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BTC Brief

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MORE JOBS, BETTER JOBS, AND AN ACCOUNTABLE JOBS CREATION PROCESS:

Five Strategies for Improving North Carolina's Economic Development Incentive Programs

Timely, accessible, and credible analysis of state and local budget and tax issues

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KEY FINDINGS:

- **Reforming North Carolina's economic development incentive programs is key to attracting and retaining companies that will create new and better-paying jobs to communities throughout the state.**
- **Policymakers could adopt five strategies to strengthen the competitiveness and fairness of economic development incentives.**

Economic Recovery Hinges on Quality Job Creation

IN RECENT MONTHS, IT HAS BECOME CLEAR that North Carolina's economic recovery is stalled. As of November 2011, the unemployment rate has risen five out of the previous seven months and has been stubbornly stuck at more than 10 percent, well above the national average of 8.6 percent.[1] Without the creation of jobs to make up for those lost and to provide employment for the growing working-age population, North Carolina's unemployment rate will likely remain high.

At the same time, those workers who are fortunate enough to have employment are earning less. A recent study by the University of North Carolina revealed that household income has fallen to levels not seen since the 1970s, indicating that the economic growth of the 2000s failed to produce significant wealth gains for most North Carolinians.[2] Nearly 725,000 North Carolinians were engaged in low-wage work in 2010, earning on average just $9.87 an hour, well below what it takes for a family to make ends meet in any community in North Carolina.[3]

Aggravating this trend, the state is experiencing a boom in low-wage occupations—average wages for 14 of the 20 fastest-growing occupations are less than the Living Income Standard, a market-based measure of what it takes for a family to meet basic needs in North Carolina, estimated at between $34,000 and $47,000 a year, depending on location, for a family of one adult and two children. Worse, two of these booming, low-wage occupations—home health aides and food preparation—only pay half of what is necessary to support a North Carolina family for a year.[4]

To meet these economic challenges, North Carolina's economic development efforts can play an important role in attracting and retaining companies that will create new and better-paying jobs. Reforming economic development incentive policies to create more jobs, better jobs, and a job creation process that is more accountable will be central to this effort.

The following five strategies can help North Carolina create an economic development system that has greater impact and makes better use of scarce tax dollars.

1. Target incentive programs to attract and retain high-growth industries.

Given long-term restructuring in the state's economy away from manufacturing, it is critical to target North Carolina's economic development incentives toward attracting and retaining those industries that are best poised to create more new jobs. These include industries that have a stable presence in the state or are poised for growth in the future, like tire manufacturing, medical device manufacturing, boat building, pharmaceuticals, and heavy-duty-truck manufacturing, according to a recent NC Department of Commerce study identifying key industry clusters in North Carolina.[5]

In an intensely competitive global economy, stable and growing businesses provide the best return on investment for incentive dollars, as these types of businesses are most likely to increase investment and hire additional workers within North Carolina.[6] In fact, more jobs are created through the expansion of existing industry than through the recruitment of new industry.[7] When considering incentives for firms in these growth-oriented industries, special attention should be paid to those high-impact firms that can act as catalysts for significant and "transformational" industrial development and the creation of strong multi-firm supply chains in the state, like those associated with auto manufacturers.[8]

Declining industries, on the other hand, are more likely to experience plant shutdowns, widespread outsourcing, mass layoffs, and wage cuts as they struggle to keep up with the global economy. Incentivizing failing industries is not a wise use of scarce taxpayer dollars and should not be considered.

2. Target incentives toward industries with higher-wage occupations and increase wage standards for all deals.

Along with creating more jobs, the state needs to direct its incentive use toward creating better jobs in terms of wages and benefits, especially in light of North Carolina's long-term stagnation in household income and the recent boom in low-wage occupations. First, the state should target its economic development incentives at those industries with occupations that pay family-supporting wages as determined by the North Carolina Living Income Standard. Secondly, existing law in the state's statutory incentive programs—Job Development Investment Grants (JDIG) and OneNC—already requires all incentivized firms to meet a certain wage standard in exchange for the subsidy. By raising this wage floor to meet the Living Income Standard, policymakers can build the state's future economic development trajectory around high-wage industries and occupations and use incentives as a tool to ensure that firms pay the wages that are sufficient to meet the needs of North Carolinians.

