Making the Transition to a Mixed Economy

by Bill Finger

Two hundred and sixty years ago, North Carolina's economy was literally homegrown. At least 95 percent of the state's inhabitants depended on agriculture for their livelihood. "The abundance of land, the ease of acquiring it, and the relative scarcity of capital and labor were fundamental factors in determining the economy, social order, and political character of North Carolina," writes historian Hugh Talmage Lefler.[1] In subsequent years, poor whites and slaves—who couldn't acquire land with ease—helped build the agrarian culture that evolved.

As late as 30 years ago, North Carolina's economy still revolved around the land. The textile mills, which had grown up along the rivers and waterways of the state, spun record amounts of cotton into fabric. The rural counties depended upon the world's best tobacco crop. Fifty-five percent of the state's people lived in rural areas, often making ends meet by combining a shift in the mill with a little patch of tobacco. Textiles, apparel, and furniture plants dotted the rural landscape like familiar road signs.

> ***"North Carolina may not have a golden age to look back to, but it does not have to, for its golden age is now."***
>
> —DANIEL ELAZAR

By 1970, North Carolina had not gone through the dramatic transition from an agricultural to an industrial economy that the Northeast and parts of the urban South had. To be sure, the state had gone through a kind of intermediate transition. But when the textile and furniture mills sprung up in the late 19th and early 20th centuries, they did not transform the state's agrarian society. In perhaps the most distinct industrial "revolution" in the nation, this manufacturing base in essence integrated itself into an agricultural society.

Not until the mid-1970s did North Carolina lurch into a major economic transformation—from a rural culture dependent upon agriculture and predominantly low-wage industries to a more urban economy increasingly relying upon the service and trade sectors for jobs. "The Tar Heel state has become a genuine national test case of the ability of a society to make a fundamental economic transition," said Ferrel Guillory, a former editor at *The News and Observer* in Raleigh and now director of the Program on Southern Politics, Media, and Public Life at the University of North Carolina at Chapel Hill.

In 1973, 36 percent of all manufacturing jobs in North Carolina were in textiles—290,000 jobs.[2] By October 1985, the figures had dipped to 25 percent and 206,000 jobs. More than one of every four textile jobs in North Carolina had vanished in just 12 years. The decline has since stabilized. In 1995, 23 percent of all manufacturing jobs in this state were in textiles—197,900 jobs. This fundamental change in

Bill Finger was editor of North Carolina Insight *from 1979–88. He now is a senior writer/editor with Family Health International.*

the state's leading industry came from two factors: continued modernization of this heavily labor-intensive industry, and an increase in imports, which, in effect, was an export of textile jobs to Taiwan, Korea, and other lower wage countries. From 1980 to 1984 alone, the foreign share of the American apparel market climbed from 21 to 50 percent.

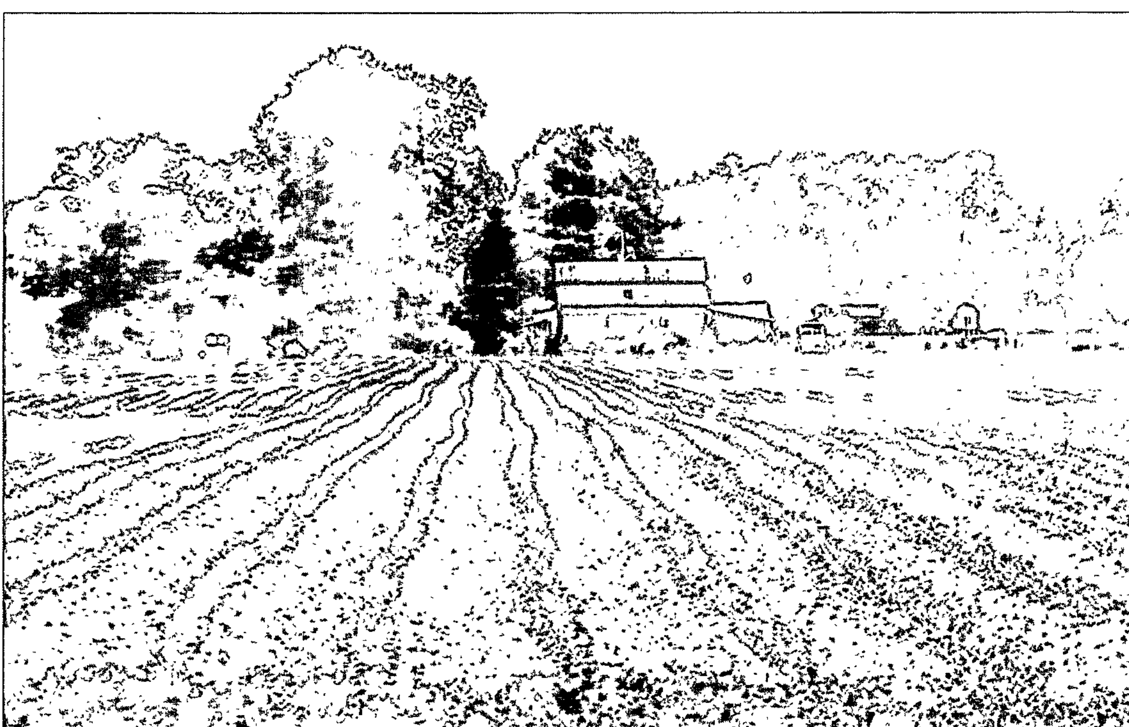
From 1970 to 1980 to 1990, while manufacturing jobs dropped from 40 to 35 to 28 percent, the portion of the state's jobs outside of factories grew from 60 to 66 to 72 percent. By 1995, that figure was 75 percent. (See Table 1.) "We're seeing a full-fledged evolution of a dual economy," says Greg Sampson, former director of research at the N.C. Employment Security Commission, within the N.C. Department of Commerce. "The metropolitan areas are the seedbeds of the service-based economy, especially personal and information services. The non-metropolitan areas are weaker due in part to a lack of attractiveness to new industry of all kinds." But manufacturing remains an important component in the overall economy of the state.

