

THE WORKING POOR FAMILIES PROJECT

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STRENGTHENING STATE ECONOMIC DEVELOPMENT SYSTEMS: A FRAMEWORK FOR CHANGE

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THE WORKING POOR FAMILIES PROJECT

Strengthening State Policies for
America's Working Poor

Millions of American breadwinners work hard to support their families. But, despite their determination and effort, many are mired in low-wage jobs that provide inadequate benefits and offer few opportunities for advancement. In fact, more than one out of four American working families now earn wages so low that they have difficulty surviving financially.²

Launched in 2002 and currently supported by the Annie E. Casey, Ford, Joyce, and Mott foundations, the Working Poor Families Project is a national initiative that works to improve these economic conditions. The project partners with state nonprofit organizations and supports their policy efforts to better prepare America's working families for a more secure economic future.

For more information:
www.workingpoorfamilies.org

INTRODUCTION

Since the 1930s, state governments have engaged in increasingly competitive, increasingly expensive efforts to encourage private-sector job creation and wealth formation. Tax subsidies, infrastructure support, preferential financing, management assistance, customized training – all of these policy tools and more have been used to support the formation, expansion, and relocation of private enterprises in the hope that jobs and tax dollars will follow.

Viewed in one light, these efforts have proven successful, as demonstrated by the rapid growth of many Sunbelt states in recent years. Viewed differently, however, state economic development activities have delivered few benefits for low-income people and places and instead appear to have subsidized private-sector activities that likely would have occurred regardless. Just consider: in late 2004 North Carolina offered state incentives potentially worth \$242 million to Dell Inc. to open a computer assembly plant – a plant now in the process of closing without, in all likelihood, ever having achieved its stated direct employment target of 1,680 workers.³

Recent years have seen a rapid escalation in state economic development spending: spending that in 2008 totaled *at least \$10 billion*.⁴ Given the scale of public spending, some state leaders have begun to inquire about the effectiveness of economic development activities and just who receives the benefits. Instead of relying upon the perceived assumptions and practices of the past 80 years, some leaders are urging their states to think more carefully about the public benefit and the fundamental link between skill formation and job creation, and to better integrate education and training into economic development efforts, especially those aimed at emerging sectors.

This reassessment presents promising opportunities for the nonprofit organizations that partner with **WORKING POOR FAMILIES PROJECT (WFPF)**, a national initiative to strengthen state policies influencing the advancement of low-income working families. State groups have a chance to better integrate state economic development systems and resources around an education and skills development agenda that reflects the economic needs of low-income families.

Such a reordering of state priorities is especially timely, given the heavy toll on state budgets and working families exacted by the ongoing recession. At a moment of extreme hardship, should limited public dollars be spent on efforts that historically have delivered few benefits for the families and communities most in need? Or, should states gear their systems and direct their resources towards building the skilled workforces essential to long-term growth? Doing that requires state economic development systems to improve accountability, stress job quality, integrate education and training opportunities, and adopt targeted industry strategies.

This *Policy Brief* advocates strengthening state economic development policies and resources to focus more on raising the education and skill levels of the current workforce. Specifically, the brief summarizes existing state practices, presents the case for a skills agenda, identifies four areas of opportunity, and offers policy recommendations.

STATE ECONOMIC DEVELOPMENT OVERVIEW

Economic development is “the intersection of public policy and commerce for creating jobs, prosperity, business, and wealth.”⁵ All levels of government have engaged in such efforts for many years, but modern state practice traces its roots to the Great Depression, specifically Mississippi’s 1936 launch of the “Balance Agriculture with Industry” program. Although governments previously had assisted individual firms, the Magnolia State’s system of preferential assistance designed to reduce business costs established a coordinated framework

and ushered in “an era of more competitive subsidization.”⁶

Supporters of state economic development efforts offer two rationales for the use of public dollars for the benefit of private firms. First, they claim the funds serve a public purpose by increasing local job opportunities. Second, they say that public spending expands local tax bases, which enables communities to finance development.⁷ In practice, the job growth rationale is invoked much more frequently than the community development one.

