

# New Challenges for Local Economic Development Planners

*It is generally the case that an urban or regional planner who is most actively concerned with the impacts which a local economy has upon its citizenry is also least able to affect its development. This is particularly true in the southeastern U.S. region, which is experiencing steady gains in net growth due to the play of larger national and international events seemingly beyond the control of local officials. Growth and development policies tend to be concentrated at the state and federal levels; in this context, concern for specific local economies is expressed in broad terms of "balancing" or managing the growth with heavy reliance upon the top-down strategy of industrial recruitment.*

*But planners who work in urban and regional settings recognize that this strategy does not often take account of local preferences or initiatives, and that the planner's task is primarily considered that of accommodating the unanticipated increments or decrements of growth which occur under even the most balanced growth policies. Even as balanced growth occurs throughout a state such as North Carolina, many firms cease operations or move elsewhere, stranding their labor force and creating a depression in the local labor market. A prime example in North Carolina is the apparel industry which frequently is located in small, dependent economies throughout the state and typically employs disproportionate numbers of blacks, women, and older*

*workers. This particular problem is one of several which is not effectively handled by relying solely upon the existing state-level instruments for pursuing balanced growth. Local economic planners need other approaches which take explicit account of unique circumstances and the preferences of the community.*

*The following papers by Redmond and Carlisle are based on findings from two separate studies (Carlisle et al. 1978; Carlisle and Redmond 1978). These studies examined impacts of growth and change at the local level, particularly the effect of plant closings experienced throughout the U.S., community concern for devising local economic development strategies, and the prospects for pursuing a local strategy of community based enterprises. Encouraged by the response to an earlier version of their findings presented to the North Carolina AIP chapter, the authors provide here useful and challenging answers to two highly related questions frequently asked by local economic planners: how can local planners and their constituencies become more active partners in the industrial recruitment strategy? How can planners assist communities which want to develop their unique economies with local resources and local control?*

Edward M. Bergman

## Roles for Local Planners in Industrial Recruitment

The economy of North Carolina has undergone many changes in the last 20 years. The large increases in employment and population are well known. The exodus of displaced farm workers to the North has ceased and many of the new jobs entering the state are higher paying than those in the traditional manufacturing base of textiles and apparel. Although North Carolina still ranks near the bottom in average manufacturing wages, state officials are optimistic about the future because of many economists' predictions of continued expansion of higher wage jobs. Officials are also encouraged by indications that new industry is locating in the poorer areas of the state, and that convergence of wages and income seems to be occurring among the different regions of the state.

Despite this outlook, some areas of the state will

probably continue to lag in income growth, new employment, and other aspects of economic development. In part this will be due to limitations in the state's industrial recruitment, the dominant economic development policy operating in North Carolina. This article considers the weakness of industrial recruitment and suggests ways in which it could be improved. These suggestions will involve new roles for local planners in the economic development process.

As background, it is necessary to examine the more recent trends in the state's economic devel-

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opment. That is followed by a description of the role of industrial recruitment in this process and the changes the present North Carolina administration is proposing to correct the problems of "unbalanced growth." The article then shifts to the local perspective to examine the weakness of reliance upon industrial recruitments as an economic development strategy. Finally it proposes some changes in the recruitment process that could be initiated by local economic planners.

### Development of Economies

The recent economic history of North Carolina is directly connected to a larger pattern of economic growth in the United States. Since the end of the Second World War there have been two distinct but related trends in employment and residential location. The first is a movement of jobs and population from central city to suburb. This has occurred in large cities across the country and has contributed to many urban ills. The second is a general shift of employment and population out of the northern states to the south. While the North is still more urban and industrial than other sections of the country, its metropolitan centers have been growing slowly or in some cases declining. At the same time the South and Southwest have been booming. This shift in employment and population is the much publicized "snowbelt-sunbelt" movement.

