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Job Creation: A Review of Policies and Strategies

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Authors

Cray, Adam
Nguyen, Tram
Pranka, Carol
et al.

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Job Creation: A Review of Policies & Strategies

Adam Cray, Tram Nguyen, Carol Pranka, Christine
Schildt, Julie Sheu, & Erika Rincon Whitcomb

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EXECUTIVE SUMMARY

This report provides a broad survey of economic development policies and strategies that seek to create jobs. With the U.S. economy struggling to recover from the Great Recession, job losses and stagnant employment remain pressing challenges across the country and in nearly every community.

Our report is structured according to four major categories through which to view job creation strategies:

Federal- and State-Level Strategies. This category can be thought of as encompassing strategies used to “grow the economic pie.” They consist of fiscal and investment policies undertaken at the federal or state level to stimulate job creation and economic growth. The primary ways to influence job creation at these levels are: interest rate reductions, government hiring and purchases, infrastructure investments, short-time compensation programs, worker subsidies, and federal hiring credits.

Place-Based Strategies. Much economic development takes place at the local level, with local governments undertaking a range of activities to attract and retain businesses for the purposes of increasing jobs in their locality and increasing the tax base. Local strategies include: provision of local economic data, marketing, tax incentives, industrial protection zones, enterprise zones, and redevelopment areas to target tax benefits and subsidies to businesses in disadvantaged areas.

Business- and Sector-Based Strategies. Which types of firms to target for job creation is an unsettled question. Here, we examine sources of net new job creation through small businesses and high-growth sectors. Specifically, we review subsidized and low-cost loan programs, programs administered by the Small Business Administration and U.S. Department of Agriculture, government procurement mandates, business incubators, and green job strategies.

Worker-Based Strategies. Finally, we discuss strategies focused on increasing equity and job quality—through local hire, wage increases, and high road policies—as a critical piece of long-term economic health.

We used three general research methods in preparing and structuring this report: literature review; information gathering from a lecture series and separate interviews with economic development scholars and practitioners; and peer review comments from staff at the Institute for Research on Labor and Employment at the University of California, Berkeley.

INTRODUCTION

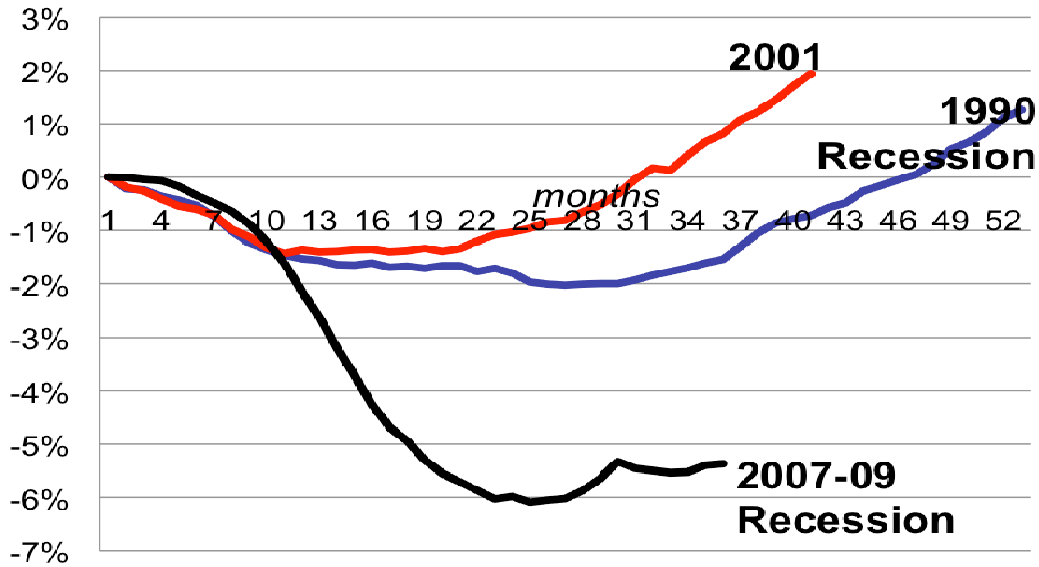
2011: In the Midst of a Jobless Recovery

The severity of the Great Recession suggests that economic recovery will take much longer than any previous recessions.¹ At its peak, unemployment reached 10.1% with a decline of 8.8 million jobs from its pre-recession peak.² The recession left nearly no sector unscathed. The Bureau of Labor Statistics shows construction and manufacturing taking a double-digit decline in jobs, while only education and health services show a modest job increase of 3.3%. Government and utilities remained steady. (See Figures 1 and 2.)

Allowing markets to self-correct would prolong the recovery process. Furthermore, companies continue to look at other location options abroad. Thus, strategies to regain the 8.8 million jobs lost are not only necessary for short-term growth, but for long-term sustainability as well.

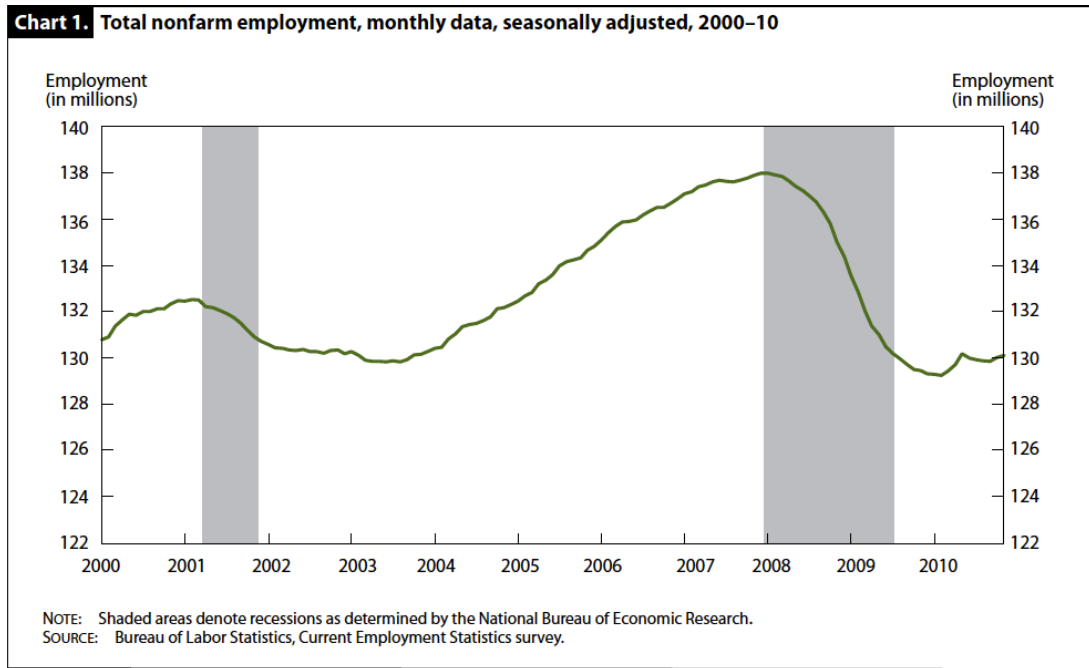
While strong economies have the luxury of concentrating on long-term job growth and labor supply strategies, the Great Recession requires government practitioners to focus more narrowly on stimulating labor demand and employing workers now. Practitioners must balance long and short-term goals in job creation, realizing that few policies can serve both.

Figure 1. The Great Recession in Comparative Perspective.



Source: Adapted from Sylvia Allegretto, *The Severe Crisis of Jobs in the United States and California* (Center on Wage and Employment Dynamics Policy Brief., 2010).

Figure 2. Total Non-Farm Employment, 2000-2010.



Source: Christopher J. Goodman & Steven M. Mance, Employment Loss and the 2007-09 Recession: An Overview, *Monthly Labor Review*, April 2011.

What is Meant by ‘Job Creation’?

Job creation is difficult to evaluate because it is difficult to measure. This report attempts to survey a wide range of job creation strategies that policymakers can implement during times of economic recession. The proverbial golden egg of job creation policies is the “net new job”—the job that is created without displacing any other economic activity. While it is easy enough to measure whether a new job has been created at the macroeconomic scale by looking at aggregate data from the Bureau of Labor Statistics, it is very difficult to determine if (1) the jobs created didn’t merely displace jobs in other locations or sectors, and (2) if the jobs were created *because of* a specific policy. Throughout this report, this dilemma emerges frequently; the theoretical mechanism for how a policy creates jobs may be well understood, but data showing that it actually did create net new jobs is ambivalent at best or, more commonly, simply non-existent.

This report does not attempt to determine which job creation strategies work “best;” rather, it is a broad survey mapping the landscape of job creation strategies. We organize the strategies in this paper around four broad themes. The first theme, “Macroeconomic Strategies” looks at macroeconomic strategies that promote net new job creation. These strategies may help create jobs at the aggregate level, but we believe they fall short on a number of levels. Principally, macroeconomic job creation does not address how job growth happens unequally across geographic locations, industry sectors, and worker populations. To address this, the other three themes in this report describe more focused job creation strategies. The second theme discusses place-based job creation strategies, such as business attraction and enterprise zones. The third theme looks at business-based strategies that attempt to create jobs in certain business types or industries, such as green jobs and small businesses. The final theme describes worker-based strategies that address job quality and targeting jobs for disadvantaged workers. These strategies include local hire policies and high road agreements. Many of the strategies we discuss serve more than one of these themes; taken as a whole, they all can contribute to stabilizing the economy and adding net new jobs, if implemented appropriately.

This policy report performs a broad literature review to gather different strategies and present the advantages and disadvantages of each strategy. While no strategy serves as a panacea for job creation, we hope this report serves as a sort of road map for practitioners to help guide their way through the vast array of strategies available.

FEDERAL- AND STATE-LEVEL STRATEGIES

Macroeconomic and other high-level job creation strategies in the United States usually entail action by the federal and state government. Most federal policies are broad policies and involve disbursing money to the state and local level for certain job creating activities. Similarly, states will sometimes act as a disburser of funds to the city and county level.

Federal job creation strategies have the advantage that only the federal government can print money and operate under a budget deficit—giving the federal government more room to maneuver fiscally, while states are constrained by their budgets. Much of this federal money trickles down to state and local levels through grants, where most implementation-related details are handled. For example, the bulk of the American Recovery and Reinvestment Act (ARRA) money went to aid states with their unemployment insurance programs, but it was up to each state how to structure their respective programs.³

There are four primary ways in which the federal government can influence job creation: interest rate reductions, government hiring and purchases, transfer payments, and tax credits.⁴ The effectiveness of strategies depends on the economic environment of the nation, and thus not every strategy applies for every economic situation. The following are job creation strategies commonly applied at the state and/or federal levels:

Interest Rate Reductions

The federal government lowers interest rates in the short-term economy through open market operations (OMO), that is, the sale and purchase of securities such as bonds. Purchases of securities through OMO lower the Federal Funds Rate (FFR) and in turn will lower the real interest rate. Such reductions in interest rates alter borrowing costs and make private investments cheaper, thus incentivizing companies to invest in capital, hire more workers, and grow the economy. They also boost consumption further because of the income gains that result from the higher level of economic output.

ADVANTAGES

Job Creation through Markets. As consumption and business investment spending is sensitive to interest rates, lowering interest rates will allow for greater spending and investments where the market demands it. It allows investments to flow to the most productive sectors

instead of letting government choose “winning industries” through subsidies.

Fast Implementation. Interest rate reductions are also easy to implement since they do not involve any legislative action.

DISADVANTAGES

Markets Unresponsive. If the goals of lowering the FFR are to encourage private investment and increase consumer confidence, then the 2007 recession shows that lowering the FFR may not always achieve those goals. During the Great Recession, despite lowering the FFR to zero, banks continued to accumulate reserves without lending to the private sector.

Capital Investments Over Jobs. Lowering the interest rates incentivizes companies to invest more. However, that could take the form of capital investments, not necessarily new direct jobs.

