A Progressive Economic Development Agenda for Shared Prosperity: Taking the High Road and Closing the Low

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INTRODUCTION

Elected officials and policymakers are under intense pressure to do almost anything that might create wealth and jobs. Their operating environment is characterized by corporate threats to relocate (or not come at all) unless they receive public subsidies, along with increased job, income, and production insecurity from globalization, outsourcing, and lower-cost imports. In this context, economic development is vitally important for America's state and local elected and appointed officials. Never has so much political and public financial capital been expended on its behalf. Despite tight state budgetary constraints, it rarely suffers cuts, and citizens now expect state policymakers to take some responsibility for the workings of their economy.

Economic development requires a dynamic, adaptive regional economic engine that drives the wealth generation process. If one wants economic development to benefit low income community members, there must also be effective strategies for expanding opportunities for the economically disadvantaged. Traditional tools, such as tax relief, development subsidies and supportive training, are ineffective, inefficient or insufficient when it comes to expanding economic opportunities in the 21st century. While many economic development efforts have successfully created and harnessed that engine of growth, few have promoted more inclusive approaches that benefit low income households. Strong and sustained growth increases income and mobility, but its reaches are limited unless explicitly directed at those portions of the population that have been left behind historically.

Over the last few decades, wages for those in the lower income quintiles have largely been stagnant, resulting in a growing legion of full-time workers who are poor. At the same time, increasing numbers of employers have cut back on benefits like health insurance coverage and pensions, further jeopardizing financial security for working Americans. Job insecurity is rising with firms downsizing even in good times. Affected workers include blue- and white-collar workers, some of whom find themselves on a treadmill that takes them from unemployment insurance to work to freelancing and back again.

The benefits from economic growth have not been widely shared. Wages have not reflected the increases in productivity. Union job premiums have shrunk. Those in the top income brackets have enjoyed large increases in their standards of living while poverty rates have climbed. There has been a major shift in the balance of power toward businesses, as unions have declined in their membership base, the number of deregulated markets has increased, and the government has reduced its policing of the labor market and its spending for federal safety net and training programs (with the exception of the EITC and Medicaid).

One of the key challenges in regional economic development is creating more and better jobs: jobs with higher pay, benefits, security and stability, decent working conditions, and opportunities for advancement and control. It is for these reasons that there is increased interest in "high road" development strategies.[1] These are characterized by firms, industries and clusters that compete on the basis of high quality rather than low cost. High road strategies result in higher productivity, higher wages, improved labor relations, greater business commitments to communities, and better corporate environmental stewardship. Instead of competing with poor nations on the basis of low cost (and entering a "race to the bottom"), high road firms concentrate on goods and services that are more valuable in the marketplace. It is for these reasons that it's called "the high road." It is economic development that leads to the generation of income and wealth, widely and equitably shared benefits, a high quality of life, and good environmental stewardship.

There is limited evidence and experience with the high road approach despite its pivotal role in cluster strategies, development finance linkages to workforce development and investments in minority-owned growth firms. The firms that offer good jobs and the firms that drive net increases in employment are rarely the same. The typical high road prescription of increased investment in foundational goods, such as research and development and lifelong learning, does not yield results in the near term. Further, these investments do not ensure that the resulting productivity improvements will be shared by labor and management or that opportunities will be expanded for those who are most disadvantaged.

In this paper, a comprehensive high road agenda for economic development is described as the first part of a progressive approach to achieving economic growth. The second, equally important component of this approach is the use of available policy tools to close off the "low road": the low wage, low regulation, low tax environment that minimizes costs for businesses at the expense of workers, infrastructure and, ultimately, economic growth itself.[2]

Historically, the recipes for success in economic development have been associated with the idea of "business climate," leading state (and local) policymakers to compete to be the most supportive of business. The unspoken implication has been that any area whose business

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[1] The term "high road" was coined by Joel Rogers. Rogers (Ph.D. Princeton, M.A. Princeton, J.D. Yale Law School, B.A. Yale) is Professor of Law, Political Science, and Sociology at the University of Wisconsin-Madison. He is also the founder and director of a research and policy center, the Center on Wisconsin Strategy (COWS), at UW-Madison. Rogers has written widely on American politics and public policy, political theory, and U.S. and comparative industrial relations, as well as the "high-road" approach to economic development he is credited as first theorizing. His most recent books are Working Capital: Using the Power of Labor's Pensions (Cornell, 2001) and America's Forgotten Majority: Why the White Working Class Still Matters (Basic, 2000). A contributing editor of The Nation and Boston Review, and a social activist as well as an academic, Rogers was recently identified by Newsweek as one of 100 Americans most likely to affect U.S. politics and culture in the 21st century. Retrieved from http://en.wikipedia.org/wiki/Joel_Rogers on 4/18/06.

[2] This paper is based, in part, on a meeting of leading economic development practitioners and researchers on December 5-6, 2005 in New York City. A summary of the participants' recommendations is in Appendix B.

climate was inhospitable to business would be shunned by the business community, making it difficult to attract or grow new firms.

The traditional definition of a welcoming, competitive, good business climate combines low costs (e.g. — low taxes, wages, unemployment insurance, and unionization), few regulations with poor enforcement and location "sweeteners" (e.g. — tax abatements and credits, preferential financing rates, provision of land and, often, facilities). Traditional business climate enthusiasts tend to focus almost excessively on financial capital and tend to ignore largely the roles of human, social, physical and natural capital in a 21st century economy. Many seek radical tax cuts on investment income while shifting the burden onto earned income, lowered public spending as a percentage of federal and state GDP, weakened enforcement of business regulations, and more flexible labor markets. In their view, capitalism is a system that depends on the security of property rights to the detriment of security for everybody else.

The traditional "cut-and-deregulate" approach with its myopic focus on creating the cheapest investment climate ignores important considerations such as:

- Who benefits from a specific economic development policy or practice?
- What job opportunities are being generated?
- To what degree does economic development help the disadvantaged make a lasting escape from poverty?
- To what degree do current practices safeguard natural capital?

This approach has persisted for too long. It is a "get poor" strategy that forces communities into low-wage competition with developing nations; it is the wrong strategy for 21st century economic development. Instead, local competitiveness needs to focus on meeting the workforce and infrastructure requirements of the New Economy and the role that government plays in developing these foundations. Globalization, the development of capital-mobile "permissive" technologies (such as information technologies, improved transport and enhanced managerial logistics management), and today's intense pressure to enhance constantly short-term shareholder value make the shift toward the high road extremely difficult. Fortunately, there are places to begin "paving the high road, and closing the low."

The Current Course: Headed for disaster?

A key question that isn't asked often enough about following the old-fashioned business climate approach to economic development is: *What kind of economy do you get if you follow this formula?*

Pursuing a low cost, low regulation strategy relentlessly will create an economy based heavily on industries on the tail end of the product cycle, those characterized by routine labor functions that have low education and skill requirements. The economy will be driven by least-cost

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production, determined by tax and wage rates, as its primary goal. In essence, it will be a Third World economy ill-suited for growth in tomorrow's industry.

Instead, policymakers need to search elsewhere for the competitive edge: delivering goods and services that emphasize quality over cost, add value, and produce knowledge-intensive products and services quickly for niche customers. The common-denominator for this competitive edge is not "high tech" (e.g. — information technologies, biotech) but "ideas." Research, inventiveness and ingenuity in the creation of new products and services or in the adaptation of old ones, and the flexibility and agility to continue to improve and revise these products and services are needed to meet rapidly changing market demands. Ideally, these high road strategies result in higher productivity, higher wages, improved labor relations, greater business commitments to communities, and better corporate environmental stewardship. Instead of competing with poor nations on the basis of low cost, high road firms concentrate on goods and services that are more valuable in the marketplace.

Business costs — wages, energy rates, taxes and social insurance premiums — *do* matter to investors selecting a plant or office location. However, it is those costs relative to how much they buy in *benefit*s, such as a skilled labor force, nearness to markets, research and development capacities, and a modern infrastructure and quality of life, that are central to a firm's success.[3]

Japanese direct investors in U.S.-based factories prefer to locate in areas with higher wages, a labor force with plentiful high school graduates and a good work ethic, responsive and efficient government, decent schools, and a decent quality of life. In fact, American and Japanese startup factories that use management strategies associated with high performance workplaces seek roughly these same location assets. Productivity in these factories increased even further when employees shared the financial gains, had greater voice and employment security, and received better pay and benefits. Tax rates and the existence of business incentives were of secondary importance to these investors.[4]

"Invisible" factors (e.g. — worker attitudes, entrepreneurial initiative and labor-management relations) also factor into location and expansion decisions. Strategies targeted at these factors hold stronger promise for renewing specific firms in so-called mature industries. Indeed,

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[3] Labor, environmental and consumer regulations can be impediments as well as costly for business, but these are not sufficient reasons to cast them aside. They have laudable rationales, including protecting people from harm and risk. Progressive economic developers should be on the lookout for ways to cut unnecessary hassles and make regulations more efficient.

[4] See the following: Doeringer, P., E.Lorenz, and D. Terkla. (2002, April 2). "The Adoption and Diffusion of High Performance Management; Lessons from Japanese Multinationals in the West." (Unpublished manuscript); Doeringer, P., C. Evans-Klock, and D. Terkla. (2002, November) "What Attracts High Performance Factories? Management Culture and Regional Advantage." (Unpublished manuscript); and Doeringer, P., D. Terkla, and C. Evans-Klock. (2002). *Startup Factories: High Performance Management, Job Quality, and Regional Advantage.* (New York: Oxford University Press).