The job growth rationale is reflected in the structure of state development entities. Such bodies typically assume that partnerships with businesses are the ideal mechanism for creating jobs in the short term. Business concerns therefore dominate their thinking, and issues of job quality, community development, sustainability, and equity receive little attention. Further proof of the short-term growth orientation of economic development is the common use of firm-centric performance measures like the number of jobs promised, created and retained.⁸

Economic development practice encompasses three kinds of activities: business recruitment, business expansion, and business formation. To carry out these activities, states rely upon sophisticated tools wielded by a mix of public institutions. These include tax subsidies arranged by development offices, customized training provided by two-year colleges, and technical assistance often offered through university extension services.⁹ In addition, states typically devote special attention to recruiting businesses through subsidies designed to reduce such business costs as taxes, land acquisition, and site preparation.

Recruitment efforts recently have ballooned in cost as states vie for a limited number of “blockbuster” deals. In 2007, for example, both Louisiana and Alabama offered ThyssenKrupp AG packages worth at least \$1 billion to open a steel plant.¹⁰ Unfortunately, it is difficult to gauge how much is spent on economic development, as many outlays occur outside of normal budget channels and take the form of multi-year tax expenditures. One analy-

sis found that direct state appropriations alone totaled \$10 billion in 2007-08.¹¹ That same year, direct appropriations in 22 states where the WFPF has a presence equaled approximately \$4.6 billion.¹²

As economic development spending has risen, state practices have attracted criticism from across the ideological spectrum. Nine concerns are commonly voiced:

- ◆ Excessive attention is given to recruiting businesses through preferential assistance.
- ◆ Too much spending occurs outside regular budgetary and accountability mechanisms.
- ◆ A lack of transparency accompanies these public expenditures.
- ◆ Minimal evidence supports the idea that subsidies drive business decisions.
- ◆ Little alignment exists among state economic and workforce development systems.
- ◆ Insufficient attention is paid to the needs of existing or new in-state firms.
- ◆ Large expenditures consume resources that could fund other more productive investments.
- ◆ Many jobs resulting from economic development efforts are poor in quality.
- ◆ Few benefits accrue to low-skill working families and distressed communities.¹³

THE CASE FOR A SKILLS AGENDA

Criticisms of state economic development systems have grown pointed in recent years due to escalating costs and a nagging awareness that traditional practices are ill-suited to an era of increasing global competition and weak domestic job growth. State development officials historically have assumed that business location and expansion decisions are driven solely by cost considerations and that growth depends upon a state's willingness to offer a low-cost "business climate" and subsidize key firm costs such as land acquisition and infrastructure

development. Business surveys, however, continually show that the quality of the workforce is one of the top three factors used when businesses make location choices. Increasingly public officials acknowledge that business decisions hinge upon regional assets, particularly the skill and educational levels possessed by local workforces.¹⁴

Workforce concerns have received attention due to the frequent gaps between the skills possessed by local workers and the skills demanded by particular growing industries. In many fields, the gaps are greatest in "middle skill" positions that require some level of postsecondary education but not a four-year degree. One national study has found that 45 percent of all job openings between 2004 and 2014 will require such workers.¹⁵ Yet many states lack enough skilled workers to satisfy industry needs. In 2006, for example, 52 percent of North Carolina's labor force possessed no more than basic literacy levels.¹⁶ Reforms in public education are not sufficient to close the gap as two-thirds of the 2020 workforce is already working today; progress requires enriching the skills of the existing adult workforce.

This idea, reflected in the slogan "workforce development is economic development," has garnered support, yet actions have not always matched the rhetoric. In part, this is because state economic development systems often have few formal ties to education and training systems. Economic developers often collaborate with the customized training programs operated by two-year colleges. However, they have far fewer direct dealings with academic, vocational, and basic literacy programs – the very programs designed to educate, train, and retrain adult workers, especially those with modest skills. Without deeper integration of economic development systems and education and skill development systems, states will not meet the workforce needs of business.

Advancing an education and skills development agenda capable of closing the skills gap is a task that the WFPF's state partners are well-equipped to perform. Partners possess a deep understanding of the needs of adults with modest skills and are familiar with how workforce education and training

systems operate. This knowledge positions WFPF partners to offer state leaders the insights needed to craft development strategies that explicitly tie skill formation to job creation. The challenge is finding the best opportunities for change.

