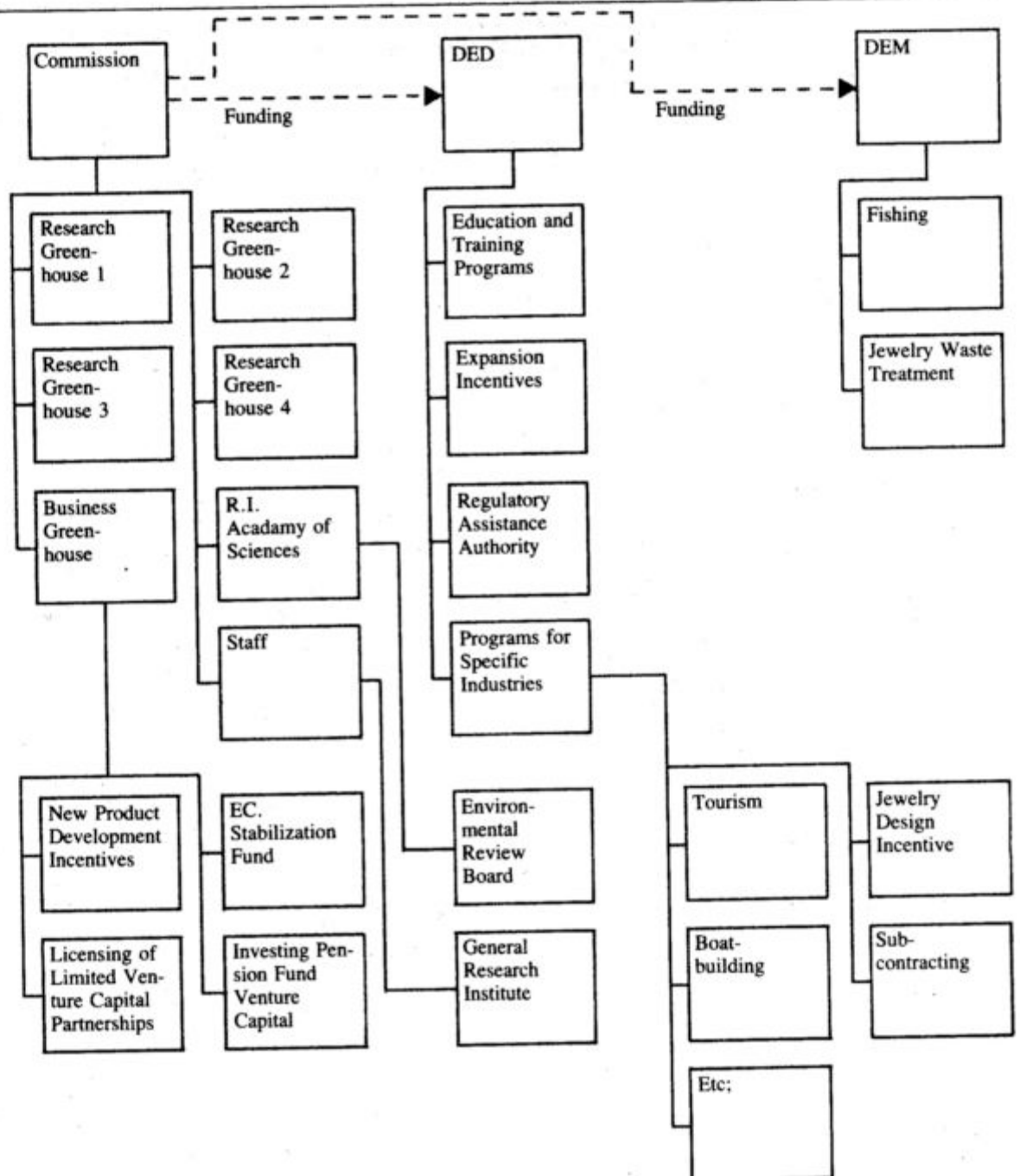


The Greenhouse Compact

A Report by the Rhode Island
Strategic Development Commission
Executive Summary

*Full copies of the Report are available from the Commission. For information, please contact:
Legal Department, Fleet National Bank, 111 Westminster Street, Providence, Rhode Island 02903
(401) 278-6000.*

Administration



Preface—The Greenhouse Compact

The full report of the Rhode Island Strategic Development Commission is a lengthy document. Although not a substitute, this Executive Summary is offered for convenience. The Commission does recommend, however, that the entire report be consulted as this summary is not a substitute.

In particular, Chapters 3, 4, 25, 37, 38, 56, 57, and 58 contain the thought process that the Commission went through while evaluating the issues confronting the State and what solutions were necessary. A summary of recommendations made by the Commission is found in Chapters 38 through 58. A detailed analysis of the "state of the State" will be found in Chapters 1 through 9 and Chapter 25. Details of the infrastructure of the State's economy are found in Chapters 1, 2 and 26 through 37.

At the back of this summary, we have included a list of the Commission Members, the Advisory Group, the Case Teams, and a Table of Contents for the full report.

The Rhode Island Strategic Development Commission is particularly grateful to Ira C. Magaziner, Suzanne M. Magaziner and the staff at Telesis, an international strategic consulting firm, without whom a report of this depth would not have been possible.

In addition, we appreciate Governor J. Joseph Garrahy's efforts in spearheading the work.

Support assistance has been provided by so many that we hesitate to mention any for fear we will forget someone.

We trust that as the years pass and our Greenhouse Compact takes shape, the people of Rhode Island are able to enjoy greater prosperity as a result of the efforts of the Commission.



J. Terrence Murray
Chairman
November, 1983

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The Greenhouse Compact

The Economic Development Consensus

The interests of everyone in Rhode Island are not the same. Labor and management disagree about the methods of sharing the wealth generated by a business. Taxpayers have different interests than beneficiaries of social welfare programs. Land developers have different interests than those who prefer to see land preserved.

Groups with different interests can be defined in hundreds of ways in any community. It is a cherished part of our democracy that these groups can form, organize, and lobby to advance their own interests.

There are certain subjects, however, on which the community as a whole must agree. And, there are times when the defending of one's own special interest must give way to defending the community's interest as a whole. Periods of economic crisis are such times. Today, Rhode Island is in an economic crisis.

When a society is stagnating economically, the bonds of community grow weaker. Individuals perceive that the improvement of their own economic well-being must be at the expense of somebody else.

Some Rhode Islanders believe that labor unions have been the cause of Rhode Island's problems; others blame government inefficiency; others shortsighted and greedy businessmen. Irresponsible individuals exist in all groups. But we will not solve our problems by fighting among ourselves.

If Rhode Island's economy is to develop, all groups in society must sacrifice, abandon old prejudices and most importantly, work together. This does not mean that contending interest groups may not disagree or try to advance their own interests. It does mean that economic development must not be jeopardized by these disagreements. Economic development must be above politics; above labor/management disputes; above disagreements between proponents of government and antagonists of government, proponents of land development and antagonists of land development, and proponents of social welfare programs and antagonists of social welfare programs.

Fundamentally, economic development requires two things: investment and risk taking. Beyond that it requires intelligent management of investments and risks. The program the Commission has laid out is one which suggests avenues both for investment and for risk taking which we believe can end the stagnation of the Rhode Island economy. It is a bold program both in its objectives and its methods. Yet, it is a pragmatic approach designed to address the specific problems we have identified through our analysis. Its success depends upon the support of all major interest groups in the Rhode Island community.

Some will oppose this program because of the sacrifice and investment it requires and because of its risk. Some will oppose it because they actually benefit from Rhode Island's low standard of living. And, some will oppose it because they are uncomfortable with change.

If the program is to succeed, however, most Rhode Islanders must support it. To encourage this support, the Commissioners who represent different interest groups are signing a compact. The Compact signifies their support for the total program.

Nobody on the Commission agrees completely with all of its recommendations. Many details remain to be worked out. Nevertheless, the signers of the Compact dedicate themselves to the principles of the document, its general direction and specific recommendations, and most importantly to the continuation of the process which led to its adoption.

The Commission supports this document as a total package. For the process to be successful, this package cannot be considered piecemeal. This is fundamental to the Compact.

It was not possible for 950,000 Rhode Islanders to participate directly in the deliberations that led to this compact. Nevertheless, we ask their support in order to get Rhode Island moving again.

Goals of the Compact

The goals of the Rhode Island economic development compact are:

- To reduce Rhode Island unemployment to levels 25 to 30 percent below the national unemployment rate.
- To raise the average wage rate in the state of Rhode Island to within 12 or 13 percent of average national levels.

The Commission hopes to attain these goals within the next seven years. To do so we must create 60,000 jobs whose average wage is \$2 per hour above current Rhode Island averages.

Exhibit 1/Necessary Job Creation 1982-1990

	1970	1980	1982	1990
Population	949,723	947,154	—	978,012
Civilian labor force 16 +	388,416	459,194	—	517,110
Unemployed: Census R.I. D.E.S.	22,103 ¹	32,334 ¹	—	36,198*
Total Employment	366,313	426,860	419,500 ²	480,912*
Net Job Increase Required 1982-90				61,412

1. Source: U.S. Census

2. Source: R.I. Dept. of Employment Security

* Assume unemployment rate equal to average of 1982 Massachusetts and Connecticut rates = 7%

Accomplishing these goals will not be easy. Seven years is a short time to bring about major structural changes in an economy. Seven years is a short time to reverse a decline which has been underway for more than 40 years. Nevertheless, we feel that by setting our sights high and putting forward a bold program, we can achieve these goals.

The Compact

We endorse this program to revitalize the Rhode Island economy, as detailed in the Rhode Island Strategic Development Commission's report.

1. A grant/loan expansion incentive program to encourage firms which pay above average wages to expand in the state of Rhode Island. (Chapter 41)
2. A product/market development incentive program to encourage Rhode Island firms to pioneer new products and markets by sharing the risk of associated investments. (Chapter 42)
3. An economic stabilization program to provide bridge financing and/or find new management for firms which are inherently viable but fall on temporary hard times. (Chapter 40)
4. A series of specific support programs for certain Rhode Island industries to assist them to retain or expand employment; these include programs in tourism, fishing, boatbuilding, jewelry, wholesaling and subcontracting. (Chapter 43)
5. Formation of four research greenhouses in areas to be designated after feasibility studies by the Commission. (Chapter 45)
6. Creation of a series of venture capital limited partnerships licensed by the Commission to offer tax incentives to investors; and the provision of specialized tax incentives to entrepreneurs. (Chapter 46)

7. The creation of incentives and programs to enhance the contribution made by our higher educational institutions to economic development and to address problems of the training and development of our human resources. (Chapter 47)
8. Creation of a general research institute at the state university to assist companies in selected areas of research, product development and product testing. (Chapter 47)
9. Creation of a Rhode Island Academy of Science and Engineering and adoption by Rhode Island of the "High Technology Morrill Act." (Chapter 48)
10. Initiation of a feasibility study of enhancing our telecommunications network to encourage the formation of a data communications based industry. (Chapter 49)
11. Changes in the labor dispute provisions of our unemployment compensation law. (Chapter 51)
12. Changes to a more experienced rated unemployment compensation system within the mandate of maintaining the current financial soundness of the system. (Chapter 52)
13. A special study committee of the Commission to recommend changes in our system for administration of workers' compensation insurance and to monitor the recent changes in the state law. (Chapter 53)
14. Changes in our tax structure to: eliminate investment tax credits from mature firms and raise the rates for startup firms, eliminate the loss carry back provision and shorten the tax carry forward provision, maintain an 8% corporate tax rate for 7 years, move to a "pick up" estate tax and study decoupling our depreciation system from the federal system. (Chapter 54)
15. Establishment of programs to simplify procedures for compliance with state and local business regulations and permitting processes, while ensuring the thorough enforcement of those regulations. (Chapter 55)
16. Establishing an environmental review board to provide an early and efficient review of the potential environmental effects of projects applying for Commission funding. (Chapter 55)
17. Developing an incentive-based regulatory systems related to national rates to ensure improved and predictable electric rates for Rhode Island industry. (Chapter 56)
18. Authorizing the use of public pension funds for in-state venture capital and other Commission investment programs. (Chapter 56)
19. The raising of \$250 million to stimulate a total \$750 million investment program to revitalize the Rhode Island economy over the next seven years. This includes the raising of a one-time tax (\$40 million), a current bond issue (\$90 million), and another issue in three years (\$30 million). (Chapter 56)
20. The passage of enabling legislation to give the Strategic Development Commission the ability to carry out this program. (Chapter 57)

how is this
proposed?
administered?

The Commission and the Economic History of Rhode Island

1

Purpose of the Commission and the Study

The Rhode Island Strategic Development Commission was formed in September 1982, to create and implement a strategy for Rhode Island's economic future. The Commission's long-term goal is to increase Rhode Island's living standards by creating jobs and by increasing the average wage of jobs in the state. The Commission is composed of 19 persons with an advisory committee of 50 additional members. These 69 individuals are drawn from business, finance, organized labor, higher education, public service and environmental advocacy backgrounds. It is an underlying assumption of the Commission's work that people from these various backgrounds can and must achieve consensus on a strategy for economic growth if such a strategy is to be well-conceived and successfully implemented. The Commission has been appointed by the Governor of Rhode Island but it is intended to run as an independent body rather than as an agency of Government.

The Commission is charged with examining all aspects of State life which have direct relevance to economic development, and to make and implement recommendations as it sees fit. Ultimately, the authority for the Commission's work comes from the its ability to persuade various groups within the state and the populace of the state at large of its recommendations. The staff for the Commission to date has been formed by 70 individuals whose time has been donated by their companies, unions, educational institutions, or government departments, or who have donated their own time. The staff has included professional consultants, accountants, lawyers, bankers, union organizers, labor educators, university administrators, company staff, business professors, computer analysts, professional planners, staff members of chambers of commerce, community organizers, and graduate and undergraduate students from local universities. Commission and advisory committee members as well as staff members serve in a voluntary capacity.

The Commission has spent the past year preparing this detailed study of Rhode Island's economy. It has been the Commission's intention that this study be done in a thorough and objective manner. Staff members have been assigned to areas that have no direct connection to their own area of employment. Commission members have exempted themselves from final consideration of subjects that bear directly upon their own fields of interest. The study has been directed by a consulting team whose firm is based in the state but which has no clients in the state, will not undertake paid work for the commission and will not undertake any in-state paid work in the coming years.

Though the Commission has met numerous times during the past year, it is with the issuance of this report that the Commission's work really begins. This report sets strategic directions for the state's economic development. But now these directions must be refined and then implemented. Unless these steps are taken, the report has no meaning.

As specific feasibility studies are completed and various parts of the study recommendations begin to be implemented, the recommendations undoubtedly will be altered. However, the Commission believes that this report represents an objective look at the current State of the Rhode Island economy and lays plans, which have a realistic chance of realizing the goals of enhanced employment at higher income levels for the State's citizens. The Commission now intends to take its report to various public and private groups in the State directly concerned with economic development and to the people of the State as a whole.

Rhode Island's Current Economic Problems and the Need for an Active Development Effort

2

Rhode Island's Current Economic Problems

Rhode Island has had three successful economies in its three hundred year history. It was a leading agricultural area in the 17th century, a leading merchant economy in the 18th century and a leading textile based industrial economy in the 19th and 20th centuries.