Limited Effectiveness. Once the Federal Reserve lowers their rates to zero, they have exhausted their primary option to affect job creation and stimulate the economy.

Increased Inflation. Lowering the FFR will have the additional effect of increasing inflation by increasing the money supply in the economy.

Government Hiring and Purchases

Government hiring and purchases create jobs either through direct hiring of government employees or indirectly through government purchasing activities. Because of the federal government’s ability to operate at a deficit, continued government employment can have a significant multiplier effect. The effect varies depending on the exact type of spending.⁵ Continued employment can also reduce unemployment as fewer people need to be reabsorbed into the labor market. As economist Ken Jacobs says, “The best way to create jobs is to not kill existing jobs.”⁶

The additional government spending through ARRA allowed for more than just continued employment to stimulate further job creation. This section will speak to government hiring and purchases through the lens of infrastructure.

Infrastructure Investments

While there is much debate about whether government spending “crowds out” private spending, infrastructure is an area where crowding out should be of little concern.⁷ Crowding out refers to the reduction of private investment due to government spending. Investing in infrastructure, by

building roads and water systems and the like, creates jobs in the short-term, while investing in infrastructure such as public transit systems and electrical grids will employ workers for multiple periods and can create jobs in the long-term. There can also be a cost advantage to building infrastructure during a recession, as construction bids tend to be lower than normal. Thus, infrastructure is a valuable countercyclical tool in creating jobs during a recession.⁸

ADVANTAGES

Short-Term Job Creation. Many projects are at a standstill due to the lack of funding. For “shovel-ready” projects that have been approved but previously lacked funding, the recession creates opportunities for implementation, thereby creating jobs immediately.

Long-Term Job Creation. Infrastructure investments ease the cost of doing business and increase indirect jobs in the long run through the private sector.⁹

DISADVANTAGES

Few Domestic Suppliers. The United States is currently not set up to make most infrastructure purchases domestically which means that the U.S. economy will not reap the full job creation benefits from infrastructure investments.¹⁰ For example, most rail supply manufacturers are European, benefitting European workers when the U.S. invests in infrastructure. To stimulate more job creation, investment in infrastructure must also accompany policies to build the domestic supplier base for infrastructure, as these will be manufacturing jobs for middle and low-skill workers.

Shovel-ready? As opposed to infrastructure projects from the New Deal era, current infrastructure projects are less “shovel-ready.” Today’s projects require more sophisticated training and have much more environmental regulation than during the New Deal. Thus, there are a limited number of projects that can be mobilized in the short-term to create jobs.¹¹

Infrastructure Banks: Targeted Financing

Despite that infrastructure investments are in high demand and can create jobs, the current political structure impedes these investments. An infrastructure bank (IB) is a targeted mechanism for financing infrastructure that balances rate-of-return goals with multiple policy goals. The ability for an IB to incorporate multiple policy goals in their rate of return calculation can encourage projects that promote job creation, equitable job opportunities, green infrastructure investment, and necessary infrastructure maintenance. Using an IB also reduces congressional pet projects and offers a more holistic approach to infrastructure needs and U.S. policy goals.¹²

Transfer Payments

Transfer payments create jobs indirectly through the spending patterns of those receiving the transfer payment, creating a multiplier effect. Two key programs that stimulate indirect job creation are short-time compensation programs and worker subsidies.

Short -Time Compensation Programs

Unemployment insurance is one of the key mechanisms states use as a safety net for the unemployed, but not as a job creating mechanism. However, many states also supplement their unemployment insurance with short-time compensation (STC) programs. STC programs are more common in Europe, but are now appearing in many states such as Florida and Vermont (17 states in 1997).¹³ STC works by allowing employers to cut their workforce hours during short-term hardships and then paying their employees unemployment insurance for cut hours. For example, if a company reduced employee work hours from 40 hours per week to 32 hours per week, the STC program would pay for the 8 lost hours. While this does not create any net new jobs, it can decrease the loss of jobs in a recessionary period.

ADVANTAGES

Decreased Job Friction. By helping employers keep their workforce during a downturn, STC programs decrease the number of net jobs lost. Permanent reduction in the workforce accompanies friction in refilling those positions long after the economy starts to rebound.¹⁴

Cost effective. Reports also show that these programs do not affect the solvency of unemployment funds. Since the state would have to pay unemployment benefits to workers who have been laid off, using these funds to keep them remain partially employed would not have a large effect on solvency.¹⁵

DISADVANTAGES

Small Uptake. Many reports show that STC is not well advertised and companies do not know about the program.¹⁶

Abuse of Short-Term Program. Depending on how the state STC program is set up, some companies over-use the program, defeating the purpose of this supposedly short-term measure.

Worker Subsidies

Worker subsidies are a pro-cyclical job creation strategy where monetary incentives given to workers above their base wage stimulate the supply side of the labor market. While this strategy may not be as effective in short-term job creation, worker subsidies can potentially lower long-term unemployment rates as jobs created become more efficiently filled. The most prominent federal example of workers' subsidy is the Earned Income Tax Credit (EITC), which incentivizes low-income workers to enter the labor market by subsidizing their income. Enacted in 1975, EITC first became available as a way to encourage low-income women to enter the workforce. While the original EITC was small, the credit has grown tremendously to up to \$5,600 for families with three children.

Many states and cities also have a local version of EITC.¹⁷ While the dollar amounts are not substantial, the primary motivation is to encourage local workers to claim the substantial federal EITC.

ADVANTAGES

Long-term Targeted Growth. According to economist David Neumark, workers' subsidies are better long-term strategies compared to hiring credits. EITC significantly increased employment, especially among single mothers, by 18-23% after the federal expansion, and decreased poverty.¹⁸ This targeted increase in employment is important during recessionary periods in order to partially mitigate the devastating impact of increased unemployment on high-poverty neighborhoods.

Avoids Employment Stigma. Because EITC is claimed through the IRS, it avoids any stigma between employers and employees. Stigma may occur for the employee who may not want to tell a potential employer that they are part of a special population. Similarly, employers are unwilling to ask potential employees about race or income status in fear of discriminatory lawsuits.¹⁹

Distributional Equity. Targeted workers' subsidies take into account distributional effects by providing additional income to low-income workers.

DISADVANTAGES

Not Specific to Recession. While workers' subsidies work well as a long-term strategy, they are not specific to business cycles and do not work well as countercyclical job creation policies.

Federal Hiring Credits

Hiring credits give employers a tax break for net new hires. The goal is to stimulate demand for workers and get firms on the margin to hire. Prior to the most recent recession, the last large federal hiring credit was the 1977 Wage Subsidy Program. Data collection in 1977 made it difficult to evaluate the program's overall effect on job creation.²⁰

States have also been offering their own versions of targeted hiring credits through the Worker Opportunity Tax Credit and, more recently, the Temporary Assistance for Needy Families (TANF) emergency funds, which states have successfully used to hire significant numbers of low-income workers.²¹ Due to varying program design, efficacy also varies. However, effectiveness tends to increase when hiring credit programs partner with other welfare agencies and programs.

It is essential that hiring credits become effective immediately during a recession, as this is a countercyclical measure.

ADVANTAGES

Marginally Increases Employment. The 1977 study suggests that companies that knew about and participated in the program experienced 3% gains in direct employment. Because data existed only for companies that knew about the program, this may overestimate actual gains.

Effective Short Term. The immediate decrease in labor costs will increase short-term hiring.

Easy to Administer. They are cost-effective and easy to administer, as long as they focus on the recently unemployed. The current federal hiring credit is claimed with IRS forms.

DISADVANTAGES

Lack of Awareness. In order for any credit or subsidy to affect behavior, the employer must know about the program. Even if the program substantially affected behavior for firms that knew of the program, the 1977 Wage Subsidy Program shows that most companies were unaware of it. Having companies collect the subsidy after the hiring decision does not affect behavior.²² Furthermore, there is a disconnect

in most companies between those who collect the tax credit (finance/accounting) and those who make hiring decisions.

Employment Stigma. Hiring credits are also not as effective when used for targeted populations, as this creates a stigma for the employees and employers. Targeting may be better addressed through worker subsidies.

Mismatched Timing. Finally, because of the length of time it takes to pass legislation and implement it, the effects may be pro-cyclical instead of countercyclical. Some suggestions to improve this include passing proactive legislation that only becomes effective during a recession.

San Francisco's Jobs Now! Program

In June 2009, San Francisco received federal stimulus money to run Jobs Now!, a program that provided a hiring credit for private employers to hire from a targeted unemployed or under-employed population. By working closely with Cal-Works and the San Francisco Human Service agency for employee referrals, Jobs Now! was able to avoid much of the stigma and legal challenges employees and employers faced during the hiring process, thus smoothing the path to higher short-term job creation.²³

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PLACE-BASED STRATEGIES

BUSINESS ATTRACTION & RETENTION

Local governments attempt to create a friendly business climate through incentives because some supply-side theories assert firms will locate where they can minimize costs, thus increasing local employment. Business attraction strategies represent the first wave of economic development practice, where localities attempted to target firms with offers of cash or near-cash assistance, in the form of subsidized loans and tax exemptions, to encourage their relocation.²⁴ Business retention strategies are part of second-wave economic development that focuses on getting information on the needs of local businesses, and then encouraging government actions to better meet those needs and increase local benefits. Retention programs range from business visitation and surveying programs, to planned manufacturing regions and business clusters.

Business incentives can be controversial, as they are vulnerable to criticism by liberals as “corporate welfare” for business and by conservatives as government interference in the private sector.²⁵ In theory, providing benefits and assistance to businesses can result in increased local jobs when these new and expanding businesses add to the local economy’s export base or substitute for imports. Growth also comes from multiplier effects generated by expanding businesses’ local suppliers, and increased worker income leading to growth in local retailers and services. Job chain theory builds on the idea that business growth generates jobs by positing that, as an industry expands, new staff positions are created throughout the jobs ladder, allowing mid-and low-level workers to move up the chain and eventually opening up opportunities that reach low-skilled, unemployed people.²⁶

In the long run, incentives and assistance for businesses should increase labor demand by providing more jobs and/or improving jobs quality; but in the short run, there may be little effect on new jobs and even a decrease as demand shifts toward higher-productivity jobs.²⁷ This leads experts such as Timothy Bartik to argue for a focus not on job growth as the goal but rather higher earnings per capita. In any case, though business incentives are still widely used, localities may be gradually shifting away from these strategies.²⁸

Examples of widely used business attraction and retention strategies include the following:

Provision of Local Economic Data

Local economic development organizations often attempt to provide good information and assistance with permits and zoning regulations for business prospects. This may affect large companies that are seeking to get a plant into operation quickly, as well as small businesses that need help navigating red tape at city hall. Providing reliable information on sites, and helping overcome problems with permits and regulations can help create jobs by attracting business prospects and saving start-up time.

ADVANTAGES

Information Access. This allows for job creation by giving businesses more information about comparative advantages of a city that they may otherwise be unaware of.

Cost-Effective. Providing basic information to businesses requires relatively modest expenditures of economic development staff.

Transparency and Accountability. Streamlining and providing transparency for information access on economic development activities helps increase public accountability.

DISADVANTAGES

Lack of Impact and Measurability. The effect on actual business location decisions and, by extension, potential job creation is likely to be small and not well-measured.

Marketing

Marketing efforts play a significant role in job creation strategies by emphasizing a locality's comparative advantages over its competitors. Surveys of economic development directors have found that they define sales activities as the most frequent and important activity their office engages in.²⁹ Marketing also has spurred a large site consulting industry, which more large corporations are using to make location decisions. Localities' marketing activities include preparing promotional materials, developing websites featuring the community's advantages for businesses, networking with business prospects, and advertising.

ADVANTAGES

Improved Efficiency. All this marketing activity results in dissemination of more information about business location issues, which arguably increases efficiency in the allocation of resources.

Cost-Effective. Though time-consuming, sales activities may be more cost-effective since they focus on relationship building to attract businesses and not financial subsidies.