America's best prospects for manufacturing lie at the two extremes of the product cycle: innovation and post-maturity specialization. Cost factors are regarded as incidental as long as they fall into an acceptable range. Only energy costs and number of work stoppages stand out as real worries for many firms.[5]

Capitalism is not static; every 20-30 years, capitalism reinvents itself.[6] This is what today's New Economy is all about. Here's how the competitive environment for American business has radically changed.

> Once markets were relatively stable, products were standardized, quality was not a major consideration, price competition was not intense, and foreign competition was minimal. However, times have changed with a vengeance. The changes can be divided into four categories: (1) markets — growing segmentation, volatility and globalization; (2) products — change in existing products from standardized to tailor-made, and the substantial flow of newly developed, innovative products; (3) production technology — enormous increases in productivity and flexibility; and (4) organizational structure — the rise of "agile" enterprises and virtual corporations.[7]

In short, the relevant context to use when comparing business costs is *value*, not cheapness. Cheaper is only better when the benefits offered by competing locations are the same. Similarly, the context for understanding business climate is not yesterday, but today, along with our glimpses of tomorrow.

The High Road Alternative to a Future of Lousy Jobs

The high road economic development strategy makes sense if you focus on creating more and better jobs: jobs with higher pay, benefits, security and stability, decent working conditions, and opportunities for advancement and control. It has two complementary policy objectives:

1. Paving the high road: Creating partnerships and making the investments required to promote more widely shared prosperity and to encourage firms to share the gains from innovations and productivity more equitably with employees.

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[5] See: Doeringer, P., D. Terkla, and G. Topakian. (1987). *Invisible Factors In Local Economic Development. (*New York: Oxford University Press); Blakely, E. and T. Bradshaw. (2002). *Planning Local Economic Development: Theory and Practice (Third Edition). (*Thousand Oaks, CA: Sage Publications); and R. Shaffer, S. Deller, and D. Marcouiller. (2004) *Community Economics: Linking Theory and Practice (Second Edition). (*Ames, IA: Blackwell Publishing).

[6] For more, see: Bowles, S., R. Edwards, and F. Roosevelt. (2005). *Understanding Capitalism (Third Edition). (*New York: Oxford University Press). There is also a larger literature on (1) so-called "social structures of accumulation" and (2) Kondratiev Waves, that could be consulted. Also helpful as an introduction is R.L. Heilbroner. (1985). *The Nature and Logic of Capitalism*. (New York: W.W. Norton & Company, Inc.).

[7] Mt. Auburn Associates with Regional Technology Strategies, Inc. (1995, August). *Technology Transfer to Small Manufacturers: A Literature Review.* (Cambridge, MA: Mt Auburn Associates), p. 2-1.

2. Closing the low road: Denying firms the option of increasing profits by providing low wages and benefits, manipulating their financial numbers to minimize taxable revenue, or ravaging the environment. In this paper, we focus on meeting this second challenge by raising wage standards directly through laws, ordinances and agreements and holding state and local business incentives to a higher public interest standard.

It is important to note that there is a continuum of policies and programs from those that promote competition on the basis of high quality (pure high road) to those that mitigate the economic fallout from the low road. There are as many opinions on where one crosses over from one to the other, as there are economic developers. While the reader may disagree with this particular division of high and low road strategies, it is, nonetheless, a starting point for discussing them more widely. Before mapping out the high road agenda, we begin with an important preliminary question: If the low road leads nowhere, why is it still around?

The Persistence of Inferior Strategies and Their Consequences

What accounts for the appeal of the low road? Supply-side economics and conventional business climate views have staying power. They are plausible views because business costs, risks, and hassles do matter. Additionally, they resonate with commonly held beliefs among business owners and the public.

Low road proponents start with natural advantages: most of the business community support these positions and policies. They are powerful economic and political players and big campaign contributors; they are often entrepreneurs, managers and investors — the decision-makers when it comes to business startup, location, off shoring and expansion. They hold the cards when it comes to investing or not investing. Just like organized labor, they can threaten to go on "strike." This obviously strengthens their political and bargaining power.

Economic development policymakers don't create private sector jobs. All they can do is provide excellent locations and conditions for investment for their business "customers." One of the fault lines (and a big source of political and policy conflict and tension) is that the "stockholders" in this publicly funded economic development enterprise (the citizenry) want good yields on their investment (taxes) in the form of middle class job opportunities. However, in a capitalist economy, policymakers cannot directly deliver on this expectation. Ultimately, the business community must be made happy. (And in a federalist polity, there are 49 other states waiting for a misstep, some even actively courting existing firms to relocate.)

Despite the bulk of academic literature suggesting that tax differences between states and business incentives do not have a large effect on economic or employment growth, the anecdote by a business owner or local economic development professionals garners attention. The result is a stubborn persistence of obsolete, ineffective tools for recruitment and retention.

The most common devices in a policymaker's development toolkit are business incentives and business attraction programs, which purport to create jobs quickly (in contrast to other strategies where the payoff is much more long-term and less visible (such as a sound pre-K through post-secondary school system)). The citizens often view these tools as synonymous with economic development. Business incentive proliferation has led to an "arms race" mentality that seems to compel policymakers to match (or best) development offers from competitors, regardless of utility and effectiveness. The bidding is fueled by governments with new inducements.

Proponents of incentives, low taxes and low regulation have done a good job of selling the message that there is no other way to spur economic growth. While high road advocates know that this is not true, there are challenges to taking the high road. These include:

- Historical suspicion and prejudice against large government roles and programs that have been reinforced by the media and by the messaging of low road advocates;
- Scant recognition or accolades for existing high road programs relative to those enjoyed by low road "ribbon-cutting" deals;
- No consistent state application of high road principles and policies to provide a counterexample to the scores of low road "success" stories;
- Creating, negotiating and maintaining partnerships with private and nonprofit organizations via public employees who are sufficient in number and skill to do so;
- Anti-tax sentiments across all income classes together with rising demands for public funds when revenue bases are eroding; and
- No persuasive, exciting, coordinated and clear development policy narrative that can be widely used.

Low road advocates have the most at stake in the debate *and* are well-funded and organized. They know what they want and have gained acceptance for their agenda. Supporters of high road approaches represent a more diversified group of supporters. There is no single progressive constituency — with the possible exception of organized labor — that sees the adoption of high road approaches at all levels of government as one of its top goals. Likewise, anti-poverty advocates, teachers, community colleges and institutions of higher learning, tax reformers, environmental activists, and smart growth advocates are not as conversant with the nuts- and-bolts of economic development as their opponents are. They are, therefore, less articulate in making the case for real alternatives to traditional economic development strategies.

So, how might these challenges be overcome, and what does a state agenda to pave the high road include?

SHIFTING PRIORITIES AND PERSPECTIVE

The fiscal challenges facing most states make it difficult, but not impossible, to secure funding for high road programs and policies. The bigger challenge is persuading them (and the federal government) to take the long-term perspective, to consider the significant return on investment that good public services, including a productive education and training system, can bring. Building sound infrastructure and improving public services imply a long-term and forward-thinking perspective that demands courageous reforms in the tax system.

Tax Reform

Tax reforms need not come at the expense of economic growth. Research reveals that taxes are not a major factor in state economic development. Some studies have even found negative effects like job losses when cutbacks in certain public services occur.[8] Business executives consistently point to factors other than taxes as the major items that they consider when making location decisions.[9] (More important locational factors include access to markets, availability of suitable labor and materials, local amenities and quality of life, infrastructure (e.g., ports, roads, broadband), and synergies with other firms and facilities.[10])

Sound, sizable investments in infrastructure and public services will require:

1. Reducing the reliance on local property taxes for financing K-12 education;
2. Curbing the use of profligate business incentive programs, including the use of tax-sheltering, revenue-eroding loopholes by corporations;
3. Defeating overly restrictive ballot measures to cut taxes; and
4. Modernizing state (and local) revenue systems.

The first of these is important and well-documented, and the second is covered in detail later. Here, we focus on the last two suggestions.

Despite the common sense appeal of the idea, state tax and spending limit laws are not good ways to manage tax-and-spend decisions. A number of states have enacted strict tax and

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[8] The literature is vast. See: Shaffer's *Community Economics*; John Blair's *Local Economic Development: Analysis and Practice*; CFED's *Bidding for* Business and *Improving Your Business Climate;* Greg LeRoy's *The Great American Jobs Scam;* and Robert Lynch's *Rethinking Growth Strategies.* A comprehensive bibliography can be found *An Economy for All of Us* (2005), a CFED-NELP study of business climate and taxation in Washington State (http://www.nelp.org/ui/state/states/economyforall.cfm).

[9] Anderson, E. "Workers Key To Lure Business, Executives Rank Work Skills as Most Important," *New Orleans Times Picayune* (January 27, 2005).

