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## GROWING AN ECONOMY THAT WORKS FOR ALL: A 21<sup>st</sup> century approach to economic development in North Carolina

BY ALLAN FREYER, POLICY ANALYST

### INTRODUCTION

North Carolina needs a new approach to growing the economy and creating jobs that meets the demands of the 21st century global marketplace while ensuring that all families and individuals across the state share in the benefits of economic prosperity. Governor McCrory recently launched an effort to devise a new long-term economic development plan for the state, and the pressing need for more economic opportunity in communities across North Carolina makes the effort an urgent one.

The fundamental challenge facing North Carolina's economy in the first decades of the 21st century is how to replace rapidly vanishing jobs in declining manufacturing industries with jobs in growing industries that pay enough to allow workers and their families to make ends meet and achieve middle class prosperity. This means recognizing that the goal of economic development is not just to promote "growth" for its own sake, but to ensure that as many people and regions as possible benefit from growth. That means putting together a strategy to foster businesses in industries that are not only expanding, but that also pay high wages and offer good benefits. Increasing household incomes should be the central goal of the state's economic development efforts.

Although recruiting new industries from outside the state remains an important approach for achieving these goals, it should not be the primary focus of the state's economic development efforts. Rather than focusing too much on trying to attract of businesses from outside the state, North Carolina should adopt an integrated, "all-of-the-above" approach to economic development, one that leverages the state's existing assets and strategies—such as its top-notch research universities and regional clusters of thriving industries like pharmaceutical manufacturing—to support all types of business growth, including the expansion of existing businesses and the creation of new homegrown industries, alongside traditional recruitment strategies.

At the same time, the state needs a more reliable way to measure whether its economy is working for all North Carolinians, one that looks beyond the standard measures of overall employment growth, the state's unemployment rate, or average annual growth in the production of goods and services, typically measured by Gross State Product. Instead, policymakers need to use a broader range of indicators—including median household income and poverty rates—that reflect changes in the standard of living and the ability of families to prosper in the 21st century.

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## The Economic Challenge Facing North Carolina

North Carolina faces a significant challenge associated with the transformation of the state's economy from reliance on manufacturing to reliance on services, and the related problem of ensuring that everyone in the state benefits from the economic growth generated during this transformation. For most of the past 100 years, North Carolina leaned heavily on textile, apparel, and furniture manufacturing, which, along with tobacco growing, provided plentiful jobs for workers across the state, especially in rural counties. These jobs also paved a vital path to the middle class, paying unskilled workers decent wages.

Unfortunately, many of these industries proved to be economically uncompetitive in the face of global trade pressures in the late 1990s and early 2000s. The result has

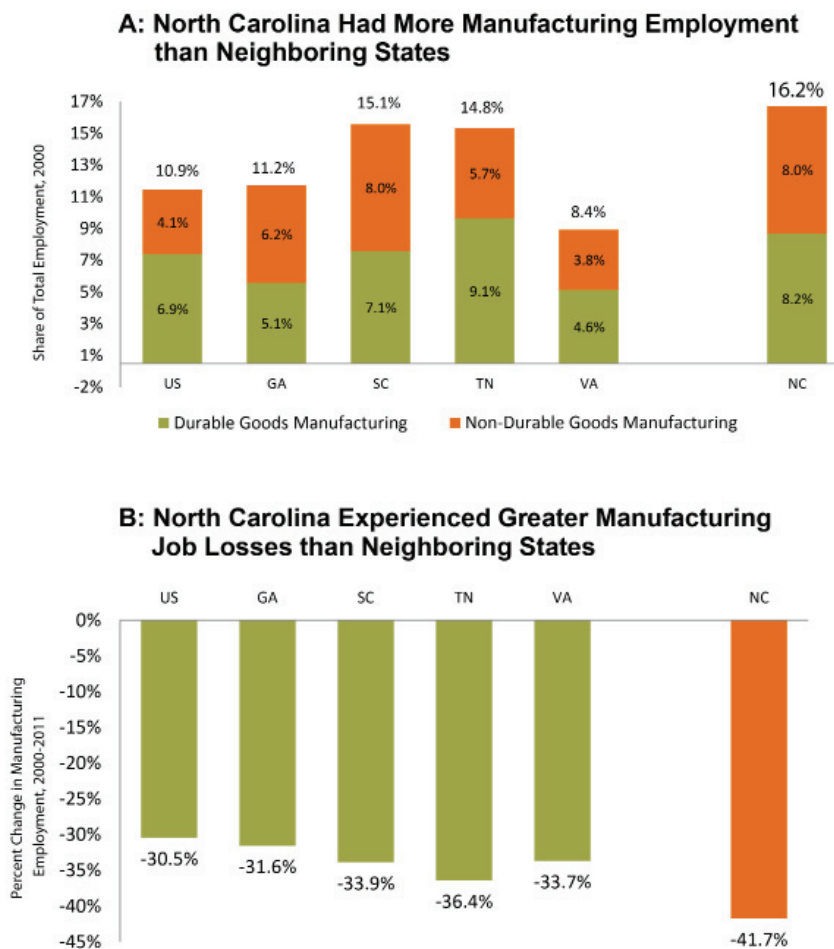
been more than a decade of plant closures, layoffs and significant job losses—particularly in the state's rural communities. In 2001, North Carolina's manufacturing industries employed more than 16 percent of the state's workforce, more than any other surrounding state and well above the national average. Over the following decade, the state lost more than 43 percent of these jobs—and they have largely been replaced by jobs in low-paying service industries like Leisure and Hospitality.<sup>1</sup>

