

An Interview with Howard H. Haworth

Howard H. Haworth, 51, became North Carolina's Secretary of Commerce January 7, 1985, when he was appointed by Gov. James G. Martin. Haworth had been chairman of the board of Drexel Heritage Furnishings, Inc. in Morganton and previously served as its president and chief executive officer.

A native of Buffalo, N.Y., Haworth was reared in High Point and graduated from Guilford College, where he was a three-sport letterman and a Rhodes Scholarship nominee. He is vice chairman of the Board of Trustees at Guilford College, a former member and president of the Board of Trustees of Grace Hospital in Morganton, a member of the Executive Board of the Piedmont Council of the Boy Scouts of America, and a member of the Board of Directors of the North Carolina Citizens for Business and Industry. *Insight* Associate Editor Jack Betts conducted this interview on Nov. 13, 1985.

What is the North Carolina Commerce Department doing for economic development? What can it do, and what does it do?

The Commerce Department has a wide variety of functions. We are primarily a catalyst for economic development. Quite often we are the locators of new companies abroad or in other parts of the United States who wish to come here. We work as partners with a number of cities in North Carolina and towns and communities who through their own development efforts locate an opportunity and want us to provide the tools and expertise and people they need.

There are almost 400 individuals and institutions that we've identified who are involved in economic development and who get up every morning to do that job. That is a very reassuring thing to me as Secretary of Commerce. It is a partnership, so to speak. Obviously banks, county developers, chambers of commerce, and many, many more professional institutions and indi-



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viduals are working on economic development. With that many different pieces of economic development prospecting going on, one of the keys is how to better coordinate their efforts. The Commerce Department can be a very important nerve center for coordination.

The Commerce Department's role spans the whole panorama of economic development, including aiding with financial sources, recruitment, the state's ports, and developing import and export opportunities for small, intermediate, and large businesses in North Carolina. Our agenda emphasizes three elements: traditional industries; high-tech industries, whether small business, intermediate or large business; and then the service or non-manufacturing sector. We really don't make much of a distinction.

Our plate is abundantly full this year because we have broadened the agenda at the Department of Commerce. We feel it is just as important to recruit a major new high-tech industry; it is just as important to partner with an existing traditional industry; it is just as important to have a Small Business Development Division to aid a small business person to become more sophisticated; and to at the same time pursue the American Expresses of the world or the Royal Insurances of the world, or any number of other service or non-manufacturing units.¹

The most recent projections are that nine out of every 10 jobs in the next decade will be non-manufacturing jobs. The manufacturing industry is 21 percent of our current GNP generation. That suggests that 79 percent of the ball game is in the non-manufacturing and service sector. Obviously, we must pursue the manufacturing sector while at the same time providing adequate recruitment efforts for non-manufacturing opportunities as well.

You've seen this from two angles, first in your previous position in manufacturing, and now as Secretary of Commerce. Under previous administrations, North Carolina was said to be at the top nationally in economic development. Is that reputation deserved?

North Carolina is much better than the average state in economic development activities, certainly one of the leaders. It is difficult to specifically add up all the factors in a relevant, apples-to-apples sort of comparison. I think North Carolina is number one in certain things. Economic development and recruitment hinge on whether you can bring a larger list of positives to the selling table than other states, and there are many states that have *part* of what North Carolina has to offer, but not many states have *all* of what we have to offer.

North Carolina has a great university system, above-average infrastructure, including roads, airports, and ports, a pro-business attitude, a reasonable and balanced tax structure for the most part, except for inventory and intangibles taxes, excellent research facilities, and a strong work ethic, among other things.

How good are we? It's really a tough question to answer in absolute accuracy. I think the better way to say it is that North Carolina is very special. It's an outstanding product for a salesman to have in his bag. I used to be one, and now I am in a different way, and it's a great state with a tremendous number of positives to take out in the recruiting battles and the economic development competition battle, a battle where that competition is much keener today than it's ever been before.

What is the so-called transition economy in North Carolina all about? What changes does it herald for North Carolina?



The transition economy is complex in some respects, but it's not terribly difficult for me to describe. We are seeing a contraction of some of our traditional industries, and that contraction has been highly publicized for some, particularly the textile industry, and to some degree in the agricultural industry. I don't put furniture in that category, and I might quickly add that your readers might say, "Well, he comes from the furniture industry, so he wouldn't," but let me tell you why I don't. The furniture industry continues to be larger than it used to be, so that's not a contraction. It does, however, have some import competition problems that are growing. I don't think they're going to follow the same pathway as has occurred in textiles because of the differences in the two industries.

