In The Executive Branch

When It Comes to Economic Development, Jim Martin and Bob Jordan Have Big Plans

by Paul T. O'Connor

With this article, North Carolina Insight *launches its newest feature, which periodically will examine the executive branch of state government and its role in public policymaking. This initial column compares the competing economic development plans put forward by the state's two top executives, Gov. James G. Martin and Lt. Gov. Robert B. Jordan III.*

Two thousand miles west of the State Government Mall in Raleigh, a Montana entrepreneur wants to establish a wildlife park the size of the state of Maryland. The developer envisions multiple tourist uses for the park—including buffalo hunting. Whether armed with high-powered rifles or cameras, he contends, tourists would flock to the Great Plains, and economic development would follow.

While Montana may just be turning to buffalo hunting as a tool of economic development, North Carolina is just entering its post-buffalo hunt era. In the Old North State, "buffalo hunt" has been a metaphor used to describe the state's decades-old policy of recruiting mammoth out-of-state industries for relocation to North Carolina. But in the latter part of the 1980s, the buffalo hunt is over.

The N.C. Economic Development Board, in its "Blueprint for Economic Development," says, "There is general consensus within the state's development community that future competition among states for investment dollars for both manufacturing and non-manufacturing will be greatly increased. There are now over 10,000 development organizations within the United States. We know that in 1984 there were only 1,200 major manufacturing sitings in this country; thus, it is clear . . . that the 'buffalo hunt' is becoming more scarce."[1]

This realization that industrial recruitment—the cornerstone of the state's economic development strategy for decades—will play a diminishing role in the creation of new jobs in North Carolina has sparked creation of two major economic development plans over the past two years. One, the Blueprint for Economic Development, was designed as Republican Gov. Jim Martin's policy statement on economic development. The other, the report of the N.C. Commission on Jobs and Economic Growth, was the brainchild of Lt. Gov. Bob Jordan, a Democrat, who steered creation of the commission through the General Assembly in 1985.[2] Because the two men are likely opponents in the 1988 gubernatorial campaign, the documents are just as important for political as for economic reasons.

To no one's surprise, the economic development ideas of these two very different politicians differ significantly—even in size and detail. The Martin administration Blueprint, drafted largely by former Secretary of Commerce Howard Haworth, is relatively thin, running to only 14 pages and addressing the subject mostly in generalities.[3] By contrast, the Report of the Commission on Jobs

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and Economic Growth runs 61 pages, plus appendices, and is accompanied by a follow-up study of rural growth problems in North Carolina produced for the Commission by MDC, Inc. of Chapel Hill, a private, nonprofit employment research group.[4] Both the Martin and the Jordan plans examine the problems of economic growth in detail—Jordan's far more than Martin's— and both serve as a guideline to how the two officials would approach economic development. Some aspects of each plan require legislative approval before they can be implemented.

The Echo Effect

The Martin Blueprint and the Jordan Report are quite similar in some major regards. Both, for example, start with the basic premise that education is the most critical element of any successful economic growth plan. "The most important ingredient required for continued future economic development momentum is dramatic improvement in the quality of our primary/secondary public school delivery system," says Martin's Blueprint. Jordan's Report, in listing 14 education recommendations, described educational improvements as investments in the state's human resources.

The two plans also recognize the need to improve upon the state's infrastructure of public works. Both plans advocate spending for water and wastewater treatment facilities, better roads, and ports.

Both plans also recognize the government's job of providing basic support to private business. For example, both advocate establishment of government clearing houses for market and work force information. And both recognize the need for government to get out of the way, sometimes. For example, both plans advocate one-stop business licensing, an innovation designed to reduce government hassle a businessman encounters when beginning a new venture—though Jordan's proposal would let businesses arrange for all state permits through one office while Martin's would not.

And both plans call for emphasis on rural economic development. The Martin Blueprint calls for a "Non-Metropolitan Task Force" to guide "economic development 'hubs'" in rural areas. The Jordan plan calls for a "Rural Economic Development Center" to create an "action agenda for rural economic development."