Tobacco also has failed to hold its own. From 1973 to 1985, tobacco manufacturing employment—always small relative to textiles—declined by 8.2 percent, from 28,100 to 25,800 jobs. But since then, the decline has become more pronounced: by 1995, there were only 17,400 tobacco manufacturing jobs in the state. And, on the farms, tobacco has dwindled from the mainstay of the state's agriculture to a crop with an uncertain future, highly dependent upon the federal price support system and under public attack from anti-smoking activists and public health advocates. In 1950, 60 percent of total farm cash receipts in North Carolina came from tobacco. By 1984, tobacco accounted for only 24 percent of receipts. For the first time, poultry products (27 percent) passed tobacco as the leading agricultural commodity in the state. That trend has continued: in 1996, 29 percent of receipts came from poultry products, 22 percent came from pork products, and only 13 percent came from tobacco. Agribusiness has replaced agriculture in North Carolina, as corporations with diverse interests such as poultry and hogs, replace family farms that grew tobacco.

These figures suggest three transitions that are underway in the state's economy:

- a shift within the *manufacturing sector* from labor-intensive to capital-intensive industries—from millhands to machine operators;
- a shift within the *nonagricultural sector* from manufacturing to trade, service, and government jobs—from blue collar to white collar jobs; and

A Pitt County farm field



Karen Tam

Table 1. Nonagricultural Employment in North Carolina, 1960–95

Industry Employment	1960 # employed (in 1000s)	1960 % of total	1970 # employed (in 1000s)	1970 % of total	1980 # employed (in 1000s)	1980 % of total
MANUFACTURING	509.3	42.6%	718.4	40.2%	820.0	34.5%
1) Textiles	228.8	19.1%	280.7	15.7%	245.8	10.3%
2) Furniture	44.6	3.7%	66.2	3.7%	81.5	3.4%
3) Non-electrical Machinery	12.5	1.0%	29.3	1.6%	49.5	2.1%
4) Apparel	35.3	3.0%	75.1	4.2%	88.0	3.7%
5) Electrical Machinery	25.4	2.1%	40.9	2.3%	55.3	2.3%
6) Food	33.5	2.8%	41.4	2.3%	44.0	1.8%
7) Other	129.2	10.8%	184.8	10.3%	255.9	10.8%
NON-MANUFACTURING	686.2	57.4%	1,068.2	59.8%	1,560.0	65.5%
Big Three						
1) Retail and Wholesale Trade	219.8	18.4%	324.5	18.1%	472.9	20.0%
2) Services	127.1	10.6%	217.5	12.2%	341.3	14.3%
3) Government	164.2	13.7%	264.2	14.8%	409.9	17.2%
Little Three						
4) Construction	65.2	5.5%	96.5	5.4%	118.7	5.0%
5) Transportation, Communication, & Utilities	64.5	5.4%	92.1	5.2%	116.5	4.9%
6) Finance, Insurance, & Real Estate	42.1	3.5%	69.5	3.9%	95.5	4.0%
7) Other (Mining)	3.3	0.3%	3.9	0.2%	5.2	0.2%
Total Nonagricultural Employment	**1,195.5**	**100.0%**	**1,786.6**	**100.0%**	**2,380.0**	**100.0%**

Source: Labor Market Information Division, N.C. Employment Security Commission, North Carolina Department of Commerce, "Civilian Labor Force Estimate for North Carolina."

1990		1995	
# employed (in 1000s)	% of total	# employed (in 1000s)	% of total
861.5	27.6%	864.2	25.0%
216.0	6.9%	197.9	5.7%
84.7	2.7%	78.7	2.3%
65.4	2.1%	67.9	2.0%
81.8	2.6%	64.1	1.9%
54.8	1.8%	61.5	1.8%
51.1	1.6%	56.4	1.6%
307.7	9.9%	337.7	9.8%
2,256.3	72.4%	2,595.4	75.0%
715.8	22.9%	794.8	23.0%
592.4	19.0%	762.2	22.0%
492.0	15.8%	550.6	15.9%
163.7	5.3%	174.6	5.0%
152.5	4.9%	164.9	4.8%
134.7	4.3%	144.6	4.2%
5.2	0.2%	3.7	0.1%
3,117.8	**100.0%**	**3,459.6**	**100.0%**

- a shift within the *agricultural sector* from small farms relying extensively on tobacco income to larger farms diversifying into many commodities—including crops but also livestock, dairy, and poultry—often run by corporations or under contract.

These three transitions, working together, are forcing businesses, banks, analysts, planners, and policymakers to anticipate what kind of mixed economy might lie ahead. What kind of jobs can North Carolinians depend on? What kind of new economy will replace the old? Because these three transitions are proceeding at the same time, the evolution to a mixed economy is causing both prosperity and suffering.

Most of the metropolitan areas are booming—in construction, jobs, and population. "This boom is driven by population growth and personal income growth—which is high in metro areas and low in non-metro areas," says Sampson. In 1996, the four most urban counties had among the state's lowest average unemployment rates: Wake County (2.1 percent), Mecklenburg County (3.0 percent), Guilford County (3.4 percent), and Forsyth County (3.3 percent). The overall state unemployment average was 4.3 percent.

Wake County, for example, has been experiencing its most rapid growth in years. In the early 1990s, Wake County was adding 5,000 more people a year than it did during the high-growth 1980s. Permits to build single-family homes had increased steadily to more than 6,200 by the mid-1990s—the level of the mid-1980s boom years.[3] And demographers forecast that the growth would continue. Wake County is expected to attract one-fifth of the state's population growth over the next 25 years.[4]

"Most of the employment problems are in the non-metro areas," says Sampson. In 1996, 22 counties had an average unemployment rate of seven

North Carolina is part of a national transition, moving gradually from an economy based on agriculture and manufacturing to an economy increasingly dependent upon services, computer technology, communications, and information.

percent or more. Most of these counties are rural and in the eastern part of the state (for example, Hyde County, 9.6 percent; Martin, 10.3 percent; and Tyrrell County, 9.2 percent) or the western part of the state (for example, Ashe County, 10.4 percent; Graham County, 12.2 percent). The group even includes counties with medium-sized towns such as Wilson (Wilson County, 8.7 percent), Laurinburg (Scotland County, 7.0 percent), and Lumberton (Robeson County, 9.4 percent).

