

A REVIEW OF STATE ECONOMIC DEVELOPMENT POLICIES

by

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ABSTRACT

Three recent state economic development proposals are reviewed and compared with one another. A similar policy effort currently underway in Massachusetts is also reviewed in terms of its process and likely outcome.

The reports, from Ohio, Washington, and Rhode Island, are reviewed along three dimensions: institutional setting and process, substance and framework of the economic analysis, and program recommendations. The institutional analysis articulates the impetus for each report and the relationships of the major actors. The review of the economic analysis investigates the framework and methodology used in each report to understand the dynamics of the state economy. The review of the program recommendations describes each set of recommendations and evaluates whether or not the recommendations differ from traditional economic strategies.

The reports are compared along these same three dimensions. The program comparison draws out the parts of each program which could be characterized as elements of either the "new" economic development theory and practice, based on enterprise development and targeted state intervention, or the "old" economic development theory and practice, based on broad financial incentives and reduction of factor costs.

The product and process of the Massachusetts Commission on the Future of Mature Industries is reviewed. The central proposal of the Commission for a voluntary plant-closing accord is described. It is argued that lack of political commitment prevented the Commission from developing a more comprehensive set of recommendations.

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INTRODUCTION

This paper will review three recent comprehensive state economic development proposals, and compare them with recent efforts in Massachusetts to deal with similar issues. Each of the proposals has been influenced by new concepts in economic development that have been gaining momentum in recent years. One of the central themes of these new ideas is a belief in the power of strategic government intervention in the market to help create new jobs and products. The new concepts emphasize state investment in enterprise development, education, research and training to prepare both managers and workers for the rigors of a rapidly shifting economic environment. The new approaches emphasize the need to carefully target government intervention in order to prevent private windfalls and to promote the public interest at the lowest cost. The modern ideas dispute the realism of an economics that relies on the assumption of perfect markets. Government intervention is premised on the idea that there are many structural impediments that prevent economic actors from responding to the signals of the marketplace.¹

Many of the new ideas in economic development grew-up in counterpoint to traditional theories and methods of

¹"Reducing Unemployment Through Entrepreneurial Policy," Entrepreneurial Economy, January 1984, p. 3.

regional economic development. There has been a great deal of criticism of tax incentives for investment, industrial machinery, pollution abatement equipment, etc. These incentives have been criticized on a number of grounds: one, they are used so widely in so many states that they provide no locational advantage for any one state; two, the empirical evidence is in broad agreement that business tax breaks have almost no effect on business location decisions; and three, the tax breaks can result in significant revenue loss for the state, despite the very minor reductions in business costs they provide.²

Similar criticisms have been levied against slightly more modern tools of economic development, such as Industrial Revenue Bonds (IRB's). There is increasing concern that these tax-exempt bonds are providing credit for firms that could get loans in the private market. Further, the increasing use of IRB's in many states provides no locational advantage, as well as raising the cost of general obligations bonds. There is no firm connection between IRB financing and additional job creation.³

²Roger J. Vaughn, State Taxation and Economic Development, (Wash., DC: Council of State Planning Agencies, 1979), pp. 95-112.

³Lawrence Litvack and Belden Daniels, Innovations in Development Finance, (Wash., DC: Council of State Planning Agencies, 1979), pp. 100-101.

The new concepts of economic development directly oppose the classic strategy of luring out-of-state firms into a state using expensive subsidies. Critics find the strategy largely ineffective and too expensive even when it "works". More fundamentally, "smoke-stack chasing" creates no new wealth, it only steals wealth from neighboring states. Modern economic development practices concentrates on targeting aid to in-state firms that have potential for job creation or retention of jobs in a crucial industry.⁴

There are some bizarre combinations of old and new strategies. Some states have retained the basic strategy of incentives, but now they chase micro-chips instead of smoke-stacks.⁵ Just as local boosterism denied any environmental problems with industrial development (until citizens demanded new safeguards), the new boosterism views small business development with a blind eye to the type of jobs being created in this sector. There has also been a tendency to try to solve economic problems with yet another "capital gap" financing institution, rather than examining more fundamental reasons for economic failure.

The new state initiatives have grown up in a time when government activism is under fire. The election and first

⁴"States Take the Lead," Entrepreneurial Economy, January 1984, p. 10.

⁵"The War Between the States for High Technology," Iron Age, September 5, 1983, p. 73.

term of Ronald Reagan as President has certainly increased to record volume the rhetoric of "big government." Reductions in a variety of welfare programs, such as AFDC and food stamps, as well as cut-backs in economic development and housing programs, have reduced the ability of state and local governments to cope with the combined effects of the recessions of the early 1980's and the continuing shifts in U.S. industrial structure.

The current recovery, the ideological opposition of the Administration, the attack of mainstream Democrats, and the increasing identification of industrial policy with trade union-inspired protectionism have all served to isolate industrial policy proponents at a national level. Many states, however, are picking up on the themes of industrial policy, fashioning them into new policies for state economic development. There are a number of reasons for this openness to new forms of intervention in the economy by state government. First, many states have been hit very hard by the decline of their traditional manufacturing industries. They have been faced with unemployment that peaked at levels higher than any time since the Depression and dim prospects of ever regaining 100% of the manufacturing job decline. Second, federal support for economic development has reached a low ebb, forcing states to be more creative and self-reliant in developing economic strategies. Third, as mentioned before, smoke-stack chasing strategies are on their way to being discredited and many states feel compelled to shift

gears in promoting economic recovery. Contention over "business climate" issues continues in most states, but tax and regulatory reform issues are beginning to be put into proper perspective as only minor parts of an overall economic development strategy.

This paper will review some of the most recent and comprehensive state economic development documents. The Greenhouse Compact is clearly the most comprehensive strategy which has yet been crafted. Towards a Working Ohio does not have a detailed analysis of the state's economy, but it does contain a complete set of recommendations for a new direction in state economic development. The Washington report begins to develop an analysis and framework for policy along the same lines as Rhode Island's Greenhouse Compact, but ends up with a report which does not fit very closely with the recommendations.

Each of the strategy documents will be reviewed along three dimensions: institutional setting and process, the substance of the economic analysis, and the recommendations. The institutional and process analysis is limited by lack of access to a wide range of participants in the process. The analysis will simply articulate the impetus for the report and describe the principal actors involved based on available documents. The analysis of the substance of the report will look for clear statements of the problems being addressed. There will be a description of the reports evaluation of the health and direction of the state economy,

and a review of the attention paid to issues such as regional unevenness, job quality, and plant closing and mass layoffs. The analysis of the recommendations will investigate the relationship between the recommendations and the analysis of the state economy. There will be an evaluation of how different the recommendations are from traditional economic development strategies.

The final section of the paper will compare the process and likely product of the Governor's Commission on the Future of Mature Industries in Massachusetts with the reports from the other states. The Commission is still deliberating on some issues, but the limitations of the report, the recommendations, and the overall process are clear.

OHIO

More than any other report reviewed, Ohio's "Toward a Working Ohio" (TAWO), published in final form in December 1983, is shaped by the incumbent Governor, Richard F. Celeste. Unlike Washington, Massachusetts, or Rhode Island, the report was not the product of a tripartite commission (labor, business, and government). TAWO was produced by Celeste's Cabinet Cluster for Strategic Planning, which was led by key aides to the governor and included top officials from Public Welfare, Budget and Management, Commerce, and the Bureau of Employment Services. The report reflects very closely the views of the administration and the priorities the Governor has established for his first term in office.

TAWO is to be the first of four strategic planning reports. The other issue areas will be human services (including education and job training), environment and infrastructure, and government regulation and management. TAWO focuses on jobs and Ohio's economy as the first priority of the Celeste administration.

The impetus for a new strategy for economic revitalization is articulated in the Governor's forward to the body of the report:

By most conventional yardsticks, Ohio's economic performance during the 1970's fell short of what the people of this state had experienced and had

come to expect during the preceding twenty years... We are losing capital, jobs and people at a record pace.⁶

Celeste emphasizes the crisis character of the problems and calls for "new approaches" and "a new way of doing business in Ohio" that he calls the strategic planning process.

Celeste sounds several modern governmental themes that escape any easy ideological identification, although in some respects these themes parallel concerns expressed by neo-liberals such as Paul Tsongas and Gary Hart. Celeste believes there are definite limits to what public and private institutions can do to solve economic problems:

The once-held belief that all problems can be solved has been replaced by a recognition that there are some things we simply cannot accomplish, and that difficult choices must be made among competing priorities.⁷

Celeste views the strategic planning process as a method of targeting limited resources to gain maximum benefits. He describes his commitment "to get Ohio working again" in traditional good government terms of effective administration, but also to attack "unneeded and costly regulation", promote better use of natural resources, and to protect the environment. The key words within the strategy are innovation, flexibility and competitiveness.

⁶Towards a Working Ohio, State of Ohio, December 1983, p. 1.

⁷Ibid., p. 1.

The strategic planning process is touted as a means of shifting the state government's perspective beyond this year's budget and the next election. In fact, strategic planning appears to be something of a textbook approach to public policy, although the reference point that the document employs is the business use of strategic planning to improve its competitive advantage. The process involves identifying and defining the problem, nurturing a vision of possible interventions and setting goals and priorities for policy, creating initiatives and implementation structures, and then monitoring, evaluating and revising the state's strategic plan.⁸

Based on the totality of the document, one assumes that it is the executive branch of state government that is actually involved in the strategic planning process. The authors acknowledge that, "strategic planning cannot replace the political process,"⁹ but it is not clear how citizens or even other elected officials will genuinely participate in formulating the strategic plan.

The use of cabinet clusters, as opposed to a state planning agency, is viewed as an anti-bureaucratic step that will promote coordination and cooperation and cut down on jurisdictional disputes among agencies involved in the common

⁸ Ibid., p. 4.

