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Carla Dickstein

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Targeted Economic Development: Its Role in Maine Economic Policy

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Targeted economic development strategies challenge traditional approaches to economic development by making explicit the recipients of job growth and job creation. They link economic development concerns such as business growth and a positive business climate to often-ignored social criteria that are reflected in the question of who wins and who loses in our present economy.

Dickstein brings a practitioner's perspective to this issue by relating Coastal Enterprises Inc.'s experience in using gap financing programs to link people with low incomes to jobs created through business start-ups or expansions.

by Carla Dickstein

Introduction

Despite the magnitude and growth of economic disparities in Maine, equity concerns have been a poor stepchild in most economic development policies that focus on general business development and improving the economic infrastructure and business climate.¹

Slowly, the economic development policy debate is shifting toward equity concerns. Some of the benchmarks recently established by the Maine Economic Growth Council reflect equity goals to reduce regional and income disparities.² There also have been recent legislative efforts to tie economic development dollars to social paybacks.³ Finally, welfare reform and the current emphasis on welfare-to-work is forcing a dialogue about where welfare recipients will find work.

Perhaps the biggest opportunity for influencing public policy is the recent attention of the mainstream press to the changing economic order and its widespread impacts. Increasing polarization of income, the rise in contingent labor, corporate downsizing, huge disparities in compensation between chief executive officers and workers, and even the sweatshops that produce celebrity-label clothing have been known for years. But now these economic and social justice issues are surfacing as part of the public's world view and can be raised in public discourse. Again it is legitimate to ask these questions: Who wins and loses in the present economy? What is the role of economic development in altering that equation? And, how can economic development dollars have the greatest social impact?

This article examines the role of targeted economic development strategies in accomplishing explicit equity goals. It argues that traditional economic development programs that support business development and economic growth are insufficient to create quality jobs, especially for people on public assistance. Targeted strategies are needed to link these people directly to

employment opportunities. The article draws on lessons learned from current practices at Coastal Enterprises Inc., a community development corporation based in Wiscasset with a nearly 20-year history of working with Maine businesses and communities.

Limitations of Traditional Economic Development Programs

To date, the dominant focus of economic development policy and practice has been on creating a conducive environment for businesses to grow and prosper (Blair, 1995). The assumption has been that the benefits of this growth would trickle down to all segments of society through more jobs, lower unemployment, higher wages, and an increased tax base. Government intervention would come primarily through investments in physical infrastructure, education and training; a favorable regulatory and tax environment; and direct business assistance programs.

However, the extent to which benefits do trickle down, particularly to the poor, is increasingly in question. (See Seguino, 1995 for a review of the literature). The income inequality that received so much attention during the past six months in the Maine Sunday Telegram and Portland Press Herald began to widen during the 1970s and 1980s. In 1979, the top 20 percent of Maine households earned, on average, eight times as much as the bottom 20 percent. By 1994, they were earning 10 times as much. Between 1979 and 1994, the top one-fifth of Maine households gained an average of \$12 for every \$1 earned by the bottom one-fifth. (Blom and Garber, 1996).

Although the poor did not fare much better during the high-growth periods of the 1950s and 1960s, at least labor shared in business prosperity during that period and the social contract was alive and well for workers and their families. That is not the case today. Real wages have fallen for most workers.⁴

Today, jobs in Maine that pay a livable wage are in short supply. The Department of Labor's 1996 "Job Gap" study found that only 27 percent of the net job openings filled in 1993 and 1994 paid a livable wage of at least \$11.55 per hour, and that there were 10 job seekers for every livable-wage job.⁵ Of these livable-wage jobs, 63 percent required more than two years of training or experience.

Explanations for the income gap and wage deterioration relate, in part, to structural changes in the economy, such as the increasing substitution of technology for labor in both manufacturing and service sectors; the trend towards part-time, contingent labor rather than full-time employees; the decline of unions; and rising company profits demanded by very competitive financial markets.⁶ These structural changes create even greater barriers for moving welfare recipients, especially women, into the workforce at jobs that pay livable wages (Seguino, 1996).

Efforts to move welfare recipients into the workforce have focused on education and training programs, as well as various subsidies to employers. Unfortunately, a focus on improving skills through education, training, and job coaching does not necessarily give the poor access to good jobs. Employers turn to established networks for recruiting workers. Poor people do not have the skills and know-how to work those networks.

