

An Overview of Economic Development Policy in North Carolina: Transforming the State from Poverty to Prosperity

**Key initiatives and actors in North Carolina economic
development policy since the 1950's**

**Submitted to the Institute for Emerging Issues, NC State
University**

March 2010

Rick Carlisle

Partner, Dogwood Equity

Former Secretary, North Carolina Department of Commerce

**An Overview of Economic Development Policy in North
Carolina: Transforming the State from Poverty to Prosperity.**

**Key initiatives and actors in North Carolina economic development
policy since the 1950's.**

**By Rick Carlisle
with Rachel Escobar**

January 2010

Abstract

In the first half of the 20th century North Carolina made the transition from agricultural intensive employment to manufacturing intensive employment. The growth of the furniture industry, large-scale movement of textile and apparel industries from the Northeast to North Carolina, and location of tobacco production near the raw material inputs drove this transition.

These industries typically located in smaller cities and towns, producing the dispersed population and industrial base that characterized the state, without significant concentration in large cities. Industrialization was most concentrated in or near the Piedmont, with less industrialization in mountainous locations and coastal areas.

By the 1960's North Carolina was one of the most industrialized southern states, although this employment was concentrated in lower wage and lower skill industries. Economic development policy generally consisted of providing roads, infrastructure, and access to lower cost labor. State per capita income stood at 71% of the United States.

Beginning in the late 1950's and 1960's North Carolina leadership began to shift policy to focus economic development on higher skilled, higher wage labor and technologically advanced industries. This was fueled in part by a desire to increase wages and per capita income, and in part by recognition that technological innovation and global competition would in time reduce the demand for labor intensive, lower skill production. State policy focused both on attracting new high skill high technology industries, and on stimulating the internal growth of emerging sectors including information technology and biotechnology. In the 1990's North Carolina also increased its use of business incentives to attract more investment.

North Carolina accomplished this transition with three principal sets of policies:

- Increasing efforts to recruit new high skill, high technology and to stimulate the growth of new industry sectors;
- Improving workforce skills to fill the higher skill needs of the new industry.
- Spreading development more evenly across the state's regions.

By the end of the 20th century, North Carolina had dramatically transformed its economy again, transitioning from the Big Three (textiles, furniture, and tobacco) to the Big Five (technology, pharmaceuticals, banking, food processing, and vehicle parts). (See Walden) Wages and skill levels rose accordingly. State per capita income climbed to 89% of the U.S.

An unintended consequence on this transformation was the greater concentration of investment and employment in urban areas, with the loss of jobs and incomes in smaller towns and rural areas. This generated place-based economic development policies beginning in the 1980s designed to spread the growing prosperity to rural and small town North Carolina.

Going forward, North Carolina's challenge is to continually evolve economic development policy in the face of even more rapidly changing technologies, globalization, and growth of urban centers.

The Transformation of North Carolina's Economy: From Low-Tech to High-Tech

The Precursor -- 1900 to 1960: From Agriculture to Industry

During the first half of the twentieth century, changes in North Carolina's economy were largely driven by the relocation of significant industrial resources from the Northeast to the Southeast in search of cheaper labor and business friendly governments. North Carolina was a major beneficiary of this movement, with a dramatic increase in manufacturing employment. Manufacturing's share of total employment grew from less than a fifth of total employment in 1900 to nearly a third of total employment by 1960. North Carolina's share of manufacturing employment grew far more rapidly than the U.S. as a whole, increasing its concentration in manufacturing from 10 percent less than the U.S. to 40% more than the U.S. during this period. (NC Chamber, What North Carolina Makes, Makes North Carolina.)

By 1960 North Carolina was one of the most industrialized southern states. The economy was concentrated in industries that were dependent on lower cost, lower skill labor, principally tobacco, furniture, and textiles and apparel. While per capita income in North Carolina rose relative to the U.S. as a result of industrialization, it still stood at 71% of U.S. per capita income in 1960. Raising income and wages in North Carolina became a dominant concern of economic development policy makers for the next fifty years. Throughout the remainder of the twentieth century and the beginnings of the twenty-first century, North Carolina's economic development policy largely focused on two major concerns: raising incomes and wages in the state, and spreading this prosperity as widely as possible. These goals dominated the economic development agendas of the state's governors.