⁹ Ibid., p. 4.

effort. The use of clusters also functions as a less technical form of the Planning, Programming, and Budgeting (PPB) system that originated under President Johnson. The Administration plans to use the clusters to evaluate plans and programs across agencies, to track expenditures and program effects, and get "maximum input" from public and private organizations and individuals.

Problem Statement

The core of the report is structured around a brief analytical section, dubbed a "Status Report," and then a much more detailed set of goals, with attached strategies and component individual initiatives. The analysis of the Ohio economy and its potential is clearly the weakest of all the reports reviewed. It remains exclusively at the level of aggregate statistics which broadly reflect the decline of Ohio's economic base over the last ten to twenty years. There is no detail even at the level of two digit SIC code employment trends, much less an understanding of key industry dynamics and linkages within the state economy.

The "status report" reads more like a political campaign piece than an analysis of the health and direction of the state economy. It describes Ohio's fall from "its position of leadership" in job, population, and income growth in the first two decades after World War II. It decries the lack of attention that state government has given to demographics and economic forces. The status report states, "the

consequence is that Ohio citizens have paid a tremendous price in lost economic opportunities and ineffective public programs."¹⁰

The report uses the device of projections of current trends to the year 2000 in order to demonstrate the severity of the economic problem Ohio faces. Unfortunately, this recitation of aggregate statistics provides no insight into the dynamics of Ohio's economy that the average citizen was not already too familiar with.

The report points out the population growth in Ohio dropped well below U.S. rates in the 1970's and the pattern of net in-migration to Ohio in the 1950's and 1960's reversed itself in the last decade. The report expresses concern that higher skilled and more mobile young people will be more likely to leave the state. Because of the "baby boom" the working-age population of Ohio is expected to be stable until the year 2000 and the proportion of the population over 65 years old will continue to increase. Female labor force participation had increased in Ohio, but at a slower rate than U.S. trends.

The report notes the continuing shift of Ohio's population away from both rural and central cities to metropolitan suburban communities. Unfortunately, there is no analysis of regional industry or employment trends or in fact any indication of why people moved where they did. It is noted

¹⁰Ibid., p. 7.

that rural counties have the highest rates of unemployment and poverty, while central cities have greater absolute numbers of poor people. The report points out that the poor are disproportionately minority or female heads of households.

The projection of jobs needed to reach something close to 4% unemployment by 1990 is one million new jobs. That would mean 125,000 jobs per year over eight years. Between 1950 and 1980, the state averaged a gain of 50,000 jobs per year and, based on current trends in Ohio industry, 30,000 jobs per year are likely to be produced. Gross production figures show Ohio lagging behind U.S. growth and Ohio has dropped down from being slightly above U.S. per capita income in 1970 to slightly below it in 1980.

Manufacturing employment peaked in 1969 at 1.4 million jobs and it was nearly 40% of total state employment. By 1982 it amounted to only 27% of total employment. Other goods producing sectors also declined, particularly construction. The service sector share more than doubled in size and there has also been growth in the share of trade and financial services over the last decade. The report warns that, "it would be a mistake to assume that those who lost their jobs in the factories got the new service jobs. The growth has occurred in different occupations, generally at lower wage rates, and in different geographic centers."

(TAWO, p. 14)¹¹ Unfortunately, the report does not provide any detail on which regions were most affected, or the extent and nature of the dislocated worker and plant closing problem on Ohio.

Recommendations - Goals and Strategies

The Ohio report firmly rejects the view that Ohio's economic problems will be solved by the national economic recovery. Lagging employment and income, the need for so many new jobs, and the slow growing mix of industry in Ohio combine to recommend a plan of intervention to create new opportunities.

The strategic plan recognizes that Ohio's economic decline will not correct itself, that the economic environment has shifted permanently, that the recovery will be a slow process and, finally, that Ohio's strengths in central location, skilled workers, abundant energy, and quality schools and universities can serve as foundations upon which new economic growth can be built.¹²

The recommendations revolve around three goals:

1. To establish Ohio has a world leader in innovation and entrepreneurial activity;
2. To make Ohio's businesses more competitive in the world marketplace;

¹¹Ibid., p. 14.

¹²Ibid., p. 16.

3. To use state and federal funds to accelerate new job creation in Ohio.¹³

The report declaims any attempt by state officials to "take over" economic development in Ohio, but instead stresses the role of the state in acting as a catalyst for private and civic action, promoting linkages between communities, the private sector, and state government resources.

TAWO distances itself from the state's traditional arsenal of economic development tools, although it refrains from criticizing them outright. The primary concern expressed is over the adequacy of the return for the state's economic development investment. TAWO points out that in periods of slow growth greater competition among states is very expensive compared with the resulting jobs. There is criticism of programs which substitute government financing for private financing, which is apparently a criticism of industrial revenue bond (IRB) programs. Also of concern are financial incentives which are not closely tied to job development or which are given under threat of plant relocation.

The report makes several references to modernizing the state's basic industries, but most of its strategies are tied to new business and technology development or are not targeted at all.

There are three strategies under the heading of promotion of innovation and entrepreneurial activity. The first

¹³Ibid., p. 16.

is to promote a variety of research and development institutions to develop and apply new technologies. The second involves lobbying for changes in federal policy regarding mature industry and agriculture. The third strategy is to provide assistance to Ohio business, financial assistance, international trade promotion, and improved state job training and matching.¹⁴

The research and development activity of the state is by far the most expensive new program. It is funded through the new Thomas Alva Edison Partnership Program at \$32.4 million for the 1984-85 biennium. For a state the size of Ohio and with its problems, this is a modestly funded program. The programs rely heavily on university-business partnerships to identify new technologies with commercial potential, to actually carry out the research and development (with state matching funds), and to assist industries in modernizing and developing new products. There is no clear assessment of the strengths and weaknesses of Ohio's research base or any effort to target particular industries as especially needy or with potential for growth. There would be an attempt to obtain state royalties on successful products which are developed.

There will be two other R & D-oriented programs which will receive small amounts of state funds. A technology

¹⁴Ibid., pp. 17-24.

research clearinghouse and technical assistance center will get \$24 million and a Coal Development Agency will receive \$4 million in start-up funds to accelerate the commercialization of coal desulfurization technologies. Finally, there will be an effort to link Ohio farmers with the Agricultural Research and Development Center at Ohio State University.

The second strategy of federal lobbying focuses on federal policies which affect mature industries and Ohio agriculture. Lobbying efforts center around federal procurement and spending, reconstruction of public facilities, broader national sharing of unemployment compensation and revision of the tax code to help prevent "paper entrepreneurialism." In agriculture, the state wants federal money to improve in state ports for shipping and agricultural exports, to stop federal funds from flowing to western state irrigation projects, and to keep financial institutions undergoing federal deregulation under state regulation. All of these lobbying efforts are no doubt sincere, but none of them are likely to succeed and the farm policy efforts have almost no chance. The appearance of lobbying efforts with so little chance of success tends to undermine the integrity of the entire policy, making it appear as if scoring political points with important constituencies counts for more than being realistic about the current balance of forces in Washington.

The final entrepreneurial strategy is to provide technical and financial assistance to business, especially

small business. The report exaggerates the importance of small business job growth, stating that over 60% of the net new jobs in the coming decade will be produced by firms of less than 100 employees. While it is true that small business growth is important, estimates of the small business share of recent net employment change range from 41% to 70%.¹⁵ Further, the report does not analyze what kind of jobs will be created by small business or in what sector they will appear. Questions have frequently been raised concerning the quality and stability of small business jobs.¹⁶

Despite these possible objections, the state program for small business is a sensible business development program. It includes one-stop licensing, locally funded technical assistance centers, state support for small business exports, access to the state's financial aid programs, establishment of procurement goals for minority and female-owned businesses, and linking small business with state-supported research and development efforts.

Ohio has a number of financial aid programs which it plans to consolidate and target more carefully. The state gives direct loans, loan guarantees and IRB's. New guidelines will call for smaller loans in greater numbers and targeting of business already in Ohio. New equity will be sought from

¹⁵Candee Harris, "Small Business and Job Generation," February 1983, p. 3.

¹⁶David Gordon, "Survival of the Fairest: The Importance of Fostering Small Firm Job Quality," Entrepreneurial Economy, September 1982.

institutional investors and pension funds through changes in state financial regulations. The Department of Development is charged with developing guidelines for private institutional venture capital funds directed toward Ohio companies. The funds would be used for either seed capital and start-ups, or for leveraged buyouts and mature firms.

Again, these programs appear to have merit, but there does not seem to be any analysis of how Ohio capital markets are currently working. There is an assumption of market failure without even a cursory glance at current market operations. There is no analysis of what the particular needs of small business in Ohio really are, how many jobs they might realistically produce, or where businesses are currently locating within the state. Despite the centrality of small and medium-size businesses within the strategic plan, it is worth noting that the technical assistance program calls for "minimal state funding" and the financial assistance is primarily a re-organization of existing programs, with an increase in the state bonding limit from \$150 million to \$300 million.¹⁷ The level of commitment is very modest for a program that seeks to quadruple current annual job growth from 30,000 to 125,000.

