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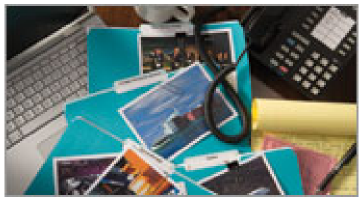

Southern States Ply the Art of the Deal

In the battle to attract new corporate citizens, states are assembling incentive packages that are richer than ever. Although Southeastern states have brought in glittering prizes, some wonder if the price they're paying for industrial incentives is too high.

The Lower Mississippi River: The Flow of Trade

More than the United States' longest river, the Mississippi is also a vital part of American commerce. The lower Mississippi River traffics in a wide range of raw materials, agricultural commodities, and finished products—and there's still room to grow.

Putting Pension Reform in Perspective

Many countries' aging populations have made pension reform an issue of crucial importance. Governments are deriving inspiration from the Americas, which have forged groundbreaking reforms in this area for decades.
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Southern States Ply the Art of the Deal

Around the Southeast, states vie to attract firms that will create new jobs and boost area economies. But are some states paying too high a price to woo big business?

Photo by Brad Newton

When he got word that a top executive of the German steelmaker ThyssenKrupp would be in Mobile in February, Alabama Gov. Bob Riley arranged his schedule to stop by and say, "Guten tag." Drop billions of dollars in a state, and the governor will drop in on you.

ThyssenKrupp is doing just that, having broken ground in November on a $3.7 billion steelmaking plant north of Mobile that is set to employ 2,700 of Riley's constituents when it opens in 2010. Alabama fought fiercely for the factory, providing $800 million in land, job training, tax breaks, and other financial incentives.

Mississippi, Alabama, Florida, and Georgia have all in the past couple of years awarded hundreds of millions of dollars in subsidies to automotive assemblers, steel mills, and other businesses. Important though the subsidies are, the highly competitive business of industry recruitment consists of more than financial sweeteners. In fact, Louisiana offered ThyssenKrupp a larger incentives package than Alabama did—reportedly more than $1 billion—but a variety of considerations swayed the decision.

Some observers question the long-term wisdom of such large deals. Yet generous public incentives have come to be a widely accepted part of economic development. Even so, most experts say that while those packages are important in romancing companies, they are generally tiebreakers and not dealmakers.

Incentives "usually end up being a deal-closing fund," said Kenneth Stewart, commissioner of the Georgia Department of Economic Development. "Their intent is to attract [companies] to locate in one place over another when other factors are the same."

The first factor that must be in place is a suitable location with the right access and infrastructure, economic development experts say, along with a good labor pool, low business costs, and a decent quality of life.

In the case of ThyssenKrupp, had Alabama and Mobile-area officials not devised a workable plan and infrastructure allowing the company to haul steel slabs from Brazil through the Gulf of Mexico and eventually up the Tombigbee River, nothing else would have mattered, said Neal Wade, director of the Alabama Development Office, the state's main economic development agency. The Alabama Port Authority agreed to build a $115 million port near the plant site to unload the slabs. That project is not included in the $800 million in incentives because user fees from ThyssenKrupp should eventually pay for the port.

Related Links

On the site:

Economic development trends podcast (MP3 7:52)

On the Web:

Alabama Development Office

Florida Governor's Office of Tourism, Trade, and Economic Development

Georgia Department of Economic Development

Louisiana Economic Development Department

Mississippi Development Authority

Tennessee Department of Economic and Community Development

Article on Mississippi's economic development in the 1930s

Politics, economics intertwine in recruitment

As critical as more quantifiable elements are, factors like a visit from the governor also play a role in successful economic development, Wade said. As "the state's chief economic developer," as Wade terms him, Riley has been instrumental in Alabama's winning several glitzy industrial prizes of late, including ThyssenKrupp, a Hyundai Motors plant in Montgomery, and a National Steel Car rail car plant in Muscle Shoals, Wade said.

Economic development has always been an economic and a political enterprise, say those who've studied it. James Cobb, the B. Phinizy Spalding Distinguished Professor of History at the University of Georgia, recalls an episode when he was working on his book, *The Selling of the South—The Southern Crusade for Industrial Development*. Cobb asked an Alabama economic development official in the 1970s whether his job was political.

