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Employment Research

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New and Award-Winning Books

Vol. 17, No. 3

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Kevin Hollenbeck and Nancy Hewat

Evaluation of Regional Collaborations for Economic Development Lessons from the Employment and Training Administration's WIRED Initiative

Building upon a regional economic development initiative launched by the Council on Competitiveness (2006) and sponsored by the Economic Development Administration (EDA), the Employment and Training Administration (ETA) of the U.S. Department of Labor promoted and funded the Workforce Innovation in Regional Economic Development (WIRED) Initiative. In late 2005, ETA released a solicitation for grant applications (SGA) for WIRED that stated, "The ultimate goal of the WIRED Initiative is to expand employment and advancement opportunities for American workers and catalyze the creation of high-skill and high-wage opportunities."

As a result of this solicitation, 13 regions were awarded grants in 2006 totaling \$15 million each (\$5 million per year for three years). They became known as the Generation I WIRED regions. Another 13 regions were awarded planning grants of \$100,000 and were designated as virtual sites. In October 2006, ETA awarded a contract to Berkeley Policy Associates and its partner, the University of California, San Diego, to evaluate the Generation I regions. In January 2007, the virtual regions were designated as Generation

II WIRED grantees and were awarded a total of \$5 million in funding over three years.¹ In February 2007, a second SGA was released for Generation III regions.² Again, 13 regions were selected, and as with the Generation II regions, these sites were granted a total of \$5 million over three years. In late fall 2007, ETA awarded a contract to Public Policy Associates of Lansing, Michigan, and its partner, the Upjohn Institute, to evaluate Generation II and III of WIRED and do a cross-generational (Generations I, II, and III) assessment of the WIRED strategy.

The evaluation contracts are ongoing, and the two evaluation teams have each published two interim reports of the findings (Almandsmith et al. 2008, 2009; Hewat et al. 2009; Hollenbeck et al. forthcoming). The purpose of this article is to summarize key findings to date from these evaluations. It proceeds first by presenting the notion of a regional collaborative and comparing and contrasting that type of entity to a local workforce board and a workforce intermediary. The article then reviews some of the findings from the evaluators' interim reports and draws some conclusions about the extent to which WIRED has resulted in or contributed to a transformation of the workforce system.

Regional Collaborations

For purposes of this article, we will refer to the WIRED regions as regional collaborations.³ We posit that such collaborations differ in fundamental ways from local workforce investment boards (LWIBs) and from workforce intermediaries. Table 1 displays several characteristics of each of these types of entities.

In general, the regional collaborations are broader in concept and operation than either LWIBs or workforce intermediaries. Although as mentioned below, ETA attempted to refocus some of the efforts of the WIRED regions on disadvantaged workers, but for the most part, the regions see the entire labor force and employers as their target populations. Geographically, regional collaborations tend to involve multiple labor markets and may cross state boundaries. The strategies employed by regional collaborations often include building linkages with the educational system, with the goal of integrating and strengthening science, technology, engineering, and math (STEM) instruction, which is seen as a key element in the development of a competitive workforce.

Interim Findings from the Evaluations

The Almandsmith et al. (2008) report, subtitled *2007 Interim Evaluation Report*, is mainly based on site visits to the Generation I regions early in their implementation. Most of the analyses in that report focus on the progress that sites have made in launching their initiatives. The analyses point out the wide variation in contexts across the sites in terms of regional economic structure, political and jurisdictional boundaries, prior collaborative efforts, and other factors. The report presents a typology of early implementation in which three regions were identified as being accelerated by WIRED, seven regions were jumpstarted by WIRED, and three regions were launched by WIRED.

