When restructuring misses the mark

Among the pieces of unfinished business in the General Assembly this session was Greg McCrory’s effort to reorganize and privatize the state’s economic development programs. The governor’s plan seeks to privatize sales, marketing and support functions; eliminate funding of the seven regional partnerships; and establish eight “prosperity zones” overseen by the state.

The restructuring raises many questions. For example, what was wrong with the previous approach? Republicans point to North Carolina’s high taxes relative to its neighbors, but the fact is that the state’s business climate has been ranked quite highly by such leading publications as Site Selection and Chief Executive magazines. Obviously, taxation isn’t the only factor that matters.

Second, the effort, components of which are already underway, seeks to shift many of the state’s economic development functions to a private nonprofit. Why a nonprofit? Aren’t we told that the profit motive is the key to economic dynamism? What can a private nonprofit do that the government (also a nonprofit) cannot?

Third, what about the problems with similar efforts in other states? There are accounts of misused taxpayer funds, excessive executive bonuses and questionable incentive awards. How does the governor’s plan avoid such pitfalls? For example, the N.C. Justice Center notes that the new entity can accept financial contributions from companies that are eligible for incentives.

But to me, the biggest question is the effort’s economic justification. Supporters say that privatization is needed because of the state’s poor economic performance during the last few years. Commerce Secretary Sharon Dowler in particular has cited weak job growth during the recovery as a reason for the change.

This is faulty reasoning. Restructuring something only makes sense if its problems are structural. While North Carolina’s economy faces structural challenges (all states do), they don’t explain the economic weakness of the last few years.

The most important structural factor here is the ongoing decline of manufacturing. That sector’s share of total employment has been falling in the U.S. since the 1950s, and in North Carolina the decline accelerated after 1990. This was a fact before the Great Recession and it’ll be a fact when we finally emerge from this extended depression.

A recent study by the New York Federal Reserve Bank found that in comparison to the recovery of the early 1990s, the current recovery exhibits very little variation across states. Not all states are equally well off, but the rate of employment growth since the recession ended is surprisingly similar among states.

Sure enough, since private-sector employment hit bottom in February 2010, the rate of job creation in North Carolina has been nearly identical to the national rate. Therefore, what we’re seeing in this weak recovery are the state-level effects of a weak national economy. It’s tempting to look around and say, wow, North Carolina is having a really tough time creating jobs. But the reality is that all states are having essentially the same tough time, and for essentially the same reason.

What this implies is that nothing North Carolina has done or not done led to the weak recovery. And nothing the state does in the near future is likely to transform itself suddenly into an economic juggernaut.

But the state can do things to hurt the recovery. So far this year, employment in North Carolina has risen by less than half the national rate. It’s too early to call that a trend, but it’s something to watch as more big changes take place in Raleigh.

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