has seen plants close, jobs lost, and per capita personal income steadily decline. In 2006, per capita personal income in the state was 5.9% below the U.S. average—the lowest level since the late 1980s. As the economy has changed, what is the role of state policy in responding to these changes? Are there evidence-based policy options that can strengthen the state economy?

According to William Schweke, Vice-President of the Corporation for Enterprise Development, state legislatures play a critical role in responding to the challenges of the new economy. States can target five major goals: (1) Policymakers need to understand the big picture. For example, Wisconsin policymakers should seek ways to stabilize and modernize the manufacturing sector, which since 1998 has lost 94,000 jobs in the state. (2) Policy can minimize the free fall when job loss occurs. Unemployment compensation (UI) is the first line of defense. States are experimenting with offering maximum extended benefits to jobless residents during economic downturns, providing partial benefits to employees who reduce their work time, and extending benefits to entrepreneurs launching a small business. (3) Policy can provide access to reemployment options. Labor subsidies have proven to be a more direct and cost-effective way to create jobs than capital subsidies. (4) Policy can offer access to training and education. For example, California funded worker training by cutting UI taxes by 0.1% and enacting a 0.1% employer training tax. (5) Policy can support new enterprise development. To date, 28 states provide assistance for employer ownership of business—one of the few direct ways that public policy can foster "good" jobs.

The most fundamental way to create jobs for the long haul is good government. 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. Governments can also take preventive action because 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.

In the second chapter, Timothy Bartik, Senior Economist at W.E. Upjohn Institute for Employment Research, discusses strategies for revitalizing the state economy. To raise Wisconsin's declining per capita earnings requires a dual focus on increasing the quantity and quality of labor demand and labor supply. To improve labor demand, entrepreneurship training has the most rigorous evidence of effectiveness. In addition, policies that provide reliable information are often cheap and effective. Incentives for large corporations work better if focused on up-front, in-kind supports. As an example, for each dollar spent, customized job training is 10 to 16 times more effective in creating jobs than tax incentives. Small and medium-sized businesses benefit from assistance with planning, marketing, technology, and government regulations like that provided by manufacturing extension services; for each dollar spent, business costs are reduced by over $3.

To improve labor supply, job training programs are most effective when they incorporate the needs of employers, particularly high-wage employers, and connect trainees with job vacancies. As an example of this approach, high-school Career Academies have boosted the long-run earnings of disadvantaged students. Programs that invest in the skills of young people pay off because an estimated 60% to 70% of people stay in the same state over their working careers.

To get the most "bang for the buck," effective policies focus on people and businesses already in the state, particularly those in more malleable stages of their own development. For example, new start-ups or companies facing significant competition are often more responsive to policy interventions. High-quality preschool provided early in life raises earnings later in adulthood. In the long run, the annual jobs impact of universal preschool on a state economy is projected to be over twice that of business subsidies.

In the final chapter, Fiscal Analyst Ron Shanovich and Program Supervisor Daryl Hinz of the Wisconsin Legislative Fiscal Bureau provide a brief summary of economic development programs that provide financial assistance to Wisconsin businesses through the Wisconsin Department of Commerce (Commerce). In FY 2008-09, $41.5 million was appropriated in annual base level funding for Commerce grant and loan programs. This chapter details a number of types of assistance that Commerce provides and overviews 12 specific financial assistance programs. A comprehensive and detailed review of all the Commerce economic development programs is available in Informational Paper #92 on the web site of the Wisconsin Legislative Fiscal Bureau.

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# 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.

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.

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

### *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.

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.

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

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# What Works in State Economic Development?

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*To raise per capita earnings requires a dual focus on labor demand and labor supply. To improve labor demand, entrepreneurship training has the most rigorous evidence of effectiveness. Incentives for large corporations work better if focused on up-front, in-kind supports. Small and medium-sized businesses benefit from assistance with planning, marketing, technology, and government regulations. To improve labor supply, job training programs like Career Academies are effective because they incorporate the needs of employers and connect trainees with job vacancies. To get the most "bang for the buck," effective policies focus on people and businesses already in the state, particularly those in more malleable stages of their own development. For example, new start-ups or companies facing significant competition are often more responsive to policy interventions. Universal preschool provided early in life has, in the long run, over twice the projected annual impact on jobs of business subsidies.*



The economy is the preeminent issue in 2009. This is true both at the federal and state level. At the state level, economic policy discussions are dominated by debate over what is called "economic development policy." Why is state economic development so important? How will we know if we are successful in our development efforts?

We could give many definitions of what we mean by "economic development." For example, state economic development has been defined as increases in the productivity with which all resources in the state are used.

But such discussion can be made more concrete by defining state economic development by its economic benefits. Economic growth or other changes in the Wisconsin economy can produce the following benefits:

- gains in earnings for the residents of Wisconsin, due to becoming employed or moving up to better jobs,
- gains in profit for businesses located in the state,
- gains in the value of Wisconsin land and real estate,
- gains to state and local governments in Wisconsin, in the form of increased tax revenue exceeding incremental public service costs, or
- gains to in-migrants to the state.

Evidence suggests that the most important gain is the increase in earnings of state residents. Studies suggest that such earnings gains are likely to be 70% of the total gains from successful state economic development policies.[1] Therefore, the primary purpose of state economic development policies is to increase the per capita earnings of the original state residents.

*The primary purpose of state economic development policies is to increase per capita earnings of original state residents.*

Why distinguish between different types of gains? Doesn't all economic growth create gains in all these areas? Perhaps. But not all types of economic development have equal effects on resident earnings. So if we focus on increasing per capita earnings, we may choose different policies than if we valued growth and development in and of itself. Maximizing the earnings gains of state residents, versus maximizing state economic growth, are related but distinct goals. The policies that maximize per capita earnings gains may be quite different from policies that maximize economic growth.

Since our main goal is increasing per capita earnings, economic development is best understood in terms of the labor market. We can enhance per capita earnings by increasing the quantity and quality of both labor demand and labor supply. Therefore, promising interventions for state economic development fall into two categories: interventions to increase (1) labor demand, and (2) labor supply.

First, what happens to labor demand has large impacts on employment rates and wage rates throughout a state. Labor demand is the quantity of labor needed and the quality of jobs that are offered.

*An estimated 60% to 70% of people stay in the same state over their working careers.*

Second, policies that increase the quantity and quality of the labor supply can grow the economy. Contrary to what is sometimes thought, if policy invests in developing the skills of young people, many of those young people will stick around to augment the supply of skills for the area. Among all persons, somewhere in the range of 60% to 70% stay in the same state over their working careers.[2]

Importantly, labor demand and supply interact with each other. An increase in labor supply will help to stimulate labor demand. Evidence suggests that an increase in labor supply probably stimulates labor demand by at least two-thirds of the supply increase.[3] This is because additional labor attracts employers, and additional higher-skilled labor attracts employers with more skilled jobs. In this chapter, I first discuss selected strategies for increasing labor demand followed by strategies for strengthening labor supply.

## Labor Demand Strategies

When states explicitly focus on growing their economies, they generally use labor demand policies: policies that increase the number or quality of jobs in a state. More available jobs in a labor market offer great potential for gains in per capita earnings. Stronger labor demand can also improve the distribution of income, meaning low-income groups gain proportionately more than upper-income groups.[4]

Explicit state labor demand policies generally take the form of "economic development programs." Economic development programs typically provide assistance to business that is, to some degree, customized or targeted to particular types of businesses or to business expansion or location decisions. This assistance to individual businesses may be some type of cash assistance, such as tax incentives. Or this assistance to individual businesses may take the form of customized services. The rationale for targeting business assistance is that such targeting may be more effective at inducing business expansions and increasing earnings for state residents.

The evidence regarding the effectiveness of a wide variety of "economic development programs" is reviewed here.

## Business Attraction and Incentives

A persistent goal of many economic development efforts is to attract large corporations that pay good wages and have sizable multiplier effects. By multiplier effects, I mean increases in business for local suppliers and additional personal income spent at local retailers. An estimated 15,000 American economic development organizations are pursuing those 1,500 major location or expansion decisions in a given year, a 10 to 1 ratio.[5]

Many business incentives can be offered to large corporations to entice them to locate or expand in an area. By business incentives, I mean assistance that to some degree is discretionary or customized to the individual situation of the business and its location or expansion decisions. An estimated two thirds of incentives are financial (e.g., grants, loans, loan guarantees, and tax incentives). Of these, most are tax incentives,[6] such as property tax abatements or job tax credits tied to the number of workers hired.

