

BUSINESS INCENTIVES AND NORTH CAROLINA'S TIER 1 COUNTIES: HAVE THEY WORKED?

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EXECUTIVE SUMMARY

North Carolina has used a number of incentive programs in recent years to try and spur development in economically distressed (“Tier 1”) counties. These incentives have failed to effectively assist distressed areas and may even be widening the gap between the state’s wealthiest and poorest counties. This paper reviews three key incentive programs in North Carolina and attempts to gauge how effective they have been at helping distressed areas of the state. In addition, we highlight the importance of looking beyond traditional location incentives to attract business, toward more “homegrown” economic development strategies that focus on infrastructure, workforce development and human capital required for a strong business climate.¹

Recent Incentive Tools Leave Tier 1 Counties Behind

The three primary incentive tools North Carolina has relied on in recent years are Bill Lee Tax Credits (now called Article 3J Credits), the Job Development Investment Grant Program (JDIG), and the One North Carolina Fund. These tools may have helped the state increase investment and generate new employment opportunities. However, their effect on the most distressed areas of the state has been disappointing. The very counties that most need incentive programs to stimulate growth have been left behind in these programs. Over half of Bill Lee credits have been generated in Tier 5 counties in recent years, while only 13% of credits have come from Tier 1 counties. The One North Carolina Fund has awarded funding to distressed areas in similarly low proportions, and the JDIG program has awarded a majority of its funds to Tier 4 and 5 counties.

A “New Deal” for Tier One Counties

The state’s current toolkit of business incentives has failed to attract significant job creation and private investment in its most distressed areas. What is needed is a “New Deal” for Tier 1 counties – a package of programs that build the economic capacity and improve the competitive positioning of these communities. Such “homegrown” improvements would focus on cultivating managerial and entrepreneurial talent, creating a pipeline of new educated workers, upgrading the existing workforce, and encouraging world-class environmental stewardship and growth planning. Only by focusing on the fundamentals—infrastructure, education, basic services and quality of life issues that enhance human capital and strengthen the business climate—can North Carolina help all communities become better places to live and work.

¹ Special thanks to Brian Taylor for the additional data, editing, and suggestions he contributed.

Introduction

While North Carolina has enjoyed fairly strong economic growth the past 15 years, this success has not been shared by all parts of the state. Like most states, North Carolina has struggled to ensure balanced prosperity throughout the state. A number of tax incentives and grant programs have been introduced in North Carolina to try and spur economic development. While these programs are not exclusive to distressed areas, they are invariably meant to help create jobs and improve investment in those counties that need the most help (“Tier 1” counties). This paper looks at three of the primary incentive programs in North Carolina to gauge the impact they have had on distressed counties in the state. In addition, we highlight the importance of looking beyond traditional location incentives to attract business, toward more “homegrown” economic development strategies that focus on infrastructure, workforce development and human capital factors required for a strong business climate.

What is a Tier 1 County?

When the Bill Lee Act was passed in 1996, its purpose was to (1) stimulate the state economy by reducing business costs and (2) balance economic development across the state by awarding larger amounts of tax credits for business activity in economically distressed counties. With this second goal in mind, North Carolina’s 100 counties were assigned to one of five Tiers based on their relative level of economic distress. The state’s most economically distressed counties were assigned Tier 1 status, while the least distressed were assigned Tier 5 status. Economic distress of a county was measured with three indicators: (1) per capita income, (2) unemployment rate, and (3) population growth. Originally the ten most distressed counties were placed in Tier 1. Since 1996 counties have moved up and down in the Tier system, but the general trend has been a downward shift of counties to lower Tiers and an increase in the number of counties designated as tier 1. By 2006 there were 28 counties with Tier 1 status (See Appendix 1).² The increase in the number of Tier 1 counties is largely due to changes in tier designation formulas, but the economic decline of traditional manufacturing industries in counties across the state has also played a part.

In 2007 the Bill S. Lee Act was officially replaced with the Article 3J Tax Credit Program, and with it came a new three tier system. Under this new system 40 counties have been designated as Tier 1 counties.

Bill Lee Act

From 1996 until 2007, the Bill Lee Act was one of the state’s primary business recruitment tools. The Lee Act allowed businesses to claim tax credits for creating new jobs or investing in a

² NC Dept. of Commerce (2008)

variety of business expenses (training, R&D, equipment and machinery). Between 1996 and 2003, over \$388 million in credits were taken and more than \$920 million in tax liability remained outstanding.³ Between 2004 and 2007 and additional \$550 million in Lee credits were generated.⁴ One of the primary goals of the Lee Act, as mentioned above, was to encourage development in distressed counties, as the credits were heavily weighted toward investment and job creation in those counties.

Unfortunately, the Lee Act has proven to be a poor tool for helping Tier 1 counties. Although the structure was tiered to help economically distressed counties, there was no requirement to award credits to those counties. Consequently, most of the credits went to businesses in counties that were already thriving. In an average year, roughly 78% of Lee credits went to businesses in Tier 4 and Tier 5 counties.⁵ Between 1996 and 2001, Tier 1 counties generated only 9% of all Lee credits.⁶ This number has improved slightly in recent years, with Tier 1 counties generating 13% of Lee credits between 2002 and 2006.⁷, but this is mostly attributable to the larger number of Tier 1 counties during this period. Looking at Lee credits generated by Tier clearly shows this tool had benefitted Tier 5 counties more than the poorer, economically distressed Tier 1 counties (See Appendix 1 and 2).⁸

Among the different types of credits available (R&D, jobs, training, M&E, etc), Tier 1 counties favored best in the job creation category- receiving over 29% of Lee credits for job creation. However, in the M&E category (which accounts for ~70% of all Lee credits), Tier 1 counties received less than 6% of M&E credits.⁹ The fact that a majority of Lee Credits went toward M&E also raises the question of whether the tool may be encouraging substitution of capital investment for labor.