STRENGTHENING STATE SYSTEMS: FOUR AREAS OF OPPORTUNITY

Strengthening state economic development systems around a skills agenda is a challenging task. In many state capitals, a small group of business interests, governmental officials, and specialized consultants have controlled economic development policymaking for many years. Nonprofit organizations that represent the interests of low-income workers traditionally have had little direct involvement, and as a result, lack knowledge about this complex policy area. Because of this, the WFPF has been working with state nonprofits to develop their expertise and credibility to support state-level policies that link skills and sectoral development with business development, expansion, and recruitment strategies.

When it comes to economic development, the WFPF has an ambitious goal: to reorient state systems around an education and skills agenda that reflects the needs of low-income working families. WFPF's state partner in Kentucky, the [Mountain Association for Community Economic Development \(MACED\)](#), articulated this goal in a recent report. It recommended that the state create a new statewide strategic economic development plan through a participatory process that includes regional planning components, integration with workforce development, and a new vision that reflects the state's regional diversity. Furthermore, the report called on the state to identify and launch new economic development and workforce initiatives targeting key sectors and clusters of the state's economy, drawing broadly from the strengths and assets of each region of the state.¹⁷

Given differences in state systems, WFPF partners should view their policy change efforts as unfolding along a continuum leading towards a reordering of

public priorities. The continuum encompasses four major areas of opportunity: strengthening system accountability and transparency, improving job quality, integrating education and skills development into economic development, and adopting targeted industry strategies.

A) STRENGTHENING ACCOUNTABILITY AND TRANSPARENCY

A lack of system accountability and transparency is a serious problem in many states. Agencies and individual firms typically negotiate deals in private and disclose little information. Agreements often are not subject to legislative review, and subsidies frequently are allocated outside normal budgetary channels. Furthermore, performance standards and public reporting are not necessarily required, and data that are collected may shed little insight into the kind and quality of jobs involved. Such factors make it difficult to gauge the scale and scope of state economic development activities and determine what results, if any, are being achieved.

In many states, establishing a baseline understanding of state economic development activities is a prerequisite for any long-term change. A number of WFPF state partners have provided this perspective, often in conjunction with accomplished national partners like Good Jobs First.¹⁸ In Colorado, research conducted by [The Bell Policy Center](#) has found that the \$143 million in tax credits awarded between 2002 and 2006 to businesses located in enterprise zones did little to reduce unemployment or boost incomes despite oft-repeated claims to the contrary.¹⁹

Such research should create a basis for policy change. In this regard, the efforts of the [Center for Public Policy Priorities \(CPPP\)](#) are instructive; for example in its analysis of the Texas Enterprise Fund. Established in 2003 with \$295 million in public funds, the Texas Enterprise Fund offers direct cash payments to firms that create certain numbers of jobs within specified periods. As program reauthorization approached in 2005, CPPP analyzed the fund's operations and found that it had created fewer jobs than claimed, lacked recapture provisions, imposed no job quality

standards, compiled minimal outcome data, and reported little information. The legislature subsequently embraced CPPP's proposed reforms. Recapture provisions were added, and fund managers were required to report detailed information about the number of jobs promised compared to the number created, the wages and benefits tied to those jobs, and the geographic location of the jobs. These changes moved the nation's largest cash incentive program down a "high road" of economic development.²⁰

B) IMPROVING JOB QUALITY

A serious weakness of many state economic development systems is a lack of meaningful wage and benefit requirements. Consistent with the field's dominant growth mentality, many developers assume that "any job is a good job" and that private firms should set compensation levels. Yet this view is flawed when public funds are involved. If tax dollars are to be used to subsidize private businesses, should not the resulting positions meet certain standards and provide people with a real chance to move ahead?