DISADVANTAGES

Zero-Sum. At the national level, localities' rival marketing activities can feed into local intergovernmental competition and amount to a zero sum game, where net new job creation may occur in the locality but not necessarily in the state or the nation.

Information Asymmetry. Marketing efforts fuel the site consulting industry, which may lead to information asymmetries and potential market inefficiency. Also, trade magazines advise firms on strategies to play localities against each other and publicize winners and losers among localities—all feeding into incentive competition.³⁰

Creation or Retention of Industrial Zones

Cities have tried to maintain and grow new business with industrial retention programs that incentivize manufacturing firms to remain (rather than flee to the suburbs) by making the inner city more amenable to manufacturing.³¹ Components of these programs include identifying and responding to business needs, creating planned manufacturing districts in order to prevent competition for land among incompatible uses, and developing industrial parks with city-provided services. More specialized business assistance also can be provided to smaller manufacturers through manufacturing extension programs. These programs provide smaller manufacturers with access to business consulting to improve their productivity through new technologies, workplace management, and business planning and marketing. Assistance is often targeted at smaller manufacturers that need assistance but that also have a significant chance of surviving and providing well-paying jobs if they can increase their productivity.

ADVANTAGES

Retention of Manufacturing Jobs. If cities can utilize land-use planning tools to retain manufacturing, jobs and increased wages can be provided for residents of the inner city. More effective planning and zoning can help lower the cost of doing business for manufacturers.

Attracting Local Suppliers. This strategy also could build upon the clustering concept, if local suppliers are attracted or retained as a result of manufacturing zones, thus increasing jobs regionally.

DISADVANTAGES

Limited Supply of Land. Finding available land for development is a problem for manufacturers considering locating or expanding in an urban area. There are opportunity costs associated with dedicating scarce central land to industrial uses.

Political Complications. Planned manufacturing districts and industrial zones may face competing interests for land use among city residents, developers and businesses.

Regional and Global Competition. U.S. cities continue to lose their traditional manufacturing base jobs to suburbs, other regions of the country, and abroad. Globalization and trade imbalances lead to significant challenges for developing and retaining manufacturers in the U.S.

Tax Incentives

Tax incentives for job creation are used by all states and most localities in some form and constitute the largest share of public resources used in economic development. They include property tax abatements, sales tax exemptions and credits, corporate income tax exemptions, and job tax credits tied to the number of workers hired. As firms become more mobile due to declining transportation and communications costs, state and local government tax policies are one way to affect business costs and influence location decisions.³² Incentives to attract or retain businesses are therefore justified by proponents as a cost that produces potential benefits of more employment and stronger state and local fiscal situations.³³

ADVANTAGES

Effective in Specific Circumstances. Tax incentives can affect business location and expansion decisions if well-designed and targeted to the specific locality. Effective policies often focus on businesses that are at a stage where their development can be affected by policy interventions—such as start-ups and firms facing competitive challenges.³⁴ Incentives have much larger effects on location decisions among different communities within a metropolitan area than on location decisions among different states or metropolitan areas. Once a company has narrowed its choice of location to a particular region, the tax burden and physical characteristics of potential sites may have more influence over its decision.

Targeting High-Wage Industries. Incentives can be made more effective by targeting incentives at businesses that pay higher wages, since

these industries could drive up local wage standards and increase the net earnings effect for the region; however, such businesses provide few opportunities for more disadvantaged workers.

Clawbacks. Tax incentives can be improved by tying them to contractual restrictions that allow for clawbacks (government recovery from the business of some or all of the incentives' value) if certain job and earnings creation goals are not met.

Improving Accountability. Other reform ideas emphasize promoting more public transparency and participation in policymaking, coordinating incentives regionally or on a state level, and conducting cost-benefit analysis of incentive policies.³⁵

DISADVANTAGES

Expensive. Tax incentives are a high-cost way of creating jobs, which can outweigh the public benefits they create and redirect resources from public spending on infrastructure and education.

Reduces Resources for Other Public Needs. Some studies find that business tax reductions, if financed by reducing spending on local education or roads, may reduce a local economy's employment.

Little Impact on Firm Location Decisions. Evidence indicates that the use of tax incentives may have negligible impact on firms' decisions to locate.

Zero-Sum. To the extent that tax and incentive competition results in a redistribution of jobs, this shifting of jobs has few beneficial effects for the nation as a whole and amounts to a zero-sum game.

Destructive Competition. Local government competition through tax incentives may lead to a destructive cycle of stagnating or declining economies, and lower tax bases.

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The following two sections contain detailed descriptions of two common place-based policy tools: enterprise zones and redevelopment areas.

ENTERPRISE ZONES

The general theory behind Enterprise Zone (EZ) programs—which have existed at the state level since 1981 and the federal level since 1993³⁶—is that, by providing tax incentives and other cost-lowering benefits, government can help businesses overcome the barriers to development prevalent in underdeveloped areas,³⁷ thus stimulating increases in jobs, income, and real estate investment.³⁸ Of course, this theory assumes (among other things) that (1) barriers—like high crime, environmental problems, or poor access to transportation, affordable capital, or skilled labor—are the primary causes of the area's dearth of economic activity and (2) government can identify incentives that will actually help businesses overcome these barriers.³⁹ Also, it is important to note that, even if government can provide businesses with the necessary incentives to stimulate economic activity in an underdeveloped area, the question often remains whether the benefits of doing so outweigh the costs.

Federal EZ programs—which include the Empowerment Zone, Renewal Community, and Enterprise Community initiatives—have made available to businesses several billion dollars in incentives, including "employment credits, a 0% tax on capital gains, increased tax deductions on equipment, [and] accelerated real property depreciation."⁴⁰ According to the U.S. Department of Housing and Urban Development, the most widely used of such incentives is the employment credit, which provides tax benefits to businesses employing residents from the designated zones.⁴¹

Predictably, state-level EZ programs vary widely from state to state, particularly with respect to (1) their number and size and (2) the types of assistance they offer businesses. Regarding the former, Greenbaum and Landers (2009) note:

New Mexico has only one EZ in the city of Deming, and Louisiana has approximately 1,700 EZs. What is more, three states—Arkansas, Kansas, and South Carolina—have each designated the entire state

as an EZ. In most states with EZ programs, there are fewer than fifty EZs, and the EZs cover an average of fewer than 20 square miles. (Citations omitted)

In terms of assistance type, most state EZ programs provide property and income tax benefits to businesses within designated EZs, while some provide “capital and labor subsidies, job training assistance, infrastructure improvements and other enhanced public services, as well as various [other] forms of business assistance.”⁴² Regarding these less common types of assistance, Pulsipher (2008) found that at least one-third of state EZ programs provide investment tax credits, loan programs, tax increment financing,⁴³ and public infrastructure improvements, while a handful provide other incentives such as venture capital funds, employee tax credits, and regulatory relief.⁴⁴

ADVANTAGES

Effectiveness of Associated Tools. While the jury is out on the overall effectiveness of EZ programs (see note below), there is evidence that some common EZ tools produce positive employment effects. For example, two studies cited below found that investing in transportation and other public infrastructure pays great dividends in terms of job growth.⁴⁵ Two other studies found that reducing property taxes significantly increases employment,⁴⁶ and one of these⁴⁷ found similar effects with respect to sales taxes. Finally, Hirasuna and Michael (2005) found that “[s]tudies of national and state programs lead some to suggest that job tax credits may [also] result in modest increases in employment.”⁴⁸

Popularity. Greenbaum and Landers (2009) note that—with 43 states having established EZ programs comprising approximately 3,000 designated EZs—the popularity of EZ programs among state and federal policymakers (and presumably their constituents) is undeniable.⁴⁹ While the “everyone’s doing it” argument is certainly not the most convincing reason to adopt an economic development program, it does indicate at least tacit acceptance of EZ programs in jurisdictions all over the country. Thus, assuming a policymaker was convinced that enacting an EZ program would be desirable, it would likely be an implementable policy goal.

DISADVANTAGES

Questionable Overall Effectiveness. Considering the disparate findings of the studies described in the note below, the economic effect of EZs remains unclear.

Modest and Short-Lived Positive Effects. Even the studies that do find EZs effective, estimate very modest effects (e.g., the 3.39% decrease in unemployment found in Sridhar 1999) that last for a relatively short period of time (e.g., increases in employment that turned negative in as few as 7 years, according to O’Keefe 2004).

Difficult Implementation. Many authors note that maintaining a successful EZ program is extremely difficult. For example, Hirasuna and Michael (2005) identify several major issues policymakers looking to implement an EZ program should consider, including:

The Need for Regular Evaluations. Given uncertainty over EZ programs’ effectiveness, regular evaluations are needed to determine whether to augment or discontinue ineffective programs.

The Need for Sunset Provisions. Studies find that EZs are most effective in their first five years and may become ineffective in later years.⁵⁰

The Difficulty of Crafting Proper Incentives. In order to help ensure that EZs are not just “poaching” job growth from neighboring areas (i.e., attracting firms that would have located nearby without incentives), legislators must limit EZ incentives only to firms that are induced to locate in the area because of the program.⁵¹

The Difficulty of Choosing the Right Benefits. In general, tax benefits increase return on capital for firms. However, the extent to which this effect is produced via increased labor demand (i.e., hiring more workers and/or increasing work hours) varies by specific tax subsidy type as well as the type of firms targeted.⁵²

The Need to Protect the Quality of Public Services Outside the EZ. Poaching business from surrounding areas may result in loss of tax revenues in those areas, thereby decreasing infrastructure investment and potentially causing harm that may outweigh the benefits enjoyed by businesses within the EZ.⁵³

The Burden of Regulations and Restrictions. Any costs that firms must incur to satisfy difficult or time-consuming requirements (e.g., completing copious paperwork) reduce, and may outweigh, the value of the benefits they receive.⁵⁴

A Note on Measuring Effectiveness

Over the years, attempts to gauge the effectiveness of state and federal EZ programs have resulted in what Greenbaum and Landers (2009) called “a puzzling and arcane mix of research findings that policy makers and their staffs may find of limited use.”⁵⁵ Evaluations of federal EZ programs are few and inconclusive, while those of state programs (even within the same state) have shown results ranging from modestly positive to exceedingly negative. However, it should be noted that even the studies finding positive effects generally estimated these effects to be modest in size and relatively short-lived.

Federal Programs. Greenbaum and Landers (2009) summarized the scant body of literature on federal EZ programs as follows: “Busso and Kline (2008) found positive improvements in Empowerment Zone labor market conditions, and Krupka and Noonan (2009) found positive impacts on housing prices, but Oakley and Tsao (2006) found few positive impacts on socioeconomic conditions across four Empowerment Zones. Oakley and Tsao also found that approaches and outcomes varied across the different cities.”

