The Business Journal

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For more information on any of these special sections, contact Associate Editor Lloyd Whittington at (336) 370-2914 or lwhittington@triadbizjournal.com.

The Business Pulse Survey

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Next week’s question: Where do you buy books?

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Based on 382 responses.

Playing the incentives game

The Honda Aircraft Co. is considering expanding its facility at Piedmont Triad International Airport to include a service center and additional manufacturing capacity for its HondaJet. The $80 million expansion would add more than 400 workers, and that’s in addition to the recently announced increase of 200-300 workers at the existing facility.

So we have a big-name company and mostly high-skilled jobs in a sector identified as one of the Triad’s key industry clusters. Sounds great, right? But because Honda is requesting $775,000 in incentives from Guilford County and $520,000 from Greensboro, it’s a little controversial.

Mind you, it’s not controversial to most business and economic development leaders, who know how the incentives game is played and generally support their use. And labor groups tend to see any opportunity for jobs as good news.

It’s also uncontroversial among those who employ, either implicitly or explicitly, a cost-benefit approach. Not every incentive deal makes sense to these middle-of-the-roaders. But weighing the obvious advantages of an expanded HondaJet presence in the Triad against the relatively small incentives request makes answering yes seem tolerable in this case.

The group among whom this is truly controversial are those who almost always oppose incentives. They invoke phrases like “corporate welfare” and speak in moralizing tones. They raise good questions, like why it makes sense to extend incentives to new and expanding firms but not the rest of the business community.

Another question has to do with cash-poor local governments forgoing future tax revenues from a cash-rich multinational corporation. Isn’t this the worst possible time for local governments to say yes? Or is this precisely when they should do what they can to spur employment?

The moralizers (and I mean that in a nice way) care little about comparing costs to benefits. In fact, the relatively small size of the HondaJet request actually fuels their opposition. How could a measly $1.3 million matter to a huge company like Honda?

As an economist, I’m reflexively oriented to the cost-benefit approach. However, I know that local governments are at a strategic disadvantage in the incentives game. They end up incurring more expense than they should in order to attract jobs. But the game goes on because the expected return to local governments is generally more than companies extract.

Now, there is one big exception to that last statement. If the business would have come even without the incentives, then anything spent on them is a waste. That’s why you have Guilford Commissioner Billy Yow claiming that Honda is “so invested right now in Guilford County that it wouldn’t be feasible for them to leave and do it somewhere else.”

Maybe he’s right, but this is where the strategic asymmetry looms largest. The company knows what its options are, but the city or county doesn’t. It has to guess. And if it wants to start guessing correctly, it has to say no from time to time, even if it means watching those jobs go elsewhere. That’s a risk few elected officials want to take.

So granting incentives is either a good deal that could be better, or a complete waste of money, and there’s no way of knowing for sure which is which. No wonder few people are excited about incentives.

As a community, through our elected officials, we have every right to say no to Honda’s request. But it’s sure be a shame if this were the one on which we guessed wrong.

Andrew Broo is a senior research fellow in UNC-Greensboro’s Center for Business and Economic Research and a member of The Business Journal’s Editorial Board of Contributors. Reach him at (336) 707-6439 or AndrewBroo@uncg.edu. An archive of his columns is available at http://cheaneg.edu.

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Greensboro Office
100 S. Elm St., Suite 400
Greensboro, NC 27401
Phone: (336) 271-6589
Fax: (336) 372-9277
Web: (336) 370-2989
Advertising fax: (336) 370-2900
General fax: (336) 374-3607
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