This trend has only accelerated since the end of the Great Recession: employment in higher-wage goods-producing industries fell by 4 percent between the third quarter of 2009 (the first full quarter of the recovery) and the third quarter of 2012 (the most recent data available). Over the same period, employment in the lower-wage service sector has grown by 2 percent, and now accounts for 83 percent of the state's total

employment.<sup>2</sup> While the goods-producing sector pays an average weekly wage of \$917, well above the state average of \$806, the service sector pays an average wage of \$784 per week—well below the state level.

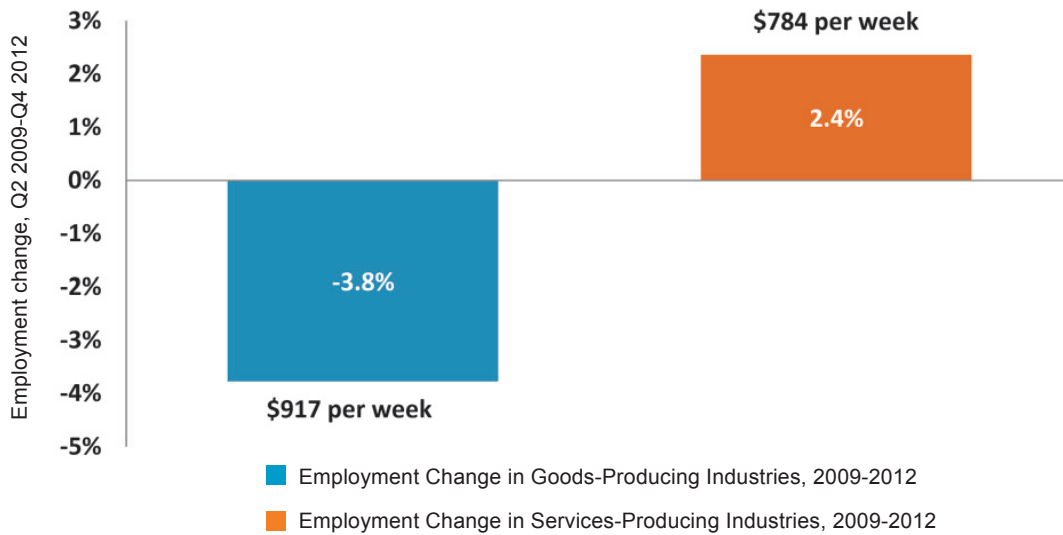
And within the service sector, we see even more disturbing trends—fast growth in ultra-low-wage industries like Leisure and Hospitality that require little in the way of skills, and in high-wage industries like Financial Services that require significant skill attainment, but very little in between. In this new world, low-skill workers may find themselves locked into low-wage occupations with little opportunity to climb the ladder to the middle class, unless they have access to additional educational and training opportunities.