State Programs. Over the past 25 years, more than 25 studies have used everything from surveys to shift-share analyses to multivariate regressions to evaluate the effectiveness of state EZ programs. These studies are split almost evenly—with about half finding positive employment effects and the other half finding negative/no/ambiguous effects. The following chart illustrates our findings regarding this dichotomy among state programs:

<u>Positive Effects</u>	<u>Negative/No/Ambiguous Effects</u>
Billings (2009)	Kolko and Neumark (2010a)
Bostic and Prohofsky (2006)	Kolko and Neumark (2010b)
O’Keefe (2004)	Elvery (2009)
Moore (2003)	Bondonio and Greenbaum (2007)
Beck (2001)	Greenbaum and Engberg (2004)
Sridhar (1999)	Peters and Fisher (2002)
Wilder and Rubin (1996)	Bondonio and Engberg (2000)
Papke (1994)	Engberg and Greenbaum (2000)
Elling and Sheldon (1991)	Fisher and Peters (1997)
Papke (1991)	Boarnet and Bogart (1996)
Erickson and Friedman (1990)	Dowall (1996)
Rubin (1990)	Logan and Barron (1991)
Rubin and Wilder (1989)	Grasso and Crosse (1991)
U.S. Department of HUD (1986)	Dabney (1991)
	U.S. General Accounting Office (1988)

REDEVELOPMENT AREAS AND TAX INCREMENT FINANCING

As used in this report, “redevelopment” refers specifically to the process by which local governments throughout the U.S. use redevelopment areas (RAs) and tax increment financing (TIF) to facilitate the improvement of blighted, contaminated, or otherwise underdeveloped areas.⁵⁶

Redevelopment originated in California in 1952.⁵⁷ It remained mostly a California phenomenon until the 1970s, when “many states passed legislation authorizing TIF...as a means of financing improvements in blighted urban neighborhoods.”⁵⁸ By the late 1980s, thirty three states had adopted TIF legislation,⁵⁹ and actual TIF usage (which had been sparse until that point) “experienced rapid growth.”⁶⁰ By the early 1990s, fifty-six percent of US cities with populations over 100,000 (by 1975 estimates) had used TIF; by the early 2000’s, forty-eight states had adopted TIF-enabling legislation.⁶¹

The simple explanation of TIF is that “property tax revenue generated by new construction in a designated area is deposited in a special fund and used to pay for public improvements within the same designated area.”⁶² Because of the economic development benefits of infrastructure improvements,⁶³ TIF proponents often argue that such improvements will stimulate business retention and growth and, in turn, employment retention and growth. Regarding this phenomenon, Byrne (2009) writes, “Increasingly, municipalities view TIF as a tool to attract business investment...As such, the primary purpose of TIF adoption has sometimes drifted away from strict blight reduction to general economic development and job creation.”⁶⁴

Whether TIF actually creates net new jobs is an under-researched question, however. According to Byrne, “researchers have focused on the effect of TIF on property values, ignoring TIF’s expanding role in municipal efforts to attract jobs.”⁶⁵ The few studies that have addressed this issue found impacts ranging from negligible to potentially positive. For example, the California Legislative Analyst’s Office (LAO) “found little evidence that redevelopment increases jobs”⁶⁶ and Byrne (2009) found “no general impact of TIF use on employment.”⁶⁷ However, Byrne also found that TIF districts supporting industrial development, specifically, “may have a positive effect on municipal employment.”⁶⁸

ADVANTAGES⁶⁹

Helps Fund Needed Infrastructure, Which Has Been Shown to Create Jobs. As Klacik and Nunn note, TIF is “one of the few locally controlled funding options...that can be used for investment in infrastructure.” Since studies have linked infrastructure improvements to job creation,⁷⁰ in theory, TIF creates jobs.

Reduces *Some* Bureaucratic Transaction Costs. TIF reduces the “bureaucratic delays and reporting components associated with intergovernmental revenue”⁷¹ by allowing municipalities (via their redevelopment agencies) to become direct beneficiaries of certain tax revenues, rather than rely on county governments for funding. Also, because most redevelopment agencies have broad powers to incur debt, TIF reduces the need for “referendum-style voter approval campaigns” every time municipal officials want to issue bonds.

Can Generate Large Amounts of Pre-Development Capital. By increasing local bonding capacity, TIF helps local governments raise large amounts of crucial pre-development capital from private sources. Notably, most of this debt does not count against general obligation debt limits.

DISADVANTAGES

Questionable Effectiveness. Considering the dearth of research on TIF’s job creation potential and the mixed findings of existing studies, its effectiveness in this regard remains unclear. While (as discussed in the section above) some studies suggest that infrastructure investment in general may increase employment, it is important to note that infrastructure-related employment gains in RAs may be “offset by losses in other parts of the region.”⁷²

Diverts Revenues from Important Programs and Services. In most states, RAs divert tax revenues that would normally be used to fund things like schools, law enforcement, fire protection, road maintenance, libraries, and parks. This is problematic because, according to some theories (particularly the theory behind enterprise zones discussed above), the presence and quality of these public services also affect the economic health of an area and, in turn, job retention and growth. Some states—such as California, Florida, Illinois, and Wisconsin—require RAs to pass-through a significant portion of tax increment revenue to fund schools, but many of the other services mentioned may still be neglected.⁷³

May Limit Transparency and Accountability. While some see the shift of power from voters and county governments to redevelopment agencies as a strategy to “reduce bureaucratic transaction costs,” others see it as a recipe for limited transparency and accountability. For example, the LAO criticizes redevelopment agencies for “lack[ing] some of the key accountability and transparency elements common to other local agencies” because they “can redirect property tax revenues from schools and other local agencies without voter approval or the consent of the local agencies.”⁷⁴ While these criticisms are about California redevelopment specifically, they are also applicable to many state’s TIF programs. Such concerns may very well serve as barriers to implementation of new redevelopment areas.

May Lead to Overleveraging of Local Public Finances. Because the revenue streams of the bonds created pursuant to TIF are generally dependent on increases in local property values, lower than expected (or even negative) tax increment revenues experienced during downturns in the real estate market can lead to defaults on these bonds. While revenue bonds do not allow bondholders much recourse in this situation (i.e., it is unlikely they would recover lost value from the bonding municipality), such defaults may decrease public perception of a municipal government’s overall creditworthiness. Yet, the public or broader government likely had little say when determining whether to issue the underperforming bonds in the first place.

Increases *Some* Bureaucratic Transaction Costs. It can be argued that TIF makes an already complicated local fiscal picture even more complicated, i.e., TIF significantly increases some governmental transaction costs. On this point, Klacik and Nunn note that “a proliferation of TIF districts has the potential to make local fiscal administration more difficult, if for no other reason than the increased number of tax rates that must be calculated and administered by local government authorities.”⁷⁵

Recent Controversy over Redevelopment in California

In January 2011, as part of a larger package of budget cuts designed to close a massive budget deficit, Governor Jerry Brown proposed “to change the role that state and local governments play in local development activities by eliminating state tax benefits for enterprise zones and phasing out the current funding mechanism for redevelopment agencies.”⁷⁶ Specifically, with respect to RAs, he proposed to:

- dissolve all RAs by July 1, 2011;
- establish successor entities to receive TIF revenues; and
- “give local officials alternative ways to promote economic development,” including lowering the voter approval threshold for “limited tax increases and bonding against local revenues” from two-thirds to 55 percent.⁷⁷

In his official press release regarding the proposal, the Governor argued that it would “return billions in property tax revenues to schools, cities and counties and help pay for public safety, education and other services.”⁷⁸

About the same time, the LAO released a report criticizing redevelopment in California for many of the reasons described in the section on disadvantages above and “agree[ing] with the Governor’s proposal to end it and to offer local governments alternative tools to finance economic development.”⁷⁹

The California Redevelopment Association (“CRA”) responded by attacking the LAO’s findings and citing a study it had commissioned years earlier concluding that redevelopment was “responsible for supporting the employment of 303,946 individuals.”⁸⁰ The LAO responded to CRA in an open letter defending its conclusions and criticizing the CRA study, in particular:⁸¹

- The study’s calculation of construction expenditures includes all construction completed in a redevelopment project area...even if the redevelopment agency was not part of the project.”
- The study “[a]ssumes public and private entities participating in redevelopment agency projects would not invest in other projects.”
- The study “[a]ssumes other local agencies’ use of property tax revenues would not yield economic benefits.”

BUSINESS- AND SECTOR-BASED STRATEGIES

The following section examines both business- and sector-based strategies that support net new job creation. We focus more specifically on strategies that support small businesses, given their potential to play a significant role in job creation. In addition, we identify strategies within high-growth sectors, specifically the emerging clean energy and green jobs sectors, due to the fact that certain sectors fared much worse than others in the recent recession.

SUPPORTING SMALL BUSINESSES

There has been much debate as to whether small businesses create more jobs in the U.S. than large businesses. Much of this debate has centered on David Birch's early research during the late 1970's and 1980's about the impact small businesses have on job creation. We first define what we mean by small business. The U.S. government's definition of small business varies by industry, and uses number of employees and/or average annual receipts as criteria for measuring this.⁸² For most industries though, they characterize small businesses as those with less than 500 or, in some cases, 100 employees.

Birch argue that small business account for a disproportionate share of new jobs, asserting that firms of 20 or fewer employees created 88 percent of jobs between 1981 and 1985, and attributed this to the high rate of small start-ups.⁸³ In response, other researchers suggested his work exaggerated small businesses' impact on job creation, and that the majority of long-term job generation occurred among a small number of successful, larger firms.⁸⁴ Other critiques further stressed the more significant role large firms played in the U.S. economy by providing the majority of jobs, paying the highest wages, maintaining higher success rates, and being more likely to adopt and implement technology.⁸⁵

Given the differing perspectives and contradictory research, we ask, do small businesses actually create more jobs? Neumark et. al's 2011 study attempts to answer this using updated National Establishment Time Series (NETS) data for jobs and businesses between 1992 and 2004.⁸⁶ The study takes into account gross job creation and gross job destruction

figures within a year's period, in order to find *net* job creation rates among businesses of all sizes. According to Neumark et. al, establishments with less than 20 employees had an average 15.2% net job creation rate, the highest job creation rate among all categories of establishments ranging from 0 – 50,000+ employees.

To account for random measurement errors or transitory employment declines in businesses, Neumark et. al applied a more conservative approach that only characterized small businesses if they averaged as small businesses over two years (instead of a single year). With this method, the number of establishments under 20 employees decreased along with their average job creation rate significantly to 2.6%, however it remained the highest job creation rate among all other sizes of establishments.

Neumark et. al's research also points out that while firms under 20 employees had a moderately higher job creation rate, they also had the highest job destruction rate. It's therefore important to understand the dynamics of small businesses and how they contribute to job creation. Small businesses usually start small, may grow to reach an optimal size, but remain inherently small over the long-term.⁸⁷ Innovation in general is argued to be a key feature of small businesses that supports their creation and sustainability.⁸⁸ Neumark et. al argue that high job creation rates among small firms were primarily explained by the birth of new firms. Furthermore, they acknowledge the type of economic growth that was occurring during 1992-2004, a time when small and innovative technology start-ups played a significant role in the booming Internet-based economy. Thus, births of businesses in this industry contributed substantially to job growth.

In sum, this research finds that small businesses do create more net new jobs, though less than Birch had claimed. Small businesses therefore can be important sources of net new job creation. With this in mind, we turn to specific strategies aimed at creating, sustaining, and growing small businesses that the public sector can implement and/or influence, as measures taken to foster job growth. Strategies include subsidized and low-cost loans and grants, small business financing, and assistance through the U.S. Small Business Administration, U.S. Department of Agriculture, and business incubators. We also examine government-stimulated demand for small businesses through mandated procurement

policies.

Additional Resources:

Neumark, D., Wall, B. and Junfu Zhang. "Do Small Businesses Create More Jobs? New Evidence for the United States from the National Establishment Time Series." February 2011. The Review of Economics and Statistics. Vol. 93, No. 1, Pages 16-29.

Harrison, Bennett. "The Myth of Small Firms as the Predominant Job Generators." Economic Development Quarterly 1994 8: 3.

Subsidized/ Low-Cost Loans and Grants

Capital access programs provide low-cost capital to attract and expand businesses through means such as direct loans from community development loan funds, which are among the most common programs supported by local governments. Government loan guarantees to encourage financial institutions to lend to businesses, subsidies to banks' loan loss reserves, and programs to expand availability of venture and equity capital are other forms of financial assistance for businesses. These programs are generally open to businesses of all sizes, but their per-business impact is greatest when used to finance small business activity.

ADVANTAGES

Addresses Wage Costs. Low-cost capital and credit are key inputs for businesses, along with wage costs. Allowing businesses to borrow will allow them to hire more workers, which represents a significant component of their total costs. Access to capital is one of the biggest challenges firms face today because of banks have tightened lending in the wake of the financial crisis.

DISADVANTAGES

Cronyism. Governments may loan capital to corporations based on favoritism, limiting their effectiveness. Grants allow politicians to publicly demonstrate that they are bringing business development to their districts, which play into political pressures to take credit for business attraction.