The 1960s: The Industrial Transformation Begins

Throughout the latter half of the 20th Century, North Carolina's leadership, whether Republican or Democrat focused on the three principal sets of policies: economic development, workforce development, and lessening unequal development. Paul Luebke calls these leaders the "modernizers", versus the "traditionalists." Unlike many states during the early part of this period, North Carolina's leadership kept principally focused on education, infrastructure, and economic development – the "modernizers" --rather than defense of the cultural status quo – the "traditionalists". North Carolina's governors, typically allied with key business and university leaders, kept a strong focus on moving the state from poverty to prosperity via education and economic development.

Governor Luther Hodges understood that this transition required broadening the state's industrial base. Hodges spearheaded the creation of the Research Triangle Park in 1959. Allied with business leaders and the three research universities in Raleigh, Durham and Chapel Hill, this concept of the "research triangle" was an early visionary strategy to capitalize on North Carolina universities' research, development, and technological

capacity and the growing cadre of “knowledge workers” in the region to attract new, high technology industry to the region. In 1956 leaders from government, business, and the three research universities partnered together for the first planning session on how to best utilize the region’s physical and human capital. This partnership was formed in the face of an alarming outflow of well-educated graduates from the research universities to metropolitan areas outside the state. The political and business leaders sought to stimulate the economy and provide new jobs in the emerging high-technology industries through the creation of a premier research complex. Key business leaders at the beginning included Robert Hanes, the president of Wachovia Bank and Trust Company and Romeo Guest, a Greensboro building contractor. North Carolina State Chancellor Cary Bostian was also a part of the conceptual phase of the development. Not long after the initial proposals were presented The University of North Carolina and Duke University joined to help to form the Research Development Council. Archibald Davis, also from Wachovia Bank, was brought on to the team in to help secure early funding for the project.

Governor Terry Sanford continued this commitment and recruited the first major investment in the fledgling RTP, the National Institute for Environmental Health followed by IBM, both in 1965.

The decision to create the Research Triangle Park (RTP) was one of the seminal economic development policy initiatives in North Carolina. Despite a slow start, the RTP is now a world-renowned example of successful economic development policy that helped transition North Carolina to a high-tech, high-wage economy. Lugar and Goldstein cite the three top reasons businesses stated for locating in RTP: “Proximity to the three research universities, access to highly skilled labor, and the quality of air service.” The RTP now is comprised of fifty research and development entities employing a total of 32,000 workers. \

The 1980s: The Transformation Accelerates

Throughout his four terms in office, Governor Hunt made economic development one of his top priorities. His administrations generated some of the most far-reaching initiatives to transform the North Carolina economy. Hunt’s initial gubernatorial campaign focused on increasing wages in North Carolina and this theme ran through all eight of his terms as governor. Hunt’s initiatives included the North Carolina Microelectronics Center, the North Carolina Biotechnology Center, the North Carolina School of Science and Mathematics, and the system of small business centers at the community colleges and small business and technology development centers affiliated with the universities.

Two policy reports in 1978 and 1982 established the direction of the state’s economic development policy for subsequent decades. In 1978, the State Goals and Policy Board predicted an accelerating decline in the state’s traditional manufacturing base and called for a shift in policy to focus on higher skill, technologically intensive industry, thereby increasing wages and per capita income. While this report reflected a growing understanding of the need for change, it was a significant statement by a major public

policy entity to move the state's development policy away from its traditional sectors and toward emerging sectors.

In 1982, the Board of Science and Technology issued a seminal report calling for a focus on entrepreneurship and small business development, and for economic development to capitalize on the emerging sectors of information technology and biotechnology. The decade that followed saw the launch of the Microelectronics Center, the Biotechnology Center, the North Carolina School of Science and Mathematics, and the network of the university-based Small Business and Technology Development Centers, and nascent efforts to develop a venture capital industry. Along with the Research Triangle Park, these efforts became the cornerstone of North Carolina's "demand side" initiatives. Rather than only attracting existing industry, these policy initiatives were designed to stimulate growth in emerging industry sectors, capitalizing on the state's university resources.

By 1990, North Carolina's policy was firmly fixed on building the economy through innovation, an educated workforce, and supporting the expansion and recruitment of industries competitive in a technologically advanced and globally competitive world. Key to this policy were new institutional actors, such as MCNC and the Biotechnology Center, focused on tapping university resources to make North Carolina more competitive in emerging industries and technologies.