FIGURE 1: A-B



SOURCE: US Bureau of Economic Analysis

**FIGURE 2: North Carolina sees high-wage goods-producing jobs replaced by low-wage service jobs**

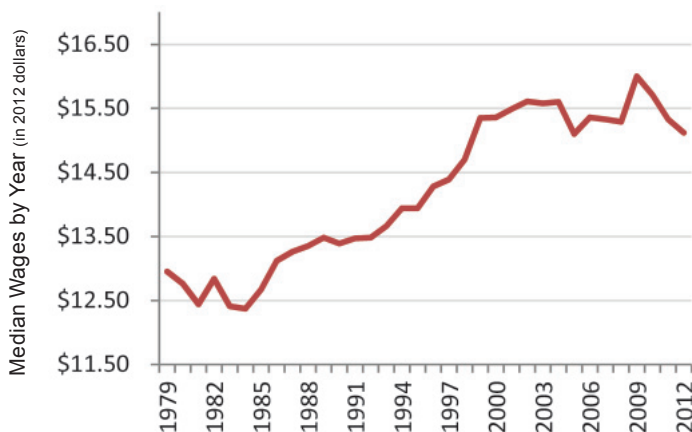


SOURCE: Quarterly Census of Employment and Wages, First Quarter of 2009 to third Quarter of 2012.

**North Carolina's economic development goals should seek broadly shared prosperity, not just economic growth**

The state's economic development goals must grapple with the fundamental disparities caused by this transformation. For much of the 20th century, North Carolina made overall *statewide* economic growth and job creation its core goals for economic development, under the theory that "a rising tide lifts all boats." As the state's economy continues to transition in the 21st century, however, it is increasingly clear that economic growth by itself neither lifts all boats nor benefits as many of the state's residents as promised. While the state has seen its economy expand by an average of 1.8 percent every year since 2010, most workers have seen their financial well-being move in the opposite direction. Unemployment remains high and average wages have fallen by more than 4 percent since the start of the Great Recession. And the trend is even more pronounced over the long term—median household incomes have dropped by more than

**FIGURE 3: North Carolina's wage growth has stalled over the last decade, and wages declined over the course of the Recovery**

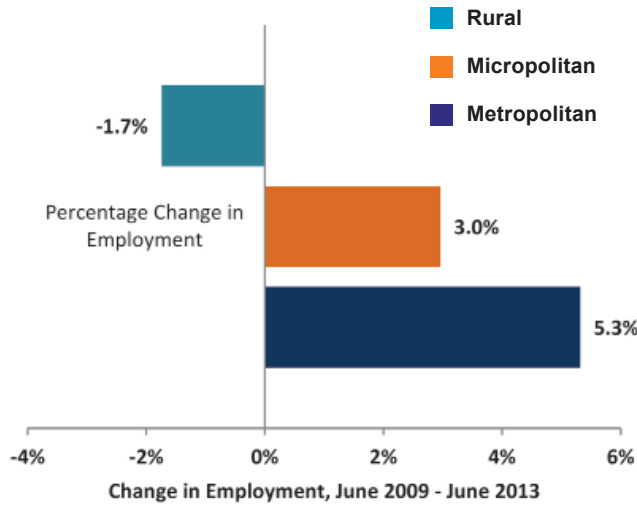


SOURCE: Quarterly Census of Employment and Wages, First Quarter of 2009 to third Quarter of 2012.

\$7,000 since 2001,<sup>3</sup> and the number of people living in poverty in North Carolina has increased by 26 percent since 2007.<sup>4</sup> Economic growth alone is just not yielding concrete benefits for workers, and is certainly not producing broadly shared prosperity.

Nor is economic growth spread evenly across the state—there are significant disparities between those who have benefitted from economic growth and those who have not. Workers in North Carolina's urban regions and non-minority communities have reaped the majority of the benefits, while workers in rural North Carolina and communities of color have been left behind. For example, more than 85 percent of the state's job creation since the end of the recession in June 2009 has occurred in the state's metro areas—and close to 90 percent of metro job growth has been concentrated in just three areas: Charlotte, Durham, and Raleigh.<sup>5</sup> At the same time, the