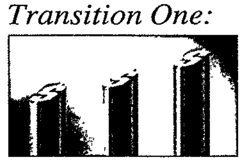
Graham County, a scenic but poor county just south of the Great Smoky Mountain National Park, is among the score of impoverished counties in the mountains and Coastal Plain of North Carolina that lost population in the 1980s and is forecast to continue losing people in the 1990s. In the 1990 census, Graham ranked in the top 10 North Carolina counties in percentage of residents in poverty and in the bottom 10 in per capita income.[5] More than two-thirds (113,000 acres) of the land in the county is owned by the U.S. Forest Service and, therefore, is tax-exempt. County officials say young people tend to leave Graham County to find jobs.

To anyone who travels the state off the interstate highway system, the figures that statistically differentiate urban and rural areas come as no surprise. What is not apparent, however, is how such a dual economy—the boomtowns and the depressed towns—can move through the economic transitions at the same time. How can any state economic development strategy address the needs of such contrasting situations?

North Carolina is part of a national transition, moving gradually from an economy based on agriculture and manufacturing to an economy increasingly dependent upon services, computer technology, communications, and information. The roles that textiles and tobacco have played in the state's history have resulted, however, in some important distinctions between the transitions here and those in other parts of the country. For instance, it was not until the 1990 census that more than 50 percent of the residents of North Carolina were classified as living in urban rather than rural areas. And, North Carolina's traditional industries employ a lot of women. Statewide, 60 percent of women over the age of 16 work outside the home (compared with 50 percent nationally) and 66 percent of women with young children work outside the home (compared with 60 percent nationally). Also, a dispersed population has inhibited the growth of a dominant urban center the way Atlanta, Boston, and Chicago dominate Georgia, Massachusetts, and Illinois. In North Carolina, a rural community, like Lizard Lick or McGee's Crossroads, can lie less than 20 miles from downtown Raleigh.

The evolution of North Carolina into the leading textile, apparel, tobacco, and furniture-producing state accounts for these unique demographics. Because these industries were scattered and paid relatively low wages, both husbands and wives were sometimes drawn off the farm to work. But they continued to live in rural areas. From the 1930s, the federal tobacco price support system, which assigned allotments to specific plots of land, served as an inducement for people to stay on their farms. Often a tobacco farmer held a third-shift job in a mill. Or if a millworker wasn't lucky enough to own a small allotment, he could at least raise a few hogs and a little corn. In recent years, many people who work in a city have continued to live in rural areas, near their roots, often commuting long distances. These historical and more recent patterns have intertwined the state's urban and rural areas.

Transition One:



From Labor to Capital—Factories Take the Leap

"Linthead." For sociologists of the 1930s, no single word better summed up the history of factories in this state. For modern textile officials, no word sounds more inflammatory. A linthead, literally, was a textile worker with fluffs of cotton clinging to his clothes at the end of a shift. In a broader sense, a linthead was any person who knew the rhythm of the shift whistles that kept time in a milltown.

But the textile industry has changed. The cotton dust standards under the federal Occupational Safety and Health Act (OSHA) and the same technology that brought us video cassette recorders and microwaves have made the linthead largely obsolete. Today, robots carry giant rolls of cloth, and water-propelled machines noiselessly weave lint-free cloth. Modern textile workers sit behind a computer screen as well as fix looms. Computer operators now can tell machines where to cut bolts of cloth by viewing the fabric as a graphic on a terminal.

Textile manufacturing increasingly is characterized by capital intensive, high-tech plants. And the increasing skill levels of the textile manufacturing work force are recognized in higher pay. But if things have gotten better in the workplace for those who make the cloth—textile workers, there is less progress for those who cut and sew clothing.

In 1995, 64,100 people—mostly women—worked in the state's apparel industry, the third largest manufacturing sector behind textiles and furniture. Many of these women still turn bolts of cloth into apparel in small cut-and-sew operations. In the 1980s, the apparel industry embarked on the kind of massive capital-investment campaign that the textile industry launched in the 1970s. The aim was to boost productivity and whether because of this or increased competition from imports, jobs are disappearing fast. Between 1990 and 1995, nearly a quarter of the state's apparel production jobs disappeared, leaving about 64,100 workers in the industry. Those jobs that remain pay below those for textile workers as a whole. (See Table 2.)