Business incentives are typically targeted at what regional economists call "export-base businesses." In this case, "export-base" does not necessarily refer to exports to foreign countries, but whether the business attracts dollars from outside the state. For example, an export-base business in Wisconsin would be one that sold its goods (or services) to households or businesses in Minnesota, Illinois, etc. Export-base businesses would include businesses that sell their goods or services to tourists from other states or foreign countries. Export-base businesses also include cases in which the business's growth is substituting for goods or services that otherwise would be imported from other states. In all these cases, an increase in the business activity brings new dollars into the state. These new dollars, in turn, are respent by these businesses on business suppliers in the state, and by these businesses' workers on retailers in the state. This respending creates multiplier effects that expand the employment impact beyond the business that is providing the incentives.

The conventional wisdom in regional economics is that providing financial incentives to businesses that are NOT export-base businesses is a bad strategy. This is a bad strategy because any expansion at assisted businesses is likely to reduce employment at similar local unassisted businesses. For example, providing financial assistance to help a local restaurant expand may help that individual business. But it does little to increase total local demand for restaurants. As a result, any expansion in the assisted restaurant's sales and employment is likely to come at the expense of reduced sales and employment in other local restaurants.

### *Effects of Financial Incentives*

Research suggests that financial incentives are likely to have modest although possibly important effects on business location decisions, but at a large cost per new job. A 10% reduction in state and local business taxes will increase the long-run business activity and employment in a state, or the number of new

***Financial incentives have modest although possibly important effects on business location decisions, but at a large cost per new job.***

plants choosing the state, by about 2% or 3%. While this job creation may provide significant economic benefits for state residents, this growth will not pay for itself. That is, the expansion of the tax base is insufficient to offset the loss of revenue from the business tax reduction. Thus, creating a new job in a state or metropolitan area requires foregoing about $7,000 annually in business tax revenue.[7, 8, 9, 10, 11, 12]

Are there ways to increase the cost-effectiveness of incentives? One idea is to offer more of the incentive up front. The average executive locating a new plant is seeking to go into production quickly and meet profit targets; thus, a property tax abatement 10 years from now is close to irrelevant. If incentives are offered more up front, it becomes important to consider what to do if the plant subsequently relocates or closes. One option is to combine incentives with legally binding "clawback" agreements, under which a portion of the up-front incentive will be recovered from the company if it relocates or closes the plant, or does not meet other "performance goals." Or incentives can be shifted towards training and infrastructure incentives, which will remain behind even if the company leaves the state.

### *Targeting Incentives*

Incentives can also be targeted on businesses likely to offer the greatest economic benefits, such as firms that pay higher wages, hire local workers who would otherwise not be employed, and are more likely to use local suppliers. In addition, incentives can be targeted on businesses offering the lowest environmental costs or greatest environmental benefits, such as cleaning up contaminated brownfield sites.

States can attempt to restrict incentives to firms for which the incentive will be decisive in tipping the location decision, although it is difficult to identify these situations. One way states have tried to do this is by requiring documentation from the firm. For example, the Michigan Economic Growth Authority tax credit program requires applicant firms to present financial data to the state showing that the credit is needed for a Michigan site to be superior to a non-Michigan site.[13] However, there are reasons to be skeptical that such requirements are effective. Because state economic development officials cannot read the minds of businesses making location decisions, it is difficult to tell whether the incentive is really needed to tip the location decision.

### *Training Incentives*

*Customized job training incentives are 10 to 16 times more effective in creating jobs than tax incentives.*

States have also provided incentives in the form of customized job training. Under such programs, new or expanding businesses are provided with free training, typically provided by community colleges, that is customized to the individual business's needs for worker skills. Customized job training incentives are 10 to 16 times more effective in jobs created per dollar of incentive than tax incentives.[14, 15] North Carolina is probably the leading state providing such customized training services.[16, 17]

Customized job training programs are sometimes tied to efforts to encourage new or expanding businesses to hire unemployed local residents. "First source" programs help screen and train the unemployed workers so that they are relatively productive hires. This can be done with aggressive screening and training, accompanied by consultation with the employer about what skills are needed.

Examples of effective "first-source" programs include the Berkeley First Source Program, and the former JobNet program in Portland, Oregon.[18, 19]

*The highest business attraction incentives could be offset by wages that are 79¢ per hour cheaper.*

Timothy Bartik

### *Additional Incentive Options*

Large corporations are frequently seeking to locate a plant and get it running as quickly as possible. Providing reliable information on sites, and helping overcome problems with permits and regulations, can help attract business prospects by allowing them to save time. Marketing to site consultants as well as business prospects is also important, because large corporations locating a new plant now use site consultants over 50% of the time.[20]

In sum, there are limits to the power of incentives. Small variations in wages from place to place can offset the largest incentives offered by governments. The highest incentives that are typically provided could be entirely offset by a competing area that had no incentives, but had labor that was 79¢ per hour cheaper in wages.

## Business Retention

A focus on business retention makes sense for at least two reasons. First, the decisions of existing state and local businesses about expansion, contraction, or closing can have huge effects on a state's economy. Many plant expansions and contractions are large. Almost three fifths of the jobs created in manufacturing by expansions are due to a business establishment that is increasing its employment by 25% or more.[21]

Second, local businesses often are tied to the state by the advantages of using the local labor force, local suppliers, and local institutions they have become familiar with. For this reason, an output increase by a state firm may have larger multiplier effects than the same increase from a similar newly attracted firm. The state benefits more from employing existing residents than from attracting new residents, who typically consume more in public services than they pay in state and local taxes.

### *Retention Strategies*

Business retention programs involve gathering information on the needs of local businesses, and then encouraging government actions to better meet those needs. Business visitation and surveying programs gather information from businesses using mail surveys, visits conducted by trained volunteers, visits conducted by permanent paid economic development staff, or some combination of all three.[22, 23] Few formal evaluations exist on business visitation programs, but anecdotal evidence suggests such programs can be effective in helping businesses deal with complex government regulations and programs.

More specialized business assistance can also be provided to smaller manufacturers through manufacturing extension programs (MEPs). These programs provide smaller manufacturers with information to improve their productivity through new technologies and better methods of workplace organization, business planning, and marketing. MEP staff can provide services, or play the role of an honest broker to private consulting services or faculty at local universities and community colleges.

Extension services are sometimes funded by state governments and, since 1989, have been funded by the Manufacturing Extension Partnership (MEP) of the National Institute for Standards and Technology (NIST). Also, extension services typically receive support from business user fees, which provide a “market test” of the usefulness of these services.

*Each dollar spent on manufacturing extension services reduces business costs by over $3.*

Evaluations suggest that manufacturing extension services are effective in improving business productivity. About 64% of MEP business clients reported that the assistance had led to productivity improvements,[24] averaging sales increases of $143,000 and cost savings of $50,000. Additionally, seven regional centers funded by the state of Pennsylvania increased the annual productivity growth of assisted firms by 3.6% to 5% compared to unassisted firms.[25] Research at a national level by Jarmin[26] has found that assisted firms, compared to unassisted firms, significantly increased their productivity. Finally, research in Michigan suggests that each dollar spent on manufacturing extension services reduces business costs by over $3.

## New Business Development (Entrepreneurship)

Will increases in small business start-ups expand the state economy? Small businesses disproportionately sell locally, but may still expand the economy if these sales replace “imports” from other states. The new small businesses may also expand the local economy by hiring persons who are hard to employ. Programs for new small businesses include entrepreneurship training, small business advice, business incubators, and capital market programs.

### *Entrepreneurship Training*

Entrepreneurial programs provide training in developing business, marketing, and financing plans. This training is often aimed at disadvantaged groups, such as the unemployed, women, and minorities. Research suggests that these programs increase business start-ups.[27] In fact, entrepreneurship training has more scientifically rigorous evidence of effectiveness than any other economic development policy, as these research findings are based on random assignment of potential entrepreneurs to a treatment group that was assisted, and a control group that received no assistance.

### *Small Business Advice*

Small business advice is most prominently provided by Small Business Development Centers (SBDCs). Over 1,000 centers and subcenters are financially supported by the federal Small Business Administration, with the other half of funding from state and local sources.[28] SBDCs provide counseling to small businesses on business development issues, as well as training in start-up and operation. Surveys suggest their advice is useful.[29]

### *Business Incubators*

Start-up businesses can also be assisted via business incubators, which provide cheap space, shared office support, and business development advice. In surveys, two thirds of firms say that the incubator assistance was important to their business success.[30] Questions remain about whether incubators actually improve the local economy, or whether they merely boost the success of some businesses at the expense of others.

### *Capital Market Programs*

Capital market programs can increase the supply of capital to new small businesses using several methods. Direct loans to small businesses from local revolving loan funds (RLFs), created with public subsidy, are the most prevalent and growing method. Many RLFs began with grants from federal agencies, such as the Economic Development Administration, but increasingly receive investments from state governments and banks. A recent and growing capital market program is Capital Access Programs. Under Capital Access Programs, the government subsidizes a "loan loss reserve" for banks lending to businesses with above-normal risk. Currently, 20 states and two cities run Capital Access Programs.[31]

One issue in capital market programs is whether increased activity by assisted businesses reduces the activity of other local businesses. Political pressures can also make management difficult. These pressures can lead governments to avoid all risk (who wants to take political heat for a loss?), which is inappropriate because non-risky loans can be made by the private sector. Also, programs can be pressured to finance businesses with political clout. These political problems can be reduced by setting up independent financial entities or subsidizing private sector financing.