**FIGURE 4: Rural North Carolina continues to lag urban areas in post-recession job growth**

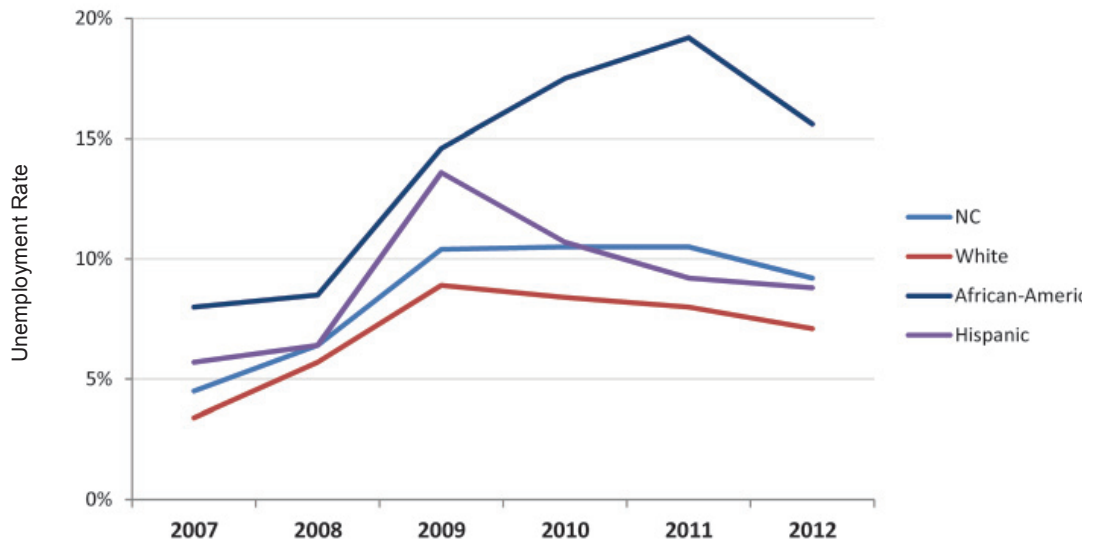


SOURCE: Local Area Unemployment Statistics, unadjusted for June 2009 to June 2013.

state’s rural counties have actually seen their employment shrink by 2 percent, leading to rural unemployment rates well above the state average<sup>6</sup> and poverty that significantly higher than in the metros.<sup>7</sup>

Similarly, communities of color continue to lag behind rest of the state. In 2012, the unemployment rate for African Americans was 15.6 percent, more than double the 7.1 percent rate for whites. Twenty-eight percent of African Americans and 34.9 percent of Latinos live in poverty—well above the rate of 12.1 percent for whites.<sup>8</sup>

**FIGURE 5: Unemployment rate remains elevated for African Americans**



SOURCE: Economic Policy Institute analysis of Current Population Survey, 2007- 2012.

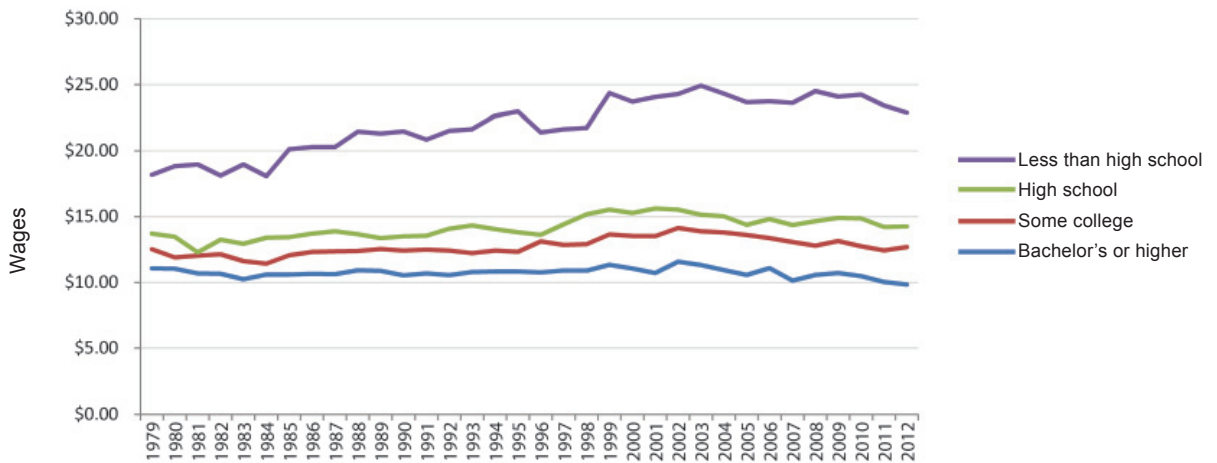
Clearly, the primary challenge facing North Carolina is ensuring that all people and all parts of the state benefit from the economy. This will require setting new goals for economic development in the 21st century, including:

- Promoting family income growth as the goal of economic development, rather than concentrating on economic growth in general.** It is clear that traditional economic growth is not enough to promote broadly-shared prosperity—it must be accompanied by rising incomes for North Carolina’s families, including those in communities that have fallen behind. By itself, economic growth does not automatically increase family incomes, nor can it provide ladders to the middle class for workers trapped in low-wage occupations. And most certainly state-level economic growth does not guarantee a pathway to prosperity for struggling rural

counties and communities of color. Economic growth is the means to an end, but it is not the end goal itself. Instead, raising incomes and promoting prosperity ought to be the ultimate goal of economic growth.

- **Creating enough new jobs to fully meet the needs of a growing labor force. Stable employment is the single best vehicle for boosting income growth.** Unfortunately, the state is not creating enough jobs to replace those lost during the recession or keep with population growth.<sup>9</sup> Given long-term restructuring in the state’s economy away from manufacturing, growing industries provide a much more stable source of employment than the declining industries that have employed the workforce of the past.
- **Creating better jobs that pay high wages and promote long-term growth in family income.** North Carolina needs to reverse the rising tide of low-wage work resulting from the shift from manufacturing to service industry employment. Only through higher incomes can workers benefit from economic growth and lagging communities begin to catch up to the rest of the state.<sup>10</sup>
- **Ensuring economic mobility by creating pathways from low-wage work to high-wage work.** Too many workers can get locked into jobs in low-skill, low-wage service industries for the simple reasons that these industries are growing the fastest and may well offer the only jobs available to workers without an adequate education or enough skills.<sup>11</sup> Without a shot at earning progressively higher incomes throughout a lifetime, workers will experience low economic mobility in North Carolina.<sup>12</sup> Opportunities for workers to develop new skills provide critically important pathways out of low-wage work and play a critical role in spurring income growth, greater economic mobility, and more broadly shared prosperity.

**FIGURE 6: Returns from educational attainment have grown over time**



SOURCE: Economic Policy Institute analysis of Current Population Survey data, 2012.

**North Carolina needs to use an all-of-the-above approach to economic development that employs broad array of strategies beyond industrial recruitment**

In order to meet the 21st century goals of increasing household incomes and ensuring broadly shared prosperity, North Carolina should take an all-of-the-above approach to economic development that employs a wide range of strategies and appropriately addresses the shift from a manufacturing economy to a services economy. This kind of approach involves bringing to bear a much broader set of tools than the singular focus on external business attraction that served as the primary strategy for most of the 20th century. Historically, North Carolina pursued an industrial recruitment strategy aimed at bringing new businesses to the state in order to build a manufacturing-based economy



at a time when very little industry existed and hundreds of thousands of rural workers were displaced from their farms through the mechanization of agriculture.

Relying heavily on recruiting new industry from outside the state as the primary way to create jobs within the state may have made sense during the mid-20th century, but amid the current transformation from a manufacturing economy to a service-based economy, this strategy by itself just can't create enough jobs—or enough well-paying jobs—to meet the needs of today's workers in North Carolina. In fact, the General Assembly's Joint Legislative Committee on Economic Development and Global Engagement found that the state's industrial recruitment efforts contributed a very small portion of the state's overall job growth over the last decade.<sup>13</sup>

All too often, professional economic developers in both state and local governments face intense political pressure from elected officials to “shoot at anything that flies, and claim anything that falls”—e.g., secure the location or expansion decision of a business, any business, as long as it leads to a ribbon-cutting ceremony and the promise of new job creation, no matter the wages it pays (or doesn't pay) or whether the business has good (or bad) long-term prospects for remaining in the community. In many communities across the state, this leads to a less strategic approach that relies too heavily on outside business attraction to generate those ribbon cutting ceremonies, and does little to promote long-term job creation and wage growth.

Instead, the state should take a broad-based, strategic approach to economic development by pursuing the targeted retention and expansion of existing industry and the growth of new business-start-ups, alongside efforts to attract new businesses to North Carolina. This involves *targeting* those businesses that provide the best opportunity for meeting the state's economic goals—first by identifying those firms in growing, higher-wage industries that best fit the infrastructure, workforce, and industrial characteristics of each region in the state, and then encouraging those prospects to locate, expand, or start-up operations there.