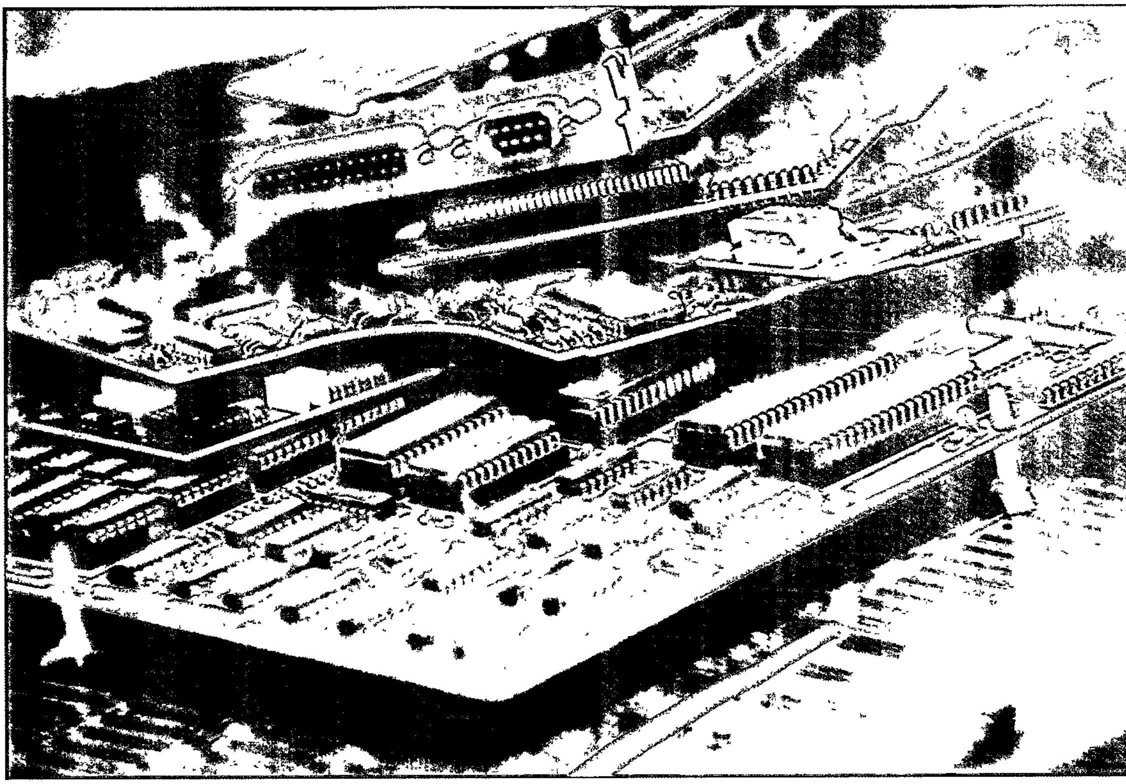
Manufacturing jobs, including those in the textiles sector, peaked in the 1960s. And, textile jobs remained stable, with only small dips and rises, until the oil crisis and recession of 1974–75. The jobs that were lost never returned because the textile leaders had begun to reshape the industry. With modernization as the goal, textile companies launched massive capital expenditure programs "to increase labor productivity, improve quality, and enhance flexibility in order to replace outmoded shuttle looms with faster, more flexible shuttleless machines and to upgrade cotton yarn opening and carding equipment."[6] In 1974, Burlington Industries was the world's largest textile company, employing 81,000 people. Capital investment and divestitures, however, besides improved productivity, less cotton dust, and enhanced flexibility, contributed to a 35 percent drop in Burlington Industries' employment to 53,000 in 1984. In 1997, Burlington Industries employed about 20,000 workers.

> ***They're closing down the textile mill, across the railroad tracks,***
> ***Foreman says these jobs are going boys, and they ain't coming back,***
> ***To your hometown, your hometown.***
>
> —"MY HOMETOWN"
> BY BRUCE SPRINGSTEEN

Textile competitors in Asia—the Philippines, Taiwan, China, Korea, and Japan—have affected the textile market for North Carolina companies as well. The textile industry in this state has been forced to operate more efficiently and to shift to less vulnerable product lines. In some cases, that has meant mergers and sales of entire product lines. The mergers and capital investments reflect the complexity of the textile industry, which makes everything from automobile seat covers to bolts of fabric. Categorizing the changes can be overly simplistic except for one stark fact—many people are losing their jobs.

In 1993, the U.S. Congress passed the North American Free Trade Agreement (NAFTA), allowing the U.S. to enter into a trade agreement with Canada and Mexico. "NAFTA was particularly critical for the textile industry," writes Regina Oliver in the magazine *North Carolina*, published by North Carolina Citizens for Business and Industry.[7] "In the past 30 years, the U.S. has lost an estimated 60 percent of its textile jobs, largely to the Far East. Without NAFTA, according to Guilford Mills Chief Executive Officer Chuck Hayes, the rest of the U.S. textile industry would have evaporated. Because Mexico doesn't have significant textile production capability, Mexican apparel makers look elsewhere for their fabric, and under NAFTA they have incentives to use materials from the U.S. rather than from China, Korea, or Taiwan."

Counties have responded by developing a more diversified manufacturing base to take advantage of opportunities created by such trade agreements and in response to our nation's diminishing proportion of the textile market. In Alamance County, for instance, a tightening of the textile industry's belt resulted in 11.5 percent unemployment in 1983. A more diversified manufacturing base since has helped bring the unemployment rate down to an average 3.6 percent for 1996. Capital-intensive industries that moved into Alamance County hired laid-off textile workers who had been retrained at Alamance Community College. For example, GKN company employed 625 people making drive shafts for the automotive industry, and Honda employed 120 workers making high-priced lawnmowers. These industries reflect the wide range of capital-intensive industries now dependent on computers for everything from production schedules to assembly-line management.



Karen Tam

Other areas of the state, particularly the Research Triangle Park, have concentrated on the computer industry itself, including microchip assembly operations, such as Mitsubishi in Durham. The N.C. Microelectronics Center opened in 1981 and stands as a symbol of state efforts toward attracting more high-tech industries. This center and other programs, particularly the North Carolina Biotechnology Center, are geared specifically toward using computer technology in innovative ways.

These examples demonstrate how North Carolina is coping with the transition within the *manufacturing sector*, from labor-intensive jobs of the past to capital-intensive jobs like computer operators.

Textile manufacturing increasingly is characterized by capital intensive, high-tech plants. And the increasing skill levels of the textile manufacturing work force are recognized in higher pay.

Transition Two:

Services and Trade—Jobs for the Future

In 1995, more than three times as many people worked in *nonmanufacturing* jobs in North Carolina as in manufacturing jobs—2,595,400 compared to 864,200. These 2.59 million plus jobs fall into six major categories, which can be grouped as the "big three" and the "little three." The big three—trade, services, and government—account for 61 percent of all jobs in the state, excluding military, domestic, and agricultural workers. An additional 14 percent of all jobs come from the little three: construction; transportation, communication, and utilities; and finance, insurance, and real estate. All other jobs are in the manufacturing sector.

