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Legislative committee gives stamp of approval to a mixed bag of economic development proposals

Overview

On Thursday, April 28th, the Joint Select Committee on Economic Growth and Development concluded several months of hearings by endorsing a set of legislative recommendations and proposals. While some of the items on the list represent grounded long-term economic development investments, others represent a growing trend towards investing in questionable and unaccountable subsidies to big business. The recommendations for new spending items are fairly innocuous and represent initiatives that, for the most part, should be considered as funds become available – this is particularly the case with the recommendations to bolster community college funding and the recommendation to enhance rural infrastructure. This brief focuses therefore on the proposals related to business incentives

The incentives-related proposals fall under the Committee's stated goal of providing "the Governor and the Department of Commerce with the financial incentives needed to entice businesses that have narrowed their search to a few locations to choose North Carolina."

Quick takes on the Committee's recommendations:

1. **Expand the One NC Fund:** This proposal would appropriate \$10 million annually into a non-reverting account, known as the One NC Fund, and codify the existing procedural safeguards.

Quick take: This would expand and make permanent a pool of funds used at the Governor's discretion in the form of grants to businesses throughout the state. Although slightly better than the state's other incentive programs, One NC Funds are spent disproportionately to subsidize businesses in the state's most prosperous communities. It is important to make the non-binding regulations permanent, especially the authority to rescind funds and the wage standard requirements. Further study is also needed to determine the business survival rates of businesses subsidized through this program.

2. **Expand the Job Development Investment Grant Program:** This proposal would extend the sunset for the JDIG program from 2005 to 2009., increase the number of annual projects from 15 to 25 and increase the annual cap from \$10 million to \$18 million.

Quick Take: This is North Carolina's latest and greatest "buffalo hunting" fund, primarily used to lure large corporations such as Merck pharmaceuticals to locate or significantly expand in North Carolina. Some very serious questions remain about the effectiveness of this program, particularly whether or not it is being used to subsidize low-paying jobs that would have come to North Carolina without the subsidy. Another major concern is the fact that 91.7% of the funds awarded to date have supported businesses in tier 4 and 5 counties. Further study should be done using the first two years of grants data before this program is extended or expanded. Thankfully, this proposal does not eliminate the sunset, the annual project number, or the value cap entirely. The committee also discussed the possibility of reinstating a wage standard for this program (the standard was eliminated in the special session in November that primarily targeted RJR Tobacco), but unfortunately the Committee took no such action.

3. **Modify Tier Structure:**

Quick Take: The last few years of deep job losses and mass layoffs have demonstrated that the tier structure as set out in the William S. Lee act needs to be revised. The use of three-year averages of economic

indicators such as unemployment leaves counties who experience sudden and severe downturns in their local economies at a disadvantage. This recommendation should be addressed by the legislature as soon as possible.

4. Remove the wage standard from the Industrial Revenue Bonds.

Quick Take: This is the latest in a string of unfortunate erosions of wage standards in the state's economic development programs. This would allow local governments to issue Industrial Revenue Bonds to benefit businesses that pay non-living wages. While it is certainly the case that requiring a wage standard limits the number of these projects, that concern is outweighed by the government's interest in limiting subsidies to jobs that will not leave families eligible for means-tested government programs like Medicaid and food stamps.

5. Revamp the State's R&D credit

Quick Take: There is widespread consensus among economists that government investments in research and development, even in the form of tax incentives, are generally worthwhile long-term economic investments. Research and development investments eventually contribute to the creation of high-quality jobs within the subsidized firms themselves and in complimentary industries that spin off or grow around the new research.

6. Expand the Film Industry Development Account

Quick Take: This proposal would allow \$5 million in additional spending to retain North Carolina's film industry. In the long run, it is inconceivable that state subsidies will be enough to keep, much less grow, the film industry in North Carolina. While it is certainly understandable that lawmakers from communities that have a significant film industry presence want to do something to stem the tide, the question that arises is to what extent taxpayers around the state should be called upon to subsidize an industry that is facing insurmountable pressure to move to other parts of the country or to other countries entirely, particularly to Canada in the case of filmmaking.

“Is any job better than no job?” – That's not the question lawmakers should be asking.

Discussions around government subsidies to private business often lead to a discussion of whether or not any job is better than no job. While understandable, that is a question for individuals to ask themselves, not to be the sole test of whether or not government should subsidize private sector activity. Government is compelled to ask other questions first, such as “will this subsidy create jobs that can support families and thus be net gain to state coffers?” and “is this subsidy simply propping up an industry that is on its way to other countries no matter what we do (such as with tobacco and filmmaking)?” Proponents of wage subsidies are not trying to prevent private businesses from paying minimum wages, but rather they are trying to protect taxpayers statewide from subsidizing low-wage jobs and industry investments that are short-sighted.

Why no recommendation regarding the Bill Lee Act?

One item noticeably absent from the final committee report is a recommendation regarding the future of the William S. Lee tax incentive program. At a whopping cost of approximately \$79 million in tax year 2002, serious consideration should be given to future of this program. The program is drawing an increasing number of credible critics and has been shown to be largely a waste of scarce public resources. The committee should have taken the extra step and recommended that the sunset of this program remain in place and that the above list of proposed expansion in economic development programs be paid for by cutbacks to “Bill Lee.”

This *Tax Brief* was prepared by Elaine Mejia, project director. Elaine can be reached with questions and comments at 919-856-2176 or Elaine@ncjustice.org.