Lee credits also appear to have helped subsidize larger firms¹⁰ more than small firms, essentially providing a competitive advantage to larger firms. Given that smaller firms (especially “gazelle” firms poised to expand) are often the engine for economic growth in non-urban areas, this again points toward Lee Credits having a limited impact on those areas of the state that need the most help. In some cases, they also may be unnecessary. Recently, a graduate student talked to a couple of firms that claimed Lee incentives. In both cases, the accountant applied for them, the owner did not know, and they played no role in the site selection choice.¹¹

3NC Dept of Commerce (2005)

4 NC Dept of Revenue (2008) “Generated” means applied for and awarded; while tax credits “claimed” means actually used.

5 For years 1996-2001, Cameron (2004)

6 Lugar (2003)

7 NC Dept of Revenue (2008)

⁸Recently, the NC DOC adjusted the numbers and presented “number of projects” per capita. This, of course made the program look better. However, we regard this change as misleading. The tax incentives are supposed to compensate for a variety of obstacles (e.g., distance from markets, population growth and size, less workforce skills, etc.).

9 NC Dept of Commerce (2005)

10 NC Dept of Commerce (2005)

¹¹ Owner of Marine Tooling Technology in High Point, NC. Personal Interview. 9/17/08 President of Dill Air Controls, Oxford, NC. Personal Interview. 10/7/08.

Article 3J

In July 2006, the North Carolina General Assembly passed legislation to enact a program that essentially replaces the Bill Lee Act. This new program, called Article 3J, provides three types of tax credits to eligible¹² taxpayers: 1) credit for creating jobs, 2) credit for investing in business property, and 3) credit for investing in real property in Tier 1 counties. These credits can be used to offset up to 50% of the firm's state income and franchise tax liability. Unused credits can be carried forward for up to five years.¹³

Eligible firms must employ workers at or above the applicable wage standard for the county. In addition, participating firms must offer health insurance for all full-time employees and pay at least half of employee premiums. Grantees must also meet environmental and workplace safety standards as well as having no overdue taxes.

As mentioned earlier, Article 3J uses a new three Tier system (as opposed to five) to target economically distressed counties. Counties are now designated into three tiers (as opposed to five) based on their economic well-being. The 40 most distressed counties are considered Tier 1, the next 40 Tier 2, and the 20 least-distressed counties are Tier 3.

Article 3J credits are heavily weighted in favor of Tier 1 counties. Job creation credits are \$12,500 per job in Tier 1 counties, versus \$750 per job in Tier 3 counties. Job creation thresholds for participation are also less stringent in Tier 1 counties (5 new jobs) than in Tier 2 (10 new jobs) or Tier 3 (15 new jobs) counties.¹⁴ Credits for investments in business property are also weighted to favor Tier 1 counties.

Additionally, taxpayers in Tier 1 counties can claim credit for investment in real property. Firms that invest at least \$10 million in real property within a three-year period and create at least 200 new jobs within two years can take a credit equal to 30% of eligible real property investment.

¹² Eligible businesses include: aircraft maintenance and repair, air-courier services hub, company headquarters, customer service call centers, electronic shopping and mail order houses, information technology and services, manufacturing, motorsports facilities or racing teams, research and development, warehousing, and wholesale trade.

¹³ Credits for investing in real property may be carried forward for up to 15 years (or 20 years for taxpayers investing at least 150 million over a 2-year period). Deeper subsidies are also available for designated Urban Progress Zones and Agrarian Growth Zones. These are Enterprise Zones by another name.

¹⁴ NC Department of Commerce (2008)

One North Carolina Fund

The One North Carolina Fund (originally called the Governor's Industrial Recruitment Fund) is one of the more flexible job creation tools the state uses. State officials have a great amount of discretion in awarding the funds. The fund is intended to be used for companies seeking to expand or locate new operations in the state. Companies receiving One North Carolina funding must meet hourly average wage standards and the local government must provide matching financial assistance to the company. Applications are evaluated against the following criteria: economic impact of the project, strategic importance of the project, quality of jobs, quality of industry and environmental impact of the project. In addition, the project must be competitive with other states.

Special consideration is supposed to be given to companies located or expanding in areas with sudden and severe economic disruptions; however, there are no specific requirements or quotas for awarding funds to Tier 1 counties. Looking at recent One North Carolina Fund commitments reveals Tier 1 counties are receiving 10% of the funds, while roughly half of the funds are going to Tier 5 counties (See Appendix 2). One suggestion for improving funding access for Tier 1 counties has been to reduce or eliminate the local grant matching requirement. Because Tier 1 counties by definition face limited funding, they have less ability to provide matching funds to industrial development projects.

JDIG Program

In 2003 North Carolina began using a third major economic incentive tool, the Job Development Investment Grant Program (JDIG). JDIG, like the One North Carolina Fund, uses discretionary grants to encourage companies to expand or locate in North Carolina. JDIG grants, however, are much larger, and go to highly sought after projects with very high job creation or investment impacts. In 2005, for example, 11 companies received grants and the maximum value of these grants ranged from \$1.4 to \$8.8 million; these grants were based on job creation targets for these companies, which ranged from 140 to 900 jobs (see Appendix 4). Only one of these companies, however, located in a Tier 1 county.