Some, but not all, evaluations of capital market programs are positive. Small Business Association loan guarantees go to firms that grow faster than similar-looking firms that do not receive such guarantees.[32] Revolving loan funds (RLFs) have a default rate of 5% to 15%, which suggests that the industry serves firms unlikely to receive bank financing.[33] On the other hand, counties with higher growth of RLFs do have faster employment growth than counties with slower RLF growth. Yet the magnitude of these effects imply that less than 1 in 10 RLF loans encourage new business activity.[34] Capital Access Programs appear to encourage banks to make loans with moderate loss rates exceeding typical small business lending standards, which is the intent of the program.[35]

*Less than 1 in 10 loans from revolving loan funds encourage new business activity.*

## High Technology Development

High technology industry is usually defined as industries, both manufacturing and nonmanufacturing, that produce goods or services or use production processes that involve intensive use of new scientific and technical knowledge.[36] Future high tech employment growth is expected to be over 50% greater than average employment growth for all industries, and high tech production growth is expected to be over twice the all-industry average.[37] High tech industries also pay higher salaries than the all-industry average, although they also have higher educational requirements. Finally, many high tech firms have fewer environmental pollution issues than many non-high tech manufacturing firms.

What can economic development programs do if they wish to encourage high tech development? All the economic development strategies listed thus far can be used. Recruitment can be targeted at high tech industries, for example. Much extension service advice is technology related and useful to small high tech firms. Policies to foster new business growth can focus on high tech businesses; for example, 40% of business incubators have a high tech focus.[38]

*High tech industries depend on the quality of local universities, and a state's ability to attract workers with advanced skills.*

So what differentiates high tech development from general economic development? High tech growth depends more on having access to the knowledge produced in universities. High tech industries will be more sensitive to the quality of local universities, both as providers of knowledge and educators of very high-skilled workers. In addition, high tech growth depends more on being able to attract and keep personnel who have advanced skills. Thus, high tech industries may also be more sensitive to the quality of life, so that very high-skilled workers from elsewhere can be hired.[39] High tech industries also have some special infrastructure needs, such as broadband telecommunications. Finally, high tech goods or services frequently require a longer development time than non-high tech goods or services, so high tech development requires some ability to generate equity capital or other "patient capital."

State governments can develop research centers at local universities that move beyond conducting basic research to supporting technology transfer to local industries. Additionally, in rural areas, governments can try to aggregate the broadband demands of local users in order to attract broadband investment by telecommunication companies. The alternative of direct public investment in such infrastructure is expensive and risky, given rapidly changing telecommunications technology. Finally, local efforts to promote high tech industries should be accompanied by local training programs for entry level jobs in high tech industries and their suppliers.

Few evaluations have been conducted of high tech strategies. One exception is the evaluation of the Ben Franklin Technology Partners (BFTP), a system of regional centers in Pennsylvania. The BFTP's investments in start-up firms significantly increased their employment growth by five employees per year compared to similar firms without such investments.[40] One case study presents evidence that San Diego's high tech development efforts may have contributed to the city's success in adding over 40,000 high tech jobs in the 1990s.[41] In both cases, the high tech strategy was comprehensive, including university research, technology transfer, business advice to start-up companies, and efforts to increase venture capital availability. Comprehensive high tech strategies may be more effective than a single program or policy.

## Brownfield Development

Government can increase the effective supply of land for business development if it redevelops land that would otherwise be vacant. "Brownfields" are idle or underused industrial/commercial property sites with real or perceived environmental contamination problems.

Brownfields face both cleanup and legal barriers to redevelopment. Brownfield redevelopment efforts, to be successful, require action both to clean up the site and provide some limits on future cleanup liability for new landowners.

The redevelopment of brownfield sites requires federal or state involvement given the cleanup costs and the requirements of environmental law. State government can provide financial support for cleanup and redevelopment, and set appropriate cleanup standards that balance protection of public health against keeping costs reasonable.

## Labor Supply Strategies

Surveys suggest that availability of skilled labor is a key barrier to local economic development.[42] Economic development can be promoted by increasing the quantity or quality of the labor supply; an improved labor supply, in turn, can help attract additional and better employment.

### Role of Community Colleges

Community colleges can play an increasing role in trying to meet local labor market needs for worker skills. Research suggests that job training is more effective if it is oriented toward the needs of employers.[43] Thus, training must focus on jobs that are in demand by involving employers to ensure the training is relevant and up-to-date, and by working actively with employers to place successful training graduates.



*Job training is more effective if it is oriented towards the needs of employers.*

### Work Supports

Evidence suggests that workers with more disadvantages may need some considerable period of work support. This can be provided by on-the-job training or by supportive public employment such as Milwaukee's New Hope Project of the late 1990s. Private employment can be similarly subsidized to help disadvantaged workers juggle work and home lives, which are often troubled. Evidence suggests such programs can be successful.[44, 45]

### Early Childhood Education

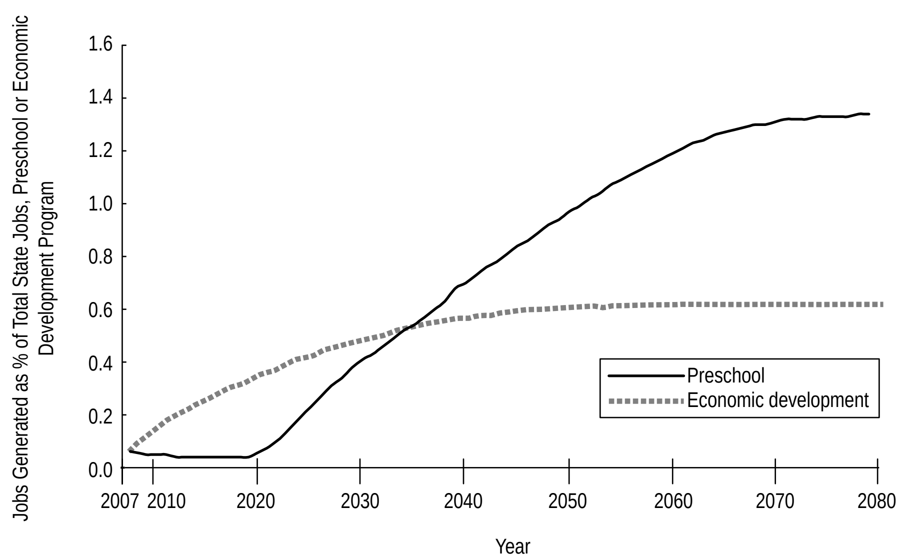
High quality preschool has been shown by rigorous research studies to significantly raise the adult earnings of former preschool participants. These economic development benefits occur because high-quality preschool increases both the soft and hard skills of preschool participants; also, preschool enhances participants' ability to benefit from later education, thereby increasing their future employability and productivity in the labor market. This is important for states because preschool participants quite often remain in the state they grew up in. In fact, over three fifths remain in the typical state, so early childhood education programs can significantly improve the quantity and quality of labor in a state's economy. A high quality labor supply stimulates business to create new jobs and expand output.

My own research has shown that a variety of childhood programs can increase the present value of local earnings by two to three times the cost of the program.[46] Exemplary programs include the Perry Preschool program, the Chicago Child-Parent Center Program for preschoolers and early elementary school students, the Abecedarian full-time child care and preschool program from birth to age 5, and the Nurse Family Partnership program, that provides nurse home visits to needy first-time mothers from the prenatal period to age 2.

*In the long run, the annual jobs impact of universal preschool is over twice that of business subsidies.*

The effectiveness of these programs is roughly comparable to the cost effectiveness of tax incentives to large corporations in increasing local economic development. In fact, in the long run after former preschoolers have pervaded the entire age distribution of workers, the projected annual jobs impact of universal preschool on a state economy is over twice that of business subsidies (see Figure 1). Even using the most rigorous studies and the most cautious and conservative estimates which considerably scale back participant effects, universal preschool still yields large benefits for state economies and the national economy as well. In about 70 years, universal preschool would add over 3 million jobs to the U.S. economy, almost $300 billion in annual earnings, over $200 billion in annual government tax revenues, and almost $1 trillion in increased annual value of the Gross Domestic Product.

Figure 1. Jobs Generated for State Residents by Permanent Universal Preschool Program, Compared to Jobs Generated by Economic Development Subsidy Program of Same Cost




Source: Bartik (2006).
*Note:* The jobs generated for the preschool program show effects due to all avenues of influence of preschool programs on job generation, of which the largest is effects on participants and peers, but also including the balanced budget multiplier and labor supply effects on parents. The jobs generated as % of baseline employment compares jobs generated to total state baseline employment, which is assumed to grow at 0.3% per year. Both programs are assumed to start in 2007.

