INCENTIVES IN A NEW LIGHT:
ENHANCING THE EFFECTIVENESS OF STATE ECONOMIC DEVELOPMENT THROUGH
POLICY EMBEDDEDNESS

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ABSTRACT

Allan M. Freyer: Incentives in a New light: Enhancing the Effectiveness of State Economic Development through Policy Embeddedness
(Under the direction of Nichola Lowe)

This dissertation is driven by the policy problem of how to improve the effectiveness of state economic development programs. Recent research has shown that the institutional environment in which these programs are embedded deeply shapes their ability to produce successful outcomes. But less is understood about how this environment influences the effectiveness of one particular economic development strategy—the use of cash or tax incentives given to businesses by state governments to induce private investment and job creation. In this context, this study examines the impact of five specific institutional factors on incentive effectiveness: strategic planning; the integration of incentives with broader policy portfolios; the policy coordination of strategies within this portfolio; the regulatory and accountability framework that govern the use of incentives and generate norms around acceptable incentive practices; and the political environment in which incentive policy decisions are made, including the role of ideological competition and political coalitions.

Effectiveness is also studied in the context of equity—the extent to which these institutional factors influence the effectiveness of incentives when different lenses around equitable development are used. Variations in levels of economic distress, urban/rural areas, and various dimensions of political power are explored.

In a case study analysis of North Carolina’s incentive policy decisions from 2007-2014, Paper 1 explores the extent to which ideological competition and partisan coalitions interact with the norms and standards associated with incentive accountability and the broader economic development policy environment to shape incentive policy decision-making.
Paper 2 asks the question of why incentive deals fail. It uses a quantitative approach to test a series of hypotheses related to the effectiveness of a state’s incentive programs, including the effect of regulatory/accountability standards, industry targeting, and workforce development on the likelihood failure of incentive deals. The paper looks at two major geographic scales—the entire statewide sample of deals and those in economically distressed counties.

Using a mixed methods approach, Paper 3 explores the question of whether the governance model used in a particular community’s sector-specific industry development strategy influences the effectiveness of its incentives. Specifically, it looks at decentralized approaches to policy coordination in North Carolina’s defense complex and related civilian applications in aerospace to see whether they suffer from the kinds of efficiency and coordination challenges that scholars suggest will hamper less centralized types of governance.
To Rachel and Gabe
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INTRODUCTION

1. Overview

This dissertation is driven by the policy problem of how to improve the effectiveness of state economic development incentive programs. Recent research has shown that the institutional environment in which these programs are embedded deeply shapes their ability to produce successful outcomes. Using a mixed methods study of North Carolina's incentive programs and policy decisions over the period 2002-2014, this study examines the impact of five specific institutional factors on incentive effectiveness: (1) strategic planning around industry development; (2) the integration of incentives with broader policy portfolios; (3) the policy coordination of strategies within this portfolio; (4) the regulatory and accountability framework that govern the use of incentives and generate norms around acceptable incentive practices; and (5) the political environment in which incentive policy decisions are made, including the role of ideological competition and political coalitions in framing the debates over these decisions. Effectiveness is also studied in the context of equity—the extent to which these institutional factors influence the effectiveness of incentives when variations in economic distress, urban and rural geographies, and dimensions of political power are present. In terms of organization, this study is divided into three papers that examine different combinations of these institutional features and equity lenses.
2. Problem Description

In the aftermath of the Great Recession, economic development professionals are facing significant political and fiscal pressures to justify their approaches to creating jobs and generating economic growth. The 2010 elections swept in conservative legislative majorities across two dozen states and the US Congress, ushering in a new wave of hostility to the government’s role in the economy coupled with a fiscal austerity that has limited the resources available for all economic development policies. In some states, conservative lawmakers have actively sought to dismantle state investments in regionalism, university-based innovation, and the targeting of specific industry clusters for development. As the policy landscape continues to shift, economic development professionals are faced with the challenge of understanding—and communicating to potentially hostile lawmakers—how best to improve the effectiveness of the strategies they use.

Even traditionally hallowed “pro-growth” policies like business incentives—cash grants or tax abatements designed to induce firm location, investment, and job creation—are not immune to this challenge. Indeed, the steadily increasing use of these tools (Warner and Zheng, 2013), and the billions of dollars spent on them every year by state and local governments, significantly raise the stakes for determining whether these tools are effective at improving economic outcomes for the communities that deploy them. This is particularly true given that policy makers can choose from a variety of economic development financing tools, including publicly subsidized infrastructure, customized job training, and small business loans. Faced with these alternatives, it is critical to understand the effectiveness of the traditional tax or cash incentive so policy makers can deploy them most appropriately.

Although scholars have long expressed skepticism about the ability of incentive programs to deliver (Bartik, 2005; Lockie, 2002; Peters and Fisher, 2004), an emerging body of research suggests that the broader institutional environment in which these programs are
embedded can improve the effectiveness of these tools. According to this new scholarship, economic development incentives can be considered an example of embedded practice—that is, rooted in place-specific contexts, adaptive and open to change, and governed by a range of institutional actors (Lowe and Freyer, 2015). The right mix of policy design, institutional actors, and network adaptability may therefore influence the effectiveness of this otherwise much maligned tool. In this vein, scholars have pointed to a range locally contextual factors, including the importance of accountability and performance standards in ensuring firms live up to their promises (Weber, 2002; Weber and Santacroe, 2006; LeRoy, 1997); using planning and analytical tools to target certain high-value industries for development (Lester et al, 2014; Goetz, et al); and integrating incentives with other strategies like entrepreneurship, university research partnerships, and workforce development into policy portfolios designed to develop specific “mediated” industries (Lowe and Feldman, 2015; Lowe, 2014; Lowe and Freyer, 2015). Lester et al (2014) took an important step forward by demonstrating that using incentives to attract firms in targeted and mediated industries generated higher job creation levels than traditionally-deployed, stand-alone corporate subsidies.

Yet much remains unexplored about the connection between the embeddedness of incentives and their effectiveness. While accountability and performance standards are crucial innovations, their effectiveness at reining in abuses and ensuring firms deliver on their promises have yet to be systematically tested. As a result, there is significant uncertainty over the types of stress factors—for example, giving incentives to labor intensive firms or firms in declining industries—that may increase the likelihood that incentive deals will fail to live up to their promises of job creation when these accountability and performance standards are present. In turn, this has hampered the ability of researchers to understand the policy design decisions that could mitigate these stress factors and make the incentives work more effectively.
An important aspect of policy design involves the management or governance of the various actors, strategies, and policy portfolios in which mediated incentives are embedded. As with any complex public administration activity, operating this portfolio does not happen by itself, but instead presents a collective action problem that local economic developers must resolve in order to ensure that the network of actors and policies in the portfolio are working in concert. Sequencing and synchronization within the portfolio are essential; hence the need for policy coordination, which Lowe and Freyer (2015) describe as convening, coordinating, and brokering relationships across the networks of multiple actors and strategies involved in the portfolio for a specific mediated industry. Previous scholarship (e.g. Lester et al, 2014; Lowe, 2014; and Lowe and Freyer, 2015) focused almost exclusively on policy coordination in the context of a single, centralized quasi-public actor (the N.C. Biotechnology Center). Yet the dizzying array of public, private, and quasi-public actors engaged in modern economic development practice (ICMA, 2009) suggests that there can be significant variation in the structure of governance models for the policy coordination of sector strategies (Claggett, 2006; Warner and Zheng, 2013; ICMA, 2004, 2009). The effect of governance structure on incentive outcomes is therefore a critical problem for policy makers to address.

At the same time, it is also clear that a community’s policy portfolio, accountability standards, and indeed, its entire economic development policy environment, do not exist in vacuum. Rather, scholars have long accepted that political motivations—particularly the need to create jobs in order to secure re-election— influence the decision-making process around economic development policy in general and incentive-granting in particular (Peterson, 1981; Savitch and Kantor, 2002; Stone, 1994; Lester, 2015). In particular, Markusen (2007) recognized that the political motivation to “win” firm location decisions profoundly structures the firm location process, as communities compete against each other in a spatial market for jobs and investment. In this vein, the need of policy makers to show proof of job creation—often in the form of ribbon-cutting ceremonies at newly located facilities—exacerbates bargaining
asymmetries in the corporate site selection process that allow firms to pit potential locations against each to maximize rent extraction (Eisinger, 1988; Markusen, 2007; Rubin, 1988; Schweke, 2006; Thomas 2011).

Yet this theory ignores both the complexity of the political pressures driving economic development decisions and the extent to which these pressures are mediated by the actors, policies, and regulatory frameworks embedded in a community’s policy environment. While ribbon cutting dynamics are clearly present, it is overly deterministic to assume that these particular pressures are the only political factors that shape how communities bargain with business, or that they always bias policy makers towards providing greater incentive awards—as opposed to deploying other strategies—in order to be more competitive in the spatial market for jobs. A range of factors play a role—scholars have long found that local economic development policy is shaped by the political agenda, composition, and internal bargaining of a community’s governing coalition (Stone, 1989, 1994; Savitch and Kantor, 2002; Rast, 2012). In turn, these coalitions reflect the ideological and material interests of their constituents and their interpretation of the economic challenges facing their community. Taken together, these factors likely influence the making of economic development policy, as policy makers diagnose their competitiveness challenges through the filter of the political coalitions they inhabit and the ideological competition between their coalition and that of their opponents. As a result, the politics of economic development are complex and inherently contested. This has enormous implications for how communities frame their economic challenges, interpret what “effectiveness” means, and integrate incentives with other polices in their efforts to bargain with business.

3. Research Questions

Given this series of nested problems, this dissertation uses a study of North Carolina to explore the connections between a range of specific policy factors in which incentives are
embedded and the impacts they have on the ability of policy makers to design business incentives to most effectively deliver on their promises. Key questions include:

- Why do incentive deals fail to deliver on their promises of job creation and investment? What role does a state’s regulatory framework for accountability and performance standards play in this dynamic?
- What policies can be pursued to make incentives succeed again?
- Does the governance model by which governments coordinate strategic industry development influence the effectiveness of the incentives offered to firms in those industries?
- Do these relationships vary regionally geography and by levels of economic distress?
- And considering these policy factors together as a whole, how does a community’s economic development policy environment interact with the political motivations of policy makers as they seek to make their incentive programs as effective as possible?

Ultimately, this study is about policy—and how to identify those policy levers that can be moved to improve the effectiveness of this common development tool.

4. Conceptual Framework

To answer these questions, this dissertation conceptualizes the policy embeddedness of incentive practices using three institutional features identified by Lowe and Freyer (2015) and two additional factors derived from the previous discussion. The first three include: (1) **strategic planning/industry targeting**, which enables practitioners to systematically identify and target prospective firms that not only offer the best fit given the region’s existing industrial mix but that match well with established development goals and priorities; (2) **policy**
portfolio, which involves integrating recruitment and incentives with other different economic development strategies like workforce development, technology upgrading, entrepreneurship, and others to ensure mutual support; and (3) policy coordination, which as the name suggests, involves a public administration function that convenes, coordinates, and brokers the various actors and strategies involved in the policy portfolio. Further, in considering policy coordination, it is useful to conceptualize the various organizational players involved—along with the firms benefitting from the policy portfolio—as comprising a network with its own governance model responsible for coordinating the activities of its members.

To these three features, this study adds two additional factors: (4) the regulatory framework that sets standards for the accountability and performance of incentive projects and includes cost-benefit analysis thresholds, the minimum benchmarks projects must meet, and enforcement provisions; and (5) the political environment in which incentive policy decisions are made. This includes the role of ideological competition and political coalitions in shaping incentive policy and in defining what it means to be economically competitive.

Taken together, these five elements of embedded practice structure the ways in which local governments bargain with business for firm location and investment decisions. The fundamental goals of this dissertation are to understand how this structuring process influences decision-making about incentives and the extent to which these five factors contribute to the success or failure of individual incentive deals. But to understand effectiveness, it is necessary first to define it—in this case, it is simply conceptualized as the ability of incentive deals to live up to their promises of job creation and private investment. Deals that create the jobs and investment levels promised are considered successes, while those that do not are considered failures. Deals can fail in several ways—recipient firms can refuse to locate in North Carolina after agreeing to do so, leave the region altogether without creating the jobs or investment they promised, or simply create fewer jobs and less investment than they promised. Some policy
makers will doubtless argue that an incentive that secures a firm location decision but does not fully create all the jobs that are promised is still a success because it is better to have a few jobs than no jobs at all. But this misses the point that planning gives economic development professionals the tools to choose the firms that are more likely to create the most jobs, so it makes little sense to waste public dollars on those that can’t deliver on their promises. Certainly, any other program in state or local governments that only delivered a fraction of promised benefits in exchange for scarce public funds would be subject to intense scrutiny.

At the same time, questions about effectiveness should not be separated from concerns over equity. Incentives have long been criticized as exacerbating inequality, so it is crucial to understand how these tools can be designed to provide economic benefits to marginalized communities. Indeed, this has long been recognized as a central goal of economic development. As a result, this dissertation explicitly incorporates problems of equity into its analysis. Specifically, it assesses the various factors contributing to the success or failure of incentive deals in the context of distressed communities—those counties with higher than average unemployment across the state—and the differences between urban and rural counties. In the North Carolina context, rural areas tend to lack access to many of the amenities and economic assets—highways, industrial infrastructure like water/sewer lines, and above all a skilled workforce—that give urban areas a competitive edge in the spatial market for jobs. Lastly, inequities in power—who has it, who doesn’t, and what it means for policy—are implicitly examined in the context of understanding the political embeddedness of policy decisions around incentives.

5. Contributions

This dissertation makes several contributions to scholars’ understanding of the relationship between the institutional environment in which incentives are embedded and the effectiveness of this common economic development tool. First, the project represents the first
systematic test of the efficacy of accountability and performance standards—previous studies have been theoretical or anecdotal in nature (c.f., Bartik, 2005; Weber, 2002). In light of these accountability standards, the project also expands our understanding of the various policy factors contributing to the success and failure of incentive deals when these standards are present. And it does so explicitly with an eye to assessing these impacts in distressed communities.

Secondly, the project expands our understanding of industry mediation, exploring the role of governance structure and geography in influencing incentive outcomes. Both the spatial and governance lenses significantly extend the work of Lester et al (2014).

Lastly, his dissertation incorporates a much more complex understanding of political decision-making into Markusen’s (2007) spatial market for jobs. Of particular note is the recognition that definitions of political competitiveness are ideologically contested.

6. Limitations

The chief limitation of this study is reliance on a single study area—North Carolina—which limits its generalizability to other states and local jurisdictions. Although the sample sizes for the quantitative analyses in Papers 2 and 3 are certainly large enough for generalizability from a statistical perspective, they represent only a single statewide policy environment that may make it challenging to extend these findings to other states or across scales with different policy contexts. This is especially true for the politics case study presented in Paper 1, which like most single-cases cannot be readily generalized to a broader population. Fortunately, however, even single-case studies are generalizable to theoretical propositions (Yin, 2009), and the case presented in Paper 1 takes this approach in its critique of the ribbon-cutting theory of politics and incentive-granting.
7. **Dissertation Organization**

This dissertation is organized as a collection of three papers that explore the common theme of the connection between institutional embeddedness and the effectiveness of economic development incentives. Each paper seeks to grapple in different ways with the five features of embeddedness raised above.

Using a critical case analysis of North Carolina’s incentive-granting decisions 2007-2014, Paper 1—*Toward a New Politics of Economic Development? Accountability, Ideological Competition, and Incentive Granting in North Carolina*, explores the political environment in North Carolina’s legislative and executive branches and their interaction with the state’s policy portfolios and regulatory framework during a period of significant change. The paper tests the ribbon-cutting theory against a deeper explanation of how policy decisions were influenced by ideological competition, coalition politics, and the norms exerted by the state’s accountability regulatory framework.

The second paper is entitled *Why incentive deals fail (and how to make them work again): implications for accountability standards, policy supports, and economically distressed regions*. As the title suggests, this paper grapples directly with the policy factors that explain incentive deal success and failure. Using a unique database North Carolina’s incentive deals during the period 2002-2013, this quantitative analysis tests the effectiveness of North Carolina’s regulatory and accountability framework and explores the role of strategic planning and policy portfolios in reducing the likelihood the incentive deals fail. Critically, the analysis includes a special focus on how these relationships play out in economically distressed areas, in comparison their impacts at the state level. Ideally, the results of this analysis will give policy makers better insight into designing and deploying their incentives, especially in the high unemployment regions where their effectiveness is most important.
In the third paper, entitled *Managing the Soft Infrastructure of Economic Development: Governance, Industry Mediation, and Incentive Practices in North Carolina*, the study focuses on whether the governance model for policy coordination in mediated industries influences the effectiveness of incentives. Recent scholarship in the network governance and workforce development literatures suggest that more decentralized approaches to policy coordination will prove less effective due to problems with inefficiencies in decision-making; weaker connectivity in staff, resources, and coordination; and lack of stability in the face of external changes in the economy and policy context. Specifically, the paper uses a mixed methods analysis and the same dataset used in paper 2 to test whether these conclusions are correct and a related qualitative analysis of the state’s aerospace development efforts to explain the underlying mechanisms at work in the results of the quantitative analysis. Ultimately, this paper seeks to help policy makers appropriately design governance models for coordinating industry mediation efforts that work in both urban and urban and rural areas.

Finally, this dissertation concludes with a brief synthetic summary of the findings in each paper as they relate to the common themes discussed here.
REFERENCES


Toward a New Politics of Economic Development?
Accountability, Ideological Competition, and Incentive Granting in North Carolina

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1. **Introduction**

In a world of globally mobile capital, communities often compete against each other and bargain with business in spatial market for jobs and private investment (Markusen, 2007). Despite criticism of the practice, many state and local governments have long relied on business incentives like tax abatements and cash grants to “play” in this competition and “win” firm location decisions (Cobb, 1990; Zheng and Warner, 2014). While scholars traditionally considered the use of incentives as mutually exclusive with more progressive strategies like entrepreneurship, or workforce development, new research has increasingly shown that state and local governments are deploying a range of overlapping strategies—including incentives—in bargaining with business for private investment and job creation (Bradshaw and Blakely, 1999; Lowe, 2014; Lowe and Feldman, 2015). In effect, communities are integrating incentives into a broader “policy portfolio” of multiple strategies designed to minimize the informational and mobility asymmetries that disadvantage local governments in bargaining with business in the spatial market for jobs (Lester et al, 2014; Lowe and Freyer, 2015; Lowe and Feldman, 2015). This turn in the literature makes it clear that economic development policy is embedded in an institutional environment that shapes development decisions and outcomes.

Just as economic development decisions are embedded in a broader *policy* environment, they are also embedded in a *political* environment that shapes how communities bargain with business. But the political forces driving economic development decisions more broadly and incentive-granting in particular are less well understood when bringing to bear this new focus on portfolio-based development and policy embeddedness. Traditionally, scholars have assumed that elected policymakers (and their staffs) in most American cities tend to approach economic development decisions with a normative belief that economic growth is an inherent good and that their reelection depends on the ability to deliver jobs and growth to the electorate in demonstrable ways (Molotch, 1976; Markusen, 2007; Savitch and Kantor, 2002). In this vein, securing *ribbon-cutting* ceremonies with newly located or expanding businesses is one of the
most publicly visible means of showing job creation to the electorate. In turn, elected officials exert pressure on practitioners to “win” a firm location decision at any cost, which in turn exacerbates the power asymmetries for practitioners as they bargain out firm location decisions and leads to bigger incentive packages than would otherwise be the case (Eisinger, 1988; Markusen, 2007; Rubin, 1988; Schweke, 2006; Thomas 2011). Given the mobility of capital, elected officials rely on these incentives largely as response to structural economic forces that foreground business sensitivity to lower tax costs (Tiebout, 1956; Harvey, 1989), especially in regions with declining legacy manufacturing employment (Savitch and Kantor, 2002).

Yet this theory ignores both the complexity of the political pressures driving economic development decisions and the extent to which these pressures are mediated by the actors, policies, and regulatory frameworks embedded in a community’s policy environment. In terms of economic development politics, while ribbon cutting dynamics are clearly present, it is overly deterministic to assume that these particular pressures are the only political factors that shape how communities bargain with business, or that they always bias policy makers towards providing greater incentive awards—as opposed to deploying other strategies—in order to be more competitive in the spatial market for jobs. In both the urban politics and state politics traditions, the ribbon-cutting theory relies on structuralist interpretations about state and local urban politics—that the very nature of global capitalism forces policy makers to promote “pro-growth” economic development policies that foreground economic “competitiveness,” especially in the context of industrial decline (Harvey, 1989; Logon and Molotch, 1987). But scholars have also long found that local economic development policy is shaped by the political agenda, composition, and internal bargaining of a community’s governing coalition, suggesting that state and local policy makers are not inherently trapped by economic macro-forces into a certain course of action (Stone, 1989, 1994; Savitch and Kantor, 2002; Rast, 2012). These coalitions reflect the ideological and material interests of their constituents; indeed, they use this ideological/coalitional lens to diagnose the very nature of the economic challenge facing their
communities and develop a policy agenda to address this challenge. The urban politics literature makes clear that communities can arrive at very different policy diagnoses of the economic problems they face—some broadly view their primary challenge as promoting economic growth, others as economic equity or environmental sustainability (Savitch and Kantor, 2002; Clark & Christopherson, 2009).

As a result, it is clear that the politics of economic development are complex, inherently contested, and intimately intertwined with the policies communities pursue in response to the economic challenges they perceive. This raises some important questions for policy makers and scholars alike: how does this change our understanding of the ways communities bargain with business in the spatial market for jobs? What political factors shape a community’s approach to economic development more broadly and the use of incentives in particular? And given that development decisions do not exist in an institutional vacuum, but rather in the context of actors, policy portfolios, and the regulatory frameworks governing economic development, what role does this policy environment play in shaping the relationship between a more complex political environment and how communities bargain with business?

This paper answers these questions through a critical case analysis of the incentive policy decisions made in the 2011-2012 legislative session of the NC General Assembly, placed within the wider context of the two previous legislative sessions (2007-2008 and 2009-2010) and the one immediately following (2013-2014). Specifically, the project tests the empirical reality of incentive policy decisions—why they were made and how they interacted with the state’s broader economic development policy environment—against what the traditional ribbon-cutting story about politics and economic development would predict. Additionally, the choice of time period allows us to make these critical comparisons in the context of economic conditions and partisan political control as they change over time.
In doing so, this paper contends that coalitional political ideology and competition—e.g., ideological competition—better explain a community’s approach to bargaining with business than the traditional ribbon-cutting story, as seen in policy decisions related to incentive-granting and the role of incentives in a broader policy portfolio. This approach recognizes that the question of *how best* to promote growth—and not just the *need* to promote growth—is a fundamental driver for shaping state and local economic development policy. Moreover, the paper contends that a community’s institutional policy environment—including actors, policy portfolios, and a community’s accountability/regulatory framework for governing economic development—all play a *mediating* role in influencing how political pressures are translated into policy decisions about bargaining with business. Critically, this policy environment sets the rules by which incentive decisions are made and, by extension, the ways in which political pressures are brought to bear on these decisions. Taken together, these factors influence the ways communities bargain with business, both in terms of what public rents can be offered under what conditions and the place of incentives within the community’s broader economic development portfolio.

2. **Theoretical Context**

Scholars have long assumed that elected officials rely on economic development incentives largely as response to structural economic forces that foreground business sensitivity to lower tax costs (Tiebout, 1956; Harvey, 1989), especially in regions with declining legacy manufacturing employment (Savitch and Kantor, 2002), or as the result of political factors that privilege business in setting local economic development policy (Molotch, 1976; Savitch and Kantor, 2002). Political scientists have often placed incentive competition into game theory models, comparing the firm-community bargaining relationship to prisoners’ dilemma games in which globally mobile companies are able to play communities against each other in order to maximize rent extraction (e.g., Thomas, 2010).
But as Markusen (2007) makes clear, these *structural* models do not adequately capture the complex reality of bargaining in the firm location context. The tax cost approach (much like neoclassical economics itself) incorrectly assumes that firms have perfect mobility and perfect information, and that firms are always looking for the most public services at the lowest tax price. In practice, this focus on efficiency overlooks the reality that firms are able to find multiple communities that provide the right equilibrium point and then use the bargaining process to pit these communities against each other to maximize rent extraction. While the prisoners’ dilemma approach recognizes this aspect of the bargaining process, the model is also highly stylized and cannot account for policy learning during multiple iterations of negotiations or “institutional changes in interests, power, and actors” that can influence the ways communities bargain with business (Markuen, 2007). Crucially, it fails to incorporate other strategies communities can use to attract investment and does not include community-level political factors in a meaningful way. In short, the game theory models ignore political dynamics and the institutional innovations that both firms and communities deploy to gain the upper hand in bargaining out the terms of business investment decisions.

Markusen (2007) takes a crucial step away from these structural models by reconceptualizing the incentive competition as an inherently political and institutional space, a “spatial market for jobs” in which communities compete against each other and bargain with businesses for private investment and job creation. As part of this spatial market, she cites the political pressures elected officials face to create jobs and the rise of site selection consultants who broker the firm location decision as institutional innovations that disadvantage communities bargaining for economic development. At the same time, however, recent scholarship has also revealed the rising use of counter-innovations that can reduce business bargaining power—including accountability and performance standards that hold businesses accountable for the job creation promises (Weber, 2006; Zheng and Warner, 2010); cost-benefit analyses that give policy makers concrete guidance on whether a deal is fiscally and
economically “worth it” (Logan and Molotch; Bartik, 2005); and fiscal caps that limit the total value of public rents that can be offered (Bartik, 2005). In effect, this reconceptualization restores agency to both firms and communities—they both make choices that influence their bargaining goals and how they bargain to achieve those goals.

As a new paradigm for understanding economic development competition, the utility of the “spatial market for jobs” framework cannot be overestimated, yet in its current form it fails to fully account for the full range of the institutional actors, processes, and strategies involved in these decisions (which taken together can be considered a community’s policy environment); the complexity of the political forces at work in driving economic development decisions; and the extent to which these political and institutional dynamics interact to shape how a community bargains with business. So while the “spatial market for jobs” paradigm restores agency to the debate over economic development in general and incentive competition in particular, it is highly circumscribed by what Lowe (2014) has characterized as an overly “flat” approach that ignores the depth of the institutional complexity involved in development decisions.

Beginning with the institutional nature of incentive competition, the spatial market paradigm basically assumes that there are four major actors involved in bargaining out firm location decisions—on the business side, we have firms and the site selection consultants who represent the firms; on the community side, elected officials and the economic development practitioners who work for the electeds. Yet the institutional space in which economic development occurs has long been found to be more complex, involving multiple, overlapping actors who leverage multiple strategies to attract, retain, and develop new businesses. Scholarship has identified a range of these strategies, including technology accelerators, small business technical assistance providers, workforce development intermediaries, shared research facilities, revolving loan funds, community colleges, and local public- and quasi-public-sector
economic development coordinating entities of various models. Taken together, these actors have been labeled the “entrepreneurial state” Eisinger (1988), part of a Third Wave of Development” (Bradshaw and Blakely, 1999) that focus on adding value to firms rather than competing in high-stakes, incentive-backed industrial recruitment competitions. Indeed, scholars traditionally considered the use of incentives as mutually exclusive with more progressive strategies like entrepreneurship or workforce development (Lowe, 2014; c.f., Bradshaw and Blakely, 1999).

But a new turn in the incentives literature has found that state and local governments are actually integrating incentives into a broader portfolio with these other strategies, and that doing so can improve economic development outcomes—more jobs created, lower costs per job created, a more highly skilled labor market (Lowe, 2014; Lester et al, 2014; Lowe and Feldman, 2015; Goldstein, Lowe, and Donegan, 2012; Lowe and Freyer, 2015). These findings suggest that a community’s approach to bargaining with business is embedded in an institutional policy environment that shapes development decisions and outcomes, potentially reducing the informational and mobility asymmetries that disadvantage local governments in bargaining with business.