However, as this textile economy has faded, Rhode Island has not developed a successful fourth economy. As a result, the relative standard of living of the average Rhode Island citizen has declined dramatically and is now low compared to our neighbors in New England and the Nation.

Using total income per capita to measure living standards, the Commission found that Rhode Islanders have a \$1,193 annual lower living standard per person than the average New Englander and a \$384 lower income per person than the average American. This means that in 1982 a Rhode Island family of four had \$4,772 less to spend than their counterparts elsewhere in New England and over \$1,500 less to spend than the average American. The income discrepancy with Connecticut is particularly noticeable. The average Connecticut resident earns \$3,025 more than his Rhode Island counterpart or over \$12,000 extra income for a family of four each year.

In 1982, Rhode Islanders earned 64.7% of their total income from actual current work. Another 17.8% of their income came from transfer payments from the federal government and 17.5% came from interest, dividends and rent. Both of these unearned income categories (transfer payments and interest, dividends and rents) are the results of past rather than current productive activity.

Exhibit 2/Income Per Capita 1970 and 1982 Rhode Island Versus Other Jurisdictions

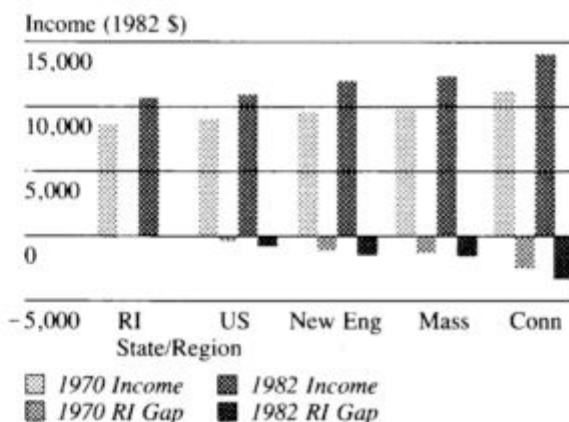
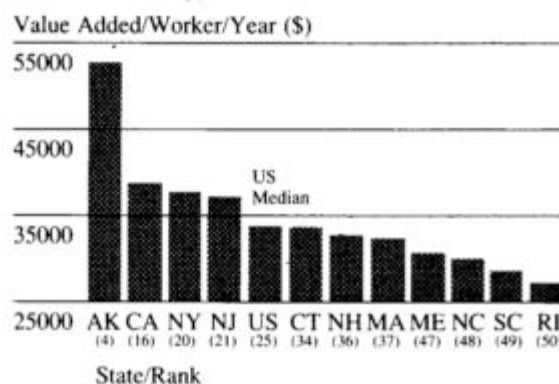


Exhibit 3/US Value Added Per Worker Selected States, 1982



Based on total *earned* civilian income per capita, the average Rhode Islander has a 7.1% lower income than the average U.S. citizen, 16.7% lower than the average New Englander, 17.9% lower than the average citizen of Massachusetts, and 38.2% lower than the average Connecticut citizen.

The total value that can be generated from our current economic base is now the lowest in the country. This value is measurable as the total value added (payroll plus profit plus capital) per employee in the State. Rhode Island now ranks 50th among the states, with a value added per employee of \$27,300 compared to a national average of \$36,900.

In analyzing average manufacturing wage rates, the Commission found an even greater disparity between Rhode Island and other states than is indicated in the total earned income per capita data. The average Rhode Islander involved in manufacturing work in 1982 earned \$1.12 less than his counterpart in Massachusetts, \$1.70 less than his counterpart in Connecticut, \$1.20 less than his counterpart in New England, and \$1.88 less than the average manufacturing worker in the United States.

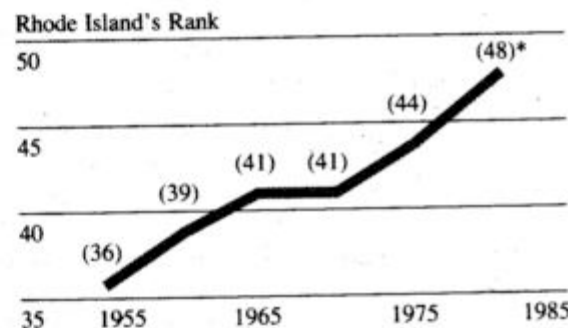
In constant 1982 dollars, the average Rhode Island manufacturing worker had only a 16¢ increase in real wage rate between 1970 and 1982 for a total percent increase of 2.5. The average resident of Massachusetts increased by 42¢ or 5.7%; the average manufacturing worker in Connecticut increased by 54¢ or 6.9%; and the average American worker increased by 90¢ or 11.7%. In all cases the gap between Rhode Island and these other jurisdictions widened between 1970 and 1982. In 1955 Rhode Island ranked 36 among the states and was already relatively low. However, by 1960 Rhode Island had declined to 39th, by 1970 to 41st, by 1975 to 44th, and by 1982 to 48th among the fifty states.

Without defense-related manufacturing, which is 100% dependent upon contracting to the military, Rhode Island's *civilian* manufacturing wage rates are the lowest in the country and have actually *decreased* in real terms since 1970.

Rhode Island's relatively low standard of living and the deterioration of its relative standard of living are the most important problems of Rhode Island's economy.

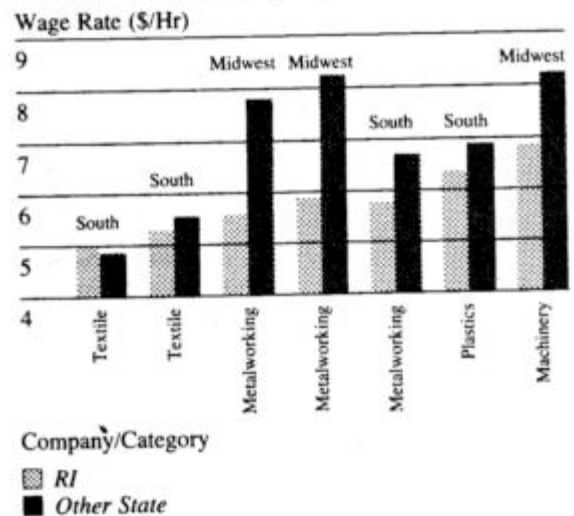
There are two major reasons why wage rates are so low: one is that Rhode Island has a significant proportion of its manufacturing base in industries which, nationwide, are characterized by low wage rates; and secondly even in comparable industries, Rhode Island wage rates tend to be lower than plants performing similar functions in other parts of the country.

**Exhibit 4/Rhode Island's Rank
Average Manufacturing Wage Rate**



* Average Wage Rate
 Rhode Island \$6.68
 Mississippi \$6.96
 North Carolina \$6.39

**Exhibit 5/Manufacturing Wage Rates in
RI Plants vs. Comparable Plants in Other States
Within the Same Company**

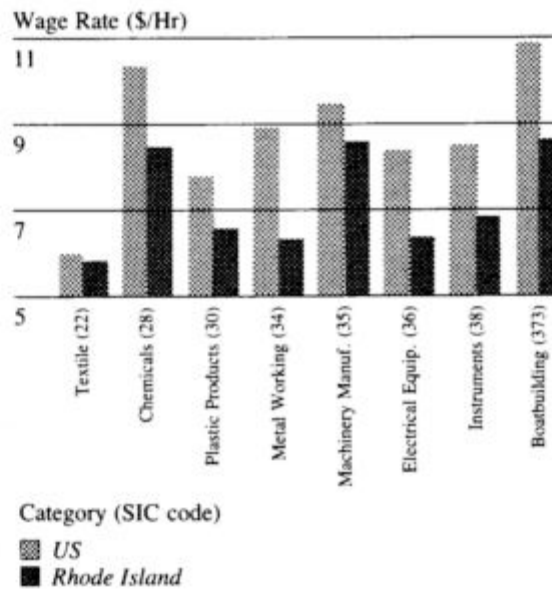


Almost 41% of total Rhode Island manufacturing employment is in industries that on a national basis have average hourly wage rates below \$6.50. In contrast, only 16.1% of national manufacturing employment falls into categories with this kind of low wage profile. On the other hand, only 46% of Rhode Island employment falls into categories which on a national level have average wage rates over \$8 (mostly defense contractors) compared to almost 70% of total national employment.

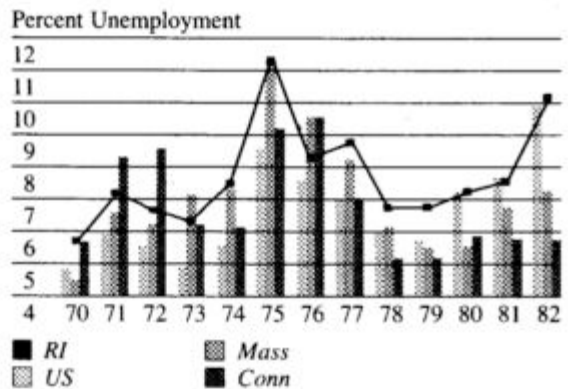
Even within the same industry Rhode Island wages are usually below wages in other parts of the country. This is partially due to the dampening effect of Rhode Island's large proportion of low wage industries and partly because Rhode Island firms are often concentrated in lower value added products within those industries.

In addition to the problem of low living standards, Rhode Island is also faced with the same problem as the rest of the nation—that of not being able to employ enough of its citizens. On average over the past five years, Rhode Island has had unemployment rates roughly similar to the national average. However, Rhode Island has performed less well than Massachusetts and Connecticut which despite their higher incomes and higher wage levels have still been able to employ a higher proportion of their people.

**Exhibit 6/Average Manufacturing Wage Rate
Selected Industries**



**Exhibit 7/Unemployment Rates
1970-1982**



Rhode Island's Prospects for the Future

Based on demographic and employment participation trends, and assuming a 7% unemployment rate (in a recession year such as 1982), 60,000 new jobs need to be created in Rhode Island by 1990. Since every new job in the traded sector (companies exporting goods and services from the state) spawns about 1½ new jobs in the non-traded sector (companies serving primarily a Rhode Island market), 25,000 traded jobs (net of losses) would have to be created to meet these employment needs.

Given the current structure of Rhode Island's economy, these jobs are unlikely to emerge. Industries likely to lose employment comprise 55% of Rhode Island traded employment and include most of the state's large employers (jewelry, textiles, and wire and cable). Industries likely to grow make up only 19% of Rhode Island traded employment and include defense (highly vulnerable to defense appropriations), boat building and electronics. However, some companies in growth industries are considering expanding out of state. On balance, given the prospects of job creation and job loss from the existing base, little or no net new job creation can be expected to take place in Rhode Island during this decade. Therefore, Rhode Island's unemployment rate will rise significantly over the coming decade if the Rhode Island economy continues on its current course.

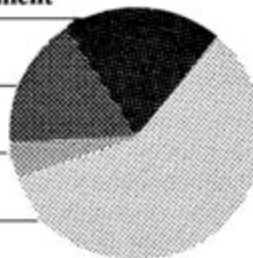
**Exhibit 8/Importance of Larger Firms
to Traded 1982 Employment**

Large Traded Services†
(139 Firms) 19.0%

Small Traded Goods°§
(2,461 Firms) 16.5%

Small Traded Services
(1,283 Firms) 3.6%

Large Traded Goods†°§
(389 Firms) 60.9%



† Large Firms make up 80% of all traded jobs
° Goods Firms make up 77% of all traded jobs
§ Includes manufacturing, raw materials and construction

The relative incomes and wages of Rhode Islanders are also likely to continue to decline over the coming decade. Over 40% of Rhode Island's manufacturing jobs are in industries whose wage is declining nationally relative to the national average wage for all industry. Further, Rhode Island wages are declining in these and other industries relative to the average for these industries nationally. These trends are caused by the entry of low wage countries into the production of many of the products made in Rhode Island and the drying up of our traditional markets. As these trends continue, Rhode Island will sink deeper into last place among the states in average wage and value added per employee.

Strengths and Weaknesses of Rhode Island's Economic Infrastructure

Rhode Island is shackled not only by a weak industrial structure but also by a series of weaknesses in its business climate and infrastructure.

There are a number of factors which increase the cost of doing business in the State and which create the perception that Rhode Island is not a good place to do business. Our electricity costs are relatively high nationally, hindering the competitiveness of many of our energy intensive industries. Our unemployment compensation system is currently the most costly in the country and contains a provision to guarantee payment of benefits to those involved in a labor dispute after a fixed period of seven weeks which though not costly has created the impression that Rhode Island is an anti-business state. Our current workers compensation system is very litigious and is cumbersome to administer and as a result can be costly in certain industries for business while not serving the interests of legitimately injured workers. These negative aspects of our business environment are often not major cost factors, but they create the image of Rhode Island as a poor place to do business.

On the other hand, the state does have infrastructural strengths. Our research base is small but contains notable centers of excellence which are experiencing rapid growth. Our institutions of higher education are regionally and in some cases nationally prominent and are the State's second largest traded industry. They attract many excellent students to Rhode Island from around the country as well as providing excellent educational opportunities to our own citizens. Because of past economic strength Rhode Island is a capital rich state. Our bank deposits per capita are the highest in New England and our rate of industrial and commercial loans per capita is \$1,647 compared to \$1,078 for the nation as a whole. Our physical infrastructure is well positioned for economic development. We have adequate land and building sites for industry, good transportation systems in most places, and good communications facilities.

Currently, the infrastructural strengths that we have in research, education and capital are not being utilized to any significant degree to promote the state's economic development. Few links exist between our educational and research base and our industry. Much of our capital flows out of the state. Much of our industrial land and buildings is underutilized. On the other hand, the negatives in our economic infrastructure are hindering the state's development and are creating serious perceptual problems among business leaders both inside and outside the State. Rhode Island is known as an anti business state. We are thus hindered by our negatives while not utilizing our positives.

How an Active Strategic Development Effort Can Improve Economic Performance and Why It Is Necessary in Rhode Island

It is tempting when confronted with the complexities of business to conclude that active development efforts are doomed to fail. Particularly in this period of our history when we have been chastened by the difficulties of seeking our social goals collectively, one can easily conclude that raising large sums of money for aggressive economic development programs is a misguided strategy. Those expressing this point of view often argue that if we lower corporate taxes, cut the costs of unemployment compensation and workers' compensation and eliminate excessive government regulation and thereby improve our business climate, our economic problems will solve themselves.

The Commission is proposing the most comprehensive program ever put forward in Rhode Island and perhaps in any state, to improve the business climate of this state. The Commission has devised aggressive proposals to cut the cost of unemployment compensation, eliminate estate taxes, provide a predictable corporate tax rate, bring the labor dispute provision of our unemployment compensation system in line with those of other states, lower electricity prices, increase the efficiency of our workers' compensation administration, and ease regulatory burdens on industry.

The Commission strongly believes, however, that measures which improve the state's business climate, will not by themselves be sufficient to turn around the state's economy. Simply eliminating negatives and making our environment broadly competitive with those of other states will not provide a sufficient impetus for investment in this state. Even if we tried to distinguish ourselves, for example by eliminating the corporate income tax entirely, the effort would, in our judgment be marginal. Our current real rate of corporate income tax is 5% (our 8% statutory rate is diluted by extensive loopholes). If this tax were eliminated, the average company (with a 6 to 8% return on sales) would realize a benefit of only $\frac{3}{10}$ - $\frac{4}{10}$ of 1% on sales (in fact less, because state taxes are deductible from Federal tax liabilities). This would not significantly influence would be investors but would have a significant negative impact on the public treasury.

