

Location Incentives: The Cost of Attracting Auto Investment or “The New Normal”?

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- Georgia lures Chrysler with \$320 million: Windsor was dropped from consideration last month (Ottawa Citizen 2002)
- Ford warns: subsidize or lose jobs (Globe and Mail 2002)
- Ottawa must match auto efforts: Eves (National Post 2003)
- Buying auto jobs by the thousands: Should government spend \$160,000 for a spot on the line? (National Post 2003)
- Navistar to keep Ontario plant open: Government help prompts reversal (Globe and Mail 2003)

- Experience has increased the capacity of auto MNEs to play the incentives game
- The number of jurisdictions bidding for an investment enhances the capacity of the MNE to play off one bidder against another to its own advantage
- Labor considerations – the availability of untrained labor and an absence of a union environment – are important in auto MNEs location decisions

- The bidding game has generated a significant collective action problem in North America
- Market size and market affluence predispose MNEs concerned about meeting the NAFTA rules of origin to locate in the largest market
- Proximity to suppliers is a consideration in some auto MNE investment decisions

1980s US Locational Tournaments

- First round value of investments \$3.41 billion, creating 18,700 jobs (announced), with an announced capacity of 1,460,000 vehicles annually.
- Total value of government subsidies – between \$428.8 million and \$858.1million.

1980s US Locational Tournaments- Low

OEM	Incentive (US Mil)	Incentive as % of value	Incentive per job	Incentive per vehicle
Honda	\$24.30	10	\$12,135	\$202
Nissan	\$31.90	5.8	\$14,500	\$177
NUMMI	\$0	0	\$0	\$0
Mazda	\$104	24	\$29,740	\$416
Diamond Star	\$78.50	14.3	\$31,390	\$326
Toyota	\$111.50	20	\$55,760	\$557
Subaru- Izuzu	\$78.50	17.7	\$46,160	\$653
Honda	\$0	0	\$0	\$0

1980s US Locational Tournaments- High

OEM	Incentive (US Mil)	Incentive as % of value	Incentive per job	Incentive per vehicle
Honda	\$26.70	11	\$13,350	\$223
Nissan	\$42.90	7.8	\$19,500	\$238
NUMMI	\$0	0	\$0	\$0
Mazda	\$111.50	25.8	\$31,860	\$446
Diamond Star	\$251.80	46	\$100,730	\$1,050
Toyota	\$346.70	62.2	\$173,300	\$1,735
SIA	\$78.50	17.7	\$46,150	\$655
Honda	\$0	0	\$0	\$0

1980s Canadian Locational Tournaments

- Cdn tournaments generated investment of \$1.4 billion, with 4900 promised jobs and 430,000 in production capacity.
- Total incentive package ranged between \$243 and \$273.3 million.

1980s Canadian Tournaments-Low

OEM	Incentive (US Mil)	Incentive as % of value	Incentive per job	Incentive per vehicle
Honda	\$14.00	5.5	\$20,000	\$175
Toyota	\$46.30	17	\$46,280	\$925
Hyundai	\$74.90	30.5	\$62,390	\$750
CAMI	\$107.80	17	\$53.88	\$540

1980s Canadian Tournaments-High

OEM	Incentive (US Mil)	Incentive as % of value	Incentive per job	Incentive per vehicle
Honda	\$14.00	5.5	\$20,000	\$175
Toyota	\$55.10	20.3	\$55,130	\$1,100
Hyundai	\$74.90	30.5	\$62,390	\$750
CAMI	\$129.30	20.4	\$64,660	\$650

1990s US Locational Tournaments

- Total value of 2nd wave transplant investment \$3.072 Billion, with 14,400 direct jobs announced and announced capacity of 1.138 million vehicles annually.
- Total value of announced incentives – between \$784.6 million and \$1.104 billion.

1990s US Locational Tournament-Low

OEM	Incentive (US Mil)	Incentive as % of value	Incentive per job	Incentive per vehicle
BMW	\$103.40	33.7	\$51,675	\$1,325
Mercedes	\$175.10	84.3	\$116,725	\$2,920
Toyota	\$58.90	7.5	\$29,460	\$390
Honda	\$94.80	24.7	\$41,235	\$630
Nissan	\$209.70	25.5	\$45,590	\$525
Hyundai	\$142.70	25.3	\$71,370	\$475

1990s US Locational Tournaments-High

OEM	Incentive (US Mil)	Incentive as % of value	Incentive per job	Incentive per vehicle
BMW	\$143.30	46.7	\$71,632	\$1,835
Mercedes	\$334.30	161	\$222,840	\$5,570
Toyota	\$58.90	7.5	\$29,460	\$390
Honda	\$94.80	24.7	\$41,235	\$630
Nissan	\$270.70	32.9	\$58,840	\$677
Hyundai	\$142.70	25.3	\$71,370	\$475

Conclusions

- MNEs have learned to bargain
- Incentives \$1.456 to \$2.176 billion
- Value of transplant investment \$7.9 billion
- 38,200 direct announced jobs
- Announced capacity of 3.028 million

Conclusions (cont'd)

- Proximity to suppliers
- Market size and tariffs
- Capacity expansion
- Labor issues

Points to Ponder

- Incentives – MNE view?
- Jurisdiction priorities
- Capacity to assess value of incentives
- Collective action problem
- Incentives and competition