The Biotechnology Center is an instructive example. Following the recommendation of the Board of Science and Technology, in 1984 the NC General Assembly funded the creation of a non-profit organization, the North Carolina Biotechnology Center (NCBC), designed to promote biotechnology development. The NCBC would support research, education, and statewide policies that promote biotechnology as a source of economic and social benefits to North Carolina.

Governor Hunt was instrumental in proposing and securing legislative support for the North Carolina Biotechnology Center and the North Carolina Microelectronics Center, both recommendations of his policy board. Other key government supporters included Lt. Gov. Robert B. Jordan, state Sen. Kenneth Royall and Sen. Gerry Hancock and state Representative Bobby Etheridge.

The NCBC has focused on developing basic infrastructure for biotechnology development, providing key funding for relevant university research, providing financial support for early stage companies, improving the regulatory environment, and serving as a central coordinator of biotechnology networking and support. There is a heavy focus on the training programs for biotechnology and bio-manufacturing, many of which have been implemented in the community colleges. Today North Carolina ranks among the top five states in biotechnology.

The 2004 "New Jobs across North Carolina" strategic plan released by the NCBC suggest that development of the bioscience industry can provide 48,000 jobs by 2013 and 125,000 by 2023. In order to achieve this job creation goal, the committee lays out three

immediate priorities: target bio-manufacturing, create and attract biotech start-ups, and develop biotechnology statewide.

Biotechnology has become a major industry in North Carolina, but many of its activities have been located in the Research Triangle Park region. More recently the NCBC initiated efforts to spread the benefits more widely by opening regional centers affiliated with other universities in the state. With the industry's ability to provide jobs for a diverse range of educational levels from community college to Ph.D., dispersion of activities throughout the state could be beneficial for other areas with adequate infrastructure and resources. North Carolina is currently ranked among the top five states nationally in biotechnology.

The 1990's also saw the rise of a significant new economic policy institution. The national recession in 1990-91 stimulated an effort to make state government more efficient. In response to recommendations by the consulting firm hired by the state, the General Assembly created a more powerful Economic Development Board to oversee economic development policy and programs across all parts of state government. Governor Hunt appointed former Lt. Governor Bob Jordan to head the board, comprised of business and political leaders from across the state. The board issued a number of reports that changed the face of economic development policy in North Carolina. Among those were policies that ushered North Carolina into major use of tax incentives to attract new industry, created seven economic development regions to capitalize on each region's strengths and particular resources, and proposed several new initiatives designed to improve the competitiveness of rural and smaller metropolitan areas of the state (see section on Unequal Development).

North Carolina had largely avoided the use of tax and cash incentives to attract new investment, relying instead on infrastructure, worker training, and overall business climate. In the 1980s and 1990s, however, other states accelerated their use of incentives to compete for new industry. The late 1980s and early 1990s saw North Carolina lose high profile industrial investments to other states, and a significant factor was the use of incentives ranging into the hundreds of millions of dollars – far beyond anything North Carolina was prepared to offer.

Governor Hunt and the Economic Development Board expanded North Carolina's arsenal of economic development incentives and made aggressive efforts to recruit new industry, both domestically and internationally. Hunt initiated the state's first cash incentive fund to attract new industry, the Governor's Competitive Fund, and spearheaded a major expansion in the state's use of tax incentives to recruit industry recruitment incentive policies, the William S. Lee Act.

While small in actual dollars, Governor Hunt's creation of the first cash incentive fund, the Competitive Fund in 1993, was a significant departure from prior state incentives for new businesses and business expansion. Unlike other states in the South, North Carolina did not provide large tax or cash incentives, focusing primarily on highway infrastructure, site development, and workforce development. Unfortunately, these benefits were not

enough to entice companies that were given larger direct benefit packages from other states.

As the use of tax and cash incentives in other states accelerated in the 1990s, North Carolina was forced to re-examine its policy. A series of high profile losses of highly recruited companies to other states generated concern that North Carolina was falling behind in a critical component of economic development policy. At Governor Hunt's request the North Carolina Economic Development Board initiated a study in 1996 to evaluate the impact of incentives in use by other states and to determine whether North Carolina should embark on a similar policy direction.

In the summer of 1995 William Maready, a Winston-Salem attorney, filed a suit against the use of local incentives to attract industry as unconstitutional. A superior court found for Maready; while the ruling only applied locally, it placed the use of incentives in North Carolina under a legal cloud and complicated the work of the Economic Development Board. In February 1996, however, the North Carolina Supreme Court overturned the lower court decision, finding the use of incentives permissible public policy.