In addition, various demand-side interventions such as tax credits, on-the-job training subsidies, and direct cash payments to employers have not been successful in enticing employers to hire welfare recipients, especially in a depressed economy. Evaluations of these types of subsidies have concluded that they often go unused. Most employers who do use them fill unskilled, low-wage, and limited-benefit jobs. Furthermore, employers would have hired most of the workers filling these positions without the subsidies.⁷ In some cases, an employer subsidy actually may work as a hiring disincentive if firms believe welfare recipients inherently are less productive.⁸

The Role of Targeted Development

The primary purpose of targeted development models, as defined here, is to reduce poverty by linking people with low incomes and on public assistance to good jobs. Such programs also may target workers displaced by layoffs or defense downsizing to prevent their becoming impoverished. Giloth (1995) describes the process as the combination of "employment training, human services, and enterprise development to enhance access to and creation of jobs, careers, and self-sufficiency for the disadvantaged."

If targeted interventions are to succeed, they must go beyond incentives and proactively link people with jobs. The more depressed the economy, the more leverage is needed on employers to access quality jobs. Community-based organizations are among the most successful organizations in making these linkages (Harrison, 1994). Instead of trying to bring development to distressed communities, these organizations broker jobs already in the region to the people in need.

For example, in Kansas City, Missouri, a unique coalition of corporate, charitable, labor, and neighborhood members called the Local Investment Commission has gained national recognition by performing this broker role. The commission uses welfare and food stamp payments as a wage supplement (equal to \$3.05 per hour) to encourage employers to hire welfare recipients for permanent jobs that offer regular pay increases and bonuses. Federal and state agencies provide Medicaid benefits, child care, and other support to welfare recipients for as many as four years. Unlike other wage-subsidy programs, the commission uses the influence of its volunteer Business and Economic Committee to find willing employers.

Gap financing programs are an underused leverage point to link low-income people to jobs created through business start-ups or expansions. Gap financing programs have become important to companies that cannot access conventional sources of bank financing. In Maine, more than \$130 million is available annually in small-business loan guarantees and direct loans (Roundy, Forthcoming). Such financing programs can be designed to link welfare recipients and other low-income people to suitable job openings created in the businesses that are financed.

In practice, however, few economic development programs in Maine and throughout the nation target financing in ways that encourage employers to hire people with low incomes and on public assistance. The added goal of linking job creation to targeted populations is considered complex and possibly a deterrent to business development and the business climate (Bartik, 1993). Another critique is that targeting job creation to the disadvantaged will displace other qualified people who, in turn, become disadvantaged. The counter-argument has been that workers with a

long-term employment history have developed the necessary skills to find other jobs or to create their own. Although to my knowledge no research has been done to document displacement effects, it is unlikely targeted strategies are a zero-sum game resulting in high displacement of the existing workforce.⁹

CEI's Approach to Targeted Development

Coastal Enterprise Inc.'s (CEI) experience with targeted development programs and evaluation dates to 1984.¹⁰ CEI's mission as a community development corporation is to help people and communities, especially those with low incomes, reach equitable standards of living, working, and learning. Creating jobs through small-business financing and counseling has been CEI's primary vehicle for assisting people and communities in need. In recent years, CEI also has engaged in affordable housing, social services, and facility development.

CEI targets its financing programs to assist firms that fulfill specific targeted development goals. It does this by screening the larger small businesses--those having more than four people, and with loans or investments of more than \$25,000--for their economic viability and for the number of quality jobs accessible to people with low incomes and on Aid to Families with Dependent Children. It then acts as a broker to link those jobs to people in the welfare and employment-training systems. The process includes targeting promising firms and sectors with quality jobs (Dickstein, 1996) and linking jobs to firms through an Employment and Training Agreement as part of the financing agreement.

Coastal Enterprises, Inc. profile

CEI presently manages \$25 million in funds that provide subordinated debt and equity to a variety of Maine small businesses that cannot access conventional financing. Just recently it launched Maine's first social investment fund, Coastal Ventures Limited Partnership, to provide small-scale equity capital primarily to Maine firms. This fund, initially capitalized at \$3.3 million, is expected to grow to between \$5 and \$7 million. In addition to financing, CEI operates a Small Business Assistance Center that houses a subcenter of the state's Small Business Development Center system.

