



27th Wisconsin Family Impact Seminar

February 26, 2009

Growing the State Economy

Evidence-Based Policy Options

Executive Summary

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

William Schweke

According to William Schweke, Vice-President of the Corporation for Enterprise Development, state legislatures play a critical role in responding to the challenges of the new economy. States can target five major goals: (1) Policymakers need to understand the big picture. For example, Wisconsin policymakers should seek ways to stabilize and modernize the manufacturing sector, which since 1998 has lost 94,000 jobs in the state. (2) Policy can minimize the free fall when job loss occurs. Unemployment compensation (UI) is the first line of defense. States are experimenting with offering maximum extended benefits to jobless residents during economic downturns, providing partial benefits to employees who reduce their work time, and extending benefits to entrepreneurs launching a small business.

(3) Policy can provide access to reemployment options. Labor subsidies have proven to be a more direct and cost-effective way to create jobs than capital subsidies. (4) Policy can offer access to training and education. For example, California funded worker training by cutting UI taxes by 0.1% and enacting a 0.1% employer training tax. (5) Policy can support new enterprise development. To date, 28 states provide assistance for employer ownership of business—one of the few direct ways that public policy can foster “good” jobs.

The most fundamental way to create jobs for the long haul is good government. Governments play a large role in shaping the attractiveness of a community through education, governance, property rights, physical infrastructure, predictability of the investment climate, and tax laws. Governments can also take preventive action because dealing with economic change depends upon agile people—both workers and entrepreneurs. To foster agile people, the #1 economic development priority should be building a seamless system for lifelong learning beginning in early childhood.

Seminar Presenters

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Timothy Bartik

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

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

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

Wisconsin Legislative Fiscal Bureau

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

Where research meets policy on family issues

The Wisconsin Family Impact Seminars are a continuing series of policy forums that provide policymakers with objective, high-quality research on issues such as cost-effective corrections programs, long-term care, prisoner reentry, and health care quality and cost. The Seminars aim to increase the use of evidence in policy decisions and to encourage policymakers to examine the family impact of policies and programs. Check out the Seminar web site (www.familyimpactseminars.org) for audio of speakers at previous Seminars (click on state Seminars), and for 131 briefing reports from 19 states written specifically for state policymakers (click on publications). The briefing report described here, “Growing the State Economy: Evidence-Based Policy Options” accompanied the 27th Wisconsin Family Impact Seminar. The full report, edited by Stephanie Eddy, Consultant, and Karen Bogenschneider, Director, Wisconsin Family Impact Seminars, can be downloaded from our web site. Hard copies are available to state legislators at no charge by contacting Seminar Coordinator, Jennifer Seubert, at (608) 263-2353 or jseubert@wisc.edu.