The report notes that the most prevalent type of organization administering the WIRED initiatives were economic

Table 1 Comparison of Regional Collaborations, Local Workforce Investment Boards, and Workforce Intermediaries

Characteristic	Regional collaborations (e.g., WIRED regions)	Local workforce investment boards	Workforce intermediaries
Client population served (supply side)	Total labor force	Primarily disadvantaged/dislocated	Primarily disadvantaged ^a
Sectoral basis	Sectors, broadly defined	Not sectoral based	Usually sectoral based
Employer engagement (demand side)	Employer/industry representation	Individual employer focused	Employer-driven
Regulation	Less regulated	Regulated	Virtually none
Human capital strategy	Worker training, entrepreneurship, K-20 pipeline, esp. STEM	Worker training	Worker training; some educational focus
Geography	Usually, multiple labor markets	Single labor market	Single labor market
Multistate	May cross state lines	No	Not typical
Staffing	Staffed lightly	Staffed substantially	Staffed lightly
Leveraged resources	Yes (public and private)	Public resources, but typically multiple funding streams	By definition

^aSee Marano and Tarr (2004, Table 4.1).

development entities. Furthermore, it indicates that (single) steering committees were the primary governance structure, and that early implementation progress was considerably impeded by two factors: 1) recruiting staff and turnover, and 2) having to redirect funds and priorities after receiving ETA clarifications about allowable use of funds.

Hewat et al. (2009) also document the early implementation of WIRED initiatives in the Generation II and III regions. Their report indicates that many of the same phenomena pointed out in the interim report for the Generation I regions held true for the Generation II and III regions as well. The report finds that the pre-WIRED economic, political, and cultural contexts of the regions shaped each region's initiatives and pace of implementation. It also documents the regions' frustration with what officials considered to be inconsistent and changing messages from ETA, as well as glacial approval processes for implementation plans.

A slight difference between the first interim reports for Generation I and

for Generations II and III is that the latter acknowledges that the regions created formal governance structures but portrays the leadership of each region as comprised of three rings rather than emanating from a single steering committee. The report states: "... core leaders serve as the intellectual center and energy for the initiative. A second ring of leaders are actively engaged but do not have final authority for committing resources. A third ring includes individuals who lead particular aspects of the implementation plan, such as a sector-specific project."

Much of the data for the Hewat et al. (2009) report come from site visits. Many of the individuals who were interviewed offered opinions about the value of taking a regional approach, noting that the most important accomplishment that occurred in their region was the formation and convening of partnerships that had all of the key players at the table. Many of the regions had preexisting collaborative partnerships but had been missing stakeholders from the economic or talent development systems. That may help

explain why, even in the early stages of the initiatives, individuals in many of the regions had a sense that regionalism had started to take hold.

An interesting finding in Hewat et al. (2009) is that the evaluation team did not identify any significant differences in governance structures or activities between the Generation II and Generation III regions, save a significantly larger amount of leveraged resources in the former. This may have occurred because several of the Generation II regions had to curtail their original plans due to the significant decrease in grant funds, but they remained committed to their overall goals as stated in the Generation I proposal and found other funding sources to fill the gaps. In contrast, the funding expectations for Generation III regions were clear from the start.

Almandsmith et al. (2009) offer another snapshot of the Generation I regions based on a second site visit toward the end of the grant period. A significant event that affected all of the regions was the economic recession that began in December 2007. The downturn significantly reduced employment opportunities for emerging workers, and also reduced public, private, and philanthropic support for the local and regional initiatives. The report notes that little change had occurred in the regions in terms of governance and management structures, although two regions expanded their targeted industrial sectors because of the economy's negative impact on their primary sectoral targets. Also, because of a change in emphasis at ETA, a few other regions turned some attention to disadvantaged worker populations.⁴

As regions progressed into the operational phase, there was a natural shift in emphasis from planning and development to worker training and other education-related activities. Many regions offered activities to promote entrepreneurship, and many invested resources in the talent development pipeline. Many also supported some sort of STEM activity.