JDIG also differs from the Lee Act and the One North Carolina Fund in that there is no requirement to award grant dollars to firms locating in Tier 1 counties. This is problematic for Tier 1 counties because firms with high impact projects of this type have tended to locate in and around wealthy metropolitan areas. In the absence of such a requirement, two thirds of all 70 JDIG awards have gone to companies locating or expanding in wealthy Tier 5 counties, while only 5 (7%) have gone to Tier 1 counties. The disparity in total potential disbursements is even more dramatic. Aggregating the maximum amounts awarded by Tier reveals that 85% of potential JDIG disbursements have been granted to companies in Tier 5 counties. Meanwhile companies locating or expanding in Tier 1 counties account for only 3% of total potential disbursements.

Although the large majority of JDIG disbursements have gone to Tier 5 counties, the JDIG program has had an indirect positive effect on Tier 1 & 2 counties. This is because the JDIG program requires 25% of the funds awarded to projects in Tiers 4 & 5 have to be deposited into the Utility Account of the Industrial Development Fund for the expressed purpose of building infrastructure that could lead to job creation and investment in Tier 1 & 2 counties. In 2006 the JDIG Economic Investment Committee (EIC) estimated that 41 companies that located in Tiers 4 and 5 would generate a maximum of \$87 million for the Utility Account over the life of those grants.

Based on worker commuting pattern data from the US Census, the EIC also argued that these Tier 4 and 5 projects could be expected to employ significant numbers of workers commuting from Tier 1-3 counties.

These economic incentive programs are not evaluated in terms of job creation or investment impacts on Tier 1 counties, because there is little empirical evidence to show that the incentives significantly influence the site selection decisions of businesses. Evidence on the effectiveness of tax incentives is especially sparse. State and local taxes usually make up a small percentage of total business costs, and are usually dwarfed by the cost of labor. Surveys of businesses indicate that the labor costs in a region, as well as the skill set of the regional labor force, are much more important site selection factors. This is not to say that incentives never influence industry location decisions, because not all firms respond in the same way to incentives, but asserting that all or even most jobs would not exist, but for the incentives, would be a hard position to defend.

A “Capacity Building” Approach to Development

The incentive programs discussed above may certainly be producing some positive outcomes for the state as a whole (such as capital investment, job growth, etc.) There is some evidence that incentives might help to land highly sought after, leading edge projects in North Carolina’s metro areas. However, if these programs are failing to help distressed counties and better balance growth trends between areas growing too fast and those that are stagnant or are growing too slowly, then other strategies should be explored to meet that need. As a former boss once stated: “Shaving ticket prices won’t turn Tiny Tim into one of the three Tenors.” In other words, incentives alone cannot compensate for many local deficiencies.

There is another danger to an incentives-only strategy. Current incentives competition will only lead to higher and higher payouts to firms in order to “win.” Without further efforts to curb certain practices and policies, it is a certainty that this state, at times, will over-bid.

Ultimately, it is not surprising that Tier 1 counties continue to struggle with economic growth. These are areas that have a number of drawbacks as a place for attracting a firm, and the thought that location incentives will be sufficient to entice business to the area is unrealistic in most cases. Indeed, they offer reassurance rather than reality.

This critical perspective, gleaned from our examination of Tier 1 programs, is backed by the vast body of literature and research on enterprise zones. Although there is not unanimity, the evidence is fairly consistent: as a rule, they have not worked. Typically, they do not create net new jobs, often encourage the substitution of capital for labor, rarely influence business decisions and seldom provide competitive advantages for distressed areas versus stronger economies.

Moreover, most research on enterprise zones has shown that business activity is not influenced by tax differences. Rather, other locational factors – such as a modern physical infrastructure, an educated labor force and a better quality of life – tend to be more important in a firm’s decision making process.

Therefore, a more effective economic development strategy is to meet these factors head-on via capacity building programs such as, workforce training, education, health and infrastructure. These, in fact, shape the actual development climate for a business.

For Tier 1 counties, a better approach is to work more with what you’ve got – an indigenous business base with opportunities for import substitution (e.g., Goods and services are provided locally rather than imported, therefore keeping dollars within the community.) and taking part in larger and increasingly popular region-wide economic development strategies.

If subsidies must be used to assist Tier 1 counties, a more targeted counter recessionary approach should be taken.¹⁵ For example, a change in the 3J program to make it more anti-recessionary would be a timely adjustment to the current program. Or a pilot program offering hiring grants in Tier 1 counties might also be considered. This program could be structured as an anti-recessionary effort or an on-going small business subsidy (see Appendix 3).

However, even with more targeted subsidies to spur Tier 1 growth, most of these counties will not become economic powerhouses. The playing field for economic development will be far from level. The goal, instead, is to aid communities in a game they can win: offering a safe, attractive quality of life – good schools, access to decent health care, enhanced civic leadership skills, a robust physical infrastructure, and exemplary environmental stewardship.

Tier 1 counties are wonderful candidates for increasing entrepreneurial capacity and improving basic amenities and the strategic abilities required to position themselves in the global marketplace. State government and its public, private, and nonprofit partners can all play a role in nurturing human and social capital in these communities.

In short, when we think about how to assist Tier 1 counties it's not incentives: it's capacities.

It's our good fortune to live in NC, which is starting to tackle this issue with more money, more expertise, and a longer attention span.