The transition exists in part because of this contraction occurring to a dramatic degree in the textile industry. That industry has lost upwards of 100,000 jobs in the last 10 years in this state alone. That's a major contraction and we know it has been caused primarily by an onslaught of low-cost imports that have simply made it very difficult for certain segments of the textile and apparel industry to continue to be competitive in the marketplace.

Agriculture is somewhat of a different situation. We are concerned that tobacco is under a lot of pressure—pressure in terms of adequate prices to support production, and the actual investment by the farmer growing the crop. We're seeing a lot of pressure coming from the health care question. The U.S. Surgeon General went so far recently as to say that in his opinion, by 1995, smoking would be outlawed in public places. That's pretty strong language. That doesn't necessarily make it true, but that's a strong comment. You would have never heard that comment 20 years ago.

But while there are disturbing contractions occurring, there is also exciting expansion. High-tech manufacturing continues to grow impressively with sitings and expansions such as Northern Telecom and BNR in the Research Triangle Park; B.F. Goodrich in Norwood; DuPont-N.V. Phillips' joint venture in Kings Mountain, and so on. The service industry, too, is on the move, with new job opportunities covering a large panorama. As I mentioned, American Express is one specific company in the service sector. We sited them in Greensboro in April 1985, after competition with the state of Virginia. That means 2,000 jobs and a \$65 million investment. That's significant. All communities in our state are going to have to have strategies to identify and pursue such companies because 80 percent of our economy is being fueled by the non-manufacturing sector. Also, a major non-manufacturing growth area for us is travel and tourism, which, at more than \$4 billion annually, ranks among our top five industries.

A large textile manufacturer made a key point with me recently. He said we *are* high-tech, and he said we ought to walk out and see how many plants have modernized and see how many people there are out there. Look at the capital-intensiveness versus the older labor-intensiveness. Those machines out there are state of the art. We *are* high-tech. We get so enamored with cliché phrases. If you ask somebody what they mean by "high-tech," you will almost always see them begin to stumble and fumble for a definition. There should be a better understanding of the term. However, the Governor said something that I like very much. He said, "I'm for jobs, whether it be low-tech or high-tech or anything in between."

When the use of high technology in those traditional industries enables them to remain profitable, does that necessarily mean increased automation and fewer jobs?

Sometimes it does mean fewer jobs, but not always. There's a major company in this state, one of the largest, that is going heavily into robotics, but they do a marvelous job of retraining those displaced so that job loss does not occur. So, while in a short-term sense there may be fewer jobs of a certain type, in a long-term sense, a great part of our future strength in this country economically and jobwise depends upon the technology. The "high-techness,"—the modernization, and the competitiveness that comes from it allows us to spend more capital for other expansions and other developments which have job implications. So I would not want to look at automation so short-sightedly as to say that it eliminates jobs. High-tech automation really ultimately becomes the creator of more jobs.

Does the Commerce Department actively recruit industry, or does it, as some officials have said in the past, really react only to those companies that first express an interest in coming here?

It's some of both. The Commerce Department participates in a large number of forums which we hope will attract the attention of those who make the decisions about expansion, movement, siting plans, and so forth. We present our program to companies all over the United States and, for that matter, the world. We conduct trade missions, such as our recent trade mission to Japan. We participated in a U.S. Southeast-Japan conference that gave us the opportunity to learn about some of the creative things they're doing in the Pacific Rim area. It gave us the opportunity to get our hands, first-person, on the shakers and movers of Japanese business. We have 37 Japanese firms sited here in North Carolina now and further expansions and sitings are expected in the future.

We have also conducted missions to Europe. In addition, we work with many of the larger cities in the state who have their own missions but who may consult with us about certain ways to package and sell North Carolina in their missions. So the answer is that we're not simply sitting waiting for somebody to come knock on the door, to call us and say, "We're thinking of expanding and we'd like to come sit down with you to tell you what we're looking for and let you help us find a site, find a building." We're out and about selling North Carolina, not knowing many times who's listening.