Turning to the political side of the economic development equation, Markusen (2007) captures an important, but overly narrow explanation for the role played by politics in shaping the market for jobs. Like Markusen, many scholars have assumed that elected policymakers (and their staff) in most American cities tend to approach economic development decisions with a normative belief that economic growth is an inherent good and that their reelection depends on the ability to deliver jobs and growth to the electorate in demonstrable ways (Peterson, 1981; Molotch, 1976; Markusen, 2007; Savitch and Kantor, 2002). In this vein, securing ribbon-cutting ceremonies with newly located or expanding businesses is one of the most publicly visible means of showing job creation to the electorate. As a result, elected officials exert
pressure on practitioners to “win” a firm location decision at any cost. This in turn exacerbates the power asymmetries for practitioners as they bargain out firm location decisions and leads to bigger incentive packages than would otherwise be the case (Eisinger, 1988; Markusen, 2007; Rubin, 1988; Schweke, 2006; Thomas 2010). According to this line of argument, communities with high unemployment and eroding blue-collar manufacturing bases are most likely to diagnose their economic challenges as rooted in lack of “economic competitiveness” and offer up more and greater incentives to remedy this perceived problem (DeLeon, 1992; Savitch and Kantor, 2002; Weber, 2006). Extending this perspective to the broader policy environment, increasing economic distress will influence policy makers to enact policies that prioritize incentives over other economic development strategies and make it easier to give more incentive dollars way with fewer strings attached.

The ribbon-cutting theory itself represents one pole of a central debate about the nature of economic development politics, a debate which scholars have characterized as occurring between structure and agency. Rooted in the same public choice tradition that gave rise to the tax-cost models for incentive competition more broadly, structuralist explanations tend to argue that the very nature of global capitalism forces policy makers to promote “pro-growth” economic development policies that foreground economic “competitiveness,” especially in the context of industrial decline (Peterson, 1981; Harvey, 1989; Logon and Molotch, 1987). In contrast, agency-related explanations argue that local communities are not locked into a predetermined path of development based on economic conditions, but rather have the leeway to shape local economic development policy—policy choices that are driven by the political agenda, composition, and internal bargaining of a community’s governing coalition (Clavel, 1986; Stone, 1989; Rast, 2012). In his studies of Atlanta, Stone (1989, 1994) found that these governing coalitions (called “regimes”) coalesce around a concrete policy agenda for economic development that reflects the ideological and material interests of the various factions within the coalition. The coalition will lose support and fall from power if coalition members feel that it
hasn’t achieved the agreed-upon policy agenda (Stone, 2001). This idea is echoed in a recent turn in the literature on political parties, starting with a seminal piece by Bawn et al (2012), which argued that electoral and governing coalitions form in response to the specific policy demands of the voters and groups within that coalition. In this line of argument, these policy demanders tend to elect politicians—and entire legislative majorities—committed more strongly to a particular policy agenda than to office-holding per se. In both traditions, bargaining over the policy agenda occurs within the coalition, which often results in a common economic development *problem-frame* by which the coalition interprets the economic challenges facing the community and diagnoses the proper policy response (Weir, 1992; Lester, 2014).

In their review of 10 American and European cities, Savitch and Kantor (2002) attempt to find a middle way between structure and agency by arguing that both economic and political variables together influence economic development policy—*driving variables* like market conditions determine a community’s economic competitiveness, while *steering variables* like popular participation in the policy-making process and local cultural norms about the economy, equity, and sustainability shape how communities diagnose and respond to their perceived competitiveness. Lester (2014) makes a compelling case that history—especially the path dependent nature of how communities frame economic development problems—exerts a third major force on shaping development decisions in his study of living wage campaigns in Chicago and San Francisco. Weber (2007) also finds that many of these same historically- and culturally-rooted political factors influence the adoption of policy innovations like incentive accountability and performance standards.

From this review of the literature, it is clear that the ribbon-cutting theory is incomplete. While ribbon-cutting pressures are clearly present in policy-making, these pressures alone do not satisfactorily explain how policy makers diagnose their economic development problems or why they choose some specific economic development policies over others, including decisions
about the role of incentives within their broader policy portfolio. Local political and policy-making institutions—including innovations like accountability measures and policy-portfolios—play a crucial role in influencing policy decisions, and we need to incorporate these factors into our explanation of the spatial market for jobs. Yet there is one additional step that needs to be taken. All too often, scholars have assumed that differences in institutional factors drive market-oriented cities towards a binary choice in development strategies, broadly defined as investment-oriented approaches—policies geared towards promoting economic growth and competitiveness—versus socially-oriented approaches, which are more centered on economic redistribution and environmental sustainability (c.f. DeLeon, 1992; Lester, 2014; Savitch and Kantor, 2002; Clark and Christopherson, 2009). As our own case will show, this ignores the reality that the question of how best to promote growth is itself ideologically and politically contested, a dynamic that clearly influences economic development policy-making in general and the use of incentives in particular.

3. Research Design

3.1 Case Design and Justification

The project explores these dynamics through a critical case analysis of the policy decisions related to economic development incentives made in the 2011-2012 legislative session of the North Carolina General Assembly. Specifically, the paper tests the empirical reality of incentive policy decisions (and why they were made) against what the ribbon-cutting theory would predict—that policy makers in difficult economic times will respond to the political pressure “to create jobs” by increasing incentive spending, weakening accountability standards, creating new programs, and making it harder to assess program effectiveness if it stands in the way of granting more incentives. The paper then moves beyond this theory to develop an alternative explanation that incorporates ideological and coalitional politics and the role of the state’s policy environment in mediating these political pressures.
North Carolina is an ideal case for testing this theory and developing alternative explanations. If any state in any region of the country would feel ribbon-cutting political pressure to win firm location decisions with big incentive deals, it would be North Carolina in 2011-2012. At the start of the state’s long session in January 2011, North Carolina’s unemployment rate topped 10.4 percent (the fifth highest in the country and the highest of all the politically divided states in 2011), and the state still needed to create more than 500,000 jobs to replace the jobs lost during the Great Recession and keep up with population growth. In the previous Fall, the 2010 state legislative elections saw the replacement of a 150-year-old Democratic majority with a new conservative Republican super-majority, largely based on promises of rapid job creation and full recovery from the recession. This ushered in a period of divided government between the Republican-controlled legislature and a Democratic Governor facing re-election in 2012. Given the intense need for credit-claiming produced by divided government and the historical association of aggressive incentive-use by southern states in particular (Cobb, 1993), we would expect North Carolina policy makers in the ribbon-cutting scenario to diagnose the state’s economic distress as a competitiveness problem and the expansion of the state’s incentive programs as the solution. Lastly, in contrast to the practices of other states in the southeast, North Carolina had a robust and well-developed set of incentive governance and accountability standards in place at the beginning of the study period, making it easier to explore the mediating role played by these institutions.

In essence, using this legislative session allows us to study a window in time during which both the legislative and executive branches made incentive decisions under conditions of maximum economic and political pressure. This approach allows maximum leverage on contrasting our case with what the traditional story predicts. But while the 2011-2012 session may provide enough evidence to conclude that the ribbon-cutting theory doesn’t fully explain the politics of incentive granting, a single legislative session under these relatively unique pressures is probably not enough to present a sufficiently valid explanation of what would
explain these decisions. As a result, the study period also includes the 2007-2008 session and the 2009-2010 session before the critical case, and the 2013-2014 session after the case, allowing me to study policy decisions in the context of economic distress and partisan control of government as they change over time.

3.2 Data Collection

For data collection and analysis, the project uses the following sources: (1) archival research of General Assembly documents, including debate transcripts, bill texts, voting records, and staff memos. Additionally, the researcher reviewed the annual reports from the state’s incentive programs, as prepared by the NC Department of Commerce. These records provided critical insight into the legislative process, helped me identify appropriate policy decisions, and helped me understand the major contours of the policy debates in each session. (2) Media clips, including articles published by The Insider, a subscription-only publication covering the internal machinations of the General Assembly and providing summaries of related publicly available news articles. This source provided important insights into the motivations of the various actors involved and an abundance of quotations that helped solidify the role of ideology in these debates. (3) a dozen semi-structured interviews of key staff, legislators, lobbyists, and policy makers; and (4) the invaluable insights gained through participant-observation throughout the latter half of the study period as the lead staffer on economic development policy with the N.C. Budget & Tax Center, an advocacy group focusing on fiscal and economy policy. This experience in particular gave me important access to key decision-makers and insights into the ideological and political motivations of staff, legislators, and advocates. Taken together, these sources provide a unique dataset for understanding the complex political and governance-related factors driving incentive policy decisions.
3.3 Analytical Framework

Since one of the chief goals of this paper is to incorporate a broader understanding of politics and economic development institutions into explanations of the spatial market for jobs, the paper assesses individual incentive policy decisions by comparing both the political motivations involved and the role played by the state’s incentive accountability governance framework to what the ribbon-cutting theory would have predicted for that decision. Lastly, the paper examines the effect of these decisions on the place of incentives in North Carolina’s broader policy portfolio.

(a) Decisions and non-decisions

The basic unit of observation in this case study is the decision—legislative and administrative actions (or non-actions) that change the rules by which the state is permitted to offer incentives to private businesses. Unlike most studies examining economic development incentives that tend to focus on the number of deals made with firms and the amount of public dollars involved in those deals, this study recognizes that increasingly at the state level, incentives are not simply a free-for-all in which companies can extract unlimited sums of money from the government with no strings attached. Rather, existing state law establishes a governance and accountability framework that specifies the exact conditions under which incentives can be granted—including the number and amount of public dollars involved in each deal. In effect, these rules constrain how the state bargains with business, since incentives cannot be offered except according to these rules. For example, North Carolina statute sets a cap on the total number of deals and the total amount of fiscal liability the state can assume through the state’s discretionary incentive programs. As a result, looking at decisions rather than deals allows us to both better understand how policy makers are approaching the playing field on which incentive competition occurs and examine how incentives fit into the state’s broader economic development portfolio.
Like all state governments, North Carolina made hundreds of decisions every year geared towards spurring economic development, so finding the appropriate scope for inclusion in the analysis is critical in order to cleanly compare these decisions over time. To this end, the dataset included a total of 54 incentive-related decisions, all of which met the following criteria. First, decisions were made by state government, rather than local or regional officials, and focused on state-level incentive programs and policies. Second, because we are interested in policies related to bargaining out individual firm locations, only those policy decisions related to discretionary incentive programs are included; so-called “entitlement” incentives like tax credits available to all businesses are not included, unless these tax incentives were crafted specifically to target one particular company (e.g., it becomes discretionary in nature) or if they were later converted into a grant program. In practice, this distinction is the difference between an economic development grant given to a specific company and a tax credit that goes to any company that applies. Lastly, a decision not to act when given the chance (a non-decision) is just as important for understanding political behavior as an affirmative decision that succeeds in changing something. As a result, a non-decision is included in the dataset as long as it demonstrated some level of weight in the policy-making process—e.g, the non-decision involved discussions, proposals, or support from the senior leadership level in the legislature or the administration. In contrast, bills that were introduced but did not secure the support of leadership or receive a committee hearing are not included. For instance, the legislature’s unwillingness to consider a governor’s proposal to create a new incentive program would be included (since it involved a senior leadership-level proposal), but a bill doing the same that never saw legislative action would not.

(b) Assessing the politics of decisions

In exploring the ideological and coalitional political motivations behind each decision, the paper relies on a set of loose definitions developed through interviews and my participant-observer data collection. These include: (1) Anti-incentive progressivism, which tends to
diagnose economic distress as an equity problem and a cause for government intervention, but opposes incentives as corporate welfare because they take money from government programs more likely to promote more equitable development, like education and anti-poverty programs; (2) Pro-business progressivism, which diagnoses economic distress as a competitiveness problem, but also recognizes more robust government investments in education, job training, and community economic development can complement the use of traditional incentives in promoting equitable solutions to the competitiveness challenge; (3) Traditional pro-business conservatism, which diagnoses economic distress as a pure competitiveness problem and supports incentives and business tax cuts equally because they lower the cost of businesses and play a role in cutting “job-killing” government spending; (4) Libertarian conservatism, diagnoses economic distress in the same way as traditional conservatives, but also opposes incentives—indeed, any government intervention in the economy—on the grounds that they warp free market efficiency. These libertarian conservatives believe cutting taxes and limiting government spending are a better way than incentives to promote economic growth.

As the urban politics literature suggests, bargaining processes within and between different political coalitions also shape the policy decisions made by the state. As a result, the paper examines these coalitions through the lenses of competition between the state’s two political parties—Republicans and Democrats—and within each party’s elected coalition, especially the interaction between Senate and House leaders following the 2010 elections.

**(c) Assessing the role of incentive governance and accountability**

To assess the effects of the state’s governance and accountability framework, each decision is assigned to one of five “governance categories” to ensure comparability of decisions across time and provide a construct for exploring the interaction between politics and way the state bargains with business. These categories include: (1) Discretionary programs, funding, and service delivery, which involves the funding and creation of discretionary incentive programs;
(2) Analysis of prospective deals, which involves assessing the costs and benefits of individual prospective deals and measuring the effectiveness of overall programs; (3) Fiscal controls, which involve statutory caps on the amount the executive branch can spend on incentives for each project and for all projects totaled together each year; (5) Accountability, performance & reporting, which involves the extensiveness of program reporting requirements and accountability standards like clawbacks; and (6) Special deals, which involve a legislative decision to grant incentives outside the standard statutory process.

(d) Testing hypotheses about decision outcomes

Each decision has a concrete result—a policy change was adopted or not. This is the dependent variable against which we test the ribbon-cutting theory, which—following our governance categories—predicts that policy makers will always 1) create and expand incentive programs, 2) make it harder to assess program effectiveness if it stands in the way of granting more incentives, 3) eliminate curbs on increasing incentive spending, 4) weaken transparency and accountability standards, and 5) give company-specific incentives and special tax breaks if the opportunity presents itself. In effect, the theory predicts a move towards more incentives. As a result, these outcomes are coded (+), while decisions that ultimately reduce the amount of incentives spent are coded (-).

For each legislative session, we then take the number of decisions that move towards more incentives (+) as a percentage of all the decisions in that session. Higher percentages of (+) suggest the ribbon-cutting theory has greater explanatory and predictive power, while lower percentages suggest the opposite. In the first part of the analysis (the 2011-2012 session), this direct comparison is used to test the predictiveness of the ribbon-cutting theory and develop an alternative explanation—that the interaction of ideology and coalition politics with the state’s policy environment better explains incentive-related policy decisions than the ribbon-cutting theory. The second part of the analysis looks at how these percentages change over time across
all four legislative sessions, in order to test whether the alternative explanation holds up as economic and political conditions change.

4. The Critical Case: North Carolina’s 2011-2012 session

If any legislative session should provide fertile ground the ribbon-cutting theory, then it should be 2011-2012 session of the North Carolina General Assembly. In the face of high unemployment and economic distress, the traditional explanations of incentive politics would have predicted that elected officials in both parties would have embraced an aggressive approach to incentives—more dollars, more programs, and fewer restrictions. And if partisan disagreement occurred, it would have been around credit claiming and which party could be seen as the most in favor of these important job-creating programs. Yet, the theory fails to account for the overwhelming majority of the decision outcomes made during the session. In contrast, ideology, coalition politics, and the mediating role played by the state’s incentive governance regime provide a far more persuasive explanation for the decisions made in this period.

4.1 Political Context

As in many other states across the country, the 2010 elections swept in big Republican majorities committed to a conservative revolution in state policies. In North Carolina, the session was dominated by persistent economic distress, high unemployment well above the national average, a sluggish recovery from Great Recession, a $2.3 billion (15%) budget shortfall, and ballooning influence peddling scandal enveloping the former (Democratic) Governor, Mike Easley. At the heart of the budget debate lay the highly controversial issue of what do about the expiration of temporary tax increases enacted as revenue raisers during the previous year.

Politically, the session was framed by intense ideological and partisan competition over improving the economy and the role of government in doing so. The state’s economic distress
and budget shortfalls were diagnosed by the GOP majority as the reason why the conservative revolution was necessary—they pointed to what they considered 150 years of Democratic economic failure, profligate spending, and corruption that made job creation impossible. In response to this diagnosis, the new majority pushed an agenda focused on deeply cutting state spending (especially K-12 and higher education), significantly reducing business regulations, and cutting state income taxes as the best route to improving the state’s economy. In fact, the new majority’s desire to allow the temporary tax increases to expire, coupled with a new business tax cut, actually accounted for about $2 billion of the total $2.3 billion budget shortfall, creating a ready excuse for the deep spending cuts the majority had promised to pursue during the 2010 elections. At the same time, Governor Perdue and a basically toothless Democratic legislative minority approached the session based on their long-standing commitment to business progressivism—trying to boost the economy by funding K-12 education, supporting higher education research, and promoting economic development through regional coordination, support for minority and community development, and targeted tax credits and business incentives. Critically, this agenda required keeping the previous years’ temporary tax increases in effect, a complete non-starter for a new majority that believed tax increases would hurt the state’s economic competitiveness.

Unsurprisingly, these ideological differences over how best to promote economic growth took on a partisan dimension, as Republicans and Democrats polarized into opposing camps on the major policy fights of the session—especially those related to the budget, taxes, and the economy. In response to this polarization, the new majority explicitly sought to break key pillars of the Democratic coalition by targeting those Democratic-affiliated interest groups that benefitted from specific Democratic supported policies—notably, teachers’ unions, trial lawyers, the state’s highly touted (but, to the new majority, ideologically suspect) university system—and
perhaps above-all, an economic development network Republicans criticized as a “good old boys club” that gave Democratic donors access to the state’s incentive dollars.

The broader ideological conflict over the role of government in promoting economic growth spilled over into debate over the state’s economic development and business incentives policies, creating an overall orientation far removed from what traditional theories would have predicted. While the Democrats continued to push regionalism, support for specific targeted industries like biotechnology, industry-specific tax credits, and discretionary business incentives, the ascendant Republican majority rejected these ideas, arguing that broad-based tax cuts (along with regulatory reform and deep state government spending cuts) were a better recipe for economic competitiveness. As Rep. Edgar Starnes, co-chair of the House’s tax-writing committee, put it, “We've just put the word out early that it’s a change in our philosophy—we want broad-based tax relief [rather than incentives],” said Starnes.

As part of this, the new majority expressed ideological hostility to both industry-specific entitlement incentives and discretionary incentives to individual firms. Their opposition reflected two major ideological strands—libertarian beliefs that incentives pick winners and losers and create inefficiencies that render these programs ineffective, and more tea party-flavored arguments that incentives lead to “crony capitalism, ”especially in the context of the “pay-to-play” criticisms of the Easley era. As a result, the new majority consistently criticized targeted industry incentives as ineffective, especially those supported by core democratic constituencies—including green business and energy efficiency incentives and film incentives.

4.2 Governance Context

In terms of incentive governance, North Carolina started the period with a strong, nationally-acclaimed framework for limiting the state’s fiscal liability and holding those companies that received incentives accountable for their performance (Pew, 2012). The state has
three major incentive programs—the Job Development Investment Grant (JDIG), created in 2002 to support new job creation in high-investment projects; the One NC Fund, created in 1993 to provide matching grants to counties for small and medium-sized projects; and the Job Maintenance and Capital Development (JMAC) fund, created in 2007 to support the retention of firms with more than 2,000 employees (see below).

The state’s accountability framework is embedded in each of these programs, involving two core statutory requirements—first, that all prospective incentive deals must meet a certain minimum threshold of return according to a cost-benefit analysis run by staff in the N.C. Department of Commerce; and second, that all incentive deals must involve a written contract with the recipient firm that specifies job creation and investment targets that the firm must meet, or lose the incentive grant offered by the state. The amount of time recipient firms have to hit these job creation benchmarks depends on the specific incentive program, but if they fail to meet these benchmarks, the deal is cancelled, future allotments under the grant are terminated and previous allotments are recovered (a clawback policy). Lastly, statute limits the total cost of each incentive deal in JDIG and JMAC by creating an overall cap on the number of new grants that can be given out in a given and a cap on the total new fiscal liability the state can assume for all incentive projects each year (Freyer, 2014).5

At the start of the study period, however, the OneNC Fund did not have these fiscal caps, and the amount of money the Fund could hand out in a given year was theoretically unlimited and constrained only by the available cash balance in the program’s reserve fund. Historically, the General Assembly would appropriate additional funds (usually in the $25-30 million range for each session) to replenish the cash available for OneNC projects. Supported by past Democratic legislatures, Governor Easley had been especially aggressive in his use of OneNC, which had increasingly drawn the ire of Republican legislators and outside conservative
advocacy groups as a “slush fund” used to reward campaign contributors and the Democratic “good old boys” economic development club.

There are three other incentive programs worth noting as well, including the Industrial Development Fund, which provides support for company-specific infrastructure development projects, the Green Business Fund, which provided grants to clean energy and other green economy small businesses, and the Film Program, which targets incentives to film companies.

4.3 Decisions Analysis

Taken together, these ideological and coalitional dynamics manifested themselves in a pattern of decision-making that paired back the state’s use of incentives, contrary to what the ribbon-cutting theory would have suggested. In their skepticism of incentives, however, the GOP majority did not eliminate all incentive programs, but rather translated this skepticism into efforts to make incentives less costly, more effective, and more accountable—in effect, addressing the problems (“economic inefficiency” and “crony capitalism”) their ideology had diagnosed by promoting better governance. The decisions, their governance category, and their outcomes are displayed in Table 1.

Beginning with the governance category Discretionary Programs & Funding, Republicans systematically cut back the capacity of the state’s incentive portfolio: they eliminated funding altogether for the Green Business Fund (-)—opposed by the GOP majority for its association with a Democratic-aligned industry and climate change; they appropriated no additional money for site infrastructure development in the Industrial Development Fund (-)—opposed as crony capitalism; and they took away 75 percent of the OneNC Fund’s available cash balance, effectively reducing the amount left to support future incentive projects (-). Moreover, the 2012 state budget converted the OneNC Fund from a trust fund into a pay-as-you-go basis (-) that requires the program to receive new appropriations each year, rather than maintain an existing cash balance from year to year. The majority enacted this change largely over concerns
that the program was actually a political slush fund used to reward the Governor’s campaign contributors and claim credit for job creation. Indeed, as the spokesman for a GOP-aligned outside advocacy group with close ties to Senate Leader Berger memorably put it, incentives are “Perdue’s re-election money... that buy her positive press at ribbon-cutting ceremonies where she can claim credit for ‘creating jobs’—all at taxpayer expense.”6 Instead, Republican leaders told the Insider, they were “focused on creating a better tax and business climate that will attract jobs without government deciding on amounts and recipients of grants and other giveaways.”7 And because tax cuts reduced revenues, legislators had to fill the budget gap by cutting spending, cuts which came in part from reducing the dollars available for incentives—a sign of prioritizing the tax cut piece of the economic development portfolio over incentives. Taking all these budget decisions together, it is clear that ideological concerns over crony capitalism and a preference for tax cuts over incentives drove decision quite at odds with what the ribbon-cutting theory would have predicted.

During the session, the state approved two changes to the Fiscal Caps limiting the incentive grants awarded through both the OneNC and JDIG programs. In 2012, the budget included a provision capping the previously unlimited amount that the OneNC program could award each year to just $14 million—a fairly dramatic change (-) completely at odds to what the ribbon cutting theory would have predicted, but one very much in line with ideological concerns over program ineffectiveness and crony capitalism. In an interesting contrast, however, the budget also eliminated the cap on the number of grants JDIG could make in a single year—a decision that would at first glance appear to support the traditional story, but in which reality reinforces the a story about ideology and coalition politics. While Republicans had no great love for JDIG, senior leaders viewed its program design as more accountable and less prone to political abuse, assuaging concerns over crony capitalism. Moreover, they agreed with the Democratic Secretary of Commerce that as long as the cap on total spending remained in place, there would be no additional spending on incentives; rather, the policy change would support
more projects with smaller awards. While we scored the JDIG change with a (+) outcome since it increased the number of incentive deals the state could make, on balance, the overall changes to fiscal caps tend to refute the ribbon-cutting argument, given the significant rejection of the traditional story embedded in the new OneNC cap.

In terms of **Accountability and Reporting**, the state budget required that the NC Department of Commerce significantly expand their existing annual reporting requirements for JDIG, OneNC, and JMAC, and post these reports online (-). The provision originated in the Senate Finance Committee, where senior Republicans argued that both legislators and the public needed to know how incentive programs were performing at a granular level, including the jobs and investment created by individual projects. In part, they wished to use these new reports as a tool for shining light on possible cronyism, but also in order to make sure that legislators had accurate information about the effectiveness of the state’s incentive programs. In this case, ideological skepticism of incentives translated into a commitment to transparency and accountability that ran counter to what the ribbon-cutting theory would have predicted.

Next, we turn to **Special Deals**, those incentive packages which bypassed the traditional statutorily-defined process for granting discretionary incentives and required agreement by the General Assembly. In perhaps the most glaring example of ideology trumping ribbon-cutting pressures, the Republican-led General Assembly refused to provide a special incentive package to a large-scale recruitment project that was projected to create around 1,500 jobs in the economically-distressed Southeastern part of the state. Codenamed Project Soccer, the German tire manufacturer Continental Tire approached the Department of Commerce in February 2011 about the possibility of receiving cash and infrastructure incentives for a new manufacturing plant in Brunswick County. Because the amounts requested were larger than the statutory limitations for JDIG, the project required the legislature to pass a special incentive package.
According to the traditional story, all the requisite political pressures were in place for North Carolina to support this package. And indeed, Democratic legislators and Governor Perdue argued on ribbon-cutting, business progressive grounds that the deal was necessary to create a large number of jobs in a distressed region of the state. Yet, after months of negotiations between the Governor and legislative leaders, the Senate Majority Leader announced in September his refusal to put the special incentive package on his chamber’s floor for a vote, effectively killing the state’s incentive offer (-). In response, Continental Tire announced the next day that it was locating its new facility across the border in South Carolina instead of in the proposed Brunswick County site.

In contrast to the Democrat’s business progressivism, the Republican majority expressed three primary objections rooted in their ideological skepticism of incentives. First, they felt the site selection process reeked of cronyism, especially after a blockbuster AP story in September revealed that major Democratic campaign donors (and the state Senator from the county) owned the land at the proposed project site. This created, Republicans argued, yet another example of the good-old boys economic development club looking out for itself and putting state taxpayers on the hook. Secondly, the structure of the package as a $40 million up-front, unsecured, no-strings-attached grant spurred opposition, especially in the House, where Speaker Tillis in particular repeatedly expressed concerns in emails to the Governor’s office (what we’ll call the Project Soccer emails) that the deal wasn’t effective in holding the company accountable for its promises. Additionally, GOP leaders were unsure that economic benefits outweighed fiscal costs, especially in light of the large, up-front nature of grant. And given the charges of cronyism, they were disinclined to trust the administration’s cost-benefit analyses performed by the N.C. Department of Commerce.

Just a few months earlier, however, the General Assembly took the opposite course by passing a special $2 million tax break designed to benefit a single company—Alex Lee
Distributors, an employer located in Senate Leader Berger’s district (+). Several years prior, Alex Lee had received a JDIG award to support adding new jobs, yet by 2011, the company had actually cut its workforce, and the Department of Commerce cancelled the incentive. In June, the Associated Press reported that the legislature’s annual tax extenders bill included a $2 million tax credit designed especially to help Alex Lee, and only Alex Lee. In effect, the supposedly anti-incentive GOP majority—including the even more rabidly anti-incentive Senate Majority Leader—provided a special incentive to a company that had cut jobs. On the surface, the Alex Lee decision contradicts an ideological/institutional interpretation of incentive-decision-making. It flatly flies in the face of Senate Majority Leader Berger’s libertarian hostility to incentives and criticism of the Perdue administration for “crony capitalism,” and at first glance, provides a flagship example of ribbon-cutting politics—and is scored as such in the outcome analysis.

Yet a second, deeper look reveals that Alex Lee is the exception that proves the rule that ideology and coalitional politics influence incentive-granting decisions. As became clear in media reports over the next two years, Alex Lee gave a $15,000 campaign donation to the Senate Republicans’ campaign fund in 2010, a donation followed up in 2012 with another $15,000 contribution—by far the largest campaign contribution made by the company in over a decade. Although Senator Berger strenuously denied a quid pro quo, saying he would have walked out of the room if anyone had offered a campaign donation in exchange for a legislative favor, reporters noted Senator Berger’s direct involvement in developing talking points on the package for his allies in the Senate and quietly attaching the tax break to a different bill scheduled for action in the House. Aside from labeling this an example of simple hypocrisy, news reports and interviews painted a more complex picture, in which ideology, coalition politics, and influence-peddling all played a role. By giving money to the campaign committee dedicated to electing Senate Republicans, instead of to Berger’s campaign, Alex Lee was signaling ideological support for the broader GOP policy agenda, membership in its political
coalition, and a desire to expand the GOP Senate majority. In turn, Senator Berger was then able to use these donations to achieve just this goal in the 2012 elections, helping return a larger and more ideologically libertarian (and anti-incentive) majority. In an interesting role reversal, however, a core of 20 anti-incentive House Republicans, including House Majority Leader “Skip” Stam, voted against the bill when it moved to the House floor in the days after the news of the campaign contributions hit, arguing that the bill unfairly picked winners and losers in the state economy. As usual, Democrats largely remained silent and voted “yes” to more jobs. So while we have coded the Alex Lee deal as (+) since it increases incentives, the decision involves quite a bit more political nuance than the ribbon-cutting theory would have predicted, as ideological and coalitional concerns clearly motivated the decision to grant the tax break to Alex Lee.