## K-12 Education

Within the K-12 system, there is less consensus on how student achievement can most effectively be increased. More time devoted to student learning, either through a longer school year or more in-school time for core subjects such as reading for students who are behind, seems to be one cost-effective way of increasing results.[47, 48]

At the high school level, student achievement that is relevant to the labor market can be boosted by Career Academies, which integrate academic studies around themes related to particular business sectors, and build up student and teacher awareness of and links to careers. In rigorous experiments, Career Academies can boost long-run earnings of disadvantaged students, without harming their educational attainment.[49]

Finally, there are some promising experiments that use internships to link local college students with local employers. Anecdotal reports suggest that such programs may help encourage more college-educated students to remain in the area after graduating, and also help local employers find skilled new workers.[50]

For both early childhood education and K-12 education, economic development benefits may be quite long-term. For example, improving the quality of early childhood or early elementary education does not improve the quality of the local labor supply until these children grow up and enter the labor market. However, some evidence indicates economic effects even in the short-term, due to parents recognizing the advantages of higher school quality. For example, there is evidence that higher elementary test scores are capitalized into higher property values. Parents are willing to pay more for housing that gives access to higher-quality schools.



## How do we Deliver Policies and Programs that Provide "Bang for the Buck?"

For any of these policies to be cost effective, they require high-quality implementation. High quality means that these programs have to be implemented with integrity to leverage large effects relative to their costs. Policies with high "bang for the buck" tend to share some common principles.

- Effective policies often focus on businesses and people already in the state, and encourage these businesses and people to stay and improve the quantity and quality of their economic activity. Existing businesses and households in an area are easier to persuade to expand their economic activity in the state.
- Effective policies often target businesses and households at some particular stage of their life cycle where development and decisions are more amenable to interventions. For example, human capital policy that focuses on early childhood education is particularly effective, because young children's skills are more malleable. On the business side, new start-ups or companies facing significant competitive challenges are often more responsive to policy interventions.
- Policies are often more effective if they directly link labor demanders seeking to expand jobs with labor suppliers seeking to expand the quantity and quality of workers.
- Policies that provide reliable information are often cheap and effective. Among the more effective economic development policies are programs that provide existing businesses with information about government

*Policies that provide reliable information are often cheap and effective.*

regulation and taxes, and programs that provide businesses with information about state-of-the-art ways to improve productivity.

- Any economic development policy that provides detailed services to businesses or households will require tweaking. This tweaking should be based on informed monitoring and evaluation that provides useful feedback to policymakers.

Even if we are imitating a program that has some good evidence of success in some settings, there still is the issue of whether the program can be replicated in a high-quality way and if it will be equally effective in a different economic context. Therefore, any strategy for revitalizing state economies should include provisions for regularly providing some feedback and evidence on effectiveness.

## Summary

In conclusion, there are many ideas for revitalizing state economies. To improve the per capita earnings of the residents of the state, we need to pursue two complementary goals: 1) increasing the quantity and quality of overall labor demand in the state, and 2) increasing the quantity and quality of the labor supply of state residents. What policies will most effectively achieve these two goals?

*Entrepreneurship training has the most rigorous evidence for effectiveness of any economic development strategy.*

To improve labor demand, entrepreneurship training has the most rigorous evidence for effectiveness of any economic development strategy. In addition, information is cheaper to provide than financial incentives. Incentives for large corporations may be most effective if they focus on up-front, in-kind incentives that provide customized job training and infrastructure support. This assistance can be linked to efforts to encourage these businesses to hire more disadvantaged workers, and to use abandoned or underused land. Small and medium-sized businesses can be provided with information and expertise in a variety of areas: business planning, marketing, technology, and help in dealing with government regulations and programs. Government can use its resources in universities, community colleges, and regulatory agencies, as a reliable source for some types of information.

To improve labor supply, educational interventions work best when they focus on skills relevant to the labor market and at times where they can make the most difference. Early and high-quality interventions work. In fact, high-quality preschool programs are twice as effective over the long run as providing business incentives to large corporations. Later labor supply interventions, in the high school and adult years, require workforce development programs to incorporate the needs of higher-wage employers and connect program graduates with job vacancies. This philosophy is reflected in high school Career Academies, high-quality community college programs, customized job training programs, and supported work and other employment experience interventions for the disadvantaged.

Policymakers can work with researchers to develop useful methods to track policy and program accountability. If done right, economic development strategies can benefit businesses and families in the state.

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This chapter draws primarily from three earlier publications:

Bartik, T. J. (2004). Economic development. In J. R. Aronson & E. Schwartz (Eds.), *Management policies in local government finance* (5th ed., pp.355-390). Washington, DC: International City/County Management Association.

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# Commerce Economic Development Programs for Wisconsin Businesses

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*This chapter provides a brief summary of economic development programs that provide financial assistance to Wisconsin businesses through the Wisconsin Department of Commerce (Commerce). In FY 2008-09, $41.5 million was appropriated in annual base level funding for Commerce grant and loan programs. This chapter details a number of types of assistance that Commerce provides and overviews 12 specific financial assistance programs. A comprehensive and detailed review of all the Commerce economic development programs is available in Informational Paper #92 on the web site of the Wisconsin Legislative Fiscal Bureau.*

Following is a brief summary of economic development programs providing financial assistance to Wisconsin businesses through the Department of Commerce (Commerce). A much more detailed description of these programs can be found in the January, 2009 Wisconsin Legislative Fiscal Bureau informational paper #92 entitled "State Economic Development Programs Administered by the Department of Commerce." The following table shows the $41.5 million in annual base level (state fiscal year 2008-09) appropriations for Commerce grant and loan programs.

Table 1. Commerce Economic Development

| Grant and Loan Programs | Total Annual Base Level (2008-09) Funding |
|---|---|
| Wisconsin Energy Independence Fund | $15,000,000 |
| Wisconsin Development Fund | 11,148,400 |
| Brownfield Grants | 7,000,000 |
| Gaming Economic Diversification Grants and Loans | 2,538,700 |
| Diesel Truck Idling Grants | 2,000,000 |
| Manufacturing Extension Center Grants | 1,200,000 |
| Rural Economic Development Program | 726,600 |
| Community-Based Economic Development Program | 712,100 |
| Minority Business Development Program | 571,400 |
| Forward Wisconsin | 320,000 |
| High-Technology Business Corporation Grant | 250,000 |
| Total | $41,467,200 |

The Department of Commerce administers a wide variety of separate economic development programs that provide financial assistance. However, the type of assistance provided can be categorized into a number of general areas: (a) entrepreneurial development; (b) capital financing; (c) technology development; (d) employee training; (e) trade shows; and (f) targeted businesses.

## Entrepreneurial Development

Commerce provides early planning grants and entrepreneurial training grants to assist entrepreneurs and small businesses in developing business plans. A match of at least 25% of costs is required. The grants are provided through the Wisconsin Entrepreneurs' Network (WEN).

## Capital Financing

Commerce provides three general sources for capital financing: (a) direct lending; (b) tax credits; and (c) industrial revenue bonds. Direct lending is provided through the Department's grant and loan programs, such as the Wisconsin Development Fund (WDF). Eligible businesses receive tax credits through programs such as development zones. Capital financing is also provided through industrial revenue bonds (IRB). Under the IRB program, Commerce grants bonding authority (total of $233.1 million for 2008), called volume cap allocation to cities, villages, and towns to issue tax-exempt bonds that are used to finance business facilities.

## Technology Development

Commerce provides financial assistance to technology-based businesses, entrepreneurs, and consortia for research, product development, process development, or commercialization through the following programs: (a) the technology commercialization grant and loan, and tax credit programs; (b) the technology development fund (TDF) and technology development loan (TDL) program funded through the Wisconsin Development Fund; and (c) the technology zones program.

## Employee Training

Commerce provides financial assistance for employee training through two programs: (a) customized labor training (CLT); and (b) business employees' skills training (BEST). The programs fund labor training programs that provide employees with new, advanced, or upgraded job skills. Grants finance between 50% (CLT) and 75% (BEST) of project costs with a maximum of $1,000 (BEST) or $2,500 (CLT) per employee trained.

## Trade Shows

The Wisconsin trade project program provides financial assistance to encourage small- to medium-sized businesses to become exporters and help existing exporters seek out new markets by attending international trade shows. Eligible businesses can be reimbursed up to $5,000 for eligible expenses related to participation in a trade show or "matchmaker" trade delegation event.

## Targeted Businesses

Commerce provides financial assistance to targeted industries, such as the dairy industry, and to targeted businesses, such as women- or minority-owned businesses, through many of the Department's business development programs.