There are other times, however, when a contact is provided to us or somebody calls us to say they want to come look at the state. That's when we bring out the helicopters, our extensive inventory of available buildings in the state, and so on. We have every building in the state that is vacant today on our computer. We know about infrastructure, airports, locations, schedules, who flies in and out, and where they go. We know the highway system, we know where the water and sewers systems are adequate, where the gas lines are across the state.

So it's a combination. Sometimes it's passive in the sense that they come to us, but a great portion of the time it's active in the sense of our reaching out in a wide variety of ways to sell North Carolina. What comes to us seemingly passively might have been the result of something we did two or three years ago when the thought stuck in somebody's mind that one of these days we're going to need to build a plant, and North Carolina would be a great place to put it.

Are there ever cases in which you hear from an industry or a company that wants to locate here, but for certain reasons—whether legal or financial or environmental—you don't want to recruit them and don't want them here?

We have on occasion. It's rather rare, but we have occasionally decided against recruiting a company that is financially troubled. We do have occasions, very rarely, where something will come to our attention or we'll get a contact and we'll get into it a bit, and decide that it really is not going to fit, it's not financially very feasible, and we have grave questions about their plans for location or their ability to get adequate financing. We'd better say that we enjoyed visiting with you but we really don't believe this is the place for you. But that's rare.

Is it worthwhile for the state to put a lot of time and commitment and resources into trying to recruit the really big plants, like Campbell Soup or Cummings Diesel? Do they always turn out to be as good as one hoped in terms of big

employment, big investment, or are there drawbacks?

My personal feeling is that we ought to be very, very aggressive with the large company opportunities, though not to the exclusion of the intermediate and smaller opportunities. But complications that you might have from larger companies, and I quite frankly can't give you a list of those complications, are far outweighed by the positives they bring in terms of numbers of jobs, the tax base enhancement, and so forth. I have a very positive feeling about recruiting large companies. But it's important to remember that 97 percent of the businesses in North Carolina are small businesses employing 100 or fewer people.

We should always pursue aggressively the development of our small business community. And to that end, we have created a division—one that did not exist previously here in Commerce—to put together small business development. That division is a combination of all the increments that already were in Commerce that naturally relate to small business development. We've just completed 10 small business forums all over the state to hear what small business people say have been their toughest things to cope with, and what their greatest needs are. We want the program to be need-driven, not bureaucratically assembled.

The statistics tell us that the small businesses are already providing the bulk of new jobs in North Carolina. In what fields are those jobs?

They're scattered all over the lot. There are some manufacturing, but a lot of small businesses are in the service sector or non-manufacturing category. One thing you have to remember is the demographics of what's happening to our population. The post-war baby boomers are now 30 years old or more, and they are an enormous group presenting many opportunities for the development of small service-oriented businesses. Our health care is improving by leaps and bounds, so our population is living longer, and this whole movement has enormous implications and is one of the reasons for the projection that nine out of 10 jobs will be in the service sector.

What role should state government have in helping small businesses to find the financing—or venture capital—they need to start operating?

We're studying that right now. We are involved in discussions now on what we need to do and can reasonably do to put a financing increment into the Small Business Development Division. Our forums told us that one of the most important things to that crowd is reason-

able ease—not necessarily unrealistically cheap financing—but reasonable ease of access and direction in seeking and achieving financing.

Should it be venture capital or some sort of privately-managed loan fund?

Those are two of the many things we are going to have to determine. One comment on venture capital: It is very important to economic development in this state. North Carolina is a very poor capital formation state. All the studies will show you that we rank very low. One of the reasons we rank low is the intangibles tax. That tax very badly needs to be repealed. It is looked upon as tax relief for the rich man, but that is a foolish, shortsighted way to look upon the repeal of that tax. Repeal is the trigger mechanism for a considerable amount of capital formation in this state.

Is that more of a deterrent than the inventory tax, for instance?

I'd rather not say more of a deterrent. We got no relief to speak of on intangibles taxes in the 1985 General Assembly, though it's more of a deterrent because we did get some relief on inventory taxes, but they are both big problems. None of the states contiguous to North Carolina has either one.² I am sure the Commerce secretaries of surrounding states talk to clients we are competing for about North Carolina's intangibles and inventory taxes. We know that this occurs from time to time with other Southeastern states in the intense battle for economic development and there have been some companies lost on that basis.

What would you want to see in the next few years regarding international trade as it evolves? Will there be more foreign investment in North Carolina? What about exports?