Subsidizing Private Risk. Subsidies and grants for targeted businesses may also have the effect of reducing activity among other local businesses, and potentially leading risk burdens to be transferred to the public sector.

Lack of Transparency. It is difficult to evaluate the effectiveness of capital market programs because the financial selection process does not provide clear and consistent data.

U.S. Small Business Administration (SBA) Financing

The U.S. SBA provides a variety of guaranteed-loan programs and surety bond guarantees to small businesses, including venture capital from privately owned investment funds through Small Business Investment Companies (SBIC). To qualify for most programs, businesses must be operating, for-profit, small (by definition of size requirement), and located in the U.S.

ADVANTAGES

Measured Impact on Job Retention and Creation. In 2009, the SBA reported that through their 7(a) and 504 loan programs, 46,019 businesses were assisted and that 524,950 jobs were retained or created.⁸⁹ Research has also found that sales and employment increased for firms in the three years after receiving SBA financing.⁹⁰ This is primarily achieved because loans allow businesses to free up working capital and increase investments in goods and services; businesses then hire to keep up with the resultant demand.

Assists Entrepreneurs in Greatest Need. The SBA serves women and minority-owned businesses, and in general, entrepreneurs who are typically underserved by financial institutions and the private venture capital industry.

DISADVANTAGES

Possible Lack of Funding and/or Available Lenders. The amount of loan guarantee funding available is determined by congressional appropriation, and may be insufficient to meet demand. Furthermore, businesses must meet SBA guidelines as well as receiving approval from the institution providing the loan, resulting in a two-tiered application process.

Other Factors Have Large Impact.⁹¹ Although research has shown that firms receiving SBA loans have experienced a growth in sales and employment, for some firms, they had greater increases prior to the loans. Firm age, industry, and location have been shown to have a larger effect on sales/employment than differences in SBA loans (such as term, interest rate, amount, etc.). The strength of the local economy and local policies such as zoning regulations, tax rates, business assistance programs, plus individual business acumen may also play a more important role in the success rate of small businesses.

Issue of Job Quality.⁹² It is argued that jobs created by small businesses tend to pay lower wages, have less benefits, and maintain poorer working conditions. This can also be particularly endemic to immigrant businesses that often rely on low-cost, co-ethnic immigrant labor.⁹³ The ratio of higher quality jobs to lower quality jobs created as a result of SBA financing is unknown.

Small businesses play an essential role in the American economy; they help to fuel productivity, economic growth, and job creation. More than half of all Americans working in the private sector either are employed by a small business or own one. During a recent 15-year period, small businesses created more than 60 percent of all new jobs in the Nation.

Presidential Memorandum - Regulatory Flexibility, Small Business, and Job Creation January 18, 2011

Additional Resources:

The U.S. Small Business Administration: <http://www.sba.gov/>

SBA 2009 Summary of Performance and Financial Information:
<http://www.sba.gov/sites/default/files/Financial%20Information.pdf>

Brash R., Gallagher, M., Hayes, C., Rossman S., Theodos B., and Kenneth Temkin. 2008. "Key Findings from the Evaluation of the Small Business Administration's Loan and Investment Programs: Executive Summary." The Urban Institute.

Craig, B., Jackson, W., and James Thomson. "Small Firm Finance, Credit Rationing, and the Impact of SBA-Guarantee Lending on Local Economic Growth." *Journal of Small Business Management*. Wile Online Library. Volume 45, Issue 1, pages 116–132, January 2007.

Cytron, N. 2006. "Small Business Development: An Overview." *Community Investments*. Issue Spr, pages 3-9.

USDA Rural Development Business Programs

In many rural communities, it is hard to grow small businesses due to few lending institutions and business networks that entrepreneurs can utilize for accessing capital and information, in addition to weak and/or small markets that prevent businesses from reaching economies of scale.⁹⁴ To address this, the U.S. Department of Agriculture Rural Development Business Programs provide financial assistance to small businesses through banks, credit unions, and community-managed lending pools, and technical assistance for agricultural producers and cooperatives to create and sustain their operations.⁹⁵ To qualify, most businesses must be in areas not located within or near cities and towns of more than 50,000 population.

ADVANTAGES

Measured Impact on Job Retention and Creation.⁹⁶ In 2010, USDA provided \$1.56 billion in Business & Industry (B&I) funding through the Recovery Act that financed 512 rural projects and created or saved approximately 33,700 rural jobs. Through the agency's energy-related projects that helped 5,250 businesses, an estimated 2,400 jobs were saved or created.

DISADVANTAGES

Unpredictable Funding. Funding levels for USDA business programs and loans are determined annually and depend on government appropriations, therefore the amount of funding available will be unpredictable at best.

Reduced Lending Capacity. Even though the USDA guarantees loans, many rural businesses have insufficient or bad credit histories, and as a result banks are often restricted from providing loans or don't have the capacity to afford the risk. This is further compounded by a general lack of lending institutions in rural areas.

Not User-Friendly.⁹⁷ Entrepreneurs have had difficulty in locating business assistance programs, and/or navigating the intricacies of the application process. Some have complained of a lack of coordination among the rules and regulations of each program, leading to inconsistencies and general confusion.

Additional Resources:

USDA Rural Development: <http://www.rurdev.usda.gov/Home.html>

USDA Rural Development 2010 Progress Report:
<http://www.rurdev.usda.gov/supportdocuments/ProgReport2010.pdf>

USDA Rural Development Business Programs:
<http://www.rurdev.usda.gov/rbs/busp/bpdir.htm>

Dabson, B. (2001). Supporting rural entrepreneurship: Exploring policy options for a new rural America. Center for the Study of Rural America, Kansas City, MO: Federal Reserve Bank of Kansas City.

Drabenstott M., and Larry Meeker. "Financing Rural America: A Conference Summary." Federal Reserve Bank Of Kansas City Economic Review Second Quarter 1997.

Voth, D.E. "A Brief History and Assessment of Federal Rural Development Programs and Policies." The Univ. of Memphis Law Review. 25 U. Mem. L. Rev. 1266 (1994-1995).

Government Procurement Mandates

At the national, state, and local levels, government actors initiate procurement policies, which require a certain percentage of goods and services to be provided by specific types of businesses—and many of these policies are for small businesses. For example, at the national level, the SBA sets standards with other federal departments and agencies to reach the goal that 23 percent of prime government contract dollars go to small businesses.⁹⁸ Along with other federal policies, many similar mandates occur state and city levels.

ADVANTAGES

Large Purchasing Power of Governments. During 2008, 21.89% of federal procurement dollars went to small businesses totaling \$96.8 billion dollars.⁹⁹ Additionally, small businesses secured 25% of American Recovery and Reinvestment Act (ARRA) Contracts in 2009, totaling over \$4 billion dollars.¹⁰⁰ At the very least, targeting small businesses to supply a significant amount of demand for goods and services can help sustain them.

DISADVANTAGES

Standards Not Always Met. Even though the government sets goals or standards as part of a policy, this does not ensure they'll be reached. The full potential of procurement policies' impact on supporting small businesses can be unknown.

Lack of Data. The intent of these policies is to grow and create jobs, however, there is a lack of measurable data that assesses these outcomes.

The Evergreen Cooperative Initiative¹⁰¹

This partnership among foundations, major anchor institutions, the Mayor's office in Cleveland, and Ohio's University Circle, is a great example of how local government and elected officials can support procurement efforts that benefit small businesses. This initiative works to create green, living wage jobs and asset building opportunities in six low-income neighborhoods through worker-owned, worker-run cooperatives that supply goods and services to the local anchor institutions (comprised of large hospitals and universities). The Initiative's key strategy is to capture the procurement and investment power of these large institutions into the surrounding neighborhoods.

Although the cooperatives do not directly supply goods and services to local government, the City of Cleveland played a key role in partnering with the Initiative, which further supported and facilitated the advancement of this project. To date, the Initiative has launched a green laundry service cooperative, that at fullest capacity will clean 10–12 million pounds of health care linen a year and employ 50 residents. They've also launched The Ohio Cooperative Solar, a clean energy and weatherization company that installs solar panels on the roofs of large health care and education buildings and will ultimately employ 75 residents.

Additional Resources:

Office of Government Contracting, Small Business Administration:

<http://www.sba.gov/content/about-government-contracting>

U.S. Department of Housing and Urban Development, Economic Opportunities:

http://portal.hud.gov:80/hudportal/HUD?src=/program_offices/fair_housing_equal_op/p/section3/section3

State of California, Procurement Division:

<http://www.dgs.ca.gov/pd/Home.aspx>

City of San Jose, Local and Small Business Preference Policy:

<http://www.sanjoseca.gov/purchasing/vendors.asp>

Howard, T., Kuri, L., and India Lee. 2010. The Evergreen Cooperative Initiative of Cleveland, Ohio: Writing the Next Chapter for Anchor-Based Redevelopment Initiatives. http://www.community-wealth.org/_pdfs/news/recent-articles/10-10/paper-howard-et-al.pdf

Business Incubators

Business incubators provide counseling, networking, training, and technical assistance services to small businesses/entrepreneurs, yet they differ from other business creation strategies in a central aspect: the incubator manager and staff along with the businesses are co-located in the same facility.¹⁰² Business incubators usually receive funding from academic institutions, economic development and/or other types of organizations, for-profit companies, and also government entities, which sponsor up to 20% of incubators.¹⁰³ Government assistance for incubators can occur through tax abatements, local funding, and subsidies. According to the National Business Incubator Association (NBIA), the number of incubators in the U.S. grew substantially from 12 in 1982 to 1,115 in 2006. The overarching goal of incubators is to foster business development of knowledge, competencies, and resources that lead to independent, self-sustaining businesses.

ADVANTAGES

Supports Job Creation. Many incubators are designed to help foster the creation of companies in new technologies and industries, such as the Green Tech Incubator in San Jose. To the extent that the incubator is supporting the development of new markets, the jobs created will be net new ones. In addition, according to National Business Incubator Association (NBIA), as reported by the 2006 State of the Business Incubation Industry, in 2005, North American incubators provided full-time employment for more than 100,000 workers.

Creates Jobs in Low-Income Areas. Research suggests that business incubators create new jobs in inner cities, however it isn't clear how many are net new jobs or simply relocation of jobs.¹⁰⁴

Provides Valuable Support for Growing Small Businesses.¹⁰⁵ The co-location of both the incubator and businesses fosters a unique supportive environment where personnel and infrastructure support is provided on a daily basis, such as: shared business services (administrative work, janitorial, security, etc.), use of equipment (computers, phones, fax machine, etc.), and facilities (lunch room, meeting rooms, etc.), information networking, and exchange of ideas with other entrepreneurs, all of which can lower transaction costs for new companies. This can foster job creation or retention if increasing transaction costs limit businesses' ability to hire and/or forces them to decrease their size of employment.

Reduces the Risk of Business Failure. The NBIA as reported by Business Incubation Works, cites that according to NBIA member incubators, 80% of all graduated businesses are still in business.¹⁰⁶ To the extent that jobs can be sustained as a result of less likelihood for business failure, job retention is supported.

DISADVANTAGES

Mismatch Between Resources Provided and Clients' Needs.¹⁰⁷ Not all start-up companies are the same and can require very different types of resources. To ensure a better success rate for businesses, incubators must admit companies who share their same objectives and require the specific support services provided. If not, incubators will need to specialize in different resources to properly meet their clients' needs.

May Not Serve Every Business Type.¹⁰⁸ If diversity is lacking among incubator programs, this model can only adequately serve specific businesses.

Lack of Competitiveness.¹⁰⁹ It may be difficult for firms to differentiate themselves from competitors if they share access to the same resources.

The Nashville Business Incubation Center¹¹⁰

NBIC, established in June 1986 by the Tennessee Valley Authority, and now managed by the College of Business at Tennessee State University, continues to be a viable incubator in the nation, with 78 successful business graduates. The graduates have become a major source of employment and economic development in Tennessee with a 90% success rate. Their client U-Kno Catering won NBIA's National Incubator Client of the Year Award in 2010 and the 2009 R. H. Boyd Emerging Business Award.