## Financial Assistance Programs

### Wisconsin Energy Independence Fund—Renewable Energy Grants and Loans

The program provides financial assistance to support research and development, manufacture and production of new clean-energy products, and ways to make clean energy use widespread and cost-effective. Grants and loans are used to fund research and development projects, commercialization/adoption projects, and supply chain development projects. Matching funds of at least 50% of total project costs are required, and must come from a source other than the state. Renewable energy grants and loans are funded with segregated (SEG) recycling fund revenues through a biennial appropriation. Annual funding of $15.0 million is provided beginning in 2008-09.

### Wisconsin Development Fund (WDF)

WDF awards are made using general grant and loan criteria, or through the Wisconsin trade project, and the technology commercialization grant and loan program. Commerce is authorized to make grants or loans for eligible activities. Activities eligible for awards include: (a) capital financing; (b) worker training; (c) entrepreneurial development; (d) providing assistance to technology-based business or to businesses at a foreign trade show or event; (e) promoting urban or regional economic development; (f) establishing revolving loan funds; (g) providing working capital; and (h) promoting employee ownership by conducting or implementing feasibility studies to investigate the reorganization or new incorporation of existing businesses as employee-owned businesses. The Wisconsin trade project program provides grants to small- to medium-sized businesses to attend international trade shows. The technology commercialization grant and loan program provides funding for various stages of business venture development and for an entrepreneurial and technology transfer center. WDF grants and loans can provide up to 75% of project costs, depending on the program. The WDF is funded through a general purpose revenue (GPR) and a program revenue (PR) repayments appropriation. Annual base level funding for the WDF is $7,098,400 GPR and $4,050,000 PR.

### Brownfield Grants

The program provides financial assistance to individuals, trustees, municipalities, businesses, and nonprofit organizations that conduct brownfield redevelopment and related environmental remediation projects. Funding is provided from the environmental management account of the segregated environmental fund. Awards can fund as much as 50% to 80% of project costs, depending on the size of the award. Base level funding is $7.0 million environmental fund SEG in 2008-09.

### Gaming Economic Diversification Grants and Loans

The program provides financial assistance to businesses that are located in areas affected by American Indian gaming operations. The program provides: (a) early planning grants; and (b) economic diversification grants and loans to fund business projects that help diversify a local economy, so that it is less dependent upon revenue derived from gaming operations. Annual base level funding is $2,538,700 PR, provided from tribal gaming revenues received by the state under state-tribal gaming compacts.

### Diesel Truck Idling Grants

The program provides financial assistance to common, contract, and private carriers for up to 50% of the cost to purchase and install idling reduction equipment on 1999 or newer diesel tractor engines. It is intended to help Wisconsin motor carriers reduce air pollution emissions and fuel consumption. A one-time increase to $2,000,000 (petroleum inspection fund SEG) was provided for grants in 2008-09, with annual funding provided for grants scheduled to revert to $1,000,000 beginning in 2009-10. In 2007-08, Commerce awarded 135 grants. The program is scheduled to sunset in June, 2011.

### Manufacturing Extension Center Grants

The manufacturing extension center grant program provides annual grants of $1.2 million GPR to the Wisconsin Manufacturing Extension Partnership (WMEP) and Northwest Wisconsin Manufacturing Outreach Center (NWMOC). WMEP and NWMOC provide technical assistance to small- and medium-sized businesses. Personnel work directly with manufacturers to address their needs in areas such as production techniques, technology applications, business practices, and specialized training. WMEP is part of a nationwide system of manufacturing extension partnerships that receive federal funding from the National Institute of Standards and Technology (NIST).

### Rural Economic Development (RED)

The RED program provides grants for professional services, entrepreneurial training, and for dairy farm and other agricultural business start-ups, modernizations, and expansions. The program also provides grants and loans for working capital and fixed asset financing in starting or expanding a business, and to pay certain employee relocation and retraining costs. RED is funded from a GPR and a PR loan repayments appropriation. The program is targeted toward agricultural and small business operations in rural communities. Grants and loans generally may not exceed 75% of project costs. Base level funding of $606,500 GPR and $120,100 PR (repayments) is provided.

### Community Based Economic Development (CBED)

The CBED program provides: (a) grants to community-based organizations for local economic development projects and management assistance; (b) grants to business incubators for assistance and operations; (c) economic diversification planning grants to political subdivisions; (d) economic development grants for regional economic development projects; (e) entrepreneurship training grants for disadvantaged and at-risk children; and (f) venture capital development conference grants. Grants may fund up to 75% of project costs, depending on the type of award. Base level funding of $712,100 GPR annually is provided.

## Minority Business Development (MBD) Program

The MBD program provides the following types of financial assistance to minority group members or minority businesses: (a) early planning and entrepreneurial training grants; (b) business development grants and loans to provide financial assistance to minority group members or minority businesses to fund development projects involving the start-up, expansion, or acquisition of minority businesses, or the promotion of economic development and employment opportunities; (c) grants and loans to local development corporations for development projects and local revolving loan fund programs; (d) minority business finance grants and loans to nonprofit organizations or private financial institutions for micro-loans for minority group members and minority-owned businesses; and (e) education and training grants to a nonprofit organization that is a minority business to fund an education and training project. MBD grants and loans can fund up to 75% of project costs, depending on the type of award. Funding is provided through a GPR and PR repayments appropriation.  Base level funding of $254,200 GPR and $317,200 PR is provided the MBD.

## Forward Wisconsin

Forward Wisconsin is a nonprofit organization that markets Wisconsin to out-of-state companies to attract new business, jobs, and increased economic activity to the state. The organization currently has two full-time positions, offices in Madison and Milwaukee, and an annual budget of about $640,000. The state provides annual funding of $320,000 GPR to Forward Wisconsin. State funds may be released to match an equal amount of private contributions. State funds may be used by Forward Wisconsin for advertising, marketing, and promotional activities within the United States related to the economic development of Wisconsin, and for salary, travel, and other expenses directly incurred by the organization in its economic development activities.

## High-Technology Business Development Corporation Grant

The high-technology business development corporation grant program provides an annual grant of $250,000 GPR to the Wisconsin Technology Council. The Council promotes the development of high-technology businesses in the state. A match equal to 50% of the state grant is required.

## Tax Credit Programs

In addition to grant and loan programs, Commerce administers various aspects of certain tax credit programs.  Numerous programs provide tax credits to businesses for various types of economic activity in the state.  Programs include: (1)

development zones; (2) enterprise development zones; (3) development opportunity zones; (4) technology zones; (5) agricultural development zones; (6) airport development zones; (7) enterprise zones; (8) early stage business investment programs; (9) manufacturing investment tax credits; (10) film production tax credits; (11) internet equipment tax credits; (12) dairy manufacturing facility investment tax credits; and (13) electronic medical records tax credits.

As an example, the maximum amount of credits that can be claimed under the development zones program is $38.2 million. Commerce has designated all of the 22 authorized development zones and allocated $34.3 million of the available tax credits. Up to 98 enterprise development zones (EDZ) may be designated, with up to $3 million in tax credits allocated to each zone (maximum $294 million). As of January, 2009 a total of $206 million in EDZ credits had been allocated. A description of the tax credit programs can be found in the January, 2009 Wisconsin Legislative Fiscal Bureau informational paper #92 entitled "State Economic Development Programs Administered by the Department of Commerce."

# Glossary

### Alternative Trade Adjustment Assistance Program
A federal wage subsidy program targeting dislocated workers 50 years of age or older who suffer significant wage losses in their new jobs. Some workers in qualifying firms who find reemployment may choose, in lieu of other Trade Adjustment Assistance benefits (TAA), to receive a portion of the difference between their new and old salary.[1]

### Brownfield Development
Cleanup and redevelopment of idle or underused industrial/commercial property sites with real or perceived environmental contamination problems. This redevelopment can increase the supply of available land for business location and expansion.

### Business Incubator
An organization providing assistance to start-up businesses, including cheap office space, shared office support, and business development advice.

### Capital Access Program
A government strategy encouraging loans to small businesses. Government funds subsidize a "loan loss reserve," which can bail out banks lending to businesses with above normal risk.

### Capital Market Program
Government strategies to increase the supply of capital to new small businesses. Common types of capital market programs are revolving loan funds and Capital Access Programs.

### Career Academies
An approach to restructuring secondary education that integrates academic studies around themes related to particular careers and builds up student and teacher awareness of and links to careers.