This will require strategies that go beyond simply marketing the state for new business attraction. Promoting the retention and expansion of existing industry involves providing businesses currently located in North Carolina with a range of services through the provision of key services that help make them more efficient, productive, and profitable. These may include building new roads, water and sewer infrastructure, providing customized job training services, employee screening, and placement assistance, or even financing for additional capital investment. These expansion/retention strategies are critical given that the majority of job creation over the last decade has come from the growth of existing industries in the state, rather than new businesses locating North Carolina.<sup>14</sup>

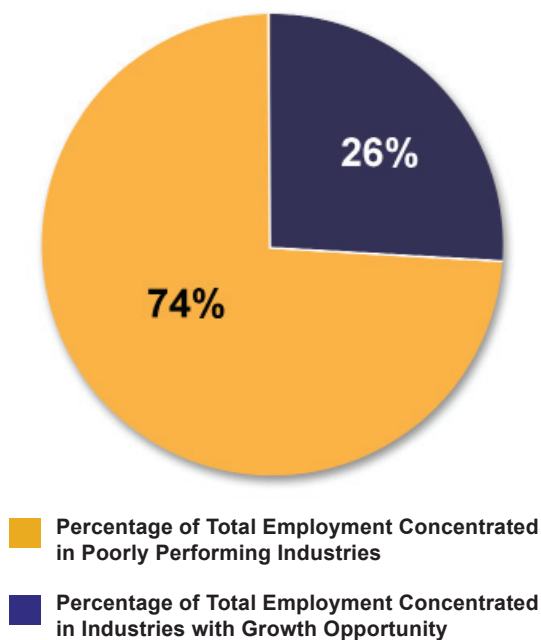
Additionally, the state can support the creation of new, local small and medium-sized businesses through small business incubators, “accelerators” that help small businesses grow into medium-sized businesses, and other entrepreneurship initiatives that help small businesses start up and transition to long-term profitability. The state's universities also play a critical role in “technology transfer”—helping translate technology developed by academic researchers into profitable products and services. Given the importance of research and development for the state's economy, funding for higher education and science and technology coordination efforts in the Department of Commerce should be restored. Moreover, policy makers should support existing programs designed to provide capital and technical assistance to small businesses, including the small business loan programs run by the N.C. Rural Economic Development Center and the community development lender, the Support Center.

None of these approaches are new to North Carolina, but integrating them into a common strategy is critical to achieving the state's economic development goals of

increasing household income and broadly shared prosperity. As the Department of Commerce pursues writing the first such strategic economic development plan since the early 1990s, it is important for policy makers to understand how these approaches can be tied together through strategic targeting in the following ways:

- **The state should start by targeting firms in industry clusters that are stable or best poised for growth in the future.** Currently, almost three-quarters of the state’s employment is concentrated in industries that are either declining and losing jobs in North Carolina, or are performing poorly compared to the same industries in the nation as a whole—the state is just not competitive in these “poor performers,” and so do not represent the best source for long-term job creation. Only a quarter of the state’s jobs are concentrated in industries that are growing or performing better than the same industries nationally, meaning that the state is more competitive in these industries than the nation as whole. As a result, these “growth opportunities”—which include industries like Electronic Instrument Manufacturing, Data Processing and Related Services, and Chemical Preparation Manufacturing—are likely to provide long-term job creation for the foreseeable future.

**FIGURE 7: Majority of North Carolina’s Employment Concentrated in Poorly Performing Industries**



Many of these industries are geographically concentrated in the state’s *industry clusters*—interconnected businesses and suppliers located in a certain geographic area in ways that that often encourage innovation, knowledge-sharing, and increased firm productivity. Because of these benefits, firms in successful clusters are likely to grow, create jobs, and remain in the state, rather than relocate elsewhere. As a result, this is the competitive advantage North Carolina has over other states that lack these industry clusters.<sup>15</sup>

Given scarce public dollars, the state’s economic development resources should be targeted toward attracting new businesses, expanding existing businesses, and encouraging new business start-ups in the highest-performing industry clusters. In 2008, a Department of Commerce study identified several of the clusters most poised for growth, including tire manufacturing, medical device manufacturing, pharmaceuticals, and heavy-duty-truck manufacturing.<sup>16</sup> Although many of these clusters still represent strong growth opportunities for the state, the economy has clearly changed in the years since the Great Recession, and as a result, the new state

strategic plan should include an updated analysis of the industries and clusters that would be best to target.