Additional Resources:

Nashville Business Incubation Center (NBIC): <http://www.nbiconline.com/>

National Business Incubation Association (NBIA): <http://www.nbia.org/>

La Cocina Business Incubator Kitchen: <http://www.lacocinasf.org/>

Rice, Mark. "Co-production of business assistance in business incubators: an exploratory study." *Journal of Business Venturing*, Volume 17, Issue 2, March 2002, Pages 163-187.

Rice, M. Peters, L., and Malavika Sundararajan. "The Role of Incubators in the Entrepreneurial Process." *The Journal of Technology Transfer*. Volume 29, Number 1, 83-91. 2004.

Udell, Gerald G. "Are business incubators really creating new jobs by creating new business and new products." *Journal of Product Innovation Management*, Volume 7, Issue 2, June 1990, Pages 108-122.

GREEN JOBS STRATEGIES

It is widely held that investments in building a clean energy ("green") economy in the United States will result in employment gains and other benefits. A recent report by the U.S. Conference of Mayors estimates that green jobs will provide up to 10% of new job growth over the next 30 years.¹¹¹ The Center for American Progress estimated that a \$100 billion green recovery program featuring investments in several energy efficiency and renewable energy strategies—retrofitting buildings, developing mass transit systems, producing and utilizing alternative fuels and energy sources, and constructing "smart grid" systems—would translate into two million new jobs within two years.¹¹² A look at the recent past supports this optimism: A recent Pew Charitable Trust report notes that, nationally, jobs in the clean energy economy grew by an average of 1 percent annually during the past 10 years, while total employment grew by an average of 0.4 percent annually. In 38 states and the District of Columbia, job growth in the clean energy economy outperformed total job growth between 1998 and 2007.¹¹³ Other studies are similarly optimistic.¹¹⁴

However, a recent study by UC-Berkeley's Vial Center for Employment in the Green Economy suggests that green job creation will be much lower than previously anticipated, for several reasons. First, previous studies have looked at job creation without accounting for job duration, so a million new jobs might just translate into a few hundred thousand job person-years. Second, studies have often not accounted for the share of spending and jobs that will be leaked outside the country. Third, the vast majority of the new jobs are not likely to be high quality "green jobs," but retail and service sector jobs that come from indirect and induced spending. Fourth, existing workers will take on much of this new "green" work.¹¹⁵

Regardless of the varying estimates, there is general agreement that the pace of green job creation is likely to accelerate in the years ahead.¹¹⁶ For this reason, and because green jobs programs have the potential to address dual goals of job creation and environmental sustainability, "green jobs" are increasingly targeted in local economic development efforts.

Despite the widespread usage of the term "green jobs," there is no consensus about what these jobs actually are. Various parties, including environmental and workforce advocates, labor market economists, workforce development professionals, and other stakeholders have defined "green jobs" differently. Three types of definitions emerge:

1. *The broad environmental definition*, which defines green as anything relating to environmental protection and quality. This definition is employed by many state surveys, the Bureau of Labor Statistics (BLS), and Occupational Information Network (O*NET).
2. *The renewable energy and energy efficiency definition*, which defines green as activities in the "clean energy" sectors related to creating renewable energy and increasing energy efficiency.
3. *The social justice/worker-centered definition*, a normative approach that makes green contingent on the job quality and its potential to address poverty and related social problems.

The U.S. Department of Labor offers this definition:

Broadly defined, green jobs are jobs involved in economic activities that help protect and restore the environment and conserve natural resources. These economic activities generally fall into the following categories:

- *Renewable energy*
- *Energy efficiency*
- *Greenhouse gas reduction*
- *Pollution reduction and cleanup*
- *Recycling and waste reduction*
- *Agricultural and natural resources conservation*
- *Education, compliance, public awareness and training*

Current and Potential Green Jobs

The varying definitions make it difficult to evaluate the relative employment effect of green jobs programs. Various parts of the green economy generate distinct combinations and numbers of green jobs. Depending on the situation, employment outcomes include:

- Job creation in new, "green" fields (e.g., energy auditors or fuel-cell developers);
- Employment substitution (e.g. shifting from mining coal to creating bio-fuels);
- Transformation or redefinition of existing jobs, especially in construction industries, as work-methods and profiles are greened; and
- Elimination of some jobs without direct replacement.

Strategies for Creation and Development of Green Jobs

States and cities utilize several general strategies to create and develop green jobs. Strategies include (among others):

- The adoption of policies to promote demand for renewable energy and energy-efficient goods and services;
- The use of financial incentives for energy efficiency, and the establishment of "green" or energy-efficient programs and standards for new and existing buildings;

Policies

Many states and cities have adopted renewable portfolio standards or targets that require electricity providers to supply a minimum amount of power from renewable energy sources. Energy efficiency standards for energy generation, transmission and use are also common. Public sector entities also develop regulations that require adherence to green standards and practices, often use rating systems that prioritize compliance with these standards when awarding public contracts.

Research suggests that such policies will lead to creation of new jobs. For example, the UC-Berkeley's Vial Center for Employment in the Green Economy study projects that by 2020, energy efficiency policies will result in about \$11.2 billion of public and private investment, resulting in 211,000 jobs in California.¹¹⁷

ADVANTAGES

Incentives for New Products and Methods. The need to meet standards and targets creates incentives for both the private and public

sectors to develop and export new technologies, infrastructure, products, and processes, which can reduce reliance on imports and may lead to business expansion and employment gains. Incentives for public and private sectors to use green products, services, technologies, and processes can result in contracts for green businesses, which could result in business growth and additional hires.

Builds Awareness. Policies build awareness of environmental quality issues, which may increase market demand for green products and services. Jobs can be created as firms raise production, or as new businesses are created to meet the demand.

DISADVANTAGES

Cost Increases. Regulations and standards can result in cost increases, which could put businesses at a competitive disadvantage. Costs of products and services could rise.

Regulatory Expenses. The legal and administrative costs of developing policies, standards, and enforcement procedures may increase public costs in the short term.

Financial Incentives

Every state offers some form of financial incentive to drive its clean energy economy. Thirty-two states provide residential, commercial and industrial loan financing for the purchase of renewable energy or energy efficiency systems or equipment. Twenty-three states and the District of Columbia offer rebate programs to promote the installation of renewable energy systems and energy efficiency measures such as solar water heating and photovoltaic systems. Forty-six states offer some form of tax incentive to encourage residents and corporations to use renewable energy or adopt energy efficiency systems and equipment.¹¹⁸ Many states and communities offer subsidized weatherization programs for low-income customers.

ADVANTAGES

Expanded Markets. Develops markets for green products and services, which can lead to job creation. Weatherization programs and energy efficient installations increase demand for workers to install systems, products, or new materials, thus creating jobs that were not previously available.

New Businesses. Build clean energy support services, which helps develop local clusters and reduce dependence on imports.

DISADVANTAGES

Requires investment. Initial costs for products, systems, and equipment can be high.

Administrative Costs. Rebate and incentive program administration costs for agencies and businesses receiving incentives can reduce overall impact. The costs of permitting, inspection, and accounting can be prohibitive.

Additional Resources:

Center for American Progress and the Political Economic Research Institute at the University of Massachusetts Amherst, *Job Opportunities for the Green Economy: A State-by-State Picture of Occupations that Gain from Green Investments* (June 2008).

Center for American Progress and the Political Economic Research Institute at the University of Massachusetts Amherst, *Green Recovery: A Program to Create Good Jobs and Start Building a Low-Carbon Economy* (September 2008).

Chapple, Karen. 2008. *Defining the Green Economy: A Primer on Green Economic Development*, Berkeley, CA; Center for Community Innovation, University of California, Berkeley, CA

Chapple, Karen 2010. *Green, Local, and Growing: Findings from a Survey of Green Businesses in California*, Berkeley, CA; Center for Community Innovation, University of California, Berkeley.

Fitzgerald, Joan. 2010. *Emerald Cities: Urban Sustainability and Economic Development*. New York: Oxford University Press.

Hess, David J., David A. Banks, Bob Darrow, Joseph Datko, Jaime D. Ewalt, Rebecca Gresh, Matthew Hoffmann, Anthony Sarkis, and Logan D.A. Williams. 2010. *Building Clean-Energy Industries and Green Jobs: Policy Innovations at the State and Local Government Level.* Science and Technology Studies Department, Rensselaer Polytechnic Institute.

Mitchell, Katrina. 2009. *Current Structures, Strategies, and Examples for Green Economic Development.* Blue Green Alliance Foundation. http://www.bluegreenalliance.org/press_room/private_publications?id=0017.

Pollin, Robert Heidi Garrett-Peltier, James Heintz, and Helen Scharbe 2008 *Green Recovery: A Program to Create Good Jobs and Start Building A Low Carbon Economy*, Amherst, MA: Political Economy Research Institute, University of Massachusetts, Amherst.

U.S. Conference of Mayors and Global Insight, *Current and Potential Green Jobs in the U.S. Economy* (October 2008).

Vial Center for Employment in the Green Economy. 2011. *Workforce Strategies, Energy Efficiency, and Green Jobs: Key Findings*. California Public Utilities Commission.
http://irle.berkeley.edu/vial/events/fall10/UCB_labor_center_key_findings_reports.pdf

WORKER-BASED STRATEGIES

In this report, we start with the basic assumption that labor supply greatly exceeds labor demand in the U.S. labor market today. According to the U.S. Bureau of Labor Statistics, unemployment in April 2011 was 9.0 percent.¹¹⁹ When the data is further broken down, it becomes clear that unemployment is concentrated among low-income workers from communities of color. The unemployment rate for among African Americans was at 16.1 percent in April.¹²⁰ According to a recent report from the Kirwan Institute, in 2010 Latinos had an unemployment rate of roughly 12.5 percent, while the rate for whites was below 9.0 percent.¹²¹ Workers with lower educational attainment levels and workers from low-income communities have also been particularly hard-hit in this recession, facing higher-than-average unemployment rates.¹²²

This disparity may be surprising to some at first. According to job chain theory, any new job created in a local economy will eventually “trickle down” to provide new and better economic opportunities for those at the lowest rungs of the economic ladder. When new jobs are created, people advance into them from lower down on the job chain, and so on throughout the chain until new job openings reach workers at the base of the ladder. However, this theory has been widely criticized for not recognizing that a gap exists in this job chain in which unskilled workers at the very base of the ladder find few opportunities to move up the ladder because they lack a certain level of formal education or job skills.¹²³

So, if we accept the data that current high rates of unemployment are disproportionately concentrated within low-income communities and communities of color, and if we further reject the claims that new high-skill jobs will trickle down to create new jobs at the lower rungs of the economic ladder, then this discussion about job creation must specifically address strategies to make jobs accessible to disadvantaged workers. Just taking the macro-economic perspective that any net new job will help workers is not enough. We not only have to grow the pie; we also must address how it's getting divided up.

While this imperative can be justified from a number of perspectives, we would argue primarily that targeting disadvantaged workers as suggested is an excellent way to (1) counteract what most accept to be growing income inequality in America and (2) thereby stabilize the economy. Labor market scholars such as Robert Reich point to the growing income inequality of the last 40 years as a root cause of why this current economic recession has been so long and deep.¹²⁴ Turning this trend around and increasing both job opportunities and job quality for disadvantaged

workers could have profound impacts in providing long-term economic stability.

Finally, we think it's important to look at job creation in terms of the duration of the job (job years) and its quality (wages, benefits, and skills development). While it could be argued that any new job can create work experience and is thus valuable, the skills developed in short-term, low-quality jobs are not particularly useful if there are no long-term, high-quality jobs in which to apply them. Thus, in our view, job creation is less about creating just any new job and more about creating long-term, high-quality jobs that raise households and communities out of poverty.