The last recommendation for assistance to business is to improve the job training and matching services of Ohio Bureau of Employment Services (OBES). A number of programs

¹⁷TAWO, pp. 32-33.

are suggested that aim to expand the range of individuals and businesses that can be served by OBES. This involves setting up separate white collar units, adding and retraining employment development specialists, and working more closely with local training programs. There is a call for improved labor market information and analysis in order to target services to industries and areas where workers are in danger of losing jobs and will be seeking new employment. Finally, OBES will establish an early warning system to enable the state and the local communities to anticipate or avoid plant closings. There is no mention of the magnitude of this problem in Ohio, or funds for evaluating the future of troubled firms or consideration of state assistance to help turn a firm around or promote a worker buyout. The program appears to be directed at training and social service programs for soon-to-be dislocated workers.¹⁸

The tripartite approach to state economic development problems emerges as the central focus of the second major goal of the Ohio report - to make Ohio's businesses more competitive in the world marketplace. There are no substantive proposals to reach this goal, but rather a process of tripartism is offered to begin to develop substantive proposals. The report proposes an Office of Labor/Management Cooperation, a Center for Labor/Management Cooperation at Ohio State, and a Governor's conference and committee on the

¹⁸Ibid., p. 24.

same theme to be organized in 1984. All these efforts are directed at identifying successful cooperative efforts, and developing an action plan for improving the competitive position of Ohio business, based on cooperative efforts of labor, management, and government. There is also a program planned to bring public workers and managers together to improve working conditions, work performance, and the cost effectiveness of state government.

This overall approach does not speak directly to "business climate" issues, but it is clear that such a wide-ranging mandate as "initiatives for improving Ohio's competitive position"¹⁹ will open up many areas of business unhappiness with both labor and government. Perhaps the Celeste Administration felt that there had to be a forum for such issues, but that it did not want to begin its strategic planning process by negotiating through many difficult tax and regulatory issues and cloud the many new initiatives suggested in the report. It may also have been a consideration to place these concerns within a context of cooperative endeavor, rather than in a clearly adversarial interest group bargaining context.

The final goal is to use state and federal funds to accelerate new job creation. The recommendations in this section are among the most traditional and least innovative of all the recommendations in the strategic plan, yet they

¹⁹Ibid., p. 26.

involve spending \$10 million from general revenue and issuing \$410 million in housing bonds.²⁰

The first strategy involves using public money to maximize job creation. This includes re-doubled efforts to obtain federal transportation and capital project funds, along with assistance to Ohio's distressed communities to increase success rates in competition for federal UDAG's. Another approach suggests providing more CDBG funds on a competitive basis, and evaluating proposals based on job creation potential.

The second strategy is directed toward using state funds to create private job opportunities. The housing industry is to be supported through continuing the Ohio Housing Finance Agencies below-market mortgage program. There is no discussion of set-asides for low and moderate income home buyers, or directing money to depressed areas within the state. There will be a \$10 million tourism promotion program. The report claims that this investment is tied to job creation initiatives because the promotion will support hotels, restaurants, and tourist facilities in the state. There is no discussion of the quality of jobs created in this sector or the propriety of spending nearly 20% of all new appropriations for the economic development plan on tourism.

²⁰Ibid., pp. 26-28.

The last part of this strategy is to promote the state's renewed commitment to an "innovative and competitive business climate,"²¹ as well as the state's quality-of-life advantages. While this promotional message may be important for changing the extremely negative image of Ohio as an industrial wasteland, it is disappointing to see that one part of this strategy is the continuation of efforts to attract out-of-state companies to Ohio, even after widespread acknowledgement of the ineffectiveness of such strategies.

²¹Ibid., p. 28.

WASHINGTON

The Washington Emergency Commission on Economic Development and Job Creation (Washington EC) was created by the Washington legislature in May, 1983. The EC was bi-partisan commission, with eight legislative members and fourteen citizens representing labor, farm, financial, educational, industry, and local economic development entities. Notable in their absence are representatives of the Governor or state agencies engaged in economic development. This kind of tripartism is clearly at the other end of the spectrum from Ohio's tightly organized cabinet clusters.

Similar to Ohio (and we will see, also to Rhode Island), the impetus for the Washington report was the absolute crisis in the Washington state economy. According to the report more than 250,000 workers were unemployed, the housing industry was at an all time low, and business bankruptcies were at all time highs.²² The Commission established its goals for the project, reviewed and debated basic principles on which to base the study, and held a number of hearings. The Commission analyzed the overall strengths and weaknesses of the Washington economy, examined the potential of a few key industries, and divided into three subcommittees which generated the bulk of the final recommendations. The Capital

²²Report of the Emergency Commission on Economic Development and Job Creation, State of Washington, undated, Vol. I, p. 1.

Capacity group examined lending practices and capital available for business development and recommended a number of improvements in state development finance mechanisms. The Regulatory and Institutional group reviewed the legal, regulatory, and program factors that affect economic development. Much of their work involved study of Washington constitutional prohibitions of public funds for private ventures, environmental regulations, and the efficacy of state tax incentives as economic development tools. The Labor and Human Resource Capacity group examined occupational needs, dislocated workers, plant closings, and training needs. Much of the energy of this group was directed to the issue of advance notice of plant closings and mass layoffs.

The EC established some relatively clear goals:

1. To establish consistency and coordination in economic development strategy;
2. To generate greater economic development capacity at a state level;
3. Remove legal, regulatory, informational, etc., barriers to economic development, given environmental concerns and the need to promote stable, primary employment; and
4. Facilitate economic activity in distressed communities and employment opportunities for the economically disadvantaged.²³

The Commission sought to provide recommendations that are quite consistent with new economic development theory and practice: programs for traded sectors (i.e. goods and

²³EC, Vol. II, p. 1.

services sold outside the state), to promote diversification and innovation in traditional industries, to provide technical and financial assistance to small and medium size businesses, programs to revitalize cities' economic development potential, especially distressed communities, programs for dislocated workers, and programs to improve "the risk-taking environment to promote new products and entrepreneurial innovations."²⁴

The final recommendations produced are somewhat more conservative than this list might indicate, but they stayed within these general guidelines.

The definition of economic development used by the Commission is, "The creation of jobs and incomes which would not otherwise be created without the deliberate effort of the private and public sectors." The activist character of this definition is reinforced in the discussion of a rationale for a state economic development strategy. The first point is that the average nine percent unemployment rate in Washington since 1970 indicates that the economic problems of the state are not cyclical or self-correcting. The report puts forward an analysis of "market imperfection" that stresses the difficulty of workers, managers, and capital markets in adjusting to rapidly changing economic circumstances. The EC also expresses great concern with the chaotic program development and administration in Washington. There is a pervasive tone in the report that indicates Washington

²⁴Ibid., pp. 1-2.

has been "behind" other states in utilizing public economic development tools, even ones with mixed records of success, such as industrial and housing revenue bonds and the federal UDAG program.

The report makes a cogent argument for a limited, but key role for the public sector in economic development. The report reacts directly to supply-side "free market" arguments, as well as to those who fear burgeoning bureaucracy and public boondoggles. The Commission argues that public goals of job creation and increasing real income are not coincidental with the private profit motive, but are in many respects dependent on it. The public role is to provide incentives to employers to improve productivity and retain jobs, instead of disinvesting in a business.²⁵

Public assistance must be based on returns to the public's benefit and to restrict windfalls that do not produce public benefits. The report states that the state should not bail out firms which cannot be competitive, or pick winners and losers among industries, but rather "work in classes of investment (i.e., research and development, distressed areas, seed and start-up capital, marketing, applications engineering, etc.)."²⁶ The state also has a key role in smoothing the transition from old to new

²⁵Ibid., p. 5.

²⁶Ibid., p. 5.

industrial structures for communities and workers, so that economic progress does not mean social hardship.

There are a couple of additional points within the premises of the report that provide some comfort to those concerned about the possibly faddish or trendy character of some of the new economic development thinking which is embodied in most parts of the EC report. The EC warns against mere imitation of new economic development efforts in other states, indicating that economic and political needs may be quite different from state to state. The EC uses a figure for small business share of new jobs (50% of new jobs are attributable to businesses with fewer than 20 employees) that can be attributed to David Birch's research.²⁷ The important thing is not that the EC uses a figure that may exaggerate the small business contribution to new job growth. This is clearly a consistent part of new economic development thinking. What is important is the qualification of this figure which emphasizes only a small minority of small businesses sustain rapid growth in traded sectors which are of the greatest importance to state job generation.²⁸ The final comment of the Commission which differentiates it from other perhaps more faddish approaches is the caution the Commission urges in relation to the prospects of high tech

²⁷David Birch, The Job Generation Process, MIT Program on Neighborhood and Regional Change, 1979.

²⁸EC, Vol. II, p. 4.

industry growth in the state. The report notes that high tech employment in Washington amounts to 2.2% of total employment, compared with a 4.1% national average. Despite rapid growth in most high tech industries in Washington, high tech is forecast to be between 3.7% and 4.3% in 1990, still below national averages. Further, the report notes the large number of low wage jobs created in high tech manufacturing firms.

Based on these extensive premises, the EC developed six principles:

1. Economic development investment efforts should encourage the most efficient investment practices possible. This means that the state should first reduce regulatory or other state-controlled barriers and provide technical assistance; second, the state should consider incentives, loan guarantees, and land write downs, and only in the last resort should the state make direct loans and grants.
2. Economic development should be carried out using methods which preserve the natural environment.
3. Public resources should only be used when a substantial public purpose can be ensured.
4. Economic development should emphasize building on the state's economic strengths and traded industries rather than trying to lure business from elsewhere.
5. Economic development can best occur as a cooperative effort among business, labor, financial, education, and public leaders.
6. Economic development is a long run proposition.²⁹

²⁹Ibid., pp. 6-7.

Overview of the Washington Economy

The overview of the Washington economy is relatively clear and concise.³⁰ It concentrates on manufacturing and other traded sectors and the shifts that have taken place in the Washington economy in the last ten to fifteen years.

The state's economy has been shaped by locational and natural resource factors. Its strengths were originally in fishing and farming, then timber and hydroelectric power generation, and, after World War II, in aerospace and shipbuilding. Since the war, Washington's economy has been cyclical, based on capital goods exports, and very sensitive to interest rate changes. More recently, there has been some diversification into services, tourism and trade.