Golden Leaf Foundation has introduced a new and promising effort, the Community Assistance Initiative, which is providing roughly \$2 million per site to improve the fortunes of economically struggling areas. The CAI will attempt to reach a consensus among the movers-and-shakers and populace on high priority actions ready for implementation. Grants must be used for both planning and action. Golden Leaf hopes to reach all Tier 1 counties in the next few years. The program is voluntary and blessed by its own revenue stream, tobacco settlement monies.

Secondly, 20-plus NC-based business support organizations have worked successfully for more than three years on strengthening the quality and access of their services to new, young, and small firms. Project leader is the NC Rural Development Center, Institute for Rural Enterprise.

¹⁵ Two examples of more targeted subsidy programs that might better assist distressed areas are described in Appendix 5. While this paper advocates for capacity building development strategies and focusing on the fundamentals, we certainly acknowledge that business incentives have become a reality in today's competitive economy. The two incentive tools listed in Appendix 5 (job growth credits and hiring subsidies for unemployed job-seekers) are examples of incentive policies that we view as more appropriate for assisting distressed areas of the state.

Conclusion

Ever since the last term of the Hunt Administration, the state has been running an experiment – can conventional or novel business incentives attract a significant increase in job creation and private investment in its most economically challenged counties? Although there has been some success, we are still forced to conclude that this path to prosperity did not pan out and new directions must be sought.

What is needed is an augmented “capacity building” development approach for Tier 1 counties – a package of programs that foster a strong business climate and build human capital in these areas. Secondly, better enterprise development programs are imperative as well. After all, on any given day, a Tier 1 county will not be likely to have a business attraction prospect to court, but it will have hundreds of small firms whose performance could be raised from poor or average practice to best. And starting with the schools, entrepreneurial talent could be cultivated. Third, experimentation with some new subsidy concepts might be wise.

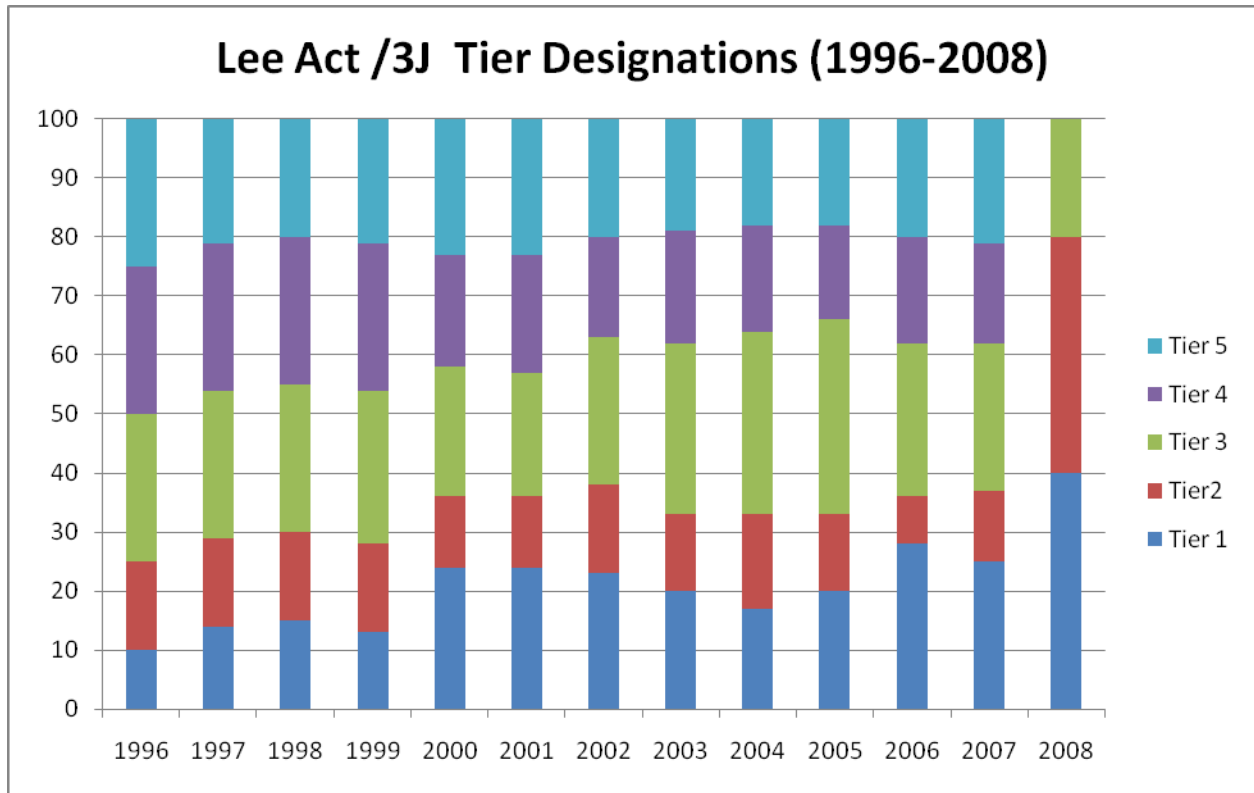
Not all counties will be big winners, but all can enhance their economic performance. And with some help from the state, all can become even better places to live. Community development and economic development strategies, at their best, are synergistic.

There is also a venue that is an ideal place for these and other approaches to be sifted through. Hence, we would recommend the issue of a revamped strategy for Tier 1 development as a high priority for the Joint Select Committee on Economic Development Incentives.¹⁶

To conclude, if we focus on the prerequisites for growth – infrastructure, education, basic services and quality of life issues – North Carolina can help all its communities become better places to live and work. And if we do more to encourage local entrepreneurial initiative and the modernization, expansion, and retention of homegrown firms, more Carolina communities can play to win.