Building a case for meaningful wage and benefit standards is a task that some WFPF partners have undertaken with local allies and national partners like Good Jobs First. Besides being important, wage issues are straightforward, easily grasped by the public, and capable of attracting supporters who might not otherwise follow economic development policy. Ideally, this process will foster a constituency that supports even more ambitious reforms that intensely focus economic development resources upon the needs of low-skill workers. States could, for example, emulate the [New Jersey Workforce Development Partnership Program](#) and require publicly funded, customized training programs to set aside a specified number of training slots or program dollars for low-skill adult workers.²¹

In Alabama, the [Arise Citizens' Policy Project](#) has demonstrated that it is possible to set strong standards in a state known for aggressive development practices. As part of its *State Policy Assessment Report*, Arise studied the state's

corporate tax credit program and discovered that firms could qualify for tax credits by creating jobs that paid an average wage of only \$8 per hour.²² Coming soon after the state's granting of a subsidy package potentially worth more than \$1 billion to a steel plant, this finding galvanized public and media attention. State legislators soon acted on the report's recommendations and restructured the tax credit to require firms to create jobs that pay an average hourly wage of \$15. To preserve its value over time, the wage level was tied to inflation.²³

C) INTEGRATING EDUCATION AND SKILLS DEVELOPMENT INTO ECONOMIC DEVELOPMENT

Although important, improvements to program accountability and job quality standards, by themselves, will not fundamentally reorder state development priorities. Achieving that goal requires states to think explicitly about workforce skills and focus specifically on integrating education and skills development into their economic development portfolios.

STATES NEED TO FOCUS SPECIFICALLY ON INTEGRATING EDUCATION AND SKILLS DEVELOPMENT INTO THEIR ECONOMIC DEVELOPMENT PORTFOLIOS.

This is not to imply that state economic development systems have turned a blind eye to workforce issues. Employers – the main "customers" of state economic development agencies – naturally have an interest in workforce skills, and economic developers frequently try to address those concerns by connecting employers with two-year colleges or with customized training.²⁴ Yet many states lack comprehensive connections between their economic and workforce development systems, resulting in training that is either one-time in nature or inconsistent with economic priorities or employer needs.

To overcome this lack of system alignment, some states have tried to incorporate education and

training resources into their economic development portfolios. [Washington State](#), for instance, created eleven “Centers of Excellence” on community college campuses. Each center specializes in an industry targeted by the state’s economic development agency and offers employers and workers comprehensive workforce services tailored to actual industry practices.²⁵ Similarly, the [Chicago Jobs Council](#) has helped Illinois pay more attention to the skill development of low-income workers. To that end, the state sponsors initiatives like the Job Training and Economic Development program, through which the Department of Commerce and Economic Opportunity supports partnerships between firms and community-based organizations that train incumbent and entry-level workers.²⁶

D) ADOPTING TARGETED INDUSTRY STRATEGIES

Inspired by the successes of integrated economic and workforce development approaches, some states have moved to restructure their entire development system along those lines. Rather than recruiting firms on a catch-as-catch-can basis, states that have adopted comprehensive reforms that direct their resources to targeted industries (or groups of connected industries) and provide firms and workers with comprehensive services. One popular model for this is sectoral development.

Thanks in part to the [Center on Wisconsin Strategy](#), the Badger State has created one of the nation’s most comprehensive sectoral approaches. This effort traces its roots to the Wisconsin Regional Training Partnership, a labor-industry partnership established in 1992 to address workforce shortages within Milwaukee’s manufacturing sector. Over time, the partnership expanded into other locations and industries, notably construction and health care.²⁷ Successes gradually attracted the attention of state leaders, who invested in a variety of sector initiatives, including the Governor’s Growing Regional Opportunity in Wisconsin (GROW) agenda.

In 2009 the state opted to use \$3 million in federal funds to launch a statewide Sector Strategies Initiative,²⁸ currently embodied in the work of the

Regional Industry Skills Education (RISE) – a statewide career-pathways effort tied to The Joyce Foundation’s *Shifting Gears*²⁹ – and Wisconsin Industry Partnerships. Wisconsin Industry Partnerships works to ensure that the systems change required to move career pathways forward in the state is informed by employer-driven demand for specific skills in targeted clusters of growing industries. The state, through the integrated work of such state agencies as the Department of Commerce, the Department of Workforce Development, and the Wisconsin Technical College System, will use these sector strategies to build an economic recovery based on advanced health care, advanced manufacturing, and clean energy.