### COBRA (Consolidated Omnibus Budget Reconciliation Act)
The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986 gives workers who lose their jobs or health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances. Qualified individuals may be required to pay the entire premium for coverage, up to 102% of the cost to the plan.[2]

### Dislocated Worker
A worker who has lost his/her job as a result of facility shutdown or layoff.

### Displaced Worker
Another term for a dislocated worker.

### Earned Income Tax Credit (EITC)

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low- to moderate-income working individuals and families. Congress originally approved the tax credit legislation in 1975 to offset the burden of Social Security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. Some states also have EITCs; these may be refundable (difference returned to the taxpayer when the credit exceeds the family's tax liability) or non-refundable.[3]

### Economic Dislocation

A process of change within a local or regional economy; a change, which by virtue of its size, speed, or particular character, exceeds the capacity of the area economy to return to sustained growth.[4]

### Employee Ownership of Business

Employee ownership occurs when a corporation is owned, in whole or in part, by its employees. Employees are usually given a share of the corporation after a certain length of employment or they can buy shares at any time. A corporation owned entirely by its employees (such as a worker cooperative) will not, therefore, have its shares sold on public stock markets, often opting instead for mixed ownership arrangements involving a trust. Employee-owned corporations often adopt profit sharing where the profits of the corporation are shared with the employees. They also often have boards of directors elected directly by the employees. Some corporations make formal arrangements for employee participation, called Employee Stock Ownership Plans.[5]

### Entrepreneurship

Entrepreneurship is the practice of starting new businesses, or in a larger sense, using innovation to generate wealth. Entrepreneurs try to "capture customers' spending with innovations in goods and services, in methods of production, or in markets" (Vaughan, 1985).[6]

### Entrepreneur

A person who is an innovator and creates value by offering a product or service. An entrepreneur has possession of an enterprise or venture, and assumes significant accountability for the inherent risks and outcome.[7]

### Export-Base Business

Any business that attracts business from outside the state. This includes any business that sells its goods to households or businesses outside the state, or sells its goods to tourists from other states or countries, or any business whose growth is substituting for goods or services that would otherwise be imported from other states.

### First-Source Hiring Agreement

An agreement entered into by some private companies when they receive public monies. The companies are encouraged or required 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.

### High Technology Industry
An industry, either manufacturing or nonmanufacturing, that produces goods or services or uses production processes that involve intensive use of new scientific and technical knowledge.

### Incumbent Worker
A worker who is currently employed by an employer.

### Manufacturing Extension Program (MEP)
A program providing smaller manufacturers with information to improve their productivity through new technologies and better methods of workplace organization, business planning, and marketing. Extension services are sometimes funded by state governments and, since 1989, are funded by the Manufacturing Extension Partnership of the National Institute for Standards and Technology (NIST).

### Microenterprise
A small business with fewer than 5 employees and less than $250,000 in revenue.[8]

### Multiplier Effects
The positive impact of a new company in a community that extends beyond the company itself, including increases in business for local suppliers and additional personal income spent at local retailers.

### New Economy
The new economic era ushered in by more high technology industry, a shift from a manufacturing to service economy, increased globalization, and a need for new skills to fit new high-performance workplaces. These changes bring great innovation, but also result in plant closings, mass layoffs, and economic dislocation.

### Refundable Tax Credit
A tax credit that, when it exceeds a family's total income tax liability, results in a refund of the difference to the filer.

### Revolving Loan Fund (RLF)
A source of money created with public subsidy that provides direct loans to small businesses. A loan is made to one person or business at a time and, as repayments are made, funds become available for new loans to other businesses. Hence, the money revolves from one person or business to another.[9]

### Small Business Development Centers (SBDCs)
These centers, supported by the federal Small Business Administration and

by state and local sources, provide counseling to small businesses on business development issues, as well as training in start-up and operation.

### Soft Skills

Nontechnical skills, abilities, and traits required to function in a specific employment environment: delivering information or services to customers and co-workers; working effectively as a member of a team; learning or acquiring the skills necessary to perform a task; inspiring the confidence of supervisors and management; and understanding and adapting to the cultural norms of the workplace.[10]

### Trade Adjustment Assistance (TAA)

A federal program originally established under the Trade Act of 1974, as amended. The TAA Program provides aid to workers who lose their jobs or whose hours of work and wages are reduced as a result of increased imports. These workers may apply for TAA, which offers a variety of benefits and reemployment services to assist unemployed workers as they prepare for and obtain suitable employment. Workers may be eligible for training, job search and relocation allowances, income support, and other reemployment services.[11]

### Worksharing

Also called "short-time compensation," worksharing is an arrangement under which employees reduce their work time and receive partial unemployment insurance benefits for the hours that they do not work. Shared work seeks to maintain the workforce and yet contain costs.

## References


[1]U.S. Department of Labor. (2004, October 13). *Alternative Trade Adjustment Assistance Program: Training and Employment Letter Interpreting Federal Law*. Retrieved January 26, 2009 from http://www.dol.gov/federalregister/GetHtml.aspx?DocID=10017

[2]U.S. Department of Labor. *Continuation of Health Coverage—COBRA*. Retrieved January 26, 2009 from http://www.dol.gov/dol/topic/health-plans/cobra.htm#doltopics

[3]Internal Revenue Service. *It's easier than ever to find out if you qualify for EITC.* Retrieved January 26, 2009 from http://www.irs.gov/individuals/article/0,,id=96406,00.html

[4]Schweke, W. (2004). *Promising practices to assist dislocated workers.* Working paper for the North Carolina Rural Economic Development Center's annual summit. Retrieved January 14, 2009 from http://www.cfed.org/imageManager/blog/PromisingPractices1.pdf

[5]Employee Ownership. (2009, January 14). In Wikipedia, the free encyclopedia. Retrieved February 2, 2008, from http://en.wikipedia.org/wiki/Employee_ownership

[6]Vaughan, R. (1985). *The wealth of states.* Washington, DC: Council of Planning Agencies.

[7]Entrepreneur. (2009, February 1). In Wikipedia, the free encyclopedia. Retrieved February 2, 2009, from http://en.wikipedia.org/wiki/Entrepreneur

[8]Corporation for Enterprise Development. (2009). *Glossary.* Retrieved January 28, 2009 from http://www.cfed.org/focus.m?parentid=2&siteid=374&id=687

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[10]Eberts, R., O'Leary, C., & Wandner, S. (Eds.). (2002). *Targeting employment services.* Kalamazoo, MI: Upjohn Institute for Employment Research.

[11]U.S. Department of Labor. *Trade Adjustment Assistance*. Retrieved January 26, 2009 from http://www.doleta.gov/programs/factsht/taa.htm

# Selected Resources on State Economic Development

by Olivia Little
Graduate Student, Human Development & Family Studies
University of Wisconsin-Madison

For the following resources, we list the organization, a primary contact person (if available), and selected relevant reports from the organization.

## Wisconsin Legislative Service Agencies

**Wisconsin Legislative Audit Bureau**
22 East Mifflin Street, Suite 500
Madison, WI 53703
(608) 266-2818
leg.audit.info@legis.wisconsin.gov
http://www.legis.wisconsin.gov/lab/

*A Review: State Economic Development Programs* (Report 06-9, August 2006). Available at http://www.legis.state.wi.us/lab/reports/06-9full.pdf

*An Audit: Unemployment Reserve Fund* (Report 07-1, February 2007). Available at http://www.legis.state.wi.us/lab/reports/07-1Full.pdf

**Wisconsin Legislative Council**
1 East Main Street, Suite 401
PO Box 2536
Madison, WI 53701
(608) 266-1304
http://www.legis.wisconsin.gov/lc/

**Contact:** Jessica L. Karls, Staff Attorney
(608) 266-2230
jessica.karls@legis.wisconsin.gov
*Interests:* Labor and employment

*Chapter C: Economic Development and Employment* (Chapter from Wisconsin Legislator Briefing Book 2009-10, November 2008). Available at http://www.legis.wisconsin.gov/lc/publications/briefingbook/08chC_economic.pdf

**Wisconsin Legislative Fiscal Bureau**
1 East Main Street, Suite 301
Madison, WI 53703
(608) 266-3847
Fiscal.Bureau@legis.wisconsin.gov
http://www.legis.wisconsin.gov/lfb/index.html

*Corporate Income/Franchise Tax* (Informational Paper 5, January 2009). Available at http://www.legis.state.wi.us/lfb/Informationalpapers/5_corporate%20income%20franchise%20tax.pdf

*Earned Income Tax Credit* (Informational Paper 3, January 2009). Available at http://www.legis.wisconsin.gov/lfb/Informationalpapers/3_eitc.pdf

*State Economic Development Programs Administered by the Department of Commerce* (Informational Paper 92, January 2009). Available at http://www.legis.wisconsin.gov/lfb/Informationalpapers/92_state%20economic%20development%20programs%20administered%20by%20the%20department%20of%20commerce.pdf

## State Agencies

**Wisconsin Department of Commerce**
201 West Washington Avenue
PO Box 7970
Madison, WI 53707
Phone: (608) 266-1018
http://www.commerce.state.wi.us/

**Contact:** Aaron Olver, Deputy Secretary
(608) 266-8976
aaron.olver@wisconsin.gov
*Interests:* Economic development strategy, business finance, manufacturing, and entrepreneurship