[10] In addition to the sources listed in footnote 7, see also Fisher, P. *Grading Places*; Anderson and Wasserman, *Bidding for Business.* CFED's *NC Toolkit*: http://www.cfed.org/imageManager/_documents/NC_Toolkit_-_Making_NC_Incentives_More_Effective.pdf, and CFED's Accountability Newsletter, January 1999: http://www.cfed.org/publications/accountability/Accountability%20Jan%2099.pdf.

spending limits. These policies are blunt instruments that severely limit the ability, finesse and subtlety with which a state can manage its finances. They often lead to radical spending cuts that have serious implications for the quality of public education, public health and Medicare programs.[11] Colorado's Taxpayers' Bill of Rights (TABOR), the most prominent example of a spending limit law, was rejected by voters in November 2005, 13 years after its enactment. TABOR adversely affected the state's educational system and outputs by lowering K-12 educational spending as a percentage of personal income (from 3.9% in 1992 to 3.2% in 2001) and offering less competitive salaries to teachers relative to salaries in other occupations (in 1992, the ratio of teacher salary to private earnings was 1.38; by 2001, the ratio was 1.05).[12] It remains to be seen how long it will take Colorado to regain the ground that was lost between 1992 and 2005.[13]

It has been argued that state and local taxes discourage investment, slow economic growth, and destroy jobs. Tax and spending limits are one way to address that criticism. A more common response has been to make small adjustments to a state's tax code; however, these do little to improve the overall development climate. What is needed is a broadened and modernized tax base that provides a stable stream of revenues with which to make public investments**.**

With a quality fiscal system, tax competitiveness becomes only one of a number of goals. The other goals are fairness, stability, predictability and transparency. Tax reform is achieved by matching a state's fiscal system to its economic base and by allowing flexibility that can accommodate changes to that base. It is comprehensive in scope, rather than incremental or stop-gap. It curbs ineffective and wasteful tax expenditures. It includes cooperation with neighboring states on tax uniformity, treatment of multi-state corporations, and restraining the incentives "arms race."

These tax issues raise the larger issues of what constitutes a "good business climate" and what role government plays in fostering economic development. These are discussed in the next section of the paper.

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[11] Bradley, D. and K. Lyons. (2005, October 19). *A Formula for Decline: Lessons from Colorado for States Considering TABOR*. Accessed 5/4/06 at http://www.cbpp.org/10-19-05sfp.pdf.

[12] Personal communication with Karen Lyons, Center on Budget and Policy Priorities, 5/4/06.

[13] For more on Colorado's TABOR, see: Johnson, N. and D. Bradley, (2005, January 13). "Public Services and TABOR in Colorado" (Washington, DC: Center on Budget and Policy Priorities) at http://www.cbpp.org/1-13-05sfp2.pdf; t. McGuire, T. and K. Rueben. (2006). "The Colorado Revenue Limit: The Economic Effects of TABOR." (Washington, DC: Economic Policy Institute); Lyons, K. and N. Johnson. (2006, March 23). "Education and Investment, Not TABOR, Fueled Colorado's Economic Growth in 1990s" (Washington, DC: Center on Budget and Policy Priorities) at http://www.cbpp.org/3-23-06sfp.pdf; and "How Colorado Got Its Government Back", *New York Times*, Editorial, November 3, 2005.

Redefining "Business Climate" and the Role of State Government

The business climate imperative is not about tax breaks or business incentives but about how states compete and prosper in the New Economy. The current challenges include, but are not limited to, growing international competition, quickening technological change, the adoption of effective foreign industrial policies, changing demographics of the American workforce, and efforts to create a more environmentally compatible economy. And they demand different solutions. Development policymakers must learn to identify and sustain their state's competitive advantages in a world vastly different from the one where the United States enjoyed a position of almost effortless superiority.

Times have changed, and here is our vision for these times.

> Policymakers should dedicate themselves to creating state and local economies which are internationally competitive, high value-added, and inclusive of all the people. This requires a workforce where virtually all are educated and skilled, and where increasing numbers of the residents work in high-performing, high-wage workplaces. It entails building a business base that uses appropriate, competitive technology, understands its customers and markets, invests in its people, forges alliances with other firms, and attracts and manages people.[14]

Creative, high value-oriented states must refocus their development programs and organize them to:

1. Build the capacity of firms to compete successfully at progressively higher levels of value-added in the international, national and local economies;
2. Equip workers and young people with the learning required for economic success and the civic skills to participate in the political process and civic life within an increasingly knowledge-based society; and
3. Bolster the capacity of regions and communities to act more strategically in an increasingly competitive environment.

There is an implicit philosophy of government in this view. Market failures abound, but so do public sector ones. Government can't go it alone, but neither can businesses. They and the nonprofit sector can achieve much more working together than apart. The functions that state governments can play in development are as broker, catalyst/leader, investor, service deliverer, and stabilizer. There are places where government should contract; there are others where it should expand.

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[14] This vision is adapted from an original version developed by CFED and Regional Technology Strategies in a consulting project for the State of Alabama.

This paper's development agenda does not follow the adage that "the best government is the one that acts the least." Instead, it advocates for government that "acts most thoughtfully." "Thoughtful government" may sound utopian and, to many, oxymoronic, but we need a more complete, albeit idealistic, image of "government of, by and for the people" than narrower functions like correcting market failures and protecting property rights. Good government requires starting with a vision for excellence and openness to experimentation.

More specifically, government should operate like a People's Trust or Endowment with elected officials serving as its elected and accountable trustees. (The Governor of this Economic Development Enterprise is the CEO.) The Trust's fiduciary responsibility is to preserve and enhance the assets of the trust (e.g., human capital, infrastructure, financial capital, natural capital, technological assets and social capital), keeping in mind the good of the beneficiaries (the citizens). Using this metaphor, a variety of issues and principles can be framed in these terms from environmental stewardship to corruption, from considering future generations to balancing commerce with other values. By following the guidelines, navigating by this vision, and approaching these tasks constructively, imaginatively, and not ideologically, there are lots of existing and undiscovered ways to foster greater economic opportunity.[15]

There are practical policy alternatives to the conventional wisdom in economic development. The following segment of the paper describes the foundation for this statement. It presents an action agenda that seeks to expand the "opportunity to produce" in two ways: expand the productive capacity of the nation and include in that increased prosperity those persons long denied access to the economic mainstream. We can achieve growth with equity.

A Progressive Agenda for Economic Development: Paving the High Road

Described below is a ten-point program to achieve a more widely shared prosperity. It is financed through judicious reductions in business incentives and reforms to the tax system.

1. Govern with an eye to the long-term implications of policies, not the next election cycle.

Create a favorable and profitable climate in which to do business today. State and local governments can do this by adopting a longer-term perspective, ensuring that public benefits accrue from public investment, and behaving with the highest social, economic and fiscal responsibility. Good economic development follows from good government.

2. Assess the current economic development budget.

Economic development budgets include more than budget appropriations; they also include tax exemptions, credits and deductions as well as preferential rates for some corporate taxpayers.

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[15] Peter G. Brown's *Restoring the Public Trust: A Fresh View for Progressive Government in America* (1994, BeaconPress) describes this conception in detail.

To assess the effectiveness of any economic development program, one must first determine the amount of resources being devoted to it and then, with that information, decide which programs and policies to keep and which to change (even eliminate). Public funds are too valuable to be squandered on low return uses.

David Osborne, author of *Reinventing Government,*[16] and his colleagues propose "outcomes budgeting," an approach to re-engineer agencies, policies and programs within tight fiscal constraints. The 12-step process produces a cost-sensitive, results-based budget.[17] Applying outcomes budgeting to economic development is the next logical step to aggregating direct and tax expenditures (also known as a unified development budget). (The 12 steps are listed in Appendix A.)

3. Foster lifelong learning.

There are many possible strategies that states can pursue to develop a lifelong learning system; improving the quality of teaching, retraining incumbent workers and creating better options for distance learning are among them. Recognizing the scarcity of available funds and the varying effectiveness of some of these strategies, here are four priority recommendations that link education, workforce development and economic development in positive ways:

- *Helping at-risk students.* Early identification and response, new learning technologies, intensive teaching and alternative learning environments, and programs to help teenage parents stay in school are key components of an education strategy to reach students who often leave school before graduation.
- *Improving the school-to-work transition.* Educational strategies that connect students directly to businesses include apprenticeships, technical preparatory education, career academies and school-based enterprises. These depend upon the active participation of employers and are designed to ease the transition from school to work by combining classroom learning with real work experience.
- *Increased accountability in education finance.* Schools have become more accountable for improving student performance due to tight state budgets and legitimate concerns about how well education dollars are spent. Mechanisms for accountability include: increased latitude in firing and hiring processes; enhanced scope for experimenting with charter schools and schools-within-schools; financial incentives for experienced principals and teachers to teach in low-wealth schools; and the creation of an incentive fund for improved performance at the school level.
- *Post-secondary school finance.* Given the soaring costs of four-year colleges, more must be done to assure that all who wish to enroll in a credential or degree program at a public two- or four-year post-secondary school have the financial wherewithal to do so.

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[16] Osborne, D. and T. Gaebler. (1992). *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*. (New York: PLUME).
[17] Osborne, D. and P. Hutchinson. (2004). *The Price of Government.* (New York: Basic Books), p. 23-93.

4. Raise worker productivity and share its gains.

Technology development and transfer, research and development tax credits, and expanding the venture capital base all help nurture productivity from the bottom-up, but the gains need to be shared more widely. The creation of a clearinghouse on high performance best practices would be a national resource. It could also deliver quality services (in conjunction with private consultants) on topics such as total quality management (TQM), Six Sigma,[18] employee stock ownership plans (ESOPs), open book management, gain-sharing and profit-sharing. Holistic in its approach, it would deal with both management strategies and employee asset sharing and development.