More importantly, if Rhode Island is to undergo an economic renaissance, investors must have significant *positive* reasons for investing in this state rather than any other. The absence of negatives will not be enough.

A more activist policy stands a chance of accelerating the process of wealth creation. To do so, it must be well conceived and operated, and supportive of various private efforts rather than an attempt to centrally direct those efforts. Private initiatives must lead investment and economic development. The public role is to provide assistance and reinforce investment decisions which benefit the people of the state.

The public goals of economic development—job creation and increasing real incomes—are dependent upon, related to, but not completely coincident with private profit motives. For example, business can increase profitability by either cutting wages or improving productivity. The effect of the latter strategy is far more positive to society than the former, and therefore is appropriately encouraged by economic development stimuli.

The private and public returns on investment can also differ. Many studies have shown that research and development often yields benefits beyond those which can accrue to the individual investor and innovator. The public returns to such activities can therefore be greater than those realizable by the investor. Without public support, insufficient research and development investment may therefore be undertaken by private investors.

In a state like Rhode Island which has been slow to enter new industry areas, this type of problem exists to a greater extent than in those states which have pioneered new technologies. Private investors tend to cluster to those regions that have established leaders in new industry areas and have the infrastructure to support them. Without some collective intervention, there is no inducement for entrants to those business areas to consider a place like Rhode Island and there is no inducement for Rhode Island investors to invest in this state.

Rhode Island begins from a point well behind many of our neighboring states in the sophistication of our economy. When an economy has a vibrant private sector which can clearly provide the growth opportunities in investment that the economy needs to employ its people fully and raise its living standards then one can speak of a laissez-faire attitude as being appropriate. Rhode Island is currently far from that. It has many industries which are becoming subject to low wage competition; it has many others which are mature low wage rate industries with very little growth prospect but a need to modernize and develop new products; it has very few companies that have the prospect for significant growth and these are often being wooed by other states with particularly attractive incentive packages; and it has only a smattering of activities in new technology areas. Under these circumstances, a concerted economic development effort is the only way to create the momentum to build economic prosperity.

Exhibit 9/R.I. Wage Rates as a % of U.S. Wage Rates in Selected Industries

	1972	1982
Fabricated Metals	79	71
Electrical & Electronic Equipment	77	75
Chemicals and Pharmaceuticals	90	82
Machinery	105	91
Textiles	102	98
Instruments	87	81
Rubber & Plastic Products	87	85

Rhode Island has also been mired in a confrontational atmosphere among business, labor and government which has contributed to a paralysis in the state's economic growth. Contending forces have spent much of their energies fighting over our "dwindling pie." It is not difficult to understand the historical cause of these antagonisms, but it is not easy to bring them to a halt. There is no reason to believe that a laissez-faire approach will break these roadblocks to progress.

Finally, Rhode Island has a bad image among its own residents and in part because of that, among outsiders as a place for business development. Simply cutting taxes and business insurance payments won't change our negative self-image.

Investment is necessary to create economic wealth. Investment includes any activity where funds are put forward in a current year to create the means by which revenues can be earned and jobs created in future years. Raising the overall level of investment in the economy both in capital and in "expense investments," (new product development and market development, application engineering, distribution systems, etc.) could have a significant impact on the state's economy. We need an aggressive effort to serve as a catalyst for new investment. Because of Rhode Island's weak economic structure and its history of negative attitudes, it would be irresponsible to assume that we need merely to cut taxes and business regulations and 60,000 good paying jobs will automatically appear in the State.

The approach to Rhode Island's economic development that will be taken in the following chapters will be a bold and innovative one, which is another way of saying that it involves a great deal of investment and therefore sacrifice and risk.

The need for this aggressive approach is based on a detailed pragmatic assessment of the state of our current economy rather than any ideological or theoretical proposition. The directions taken are similar to those being promoted in many states: an emphasis on better cooperation between educational institutions and companies, on new business formation, on human capital development and on more targeted economic incentives. The difference is that Rhode Island is moving more boldly. If we carry through on the total package that is presented, we will be thrust from a position of economic development "also ran" to a state which becomes nationally known as an economic development leader.

**Economic Development:
Underlying Values**

The primary value guiding economic development efforts is that of a more productive and larger economy. There are other values which the Commission perceive are important to Rhode Island and therefore also underpin our proposals.

Environmental and business interests often have been in conflict with each other. This is particularly true when wastes from an existing plant are found to be not only damaging to the environment, but also expensive to clean up; or, when new industrial construction competes with land preservation efforts.

An understanding of the effects of specific industrial developments in our national environment has often lagged that industrial development by many years. As we have become more sophisticated in creating industrial products, we also have generated an ever-increasing demand on national resources and an ever-increasing stream of waste products from our production processes.

The Commission firmly believes that with careful planning and the expenditure of resources for problem prevention, the twin goals of economic development and preservation of our natural environment can go hand-in-hand in the State of Rhode Island.

Some states have made anti-organized labor slogans a central part of their economic development efforts. The state of Rhode Island will not do this. The development effort of the state of Rhode Island attempts to forge a consensus among business, labor, finance, education and other interests in this state towards steps which will increase the state's economic wealth. Specific measures which each group can take to assist in this process of wealth creation will be recommended and implemented.

Nor will the development program of the state of Rhode Island be based on a rejection of those social aims which we view as necessary and important to our society. The state of Rhode Island need not trail any other state in the provision of services and benefits to those who are in need of special attention because of age or infirmity or economic background or temporary unemployment. However, where these systems are abused or are run inefficiently then steps must be taken to correct these abuses or inefficiencies for the good of everyone in the state.

To some states, economic development has meant trying to convince industries in other states to close down and move. This will not be Rhode Island's approach. We are not interested in "stealing" another state's companies.

The state of Rhode Island is interested in accelerating the pace of economic development within its borders. This means encouraging industries that are here to expand here; encouraging the formation of new businesses within the state; encouraging the exploration of new technologies which can lead to new businesses within the state and attracting companies outside the state when they are entering into these new technologies or into some other new business area.

**Structure and
Evolution of the
State's Economy
Over the Past
Decade**

The Rhode Island economy consists of well over 24,000 private businesses, hundreds of government agencies and many self-employed individuals. In order to discern trends over the past decade, the Commission divided the economy into goods producing, private service production, self-employed individuals and government.

In 1982 about 31% of the R.I. economy was goods producing, 50% service producing, 7% involved self-employed individuals, and 12% was federal, state and local government. From 1971 to 1982 the importance of goods production dropped from 34.8%. The service sector increased from 42%, and government sectors showed a reduction from 15.2% mainly due to the Navy pullout.

Manufacturing and raw materials remained relatively constant, adding 410 jobs over an 11-year period for an increase of 0.3%. The service sector, on the other hand, gained more than 48,000 jobs during the decade, with 38,000 generated in private services and 10,000 in wholesale and retail establishments.

Compared to national trends, however, Rhode Island lagged behind. Total jobs in the U.S. grew by 23% compared to 10.9% in Rhode Island. U.S. manufacturing and raw materials increased at a 1.2% rate compared to Rhode Island's 0.4%. The construction industry grew 1.5% nationally, while in Rhode Island it declined 5.8%. Similarly, the service sector grew 40% nationwide compared to only 33% in Rhode Island.

Companies with 50 or more employees currently employ 62% of the state's total private sector workers, while companies with less than 50 employees account for 38%. Traded employment makes up 42% of total private jobs in the state and nontraded employment 59%. Large firms (over 50 employees) make up about 80% of total traded employment in the State. Manufacturing firms make up about 77% of total traded employment. Conversely, small companies and service businesses are primarily non-traded. Rhode Island had about 24,700 companies in 1982 of which over 20,000 were in non-traded businesses, including 16,000 small service firms.

**Profile of Job
Generation and
Job Loss**

To develop a detailed profile of job loss and job generation in Rhode Island over the past decade, the Commission studied the rate of firm failure, firm startup, attraction of established out of state firms to Rhode Island, and the impact of major firm expansions and contractions on the economy.

The net change in traded jobs was a gain of slightly more than 10,000 jobs while nontraded jobs increased by over 38,000. Overall, firm failures or near failures resulted in the loss of 21,598 jobs and contractions accounted for the loss of an additional 18,437 jobs. A strikingly large number of firm failures occurred among large traded manufacturers with a loss of 15,294 jobs. Firm failures were almost 1½ times as large as contractions among traded firms.

Small firms succeeded in creating employment to a much greater extent than large firms, particularly in the traded manufacturing area. Small firms generated 3,869 jobs to partially offset the 4,124 jobs lost by the large firms in traded production.

In sum, the Commission found 22.6% of all jobs that existed in 1971 were lost due to firm failures or plant shutdowns where companies left no operations in the State of Rhode Island. An additional 13% of all jobs were lost as firms contracted. Firms that existed in 1971 created jobs equivalent to 19.1% of the existing 1971 jobs. Finally, new startup firms accounted for growth equal to 16.8% of existing 1971 employment. Two defense-related companies account for one-third of this startup employment with an additional 50% attributable to small companies.

**Firm Failure, New
Business Generation,
Firm Expansion
and Attraction of
Established Businesses
to Rhode Island**

The Commission conducted in-depth studies of each of the following areas: firm failures among large companies in Rhode Island; new business generation in Rhode Island over the decade; expansion of existing firms; and finally, attraction of established firms to settle in Rhode Island over the decade.

Loss of Manufacturing Jobs Due to Liquidations, Plant Closings and Other Major Layoffs: The Commission analyzed all manufacturing firms of 50 or more employees that either closed or experienced major layoffs in Rhode Island between January 1, 1972 to August 31, 1982, to determine the magnitude of and reasons for these job losses.

In 1971, 428 firms with 50 or more employees were engaged in manufacturing in Rhode Island with a total employment of 90,864. These firms represented 78.4% of total manufacturing employment in the state.

During this period, 177 of these firms (including a few that started and closed after 1972) either closed down in Rhode Island or had significant layoffs that have been permanent (a reduction of 100 or more people, or 70% or more of their work force). These shutdowns and layoffs resulted in the loss of 40,035 jobs in the state (measured from each firm's peak employment during the decade). Ninety-four of the firms involved in job losses were Rhode Island-based and 83 were non-Rhode Island-based.

Overall, jewelry (23%) and textile (19%) firms comprised the largest percentage of jobs lost by firm liquidation. Electrical and electronic equipment and machinery contributed to the largest losses from firms still operating plants locally and outside the state.

According to the report, management inefficiency (i.e. lack of business acumen, overexpansion, over leverage or inability of new management to successfully operate a company) led to the majority of firm failures. In addition, a significant number of firms shut down because owners could not find buyers.

In every case, firms closed or nearly closed despite their owners' hopes. Labor problems and energy costs were not a primary cause of firm failure, though they did contribute to plant closings in a few cases.

While privately held Rhode Island firms tended to fail because of management inefficiency, large non-Rhode Island firms appeared to have competent management, but lacked a commitment to Rhode Island as a place to do business. As a result, a high proportion of local firms acquired by outside companies were liquidated in Rhode Island. Sometimes these plants were profitable but there was a need to consolidate products into other plants to increase profitability to meet corporate targets.

New Job Generation from Small and Startup Firms Over the Last Decade: Small businesses are particularly important to the State of Rhode Island. Of the State's industrial establishments, 96% have less than 50 employees compared to 83% for the nation as a whole. Further, 62% of total Rhode Island employment is in establishments with fewer than 100 employees, compared to 51% nationally, 45% in Massachusetts and 44% in Connecticut.

There are 23,995 Rhode Island small businesses employing 126,092 people. More than 62% of all employment in these small firms is in nontraded service firms. These include primarily retail stores, repair shops, personal service firms and some business service firms. An additional 13% of employment is in nontraded goods firms that consist mainly of local contractors. In total, more than 75% of all employment is in service industries as opposed to goods producing industries. However, new business startups played a significant role in job creation in traded businesses as well.

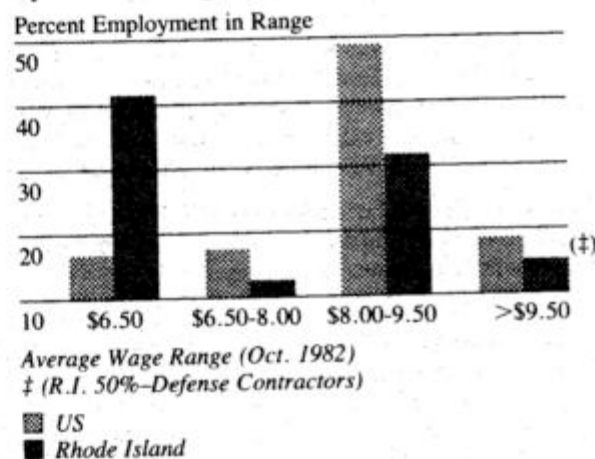
Twenty-five manufacturing and raw material firms were started in Rhode Island from 1971 to 1982, which by 1982 employed more than 50 people each for a total of 2,152 jobs, of which 2,047 jobs were in traded firms. Of this total six firms employing 587 people are in jewelry industries; five firms employing 793 people are in the electronics area; and two firms employing 206 people are in boatbuilding. All but one of these new firms is in a traded business. In addition, 1,413 new manufacturing and raw material firms which in 1982 had fewer than 50 employees started during this period, creating 10,839 jobs of which 8,473 are in traded firms. Overall these startups may have contributed as much as 12,991 jobs to the economy, of which 10,520 are in traded businesses. This represents a significant job gain in both areas. The Commission studied the progress of every firm that formed in Rhode Island (over 3,500) in 1975 and 1976 to analyze the characteristics and problems of new startup firms in the state.

Traded firms are a small percentage of total startup businesses, and a small percentage of firms in the economy as a whole. Traded firms also have a much harder time succeeding than nontraded firms. Over 80% fail in the first 8 years of life in Rhode Island compared to a success rate of over 40% for nontraded firms.

The State's predominant industries are those that give rise to new business formation. The jewelry industry scored the greatest number of new firm creations, followed by metalworking, textiles and apparel, machinery and transportation equipment (boat building). The data show that companies in these traditional industries are as likely to succeed as new companies in more glamorous high-growth industries such as electronics.

New company formations tend to have lower average wage rates than existing companies. According to the Commission's findings, 73% of the new companies paid wages below the Rhode Island average.

**Exhibit 10/Industry Mix of Rhode Island
By Inherent Wage Mix**



Most Rhode Island entrepreneurs finance their new business activities with funds from family and friends. Very few find outside investors.

Expansion of Existing Rhode Island Firms Over the Decade: Over 700 manufacturing and raw materials businesses expanded in Rhode Island between 1971 and 1982, creating 22,140 jobs. In order to understand the composition of Rhode Island firm expansions over the decade, the Commission conducted a detailed analysis of the 183 firms that expanded and employed more than 50 people in 1982. In total these firms represent almost three-fourths of the total jobs created through expansion during the decade.

This population includes 123 firms that increased employment at existing plants with no new construction, creating 8,894 jobs; 40 firms that expanded at existing plants but required investment in new plants in order to do so, creating 4,134 jobs; and 20 companies that built whole new plants in Rhode Island in order to expand, creating 3,003 jobs.

However, 31 Rhode Island manufacturing firms (with more than 50 employees) created a larger number of jobs (8,172) outside of Rhode Island by initiating new construction during the same period. This exceeded the total number of jobs created by new plant construction in Rhode Island by more than double (3,003 jobs). In most cases the jobs could have been created in Rhode Island.