POLICY RECOMMENDATIONS

Over the last decade, state leaders have come to reexamine the core assumptions that have guided economic development practice since the 1930s. Aware of the critical link between workforce education and skills, some policymakers are pushing to restructure state systems. A new Illinois state economic recovery plan illustrates the increasing importance that state leaders place on education and skills training for job creation. A key goal in the plan is maintaining an educated and trained workforce. The plan highlights significant policies affecting this goal, such as fully funding state financial aid, investing in first class community colleges, expanding bridge programs within adult basic education and employment retraining, and expanding the green jobs workforce.³⁰

This is a complex undertaking that also has been driven by stakeholders outside the economic development orbit. An example is the [Pennsylvania Industry Partnership Program](#), which seeks to address workforce education and skill needs in manufacturing, health care, transportation, and other fields. This partnership originated in the public workforce system and has demonstrated the potential to contribute to traditional economic development goals. Such examples show that change indeed is possible. To further strengthen

their economic development systems, states should take six basic steps:

1. Articulate an alternative, comprehensive vision of economic development – a vision rooted in workforce skills and education. Too often, debates about economic development revolve around tax breaks and cash giveaways to business. Such subsidies merit explicit scrutiny because many reflect the dominant economic development assumptions of the last century and produce too few benefits. To advance the discussion, states must recognize the importance that businesses place on an educated and skilled workforce and craft their economic development policies and investments to better represent an education and skills agenda. Three mechanisms for doing this are: formulating clear skill standards, establishing skill panels or partnerships drawn from stakeholders in specific targeted industries, and including education and skills development in state economic development strategic plans.

2. Apply stringent accountability and transparency standards to existing development programs. In many states, the lack of information about economic development programs hinders meaningful change. States therefore should require economic development agencies to report comprehensive information about the costs of development programs and the benefits related to those expenditures. Strict recapture provisions also should be incorporated into all subsidy programs. WPPFP partners, meanwhile, should use their research capabilities to analyze state systems and explain how they work. As the efforts of the [Center for Public Policy Priorities](#) demonstrate, such information has the potential to galvanize public and legislative attention, set the terms of the public debate, and inspire meaningful policy changes.

3. Mandate detailed tracking of workforce outcomes. Most state economic development systems evaluate their progress in terms of firm-centric outcomes like the number of jobs created and the amount of private investment leveraged. Outcomes related to wages, benefits, career advancement, or skills development rarely are tracked, so policymakers and the public have no way of knowing whether public economic

development investments are helping to create quality job opportunities for local residents.

4. Incorporate equity principles into state economic development activities. State development systems historically have paid little attention to equity concerns and instead have assumed that growth will benefit all segments of the population, including disadvantaged groups. This rarely happens. States consequently need to consider equity concerns whenever they are setting economic development policies, such as by dedicating training funds to serve low-skill adults and establishing training goals. And because a variety of practical concerns limit the abilities of public institutions to raise equity concerns, WPPFP partners must play an active role in this area. Unless state groups offer a compelling rationale for the importance of equity, those concerns likely will go unheeded.

5. Invest significant economic development resources in targeted industry strategies like sectoral development. Thanks to the efforts of initiatives like the National Governors Association's state policy academy, a growing number of states are learning about, adopting, and refining sectoral development models. As with systems reform, the shift towards sectoral strategies involves a myriad of competing interests, regulations, funds, and agencies, and thus the risk of impasse is ever present. Unless states commit themselves to experimenting with new approaches, changes are unlikely to occur. Moreover, WPPFP partners have an important role to play in encouraging this process. As credible, independent organizations, state nonprofit groups are well-positioned to focus attention on overarching goals and broker compromises.