¹⁶ Given the significance of this issue, we hope the Select Joint Committee will consider addressing this topic after the short session.

Appendix 1

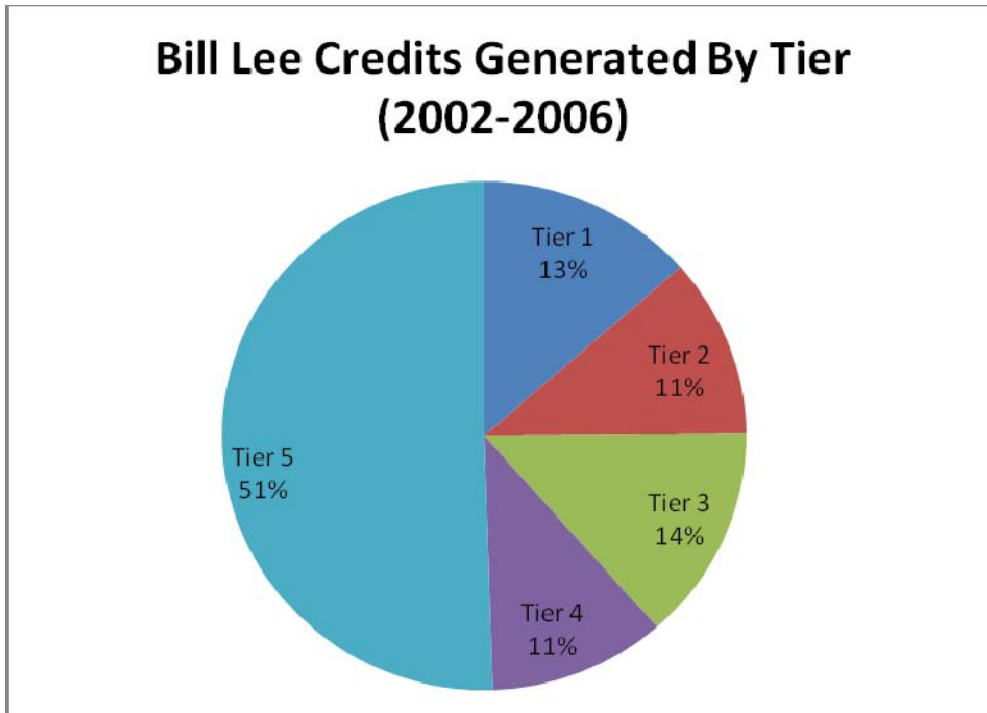


2008 uses Article 3J three Tier system

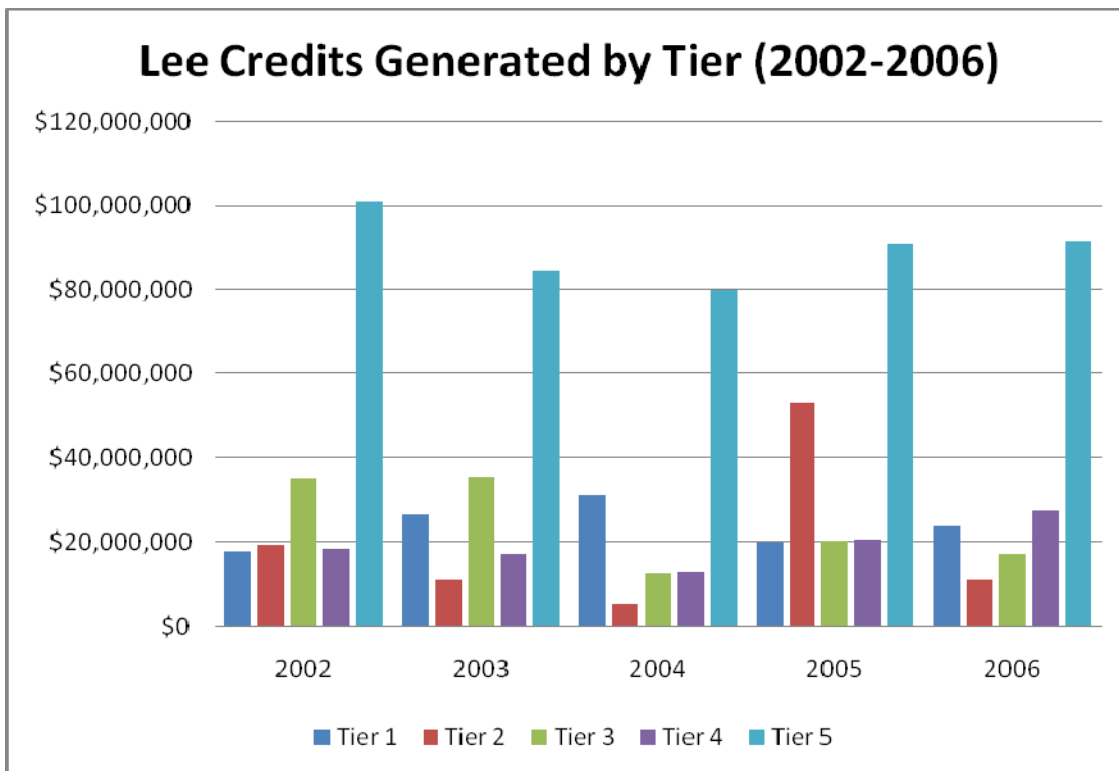
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Tier 1	10	14	15	13	24	24	23	20	17	20	28	25	40
Tier 2	15	15	15	15	12	12	15	13	16	13	8	12	40
Tier 3	25	25	25	26	22	21	25	29	31	33	26	25	20
Tier 4	25	25	25	25	19	20	17	19	18	16	18	17	
Tier 5	25	21	20	21	23	23	20	19	18	18	20	21	