Most studies conclude that while both employment and population are growing in the South, it is the former which induces the latter (Brunson and Bever 1977). This growth in employment is the result of decisions made by controllers of financial capital to invest in a particular geographic area and production process they believe will earn a substantial return. This investment can mean relocation of an existing plant or the creation of a new one. If many investors see opportunities in the same geographic area, new centers of employment and population develop. These centers will thrive as long as investors are satisfied with the returns their investments bring.

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**“. . . industrial recruitment in North Carolina has met with both success and failure.”**

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The large increases of employment and population in North Carolina are the result of this shift in investment capital. In this issue's *carolina forum* the North Carolina Secretary of Commerce lists the specific economic conditions of the state which he believes have encouraged manufacturing investment: “. . . a good highway network; solvent railroads; a labor force willing to work and augmented by a tested industrial training program; . . . a (good) water supply . . . the lowest rate of work stoppages in

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## NORTH CAROLINA

Industrial recruitment may include marketing of vacant plants.

Courtesy of North Carolina Department of Commerce

the country . . . the highest credit rating among states . . . taxes competitive in region" (Faircloth 1978).

### Industrial Recruitment in North Carolina

Past North Carolina administrations chose to play a minimal but supportive role in the development process, which is consistent with the tenets of neo-classical capitalism. It is thought that this will allow free market competition and the efficient allocation of resources by private enterprise. The major support the North Carolina government has provided is in the form of industrial recruitment assistance and location incentives that effectively reduce the cost of doing business.

The state's Division of Industrial Development has been quite successful in selling the advantages of locating in North Carolina. The state recruiter's job is to examine the production needs of the company such as skilled labor, transportation, utilities, "labor climate" and "quality of life," and recommend suitable areas of the state that can meet those needs.

Location incentives are offered because recruiters and legislators are aware that their state is competing with other states for new investment. They are convinced that incentives are necessary to lure the industry. For the most part, little attention is paid to the continuing debate in the academic community concerning the necessity and effectiveness of these incentives (Kanter and Harrison 1978; Liner 1974). The managers and owners of locating companies make the most of this competition by playing

one community against the other to elicit the largest amount of publicly financed incentives.

A recent catalog of the various incentives offered by states listed thirty-eight different types including state sponsored industrial development authorities, loan guarantees for equipment and machinery, and right to work legislation (Smollen et al. 1976). North Carolina has only four financial and tax incentives for industry:

- Privately sponsored development credit corporations;
- Inventory tax exemptions on new equipment;
- Sales/Use tax exemption on new equipment; and
- Tax exemption on raw materials used in manufacturing for tobacco, cotton and peanuts

The state is also considering an inventory tax exemption for certain large inventory, high wage industries.

Other incentives that corporations now expect from the public sector include training for the prospective laborers and utility services for its manufacturing processes. These incentives may require special one-time manpower training programs and expensive water and sewer line extensions to industrial plant sites.

### **“Balanced Growth” for North Carolina**

As mentioned at the beginning of this article, industrial recruitment in North Carolina has met with both success and failure. The failure has been the inability of the public sector to “target” new high paying industry where it is needed. In fact, only recently has the state attracted any type of high paying jobs. The predictions about the future location of high paying industry have convinced state policy makers that some measures must be taken to influence the location of incoming industry to produce balanced growth. Policy makers fear that if industry, especially high paying industry, continues to locate in the metropolitan areas of the Piedmont section of the state, people will leave the mountains and the coast to take advantage of these job opportunities. This movement could adversely affect the demand for public services and the health of local economies across the state.

The state government has held a series of meetings this year, attended by leading businessmen and academics, to discuss means of correcting this problem. The results of these discussions are published in the *Balanced Growth Policy* report, which presents a few proposals to help those communities that have been lagging in employment and income growth. All of these proposals operate within the basic industrial recruitment framework. First, the state recruiters will try to encourage the industrialists to move to these needy areas. Second, the state will supplement this plan by providing some of these

localities with economic infrastructure such as water and sewer lines and improved roads. Finally, the local economic leaders will be taught the “how’s and why’s” of conducting a good selling job of their communities to the incoming industries.

These policies, if adopted, should help communities affect new investment; however, the nature of the recruitment process at the local level limits the effectiveness of these policies.