Lastly, the legislature decided in late 2011 to increase its own capacity to analyze prospective incentive deals (-), by hiring fiscal research staff dedicated to running economic impact and cost-benefit assessments of incentive projects. Motivated by skepticism about the analyses produced by the Department of Commerce during the Continental Tire deal, legislators sought this capacity as a way to improve the information they needed to assess the likely effectiveness of incentive programs broadly and individual projects in particular. Although the spatial market for jobs paradigm recognizes that communities will seek to improve the informational asymmetries that can disadvantage communities in bargaining with business, this particular decision departs from the ribbon-cutting theory in that the motivation springs as much from a need to manage internal informational asymmetries between actors with different ideological agendas than from an external need to strengthen bargaining position with business.

**Summary**

As seen in the summary Table 1, only 20 percent of the decisions made by North Carolina increased the state’s capacity to grant incentives or produced outcomes predicted by the ribbon-
cutting theory—an especially surprising failure rate given policymakers’ preoccupation with creating jobs amidst historically high unemployment relative to the rest of the country. Taking these decisions together, it is clear that Republican legislators diagnosed the state’s economic development challenge differently than their Democratic counterparts in the General Assembly and the Governor’s office—Republicans’ ideological and coalitional dynamics pushed the majority to rein in the use of incentives and rely more on tax cuts to improve the state’s competitiveness.

4.4 The Mediating Role of Governance

Given this discussion, it is clear that North Carolina’s governance framework played in an important mediating role that influenced how political motivations translated into incentive policy decisions. Perhaps most importantly, the governance framework became the playing field on which incentive decisions were made. Legislators set the rules that economic development staff in the executive branch had to follow when bargaining with business. As a result, policymakers were not simply debating whether to offer an incentive each time a company came asking for public subsidies, but rather were debating the conditions under which an incentive can be offered every time a company comes asking, in order to ensure more effective outcomes in the future. In this case, Republican skepticism of discretionary incentives was expressed by reducing or eliminating the money available for specific programs like OneNC and the Green Business Fund, tightening the rules by which these programs could hand out public dollars to businesses, and opening up the reporting process to greater transparency—thus binding the hands of economic development staff when negotiating with future companies. From a theoretical perspective, this transforms the simple bargaining interaction depicted by the spatial market for jobs into a paced, forward looking process that allows the state to set the rules by which future bargaining takes place.
Even the Continental Tire deal, the closest the state legislature came to the time-constrained drama envisioned by the ribbon-cutting theory, became a *legislative* issue precisely because previous legislatures had set strict criteria about what kinds of incentive packages were statutorily permissible for executive branch professional staff to implement—criteria that the proposed Continental Tire package clearly violated. This forced executive-branch staff to seek legislative approval for an incentive package outside the standard statutorily-defined deal-making process, opening it up to the political forces that ultimately killed it. Without these governance rules in place, Governor Perdue would almost certainly have bowed to the ribbon-cutting paradigm and agreed to the no-strings-attached incentive package requested by the company. But the governance framework prevented her from behaving in the way the ribbon-cutting theory would have predicted, once the legislature’s ideological hostility came into play.

Moreover, the fact that the legislature hired its own analyst in the aftermath of Continental Tire to conduct cost-benefit analyses of prospective economic deals reinforces this broadening effect—legislators wanted their own sources of information and data on which to base economic development decisions. In effect, legislative policymakers wanted to move from debating the merits of an individual project to wanting to build their own independent capacity to assess the merits of *every* project as a counterbalance to executive branch analysis they didn’t trust. As a result, future debates over the merits of a particular incentive deal would be broadened to include a debate over whose cost-benefit model is more accurate—a debate over data and analysis, rather than a debate over “competitiveness.” Analysis then informs policymakers’ diagnoses of what constitutes an effective deal.

The state’s governance framework played a second mediating role as well by promoting a set of countervailing norms about what constituted an effective and accountable incentive policy, norms that reinforced ideological skepticism of incentives and clearly influenced how policymakers wanted to approach bargaining with business. For Republican legislators, effective
incentive policy involved limits to what companies could ask for, strong accountability provisions, and an analysis showing the benefits of the project outweighed the costs—norms that were long embedded in the state’s primary incentive programs. In placing the annual $14 million liability cap on OneNC and converting it to a cash-basis program, lawmakers were responding to their ideological concerns over “crony capitalism” by consciously modeling these reforms on JDIG and JMAC, which also had liability caps and were funded on a pay-as-you-go basis. Similarly, the fact that all three major incentive programs had strong accountability and performance requirements created a normative expectation for legislators that effective discretionary incentive deals protected taxpayers in case the company didn’t perform as advertised. As the Project Soccer emails between legislative leadership and the Governor’s office demonstrated during the Continental Tire negotiation, the unsecured, up-front nature of the grant exacerbated ideological and coalitional concerns that the deal would benefit Perdue donors while leaving the state on the hook if the promised jobs failed to materialize—the very definition of ineffective, “crony capitalism.”

5. **Placing the Critical Case in Context**

Our critical case of the 2011-2012 session makes it clear that the ribbon-cutting theory cannot account for the full range of political motivations involved in shaping decisions about economic development broadly and incentive-granting in particular. But there are enough unique contextual factors about the 2011-2012 session—notably divided control of government and the economic effects of the Great Recession—that make it important to see how the explanation this paper has developed about ideology, coalitions, and the mediating role of governance stands up as these important external factors change over time. As a result, the paper turns now to testing the durability of our explanation from the 2007-2008 session through the 2013-2014 session. Note that Table 2 provides a short summary of the percent (+)
for each session, along with economic conditions, dominant ideology, and partisan control. The full table summarizing every decision outcome for each session is included in Table 3.

5.1 The Years of Democratic Control

In both the 2007-2008 session and the 2009-2010 session, Democratic majorities cooperated with Democratic governors in expanding incentive-use, largely based on a shared business progressive ideology that foregrounded job training, community economic development, higher education, and targeted industry development as the best way to promote equitable growth, alongside aggressive use of the state’s discretionary incentive programs. State budgets during these years invested in K-12 education, the UNC System, and community development organizations like CDCs, minority business loan funds, rural economic development entities, and nonprofits coordinating development in specific industry sectors, like the Biofuels Center and the Biotech Center. On the incentive side, the state created tax credits or discretionary funds for green business and clean energy development, and film industry promotion, along with a range of tax breaks for industries like jet fuel, datacenters, software development, and advanced textile manufacturing.

As seen in Table 2, there was broad continuity in incentive-related decision-making across governance categories and through these two sessions, with a majority of those decisions resulting in increased capacity for incentive spending. In both sessions, Democrats created new programs or increased funding for existing programs in line with their ideological approach to the state’s policy portfolio, notably the Green Business Fund in 2007 and a new, more generous Film program in 2010. Reinforcing the ideological commitment to community development, the 2010 state budget moved $1 million out of OneNC and into a minority business loan fund. In terms of fiscal caps, the legislature temporarily boosted the maximum amount the state could spend on JDIG awards in a year from $15 million to $22.5 million, an extension which legislators did not reverse in the 2009-2010 session.
In terms of **Special Deals**, the state passed packages designed to help specific firms in both sessions. During the 2007-2008 session, the legislature passed a special $4 million sales tax break in early 2007 targeted specifically to lure a Google server facility to the state, which combined with JDIG and local awards provided a package worth more than $260 million. The size of the package and the fact that legislators did not know they were voting on a package specifically for Google triggered a significant backlash among both Republicans and Democrats in the legislature once the news came out. At the same time, the legislature also passed a new incentive program, the Job Maintenance and Capital Development program, ostensibly targeted to retaining existing industry. The new program originated as an effort to save a single tire manufacturer, a Goodyear plant located in Fayetteville, which requested public subsidy in order to avoid closing its doors completely. While Democratic leaders in the legislature rallied in support of a program that would save these jobs, Governor Easley was not quite so ready to give in to these ribbon-cutting pressures, despite his own aggressive support for incentives more broadly. He vetoed the original version of the program, arguing that it was unfair to create a program for just one company (apparently, a willingness to pick winners and losers had its limits) and—previewing later Republican concerns over the Continental Tire project—that it left taxpayers on the hook without adequate accountability protections. Ultimately, the Governor agreed to sign a modified version of the bill, which ensured that Goodyear competitor Bridgestone also qualified for the program and translated normative concerns about accountability into performance standards to protect taxpayers if the companies failed to deliver. In a move that media reported as historically unprecedented, but which also previewed future Republican ideological skepticism of incentives, no Republicans in the Senate and only four Republicans in the House voted for the final version of the JMAC bill (which ultimately passed), arguing publicly that the bill was corporate welfare that picked winners and losers.

In 2009 and 2010, the Democratic controlled legislature passed two more special deals, one that provided a special tax break valued at $46 million over a decade to lure an Apple data
storage facility and another that expanded JMAC eligibility requirements to include Domtar, a paper manufacturer located in a distressed county in Western North Carolina. In the Apple deal, the decision to grant the incentive played out in a similar pattern to the previous session’s Google deal, with Governor Perdue approaching a top Democratic legislator, in this case Senate Finance Co-chair David Hoyle about a major, secret project that needed a special tax break in order to locate within the legislator’s district. While withholding the name of the company, the administration provided Sen. Hoyle and other legislators with the results of the economic impact analysis associated with the project, which promised 3,000 new jobs and almost $1 billion in additional private investment. As Sen. Hoyle began to advance the tax break in May, however, the AP broke the news that the company was Apple and that the project would actually create 100 jobs, not the 3,000 that were initially projected by the impact analysis. Democrats continued to defend the project with their traditional progressive pro-business diagnosis, arguing that the high unemployment rate justified the state doing whatever it could to compete for jobs, especially in the state’s most distressed counties. "It's play or lose," Sen. Hoyle said after the vote. While the bill ultimately passed, the idea of changing the tax code to benefit a single firm, coupled with the misleading economic impact projections from Commerce, triggered intense criticism from Republicans and planted the seeds of their mistrust with the economic impact analyses conducted by the department.

Similar dynamics played out in the 2009 decision to expand JMAC eligibility criteria to include Domtar, a decision that received an equally bumpy ride to passage as the original bill to create the program. Although the JMAC expansion bill sailed through the Senate on the strength of recession-heightened anxieties about losing an anchor employer in the distressed Western region, it’s worth noting that two of the five Republicans that voted against the bill on libertarian ideological grounds would soon hold senior leadership positions in the post-2010 GOP majority—Senator Berger (the future Majority Leader) and Senator Bob Rucho, the future chairman of the Senate committee with jurisdiction over taxes and incentives. And when the bill
moved to the House, anti-incentive Democrats joined with the overwhelming majority of the House GOP caucus to vote down the JMAC expansion, arguing that it was unfair both to other businesses to tweak the rules of an entire program simply to benefit a single firm and an ineffective policy move likely to create another hole in the state’s patchwork incentive governance framework. Ultimately, the Governor persuaded House Democrats to fall in line and support her job creation program on the basis of party loyalty, reinforcing the coalitional aspect of economic development politics.

Aside from these major areas of continuity in these years, the 2009-2010 session differed from the previous session with respect to the Analysis of Prospective Deals and Accountability and Reporting—an unsurprising development given the worsening economic conditions associated with the Great Recession. In general, the 2007-2008 session sought to improve analysis of incentive deals and programs, including an administrative innovation that cut site selection consultants out of the analysis of prospective deals, the hiring of the UNC Center for Competitive Economies to study the effectiveness of the state’s incentive programs, and the development a legislative response to the findings of the UNC report. Moreover, the 2007-2008 session generally saw moves to tighten accountability, by ensuring that new incentive programs like Green Business Fund and JMAC required strict accountability and performance standards. In contrast, 2009-2010 session saw an explosion of efforts to reduce analytical requirements and accountability standards—everything from environmental impact assessments to JDIG performance criteria were significantly weakened in an effort to make it easier for the state to respond to its competitiveness challenge and “stay in the game.” Altogether, more than three-quarters of the 2009-2010 session’s 14 incentive decisions expanded the capacity of the state to grant incentives (see Table 2)—a modest increase over the previous year and fully in line with what the ribbon-cutting theory would predict for a time of intense economic distress.
Taken together, the pattern of decisions in these two sessions reflects the Democratic majority’s ideological predisposition to diagnose the state’s competitiveness challenge in a way that aligned with what the ribbon-cutting theory would have predicted—the state needed incentives to compete in the spatial market for jobs, particular when gripped by the Great Recession. Yet the diagnosis also incorporated normative considerations about the effectiveness of accountability standards (hence the performance criteria attached to new funds and all the conflict over JMAC creation and expansion) and included a broader range of economic development investments in the state’s policy portfolio.

5.2 The Conservative Revolution

If the years of Democratic control witnessed continuity in the pattern economic development decision-making, then the 2010 elections ushered in a sharp break with this pattern and the establishment of new dominant political coalition with a fundamentally different ideological diagnosis of the economic challenges facing the state. As previously discussed, the new Republican majority expressed significant hostility to targeted economic development and generally prioritized tax cuts over incentives over the remainder of the study period. In turn, the percentage of decision outcomes that increased incentives and followed the ribbon-cutting theory fell dramatically from 79 percent in 2009-2010 to just 20 percent in 2011-2012 (see Table 2). The budgets during this session cut state investments in community economic development, K-12 education, higher education, while targeted tax incentives targeted toward specific industries were sidelined in favor of broad-based tax cuts. In one example of the shift away from “picking winners and losers,” the size of the annual industry-specific tax credit extenders bill (the same bill that included the notorious Alex Lee tax break) fell dramatically compared to the previous session, from more than $300 million in 2009-2010 to just $4 million in 2011. “That’s tiny. That's progress,” said House Majority Leader Paul Stam, R-Wake, a long-time opponent of incentives.17
This paper has posited that ideological, coalitional, and governance-related political factors drove this policy shift, but as with all social science research it’s crucial to rule out other explanations. If this policy shift simply reflected a short-term response to temporary external conditions like a tough economy or divided partisan control of government, and if the same kind of ribbon-cutting pressures we saw in the years of Democratic control are indeed normative as the theory suggests, then we would expect the 2013-2014 session to reverse course on the incentive decisions made in the previous session, as the economy improved and the GOP secured undivided control over state government (Republican Pat McCrory won the 2012 election for Governor).

Yet we see the opposite after the 2012 elections—GOP majorities didn’t reverse course, they doubled down. If the 2011-2012 session launched the conservative revolution in Raleigh, then the 2013-2014 session consolidated the revolution, completing a shift away from an economic development policy portfolio based on business progressive diagnoses of economic competition and towards a policy diagnosis of tax cuts, spending cuts, and regulatory reform. State budgets in 2013 and 2014 continued to cut the university system, completely eliminated funding for every state-supported rural and community economic development nonprofit, many of which had received state support going back to the 1980s, and closed down industry-specific economic development organizations like the Biofuels Center.

On taxes, during the 2012 elections, the state GOP adopted a plank in their policy platform that condemned tax incentives as "contrary to the free enterprise system," since other businesses "bear the full burden of taxation." In a similar vein, Senator Rucho, the chairman of the Senate tax-writing committee raised an explicitly libertarian diagnosis of the problems he saw in the previously dominant business progressive approach. “You should not have government picking winners and losers," Rucho said, pointing to the state’s sluggish recovery from the Great Recession as evidence that “the loopholes have not worked, the exemptions have
not worked, the incentives have not worked.”\textsuperscript{20} Once returned to office after the 2012 elections, the GOP majority sought to translate this normative criticism into actual policy by passing a sweeping tax reform measure that provided the biggest income tax cut in state history and eliminated dozens of tax loopholes and credits long utilized to promote economic development. During the debate, Republicans in both chambers supported these changes, but the Senate tended to push for more fundamental reforms, including the wholesale replacement of income taxes with sales taxes, while the House tended towards greater pragmatism, greater concern over the Senate’s proposed reduction in revenues, and less interest in shifting completely doing away with income taxes.

Republicans also doubled down on their skepticism of discretionary incentives. Exactly 75 percent of the decisions made in the 2013-2014 session went against expanding the state’s discretionary incentive capacity, suggesting once again that the ribbon-cutting theory doesn’t fully explain the political motivations of policymakers seeking to strengthen their bargaining position in the spatial market for jobs. In terms of Programs, Republicans stayed on the course they set in 2011-2012—they rejected two different proposals to create a “closing fund” designed to sweeten the pot in high-stakes firm location negotiations, converted the film tax credit program into a much smaller discretionary grant program with accountability standards, repealed the Green Business Fund, and prohibited the use of industrial infrastructure development funds for sports stadiums and entertainment complexes. Additionally, the legislature also prohibited the new state-charted nonprofit economic development agency (the N.C. Partnership) from distributing state incentive dollars, leaving that authority embedded in the state’s Commerce Department—a conscious decision aimed at avoiding the “crony capitalism” and lack of accountability experienced by other states with privatized economic development entities in past years.\textsuperscript{21}
As in 2011-2012, the majority also scaled up program Accountability and Reporting, requiring the Partnership to fully disclose the names of those donors that also received incentives and covering all Partnership employees under the State Ethics Act to prevent the kinds of conflicts of interest, “crony capitalism,” and pay-to-play politics that Republicans had long opposed. Additionally, the 2014 budget mandated the State Auditor’s Office to conduct a formal audit of all the state’s major discretionary incentives programs to determine whether these public funds were being used improperly. And finally, legislative leaders flatly rejected a Special Deal that would have provided $144 million to the professional football team Carolina Panthers to upgrade their Charlotte stadium, despite the urgent requests of the team’s owner, a long-time major Republican donor. Taken together, all of these efforts stand in stark contrast to the decisions made in the years of Democratic control.

As in 2011-2012, however, there were two governance categories—Fiscal Controls and Special Deals—in which Republicans produced a mixed record on changing the state’s incentive capacity during the 2013-2014 session, thanks to an unexpected interaction of ideological differences within the Republican coalition and the state’s governance framework. The latter played an important role in mediating these political pressures and setting the terms of the policy debate over fiscal controls (see Table 3). One such debate began in April 2013 with the proud announcement from the newly-inaugurated Governor that the largest JDIG award in state history had successfully recruited the corporate headquarters of insurance giant MetLife. (Ironically, much of the MetLife deal had been negotiated by former Governor Perdue before leaving office, and the unprecedented size of the award reflected her desire to land a major employer without having to ask the legislature for a special deal and risk another repeat of the Continental Tire debacle.) Phased in over 12 years, the award would cost the state about $11 million per year. At the same time, however, the temporary expansion of the JDIG annual cap enacted in 2008 (see Table 3) was set to expire at the end of the fiscal year in June. Suddenly, the “biggest JDIG deal in history” created a crisis for the state’s incentive governance
framework—one deal had exhausted the funds available to the state’s industrial recruiters, leaving them indefinitely without an important tool they said they needed to be competitive.

In response to urgent requests from the administration to remedy this competitiveness problem, legislators agreed in the 2013 budget to restore the previous JDIG fiscal cap of $25 million for the next two years, permanently increase the OneNC annual cap from $14 million to $28 million, and eliminate limits on the amount of money the Industrial Development Fund could offer for every job created. At first glance, this represents a pretty clear case of responding to ribbon-cutting pressures (and as a result, they are all scored as (+)), but a deeper look suggests a more nuanced response that was largely shaped by the accountability norms discussed in section 5.4. While Republicans certainly acted to increase the incentives available to the state, their efforts were clearly constrained by a normative belief in the importance of fiscal limits for these programs. For instance, the JDIG change did not eliminate the annual cap, it simply restored it to where it had been the previous five years (ie, $22.5 million). Similarly, the decision to lift the OneNC cap did not return the program to the unlimited spending allowed in the pre-2011 days of Democratic control, it simply brought the fund’s spending authorization in line with that of JDIG. And to ensure the state wouldn’t face a similar crisis in the future, the 2013 budget also prohibited the Department of Commerce from authorizing JDIG awards above the average award size for the year. Taken together, these decisions suggest that while Republican legislators trusted their own governor with incentives more than they had trusted the previous Democratic governors, they still maintained a healthy skepticism of incentives and sought to ensure that those programs had limits, a very different posture than what the ribbon-cutting theory would suggest.

At the same time, ideological and coalition politics motivated a range of other incentive decision outcomes in some surprising ways, as longstanding Republican skepticism of incentives in the legislature slowly began to clash with a more ideologically conflicted Governor. While
Governor McCrory tended to share Senator Rucho’s ideals about tax reform, he displayed significantly more ideological flexibility when it came to discretionary economic development programs, many of which he proposed expanding (especially after the MetLife deal). In many ways, the Governor’s flexibility reflected the need to claim credit in the context of ribbon-cutting pressures—he could claim any economic improvements resulted from tax cuts he supported, while wanting discretionary incentive tools to keep his job recruitment “wins” in the public eye. As a result, the interaction between the legislature’s greater ideological purity and the Governor’s ideological flexibility transformed the bargaining interaction within the GOP coalition over incentive policy. Over the course of the session, the House generally emerged as a supporter of the Governor’s economic development proposals, while the Senate increasingly tried to use those proposals as bargaining leverage to secure deeper tax cuts and more radical tax reform than the more pragmatic House preferred.

In fact, it was this tension within the Republican coalition that ultimately shaped the debate over several key incentive decisions in ways very different than what the ribbon-cutting theory would have predicted. At the start of the 2014 session, the Governor (still smarting from the problems created by the previous years’ MetLife deal) asked the legislature for additional incentive funds. Bundled together into a single bill, this proposal included lifting the JDIG cap to $45 million, creating a new “catalyst fund” for “closing” deals, and expanding JMAC eligibility to include Evergreen, a packaging company (and major employer) in Western North Carolina. Evergreen had requested public funds to pay for overhauling their boilers to comply with new federal environmental mandates. Over the course of the year, the Senate sat on this package until the waning days of the session, when leaders suddenly added a highly ideological and controversial series of tax rules that would have significantly limited the amount of revenue local governments could raise from property taxes. The message they sent to House was relatively simple—if you want to support the Governor, agree to our libertarian property tax proposal. Though deeply supportive of cutting income taxes, the ideologically extreme nature of the
property tax proposal was a bridge too far for the more pragmatic House Republican caucus, which in a rare rebuke to Speaker Tillis, joined with Democrats to vote down the proposal on the House floor.

To be clear, at no point in this debate did either the House or the Senate abandon their skepticism of incentives. The Senate hadn’t suddenly and wholeheartedly embraced discretionary incentives any more than the majority House members. Rather, the Senate’s desire for an aggressively libertarian overhaul of the tax code was greater than its skepticism of incentives, especially given that the Governor’s proposals followed the normative consensus around accountability standards. Similarly, the House majority’s pragmatism on taxes overwhelmed its desire to support the Governor on economic development, especially when combined with longstanding ideological skepticism of incentives. Certainly, both chambers’ ideological hostility to climate change regulations overwhelmed their skepticism of incentives when they later agreed in a separate bill to expand JMAC to include Evergreen. A number of Republican legislators justified the decision by arguing that it wasn’t picking winners losers when the state used its own resources to help a private company respond to a burdensome federal regulation.23

6. Conclusion

This paper has argued that the political factors shaping economic development incentive granting are more complex than a deterministic response to ribbon-cutting pressures. Instead, policy makers respond to range of political pressures, including the demands of ideological competition over how to diagnose notions of economic competitiveness and the role played by political coalitions in formulating and enacting these diagnoses. As a result, the very idea of competitiveness is contested. At the same time, these political factors are embedded in a policy environment that sets the rules for how communities compete in the spatial market for jobs, acting as a clear mediating force that constrains and channels the political pressure elected
Officials feel to create jobs, and thus shapes how communities choose to bargain with business. Central to this process are the performance standards used to hold firms accountable for their promises.

While we have told this story in the context of North Carolina’s conservative revolution, this study also provides important policy implications for practitioners, staff, and lawmakers seeking to enact more progressive, accountable, and equitable economic development policy. Perhaps most importantly, the reality that the idea of “economic competitiveness” is contested opens up the door for progressive policy makers to diagnose their own economic challenges as a competitiveness problem, and then promote equitable or sustainable policies as the solution to that competitiveness problem. In effect, this allows progressives planners to place their narratives and policy proposals about equitable economic development strategies into the more broadly understood and politically salient framework of competitiveness. And this is no pipe dream: as Theda Skocpol (2016) has recently found, national networks of state advocacy organizations focusing on state fiscal and economic policy—and affiliated with such nationally recognized nonprofits as the Center on Budget and Policy Priorities, the Economic Policy Institute, and the Center for American Progress—are raising and spending millions of dollars to develop messaging that links accountability, equity, and competitiveness in support of more progressive approaches to economic development. Although she persuasively shows that these progressive networks are systematically out-organized by networks on the right, the crucial point is that they exist and are engaged in just this kind of policy battle in the states.

Additionally, these ideas remain highly relevant for those practitioners working inside government as well, as they create new avenues for promoting equity-oriented economic development using competitiveness terms familiar to most lawmakers in local and state government. This represents new ground for economic development scholars and future research could fruitfully explore the connections between equity-oriented messaging and
economic development policy making to see whether these narratives and policies genuinely make a difference in raising wages and reducing income inequality.

Secondly, lawmakers and practitioners alike should recognize the important role played by regulatory standards in shaping the policy-making process to produce more accountable incentive policies. Scholars like Weber (2002) and Bartik, (2005) have frequently pointed out that these standards can make for better deals by holding firms accountable. But over time, we can also see how the presence of these standards created new countervailing norms that place significant constraints on the shape and accountability of new incentive programs as they are debated. In North Carolina’s case, these countervailing norms played a key role in shooting down the creation of no-strings-attached incentive programs for deal “closings” and firm retentions. While Freyer (2016b) explored the effectiveness of these standards in the North Carolina context, future research should broaden the scope to include other state and local incentive policies, and the extent to which normative considerations shaped the adoption and strengthening of these standards in the policy learning and diffusion process identified by Zheng and Warner.

Thirdly, the fragmented nature of the economic development policy environment and policy making process presents an opportunity for practitioners that recalls Krumholz and Forester’s (1980) insight that government is not monolithic, but rather made up of competing power centers with competing agendas. While Krumholz was able to build his Planning Office into a competing power center capable of navigating the various administrative agencies in Cleveland City government, the North Carolina experience reminds us how easily power can shift from administrative agencies to a legislative branch that controls both the budget and the ability to sweep away entire programs regardless of their historical rootedness. In this case, practitioners in the Department of Commerce were frequently ignored in the post-2011 period of Republican dominance, while the edifice of the state’s economic development programs was
radically overhauled in a strategic shift away from regionalism, community economic
development, and industry-specific development towards tax cuts and regulatory reform. Part of
the challenge facing economic development planners at universities and nonprofits outside of
state government involved the loss of state appropriations. Organized opposition to these budget
cuts never fully coalesced; instead, each group sought to protect its own appropriation without a
broader effort to mobilize everyone in the affected budget areas. In other similar situations,
activist, equity-oriented planning professionals maybe able to play the role of organizer to help
affected economic development groups fight against these budget cuts.
1 GOP members during floor debates and committee hearings repeatedly made these arguments, especially during consideration of the budget repair bill SB 3 and the HB 200, the state budget for FY 2011-2013. For example, Senate majority Leader Rick Berger “blamed Democrats for making the recession deeper in North Carolina than it should have been through a decade of increased spending,” as reported by The Insider on April 7, 2011.

2 BTC Budget report for 2011.

3 Governors budget and many public statements during debate over SB 3 and the state budget.

4 For example, no Democrat in the Senate and only four (conservative) Democrats in the House voted in favor of the session’s defining policy legislation, the state budget for Fiscal Year’s 2011-2013 (HB 200). As a measure of the partisan litmus-test nature of the budget, Democrats across the state viewed these four cross-over votes as a fundamental betrayal and all but one of the members casting those votes were either forced into retirement or defeated in primaries during their re-elections in 2012.

5 Taken together, these accountability measures have ensured that the state’s incentive programs have demonstrated positive effects on employment growth often absent in other states (Lester et al, 2014; Jolley, Lane, 2008).