Interviews with these firms show that in 22 cases the decision to move was made because of negative perceptions of Rhode Island rather than specific business or logistical reasons. Energy costs played a major role in three of the cases and bad labor-management relations influenced an additional three. For most companies, however, the combination of the firms' perception of a negative attitude toward business in the State of Rhode Island, and the aggressive efforts of other states' development officials helped to sway the decision.

More significant, and of more concern, are the Commission's findings concerning future expansions. In most cases where firms expressed an intent to expand, managers indicated an unwillingness to expand in the State. According to the Commission's interviews, 42 manufacturing businesses with more than 50 employees plan expansions in the next three to five years. Eleven of these employers indicated they would probably expand in Rhode Island, usually because of positive perceptions of the state's quality of life or some logistical reason tied to the existence of their current business. In 24 cases, however, managers indicated they definitely would not expand in Rhode Island. Managers in the remaining cases expressed skepticism about expanding in Rhode Island, but seemed to have open minds.

The Attraction of Established Firms to Settle in Rhode Island: With the exception of Electric Boat, the Commission found only a small amount of employment created by established firms locating plants in Rhode Island. Overall, 19 new out-of-state manufacturing firms located in Rhode Island between 1972 and 1983. Without Electric Boat, only 1,100 jobs were created.

More than half of the firms locating in Rhode Island during this period were foreign companies, mainly German, but including Swedish, Dutch, Canadian, Italian and Spanish parent companies.

Three major reasons were given for choosing Rhode Island as a plant location: Quality of life, low wage rates and the existence of related industries (jewelry, seafood and boating).

In order to better understand out-of-state attitudes about Rhode Island's business climate, the Commission conducted two surveys of expanding firms. The first focused on rapid growth firms in Massachusetts, primarily in the electronics field, and the second sampled 50 different companies from among the Fortune 1000.

Since Massachusetts contains a number of rapidly growing firms, many of which have located plants beyond its borders, the Commission conducted interviews with a number of these companies to determine how they make plant location decisions and what they think of the State of Rhode Island.

According to the survey, the labor market was the most important factor in location decisions, indicated by nearly 80% of all people interviewed. Proximity to current operations was considered important by 57% and the general quality of life by 50%. About 46% mentioned the proximity of educational centers as an important factor and 42% mentioned the existence of convenient transportation. Taxes were next at 28.6%. Being close to similar firms was mentioned by 25%.

According to the survey, companies often view a state's economic development agency's receptiveness as a barometer of the state's business climate. The ease or difficulty a company encounters obtaining information and working within the regulatory processes is seen as a direct statement on whether the state wants the company to locate within its boundaries.

The majority (58%) of 50 firms among Fortune 1000's faster growing companies questioned in a telephone interview had no knowledge or opinion about the State of Rhode Island. Of these, 20 had never considered making an investment in New England. Nine had considered New England, but not Rhode Island, primarily because they had no particularly positive reason to do so.

Twenty-one firms did have an opinion about Rhode Island. Fourteen said they had not considered it as a plant location because it is too distant from their major markets. Another 13 said R.I. lacks the positive attitude toward economic development of many other states. Eleven cited high taxes in Rhode Island, like the rest of the Northeast (not necessarily true in fact), nine said R.I. ranks near the bottom of studies of good places to do business. Seven said R.I. has a good quality of life, referring to Newport, sailing and beaches. Five were aware that Brown University is in Rhode Island.

The Commission found most businessmen who do not have plants in Rhode Island lack any particular opinion about the State. Most negative opinions are based on hearsay or a cliché originating either from Rhode Island business associates, or from reading articles about the Brown & Sharpe strike or Rhode Island's low Alexander Grant ranking as a place to do business.

**Job Loss and Generation
in Rhode Island Over
the Past Decade:
Summary**

No thorough studies of job loss and generation exist in other states so that we may compare Rhode Island results. Nevertheless, the Rhode Island statistics themselves provide important and grave insights for policy purposes:

Rhode Island has lost a significant number of jobs (about 40,000 in manufacturing firms with over 50 employees, alone) due to plant closings and major contractions. In many cases these were not caused by fundamental and inevitable business reasons.

Rhode Island based firms who have undertaken new construction have created more jobs out of state than they have in-state.

Rhode Island has created few jobs over the past decade by attracting outside firms to the State (about 1,100 in manufacturing) (with the exception of Electric Boat).

Most job generation has come from new firm formations, but these have been mostly non-traded jobs and when they have been traded, they generally pay lower than average wage rates.

**The Current State
of Rhode Island's
Major Industries**

The Commission interviewed over 600 companies in traded businesses in Rhode Island. Though industry categorizations do not do justice to the variety in companies comprising that industry, it is possible to offer broad summaries of the condition of major industries in Rhode Island.

Textiles

The textile industry began in New England 200 years ago but the development of synthetics, the lower wages available in the South and union organization activities drove much of the industry out of New England. In 1950, Rhode Island textile employment was 60,000 or 45% of total manufacturing employment, compared to 9% (about 11,000 employees) today; wool and worsted mills were particularly hard hit. The textile industry remaining is generally a short run specialty type industry requiring a higher mix of skilled labor than commodity products produced elsewhere. Southern wages are now equal to or higher than Rhode Island wages and unions have successfully organized many of the Southern plants. The Rhode Island textile industry is concentrated in narrow fabrics (25.5%), finishing of cotton and synthetics (19.1%) and miscellaneous specialty products (16.2%).

Four successful strategies have emerged in Rhode Island firms to compete successfully: (1) using existing expertise to expand into new, more complex, products, which are more defensible against low wage based imports, i.e., waist belts to seat belts; (2) focusing on selected markets to reduce selling expense and outbound transportation; (3) investing in new product technology or fashion designing; and (4) taking advantage of flexible machining capability and a skilled work force to produce high-quality, short-run length items at short notice for premium prices.

Employment in the industry has stabilized in the last eight years, and as imports increase due to lowering of quotas and tariffs, southern commodity type plants will be more affected than Rhode Island companies due to Rhode Island's high degree of specialization. However, high energy costs for some Rhode Island companies are a significant proportion of value added and therefore produce some vulnerability.

Overall, employment is likely at best to stay even or decline slightly during the 1980s.

Jewelry

The jewelry industry makes up 20% of manufacturing employment in Rhode Island. It is a highly fragmented and competitive industry. Peak employment in the industry was 30,910 in 1978 and has declined substantially since then in all major areas including precious metals, costume jewelry, findings and silverware and plated ware. Costume jewelry is currently the most significant employer accounting for 38% of total jewelry employment in 1980. Costume jewelry is very dependent on fashion trends and tends to be cyclical. The industry also includes some important specialized products such as writing instruments, watch cases, rings and chain. In addition, there are support industries such as electroplating, refining, polishing, chemicals, displays and boxes, whose linkages are important to the success of the industry in Rhode Island. Employment in the industry is likely to continue to decline due to market stagnation and increased imports from low wage countries. Many firms will continue to be successful in Rhode Island, but they will increasingly source product from abroad. Rhode Island manufacturing will continue when high design content or skill requirements or short lead times make local production economic.

A large portion of a typical costume jewelry manufacturer's employment is low skill and low wage. The highly skilled workers range from 6% typically to 20% in more design oriented firms. The high level of design and toolmaking skills in some companies' labor pool in Rhode Island is a key factor affecting industry diversification; however, the average age of the highly skilled workers is increasing. Furthermore, waste treatment requirements set by the EPA must be complied with by the industry by June 1984, and this compliance will be expensive, especially for an industry which is generally in weak current financial condition. Overall, this industry is likely to continue its employment decline through a mixture of overseas sourcing and market maturity.

The Wire, Cable and Wiring Devices Industry

This industry began in Rhode Island partly because prior to the development of plastic coatings for electrical wire, specialty textiles were used to insulate electric wire. Wire, cable and wiring device industries in Rhode Island consist of 25 firms employing over 7,850 people, of which 15 major firms employ about 7,600 people.

Success in this mature industry has been dependent on development of new product and market development rather than manufacturing efficiencies. Skilled merchandising campaigns, selling programs rather than simply commodity products, and helping dealers stock and market products have provided growth for some firms. Development of special products, such as computer cable, has been another growth strategy.

Due to overall market maturity in the wire and cable industry, Rhode Island will not experience employment growth in the future. Some firms will prosper, but others will decline.

Serious job losses in the wiring device industry have occurred in the last five years as operations have been moved to low wage foreign locations such as Puerto Rico and Mexico. Factory labor typically equals 40% of total cost and 64% of value added, and over 75% of the labor necessary is unskilled. Productivity improvements and continued moves to low wage off shore production will result in continued employment losses in wiring devices over time despite success for some Rhode Island firms in selected applications niches.

Fishing

As many as 5,500 people are employed full-time in the fishing industry in Rhode Island with an additional 1,300 employed part-time.

Rhode Island has 12.8% of the fishermen in New England, 14.2% of the New England fish catch, but only 4.7% of fish wholesaling jobs and 3.7% of seafood processing employment.

Fish consumption per capita in the United States is relatively small. Fish prices have increased faster than any other food commodity, 400% per pound in the last 20 years. In 1980, the United States caught 4% of all fish and consumed 7.5%, despite estimates that over 20% of the world's fish is harvested within 200 miles of the United States. In 1982, the United States imported 52% of all of its supply of edible fish, resulting in a \$2.2 billion trade deficit. Displacing foreign exports of frozen block fish to United States does not appear to be economically viable due to lower production costs and government subsidies abroad. The U.S. market as a whole seems saturated in the processing of fish sticks and the raw material is almost 100% imported. The growth in the non-shellfish area appears to be in frozen and branded fresh fillets. Norwegian and Icelandic fish are currently coming into the U.S. market to serve this potential and the Canadians are planning to gear up a major effort in that direction.

There are three strategies being used in the U.S. to increase fish sales and profitability: (1) develop efficient distribution systems to access new inland markets for fresh fish; (2) develop underutilized species for domestic consumption and export; and (3) the use of new technology to develop new forms of packaging or processing.

The Rhode Island harvesting industry is totally traded, and has a relatively high value added per employee. The greatest opportunity for the type of fishing industry we have in Rhode Island, is to arrange an efficient distribution system in order to market fresh fish and fish fillets around the country.

Assistance with marketing, setting up distribution and transportation channels, developing better packaging technology, and developing better preservation techniques and quality control aboard ships could be very significant in helping to develop this market.

Rhode Island probably cannot create a major industry to compete with foreign sources of fish, but it can expand current employment through better docking facilities, new products and new marketing techniques.

Tourism

Overnight visitors to Rhode Island spend almost \$300 million annually, equaling 3.5% to 4.0% of gross state product. The tourism employment base is highly fragmented and largely unskilled.

Currently, the proportion of gross state product represented by tourism in Rhode Island is the lowest in New England. In part, this is a result of the seasonal nature of our tourism, but even Connecticut which also lacks significant winter sports has a much larger expenditure per capita associated with tourism. There is room for expansion for Rhode Island's tourism-related industries without reducing the quality of life for Rhode Islanders. While much of the employment generated by the industry is low paying, there are a significant number of small proprietorships which earn good incomes from tourism-related activities.

Recreational and Commercial Boat Building

Over 1,100 people are employed in producing recreational boats and over 300 in commercial boats, up from a total of 400 employees in both areas ten years ago. Rhode Island is one of three areas of the country where recreational boat building is centered; annual sales of Rhode Island boat builders are more than \$65 million. Over 20% of the sailboats built in the country are provided in this state. The industry is centered here due to the boat-building heritage of the State, location next to some of the best sailing waters in the country, and the State's active yachting population. The industry cites its skilled labor force, relatively low cost space, and access to major highways as positive factors. About 50% of the work force is moderately to highly skilled, commanding good wage levels. Despite prominence in sailboat manufacturing, the State has attracted few manufacturers of peripheral equipment (sails, electronics, hardware).

Although growing, Rhode Island's commercial boat building has not, ironically, included the building of fishing boats, despite the base of fishing industry in the state. Major fishing boat builders are in Florida, Alabama and Texas.

There is an opportunity for growth in boat-building and peripherals in Rhode Island if steps are taken to encourage their development. Currently, however, some boat builders are contemplating expansions out of state due to certain unfavorable factors in Rhode Island's tax, incentive and overall business climate.

Rhode Island Ports

Currently 38 companies with 880 employees are involved primarily in Rhode Island port activity. The Rhode Island port with the most potential for development is the municipal port of Providence, since it is the only port handling non-petroleum cargo, has a fully developed structure and has significant excess capacity. Providence is the second largest port in New England, after Boston. Boston handles 3 times the tonnage and has 4 times as many jobs as Providence (due to the volume of containers, and the significant numbers of headquarter functions). However, because of excess capacity, volume at Rhode Island ports could increase by over 25% before increased employment would result.

The U.S. Maritime Administration projects annual increases in container shipments at North Atlantic ports of 3.34% in the current decade. Currently, New England handles only 3% of total northeastern container tonnage with much of the rest being handled by New York. Providence does not appear

likely to increase its share of total tonnage because it does not have the infrastructure necessary to handle the increasingly larger container ships and because shipping companies are consolidating their cargo handling operations to handle larger ships in New York and Boston. Therefore, even if containerized tonnage increases at a rate 5 times faster than the Maritime Administration's projections, only a handful of jobs would be created in the port of Providence.

Wholesaling

Wholesale trade is 5% of total Rhode Island employment (or 19,000 jobs), 6.7% of total wages and 6.8% of state GNP. Salaries are above average. However, if present trends continue it appears that Rhode Island will be losing employment to out-of-state wholesalers; Rhode Island retailers and manufacturing industries are receiving a significant portion of their supply from out of state. Rhode Island wholesale activities increased only marginally over the past decade while Connecticut and southeastern Massachusetts wholesalers have increased up to twice as rapidly as average statewide employment in their states.

There has been a significant shift of wholesaling facilities from Boston to southern and western suburbs. Given this growth in areas proximate to our northern and western borders, and given the availability of land in northern Rhode Island which could be used for the development of wholesale distribution facilities, there appears to be an opportunity to expand wholesale employment within Rhode Island. Surveys in Suffolk County, Massachusetts show that the exodus of these firms is still taking place. Further, many foreign producers are likely to be establishing northeast distribution facilities over the coming years. Rhode Island's ports and goods transportation could enhance our potential to capture some of these facilities. Wholesale employment in the neighboring Massachusetts counties increased by 31,000 from 1970 to 1981. If Rhode Island had attracted only 10% of those jobs, it would have almost tripled Rhode Island's total wholesale gain of 1,742 jobs.

Most of the wholesaling companies with large employment are ones which lend themselves to regional rather than solely in-state distribution. Our interviews with many of these firms suggest that Rhode Island inventory taxes in particular are a hindrance to their development within the state. A number of the firms we interviewed are considering expansions, would like to expand in Rhode Island, but are considering not doing so because of those taxes. Some other firms that we have interviewed have recently expanded in southeastern Massachusetts rather than in Rhode Island primarily for this reason.

There is little opportunity for expansion of wholesaling employment under current economic conditions, but with some modest tax law changes and incentives, wholesaling employment could increase in Rhode Island.