The Washington economy did well in the recession - free 1960's. The high wage aerospace sector grew to 9.5% of total employment by 1968. The 1970 recession was disaster for Washington. Boeing's employment alone dropped from over 100,000 in 1968 to 40,000 in 1971, based on declines in military, space, and commercial sales. Unemployment rose from 4.9% in 1968 to 10.1% in 1971. Washington was not hit as hard by the 1974-75 recession, but unemployment averaged 8.5% in the 1970's. The high interest rates of the late 1970's and early 1980's led to a crash in Washington's economy, sending unemployment to nearly 14% in 1982.

³⁰Ibid., pp. 13-35.

The two largest industries, aerospace and forest products peaked in 1969 at 15.5% of total employment. By 1983, they accounted for only 7.6% of employment. Unemployment in the state has traditionally been higher than the U.S. rate, although the gap has grown over time. The high wages in the Washington manufacturing sector supported a large service and trade sector in the state.

The report details the decline in Washington's aerospace, forest products, and other basic manufacturing industries, along with the increases in instruments, machinery, electronics, chemicals, fish processing, and a variety of services. There are two simple and key points in the analysis: one, the new jobs are not growing rapidly enough to replace the old jobs and, two, the average wages in rising industries are much lower than wages in declining industries. The rising industry wages average \$7 per hour, while the declining industry wage averages \$11.50 per hour. This declining average wage has serious income consequences for workers losing jobs in the traditional industries, but also will affect the service sector workers who have been supported by the spending of high income workers.

Strategic Market Analysis of Traded Industries

This section of the EC report is one of the most interesting in the document, but ultimately it does not seem to be intimately connected with the work of the rest of the

Commission. As we shall see, the recommendations are limited to the topics examined by the three subcommittees described previously.

Borrowing liberally from Michael Porter, Ira Magaziner, and Robert Reich, the Commission develops a framework for carrying out the strategic market analysis.³¹ This framework combines export-base regional economic theory, with private sector competitive strategy theory. This framework emphasizes the need to go beyond employment, investment, and output aggregates to explore the dynamics of key industries.

The analysis depends heavily on the distinction between traded and non-traded sectors of the economy. Traded sectors provide goods and services primarily for sale outside the home market. The traded sectors bring in income for sales outside the home market, which is retained as wages, profits, and depreciation (in the case of local ownership).

As an economic development strategy, Magaziner (and others) have recommended orienting the local economy to traded firms with the highest amount of value added per employee, striving for higher rates of productivity growth than competitors, and developing new products and markets

³¹Michael E. Porter, Competitive Strategy Techniques in Analyzing Industries and Competitions, (New York: Free Press, 1980), Ira Magaziner and Robert Reich, Minding America's Business (New York: Harcourt, Brace, Janovich, 1982) and "The Greenhouse Compact: Cultivating Rhode Island's Fourth Economy," A Report by the Rhode Island Strategic Development Commission.

which cannot be easily captured by competitors. Individual industries can be analyzed using the strategic market techniques by examining the current position of the industry, the potential opportunities, the strength of competitors, the type and number of jobs being generated and the extent of industry linkages within the state.³²

The Commission also borrows the distinction Magaziner and the Greenhouse Compact makes between raw materials businesses, low wage businesses and complex factor businesses. (This analysis is also in Reich and Magaziner, Minding America's Business). The EC notes that Washington depends on raw material business for about 30% of its international exports. There are few low wage businesses in Washington, although there is concern about Asian competition in shipbuilding, steelmaking, and transportation vehicles. Complex factor businesses depend on competitive productivity gains or price premiums obtained outside the manufacturing process. Complex factor businesses can gain cost advantages in purchasing in large volumes, economies of scale or improved process technology, in superior distribution systems, applications engineering, or research and development.³³

The Commission uses this framework to analyze some key traded industries in Washington using a limited number of interviews and a variety of published reports on the industries,

³²EC, Vol. II, p. 44.

³³Ibid., p. 53.

short strategic market profiles were developed. The industries profiled include raw material businesses (fish, pulp and paper board mills) and technical and capital-intensive businesses (surgical and medical instruments, and computers and computer peripherals). Lack of time and resources prevented the EC from doing a more thorough job, but the insights into the individual industries give a much more substantial sense of the dynamics of some critical industries within the Washington economy.

This kind of analysis begins to break down the key factors in each industry so that a clear sense of what is required to keep the industry healthy is gained. This sort of analysis can help inform labor market policies, targeting of incentives and other state support, and in anticipating likely changes in industrial structure for different regions of the state.

Unfortunately, despite the Commission's staff's best efforts, apparently little serious interest was elicited in support of pursuing this kind of strategy other than a single recommendation calling for funds to enhance research capabilities in strategic development planning. There is no real integration of the analysis that was done into the overall recommendations. My impression is that the subcommittees became more involved with their own tasks and were unable (or uninterested) in integrating their work with the economic analysis.

Regulatory and Institutional Capacity

The Washington State constitution prohibits the use of public funds for private purposes, as do many state constitutions. However, Washington courts have constructed this prohibition in a narrow fashion, disallowing almost all state development finance institutions. IRB's are allowed on a strictly project-revenue basis only. The subcommittee recommended that the constitution be amended to define "public purpose" to include public investment in job-generating economic development activities. Following on this constitutional change, the subcommittee also recommended that legislation be adopted which would authorize cities and counties to set up non-profit local development corporations which could buy and sell land, make loans, and write tax-exempt leases. The constitutional prohibitions and the absence of a local economic development instrumentality are examples of why Washington residents felt they were "behind" other states in economic development policies.

The subcommittee undertook the examination of other traditional economic development topics. It reviewed the Washington citing and environmental review procedures and proposed some streamlining measures, including requiring those entering lawsuits against proposed development put up bonds to prove the lawsuit is not frivolous. It reviewed the status of business taxes in Washington. It also reviewed the supply side tax argument as well as criticisms of supply

side views. Because of strong views on both sides of the issue of business taxes, the subcommittee ultimately made no recommendations on business taxation.

Tax incentives for economic development were reviewed and the theoretical and empirical arguments against use of broad-based tax incentives won out. The studies of Michael Kieschnick and Roger Schmenner were used to persuade the subcommittee to issue a recommendation that only "specific, targeted, cost-effective tax incentives" be used as development tools.³⁴

The subcommittee recommended that an advisory committee be established to carry out further research and follow-up the recommendations of the Commission. It would be broadly representative in the same way the Commission was.

Capital Capacity

This subcommittee overlapped somewhat with the Regulatory and Institutional Capacity Subcommittee. Most of what was recommended by the Capital Capacity group is in effect in a number of other states. The analysis they performed was clearly influenced by the thinking of consultants like Lawrence Litvack and Belden Daniels (who is thanked in an acknowledgement attached to the report). The emphasis is on capital availability at properly risk-adjusted rates, as opposed to subsidized capital.

³⁴Ibid., p. 96.

The subcommittee did not do a very substantial analysis of Washington capital markets, but instead relied on empirical research done nationally to expose "capital gaps". The subcommittee did conclude that there were such "capital gaps" in Washington. The subcommittee also discovered that there is quite a substantial pool of venture capital in the state, but that 70% to 80% of it was going out of state, demonstrating the opposite of a capital gap in equity financing.³⁵

The recommendations of the subcommittee are consistent with modern development finance thinking. They recommended the use of umbrella revenue bonds, loan guarantees and mortgage insurance within the state IRB program. They recommended extending the list of facilities eligible for IRB's so that it includes all those allowed by federal law. At the same time, the subcommittee recommended that as the federal government restricts new revenue bond issues, the state give priority to high value-added traded firms. The subcommittee recommended that the state proceed with deregulation with state chartered institutions and securities laws. These changes are to promote greater competition in financial institutions and to lower the cost of initial equity offerings by small firms.

Ultimately, though, the subcommittee (and then the entire commission) issued a weak recommendation on the use of

³⁵Ibid., pp. 116-134.

flexible development finance tools. They agreed that any such tools be targeted to the availability rather than the cost of capital, but wanted to see the maximum use of federal funds or a publicly-chartered, privately managed lending authority before there should be consideration of direct public financial institutions.

Labor and Human Resource Capacity

The primary issues this subcommittee dealt with were advance notice for plant closings and strategies for assisting dislocated workers. The subcommittee also addressed education and training, but this was very weak.

The subcommittee viewed the issue of plant closings through the framework of "the disappearing middle" in the job structure. This view is the working hypothesis of writers such as Robert Kuttner, Bennett Harrison and Barry Bluestone.³⁶ They reviewed the evidence of income shifts in Washington and found that high wage manufacturing jobs were contracting at a rapid rate while lower wage service jobs were still expanding.

The subcommittee reviewed a study by Deborah Feldman of plant closings and mass layoffs (fifty or more workers) in Washington between 1979 and July 1983 in the manufacturing

³⁶Robert Kuttner, "The Declining Middle," The Atlantic, July 1983, and Barry Bluestone and Bennett Harrison, "The Economic State of the Union in 1984: Uneven Recovery/Uncertain Future," mimeo, January 1984.

sector. Only closings and layoffs of more than one year were considered. The Feldman study documented job losses of over 60,000 since 1979. Such losses represented 20% of the 1979 manufacturing employment base. Mass permanent layoffs were responsible for two-thirds of the job losses. The greatest losses were in aerospace (23,000), wood products (7,200), and transportation equipment (6,700). Two-thirds of all the manufacturing jobs that were lost paid more than \$11.00 an hour.³⁷

The subcommittee went through an extended debate over the need and advisability of requiring advanced notification of plant closings. Familiar arguments were put forward on both sides. Those who advocated advance notice argued that it was needed to provide sufficient lead time to evaluate alternatives to plant closure and to allow workers a chance to seek new jobs or training before they are unemployed. Against this, others argued that employers are often not aware closing is imminent, that any serious enforcement mechanism will be regarded as "anti-business," and many employers already cooperate with workers and local leaders in cases of plant shutdown even without legislation.