"Oh no," the official replied. "My job is just to make [Gov.] George Wallace look good."

New jobs for more workers make governors look good, which is one reason states are willing to grant well-heeled corporations generous subsidies to bring employment, said Matthew Murray, professor of economics and associate director of the Center for Business and Economic Research at the University of Tennessee.

"I think that there are economic rationales for pursuing these large and very visible facilities. But there are often political and visibility factors" as well, Murray said. He cited Mississippi, which awarded Nissan in 2003 and Toyota last year a combined $659 million in subsidies to win assembly plants, as an example of a state pursuing not only jobs but also favorable attention. Alabama made a similar image-polishing move with its $250 million package to lure Mercedes-Benz in 1993. Since then, the state's profile as a potential home to global manufacturers has indeed risen dramatically, Wade said.

Photo courtesy of Scripps Research Florida Institute

The Scripps Research Institute, a leading biomedical research organization, chose to locate a lab in Florida after the state committed more than $300 million and Palm Beach County added another $269 million.

The states "are really trying to show that they're a major player in the national and global economy," said Murray. "I think that's why we've seen the amounts that states and municipalities are willing to pay go up."

Chasing sustained prosperity

Huge industrial prizes such as steel mills and auto assembly plants tend to hog headlines and public subsidies. But some Southeastern states are directing dollars and energy toward other types of employers. A mantra among economic developers is "sustainable industry," meaning industry whose jobs are unlikely to disappear soon.

Wade and his counterparts, Dale Brill in Florida and Stewart in Georgia, all said sustainable development tops their agendas. The economic developers also stressed their desire to recruit and cultivate knowledge-based jobs, such as those offered by life sciences and technology firms. They also target particular industries. Alabama has clearly found success in automobile manufacturing and wants to expand its cadre of aircraft and aerospace firms. Georgia's favored niches include logistics services and life sciences.

Florida, Brill said, aims to build an "innovation economy" powered by biomedical research, alternative energy, aerospace, homeland security, and brainpower that might emerge from any sector. Former Gov. Jeb Bush began a push to wean the Sunshine State from its historic dependence on tourism and construction. Since taking office in January 2007, Gov. Charlie Crist is continuing that mission, said Brill, director of the Office of Tourism, Trade, and Economic Development in the governor's office.

To be sure, tourism remains critical in Florida's economy. It accounts for 18 percent of the state's sales tax revenue, and it's one of the reasons residents there pay no state income tax, Brill said. At the same time, Florida appears to be making headway in attracting life science businesses.

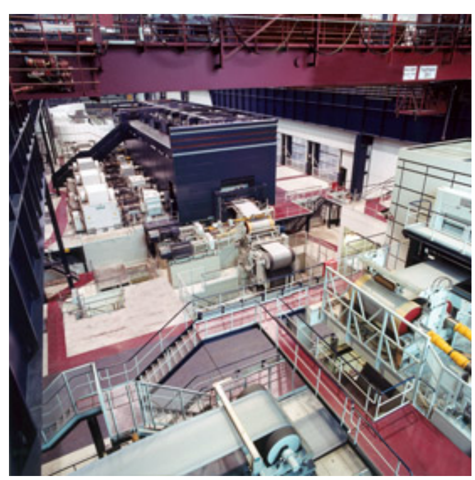

Photo courtesy of ThyssenKrupp

After a heated bidding war among several states, ThyssenKrupp selected Alabama as the site of a $3.7 billion steelmaking plant. Under construction and expected to begin production in 2010, the Mobile plant—like the ThyssenKrupp plant in Germany shown above—will employ thousands.

Florida and Palm Beach County announced in December that each will contribute more than $90 million to help the Munich-based Max Planck Society build its first U.S. biotech lab near Palm Beach. The Planck Society operates 80 institutes that study evolutionary and cell biology, neuroscience, and genetics. Its lab at Florida Atlantic University, which is donating land for the project, is scheduled to open this year and will employ about 150 scientists, according to the Planck Society.