Below is a review of policies and strategies that specifically target improving job opportunities in communities that face barriers to employment. This includes both labor demand-side strategies to increase job accessibility and strategies that improve the quality of jobs that are already accessible to disadvantaged workers. These strategies focus on actions that policy-makers can take.

Additional Resources:

Allegretto, Sylvia, Ary Amerikaner, and Steven Pitts. "Data Brief: Black Employment and Unemployment in March 2011." *Center for Labor Research and Education*. April 2011. <http://laborcenter.berkeley.edu/blackworkers/report.php>

Anderberg, Marc. "Job Chains: Theory and Practical Implications for Workforce and Economic Development." *Beyond the Numbers: Labor Market Information Research and Writings*. September 2006.

Kirwan Institute for the Study of Race and Ethnicity. "Unemployment Insurance, Race, and the Recession." July 2010. Available at: <http://kirwaninstitute.org/publicationspresentations/publications/index.php>

U.S. Bureau of Labor Statistics, April 2011. <http://www.bls.gov>

Reich, Robert. "Unjust Spoils." *The Nation*. July 19, 2010.

Reid, Carolina. "Addressing the Challenges of Unemployment in Low-Income Communities." *Federal Reserve Bank of San Francisco*. Spring 2009.

Local Hire and First Source Hiring Ordinances

Local hire and first source hiring ordinances are policies that commit an employer to hire a certain percentage of their workforce from a specific pool of applicants. The target population can be a resident of a certain neighborhood where the new jobs will be located. More recently, there have been successful attempts—spearheaded by the Los Angeles Redevelopment Agency—to use census data to target populations from census tracts with high-poverty levels, regardless of where the job is actually located within the area. The target population can also be workers who have received certain training or gone through a specific training program.

Oftentimes, these policies are included as a part of Community Benefits Agreement tied to a specific large-scale development. While CBAs are usually negotiated between community groups and developers, Laura Wolf-Powers illustrates how public sector actors can play an important role in aiding the negotiation process and particularly in implementing the agreement.¹²⁵

Local hire and first source policies can apply to both temporary and permanent jobs. Temporary jobs include construction jobs like carpentry, plumbers, steelworkers, etc. These jobs are often well-paying, union jobs that do not require much more than a high school level of education, making them important pathways to the middle class for many workers with lower levels of formal education. Permanent jobs can provide long-term job security, but will often be in the retail, restaurant, or hotel industries, which are notoriously low-paying and low-benefits occupations.

ADVANTAGES

Effective. In many situations, local hire ordinances have proven to be effective in increasing job accessibility for disadvantaged workers by increasing the demand for workers from a certain area or a certain demographic. Recently, there have been some movements to make local hire more regional in response to the growing strength of regional governance structures and in order to grow the impact of these policies.¹²⁶

Legally Viable. While some contention remains around local hire for projects that use federal transportation dollars, there is a growing body of case law around local hire that suggests it is an appropriate legal tool as long as it does not apply to out-of-state workers. This makes local hire one of the few policies that can legally target disadvantaged workers.¹²⁷

DISADVANTAGES

Difficult to Implement. Though many of these policies look great on paper, communities struggle with implementation and enforcement of them. The governing jurisdiction rarely tracks hiring records to ensure compliance, and often relies on “good faith” measures that are difficult to enforce even when there is political will to track compliance.

Confusion over Legality. There is still much confusion amongst city officials and employers about the legality of local hire ordinances, leaving many jurisdictions reticent to pass or enforce legislation that could potentially lead to a lawsuit.

Union Opposition. The building trades unions often oppose local hire because it interferes with their internal job placement procedures.

Los Angeles Local Hire

In 2008, the Los Angeles Community Redevelopment Agency passed the Construction Careers and Project Stabilization Policy. This policy applies to almost all projects that receive support from the agency, and requires that 30% of total work hours be completed by local residents and 10% of work hours completed by a disadvantaged worker. It is the first project in the country to define a local resident as someone who lives in a high-poverty census tract in the city. According to the agency, over 200 local residents have been hired because of this policy in the first two years of implementation.

Additional Resources:

Mulligan-Hansel, Kathleen. “Making Development Work for Local Residents: Local Hire Programs and Implementation Strategies that Serve Low-Income Communities.” *The Partnership for Working Families*. 2008.

Swanstrom, Todd and Banks, Brian. “Going Regional : Community-Based Regionalism, Transportation, and Local Hiring Agreements.” *Journal of Planning Education and Research* 28: 355 (2009).

Wolf-Powers, Laura. “Community Benefits Agreements and Local Governments: A Review of Recent Evidence.” *Journal of American Planning Association*. 26:2 (2010).

Wage Increases—Minimum, Living and Prevailing Wages

Wage increases generally fall into several categories: minimum wage increases set at the state or federal level; living wage ordinances established at the local level to apply to government procurements; and prevailing wages established by the Labor Department and applied to public works projects.

In 2009, 43.6 million people, 14.3 percent of the population, had incomes below the federal poverty line.¹²⁸ Neither federal nor state minimum wage levels have kept up with inflation for the last 40 years, leading to a real decline in worker's incomes and spending power. Local governments have attempted to fill this gap somewhat through living wage ordinances, but they have had only small effects.

ADVANTAGES

Direct Benefit to Households that Need It. Wage increases provide the most direct and instant benefit to the working poor and underemployed, as well as their family network in the form of increased household wages. Thus, even if a wage increase does not lead to higher employment levels, it could benefit households and communities that have high unemployment rates indirectly by raising the incomes of households that have at least one employed family member.

DISADVANTAGES

Indeterminate impact on job creation. Both economic theory and empirical research are ambivalent on the net jobs impact of wage increases. While some research has pointed to a net decline in overall employment due to minimum wage increases, other studies find no impact. The impact seems to be neutral at best.¹²⁹

Small Impact. Living wage ordinances usually apply only to local government procurements, which is a small percentage of the local economy. Other employers may choose to adopt the living wage rate, but it is generally voluntary.

Additional Resources:

Card, David and Alan B. Krueger. "Minimum Wages and Employment: A Case Study of the Fast Food Industry." *The American Economic Review*. 84:4 (1994):772-793.

Dube, Arindrajit, T. William Lester, and Michael Reich. "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties." *The Review of Economics and Statistics*. 92:4 (2010): 945-964.

U.S. Bureau of Labor Statistics. "A Profile of the Working Poor, 2009." March 2011.
<http://www.bls.gov/cps/cpswp2009.pdf>

High Road Policies

With high road policies, the local government sets the standards by which contractors compete for work. These standards can vary from wages and benefits to worker training programs to environmental sustainability goals. Rather than attempting to extract community benefits on a project-by-project basis, high road policies make clear from the very beginning what a community expects, and allows contractors to compete in the market over who can best meet these standards. High road agreements do not guarantee that new jobs will be created in a community, but they can help ensure that the jobs that do come are quality jobs in sustainable industries accessible to disadvantaged workers.¹³⁰

ADVANTAGES

Quality Jobs. High road agreements lead to better quality, accessible jobs in a community. In Seattle, a high road agreement led to higher wages and workforce training for low-income workers in Seattle in a home energy efficiency retrofit program passed 2010.

Certainty and Stability. High road policies take the uncertainty out of a development process by making clear from the beginning what a contractor or developer is expected to do.

Market-Based Approach. Under high road agreements, the city sets the standards and allows the market to determine which company can best meet those standards. This takes the government out of the role of picking the winners.

DISADVANTAGES:

Does Not Create Jobs. High road agreements do not create net new jobs; they ensure that the jobs that are created are high quality.

Seattle's High Road Agreement

In July 2010, the City of Seattle adopted a High Road Agreement for the city's new residential green retrofit program called Community Power Works. This agreement will ensure proper worker training, living wages, and career pathways for local workers, while also laying out standards for contractor performance and environmental sustainability. This agreement leverages \$20 million in Federal Stimulus Money to provide economic opportunities for the city's low-income workers while pursuing environmental sustainability.

Additional Resources:

Quan, Katie. "State of the Art of Social Dialogue – USA." *International Labour Office*. 2000. <http://laborcenter.berkeley.edu/global/dialogue.pdf>

CONCLUSION

Job Creation is More Important than Ever

The job creation strategies outlined here reflect the wide range of approaches utilized to increase the levels and quality of employment across the U.S. The effectiveness of each approach depends on the extent of alignment with community needs, strengths, and capacities; the presence of supportive policies; and the availability of funding and resources necessary for implementation. In many cases, multiple strategies and interventions are required to achieve desired results.

The recent "Great Recession" has demonstrated the difficulty of creating new jobs when unemployment is high. In times like these, decision-makers face the additional challenges of differentiating between long- and short-term goals in order to select the policies and practices that will best meet their needs. Now, more than ever, there is a critical need for decision-makers to identify the effective strategies that should be implemented to grow the 8.8 million jobs lost and to rebuild the economy.

Our hope is that the way we organized the various job creation strategies discussed in this report—by four basic themes—allows for easy reference and provides a useful conceptual framework for those weighing job creation strategies. Further, we hope that the discussion of advantages and disadvantages with respect to each strategy better informs decisions as to which approaches align best with public priorities and desired outcomes. Finally, we hope that we have conveyed the dire need for more, and better, evaluation of job-creation strategies—particularly the need to identify the quality and sustainability of the jobs they maintain and create. Where this information is lacking, decision-makers will be at a distinct disadvantage.

ENDNOTES

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- ¹ For an illustration of long-term trends, see the figures on the following page.
- ² Goodman, C. and Mance, S. "Employment Loss and the 2007-2009 Recession: An Overview." Bureau of Labor Statistics. All information in this section is drawn from this report.
- ³ Sunshine, Robert. "CBO Presentation to the NGLA: Economic Growth and employment in the Short-Term". March 17, 2010.
- ⁴ Rothstein, Jesse. Interview. "Job Tax Credits and Job Creation". IRLE Job Creation and Local Communities Speaker Series. Feb 23, 2011.
- ⁵ Jacobs, Ken, Lucia, Laurel and Lester. T. William. 2010. "Regional Economic Impacts of Proposed Health and Human Services Cuts. CLRE Policy Brief."
- ⁶ Jacobs, Ken. Interview. May 4, 2011.
- ⁷ Pollin, Robert and Baker, Dean. 2010. "Reindustrializing America: A Proposal for Reviving U.S. Manufacturing and Creating Millions of Good Jobs." *New Labor Forum* 19, 2: 16-34.
- ⁸ Levine, Linda. 2010. Job Growth During the Recovery. Congressional Research Service. http://assets.opencrs.com/rpts/R41434_20100930.pdf
- ⁹ Pollin and Baker 2010.
- ¹⁰ Pollin and Baker 2010.
- ¹¹ Rothstein Interview, Feb 23, 2011.
- ¹² Geitner, Timothy. "Infrastructure Banks Would End the 'Bridge to Nowhere'". *Wall Street Journal*. <http://online.wsj.com/article/BT-CO-20110209-713183.html>.
- ¹³ Needels, K.; Nicholson, W.; Kerachsky, S.; Walsh, S.; London, R.; McCanne, D. 1997. "Evaluation of the Short-Time Compensation Programs: Final Report". U.S. Department of Labor, Mathematica Policy Research, and Berkeley Planning Associates.
- ¹⁴ Friction refers to the time period during which an employee or employer is searching for or looking to fill a job. These periods can be lengthy, fueled by an employer's hesitance about economic recovery and the time it takes to fill the position.
- ¹⁵ Needels et al 1997.
- ¹⁶ Id.
- ¹⁷ Levitis, Jason and Koulis, J. "State Earned Income Tax Credits: 2008 Legislative Update." Accessed April 15, 2011. <http://www.cbpp.org/cms/?fa=view&id=462>
- ¹⁸ Neumark, David. Interview. "How Can California Spur Job Creation". IRLE Job Creation and Local Communities Speaker Series. Feb 23, 2011.
- ¹⁹ Id.
- ²⁰ Perloff, Jeffrey and Wachter, Michael. 1979. "The New Jobs Tax Credit: An Evaluation of the 1977-78 Wage Subsidy Program." *American Economic Review* 69, 2: 173-179.
- ²¹ Liz Schott and LaDonna Pavett, Extending the TANF Emergency Fund would create and preserve jobs quickly and efficiently. Center on Budget and Policy Priorities Report, 2010. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3061>
- ²² Rothstein Interview, Feb 23, 2011.
- ²³ Masi, Paul. "Calworks Adult Experiences with Jobs Now!" Memorandum to San Francisco Human Service Agency. August 3, 2010.
- ²⁴ Fitzgerald, Joan and Leigh, Nancy Green. 2002. Ch. 1 "Redefining the Field of Local Economic Development" in *Economic Revitalization: Cases and Strategies for City and Suburbs*. Thousand Oaks, CA: Sage Publications.
- ²⁵ Bartik, Timothy J. 2003. "Local Economic Development Policies." Upjohn Institute Working Paper No. 03-91. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

http://research.upjohn.org/up_workingpapers/

²⁶ Anderberg, Marc. 2006. "Job Chains: Theory and Practical Implications for Workforce and Economic Development" in *Beyond the Numbers: Labor Market Information Research and Writings*.