Common Goals, Divergent Strategies

Despite these common goals, the plans' similarities end when it comes to the two officials' strategies for economic development. Martin says the state should provide the basics of an educated work force and a working infrastructure, and then step aside. "Our nation, unlike any other nation in the world, was founded on the principle of limited government," Martin, expanding on his Blueprint, said at the Emerging Issues Forum at N.C. State University in February. "It has been that principle which has given wings to the human spirit. And it has established an environment in which private enterprise has flourished and become our great source of jobs and wealth and abundance."

Jordan, however, says government must be used as a partner in the development of new businesses. "We're going to have to use government," Jordan said in a speech to the N.C. Retail Merchants Association in February, when he also elaborated on his report. "The government is going to have to create some jobs."[5]

A sports metaphor may best illustrate the differences in approach of the state's two top officials. Suppose North Carolina sought to build for itself a basketball industry. Martin would contend that the state should teach people to play the game, and to build courts on which they could play. With those basic elements in place, Martin would argue, the marketplace would go to work to attract an industry around a highly skilled basketball population.

Jordan's approach would be similar to Martin's, but would seek other ways to capitalize —such as developing companies to silk-screen the uniforms, print the game programs, market the half-time hot dogs, and even grow the hot green peppers for the nachos-and-cheese platters.

The Martin administration bristles at this analogy. "We already do that," says Commerce Department spokesman Sam Taylor. "But we wouldn't give a low-interest loan to the hot dog company."

How do these two different strategies manifest themselves in specific proposals? Let's look at several. Anyone who wants to start a new business needs money, but it is North Carolina's misfortune not to be a fount of speculative capital.[6] This lack of start-up money may explain why the nation's two other centers of high technology research—Silicon Valley, Cal., and Boston, Mass., have seen explosive indigenous entrepreneurial development while the Research Triangle continues to grow mostly from outside business relocations and some expansion of existing companies. Obviously, more venture capital would help, and both plans seek to increase the amount of venture capital available in the state. But they would go about it in markedly different fashions.

Comparison of Economic Development Plans

	Martin's Blueprint	Jordan's Report
Education:	Emphasizes need for improvement in elementary and secondary education; Supports Basic Education Plan; Supports school bond issue; Promotes teacher career ladder plan	Puts forth 14 specific recommendations for improving education; Supports Basic Education Plan; Supports school bond issue
Public Works:	Supports water/sewer bond issue and promotes spending for roads, bridges, ports facilities	Recommends 13 steps to promote and ensure adequate public works facilities and services
Rural Development:	Rural Development "Hubs" guided by "Non-Metropolitan Task Force"	"Rural Economic Development Center" to set agenda for rural development*
Licensing:	Office in state Department of Commerce to counsel businesses on obtaining permits from Commerce Department only	Comprehensive office to help arrange for *all* state business licenses and permits**
Venture Capital:	Authorizes state trust funds to invest in private venture capital funds	Creates governing body to direct a state venture capital fund
Tax Incentives:	No direct tax incentives to business to create jobs; However, would eliminate intangibles and manufacturers' inventory taxes	Selective tax credits to certain industries which agree to create new jobs in depressed areas with high unemployment
Growth Strategy:	Courts major infrastructure projects such as Superconducting Super Collider and various technical research centers; Enhances business environment; Promotes small business	More emphasis on "Growth From Within" rather than on winning big federal projects; Promotes job creation; Promotes small business

* Identical bills pending in N.C. General Assembly (H 195 and S 35) to accomplish goal of Jordan Report.

** Identical bills pending in N.C. General Assembly (H 109 and S 82) to accomplish goal of Jordan Report.

Jordan's Commission on Jobs and Economic Growth did not endorse a specific venture capital strategy, but Billy Ray Hall, executive director of the commission, says it is obvious that "the state needs to establish a start-up, or seed-capital, fund. We advocate that the government do something with venture capital. Maybe, like Arkansas, we could provide a tax credit for venture capital funds." The Jordan approach would have the state create a quasi-governmental body that would control the venture capital fund. Tax credits or government incentives would lure money into the fund.