The state's $95 million incentive package for the Planck Society comes from the Florida Innovation Incentive Fund, which is designed to attract biotech companies and research institutions. In coming to Florida, Planck followed the famed Scripps Research Institute, which bills itself as the world's largest, private nonprofit biomedical research organization. Scripps opened a lab in 2004 that employs more than 160 people, including about 130 faculty and scientific staff. In 2003 the state of Florida agreed to award Scripps $310 million for equipment and salaries, and Palm Beach committed $269 million more for land and buildings.

After Scripps moved in, the Torrey Pines Institute for Molecular Studies announced plans to build a research center in Port St. Lucie, and the Burnham Institute for Medical Research plans to open a facility in Orlando.

"I would argue that areas we're going to focus on are going to make incentives over time less and less important," Brill said. "Where we're headed, at least, is that the modern game is going to be built on workforce and infrastructure."

Economic development's deep roots

The modern era of economic development programs can generally be traced to the Great Depression and its immediate aftermath, when Southern states, desperate to improve their employment prospects, offered relocation incentives to Northern manufacturers, said Connie Lester, a historian at the University of Central Florida. After all, President Franklin D. Roosevelt in 1938 famously declared the region America's "economic problem number one."

Even before the Depression, the Southeast's economy lagged behind the nation's. "In this situation the slavish adherence to an agricultural economy built on a few staples—cotton, corn, and tobacco—was a prime factor," Atlanta Fed economist C.H. Donovan wrote in a 1946 report on the spread of industrial development corporations in the region.

Indeed, a desire to reduce reliance on agriculture instigated what is generally considered the first state-level program to offer manufacturers financial incentives such as tax breaks and free land. Launched in 1936, the state of Mississippi's Balancing Agriculture With Industry (BAWI) Plan generally drew mixed reviews, said Lester, who is writing a book about the economy of 20th century Mississippi.

BAWI brought employment to a downtrodden state, but the jobs were mostly unskilled, low-paying factory jobs filled by farm women and teenagers, Lester said. BAWI did little, she said, to improve the lives of most Mississippians, and—like much of the Southeast—the state today remains behind others in many economic and quality-of-life measurements.

BAWI had its successes, however. For example, Ingalls Shipbuilding Corp. was established in Pascagoula under the program, and it remains a major employer.

Scattered economic development campaigns predated BAWI. A group of private citizens in Mobile, Ala., in the 1920s bought land and sold it cheaply to the state in hopes of bringing International Paper Co. to town. In 1928 the state leased the property to International Paper "at a nominal rental," for 99 years, with tax exemptions for 20 years, according to a 1945 Atlanta Fed report. The International Paper plant was an economic cornerstone in the city until it closed in 2000, 27 years before the lease expired.

Several forces spurred a proliferation of Southeastern industrial development programs after World War II. For one, jobs were needed for returning servicemen. Second, wartime industry had been widespread in the region but wound down with peace. Something needed to take its place, according to the Atlanta Fed report on industrial development corporations. Finally, mechanization was displacing growing numbers of agricultural workers, who found themselves needing other employment.

The general idea behind the early economic development programs was to go to great lengths to import low-wage, low-skill jobs. Then, once the region's economy stabilized, officials would end the practice of granting subsidies and other enticements, Cobb said. Overall, though, those programs were never phased out, he added, and have become more elaborate.

Business recruitment changes with the times

Just as an economy is ever-changing, the strategy of attracting industry has evolved. Before the 1980s, Southeastern states generally marketed cheap land, lax regulation and docile, nonunion labor, Cobb and Murray said. With that approach, luring industry was mostly a matter of squiring visiting executives to golf courses, ball games, and restaurants. It's now a more sophisticated, numbers-based business, Wade said.

To some degree, the decline of U.S. manufacturing left Southeastern states with little choice but to change. Through the 1970s and '80s, the traditional sales pitch gradually became obsolete as fewer domestic manufacturing jobs stayed stateside after companies seeking low labor costs began looking to developing countries, not the Southeastern United States.

