

# How Can Gov. McCrory's Proposal Work? Preliminary Thoughts And Policy Considerations



Map: [www.secretary.state.nc.us](http://www.secretary.state.nc.us)

On Monday, March 30, the *Winston-Salem Journal* published a piece titled ["Economic development bill stalls in Senate"](#) starting with Gov. McCrory's proposal to "recruit an automobile manufacturer and create thousands of jobs and scores of companies". This is really an interesting development proposal that can boost production growth in North Carolina. The article **[i]** seeks to discuss the developmental and industrial dimensions of this proposal and to offer policy considerations deemed absolutely necessary for the successful implementation of such an ambitious plan.

## *The Present Context*

There has been much talk and debate on the recent economic downfall of the United States. Causes for concern include persistent fluctuations in output, job creation and productivity; massive federal budget and trade account deficits; and issues associated with "capital flight" and industrial decline (*U.S. National Economic Accounts*, various years). These fluctuations are closely linked to unutilized labor force, lost output, and social problems. Furthermore, the economic effects of the recent financial crisis are complicated and far-reaching because of simultaneous shocks in the housing, stock, and labor markets. Actual spending, unemployment, home equity, well-being, emotional and physical health,

and expectations about the future have all been affected by a significant slowdown in endogenous productive activity and various problems associated with financial markets. Hence, it is argued here that three important themes need to come to the center stage:

1. A discourse on the “appropriate” policy interventions,
2. The importance of adopting a long-term perspective, and
3. Emphasis on strengthening local production lines.

### *An Alternative Development Paradigm*

The US model of a *pluralist market economy* is strongly consumer and short-term oriented. Its strength is dynamism and flexibility; its dominant philosophy is private sector competition and minimal government. As a result, industrial policy has not been developed in a systematic or coherent fashion as an important piece of policy making, and the country has not generally seen itself as being involved in the promotion of specific sectors.

Moreover, contrary to current orthodoxy and the “post-industrial era” view, it would not suffice to continue emphasizing only certain services (e.g., ITC, financial services), which may benefit very narrow sectors and generate limited resources. These services by their very nature neither maximize benefits of economic activity to the economy as a whole nor impart the momentum necessary to drive other economic sectors up as they expand. In sharp contrast, the main problem here consists in delineating industrial sectors and products on the basis of dynamic criteria. By recognizing differentiation of new and promising activities, particular branches and industrial sectors, thorough technically proficient policy can take care of the necessary human, material, and financial requisites and thus become effective. The aim should be to improve competency and efficiency of the economy of North Carolina, the quantity and quality of *industrial accelerators*, and the quality of workmanship and service, so that more activities may become increasingly competitive. Once the priorities are right, and with effective “policy spillovers”, resources will increasingly be allocated efficiently, production, productivity and profitability will increase, and the propulsive and dynamic sectors will become increasingly attractive to the private sector.

Clearly, construction of an alternative development paradigm for the State of North Carolina will be a deeply political and social process. Effective statecraft and new state-societal alliances as well as a combination of plan and market are required. Although the obstacles are quite challenging, thorough technically

proficient strategies have to take place. This is controversial and problematic in the context of North Carolina given constraints of elected sequential political leadership, the difficulty in establishing long-term planning, the absence of political will, and the difficulty in having such views channeled through political avenues. However, production growth needs to bring into power visionary political leadership, forward-looking entrepreneurs, progressive intellectuals, and competent technocrats. To effectively face problems that could arise, a sound development approach should complement short-run measures with a thorough plan for the future of North Carolina, which includes a long-term industrial strategy aimed at expanding production lines, strengthening technological capabilities, and promoting skills and innovation. A broad-based consensus is also imperative, and could afford scope for strategic planning that should be limited to selected policy arenas.

In the execution of this framework, strategic action incorporates investment-related policies, industrial human capital and technology policies, fiscal and financial policies, and trade-related measures. Devising the necessary policy interventions to stimulate local production growth and industrial rejuvenation seems to be a more sensible way to confront the future. Such an approach is a better one for sustained growth, competency upgrading and overall competitiveness of the NC economy than a frantic search for accelerated, neoliberal-type solutions. The alternative and more realistic development paradigm requires the pursuit of a thorough strategic industrial policy. This is what the economy of North Carolina urgently needs. A successful implementation, however, will require wide consultation, broad consensus, focused policy intervention of high quality, realism, determination, and special emphasis on production-oriented growth.

