Caterpillar's boost not so clear-cut
Michael E. Kanell
19 February 2012
The Atlanta Journal-Constitution
Copyright (c) 2012 The Atlanta Journal-Constitution, All Rights Reserved

The state and its taxpayers shove a $75 million package of incentives across the table toward Caterpillar Inc., which pockets the promises and offers its own: the $60 billion-a-year company will build a huge manufacturing plant in Georgia.

In a high-profile splash on Friday, officials announced that the state will provide a host of tax breaks, land purchases and improvements to roads and utilities. In return, Caterpillar agrees to build a $200 million, 1-million-square-foot facility that will eventually hire 1,400 workers.

But is it a bargain?

Are taxpayers making a savvy investment that will pay off over time or are they making a generous contribution to the profits of a giant company and the income of its shareholders?

In financial terms, it is a question for cost-benefit analysis.

The Caterpillar deal will be judged by whether there is enough of a surge in new jobs, tax receipts and economic growth. The expectation is for higher incomes for workers and more tax revenues for government services that would also lift the standard of living and the quality of life.

The cost side for Georgia taxpayers includes roughly $75 million in breaks of various kinds --- plus worker training, which the state has promised --- going to Caterpillar from the state, county and local governments.

The plant will be worth it if it has the same kind of impact as the new Kia auto plant in West Point, said Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State.

Adding to that value is this context: These are needed jobs in the face of a slow economy and disproportionately high unemployment in Georgia.

Kia hired its first wave of workers at the depth of the 2009 recession; more than 40,000 often-desperate people lined up to apply for jobs. While prospects have improved since, joblessness in Georgia is still high at 9.7 percent.

"This is the kind of work needed for the unemployed," Dhawan said. "By itself, is it enough? No. This is like a seed."
While it's impossible to know precisely how much impact the plant will have on surrounding communities, the state is not taking a flier on some untried technology, Dhawan said. "This is a guaranteed product that will sell. That is why it passes the smell test."

The plant will straddle the border of Oconee and Athens-Clarke counties. At full employment, its payroll will reach about $57 million. Moreover, the plant could spur suppliers to locate nearby.

Economists talk about multipliers --- how spending by one group of employees spills into the broader economy, fueling retail and other sectors to hire.

Every new hire pays taxes --- a sort of reimbursement to the state. And workers with good jobs don't need as much state spending on social services and Medicaid.

The multiplier is large for manufacturing, which buys supplies locally, produces expensive equipment and sells it outside the state, said Jeff Humphreys, director of the Selig Center for Growth at the University of Georgia. "This brings new money and economic activity into the state that otherwise wouldn't be here."

Economists don't put much stock in psychology, but a vibrant new plant could add to a community's sense of optimism and influence choices by other companies.

But there are arguments against this deal, from how little the jobs pay to the perceived unfairness of directing state dollars at one business and not another.

Caterpillar said the plant will pay wages competitive with the average in the area; $37,596 a year in Clarke, $33,748 a year in Oconee.

That is shy of Georgia's $43,888 average. It is also well below what workers typically make in auto assembly plants.

And some economists blanch at the very notion of aiming state resources at one company or even one sector.

Raymond Hill, senior lecturer at Emory's Goizueta Business School, opposes ladling state benefits on particular companies or even industries. Instead, he argued for spreading the savings across the state.

"How much better would we be if we kept taxes low for business across the board or maybe put that money into education?"

The result might be a few jobs here and there that added up to more than the Caterpillar payroll --- but it wouldn't make the same kind of splash, and it wouldn't be something state officials would trumpet in a press conference, he said.

Certainly the state does not report on how well --- or poorly --- these deals turn out. Between 2003 and 2009, the state awarded nearly $473 million in tax breaks, grants and loans to entice businesses to Georgia or keep them here, an Atlanta Journal-Constitution study showed. But the state could not say whether the promised jobs were ever created.
The approach has been for Georgia a central part of its economic strategy.

To persuade Kia to put its next plant in Georgia, the state, federal and local governments gave the Korean company nearly a half-billion dollars in land, buildings and tax breaks.

Broken down, each Kia job cost taxpayers $195,417 --- and a quarter of the jobs went to Alabama residents.

In 2011, the Department of Economic Development issued announcements about 360 deals --- roughly two-thirds of them expansions, not move-ins from elsewhere --- and the promise of 22,005 new jobs.

From a national perspective, the process is destructive, argue some critics.

"It is not a good deal for U.S. taxpayers," said Stephen Herzenberg, executive director of the Keystone Research Center, a Pennsylvania think tank that studies economic and workforce development. "It is a transfer from the 99 percent to the 1 percent because this widens the profits at Caterpillar."

Companies will gladly take subsidies for plants that will get built anyhow, he said.

"The site location consultants play a lot of poker, so state and local officials play a few games and mostly, the officials get taken," Herzenberg said.

But so long as there is no national policy against bidding wars, even critics say Georgia has little choice.

Caterpillar might not have cared much whether the new plant was in Georgia, North Carolina or some other state. If the decision might come down to a bidding war, Georgia had to be in the game.

Ultimately, to be competitive --- and to have a healthy economy --- a state must do more than just offer cheap labor.

"What you want is a good workforce, good infrastructure, good transportation and schools and good access to suppliers," said economist Bruce Seaman of Georgia State. "You cannot indefinitely erode your tax base and expect to provide all those services."

It's too soon, of course, to know if Georgia will look back in satisfaction at the Caterpillar deal.

Alan Essig, executive director of the Georgia Budget and Policy Institute, said for now he will give the governor the benefit of the doubt, but he wondered if there are provisions for getting repaid if Caterpillar does not come through with the promised jobs and growth.

Maybe, Essig said, the state has an economic strategy that is good, but not enough. "Regardless of whether these are good or bad deals, there's a real question: Is this our entire policy?"