8 The Project Soccer emails in question were later released to the media as the Governor and legislative leaders rushed to blame the other side for the collapse of the package. They can be viewed here: http://fitsnews.com/wp-content/uploads/2011/10/ProjectSoccerDocs.pdf

9 Leaders expressed concerns over the bottom-line budgetary impact, yet a deeper analysis indicates that these concerns were really less about the cost of the package and more about policy priorities. As stated previously, the “tough” fiscal environment was largely self-created by GOP-led tax cut policies, reflecting an ideological preference for broad-based tax cuts over company-specific incentives. Moreover, the Project Soccer emails indicate that leaders initially supported a $30 million package, so it’s hard to believe that they couldn’t find an additional $15 million had it been a priority. Additionally, the Governor’s office explored creating refundable tax credits that could provide a similarly-sized up-front incentive, but this proved a non-starter for a GOP majority with long-standing dislike of economic development tax credits.


12 Interview with former legislative staff, N.C. General Assembly, June 1, 2015.
13 Apple Incentives. THE INSIDER, 05/27/09.


15 Incentives Defeat. THE INSIDER, 8/07/09

16 An early recommendation from the committee involved a bill to expand transparency around incentive negotiations, largely as a response to the secrecy that cloaked the Google deal. Yet in a move fully in line with the ribbon-cutting logic, legislative leaders quietly killed the transparency bill after the Department of Commerce raised concerns that it would hurt the ability of the state to compete in the incentives game.


18 BTC 2013 Budget Report

19 The Unwinnable Game. Scott Mooneyham. The Insider, 2/25/2013

20 Ibid.

21 Interview with former House member, 10-12, 2015.

22 Indeed, Senator Harry Brown, a co-chairman of the Senate Finance Committee told reporters in 2014 that Republicans trusted the Commerce Secretary to do a great job, in contrast to the less trust they’d had in Perdue. Incentives Packages. John Frank, THE NEWS & OBSERVER, 7/25/14 (via The Insider)

23 JMAC Changes. THE INSIDER, 6/26/14
### Table 1. Decisions and Outcomes in the 2011-2012 Session

<table>
<thead>
<tr>
<th>Governance Category</th>
<th>2011-2012 Policy Decision</th>
<th>Policy Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discretionary programs &amp; funding</strong></td>
<td>1. Cash balance (available funds) for OneNC Fund reduced by $45 million, a 75% reduction (2011)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>2. OneNC Fund converted to pay-as-you-go/cash basis fund (2012)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>3. Green Business receives NO funding in 2011 or 2012</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>4. Industrial Development Fund receives No funding (2011)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>5. (Balanced Budget Act transfers all non-encumbered cash balances out of JDIG and OneNC funds into General Fund for FY 2011.) Vetoed (2011)</td>
<td>None</td>
</tr>
<tr>
<td><strong>Analysis of prospective deals</strong></td>
<td>6. Legislature hired staff dedicated to economic impact analyses of prospective deals as counterweight to perceived bias in Commerce.</td>
<td>(-)</td>
</tr>
<tr>
<td><strong>Fiscal controls</strong></td>
<td>7. OneNC Fund given $14 million annual liability cap (2012)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>8. JDIG removes cap on number of deals, but maintains cap on total expenses (bias towards more, smaller deals), (2012)</td>
<td>(+)</td>
</tr>
<tr>
<td><strong>Accountability, &amp; reporting</strong></td>
<td>9. Legislature expands program performance reporting to GA and public. (2012)</td>
<td>(-)</td>
</tr>
<tr>
<td><strong>Special deals</strong></td>
<td>10. Continental Tire deal rejected</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>11. Alex Lee tax break passed by legislature despite job cuts and cancellation of JDIG award/3A credits (2011)</td>
<td>(+)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Outcomes % (+)</strong></th>
<th>20%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Distress</strong></td>
<td>High</td>
</tr>
<tr>
<td><strong>Partisan Control</strong></td>
<td>Contested (DEM Gov/REP Leg)</td>
</tr>
<tr>
<td><strong>Dominant Ideology</strong></td>
<td>Contested (Pro-biz Progressive vs. Libertarian Con)</td>
</tr>
<tr>
<td>Governance Category</td>
<td>2007-2008 Percent (+)</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Discretionary Programs &amp; Funding</td>
<td>100%</td>
</tr>
<tr>
<td>Analysis of Prospective Deals</td>
<td>0%</td>
</tr>
<tr>
<td>Fiscal Controls</td>
<td>100%</td>
</tr>
<tr>
<td>Accountability &amp; Reporting</td>
<td>20%</td>
</tr>
<tr>
<td>Special Deals</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Outcomes, Total Percent (+)</strong></td>
<td><strong>55%</strong></td>
</tr>
<tr>
<td>Economic Distress</td>
<td>Moderate</td>
</tr>
<tr>
<td>Partisan Control</td>
<td>Dem</td>
</tr>
<tr>
<td></td>
<td>Business</td>
</tr>
<tr>
<td>Dominant Ideology</td>
<td>Progressive</td>
</tr>
</tbody>
</table>
### Table 3. All Decisions, 2007-2014

<table>
<thead>
<tr>
<th>Governance Category</th>
<th>2007-2008 Policy Decision</th>
<th>Policy Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discretionary programs &amp; funding</td>
<td>1. Film tax credit expanded (2008)</td>
<td>(+)</td>
</tr>
<tr>
<td>Analysis of prospective deals</td>
<td>3. Commerce analysts cut site location consultants out of data collection process.</td>
<td>(-)</td>
</tr>
<tr>
<td>Fiscal controls</td>
<td>4. JDIG cap increased from $15m to $25m for (2007 and 2008)</td>
<td>(+)</td>
</tr>
<tr>
<td>Accountability, &amp; reporting</td>
<td>5. Joint Select Committee on Economic Development Incentives created by legislative leadership to review incentive effectiveness (2007)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>6. JMAC required to report + clawbacks and enforcement provisions (2007)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>8. Asked UNC to conduct study of incentive programs (2007)</td>
<td>(-)</td>
</tr>
<tr>
<td>Special deals</td>
<td>10. JMAC created (2007)</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>11. Google deal passed</td>
<td>(+)</td>
</tr>
</tbody>
</table>

<p>| Outcomes % (+) | 55% |
| Economic Distress | Moderate |
| Partisan Control | Unified DEM |
| Dominant Ideology | Pro-biz progressive |</p>
<table>
<thead>
<tr>
<th>Governance Category</th>
<th>2009-2010 Policy Decision</th>
<th>Policy Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discretionary programs &amp; funding</strong></td>
<td>1. New more generous film credit created (2010)</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>2. Green Business Fund given $5m (2009)</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>3. 2009 Budget transfers $1m out of OneNC to minority small business lending program</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>4. Industrial Development Fund doubles award size per job (2009)</td>
<td>(+)</td>
</tr>
<tr>
<td><strong>Analysis of prospective deals</strong></td>
<td>5. Environmental impact assessment requirements eased for incentive projects (2009)</td>
<td>(+)</td>
</tr>
<tr>
<td><strong>Fiscal controls</strong></td>
<td>None</td>
<td></td>
</tr>
<tr>
<td><strong>Accountability, &amp; reporting</strong></td>
<td>7. OneNC and JMAC frequency of reporting reduced (2009)</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>8. JDIG allowance for firms to miss performance targets increased from one year to two years consecutively (2009)</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>9. Commerce allowed to modify JDIG grant awards for recipient firms that have failed to meet performance benchmarks without amending contract. (2009)</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>10. Commerce allowed to extend JDIG base period by up to 4 years for employers with more than 1,000 employees (2010).</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>11. JDIG expanded reporting requirements expanded (2010)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>12. Executive order enacted regulating site selection consultants involved in state incentive deals (reporting + conflict of interest) (2009)</td>
<td>(-)</td>
</tr>
<tr>
<td><strong>Special deals</strong></td>
<td>13. JMAC expanded to include Domtar (2009)</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>14. Apple deal passed</td>
<td>(+)</td>
</tr>
</tbody>
</table>

<p>| Outcomes % (+)                      | 79%                                                                                       |
| Economic Distress                   | High                                                                                      |
| Partisan Control                    | DEM                                                                                       |
| Dominant Ideology                   | Pro-biz progressive                                                                        |</p>
<table>
<thead>
<tr>
<th>Governance Category</th>
<th>2011-2012 Policy Decision</th>
<th>Policy Outcome</th>
</tr>
</thead>
</table>
| Discretionary programs & funding | 12. Cash balance (available funds) for OneNC Fund reduced by $45 million, a 75% reduction (2011)  
14. Green Business receives NO funding in 2011 or 2012  
15. Industrial Development Fund receives No funding (2011)  
16. (Balanced Budget Act transfers) Vetoed (2011)                                                                                                                   | (-)            |
<p>| Analysis of prospective deals | 17. Legislature hired staff dedicated to economic impact analyses of prospective deals (2011)                                                                                                                           | (-)            |
| Fiscal controls          | 18. OneNC Fund given $14 million annual liability cap (2012)                                                                                                                                                                     | (-)            |
|                          | 19. JDIG removes cap on number of deals, but maintains cap on total expenses (2012)                                                                                                                                                | (+)            |
| Accountability, &amp; reporting | 20. Legislature expands program performance reporting to legislature and public. (2012)                                                                                                                                         | (-)            |
| Special deals            | 21. Continental Tire deal rejected (2011)                                                                                                                                                                                          | (-)            |
|                          | 22. Alex Lee tax break passed by legislature despite job cuts and cancellation of JDIG award/3A credits (2011)                                                                                                                   | (+)            |
| Outcomes % (+)           | 20%                                                                                                                                                                                                                               |                |
| Economic Distress        | High                                                                                                                                                                                                                  |                |
| Partisan Control         | Contested (DEM Gov/REP leg)                                                                                                                                                                                                    |                |
| Dominant Ideology        | Contested (Pro-biz Progressive vs. Libertarian Con)                                                                                                                                                                            |                |</p>
<table>
<thead>
<tr>
<th>Governance Category</th>
<th>2013-2014 Policy Decision</th>
<th>Policy Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discretionary programs &amp; funding</strong></td>
<td>1. Legislature rejected new recruitment fund supported by fracking taxes (2013)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>2. Catalyst Fund failed to pass (2014)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>3. Film credit expired/converted into grant program (2014)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>4. New nonprofit economic development partnership created, but Commerce retains authority over incentives</td>
<td>(-)</td>
</tr>
<tr>
<td><strong>Analysis of prospective deals</strong></td>
<td>None</td>
<td></td>
</tr>
<tr>
<td><strong>Fiscal controls</strong></td>
<td>7. JDIG cap expanded to $22.5 million for 2013-2014</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>8. JDIG grant awards for individual projects prohibited from exceeding annual average of grants. (2013)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>9. OneNC cap increased to $28 million. (2013)</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>10. Film grants capped at $10 million per year (2014)</td>
<td>(-)</td>
</tr>
<tr>
<td></td>
<td>11. Industrial Development Fund Utility Account eliminated cap on per job grant awards (2014)</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>12. JDIG expansion to $45 million failed (2014)</td>
<td>(-)</td>
</tr>
<tr>
<td><strong>Accountability, &amp; reporting</strong></td>
<td>13. Nonprofit required to disclose donors that receive incentives and cover all employees with ethics act.</td>
<td>(-)</td>
</tr>
<tr>
<td><strong>Special deals</strong></td>
<td>15. JMAC eligibility expanded to include Evergreen (2014)</td>
<td>(+)</td>
</tr>
<tr>
<td></td>
<td>17. (MetLife Deal)</td>
<td>None</td>
</tr>
</tbody>
</table>

| Outcomes % (+) | 25% |
| Economic Distress | Moderate |
| Partisan Control | Unified REP |
| Dominant Ideology | Libertarian Conservative |
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Why incentive deals fail (and how to make them work again): Implications for accountability standards, policy supports, and economically distressed regions

Allan M. Freyer
The University of North Carolina Chapel Hill
1. Introduction

At the heart of local economic development practice lies a paradox. Despite decades of criticism from policymakers and scholars alike, state and local governments continue to rely on economic development incentives like cash grants, tax abatements, and low-interest loans as key tool for inducing private sector investment, job creation, and firm location decisions. Moreover, the number and size of these local economic development incentive packages have continued to rise in recent years, as communities struggle to reverse the job losses associated with the Great Recession and a sluggish macroeconomic recovery (Zheng & Warner, 2010). Deepening the paradox, it is often the most economically distressed areas that can least afford incentives which have historically relied the most on these corporate subsidies as a way to offset a perceived lack of other assets that could improve their economic competitiveness (Cobb, 1990; Warner and Zheng, 2013). Yet as the exhaustive literature on empowerment zones demonstrates, there is little evidence that economic development incentives will do for distressed areas what they can’t do in larger economies, which is to improve economic outcomes. Indeed, Bartik (1992; 2015) has found that incentives can only increase incomes in high unemployment counties if the new jobs they help create are able to help boost total employment by 1 percent from baseline—a very high bar in today’s economic development environment in which projects capable of hitting that one percent job growth threshold (historically large-scale manufacturing plants) are increasingly rare.

But given their accelerating use, it is crucial for us to resolve this paradox by improving the effectiveness of economic development incentives and their ability to deliver on their promises. This is especially true in light of a sluggish national economic recovery and the persistence of regional disparities in economic conditions. Fortunately, there are two recent innovations that, if better understood, may help state and local governments make their incentive policies more effective, even in economically distressed areas—namely, regulatory innovations and policy embeddedness.
The first innovation involves the rising local governmental adoption of performance and accountability regulatory standards as a way to hold companies to their promises (Bartik, 2009; Warner and Zheng, 2014). Previous scholarship on the subject has found that firms will promise more in the way of job creation and investment than they intend to deliver—solely to extract larger incentive packages from job-hungry local governments (c.f., Gabe and Kraybill, 2002; Weber, 2002). But this line of argument assumes that performance and accountability standards are either nonexistent, or ineffective in holding firms accountable for their promises. The former assumption has stood in the way of assessing the policy factors that contribute to incentive deal success, since performance standards in large part determine what a “successful” incentive deal actually looks like. The latter assumption, on the other hand, has not yet been fully tested in a systematic, quantitative way. This has been due in large part to data limitations, springing from the lack of incentive agreement performance monitoring by state and local governments—no monitoring meant no definition of success and no performance data, which meant no way to perform a quantitative analysis. Fortunately, the growing adoption of these regulatory and reporting policies has overcome these data limitations, allowing researchers for the first time to systematically and quantitatively assess the effectiveness of performance standards and their interaction with other policy factors.

In parallel to the growing adoption of regulatory standards, scholars have increasingly recognized a second innovation—policy embeddedness. This is the idea that incentives are embedded in a broader economic development policy environment, which has the potential to reshape the firm location bargaining process and improve incentive outcomes. First made by Lowe (2014) and extended by Lester et al (2014) and Lowe and Freyer (2015), this crucial insight recognizes that state and local governments bundle together incentives along with other economic development strategies into policy portfolios that include efforts like strategic planning, job training, R&D, and others, all of which may be used to identify and develop specific industries. Lester et al (2014) found that this policy embeddedness provides common pool resources that benefit all firms in an industry and improve the job creation and investment
outcomes of the firms receiving incentives in those industries. But two key implications of this remain unexplored—first, the interaction of policy embeddedness with regulatory standards, especially the cancellation of specific incentive deals; and second, what this interaction means for using incentives as an approach to improving conditions in economically distressed areas.

Given this new window for empirical study, this project attempts to understand how a range of regulatory and policy factors can influence the success or failure of individual incentive deals across both an entire state and the high-unemployment counties within that state. In effect, this project is concerned with why incentive deals fail in inducing promised job creation and investment and how they can be made to succeed amidst varying economic conditions, given a common contractual performance and accountability regime. At the regulatory level, we are interested in whether accountability standards work as intended. At the level of the individual project (or deal), factors of interest include those related to the structure of individual incentive deals (e.g., whether the deal involved a new firm recruited to the region, and whether the firm was a branch plant of an externally-owned company). At the level of policy, factors of interest include the ability to strategically identify and target those industries most likely to grow and those related to the broader policy support system in place for firms, including customized workforce development and customized job training services.

In this institutional and spatial context, the project attempts to resolve the policy paradox of common, yet ineffective incentives by exploring why incentive deals fail and how they can be made to succeed again—even in economically distressed areas. In doing so, the paper asks four questions: (1) Are performance and accountability regulatory standards effective at removing the motivation of incentive recipients to overpromise, and in turn, reducing the failure of incentive deals? (2) What “stress factors” contribute to the failure of incentive projects, given a common performance and accountability regime? (3) In contrast, what project-level and policy-level factors can improve the outcomes of incentive deals? And (4) how do these factors—
regulatory, project-level, and policy-level—vary spatially across areas with different economic conditions?

The project pursues these questions through a mixed-methods analysis of North Carolina’s incentive-granting efforts from 2002 to 2013, focusing on deal cancellation—ie, failure—as our outcome of interest.

2. Literature Review & Hypotheses

Scholars have consistently criticized the practice of incentive-granting for its questionable effectiveness in promoting meaningful economic growth at either the regional or firm level. In this view, incentive deals fail to live up to their promises because they are targeted to the geographic locations that don’t need incentives to compete (Buss, 2001; Maruksen, 2007), to firms that will create jobs and investment without them (Peters and Fisher, 2004; Lockie 2002), and, above all, to companies that over-inflate their promises of job creation solely in order to extract a bigger incentive award (Gabe and Kraybill, 2002). Yet innovations in regulating incentive-use open the door for addressing these problems and ensuring more effective outcomes. Weber (2002; 2006) and Zheng and Warner (2011; 2014) have documented the growing use of various regulatory standards that communities leverage to hold firms accountable for their promises. These standards include enforceable contracts that require recipient firms to meet specified performance thresholds in jobs and investment over a stated period of time or else the community will withhold or take back the incentive award. Bartik (2007) has also suggested cost-benefit analyses of prospective deals, coupled with fiscal caps on the total dollars a government can spend on an incentive award, as ways to help practitioners be more discerning about the economic value of potential deals and serve as an important brake on the financial ability of local governments to “give away the farm.”

But the effects of these regulatory standards have not yet undergone systematic quantitative analysis. As a result, little is understood about the effects of these regulatory
standards on deal failure. Perhaps more critically, even less is understood about how various policy factors influence deal failure when a common accountability regulatory regime is present, since data limitations have hindered scholars in accounting for these standards in the past. To address this crucial gap in the literature, this project considers three broad categories of factors that may influence the probability of deal failure and deal success: (1) the overall role of a community’s regulatory framework itself, (2) the type and nature of the deal, and (3) the broader policy environment.

2.1 Measuring Success and Failure

Scholars have developed an array of definitions for the “failure” and “success” of economic development incentives, most of which depend on the level of analysis uses in each study. Greenstone and Morretti (2003) use news reports to claim success occurs when incentives succeed in luring a company from one location to another during inter-regional firm location competitions. Bartik (2005), Buss (2001), and Peters and Fisher (2004), look at whether incentives improve macro-economic outcomes like employment growth or household income within the relevant local jurisdiction as a way to determine whether incentives are successful. Others look to the level of the individual firm to see whether incentives are successful in yielding meaningful benefits—Lester et al (2014) used a quasi-experimental design to show that firms in North Carolina that received incentives created more jobs an investment than that did not receive incentives (a success), while Gabe and Kraybill examined incentivized firms in Ohio to see whether they live up to their promises and found that they did not. Following the general direction of these two latter studies, this paper focuses on the level of the individual deal and defines deal failure simply as when a company receiving an incentive fails to live up its promises of job creation and investment.

In the case of our North Carolina study area, cancellation occurs when the N.C. Department of Commerce terminates an incentive deal due to noncompliance with the performance contract (i.e., when a firm does not create the number of jobs, investment levels, or
wages promised on the timeline specified in the contract) or when a designated recipient fails to formally request the grant after the deal is signed. The latter condition suggests that the award played no meaningful role in inducing firm job creation or investment, and hence can be considered a failure. By extension, deal success occurs when a firm meets its contractual obligations and receives the entire grant.

2.2 Regulatory, deal-level, and policy factors

In terms of the regulatory framework, the crucial question of whether accountability and performance standards really can improve the ability of economic development incentives to deliver on their promises depends on the extent to which these standards can stop firms from overpromising in order to extract bigger incentive packages. We can hypothesize that a successful regulatory framework will force firms to make more realistic promises about the jobs and investment they intend to create precisely because the threat of cancellation removes their motivation to promise more than they intend to deliver. As a result, we can test Hypothesis 1a, that bigger promises of job creation will not increase the likelihood of deal failure. Testing this hypothesis will provide some insight into how successful an incentive regulatory framework can be. If bigger promises increase the likelihood of failure, then perhaps these standards are not working as intended. Hypothesis 1b—we would not expect this relationship to differ substantially in more distressed areas of the state, as firms could no longer rely on fears of non-competitiveness to jack up incentive awards in the areas most in need of jobs, as scholars have long assumed (Gabe and Kraybill, 2002; LeRoy, 1997; Cobb, 1993). Hypotheses 2a and 2b posit that these relationships will be the same as 1a and 1b when examining the effect of promised investment levels on deal failure.

At the deal level, the paper wishes to identify an array of “stress factors” that contribute to deal failure and which policy makers can use to evaluate potential deals. Perhaps most critically, scholars have often touted the advantages of supporting the retention and expansion of a region’s existing firms over recruiting new firms to the region (Eisinger, 1988; Markusen,
The use of incentives to attract new businesses has been often found to exacerbate the footloose behavior of highly mobile firms that go chasing after the next big incentive package, a dynamic with several negative consequences for communities and the success of their incentive projects. First, firms tend to play different possible locations against each other in order to maximize the size of their incentive package, (Lockie, 2002; Markusen, 2007) reinforcing their tendency to over-inflate their promises. Secondly, footloose projects may not contribute much of lasting social benefit to the region (Eisinger, 1988), given they can so easily leave. Finally, scholars have criticized recruitment for exacerbating regional economic vulnerability and dependence on sources of capital external to the region (Glickman and Glasmeier, 1990; Cobb, 1993). In contrast, scholars have argued that supporting existing firms invests in companies that already have a financial stake in the region, and have less motivation to pick up and leave (Eisinger, 1988). As a result, we would expect that: **Hypothesis 3a—**

**incentive deals involving recruitment will increase the likelihood of deal failure at the statewide level,** since recruited firms are more likely to pick up and leave before the terms of the incentive expire. In turn, a reliance on footloose firms tends to generate economic instability and capital flight more broadly—a problem especially acute in many distressed regions, especially in the South (Glickman and Glasmeier, 1990; Cobb, 1993). Moreover, many distressed regions lack the economic and institutional assets that boost business success and can help mobile firms “stick” in otherwise slippery space. As a result, we can test **Hypothesis 3b**

**that recruitment deals in distressed counties will increase the likelihood of deal failure—and do so with a greater magnitude than those at the statewide level.**

At the same time, the reliance on branch plants has long been associated with lack of regional resiliency, vulnerability to global competitive pressures, and increased risk of capital flight (Glickman and Glasmeier, 1990; Markusen, 1996). As a result, we would expect incentive deals awarded to branch plants to share the vulnerabilities associated with these firms and experience higher probabilities of failure. Moreover, many scholars—especially from the endogenous growth tradition (e.g., Tiebout, 1956; Bartik, 2004)—have frequently argued for
supporting locally-owned, “home-grown” businesses as a better strategy for promoting regional
growth than reliance on recruiting branch plants. These firms are believed to be less prone to
footloose behavior and capital flight and more rooted to the labor, capital, and institutional
assets embedded in the community where they are located. From this, we can hypothesize
**(Hypothesis 4a)** that the type of firm receiving an incentive matters—branch plants
will increase the probability of deal failure, while local, independently-owned
firms will reduce the probability of failure. Thanks in part to the historical legacy of
Southern industrialization, many distressed areas, particularly in rural communities, have relied
disproportionately on manufacturing branch plants for their employment base. As a result, we
would expect **Hypothesis 4b**, that these effects would also be present in distressed
communities, but more pronounced than at the statewide level.

If our hypotheses related to regulatory and deal-specific factors are designed to test the
stress factors that contribute to the failure of incentive deals, an emerging “institutional turn” in
the incentives literature has opened a door to exploring policy-level interventions that may make
incentive projects succeed again. Economic development practice is now increasingly recognized
as multi-dimensional, involving a wide range of governmental and quasi-governmental actors
deploying an extensive array of strategies oriented towards improving economic conditions
across different jurisdictional and geographic areas. Recent scholarship has convincingly
painted a picture of an inter-locality competition for private investment, firm location decisions,
and job creation—what Markusen (2007) calls the spatial market for jobs—that is deeply
embedded in an institutional environment that structures both the implementation of practice
itself and the process of bargaining out firm location decisions (Lowe, 2014; Lester et al, 2014;
Lowe and Feldman, 2015). A crucial aspect to this institutional context involves the “common
pool resources” provided by state and local governments to encourage development in specific
industries (Lowe, 2014; Lowe and Feldman, 2014; Lowe and Freyer, 2015). Bundled together
into policy portfolios, these common resources—including workforce development, strategic
planning, research and development, and other policy supports—reduce costs and provide productivity gains that benefit all firms in these specifically supported industries.

A critical example of how strategic planning directly informs practice involves *industry targeting*, defined as focusing economic development efforts in industries that demonstrate high growth potential for the region (Lester et al, 2014), often in conjunction with incentive-backed industrial recruitment and retention strategies (Goetz, Deller, & Harris, 2009). Industry targets are identified using economic and statistical analyses that often take into account the industrial legacies and characteristics of the regional economy (Bartik, 2005), including existing supply chains, labor quality and skill specializations, and in some cases, inventories of the common pool resources and policy institutions supporting that targeted industry (Cox, Alevy, Harris, & Andreozzi, 2009). In turn, the theory of targeting suggests that practitioners take these selected industries and “target” them for recruitment, retention, and a range of other supports, often involving workforce development. Given the success of targeting in achieving positive regional economic outcomes (Goetz, Deller, & Harris, 2009), we can hypothesize that (Hypothesis 5a) that incentive deals in these selected industries will benefit from this application of strategic planning and experience higher rates of success. Hypothesis 5b—this may be especially true of distressed communities, where targeting may offset the negative trends of legacy manufacturing decline.

But targeting is not the only example of policy embeddedness that may influence the success of incentive deals. Developing and aligning the skills of a region’s labor market with the needs of its existing and future industries has long been understood as improving local competitiveness in the global economy and ensuring stronger local economic performance (Osterman and Batt, 1993; Bartik, 2005; Benner, 2003; Lowe, 2007; Harper-Anderson, 2008). Consequently, many scholars have pointed to workforce development as a more progressive (and effective) *alternative* to traditional cash and tax incentives (Bradhsaw and Blakeley, 1999; Bartik, 2005; Clark and Christopherson, 2009; Eisinger, 1988). But the institutional turn makes
clear that many state and local governments don’t pursue these different strategies as alternatives, but rather as compliments. Indeed, the public administration survey literature has repeatedly found that economic development agencies often combine customized job training with more traditional business incentives (Lowe, 2007; ICMA, 2004; Warner and Zheng, 2013). This gives local economic developers a tool for using incentives specifically to create “quality jobs” that require higher skill levels and pay decent wages. But given scholars’ preoccupation with finding alternatives to business incentives, less is understood about the extent to which firm-specific, customized job training can improve traditional incentives. To address this gap, we lastly test Hypothesis 6a—customized job training incentives will have a positive effect on deal success at the state level, given its positive association with local economic outcomes. And since low-wealth areas are often the most in need of improved human capital development, we would expect (Hypothesis 6b) that customized job training incentives in distressed areas would have an even greater effect on deal success than they do at the state level.

3. Policy Context

3.1 Overview of North Carolina’s Incentives Programs

In the 20 years since North Carolina began using these incentives in hopes of promoting economic development, the state has consistently been recognized for following some of the best practices for ensuring that incentive programs deliver on their goals (Pew, 2012). In particular, North Carolina’s strong accountability and performance measures—the rules that require companies receiving taxpayer-funded incentives to actually live up to their promises of job creation or have their incentive grants taken away—are credited with ensuring more cost-effective returns on investment than many other states. At the heart of the state’s accountability framework are two core statutory requirements—first, that all prospective incentive deals must meet a certain minimum threshold of return according to a cost-benefit analysis run by staff in the N.C. Department of Commerce; and second, that all incentive deals must involve a written
contract with the recipient firm that specifies job creation and investment targets that the firm must meet, or lose the incentive grant offered by the state. The amount of time recipient firms have to hit these job creation benchmarks depends on the specific incentive program, but if they fail to meet these benchmarks, the deal is cancelled, future allotments under the grant are terminated and previous allotments are recovered (a clawback policy). Lastly, statute limits the total cost of each incentive deal by creating an overall cap on the total new fiscal liability the state can assume for all incentive projects each year (Freyer, 2014). Taken together, these accountability measures have ensured that the state’s incentive programs have demonstrated positive effects on employment growth often absent in other states (Lester et al, 2014; Jolley, Lane, 2008).