Defense Industries

Almost 20,000 Rhode Island jobs (5% of total employment) are directly dependent on expenditures of the U.S. Department of Defense (DOD); 3,700 are in the military and 5,100 work as civilians directly for the military. Over 10,600 jobs are in private companies which contract directly with the military. In addition to in-state jobs, about 4,100 other Rhode Islanders work at the Groton, Connecticut facility of Electric Boat. Military employment for DOD in Rhode Island has decreased by some 75% from 36,000 in 1972 to 7,000 in 1982. Civilian employment has increased due to defense related private contracting, which grew from 3,000 to 10,600 jobs, or 250% over a ten-year period. This buildup was due to: (1) the Electric Boat startup at Quonset and increases in Groton; (2) the startup of Derecktor Shipyard at Coddington Cove; and (3) the growth in the Naval Underwater Systems Center (NUSC) contractors in Newport. The average wage of the new jobs is over 50% higher than the old jobs lost. Over 70% of all defense related contracting in Rhode Island is directly related to the Navy submarine program, especially the Trident.

Projections by Electric Boat, Derecktor, the Navy, NUSC, Raytheon, and others are for stable or increasing employment over the next two to five years. Growth, however, will be minimal compared to the last decade. Furthermore, there is vulnerability over the long term as the market is highly concentrated and contract awards to competitive facilities could contribute to a significant decline in Rhode Island's defense related employment.

The major activities undertaken by private defense contractors in the state are manufacturing, research and development, field office sales and services, support services for system software, system documentation or business operations and management, and engineering and technical consultation.

Rhode Island's defense related industry exhibits very little diversification into commercial markets. Over 85% of all defense employment is in firms whose defense sales represent over 90% of their total sales. With the exception of Raytheon, which has a division of 100 people in East Providence making products for the commercial market, no other major defense contractor has any significant commercial business. Reasons identified for this limited commercial activity include (1) some companies are exclusively defense oriented by corporate charter; (2) others are local divisions of out-of-state companies whose only assignment is in the defense field; (3) others are simply field sales and service offices which themselves would not have the ability to go into a new business; and (4) still others have a highly focused competence which is really not suited to commercial markets or limited resources. Most of the companies have no familiarity or experience with non-defense markets and defense activities satisfy their company growth needs.

The Commission has identified several areas where the private contractors (particularly to NUSC) have some capability which could lead to new product developments for commercial applications. The first area relates to underwater acoustic and signal processing which could have application for the boat building and fishing industries, for the offshore oil industry or even for onshore underground application. Possible related applications may be for medical testing systems using acoustic probes and signal processing. A second major capability is in systems engineering and software development for large data base systems.

Much money has been lost in many companies both large and small in trying to convert technical defense capability into commercial businesses. The managers of defense divisions in large companies or of defense related small companies tend to be development people who have not had to spend much time in mastering efficient manufacturing techniques nor in gaining the experience necessary to pioneer and develop commercial markets.

The potential for using our defense strengths for commercial spinoffs requires further investigation. It will not happen as a matter of course.

Metalworking Industry

There are over 400 metalworking companies in Rhode Island employing 8,870 people; employment remained stable during the last decade. 42.2% of employment in metalworking is in small companies (under 50 employees) compared to 31.1% of all manufacturing. Metal working companies are 89% traded. The Rhode Island industry breaks down into final product producers (36%) and subcontractors (64%).

Final product producers manufacture low tolerance products, high tolerance products, and metal structures. Low tolerance products involve unskilled labor with little value added and are increasingly vulnerable to low wage imports. High tolerance products have high engineering content, involve skilled manufacturing, have high value added and are relatively insulated from imports; employment should remain stable or grow in selected of these areas. Metal structures are manufactured mainly for the construction industry and should experience stable employment.

Subcontracting includes platers, nut and bolt producers, and miscellaneous machine parts producers. There are 165 plating shops in Rhode Island employing 2,661 primarily in shops concentrated in supplying the jewelry industry. However, some platers have moved into more specialized and, in some cases, highly technical areas requiring skilled labor. Plating employment has declined dramatically over the last five years (after increases in the early 1970s). Further declines can be expected unless companies acquire the skills necessary to diversify out of jewelry.

Nut and bolt producers involve both skilled and unskilled labor depending on the type of metal used and the type of manufacturing process; skilled labor comprises 20% to 35% of total. Imports are taking a growing share of the national market (37% in 1982 versus 11.3% in 1970) in standard items, but Rhode Island employment may remain stable since there is considerable defensible specialization.

The traditional markets for Rhode Island subcontractors, jewelry and machinery, have been shrinking over the past few years. General subcontracting has grown for the aerospace, shipbuilding, and computer industries located in New England but these have not offset losses. However, future growth will depend on aggressive product development and deliberate targeting of these and other high growth markets, both of which may be difficult to achieve given the highly fragmented structure of the industry in Rhode Island.

Exhibit 11/National Wage Rate Trends

	1972 Wage as % of Total Mfg. Wage	1982 Wage as % of Total Mfg. Wage	% R.I. Traded Employment
Costume Jewelry	68	64	10
Precious Jewelry	88	81	7
Textiles	72	69	8
Metalworking	106	103	6
Apparel	68	61	2
Leather Products	70	63	2
Wiring Devices	88	85	4
Toys and Sporting Goods	72	71	1
Pens and Pencils	81	79	2
Furniture	81	75	1
			43

Financial Services Industry

Financial institutions have provided significant employment growth in the state in the last decade and currently employ 18,563 people. However, employment growth is not expected to continue.

Changes in technology plus deregulation will lead to a stabilization of employment even though revenue growth will continue. Banks will automate many functions and will face a tougher regional competitive environment, resulting in leaner operations.

The industry provides relatively low paid production/clerical jobs and some highly paid managerial positions. Rhode Island is an attractive location for the clerical activities of insurance companies due to its low wage diligent work force. However, office automation is reducing the numbers of these jobs in some companies. Some state laws limiting insurance charters and imposing a bank deposit tax limit Rhode Island's ability to attract new financial institutions. To the extent that Rhode Island banks are acquired by out-of-state institutions, the state will lose some "headquarters functions," which do provide high value employment and business leadership to the state.

Retail Industry

Retail trade employs 19% of all Rhode Islanders but represents only 11.5% of payroll and 10% of gross state product; wage levels and value added are low. Although employment has grown by over 4,000 jobs in ten years, job growth has been concentrated in lower wage sectors. Retail is a non-traded industry, primarily serving the local market area.

The Commission investigated whether significant retail business was being lost to out-of-state shopping. The available evidence suggests that out-of-state shopping is not as substantial as many had believed. Much of the outside shopping which does occur could not be recaptured under any circumstances since it is not primarily driven by availability or convenience. Further, the employment impact of reducing the shopping of Rhode Islanders outside of state would be minimal. Retail growth will occur as a multiplier from an overall increase of employment in the traded industries which will bring greater wealth into the state.

Higher Education as a Traded Industry

The economic value to the state of its 12 Higher Education Institutions (HEI) is significant. The direct impact to the state's economy is \$300—\$500 million. These institutions employ 13,856 people making them the second highest source of traded employment in the state. The average annual personal expenditure per full time student is \$2,800. Almost 70,000 students are enrolled in the 12 Rhode Island HEIs with 40,000 of those Rhode Island residents and 30,000 out of state. Of this total, 40,000 are full time students. Although only 43% of the total, out-of-state students have a much more significant economic impact due to (1) higher tuition levels; (2) higher use of facilities; and (3) higher personal spending.

The Higher Education Institutions in Rhode Island have provided significant growth in employment over the past decade. Most schools had significant increases in numbers of enrollees from out of state which far outpaced their internal growth. Only two schools showed decreases in out-of-state

attendance and one was constant. Some, such as Bryant, Providence College, Salve Regina and the Community College (from a small scale) showed significant increases of well over 100%. During the times when many colleges and universities around the country have seen enrollments decline, overall enrollment in Rhode Island institutions increased by 6.2% and out-of-state enrollments by 50.1%. This growth occurred even as in-state high school graduations decreased by 4.8% during the period from 13,156 to 12,526.

The net immigration of students (out-of-state students coming to Rhode Island institutions of higher education minus Rhode Islanders going out of state for higher education) increased dramatically from 7,562 in 1975 to 17,472 in 1982. Net migration as a percent of total enrollment went from 11.7% to 25.4%. While these growth rates probably cannot be sustained, Rhode Island's institutions of higher education are strong and will remain among the leading traded businesses in the state, probably experiencing stable or slightly increasing employment in the coming years.

The Electronics Industry

On a national scale, during the last decade, manufacturing employment remained stable while employment in the electronics industry rose by 57%. During the same period, electronics-related jobs in Rhode Island grew 49% to 7,517. Electronics-related employment in Rhode Island is currently 6.6% of total manufacturing employment compared to 9.7% nationwide and over 30% in Massachusetts. The civil electronics industry has been divided into four areas for the purposes of this study: (1) communication equipment, (2) electronic components and accessories, (3) electronic computing equipment, and (4) measuring and controlling devices.

Most Rhode Island growth has been in new firms begun by entrepreneurs in this state.

Various segments of the electronics business are quite different from each other, and may have similarity to other businesses not generally associated with electronics (such as high precision engraving). Electronics industries have a high reliance on non-production workers (44% to 76% compared to 30% for manufacturing in general). The electronics industry does not pay high wages to production workers, but does pay non-production workers well (an important consideration in light of the high proportion of the latter). Growth in U.S. electronics employment will most likely slow during the current decade as unskilled production moves offshore, automation increases, and as a result of increased competition from Europe and Japan.

Much of the state's existing electronics industry doesn't appear to be vulnerable to foreign competition since it has high marketing, application engineering or product development content. Some growth can be expected in Rhode Island's electronics companies. As matters now stand, however, much of it will occur out of state.

Health Care Industries

U.S. health care expenditures increased tremendously over the past decade with most of the growth being in non-traded health care service delivery. Rhode Island employment in health care service delivery grew 70% to 34,322 people during the last decade. Although U.S. production of goods used by the industry has also grown significantly (growth rates in employment, depending on type of product, range from 27% to 85%), Rhode Island production of these goods has not grown during the past decade. In fact, Rhode Island employment in 1982 in health care goods totalled 3,366, down 11% from 1971.

Medical products industries are not distinguishable by the manufacturing technologies (which share common characteristics with other industries) but are distinguishable by R&D, applications expertise and distribution.

Both national and Rhode Island average wage rates for production workers in medical products industries are below average manufacturing wages. Although these companies have a higher proportion of well paid non-production workers than manufacturing as a whole, this is not true in Rhode Island where the employment tends to be concentrated in basic fabrication. Almost 90% of Rhode Island employment in medical products is in 7 companies averaging 428 employees, far larger than the average Rhode Island company. Most of these companies do not project growth in Rhode Island. Some new smaller companies however, do have significant growth opportunities. Overall Rhode Island's current traded health care base should be stable with a few pockets of growth.

Summary Sectoral Analysis

The Commission has studied the prospects for growth in most of Rhode Island's traded companies. The foregoing has summarized the findings in some significant sectors.

Overall, prospects are bleak. Industries which are likely to lose employment or at best stay stable far outweigh those with growth prospects. Those companies with growth prospects often plan to expand out of state.

Exhibit 12/Employment in Traded Sectors

<i>Industries Likely to Lose Some Employment or at Best Be Stable</i>	<i>1982 Employment</i>	<i>%</i>	
Jewelry (pens + pencils)	26,871	19	-
Textiles & Apparel	13,868	10	0-
Metalworking	7,882	6	0-
Wire, Cable & Wiring Devices	7,846	6	-
Basic Metal Production	2,299	2	0-
Leather Products	2,439	2	-
Glass Products	1,444	1	-
Plastics and Rubber Products	6,240	4	0-
Ground Transportation Equip.	1,355	1	0-
Machinery	5,151	4	0-
Toys & Sporting Goods	1,298		0-
	76,693	55%	
<i>Industries Which Might Grow</i>			
Defense Manufacturing	8,644		0+
Instruments	3,861		0+
Boatbuilding	1,388		0+
Electronic Devices	3,121		0+
Publishing & Printing	1,086		0+
Raw Materials	1,383		0+
Personal Services	1,987		0+
Bus Services	2,215		0+
Engineering	1,272		0+
Defense Manufacturing & Services	1,373		+
	26,330	19%	
<i>Industries Which Are Likely to Be Stable</i>			
Chemicals & Pharmaceuticals	2,649		0
Food Processing	1,100		0
Wood & Paper Products	3,352		0
Wholesale	5,773		0
Transportation	4,504		0
Finance	3,303		0
Higher Education	13,604		0
Other Services	394		0
Construction	856		0
Other Manufacturing	833		
	36,368	26%	

A Brief Economic History of Rhode Island

Rhode Island's economy changed from an agricultural base in the 1600s to a trading base in the 1700s and 1800s to an industrial base in the mid-1800s. By the end of the 19th century, Rhode Islanders had achieved success according to nearly every standard by which success was then measured. Rhode Island was the most densely populated state, the most highly industrialized state, and was a leading center of the American jewelry and textile industries.

The expansion of textile-based manufacturing peaked around 1900. As was the case a century before with maritime commerce, Rhode Islanders lost their competitive advantage. Southern mills were producing textiles more profitably. Rhode Island's textile industry underwent a fitful but steady slide for nearly 50 years. The Great Depression would mask the long-term implications of the calamity. Wartime production would seem to revive the industry during the 1940s, but inevitably the heart of Rhode Island's industrial wonder of the late 19th century was torn away. In 1929 Rhode Island's per capita income was 24% higher than the average in the U.S.; in 1940 it was 25% higher. By 1950 it had dropped to 7.3% higher. In 1982 it is over 7% lower than the national average.

It is easy to speak of Rhode Island's three previous economies in superlatives. Contemporaries certainly did. But in each case the underpinnings of success proved fragile or transient. Rhode Island's land resources were too limited to sustain it as the colonial leader in agriculture.

Rhode Island's rise as a commercial power in the North Atlantic trading community was based more on the consummate skill and daring of its merchants than on the geographic importance of their port cities. When international trade became more routinized and, in a sense, much easier, Rhode Island merchants lost much of their competitive advantage.

Even the development of Rhode Island's gigantic textile industry of the late 19th century was not guaranteed. Despite the state's pioneering role in textile and woolen manufacture, it simply lacked the population to sustain a large industrial work force. Hard times and calamities elsewhere lured thousands of people to Rhode Island from neighboring states and overseas, and this influx, as much as the water turbine or steam engine, set the wheels of the state's industry in motion.

Rhode Island's economic heritage is a blend of spectacular achievement, brinksmanship, and some good fortune. Rhode Islanders have a long tradition of turning far-fetched, seemingly visionary notions into reality and profit. It is a heritage that instills confidence and preaches the virtues of adaptability.

Enhancing the State's Existing Industrial Base

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The major industries presently based in Rhode Island are going to be the most significant employers in the state in the next ten to fifteen years and therefore a major focus of any economic development effort must be to ensure the competitiveness of the current industrial base. This is especially important since over the past decade too much of Rhode Island's development attention has been focused on trying to attract new firms to the state rather than assisting firms already here.

Incentives for Industrial Expansion: (\$60 Million from The State Plus \$8 Million on a Voluntary Basis from cities and towns)

All states use a variety of financial incentives to try to stimulate investment by industry. From an economic development point of view, public incentives for private firms are justifiable if they create jobs by encouraging firm expansion. The public at large benefits from the jobs created by such incentives and the State realizes a return from higher income and sales tax revenues.