3. Enforce existing performance criteria for incentive deals funded with JDIG and OneNC.

As state economic development officials use incentives to help create more and better jobs, they should also hold businesses accountable for their promises to create these jobs in exchange for public subsidies. Under current law, both the JDIG and OneNC programs stagger incentives over a number of years and only obligate public funds if recipient companies create the numbers of jobs they promised. Firms that fail to meet any of their performance criteria are subject to "clawbacks" and are forced to give back the money they received. Except under extremely unusual circumstances, the legislature and the NC Department of Commerce should never provide incentives to companies that renege on these promises, and certainly no firm that cuts jobs should ever receive public subsidy. Subsidizing companies to lay off workers and eliminate jobs is counterproductive and a waste of taxpayer dollars.

4. Extend existing performance criteria to all other incentive deals, including those offered by local communities and those approved by the legislature.

Incentive deals offered by county and municipal governments are the most common form of economic development subsidies in North Carolina, yet current law does not require those deals to include performance criteria, monitoring provisions, or clawbacks unless the incentive is matched by state JDIG or OneNC incentive funds. Although many local governments require some level of performance criteria in their incentive deals, many do not, leading to a situation where companies can take local incentive funds without any real legal obligation to create the jobs they promised. State lawmakers can close this loophole by extending current state-level performance criteria to all incentive deals at the local level.

These criteria can also extend to any other incentives granted by the General Assembly above and beyond those provided in the JDIG and OneNC Programs. Except in the very rare cases of large-scale "transformative" industrial development efforts, the state should avoid granting "special" incentives above and beyond those provided through OneNC and JDIG, as "special" deals tend to cost significantly more in terms of incentive dollars and are often given without adequate accountability and performance criteria attached. Moreover, the statutory programs already provide sufficient incentives for most projects, so special incentives are largely unnecessary. In those rare instances requiring special incentives the General Assembly can write performance criteria into the deal and oppose "blank check" cash grants without these accountability mechanisms attached.

5. Improve monitoring and transparency of incentive contracts and firm performance.

In the most recent legislative session, the General Assembly created a mandate that all companies receiving state-funded incentives must provide quarterly reports on their job creation and investment performance to the NC Department of Commerce; in turn, the department must provide annual reports on firm performance to the General Assembly. These transparency requirements are a good start but could be strengthened through the creation of a searchable, publicly available database on the Department of Commerce website documenting the specifics of each incentive deal and assessing the progress of each incentivized company in meeting its performance obligations.

As policymakers consider reforming the state's economic development incentive programs, North Carolina should take the high road in its economic recovery by creating more jobs, pursuing better-paying jobs, and holding companies accountable for the job-creation promises they make. This will ensure that North Carolina's workers have access to the kinds of jobs that can support working families and sustain prosperity for all.

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1 N.C. Division of Employment Security. (2011). State's Unemployment Rate Drops to 10.4 Percent in October. New Release, November 22, 2011.

2 Lane, Brent. (2011). Presentation delivered to NCGA Economic Development Oversight Committee, October 6, 2011.

3 Sirota, A. & McLenaghan, E. (2010). BTC Report: Making Ends Meet After the Great Recession: The 2010 Living Income Standard for North Carolina.

4 Ibid.

5 Goldstein, H. et al. (2008). Regional Vision Plan Integration and Implementation: Phase II Final Report. A Report to the North Carolina Department of Commerce by the UNC Office of Economic Development

6 Morgan, J. (2009).Using Economic Development Incentives: For Better or for Worse. Popular Government. Winter 2009.

7 Ibid.

8 "Transformative" deals are those that have the potential to create large-scale ripple effects across a region's economy by attracting other labor- and capital-intensive firms in the same and related supply chains and industry clusters. Such projects can act as catalysts and magnets for rapid cluster formation and long-term job creation.

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