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COMMENTARY

THE COMBO COMES WITH ITEMS YOU WOULDN'T EXPECT WITH THE MAIN ENTREE

Study shows failures in incentives programs

VIEWPOINT
ANDREW BROD

Last month may have marked the beginning of the end of North Carolina's uncritical embrace of fiscal incentives. The General Assembly has authorized the drafting of legislation that would curtail targeted incentives at the state level in favor of a general reduction in the state's corporate tax rate.

The legislators' decision was based on a new report from the Center for Competitive Economies at UNC-Chapel Hill. The study, which analyzed tax returns and other state records, reviewed four state incentive programs: the William S. Lee Act (known formally as Article 3A and since replaced by Article 3J); the Research and Development Tax Credit; the Job Development Investment Grant (JDIG); and the One North Carolina Fund.

The study found that a relatively small share of the tax credits for which businesses have qualified have actually been claimed. From 1996 through 2006, more than $2 billion of tax credits were generated under the Lee Act, but companies claimed only 30 percent of that. The researchers acknowledge the existence of barriers to receiving credits, but they interpret the low use rate as evidence that incentives have fallen short of their objectives.

Another shortcoming involves the state's goal of favoring the poorest counties. The more economically distressed the county, the higher the available tax credit or grant per project. The UNC-CH study found, however, that most incentives have gone to businesses in the richest counties. For example, projects in those counties have accounted for more than 80 percent of JDIGs. Clearly, the state's incentive programs haven't improved conditions in its poorest counties.

The ultimate goal of any economic policy is the creation of good jobs. During the 1990s, companies receiving Lee Act credits increased their payrolls faster than the state's labor force grew. But since 2000, the payoff of incentives has dropped off, and now there is no improvement in job growth.

Delving even deeper into the data, the study looked at employment growth at companies before and after receiving tax credits. For companies receiving credits for job creation, the rate of job growth didn't increase after the credit. For companies receiving credits for capital investment, job growth was nonexistent after the credit.

Most of the shortcomings identified by the UNC-CH researchers involve the Lee Act and Article 3J. Since 1996, those programs have accounted for the vast majority of state incentives. But in recent years, economic-development officials have preferred discretionary programs such as JDIG and the One North Carolina Fund, which are more flexible and easier to target to emerging high-tech industries and (in principle) poor counties.

The researchers argue that the Lee Act/Article 3J program is a blunt instrument that needs to be eliminated. In its place, they propose an across-the-board reduction in the state's corporate income tax. The cost of lowering the corporate tax would be covered by the savings from discontinuing Article 3J.

The study makes other recommendations as well, but taken as a whole, they won't warm the heart of a diehard opponent of fiscal incentives. To be sure, replacing Article 3J with a lower corporate income tax is a move toward less targeting and discretion in economic policy. But expanding JDIG and the One North Carolina Fund is a move in the opposite direction. And the pending legislation would say nothing about incentives granted by cities and counties.

The UNC-CH study won't put an end to fiscal incentives, but it may help state officials use them with a more critical eye.

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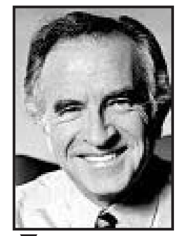
Lack of credibility can only prolong and deepen crisis

Speed saves in a crisis. Lack of speed is the biggest reputation killer I know. Yet there's another reputation devastator: loss of credibility.

Consider what's happened in Tennessee after 5 million cubic yards of toxic coal-ash from a settling pond burst through a berm during heavy rains and swamped 300 acres of a Kingston neighborhood in December.

Internal memos accidentally sent to the Associated Press suggest the Tennessee Valley Authority tried to downplay the danger of the spill that swept away homes and fouled creeks and inlets. AP reported that in the memo "catastrophic" was replaced with "sudden, accidental." "Risk to public health and risk to the environment" and "acute threat (to fish)" were removed.



VIEWPOINT
RICK AMME

I am partly sympathetic with TVA. In every crisis, clients and I routinely engage in such wordsmithing. It's not disingenuousness: We're trying to strike a balance. Overstating might unnecessarily frighten and be untruthful. Understating might make you ultimately look like a liar. Finding the best wording when facts are fluid is hard.

While monitoring in Kingston indicates drinking water from the river and private wells is safe and the air is clear, press reports suggest TVA is making itself tough to be believed. The public energy company has doubled its original estimate of the size of the spill. Also, after first saying the situation was safe and that fly ash is not a hazard, a neighbor quoted TVA's CEO saying in a meeting, "Don't let your dogs or pets get out. Don't let them drink the water. Keep your kids away from it. Don't breathe it. If you have any contact with it, spray it off."

This is tough stuff. In chaotic situations, companies should strive to withhold characterizing risks until they have sufficient facts. You say, "Here is what we know; we'll tell you more as soon as we get it." Yet it is difficult to hold that line. With an environmental incident like that in Kingston, people want to know whether they are safe, and you can only delay so long.

Therefore, it is better to err toward communicating seriousness. You can always back down. Conversely, if you've underplayed an incident and it turns out worse then you're toast. Underreaction is the greater sin. Overreaction less so.

Another credibility challenge in fast-breaking situations is to avoid getting ahead of the facts. That happened in late 2007 when a tiger at the San Francisco Zoo killed one person and injured two. In the zoo's well-intentioned rush to reassure the public, a spokesperson made an off-handed response to the question whether the tiger retaining wall was as high as at other zoos.

The answer was yes, and it was wrong. The wall was actually shorter. Zoo credibility suffered, especially with a publicity-seeking lawyer hovering. If you don't know the answer to a question, say so and promise to get back with an answer later.

Here's one final credibility issue, especially during these times of mandatory media training of company officials and crisis teams. We all know it is smart to have talking points before addressing the media or any important audience. Still, your credibility rests on your ability to answer tough, legitimate questions. Contemplate the questions. Know or learn the answers. Messages alone rarely suffice.

RICK AMME *is president of Amme & Associates, a media/crisis management company in Winston-Salem. He is also a member of The Business Journal's Editorial Board of Contributors.*