The State of Rhode Island is losing potential jobs as locally based firms expand out of state and has a poor record of encouraging existing out of state firms to expand into this state. The generalized tax incentives designed to increase the attractiveness of the state to industry are not working. The Commission believes that the State should offer an aggressive incentive program to encourage firms to expand employment. This program should be available both to existing firms in the state who are expanding employment and to outside firms who wish to set up operations in the state. The incentives should be available only to traded firms.

The incentive should be structured in the form of a grant/note, which would exist for approximately 12 years. This note would be provided for a specific percentage of the funding required for expansion of jobs and would be made in the form of a loan at below market interest rates. Principal payments would not be due until year 5 to year 12. The amount of the grant/note would be dependent on the number of jobs created and the average total wage rate of these jobs. In order to be eligible, a firm would have to be creating jobs with an average wage rate which is higher than the R.I. average wage at the point of application. If the firm fulfills the agreements of the note regarding job creation, over a period of time the debt would be forgiven.

By providing such an expansion incentive, the State will distinguish itself nationally as aggressive and innovative in its approach to job creation. It will, however, be a rational program, designed to produce a four year return on the state's investment, as measured by the state's increase in tax revenues obtained from the creation of the jobs.

New Product Development Incentives (\$42 million)

The Commission has noted that many firms are becoming subject to low wage competition from developing countries. In addition, a number of firms are in mature industries and cannot be expected to generate employment increases due to slow growth. Well over half of the jobs currently existing in Rhode Island's traded economy fall into one of these two categories. Employment is likely to further decrease over the coming years unless there is some major reshifting of product and market focus.

A great deal of attention is focused today on firm creation. Yet, introducing new products into an established firm is far less difficult than creating an entirely new firm. Therefore, the Commission recommends the creation of a series of new product and market incentives which can assist companies in traded businesses to pioneer new products and markets to sustain or increase employment.

These incentives would be directed primarily at existing firms in the State and would be given independently of any expansion incentives. This aid would be given in the form of a conditionally reimbursable loan on a matching basis. If the effort fails, then the loan would not be paid back. If the product succeeds, then the loan would be paid back at an equity type high rate of return. This type of program has been implemented successfully in Europe and Japan and can stimulate a company to pursue product ideas which would not otherwise be undertaken.

Measures to Minimize Job Loss From Firm Failure/Plant Closings (\$7 million)

If only 10% of jobs lost through plant closings or firm failures in the last 10 years in Rhode Island manufacturing firms employing over 50 people could have been saved, that would have equalled all the jobs that were brought into the state in non-defense areas by the economic development effort of that period. Furthermore, a detailed study of firm failures and plant closings over the last decade indicated that in many cases there was no inherent business reason for the failure. Therefore, a mechanism needs to be established to determine those situations which can be turned around from those which can't and to then take action to preserve those firms which can be turned around.

The Commission proposes the establishment of a stabilization fund to provide debt and equity to new owners of troubled Rhode Island manufacturing firms, possibly as a reformation of the Business Development Company of Rhode Island. The fund would be supported by financial institutions which would receive tax incentives for their participation. Administrators of the fund would identify new management capable of taking over troubled firms. The fund would only be involved with a firm in a traded business, when purely private financing cannot be found, and where business viability is clear.

**Specific Programs
for Existing Industries
(\$21 million)**

The Commission has determined certain industries which require specific strategies for development in addition to the general recommendations made elsewhere in the report.

Tourism

Tourism could be increased by several minor improvements including the refocusing of advertising on the New England market, redesign of the graphics and visitor information system, and theme tours and development of winter tourism programs. The Commission proposes to provide financial support to the tourist industry and public authorities to carry out such programs.

Boat Building

The State's boat building and marine trades industries could be stimulated by changing certain tax laws which provide relatively small amounts of revenue but create significant problems for the industry. The State needs to design incentives to attract sailboat builders and equipment manufacturers to Rhode Island, building on the significant base of such builders already here. In addition, an effort must be made to lobby in Congress for fair trade laws regarding export of United States built boats to Canada. A program should be developed to build on the significant underwater electronics capabilities existing in the state to develop new products for recreational and commercial markets. Finally, Rhode Island financial institutions should be encouraged to develop special financing packages for dealers and customers of Rhode Island manufacturers.

Fishing

Although the potential for expanding the fishing industry is limited due to the current full utilization of the state's fish resources, the expansion of port facilities in Galilee, Newport and certain bay ports such as Melville could further enhance the industry. Unused space at such facilities as Quonset Point could be made available to private developers for construction of a large scale fishing and processing port. Also, efforts to limit pollution of Narragansett Bay must be emphasized and bans on fishing in certain contaminated waters must be strictly enforced to protect the reputation of R.I. seafood.

Wholesaling

There has been a significant growth in wholesaling in Massachusetts counties bordering northern Rhode Island, and some Rhode Island wholesalers have moved out of state or are contemplating doing so. The Commission is making the following recommendations to retain and attract wholesalers: identify potential areas of increasing wholesaling employment such as urban wholesalers seeking a rural location, reform the inventory tax system of the state's cities and towns, improve highway access, especially in the Woonsocket area, and promote the state's port capabilities to wholesalers.

Subcontractors

The Commission proposes that the Department of Economic Development establish a unit to catalogue Rhode Island's subcontracting expertise and to link those capabilities with potential end users throughout the Northeast which include the computer and electronics industry, the aerospace industry, and the defense industry. Incentives should be developed to assist these subcontractors to retool for these new markets.

Jewelry

Despite the decline in the industry caused by imports, the Commission believes that the industry can be strengthened by assisting the jewelry industry in adopting the required waste treatment procedures through education, consulting and financing, and by uniform enforcement of health and safety regulations to improve the industry's image. In addition, the subcontracting program discussed above will be targeted to suppliers to the industry.

**Summary of
Programs for
Existing Industries**

Taken together, the Commission intends to provide about \$138 million to existing traded firms, (mostly those already in existence in Rhode Island) over the next seven years. This represents a more significant assistance program for an existing industrial base than is being undertaken by any other state. In addition, some of the programs described in the next two sections can also be used by existing firms such as the customized training funds. These investments will be in addition to existing IRB, Job Partnership Act and other Development Program Funds.

The state's nontraded firms, though not directly eligible for incentives will in fact be clear beneficiaries of the wealth brought into the state by increasing traded employment and wages. One need only look at the effect on local retailers when new large factories are built in a town or on local contractors when increased wages allow apartment dwellers to buy houses to understand the relationship.

Programs to Enhance Development of New Industries in Rhode Island

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Even if all of the programs proposed in Section 4 are adopted, the current industrial base cannot by itself produce either the number of jobs nor the increase in average income proposed by the Commission. If Rhode Island is to improve its living standards over the next decade and is to secure gainful employment for the increased working age population that we expect in the state, then new businesses and new industries must be created.

New business formation has been responsible for over 13,000 traded jobs being created over the past decade. If 60,000 new jobs are to be created in the state over the coming seven years, then new business formations must be at an even higher rate than in the past. Many of the small businesses that have been formed have had lower wage rates than the state average. If we are to achieve the living standard improvements that we desire, then there must be the possibility for the establishment of new businesses that can pay higher wage rates than the current manufacturing average.

Part of our program for creating new industries in the state is based on a highly targeted set of initiatives where current research activities, if properly nurtured, can bring forth major industries over the next decade. However, it is impossible to predict all areas where business opportunities may arise. Therefore, it is necessary to improve the overall environment in the state for the development of new business activities. This requires general measures for improving the human resources we have in the state and also for bringing together risk capital, new business ideas, and entrepreneurs to create these new businesses.

Focused Research Greenhouses (\$51 million)

The Commission recommends the creation of a series of research "Greenhouses" to promote applied research leading to the creation of new industries in Rhode Island. These Greenhouses will be highly focused, well financed, closely linked to a business development and marketing arm, and interrelated with a cluster of activities in companies and educational institutions in the state to achieve the critical mass necessary for forming new industries. They will take technologies which are well advanced in basic research and accelerate the process of commercial development. The Greenhouses will foster the development of the separate pieces needed to develop entire new industries in the state by drawing these individual pieces together and focusing them on particular product development.

Areas of potential focus have been identified by determining where Rhode Island research expertise is already nationally renowned and where growth industries could be developed from this research. The Greenhouses would be independent non-profit institutions conducting research and consulting for government and industry. They would work in coordination with state universities and hospitals.

A venture capital fund would be set up to identify potential products and services, to locate entrepreneurial management and to finance new companies or product development efforts coming from Greenhouse Research. A marketing arm would be developed to attract established firms to Rhode Island which are involved in pioneering new products in areas of Greenhouse focus. The Commission expects that it would take 5 to 10 years to realize significant job creation from these efforts. However, job generation could be very significant after this time.

There are eight prominent areas being considered for development. Other proposals will be accepted and eventually four areas for investment will be selected. Some examples follow:

Clinical Trials

An estimated average of \$30-50 million is spent on testing every time a new drug or medical product is brought to market. Currently there is no rationalized means to carry out this process. An institute called Universal Health Information Services (UHS) could be established to offer a complete range of pre-clinical testing programs designed to bring new pharmaceuticals and medical devices to the commercial market safely, reliably, and efficiently. UHS would develop advanced information management techniques as well as access to extensive population-based health data uniquely available through the R.I. "Search Foundation" for conducting market surveys among other purposes. The institute should be self-supporting within several years.

UHS would provide a full range of services to assist in every aspect of bringing a new medical device or pharmaceutical from the laboratory to the commercial market including:

- Assisting organizations in the selection of new products with significant market potential.
- Designing and implementing pre-clinical testing procedures.
- Selecting appropriate test models and patient populations, and managing data accumulated through testing, using state-of-the-art computer techniques.
- Post market surveillance of the effects of already introduced products.

In addition, facilities could be established based upon existing institutional capabilities at Brown, URI and our hospitals in tissue and cell research, toxicity testing and a range of other functions related to the clinical trial process.

Rhode Island is the only state in which the UHS concept can reach its full potential in a short period of time as a result of the existing cooperative alliance between health care agencies, hospitals, and universities in Rhode Island, and the existence of the "Search" database. Recognizing the explosion of new medical product offerings, and the high cost of bringing these products to market, UHS will offer a unified program to bring products to market quickly and safely.

Institute for Geriatric Enterprise

The purpose of the institute will be to provide R&D consultations to agencies and businesses which want to provide products and services for the elderly. The elderly are a rapidly growing segment of United States population (presently 11% going to 20%), have strong purchasing power and have been a major overlooked segment of the marketplace. The elderly provide a rapidly growing, untapped market with needs for human service and health care systems, improved institutional care, specially trained personnel, and medical and consumer products. There is no centralized group anywhere in the United States looking at the needs of the elderly from this perspective.

Rhode Island already has in place many of the essential elements for such a program including the Gerontology Center at Brown and the pharmaceutical and nutritional capabilities at URI and excellent research centers at a number of hospitals. The institute would be composed of four divisions:

- Data Base Management
- Systems and Services
- Professional Products
- Consumer Products

Robotics and Flexible Automation

Robotics is one of the fastest growing areas in the rapidly expanding field of automation. Worldwide sales of robotics were \$1 billion in 1981 and are forecast to be \$10 billion by 1990. The fastest growing area of demand will be in more sophisticated robotics, especially those with sensing capabilities. URI's Robotics Research Center has specialized in the vision and sensory segment of robotics since 1971 and holds a widely recognized leadership position on an international scale.

The Commission is considering the establishment of an Advanced Manufacturing Automation Institute, stemming from the URI Center, to provide R&D staff with the capability to take research ideas through to prototype development. Many other universities are joining the "Robotics Bandwagon" and competition is likely to increase rapidly. Significant support is needed to attract a critical mass of researchers. Nevertheless, URI does have a leading position in a number of key areas and could emerge as a key national center with industrial spinoff potential.

Thin Film Materials

The fabrication and deposition of thin sheets of inorganic films is of interest in many technological applications including the semi-conductor industry. Brown University is a center of work in this field and researchers there have attracted industry support and funding; research is limited to only a handful of other groups. The proposed institute could develop equipment needed to produce these films and sheets, equipment to manufacture devices using them and in development of application of films and sheets. The Brown group has already developed certain processes which are patentable, and which, with enough support, could be developed and brought to market.

Other Areas

Extensive feasibility analysis is necessary before these or other areas under consideration such as underwater electronics, computer workstations, food preservation and cancer drugs, could be selected for investment. Nevertheless, the Commission is convinced that these Rhode Island research strengths offer significant untapped potential for assisting the state's economic development.

New Business Creation (\$39 million)

In addition to specific areas of focus for creating new industries within the state, the Commission proposes to create the seeds in Rhode Island for the establishment and growth of new traded businesses. A start-up traded business requires three elements to succeed: product/market development, expertise, management capability, and sufficient capital. Rhode Island is a capital rich state and there is considerable venture capital expertise within the state. However, much of this capital is invested elsewhere because of perceived lack of opportunities in Rhode Island.

The Commission proposes a two part program for new business development. First, private venture capital partnerships would be licensed by the Commission to sell tax credits to raise funds to be provided to new startup firms.

Each partnership will hire professional management to supervise the development of companies within its portfolio. The provision of management assistance, the willingness to establish an incubation facility if necessary, and the placing of new facilities in Rhode Island will be the main conditions for a license.

Second, selective tax incentives will be established to further motivate entrepreneurs to set up their businesses in Rhode Island. Entrepreneurs creating traded jobs in the state have a positive impact on the state's wealth and revenues well beyond their own tax payments. If entrepreneurs successfully invest their own time and resources to build a successful business in Rhode Island, the state does not need to take significant tax revenues from them.

The magnitude of these incentives will be such that Rhode Island will clearly be identifiable nationally as a place to start a new firm and invest risk capital.

Programs to Enhance the Education and Research Base of the State (\$4 million)

Higher education institutions play an important role in economic development through technical innovation and human resource development. In addition, these institutions are a traded industry in and of themselves, can be a drawing card to an area for highly technical industries, and can provide a valuable training resource for existing industry. The Commission is proposing a series of public and private initiatives to further enhance higher education's role in the State's economic development.

Rhode Island's public institutions educate 60% of all residents enrolled in colleges or universities, and thus play a pivotal role in educating the state's work forces. Faculty salaries need to be competitive in order to ensure that this role is adequately played. The state should develop a program to provide private industry support for these public institutions by providing tax incentives for donated equipment and the endowment of faculty chairs. The state university should also establish a generalized research institute to serve the needs of industry (especially small and medium sized firms) for product development and testing. The Commission will provide financial assistance for this institute.

Many firms in technical industries have a need for continuing education of their employees. The Commission proposes the following program to meet these needs:

- A study conducted by the new Academy of Sciences and Engineering (discussed below) to assess the needs of individual firms for continuing education.
- Customized training programs should be designed for specific companies (such as URI's engineering program for Raytheon employees.)
- Establishment of a consortia of colleges and universities in the state to study the possibility of developing and marketing retraining programs for use both by Rhode Island and out of state firms.