The subcommittee recommended (and the Commission narrowly adopted) a two-part strategy. First, legislation should be passed that will "strongly encourage" employer advance notice. Second, the state should assemble a "task force to coordinate

³⁷EC, Vol. II, pp. 150-151.

temporary assistance in response to business failures, plant closures, and mass layoffs."

For dislocated workers, the subcommittee recommended the development of a clear definition of a "dislocated worker," a Dislocated Worker Coordinating Council be established to coordinate available services, that dislocated workers receiving unemployment compensation be allowed to participate in training programs, and the development in a more effective labor market information system.

Summary

In Washington we observe a Commission report informed by some of the most current thinking in economic development, including the strategic analysis proposed by Ira Magaziner, the development finance proposals of Belden Daniels, the research of Michael Kieshnick on business taxes and tax incentives, and even the "missing middle" job concerns of Barry Bluestone and Bennett Harrison. However, most of the recommendations are not anything unusual or innovative. Financial deregulation, umbrella revenue bonds, local development corporations and voluntary advance notice of plant closings are all widely practiced. The relative conservatism of the Commission is surprising given the gravity of the economic crisis in Washington State. This conservatism may be due to the unproven character of some of the more recent enterprise development strategies such as we will see in Rhode Island.

RHODE ISLAND

The Rhode Island Strategic Development Commission has produced the most detailed and comprehensive analysis and set of recommendations of all states reviewed. The Commission was appointed by the Governor of Rhode Island. It is composed of 19 members, primarily from business and labor, with only three public officials. It has an advisory committee of 50 more members, and a largely part-time staff of over 100.

The report, entitled, The Greenhouse Compact, after one of its recommendations for "research greenhouses," was organized in a fundamental sense by Ira Magaziner and the staff of Telesis, his strategic consulting firm. The Commission placed a big premium on original and detailed research, within the conceptual framework Magaziner (and others) have developed. There was also a premium placed on grand thinking that attempted to get all the participants to get beyond knee-jerk reactions to long-familiar topics.

The report "relies on in-depth data collection and analysis of detailed interviews rather than published sources and sample surveys." It employs a framework that concentrates on competitive business strategies rather than broad analysis of factor inputs for all businesses. The report denies that the Commission is a "negotiating forum to allow established interests to present time-worn propositions..." and denounces watered-down consensus forming for its lack of

leadership. The Commission goal is not to bring Rhode Island into line with other states, in terms of taxes or industrial incentives, but rather to recommend some "bold and innovative" steps to promote economic development. Finally, the Commission proposes that it be responsible for carrying out its own recommendations. Although every state commission develops some sort of follow-up group, it is always to monitor recommendations, not for implementation.³⁸

The Commission overstates its reliance on bold leadership over compromise. As we shall see, there were some very important trade-offs between labor and business that appear in the recommendations. Labor accepted changes in the unemployment compensation system which would deny strikers any benefits. The so-called "strikers benefits" has long been the most contentious "business climate" issue in Rhode Island. On the other hand, business accepted the repeal of several broad-based tax incentives which the Commission concluded were ineffective. Business also signed onto a strategy whose basic goal is to create new jobs at wages considerably above current levels.

The same concepts of strategic competition and the importance of the focus on traded businesses that we saw in the Washington report are more fully developed and integrated into the entire Greenhouse Compact. The application of the export-base model is not rigorous in an academic sense.

³⁸The Greenhouse Compact (GC), p. 5.

Internal linkages are not really examined, nor are any import substitution strategies. The export-base model assumes that there are very few resource constraints on export-driven growth that would produce bottlenecks and price increases. There is very little disaggregation of the traded sector to examine the differential multiplier effects that investment in different traded industries might have. This model does have powerful intuitive appeal which is strengthened by its combination with the business strategy perspective.

Contrary to the abstractions of factor costs that economists make use of, the business strategy approach emphasizes that cost advantages can be gained in a variety of areas, including purchasing, manufacturing, distribution, applications engineering, and in research and development. Because it denies perfect competition, perfect information and generalized technology, business strategy theory can explore the actual dynamics of business practice. The Greenhouse Compact framework considers factor prices and government policies (i.e. "business climate") but as only one part of the overall competitive and growth characteristics of businesses in the state.

This framework leads to a number of strategic propositions for economic development policy:

1. Development activities should focus on traded businesses rather than non-traded ones.
2. Resource based industries must be utilized to generate traded wealth within environmental constraints.

3. Traded businesses likely to become subject to low wage competition must be identified, potential job loss assessed and policies for affected companies and individuals developed.
4. In complex-factor, so-called developed country businesses, programs must be flexible enough to encompass businesses for whom distribution and marketing is key as well as those for whom manufacturing is fundamental.³⁹

The primary economic problem the Commission identified in Rhode Island is the very large number of low wage jobs. This had led to a rising gap between Rhode Island and the U.S. and New England in per capita income. Rhode Island ranks 48 out of 50 in manufacturing wages, and without the three major defense contractors in the state, the wages would be the lowest in the nation. It is also noted that because of the agglomeration of low wage businesses, Rhode Island firms pay lower wages than in other firms in the same industry in other parts of the country.

The Commission carried out a detailed study of plant closings and major layoffs.⁴⁰ It found that between 1971 and 1972, out of approximately 90,000 manufacturing jobs in firms with 50 or more employees, over 40,000 workers were displaced through shutdowns and layoffs at some time in the

³⁹ Ibid., p. 13.

⁴⁰ Ibid., pp. 77-104.

decade. If only the initial level of employment in these firms is considered, over 20,000 jobs were lost. The report notes that the majority of the job losses came from firms controlled outside the state. Out-of-state firms sometimes shut down profitable businesses, recently acquired Rhode Island businesses, or consolidated production outside the state. Most Rhode Island-based failures were due to poor management and poorly handled transitions to new ownership. In contrast to the Washington case, it is worth noting that 42% of the job losses from shutdowns and layoffs came from the low wage industries of jewelry, textile and apparel.

The Commission study of small business and start-ups is refreshing for its specific analysis of the role of small business in Rhode Island, including the type and wage level of the jobs small firms have created. The study specifically criticizes the Dun & Bradstreet data base, on which most of the studies quoted in other state reports have based.

The Commission study confirms the importance of small business to Rhode Island. Firms of fewer than 50 employees contributed 43% of the new jobs created between 1971 and 1982. The report also notes that more than a third of these jobs are found in nontraded service firms. Start-up firms were responsible for the creation of 13,500 traded jobs from 1971 to 1982, but 73% of the firms paid below Rhode Island average wages. The study confirmed another of the premises on entrepreneurial strategies: start-up firms created twice the

number of jobs that were brought into the state by outside established firms.⁴¹

The Commission reviewed Rhode Island's record in attracting out-of-state firms and capturing expansions of in-state firms. The Commission noted that if Electric Boat is excluded, only 1,100 jobs were created by out-of-state firms. Concern is expressed over the conservative estimate of over 8,000 jobs created out-of-state by firms located in Rhode Island versus only 3,000 created by in-state firms through new construction. Most of the business expanding out-of-state had no "significant business reasons" for doing so, which means expansion to use low-wage labor or gain access to a new market.

One of the more impressive aspects of the Rhode Island report is the brief analysis made of most of the state's key industries. There are industry studies of textile and apparel, jewelry, wire and cable, fishing, tourism, boat building, ports, wholesale trading, defense industries, metalworking, financial services, retail, higher education, electronics and health industries. For the most part, these industries are traded businesses.

These studies are too numerous and detailed to summarize. They are certainly uneven in quality and in the extent to which they are specific to Rhode Island industry. The studies

⁴¹Ibid., p. 108.

do provide a beginning basis for judging the potential growth of the industry in Rhode Island and indications of what kind of changes could be made to improve the expansion possibilities of the industry. There is a great deal of attention paid to the quality and wage level of jobs in the Rhode Island industries. The specific breakdown of industry cost structures helps to identify specific policy changes which could pay off large returns in job generation.

The Commission did not shy away from a fairly comprehensive examination of more traditional economic development and "business climate" issues. The report begins by disputing the intentions of "business climate" reports, such as the Alexander Grant report, and it argues that the weighting of the factors does not reflect business costs, but rather reflects lobbying priorities. The report takes nearly 400 pages to review the status of what is referred to as the "infrastructural backdrop." More traditional areas of infrastructure such as energy, land, transportation and communication are investigated.

Rhode Island's high energy costs are likely to improve relative to the U.S. over the next two decades. The physical infrastructure of land, transportation and communication appear to be fully adequate for substantial economic development. There is no real investigation of regional unevenness in physical infrastructure of employment.

As in other state studies, the review of state education and training resources is quite cursory. The recommendations

that are ultimately put forward in this area reflect the thin analysis. There is much more attention paid to Rhode Island's university research base, which plays a very big role in the final recommendation.

The Commission carried out an extensive study of Rhode Island's personal and business tax system.⁴² This study reveals that Rhode Island's tax burden is about average for the country, based on a variety of measures. The study also took the opportunity to criticize the state's tax expenditure economic development subsidies, particularly the 2% investment tax credits and the net operating loss carry-forwards and carrybacks. The Commission estimated \$15-17 million are lost in revenue annually from the tax breaks. Using the growing body of literature on business taxes and location, as well as its own analysis, the Commission could find no evidence of the effectiveness of these incentives. They were criticized for being too loosely tied to actual job creation, and were ultimately recommended for repeal.

Unemployment compensation was investigated for its overall cost to Rhode Island firms and to measure the cost of unemployment benefits which go to workers involved in labor disputes.⁴³ The investigation of the overall costs of the system revealed that the Rhode Island businesses pay the second highest average rate in the nation at 2.26% of total

⁴²Ibid., pp. 583-646.