Despite these progressive accountability requirements, however, recent policy analysis has found that the economic impact modeling requirements and investment totals required by statute have paradoxically contributed to less equitable geographic distribution of the state’s incentive dollars (Freyer, 2014). Since 2007, North Carolina’s least distressed and largely urban counties have received more than three out of every four incentive dollars awarded by these programs and more than half of the total number of jobs promised from them. In effect, the state’s incentive programs have bypassed much of the state’s rural and most distressed regions, despite deliberate efforts to steer dollars to more distressed counties.

In terms of program specifics, a state constitutional prohibition on income and property tax abatements—the traditional way of providing incentives throughout much of the United States—has led to the creation of three discretionary grant programs that offer cash incentives to recipient companies. These programs include:

1. Jobs Maintenance and Capital Fund (JMAC), created in 2007 to encourage retention of at least 2,000 high-paying, high-quality jobs and large-scale capital investment in Tier 1 counties;
2. Job Development Investment Grant (JDIG), created in 2002 to provide grants to capital-intensive new and expanding businesses for periods up to 12 years, including a three-to-five-year
“base period” during which the company may fail to hit job creation targets without cancellation; and (3) the One North Carolina Fund, created in 1993 to provide a matching grant to county governments over a usually-three-year grant period. The goal of the matching program is to help level the incentive playing field for distressed counties by providing local governments with more resources than they would otherwise have for economic development projects. If companies fail to hit their job creation benchmarks during the grant period, the state withholds the funds and cancels the grant.

3.2 Targeting, Mediation, and Other Policy Supports in North Carolina

Previous research has described the industry targeting efforts in North Carolina (Lester et al, 2014; Goldstein et al, 2008). In the early 2000s, the General Assembly mandated that each of the state’s seven economic development regions—the multi-county planning organizations designated by statute to help coordinate economic development activities across different regions of the state—conduct cluster identification and strategic targeting planning process to develop a core set of industry targets appropriate for recruiting, retaining, and supporting in that region. Although the regional partnerships rarely played a serious role in recruitment and retention over the next decade (much to future legislature’s dismay), the targets identified by their strategic plans were incorporated into the Department of Commerce’s approach to firm prospect selection and incentive awarding process, as revealed in JDIG annual reports and interviews.

Beyond targeting, the state provides a range of common pool policy supports for firms, which represent long-term institutional commitments by state government. Lowe (2014) and Lester et al (2014) identified two of these mediated industries—Biotechnology and Textiles, while Freyer (2016) included Aerospace, Automotive, and various industries comprising the state’s military and defense complex in this category. Taken together, these supports often include strategic planning, research and development, workforce training, and technical assistance on business operations. While the state certainly provides some of these supports to
individual firms on an individual or a la carte basis—especially through the dozens of specialized
research centers at the state’s university system—the special characteristic of the mediated
approach is that it bundles together these policy supports specifically to strategically advance an
entire industry or sector. An important aspect of these common pool supports involves the
customized workforce development and job training services provided to firms through the
Customized Job Training Program (CTP). Administered by the N.C. Community College system,
the program provides customized workforce training services, including specialized curricula,
employee screening, and on-the-job training through local community college campuses to firms
given CTP awards. For example, the aviation firm TIMCO (now HAECO) received a customized
training award that allowed Guilford Technical Community College to develop a specialized
curriculum for the company around airframe and power plant repair and precision
manufacturing. This customized training effort proved so successful that it served as the basis
for five full credential programs in the aerospace industry.

4. Research Design & Method

The goal of this project is to understand the various factors that contribute to the failure
of incentive programs in achieving their goals of job creation and investment. To that end, the
study relies on logistic regression analysis and qualitative research to properly configure these
models.

4.1 Data Collection

The primary data source for the quantitative portion of this analysis is a unique dataset
of 487 discretionary incentive deals awarded by the N.C. Department of Commerce during the
study period, 2002-2013. These deals form the observations for this study. This dataset has
been assembled from several different sources—a media study conducted by the Kenan Institute
of all incentive deals from 1996 to 2008 (Jolley, 2008; Lester et al, 2014); N.C. Department of
Commerce annual reports on each program; a unique dataset provided by the General Assembly
Fiscal Research Division of all incentive deals from 2007 to 2013; NC Community College System reports on the state’s job training programs; and an additional media survey conducted to obtain variables not included in the previous sources. Using these sources, this newly constructed dataset includes information about each incentive deal, the firm which received the award, and the industry to which the incentivized firm belongs. Each deal has been assigned a 6-digit NAICS code, either by the Department of Commerce or by this study using the media analysis. Publicly available data from the U.S. Bureau of Labor Statistics, the Bureau of Economic Analysis, and the NC Office of State Management and Budget provide additional information about the geography where the deal is located and economic conditions during the life of the deal. Semi-structured interviews with key policy makers in the Department of Commerce and the Fiscal Research Division of the General Assembly provided key guidance on the incentive accountability regulatory framework and how this related to deal cancellation.

4.2 Variables

Given the paper’s focus on deal failure, the key dependent variable is (1) the dichotomous variable \( Cancelled \) (\( Cancelled = 1 \), if a deal has been terminated for non-performance by the Department of Commerce before the end of the study period). To understand the regulatory, deal-level, and broader policy factors that influence deal failure, the paper relies on multiple models (detailed below)—each will have a different explanatory variable and a variety of controls (see Table 1 for a summary of the variables and their data sources. The key variables of interest in exploring the regulatory hypotheses are \( Promised \text{ Investment} \), measured by the natural log of a deal’s total promised investment (in constant dollars) and \( Promised \text{ Jobs} \), measured by the natural log of the number of jobs each deal is promising to create. These variables allow us to assess whether firms do in fact inflate these promises beyond their ability to fulfill them, as suggested by Gabe and Kraybill (2002). By this logic, greater promised investment levels would be associated with a higher likelihood of failure. Additionally, Promised Investment also provides a pre-test of sorts for our policy models, if we consider the variable as a proxy for firm
size, which has been found to influence employment growth and firm survival (Evans, 1987). By this logic, firms with larger capital pools will promise larger investment levels when performance standards are present. Moreover, new firms recruited to the study area have no pre-existing size and it may take several years for firms to ramp up to “full” size in terms of investment and jobs.

At the deal level, key variables of interest include the following. Recruitment is a dichotomous variable that measures whether the project is a new business attracted to the state; its inverse measures retention, whether the project is an existing firm already located in North Carolina looking to stay or to expand operations in the state. FirmType is a categorical variable coded 1 if the firm is a corporate Head Quarters, 2 if the firm is a Branch plant owned by an out-of-state corporation, and 3 if the firm is an independently owned, indigenous firm located within the study area.

At the policy level, there are two key explanatory variables that reflect different ways the state provides economic development assistance to firms and which may influence deal failure. This includes Targeted, a dichotomous variable coded 1 if the firm is in an industry is identified and selected as a target for recruitment/retention in a particular region’s strategic plan according to its 6-digit NAICS code; and (8) CTP is a dichotomous variable coded 1 if the firm also received a Customized Training Program award alongside its existing incentives. As policy intervention structured at the firm level, the variable overlaps with the industry-level interventions in Targeting, allowing us to see how CTP performs in industries where targeting exists and where it doesn’t.

Given that deal failure doesn’t occur in a vacuum, this paper also uses a number of control variables to help isolate our policy effects of interest. Capital intensiveness is a continuous variable that measures the ratio of promised investment to promised jobs, such that a higher number means more capital intensive and lower number means more labor intensive.
We would expect deals with more labor intensive firms to experience higher rates of failure, given the negative long-term effects technology has had on labor-intensive manufacturing during the study period. *Percent Industry Change* is a continuous variable that measures the percentage change in the national employment of the industry to which the recipient firm belongs over the life of the deal. Previous research has shown that incentive deals in declining industries are less likely to create the promised levels of job growth (Gabe and Kraybill, 2002), and are thus more likely to fail. As a result, this variable is intended to control for the variation in deal failure that is due to industry growth or decline. Given that changes in the macroeconomy are also likely to influence industry and firm performance, *Macroeconomic change* is included as a continuous variable that measures the percent change in North Carolina’s (inflation adjusted) Gross Domestic Product over the life of the deal. Additionally, *Mediated Industry* is a dichotomous variable that captures whether the state has singled out these industries for comprehensive sector-wide development. Observations were coded 1 if the firm is in an industry that Lester et al (2014) and subsequent interviews revealed to receive coordinated, multi-strategy support by state government, including a strategic plan, and state-funded investments focused specifically on that industry. This variable is non-overlapping with Targeted, but it does overlap with Customized Training. It is included in order to account for the variation in deal failure arising from sector-specific investments in workforce development. This should isolate the effects of CTP, which provides similar services on a firm-by-firm basis, in contrast to investments in training resources that benefit the entire sector.

Aside from industry and firm effects, deal failure may also be influenced by local-level economic trends and variations in local infrastructure and economic development institutional capacity in the regions in which firms are located. As a result, the study includes *Region*, a categorical variable coded 1-7 for each of the state’s seven economic development regions and *Rural Deal*, a dichotomous variable noting if the county is rural (1) or urban (0) according to the NC Office of State Budget and Management. To capture the likelihood that greater levels of
economic distress are correlated with deal failure, the variable DistressedCounty is also included, a dichotomous measure that captures whether a county’s unemployment rate is above the mean distance from the state’s unemployment rate in the year the incentive was awarded. Lastly, two additional variables were used for auxiliary analysis, the Final Incentive Award, measured by the natural log of the total incentive award granted to a firm in constant dollars, and Small Awards, a dummy variable coded 1 for every deal with a Final Incentive Award less than or equal to $100,000.

4.3 Methodology

Analytically, this paper is primarily concerned with the effects regulatory, deal-level, and policy-level factors have on the odds of deal failure, and the extent to which these effects vary in distressed counties. As a result, the analysis begins with a descriptive statistics analysis, followed by 12 logistic regression models, one set of which (a) focuses on the entire state and a second set (b) that explore these same effects in distressed counties. Table 2 provides a summary of these models. Each model includes the same basic control variables—Capital Intensiveness, Capital Intensiveness, Percent Industry Change, Macroeconomic Change, Rural Deal, Distressed County, Mediated Industry. They also include a fixed effect (w) for the state’s seven economic development regions to control for local economic trends, infrastructure, and policy decisions that may also influence whether a deal succeeds or fails in that region. The regional fixed effect also serves to isolate the state effects we’re most interested in from confounds arising from purely local policy decisions.

In addition, to understand the drivers of deal failure in economically struggling regions, the models in set (b) use only those 232 observations occurring in the sample frame of distressed county (e.g., those deals where Distressed County is coded 1). The goal is to understand the key effects of regulatory, deal-level, and policy-level factors on the odds of failure under the special circumstances of economic distress.
For both statewide and distressed areas, each consecutive model adds an additional explanatory variable, so that the final model includes all of the variables examined in the previous models (with one exception—Promised Jobs, which is replaced in the model set-up by Promised Investment beginning in Model 2). The equation is:

\[
Pr(Deal\ Failure = 1) = \beta_0 + \beta_1 \text{ExplanatoryVariable}_t + \beta_2 \text{FirmType}_t + \beta_3 \text{Capital\ Intensiveness}_t \\
+ \beta_4 \% Industry\ change_{t-tn} + \beta_5 \text{Macroecon\ change}_{t-tn} + \beta_6 \text{RuralDeal} \\
+ \beta_7 \text{DistressedCounty} + \beta_8 \text{Mediation} + \omega_i + \epsilon
\]

Where \( t \) equals the year the incentive was awarded, \( tn \) represents the year the deal ended, either through completion of the grant period or cancellation due to failure, and \( \omega \) represents the regional fixed effect. Results are reported in odds-ratios.

As with any study, there are several potential threats to validity, which have been addressed in the following ways. First, the study addresses a modest hierarchical problem in these models—some between-group variation at the industry level may explain deal-level variation in the outcome variable—by clustering the standard errors at the 6-digit NAICS level, giving us results that should be robust to these concerns. Secondly, cross-sectional models by definition lack a time element that can both introduce uncertainty about whether cause precedes effect and ignore confounds related to associated trends. To address this issue, the models incorporate the time element in two ways: (a) the outcome variable—the decision to cancel a deal for nonperformance—clearly occurs after the original decision to grant the incentive, which itself is made with the full knowledge of the type of firm involved, its size, and the industry to which it belongs, so there can be no temporal confusion over whether decentralization can act upon deal failure in a causal manner; (b) the control variables Percent Industry Change and Macroeconomic Change measure change in these conditions over the life of the deal, allowing an
adequate control for the ways these crucial economic trends will influence the likelihood of deal failure.

Turning to model specification, Table 2 summarizes the variables included in each model. Models 1-2 test our first two hypotheses—a strong, common accountability and performance regime discourages companies from over-promising on their proposed investment and job creation levels, and as a result, higher levels of promised jobs and promised investment will have no significant impact likelihood of deal failure. In an ideal world, we could test the effects of the state’s regulatory regime by comparing the jobs/investment promised to the jobs/investment created for those deals that are covered by performance standards and those that are not. However, data limitations made this impossible—all of North Carolina’s discretionary incentive programs require performance standards and finding comparable deal-level data from other states with no such standards proved impractical. So while we can’t test the effectiveness of these regulatory standards directly, we can test whether Gabe and Kraybill’s core assumption—that firms promise more jobs and investment than they intend on delivering to extract higher incentive packages—holds up when these performance standards are present. If their assumption is correct (and our first two hypotheses are wrong), then we would expect higher promises of jobs and investment to be associated with a higher probability of deal failure. But if our hypotheses are correct, and higher promises are not associated with greater deal failure, then the lack of association casts serious doubt on the notion that firms will overpromise in the context of a strong accountability regime. Given this context, Models 1a and 1b regress the Deal Failure on the Promised Jobs variable, alongside the control variables. Models 2a and 2b are identical, except that Promised Jobs is replaced with Promised Investment as a robustness check.

In contrast to Models 1 and 2, which tested specific assumptions about the role of the state’s regulatory regime, Models 3 and 4 seek to understand the ways the specific configuration of each deal (e.g., deal-level factors) contribute to deal failure. Policy makers obviously have
discretion over the shape and characteristics of each deal—whether the recipient is a new firm they want to recruit to the region (in contrast to an existing firm they wish to retain), or whether the firm is corporate headquarters, a branch plant, or a locally-owned company. These deal-level models seek to test the hypotheses that some characteristics are more problematic than others in terms of contributing to deal failure. The set-up is largely the same as that used in Models 1-2, except that they retain Promised Investment instead of Promised Jobs, since the former is significant, along with the controls. Models 3a and 3b test the hypothesis that recruitment deals are more likely to fail by including the Recruitment variable. Similarly, Models 4a and 4b keep Recruitment and add FirmType, to test the hypothesis that Branch plants are more likely to contribute to deal failure.

If the regulatory and deal-level models are geared towards understanding why incentive deals fail, the policy models (Models 5 and 6) are focused on identifying those policy interventions that reverse these failures and make incentives work again. These models seek to test the extent to which industry targeting reduces the odds of deal failure (Hypothesis 5) and the extent to which customized job training will do the same (Hypothesis 6), especially in the context of industry targeting. In Models 5a and 5b, the key explanatory variable is Targeted Industry, which is included along with the control and explanatory variables from the previous models. For Models 6a and 6b, the final variable, Customized Training Program (CTP) is added to the model to understand how the effects of this firm-level intervention play out in the context of industry-level targeting.

Along with estimating the odds-ratios for these policy models, post-estimation marginal effects analysis is used to develop point estimates for evaluating the effects of our policy variables given certain important conditions. An attractive feature of logit is the ability to choose the value of a given predictor at which effects can be estimated. In this case, the marginal effects analysis examines the effects of CTP on the probability of deal failure, with Mediated Industry set to 1 and all other controls set to their means. This allows us to evaluate variations in deal
failure when these “mediated” sector supports are not present. This has the advantage of addressing confounding explanations related to sector specific supports that could affect the accuracy of the coefficient estimates for the policy variables. The change in the probability of deal failure is then estimated with Targeted set to 0 and then again with Targeted set to 1—this provides a clear look at the effectiveness of CTP when combined with incentives given to firms in both targeted and non-targeted industries.

5. Results

5.1 Descriptive Statistics

Several patterns emerge from the descriptive statistics presented in Table 3. First, the sample is well-balanced between distressed counties (232 deals) and the state as a whole (487 deals). Secondly, the deal failure rate is higher in Distressed Counties (62%) than in the state as a whole (57%), which makes sense given that distressed counties lack many of the economic and institutional assets that can support firms in their efforts to meet their investment and job creation promises. More surprising is the fact that this trend holds true across every variable of interest and every economic development region except one (Charlotte). This reinforces our expectation that incentives in distressed areas face stiffer headwinds in achieving success. Thirdly, those deals with above-average Promised Investment actually have a lower-than-average failure rate in both distressed counties and across the state as a whole. This provides at least initial evidence supporting the hypothesized claim that firms are less likely to over-promise and under-deliver when strong performance and accountability regulatory standards are in place.

Next, while the failure rate for recruitment deals is higher than average in both distressed counties and the statewide level, the failure rate for branch plants is surprisingly lower than average. This presents somewhat contradictory initial implications for our hypotheses related to these two deal-level factors. Lastly, it is worth noting that the policy
interventions of interest—industry targeting and firm-specific customized job training awards—both seem to result in strikingly lower failure rates in both geographies: deals in targeted industries failed 47% of the time at the statewide level and only 52% of the time in distressed counties, while deals involving CTP awards experienced a 48% failure rate across the entire state and a 52% failure rate in distressed counties. This provides some initial evidence that both of these policy interventions can play an important role in reducing the likelihood of deal failure.

5.2 Analysis

Model results are presented in Tables 4-6. Starting with the regulatory models (Table 4), these results show solid evidence supporting the hypotheses that greater promises of jobs and investment are not associated with a greater likelihood of deal failure. In Models 1a and 1b, Promised Jobs has no meaningful effect on deal failure at either the statewide or distressed county level, suggesting that the incentive to overpromise and under-deliver has been reduced in North Carolina. In both cases, the control variables industry change, macroeconomic change, and industry mediation all have negative and highly significant effects on the odds of deal failure. Rural Deal also has significant and negative effect (at the 0.1 level) on deal failure at both the statewide and distressed county levels. Additionally, the capital intensiveness of the firm and the relative economic distress of the county in which the deal is located, and whether the deal occurred in a rural county all appear to have little effect on whether or not a deal is cancelled.

Next, the results of Models 2a and 2b reinforce those of 1a and 1b and affirm our second set of hypotheses—that larger promises of investment will not generate higher failure rates. At the statewide level (Model 2a), the key explanatory variable Promised Investment decreased the odds of deal failure in a statistically significant (at the 0.1 level) way. The reported odds-ratio is 0.872, which means that every 10% increase in promised investment yields a 13% decrease in the odds of the deal failing to hit its target. The controls perform similarly to those in Model 1a—Industry change, macroeconomic change, and industry mediation are significant, and capital
intensiveness and economic distress are not. The one difference is Rural Deal, which is not significant.

While it is unsurprising that deals are more likely to fail in declining industries or during downturns in the macro-economy, the negative association between Promised Investment and deal failure is somewhat more interesting. It suggests that a strong performance regime linking together cost-benefit analyses of prospective deals (to weed out firms likely to underperform) with contractual enforcement requirements (to hold firms accountable for their promises) not only improves deal performance outcomes (as Weber, 2006 and Markusen, 2007 would predict), but likely does so in part by reducing the incentive for firms to over-promise in the hope of receiving bigger awards (in contrast to Gabe and Kraybill’s findings). In other words, this accountability regime may not just improve deal performance by holding firms to their promises, but also by pushing the scale of these promises in a more realistic direction—a direction making the deal more likely to succeed than fail.

Given that we can also consider Promised Investment as a proxy for firm size, these results also imply that incentivizing larger firms will be more successful in avoiding deal failure than incentivizing smaller firms, a counterintuitive twist to the long-running scholarly emphasis on prioritizing small-firm development over large-firm development. Additional auxiliary analysis supported this surprising finding when we modeled the effect of total incentive awards on deal failure without Promised Investment in the model. In a first auxiliary model, Final Incentive Award (the total incentive value awarded to the firm) had a negative and statistically significant effect on deal failure, while in a second auxiliary model, Small Award (ie, those deals that awarded less than $100,000) had a positive and statistically significant effect. Promised Investment is highly correlated with both of these variables, since the N.C. Department of Commerce bases its incentive value calculation on proposed firm investment levels, adding greater validity to the finding. This reinforces the unexpected notion that deals involving smaller firms (which as a result receive smaller incentive awards) are more likely to fail at the statewide
level. In terms of policy, this is not to say that states should avoid supporting smaller businesses, but rather that incentives may not be the best way to promote sustainable growth for smaller businesses.

Turning to deals in distressed counties (Model 2b), the results differ from the statewide model in two important ways—Promised Investment and Macroeconomic change are no longer significant in the distressed counties sample frame. First, the latter result suggests that overall economic headwinds are less important to the success of incentive deals than the economic conditions of the county in which the deal is located, since in distressed counties, incentives granted during tough times in the macroeconomy are no more likely to fail than those offered in better times. In turn, this implies that policy makers would do well to invest in place-specific strategies designed to bring down levels of economic distress in these counties, rather than focus solely on statewide economic growth. Secondly, the former finding—that Promised Investment is no longer significant—is likely a consequence of the state’s pattern of firm location decisions. Firms with larger levels of promised investment are typically in skill-intensive industries like financial services that have tended to concentrate in the state’s populous metro areas—especially in the booming Research Triangle and Charlotte-Mecklenburg regions. As a result, there are just not that many large-investment deals in the more distressed areas of the state, a finding that echoes Freyer’s (2014) assessment of the geographic pattern of the state’s incentive-granting approach.

Moving onto the deal-level analysis (Models 3-4), the results provide surprising evidence suggesting that the type of deal and the type of firm involved in the deal matter very little in terms of contributing to deal failure. As seen in Table 5, deals involving recruitment and branch plants do not increase the odds of failure in a statistically significant way at either the statewide level or in distressed counties. Additionally, whether the firm is locally owned is also non-significant. In all four models, the control variables reinforce the previous models’ findings on distressed areas. Promised investment, industry change, and industry mediation remain
significant across both statewide and distressed counties (except in 3b). But in the distressed communities models (3b and 4b), macroeconomic change is no longer significant at any level.

Taken together, the lack of significance among recruitment and firm type suggests that Hypotheses 3 and 4 are incorrect—branch plants and recruitment deals do not contribute to deal failure when strong regulatory standards are present. An auxiliary analysis looking at the interaction between recruitment and firm type reinforce these conclusions, as both the main effects and interaction term proved statistically insignificant. And since retention deals—those involving existing firms seeking incentives to stay and expand operations within North Carolina—are the inverse of the dichotomous recruitment variable, the lack of significance on recruitment suggests that retention deals are no more likely than recruitment to increase deal failure. These results are somewhat surprising, given the long-running criticisms of recruiting branch plants as simply playing into the hands of footloose firms who will pick up and leave when the next great incentive package comes along somewhere else. Similarly, the reliance on branch plants has long been associated with lack of regional resiliency and vulnerability to global competitive pressures. In contrast, these findings suggest that recruitment deals and branch plants are no more statistically likely to fail than retention deals, or deals involving locally-owned companies once we take into account macroeconomic and industry changes.

At the policy level, the results displayed in Table 6 provide an interesting insight into the role of broader policy interventions in making incentive deals more successful and the extent to which they do so differently in distressed counties than they do across the state as a whole. As hypothesized, the results for Models 5a and 5b reveal that selecting firms in targeted industries has a negative and highly significant effect on deal failure, with odds-ratios of 0.23 and 0.26 respectively. This means that offering an incentive award to a firm in a targeted industry will make failure 77 percent less likely at the statewide level and 74 percent less likely in distressed counties—good news for policy makers interested in a meaningful lever to improve incentive outcomes. This provides solid evidence supporting Hypothesis 5 and extending Lester et al’s
(2014) findings on industry targeting to distressed counties. But at the same time, in distressed counties, the odds-ratio for industry change remains significant while the coefficient for macroeconomic change is not. This reinforces the implications of Models 1-2 and suggests that in distressed counties a firm’s industry is more important to the likelihood of deal failure than overall economic conditions, once targeting is taken into account. In effect, this means that industry targeting could serve as an antidote to the negative economic pressures associated with a declining macroeconomy. Similarly, although significant in the statewide sample, the effects for promised investment—in its role as proxy for a firm size—are also no longer significant in distressed counties, lending more evidence to the idea that the size of firm is less important for warding off deal failure than the industry to which the firm belongs.

Turning to Models 6a and 6b, industry targeting remains highly significant in both geographies (with odds-ratios of 0.237 and 0.269 respectively), while Customized Training Program (CTP) awards proved an effective strategy for making incentives work again (see Table 6). As seen in the results for Model 6a, those statewide deals that involved Customized Training Program awards saw the odds of deal failure drop by a statistically significant level. Given an odds-ratio of 0.655 (significant at the 0.1 level), deals also receiving these training awards were 44 percent less likely to fail than those that did not at the statewide level. Control variable coefficients for this model were almost identical to those in Model 5a, with the exception that Promised Investment is no longer significant. This suggests that the training associated with using capital investment most productively may be more important for incentive performance than the absolute size of the capital investment. In the distressed counties presented in Model 6b, CTP remains significant (in fact, it is now significant at the 0.05 level), but the estimate of the effect is even greater than in the statewide sample frame. With an odds-ratio of 0.477, CTP can be said to reduce the odds of deal failure by more than half (52 percent), compared to those deals that did not receive this training award. This implies in turn that
training programs are especially useful in reversing the skill shortages that typically hamper
development in distressed areas.

Model 6 also demonstrates how training and targeting can work together to improve
incentive deal performance. Marginal effects analysis revealed a statistically significant (at the
0.1 level) 0.07 drop in the probability of deal failure for deals involving CTP in non-targeted
industries (change in probability = 0.07, standard error = 0.04, Z-score = 1.67) and a similarly
significant drop of 0.09 for targeted industries (change in probability = 0.09, standard error =
0.06, Z-score = 1.69). This suggests that firm-specific customized training can play a positive
role in making incentives more effective, regardless of the industry to which the firm belongs.
These results are even more pronounced in the distressed counties, where the change in the
probability of deal associated with CTP becomes significant at the 0.05 level in both targeted
and non-targeted industries. Moreover, the magnitude of the effect also increases—CTP reduces
the probability of deal failure by 0.13 in non-targeted industries (standard error = 0.06, z-score
= -2.08) and 0.15 in targeted industries (standard error = 0.07, z-score = -2.21).

Taken together, this provides solid evidence supporting both Hypothesis 6a and 6b and
suggests that industry targeting and firm-level job training interventions can work together to
improve the effectiveness of incentive outcomes—especially in economically struggling areas.
This is more good news for policy makers looking for policy interventions that are within their
control and that can be used to improve the effectiveness.

Finally, these final two inclusive models reinforce the findings of the previous models.
While larger promises of investment, recruitment deals, and branch plants are not associated
with more failure, industry targeting and customized training improve their success—especially
in struggling communities.
6. Conclusion

Using a unique dataset of incentive deals in North Carolina and a mixed method approach for analyzing them, this paper has sought to understand specific factors that explain why economic development incentive deals fail and how to make them succeed again. Recognizing that incentives, like all economic development strategies, are embedded in a broader policy environment, this paper specifically examined a range of regulatory, deal-level, and policy-level factors and sought to understand their impact on the probability of incentive deal failure, both at the statewide level and with special attention to their effects in rural counties. Central to this study has been the role of the state’s robust incentive regulatory standards that hold incentivized firms to their promises.

From this analysis, we can draw a number of conclusions about the effects of these factors on deal failure and their implications for inter-regional equity between the statewide level and distressed counties. Perhaps most importantly, the results reinforce the central assumption of this paper—that a strong accountability and performance regime linking together cost-benefit analyses of prospective deals with contractual enforcement requirements improves deal performance by reducing the incentive for firms to overpromise and under-deliver on job creation and investment just to extract bigger incentive awards. Model results demonstrated no significant association between promised jobs and deal failure, while larger levels of promised investment were actually associated with lower odds of deal failure, rather than the higher levels we would ordinarily expect in a world where tough accountability standards did not exist. Additionally, these findings are reinforced by the surprising result that recruitment deals and branch plants are no more likely to succeed or fail than deals involving the retention/expansion of existing firms or locally-owned firms, once we take into account for macroeconomic and industry changes. This suggests that the state’s statutorily cost-benefit/economic impact modeling is largely getting it right in assessing the firm-level strengths, weaknesses, and likely behavior of prospective incentive recipients, such that the specific branch plants selected or the
specifics firms chosen for recruitment are no more vulnerable to failure than other types of firms. As a result, these findings restore some much-needed agency to local economic developers who no longer need to find themselves trapped in a world of mobile capital without recourse.