Martin also would involve the government, but in an entirely different approach. Martin worries that the Jordan idea for government funding of a venture capital fund "would likely degenerate into pork barrel—like political decisions as to who would be favored." Instead, Martin proposes that the legislature authorize the investment of state trust funds in private venture capital funds. "The legislature would authorize the state trust funds (such as the state employee pension fund) to make investments in investment quality venture capital funds," says Commerce Secretary Claude E. Pope, who was head of Martin's Economic Development Board when the Blueprint was written by Haworth.

"We don't think the trust funds should be directed to do this (invest in venture capital funds)," Pope says. Martin would only seek to give the state trust funds the authority to invest, if their directors sought to do so. The Martin plan would require the State Treasurer to approve which funds could be used for investment. But directors of these trust funds may be reluctant to commit, for instance, retirement funds to risky ventures—even those that promise high returns if successful. Martin also is working on a plan to deposit state funds in certificates of deposit with banks that agree to make that money available to small businesses for long-term, fixed-rate loans, and also to develop a secondary market for small business loans to encourage lenders to make more capital available.

The debate over venture capital includes another basic difference in the two plans. While Martin is opposed to *any* form of tax incentives, Jordan favors their use. In the Jordan plan, tax incentives would be used selectively for expressed purposes. Hall says the state should direct tax credits to industries willing to create new jobs in economically distressed areas. "Let's say, hypothetically, that we offered a tax credit for new jobs created in, say, the state's 20 counties with highest unemployment," Hall says. "Our job is to find a way to get the business community to pay attention to these hardest hit areas. At least with these tax credits, a businessman would want to go and see if he could put his job opportunities in these counties."

But the Martin Blueprint calls tax incentives "expensive giveaways," and argues that they would not be a cost-effective lure for bringing out-of-state industries to North Carolina. The Blueprint says that existing industries would resent the fact that newcomers, and possibly competitors, were getting tax breaks from the state. In that sense, the incentives would be counterproductive. Martin argues that such tax breaks are so selective that they raise the basic fairness question, "Who decides who gets a tax break?"

Yet Martin's Blueprint is not devoid of tax breaks for business, setting up an obvious contradiction for the Governor. On one hand, Martin's Blueprint argues that "One does not successfully merchandise a quality product simply on price." The Blueprint then lists the state's many qualities that industry should find attractive, including "one of the nation's 10 lowest tax rates with taxes existent." Tax incentives, Martin argues, would only drain needed resources away from education improvements.

On the other hand, several pages over in the Blueprint, Martin reverses course and argues *for* a specific tax incentive—the elimination of the inventory and intangibles taxes.[7] Martin argues that this would be fairer than selected tax breaks because it would affect businesses across the board. Ironically, however, such a move would drain far more revenue from the state treasury than would Jordan's limited and targeted tax incentives. The Martin proposal to cut inventory and intangibles taxes would cost $180 million each year in lost tax revenues, according to General Assembly Fiscal Research Analyst David Crotts; the Jordan plan would cost about $50 million in tax revenues over *an eight-year period*, according to the N.C. Department of Revenue. Martin advocates further tax cuts while Jordan advocates retention of the current tax structure with increased government spending on programs aimed at encouraging business development.

Both plans also have budget costs for certain new programs. The Martin plan would cost $3 million the first year and $2.5 million the second if adopted in toto; the Jordan plan would cost $2.6 million in 1987-88 and $4.5 million the following year.

Curiously, while Martin calls for eliminating the inventory and intangibles taxes in his Blue-

— continued on page 52

From The Center Out—

action by the Committee on Aging, in summary, are:

1. to hold public hearings or take Representative Locks' suggestion to hold a statewide conference so that you can hear directly the needs of older adults;

2. to examine the types of senior centers that can best work in North Carolina and to help fund a meaningful network of such centers in every county;

3. to decide whether the state should get involved in catastrophic health care or leave that to the federal government;

4. to ask the Secretary of Human Resources to present a plan documenting the needs of the elderly and what the state's role should be in meeting those needs; and perhaps most importantly,

5. to examine the long-term care system—both the services within the system and the budget for the next five to 10 years.