Source: North Carolina Department of Commerce

Appendix 2

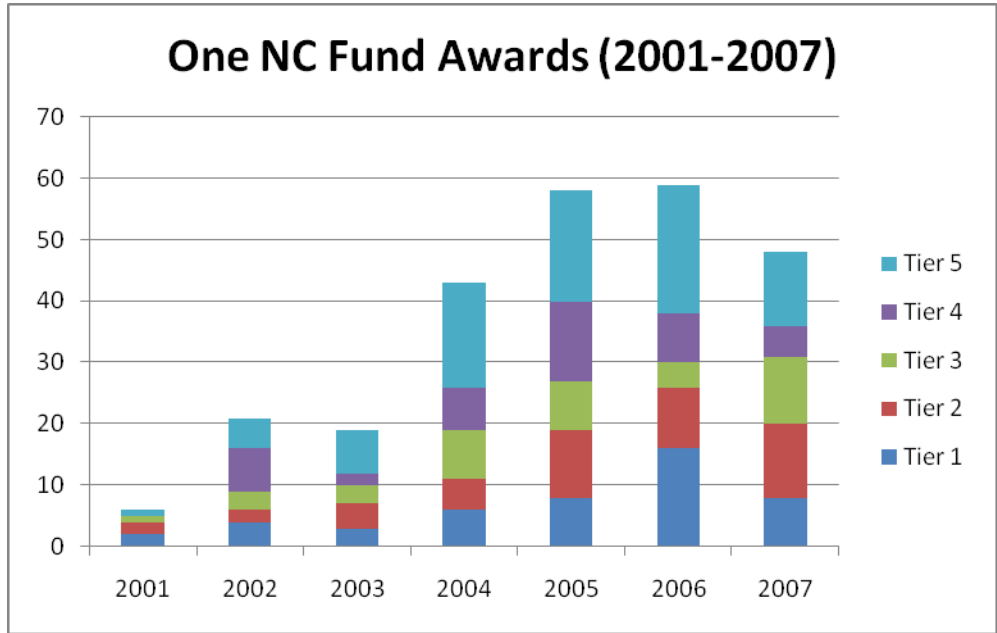


Source: North Carolina Department of Revenue



Source: North Carolina Department of Revenue

Appendix 3

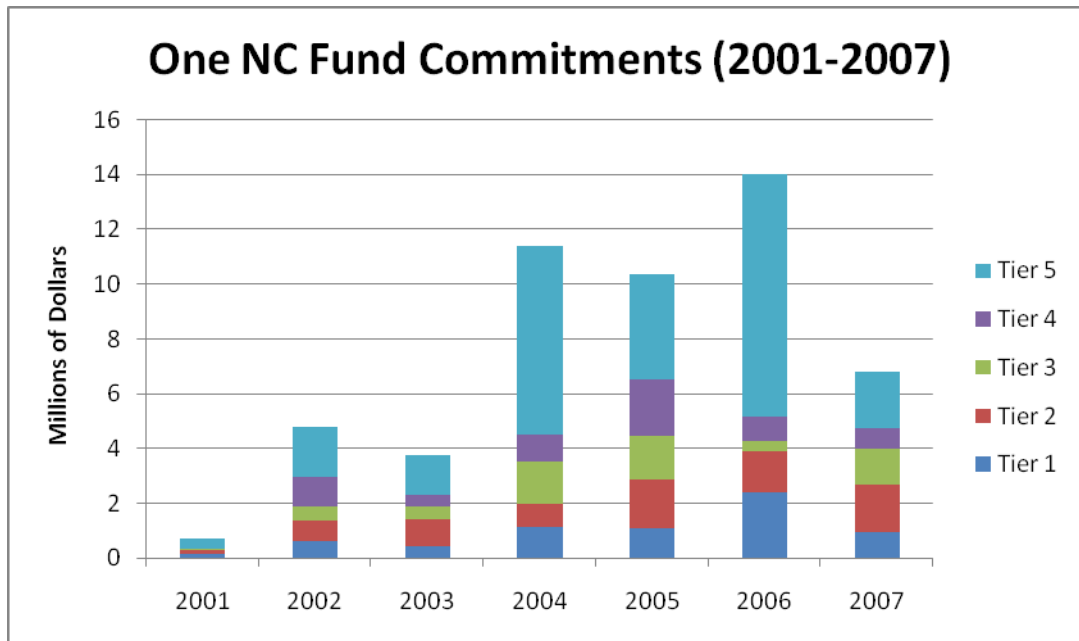


*Using 2007 Lee Act Tier Definitions

	2001	2002	2003	2004	2005	2006	2007	Tier Subtotal	% of Total
Tier 1	2	4	3	6	8	16	8	47	19%
Tier 2	2	2	4	5	11	10	12	46	18%
Tier 3	1	3	3	8	8	4	11	38	15%
Tier 4	0	7	2	7	13	8	5	42	17%
Tier 5	1	5	7	17	18	21	12	81	32%