This could prove especially relevant to practitioners focusing on distressed counties, as these findings suggest that as along as appropriate accountability standards are in place, economic development incentives could play a counter-intuitive role in reducing what Markusen calls the “slipperiness” of local economies structured around branch plants owned by out-of-state companies Markusen (1996). As a result, well-regulated incentives could be useful in countering the lack of resilience so often found in the American Southeast, where branch plant-dependent economies are most often economically distressed after two decades of offshoring (Glickman and Glasmeier, 1990).

Given that data limitations constrained the analysis from testing these standards directly, we should interpret these results with caution—yet it is clear that incentivized firms in North Carolina are not over-promising. From this, we can extrapolate that these regulatory standards don’t just improve deal performance by holding firms to their promises, but also by pushing the scale of these promises in a more realistic direction—a direction making the deal more likely to succeed than fail. This finding gave us greater causal leverage over the question of other factors that may contribute to deal failure and gives us more certainty in the results of testing those factors. As a result, policy makers should continue to adopt these types of standards where necessary and refrain from weakening them where they already exist. Ultimately, additional research will be needed to confirm these findings, perhaps by testing the effect of different regulatory and accountability standards on outcomes like deal failure and firm-level job creation across different states.
It is also clear from our results that policy interventions make a difference in making incentive deals work again, especially the policy interventions that focus on the industry level. In the context of a strong performance and accountability regime, results show that industry targeting provides a meaningful path for states to improve their incentive deal effectiveness and avoid costly deal failure at both a statewide level and in distressed areas. At the same time, firm-specific customized job training demonstrated success in reducing the likelihood of deal failure—it proved statistically significant at the statewide level and in distressed counties. The latter finding in particular suggests that this kind of case-by-case, firm-by-firm approach to job training can contribute to overcoming the headwinds of local economic conditions and long-term manufacturing decline so dominant in distressed counties, especially in conjunction with industry targeting. Fortunately, industry clusters often include firms in distressed counties, and the workforce institutions supporting those clusters are often spatially diffused, so there is no reason why state industry supports should bypass distressed regions. Further research is needed on this point, especially focusing on whether firm-specific job training spills over into the broader labor market in relevant industries, which long-established theories of cluster-based agglomeration economies would expect.
ENDNOTES

1 North Carolina also has two funds devoted to industrial infrastructure development that this paper does not include since they are not subject to the same accountability regime as the discretionary programs.

2 There may be local supports involved as well, but since this paper is primarily concerned with state-level policy coordination, local mediation efforts are simply held constant in our analysis.

3 The study excludes all so-called entitlement incentives, like tax credits and empowerment zones, for which all firms suitably qualified are eligible. In order to isolate the specific effects of industry-wide workforce development from firm-specific customized training, it also excludes all deals that received a customized training program award from the NC Community College System.

4 Additionally, we included only those JDIG deals with base periods that ended by 2013, or that were cancelled before 2013.

5 Some projects involve multi-county expansions outside the original county location—these deals are coded as Retentions/Expansions since they are not new to the state.
# TABLES

## Table 1. Summary of variables used

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Type</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancelled</td>
<td>1 = Deal cancelled for nonperformance; 0 = otherwise</td>
<td>Dichotomous</td>
<td>NC Department of Commerce</td>
</tr>
<tr>
<td>Customized Training</td>
<td>1 = Deal included Customized Training award from NC Community Colleges; 0 = otherwise</td>
<td>Dichotomous</td>
<td>NC Community College System</td>
</tr>
<tr>
<td>Targeted Industry</td>
<td>1 = Deal occurred in industry selected for targeting; 0 = otherwise</td>
<td>Dichotomous</td>
<td>Regional economic development plans</td>
</tr>
<tr>
<td>FirmType</td>
<td>1 = Branch Plant, 2 = Head Quarters, 3 = Locally-owned</td>
<td>Categorical</td>
<td>NC Department of Commerce, media reports</td>
</tr>
<tr>
<td>Recruitment</td>
<td>1 = Deal involved attraction of new company to the state; 0 if involved existing firm</td>
<td>Categorical</td>
<td>NC Department of Commerce, media reports</td>
</tr>
<tr>
<td>Promised Investment</td>
<td>Amount of new investment promised by deal</td>
<td>Continuous</td>
<td>NC Department of Commerce</td>
</tr>
<tr>
<td>Capital Intensiveness</td>
<td>Ratio of promised investment to promised jobs</td>
<td>Continuous</td>
<td>NC Department of Commerce</td>
</tr>
<tr>
<td>Industry Change</td>
<td>Percent change in national industry employment over life of deal, by 4-digit NAICS</td>
<td>Continuous</td>
<td>US Bureau of Labor Statistics</td>
</tr>
<tr>
<td>NC GDP Change</td>
<td>Percent change in North Carolina’s GDP over life of deal</td>
<td>Continuous</td>
<td>US Bureau of Economic Analysis</td>
</tr>
<tr>
<td>Rural Deal</td>
<td>1 = Deal occurred in rural county; 0 = otherwise</td>
<td>Dichotomous</td>
<td>NC Office of State Budget &amp; Management</td>
</tr>
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<td>Distressed County</td>
<td>1 = Deal occurred in county with unemployment rate above state average; 0 = otherwise</td>
<td>Dichotomous</td>
<td>US Bureau of Labor Statistics</td>
</tr>
<tr>
<td>Mediated</td>
<td>1 = Deal occurred in industry with sector-based mediation; 0 = otherwise</td>
<td>Dichotomous</td>
<td>Lester et al (2014), NC Military Foundation (2005)</td>
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<tr>
<td>Region</td>
<td>Deal occurred in one of 7 state designated Economic Development Regions</td>
<td>Categorical</td>
<td>Regional economic development plans</td>
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## Table 2. Summary of models

<table>
<thead>
<tr>
<th>Model</th>
<th>Geography</th>
<th>Model</th>
<th>Geography*</th>
<th>Explanatory Variables</th>
<th>Dependent Variable</th>
<th>Level</th>
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<td>1a</td>
<td>Statewide</td>
<td>1b</td>
<td>Distressed Counties</td>
<td>Promised Jobs + Controls</td>
<td>Failed</td>
<td>Regulator</td>
</tr>
<tr>
<td>2a</td>
<td>Statewide</td>
<td>2b</td>
<td>Distressed Counties</td>
<td>Promised Promised Investment + Controls</td>
<td>Failed</td>
<td>Regulator</td>
</tr>
<tr>
<td>3a</td>
<td>All Deals</td>
<td>3b</td>
<td>Distressed Counties</td>
<td>Recruitment + Promised Investment + Controls</td>
<td>Failed</td>
<td>Deal</td>
</tr>
<tr>
<td>4a</td>
<td>All Deals</td>
<td>4b</td>
<td>Distressed Counties</td>
<td>FirmType + Recruitment + Promised Investment + Controls</td>
<td>Failed</td>
<td>Deal</td>
</tr>
<tr>
<td>5a</td>
<td>All Deals</td>
<td>5b</td>
<td>Distressed Counties</td>
<td>Target Industries + FirmType + Recruitment + Promised Investment + Controls</td>
<td>Failed</td>
<td>Policy</td>
</tr>
<tr>
<td>6a</td>
<td>All Deals</td>
<td>6b</td>
<td>Distressed Counties</td>
<td>Customized Job Training + Targeted + FirmType + Recruitment + Promised Investment + Controls</td>
<td>Failed</td>
<td>Policy</td>
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</table>

* These models include only those observations that are coded 1 for Distressed Areas.
### Table 3. Descriptive statistics

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<tr>
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<th>Statewide</th>
<th>Distressed Counties</th>
<th>Distressed Counties Failure Rate</th>
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</thead>
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<tr>
<td>All deals (n)</td>
<td>487</td>
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<td>232</td>
<td>62%</td>
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<tr>
<td>Deal Failures (n)</td>
<td>278</td>
<td>NA</td>
<td>143</td>
<td>NA</td>
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<td>In Promised Investment (mean)</td>
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<td>NA</td>
<td>15.8</td>
<td>NA</td>
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<td>Above mean</td>
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<td>52%</td>
<td>97</td>
<td>53%</td>
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<tr>
<td>Below mean</td>
<td>236</td>
<td>62%</td>
<td>135</td>
<td>68%</td>
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<tr>
<td>In Promised Jobs (mean)</td>
<td>284</td>
<td>NA</td>
<td>225</td>
<td>NA</td>
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<td>Recruitment deals (n)</td>
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<td>112</td>
<td>66%</td>
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<td>Firm Type (n)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Headquarters</td>
<td>54</td>
<td>54%</td>
<td>12</td>
<td>58%</td>
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<td>Branch Plant</td>
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<td>Independently owned</td>
<td>105</td>
<td>59%</td>
<td>68</td>
<td>62%</td>
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<td>Deals in Targeted Industries</td>
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<td>66</td>
<td>53%</td>
</tr>
<tr>
<td>Deals in Mediated Industries</td>
<td>191</td>
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<td>82</td>
<td>50%</td>
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<td>Deals with Customized Training Program Incentives</td>
<td>168</td>
<td>49%</td>
<td>84</td>
<td>52%</td>
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<tr>
<td>Percent US Industry Change (mean)</td>
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<td>-7.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent GDP Change (mean)</td>
<td>-0.4%</td>
<td>-0.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deals in Rural Counties (n)</td>
<td>254</td>
<td>64%</td>
<td>167</td>
<td>67%</td>
</tr>
<tr>
<td>Deals by Economic Development Region (n)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. West</td>
<td>71</td>
<td>61%</td>
<td>47</td>
<td>62%</td>
</tr>
<tr>
<td>2. Charlotte</td>
<td>102</td>
<td>58%</td>
<td>56</td>
<td>47%</td>
</tr>
<tr>
<td>3. Piedmont Triad</td>
<td>89</td>
<td>52%</td>
<td>40</td>
<td>55%</td>
</tr>
<tr>
<td>4. Research Triangle</td>
<td>80</td>
<td>50%</td>
<td>11</td>
<td>91%</td>
</tr>
<tr>
<td>5. northeast</td>
<td>29</td>
<td>76%</td>
<td>20</td>
<td>85%</td>
</tr>
<tr>
<td>6. East</td>
<td>60</td>
<td>52%</td>
<td>39</td>
<td>54%</td>
</tr>
<tr>
<td>7. Southeast</td>
<td>56</td>
<td>66%</td>
<td>39</td>
<td>60%</td>
</tr>
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</table>
**Table 4. Results of logit regression models for regulatory variables**

<table>
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<tr>
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<th>(1a)</th>
<th>(1b)</th>
<th>(2a)</th>
<th>(2b)</th>
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<tbody>
<tr>
<td>Promised Investment</td>
<td></td>
<td>0.872*</td>
<td>0.823</td>
<td></td>
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<tr>
<td></td>
<td>[0.069]</td>
<td>[0.103]</td>
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<td>Promised Jobs 1</td>
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<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.000]</td>
<td>[0.001]</td>
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<tr>
<td>Capital Intensiveness</td>
<td>0.869</td>
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<td>0.936</td>
<td>0.941</td>
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<td>[0.138]</td>
<td>[0.200]</td>
<td>[0.132]</td>
<td>[0.191]</td>
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<tr>
<td>US Industry Percent Change</td>
<td>0.055**</td>
<td>0.067</td>
<td>0.042***</td>
<td>0.044*</td>
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<td></td>
<td>[0.064]</td>
<td>[0.119]</td>
<td>[0.048]</td>
<td>[0.079]</td>
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<tr>
<td>NC GDP Change</td>
<td>0.000**</td>
<td>0.000*</td>
<td>0.001**</td>
<td>0</td>
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<td></td>
<td>[0.002]</td>
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<td>[0.002]</td>
<td>[0.002]</td>
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<tr>
<td>Rural Real</td>
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<td>1.607*</td>
<td>1.396</td>
<td>1.576</td>
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<td>Distressed County</td>
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<td>[0.233]</td>
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<tr>
<td>Industry Mediation</td>
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<td>0.414***</td>
<td>0.485***</td>
<td>0.414***</td>
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<td>[0.105]</td>
<td>[0.136]</td>
<td>[0.109]</td>
<td>[0.135]</td>
</tr>
<tr>
<td>2. Charlotte</td>
<td>0.998</td>
<td>0.669</td>
<td>1.081</td>
<td>0.805</td>
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<td>[0.305]</td>
<td>[0.395]</td>
<td>[0.384]</td>
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<td>3. Piedmont Triad</td>
<td>0.717</td>
<td>0.682</td>
<td>0.773</td>
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<td>4. Research Triangle</td>
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<td>6. East</td>
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<td>7. Southeast</td>
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<td>Wald chi2</td>
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<td>Pseudo R2</td>
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<td>N</td>
<td>486</td>
<td>231</td>
<td>486</td>
<td>231</td>
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</table>

*p<0.1; **p<0.05; ***p<0.001

*Coefficient estimates, presented in odds-ratios

[Standard Errors]

Dependent Variable = Cancelled

a = Statewide sample frame

b = Distressed Counties sample frame
<table>
<thead>
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<th>(3b)</th>
<th>(4a)</th>
<th>(4b)</th>
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<tbody>
<tr>
<td>FirmType (Branch)</td>
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<tr>
<td>Capital Intensiveness</td>
<td>0.939</td>
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<td>US industry Percent Change</td>
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*p<0.1; ** p<0.05; *** p<0.001

*Coefficient estimates, presented in odds-ratios

[Standard Errors]
Dependent Variable = Cancelled
a = statewide sample frame
b = Distressed Counties sample frame
Table 6. Results of logit regression models for policy-level variables

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* p<0.1; *** p<0.001

*Coefficient estimates, presented in odds-ratios

[Standard Errors]

Dependent Variable = Canceled

a = statewide sample frame

b = Distressed Counties sample frame
REFERENCES


Managing the Soft Infrastructure of Economic Development: Governance, Industry Mediation, and Incentive Practices in North Carolina

Allan M. Freyer
The University of North Carolina Chapel Hill
1. **Introduction**

In the aftermath of the Great Recession, economic development professionals are facing significant political and fiscal pressures to justify their approaches to creating jobs and generating economic growth. The 2010 elections swept in conservative legislative majorities across two dozen states and the US Congress, ushering in a new wave of hostility to the government’s role in the economy coupled with a fiscal austerity that has limited the resources available for all economic development policies. Even traditionally hallowed “pro-growth” policies like business incentives—cash grants or tax abatements designed to induce firm location, investment, and job creation—have come under sustained attack. As the policy landscape continues to shift, economic development professionals are faced with the challenge of understanding—and communicating to potentially hostile lawmakers—how best to improve the effectiveness of the tools they use.

Scholars have often shared lawmakers’ skepticism of business incentives—two decades’ worth of studies have shown little evidence that these tools are genuinely effective at creating jobs or growing the economy (see for example Peters and Fisher (2004); Buss (2001); Lockie (2002); Thomas (2011)). Yet, a new direction in the economic development practices literature has increasingly shown that the institutional environment in which incentives are embedded plays a crucial role in shaping the effectiveness of these much-maligned tools. Increasingly, scholars recognize that development professionals are combining incentive-backed business attraction and expansion efforts with strategies like job training, industrial process upgrading, research and development, and strategic planning in comprehensive policy portfolios (Markusen and Schrock, 2006; Warner and Zheng, 2013; Lowe, 2014; Lowe and Feldman, 2015; Lowe and Freyer, 2015). Frequently, these portfolios are designed to intensively develop specific industries—what the workforce development literature has termed “sector strategies” and Lester et al (2014) has labeled “industry mediation.” Industry mediation provides common pool resources that benefit all firms in a given industry, stitching together multiple strategies in a focused effort to develop the entire sector.
But as with any complex public administration activity, operating this portfolio does not happen by itself, but instead presents a collective action problem that local economic developers must resolve in order to ensure that the network of actors and policies in the portfolio are working in concert. Sequencing and synchronization within the portfolio are essential; hence the need for policy coordination, which Lowe and Freyer (2015) describe as convening, coordinating, and brokering relationships across the networks of multiple actors and strategies involved in the portfolio for a specific mediated industry. Blakeley (1994) echoes the importance of policy coordination by arguing that managing these actors and organizations—the “soft infrastructure of revitalization”—is the central task of local government in economic development. And as if this governance challenge was not difficult enough, practitioners must coordinate these networks amidst changing economic conditions and a fluid political environment in which support from lawmakers, program design, and funding can swing dramatically from election to election.

Previous scholarship focused almost exclusively on policy coordination in the context of a single, centralized quasi-public actor in North Carolina’s biotechnology sector—the NC Biotechnology Center (e.g. Lester et al, 2014; Lowe, 2014; and Lowe and Freyer, 2015). While it is true that some states anchor their sector development efforts in organizations specifically created to coordinate industry mediation, the public administration survey literature also suggests that there is significant variation in the models local governments use to administer their economic development efforts (Claggett, 2006; Warner & Zheng, 2013; ICMA, 2004, 2009). As a result, it is likely that the models for policy coordination in industry mediation efforts are similarly varied—they may involve more decentralized models of governance that either abandon a central coordinating actor altogether or deploy such an organization in more limited ways than seen in North Carolina’s biotechnology sector.

But it remains unclear how different degrees of decentralization in policy coordination influence the effectiveness of the incentives granted to firms in mediated industries. Lessons
from the network governance and workforce development literatures suggest that greater
decentralization may hamper coordination between actors and strategies within the portfolio,
especially as the number of actors and geographic distance grows (e.g., Provan and Kenis, 2007;
Imperial, 2005; Harper-Anderson, 2008a). If this is true, then some firms may benefit less from
mediation than others, which in turn may influence how these incentive deals perform.
Alternately, more decentralized models of policy coordination may account for these problems
through organic innovation and deliberate policy design. This is the policy problem this paper
seeks to address through answering the following questions: What do differences in the relative
centralization of mediation governance models look like in practice? How do these differences
influence the effectiveness of mediated incentives?

This study answers these questions through a mixed-methods study of North Carolina’s
traditional incentive and customized job training programs during the period 2002-2013.
Logistic regression models are used to test the effect of different approaches to policy
coordination in mediated industries on incentive deal failure, given varying levels of
centralization. Extensive qualitative analysis is used to configure these models and explain their
results. The study finds that industry mediation is effective at reducing the likelihood of
traditional deal failure, even when more decentralized approaches to policy coordination are
considered. Local specialization and cross-scale linkages with other non-sector-specific policy
networks explain these successes.

2. Literature Review

There are several main bodies of scholarship that are relevant for understanding the
relationship between governance, industry mediation, and the effectiveness of economic
development incentives. The first is the extensive literature on incentive practices, which has its
roots in the early firm location tradition—which suggests that mobile capital chooses where to
locate based on lowest tax price (Tiebout, 1956b)—and the exogenous growth tradition—which
argues that regional economic growth is driven by attracting outside capital to support export-
driven manufacturing (North, 1955; Solow, 1955; Borts, 1960). Despite their ongoing use by
state and local governments, incentives have been attacked for creating market inefficiencies
(Morgan, 2009), promoting regional inequality (Cobb, 1992) and regional lack of resilience
(Glickman and Glasmeier, 1990), and hollowing out local tax bases otherwise needed to finance
education and infrastructure (Carmeli, 2007; Fisher, 2007). Most damningly, however, scholars
have questioned the effectiveness of incentives, especially the claims that these tools create jobs
and “win” firm location decisions that would not have occurred without the incentive and that
they produce aggregate gains in regional economic growth that would not have occurred
otherwise. While Greenstone and Moretti (2003) have shown positive aggregate economic
effects due to the successful recruitment of large-scale plants, they are in the distinct minority.
The bulk of the evidence demonstrates little or no positive effect of incentives on growth or firm
location under standard conditions (Peters and Fisher (2004); Buss (2001); Lockie (2002).
Thomas (2011) finds similar problems in a study of European incentive practices, locating the
lack of effectiveness in the structure of the bargaining relationship between business and
community. He describes this as one-sided prisoners’ dilemmas that mostly disadvantage local
governments and allow companies to engage in excessive rent extraction.

In response to these criticisms, an emerging body of research suggests that specific state
and local policy decisions can improve the effectiveness of these much-maligned tools. Recent
scholarship has convincingly painted a picture of an inter-locality competition for private
investment, firm location decisions, and job creation—what Markusen (2007) calls the spatial
market for jobs—that is deeply embedded in an institutional environment that structures both
the implementation of practice itself and the process of bargaining out firm location decisions
approaches like the use of accountability standards, customized training programs, and industry
targeting have all been found to improve the likelihood that incentivized firms will actually
deliver on their promise and generate improved job creation and investment outcomes (Weber,
2002; Bartik, 2005).
One particularly promising institutional approach involves “industry mediation.” Similar in concept to the idea of sector strategies, industry mediation involves the integration of multiple strategies—including business attraction, technical assistance in upgrading business processes, entrepreneurship, R&D, and especially workforce development—into mutually-supporting policy portfolios designed to nurture and develop entire industry sectors (Markusen and Schrock, 2006; Lowe and Freyer, 2015; Lester et al, 2014). In this context, policy makers align incentive-backed attraction/expansion efforts with the other strategies of the portfolio, rather than placing them in competition with each other, as many scholars traditionally suggest (Lowe, 2007; 2014). Working in tandem, these portfolios provide common pool resources that benefit all firms in an industry and ensure the coordinated delivery of these resources to firms. Moreover, the implementation of this portfolio is guided by strategic planning that combines industry trend analysis with stakeholder input and institution-mapping, influencing firm location decisions in much more strategic and potentially effective ways. As a result, business attraction becomes a paced process that connects firms to resources before, during, and after the firm location negotiation. Taken together, this approach generates greater institutional “stickiness” that improves bargaining position during the site location negotiation and decreases the likelihood of firms leaving the region during future location decisions.

It is no surprise, then, that Lester et al (2014) found that incentive deals in North Carolina’s mediated industries created more jobs and higher investment levels than those in non-mediated industries. This echoes the findings of the extensive literature on workforce development-oriented sector strategies. For example, Claggett (2006) details the effectiveness of sector-based approaches in promoting regional resiliency and industrial diversification in states ranging from Michigan and Pennsylvania to New York and Oregon. Sector-based workforce intermediation and business process upgrading played a crucial role in stabilizing legacy manufacturing industries in regions as diverse as New York City, Milwaukee, Chicago, and San Francisco (Bernhardt, Dresser, & Rogers, 2001; Conway & Loker, 1999; Fitzgerald & Green Leigh, 2002; Fung & Zdrazil, 2004; Hum, 2003; Lautsch & Osterman, 1998).
But the opportunities presented by industry mediation also raise the serious policy challenge of the public management of these portfolios—a problem with deep roots in economic development scholarship. In what has been labeled the Third Wave of economic development, these sector-specific supports are often provided through the “soft infrastructure of economic revitalization (Blakeley, 1994) or an “entrepreneurial state”—public-private partnerships that seek to leverage knowledge, capital, and human resources to increase the global competitiveness of a group of strategically linked firms (Eisinger, 1988; Ross and Friedman, 1990). In this context, economic development practice is increasingly multi-dimensional, involving a wide network of governmental and quasi-governmental actors.

As a result, managing this soft infrastructure—and synchronizing its various moving parts—is a central challenge for successful industry mediation. Previous scholarship on mediation has recognized the role of policy coordination in aligning planning, resources, and strategic direction across portfolio actors and strategies in studies of Northeast Mississippi and North Carolina (Lowe, 2014; Lester et al, 2014; Lowe and Freyer, 2015). This is akin to the concept of governance, which Provan and Kenis (2007) define as “the use of institutions and structures of authority and collaboration to allocate resources and to control joint action.” These formal mechanisms for achieving multi-organizational outcomes have been found to be critically important in solving collective action problems in the public and nonprofit sectors (Agranoff and McGuire, 2003; Imperial, 2005; O’Toole, 1997). As such, this paper refers to this policy coordination role as “mediation governance.”

Though the earlier studies of mediation recognize the importance of a coordinating role, however, they left unexplored the variation in the governance models by which local governments carry out this role. They focus on a single, centralized actor that coordinates sector development activities across multiple actors—the NC Biotech Center in North Carolina and the Community Development Foundation in Mississippi. While it is true that some states anchor their sector development efforts in organizations specifically created to coordinate industry
mediation—what the network governance literature has labeled a Network Administrative Organization (NAO) (Provan and Kenis, 2007)—it also remains clear from the public administration survey literature that there is significant variation in the ways local governments structure and organize the administration of their economic development efforts (Denter and Rose, 2005; Stensel, 2005; ICMA, 2009; Warner and Zheng, 2013). As a result, it is likely that industry mediation efforts may also involve more decentralized approaches to policy coordination. Indeed, there may be a continuum of mediation governance, from more centralized models with an NAO, to hybrid models with anchor organizations that coordinate some aspects of mediation and not others, to fully participant-governed models that involve no anchor at all.¹

But these variations may have significant implications for the effectiveness of mediated incentives. In particular, there are three challenges that more decentralized approaches to mediation governance may have to face. First, the network governance literature suggests that decentralized, participant-governed models of policy coordination—those without an NAO to anchor their efforts—may experience problems with efficiency, where networks face problems of scale, generating a potential trade-off between inclusion and efficiency (Provan and Kenis, 2007; Sørensen and Torfing, 2016; Weiner and Alexander, 1998). As the number of organizations in the network grow, so do the number and complexity of the relationships between members. Shared governance becomes increasingly inefficient with participants either ignoring critical network issues or experiencing diminishing returns on the time spent trying to coordinate all these members. These problems become especially severe when participants are diffused over a wide geographic area, making it significantly more challenging for all participants to meet frequently. In contrast, the more centralized models may better address these efficiency challenges as the number of network participants or the extent of geographic spread increases, as doing so may improve administrative capacity and reduce the burden of direct involvement for network members (Provan and Kenis, 2007; Sørensen and Torfing, 2016; Weiner and Alexander, 1998). In turn, more centralized models of governance may provide firms with more
appropriately targeted benefits and thus enhance the effectiveness of the incentives granted in those industries.

A second challenge involves connectivity between the economic development and workforce development functions of a mediation portfolio. Studies of sector strategies have found that tighter connectivity between economic development and workforce development actors—as measured by shared staff, shared customers, and the frequency of collaboration—strengthens coordination and improves a range of local economic development outcomes, including higher employment, business competitiveness, and attractiveness to outside industry (Harper-Anderson, 2008a; 2008b). In turn, this would imply that mediation efforts with greater connectivity would improve the effectiveness of the traditional incentives in those target sectors. In mediated industries with an NAO, connectivity is internalized within the anchor organizations, generating tight coordination between different functions of the portfolio. This ensures that firms are linked to a common hub that provides them with a largely common set of technical assistance, training resources, and relational networks. By the same logic, less centralization in mediation governance—including the absence of an NAO—could lead to lower connectivity and less effective outcomes. Especially with the case of coordination between ED and WD, the basic question is whether the absence of an anchor and the lack of a common training curriculum that is shaped by a common set of employer relationships will reduce connectivity and hamper coordination across the sector. Moreover, it is possible that some firms will receive different—and perhaps—fewer benefits from mediation than those in sectors with anchored, more tightly knitted mediation governance. Given a more patchwork approach to mediation in these cases, it is possible that decentralized efforts could experience gaps in the local training and support systems dedicated to these industries.

Lastly, both of these problems could be more acute for decentralized mediation efforts in rural communities, where greater geographic distance and lack of good transportation infrastructure exacerbate the efficiency problems of convening meetings and connecting firms to
resources (Galston, and Baehler, 1995; Glickman and Glasmeier; 1990; Murray and Dunn, 1995). Moreover, local governments in rural areas typically have fewer budgetary resources and institutional assets that could otherwise promote better connectivity. In turn, this can generate bigger holes in regional mediation systems and contribute to inequities in firm benefits.

As the benefits of mediation decline—or are unevenly spread—due to these challenges, we can in turn expect the positive effects of mediation to be diluted, so that incentives in mediated industries will perform less well. Given these challenges, this paper tests the core hypothesis that mediation will improve the effectiveness of incentives, except when mediation governance models are less centralized.