Almandsmith et al. (2009) suggest that two significant regulatory events occurred in 2008 that affected all of

the regions. First, ETA undertook fiscal monitoring reviews that resulted in a significant number of disallowed costs, primarily because the Generation I regional leaders were not from the workforce system and thus were not familiar with regulations; however, there were some differences in interpretation among ETA monitors assigned to the regions, which was a contributing factor. Second, ETA developed and disseminated an accountability framework that included quarterly reporting of the common measures. According to stakeholders in numerous regions, these events shifted the focus of the regional initiatives toward accountability and cost documentation and away from the emphasis on collaboration, innovation, and transformation that had rallied regional stakeholders around WIRED.

The pre-WIRED economic, political, and cultural contexts of the regions shaped each region's initiatives and pace of implementation.

The second interim report for the evaluation of the Generation II and III regions (Hollenbeck et al. forthcoming) is based almost exclusively on self-reported data from a survey of regions' partners, which was conducted before this evaluation team's second round of site visits and independent of any fallout from financial audits and accountability frameworks. The survey results indicated that all of the regions had representation in their partnerships from all stakeholder groups. However, more partners came from the educational sector than any other organization type.

The survey queried respondents about the context for the region's initiative in terms of collaboration and trust. Asked to recall the context of the region in 2006, almost 100 percent of respondents indicated that when the WIRED grants became available, the political and social climate in their region was ripe for starting a transformative collaboration. Considerably smaller percentages of respondents, but still over

half, characterized the historical context of collaboration in their region as one of working together or trust.

The survey presented respondents with a scale to describe the stage of collaboration currently in existence in their region. This scale, in ascending order of maturity, ranged from coexistence to communication to coordination to cooperation to collaboration. The survey respondents on average rated themselves in the range between coordination and cooperation. Finally, more than 90 percent of the partners perceived the outcomes at that point in time as quite beneficial for their organization and its "ability to improve the job skills of our regional workforce."⁵

In summary, the interim reports of the WIRED evaluations paint a picture of engaged and effective regional partnerships that are facilitating training (including entrepreneurial activities) and educational pipeline investment, especially in STEM areas. It is likely that significant benefits are accruing to the individuals and organizations involved in the regional initiatives and engaged in the regional and national networks that were formed to support learning and sharing of strategies, innovative practices, and lessons learned.

In our opinion, some significant issues that have not been addressed in the interim reports include the costs in terms of resources and time that have gone into the partnerships. Without cost information, it is impossible to gauge benefits against costs or estimate roughly a return on the federal investment. Another issue is the macroeconomic or general equilibrium impacts of the WIRED investments. If benefits are accruing within WIRED regions, does that mean that other regions of the country have less economic growth, or is there complementarity such that positive economic growth in WIRED regions stimulates non-WIRED regional growth?

Transformation?

The 2007 SGA for the Generation III regions indicated that "a key focus for WIRED is to implement strategies that will result in their workforce investment

system becoming a key component of their region's economic development strategy." The solicitation goes on to say, "In this vision, elements of a *transformed* (emphasis added) workforce system are:

- The workforce system operates as a talent development system; it is no longer defined as a job training system.
- Workforce investment system formula funds are transformed, providing tuition assistance for postsecondary education for lifelong learning opportunities aligned with the region's talent development strategy.
- The workforce investment system no longer operates as an array of siloed programs and services.
- The workforce investment boards are structured and operate on a regional basis.
- Economic and workforce development regions are aligned, and these regions adopt common and innovative policies that support talent development and the regional economy.
- The workforce investment system is agile enough to serve the innovation economy.
- The workforce investment system actively collaborates with economic development, business, and education partners to gather and analyze a wide array of current and real time workforce and economic data.

The interim reports note that a number of significant changes have occurred or are occurring in the 39 regions. But, as Almandsmith et al. (2009) state, "The changes observed do not (yet) rise to the level of 'transformation' of the full workforce system." However, site visitors have met with key partners from many regions who have articulated a vision of change that may take more than three years to fully realize.

Notes

1. These regions applied for funding under the first SGA and therefore had proposed scopes of work under the expectation of receiving \$15 million. During the planning

period and early implementation phase, the scopes were necessarily reduced, but the regions leveraged considerable funding.