Trade. In 1970, wholesale and retail trade provided 324,500 positions. Since then, that number has jumped to 794,800 positions, or 23 percent of all jobs. While the growth has occurred statewide, metropolitan areas have reaped the greatest benefits. And no place is thriving more than the state's largest metro area, Charlotte.

Wholesale companies in Charlotte distribute everything from alcohol to zippers. Retail sales include fast food shops and fancy steak houses, department stores in shopping malls, grocery chains and neighborhood specialty shops. Charlotte serves as the corporate headquarters for homegrown hits like Belk department stores and the Harris Teeter grocery chain.

The growing travel and tourism business reflects a different side of the retail boom. The hourly wages for employees of hotel and other lodging places ranks at the bottom of all categories, and the wages of retail workers aren't much higher. Both are well below the average textile wages. (See Table 2.) And, although Variety Vacationland North Carolina brings jobs to rural areas on the coast and in the mountains, the seasonal nature of the work is a mixed blessing.

For instance, the town of Nags Head, like many of North Carolina's beach communities, has a split personality. Half the year, it is a quiet community along a 12-mile strip of Dare County coast line with a permanent population of 2,113 people. But from late April through September, vacationers flock to its beaches, swelling the population to around 40,000. The seasonal tide of tourists boosts the town's revenues through the sales taxes on money spent in restaurants, gift shops, and on rental cottages. But accommodating all the visitors has its costs. In summer months, the town needs to hire seasonal staff to clean streets and pick up garbage.

Services. In non-technical terms, the word "services" is used to describe the entire nonmanufacturing sector—meaning everything from the services of a bank, realtor, insurance company, department store, or grocer. In government measures of job categories, the service sector includes people who work in motels, amusement and recreation activities, private health-care facilities (from nursing homes to hospitals), private schools and colleges, churches and other membership organizations, repair shops, movie theaters, child care centers, or private museums—and that's just to name *some* of the places. The service sector also includes doctors, lawyers, engineers, and accountants so long as they work in the private sector. What is driving the rapid growth of this hodgepodge of activities? The answer is demographics. The two most dramatic demographic trends of the

Table 2. Average Hourly Earnings of Production Workers in Selected Industries in North Carolina

Industry	Average Hourly Earnings 1985	Average Hourly Earnings 1995
Tobacco Manufacturers	$11.91	$17.91
Paper and Allied Products	11.27	14.34
Chemicals and Allied Products	9.79	13.65
Statewide Manufacturing Average	**7.32**	**10.60**
Furniture and Fixtures	6.70	9.82
Textile Mill Products	6.50	9.27
Food & Kindred Products	6.46	9.27
Lumber and Wood Products	6.33	9.41
Wholesale and Retail Trade	6.07	8.58
Apparel and Other Textile Products	5.16	7.46
Hotels and Other Lodging Places	4.55	6.78

Source: Labor Market Information Division, N.C. Employment Security Division, "State Labor Summary," October 1985 and August 1995, p. 11.

The two most dramatic demographic trends of the era are the demographic bulge caused by the baby boomers and their offspring, and the graying of America. These two trends have spawned whole new service industries, from child care centers to nursing homes.

era are the demographic bulge caused by the baby boomers and their offspring, and the graying of America.

These two trends have spawned whole new service industries, from child care centers to nursing homes. As science has helped to cure more diseases and thereby prolong life, so it has dramatically boosted employment in health care—home health aides, nurses, and gerontologists. In 30 years, the number of service-sector jobs in North Carolina has increased almost six-fold, from 127,100 in 1960 to 762,200 in 1995.

Government. In 1995, federal, state, and local governments provided 15.9 percent—or 550,600—jobs in North Carolina. This sector had major growth spurts in both the 1960s and 1970s, but began to slow by the mid-1980s. During the 1960s, federal government programs increased dramatically, creating new jobs ranging from Head Start teachers to Farmers Home Administration loan officers. The trend continued in the 1970s, with major new programs coming on line, such as the Environmental Protection Agency facility at the Research Triangle Park. In the early 1980s, federal budget cuts cut the number of employees in this sector.

Five Trends That Strengthen Economies

by J. Mac Holladay

Trend Number 1: The playing field is the world, not the next county or state. Cost comparisons and competition for firms, states, and communities are global. At the same time, some of the greatest opportunities are in that realization. As an example, exports have great potential as a job creation strategy. Often those in economic development ignore the tedious work of providing meaningful assistance to small and median enterprises in favor of the easier recruitment efforts of larger firms. Globalization is not a passing fad, but the future of every state's economy. It will take a continuing effort to persuade policymakers to invest the necessary resources to take advantage of the world economy. . . .

Trend Number 2: The new infrastructure is technology and telecommunications. The days of business decisions being made based on only water and sewer, rail, and four-lane roads are long over. States need to pay attention to rural areas to assure that they are included. The only communities able to compete in the future will have fiber optic cable, digital switches, and ISDN lines (integrated services digital network lines that allow telephone customers to talk, receive, and send data and transmit video all on one line). The way of conducting economic development recruitment is changing. Technology will allow the customer to inspect everything from sites to tax statistics without ever visiting a location. . . .

Trend Number 3: Regionalism provides an opportunity for states and others to work together. The boundaries of cities, counties, and states are falling to practical, useful partnerships across the country. Whether in capacity building, marketing, or serving customers, public-private partnerships are finding ways to overcome the status quo nature of governmental lines. From the Carolinas Partnership to the Kansas City (Missouri and Kansas) Smart Cities

Meanwhile, state government expanded sharply in the 1960s and the 1970s, keeping pace with the population growth and entering such areas as environmental management, job and technical training, expansion of public education, and increased health services like Medicaid. By far, the largest government employer, though, is local government. In the 1970s, local government employment grew rapidly, as counties and municipalities became more active in economic development, the arts, recreation, water and sewer facilities, and social services.