### **The Local Perspective**

The one limitation of industrial recruitment which has been stressed is that it is a passive approach to job creation. The state does not create employment; it must wait for outside investors to come to North Carolina. This passivity is compounded at the local level. At present most North Carolina localities, both cities and counties, rely on the Division of Industrial Development within the North Carolina Department of Commerce for their industrial prospects. There are two reasons for this.

First, it is very expensive to actively recruit industry. A recent newspaper article highlighted the expenses associated with a full recruitment program. These included research, advertising, entertainment for clients, phone calls, and travel (Guyon 1978). Only a few of the larger cities in the state have the resources to pay for a full-time economic development staff to perform similar duties at a lesser scale. Smaller towns and communities cannot afford this relatively large expense without a guaranteed return. Instead, local recruitment efforts are limited to activities that take place after the initial contact with the locality is made.

The second reason for reliance on the state government is that almost all of the interested industrialists contact the appropriate state office rather than specific localities when beginning their location search. The corporations rely on the state offices to recommend localities which satisfy their production needs. Thus for future economic growth through industrial recruitment, the locality and the planner must depend on the state to direct prospects their way.

A third problem with industrial recruitment as currently practiced is due to the negative response high paying industry may receive at the local level. When the recruiters bring industrial prospects to local areas, they contact Chamber of Commerce representatives or members of economic development committees in most of the cities and counties in the state. These members are usually local businessmen whose interest could be to discourage high paying or unionized industries.

Opposition to high-wage industry, especially in nonmetropolitan areas, is based on the fear that a new industry will create upward pressures on local low-wage scales. It is believed that skilled employees will leave low-wage jobs for the high-wage ones, and that unionization will spread to other plants. Local businessmen and recruiters further

support their position against unions with the belief that a non-union "labor climate" is North Carolina's primary attraction to industries.

A few incidents in North Carolina illustrate these points and highlight one additional problem with recruitment as it is now practiced. During the last year in Person and Cabarrus counties, unionized companies that paid substantially higher than average wages were discouraged from locating in the area by the economic development committee. Only after local citizens learned of these interactions and signed petitions supporting the industries' location did public officials reverse their position. In Person

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County, the company decided to locate elsewhere despite the public support. The citizens of Cabarrus County, however, managed to override the businessmen's objections and persuaded the company to locate. Similar actions by a publicly funded economic development committee in Scotland County were discovered by citizens who sued the committee for misuse of public funds. The citizens were represented by the North Carolina Labor Law Center, and the case was settled out of court in their favor.

There are indications in these accounts that many citizens are dissatisfied with the way the economic development process works and the decisions it produces. This dissatisfaction is also demonstrated in the results of a telephone interview of residents of Person County a few months after the incident reported above (Carlisle et al. 1978).

The respondents were asked whether they believed the average county resident had an adequate opportunity to participate in decisions that affect local job opportunities. The researchers were surprised by the evidence of dissatisfaction with the status quo. Fifty-one percent (n=37) of the production workers in lower income households (less than \$12,000) said they believed the average citizen did not have an opportunity to participate. Seventy-four percent of the black population workers (n=19) responded similarly. The survey also found that the community supported the actions of the citizens who signed the petition urging the high paying unionized employer to locate in the county.