⁴³Ibid., pp. 727-775.

wages or 4.1% of taxable wages. The high cost was determined not to be related to overly generous benefits, or the "striker's benefits" which count for only a small percentage of unemployment insurance benefits. The most important reason for the high rates is Rhode Island's payroll tax increases in the late 1970's to bring the state system into solvency and prevent large scale borrowing from the federal system. Many other states are now increasing their rates to recover from the deficits caused by the recessions of the 1980's. The other reason is that the costs of seasonality generated by some Rhode Island businesses, such as construction and jewelry, are being spread to non-seasonal businesses more than in other states. A greater degree of experience rating was recommended to bring Rhode Island into line with other states.

The "striker's benefits" issue is dealt with as a factual question, although the Commission acknowledges that the issue is the premier perceptual business climate issue in the state. The Commission establishes that over the last fifty years striker payments have averaged only 1.5% of UI total payments. The Commission contrasted the New York and Rhode Island fixed period system, which established a fixed waiting period before payments can be made to strikers, with other state systems which involve disqualification of strikers from benefits until the dispute is resolved or until production is resumed. The Commission ultimately recommended that the statute be changed to a model based on production being resumed.

The last business climate issue investigated by the Commission is the workers' compensation system. The Commission found that the system does not have a high average cost, but that some industries in the state are way out of line with similar industries in other states. The Commission also criticized the administrative problems in the system, including litigation expenses, delays, and inadequate information.

The conclusion the Commission drew from their examination of these "business climate" issues is that, "while these do not represent major cost factors, they have created the image of Rhode Island being a poor business development state."⁴⁴ The Commission made a series of recommendations on these issues to improve the systems and defuse the perceptual problem, without gutting the essential benefits of the state systems.

The Rhode Island economic development program is reviewed and compared with the "traditional" economic development tools used in most other states. The combination of IRB financing, tax incentives for investment, assistance to expanding firms, direct loan or guarantee programs, and marketing programs for out-of-state firms is found in Rhode Island as it is in so many other states. What is not found in Rhode Island are the "new" economic development programs which are aimed at stimulating new business formation and industrial innovation. These programs include state-organized venture capital and

⁴⁴Ibid., p. 827.

product development efforts, university-industry cooperative research efforts, enhanced training and education in technical fields and targeted pension fund investments. While the Commission notes that most of the efforts are as yet unproven, and perhaps faddish in part, it is clearly the same general direction that the Commission is headed in.

The final pieces of Rhode Island's infrastructure that the Commission investigated is Rhode Island's capital base.⁴⁵ This section is one of the weakest in the entire analysis. No real analysis of Rhode Island capital markets is carried out. It is asserted that "no doubt gaps exist in Rhode Island capital markets," but no evidence, other than the usual anecdotal evidence from small businesses, is produced to prove this assertion. This is unusual and disturbing for two reasons: one, it contrasts sharply with most of the analysis prepared for the Greenhouse Compact and, two, much of the new program is based on capital grants and loans, yet no clear view of the capital markets has been established.

The Greenhouse Program

The Commission makes the case for an activist approach to economic development in introducing the overall program. The Commission argues that a broad public balance sheet must be used in the overall effect of investment. Public goals in economic development may differ sharply from private

⁴⁵Ibid., pp. 578-584.

investment goals. To simply cut taxes and hope that this trickles down to the creation of jobs is both fiscally irresponsible and naive. The government has a responsibility to calculate the overall public benefit from an investment, including its linkages with other industries and its potential for future job creation.

The Commission also puts forward a view that at first appears contradictory: on the one hand, market mechanisms sometimes move too slowly, while on the other hand, workers and communities need assistance in adjusting to industrial restructuring. This view gains coherence from the Commission's belief in an inexorable and ever more demanding rise in international competition as well as its devotion to a "place-based" economic development strategy that refuses to allow the marketplace to bankrupt the region. The only mechanism for adjustment that is more than a temporary welfare solution is to take risks and make investments in order to establish competitive advantage for firms in the state.

Programs for Existing Industries

1. Stabilization fund- \$7 million should be provided through publicly-chartered, privately-operated Business Development Corporation. The Corporation would be charged with investing in troubled, but potentially viable firms. The investment would be targeted to traded businesses unable to obtain conventional financing. The fund would also have a technical assistance component.

The Stabilization fund is proposed in lieu of a mandatory advance notice for plant shutdowns law. This is because, "it would provide the wrong image of the state of Rhode Island."⁴⁶ The fund would be allowed to issue a tax credit to firms that give advance notice and sell their firms through the fund.

2. Industrial Expansion Incentives- \$60 million would be provided by the state to existing and new businesses creating jobs in the state. \$2000 for each \$8 per hour job was calculated to be a sufficient incentive as well as provide adequate public return. The incentive would only be allowed for traded businesses. It would have no locational requirements. The \$2000 would be a forgivable loan if the job still existed in the fifth year. Every year from five to twelve a portion of the principal would be written off. If the conditions are not met, the grant becomes a market-rate loan, payable on demand.

The main criticisms of this program is that it will provide some measure of windfall to those businesses which would have created the higher wage jobs in any case. The justification is that an incentive is required to generate jobs paying above the current average wage.

⁴⁶Ibid., p. 835.

3. New Product Development - \$42 million would be made available to provide primarily existing firms with up to 50% of the cost of developing a new product. If the product fails, the loan would not be paid back. If it succeeds, it would be paid back at equity rates. Again, it would be available only to traded firms or firms seeking to become traded.
4. Specific Industry Program - A total of \$12.5 million should be spent on tourism, boat building, fishing, wholesaling, metalworking, and jewelry. Each industry has a program that was developed from the industry studies and tailored to specific problems and opportunities in the industry.

Programs for New Companies and Industries

1. Research Greenhouses - \$51 million would be devoted to four independent, non-profit research facilities devoted to commercial development of basic research. The institutes would be linked to universities or hospitals. A Greenhouse Venture Capital fund would be attached to the institutions to stimulate business development based on new products or processes.

The Greenhouses try to capitalize on current research strengths in Rhode Island, rather than competing in current trendy areas like biotechnology or computers. The risk is that the wrong areas could be selected, but a too general approach could

result in underinvestment and lack of focus. Preliminary research has identified a number of areas, including clinical trials, geriatrics and gerontology, robotics and thin film materials, as possibilities for greenhouse focus.

2. New Business Creation - A total of \$39 million will be provided in loans and tax breaks through the Business Greenhouse to license private limited partnership that provide funds and management assistance to start-up companies and to provide some funds to new ventures on a reimburseable basis. The incentives are primarily to ensure public purposes are followed in the investments. The businesses financed would have to locate in Rhode Island, or locate any new facilities in Rhode Island. The venture partnerships would have to provide professional management to the partnerships and invest a certain amount in early stage seed financing.

The tie to job creation is especially tenuous in this case. There is also no clear understanding of how new venture capital organizations fit into the current capital market in Rhode Island.

Research and Education Programs

The Greenhouse compact outlines some programs for improving higher education, continuing education, and customized technical and skilled training, but in general these programs are less developed and less innovative. The proposal

for a Rhode Island Academy of Science and Engineering is interesting but remains somewhat general. It appears to be mainly an advisory body without a clear mission or role in economic development. Given the technological bent of many of the Greenhouse initiatives, sound scientific advice will no doubt prove important.

Business Climate Issues

The Greenhouse Compact follows through on the analysis of so-called business climate issues in its recommendations, some which were mentioned earlier. The Compact recommends more experience rating in Unemployment Insurance, developing plans to streamline workers' compensation, dumping ineffective tax incentives, and modifying the labor disqualification section of the unemployment benefits system so that active strikers would not receive benefits. The Compact recommends a state Office of Business Assistance as a "one stop shop" for instructions and assistance in applying for state and local programs and permits, an Environmental Review Board to handle environmental concerns that arise from commission projects, and the development of an incentive plan for electric utilities tied to reducing the price gap between Rhode Island rates and New England and U.S. rates.

The Commission should be commended for its handling of these difficult business climate issues. Too often states have collapsed in their defense of public goals when the threat of an impending sour business climate is raised. The recommendations on unemployment and workers' compensation

will benefit all parties, and the resolution of the "strikers benefits" issue was as favorable to the workers as it could be if the issue was to be put to rest. The elimination of the tax incentives drives directly against the bidding war among states that has served as economic development policy for many years. The key to the Commission's success in these areas was extensive research into the topics that established a set of facts which all parties agreed to. Too often, efforts to deal with business climate issues remain entirely in the hazy domain of business leaders' perceptions.

Goals and Budget

The Commission's goal is to increase the number of traded jobs in the Rhode Island economy by 25,000 in seven years. This means the net creation of 3,600 jobs per year for seven years. The current rate of job creation is only 900 jobs per year. The expected multiplier of traded jobs is 1.4, so the total job goal is 60,000 new jobs. The second goal is to begin closing the gaps between R.I.'s average manufacturing wage rate and the U.S. average. The gap is now 22%. Assuming that the jobs that are lost average \$5.00 per hour, the new higher wage jobs will bring the average manufacturing wage to within 13% of the U.S. average.

The budget, which the Commission admits is based on a number of rough estimates, amounts to almost \$250 million. The single biggest item is the Grant/note expenditure of \$68 million for the expansion incentive. The conditional loans for product development will be \$42 million. The

Research Greenhouse total is \$51 million, split between grants, conditional loans, and public pension investments. Funds for specific industry programs, training and education programs, the business regulation programs, and the R.I. Academy of Sciences are slated to be grants amounting to \$29 million. \$6 million is slated for Commission administration and research.

The Compact was to be financed by a \$40 million tax surcharge, \$120 million in bonds, \$20 million from pensions, \$8 million from cities and towns, \$20 million in Federal funds, \$.5 million in corporate contributions and \$9.5 million in interest income. The tax surcharge was criticized by a number of important figures in Rhode Island after the Compact was announced and it was dropped in favor of raising the \$40 million through the state lottery.