The Economic Development Board completed its study of industrial recruitment and incentives in 1996, and then proposed a far-reaching change in North Carolina's economic development policy. The William S. Lee Act, enacted in 1996, was the precursor of a dramatic change in economic development incentives policy over the subsequent decade.

The North Carolina Economic Development Board, under Chairmen Bob Jordan and Bill Lee, with strong support from Governor Hunt, served as powerful advocates for the tax and financial incentives proposed to the legislature in 1996. Former Duke Energy Chairman and CEO William S. (Bill) Lee served as chair of the Board during the debate on the incentives legislation.

The William S. Lee Act (named after the Economic Development Board Chair) became law in 1996 and provided a powerful if sometimes controversial economic development tool. The Act created a number of incentives to stimulate jobs and investment, with a priority for more distressed areas. Four different tax credits provided stimulus for jobs, machinery and equipment, training, and research and development. Accountability measures were included, as well as requirements for providing health insurance for employees and minimum wage requirements. National economic development consultants and organizations praised the Act, and state and local economic developers argued that the tool was essential in the competitive economic environment.

Others, however, argued that the incentives were ineffective and rewarded investment that would have come anyway. Regardless, North Carolina again began to win investments that had been going to other states prior to the Lee Act.

The Lee Act was just the opening foray in a sea change in economic development policy. Additional legislation passed in 1998 authorized an estimated \$145 million to attract a

Federal Express air hub to the Triad, and an estimated \$175 million to attract Nucor Steel to Northeastern North Carolina.

In the following decade Governor Easley added the Jobs Development Investment Grant and the One North Carolina Fund, as well as additional incentives through special legislation to attract Google, Dell and Apple to invest in North Carolina. Incentives had become a permanent part of the North Carolina economic development policy tool kit.

Incentive policy remains controversial outside the economic development community, and numerous studies and analyses debate the relative impact on investment decisions. Particularly during periods of falling tax revenues, the exemptions of select firms from certain taxes remains a subject of heated debate. Given the globally competitive economy, and the ability of corporations to compete for subsidies internationally as well as domestically, the demand for incentives is unlikely to wane.

The Transformation Continues: the 21st Century

At the end of the first decade of the 21st Century, North Carolina was recognized as a national leader in both demand side and supply side economic development policies. Initiatives such as the Research Triangle Park and the Biotechnology Center were widely studied and copied. North Carolina had reasserted its leadership in industrial recruitment, again winning the competition for highly prized companies. As Walden notes, "...North Carolina fostered a new set of growing industries in sectors such as technology, health care products, food processing, banking, and vehicle parts. These industries compensated for losses in traditional sectors and allowed the aggregate state economy to expand at rates exceeding national averages. Some might call this North Carolina's economic miracle." Leadership in economic development policy certainly played a role in North Carolina's economic transformation.

The Transformation of North Carolina's Economy: Workforce Development

North Carolina leaders recognized early on that a new economy also required a new workforce. North Carolina's efforts to institutionalize workforce development began in 1957 when Gov. Luther Hodges opened the first industrial education center in Alamance County to provide "made-to-order job training" for employers' needs. This training center was soon followed by many more across the state and eventually transitioned to a unified community college system. The occupational skills provided by North Carolina's community colleges have helped millions find jobs and supplied thousands of companies with the educated workforce they need.

Governor Terry Sanford was instrumental in pushing for the Omnibus Higher Education Act of 1963 that officially authorized the North Carolina Department of Community Colleges, considered to be the beginning of the NC Community College System. North Carolina's initial nineteen colleges and two public junior colleges rapidly expanded to fifty-four institutions in 1969 and fifty-eight campuses today. This statewide workforce development system was subsequently widely copied by other southern states.

The NC Community College System's worker training programs continued to evolve through frequent testing of new pilot programs. Gov. Bob Scott focused on training disadvantaged populations via what was referred to as "manpower development." The pilot programs in Lenoir County were very successful in efficiently providing students with skills employers were looking for in only eight weeks of training. The initiative was instituted at all fifty-eight campuses as the Human Resources Development program. In 1981 another pilot program with a focus on training for manufacturing and apprenticeship began in eight colleges across the state. The program expanded to thirty-seven award-winning FIT (Focused Industrial Training) Centers.

