Don't write off incentives yet

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CHAPEL HILL - In recent weeks we have learned about problems inherent to North Carolina's industrial recruitment efforts. A report from two private organizations, CfED in Durham and the N.C. Budget and Tax Center, raises important and timely questions about the use of tax breaks and financial giveaways to lure multinational firms to the state, including Dell and Google. According to this report, the cost-benefit model used by the state Department of Commerce overestimates the sales and job creation potential of these recruitment deals.

The report's revised model for Dell, for example, anticipates job growth to be 50 percent less than Commerce's original estimate -- the revised model also anticipates a net revenue loss for our state. These new estimates raise serious questions about the calculations used by Commerce and have led to renewed criticisms of industrial recruitment spending.

But the Dell and Google deals should not be written off as failures yet.

Looked at from a different perspective, we might actually see incentive packages as an opportunity to increase the performance expectations of recruited firms beyond what economic models would predict. By setting the bar higher than other states -- including Virginia, our competitor for Dell -- Commerce might actually help to ratchet up local development standards. Yet for this benefit to be realized, public and private sector actors must treat the period after the ink dries on an incentive contract as just as crucial as the initial negotiations.

My sense of optimism in appraising the Dell and Google deals derives from a simple truth about the models used to project the businesses' impact on the state: projections don't always equal outcomes. Cost-benefit analyses capture the average performance of existing industry. But an average is just that, an average across an industry and not a perfect predictor of how an individual company will behave once locating in a specific place.

SOME COMPANIES WILL GENERATE fewer gains for the region compared with the industry average; others will perform much better. This raises the question: What accounts for better-than-average performance? Economic development studies suggest it is the result of dynamic interaction with other businesses and organizations in the host communities where recruited firms choose to locate.

Regions praised for adopting a more strategic approach to industrial recruitment have long recognized this. One example is northeast Mississippi, which recently beat out Arkansas and Tennessee for a new Toyota manufacturing facility. In such places, a successful recruitment deal is not the end game, but rather a starting point for economic development.

Once recruited, a firm is not left to its own devices to meet anticipated performance standards. Rather, development practitioners work to anchor these firms to the region by brokering relationships with local suppliers and strategic partners, by connecting firms to innovation and marketing supports and by fostering relationships with colleges and training providers so that newly recruited firms learn to value and harness the region's existing skill base. They also establish clear development goals.
around local hiring, local sourcing and even community service.

These efforts not only generate high-quality employment opportunities for local residents but enhance the long-term competitiveness of the region. They essentially work to maximize the multiplier -- that is, to increase the positive spillovers associated with the initial round of public investment. If we look at incentive deals only through the lens of projections, we ignore the role that these actors play in a deal's success or failure.

WHILE THE DELL AND GOOGLE DEALS certainly deserve close scrutiny and justify a statewide review of existing industrial recruitment practice, they should also be viewed as an opportunity for state agencies to work closely with localities to help them establish and achieve local and regional performance standards. Applying lessons from good-performing regions, this might include improved supplier development programs, as well as innovation strategies that encourage these firms to better utilize regional research and design capabilities. Similarly, work-force development partnerships can be strengthened to link customized training assistance to firm-specific hiring and career advancement targets.

Without such efforts, the development opportunities from these recruitment deals will likely be lost at the local level and the widening concern that the Commerce Department greatly exaggerated their development potential only proven true with time.

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