Implementation

The report was issued in January of 1984 and the initial strategy was to have the whole package in front of voters for a yes or no vote in April. This has been delayed until June, while the Legislature and Governor approved the Compact in April. Opposition to the Compact is coming from the free market economists from Brown University, who wonder why the good investments envisioned by the Compact are not already being made. The report has aroused concern in other quarters because it is the product of a tightly organized process, with no representation of minorities in the state. There has also been concern over the weakness of the training section of the

compact and the absence of any targeting of jobs by region or amount of unemployment.⁴⁷

Conclusions

The Greenhouse Compact has managed to forge a comprehensive plan for economic development based on the most modern concepts available. While most of what is proposed has been done somewhere in the U.S. or Europe, it manages to be somewhat more than the sum of its parts. The grand scale of the package has helped forge the political will necessary to break out of the politics-as-usual cycle so common in economic development policy. The careful research and the conceptual framework that surrounds the Compact exudes confidence and helps shape a broad vision of a new way of doing business.

⁴⁷Mary H. Stevenson, "Thinking Big," Boston Observer, May 1984.

COMPARISON OF THE THREE STATE PROPOSALS

The three state proposals will be compared along essentially the same dimensions as the separate proposals. The impetus for the report and institutional shape of the inquiries, the analysis of the state economy and current state economic development policy, and the character of the program generated will all be compared and contrasted between the states. The program comparison will draw out what parts of each program could be characterized as elements of the "new" or "old" economic development thinking that was sketched out in the introduction.

The impetus for the renewed economic development policy efforts in all three states was the chronic difficulties of the economies, and, in the cases of Ohio and Washington, the acute symptoms of distress that developed during the most recent recession. In Ohio, the problems of major manufacturing industries, such as steel, rubber, and auto supply, produced very serious difficulties for the Ohio economy in the 1970's. The election of a new Democratic governor combined with these economic difficulties catalyzed a new effort in economic development policy. In Washington, the continuing decline of forest product and aerospace industries contributed to very high unemployment similar to Ohio. The political leadership for the efforts of the Emergency Commission emerged from the state legislature rather than from the incumbent governor. Because the Commission was based outside of the

executive branch there was an opening for criticism of both past and contemporary economic development policy. In Rhode Island case the continuing drop in the state's per capita income relative to the U.S. had convinced Governor Garrahy that state economic development efforts have been inadequate to the task of redirecting the state economy. Rhode Island's chronic problems of low wage jobs and under-employment were a greater impetus for new efforts than the effects of the most recent national recession.

The institutional structure of the inquiry was different in each of the states. Although the Ohio group claims that it consulted with a variety of groups and individuals throughout the state in preparing its report, the work of the Cabinet Cluster is clearly an extension of the Governor. This structure is later reflected in the strategy which includes a number of political or budgetary objectives which are priorities of the Governor rather than separate, innovative programs that would involve other decision-makers. In Washington, the Governor is nearly left out of the document altogether and the recommendations are almost exclusively directed toward the Legislature. The Washington Commission was organized on a tripartite basis and it appears as if the working groups within the Commission set their own agendas and arrived at conclusions independently. This is a more democratic and participatory process than existed in other states. The result, however, was that the recommendations tended to be less well coordinated, more general and vague

than in a document produced by administrators, and less budget-conscious than recommendations that are produced in a more centralized process. The Rhode Island Strategic Development Commission was explicitly fashioned as a tripartite group with the full backing of the Governor. The Commission did not function in the free-wheeling manner of the Washington subcommittees or at the behest of the governor as in Ohio. The Commission was tightly organized by Ira Magaziner and bounded by the conceptual framework that Magaziner was able to impose on the process. The debates that did take place were founded on the research facts that the case team assembled. This institutional structure helped drive the Commission towards agreement and produced a comprehensive program within a coherent conceptual framework.

The three reports differ in their approach to the analysis of the state economy. The Ohio report contains almost no analysis at all. There is no clear framework for the set of aggregate statistics that is displayed. The report does not break down the economy according to factor costs, i.e., land, labor, and capital cost, and further, there is no analysis of the specific effects of state government-imposed costs, such as business taxation, unemployment insurance, or workers' compensation. This sort of analysis constitutes the core of a traditional analysis of a state economy. The Ohio report does not analyze the status of its educational, research, or employment and training resources. There is no breakdown

of the economy by industry in order to examine the particular factors that state policy might influence. Analysis of resources available for enterprise development would be consistent with the new thinking in economic development. There is no investigation of the extent and characteristics of plant closings and mass layoffs that could be used to guide policy. Finally, there are one line references to the special problems of depressed regions and disadvantaged groups, such as minorities and women. It is not, surprising, then, that the recommendations on plant closings are limited to the establishment of an informal early warning system, that there is no regional program at all, and women and minorities get a boost in small business development.

In the Washington report there is not a traditional factor cost analysis, but there is a fairly complete analysis of the recent history and industrial structure of the Washington economy. Borrowing the concepts of strategic market analysis from the Greenhouse Compact, the Washington report breaks down the characteristics of some of the critical industries in the state. There is the beginning of an investigation of Washington's capital markets, but little of it is specific to Washington. There is not much of a review of government policies affecting business, although there is a debate on business taxation and its impact on economic development that results in no recommendation on this issue. There is a brief review of education in the state, but it is primarily concerned with employment and training, not with

new technology and enterprise development. There is an entire section of the report devoted to the issue of plant closings and mass layoffs, but only a passing reference to regional disparities and the problems of disadvantaged groups in the economy. The Washington report clearly seeks to go beyond factor cost analysis, but only gets part-way there in terms of providing an analysis that could provide guidance to state policy-makers crafting tools for intervention.

The Greenhouse Compact contains the most complete traditional as well as modern analysis of the state's economy of any of the three reports. The report examines a number of cost factors, including energy, business taxes, and other government policies. The overall framework is not based on a theory of comparative advantage. The examination of the factor costs and government policies appear to be motivated by political concerns rather than analytical ones. The Compact establishes a manageable set of facts regarding these cost issues which allows them to be worked through without endless ideological debate. The report can then move on to examine the various industries in some detail, along with plant closings, and the state's research base, all issues of greater concern to the new thinking in economic development. In the Compact, as in the other reports, there is very little attention paid to depressed areas of disadvantaged groups. This lack of research concern is reflected in the recommendations which do not address locational issues or concentrate on involving disadvantaged groups.

Similar to the analytic sections of the three reports, the program recommendations of the three reports are a combination of traditional and modern economic development practices. In Ohio, the technology focus, the research and development programs, and the small business development programs are all elements of the new directions. The fact that no broad financial, tax, or regulatory incentives are even considered as part of Ohio's overall strategy provides further evidence of the extent to which the new concepts of targeting and enterprise development have taken hold there. The state-initiated tripartite councils on competitiveness will be a real innovation if they become working groups and not talking shops. On the other hand, lobbying for more favorable federal policies and leveraging private money with low interest housing loans and Community Development Block Grant funds are traditional methods of economic development that the report recommends. Also in keeping with traditional methods is the voluntary early warning system for plant closings. Concern with plant closings has only become widespread recently (as more plants have closed), but there is also a widespread reluctance to require businesses to provide advanced notice of closings for fear of damaging the "business climate."

The Washington report recommendations also represent a combination of old and new practices. In part, this reflects Washington's perceived need to "catch up" with the traditional methods employed by other states. The more traditional

tools the Emergency Commission recommends include tax increment financing, authorization of local development corporations, and amending the Washington State Constitution to allow public funds to be used in economic development programs that allow private benefit. The recommendations for umbrella revenue bonds, flexible development finance tools, and further strategic development planning reflect a desire to move into some of the new practices. The specific prohibition of broad tax incentives is also based on modern research in the field. The Washington report calls for a voluntary advance notice system for plant closings, but in addition calls for the establishment of a task force to evaluate what measures could be taken to save a closing plant or coordinate assistance for the workers and communities affected.

The Rhode Island plan falls most squarely in the domain of the new concepts in economic development. The product development program is clearly part of this new trend. The strict ties of the expansion subsidy to creation of \$8.00 per hour permanent jobs and the reversion of the loan to grant status are attempts to put into practice the theory of targeting public funds to gain maximum public benefit. The research greenhouse tied to the venture capital funds are the most risky and innovative of the recommendations. In selecting specific areas to focus on, the greenhouse concept is a more targeted approach to research and development than the broad program proposed in Ohio. Another innovative proposal is for the Commission to be the implementor of its

own program. Nothing on the scale of the Compact has been attempted before, but the desire to set up institutions with some measure of autonomy from state government has been a consistent part of recommendations for innovative development finance institutions. The industry specific recommendations in Rhode Island tend to be more traditional regulatory, tax, and state spending programs. The Commission's intense concern with "business climate" issues represents one of the most traditional of paths to take, but the method that was used to deal with the issues was new. The use of extensive research to establish a set of facts that all parties could agree to is a very different procedure than beginning with a business-defined agenda of perceptual "business climate" issues. This is part of the modern insistence on testing private sector assumptions and attempting to break with received wisdom on the development effects of government policy. The recommendation for actual repeal of some tax incentives in Rhode Island is the fruit of such an effort. The final innovation in the Rhode Island proposal is the nearly exclusive concentration of state efforts on traded businesses. This is based on export-base theory which has been around for many years, but the targeting of incentives exclusively to traded businesses is a departure from past practice.

Comparative Conclusions

The mixture of "old" and "new" elements of economic development policy observed in all three reports should not be translated into normative judgements of good and bad policy.