²⁷ Bartik, Timothy J. 2008. "The Revitalization of Older Industrial Cities: A Review Essay of Retooling for Growth." Upjohn Institute Working Paper No. 08-143. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

²⁸ Zheng, Lingwen. 2009. "Trapped in the Race to the Bottom: Who is Using Business Incentives Now?" Dept. of City and Regional Planning, Cornell University.

²⁹ John M. Levy "What Economic Developers Actually Do." *Journal of the American Planning Association* 56,2 (1990).

³⁰ Markusen, Ann, Nesse, Katherine. 2007. "Institutional and Political Determinants of Incentive Competition" in Markusen, A., ed., *Reining in the Competition for Capital*. Kalamazoo, MI: W. E. Upjohn Institute for Employment Research. pp 1-42.

³¹ Fitzgerald, Joan and Leigh, Nancy Green. 2002. "Industrial Retention: Multiple Strategies for Keeping Manufacturing Strong" in *Economic Revitalization: Cases and Strategies for City and Suburbs*. Thousand Oaks, CA: Sage Publications.

³² Bartik, Timothy J. 2007. "Solving the Problems of Economic Development Incentives" in Markusen, A., ed.. *Reining in the Competition for Capital*, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, pp.103-140.

http://research.upjohn.org/up_bookchapters/240

³³Id.

³⁴ Bartik, Timothy J. 2008. "The Revitalization of Older Industrial Cities: A Review Essay of Retooling for Growth." Upjohn Institute Working Paper No. 08-143. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

³⁵ Bartik, "Solving the Problems," 2007.

³⁶ Hirasuna, Don and Michael, Joel. 2009. "Enterprise Zones: A Review of the Economic Theory and Empirical Evidence." Policy Brief, Minnesota House of Representatives Research Department: 8. <http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>

³⁷ i.e., places with higher unemployment, lower incomes, and more blighted structures

³⁸ Hirasuna and Michael , 3.

³⁹ i.e., incentives that are both valuable enough and dependable enough to outweigh the costs of the barriers

⁴⁰ U.S. Department of Housing and Urban Development. Community Renewal Initiative. <http://www.hud.gov/offices/cpd/economicdevelopment/programs/rc/index.cfm>

⁴¹ Id.

⁴² Greenbaum, Robert T. and Landers, Jim. 2009. "Why are State Policy Makers Still Proponents of Enterprise Zones? What Explains Their Action in the Face of a Preponderance of the Research?" *International Regional Science Review* 32: 468.

⁴³ See the section on Redevelopment and Tax Increment Financing for further discussion of this type of financing.

⁴⁴ "Evaluating Enterprise Zones," National Conference of State Legislatures, March 2009. <http://www.ncsl.org/programs/econ/evalentzones.htm>.

⁴⁵ Bivens, Josh; Irons, John; and Pollack, Ethan. 2009. "Tools for Assessing the Labor Market Impacts of Infrastructure Investment," Economic Policy Institute Working Paper.

<http://www.lecet.org/Legislative/ARRA%20Studies/EPI%20Working%20Paper%20Tools%20for%20Assessing%20Labor%20Mkt%20Impacts%20of%20Infrastructure.pdf>; Immergluck, Daniel. 1993. "The Role of Public Infrastructure in Urban Economic Development." *Economic Development Quarterly* 7,3: 310-318.

⁴⁶ Dye, Richard F.; McGuire, Therese J.; and Merriman, David F. 2001. "The Impact of Property Taxes and Property Tax Classification on Business Activity in the Chicago Metropolitan Area," *Journal of Regional Sciences* 41, 4: 757-78; Mark, Stephen T.; McGuire, Therese J.; and Papke, Leslie E. 2000. "The Influence of Taxes on Employment and Population Growth: Evidence from the Washington, D.C., Metropolitan Area." *National Tax Journal* 53, 1: 105-34.

⁴⁷ Mark, McGuire, and Papke 2000.

⁴⁸ 16 (citing Faulk 2002).

⁴⁹ p. 467.

⁵⁰ p. 17.

⁵¹ Some programs also allow employers to take advantage of various credits retroactively, which may also frustrate these business attraction goals. Neumark Interview, February 23, 2011.

⁵² p. 18 (citing Snow 2000, Buss 2001, and Faulk 2002).

⁵³ p. 18.

⁵⁴ p. 19.

⁵⁵ 468.

⁵⁶ Different states use different terminology to describe what is essentially the same process. For example, in California, districts using TIF to fund public improvements are called "redevelopment areas" and are administered by "redevelopment agencies," while, in Michigan, TIF districts are called "development areas" and are administered by "tax increment financing authorities."

⁵⁷ Klacik, J. Drew and Nunn, Samuel. "A Primer on Tax Increment Financing," pp. 15-29, in Johnson, C.L. and Man, J., eds., *Tax Increment Financing and Economic Development: Uses, Structures, and Impacts*. Albany, NY: State University of New York Press, 17.

⁵⁸ Paul F. Byrne, "Does Tax Increment Financing Deliver on Its Promise of Jobs? The Impact of Tax Increment Financing on Municipal Employment Growth," *Economic Development Quarterly* 24, 1: 13-22, 13.

⁵⁹ Klacik and Nunn, 18.

⁶⁰ Byrne, 13.

⁶¹ Klacik and Nunn, 18.

⁶² Klacik and Nunn, 17. As utilized by most municipal governments throughout the U.S., the TIF process can be broken down into three basic steps. First, pursuant to some statutory authority, a municipality makes a finding that some particular area is in need of redevelopment and designates that area as such. Then, the property tax revenues flowing from that area to the next largest governmental body (usually, the county) are frozen at their pre-designation level (the "base assessed value"). Finally, the difference between the based assessed value and the actual assessed value (the "incremental assessed value")—which is presumably higher due to new or future investment in the area—is disbursed to the RA for the benefit of the redevelopment area. In most states, all tax increment revenue remains within the designated area; in some states, however, the RA is required to "pass through" a portion of this revenue back to the local government for things like schools. Note that the success of this entire process depends on the current or future appreciation of property values in the RA, something discussed further in the section on disadvantages.

Upon establishing RAs and capturing incremental assessed value, states allow redevelopment agencies to engage in a wide variety of financing mechanisms. However, TIF funds are typically used in one of two general ways: (1) to immediately pay for infrastructure improvements or (2) to issue debt (e.g., municipal bonds) based on projections of future tax increment revenues.

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- ⁶³ e.g., in the section on enterprise zones, above
- ⁶⁴ p. 13. For example, Byrne notes that municipal leaders often promote redevelopment projects as job creators, citing five news articles in which job creation arguments are used to justify TIF.
- ⁶⁵ Byrne, 14.
- ⁶⁶ California Legislative Analyst's Office ["LAO"]. "The 2001-12 Budget: Should California End Redevelopment Agencies?" (8 February 2011).
http://www.lao.ca.gov/analysis/2011/realignment/redevelopment_020911.aspx
- ⁶⁷ p. 13.
- ⁶⁸ Byrne, 13.
- ⁶⁹ Unless otherwise noted, information in this section is drawn from Klacik and Nunn, 16.
- ⁷⁰ See Bivens, Irons, and Pollack (2009); Immergluck (2003).
- ⁷¹ citing Davis (1989).
- ⁷² LAO, "The 2011-12 Budget"
- ⁷³ Klacik and Nunn, 18.
- ⁷⁴ http://www.lao.ca.gov/analysis/2011/realignment/redevelopment_020911.aspx.
- ⁷⁵ p. 26. Beginning on this page, the authors also provide a lengthy example illustrating just how TIF can lead to "an extraordinary public administrative burden."
- ⁷⁶ <http://gov.ca.gov/news.php?id=16872>. See also, http://articles.sfgate.com/2011-01-11/news/27021970_1_redevelopment-funds-california-redevelopment-association-redevelopment-projects.
- ⁷⁷ <http://www.cp-dr.com/sites/default/files/Summary%20report%20PDF.pdf>, 2.
- ⁷⁸ <http://gov.ca.gov/news.php?id=16872>
- ⁷⁹ http://www.lao.ca.gov/analysis/2011/realignment/redevelopment_020911.aspx
- ⁸⁰ <http://www.calredevelop.org/external/wcpages/wcwebcontent/webcontentpage.aspx?contentid=282>.
- ⁸¹ http://www.lao.ca.gov/analysis/2011/realignment/redev_letter_021611.pdf
- ⁸² U.S. Small Business Administration. "Summary of Size Standards by Industry."
<http://www.sba.gov/content/summary-size-standards-industry>
- ⁸³ Harrison, Bennett. 1994. "The Myth of Small Firms as the Predominant Job Generators." *Economic Development Quarterly* 8: 3.
- ⁸⁴ Id.
- ⁸⁵ Id.
- ⁸⁶ Neumark, D.; Wall, B.; and Zhang, J. 2011. "Do Small Businesses Create More Jobs? New Evidence for the United States from the National Establishment Time Series." *The Review of Economics and Statistics* 93,1: 16-29.
- ⁸⁷ Fuller, B., Pantuosco, L., Parker, D., and D. Keith Robbins. "An Empirical Assessment of the Contribution of Small Business Employment to U.S. State Economic Performance." November 2000. *Small Business Economics* 15: 293-302.
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<http://www.sba.gov/sites/default/files/Financial%20Information.pdf>
- ⁹⁰ Brash R.; Gallagher, M.; Hayes, C.; Rossman S.; Theodos B.; and Temkin., K. 2008. "Key Findings from the Evaluation of the Small Business Administration's Loan and Investment Programs: Executive Summary." The Urban Institute.
- ⁹¹ Brash et al 2008.
- ⁹² Neumark, Wall, and Zhang 2011.

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- ⁹³ Bates, T. 1994. "An Analysis of Korean-Immigrant-Owned Small-Business Start-Ups with Comparisons to African-American- and Nonminority-Owned Firms." *Urban Affairs Review* 30: 227.
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- ⁹⁵ USDA Rural Development: <http://www.rurdev.usda.gov/AboutRD.html>
- ⁹⁶ USDA Rural Development 2010 Progress Report, <http://www.rurdev.usda.gov/supportdocuments/ProgReport2010.pdf>
- ⁹⁷ Voth, D.E. 1995. "A Brief History and Assessment of Federal Rural Development Programs and Policies." *Univ. of Memphis Law Review*. 25 U. Mem. L. Rev. 1266.
- ⁹⁸ Office of Government Contracting, SBA. <http://www.sba.gov/content/about-government-contracting>
- ⁹⁹ Small Business Goaling Summary Report. <http://www.sba.gov/content/small-business-procurement-scorecard-shows-progress-toward-meeting-23-percent-goal-small-business-contracting>; SBA 2009 Summary of Performance and Financial Information. <http://www.sba.gov/sites/default/files/Financial%20Information.pdf>
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