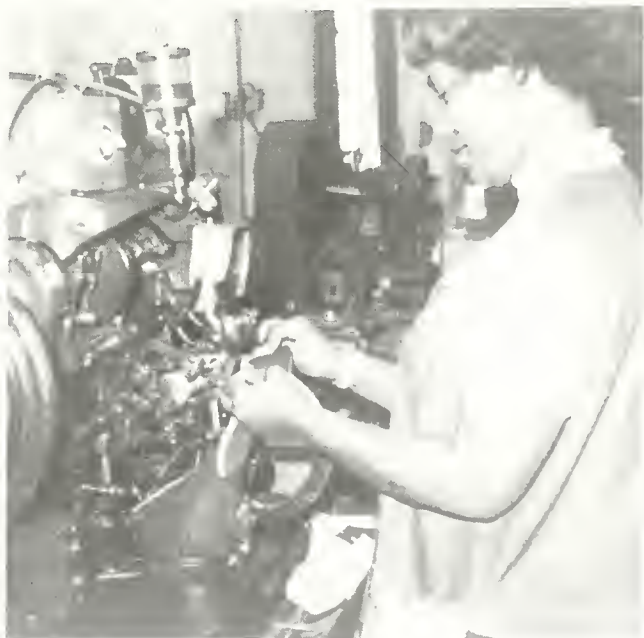
Of the ninety-three production workers interviewed, 75 percent favored the actions. Ninety percent of the black members of this group responded similarly, as did 76 percent of the lower income households. Even nonproduction workers such as managers, supervisors, and public-employees favored the petition (Carlisle et al. 1978). While this is not evidence that these citizens wanted the com-

pany to locate, it is further evidence of the general dissatisfaction with secret economic development practices in Person County.

The final reason for dissatisfaction with industrial recruitment as a means of achieving balanced growth points out another weakness in the local decision making process. As the process is now structured, unionized companies are discouraged, but no further analysis is performed to determine which companies will have an overall positive impact on the development of the community. State officials are beginning to recognize that certain industries are more stable than others or complement existing industries in the state, yet no analytic capacity is built into the recruiting process at the local level to identify these industries. The major concerns of local officials are whether the additional industry will add sufficiently to the tax base and whether it will maintain the local economic structure. If these criteria are met the company will probably be encouraged to locate and possibly be offered a locally funded location incentive. Beyond the immediate interests of the businessmen of the community, no further analysis is made to determine what affect the location decision will have on the overall development of the community.

### **Changing the Industrial Recruitment Process**

The final focus of this paper is to outline ways in which the recruitment process can be changed to facilitate "balanced growth" and economic development to allow the local economic planner a larger role. While only a few local planners now have the title of economic planner, it is clear that manpower,



Increased local control could result in job opportunities tailored to small community needs.

Photo courtesy of N.C. Dept. of Labor

community development, and industrial development planners are each concerned with the local economy in some capacity. The role of the economic planner, however, is still being formed. Specifically, while theories on economic development and methods of analysis have proved to be of value in academic circles, there is still uncertainty concerning how to transform these theories to policy. Yet the economic problems of many localities necessitate that planners learn to effect positive economic change. One obvious channel is through the industrial recruitment process.

The local planner already has the analytic skills and community organizing skills needed for such a role. The planner is equipped to decide whether a company should be offered location incentives or be actively recruited by expanding the benefit-cost analysis to include additional considerations such as:

- the stability of the industry over macroeconomic peaks and troughs;
- the quality of the jobs as measured by wages and working conditions, possibilities for advancement, and use of local labor;
- the effect of the location upon local land use patterns; and
- the possibility of existing local manufacturers supplying production inputs to the locating plant.

Unfortunately, further analysis is precluded until more details about the company are available. Due to the traditional secrecy surrounding the recruit-

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### **“Participation in the recruitment process by local planners will require a new outlook. . .”**

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ment process, these necessary details are not known until after the location decision has been made. Even the above considerations, if answered, would be quite valuable in determining whether incentives should be offered or firms actively encouraged to locate.

The planner's opinion, however, may conflict with the opinions of local businessmen and public officials. From the accounts of how certain high paying and unionized firms are discouraged from the outset, it is apparent that the planner's analytic skills will not be enough to bring about the economic development of the locality. The planner then has two ways to change the recruitment process. First, he can become a member of the economic development committee or any other traditional recruitment contact and work within the system. The planner could be hindered in this role if he is seen as representing his own interests rather than those of the community. But he would still be effective in making others aware of alternative strategies and long run

outcomes of particular development decisions.

The alternative path for the planner is to create an interest within the community in the economic development process. Most citizens are probably unaware of how the resolution of economic issues influences the development of the community. If community members understand how the process works and are organized effectively, they will be able to influence the decisions of locally elected officials.