6. Seize current opportunities to integrate economic and workforce development. Efforts to reform state economic and workforce development systems have been unfolding at a modest pace for years, but thanks to the recession and federal recovery resources, opportunities to advance meaningful reforms suddenly have appeared. Sizable federal funds flowing to infrastructure investments, for example, provide states with an unparalleled chance to boost the supply of skilled workers and

increase employer demand for hiring such workers at a good wage. As advocated in a recent WFPF report (*Building Opportunity: How States Can Leverage Capital and Infrastructure Investments to Put Working Families on a Path to Good Jobs*), states should incorporate education and skill-building activities directly into their use of federal and ongoing state infrastructure resources. They can do this by creating career pathway programs at two-year colleges, strengthening job quality standards, establishing hiring preferences, and reforming contracting procedures to reward firms that invest in workforce skills.³¹ For many states, however, doing this will require a push from outside groups like those connected to the WFPF.

CONCLUSION

States have devoted considerable resources to economic development activities, yet these efforts have delivered few benefits for low-skill workers and low-income communities. Changes in recent years have led state leaders to question the relevance of traditional approaches to current conditions and to experiment with new models of job creation and skill formation. These changes also have created opportunities for nonprofit organizations like those connected to the WFPF to enter state development debates and push to refocus state priorities on an education and skills development agenda. Groups that have taken advantage of these opportunities not only have succeeded in strengthening their state systems, but they also have learned important lessons relevant to organizations and public leaders endeavoring to drive reforms in their own states.

WORKING POOR FAMILIES PROJECT RECOMMENDATIONS

- 1) Articulate an alternative, comprehensive vision of economic development – a vision rooted in workforce skills and education.
- 2) Apply stringent accountability and transparency standards to existing development programs.
- 3) Mandate detailed tracking of workforce outcomes.
- 4) Incorporate equity principles into state economic development activities.
- 5) Invest significant economic development resources in targeted industry strategies like sectoral development.
- 6) Seize current opportunities to integrate economic and workforce development.

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ENDNOTES

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³ Elaine Mejia, Kristopher Nordstrom, and William Schweke, *Getting Our Money's Worth? An Evaluation of the Economic Model Used for Awarding State Business Subsidies*, North Carolina Budget and Tax Center, Raleigh, NC, 2007, pp. 1 and 15. On the Internet at http://www.workingpoorfamilies.org/pdfs/NC%20908_mar212007moneyworth.pdf

Note that Dell Inc. had a policy of not commenting on employment levels at its plant near Winston-Salem. *The Winston-Salem (NC) Journal* estimated that full-time employment at the site never exceeded 1,100. The newspaper also estimated that staff reductions at the plant started as soon as 2007, less than two years after the facility opened. On the Internet at <http://www2.journalnow.com/p/content/dell-plant-closing-forsyth-county-updates-and-info/>

⁴ State economic development activities generally are financed through either direct appropriations or tax expenditures. Unfortunately data are not collected systematically. The \$10 billion estimate is for direct state appropriations in 2007-08 and is taken from Kenneth Poole, "Understanding State Economic Development from the Perspective of Economic Developers," Presentation to The Working Poor Families Project Academy on State Economic Development, Atlanta, GA, September 4, 2008.

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⁷ Peter Eisinger, *The Rise of the Entrepreneurial State: State and Local Economic Development Policy in the United States*, University of Wisconsin Press, Madison, WI, 1988, pp. 34-37.

⁸ Poole, see note 4 above.

⁹ Poole, see note 4 above.

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¹¹ Poole, see note 4 above.

¹² This estimate comes from data collected by Poole, see note 4 above.

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¹⁴ A myth perpetuated around job creation and business decision-making is the issue of regulation, which is not a subject of this policy brief. However, little evidence exists to affirm that the least regulated areas have the greatest number of businesses.

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¹⁷ MACED, *Investing in Kentucky's Working Families: A Path to Shared Prosperity in the Commonwealth*, March 2010, p. 24. See: http://www.workingpoorfamilies.org/pdfs/KY_shared_prosperity.pdf

¹⁸ Good Jobs First is a nonprofit research organization promoting corporate and governmental accountability in economic development and smart growth for working families. The organization is a leader in advancing reforms designed to strengthen the accountability and transparency of economic development programs and to improve the quality of jobs created through economic development activities. To learn more, visit <http://www.goodjobsfirst.org>

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