The Employment and Training Agreement

CEI has developed an Employment and Training Agreement to give welfare recipients and others with low incomes access to jobs created in companies it finances. While making a loan or investment, CEI conducts an employment assessment to screen whether the company will create quality jobs suitable for people on public assistance or with low incomes. At a minimum, these jobs should pay \$6.50 to \$8 per hour and offer health benefits and opportunities for skill development and mobility. (A study of companies in CEI's loan portfolio shows the average wage is \$9.30 per hour, well above that point (LaPlante, 1996).)

The agreement creates an employment plan in conjunction with the company's business plan. It is a legal commitment companies sign at the time of loan closing, but in reality it works primarily through the mutual interests and good faith of both parties.

When job openings arise, CEI notifies potential candidates from the welfare and training systems and brokers available training and apprenticeship resources. Most important, CEI works with the welfare and employment-training systems to screen quality applicants for their aptitude and interest in the job, thus saving businesses recruiting costs. Businesses also can test workers through on-site training periods. Contrary to the stereotype of public assistance recipients, they are not by definition more costly to employ than other workers. Many are highly motivated to succeed on the job. Even those with the greatest personal barriers to employment have succeeded. Unlike other workers, they have external support services already in place to help them cope with economic or family crises that arise.¹¹ Several firms have found workers on public assistance better prepared than their current labor force.

Since 1984, CEI has implemented more than 125 Employment and Training Agreements and can document successful placements of at least 1,539 low-income people (defined by federal poverty guidelines used by the Department of Health and Human Services) in jobs with Maine small businesses. Among these companies are Intelligent Controls in Saco, New England Audio Resources in Auburn, and CV Finer Foods in Winthrop. The agreements with many of CEI's higher-technology companies require training partners at technical colleges and secondary vocational educational schools that have candidates with higher-level skills than those who come through the state's shorter-term welfare-to-work training programs.

In summary, CEI has found that gap financing, especially if combined with training resources, can be a powerful tool to link welfare recipients and others with low income to better-quality jobs. The financing brings CEI into a relationship with the firms, while the Employment and Training Agreement is a mechanism for exacting social paybacks and greater public accountability in exchange for access to high-risk financing. Firms also benefit from the services provided through the agreement independent of gap financing. Businesses often exceed targets for hiring low-income workers. Six firms have continued to work with CEI after their loans were paid off and the agreement was no longer in effect.

The Employment and Training Agreement in practice: the example of Soleras

Soleras Inc., an environmentally responsible precision metal manufacturing company in Biddeford, is an outstanding example of a successful Employment and Training Agreement. During the seventeen months from October 1993 through February 1995, Soleras filled twenty-three jobs with low-income people, including twelve Aid to Families with Dependent Children (AFDC) recipients. Twenty-one still are employed, while one quit and one was fired. Starting wages ranged from \$6.50 to \$8 an hour depending on experience, with an average starting hourly wage of \$7.24. Most new employees received wage increases within the first three months of employment. Current hourly wages range from \$7.65 to \$14.15, with an average of \$9.71. All employees are eligible for medical and dental insurance, paid holidays, vacation, life insurance, the company pension plan, and full tuition for education courses. These benefits are critical to ensure that welfare recipients can complete the transition from the welfare rolls.

The Soleras employees had higher education, more children, and longer histories receiving AFDC than average in Maine. Only 50 percent were women, compared to 96 percent in the state's AFDC program. Conventional indicators of a successful transition to work, such as

education or previous work experience, were not always accurate predictors of employee performance. One of the star participants was a young woman who had received AFDC benefits for eight years. Another man with an unkempt appearance and a revoked driver's license surprised his managers with his motivation and loyalty and was able to reinstate his license.

In interviews conducted in 1995 with Soleras' new employees, all reported their financial situations were improving as a result of having full-time employment (Rutstein, 1995). Many still faced large debts and struggled to become financially independent. Transitional support services from the state were critical for them. The transition to work had a positive impact on most employees' personal lives and on their families. Even though they spent less time with their families, the trade-off was worthwhile. Some even thought the quality of time together improved. They felt better about themselves and were more patient with their children.