5. Become an entrepreneurial state.

Entrepreneurship, in many respects, is the purest form of economic development; it is the process through which wealth is created. A full-blown effort to nurture and support the state's entrepreneurial talent should:

- Bring entrepreneurial education programs to a large proportion of the state's school districts within five years;
- Offer credit and continuing education courses in entrepreneurship in all of the state's four-year universities;
- Ensure that all community colleges, annually, offer at least one continuing education, or degree- or credential-based course on entrepreneurship education;
- Make training opportunities for fledging entrepreneurs readily available in all parts of the state;
- Ensure affordable, convenient and effective sources of information and technical assistance to entrepreneurs across the state;
- Promote a culture of entrepreneurship within the most economically disadvantaged parts of the state;
- Raise the profile of existing entrepreneurs and the state's entrepreneurial climate (such as through 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 through the creation of a standing entrepreneurship commission, publishing an annual report on progress regarding the above goals, and having the primary economic development agency act as the advocate and guardian of this agenda.[19]

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[18] Six Sigma is a measurement-based strategy that improves quality, reduces defects and minimizes variations.
[19] Dabson, B. with K. Marcoux. (2003, February). *Entrepreneurial Arkansas: Connecting the dots: A study commissioned by the Winthrop Rockefeller Foundation of Arkansas.* (Washington, DC: CFED).

6. Support existing industries and businesses in ways that reflect their value to the economy.

In contrast to business attraction programs, efforts to aid existing industries and businesses have received far fewer resources, thought and attention. In today's economy, geographic characteristics rarely tie businesses to any particular location. Business retention, expansion and modernization programs must, therefore, become integral components of economic development. States need to support existing businesses and industries by:

- Supporting local developers to track potential vulnerabilities and opportunities within firms and arrange for needed financial, technical, managerial and permitting assistance early in the process. This can be achieved by developing regional and statewide databases that contain information on export-based firms and by using newly-developed software for these purposes. These will be used to analyze industry trends, challenges, and opportunities in the state (even conduct vulnerability analyses of specific firms).
- Creating a statewide early warning system for mass layoffs and closings so that rapid response to save the facility or to aid dislocated workers transition to new jobs will be timely, smooth, efficient and humane.
- Collaborating with universities and industries to research the impact of globalization.
- Upgrading supplier chain performance.
- Sponsoring statewide workshops on owner succession. This avoidable source of job loss and shutdowns occurs when an owner has not adequately planned for his retirement or death and has no heir that intends to take over the firm.
- Raising worker productivity above a target level in those manufacturing firms that stand the best chance to continue profitable operations in the state.
- Increasing the prevalence of employee ownership, profit sharing and high performance workplaces.

7. Think and act regionally.

The "economy" does not operate along state, county or city limits, nor does commerce. Rather, every state boasts sub-state economies, delineated by metropolitan areas, multi-county regions, and commuting zones. These regions cross jurisdictions and require a new orientation in economic development. Regional conversation, cooperation and planning will not supplant governance of any locality but will, instead, allow the region to maximize the use of its resources and to operate as an economic unit. States can support such efforts by encouraging the formation of regional alliances focused on urban revitalization, trade, workforce development, technology, modernization and/or entrepreneurship.

8. Craft a new deal for rural communities.

The population, skill base and location of rural communities, especially those that are economically disadvantaged or in more remote areas, make it difficult to grow, much less drive growth for a region. However, rural areas offer viable alternatives to urban centers. States must ensure that these areas receive adequate resources to perpetuate their continued vitality. In particular, a comprehensive strategy for maintaining the viability of rural areas includes:

- Ensuring adequate financing and quality staff for K-12 schools;
- Requiring practical, hands-on entrepreneurial education in rural school districts;
- Maintaining environmental amenities and quality of life;
- Ensuring access to adequate health care services;
- Supporting rural entrepreneurs and businesses by ensuring access to financing and technical assistance programs; and
- Asserting rural regional development strategies as high a priority as urban ones.

In addition to requiring a state agency to shepherd this strategy, community leadership and nonprofit capacity will need to be strengthened.

9. Cut waste and pollution through collaborative problem-solving and smart regulation.

Regulations are essential for protecting business, workers, public health and the overall quality of life from the unacceptable effects of a market-based economy. Thoughtful regulatory reform protects legitimate public interests while minimizing burdens on business. These include:

- Comprehensive reviews of key regulatory programs to improve their effectiveness and decrease their compliance costs;
- A single point-of-contact for businesses on compliance issues;
- More effective market-based tools to reduce the need for regulation and to increase voluntary compliance;
- Pollution prevention that allows for increased profitability and productivity and for new business opportunities;
- Encouraging exemplary companies to go beyond compliance; and
- Establishing new standards that slow climate change.

10. Promote asset building among the poor.

More than income, assets change perspectives and increase economic security by creating the opportunity to buy a home, start a business and go back to school. Protecting against predatory lenders, providing financial education, earmarking public funds for matching the savings of the poor, and eliminating policy disincentives to acquiring assets are within the purview of state, regional and local policymakers; these are among the strategies that can turn lives around and facilitate lasting escapes from poverty. Public programs, policies and monies can provide financing for a home purchase or business startup or for the post-secondary education required to secure better jobs and be upwardly mobile, creating greater income stability and financial security. States can also be at the forefront of wealth creation by creating progressive, universal children's savings accounts.

Over the past decade, many states have enacted state policies to expand asset-building opportunities for lower-income families. These policies often focused specifically on creating access to individual development accounts. More recently, however, states have begun to take a more comprehensive approach to ensuring financial security and opportunity for all of a state's citizens. Some of these statewide asset policy initiatives are led by government (in Delaware and Pennsylvania, for example); others are led by community-based advocates (in California, Illinois and Michigan, for example). What they have in common are: 1) a commitment to a broad, state-level policy agenda to expand economic opportunity, asset building and financial security; and 2) a diversity of stakeholder, including government agencies, elected officials, community-based organizations and business.

A recent report by the Fannie Mae Foundation looked at six statewide assets policy initiatives:

- Delaware – Governor's Task Force for Financial Independence (2001)
- California – Asset Policy Initiative of California (2003)
- Illinois – Illinois Asset Building Group (2003)
- Pennsylvania – Governor's Task Force for Working Families (2004)
- Hawai`i – Ho`owaiwai Asset Policy Initiative of Hawai`i (2004)
- Michigan – Michigan IDA Partnership (2004)[20]

To date, the work of these initiatives has resulted in legislative and administrative policy changes; bringing new players, strategies and resources to the table; adding "assets" to the policy dialogue; and building public support for a broad range of economic-opportunity ideas. In addition to the states listed above, a number of other states are also engaged in working through statewide asset policy initiatives including: Arkansas, Connecticut, Florida, Massachusetts, New Mexico, North Carolina, Oregon and Texas.

Recharting Current Economic Development: Closing the Low Road

To be sure, pursuing high road economic development strategies is required to foster growth and protect American workers' quality of life while addressing the challenges of globalization. The positive results from their consistent application will be neither fast nor easy. The second

[20] McCulloch, H. (2005). "Promoting Economic Security for Working Families: State Asset-Building Initiatives" in *Housing Facts and Findings: Policy, News, and Innovations,* Volume 7, Number 2. (Washington, DC: Fannie Mae Foundtion), Retrieved from http://www.fanniemaefoundation.org/programs/hff/v7i2-promoting.shtml on 5/16/06.

part of this progressive agenda for economic development focuses on changing the current direction of programs.

States must shift away from existing practices that perpetuate short-term planning, stagnant incomes, and inequitable treatment of homegrown businesses and workers. The tools of traditional economic development are ill-suited to address the defining characteristics of the 21st Century economy: growing outsourcing and offshoring, global supply chains, a slow growing and more diverse U.S. workforce, rapid technological change, and accelerated commercialization from product development. What does old-line economic development have to offer here?

Despite our historical dominance in the world economy, the U.S. is losing its leadership position. Where quality and creativity matter more than cost, the European Union and Japan are forging ahead. In India, China, and the former communist countries of Eastern Europe, freer markets and trade, along with millions of new workers with ambition, improving skills and lower wages, are driving growth. None of these countries is characterized by high high-school dropout rates or unimpressive achievement test scores (of even the college bound) as some segments of the U.S. are. Their systems of educating a skilled working class are way ahead of ours. They are emerging as sources of highly skilled, low cost labor, changing the complexion of labor competition. How can America increase its rate of firm and worker productivity change?

An important consideration is the debate over assisting firms versus assisting people, each has its pros and cons. With traditional manufacturing industries like furniture, textiles and apparel quickly disappearing, we need to slow or, even better, stop the tide of job loss, closings and relocation. How do we deal best with dislocated workers who are unlikely to land comparably paying new employment and who are not good candidates for further education or training? How much should we focus on business retention and modernization versus adjustment assistance?

Here, we will concentrate on strategies that raise wage standards and increase community benefits. We can raise the standards for jobs and for development programs by:

- Raising wages through living wage ordinances and higher state minimum wages;
- Crafting community benefit, first source hiring and project labor agreements; and
- Increasing the accountability, transparency, cost-effectiveness and return of business incentive programs.