"As the federal government divests itself of responsibilities," said Alice Garland, former research and policy specialist for the State Employees Association of North Carolina, "you'll see the state and local governments talking more about who ought to be providing what. I think you'll see increases in jobs first at the local level and then in state government."

The Little Three. What does a banker in pinstripes have in common with a construction worker in jeans? Or how about a realtor with a cellular phone in her car and a telephone worker installing fiber-optics technology? All four of these jobs depend on a growing economy, and they are interrelated. Moreover, they depend upon a strong manufacturing base, showing the interrelationships among the sectors. Banks, for example, now offer a full range of investment options as a regular part of business that only a few years ago rarely went beyond checking and savings accounts. Meanwhile, the insurance industry has moved from whole and term life insurance to universal life, long-term investment schemes, mortgage life, and other new products. Together, the little three provide 14 percent—484,100—of all jobs in 1995.

These new offerings by the finance and insurance industry demand sophisticated staff, more computers, the construction of more office space, more business trips, better communications systems, and overnight mail and package service. For

Program, changes are coming in providing regional solutions in everything from work-force preparation to data presentation. These partnerships are in all shapes and sizes, but in almost every case the private sector is playing a key role. Old habits of local competition are being transformed into specific regional programs coming from collaboration and cooperation. . . .

Trend Number 4: Sustainable development strategies to meet the needs of the present generation without compromising the future. A key part of this concept is how to measure success and take a long-term view with quality of life as an important component. People are accepting the interdependence of the economy and the environment and the need for cooperation and community involvement. The Nature Conservancy has established several successful projects seeking to combine the protection of the natural environment and quality long-term economic development. Corporate giants like Georgia Pacific have made commitments to sustainable development with new technology and land conservation.

Trend Number 5: The No. 1 economic development issue is the quality of the work force. States and communities that do not focus and commit resources to the changing nature of work and the increasingly high education requirements are headed down a dead end street. A full 44 percent of the nearly 12 million college students in America today are over the age of 25. More and more new jobs require not only a high school diploma but at least one or two years of technical training. . . . Nothing is more important when facing welfare reform and other key policy initiatives than rethinking the work force preparation delivery systems. The clock is running, and states can't afford to be handcuffed by the history of the educational establishment. Collaboration and shared authority are a must to provide the necessary solutions.

This material is excerpted from J. Mac Holladay, "Trends that strengthen economies," copyright © 1997 The Council of State Governments. Reprinted with permission from State Government News, *Lexington, Ky., August 1997, pp. 6–7. Holladay is the former chief operating officer for the Governor's Development Council in Georgia. He also has headed the South Carolina Development Board and the Mississippi Department of Economic and Community Development. Holladay currently is chief executive officer of Market Street Services, Inc.*

instance, the Global TransPark, a proposed international cargo airport, is designed to serve as a global manufacturing and distribution center. "This is really a computer-age industrial complex, in which global aviation plays the pivotal distributional role," says John D. Kasarda, Kenan Professor of Business Administration at UNC-Chapel Hill. Companies in the technologically sophisticated industrial park would utilize "just-in-time" manufacturing.[8] The state is bankrolling this massive economic development project in hopes that the TransPark will create 59,200 jobs statewide by 2000 and 101,200 jobs by 2010.[9] Such a project would meet the increased demands of the little three, as well as other sectors that need sophisticated transportation and shipping services.

Scarecrow on a wooden cross,
Blackbird in the barn,
400 empty acres, that used to be
my farm.

—"RAIN ON THE SCARECROW"
BY JOHN COUGAR MELLENCAMP &
GEORGE M. GREEN

In addition to major government initiatives like the Research Triangle Park, the Microelectronics Center, the Biotechnology Center, the Global TransPark, and major urban airports,[10] the state's strong banking industry also serves as a lure for new finance-related companies. Charlotte, long a banking center, is the headquarters for First Union (based on assets, number two in North Carolina) and NationsBank (based on assets, ranked number one in North Carolina and number three in the United States). Both banks have been among the most aggressive in the recent spate of mergers both within North Carolina and across state lines. Winston-Salem is the headquarters for Wachovia and Southern National Corporation (the holding corporation created when BB&T merged with Southern National Bank).

These examples illustrate how the transition within the *nonagricultural sector*, from manufacturing or goods producing jobs to trade, service, and government jobs, is affecting employment opportunities in North Carolina.

Transition Three:

The Family Farm Withers

Pigs, not people, are moving into Jones County. One of eastern North Carolina's rural counties, Jones County has been losing population for more than a decade. At this point, it has fewer than 10,000 people.[11] It has far more hogs and is the heart of the state's rapidly growing hog industry. Four of the county's 20 largest taxpayers are now commercial hog operations, with Brown's of Carolina at the top of the list, according to Wayne Vanderford, Jones County tax supervisor. Predominantly agricultural, Jones County has one of the lowest per-capita incomes in the state and ranks in the top fourth in the percentage of residents living in poverty. The arrival of big hog has meant a huge boost to the Jones County tax base, but the other side of the coin is odor and water quality issues that may keep other business out.

Because of increasing problems with the federal tobacco price support system, farmers have had to diversify their products. (See Table 3, p. 16.) In 1950, just 4.3 percent of cash receipts for agricultural commodities in North Carolina was attributable to hogs. In 1996, that figure was an astounding 22.3 percent, making hogs the second largest grossing agricultural commodity in North Carolina. In fact, pork production reached a record high in 1995 (3.2 billion pounds), 21 percent above the previous record set in 1994. Hog and pig inventory also set a record high in 1997 at 10 million animals. But, diversification is not enough, as farmers face various pressures, particularly the debt crisis that has swept from the nation's midwestern farm belt into states such as North Carolina.

In the 1950s and 1960s, technology came to farms, much as it did the textile industry 20 years later. Machinery of all sorts, from planters to large tractors, filtered from the Midwest into the South. Fertilizers, disease control techniques, and other modern farming methods were adopted. The technology resulted in larger farm units, which in turn stimulated still more machinery purchases—and still larger farms. The 1973 worldwide grain failure did not hit the United States, resulting in a large export market for American farmers. Modern farming meant greater yields. With a ready-made export market, farmers borrowed heavily, investing in machinery and land.