The Employment and Training Agreement made a difference in Soleras' willingness to hire people on AFDC. Although Soleras had a strong culture supporting human resource development, the management initially was concerned about the quality of referrals coming through the project. CEI staff worked hard to screen good applicants and bring the training resources needed by employees to do a good job. The on-site training program provided participants with basic machining skills and allowed Soleras management to screen prospective employees. As the working relationships became more comfortable, Soleras made direct contact with the job-training agencies and institutionalized hiring low-income people as part of the normal course of doing business.

Welfare-to-Work Demonstration Projects

CEI's Employment and Training Agreement has become a model for the design of the Job Opportunities for Low Income Individuals Program administered by the Office of Community Services at the federal Department of Health and Human Services. CEI has won four grants through this program to provide direct training support to AFDC recipients and place them either in jobs CEI's businesses create or in self-employment opportunities. These projects are collaborative efforts among economic development, education, and job-training organizations to provide customized skill training, workforce literacy training, peer support, entrepreneurial training, business assistance and mentoring, child care, and other services. Two of these projects have been completed, and evaluations by the Margaret Chase Smith Center for Public Policy showed that the strategy to create unsubsidized employment through placement in businesses was successful (Margaret Chase Smith Center, 1995). In the project, Structured Opportunities for AFDC Recipients, average starting wages in firms with an Employment and Training Agreement were \$6.71 an hour, compared to \$5.96 an hour for non-participating firms. The vast majority of participants placed in companies with agreements received raises, with their average hourly wage rising to \$7.58. A 1996 follow-up survey of project participants revealed that twenty-seven of the thirty-six respondents employed in companies had health benefits. In a similar project, Jobs for Unemployed Maine Parents, the average hourly wage was \$8.08 for CEI companies versus \$7.10 for non-CEI companies at the end of the project. Twenty-four of the thirty-nine project participants placed in companies had health benefits. These wages and health benefits compare favorably to those achieved by AFDC recipients and participants in the Department of Human Services' ASPIRE program, Maine's employment education and training program for

AFDC recipients. The average hourly wage of Maine AFDC recipients surveyed in 1995 was \$5.37; only 13.1 percent were covered by employer-provided health insurance (Seguino, 1995 and 1995a). Graduates of the ASPIRE program between July 1995 and January 1996 earned an average wage of only \$6 per hour in full-time work and \$5.23 for part-time work. Only 24 percent of full-time workers and 4 percent of part-time workers had health insurance (ASPIRE-JOBS Full Time and Part Time Employment, 1996, cited in Hastedt, Forthcoming).

More importantly, are these workers earning livable wages? Seguino (1995a) estimated that an average hourly wage of \$11.55 is needed to meet a basic needs budget.¹² However, Seguino's estimates are based on employees covering their own health care costs. The livable wage would be less if the employer provided health care. A recent study of companies in CEI's loan portfolio (La Plante, 1996) found that more than 80 percent of CEI-financed companies provided health insurance for full-time workers. More, longer-term data are needed but are not currently available on wage progression and benefits for participants to determine wage adequacy. Finally, one of the intangible outcomes of these projects is the increased self-confidence and self-esteem among participants that enabled them to seek training and work (Hurrell, 1996; Margaret Chase Smith Center, 1996).

Welfare-to work demonstration project

Project SOAR (Structured Opportunities for AFDC Recipients) 1991-1994--targeted to Androscoggin County, employed forty-three of seventy AFDC participants in jobs CEI brokered, and placed another nine in self-employment opportunities. At the end of the project, fifty-two participants were off AFDC, thirty-five were in non-traditional occupations and five were in registered apprenticeships.

Project JUMP (Jobs for Unemployed Maine Parents) 1992-1995--targeted to York County, employed thirty-nine of seventy-three AFDC/low-income JOBS (Job Opportunities and Basic Skills Training) participants and helped another fourteen become self-employed. At the end of the project, fifty participants were off AFDC and five were in non-traditional occupations.

Project Pioneer 1994-1997--targets job placements from a planned expansion of Pioneer Plastics Corporation in Auburn. The program officer worked on site at Pioneer with the human resources manager to provide customized adult education courses and non-traditional occupational training and skills-training programs. The project also explored the feasibility of a multi-employer-supported child care center and transportation services for second- and third-shift project participants and other employees of Pioneer. So far, the project has employed thirty-four of sixty-six AFDC/low-income participants at Pioneer and other businesses; fifteen were off AFDC and twenty-six were off food stamps.