Widespread access to the community colleges, both in proximity and affordability, is a source of pride for North Carolina's higher education advocates and has driven workforce development policy in North Carolina. However, there is an ongoing debate over the admission of illegal immigrants to community colleges. A vote by the Community College Board in September of 2009 upheld an open-door policy of the system by allowing undocumented immigrants who graduate from North Carolina high schools to enroll, although paying the out-of-state tuition with no access to financial aid. Although these are considerable financial hurdles, immigrant activists see the open pathway as an avenue to improved workforce training for a rapidly growing segment of North Carolina's workforce.

The Transformation of North Carolina's Economy: Unequal Development

As noted earlier, by the beginning of the 21st century North Carolina was recognized as a national leader in both demand side and supply side economic development policies, accomplishing an “economic miracle” by outpacing national growth while shedding hundreds of thousands of jobs from traditional industries. Unequal development, however, continued to be a concern. Until the 1970s, North Carolina's population and employment base remained widely dispersed. Despite the growth of population centers -- in the Research Triangle, the Piedmont Triad, and Charlotte -- small towns and smaller metropolitan regions characterized North Carolina with a significant rural population. The economic transformation that began in the 1960s and accelerated in the subsequent decades began to reshape the population landscape. As traditional industry sectors, predominantly located outside major cities, began to decline, and as the new sectors, concentrated in urban areas, accelerated their growth, North Carolina became increasingly urban. In 1960 North Carolina was still a predominantly rural state, with 60 percent of the population classified as rural by the U.S. Census Bureau. By 1990 the rural population had slipped to just fewer than 50%. The U.S. Department of Agriculture uses a different classification, but the trend is similar. The rural population stood at 33% in 1990 and by 2008 was estimated at 30%.

By the 1970s state policy leaders were increasingly concerned about the development of “two North Carolina's” -- one urban and prosperous, one rural and poor, as population growth and income growth began to diverge. A series of policy initiatives over subsequent decades attempted to address this unequal development. In 1980, the Hunt Administration proposed a “balanced growth” initiative to promote more equal development across the state, avoiding urban congestion and rural blight. Balanced growth legislation passed in 1980, empowering the State Goals and Policies Board to designate several levels of “growth centers” across the state, and to direct state and federal resources to development those growth centers. While growth center policy was a central component of Hunt's economic policies during his tenure, the Martin Administration did not follow the policy.

Governor Martin, however, initiated a different policy to stimulate development in the rural southeastern North Carolina. Governor Jim Martin continued the focus on industrial recruitment and introduced a significant place-based initiative, the Global TransPark. The TransPark was intended to provide a major employment center in southeastern North Carolina. Following a concept introduced by Jack Kasarda, a professor at UNC-Chapel Hill, Martin proposed the development of a “Global TransPark”. The TransPark would capitalize on manufacturer's needs for just-in-time suppliers by creating an airport ringed with manufacturing companies. A competition took place to select the site for the proposed TransPark. While some advocates argued that an urban location made the most economic sense, there was a strong push by state policy makers to use the TransPark as a catalyst for rural economic development in southeastern North Carolina, similar to the regional impact of the Research Triangle Park. A small airport near Kinston was selected in 1992 and over the next decade over \$100 million state and federal dollars were allocated to the development of the TransPark. There was no significant private

investment, however, and the policy was widely questioned and criticized. However, the recent decision by Spirit Aerosystems to locate an aircraft manufacturing facility in the Global TransPark, with the promise of 1,000 jobs, has reinvigorated the hopes for the project.

Lt. Governor Robert Jordan also attacked the issue of rural development through his Commission on Jobs and Economic Growth, formed in 1986. The Commission proposed several initiatives to stem the loss of jobs in rural areas and promote rural development, principally the creation of a non-profit organization devoted exclusively to rural policy and rural economic development. The organization, the Rural Economic Development Center, was launched in 1989 with a grant from the Z. Smith Reynolds Foundation, and received its first state funding later that year.

The Rural Center's original mission was to serve as a rural policy think tank, developing policies and programs to be housed in existing institutions. The Center, with an initial staff of eight, initiated policy studies in the areas of economic development (particularly business finance), infrastructure, agriculture, and human resource development. Each of these studies quickly generated significant policy actions. The business finance study, for example, resulted in the creation of the North Carolina Enterprise Corporation, a \$20 million fund targeting investment in growth companies in rural North Carolina. The Rural Center continued this model of policy studies followed by implementation over its twenty-year history.