2. Unlike the other two generations, the Generation III applicants were required to have the lead individual or a co-lead individual from the public workforce system.

3. The geographic areas identified through the EDA initiative titled Regional Innovation Clusters seem to essentially be the same as what we refer to as regional collaborations. See EDA (2010).

4. ETA made additional funds available to regions that were ready to put a special emphasis on these job seekers.

5. All of the survey data need to be analyzed with caution due to the potential for response biases and to the vagaries of self-reported data.

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- Kevin Hollenbeck is vice president and senior economist with the W.E. Upjohn Institute for Employment Research and principal investigator for the ETA-sponsored evaluation of the Generation II and III WIRED Regions.
- Nancy Hewat leads the Education, Workforce, and Economic Development Group and serves as a senior project manager at Public Policy Associates, Inc. of Lansing, Michigan, and is the project director for the abovementioned evaluation.
- Disclaimer: This article was prepared from information collected under contract to the U.S. Department of Labor, Employment and Training Administration, Office of Policy Development and Research. The contents of this article do not necessarily reflect the views or policies of the Department of Labor; nor does mention of trade names, commercial products, or organizations imply endorsement of same by the U.S. Government.

William Kern

The Economics of Natural and Unnatural Disasters

Throughout history, humankind has been subject to disasters produced by “Mother Nature” as well as the now too-familiar man-made variety. Only recently, however, have economists understood disasters as economic phenomena to be formally analyzed. Given the magnitude of many recent disasters, their impact on local, regional, and national economies, and the coverage of their consequences in the popular press, it is puzzling that the attention of economists was for so long largely diverted from analysis of these events. Perhaps George Stigler provided the answer to this puzzle in his Nobel lecture, where he observed that economists have frequently neglected the study of important current events. He points out, for example, that “during the Industrial Revolution, economists adopted the law of diminishing returns but ignored the most widespread growth of output that the world had yet observed.” The explanation that he offered, perhaps tongue in cheek, was that “the scholars who create economic theory do not read the newspapers regularly or carefully during working hours” (1992, p. 61).

We are now observing a reversal of this practice, as more economists have begun to study the economics of disasters during the past several decades. Although the number of economists who study disasters is still small, the economics of disasters appears to be well on the road to establishing itself as an important subdiscipline in economics.

This article summarizes the papers that were presented during the 2008–2009 Werner Sichel Lecture-Seminar Series at Western Michigan University and which appear in a new book published by the Upjohn Institute titled *The Economics of Natural and Unnatural Disasters*.

Why are economists now more likely to pay attention to disasters? As Howard C. Kunreuther and Erwann O. Michel-Kerjan report in their paper, “Market

and Government Failure in Insuring and Mitigating Natural Catastrophes: How Long-Term Contracts Can Help,” disasters were, for much of history, regarded as low-probability events. However, they argue that we are now entering “a new era of catastrophes” in which disasters occur with greater frequency and the losses are of a much greater magnitude than in the past. Why are disasters occurring more frequently and why are the losses increasing? One change in recent decades is a significant increase in the population concentrated in urban areas on coasts, which puts more people at risk of losses due to hurricanes and tsunamis. Economic development in coastal areas has also increased the magnitude of losses.

Kunreuther and Michel-Kerjan therefore call for a new strategy for coping with disasters. In their opinion, the recent losses suffered in catastrophic events suggest that inadequate preparation and inadequate mitigation efforts have been the norm. This, they argue, is due in large part to myopia and misperception of the actual risks, both by potential victims and policymakers.

Kunreuther and Michel-Kerjan offer several guiding principles designed to stimulate greater mitigation efforts and minimize insurance losses while still offering protection against catastrophe. The primary principle is that insurance should be priced in accordance with risk. They argue that such pricing will create incentives to invest in mitigation efforts. Unfortunately, most property owners will be unlikely to bear the high up-front cost of mitigation efforts in light of the uncertainty of short-run cost savings. The authors therefore argue for the development of long-term insurance contracts designed to induce property owners to take a long-run view of the problem.

