NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC. News Release

FOR OP-ED PAGE EDITORS: 1300 WORDS
FOR USE ON OR AFTER SUNDAY, DECEMBER 14, 1986
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North Carolina's Transition Economy: What Change Does It Portend?

by Bill Finger

(The writer is editor of North Carolina Insight, the quarterly magazine published by the N.C. Center for Public Policy Research in Raleigh.)

In the 1970s, North Carolina lurched into a major economic transformation that is manifesting itself in three sweeping transitions changing the way we live and work. These three transitions are rapidly transforming the state from a rural culture dependent upon agriculture and predominantly low-wage industries to an urban economy relying increasingly upon the service and trade sector.

The fact that the state's economy is changing is not the point. Almost everyone is aware of some change going on. But the important part to note is how our economy is changing, and what those changes portend for us and for our children. In August, Gov. Jim Martin released his administration's Economic Development Blueprint, which focuses on ways to help businesses expand, particularly in rural areas of the state. In November, Lt. Gov. Bob Jordan's Commission on Jobs and Economic Growth issued its report. Both plans strongly advocate help for many rural areas of the state which have not shared in the economic progress of recent years.

Some of those areas already have felt the economic pinch stemming from three major transformations at work in the state's economy:

-- a transition within the manufacturing sector itself from labor-intensive to capital-intensive industries;

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-- a transition from manufacturing jobs to trade, service, finance, transportation, and government jobs; and

-- a transition from an agrarian economy built on small, tobacco-dependent family farms to larger, often corporate-owned farms producing a more diverse line of products.

From North Carolina's early days, her economic fortunes -- and misfortunes -- were tied to the land. Even as late as 1970, when 55 percent of the population lived in rural areas, the state had not gone through the sort of dramatic transition from an agricultural to an industrial economy that the Northeast and parts of the urban South had. In 1973, more than a third -- 36 percent -- of all manufacturing jobs were still in textiles. But by October 1985, that figure had dipped to 25 percent. More than one of every four textile jobs in the state vanished in just 12 years.

Similarly, tobacco employment has dipped, partly in factories, but more so on the family farm. In the two decades prior to 1982, the number of farms in North Carolina shrank from 191,000 to 73,000. In 1960, 75 percent of all farm jobs were held by family members; by 1984, only 42 percent were family members. Family farms declined in number, with the percentage of hired workers more than doubling from 25 to 58 percent.

"We're seeing a full-fledged evolution of a dual economy," says Greg Sampson, director of research at the N.C. Employment Security Commission in Raleigh. "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."

With such a dual economy, with its accompanying symptoms of boomtowns and depressed towns, how can the state respond? Are there economic development strategies that can address the needs of a state in such a transition? There are a number of potential solutions, some of them examined in the recent reports from the Governor and Lieutenant Governor.

In a year-long project, the N.C. Center for Public Policy Research recently examined four economic development policy questions the state should consider in dealing with the problems of a mixed economy. These questions involve state economic development policy on (1) industrial recruiting, (2) international trade, (3) small business and venture capital, and (4) high technology.

The Center explored ways to refocus state policies in order to yield better results. For instance, North Carolina's traditional methods of recruiting new industry are shifting gradually from a state-orchestrated effort to a more local effort as cities and counties become more sophisticated in attracting new businesses. The state has concentrated on landing the big industrial prospects in the past, but local economic development groups are now embarking upon industry-hunting missions themselves. As industry recruitment becomes more specialized by location and type of industry, the state should consider targeting certain industries for recruitment.

In another area, the state only relatively recently has begun to assist North Carolina manufacturers in developing new overseas markets for home-grown products. More concerted help in this area -- and perhaps more foreign trade representatives in Europe and Asia -- might help sell even more North Carolina goods overseas.

Still relatively little-known is the fact that small businesses are producing more jobs than big businesses. Three-fourths of the new jobs generated from 1979 to 1983 in North Carolina came from small businesses --those with fewer than 100 employees. The state's economic development policymakers could do more to boost small businesses and help them survive, such as assisting in financing and setting up a state-sponsored venture capital firm to promote new businesses.

Finally, what about the high-tech industry in North Carolina? Although high tech is the state's flagship economic development policy, should high-tech command so much of the state's resources? More than $55 million has been spent since Fiscal Year 1980-81 on a single venture -- the N.C. Microelectronics Center. Should we be putting all our chips on microchips -- especially at a time when many high-tech firms are on shaky ground? In 1985, the microelectronics industry nationwide laid off nearly one of every four employees.

Critical to the success of North Carolina's economy is the question of job training and how the state is going about preparing a new work force for a mixed economy. The state's 58-campus community college system is doing an admirable job of training workers in a broad variety of fields, but vexing education problems face the state. More than 835,000 adults are functionally illiterate to the point they cannot fill out an application form; many vocational jobs go begging because there are not enough trained workers to fill them. Proper training for workers for the services and trade sectors may be delayed unless the General Assembly can provide large outlays of funds for up-to-date equipment that community colleges need.

Many past governors have been remembered by a particular emphasis that addressed the needs of their eras and which remain as vital ingredients of the state's economic development policies. Kerr Scott was known for farm-to-market roads. Luther Hodges is remembered for beginning the Research Triangle Park. Jim Holshouser opened a state recruitment office in Europe. And Jim Hunt concentrated on microelectronics. It is time for this Governor and the 1987 legislature to decide what economic legacy they will leave.