254	Total
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Source: North Carolina Department of Commerce



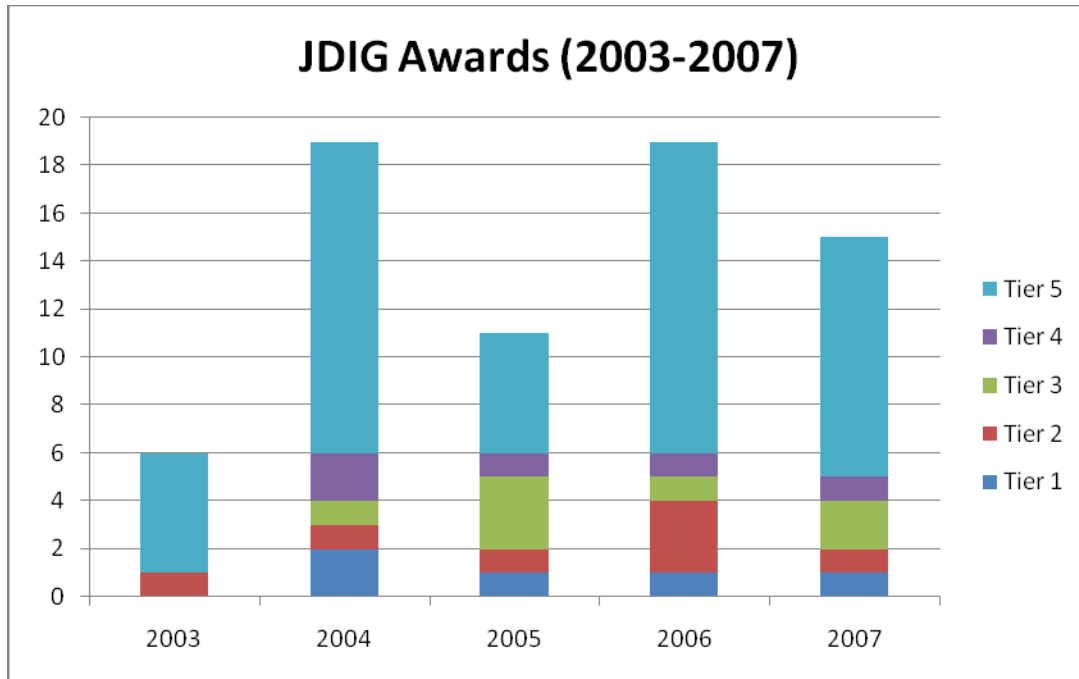
Using 2007 Lee Act Tier Definitions

One NC Fund Commitments (Thousands of Dollars)

	2001	2002	2003	2004	2005	2006	2007	Tier Subtotal	% of Total
Tier 1	\$125	\$615	\$422	\$1,105	\$1,061	\$2,391	\$925	\$6,644	13%
Tier 2	\$150	\$750	\$975	\$875	\$1,799	\$1,526	\$1,731	\$7,806	15%
Tier 3	\$50	\$514	\$500	\$1,549	\$1,575	\$350	\$1,335	\$5,873	11%
Tier 4	\$0	\$1,055	\$400	\$976	\$2,110	\$873	\$730	\$6,144	12%
Tier 5	\$400	\$1,850	\$1,465	\$6,890	\$3,836	\$8,908	\$2,075	\$25,424	49%
								\$51,890,575	Total

Source: North Carolina Department of Commerce

Appendix 4



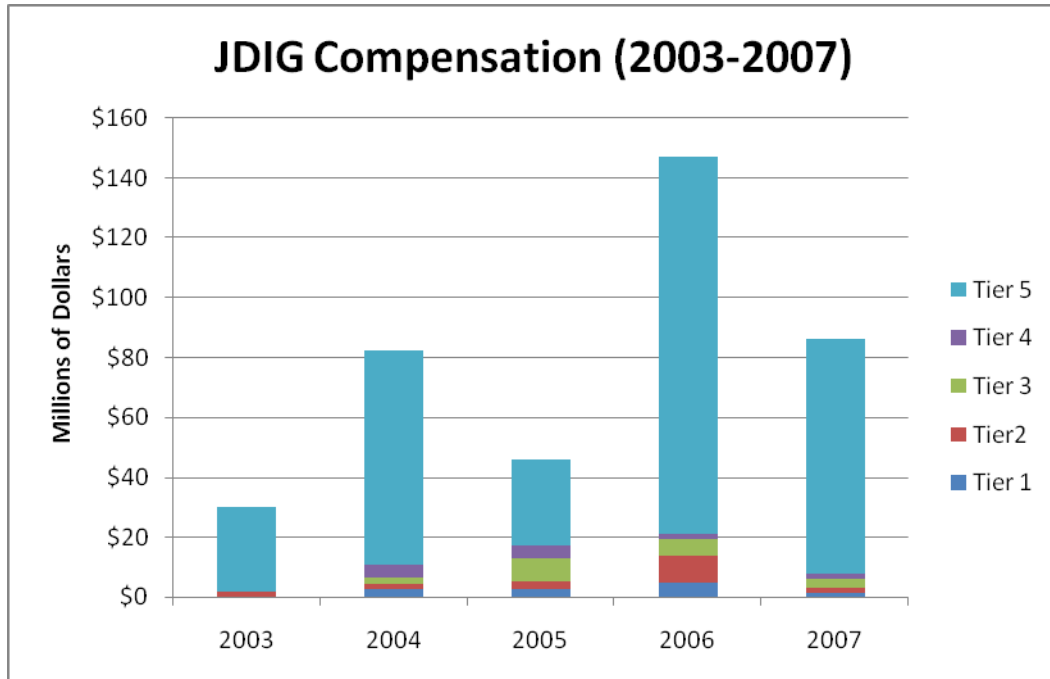
* Using 2007 Lee Act Tier Definitions

JDIG Awards

	2003	2004	2005	2006	2007	Tier Subtotal	% of Total
Tier 1	0	2	1	1	1	5	7%
Tier 2	1	1	1	3	1	7	10%
Tier 3	0	1	3	1	2	7	10%
Tier 4	0	2	1	1	1	5	7%
Tier 5	5	13	5	13	10	46	66%