3. Policy Context

In North Carolina, policy makers have targeted multiple sectors for industry mediation, using a range of governance models for coordinating development in these sectors. Most notably, these different models reflect a continuum from highly centralized efforts involving an network administrator organization to hybrid efforts that use an NAO for some aspects of mediation but not others to completely decentralized efforts that do not involve an NAO at all. Table 1 provides a summary of the different mediation governance models used in North Carolina.

The centralized end of the spectrum is typified by the state’s approach to mediating the biotechnology complex, which includes the life sciences, biotechnology, and medical device industries). For these industries, the state relies on a NAO to anchor and coordinate the development activities within the sector’s portfolio—the N.C. Biotechnology Center (BTC), a state-funded non-profit development organization created in the early 1980s explicitly to develop the industry in North Carolina. The BTC acts as a gatekeeper for engaging and motivating firms and local community actors, plans for and provides a unified, overall strategic direction, enforces business and industry norms, and promotes connectivity between economic
development, workforce development, and research functions (Lowe 2007; 2014; Lowe and Feldman 2016). As part of this role, the BTC coordinates with BioNetwork—a biotechnology-specific workforce training collaborative housed in the Community College System that connects industry employers with local community colleges—and co-houses staff from the Department of Commerce tasked with identifying, recruiting, or expanding life science firms in the state. This ensures a high level connectivity between the different functions in the sector’s portfolio.

Although similar in structure to the biotechnology governance model, the state’s approach to policy coordination in the textile sector is slightly less centralized: the mediation NAO, the College of Textiles at North Carolina State University (COT), relies on external partners to coordinate certain aspects of the portfolio that the BTC handles itself. Specifically, the COT has coordinated sector-wide planning efforts, along with provision of technical assistance for industrial upgrading to textile companies across the state through the Cooperative Extension Service (CES). In particular, the CES combines locally-rooted employer relationships across the state with the technical and educational expertise in the College of Textiles to develop and provide training curricula to engineers and managers on adaptive system upgrading as companies shift to advanced manufacturing technologies. In turn, the College also provides firms with R&D assistance for making this shift through industry partnerships embedded in the Nonwovens Institute within the College. Yet, the College of Textiles largely relies on local community colleges to coordinate training programs for front-line textile workers and has supported—rather than led—the efforts of local economic developers and the Textile Team at the N.C. Department of Commerce to recruit and expand textile companies in the state. As a result, the approach to mediation governance for textiles can be considered a more highly centralized hybrid model.

In both cases, however, there is a high level of connectivity in staff, employer relationships, and frequency of collaboration across the portfolio, since these connections are internalized within the respective anchor organizations. This has ensured a tight coordination
between economic development, workforce development, and the other strategies in the portfolio, and when examined together, they have proven highly successful in building the industries’ presence and for improving the effectiveness of incentives offered to firms in this industry (Lowe, LLF).

In contrast, however, North Carolina is also home to more decentralized state-led industry mediation in two inter-related sectors—aerospace and defense. In these industries, a mix of top-down and bottom-up mediation efforts began at different times and in different regions across the state, but eventually became bound up and incorporated into new, more systematic efforts to build out these sectors at a statewide level in the late 2000s.

In terms of defense, following the 2005 round of Base Realignment and Closures (a process which shifted several major US Army commands to Fort Bragg), then-Lt. Governor Bev Perdue and senior military officials in North Carolina created the NC Military Foundation as a NAO specifically to coordinate strategic planning, business attraction, and university-industry research partnerships in the defense sector. Additionally, the new organization was also intended to play the lead role in stitching together pre-existing locally-led mediation efforts and institutional supports along related supply chains. In 2009, the Foundation completed a sophisticated strategic planning process that identified key defense industry clusters and supply chains for related civilian applications— the blueprint for identifying prospects for recruitment and expansion in targeted industries. The plan also laid out emerging industry opportunities and suggested ways that the state’s university system could support these opportunities through R&D and workforce development. Using this plan, NCFC aggressively engaged in recruitment activities in partnership with the NC Department of Commerce (which coordinates the state’s incentive programs) and the Governor’s Office of Military Affairs (which focused on aligning company needs with other areas of state government). Leveraging a board with deep ties to retired high-ranking military officials and defense contractors across the country, the NCMF
secured a number of high-profile recruitment successes, including a BAE Systems expansion in Charlotte and the location of Mann+Hummel’s global headquarters in Raleigh.

But as summarized in Table 1, the NCMF represents a more decentralized governance model than either the BTC or the Textiles College, despite its role as an NAO. In this case, the NCMF does not play a policy coordination role for two crucial functions—workforce development and the provision of technical assistance. Instead, these coordination roles are diffused across other organizations. For example, the NC Military Business Center (NCMBC) provides a number of services designed to help firms compete for and successfully complete DoD contracts, including technical assistance for operating a contracting business and going through the contract-bidding process. Mirroring the recruitment role played by the BTC in biotech, the NCMBC also contributes to the paced nature of industry mediation by conducting forward-looking market intelligence gathering that seeks to identify prospective contract opportunities before they emerge. On the workforce development side, the mediation governance model lacks a statewide, sector-specific NAO altogether. Instead of creating a statewide sector-specific anchor equivalent to the NC BioNetwork, the state has relied on a mix of locally developed training programs delivered by community colleges, efforts run by multiple local organizations to link veterans to job openings, and Customized Training Program grants awarded through the Community College System. As a result, there is no common statewide curriculum, nor a common set of employer relationships that could be used to shape a common statewide workforce development strategy in the same way that BioNetwork and the Textiles College do for their sectors.

By comparison, the state’s governance model for mediation in the aerospace industry is almost fully decentralized, with a mix of state- and locally-led coordination efforts focused around specific geographic hubs in place of a single statewide NAO (see Table 1). These hubs include Global TransPark, a state government-created multi-modal airpark in rural Lenoir County and locally-led clusters in the Piedmont Triad region and Union County, near Charlotte
(these will be discussed in detail in Section 6). In each of these hubs, policy coordination roles are diffused across multiple organizations, as seen in the two examples of Global TransPark and the Piedmont Triad. In the Triad, the approach to policy coordination has been largely organic—grown from the ground up by local industry leaders, economic developers, and policy makers—and highly participatory. For example, Guilford Technical Community College leverages an advisory board that includes aerospace industry leaders and economic development officials to coordinate the design and implementation of job training services and integrate workforce development with business attraction and development efforts. The airport authority at PTI coordinates business park services, and the Piedmont Triad Regional Partnership (PTRP) coordinates marketing and business attraction, and plays the lead part in knitting these organizations together—the PTRP chief aerospace staffer plays a crucial role in convening the other organizations in the network. Meanwhile, policy coordination in Global TransPark is led by the state—the GTP Authority, a state agency located within the NC Department of Transportation, manages the business park and jointly coordinates business development within its boundaries with the GTP Foundation, a nonprofit dedicated to raising private funds to support business development efforts, and the Lenoir County Community College, which coordinates and delivers job training services through a special aviation-specific training facility located in the park. The GTP Commission, now the Eastern Regional Partnership, coordinates with the Authority on recruitment and marketing for GTP, and linking development activities between the park and the surrounding counties.

Thanks in part to this history, the industry mediation efforts in aerospace resembles in large part a bricolage of different institutional approaches and governance models marked by a high level of decentralization. But it would be a mistake to assume that the lack of a single, statewide NAO for aerospace means that the state is not mediating the industry in a focused way. Taken together, the bundle of services provided to firms in the industry—strategic planning, technical assistance with industrial processes, customized training, R&D partnerships, and business recruitment—are similar in scope to those provided to the biotechnology sector.
The key difference with aerospace is that the coordination of these activities is not embedded within a single organization, but rather diffused across multiple organizations, geographies, and planners. Moreover, the post-2005 era of statewide institution-building in defense has sought to wrap the original aerospace mediation efforts into a broader statewide sector strategy that leverages the institutional and supply chain linkages between civilian and defense-oriented aviation applications. Under the direction of the Department of Commerce’s aerospace team, economic developers working on both the civilian and defense sides leveraged the presence of the other in their own marketing materials and business attraction efforts. In effect, aerospace mediation efforts in each of the local hubs benefitted from the institutional build-out of mediation efforts in the defense sector while still remaining largely independent in setting the course for aerospace.

It is no surprise then that the institutional wrapping in these two sectors looks a little like patchwork, with policy coordination fragmented across multiple organizations, scales, and geographies. The question is whether some firms will receive different—and perhaps fewer—benefits from mediation as a result of this bricolage, or whether policies can be designed to overcome the efficiency, connectivity, and rurality challenges that arise from decentralized policy coordination. The next section explores the research design for answering this question in the context of incentive programs that are widely recognized as some of the most effective and accountable in the country. In order for a company to receive an incentive, it must undergo fiscal and economic impact analyses that show the project will generate more benefits than costs to the state. Additionally, the company must live up to its promises of job creation and investment over a scheduled timeline or the Department of Commerce will cancel the incentive and even clawback any dollars already awarded. This performance regime provides a common context and reliable data for studying the effect of mediation on incentive outcomes.
4. Research Design and Methods

The goal of this project is to understand the extent to which the governance model for policy coordination in mediated industries influences the effectiveness of traditional incentive programs in achieving their goals of job creation and investment. To that end, the study relies on a mixed-methods approach that uses qualitative analysis to configure and explain the results of three logistic regression models, each of which tests the individual hypotheses previously discussed.

4.1 Data

The primary data source for the quantitative portion of this analysis is a unique dataset of 319 discretionary incentive deals awarded by the N.C. Department of Commerce during the study period. These deals form the observations for this study. This dataset has been assembled from five different sources—a media study conducted by the Kenan Institute of all incentive deals from 1996 to 2008 (Jolley, 2008; Lester et al, 2014); N.C. Department of Commerce annual reports on each program; a unique dataset provided by the General Assembly Fiscal Research Division of all incentive deals from 2007 to 2013; and an additional media survey conducted to obtain variables not included in the previous sources. Using these sources, this newly constructed dataset includes information about each incentive deal, the firm which received the award, and the industry to which the incentivized firm belongs. Each deal has been assigned a 6-digit NAICS code, either by the Department of Commerce or by this study using the media analysis. Publicly available data from the U.S. Bureau of Labor Statistics, the Bureau of Economic Analysis, and the NC Office of State Management and Budget provide additional information about the geography where the deal is located and economic conditions during the life of the deal.

For the qualitative portion of the study, the study relied on 10 semi-structured interviews with key stakeholders in the state’s aerospace/defense sector, Community Colleges, and economic development policy arena (including current and former staff), identified through a
snowball approach. The study also relies on document analysis of archival materials on the founding and early years of Global TransPark, located in electronic form at the North Carolina Digital Collections at the State Archives and in the North Carolina General Assembly library. These provided key insights on the evolution of the state’s aerospace industry and how it fits into the broader context of North Carolina’s military economic development efforts. Additionally, key policy documents and strategic economic development plans authored by state researchers and regional economic development partnership staff were reviewed in an effort to identify the specific industries that comprise the state’s sector strategies.

4.2 Variables

The variables used in this study are summarized in Table 2. Given the paper’s focus on governance, the first step in constructing key explanatory variables required creating a measure of the type of policy coordination involved in each incentive deal. Using the six-digit NAICS code associated with each deal, deals were coded as “mediated” or “not mediated,” depending on whether the firm was part of an industry that received state supports at any point during its grant period. To make this determination, this study relied on Lester et al (2014), which identified Life Sciences, Biotechnology, Biomanufacturing, Pharmaceuticals, Medical Devices, and Textiles as mediated industries, and the cluster analysis performed by NCMF (2009), which identified a range of defense-oriented NAICS codes in the Automotive, Aerospace, and related supply chains, along with their civilian applications. Mediated is the key explanatory variable in this analysis. Additionally, Centralized is a dichotomous variable that includes the subset of mediated industries that are governed by an NAO (e.g., the industries first identified as mediated by Lester et al (2014))—the deals in these “centralized” industries are all coded 1. Similarly, the dichotomous variable Decentralized was created to capture the less centralized end of the policy coordination spectrum, including the hybrid and completely decentralized approaches to mediation governance in the defense/aerospace sector. As a result, this variable is coded 1 for the subset of mediated deals that are in the defense/aerospace sector (see Table 3 for a full list of the industries assigned to each governance category). Centralized and Decentralized
are non-overlapping. These variables also reflect the historical reality that industry mediation phased in at different rates over time for different industries. For example, mediation in aerospace began in the 1990s, prior to our study period, while mediation in the remaining defense-related industries really began in 2007 once BRAC-related planning got underway. As a result, Decentralized is coded 1 for aerospace deals beginning in 2002 and all other defense-related deals beginning in 2007. Similarly, mediation in biotechnology and textiles also began prior to the study period, except for the medical device manufacturing industry, which really began in 2010. The Centralized variable is coded accordingly. Constructing the variable this way also has the added benefit of incorporating change over time into the analysis, allowing us to capture the discontinuity before and after mediation begins.

In theory, it could have been possible to create a scaled variable that measured the different levels of decentralization, rather than this binary approach. However, data limitations make it impossible to parse out which deals involved support from the Military Foundation and which did not, given that defense and civilian applications are often combined into the same NAICS code. Moreover, this confusion is magnified by fuzziness of the interaction between civilian aerospace firms and the various military economic development institutions. As a result, it would require significant additional research to determine which firms would fall into the hybrid category and those that would fall into the fully decentralized category. Given this uncertainty, the best approach is to use a dichotomous variable to distinguish between the original mediated industries with an NAO-based governance model and those in the newly-identified mediated industries with a more decentralized approach. There are 53 deals coded Centralized and 71 deals coded Decentralized.

The dependent variable is Cancelled, a dichotomous variable coded 1 if the Department of Commerce has cancelled the deal due to failure of the firm to deliver on its promises. This provides a simple measure of incentive effectiveness, allowing us to explore how variations in governance influence the probability that incentive deals will perform as advertised.
Given that deal cancellation doesn’t occur in a vacuum, this study uses a number of control variables to help isolate the effects of policy coordination and governance, as summarized in Table 2: *Firm Size* is a continuous variable that measures the investment the firm is promising to create as a condition of receiving the incentive. Freyer (2016b) uses the promised level of investment as a proxy for the size of the firm, given that larger firms are reasonably likely to promise larger investment than smaller firms, and finds that as the size of the firm increases, the likelihood of deal failure diminishes. Additionally, the size of a firm is highly correlated with its survival (Evans, 1987), so we would expect incentive deals involving larger firms to have a lower probability of failure. *Percent Industry Change* is a continuous variable that measures the percentage change in the national employment of industry to which the recipient firm belongs over the life of the deal. Previous research has shown that incentive deals in declining industries are less likely to create the promised levels of job growth (Gabe and Kraybill, 2002), and are thus more likely to fail. As a result, this variable is intended to control for the variation in deal failure that is due to industry growth or decline. Given that changes in the macroeconomy are also likely to influence industry and firm performance, *Macroeconomic change* is included as a continuous variable that measures the percent change in North Carolina’s (inflation adjusted) Gross Domestic Product over the life of the deal.

Aside from industry and firm effects, the relationship between governance and deal failure may also be influenced by local-level economic trends and variations in local infrastructure and economic development institutional capacity in the regions in which firms are located. As a result, the study includes *Region*, a categorical variable coded 1-7 for each of the state’s seven economic development regions and *Rural Deal*, a dichotomous variable noting if the county is rural (1) or urban (0) according to the NC Office of State Budget and Management. To capture the likelihood that greater levels of economic distress are correlated with deal failure, the variable *DistressedCounty* is also included, a dichotomous measure that captures whether a county’s unemployment rate is above the mean distance from the state’s unemployment rate in the year the incentive was awarded. Finally, the dichotomous variable
Labor Market Strength is included to account for whether the recipient firm belongs to an industry that the Department of Commerce has identified as part of a broader regional industry cluster with significant growth potential (coded 1 if yes, 0 if no). Firms benefit from the skill and production linkages embedded in these clusters (Porter, 1998), and it is important to capture the variation in deal failure related to these benefits apart from any policy interventions in our mediated industries. While the variable overlaps with Mediation, mediated industries should not be confused with these industry strengths—the former represents active policy interventions to nurture these industries, while the latter has simply been identified through planning and analysis as industries that are poised for growth.

4.3 Analytical Method

With this dataset, the study uses three cross-sectional logit regression models to test the hypothesis specified above. Each model assesses the probability of deal failure when the deal includes industry mediation compared to when it does not by estimating the effect of Mediated on the dependent variable, Cancelled, given the control variables listed in Table 2. Additionally, each model includes a fixed effect (\(w\)) for the state's seven economic development regions to control for local economic trends, infrastructure, and policy decisions that may also influence whether a deal succeeds or fails in that region. The regional fixed effect also serves to isolate the state effects we're most interested in from confounds arising from purely local policy decisions. The equation is:

\[
\Pr(Deal\ Failure = 1) = \beta_0 + \beta_1 Mediated_t + \beta_2 FirmSize_t + \beta_3 \%\ Industry\ change_{t-tn} + \beta_4 Macroecon\ change_{t-tn} + \beta_5 RuralDeal + \beta_6 DistressedCounty + \beta_7 LaborMarketStrength + w_i + \epsilon
\]

Where \(t\) equals the year the incentive was awarded, \(tn\) represents the year the deal ended, either through completion of the grant period or cancellation due to failure, and \(w\) represents the regional fixed effect. Results are reported in odds-ratios.
In Model 1, this study recasts Lester et al’s (2014) analysis of mediated incentives in terms of deal failure rather than employment growth in order to test the hypothesis that industry mediation will improve the effectiveness of incentives. But in order to ensure that the coefficient for Mediated is not biased by the behavior of more decentralized approaches to policy coordination, this model restricts the sample frame to just those 53 deals that involved centralized mediation governance and the 194 that involved no industry mediation at all, for a total sample size of 247 deals (see Table 3 for a full list of the industries included in each mediation governance category). In essence, this model controls for the differences in mediation governance by excluding the hybrid- and completely decentralized deals from the analysis, while still allowing a clear comparison of industry mediation’s effects on deal failure to the counterfactual that no mediation exists (see below for justification for this). If Mediated is significant, then it suggests the first part of the hypothesis is correct.

Model 2 tests the hypothesis that industry mediation with less centralized approaches to policy coordination will not improve incentive outcomes. Using the same basic set-up, this model expands the sample frame to 318 deals to include those 71 observations that involve industry mediation with more decentralized approaches to policy coordination. In this model, there are now 124 deals with industry mediation and 194 without. This allows us to understand whether the addition of these new governance types will reduce or improve the overall effectiveness of industry mediation in generating better incentive outcomes. If Mediated remains significant, then it suggests that more decentralized approaches to mediation governance are just as effective in boosting incentive outcomes as the more centralized approaches.

Model 3 extends this test to examine these effects across geographic space, and whether less centralized governance models will prove effective in rural counties, given the hypothesized challenges with lower efficiency, weaker connectivity, institutional gaps, and lack of regional resilience. Using the same variables as in Model 2, this model captures the effects of geography
by using a sample frame that includes only those 167 observations that occur within rural counties—e.g., where RuralDeal =1.

There are several potential threats to validity that have been addressed in the following ways. First, dropping observations (as in Model 1 and Model 3) is generally frowned upon for a number of reasons—doing so reduces the information available for analysis, may produce biased results, and raises questions about whether the researcher simply went “sample shopping” to find the data most likely to produce the results the researcher wanted in the first place. But in this case, shrinking the sample frame has solid theoretical and analytical justification. In terms of theory, this study is expanding the definition of industry mediation to include a whole new category of industries based on their policy coordination model. Model 1 provides a baseline for the effects of the original definition, while Model 2 allow us to understand how the effect changes when Mediation is expanded to include those additional deals covered by hybrid and decentralized governance models. Since the observations coded Decentralized are just a subset of the whole group of Mediated deals, it makes little sense to simply include this subset as an additional variable in the model. Analytically, expanding the sample frame in this way for Model 2 allows us to account for these newly identified forms of mediation while ensuring that the treatment effect is not contaminated by unobserved policy interventions (as would have occurred if the full sample had been used, but the Decentralized observations had been coded 0 for non-mediated). Similarly, restricting the sample frame by geography allows for the cleanest comparison between statewide and rural deals. While it would have been possible to use an interaction term between Mediation and RuralDeal to capture the influence of rurality on incentive outcomes, this would have made direct comparisons between the models more challenging.

Second, the study addresses a modest hierarchical problem in these models—some between-group variation at the industry level may explain deal-level variation in the outcome variable—by clustering the standard errors at the 6-digit NAICS level, giving us results that
should be robust to these concerns. Thirdly, cross-sectional models by definition lack a time element that can both introduce uncertainty about whether cause precedes effect and ignore confounds related to associated trends. To address these shortcomings, these models incorporate the time element in two ways: (a) the outcome variable—the decision to cancel a deal for nonperformance—clearly occurs after the original decision to grant the incentive, which itself is made with the full knowledge of the type of firm involved, its size, and the industry to which it belongs, so there can be no temporal confusion over whether decentralization can act upon deal failure in a causal manner; (b) the control variables Percent Industry Change and Macroeconomic Change measure change in these conditions over the life of the deal, allowing an adequate control for the ways these crucial economic trends will influence the likelihood of deal failure.

Lastly, any time we code a treatment variable by industry, we run the risk of simply proxying the effects of that industry’s behavior. In this case, there is the possibility that the coefficient for Mediated is simply capturing the effect of variation in the performance of the industry to which the firm belongs rather than saying anything useful about the effect of the policy interventions in these industries. This study attempts to address this concern in two main ways. First, the Mediated variable is constructed from dozens of industries, only some of which have closely related supply chains. Doing so has the effect of spreading out the variation in industry performance, making it far more difficult for the composite measure to match the particular pattern of variation in its constituent industries. This is strengthened by the fact that mediation phases in over time, as previously explained, so that the same industry may coded 0 at one point and 1 at another, further dispersing the variations’ overlap. Perhaps most importantly, however, is the inclusion of the industry change variable in the model. This control variable directly accounts for variation in industry behavior and should adequately isolate the policy effects of the model from the effects of industry performance. As confirmation of this conclusion, diagnostic regressions that included only Percent Industry Change and Mediation found that both variables had a significant association with deal failure, an effect that remained
even when the model also included an interaction to see whether one variable either worked through or moderated the effect of the other. Crucially, the interaction term was not close to significant at any level in any of the sample frames. Additionally, variable inflation factor (VIF) analyses revealed no significant multicollinearity between these variables. Taken together, these diagnostic results suggest the two variables are explaining different variations in the outcome variable and not simply proxying each other.

5. Results

Results give broad support for the hypothesis that industry mediation improves incentive outcomes and for the argument that more decentralized approaches to policy coordination do not hamper these positive effects. As seen in Table 4, descriptive statistics show that incentive deals are cancelled at a much lower rate when industry mediation is present (48 percent failure rate) at the statewide level than when they are not (71 percent failure rate), suggesting that these sector-specific common-pool resources are providing firms with crucial benefits that help them hit their incentive performance targets. Although deals with centralized forms of mediation governance have a slightly lower statewide failure rate (45 percent) than the more decentralized (51 percent), both perform significantly better than the sample-wide average (61 percent) and those deals with no industry mediation at all (71 percent). This advantage is especially pronounced in the state’s urban areas, where the failure rate of deals in industries with centralized governance is 24 percentage points and decentralized governance is 21 points lower than those deals without mediation. In rural areas, the failure rate for deals in industries with more decentralized forms of policy coordination (58 percent) is almost identical to that of the more centralized forms of governance (55 percent), and both are almost 20 percentage points better than the rural failure rate for deals with no mediation at all (75 percent). This suggests that while centralized performs marginally better than decentralized in helping deals succeed, it does not suggest that decentralized forms of mediation governance are hampered by efficiency or connectivity challenges—especially in the rural areas where we would expect much
higher failure rates for the more decentralized approaches. This lends some initial weight to disproving the second part of the hypothesis.

Turning to the regression modeling, Table 5 reinforces the findings of the descriptive statistics. In Model 1, Mediation has a statistically significant effect on the outcome variable, with an odds ratio of 0.396. In effect, deal failure is 60 percent less likely in mediated industries than in non-mediated. In terms of the controls, the only other significant effects include those associated with industry change, macroeconomic change, and local labor market strength, all of which are negative. This is unsurprising given that we would expect firms in declining industries during times of economic contraction to struggle to meet their performance targets. Taken together, this provides evidence supporting the hypothesis that industry mediation will improve the effectiveness of traditional incentives.

In contrast, Model 2 contradicts the hypothesis that industry mediation with less centralized approaches to policy coordination will fail to improve incentive outcomes. In its new expanded form, Mediated continues to have a highly significant, negative effect on deal cancellation. With an odds ratio of 0.444, deals are 56 percent less likely to fail when they involve industry mediation than when they do not. From this, it appears that the inclusion of decentralized deals in the model did not dilute the significance of the Mediated variable. If the decentralized deals were more likely to fail, than we would have expected the coefficient for Mediation to lose its significance once the decentralized deals were included. Yet while the odds worsen slightly, the variable still remains significant. Given that there are more decentralized deals (71) than centralized (53), we can be confident that the results in Model 2 are not just be driven by the significance of the Centralized observations.

In terms of the controls, industry change remains negatively significant while macroeconomic change does not. This reinforces the surprising findings of the descriptive statistics that the more decentralized models of governance do not in fact reduce the
effectiveness of industry mediation in improving incentive outcomes and can counteract the negative pressures of a struggling macro-economy for firms receive these incentive awards.

Finally, the results for Model 3 reinforce those of Model 2—the expanded form of Mediation has a negative and significant effect on deal failure rural counties. Similarly, Industry change and labor market strength are again the only other variables that are significant. This suggests that industry mediation can counteract industry decline and recessionary headwinds in the counties otherwise most vulnerable to economic shocks (Glickman and Glasmeier, 1990). But it also suggests that decentralized forms of mediation governance are not hampered by the efficiency and connectivity challenges that theory would have predicted.

6. Explaining the Effectiveness of Decentralized Policy Coordination

Taken together, these results imply that more decentralized models of policy coordination do not hamper the effectiveness of industry mediation. This section uses qualitative analysis of the state’s mediation efforts in the aerospace industry to explain these unexpected results. Given that North Carolina’s governance model for aerospace is almost entirely on the decentralized end of the spectrum, it provides a clean illustrative example for exploring the ways less centralized approaches to policy coordination overcome the efficiency and connectivity challenges that theory predicts would make these efforts less effective—especially in rural areas.

First, the absence of a comprehensive statewide NAO has been accompanied by regional specialization, allowing each region to play to its strengths in terms of market segment. For example, the NC General Assembly created Global TransPark in rural Eastern North Carolina in the early 1990s as a multimodal aviation business park with its own dedicated training center. In contrast, the Piedmont Triad region birthed a home-grown aerospace sector strategy oriented around Maintenance, Repair, and Overhaul (MRO) and the institutional assets of Piedmont Triad International Airport and several nationally recognized aerospace training programs at
Guilford Technical Community College. This effort was supported by 25 years of concentrated collaboration between local industry executives, economic development officials, and community college leaders. Another aerospace cluster in Monroe/Union County has a very similar story, with a focus on precision manufacturing arising to meet the needs of American Airlines and its suppliers. In this region, aviation programs at South Piedmont Community College play a central role in supporting the largest concentration of aerospace manufacturing firms in the Carolinas. Lastly, the greater Fayetteville region, home to Fort Bragg and Pope Air Force Base, has long been a center of and sector development around defense supplies, logistics, and technology development. In this region, there are intensely developed mediation efforts linking military veterans, defense contracting businesses, and training programs offered through Fayetteville Technical Community College.

In turn, this had the effect of allowing the state to diversify its portfolio of aerospace industries, ensuring greater resiliency to downturns in different segments of the aerospace market. In terms of structure, decentralization replaced a single statewide network with multiple local networks in each of the hub areas, in effect pushing policy coordination to the regional level. This has reduced the number of partners actively involved in coordinating policy to a manageable scale (e.g., just the partners in each community), while simultaneously limiting the geographic distance required for travel to meetings and making shared decision-making much less cumbersome that would be the case in a single statewide decision-making structure.

Similarly, focusing mediation efforts around local hubs also had the effect of ensuring localized connectivity between partners coordinating different aspects of the region’s policy portfolio. For example, industry leaders in the Triad sit on advisory boards for the regional development partnership (PTRP) and the aerospace school at Guilford Tech, all of which are also connected by professional staff at PTRP. So instead of enshrining connectivity within a single NAO, local specialization promoted multiple hubs in which overlapping advisory boards and executive committees exercised connectivity between strategies within that geographic area. Although there is doubtless variation in the benefits firms receive from this bricolage of coordination
efforts, the strengths of local specialization are apparently enough to ensure that even varied levels of mediation benefits are still better on average for firms than no mediation at all.