*State of Wisconsin: Annual Economic Development Programs Report* (Report, October 2008). Available at http://commerce.wi.gov/BDdocs/BD-Act125-2008.pdf

**Wisconsin Department of Revenue**
2135 Rimrock Road
Madison, WI 53713
(608) 266-2772
http://www.revenue.wi.gov/index.html

**Contact:** John Koskinen, Chief Economist and Division Administrator
Division of Research and Policy
john.koskinen@revenue.wi.gov
*Interests:* Wisconsin economy, tax policy

*Wisconsin Economic Outlook* (Report, December 2008). Available at http://www.revenue.wi.gov/ra/0812/0812okma.pdf

## Universities & Technical Colleges

**Center on Wisconsin Strategy, University of Wisconsin-Madison**
1180 Observatory Drive
7122 Social Sciences Building

Madison, WI 53706
(608) 263-3889
http://www.cows.org/default.asp

**Contact:** Laura Dresser, Associate Director
(608) 262-6944
ldresser@cows.org
*Interests:* Wisconsin economy, workforce training systems, and low-wage labor markets

*The State of Working Wisconsin 2008* (Report, 2008). Available at http://www.cows.org/pdf/rp-soww-08.pdf

*Greener Pathways: Jobs and Workforce Development in the Clean Energy Economy* (Report, 2008). Available at http://www.cows.org/pdf/rp-greenerpathways.pdf

**Great Lakes Bioenergy Research Center, University of Wisconsin-Madison**
1550 Linden Drive
Madison, WI 53706
http://www.greatlakesbioenergy.org/

**Contact:** Timothy Donohue, Director
Professor, Department of Bacteriology
(608) 262-4663
tdonohue@bact.wisc.edu
*Interests:* Cellulosic biofuels, bio-based renewable energy, bioenergy technology and education, and biofuels economy

*Bioenergy Research Centers: An Overview of the Science* (Report, February 2008). Available at http://genomicsgtl.energy.gov/centers/brcbrochure.pdf

**Institute for Research on Poverty, University of Wisconsin-Madison**
1180 Observatory Drive
3412 Social Science Building
Madison, WI 53706
(608) 262-6358
http://www.irp.wisc.edu/home.htm

**Contact:** Timothy Smeeding, Director
(608) 890-1317
smeeding@lafollette.wisc.edu
*Interests:* Antipoverty policy, economic growth, employment of the poor, and work supports

*Economic Change and the Structure of Opportunity for Less-Skilled Workers* (Discussion Paper No. 1345-08, September 2008). Available at http://www.irp.wisc.edu/publications/dps/pdfs/dp134508.pdf

*The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit* (Discussion Paper No. 1361-09, January 2009). Available at http://www.irp.wisc.edu/publications/dps/pdfs/dp136109.pdf

*The Role of Family Policies in Anti-Poverty Policy* (Discussion Paper No. 1351-08, September 2008). Available at http://www.irp.wisc.edu/publications/dps/pdfs/dp135108.pdf

**La Follette School of Public Affairs, University of Wisconsin-Madison**
1225 Observatory Drive
Madison, WI 53706
(608) 262-3581
info@lafollette.wisc.edu
http://www.lafollette.wisc.edu/welcome.html

*Perspectives on Economic Development from "Site Selection" Magazine* (Working Paper No. 2007-006, December 2006). Available at http://www.lafollette.wisc.edu/publications/workingpapers/scholz2007-006.pdf

**University of Wisconsin-Extension**
**Community, Natural Resource, and Economic Development**
432 North Lake Street
Madison, WI 53706
http://www.uwex.edu/ces/cnred/

**Contact:** Tom Blewett, Interim State Program Director
(608) 262-9310
thomas.blewett@ces.uwex.edu
*Interests:* Community-based partnerships for economic development, leadership and organizational development strategies, and public participation

**University of Wisconsin-Extension**
**Division of Entrepreneurship and Economic Development**
432 North Lake Street
Madison, WI 53706
(608) 263-7794
http://www.wisconsinsbdc.net/uwex_deed/

**Contact:** Kim Kindschi, Executive Director
(608) 263-8860
kim.kindschi@uwex.edu
*Interests:* UW Extension/UW System as a resource for a wide variety of economic development activities

**University of Wisconsin-Extension**
**Center for Community and Economic Development**
333 Lowell Hall, 610 Langdon Street

Madison, WI 53703
(608) 265-8136
http://www.uwex.edu/ces/cced

**Contact:** Greg Wise, Director
Professor and Community Development Specialist
(608) 263-7804
greg.wise@uwex.edu
*Interests:* Contemporary approaches to community and economic development, research and outreach focused on the importance of entrepreneurship as an economic development component

**University of Wisconsin-Milwaukee**
**Department of Urban Planning**
2131 E. Hartford Avenue
Milwaukee, WI 53211
(414) 229-4014
http://www.uwm.edu/SARUP/planning/

**Contact:** Sammis White, Professor
Associate Dean, School of Continuing Education
161 West Wisconsin Avenue
Milwaukee, WI 53203
(414) 227-3203
sbwhite@uwm.edu
*Interests:* Economic development policies, entrepreneurship, and workforce development

**Wisconsin School of Business, University of Wisconsin-Madison**
975 University Avenue
Madison, WI 53706
(608) 262-1550
http://www.bus.wisc.edu/

**Contact:** Stephen Malpezzi, Professor
Department of Real Estate and Urban Land Economics
(608) 262-6007
smalpezzi@bus.wisc.edu
*Interests:* Real estate, international and domestic economic development

*The Crisis in U.S. Housing and Financial Markets: How Did We Get Here? Which Way Out?* (Webcast, 2008) http://www.bus.wisc.edu/alumni/subprimecrisis/

*Understanding the Issues Behind the Economic Crisis and Housing Meltdown* (Webpage) http://www.bus.wisc.edu/research/economic_crisis.asp

*Wisconsin Economic Forecast: Will the Market Thaw in 2009?* (Article, January 2009). Available at http://www.bus.wisc.edu/realestate/documents/RealEstateOutlook_000.pdf

## State Organizations

**Wisconsin Technical College System**
4622 University Avenue
PO Box 7874
Madison, WI 53707
(608) 266-1207
http://www.wtcsystem.edu/

**Contact:** Daniel Clancy, President
(608) 266-7983
dan.clancy@wtcsystem.edu
*Interests:* Technical college education and training services, workforce and economic development

*2005-08 Strategic Directions: Implementation Report* (August 2008). Available at http://www.wtcsystem.edu/board/pdf/strategic_directions_implementation_rpt.pdf

**Wisconsin Technology Council**
455 Science Drive, Suite 240
Madison, WI 53711
(608) 442-7557
http://www.wisconsintechnologycouncil.com/

**Contact:** Tom Still, President
tstill@wisconsintechnologycouncil.com
*Interests:* Tech-based economic development, angel and venture capital development, and entrepreneurship in high-growth sectors

*Vision 20/20: A Model Wisconsin Economy* (Report, 2002). Available at http://www.wisconsintechnologycouncil.com/uploads/documents/Vision_2020_web2.pdf

## National Organizations

**Brookings Institution**
Washington, DC
http://www.brookings.edu/

*The Vital Center: A Federal-State Compact to Renew the Great Lakes Region* (Report, 2006). Available at http://www.brookings.edu/~/media/Files/rc/reports/2006/10metropolitanpolicy_austin/20061020_renewgreatlakes.pdf

**Center for Law and Social Policy (CLASP)**
Washington, DC
http://www.clasp.org/index.php

*Wising Up: How Government Can Partner with Business to Increase Skills and Advance Low-Wage Workers* (Report, April 2006). Available at http://www.clasp.org/publications/wise_up_2006.pdf

**Corporation for Enterprise Development (CFED)**
Washington, DC
http://www.cfed.org/

*Economic Development: Of the People, By the People, For the People—2007 Development Report Card For The States* (Article, 2007). Available at http://www.cfed.org/focus.m?parentid=34&siteid=2346&id=2346

*Guide to the 2007-2008 Assets and Opportunity Scorecard* (Report, 2007). Available at http://www.cfed.org/imageManager/scorecard/2007/scorecard_guide_web.pdf

*Promising practices to assist dislocated workers* (Working Paper, September 2004). Available at http://www.cfed.org/imageManager/blog/PromisingPractices1.pdf

**Ewing Marion Kauffman Foundation**
Kansas City, MO
http://www.kauffman.org/

*The 2008 State New Economy Index* (Report, November 2008). Available at http://www.kauffman.org/uploadedfiles/2008_state_new_economy_index_120908.pdf

**Small Business Administration**
Washington, DC
answerdesk@sba.gov
http://www.sba.gov/

*Looking Ahead: Opportunities and Challenges for Entrepreneurship and Small Business Owners* (Report, October 2008). Available at http://www.sba.gov/advo/research/rs332tot.pdf