You're going to see us continue to be very aggressive in terms of trade missions to both western Europe and the Far East. The Pacific Rim—Japan, China, and other nations in that part of the world—will, in my opinion, be one of the two most important trading centers for this country and for our economic well-being for the next 50-100 years. The key is to get a fair and balanced playing field. Free trade is one thing but we've got to have free and fair trade. Markets in the Pacific Rim area must be opened more thoroughly to U.S.-manufactured goods and services.

A balanced playing field, equally open markets, ease of access to our markets and theirs are musts. That is a far better strategy than to see us deteriorate into protectionism and

isolationism, which will be a detriment to both our countries. I think you're going to see a lot more contact with the Pacific Rim, maybe to a lesser extent Europe, but you're going to see a lot of reverse investment in the future. That is investment from abroad to here.

What role if any does the Department of Commerce have in such things as worker retraining or technical education? Is there a relationship with the Community College system, for example?

Let me cast a major accolade to the Community College system. Our Community College system is the third largest one in the U.S. with 58 community colleges. It is an outstanding economic development tool for the purpose of training certain types of labor that are needed for certain types of industries we recruit.

They also have a very major responsibility that benefits the department and the whole state, and that is their Adult Basic Education Program. We've got 800,000 adults in this state who can't read. We've got to correct that. We've got to improve the delivery system at the primary and secondary school level because if we don't do those things, we're not going to have labor with the adequate education to match the shift in the type of jobs that we're going to be recruiting. Many of those jobs will require computer skills or the ability to read computer display terminals, or will require math and science skills in order to be trained to handle these jobs.

As far as retraining and technical education, we have certain responsibilities through our Employment Security Commission. We have 87 offices across the state with 2,000 employees. They are involved up to their earlobes in working with people who are dislocated, people who are in search of jobs, need help in relocating and becoming re-employed.

What other built-in detriments to economic development does North Carolina have?

A critical element in economic development is an adequate infrastructure—the highways, bridges, ports, water and sewer facilities, and the like. We've got the largest highway system in the United States, with 76,000 miles of road, 18,000 miles of it unpaved. That is a blessing and somewhat of a burden. The upkeep is a burden to the state. The blessing is we've got roads to more and more places than other states. That's a help in economic development.

We have identified, however, approximately \$1.5 billion to \$2 billion in needed projects. Not dream projects, but just basic need projects. That's got Secretary of Transportation Jim Harrington burning the midnight oil to

think of creative ways to alleviate that problem. It's a long-term problem. Even with a lot of help, there is something like a 60-year backlog at the present rate of construction.

What about balanced growth? Is that a policy that is effective? Or is the Balanced Growth Act just a lot of verbiage?

The Balanced Growth Policy Act is the declaration of the state's balanced growth policy.³ And it waxes on fairly thoroughly about the matter. The thrust of it is to find more and more creative ways to spread economic development particularly to eastern and western North Carolina. We absolutely must find better answers to cause that to happen. But I don't really like the term "balanced growth." I don't care what you call the effort—to me the effort is rural economic development for the most part, and we do have to get a lot better at that.

We're entering into a period where we must do a better job of creating economic growth in rural areas as well as in urban areas. We accept that as a major challenge. I hope the legislature will see fit to reconsider the term "balanced growth" because I think it's a myth. It connotes something that is not really doable, in the sense

of the term. "Balanced growth" would require that the 100 counties have equality of growth in each. But we're not going to have exactly the same amount of economic development in each of the 100 counties. So I think the term balanced growth tends to connote or send a message to those who so desperately want it, that in our great wisdom we're going to deliver to them equally on a county-by-county basis. That's not in the cards. ☐☐

FOOTNOTES

¹American Express is opening a credit card service facility in Greensboro, and Royal Insurance is moving its corporate headquarters to Charlotte.

²For further information on intangibles and inventory taxes, see *North Carolina Insight*, Vol. 7, No. 4, May 1985, "The Tax Debate of 1985," pp. 2 to 23. In this series of pro-con articles, some writers agree with Haworth, and others contend that neither tax is a significant deterrent to recruiting industry. A number of studies are cited in the articles.

³NCGS 143-506.6, "Declaration of State Balanced Growth Policy," was adopted in 1979 to bring more and better jobs to where people live; to encourage the development of adequate public services on an equitable basis for all of the State's people at an efficient cost; and to maintain the State's natural environmental heritage while accommodating urban and agricultural growth.

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