The Commission's study of the Rhode Island economy has revealed that there are far more individuals engaged in scientific and technical research and education than is visibly apparent to most Rhode Islanders. However, many of these researchers and teachers are isolated from one another, and generally unaware of the work of others, even in closely related fields. The Commission proposes the establishment of a *Rhode Island Academy of Science and Engineering* to have the following functions:

- To encourage specialized and interdisciplinary discussion among members of the technical and scientific community.
- To encourage teaching of science and math at all levels of the state's educational system.
- To help guide and support the research carried on at Rhode Island universities, hospitals, and other institutions.
- To advise the Commission on technological advances which have implications for economic development.
- To advise the Commission on the establishment, maintenance and assessment of the research Greenhouses, product development incentives and other activities.

The Commission endorses the National High Technology Morrill Act which has been sponsored by the New England Board of Higher Education to foster cooperative research projects between colleges and universities and industry. The Commission proposes that Rhode Island be the first state to set up the apparatus to administer this program if it passes the Congress and that we fund a program in Rhode Island modelled according to this act as part of the Commission's efforts.

Training Programs (\$8.5 million)

Jobs being created by the Commission's programs will go almost entirely to Rhode Islanders. Rhode Islanders must possess the skills required to perform successfully the new higher paying jobs the Commission hopes to create. In order to ensure this, the Commission proposes a training program to enhance the existing Job Partnership Training Act programs for Rhode Island.

- The Commission will fund a \$3 million program of customized training for expanding firms in the state. Under this program, the Commission will contribute up to \$500 per job to train Rhode Islanders to meet the specific skill requirements of an expanding firm in the state. These funds will be provided on a 2:1 matching basis.
- The Commission recognizes that certain parts of our population have special needs which must be met to allow them to participate fully in this economic development program. Some of our citizens lack basic literacy skills; others who are single parents require day care facilities; and others may face specific barriers due to sex or race preventing them from achieving their full potential in the workforce. The Commission is proposing to fund a series of pilot programs to help meet these special training needs which are not now met sufficiently by current training programs.

Programs to Enhance the State's Business Climate

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The Business Climate in Rhode Island: Fact and Perception

The negative perception of the state's business climate is a serious problem. 70% of Rhode Island business managers interviewed had serious complaints about the state's business climate. The Alexander Grant Study (the nation's most influential study of business climates) ranks Rhode Island 47th out of 48 states. In addition, a survey of out-of-state firms regarding their perception of the Rhode Island business climate indicated that 58% had no opinion, 38% had a negative impression and only 4% had a positive impression. Factors cited indicating a poor business climate were high unemployment compensation (and paying benefits to individuals involved in a labor dispute), high workers compensation costs, high energy costs, and an antibusiness attitude on the part of state government. In reality, the negative factors cited have only a limited impact on Rhode Island companies' competitiveness, but they are perceived by the business community to have a very large effect.

Although Rhode Island's unemployment and workers compensation rates are higher than the national average, because of its low wage environment, Rhode Island's average total payroll cost is considerably lower than the national average. Furthermore, the state's corporate tax rate is below average and has a minimal impact on competitiveness. The total taxes paid by Rhode Island citizens are only slightly above national averages. However, Rhode Island energy costs are high and have a significant impact on those industries which utilize high levels of energy. Few Rhode Island businesses had complaints about the quality of the state's work force which is significantly below average in absenteeism, below average in hours lost as of result of labor disputes, and according to most Rhode Island companies interviewed who have operations in other states, more productive than the work forces in those states.

In some cases, studies such as that done by Alexander Grant penalize states for expenditures which actually improve their quality of life. For example, environmental expenditures such as those undertaken by Rhode Islanders to clean up our bay are regarded as antibusiness by Alexander Grant. This is a questionable assumption at best.

Rhode Island's business climate is not as bad as it is perceived to be nor as it is reported to be by the Grant study. But, businesses make decisions about locating or expanding in Rhode Island based on these perceptions, even though they may not reflect reality. Therefore, the image of the state's business climate must be improved.

Also, where the cost of doing business is adversely affected by high cost systems of unemployment compensation or workers' compensation, every effort should be taken to lower these costs (within the context of maintaining the full force and integrity of the programs).

Therefore, the Commission has carefully studied specific means to improve the business climate in Rhode Island and is proposing a comprehensive program to accomplish this goal. The active economic development investment program proposed by the Commission and the continued existence of the Commission itself should also clearly convey a pro-business-development attitude on the part of this state.

Unemployment Compensation Labor Dispute Disqualification

The issue of "strikers' benefits" has been a serious point of contention between Rhode Island business and labor for many years, and has seriously undermined Rhode Island's image as a place to do business. Under the Rhode Island statute, employees involved in a labor dispute may receive benefits after six weeks plus a one week waiting period.

Many states do pay benefits to striking employees under certain circumstances, though the extent to which benefits are paid and the circumstances under which they are paid vary tremendously from state to state; Rhode Island's policies are generally, though not exclusively, more labor oriented than those of most other states.

The payment of those benefits is not a significant cost of doing business in Rhode Island. However, the existence of the current policies and the continuing disagreement over them has led to the perception that the state is anti-business. Since 1958, benefits paid to workers in a labor dispute have

averaged 1.5% of total unemployment insurance payments. Rhode Island's policies do not appear to prolong strikes: Rhode Island has been below the national average in the average length of strikes for 9 out of the last 10 years. Further, only 8.5% of all labor dispute days have involved unemployment compensation payments over the last 11 years.

Nevertheless, the Commission believes that the current statute must be changed in order to improve the perception of Rhode Island as a place to do business. However, any reform is likely to be controversial, unpopular in various sectors of the state's economy and more difficult to administer than current policy. Several different models for dealing with payment of benefits to employees involved in a labor dispute have been developed by various states differing essentially in their approach to the duration of benefits and exemptions from disqualification.

The goals of the new proposed Rhode Island statute are to keep the state as neutral as possible in any labor dispute. The labor dispute should neither interfere with the legitimate functions of the unemployment compensation laws nor should these laws interfere with the collective bargaining process. As secondary goals the proposed statute should be specific enough to minimize the uncertainties of administration and interpretation by the courts.

Under the statute proposed by the Commission, Rhode Island would join with 25 other states and adopt the "work stoppage" formula for labor dispute disqualifications. In the work stoppage model, employees are not disqualified from benefits unless there is in fact a substantial stoppage of work.

The Commission proposes that Rhode Island adopt the Massachusetts provision, which specifies that the disqualification period for the collection of benefits ends one week after the end of any labor dispute. If a worker is not called back after this time, then he or she is eligible to collect unemployment compensation benefits. The statute will provide an intervening employment clause to establish the rights of workers to claim benefits if they are unemployed from a second job in which they worked subsequent to a labor dispute. This is the same provision which applies under other disqualification provisions of the law. The statute will not disqualify claimants if neither they nor any other worker of the same grade or class is participating, financing, or directly interested in the labor dispute.

A provision will exempt from disqualification those disputes that arise from a lockout. The Rhode Island statute will adopt the language provided in the Connecticut statute which is clear, concise, and does not distort the collective bargaining relationship. Under the Connecticut statute, a lockout exists if an employer (i) fails to provide employment for his employees by closing his plant or announcing to his employees that there will be no work until the labor dispute is over (ii) makes an announcement that work will be available after the current contract expires only on terms and conditions that are less favorable to the employee. For the lockout exemption to be effective, the bargaining agent for the employees must advise the employer that the employees are ready, able and willing to continue working pending the negotiation of the new contract.

The new statute is designed to disqualify employees from collecting unemployment insurance in the normal strike; but to allow them the possibility of collecting those benefits either when their temporary unemployment is involuntary (as in a lockout) or when it is unclear whether they in fact still have a job, as when a company continues to run at near normal levels of production.

Electricity Costs in Rhode Island

As with most states in the Northeast, Rhode Island relies primarily on non-indigenous energy sources. Gasoline and oil represent the largest part of our energy bill. Electricity, however, is the largest single source of energy to Rhode Island industry representing 42.6% of the total energy used by industry in 1981. The price of electricity was cited consistently during our interviews as a source of concern for business. Therefore, the Commission has focused its attention in the energy field on the cost of electricity in Rhode Island.

For some businesses, electricity represents as much as 15-20% of total value added and is a major factor affecting competitiveness. When, as in the case in certain circumstances, electric rates are twice as high in the State as elsewhere in the country, this can mean a 7% or 8% cost disadvantage to a company.

The Commission compared the cost of electricity in Rhode Island to the cost of electricity elsewhere in the country. We found Rhode Island rates to be high mainly because of higher fuel cost, a more diffuse customer base and higher utilities taxes. In the future, the addition of new high cost nuclear plants combined with rising natural gas prices will adversely affect other utilities while Rhode Island's utilities will be able to rest with existing facilities. Also, the addition of Quebec Hydropower to the Rhode Island mix will help stabilize our costs. As a result, New England rates should improve relative to national averages.

New England Electric System which supplies most of Rhode Island's electricity compares favorably in cost with most other New England utilities, mainly because it generates more power with coal than many of the others. This advantage may shrink if others convert to coal. However, unlike some other New England utilities, N.E.E.S. will not have to construct any capacity additions. It owns a smaller share of the costly Seabrook project (relative to its size) than some other utilities. On average, its position in New England should remain favorable.

Narragansett rates within N.E.E.S. are high and will remain high mainly due to taxes and a diffused customer base, which is caused in part by Rhode Island's small and declining industrial base. Nevertheless, the gap between these rates and those elsewhere in the country should narrow.

In order to ensure this outcome and to promote the greatest possible efficiency, the Commission proposes to work with the State Public Utilities Commission to develop a more incentive based regulatory scheme. Utilities as regulated monopolies often do not have sufficient incentive to be efficient. Also, Rhode Island businessmen want assurances that their rates will be competitive with those elsewhere in the country. Developing a regulatory environment based on competitive pricing targets offers the best hope to assure both greater efficiency and predictability.

Rhode Island's Tax System

If all state and local taxes are considered, Rhode Island has an overall tax rate which is slightly higher than the national average. In 1981, Rhode Island tax collections were \$1,092 per capita compared to a national average of \$1,079. In the Northeast, Connecticut, Massachusetts, New York, New Jersey, Maryland and Delaware all had higher rates than Rhode Island. Massachusetts rates were almost \$300 over the average and New York's were \$550 over the average.

On the basis of tax collections per \$1,000 of personal income, Rhode Island also comes out slightly above average. Rhode Islanders pay \$115.28 per \$1,000 personal income compared to a national average of \$113.05. Again, while Rhode Island's difference from the national average is relatively small, Massachusetts exceeds the national average by \$20 and New York by \$45.

Businesses are taxed by the state for general revenue purposes in three ways: property taxes, corporate income taxes, and selected sales taxes (which apply only to utilities, insurance companies, banking institutions, and oil companies). In addition, businesses must contribute to the unemployment compensation system.

Both income and property taxes paid by businesses have gone down as a proportion of total state tax collections over the past ten years. With the exception of unemployment compensation payments, Rhode Island's taxes on business are below average nationally. This is true both on an aggregate basis (per \$1,000 of payroll) and also on a comparison of specific firms with differing cost structures. A recent 10 city comparison of total business tax burdens conducted by the Rhode Island Public Expenditure Council showed Rhode Island to have lower than average business tax burdens (not including unemployment compensation) for all types of firms studied.

The Commission believes that this is a positive development and we recommend that Rhode Island hold its corporate income tax at the current 8% statutory level as a maximum over the coming seven years—the life of the Commission.

The Commission has also studied the effectiveness of the various tax incentives for business introduced in the mid 1970's to determine their effectiveness in promoting investment and job creation. Although various tax concessions have been developed by numerous states to attract business, there is little evidence to suggest that these programs create jobs or increase wealth. The concessions include investment tax credits, and provisions to carry losses backward and forward to offset against taxes paid in profitable years. A study performed by the Commission of 35,000 corporate tax returns in 1980 and 1981 indicates that these incentives cost the state between \$15 and 20 million per year in lost revenue.

The same study indicated no correlation between these incentives and actual job creation. Less than 40% of the firms utilizing the loss carryback and carry forward provisions are in traded businesses.

The Cost of Unemployment Compensation

Rhode Island requires employers to pay the second highest tax rate of the 53 taxing jurisdictions covered under the unemployment compensation system, an average tax rate for 1982 of 2.26% of total wages compared to an average rate of 1.02% for all of the states.

Rhode Island's high rates do not result from a high level of benefits. Rhode Island's benefit rates are only slightly above average. Rather, our high rates stem from two primary factors: our fiscal responsibility and the seasonal nature of much of our employment base.

Rhode Island paid \$1.03 in benefits for every \$1.00 in taxes assessed in 1980-1982, while the average for the nation's unemployment insurance systems was \$1.46 in benefits for every \$1.00 assessed. Therefore, to reach Rhode Island's level of benefits/contribution rates, the average national rate would have needed to rise 42%.

One result of this national imbalance between inflows and outflows in other states is massive borrowing from the Federal government. Rhode Island, which does have an outstanding interest-free loan balance from borrowings in the 1970's, has not had to borrow since April of 1980.

Another result is that many states are raising their rates substantially to cover these deficits. Therefore, if Rhode Island did nothing, its relative standing would automatically improve.

However, Rhode Island's high costs are also caused by the fact that a relatively high proportion of our industry is seasonal and a number of companies plan as a matter of course to layoff workers a few months per year and have them collect unemployment benefits. Since there is a maximum of 6% of taxable wages which can be paid by an employer, these companies wind up with significant negative balances which are paid for by companies with a more stable employment record. The net result is that companies have an incentive to use the unemployment compensation system as a yearly wage supplement.

The Commission has estimated that Rhode Island's level of experience rating (the extent to which those incurring costs actually pay for them) is the fourth largest among the 49 experience rated states.

The Commission believes that paying off our debt and building up adequate reserves in our system so that we never fall short again must be our first priority. Within this context, the Commission proposes a gradual move to a more experience-rated system. We suggest that an actuarial study be performed by the Department of Employment Security to increase maximum ratings and then lower minimum ones accordingly.

The Workers' Compensation System

The Commission's analysis of the Workers' Compensation System is incomplete. Despite months of effort, we were not able to obtain sufficient data to allow us to analyze the system's efficiency, nor to make detailed recommendations for its improvement. The state's system is not set up to produce the data necessary for analysis, and the insurance companies and the NCCI (Northeastern Council on Compensation Insurance) have not been sufficiently forthcoming with data to allow us to understand the system adequately. We can, however, draw some conclusions from the analysis we have done. Because no good information system exists, the Commission was forced to analyze by hand over two thousand cases at the workers' compensation commission and over one thousand cases at the state labor department to make some meaningful sense of our current system.

- Actual benefits paid to most injured workers are not relatively large, compared to other states.
- Overall average premiums as a percent of payroll for all industry are not high, but in some industries they are high enough to represent a strategic cost disadvantage for R.I. firms.
- The administrative system is both cumbersome and unable to provide necessary information to improve the efficiency of the system.
- The cost of litigation as a percent of the total system cost in Rhode Island is very high—perhaps as much as 15% of total premiums.
- Most of the costs of the system rest with relatively few cases. These cases account for most of the lump sum settlements, most of the benefits paid and most of the litigation costs.

It is too early to tell whether the 1982 workers' compensation law will have the desired effects. The Commission has, however, determined clearly identifiable problems with the administrative system.

It is the Commission's intention to formulate over the coming months a plan for administrative reform of the system. Meanwhile, we will also monitor the progress and effect of the recent law change.

The administrative reform will result in less litigation, lower premiums and a more expeditious payment of benefits to deserving injured workers.