These approaches seek to leverage the development stream and use a variety of standard roles of state and local government — spending, procurement, taxation, regulation — to create a greater, more common good.

Raising Wages

Raising wages bolsters the incomes of workers. The two most common objections to raising wages are cost and competition. Unlike wage subsidies or the earned income tax credit (EITC), raising state minimum wages and living wage agreements raise employers' costs (leading to resistance by employers); these can be mitigated with employer-targeted tax credits. Additionally, businesses and state governments worry that the increases will hamper their competitiveness. States and localities fear businesses will relocate to neighboring communities that do not mandate higher wages; businesses worry that their increased costs will drive consumers to their competitors. A higher federal wage standard raises issues of international competitiveness.

It is important to remember that wages are supposed to reflect labor productivity. Because the purchasing power of the minimum wage has fallen steadily over the last decades, there is room for a sizable increase to equalize wages with already-realized productivity advances.

Raising wages is critical to economic self-sufficiency but only half of the equation. What goes hand-in-hand with increased wages is enforcement. If employers feel that the new wages are optional, then having them means less to workers. Federal, state and local governments play a clear role in enforcing the laws that exist. For example, a city could revoke a business' license to operate when it has a track record of chronic wage and hour violations.[21]

Living Wage Laws

Local and state governments can help area workers by ensuring that they earn a living wage that reflects the costs of basic needs. Governments are able to require all businesses that receive contracts for goods and services adopt these wages — and perhaps a minimum set of benefits as well — for their workers. Having a living wage for government contractors — so that the government is not entering into contracts with businesses that pay poverty level wages — establishes a clear public policy and is not discriminatory since it affects all firms equally. In fact, advocates of living wage ordinances argue that in areas where a living wage has been enacted, no negative impact has been associated with the ordinance; gains in productive efficiency have offset the increased labor costs to firms.[22] As of June 2005, 130 municipalities and counties had enacted a living wage law.[23] Campaigns are also underway in more than 75 other places.[24] The living wage movement is obviously healthy and constitutes the only example of a popular progressive proposal.

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[21] Personal communication with Annette Bernhardt 5/1/06.

[22] Reynolds, D. and J. Kern. (2003, January). *Living Wage Campaigns: An activist's guide to building the movement for economic justice*, pp. 80-88. Accessed 5/5/06 at http://www.laborstudies.wayne.edu/research/guide2002.pdf.

[23] ACORN's Living Wage Resource Center. Accessed 5/4/06 at http://www.livingwagecampaign.org/index.php?id=1958.

[24] ACORN's Living Wage Resource Center. Accessed 5/4/06 at http://www.livingwagecampaign.org/index.php?id=2071

The national minimum wage continues to be inadequate for many trying to make ends meet without public assistance. For example, a person working full time for an entire year at the current minimum wage will earn only $10,712, less than the federal poverty line for a family of two ($12,649). In addition, real wages have fallen due to the decline in union influence; growth in the use of contingent workers who work without benefits or job security; and globalization, which has enabled firms to move labor-intensive jobs to countries with lower wages, resulting in far fewer well-paying jobs for those with relatively low skills.

Opponents of the living wage argue that it will unfairly impact firms that employ large numbers of unskilled workers, reduce the number of available entry-level jobs, raise prices for consumers, and increase government expenditures through higher-priced contracts.[25] None of these concerns has proved true in the municipalities that have adopted living wage ordinances. In fact, many groups benefit from living wage laws. Employers experience higher productivity, lower turnover rates and less employee absenteeism, giving businesses greater stability and decreased training costs. The increase in cost to employers that results from paying living wages comes to less than 1% of the average firm's total expenses.[26] The workers and their families enjoy a higher wage and the intangible feelings of greater self-worth and self-sufficiency. Taxpayers as a whole do not have to devote as much money to public assistance, leaving the government with more of its resources for other purposes. Overall, living wages maintain or increase an area's economic growth rate and ensure the benefits of this growth are widely shared.

Economists point out that since such agreements only affect private sector workers in procurement contracts (or in a few cases also city employees), they are likely to have only a modest cost or anti-poverty effect, since the size of the overall labor market, especially in metropolitan areas, will dwarf the measure. In addition, if the higher wages were to increase labor productivity or decrease worker turnover, the increased costs would not be passed on to the taxpayer in their entirety.

Thus far, living wage ordinances have been enacted only at the local level. In some cases, living wage requirements have been attached to state development subsidies. The specifics of the ordinances passed have included provisions for city employees and firms that hold city contracts, procurement, those who work within city limits, health care benefits and vacation days. In some, the municipality identifies a minimum wage that must be paid to workers, and this wage is then increased incrementally to keep up with inflation. Living wage laws require constant oversight to ensure all employers remain in compliance.

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[25] Reynolds and Kern, pp.73-74.

[26] Peters, A.H. and P.S. Fisher (2002). *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo, MI: W.E. Upjohn Institute), p.222.

Living wage laws, given their restriction to public employees and public procurement, are self-limiting in terms of scale. Inter-jurisdictional competition could dilute a living wage program in a central city as firms relocate to the suburbs or, in the case of a metropolitan area that crosses state lines, there could be border competition. Often, however, the size of the affected labor market is simply too small to generate these negative effects. Living wage ordinances are wonderful organizing campaigns that deliver a real and timely income lift to the economically struggling.

The highest hopes for the living wage (and the other elements of this agenda) are that it will energize a nationwide campaign to end poverty. William Quigley's book, *Ending Poverty as We Know It*, poses two questions:

- Should every person who wants to work have the opportunity to do so?
- Should every person who works earn enough to be self-supporting?[27]

Where ever he speaks, he gets a resounding "YES" to both questions. There are a variety of policy proposals that aim to do just that.[28] The living wage is one; and below, raising the state minimum wage is described in detail.

State Minimum Wage Laws

The persistence of poverty among the working poor testifies to the maldistribution of societal rewards and the need for change. The inflation-adjusted value of the federal minimum wage is lower than at any other point in the last 50 years.

Fortunately, the federal government is not the only entity that can address this important income support. State governments have the right to set a minimum wage above the federal. Thirty-one of the 50 states and the District of Columbia have done so or have introduced bills that will.[29] Eighteen of these have already enacted laws that set a higher minimum wage (some at $7 or more).[30] "Three (WA, OR, FL) have indexed their minimum wage levels to increase each year with the cost of living."[31] In only two states, North Dakota and Wyoming, has the legislation been defeated. Where legislative campaigns are likely to fail, coalitions are ready to have the issue decided by ballot.[32]

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[27] Quigley, W. (2003) *Ending Poverty as we Know It* (Philadelphia, PA: Temple University Press), p.2.
[28] In Miller's book, *The 2% Solution*, Edmund Phelps suggests raising wages to $10 by employing a sliding scale tax credit, coupled with an increased minimum wage. Author Matthew Miller proposes that an increased minimum wage be indexed as well.
[29] D. Swanson. (2005, March 3). "Thirty-one States and DC Take Action on Minimum Wage." *The Black Commentator*. Accessed 5/4/06 at http://www.wbai.org/index.php?option=content&task=view&id=5153&Itemid=2.
[30] Economic Policy Institute, EPI Issue Guide: Minimum Wage. Accessed 5/4/06 at http://www.epi.org/issueguides/minwage/table6.gif.
[31] Swanson, http://www.wbai.org/index.php?option=content&task=view&id=5153&Itemid=2.
[32] Swanson, http://www.wbai.org/index.php?option=content&task=view&id=5153&Itemid=2.

A higher minimum wage is an effective way to help low-wage workers get closer to a livable wage. Critics argue that the minimum wage primarily affects teenagers and those without family responsibilities, that is, workers who are not interested in full-time or permanent jobs. This is not true. Most minimum wage workers are not teens; they are contributors to their households' incomes. Although only 44 percent of them are full-time workers, more than 75 percent worked more than 20 hours a week.[33] The other common objections to increasing the minimum wage are that it will destroy jobs and that it will discourage the hiring of less skilled, new labor force entrants and teenagers. There is no strong evidence that this is the case in the U.S.

A cautious but sustained effort to push the state (and federal) minimum wage up in some persistent relationship with prevailing wages is a good idea. In addition, it, along with living wage ordinances, seems to be politically palatable today, despite the trend toward anemic anti-poverty programs. Business objections to increased costs and threats of relocation, depending on the minimum wages that other adjacent states have, are economic, communication and political considerations.

City Wage Laws

Increasingly, cities are establishing their own wage standards to help workers. Four cities have raised the minimum wage: Santa Fe, NM ($9.50), San Francisco, CA ($8.82), Washington, DC ($7.00), and Albuquerque, NM ($6.50). Additionally, more than 130 cities and counties have established living wages that range from $9.00 to $11.00 and require that workers receive health insurance.[34]

QUID PRO QUO/LINKAGE STRATEGIES

The three strategies described below connect development projects to communities. They all bring private businesses into partnerships or agreements that benefit community members, sometimes as broadly as neighborhoods, sometimes as narrowly as unemployed workers registered with a particular agency.

Community Benefit Agreements

A community benefit agreement (CBA) between private developers and coalitions of community organizations seeks to ensure that a community's residents share in the benefits

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[33] Economic Policy Institute, EPI Issue Guide: Minimum Wage. Accessed 5/4/06 at http://www.epi.org/content.cfm/issueguides_minwage_minwagefacts.