Today the Rural Center continues to undertake policy studies and development, but it has evolved into a program operator as well. The Rural Center operates programs in the areas of business finance, leadership development, water and sewer funding, job training, Internet access, and entrepreneurial development. Under the continuing leadership of its original president, Billy Ray Hall, the Rural Center has grown from an initial staff of 8 and an operating budget of \$2 million per year, to a staff of 50 and the administration of tens of millions of dollars per year in funding for projects in rural North Carolina. The Rural Center is widely known across the United States as the pre-eminent state level rural economic development policy organization.

Governor Hunt returned to office in 1993 and again focused on economic development, continuing efforts to increase skill levels and wages through economic transformation. Hunt also introduced initiatives to promote rural development. The William S. Lee Act, passed in 1996, provided incentives to attract and grow industry statewide, but the legislation provided much higher financial incentives for companies locating or expanding in rural areas. Using a combination of state and federal dollars, Hunt also extended the reach of North Carolina State University's Manufacturing Extension Service east and west to serve the state's rural manufacturers.

In 1999 Hunt recruited Erskine Bowles to head a task force of North Carolina business and political leaders to take on the issue of unequal development. That group, the Rural Prosperity Task Force, issued its report in 2000 and most of its major policy

recommendations were enacted. These included an ongoing effort to extend high-speed broadband access throughout rural North Carolina, and a private equity fund to provide growth capital for businesses located predominantly in rural North Carolina.

In the early 1990's Legislative leadership in the western and eastern regions of the state were increasingly concerned that prosperity was by-passing their rural and small town constituents, and that more regional cooperation and more resources were required in rural areas to stimulate more industrial investment in their regions. In 1993 then Representatives Martin Nesbit from the west and David Redwine from the southeast, and Senator Marc Basnight from the northeast proposed that the legislature create regional commissions to recruit new industry to their respective areas. At the same time the legislature called for a study to evaluate and design a statewide system of regional commissions. The state's newly revamped Economic Development Board was charged with that task.

In 1994 the Board's Task Force on Regions issued a report calling for those three regional commissions, the Global TransPark region, and two privately funded entities in the Charlotte and Triad areas be folded into a statewide system of publicly funded regional economic development partnerships. Using commuting zones to identify inter-related economies, and taking into account existing political relationships, the report proposed that seven regions be established and receive state funding to work with the state Department of Commerce and promote economic development within their boundaries. The seven regional economic development partnerships were established in 1994 and remain a significant part of the state's economic development infrastructure today.

In the late 1990s North Carolina's Attorney General (and later Governor), Mike Easley represented North Carolina in the master settlement agreement between the states and the tobacco manufacturers. North Carolina elected to allocate half of its share under the agreement to a permanent foundation to promote economic and community development in formerly tobacco dependent and distressed counties. The Golden LEAF Foundation would devote grants from the income on its assets to locally sponsored project to stimulate jobs and workforce development. Created by the legislature in 1999, the Foundation's assets have continued to grow as payments are made under the master settlement agreement. To date the Foundation has poured approximately \$400 million into economic, workforce and community development projects in its targeted counties.

Clearly there have been numerous and often successful efforts to promote jobs and investment in rural areas formerly dependent on the economy of branch plants and tobacco production. The forces of technological innovation and global competitiveness have dwarfed these initiatives, however, as eliminating the gap between rural and urban prosperity remains illusive.

Some argue the gap is misinterpreted, that in recent years it is more reflective of rapid urban growth than rural decline. Under both the US Census and US Department of Agriculture definitions, rural population has grown since 1980 – the rural percentage of

total population has declined as urban population has grown faster. Similarly, in both rural and urban areas per capita incomes have increased in the last two decades with no appreciable increase in the differential. Many economic policy analysts also argue that rural North Carolina is not a single economy, but one comprised of both slow growing and fast growing regions, and that economic development policy needs to respond accordingly.

The Transformation of North Carolina's Economy: Current and Future Policy Challenges

The economic development policy initiatives of the last several decades have successfully reshaped the economic landscape in North Carolina, dramatically changing the industrial make-up of the state's economy and moving the state as a whole from poverty to prosperity. But the forces of technological change and globalization continue to reshape the economy and place new demands on economic development policy. North Carolina leaders will need to take the lessons of the past and apply them to the challenges of today, and develop new ideas to reflect the changing economic environment.