**Urban Brookings Tax Policy Center**
Washington, DC
http://www.taxpolicycenter.org/

*Emerging State Business Tax Policy: More of the Same, or Fundamental Change?* (Report, January 2008). Available at http://www.taxpolicycenter.org/UploadedPDF/1001134_state_business_tax.pdf

*Making Work Pay Enough: A Decent Standard of Living for Working Families* (Report, July 2008). Available at http://www.taxpolicycenter.org/UploadedPDF/411710_work_pay.pdf

**W.E. Upjohn Institute for Employment Research**
Kalamazoo, MI
webmaster@upjohninstitute.org
http://www.upjohninst.org/

*The Economic Development Benefits of Universal Preschool Education Compared to Traditional Economic Development Programs* (Executive Summary, May 2006). Available at http://www.upjohninst.org/preschool/Executive_summary.pdf

*The Economic Development Benefits of Universal Preschool Education Compared to Traditional Economic Development Programs* (Report, May 2006). Available at http://www.upjohninst.org/preschool/Short_report.pdf

*Local Economic Development Policies* (Working Paper No. 03-91, January 2003). Available at http://www.upjohninst.org/publications/wp/03-91.pdf

# Assessing the Impact of Policies & Programs on Families

## Family Impact Checklist

The Policy Institute for Family Impact Seminars

### The first step in developing family-friendly policies is to ask the right questions:

- What can government and community institutions do to enhance the family's capacity to help itself and others?
- What effect does (or will) this policy (or program) have for families? Will it help or hurt, strengthen or weaken family life?

These questions sound simple, but they can be difficult to answer. These questions are the core of a family impact analysis that assesses the intended and unintended consequences of policies, programs, and organizations on family stability, family relationships, and family responsibilities. Family impact analysis delves broadly and deeply into the ways in which families contribute to problems, how they are affected by problems, and whether families should be involved in solutions. Guidelines for conducting a family impact analysis can be found at www.familyimpactseminars.org/fi_howtocondfia.pdf.

Family impact questions can be used to review legislation and laws for their impact on families; to prepare family-centered questions or testimony for hearings, board meetings, or public forums; and to evaluate programs and operating procedures of agencies and organizations for their sensitivity to families. Six basic principles serve as the criteria of how sensitive to and supportive of families policies and programs are. Each principle is accompanied by a series of family impact questions.

The principles are not rank-ordered and sometimes they conflict with each other, requiring trade-offs. Cost effectiveness also must be considered. Some questions are value-neutral and others incorporate specific values. This tool, however, reflects a broad bi-partisan consensus, and it can be useful to people across the political spectrum.

**Principle 1. Family support & responsibilities.** Policies and programs should aim to support and supplement family functioning and provide substitute services only as a last resort.

Does the proposal or program:

- ❑ support and supplement parents' and other family members' ability to carry out their responsibilities?
- ❑ provide incentives for other persons to take over family functioning when doing so may not be necessary?
- ❑ set unrealistic expectations for families to assume financial and/or caregiving responsibilities for dependent, seriously ill, or disabled family members?
- ❑ enforce absent parents' obligations to provide financial support for their children?

**Principle 2. Family membership & stability.** Whenever possible, policies and programs should encourage and reinforce marital, parental, and family commitment and stability, especially when children are involved. Intervention in family membership and living arrangements is usually justified only to protect family members from serious harm or at the request of the family itself.

Does the policy or program:

- ❑ provide incentives or disincentives to marry, separate, or divorce?
- ❑ provide incentives or disincentives to give birth to, foster, or adopt children?
- ❑ strengthen marital commitment or parental obligations?
- ❑ use appropriate criteria to justify removal of a child or adult from the family?
- ❑ allocate resources to help keep the marriage or family together when this is the appropriate goal?
- ❑ recognize that major changes in family relationships such as divorce or adoption are processes that extend over time and require continuing support and attention?

The Institute aims to strengthen family policy by connecting state policymakers with research knowledge and researchers with policy knowledge. The Institute provides nonpartisan, solution-oriented research and a family impact perspective on issues being debated in state legislatures. We provide technical assistance to and facilitate dialogue among professionals conducting Family Impact Seminars in 29 sites across the country.

The Policy Institute for Family Impact Seminars adapted the family impact checklist from one originally developed by the Consortium of Family Organizations. The suggested citation is Policy Institute for Family Impact Seminars. (2000). *A checklist for assessing the impact of policies on families* (Family Impact Analysis Series No. 1). Madison, WI: Author. The checklist was first published in Ooms, T., & Preister, S. (Eds.). (1988). *A strategy for strengthening families: Using family criteria in policymaking and program evaluation.* Washington DC: Family Impact Seminar.

For more information on family impact analysis, contact Director Karen Bogenschneider of the Policy Institute for Family Impact Seminars at the University of Wisconsin-Madison/Extension, 130 Human Ecology, 1300 Linden Drive, Madison, WI, 53706.

Phone (608) 263-2353
FAX (608) 262-5335
http://www.familyimpactseminars.org

**Principle 3. Family involvement & interdependence.** Policies and programs must recognize the interdependence of family relationships, the strength and persistence of family ties and obligations, and the wealth of resources that families can mobilize to help their members.

To what extent does the policy or program:

- ❑ recognize the reciprocal influence of family needs on individual needs, and the influence of individual needs on family needs?
- ❑ recognize the complexity and responsibilities involved in caring for family members with special needs (e.g., physically or mentally disabled, or chronically ill)?
- ❑ involve immediate and extended family members in working toward a solution?
- ❑ acknowledge the power and persistence of family ties, even when they are problematic or destructive?
- ❑ build on informal social support networks (such as community/neighborhood organizations, religious communities) that are essential to families' lives?
- ❑ respect family decisions about the division of labor?
- ❑ address issues of power inequity in families?
- ❑ ensure perspectives of all family members are represented?
- ❑ assess and balance the competing needs, rights, and interests of various family members?
- ❑ protect the rights and safety of families while respecting parents' rights and family integrity?

**Principle 4. Family partnership & empowerment.** Policies and programs must encourage individuals and their close family members to collaborate as partners with program professionals in delivery of services to an individual. In addition, parent and family representatives are an essential resource in policy and program development, implementation, and evaluation.

In what specific ways does the policy or program:

- ❑ provide full information and a range of choices to families?
- ❑ respect family autonomy and allow families to make their own decisions? On what principles are family autonomy breached and program staff allowed to intervene and make decisions?
- ❑ encourage professionals to work in collaboration with the families of their clients, patients, or students?
- ❑ take into account the family's need to coordinate the multiple services required? Does it integrate well with other programs and services that the families use?
- ❑ make services easily accessible to families in terms of location, operating hours, and easy-to-use application and intake forms?
- ❑ prevent participating families from being devalued, stigmatized, or subjected to humiliating circumstances?
- ❑ involve parents and family representatives in policy and program development, implementation, and evaluation?

**Principle 5. Family diversity.** Families come in many forms and configurations, and policies and programs must take into account their varying effects on different types of families. Policies and programs must acknowledge and value the diversity of family life and not discriminate against or penalize families solely for reasons of structure, roles, cultural values, or life stage.

How does the policy or program:

- ❑ affect various types of families?
- ❑ account for its benefits to some family types but not others? Is one family form preferred over another? Does it provide sufficient justification for advantaging some family types and for discriminating against or penalizing others?
- ❑ identify and respect the different values, attitudes, and behavior of families from various racial, ethnic, religious, cultural, and geographic backgrounds that are relevant to program effectiveness?
- ❑ acknowledge intergenerational relationships and responsibilities among family members?

**Principle 6. Support of vulnerable families.** Families in greatest economic and social need, as well as those determined to be most vulnerable to breakdown, should be included in government policies and programs.

Does the policy or program:

- ❑ identify and publicly support services for families in the most extreme economic or social need?
- ❑ give support to families who are most vulnerable to breakdown and have the fewest resources?
- ❑ target efforts and resources toward preventing family problems before they become serious crises or chronic situations?

## Where research meets policy on family issues



Produced by the Center for Excellence in Family Studies, School of Human Ecology, University of Wisconsin-Madison. Editors: Stephanie Eddy, Consultant, Wisconsin Family Impact Seminars; and Karen Bogenschneider, Director, Wisconsin Family Impact Seminars, Rothermel-Bascom Professor of Human Ecology, Human Development & Family Studies, UW-Madison, and Family Policy Specialist, UW-Extension. Authors: William Schweke, Vice President of Learning and Innovation, Corporation for Enterprise Development, Durham, North Carolina; Timothy Bartik, Senior Economist, W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan; and Ron Shanovich, Fiscal Analyst, and Daryl Hinz, Program Supervisor, Wisconsin Legislative Fiscal Bureau. Layout and Production: Jennifer Seubert, Editor/Coordinator, Wisconsin Family Impact Seminars.



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