[34] Sonn, Paul. (2006) *Citywide Minimum Wage Laws: A New Policy Tool for Local Governments*. Economic Policy Brief No. 1, May 2006. (New York: Brennan Center for Justice). Accessed on May 3, 2006 at http://www.brennancenter.org/resources/downloads/Citywide%20Minimum%20Wage%20Brief%20042606.pdf.

arising from major projects. CBAs allow local citizens and the community groups that represent them to tailor the projects to meet community needs and hold the developer accountable for his or her commitments. Similar to "linkage" agreements that were advocated and created by affordable housing advocates and policymakers, CBAs are starting to animate a new movement for greater accountability and transparency in the fields of economic development and inner city development. They are tools that mobilize constituencies and build local power to put a community stamp on local efforts to create jobs, build enterprises, improve amenities and create new alliances with Smart Growth advocates, affordable housing activists, business incentive reformers and others.

Ideally, a CBA is a signed agreement, originating from a serious negotiation process; it is legally enforceable and spells out a range of community benefits that the developer promises to deliver. For this, the developer gets the community's support in his effort for zoning changes, public subsidies, permits and so forth.

"Benefits that have been negotiated as part of CBAs include:

- A living wage requirement for workers employed in the development;
- A "first source" hiring system, to target job opportunities in the development to residents of low-income neighborhoods;
- Space for a neighborhood-serving childcare center;
- Environmentally-beneficial changes in major airport operations;
- Construction of parks and recreational facilities;
- Community input in selection of tenants of the development; and
- Construction of affordable housing."[35]

Since not all projects pay good wages or benefits, fit into the character and architecture of a community, hire local residents, or avoid gentrification, a good CBA generates definite gains for the area. CBAs are inclusive of all local residents, regardless of income, enforceable and transparent. They bring alliances together, expedite the permit approval process, generate clear outcomes and strengthen the role of government in its partnerships with the private sector.[36] These positive outcomes offset the process of negotiating, implementing and monitoring CBAs.

The challenges and pitfalls of CBAs include:[37]

- Inadequate organizing that does not mobilize the whole community, generating resistance that can kill a project;
- CBAs as precedents for community benefit "ceilings", rather than "floors";

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[35] Gross, J., G. LeRoy, and M. Janis-Aparicio. (2005). *Community Benefits Agreements: Making Development Projects Accountable.*, p.10. Accessed 5/4/06 at http://www.goodjobsfirst.org/pdf/cba2005final.pdf.
[36] Gross, J., G. LeRoy, and M. Janis-Aparicio, pp.21-22.
[37] Gross, J., G. LeRoy, and M. Janis-Aparicio, pp.23-25.

- High legal costs;
- Community conflicts that hinder planning, organizing and negotiation;
- Their novelty; and
- Inadequate regulatory and/or legal structure to enforce the agreement.

To play this game and win, coalitions must do their homework and become very comfortable with and committed to abiding by the terms of the deal. A good outcome depends on the power and cleverness of the community alliance and its ability to help cut eventual red-tape, honor the agreement and deliver wide community support for the proposed CBA. Community benefit agreements have enormous potential as tools of economic development; their benefits include jobs for the hard-to-employ, union job apprenticeships for local workers, contracts with minority-owned firms, support for the deal from the community's and city's leadership, lower transaction costs, and fewer false moves.

First Source Hiring Agreements

Antecedents to CBAs, first source hiring agreements represent linkage strategies that define more narrowly the benefits to a community.

First source hiring agreements, also known as job linkage programs, are designed to increase a particular population's access to timely information about job openings and to expand real opportunities for the economically disadvantaged to achieve more gainful employment. They bring together community organizations, businesses, and local governments. The more formal the network or intervention is, the better the outcomes for low-skilled job seekers, those most often left behind. A first source agreement directs employers to offer local people the chance to compete for jobs while retaining the employers' autonomy in the actual hiring decision. These agreements can produce substantial numbers of direct job hires of unemployed and under-employed residents in the private sector.

First source agreements vary in terms of program design, employer incentives and the range of collaborating institutions. Three features characterize first source programs: 1) they leverage jobs in the private sector through public incentives; 2) they disseminate timely information on job opportunities; and 3) they establish formal mechanisms for referring and placing job seekers.[38]

"An effective first source hiring agreement provides quality information that helps connect its constituency to current job demand, thereby giving individuals and training institutions competitive advantages in pursuit of future job demand."[39] Local policymakers who are

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[38] Molina, F. (1998, December). *Making Connections: A Study of Employment Linkage Programs*, p.1. Accessed 5/5/06 at http://www.communitychange.org/shared/publications/downloads/ccc_making.pdf
[39] Molina, p.22.

committed to first source agreements must have effective business assistance programs and be willing to use their regulatory powers to encourage participation. Community-based organizations must have a service-oriented program that efficiently delivers pre-screened, qualified workers from a single initial point of contact.[40] Businesses must honor their commitment to look first to the target population before seeking other employees.

First source programs are still rather rare, but most cities and states have some requirements related to local hiring, using minority labor or local businesses in procurement. First source hiring agreements create the institutional foundations for such goals and define success. They also make development incentives more publicly accountable and bring the business, economic development, and employment placement and training communities together.

The failure of first source programs to become common is surprising. This seems to be one more example of how American business "culture" impedes collaboration that would aid everyone's ability to compete.

Project Labor Agreements

"A project labor agreement (PLA) is a contract between a project contractor (usually a general contractor managing a large construction project) and local building and construction trade unions."[41] They make the most sense where unions are already strong players but can be linked to either CBAs or first source hiring agreements. In PLAs, the terms for wages, work hours, steps for dispute resolution, use of the union hiring halls, and security are set. Two critical components of any agreement are 1) the guarantee by unions not to strike or undergo any job action that would interrupt project completion and 2) the labor market standards that require contractors to hire from the local unions and pay into pensions and health care funds for all workers.[42]

PLAs can be flexible and tailored, covering more than one project, and can be used for new construction, expansion, modernization, maintenance and repair.[43] Each is unique and results from a specific collective bargaining effort. PLAs expand apprenticeship-based learning and credentialing. PLAs do not shut out non-union contractors and workers. Under a PLA, the lowest bidder on public works projects wins the contract with the understanding that workers will be paid the prevailing wage and offered comparable working conditions.[44] Under a PLA,

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[40] Molina, p. 3.
[41] Garland, L. and S. Suafai. (2002, Spring). *Getting to the Table: A Project Labor Agreement Primer*, p.2. (Oakland, CA: National Economic Development and Law Center).
[42] Garland and Suafai, p.2.
[43] B. Rickman. (2000). *Project Labor Agreements: A Home Run for Your Community*, p.9. Accessed 5/4/06 at http://www.sbctc.org/goDocUserFiles/669.PLAbooklet.pdf.
[44] Rickman, p.11.

non-union workers who are already enrolled in health and pension plans may remain with their existing plans or elect to enroll in those of the PLA instead.[45]

Historically, these contracts have been used primarily in the private sector. Over the past ten years, project labor agreements have been implemented in publicly funded projects. In this time period, over 50 PLAs have been successfully implemented in state and local public work projects in Washington, Ohio, California, Indiana, Massachusetts, Nevada and New York.[46]

Project labor agreements can save time and money when put together properly. They need not increase costs, they insure good wages and benefits, they prevent labor disputes, and they do not exclude non-union contractors from bidding and working on projects. However, not all project labor agreements are perfect. Local residents and minority and low-income job applicants do not always gain from a PLA (they must be designed to do so), and the partnerships can be time-consuming as well as beyond the capacity of those involved. For low-income residents to benefit from a PLA, pre-apprenticeship training programs must be included.

The key players in a PLA are contractors, unions, public agencies and the community at large. Contractors, unless they are union signatory contractors, tend to oppose PLAs. They argue that PLAs are anti-competitive, costly, wasteful and illegal, regardless of whether the contractors work with union or non-union labor. Unions avidly support PLAs. Public agencies at the state and local level, in addition to public-private entities such as airports and seaports, must approve PLAs prior to the bidding process and after they are negotiated. The Boston Harbor Cleanup has demonstrated the value of a successful PLA to public works. The final player in PLAs is the public. PLAs reflect public interests such as public safety, public health, and hiring and training local laborers.[47]

Often, labor-community coalitions emerge, bringing together unions, community organizations, low-income residents, and minority and women contractors. PLAs can benefit neighborhood communities in three ways:[48]

1. PLAs enhance access to jobs because they almost always include preferences for local workers. Other agreements set objectives in hiring minority, women and disadvantaged workers — laborers with little construction experience.
2. PLAs provide community residents with access to training opportunities. PLAs require apprentices, and some agreements require that local residents be selected as apprentices. Others extend this stipulation to requiring that local laborers who need work experience to be more competitive in the private market be hired as apprentices. Still other PLAs

[45] Rickman p.13.
[46] Garland and Suafai. p.1.
[47] Garland and Suafai, pp.2-4.
[48] Garland and Suafai, p.5.

promote work experience or training opportunities for local residents, women and minorities.

3. PLAs increase funding for local programs and businesses. PLAs that have local hiring or apprenticeship requirements are often linked with separate apprenticeship and job training programs.