Urbanization: As traditional industry declined and technologically advanced industries and financial service centers tended to locate near research universities and the state's largest cities, North Carolina's population shifted from predominantly rural to urban. Urban centers (particularly the Research Triangle, the Triad, and Charlotte) became hubs of economic growth. While state policy has paid significant attention to rural development, there has been substantially less attention to urban development and urban regions. Sustaining North Carolina's economic miracle will require added focus on building competitive urban regions.

Workforce Development: Growing demand for scientific and engineering talent, technologically sophisticated workers, and employees' ability to adapt to rapidly changing environment placed increasing weight on educational and training institutions. As technological grows ever more sophisticated, training programs will become more costly and expensive to duplicate system-wide. The evolution of the state's workforce training system will need to consider greater use of multi-campus centers, more partnerships with the universities and business, and take into account a diversifying workforce.

Policy Fragmentation: The Economic Development Board was revamped in 1993 to address the fragmentation of economic development policy in North Carolina, which has arguably worsened since then. The Governor is nominally the head of an economic development policy that is spread among state agencies, nonprofit organizations, regional organizations, and increasingly the university system. Universities in particular will be critical to long-term economic development in North Carolina. Better and stronger coordination is essential to long-term success.

Infrastructure: Urban centers will continue to grow faster than the state as a whole and will be hubs of North Carolina's economic growth. Better coordination on regional and urban planning and allocation of resources to provide adequate automobile and rail transportation are key elements of North Carolina's continued growth. While emerging communications technologies will speed global access, global inter-connectivity via air will remain important for global competitiveness.

Emerging Technologies: Just as North Carolina focused on emerging technologies over 25 years ago, similar attention must be direction to emerging technologies for the next

quarter century, such as nanotechnology, and alternative energy and other green technologies. Are the centers such as the Biotechnology Center good models for these emerging sectors, or are different policy initiatives needed to apply university resources to economic development?

Incentive Policies: With the continued migration of the economy to services and new technologies, economic development tools and incentives will need to migrate from a manufacturing and production based economy to a knowledge and services based economy. Current tools are not well suited to this economy and can be deployed without a clear vision of how a particular investment will stimulate the overall economy or a particular region. The growing competition among countries and states for the new technology leaders will require thoughtful incentive policies to compete without undermining tax structures.

Unequal Development: The gap between rural development and urban development has been a policy concern for decades. This gap in measures such as per capita income is unlikely to close, however, and better insight is needed in how to measure relative performance among very different economies. Rural development issues cannot be ignored, but nor can state economic development policy assume that every county can achieve equal levels of economic investment and per capita income. While regional versus county measures are better indicators of economic well-being, that is not meaningful to local leaders dependent on property and sales taxes to provide services.

References

Economic Development Policy

- Carlisle, Rick. 1995. "Twenty Years of State Economic Development Policy: North Carolina and the Nation." *Carolina Planning* 21, 1: 6-12.
- Center on Globalization, Governance & Competitiveness Staff. 2009. "Biotechnology: Public Policy." Durham: North Carolina in the Global Economy.
- Commission for a Competitive North Carolina. 1995. *Measuring up to the Challenge: A Prosperous North Carolina in a Competitive World*. Raleigh, N.C.: The Commission for a Competitive North Carolina.
- Committee on Balanced Growth and Economic Development. 1978. "A Balanced Growth Policy for North Carolina: A Proposal for Public Discussion." Raleigh, N.C.: State Goals and Policy Board, State of North Carolina.
- Doty, Mercer, and Doris Mahaffey. 1979. "Which Way Now?" In Eric B. Herzik and Sallye Branch Teater, comps., *North Carolina Focus*. Raleigh.
- Eisinger, Peter K. 1988. *The Rise of the Entrepreneurial State: State and Local Economic Development Policy in the United States*. Madison, Wis.: University of Wisconsin Press.
- Economic Development Board Task Force on Regions. 1994. "The North Carolina Partnership for Regional Economic Development." Raleigh, N.C.: The Economic Development Board.
- Fiscal Research Division, North Carolina General Assembly. 2008. *North Carolina Economic Development Inventory*. Raleigh, N.C.: Fiscal Research Division.
- Goetz, Stephan J., and Anil Rupasingha. 2004. "The Returns to Education in Rural Areas." *Review of Regional Studies* 34: 245-59.
- Haag, James. 2005. *William S. Lee Act [microfiche]: 2005 Assessment of Results*. Raleigh, N.C.: Policy, Research & Strategic Planning, N.C. Dept. of Commerce.
- Hodges, Luther. 1962. *Businessman in the State House*. Chapel Hill.
- Hunt, Jim. 1992. "A North Carolina Agenda for Action." Raleigh, N.C.: s.n.
- Joint Select Committee on Economic Growth and Development, North Carolina General Assembly. 2004. "Report to the 2003 General Assembly of North Carolina, 2004 session." Raleigh, N.C.: Joint Select Committee on Economic Growth and Development.
- Kusmin, Lorin D., John M. Redman, and David W. Sears. 1996. *Factors Associated with Rural Economic Growth: Lessons from the 1980s*. Economic Research Service, U.S.