In addition, Rhode Island may be subsidizing the losses that a company is incurring in plants located outside the state, by permitting companies to allocate that loss to its Rhode Island tax return.

The net operating loss deduction needs to be changed. The Commission recommends these modifications:

- The net operating loss carryback provision should be eliminated for all companies.
- The net operating loss carryforward should be limited to five years, down from the current 15.

The investment tax credit, which costs the State about \$3.5-\$4 million a year, is a generalized incentive tool whose effects on job creation are indirect and hard to measure.

There was no apparent correlation between firms using the credit and those creating jobs. The current 2% rate is not large enough to influence firm behavior significantly.

Rhode Island is one of only nine states that has an investment tax credit provision and its rate is one of the most liberal. The Commission would be in favor of Rhode Island's being an incentive leader if the incentive worked. This does not appear to be the case. The Commission believes that the investment tax credit in its current form should be phased out. The investment tax credit should be targeted more directly to assist the cash flow problems of start-up, traded businesses. The Commission recommends that the investment credit be limited to manufacturing companies during the first five years after incorporation. To increase the impact of the incentive, the Commission recommends that the credit for these companies be increased from 2% to 10% of qualified investment. In this way, the credit will be more efficiently targeted and more effective for firms which really need it to create jobs.

The Commission's work in the area of property taxes strongly confirms the conclusions of the Swearer Commission report. Rhode Island needs to take aggressive action to improve the administration of its property tax system.

The changes in these incentives will produce a significant savings in taxes lost to the state. Some of these savings will be used to finance other tax incentives which the Commission is recommending.

The Commission also recommends a phase out of the Rhode Island estate tax by a move to a so called "pick up" tax similar to that in operation in Florida. Under this tax, Rhode Island residents would pay an estate tax equivalent only to the Federal credit they can receive as an offset. Rhode Island currently loses too much capital which could be kept here due to its estate tax laws. Further, the increased income tax revenue generated from retaining people in the state who now leave to avoid estate taxes would partially offset the lost estate tax revenue.

Government Regulation and Business Administration

Although there seems to be widespread support among businessmen for the principles of many government regulations affecting business (such as environmental health and safety, and anti-discrimination measures), many of them believe that the administration of the programs places too much burden on them and consumes too much of their time. The major burden falls on small and medium sized businesses (which predominate in Rhode Island) which generally lack expertise or specialized staff members to deal with regulation. The Commission is proposing the creation of two bodies to facilitate business compliance with existing government regulation.

A business assistance office will be established to assist state Businesses in complying with local, state and federal regulatory and permitting procedures. The Business Assistance Office would assist firms in understanding what regulations must be complied with and what the procedures for compliance are. It would also in many cases help a firm go through the process. This will cut the time and expense currently associated with such compliance which is often carried out in a very piecemeal fashion.

An Environmental Review Board will be created to provide a prospective developer with an accurate forecast of the environmental issues posed by a proposed development within 60 days of the completed proposal. Any project aided by the Commission would have an environmental review by an advisory board which would be composed of 3 members: one to be selected by the Commission, one to be selected by the environmental community, and the third to be selected by the first two members.

The purpose of this board is to assist business while at the same time assuring the Commission that no development proceeds which jeopardizes our natural environment.

Implementation of the Commission's Proposals

7

The Commission's Goals

Between 1971 and 1982, the Rhode Island Economy created about 900 net new traded jobs per year. The goal of the Strategic Development Commission between 1984 and 1990 is to create 3,575 net new traded jobs per year or slightly over 25,025 traded jobs over the next seven years. These traded jobs will result in about 35,000 new non-traded jobs being created which could allow the Commission to achieve its target goal of 60,000 net new jobs by 1990. In order to accomplish this goal, 45,000 new traded jobs must be created in order to offset roughly 20,000 traded jobs which will inevitably be lost. The Commission realizes that this is an aggressive goal but believes that it is appropriate to set our sights high.

Raising our average wages and average incomes is at least as difficult a task. If the 45,000 new traded jobs have a wage rate roughly equal to national average wages (almost \$2.00 per hour higher than Rhode Island wages) and the 20,000 traded jobs lost have a wage rate of \$5.00 (over \$1.50 less than Rhode Island average). The direct effect on statewide average wages would be an increase (in 1982 dollars) from \$6.68 to \$7.41. This would still leave us 13% below national averages, but would bring us within 40 cents of average wages in Massachusetts. If we do not take aggressive action, our wages will continue their relative decline from 22% below national averages to over 30% below. Against this scenario, the prospect of achieving an improvement to 13% below average is an ambitious goal. (Our ultimate relative goals will be formulated in terms of total payroll per employee to include all workers in all traded industries. Currently, comparative data does not allow this and so average manufacturing wage for production workers is used as a surrogate.)

Financing the Program

The Commission's program will require a net increase of \$750 million of investment in the Rhode Island economy over seven years. This represents an estimated 5% per year boost to total Rhode Island investment. By targeting carefully it should be possible to leverage this catalytic investment to reverse the decline of Rhode Island's economy.

About \$500 million will be purely private sector investment (by industries and financial institutions) which is directly induced by the public expenditure. (Most of the Commission's programs require a private expenditure in order to trigger the use of Commission funds.)

Of the approximately \$250 million the Commission must raise, a substantial portion will be self financing. The Commission intends to raise \$120 million in bonds (\$90 million now and \$30 million in three years) which will be paid back through direct revenue raised by the Commission's programs. These bond funds will be used to finance the grant/note program (which directly finances itself through traceable enhanced tax revenues), and various conditionally reimbursable loan programs for new product development, and research Greenhouse mortgages which are intended to be self financing.

The Commission also intends to give almost \$30.5 million in tax credits to entrepreneurs and risk capitalists which will be directly financed by tax savings from the Commission's recommended closing of ineffective business tax loopholes (loss carryback, the investment tax credit, etc.). As the Commission finalizes its recommendations to eliminate the estate tax (not shown in the financing in this document), this funding will also come from revenue enhancing measures in the Commission's program. Thus, no new funds are required for these measures.

The Commission also intends to utilize about \$20 million in public pension fund investment capital. These funds would be set aside by the investment commission responsible for managing these funds in such a way so as to optimize returns on invested funds. Modern financial portfolio management calls for optimizing returns by mixing the risk profile of invested funds. In the Commission's program, some of the \$20 million would be invested in relatively safe bond investments (such as guaranteed mortgages on the greenhouses for example), while other parts might be invested in one of the venture capital partnerships (as a venture capital mutual fund investment rather than in any one company). The funds would be *as prudently invested as they are now, with maximization of the return as the goal*. This program would guarantee however, that at least 2½% of the total pension funds of Rhode Island public employees was invested in Rhode Island for the good of its people.

Eight million dollars is called for on a voluntary basis from the cities and towns to finance an additional part of the grant/note program. This funding would be self financing from enhanced traceable incremental property tax revenue from an expanding facility. These funds are not necessary for the Commission's program but offer Rhode Island communities a chance to invest in their own economic development.

Finally, the Commission expects to raise about \$20 million in new federal funds to be directed to Rhode Island during the seven year period to help finance some of its programs. Various federal programs provide loan and grant funds for the types of activities being proposed by the Commission. With the help of our Congressional delegation, the Commission expects to be able to raise these funds. These are not self financing, but they do not directly cost the Rhode Island taxpayers.

Within the total \$750 million investment program, there is approximately \$40 million which is not self-financing and which must come directly from the public purse. These expenditures involve grants for research greenhouses, training and the Rhode Island Academy of Engineering and Sciences primarily, though some funding of specific industry programs is also included. Because they are not self financing, the Commission feels that it would not be fiscally prudent to raise these funds through debt. Therefore, the Commission chooses to ask the taxpayers to vote a one-time tax to finance these important parts of its program.

The tax recommended by the Commission is a balanced one which has two parts: a \$25 million one-time payroll tax on employers which exempts five employees per company (so as not to double tax the small private business owner) and a one-time \$15 million income tax surcharge on individuals.

The Commission is aware that this is perhaps the worst political climate in modern Rhode Island history to ask for a tax surcharge. People are having trouble making ends meet and feel overtaxed. The state has just come off a one-time tax. Many politicians have run for office promising that they would not support any new taxes. The Commission is also aware that there may be a surplus in the State budget this year which could be used to finance the program in lieu of the tax.

Nevertheless, the Commission wishes to ask the people of the State to signify their willingness to back this economic development program by being prepared to invest themselves. The existence of a budget surplus is uncertain and its magnitude not determinable. The request being made of the people is not for a tax which will go to some ill-defined general fund to balance a budget. Rather the funds are to go to a one-time, well-defined investment program. Further, the Commission is not asking the legislature to impose a tax on the people without their consent. It is going directly to the people to receive their endorsement first. This is no ordinary tax.

In total, this investment program offers the hope (though not a guarantee) that Rhode Island will be able to nurse its economic decline. As with any investment, the dollars invested must be measured against the return if success is achieved and the long-term cost if no investment is undertaken. The Commission's investment program to create wealth in Rhode Island is well thought out. Though its success is not guaranteed, the cost of not investing is pretty clear—a continued stagnation in the living standards of Rhode Islanders.

Exhibit 13/Financing of Program

\$ 40	million Tax	\$ 30	million Bond in Three Years
\$ 90	million Bond	\$ 20	million Federal Funds
\$ 20	million Public Pension Fund	\$.5	million Corporate Contribution
\$ 30.5	million Tax Expenditure	\$ 9.5	million Interest Income
\$ 8	million Cities and Towns		
<hr/>			
		\$248.5	million

Administration of the Effort

The Rhode Island Strategic Development Commission has completed the first part of its charge. That effort has produced a series of proposals designed to revitalize the State's economy and to build, as noted, the fourth major phase in the history of the Rhode Island economy.

The second part of the Commission's charge is more difficult, namely, to carry forward the implementation of the proposals. It is the Commission's belief that the program proposed is not simply useful to Rhode Island, but is essential to arrest the slide of the Rhode Island economy. While recognizing how arduous and demanding the implementation of this program will be, we believe that it is feasible.

With the completion of the first phase, there remain four tasks ahead:

1. Education of the public about the program
2. Seeking and gaining the public's approval

3. Developing the recommendations into specific legislation

4. Forming and building entities created by the Commission into self-sustaining entities.

The program proposed is a bold one, requiring significant expenditures of public funds and requiring continuing support from the people of the state. The initial financing of the program will require sacrifices from people and the successful implementation of the program will require a mobilized populous dedicated to seeing it carried through.

For these reasons, the Commission believes that it must seek the approval of the people of the State of Rhode Island both for the financing necessary to conduct the program and also for the program itself. We therefore propose to conduct a special election at which the people of the State of Rhode Island will be asked to vote to approve both the program and its financing.

This report is complex in its analysis and recommendations. The Commission believes that an informed populace will vote for the program on its merits. The Commission therefore intends to carry on a broad-based educational campaign to explain the report to the people of the State.

The proposals in this report are spelled out in principle but not in detail. During the coming months, a significant effort is needed to bring together those with the technical competence to draft legislation and calculate detailed budget and tax parameters so as to translate the principles of this report into a series of specific programs. It is the Commission's intention to carry out this process between now and early 1984 so that a total legislative package can be submitted by the Governor to the General Assembly in its next session and so that the people can have access to the details of the programs in this report before the referendum.

The Commission must develop an organization with sufficient flexibility and imagination to carry out the complex tasks detailed in this report. The Commission is requesting legislative action to endow it with necessary authority to carry out the program. The Commission believes that the most feasible course is for it to function as a private corporation which is created by and is responsible to the elected public authorities, but which has the flexibility of a corporate structure. There is, fortunately, experience with such organizations both in Rhode Island and elsewhere to draw upon. Within Rhode Island, the Port Authority has utilized this format. The Commission requests that the authority be granted for it to exist for a period of seven years. During this time, Commissioners will serve with staggered terms. The Commission itself will have a minimum of 13 and a maximum of 20 people. As terms come due, new members will be appointed. The Commission's enabling legislation will not permit it to ever ask for additional taxes or funds from the State.

The Commission will have a limited staff which will administer its work. Most people working for the Commission will be loaned on a temporary basis from the private sector. It will also set up a series of research Greenhouses, each of which initially will have board representation from the Commission as well as other business, university and/or hospital membership. The Commission will also establish a private non-profit entity called "The Business Greenhouse" to administer the economic stabilization fund, the licensing of the limited venture capital partnerships, and the new product development incentives. The Commission will also set up the Rhode Island Academy of Sciences.

The Department of Economic Development (DED) is an essential partner in the implementation of the Commission's report. As the State's economic development agency, DED provides a wide range of services to business and industry including tax exempt financing, assistance in finding sites for industrial expansion, job training, tourism promotion and many others. The Commission's recommendations will not affect the continuation of these ongoing programs. However, the Commission's programs assign major new responsibilities to DED, particularly the administration of incentive for industrial expansion (Chapter 41), specific programs for tourism, boatbuilding, subcontracting and wholesaling (Chapter 43), customized technical, skilled and semi-skilled training (Chapter 47) and the Office of Business Assistance (Chapter 55).

Some of the programs may come under the jurisdiction of the Department of Environmental Management. This might be true both of the fishing programs and of the jewelry waste treatment programs. In both these cases, funding would come from the Commission but the Department would carry out the administration.

The Commission is quite concerned that it not create another permanent bureaucracy in the State. Therefore, the Commission itself will go out of existence in seven years. If by then it is not seeing significant results from its work, then it certainly does not deserve to continue to exist. On the other hand, if significant results have been achieved, then the Commission will no longer be needed.

As each part of the program reaches maturity, it is the Commission's intention to create for that segment a permanent home. The research greenhouses would eventually be spun-off from the Commission and would exist on their own as private non-profit institutions with appropriate boards of directors representing different interested parties. The Business Greenhouse, if successful, will find that its economic stabilization fund and its product development funds are self-financing and it might continue to exist as a public/private non-profit corporation.

The Commission must walk a fine line by being independent of political pressures yet accountable to the public's elected representatives for its use of public funds. The structure proposed by the Commission is designed to ensure both of these outcomes.

The Commission does not underestimate the difficulties of the implementation necessary to make this program work. Nor is it unaware of the difficulties of gaining sufficient public trust for this bold effort to succeed in the referendum and beyond. Nevertheless, we are confident that the program is well thought out and supported and that it will win approval on its merits.

Exhibit 14/Public Funding for Commission Program

Program	Grant	Grant/Note	Conditionally Reimbursable Loan	Loan	Tax Expenditure	Total
Expansion Incentive State		60 ³				60
Expansion Incentive Cities and Towns		8 ⁴				8
Product Development Incentive			42 ⁵			42
Research Greenhouses	28 ¹		15	8 ⁶		51
Economic Stability Fund			7			7
New Business Creation Program				12	27 ⁷	39
Programs for Specific Industries	12.5			5	3.5	21
Programs for Business Regulation	2					2
R.I. Academy of Sciences	4					4
Training and Education	8.5					8.5
Commission Administration	3 ²					3
Commission Ongoing Analysis	3					3
Total	61	68	64	25	30.5	248.5

1. Tax (40) and Federal Funds and Interest (11) and Interest Income (4)
2. Corporate Contributions and Interest Income
3. Bond (30) now and Bond (30) in 3 years

4. Cities and Towns Appropriation
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