Project POWER (Promotion of Welfare Employment Resources) 1995-1998--assists a for-profit company, Employment Trust Inc., essentially by acting as an employee leasing company to integrate ninety-two participants from York and Cumberland counties into the workplace, support them through the transition off federal assistance, and move them on to the business' payroll and into jobs that lead to economic self-sufficiency. In the first year, POWER has employed nine of thirty-one AFDC/low-income participants full time, and three part time.

Changes in Business Behavior

CEI's targeted development programs have had a direct impact on changing business attitudes and behavior towards hiring low-income people and welfare recipients. The welfare-to-work programs, as well as interviews with other CEI companies, reflect a common experience: people on public assistance or with low incomes are excellent employees if properly trained and provided the necessary support services, such as transportation and child care (Brennick, 1995). Attitudinal data from CEI's recent social and economic impact study of its loan and investment portfolio provide further support that CEI played an "important" or "very important" role in more than 80 percent of the firms that had made "some" or "significant" progress toward hiring low-income people (69 percent of respondents) since receiving CEI financing (LaPlante, 1996).

Costs Compared to Benefits

Despite the benefits of these programs, the question invariably arises of whether they are sustainable in the long term. Do the benefits outweigh the costs? Cost-benefit studies of CEI's demonstration and targeting programs have not been done. Costs need to be compared to long-term program benefits, such as the quality of jobs and wage adequacy over time, the degree of self-sufficiency and reduction of transfer payments, and the innumerable tangible and intangible benefits to individuals and their families. The savings for one person who transitions off public assistance (not including administrative costs for welfare programs) is estimated at approximately \$8,500 per year depending upon child care and Medicaid costs.

Compared to earlier national evaluations of welfare-to-work programs, CEI's programs fall into a category of programs that provide intensive educational, training, and job development services (Gueron and Pauly, 1991). These programs generally have been shown to be most effective in getting selected participants into higher-paying jobs but have been less effective in reducing welfare expenditures per dollar invested (Ibid.).

CEI's unique approach to linking welfare recipients directly to available jobs may create stronger results. A recent evaluation of California's comprehensive welfare-to-work program, Greater Avenues for Independence, suggests the direct link for program participants to job creation may have been an important reason the community of Riverside achieved greater success than other communities. The program's message about employment and the active use of job development to establish a close link to private-sector employers may have enhanced the benefits of other program components, such as job search, basic education, and vocational education and training, in Riverside (Riccio, Friedlander, and Freedman, 1994).

Policy Implications

State agencies now are attempting to link their training programs directly to real jobs in order to create work opportunities for the unemployed and people on welfare. The Department of Labor is coordinating its services with the state's economic development programs to provide "one-stop shopping" for companies. It also will give preference, when using the Governor's Training Initiative funds, to companies that train the economically disadvantaged, including welfare recipients. The Department of Health and Human

Services has created a new job development position in southern Maine to contact businesses, sell the department's training services, and place ASPIRE participants in jobs.

These are important directions. State agencies could go further, as CEI's Employment and Training Agreement suggests, and target a percentage of jobs to low-income and welfare recipients as part of the quid pro quo of receiving financing from state economic development agencies and other state-financed local and regional financing programs.

However, even if state policy were to initiate employment agreements modeled after CEI, questions would remain about how well such agreements can be institutionalized on a larger scale. Effective targeting and brokering of jobs on a statewide basis require both micro and macro factors: an ability to work with companies and pull together various resources; and an adequate supply of quality jobs for the targeted population.

CEI has learned several lessons from its experience in targeted development that inform policy and practice:

- Targeted development requires staff who understand company needs.

Staff needs to interpret whether poor company performance on targeting goals reflects a lack of will or external economic forces. Good working relationships are based on trust, not sanctions. At the same time, targeting will not happen without active monitoring of company agreements.

- Targeted development incurs additional upfront costs compared to traditional approaches to development.

Initial costs include training, support, and brokering services for targeted populations. The brokering costs, such as in CEI's Employment and Training Agreement model, are a small portion of the total costs but an important piece that makes targeting effective.

- The greater the desired impact from targeting, the more time and resources are required to gather information on companies, services, clients, and results.