70	Total
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Source: North Carolina Department of Commerce



*2007 Lee Act Tier Definitions

JDIG Compensation (Millions of Dollars)

	2003	2004	2005	2006	2007	Tier Subtotal	% of Total
Tier 1	\$0.00	\$2.53	\$2.60	\$4.80	\$1.37	\$11.30	3%
Tier 2	\$1.60	\$1.90	\$2.36	\$9.05	\$1.70	\$16.61	4%
Tier 3	\$0.00	\$1.90	\$8.00	\$5.40	\$3.00	\$18.30	5%
Tier 4	\$0.00	\$4.20	\$4.40	\$1.90	\$1.67	\$12.17	3%
Tier 5	\$28.30	\$72.04	\$28.74	\$125.97	\$78.67	\$333.72	85%

\$392.10	Total
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Appendix 5

Alternative Subsidy Programs to Assist Distressed Areas

If North Carolina hopes to truly help distressed counties, new incentive policies should be piloted in the state. A number of innovative subsidy tools could hold promise for distressed areas. For instance, recent Nobel Prize winner Edmund Phelps has proposed using graduated subsidies for firms hiring low-wage employees. Exploring these types of subsidies could be useful as North Carolina thinks about alternative ways to reach Tier 1 counties.

Two policy ideas that could assist struggling Tier 1 counties are *job growth credits* and *direct hiring subsidies* for unemployed jobseekers. These policies could:

- Provide a stronger stimulus for hiring new employees
- Be more cost-effective than current incentives
- Offer more to smaller firms
- Generate public returns in less than a year
- Aid directly those workers and communities suffering the most economic distress

The state could pilot these programs either simultaneously or independently. If the programs were implemented at the same time, businesses could choose to utilize whichever tool would be more advantageous.¹⁷

Job Growth Credit: An Counter-Recessionary Tool

A new Job Growth Tax Credit would provide a 30% tax credit of the first \$14,700¹⁸ in wages paid to each additional employee over 102% of baseline employment. In other words, the state would only subsidize additional employment for a firm. This type of program would likely be most effective during recessionary years. Therefore, the credits could be “triggered” by an indicator such as a high unemployment rate (i.e. a year where rate rises above 6%). This year would then serve as the “baseline” for gauging employment increases until the unemployment rate falls below a certain percent (i.e. 5%)

This type of program would be a more direct and cost-effective approach to job creation than the current incentive approach. Current programs take a less direct approach, by subsidizing capital investment to increase production and hope for increased job creation. A Job Growth Tax Credit would lower the cost of labor for employers and possibly spur a substitution of labor for capital.

¹⁷ Firms should not be allowed to access both of these tools at the same time (i.e. claiming New Job Growth credits and utilizing hiring subsidies for unemployed workers in the same year)

¹⁸ \$14,700 was selected because it was the same as North Carolina’s terms for FUTA (Federal Unemployment Tax Act), and could be updated accordingly. See Schweke and Woo (2003) for full methodology.

The program design is anti-recessionary and encourages countercyclical growth. By encouraging expansions in employment during times of recession, the state is rewarding firms that act, perhaps hastening a recovery. The credits could be applied only to wages up to some cap (i.e. 30% of the first \$14,700 in wages). This would provide an above-average subsidy for lower-skill and lower-wage workers. A lower credit amount (i.e. 15% of the first \$14,700) could be offered for expansions in part-time employment.

And how is this program different from the existing 3J effort? There is a larger danger that 3J resources will be misspent, since it has fewer safeguards against substitution effects. The proposed Job Growth Tax Credit is available only during recessions and is triggered by higher jobless rates. This makes it much harder to “game” by employers and easier to implement an expansion by financing a portion of it with state government money.

Hiring subsidy for unemployed jobseekers

A Targeted Job Creation Grant program would offer businesses direct wage and benefit subsidies for hiring workers who are currently unemployed. The program could be targeted toward Tier 1 counties on a pilot basis and expanded statewide if successful. Subsidies could be provided for up to 6 months.

Discretionary wage subsidy programs have been tried in the past and shown promising results. One successful example of an employment subsidy program was the Minnesota Emergency Employment Development (MEED) program. This program was implemented in the mid-1980s to help address the state’s unemployment during a severe economic downturn. The program offered employers wage and benefit subsidies to hire state residents who were unemployed and ineligible for unemployment insurance or workers compensation. The program enrolled over 42,000 employees and created over 18,000 permanent jobs at a cost of \$3,100 per job.

The specifics for this type of program in North Carolina might follow the Minnesota example. The state could offer private employers \$6.75 per hour in wage subsidies and \$1.75 per hour in benefits¹⁹. Local or regional workforce investment boards could award subsidies to identified employers that hire individuals from disadvantaged groups. Workers would be eligible if they are state residents, unemployed, and currently ineligible for unemployment insurance. Residents who have been displaced by a mass layoff would be eligible even if they are receiving UI benefits. To reduce displacement of current workers, subsidies would only be available for newly created jobs.

Because this program utilizes grants, not tax credits, these subsidies would be ideal for new, young, and/or small firms. The funding can be used immediately, not just when the firms have

¹⁹ Wage and benefit subsidies were derived from MEED program. See Schweke and Woo (2003) for full methodology.

profits or when they file taxes. Moreover, the upfront nature of a grant also means that it could improve a firm's financial position for obtaining bank loans.

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