Anthony M. Yezer’s paper, “Expectations and Unexpected

Consequences of Public Policy toward Natural and Man-Made Disasters,” focuses on the significance of changes in the expectations of disasters for our understanding of their economic impact. He points out that the infrequency of disasters, the spatial concentration of their effects, and the size of disasters all raise the possibility that the expectations of disasters will change as a consequence of their occurrence. He cites this as a distinguishing feature of disasters in comparison with hazards generally considered. In fact, he claims that this is the most underresearched aspect of the economics of disasters.

Yezer’s analysis of the impact of disasters on expectations reveals several possible models of response. His analysis is based on the assumption that disaster expectations are formed on the basis of a comparison of recent occurrences with the historical record. An increase in the frequency of disasters thus raises the expectations of disasters. From this model, he draws conclusions about the relations between economic growth and disasters, the incentives to develop land in disaster-prone areas, and the significance of disaster expectations for insurance markets and public policy. Several puzzles regarding the relations between disasters and economic growth, the optimal development of land in hazardous areas, and the market for disaster insurance can be better understood once one considers that the occurrence of disasters will also change the expectations of disasters.

One of the important lessons he derives from his analysis is the need to distinguish between expected and unexpected disasters in considering the economic impact. The magnitude of the economic losses a disaster produces depends on the difference between expected losses and unanticipated losses. Therefore government aid to disaster areas should be concentrated on unanticipated disasters.

Hal Cochrane’s paper, “The Economics of Disaster: Retrospect and Prospect,” provides an overview of the development of the economics of disasters. He provides a thorough survey of the nature of the cost-loss trade-offs involved in managing hazards as well

as a useful discussion of the value of disaster forecasts in this framework. His application of this model to the case of rising CO₂ emissions and the uncertainty of the forecasts of global warming is a simple but powerful example of the insights that can be derived from the cost-loss model.

Cochrane points out that a correct estimate of losses is a key element in the cost-loss framework. In contrast to Yezer, Cochrane holds the opinion that housing markets provide little good evidence about the extent to which hazards and disasters are capitalized in housing and land values. He argues that analysis of housing and land market values offers an inadequate measure of the willingness to pay for safety. He also points out that disasters yield several distinct sorts of losses that are contentious and difficult to measure, including the loss of cultural community and historical assets.

Cochrane concludes with a discussion about the use of input-output analysis as a means of measuring the impact of disasters on local and regional economies. In his opinion, input-output analysis is incapable of addressing the impacts of the supply-side bottlenecks in local and regional economies that occur in the aftermath of disasters. Other techniques such as computable general equilibrium models and econometric analysis are also found wanting. He contends that the unique nature of these events makes it difficult to draw general lessons about the impact of disasters and to predict the pace of recovery, when such analysis is often based on factors present in the predisaster setting but absent in the postdisaster environment.

While much of the literature in the economics of disasters focuses on market failures and the role of government in postdisaster relief efforts, Peter J. Boettke and Daniel J. Smith, in their paper, "Private Solutions to Public Disasters: Self-Reliance and Social Resilience," examine the neglected role of the private sector and markets in the postdisaster recovery process, using post-Katrina New Orleans as an example. They point out that while most of the discussion is focused on the role that government should play, one needs to consider the

important role that private entities—both for-profit and nonprofit—can and do play in the recovery process. Furthermore, they argue that one should also consider that the attempts by private entities to cope with the recovery process are often thwarted by government actions both pre- and postdisaster.

For example, in New Orleans, government policies encouraged people to locate in flood-prone areas and left them vulnerable to loss because of inadequately constructed levees. In the aftermath of Katrina, occupational and building code regulations thwarted private recovery efforts and distorted the set of price signals necessary to ensure efficient use of the available resources.