An example of a recent PLA, with a community partnership, is the Washington, DC stadium project. Among the goals of this $535 million project are utilizing apprentices for 25% of the jobs with 50% of those apprenticeships being filled by city residents and awarding 35% of contract to Certified Local Small and Disadvantaged Enterprises. Such firms, whose contracts total $10 million or less, are not required to use union labor. A special effort will be made to identify and locate District residents for priority status on the "union call list."[49]

Community benefits agreements, first source hiring agreements and project labor agreements are all potentially good things. How they are negotiated and then realized vary enormously, resulting in highly variable benefits for communities. They offer great opportunities for organizing and for citizen education. Ongoing challenges include: having a sufficient volume of worthy, publicly financed projects; raising awareness about these tools; increasing the capacities of community and union organizations to get engaged; and, perhaps most difficult, gaining receptivity in the business community and its trade associations to new, mutually beneficial ideas and practices. Overcoming these, especially securing support from the private sector for the high road perspective, is critical to our future success or failure.

INCREASED COST EFFECTIVENESS AND ACCOUNTABILITY OF INCENTIVES[50]

The competition among states to recruit new companies or retain existing ones has never been more intense. Annually, states and localities across the country spend billions of public dollars on a variety of tax incentives and spending programs that have fueled an incentives "arms race" among the states. This development strategy presents cities and states with a fundamental dilemma.

On the one hand, most economists and policy analysts agree that incentives are not good development policy. In using them to attract businesses, cities and states: 1) waste scarce public dollars without creating net new jobs in the vast majority of cases; 2) subsidize the shareholders of these companies for economic actions they would have taken anyway; 3) foster unfair

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[49] News Release for Immediate Release. (2005, June 16). "Mayor Williams Announces Project Labor Agreement for Work on New Stadium." Accessed 5/4/06 at http://dc.gov/mayor/news/release.asp?id=718&mon=200506.

[50] The work in this section draws on these publications: Bartik, T.J. (2004, October). *Incentive Solutions*. Upjohn Institute Staff Working Paper 04-99. (Kalamazoo, MI: Upjohn Institute); LeRoy, G. (2005). *The Great American Job Scam: Corporate tax dodging and the myth of job creation*. San Francisco: Berrett-Koehler Publishers, Inc.); Schweke, B. (2006). *Development-enhancing Tax Reform in North Carolina: A path to growth with equity.* (Washington, DC: CFED) http://www.cfed.org/imageManager/_documents/NC_Tax_Reform.pdf; and Peters, A.H. and P.S. Fisher. (2002). *State Enterprise Zone Programs: Have They Worked?* (Kalamazoo, MI: W.E. Upjohn Institute).

competition by helping some firms and industries but not others; and 4) divert the attention of policymakers from other issues that could lead to additional job creation and a better business climate.

On the other hand, it appears that incentives can make a difference in the site selection process, particularly when the choice comes down to two or three similar locations. Moreover, even if the economics are bad, political pressure makes it hard for governors and mayors to ignore the incentives sweepstakes. How can a mayor or governor avoid responding with public dollars and policy changes when a company, which has long operated in the state, threatens to leave and accept generous incentives from another jurisdiction? How can any state or locality unilaterally disarm and miss the chance of landing a significant business prospect?

The challenge for state and local governments is to find ways to make their jurisdictions attractive without giving away the tax base. They need to use incentives selectively and responsibly.

The current system of development subsidies and its abuses evolved because of changes in federal funding. With fewer federal dollars to bolster their economies as they adjust to global competition and new technologies that render some industries and workers obsolete, state and local policymakers are recruiting businesses to create new jobs and to fuel their flagging economies. Businesses, regardless of size, health and sector, regard incentives as standard benefits from jurisdictions and readily pit one locale against another in order to maximize their gains. The short-term benefits to a community appear larger than the cost of the incentive package. So, elected officials gamely enter a competition for relocating or expanding businesses.

Amid growing concerns about the use of public monies to support private firms and the escalating costs of incentive deals and policies, states and communities have begun exploring how best to provide incentives responsibly.

Some of those opposed to incentives have pursued legal action to try to curtail their use. Companies have sued states that provided funds to their competitors. Other opponents of incentives have questioned the constitutionality of using public monies for private gain. Legal experts have developed a strong rationale for challenging many incentives on the grounds of the federal interstate commerce clause and have argued for additional litigation. On May 15, 2006, the U.S. Supreme Court decided to “vacate” Cuno vs. DaimlerChrysler, arguing that the plaintiffs (Toledo, Ohio’s taxpayers and small businesses) lacked the standing required for the case to be heard. According to attorney Peter Enrich, this development sends the case back to state courts, where the rules for citizen standing are more permissive than federal ones. If Ohio courts uphold the federal Sixth Circuit of Appeals finding that Ohio’s investment tax credit is unconstitutional, then the Supreme Court may yet be called upon to rule on the legality of business incentives.[51]

Some policymakers are trying to hold incentive policies to higher accountability and cost-effectiveness standards. Policy experimentation and implementation are on the rise. As of 2003, there were 165 job quality standards in 89 jurisdictions (states, cities and counties).[52] In addition to standards, many states and local governments are pursuing performance-based contracting approaches and have instituted provisions for clawbacks and rescissions when companies violate the terms of the deal.

Until recently, there was no real national movement organizing around a federal incentive reform agenda and only limited coordination by state groups. A coalition is emerging to increase the visibility of this complex issue that quietly costs US taxpayers billions of dollars every year.

A state business incentive reform agenda: [53]

1. Safeguards public investments through greater disclosure and reporting requirements and through clawback and recapture provisions, that give the state legal authority to seek reimbursement from any company that receives a subsidy and that fails to meet its contractual obligations;
2. Protects workers by requiring subsidized companies to provide family health insurance coverage and to pay a living wage to their employees;
3. Strengthens the state's economy and expands opportunity through the use of tools that combine economic development and workforce development, like first source hiring agreements; and
4. Empowers lawmakers with timely and accurate information about tax expenditures and how the state's tax code affects the tax burden of individuals and firms.

To be even more fiscally conservative, states could set an absolute ceiling on its economic development spending, direct outlays as well as tax expenditures. This restriction would force decision makers to make tougher choices about where the money is going. A similar provision would require all programs to be evaluated prior to the expiration of the law that authorizes them. Money "lost" through inefficient or inequitable loopholes could be redirected to the populace as rebates and/or reinvested in higher return programs, such as adult learning courses at community colleges.

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[51] Peter Enrich. (2006, May 15). Personal correspondence.

[52] Jilani, N., K. Arant, and K. Davis. (2003). *The Policy Shift to Good Jobs: Cities, States, and Counties Attaching Job Quality Standards to Development Subsidies*. (Washington, DC: Good Jobs First), p.1.

[53] This version of the standard incentive reform package was penned by Amna Cameron, formerly of the NC Budget and Tax Center and Bill Schweke, CFED.

CONCLUSION

This paper describes some options that move economies in the right direction. However, they, together with current regional economic development strategies, are insufficient to assure that there are jobs for everyone who wants one and that the jobs will provide adequate wages to achieve financial security. There are two necessary, national conditions that will help to assure healthy, sustainable economic development: 1) recognition that full-time, gainful employment should always lead to financial security (an economic bill of rights similar to that called for by FDR), and 2) a full employment economy with robust growth.[54]

There has been a steady shift of power away from workers that began with the defeat of labor law reform during the Carter administration and was cemented by the regulatory rollbacks during the Reagan administration. Consequently, there is a growing disparity between worker productivity and wages, with businesses capturing the differential as profit as well as decreased employer commitment to their workers. This has manifested itself in decreases in the provision of important benefits like training, health insurance and retirement contributions. The weakening of the social contract and changing balance of power between employers and employees raises large questions about the political and administrative feasibility of any economic development reforms and whether they can have real impact.

This is the context in which we must work to secure the two conditions. Overcoming the deflationary bias of the Federal Reserve to propel a full employment economy is a tall order, but it can be done. The strong national economy during the Clinton administration is evidence. Sustained full employment will shift the balance of power in favor of workers.[55]

Enlightening businesses on the merits and benefits of improving the quality of jobs will require patience and evidence. The strategies in this paper are designed to provide the latter. Only with that perspective can workers enjoy better jobs, economic self-sufficiency and a re-equilibrating of the balance of power with employers.

The federal government can and should provide a national environment that is hospitable to regional efforts. Having federal official address the following areas will have a large impact on the success of worker-oriented economic development at the local, regional and state levels:

1. Labor law reform to restore workers' rights and to countervail big business;
2. Funding that supports experimentation on non-union forms of employee organization and empowerment to move current efforts to a scale that reaches many more communities;

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[54] See Sustein, C. (2004). *The Second Bill of Rights: FDR's Unfinished Revolution and Why We Need It More than Ever.* (New York: Basic Books).

[55] See Bernstein, J. and D. Baker. (2003). *The Benefits of Full Employment: When Markets Work for People* (Washington, DC: Economic Policy Institute).

3. Indexing the federal minimum wage to inflation to slow the erosion of its purchasing power as well as minimize Congressional debates about raising it; and
4. Reorienting capital markets away from their current short time horizons to allow policymakers and businesses to adopt strategies with long-term payoffs.[56]

Businesses and workers, indeed the economy in general, will benefit from strategies that raise productivity, workforce skills, research and development, high performance management techniques, opportunities for profit sharing and employee ownership, and enhanced job training, placement and retention opportunities for the economically disadvantaged and displaced workers. These have the greatest potential for convincing businesses that the high road is profitable as well as socially desirable. In order to guarantee a decent life for all who work, reforms and innovations along these lines will be necessary. The strategies explored in this paper are but the starting points, albeit strong and progressive ones, for creating a new model for returning America to a sustainable, more widely shared prosperity.