The optimal program requires more research focused on the front-end costs of targeted development as well as the long-term quantifiable and intangible impacts for welfare recipients, their families, and the regional economy.

In the best scenarios, AFDC recipients are employed in jobs that pay liveable wages and eventually become self-sufficient. The second-best outcome is that targeted development offers them an opportunity for training, developing self-esteem and self-confidence, and gaining work experience, while reducing net welfare expenditures. Although they may not be totally self-sufficient in the short run, the work experience creates higher incomes and a future of moving towards self-sufficiency.

- Targeted development policies depend on the overall number of quality jobs created in the state economy.

The shortage of quality jobs within reach of welfare recipients, even with customized education and training, is a limiting factor. Economic development policies must continue to address how more, better-paying jobs can be created, not only by targeting specific high-paying sectors, but also by targeting firms that offer employees a financial stake in their firms. Companies that create quality jobs should have priority in state economic development policy.



Carla Dickstein is senior development officer for research and policy development at Coastal Enterprises Inc. (CEI) in Wiscasset. Prior to coming to CEI, she was on the faculty at the Regional Research Institute at West Virginia University.

Endnotes:

¹ Kossy (1996) argues that during the last decade, economic development practice moved away from equity and poverty concerns because of the decline in federal funding and the increased reliance on state and local funding. Roundy's 1996 paper that attempts to quantify the various economic development funding streams in Maine suggests general funding far outweighs targeted funds, although the paper does not specifically quantify targeted programs. Furthermore, Roundy acknowledges his figures do not include the millions of dollars of investments made in economic development infrastructure, such as transportation.

² Examples include that the average per capita personal income in the poorest counties to achieve 75 percent of the average per capita income of wealthiest counties by 2005, or the 10-year growth rate in income for the poorest one-fifth of Maine families should exceed the 10-year growth rate in income for the wealthiest one-fifth of families. (See Maine Development Foundation, 1996).

³ Examples include the Employment Tax Increment Financing program, which requires companies receiving tax credits to create at least 15 jobs with health benefits, pensions, and wages above the per capita income for the labor market area, and the Governor's Training Initiative that authorizes the Commissioner of Labor to develop standards by rule to encourage high-quality job creation and expansion.

⁴ Blom and Garber's 1996 research on the Maine income gap found that "The average pay in a Maine household making less than \$30,000 a year--roughly half the population--declined from 1989 to 1994." According to the Economic Policy Institute (1996), "Wages have fallen since the 1980s among men, younger workers, and the 75 percent of the workforce without a four-year

college degree. . . . From the mid-1980s to the mid-1990s, even high-wage, white-collar and college-educated men saw their wages fall or stagnate."

⁵ The liveable wage is based on Stephanie Seguino's article (1995a) that estimates three basic-need budgets for a single parent with two children; two children under 6; one child under 6; and two children over 6. An hourly rate of \$11.55 represents the average. Seguino's hourly estimates include expenditures for health care.

⁶ Blom (April 28, 1996) cites Edward Wolff, a New York University economist, who says, "The run-up of stock prices, particularly in the 1990s, is through rising profitability of businesses." That is done to a large extent by keeping wages low.

⁷ See the evaluation of the Targeted Jobs Tax Credit program (U.S. Department of Labor, 1994); the evaluation of the job-training programs by the Manpower Research Development Corporation (Auspos and Long, 1988; Freedman and Cabe, 1988).

⁸ A controlled experiment of AFDC recipients' job-search activities in Dayton, Ohio in the early 1980s showed that those offering cash vouchers and tax-credit vouchers actually had a poorer job placement record than those who did not identify themselves as AFDC recipients. (Burtless, 1985).

⁹ Conversation with Timothy Bartik at the Upjohn Institute, July 1995.

¹⁰ CEI's Small Business Finance and Employment Training Project begun in 1984 was a demonstration of the targeted development model that was completed successfully. See the evaluation by McDonald (1986) at the Center for Research and Advanced Study at the University of Southern Maine.

¹¹ CEI's experience confirms Bartik's (1993) assumptions that customized business assistance programs and pre-screening of low-income applicants can overcome the stigma problem.

¹² Seguino (1995a) derived the budget from scenarios for a single-parent, three-person family in Maine in 1993 based on the average of a single parent with two children under 6, a single parent with one child under 6 and one older, and a single parent with two children over 6.

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