### *Issues of Selection*

The changes that have swept through the world economy during the last 30 years or so have had a profound impact on policy formulation requirements for economic restructuring and diversification. Consequently, construction of a purposeful development framework for North Carolina requires rigorous consideration of all the critical elements of a thorough long-term strategy (i.e., demand-based considerations; resource utilization, modern technology, and competitiveness considerations; competency upgrading and structural transformation factors; and realism and different or better policy choices). But

such a policy change that places particular emphasis on a stronger economic structure could be in conflict with both short-run measures dictated by pressing problems and the adoption of an *ad hoc* approach to development.

In contrast to Porter's (1998) theory on "clusters" (geographic concentrations of inter-connected companies and institutions) and competition, and the supply-chain management analysis, based largely on microeconomic notions, an industrial targeting approach requires a detailed discussion of industrial planning and an accurate analysis of the selection process that clearly specifies benefits from certain economic engines: effective stimulus for industrial growth, rejuvenation, repositioning, and competitiveness. Targeting and support of the selected sectors also require detailed information on the quantity (*how much*) and quality (*what type*) of modern factors needed by these key sectors so as the quantitative and qualitative parameters of planned industrial investment are thoroughly taken care of.

Thus, it is imperative to aggressively pursue advancement of selected dynamic sectors of high potential and achievability (solar, renewable and alternative energy as well as automobiles that can use this alternative energy, biotechnology, pharmaceutical, information technology and computers, and food and beverage) as there is potential to market opportunities for their growth, and these can open up possibilities and set up incentives for a wide range of new industrial activities. These dynamic economic engines are expected to be supply-chain partners for other sectors. So long as these production lines are indigenous, product differentiation will, more likely, prove successful. These key sectors will increase benefits to primary production and services since they can enhance complementarities and forward and backward linkages, and would allow for product differentiation.

Modern production techniques make it possible to manufacture in small series on a viable basis. Targeting and flexibility are also possible, especially if they can draw on modern industrial planning. Assuming predominance of clear focal areas and initiatives carried out by both a competent administrative machine and dynamic local firms, a large part of the additional goods produced will be devoted to exports. Given the growth of production of local industries and improvement of industrial competitiveness, demand for imported capital and goods could decline and exports of local products expand.

### *Policy Considerations*

Given the importance of conducive macroeconomic policies along “functional finance” lines, local industrial growth is imperative. The expansion of industry represents a net addition to the effective use of local resources and contributes to a higher degree of capacity utilization. An industrial strategy seeks to link endogenous technological capabilities and technical progress occurring in the targeted sectors to growth and change in the economy of North Carolina. These prioritized sectors can rejuvenate the NC economy with essential forward and backward linkages in terms of material and knowledge inputs, and can transform this knowledge into new technologies and products. Since profitability depends upon continuous technological advancement and R&D, technical progress can influence the volume of investments and can open up new and more profitable opportunities.

Secondly, loans and financial schemes are seen to be unsuccessful policy measures. Traditional incentive policies offer only marginal solutions, often encourage rent-seeking, clientelism, favoritism and squandering, and usually recommend temporary assistance, without getting at the root of the problems. The answer is twofold: 1. special emphasis on capital accumulation and on finance and guidance of higher levels of investment; and 2. selective incentives to key favored firms and disincentives to disfavored industries and services.

Thirdly, as the United States in general, and North Carolina in particular, simply cannot compete in low-wage areas, there must be special emphasis on quality and good value for the consumer. This must clearly be a recurrent theme throughout the supply chain, and requires constant retraining of workers, an emphasis on purchasing high-quality machinery, and having an adequate supply of labor to configure and maintain these machines. It also requires a rigorous quality control and testing in addition to an understanding of proper inventory control procedures and minimization of other related costs.

Finally, the following politico-institutional preconditions must be met:

1. the NC authorities must credibly commit to pursuing a production-oriented strategy;
2. a long-term view must replace the current focus on the short-run;
3. the NC bureaucracy must be streamlined and insulated from political and industrial pressure, and must be given greater responsibility for consequences of their activities;

4. the skill base of State employees must be upgraded; and
5. local industrial capabilities formation must encompass the effective cooperation of knowledge, financial, and technical supporting institutions.

Without these preconditions, such a radical development proposal will founder on short-term expedients, the deficiencies and conservatism of the civil service, the existing configuration of socio-economic power and certain interests, or the mindset of politicians and people. What really matters to the future success of the economy of North Carolina is not the “extent” of policy intervention but rather the “quality” of such intervention.

#### NOTE

**[i]** The article relies heavily on the author’s writings and on-going research.

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