By the end of the decade, however, the over-

Karen Tam

Orange highway construction barrels—the new state symbol for North Carolina?

seas market not only had recovered but had become a major competitor. Tobacco imports increased sharply, as cigarette manufacturers began purchasing much larger portions of foreign tobacco, which was far cheaper and nearing the quality of American leaf.[12] Meanwhile, the big jump in oil prices in the early 1980s sent fertilizer and equipment prices skyrocketing. Farmers tried to meet the rising costs and flood of imports with increased yields. But the larger yields, ironically, drove prices down, often resulting in a lower income for the farmer.

The North Carolina farmers that survived these pressures have larger farms and rely on different crops than their parents did. These trends were already in place before the current pressures of reduced farm income. From 1959 to 1982 to 1996, the average North Carolina farm grew from 83 to 142 to 159 acres, while the number of farms shrunk from 191,000 to 73,000 to 58,000.[13] The amount of farmland has decreased by 42 percent, from 15.9 to 10.3 to 9.2 million acres. In 1995, the realized gross income per farm in North Carolina was $137,866, but the realized net income was only $49,653.

Depending on the season, between 18,000 and 66,000 people are employed in the agricultural job sector in North Carolina—many of them Hispanic migrant workers. But tens of thousands of others use farm income to supplement their wages. In addition, the multiplier effect in farmbelt towns—from seed-supply stores to banks to the tobacco warehouses—is enormous. This vibrant farm economy has gradually diversified to make North Carolina a major supplier of many farm products globally. "We've grown from a tobacco state to the third most diverse agricultural state in the country," writes Agriculture Commissioner James E. Graham in the 1996 Agricultural Statistics Report. The state continues to be the leading producer in the U.S. of tobacco, sweet potatoes, and turkeys, and is the second largest producer of hogs, trout, and cucumbers for pickles. In 1996, the state ranked third in net farm income with agriculture and agriculture-related industries contributing $45 billion to the state's economy. Livestock, dairy and poultry account for 56.5 percent of cash receipts for farming in North Carolina; crops account for only 43.5 percent now. (See Table 4, p. 17.)

North Carolina farmers undoubtedly will continue to wean themselves from tobacco. Some farmers will manage the transition to other crops, and others will survive with tobacco. But increasingly, those farmers will push their children toward other careers and seek other employment themselves. And, so, the transition in the *agricultural sector* from small farms relying on tobacco income to larger farms diversifying into many crops, often run by corporation or under contract, will continue.

Responding to the Transitions: What Kind of Leadership?

In November 1946, North Carolina Governor Robert Gregg Cherry told a group of utility executives that the state should look "toward the establishment of more small industries, community industries, which will use local capital, local labor, and local raw materials." Concerned about the post-war recession gripping the economy, Cherry said that this strategy would result in "a great number of new businesses, born of our own money and brains and pretty closely related to our agricultural life in this state."

Few state officials paid heed to Cherry's vision. Governor Luther Hodges (1954–61), known as "the businessman's governor" because of his leadership in establishing the Research Triangle Park and the N.C. Business Development Corporation, stamped the "industrial recruitment" label on the state's economic development strategy. State officials had worked at luring out-of-state industries to North Carolina prior to Hodges' tenure, but Hodges made industrial recruiting the permanent rallying cry for the state's economic development efforts.

Governor Terry Sanford, Hodges' successor, emphasized education and training for new workers. By expanding the job training centers scattered across the state (begun by Hodges) into a statewide

Table 3. Top Ten Agricultural Commodities by Percentage of Cash Receipts, 1950–95

Commodity	1950 %	1960 %	1970 %	1984 %	1996 %
1) Poultry & Eggs	7.6	15.0	21.9	26.8	28.7
2) Hogs	4.3	4.9	8.0	8.7	22.3
3) Tobacco	59.5	49.1	38.3	24.1	13.1
4) Greenhouse Nursery	0.8	1.0	1.5	3.3	11.4
5) Soybeans	1.1	2.2	4.0	6.2	3.1
6) Cattle and Calves	2.2	3.2	3.7	2.1	2.8
7) Dairy Products	5.4	6.2	6.3	5.4	2.7
8) Corn Feed	2.4	4.3	4.3	6.2	2.0
9) Peanuts	3.3	3.1	3.0	2.8	1.2
10) Farm Forest Products (pulpwood, timber, and Christmas trees)	2.2	1.9	2.1	5.9	N/A*

* Farm forest products has not been ranked since 1989, when the definition of "farm income" was changed to exclude such products. The change was needed so that all states would have comparable farm income. The U.S. Census' definition of "farm income" was adopted. Such products are now considered "farm-related income."

Source: N.C. Agricultural Statistics Service, N.C. Department of Agriculture.

Table 4. Cash Receipts from Farming in North Carolina, 1940–1990

Year	Total Commodities Sold*	Crops*	% of Total	Livestock, Dairy, & Poultry*	% of Total
1940	$201,241	$167,322	83.1	$33,919	16.9
1950	$829,695	$670,830	80.9	$158,865	19.1
1960	$1,066,336	$752,304	70.6	$314,032	29.4
1970	$1,502,531	$899,987	59.9	$602,544	40.1
1980	$3,592,612	$2,148,710	59.8	$1,443,902	40.2
1990	$4,962,498	$2,303,693	46.4	$2,658,805	53.6
1996	$7,831,309	$3,409,968	43.5	$4,427,323	56.5

* in 1000s of dollars

Source: Agricultural Statistics Division, N.C. Department of Agriculture, (919) 733-7293.

"We've grown from a tobacco state to the third most diverse agricultural state in the country."

—AGRICULTURE COMMISSIONER JAMES E. GRAHAM

system of technical colleges, Sanford's administration laid the groundwork for a decentralized job training network for new industries. The 58-member community college system perhaps represents one of the state's best inducements today for recruiting industries from out of state.