- **The state also needs to target firms that pay wages high enough to allow a family to make ends meet.** This should be the primary strategy for increasing household incomes in North Carolina. Given the need to reverse the rising tide of low-wage work, the state should not consider targeting industries that pay below the Living Income Standard, a market-based measure of what it takes for a family in North Carolina to make ends meet, taking into account costs like energy, healthcare, housing, and transportation.<sup>17</sup> In 2011, the average LIS for families across the state was \$43,000 per year for a family of four. For example, the average wage in leisure and hospitality jobs—which includes jobs

in fast food, hotels, and tourism is about \$8.30 an hour—less than half of the roughly \$20 an hour statewide average, and well below the \$21 per hour Living Income Standard. Given these ultra-low wages, there is no reason why the state should target this sector for increased job creation. Certainly, the state should never use its incentive programs to subsidize any industries that pay below-average wages.<sup>18</sup> Instead, policymakers should consider targeting industries in higher-wage clusters, including (as of 2008) medical device manufacturing, pharmaceuticals, and tire manufacturing, each of which pay above the statewide average and close to the LIS.

- **The state needs to invest in job training and career pathways programs relevant for targeted industry clusters to ensure that workers have opportunities to increase their skills and earn progressively higher incomes over time.** Businesses looking to locate or expand in North Carolina are interested primarily in the strength and skill level of the state’s labor market. But the state currently falls short of meeting business’ need for skilled workers. Too many workers have insufficient educations and lack the skills that growing industries require. This hurts these workers’ ability to find decent-paying jobs and earn progressively higher wages over the course of their careers.

Given the rapid boom in low-wage service jobs, the state is faced with a future in which too many workers become locked into low-skill career tracks with little opportunity for upward mobility. Investing in industry-specific job training and career pathways in targeted clusters, however, can help North Carolina avoid this low wage future by changing the trajectory of the state’s job growth from low-skill industries to higher-skill industries. Career pathways involve a series of connected training programs and student support services—often designed as a series of academic or professional credentials offered through local community colleges—that enable an individual to gain progressively more advanced job training and greater skill development in specifically targeted high-demand industries. These efforts will create opportunities for workers to build their skills, pursue upwardly mobile careers, and ultimately increase their incomes over time.<sup>19</sup> For example, the BioNetwork training programs administered by Wake Technical Community College allows workers to develop progressively better skills in the life sciences and biomanufacturing industries, contributing to higher wages over the long term.<sup>20</sup>

- **The state needs to pull these three pieces together and target particular regions and communities to ensure that business growth and job creation are occurring evenly across the entire state, particularly in places that have been left behind economically.** Recent reports by the Fiscal Research Division of the General Assembly show that the overwhelming majority of state economic development services—including tax credits, incentives, and other assistance—has been directed to just two regions since 2006: the Triangle (especially Wake County), and the Greater Charlotte region (especially Mecklenburg County).<sup>21</sup> Given that the majority of the state’s total job creation has occurred in these two regions, it’s unclear why the state’s economic development policy makers are favoring those two regions. Instead, it’s time for policymakers to target more economic development assistance to areas outside these prosperous regions—especially in the struggling communities in rural North Carolina.

This integrated approach inherently recognizes and seeks to leverage the unique assets present in every community—even those that have experienced persistent economic distress. Building on this, this 21st century toolbox allows struggling communities to strengthen their bargaining position with mobile businesses by offering up an entire range of integrated services that support business growth and development.



**North Carolina should measure its progress towards these goals with a broader range of indicators than just job growth and overall economic growth**

To ensure that North Carolina is making progress toward developing the economy in a way that results in increased incomes and greater opportunity, policymakers must look beyond traditional measures like growth in Gross State Product (the value of goods and services we produce), changes in nonfarm employment, and the unemployment rate. While these measures do provide important information on the state's economic performance, they don't tell the whole story about the health of the state's economy and should not be used as the primary measures for determining the success of the state's economic development efforts. This is because generating economic growth and job creation are just means to the end of producing greater incomes for families.