For example, the Rhode Island Strategic Development Commission spent a great deal of time on "business climate" issues because it was a political necessity, even though empirical research has demonstrated that the actual business costs associated with these issues are small. The weaknesses in the "new" approach include both issues that are addressed and those that are generally excluded. The central question is the feasibility of enterprise development strategies to generate a sufficient number of quality jobs. State tools may prove too weak or ineffective, or the enterprises may generate too many poor quality jobs. None of the reports has concentrated on assistance to depressed regions or disadvantaged groups. There has generally been more emphasis on glamorous technology and business development programs than on the difficult tasks of education, retraining, and providing adequate income to the current workforce. The likely distributional consequences of new economic development plans are too often minimized or ignored. Too often the reports give the impression of benign neglect of traditional industries in favor of the greater prospects of the new technology-based enterprises. The benefits of business development programs have persuaded policy-makers that there is no need to take the political heat associated with mandatory advanced notice of plant closings and mass layoffs-despite the fact that these benefits are not often closely matched to the workers and communities most in need of assistance.

Clearly the new strategies of intervention and enterprise development are not immune to criticism, nor are they complete alternatives to more traditional methods. The strategies do offer some innovative ideas and some paths out of traditional debates over economic policy. The object of practitioners, researchers, and critics must be to push forward with new programs, modifying them with experience and in response to criticism. Evaluation and monitoring of the innovative programs will be essential to efforts to replicate and improve these programs.

MASSACHUSETTS AND STATE INDUSTRIAL POLICY

This concluding section will examine the Massachusetts process from a different perspective than the analysis of the other states' efforts at re-fashioning economic development policy. A strict comparison is not possible because the assumptions and goals of the Massachusetts Commission on Mature Industries turned out to be quite different from the other states. It is useful to briefly review the process and central focus of the Massachusetts Commission and to analyze what created an outcome that is of such a different scope and scale from the efforts of other states.

The Governor's Commission on the Future of Mature Industries was appointed last summer by Governor Dukakis. The Commission was to, "review the state's older industries and determinate what could be done to assist their development."⁴⁸ There is a wide range of actors in the Commission, including 13 state or local officials, nine union or public interest representatives, two educators, five representatives of manufacturers, and seven others representing other business interests.

The Commission was identified from the beginning as a negotiating arena for plant-closing legislation. The legislation has been introduced for the last five years, but it has never gotten out of the Commerce and Labor Committee.

⁴⁸Draft Report, Governor's Commission on the Future of Mautre Industries, March 1, 1984.

Last spring, after Secretary of Economic Affairs Evelyn Murphy publicly opposed the legislation, Governor Dukakis set up the Commission to deal with plant closings, as well as other concerns of traditional industry, such as retraining dislocated workers and efforts to save troubled firms.

The Commission work was organized around three committees: the Industry Analysis Committee, which was to carry out industry studies and concentrate on economic development and job creation; the Labor Market Policies Committee which examined labor market issues relevant to older industries and dislocated workers; and the Worker and Community Assistance Committee, whose focus was on preventing plant closings, advanced notice of closings, and other methods of minimizing the impact of closings on workers and communities.

The research work of the Commission revolved around the preparation of documents of Committee or Commission review. There was never a sustained or coherent effort to analyze the state economy or even the key mature industries, until the very end of the Commission when a few case studies were completed as technical appendices to the report. The Industry Analysis Committee got side-tracked with general discussions on the "business climate", broad issues of state development finance, and a proposal for a state economic monitoring group. The draft recommendation for the establishment of a state-level monitoring group suggests in-depth industry and regional studies and identification of ways the state can respond to the problems and opportunities that particular

industries are faced with. It is truly unfortunate that such analysis did not guide the work of the Commission.

The Labor Market Policies Committee met infrequently and its only significant accomplishment was cataloguing the confusing collection of employment and training programs in the state. The draft recommendations of the Committee contribute little that is new to understanding the problems or even the definition of a dislocated worker. Similar to other recommendations in the draft, the labor market group asks for "more" and "better" services, based on current policies. The recommendations stress Private Industry Council involvement in employment and training, which is already required by federal regulations, better labor market information, and linking current economic development efforts with employment and training.

Advanced notice of plant closings was the primary issue taken up by the Worker and Community Assistance Committee. A study of Massachusetts plant closings and mass layoffs (covering different periods) was done for the Committee. This study was one of the only pieces of original research that was used to guide the work of the Commission. This study revealed that in the aggregate, plant closings appeared to be insignificant compared with the total employment base (12,400 jobs lost from January, 1982 to December, 1983 in plants larger than 50 workers, compared to a base of 2.6

million jobs).⁴⁹ The study did suggest that closings were a problem for a few industries (apparel, leather, and furniture) and a few regions (Ware, New Bedford, Gardner, and Clinton). Mass layoffs for eight months in 1983 were found to be as much a high tech problem as a mature industry problem, with high tech contributing more than half of the layoffs of 50 or more workers.⁵⁰

The interpretation of these findings became a major pre-occupation of the Commission. Business members took these findings to mean closings were a very small problem, not worth passing legislation over. Labor members interpreted the findings as evidence that the legislation would only affect a small minority of businesses that refused to give notice.

More and more energy was devoted to the resolution of the advanced notice issues as the work of the Commission continued. The business and executive branch members of the Commission began pushing for a voluntary program of advanced notice, which reluctant labor members ultimately agreed to. Closed-door negotiations continue to take place between state officials, business, and labor. Most of the pressure on the issue has come from high technology industry representatives, both in the Commission and outside it.

The final voluntary "compact" is likely to rely heavily good faith efforts of firms to provide notice or severance.

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"Plant Closings and Mass Layoffs," Draft technical appendix, May 7, 1984, exhibit 2.

⁵⁰Ibid., p. 10.

There will be a Worker and Community Assistance Fund established to provide up to 90 days of health insurance coverage, some severance pay for 90 days, and reemployment programs for workers who lose their jobs in shutdowns or permanent layoffs of 50 or more workers. The fund will be financed through business contributions to the unemployment insurance system. There will be a rebate to employers who do provide advance notice or severance in the case of a closing or major, permanent layoff. The sole incentive for firms to sign the compact is denial of access to quasi-public development finance agencies for non-signers. Signers who clearly default on good faith efforts to provide notice or severance will also be denied access to the quasi-public development finance agencies for non-signers. Signers who clearly default on good faith efforts to provide notice or severance will also be denied access to the quasi-public agencies. No clear standard of corporate behavior has been established, as this is thought to limit the "flexibility" of the compact.

Apart from the many technical and equity issues related to this "solution" to the plant closing and layoff problem, it is clear that the entire Commission process was not needed to fashion this kind of compromise. The combined media, business, labor, and government attention to this single issue dramatically reduced energy for other parts of the Commission's mandate.

There are a few recommendations of the Commission that if properly implemented could be very worthwhile. It appears likely that a Product Development Fund, similar to the one proposed in Rhode Island and operating in Connecticut, will be established, although the funding level, mechanics, and even some of the conceptual issues remain to be worked out. There is a recommendation for a state-level industry assistance capability to address industry-wide issues. This could be very important, but it is still very vague and its suggested activities are based on a few incidental examples rather than on in-depth industry research. The recommendation for an Industrial Service and a Stabilization fund is also similar to what was suggested in the Greenhouse Compact. The purpose of the Service would be to assess the viability of a troubled firm and provide technical assistance. It would work in tandem with the Stabilization Fund to provide high risk financing when required. There is still a struggle going on between state officials who wish to retain control over the Service and the Fund and Commission members who want to see both placed at arms length from the executive branch and both staffed by independent professionals.

What Went Wrong?

It is clear now that there was never a political commitment by state policy-makers to developing a comprehensive strategy for economic development, an effort which could have been located in another version of the Commission. The Administration apparent viewed the Commission as a place

for negotiation of a tough political issue and, secondarily, as a place to suggest marginal improvements in already existing state institutions and policies.

The mandate of the Commission to focus on mature industries helped to prevent it from taking on a more comprehensive role. The proliferation of commissions and task forces under the Dukakis administration (workers' compensation, tax policy, right-to-know, etc.) has fragmented the authority that would be inherent in a more wide-ranging inquiry. The narrow focus has encouraged piece-meal thinking and negotiations among organized interest groups seeking to come away with their own small piece. This is exactly the opposite of what the Rhode Island Commission was able to achieve.

Compared with other states reviewed, the Massachusetts economy appears to be relatively healthy. Perhaps that alone was sufficient to ensure that the traditional positions of the labor, business, and government groups on the Commission would not have to be re-examined. The crisis that grips states like Washington and Ohio, and the long-term decline of Rhode Island, provoked leaders in those states to begin re-thinking what is necessary to create a healthy economic environment. The political and economic strength of the high technology industries in Massachusetts guaranteed them a special place at the bargaining table-even though the topic is mature industry. The powerful skepticism of the high tech

industries has helped to pacify the state government and has isolated labor and its allies.

The state government exudes a sort of smugness about current economic development that makes it difficult to admit that other policies deserve consideration. The existence of quasi-public development finance institutions, especially the Massachusetts Capital Resource Corporation (MCRC) and the Massachusetts Technology Development Corporation (MTDC), has convinced state policy-makers that they are on the cutting edge of state economic development policy.

This smugness is misplaced. While Massachusetts was among the first to establish public development finance institutions, it has also continued money-wasting broad-based tax incentives, offering all ten of the most common incentives. While Massachusetts describes ongoing research work in the state as "centers of excellence," other states are spending substantial sums of money on research and development efforts and enterprise development. Massachusetts continues to believe that tinkering on the margins of the status quo is adequate.

The state administration has squandered the opportunity the Commission represented for a thorough review of the dynamics of the state economy and the development of serious tools for state intervention. It will be difficult to generate interest in another collaborative effort like the Commission to carry out such a project, given the results of the current efforts. Perhaps the best hope for a new and vigorous

economic development policy will come as the bloom begins to fade on the laissez-faire high technology rose and the dynamism of state efforts like the Greenhouse Compact become apparent.

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