Since then, the industrial recruitment strategy has turned into a kind of a mad dash—across the Frostbelt, over to thriving Japanese and German heartlands, and into the new high-tech market. In 1973, Governor James Holshouser (1973–77) opened a state recruitment office in Europe. Then, James B. Hunt Jr., in his first two terms as Governor (1977–85), kept the state running in this fast lane, opening a recruitment office in Japan in 1977 and spearheading the creation of the new Microelectronics Center in 1981.

In 1983, 37 years after Governor Cherry's speech to utility executives, the state broadened its economic development strategy beyond industrial recruitment to include concrete support for small business. The General Assembly passed a small business development bill, which established a modest pool of state funds to stimulate "the development of existing and small businesses."[14]

Governor James G. Martin announced in the first year of his administration in 1985 that he would pursue a "balanced approach"—help traditional industries, recruit new industry and foreign investment, keep pursuing the high-tech trade, nurture local businesses, and support farmers. Martin also vowed to put 90 percent of the state's population within 10 miles of a four-lane highway, a goal that will be met with the establishment of the Highway Trust Fund. However, the Martin administration's clearest commitment related to economic development was to help the business community in general by seeking repeal of both inventory and intangibles taxes and turning over some government functions to the private sector. Both taxes since have been repealed.

Where does the current Hunt administration stand in this evolution of leadership regarding economic development? In 1993, at the beginning of Governor Jim Hunt's third term, he announced his strategy for building North Carolina's economic future: "Our goal should be to build our future on high-skill, high-wage jobs."[15] Tax incentives have become more important in attracting and creating these sorts of jobs, and Hunt has added more tools to the state's toolbox in this area. (See N.C. Economic Development Incentives . . . , p. 23, for

Karen Tam

"Our goal should be to build our future on high-skill, high-wage jobs."
—GOVERNOR JIM HUNT

more.) Still, Hunt's economic development strategies are premised on the belief that education *is* economic development in the competitive global economy that has emerged as the playing field. As such, he has focused on raising teacher pay to the national average and improving student performance in the classroom.

State and local government policymakers have the task of meshing the possible economic development strategies with the current transitions within the state's economy. A dual economy is in the making, where the urban areas thrive around the service and trade sectors and rural areas rely on either a vulnerable manufacturing base or serve primarily as home for commuters traveling to city-based jobs.

For example, Cabarrus County, which lies northeast of Charlotte a quick drive up Interstate 85, is plagued by the suburban sprawl epidemic. Thousands of people who commute to work in the Queen City each day call Cabarrus County home. Real estate advertisements boast of the county's low taxes and good schools. The western part of the county nearest Charlotte is sprouting new subdivisions. Like other counties adjacent to urban centers, Cabarrus County is feeling the effect of its proximity through sprawling growth and the conflicting expectations of newcomers and longtime residents. Gary Newton, the county's planning director, says he has watched the county's population grow more in the past five years than it did in the previous 10 years. (See Cabarrus Creates a Ripple, p. 31, for more.)

A complex period of economic transition challenges the state's leadership. Will government officials take steps that address the needs both of areas that are thriving—like Cabarrus County—and those that are depressed—like Graham County? Will leaders direct the economy away from a dual economy of prosperity and suffering to a mixed economy that is balanced and spread more evenly across the state? Innovative economic development strategies will be needed to manage these transitions.

FOOTNOTES

[1] Hugh Talmage Lefler and Albert Ray Newsome, *North Carolina: The History of a Southern State*, The University of North Carolina Press, 1954, p. 83.

[2] For historic employment data, which show year-long averages (such as the 1973 number used here), see *North Carolina Labor Force Estimates by County, Area, and State*, Labor Market Information Division, N.C. Employment Security Commission, N.C. Department of Commerce. For the latest employment data available, see "State Labor Summary" from the same source.

[3] Steve Riley and Carrick Mollencamp, "Great expectations," *The News and Observer*, Raleigh, N.C., Oct. 23, 1994, p. A1.

[4] Sally Hicks, "Triangle forecast: big and bigger," *The News and Observer*, Raleigh, N.C., June 29, 1995, p. A1.

[5] 1990 U.S. Census and the N.C. State Data Center for projected losses in the 1990s.

[6] Burlington Industries, Annual Report, 1977, p. 18.

[7] Regina Oliver, "The Payoff from NAFTA," *North Carolina*, North Carolina Citizens for Business and Industry, Raleigh, N.C., November 1994, p. 29.

[8] John D. Kasarda, "A Global Air Cargo-Industrial Complex for the State of North Carolina," Kenan Institute of Private Enterprise, UNC Business School, Chapel Hill, N.C., pp. 1–ff.

[9] Transportation Management Group, *North Carolina Air Cargo System Plan and a Global Air Cargo Industrial Complex Study*, Executive Summary, February 1992, p. 2.

[10] Each of these topics has received extensive treatment in previous issues of *North Carolina Insight*. For more on microelectronics, see Vol. 4, No. 3, 1981, p. 17,*ff.* For more on biotechnology, see Vol. 8, Nos. 3–4, 1986, p. 78,*ff.* For more on the Global TransPark, see Vol. 14, No. 2, 1992, p. 26,*ff.*

[11] 1990 U.S. Census.

[12] See *The Tobacco Industry in Transition: Policies for the 1980s*, edited by William R. Finger, N.C. Center for Public Policy Research (Lexington Books, 1981), especially part III, "World Leaf Sales Expand—But U.S. Share Shrinks," p. 117.

[13] N.C. Agricultural Statistics Service, N.C. Dept. of Agriculture, "N.C. Agricultural Statistics," published annually.

[14] Chapter 899 of the 1983 Session Laws (HB 1122), now codified as N.C.G.S. 143B-147.

[15] Jim Hunt, *A North Carolina Agenda for Action*, 1992, p. 15.