Department of Agriculture, Technical Bulletin 1850. Washington, D.C.: U.S. Government Printing Office.

Lancaster, Martin H. et al. 2005. "A Matter of Facts: The North Carolina Community College System Fact Book." Raleigh, NC: North Carolina Community College System. Retrieved from:
<http://www.nccommunitycolleges.edu/Publications/docs/Publications/fb2005.pdf>.

Latham, Michael E. 2000. *Modernization as Ideology: American Social Science and "Nation Building" in the Kennedy Era*. Chapel Hill, NC: The University of North Carolina Press.

Luebke, Paul. 1990. *Tar Heel Politics: Myths and Realities*. Chapel Hill, NC: The University of North Carolina Press.

Luger, Michael I., and Harvey A. Goldstein. 1991. *Technology in the garden: Research parks and regional economic development*. Chapel Hill, N.C.: University of North Carolina Press.

Morgan, Jonathan Q. 2009. *The Role of Local Government in Economic Development: Survey Findings from North Carolina*. Chapel Hill, NC: UNC School of Government.

NCBC Staff. 2004. "New Jobs across North Carolina: A Strategic Plan for Growing the Economy Statewide through Biotechnology." Research Triangle Park, NC: North Carolina Biotechnology Center.

North Carolina Chamber. 2009. *What North Carolina Makes, Makes North Carolina*. Graham S. Toft and Sherry B. Melton. Raleigh, N.C.: North Carolina Chamber.

North Carolina Department of Commerce. 2005. *21st Century Report: 21st Century Communities, Progress to the Future*. Raleigh, N.C.: N.C. Dept. of Commerce.

North Carolina Government and Performance Audit Committee. 1993. "Our State, Our Future." Raleigh, N.C.: N.C. Government and Performance Audit Committee.

North Carolina Progress Board. 2001. "North Carolina 20/20: Report of the North Carolina Progress Board." Raleigh, N.C.: The Board.

Orr, Douglas M. and Alfred W. Stuart. 2000. *The North Carolina Atlas: Portrait for a New Century*. Chapel Hill: University of North Carolina Press.

Program Evaluation Division, North Carolina General Assembly. 2008. "Improving Regional Economic Development through Structural Changes and Performance Measurement Incentives: Final Report to the Joint Legislative Program Evaluation Oversight Committee." Raleigh, N.C.: Program Evaluation Division.

Renkow, Mitch. 1996. "Income Non-Convergence and Rural-Urban Earnings Differentials: Evidence from North Carolina." *Southern Economic Journal* 62: 1017-28.

Schulman, Bruce J. 1994. *From Cotton Belt to Sunbelt: Federal Policy, Economic Development, and the Transformation of the South, 1938-1980*. Durham: Duke University Press.

Sternlicht, Ann and Bill Finger. 1986. "Who Makes State Economic Development Policy?" *North Carolina Insight* 8: 22-35.

Tomaskovic-Devey, Donald, and Rosemary Ritzman. 1990. *Back to the Future? : Human Resources and Economic Development Policy for North Carolina*. Raleigh, N.C.: s.n.

Walden, Michael L. 2008. *North Carolina in the Connected Age: Challenges and Opportunities in a Globalizing Economy*. Chapel Hill, NC: The University of North Carolina Press.

Weddle, Rick L. et al. 2006. "Research Triangle Park: Evolution and Renaissance." Presented to the 2006 IASP World Conference by the Research Triangle Foundation. Retrieved from: [http://www.rtp.org/files/Fact Sheets/rtp_history.pdf](http://www.rtp.org/files/Fact%20Sheets/rtp_history.pdf).

Whittington, Dale. 1986. "Microelectronics Policy in North Carolina: An Introduction." In Dale Whittington, ed., *High Hopes for High Tech*.

Wood, Phillip J. 1986. *Southern Capitalism: The Political Economy of North Carolina, 1880-1980*. Durham.