"The rapid growth in the size of our population 65 and over has caught us unprepared, conceptually as well as pragmatically, to deal with many of the issues our society faces," John Cornman, the executive director of the Gerontological Society of America, told our forum in Asheville. Cornman ended his speech quoting Robert Ball, a former U.S. Social Security Administration Commissioner. Let me close the same way today: "We owe much of what we are to the past. We all stand on the shoulders of generations that came before. They built the schools and established the ideals of an educated society. . . . Because we owe so much to the past, we all have the obligation to try to pass on a world to the next generation which is a little better than the one we inherited, so that those who come after, standing on our shoulders, can see a little farther and do a little better in their turn."

In The Executive Branch

— continued from page 43

print, the Governor did *not* propose cutting those taxes in his 1987 budget. But on May 15, 1987 Martin did propose cutting intangibles taxes.

One final example illustrates how the two plans differ: Both men advocate expansion of the state's intellectual infrastructure, the complex of research and technology facilities that has spawned growth in the urban areas, particularly the Research Triangle. Jordan, as a state Senator, supported creation of business incubator facilities and the N.C. Biotechnology Center. Martin, in his first year as Governor, recommended an end to biotechnology funding but later changed his mind in the face of legislative opposition to his plan. Martin now offers four major intellectual infrastructure projects: the Superconducting Super Collider and three research and technology centers in the Triangle. While Jordan has a record of promoting the establishment of *state* facilities, all four of the projects backed by Martin depend on the *federal* government. The collider is a massive U.S. Department of Energy project for which a number of states are competing. The three research and technology centers—on biomedical engineering, textile engineering, and electronic materials research—will be awarded by the National Science Foundation. For a Republican Governor friendly with a Republican president and with a Republican U.S. Senator in a position of seniority—both of whom can direct some federal favors to North Carolina —this may be a promising strategy.

Perhaps that difference highlights the basic difference between the Martin and Jordan plans. Martin feels that if the state lays the groundwork for economic development, someone else will pick up the ball and dribble with it. If the state educates its work force and provides a healthy infrastructure, businesses will move here, the federal government will award major research facilities here, and the state will enjoy continued economic growth, Martin argues.

Jordan calls that the "status quo" policy. He says that along with educational and infrastructural improvements, the state must go a step further to assist "growth from within." Jordan is not betting his chips on the federal government's largesse, but instead seeks to foment growth from within these borders. The state ought to identify its resources, be they healthy forests or a basketball-crazy population, and capitalize on them by assisting and guiding growth from one end of the court—or the state—to the other.

FOOTNOTES

[1]"North Carolina's Blueprint for Economic Development: A Strategic Business Plan for Quality Growth," N.C. Economic Development Board, N.C. Department of Commerce, April 1986, p. 3.

[2]"Report of the N.C. Commission on Jobs and Economic Growth," Office of the Lieutenant Governor, November 12, 1986, created by a special provision in the 1985 budget bill, Chapter 757, Section 52 of the 1985 Session Laws.

[3]For more on the development of the Martin administration Blueprint, see "Who Makes Economic Development Policy?" by Ann Sternlicht and Bill Finger, *North Carolina Insight*, Vol. 8, No. 3-4, April 1986, pp. 31-32. This issue also serves as a general resource on state economic development policies.

[4]"Three Faces of Rural North Carolina: A Summary Report to the N.C. Commission on Jobs and Economic Growth," by MDC, Inc., Chapel Hill, December 1986.

[5]"Economy becomes stage for Martin-Jordan battle," by Steve Riley, *The News and Observer*, Feb. 9, 1987, p. 1C.

[6]"Small Businesses: Big Business in North Carolina," by Todd Cohen, *North Carolina Insight*, Vol. 8, No. 3-4, April 1986, p. 57.

[7]For more on the arguments for and against the inventory and intangibles taxes, see "Rendering Unto Caesar—A Taxing Problem for the 1985 Legislature," *North Carolina Insight*, Vol. 7, No. 4, April 1985, pp. 2-23.