[56] Michael Porter's *On Competition* has an interesting discussion of the issue and prescriptions for change.

APPENDIX A: 12 STEP PROCESS FOR OUTCOMES BUDGETING IN STATE OR BIG CITY AGENCIES [57]

1. Determine a unified development budget that includes all agency resources as well as all tax expenditure resources devoted to economic development.
2. Use surveys to solicit priorities for development from community members.
3. Determine the price of each priority outcome.
4. Develop strategy maps to identify the most promising ways to achieve the priority outcomes.
5. Determine benchmarks for each priority. Set goals and make sure data are collected.
6. Solicit requests for results (bids) for achieving the priority outcomes (bidders can be any reputable public, private or nonprofit entity).
7. Negotiate terms (especially outcomes expected) with winners.
8. Eliminate items from the budget that go beyond lump sum allocation of spending and incentives.
9. Devise full-cost accounting which allows tracking of all expenses for specific programs/strategies.
10. Review progress against targets.
11. Share and use data to reform or terminate efforts.
12. Reorganize/relocate strategy/program "home" if required.

Based on the outcomes budgeting process, the state will be able to bolster the most effective programs of its development portfolio. (For more background, see: Peter Hutchinson and David Osborne, *The Price of Government.*)

With information, existing industry and community development as its principal targets for action, new directions that a Department of Commerce *migh*t take include reducing attention on incentives and attraction and leveraging other institutions, like community colleges and Small Business Technology Development Centers, which have significant economic development impacts. A Department might also:

- Expand existing industry staffing, whose job it is to build capacities of local existing industry professionals in priority counties.
- Provide community capacity-building services and training to civic leaders and nonprofits.
- Create a partnership with the state's public universities, an "Economy Research Center," that would scan industrial trends and global conditions.
- Create the databases and web sites that allow in-state entrepreneurs and business persons to access needed public and proprietary data on financing and marketing among other topics. These would be designed by public/private partnerships.

[57] Osborne, D. and P. Hutchinson (2004). *The Price of Government.* (New York: Basic Books), p. 23-93.

APPENDIX B: SUMMARY OF DISCUSSION

Participants in the December 5-6, 2005 meeting on regional economic development strategies focused their attention on policies that close the low road, as described in the paper above. In closing, each participant was asked what should be pursued, what should not, and what an "outside the box" idea would be. The following is a summary of those recommendations.

There is widespread societal belief that full-time employment should keep a worker out of poverty. That it currently does not raises important issues about jobs, workforce skills and wages. The discussion focused on public and employer responsibilities toward workers and strategies and ideas that would benefit all workers, especially those with low incomes.

A worker's income depends on a number of equally important factors: the availability of jobs, her suitability for those jobs, and the wage and benefit package that they offer. Participants in the discussion focused their suggestions on:

- Economic development as the means by which an economy and its component parts grow, adapt, and ideally, prosper;
- Workforce development as the means by which workers are able to develop the skills required for today's jobs; and
- Business subsidies and state tax systems as tools with which state governments can impose wage and benefit standards (in the case of subsidies) and affect businesses' costs.

Economic Development

Job creation is tangible evidence that an economy is growing. Too often, communities rely on the relocation of a new business within its borders to offer expanded employment opportunities. Instead of pouring resources into high profile deals to attract single businesses, the process of economic development should focus on homegrown ideas and resources that increase the welfare of all community members and that can fuel growth. This reorientation of economic development will require bold leaders who ask hard questions:

- What are the goals of economic development: higher quality of life (and for whom)? Competitiveness? — And what are the incremental steps toward achieving those?
- What kind of economy are we trying to create?
- What do communities need?

A bottom-up approach that incorporates the culture, values and resources (human, natural, political, social and infrastructure, among others) of a region would raise the power of its governance structure and create an understandable system.

Despite its long history, evaluation of past economic development programs and policies, measurement of impact, and chronicling what has and has not worked have not been done widely. Additionally, regular publication of unified development budgets[58] that would provide policymakers and the public with a more complete picture of the resources that are being devoted to development and how those resources are being used (i.e. who is benefiting from them) has been missing.

Specific suggestions on how economic development can be re-oriented include:

- Employing market-based approaches instead of place-based approaches;
- Employing long-term strategies that invest in people (e.g. — education, rehabilitation, re-entry from prison);
- Linking redistributive policies to economic growth (i.e. making economic development more progressive) by focusing on low-income community members (e.g. — single mothers, immigrants, high school dropouts, ex-convicts)
- Investing in capacity-building;
- Influencing the quality of existing jobs[59] as well as creating new jobs; and
- Integrating urban and rural initiatives.

Workforce development

Economies thrive when their workers have adaptable skills that allow them to respond to industrial and technological shifts. The skills that give workers that flexibility continue to change with the innovations around them. The education system is designed to give its students a core set of skills (in reading, mathematics, science). These, however, are no longer sufficient to secure a job in today's economy. Workers also need to be team players, to have good written and oral communication skills, to be familiar with computers and the Internet, and, of course, they need to have the specific skills of the industry and job.

With so many requirements of workers and the limited capacity of public schools to expand curricula to incorporate all of those, we need additional pipelines to deliver capable workers to employers. One way to create effective workforce development systems would be to strengthen their links to economic development. For example, business subsidies can require that recipients set aside funds for their workers to use for education and training, or, in the event of a shutdown, that recipients offer retraining for workers so that they won't be economically stranded. Alternatively, workforce development can be incorporated into rebuilding activities, environmental remediation and infrastructure. Or, anchor institutions (e.g.— hospitals, universities), as major employers, can set examples for other businesses.

There is a particular need to make sure that low-income or low-skill workers are able to access these programs; these include, but are not limited to, youth, males and high school dropouts.

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[58] A unified development budget includes expenditures from government agencies as well as tax expenditures (credits, deductions, and preferential rates).
[59] The health care industry, in particular, was named as one in which the quality of the work should be raised.

Other specific suggestions include:

- Using industrial occupation data as a tool for workforce development;
- Including capacity building within workforce development;
- Raising productivity in service industries;
- Eliminating the knowledge gap by researching customized job training; and
- Identifying a long-term job-training intermediary whose operation is replicable and scalable.

Business subsidy

Business subsidies are widely used to attract relocating business or branch offices. While a valuable component of the economic development toolkit, subsidies have become the first choice among developers, leaving behind strategies that reward existing businesses, nurture local entrepreneurial ventures, or cultivate homegrown welfare. There is broad agreement that bidding wars result in windfalls for the lucky recipients, high price tags for the "winning" localities, and dubious effects on employment, income, and up- and down-stream industries. In addition to regular publication of a unified development budget that would detail the size of the subsidies, a state-by-state inventory of subsidy costs would educate the public and policymakers about the size of the transfer of resources from public revenues to for-profit companies.

Until the publication of those numbers or the creation of a compact among state leaders to refrain from this "race to the bottom," subsidies will continue to be popular. There are a number of provisions that can be included now that benefit the public in general and workers in particular:

- Provisions that raise job quality (e.g.— wage standards, benefit requirements);
- Inclusion of job creation targets and regulatory policies;
- Transparency of the deals' costs before they are completed;
- Incorporation of first source hiring agreements; and
- Provisions that hold businesses accountable for meeting promised outcomes; these clawback provisions allow states to reclaim part or all of the subsidy when a business fails to meet its end of the bargain.

Communities need enforcement mechanisms if businesses are falling short of their obligations.

Tax system

While very few businesses make (re)location decisions on the basis of tax rates and systems, there is no reason to emphasize offering tax incentives or cutting revenue systems to the bone. But there is no doubt that a fair, predictable tax system creates a stable environment in which to live and do business. What is less clear is what the ideal/optimal design of such an overall system would include.

A good starting point is to understand the distribution of the tax burden and benefits. A regular tax incidence report will reveal which segments of the population are hardest hit and which are the biggest beneficiaries. With that information, lawmakers can assess the existing system. It might generate sufficient revenue, but is it collecting a fair share for all portions of the economy? "Getting business taxes right" might mean closing loopholes but creating a more equitable system.

As one might expect from a dynamic conversation among leading thinkers, there were numerous suggestions that weren't easily categorized but which complement the above. They include:

- Broker ties between labor, municipal, and real estate worlds;
- Identify non-traditional ways to work with informal policies;
- Increase organizational capacity and leadership using national organizations to build local strength;
- Hold officials accountable for actions and decisions;
- Utilize existing structures and institutions;
- Increase civic education;
- Cultivate strong unions over time, because wage bargaining by unions is more effective at raising wages that job training; and
- Support institutions that support labor.

Participants observed that:

- Organizing increases power, knowledge and strategic campaigns;
- Immigrant workers comprise the bulk of the low-wage workforce; and
- Research and reports should be widely available over the Internet.

They identified the following needs:

- Examples of regional cooperation;
- Understanding of the value of institutionalization and transparency;
- Knowledge development and management;
- Better understanding of ripple and spillover effects of wage increases;
- Credible alternative to incentives in terms of job creation in the same time frame; and
- Strategies that create "good" jobs.