

## Milestones in the Local Economy

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### **Article:**

This is the 100th column I've written for the *News & Record*. Because I've done this only part-time, writing first occasionally and then monthly, it's taken me 12 years to reach this mark. Much has happened in the economy since 1995, from FedEx to Dell to HondaJet. Here are some of the most significant developments.

### **Economic Transformation**

The economy continues to experience its decades-long transformation from Old Economy to New Economy, from physical capital to human capital. In 1995, manufacturing accounted for 24 percent of all payroll jobs in North Carolina. Now it accounts for a little over 13 percent.

Job losses are often blamed on cheap labor in other countries. But outside of the apparel industry, the bigger culprit is the steady advance in labor-saving and information technologies in this country.

We've probably lost most of the manufacturing jobs we're going to lose, and those manufacturers who remain are tough competitors that rely on skilled workers, proximity to research facilities, and access to domestic markets.

### **The Return of High Fuel Prices**

In 1995 it had been 10 years since we'd seen steadily rising oil prices. As a result, cars grew and gained horsepower in the 1990s, and favorable tax laws allowed SUVs to rule the roads.

But things began to change. Expanding global demand pushed oil prices upward. Shrinking U.S. refinery capacity introduced great uncertainty in gasoline supply. Each year the seasonal spike in gasoline prices has been higher than the year before.

In 1995 it was mostly environmentalists who bemoaned the fuel inefficiency of the American automotive fleet. Now, rising prices are converting many of us into conservationists.

### **Bubbles**

Since 1995 we've seen two separate speculative bubbles, i.e. outbreaks of what former Federal Reserve chair Alan Greenspan called irrational exuberance. During a bubble, fundamentals give way to speculation. Prices rise with no apparent ceiling, at least for a while, because buyers believe they can easily resell at a profit.

First we experienced the tech bubble in the late 1990s, as stock prices of companies with any connection to the Internet soared and then returned to earth. Then came the housing bubble, which was unusual for its wide geographic variation. Housing speculation reigned along our coasts and in certain big cities, but elsewhere (including the Triad) it never got particularly frothy. Now we're witnessing the end of the housing bubble and a hangover from the excesses of subprime lending.

The tech bubble's demise helped usher in the recession of 2001. So far at least, forecasters aren't predicting the same for the end of the housing bubble.

## **Wage Woes**

Between 1995 and 2000, wages for all private-sector workers in the U.S. rose an average of 1.3 percent per year after inflation. Since the end of the 2001 recession, wages have stagnated while gross domestic product and labor productivity have grown at a healthy clip. Historically, rising productivity drove wages upward, but that link seems to have been severed in recent years. From 2002 to 2005, productivity grew 8.9 percent, while real wages *fell* 0.8 percent. Wages rebounded in 2006, but the question remains: Will we return to the wage growth of the past, or has something significant changed in the economy?

## **The Incentives Game**

Since 1995 North Carolina has become more assertive in granting fiscal incentives to individual businesses. Overall, incentives are wasteful, but it's hard to stop playing the game as long as others insist on playing. Even so, the growing tendency of retail developers to request incentive packages is a disturbing new twist. Fiscal incentives may be a necessary evil for industrial sitings, but they rarely if ever make sense for retail.

## **The Lottery**

After holding out for years, North Carolina finally started its own state-run lottery in 2006. Lotteries are popular but are bad public policy. Either the lottery is a tax of dubious fairness because it collects the bulk of its revenue from poor people, or it's a consumer product whose buyers would be better served by competition and private enterprise. Why should the state have a monopoly in the sale of lottery tickets? And will the lottery actually increase funding for education in the state?

## **The Las Vegas Challenge**

The 2002 announcement that Las Vegas would establish a large furniture market didn't immediately send shock waves through the Triad. But concerns grew as the market's 2005 opening approached. The High Point market responded by reinventing its transportation system and making other improvements. At this point, both markets appear to be doing well, and it's too soon to say which will emerge as the stronger one. Or will it be a tie?

## **Action Greensboro**

Over the last few decades, the number of corporate, regional, and divisional headquarters in Greensboro has fallen significantly. Perhaps this isn't surprising given that most of the big corporate citizens of the past were in textiles. The diminished corporate presence left a leadership void in Greensboro, which six foundations filled in 2001 with the formation of Action Greensboro.

Action Greensboro took the lead in various projects, especially such downtown ventures as Center City Park, First Horizon Park, and Elon's law school. In the process it contributed to a growing resolve about the local economy. It may be too early to say goodbye to the Greensboro Disease, the syndrome in which a bold new idea is met by gentle explanations that it just wouldn't work here. But we're seeing the beginnings of a can-do attitude.

Perhaps we've learned that while Charlotte and Raleigh can serve as benchmarks, they aren't necessarily what we should aim for. To be sure, we need financial services, venture capital, and world-class research. But we can also develop our strengths in transportation, logistics, and yes, even manufacturing.

With luck, when I write my 200th column I'll be able to look back and describe how the Greensboro economy was invigorated by a renewed confidence and the wisdom to focus on its strengths instead of trying too hard to be like Charlotte and Raleigh.