Boettke and Smith argue that the price system and private efforts must be an integral part of disaster recovery. However, in disaster situations we are likely to want to suspend the use of the market and distort the price signals necessary to help with the recovery, perhaps out of public concern to keep someone from profiting at the expense of others. But Boettke and Smith argue that the pursuit by entrepreneurs of profitable opportunities created by the disaster is the basis of the economic recovery and that efforts to thwart those pursuits are misguided and delay the recovery.

Daniel Sutter and Kevin M. Simmons, in their paper, "The Socioeconomic Impact of Tornadoes," point out that tornadoes constitute one of the most common forms of disaster. The authors concentrate on three issues: 1) the trend of losses due to tornadoes, 2) the role of the National Weather Service's tornado warning program, and 3) the cost-effectiveness of several tornado loss-mitigation strategies. They estimate that the largest segment of losses caused by tornadoes—approximately two-thirds of the total—is the opportunity cost of time spent under tornado warnings. That so much of the cost can be attributed to time spent under warnings is partly accounted for by the steady decrease in the losses attributable to tornado fatalities during the past half-century.

The paper devotes considerable discussion to the factors contributing to tornado losses, including the time

of day, the severity of the winds, the location of the storm, and even the day of the week. However, of greatest interest to economists will be the authors' discussion of potential ways to minimize tornado losses and their estimates of the cost-effectiveness of several mitigation strategies. Sutter and Simmons find that attempts to minimize the time spent under warning have the greatest potential, given that this time is the largest component of costs. They claim that the recently adopted use of Storm-Based Warnings by the National Weather Service has the potential to reduce losses by as much as \$1 billion per year. In addition, increasing the lead time of warnings also appears to be a cost-effective strategy, up to a point.

Conversely, Sutter and Simmons find that tornado shelters are rarely a cost-effective means of reducing casualty losses. They estimate that even with the widespread use of shelters in a tornado-prone area like Oklahoma, the cost would be about \$57 million per life saved. However, they do find that significant value has resulted from the stringent regulation of manufactured home construction mandated by HUD in 1994.

Taken together, the papers comprise a sample of the sort of research now being undertaken in the economics of disasters. Several themes long dominant in this literature are addressed, including the ability of potential disaster victims to accurately assess the risks they face, the role of incentives in ensuring that mitigation efforts are undertaken, the adequacy of our evaluation of the impact of disasters on economies, and discussion of the effectiveness of current government policies toward disaster prevention and relief. In light of ongoing events, these will in all likelihood continue to be relevant topics of discussion.

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The Economics of Natural and Unnatural Disasters

William Kern, Editor

Contributors to this book stand at the forefront of an increasingly important subdiscipline of economics—the economics of disasters. Their chapters cover a wide variety of events and delve into the human and economic impacts disasters impose on nations around the world. Several themes dominant in this literature are discussed. These include the ability of potential disaster victims to accurately assess the risks they face, the role of incentives in ensuring that mitigation efforts are undertaken, the adequacy of our evaluation of the impact of disasters on economies, and the effectiveness of current government policies toward disaster prevention and relief. These will in all likelihood continue to be topics of discussion in the future as well.

This collection is based on papers presented at the 2008–2009 Werner Sichel Lecture–Seminar Series held at Western Michigan University.

Contributors include Peter J. Boettke, Hal Cochrane, Howard C. Kunreuther, Erwann O. Michel-Kerjan, Kevin M. Simmons, Daniel J. Smith, Daniel Sutter, and Anthony M. Yezer.

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Globalization and International Development

Critical Issues of the 21st Century

Sisay Asefa, Editor

Among the most important impacts of globalization is its effect on poverty. Despite advances allowing nearly instantaneous flows of data and telecommunications, and

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This collection is based on papers presented at the 2007–2008 Werner Sichel Lecture–Seminar Series held at Western Michigan University.

Contributors include Lisa D. Cook, Hadi Salehi Esfahani, Ian Goldin, Joseph P. Joyce, Susan Pozo, Kenneth A. Reinert, and Linda Tesar.

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