Specifically, North Carolina should supplement those traditional measures with the following 21st century measures to assess the relative success of the state's economic development efforts:

- **Median Household Income growth.** Economic growth that generates little or no income growth is useless for improving the lives and financial well-being of workers and their families. Growth in median household income provides a concrete way of measuring whether a family's financial well-being is actually improving as a result of job creation and a growing economy. It also provides an excellent way to assess the purchasing power of the state's consumers and their ability to support local businesses.<sup>22</sup> Ultimately, this measure captures the extent to which families are experiencing the benefits of economic growth.
- **Quality job creation and the Living Income Standard.** The state certainly needs to pay attention to total employment growth, but ultimately, the only real way to improve household incomes is through the creation of jobs that pay higher wages and provide benefits. This means counting the number of jobs created that pay the Living Income Standard. If the state continues on its current path of generating low-quality jobs that fail to pay the Living Income Standard, then it will fail to provide families with enough income to meet their basic needs, no matter the *number* of jobs created.
- **Poverty.** As long as poverty is increasing in North Carolina, the state's economic development efforts cannot be considered effective. Reducing the number of people experiencing extreme economic hardship is critical to ensuring that the benefits of economic growth are distributed more evenly, especially among those communities that are currently lagging.
- **Educational attainment.** Given the importance of skill development for providing pathways into higher wage employment, assessing the educational attainment levels of the state's citizens is a critical aspect of determining the effectiveness of the state's economic development efforts. If the state's job training strategies are not meaningfully improving workers' skills and knowledge, then those workers will lack opportunities to move into more challenging, higher-paying jobs—ultimately, blocking pathways to higher incomes over the course of their careers. Although the Commission on the Workforce has long tracked the educational attainment of North Carolina's workers, now is the time for the state's economic development policymakers to formally make this a key benchmark of the state's competitiveness.<sup>23</sup> It can also be refined by tracking how many graduates of community college job training programs actually get jobs and how many work in targeted industries.<sup>24</sup>
- **Overall well-being through the Genuine Progress Indicator.** The point of economic growth is to make our lives better, but that can't be reflected in a measurement like gross state product, since economic growth doesn't always translate into improvements in the well-being of people in the state.

## Measuring Well-Being Beyond GSP: The Genuine Progress Indicator

Given the inability of gross state product (GSP) to truly measure well-being and progress, a number of states including Maryland and Vermont have adopted the “genuine progress indicator” (GPI) as an alternative. It is designed to give a much fuller account of a state’s economic health by incorporating environmental and social factors not included in GSP, including the costs to the natural environment and to society generated by economic growth. This includes negatives like crime, pollution, resource depletion, and increases in poverty. For example, a state’s GPI will drop in value when the poverty rate goes up, whereas GSP can continually increase even in the face of rising poverty.<sup>25</sup>

As a whole, the GPI is oriented around the concept of sustainable income—the total amount a person or economy can consume in a given period without decreasing consumption in the next period of time. The GPI extends this idea to society at large—the state of a community’s welfare in a given year depends in large part on its ability to maintain the same level of welfare in the future.<sup>26</sup>

Instead, North Carolina should consider adopting an indicator that can capture a fuller range of the various factors that influence quality of life and well-being, such as the Genuine Progress Indicator (GPI). See BOX 1 for details.

All of these measures should be collected and assessed at the county, regional, and state levels, where feasible. Ultimately, we want to make sure that as many people as possible can benefit from the fruits of economic growth and job creation. No one should be shut out of pathways to prosperity because of the zip code where they live, but thousands of people live in regions that are lagging the state as a whole economically. Looking at statewide averages for economic indicators tends to mask those regional differences. If the central

challenge of economic development efforts is to ensure that prosperity is broadly shared, then it is critical to track what is happening with these regions and communities. In turn, this allows policymakers to determine where economic development efforts should be targeted in order to ensure that lagging communities are able to benefit from economic growth.

## Conclusion

**E**conomic development in 21st century North Carolina should be focused on ensuring that all regions and communities within the state can share in the benefits of economic growth. This will involve setting goals appropriate for the 21st century economy—notably income growth and the creation of quality jobs and career pathways; measuring progress towards these goals with a range of suitable indicators, notably per capita income growth; and in deploying an integrated toolbox of economic development strategies that combine traditional approaches towards business growth with cutting-edge innovative strategies that add value and improve the competitiveness of local firms without sacrificing workers and their wages.

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