Secondly, each of the local hubs is in turn connected to state-level resources that create additional axes for connectivity and improve effectiveness of industry mediation. Most prominently, local networks have benefitted from tens of millions of dollars in state-level investment in physical infrastructure—extending runways at PTI; site development, access to highways, rail spurs, and runways expansions at GTP; and additional highway infrastructure around Ft. Bragg and Pope Airforce Base. Moreover, state policy networks actively support policy coordination and implementation in each hub. For example, in what one aerospace leader described as “putting North Carolina on the map” for the aerospace industry, the NC Department of Commerce Aerospace team works with local developers in the hubs to identify out-of-state prospects years in advance of their likelihood to relocate and then coordinate recruitment efforts when appropriate. In terms of higher education, the NC Community College System similarly provides financial support and assistance with coordinating implementation of customized job training for aerospace firms at the local community colleges in each hub. In addition, firms in each hub benefit from close partnerships with several aerospace research and development programs at the state’s major universities, especially the Institute for Transportation Research and Education, at North Carolina State University. Extensive planning in the Department of Commerce in the mid-2000s inventoried these research assets and sought to link them to aerospace firms through the PTRP, the GTP Authority, and the Military Foundation. Lastly, the firms in these hubs benefitted from the NC Aerospace Alliance, which played similar role to NCMBDC, connecting civilian aerospace firms to contract opportunities, especially in the Triad.

Taken together, these cross-scale linkages provide connectivity—staffing, financial support, and technical assistance—through a series of external networks, rather than simply internalizing these connections within a single organization as would happen in a centralized
governance model. In terms of efficiency, this has allowed the firms in each local hub to access the benefits of connectivity with the state’s other economic development networks even in the absence of an NAO, while still retaining the geographic and numerical benefits of local decision-making. Moreover, this cross-scale connectivity helped diversify funding streams and program resources to protect against policy changes and budget cuts. For example, leveraging private and state dollars allowed GTCC to expand its aviation program in the face of state budget cuts to the community college system and a downturn in corporate giving following the Great Recession. Similarly, GTPs multiple funding streams and overlapping federal, state, and local jurisdictional requirements created significant legal encumbrances on the ability of the state to divest itself of the park. This had the effect of buffering the Authority from a dramatic shift in the policy environment following the 2010 elections, when a new legislative majority in the General Assembly sought to eliminate state support for GTP altogether.

Both of these factors also explain why decentralized mediation remains significant for deals in rural areas. All of the hubs are either centered in a rural community (e.g., Kinston and Union are both rural counties) or incorporate rural counties in their institutional footprint (e.g., the Piedmont Triad region), so local specialization directly generates similar efficiency gains for the mediated firms in these non-urban areas that it does in the urban areas. Moreover, cross-scale linkages are providing rural communities with access to and connectivity with state institutional assets which otherwise might not be present in these areas, in turn ensuring that urban and rural firms receive similar benefits from mediation. As a result, it is clear that the decentralized approach to mediation governance is effective at overcoming problems of efficiency, connectivity, and the rural asset gap.

7. Conclusion

Economic development is clearly embedded in an institutional environment that shapes the effectiveness of practice. Of particular concern is the governance model by which local practitioners coordinate the different strategies and policies they use. Earlier studies of industry
mediation have focused on approaches to policy coordination that rely on a single network administrative organization to manage focused efforts to develop specific industry sectors. In contrast, this paper has shown that mediation can occur within more decentralized models of governance, including those with hybrid network administrator organization and those with no NAOs at all. As a result, mediation governance can be said to exist along a continuum, from highly centralized models to highly decentralized. Although theory suggests that decentralized approaches to policy coordination will suffer from challenges with decision-making efficiency and connectivity in aligning development strategies, this paper has shown the opposite to be true in the case of North Carolina’s industry mediation efforts in defense and aerospace.

Specifically, it finds that the state’s decentralized approach to policy coordination in these industries had a statistically significant effect in reducing the probability of failure for the economic development incentive deals in those industries. Crucially, these effects remained significant for deals in at both the statewide level and in rural counties, which suggest that decentralized policy coordination in these industries is not hampered by geographic distance or excessive membership size in the ways network governance theory would predict. In fact, decentralized governance at the state level pushed policy coordination to the local level, contributing to the development of multiple hubs of aerospace development, each with a different industry specialization. In effect, these local hubs secured the efficiency and connectivity gains inherent in small, geographically concentrated governance models, while gaining additional stability through industry diversification across the state. In turn, these hubs developed their own institutional arrangements, which, supported by cross-scale linkages with a variety of state agencies and policy networks, ensured diversification of sources of funding and technical assistance.

These findings should prove encouraging for practitioners—especially at the state level—who are interested in developing specific mediated industries, either through building bricolages of existing clusters or in cases where political or fiscal constraints limit the feasible of building a
centralized approach to coordinating. Nonetheless, there are limits to the generalizability of these results that point to future research—notably, a multi-state comparative analysis could confirm or otherwise what the single North Carolina case has suggested, and further in-depth case analysis of industry mediation efforts could develop a more fine-grained typology of governance types, especially when considered in the context of local industrial structures and “sticky places” (Markusen, 1996).
ENDNOTES

1 This discussion of decentralization should not be confused with the 1990s debates over the Washington Consensus, and efforts to shift international development policy towards neoliberal priorities like fiscal discipline, privatization, and trade liberalization. Instead, this paper looks simply at the relative centralization of decision-making in already relatively open networks of non-governmental organizations.

2 This cluster analysis, NC Military Foundation (2009) identified the NAICS codes used for industries coded as decentralized mediated in the modeling.

3 The importance of the NC Community College System in coordinating workforce development among the 53 member campuses cannot be overstated. Yet, the System is responsible for a wide range of education and training services and does not focus exclusively on a single sector. So while it plays an important role in supporting sector strategies, it can’t really be considered a true NAO or anchor organization for coordinating workforce development for the entire sector.

4 The study excludes all so-called entitlement incentives, like tax credits and empowerment zones, for which all firms suitably qualified are eligible. In order to isolate the specific effects of industry-wide workforce development from firm-specific customized training, it also excludes all deals that received a customized training program award from the NC Community College System.
### Tables

#### Table 1. Policy coordination roles by mediated industry in North Carolina

<table>
<thead>
<tr>
<th>Policy Coordination Model</th>
<th>Mediated Industry</th>
<th>Coordination Role</th>
<th>Type</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centralized</td>
<td>Biotech Center</td>
<td>Network Administrator Organization</td>
<td>Dichotomous</td>
<td>NC Department of Commerce</td>
</tr>
<tr>
<td>Hybrid (higher centralization)</td>
<td>Textile College</td>
<td>Planning</td>
<td>Dichotomous</td>
<td>NC Military Foundation (2005)</td>
</tr>
<tr>
<td>Hybrid (lower centralization)</td>
<td>Defense</td>
<td>Enforces Industry norms</td>
<td>Continuous</td>
<td>NC Office of State Budget &amp; Management</td>
</tr>
<tr>
<td>Fully Decentralized</td>
<td>Aerospace</td>
<td>Recruitment/expansion</td>
<td>Dichotomous</td>
<td>NC Bureau of Labor Statistics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Technical assistance</td>
<td>Categorical</td>
<td>Regional economic development plans</td>
</tr>
<tr>
<td></td>
<td></td>
<td>University Research Partnerships</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Workforce Development</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Table 2. Summary of variables used

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Type</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancelled</td>
<td>1 = Deal cancelled for nonperformance; 0 = otherwise</td>
<td>Dichotomous</td>
<td>NC Department of Commerce</td>
</tr>
<tr>
<td>Mediated</td>
<td>1 = Deal occurred in industry with sector-based mediation; 0 = otherwise</td>
<td>Dichotomous</td>
<td>NC Military Foundation (2014); NC Military Foundation (2005)</td>
</tr>
<tr>
<td>Centralized</td>
<td>1 = Deal occurred in mediated industry with NAO; 0 = otherwise</td>
<td>Dichotomous</td>
<td>NC Military Foundation (2014)</td>
</tr>
<tr>
<td>Decentralized</td>
<td>1 = Deal occurred in mediated industry with no/partial NAO; 0 = otherwise</td>
<td>Dichotomous</td>
<td>NC Military Foundation (2005)</td>
</tr>
<tr>
<td>FirmSize</td>
<td>Amount of promised investment</td>
<td>Continuous</td>
<td>NC Department of Commerce</td>
</tr>
<tr>
<td>Industry Change</td>
<td>Percent change in national Industry employment over life of deal, by 4-digit NAICS</td>
<td>Continuous</td>
<td>US Bureau of Labor Statistics</td>
</tr>
<tr>
<td>NC GDP Change</td>
<td>Percent change in North Carolina’s GDP over life of deal</td>
<td>Continuous</td>
<td>US Bureau of Economic Analysis</td>
</tr>
<tr>
<td>Rural Deal</td>
<td>1 = Deal occurred in rural county; 0 = otherwise</td>
<td>Dichotomous</td>
<td>NC Office of State Budget &amp; Management</td>
</tr>
<tr>
<td>Distressed County</td>
<td>1 = Deal occurred in County with unemployment rate above state average; 0 = otherwise</td>
<td>Dichotomous</td>
<td>US Bureau of Labor Statistics</td>
</tr>
<tr>
<td>Labor Market Strength</td>
<td>1 = Deal occurred in regional industry cluster identified by Dept. of Commerce; 0 = otherwise</td>
<td>Dichotomous</td>
<td>NC Department of Commerce</td>
</tr>
<tr>
<td>Region</td>
<td>Deal occurred in one of 7 state designated Economic Development Regions</td>
<td>Categorical</td>
<td>Regional economic development plans</td>
</tr>
</tbody>
</table>
Table 3. Mediated industries by year and type of governance

<table>
<thead>
<tr>
<th>NAICS</th>
<th>Industry Name</th>
<th>Year Mediation Begins*</th>
<th>Governance Type</th>
<th>NAICS</th>
<th>Industry Name</th>
<th>Year Mediation Begins*</th>
<th>Governance Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>311110</td>
<td>Fiber, Yarn, and Thread Mills</td>
<td>2002</td>
<td>Centralized</td>
<td>335419</td>
<td>Semiconductor and Electronic Components</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>312110</td>
<td>Fabric Mills</td>
<td>2002</td>
<td>Centralized</td>
<td>335411</td>
<td>Electronic Instrument Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>312211</td>
<td>Fabrics Mills</td>
<td>2002</td>
<td>Centralized</td>
<td>335312</td>
<td>Electrical Equipment Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>314999</td>
<td>Other Textile Product Mills</td>
<td>2002</td>
<td>Centralized</td>
<td>336330</td>
<td>Motor Vehicle Parts Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>315110</td>
<td>Apparel Knitting Mills</td>
<td>2002</td>
<td>Centralized</td>
<td>336340</td>
<td>Motor Vehicle Brake System Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>322111</td>
<td>Printing and Related Support Activities</td>
<td>2002</td>
<td>Centralized</td>
<td>336360</td>
<td>Other Miscellaneous Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>325221</td>
<td>Resin, Rubber, and Synthetic Fibers</td>
<td>2002</td>
<td>Centralized</td>
<td>336370</td>
<td>Motor Vehicle Metal Stamping</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>325221</td>
<td>Resin, Rubber, and Synthetic Fibers</td>
<td>2002</td>
<td>Centralized</td>
<td>336390</td>
<td>Other Miscellaneous Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>325411</td>
<td>Pharmaceutical &amp; Medicine Manufacturing</td>
<td>2002</td>
<td>Centralized</td>
<td>336411</td>
<td>Aerospace Product &amp; Parts Manufacturing</td>
<td>2002</td>
<td>Decentralized</td>
</tr>
<tr>
<td>325412</td>
<td>Pharmaceutical &amp; Medicine Manufacturing</td>
<td>2002</td>
<td>Centralized</td>
<td>336412</td>
<td>Aerospace Product &amp; Parts Manufacturing</td>
<td>2002</td>
<td>Decentralized</td>
</tr>
<tr>
<td>325414</td>
<td>Other Chemical Preparation Manufacturing</td>
<td>2002</td>
<td>Centralized</td>
<td>336418</td>
<td>Aerospace Product &amp; Parts Manufacturing</td>
<td>2002</td>
<td>Decentralized</td>
</tr>
<tr>
<td>335411</td>
<td>Cleaning Compound and Toilettry Mfg</td>
<td>2003</td>
<td>Centralized</td>
<td>336612</td>
<td>Ship and Boat Building</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>336199</td>
<td>Plastics Product Manufacturing</td>
<td>2002</td>
<td>Centralized</td>
<td>336992</td>
<td>Armored military vehicles (except tanks) and</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>335211</td>
<td>Rubber Product Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
<td>335910</td>
<td>Medical Equipment and Supplies Mfg</td>
<td>2010</td>
<td>Centralized</td>
</tr>
<tr>
<td>335211</td>
<td>Rubber Product Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
<td>335911</td>
<td>Medical Equipment and Supplies Mfg</td>
<td>2010</td>
<td>Centralized</td>
</tr>
<tr>
<td>333110</td>
<td>Armored plate made in iron and steel mills</td>
<td>2007</td>
<td>Decentralized</td>
<td>335912</td>
<td>Medical Equipment and Supplies Mfg</td>
<td>2010</td>
<td>Centralized</td>
</tr>
<tr>
<td>351121</td>
<td>Purchased Steel Product Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
<td>335913</td>
<td>Medical Equipment and Supplies Mfg</td>
<td>2010</td>
<td>Centralized</td>
</tr>
<tr>
<td>351115</td>
<td>Alumina and Aluminum Production</td>
<td>2007</td>
<td>Decentralized</td>
<td>454511</td>
<td>Liquefied Petroleum Gas (Bottled Gas)</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>351120</td>
<td>Copper Rolling, Drawing, Extruding, and Allo</td>
<td>2007</td>
<td>Decentralized</td>
<td>481111</td>
<td>Scheduled Air Transportation</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>335110</td>
<td>Other Fabricated Metal Product Mfg</td>
<td>2007</td>
<td>Decentralized</td>
<td>541530</td>
<td>Architectural and Engineering Services (Def)</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>335110</td>
<td>Metalworking Machinery Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
<td>541580</td>
<td>Architectural and Engineering Services</td>
<td>2002</td>
<td>Centralized</td>
</tr>
<tr>
<td>333511</td>
<td>Metalworking Machinery Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
<td>541511</td>
<td>Scientific Research and Development Svc</td>
<td>2007</td>
<td>Decentralized</td>
</tr>
<tr>
<td>335611</td>
<td>Turbine and Power Transmission Equipment</td>
<td>2007</td>
<td>Decentralized</td>
<td>541530</td>
<td>Scientific Research and Development Svc</td>
<td>2002</td>
<td>Centralized</td>
</tr>
<tr>
<td>335611</td>
<td>Computers and Peripheral Equipment</td>
<td>2007</td>
<td>Decentralized</td>
<td>541711</td>
<td>Biotechnology research and development</td>
<td>2002</td>
<td>Centralized</td>
</tr>
<tr>
<td>335411</td>
<td>Communications Equipment Manufacturing</td>
<td>2007</td>
<td>Decentralized</td>
<td>541712</td>
<td>Communications Equipment Manufacturing</td>
<td>2007</td>
<td>Centralized</td>
</tr>
<tr>
<td>335413</td>
<td>Semiconductor and Electronic Components</td>
<td>2007</td>
<td>Decentralized</td>
<td>551114</td>
<td>Management of Companies and Enterprises</td>
<td>2007</td>
<td>Centralized</td>
</tr>
</tbody>
</table>

* This refers to the year mediation begins in the models. Decentralized begins in year of first strategic plan.
### Table 4. Descriptive statistics

<table>
<thead>
<tr>
<th>Types of Deals</th>
<th>Number of Deals (Statewide)</th>
<th>Cancellation Rate (Statewide)</th>
<th>Number of Deals (Urban)</th>
<th>Cancellation Rate (Urban)</th>
<th>Number of Deals (Rural)</th>
<th>Cancellation Rate (Rural)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>319</td>
<td>61%</td>
<td>152</td>
<td>53%</td>
<td>167</td>
<td>68%</td>
</tr>
<tr>
<td>No industry mediation</td>
<td>194</td>
<td>70%</td>
<td>89</td>
<td>63%</td>
<td>105</td>
<td>75%</td>
</tr>
<tr>
<td>Mediation with centralized governance</td>
<td>53</td>
<td>45%</td>
<td>31</td>
<td>39%</td>
<td>22</td>
<td>55%</td>
</tr>
<tr>
<td>Mediation with decentralized governance</td>
<td>71</td>
<td>51%</td>
<td>31</td>
<td>42%</td>
<td>40</td>
<td>58%</td>
</tr>
<tr>
<td>All mediation</td>
<td>125</td>
<td>48%</td>
<td>63</td>
<td>40%</td>
<td>62</td>
<td>56%</td>
</tr>
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</table>
Table 5. Results of logit regression models

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediation</td>
<td>0.396**</td>
<td>0.444***</td>
<td>0.410**</td>
</tr>
<tr>
<td></td>
<td>[0.164]</td>
<td>[0.137]</td>
<td>[0.152]</td>
</tr>
<tr>
<td>Firm Size</td>
<td>0.913</td>
<td>0.948</td>
<td>1.026</td>
</tr>
<tr>
<td></td>
<td>[0.104]</td>
<td>[0.091]</td>
<td>[0.151]</td>
</tr>
<tr>
<td>US Industry Percent Change</td>
<td>0.058*</td>
<td>0.022***</td>
<td>0.08</td>
</tr>
<tr>
<td></td>
<td>[0.087]</td>
<td>[0.030]</td>
<td>[0.165]</td>
</tr>
<tr>
<td>NC GDP Change</td>
<td>0.000**</td>
<td>0.004</td>
<td>0.002</td>
</tr>
<tr>
<td></td>
<td>[0.001]</td>
<td>[0.015]</td>
<td>[0.013]</td>
</tr>
<tr>
<td>Rural Deal</td>
<td>1.274</td>
<td>1.165</td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.425]</td>
<td>[0.306]</td>
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</tr>
<tr>
<td>Distressed County</td>
<td>1.332</td>
<td>1.201</td>
<td>1.664</td>
</tr>
<tr>
<td></td>
<td>[0.450]</td>
<td>[0.361]</td>
<td>[0.671]</td>
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<tr>
<td>Labor_Market_Strength</td>
<td>0.158***</td>
<td>0.201***</td>
<td>0.195***</td>
</tr>
<tr>
<td></td>
<td>[0.055]</td>
<td>[0.060]</td>
<td>[0.088]</td>
</tr>
<tr>
<td>2. Charlotte</td>
<td>1.709</td>
<td>1.198</td>
<td>0.954</td>
</tr>
<tr>
<td></td>
<td>[1.119]</td>
<td>[0.671]</td>
<td>[0.783]</td>
</tr>
<tr>
<td>3. Piedmont Triad</td>
<td>0.622</td>
<td>0.543</td>
<td>0.328*</td>
</tr>
<tr>
<td></td>
<td>[0.410]</td>
<td>[0.302]</td>
<td>[0.217]</td>
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<tr>
<td>4. Research Triangle</td>
<td>1.142</td>
<td>1.135</td>
<td>0.615</td>
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<td></td>
<td>[0.780]</td>
<td>[0.679]</td>
<td>[0.449]</td>
</tr>
<tr>
<td>5. Northeast</td>
<td>8.630*</td>
<td>5.483*</td>
<td>10.218**</td>
</tr>
<tr>
<td></td>
<td>[10.074]</td>
<td>[5.568]</td>
<td>[12.043]</td>
</tr>
<tr>
<td>6. East</td>
<td>1.83</td>
<td>1.073</td>
<td>0.962</td>
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<td></td>
<td>[1.168]</td>
<td>[0.593]</td>
<td>[0.688]</td>
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<td>7. Southeast</td>
<td>3.219**</td>
<td>2.382*</td>
<td>2.863</td>
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<td></td>
<td>[1.869]</td>
<td>[1.155]</td>
<td>[1.949]</td>
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<tr>
<td>Constant</td>
<td>11.05118</td>
<td>7.165156</td>
<td>2.618981</td>
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<tr>
<td></td>
<td>20.31359</td>
<td>11.1625</td>
<td>6.275977</td>
</tr>
<tr>
<td>Wald chi2</td>
<td>66.61</td>
<td>59.32</td>
<td>41.49</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Pseudo R2</td>
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* p<0.1; ** p<0.05; *** p<0.001

*Coefficient estimates, presented in odds-ratios

[Standard Errors]

Dependent Variable = Cancelled
REFERENCES


This dissertation has argued that the institutional policy environment in which economic
development incentives are embedded exercises profound influence on the effectiveness of this
tool to deliver on its promises of job creation and investment. While each of the preceding
papers has developed a range of conclusions particular to its own specific research questions,
there are a number of themes cutting across these conclusions that are worth exploring in a
synthetic way through the lens of the five features of embedded practice.

1. **Strategic planning**

   At first glance, the most obvious finding of this dissertation is that planning matters—
especially the planning and technical analysis that identifies those industries the state should
target (or avoid targeting) for development. Economic development professionals have choices
about the firms they support with incentives, and it is clear that incentives perform worse when
given to firms in industries that are declining and better when given to firms in industries that
have been selected for targeting due to their local economic strength and performance. This
should not be surprising and serves to reinforce the findings of Lester et al (2014).

   Yet there are a few important points that are new to this discussion. First, industry
targeting proves an effective means of improving the effectiveness of incentive deals in
distressed counties. Given Bartik’s (1992; 2015) findings that incentives are most effective when
deployed in high unemployment communities, targeting gives economic development
professionals an important tool for ensuring that deals will indeed live up to their potential in
the places success is most badly needed. Secondly, planning and analysis can also provide an important push-back to ideologically-driven lawmakers convinced that government lacks the capacity to pick winners and losers among industries. While the future performance of individual firms and the overall macro-economy may be unknowable, basic economic trend analysis can, in fact, provide professionals with a good indicator of industry performance and, in turn, the likelihood a prospective deal will prove successful.

Lastly, the analysis of incentives performance in North Carolina’s defense complex reminds us that strategic planning need not occur at a single scale in order to be effective. Rather, there are benefits to multiple actors conducting multiple and overlapping planning processes at different scales of government. The lack of a single statewide planning process in the aerospace industry, for example, led to the organic development of different approaches for developing that industry in several different geographic locations, contributing to highly localized specialization.

2. **Policy portfoilos**

In examining the relationship between policy portfolios and the effectiveness of incentives, the project has looked mainly at the interaction of workforce development with industry targeting. Training programs customized for individual companies have a clear positive impact on improving the success of incentive deals at the statewide level in targeted and non-targeted industries. Even more importantly, they increase the effectiveness of incentives in distressed counties, both when targeting is present and when it is not. This suggests that this kind of case-by-case, firm-by-firm approach to job training has an important role to play in overcoming the headwinds of local economic conditions and long-term manufacturing decline so dominant in distressed counties. Yet, it remains an open question of whether supporting the specific training needs of individual firms on a case-by-case basis is more effective than
developing common pool resources for an entire industry, like investments in permanent training programs that can benefit all firms in the industry.

This is especially important given a second conclusion related to policy portfolios—the role incentives within a state’s policy portfolio, and indeed, the shape of the portfolio itself—are deeply influenced by the political context in which economic development policy is made. The sharp swing away from support for regional industry targeting in North Carolina following the 2012 elections provides a clear reminder that shifts in political control can lead to shifts in policy. In this case, findings that workforce development is most effectively provided to firms in targeted industries runs contrary to the direction those lawmakers in power want to take economic development.

3. Policy coordination

There are two conclusions that can be drawn from this study’s discussion of policy coordination. First, the governance model for coordinating the different strategies and policies used in industry mediation efforts can take on different forms. While previous research has looked at policy coordination through the lens of a single, central actor, this study has shown that governance really exists along a continuum from highly centralized models with comprehensive administrative coordinators to completely decentralized approaches and anything in between. North Carolina’s aerospace/defense complex provides an example of more decentralized approaches to coordinating industry mediation that have proven successful in improving incentive outcomes. Although theories of network governance and workforce development suggest that efficiency and connectivity challenges will hamper decentralized models of policy coordination, this study has shown the opposite—the state’s decentralized approach to reduced the probability of failure for incentive deals in those industries compared to those industries that did not receive mediation. Crucially, these effects remained significant for deals in rural areas and at a statewide level, which suggest that decentralized policy coordination
in these industries is not hampered by geographic distance or excessive membership size in the ways network governance theory would predict.

In practice, decentralized governance at the state level pushed policy coordination to the local level, contributing to the development of multiple hubs of aerospace development, each with a different industry specialization. In effect, these local hubs secured the efficiency gains inherent in small, geographically concentrated governance networks, while gaining additional stability through industry diversification across the state. In turn, these hubs developed their own institutional arrangements, which, supported by cross-scale linkages with a variety of state agencies and policy networks, ensured diversification of sources of funding and technical assistance.

Secondly, decentralization can play an important role in buffering industry mediation efforts from shifts in political winds. This proved particularly important when state-level industry mediation efforts came under sustained political attack by an ideologically driven General Assembly following the 2010 elections— despite efforts to remove revenue sources and programmatic support for the aerospace industry, industry and institutional specialization allowed the state’s mediation efforts to continue.

4. Regulatory frameworks

Policy makers can draw three main conclusions from this study about the connection between the regulatory and accountability frameworks in place and the effectiveness of a community’s incentives. First, this dissertation provides systematically developed evidence that Weber (2002) and LeRoy (1997) are correct— accountability standards can rein in many of the abuses associated with corporate incentives and improve their overall effectiveness. Specifically, it is clear that a well-designed accountability and performance framework eliminates the motivation firms have to over-promise and under-deliver just to extract bigger incentive awards. Eliminating this inducement goes a long way to making these tools work better. Secondly, good
program design also accounts for the strategic weaknesses normally associated with using incentives to recruit out-of-state branch plants. North Carolina’s statutorily-required cost-benefit/economic impact modeling appears to be largely getting it right in assessing the firm-level strengths, weaknesses, and likely behavior of prospective incentive recipients, such that the specific branch plants selected or the specifics firms chosen for recruitment are no more vulnerable to failure than other types of firms. This has significant implications for regional industrial resiliency, particular in the US South, where reliance on out-of-state capital has left the region vulnerable to offshoring.

A third conclusion involves the important role played by regulatory standards in proactively shaping the policy-making process to produce more accountable incentive policies. In North Carolina, the presence of these standards created new countervailing norms that placed significant constraints on the shape and accountability of new incentive programs when they were debated. On multiple occasions, these countervailing norms played a key role in shooting down the creation of no-strings-attached incentive programs for deal “closings” and firm retentions.

5. Political environment

From this study, it is clear that the political factors shaping economic development incentive granting are more complex than a deterministic response to ribbon-cutting pressures. Instead, policy makers respond to range of political pressures, including the demands of ideological competition over how to diagnose notions of economic competitiveness and the role played by political coalitions in formulating and enacting these diagnoses. As a result, the very idea of competitiveness is contested, as are definitions of “effectiveness.” At the same time, these political factors are embedded in a policy environment that sets the rules for how communities use incentives to compete in the spatial market for jobs, acting as a clear mediating force that constrains and channels the political pressure elected officials feel to create jobs. In turn, this
shapes how communities choose to bargain with business and how they design their incentive programs to facilitate these choices.

And this is no mere theoretical exercise. These findings provide important policy implications for practitioners, staff, and lawmakers who want to enact more progressive, accountable, and equitable economic development policy that proves effective in delivering on its promises. Perhaps most importantly, the reality that the idea of “economic competitiveness” is contested opens the door for progressive policy makers to diagnose their own economic challenges as a competitiveness problem, and then promote equitable or sustainable policies as the solution to that problem. For example, progressives could argue that wage stagnation and income inequality weaken the region’s consumer base, which in turn makes it harder to support business growth or a tax base capable of building the infrastructure and educating the workforce that businesses need. With this diagnosis, they could argue that their region needs to invest in policies that raise incomes as the key to competing in the global economy. In effect, this reframing allows progressives planners to place their narratives and policy proposals about equitable economic development strategies into the more broadly understood and politically salient framework of economic competitiveness. This creates greater policy flexibility, both in terms of creating a normative argument for integrating traditional incentives with more progressive policies and for setting more progressive goals for what effectiveness should look like.
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