Participation in the recruitment process by local planners will require a new outlook on the part of recruiters, businessmen, citizens, and planners themselves. The planner should be perceived as someone who influences rather than facilitates economic development.

If the planner does decide to assume the advocacy role, he will be allying himself with groups whose interests do not dominate in the economy. The personal danger for the planner that any present influence he has in the recruitment process could be lost. Of course, the potential for the community is immense, if he should be successful. Clearly, if the community gains some control over the economic decisions, this control can be extended to other areas of community concern.

The process of involving the community and giving control over the economic development process may be slow. Not only will those with power be reluctant to give it up, but the community itself may be unsure of its ability to meaningfully participate in a process with which it has no experience. Use of existing community organizations should be helpful in this regard. With hard work and time the recruitment process will be successful.

Eventually a public meeting should be called to discuss issues of importance in the economic development process. Some of these issues include

- an explanation of how the industrial recruitment process works;
- what the short and long term costs and benefits of industrialization are to the community; and
- what alternative strategies to recruit firms exist.

It will be worthwhile for the citizens to elect a representative committee and hold regularly scheduled public meetings. These meetings should provide an opportunity for summaries of the representatives' activities and provide a forum for two-way communication with the public. The committee should also prepare reports of its meetings to be made available to the public.

The committee members and the planner should involve themselves in the development process whenever possible. One important task will be to determine the status of recruitment prospects from the local contacts in the recruitment process. All public meetings at which location incentives will be proposed should be attended. The committee members should also attempt to become members of

any economic development committees to prevent certain companies from being discouraged.

If there is outright resistance by elected officials or publicly funded economic development committees, recourse lies with the North Carolina Labor

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Law Center. The Center has handled cases in which citizens have sued economic development committees because public funds were being used to discourage high paying industry.

The planner should step down as director of the community group as soon as possible to avoid any possible conflict of interest. He will still be able to provide advice but will remain at an arm's length from all group decisions and reduce the risk of losing influence in the planning process.

If the community group can directly approach representatives of interested companies, there are a number of questions which should be asked. Some sample questions include:

1. Why are you interested in locating in this area?
2. What publicly funded inducements will you require before you make your location decision?
3. To what degree will public inducements influence your location decision?
4. What will be the total capital investment of your plant in this area?
5. How many dollars in sales do you expect to generate from this plant when it is fully operational?
6. How many people will you be hiring from this area? For which jobs? At what salaries? With what potential for promotion?
7. How many people from other plants in your company will work here?
8. What are your short term expansion plans?
9. What are your long term expansion plans?
10. Where will your company buy its production inputs?
11. Will you consider buying local inputs whenever they are cost competitive?
12. Where will your company borrow its capital?

Follow up questions should be pursued with companies that decide to locate elsewhere to ascertain

why they made that location decision. The citizens' committee should contact other communities that have dealt with the same company as much as can be learned from their experiences.

The danger of this approach is that companies might perceive a hostile business climate and decide to locate elsewhere. Unfortunately, there is little evidence to evaluate this concern. If the company should decide to locate elsewhere on this basis alone, one might seriously question the company's long run interests in the community. However, if the questioning process is successful and the company decides to locate in the area, the community will know what to expect from this company in the future.

## Conclusion

This article has analyzed the industrial recruitment process in North Carolina because it is the dominant economic development strategy of the state. It is not the intention of this article to suggest that recruitment is the only relevant strategy because alternative strategies were not considered. On the contrary, the types of strategies outlined by Rick Carlisle in the companion article are both viable and necessary. However, since industrial recruitment is the dominant strategy at present and the main strategy in the proposed balanced growth policy, it should be carefully examined to determine if it can be improved.

The improvements suggested here can be implemented by local economic planners. There is no guarantee, however, that the planner will be successful in his new role due to the nature of recruitment as a passive approach to job creation and the resistance of local businessmen to this new role. There may be some resistance from planners themselves in adapting to the active role required. It is important to note that the end result could be the economic development of needy areas of the state along with added control by the local community members over an important aspect of their lives.

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