As Keivan Deravi, an economist at Auburn University at Montgomery, puts it, states such as Alabama could no longer draw manufacturers by simply pleading poverty. "In a sense, I think that by default we learned that we need foreign direct investment [FDI], and in order to get the FDI to come in we started offering very extensive incentives," said Deravi, who has worked with Alabama officials on incentive packages.

Good deals for everyone?

Whether the extensive incentives—not just in Alabama but in all states—benefit the public in the long run is a matter of debate. Murray, of the University of Tennessee, figures that "if you ask 10 economists, you'd get 15 different answers." As Murray—one of those economists—said, "It is extraordinarily difficult to demonstrate, with these incentives of $100,000 to $200,000 a job, that those manufacturing plants pay back to state and local governments what was given to them."

He said when a large industrial concern—such as a ThyssenKrupp in Alabama or Kia Motors in Georgia—is exempt from corporate income or property taxes for a couple of decades, someone else, or other businesses, must make up the difference. Cobb, the historian and author, is also skeptical that generous public subsidies for industry ultimately pay off. In addition to forgoing local and state tax revenue, these incentive packages also risk turning communities into one-industry towns because job training programs are generally geared toward a single company or industry, Cobb noted. Also, he said, for all the recent success in luring manufacturers, many Southeastern states remain near the bottom of many quality-of-life measures such as infant mortality and educational attainment.

Wade and other economic developers harbor no such doubts. Alabama's image among national and international business decision makers has improved dramatically, he said. In the early 1990s, a survey by a private sector economic development group Wade headed found that corporate chieftains viewed Alabama as "backwoods, redneck, and football crazy." Few at that time would consider bringing a plant or office to the state, Wade said.

Now, he said, Alabama is on the list of any firm looking to put a major facility in the Southeast. Wade said numerous large projects were eyeing the state in early 2008. In late February, the U.S. Air Force named European Aeronautic Defense and Space Company North America (EADS) and Northrop Grumman Corp. to build a fleet of aerial refueling tankers, a decision that is expected to bring an aircraft assembly plant to Mobile. EADS, the parent company of Airbus, has also announced plans to shift production of a commercial air freighter to the proposed Mobile factory. Together, the facilities are expected to employ between 1,300 and 1,800 people, according to published reports. The deal committed the Air Force, for now, to buying only four test versions of the tanker, worth about a total of $1.5 billion. EADS executives were quoted in press reports saying talks for the full 179-plane order would start in subsequent weeks.

Wade's department also points out that the average salary or wage paid for jobs in the state has risen 76 percent, to $35,448, from 1990 to 2006. That remains 15.6 percent below the national average; it was 14 percent lower in 1990. At the end of 2007, the state's 4 percent unemployment rate was a full point lower than the national rate. Wade asserts that Alabama's economy is better situated to weather a downturn than the broader U.S. economy.

Since Mercedes-Benz's arrival in 1993, Alabama has attracted two other automotive assembly plants and has become known as a regional manufacturing center.

Sweeteners not to everyone's taste

Government subsidies for economic development were hotly debated upon their introduction. The Atlanta Fed's 1944 report on BAWI, for instance, quotes unnamed bankers and businesspeople calling the practice "outright socialism" and contending that "a good, strong enterprise needs no subsidy."

In 1994 then Alabama Gov. Jim Folsom lost a reelection bid after he spearheaded the state's package for Mercedes, which amounted to $169,000 for every job when the plant opened. Rival states also criticized Alabama for sparking a bidding war for industry. But major expansion by Mercedes and the arrival of other auto plants have blunted the criticism, Deravi said.

Though public subsidies for private corporations are not universally embraced, the practice appears to be widely accepted in the Southeast today, judging by the actions of public officials and voters.

In June 2007, Alabama voters approved a measure more than doubling, from $350 million to $750 million, the amount of money the state can borrow to finance industry recruitment subsidies. The state legislature had already unanimously approved the increase. Lawmakers were swayed, Wade said, by a map showing that projects the incentives could help attract were scattered in legislative districts throughout the state.

In another show of support, Mobile County, Ala., residents in October 2007 voted 74 percent to 26 percent to dedicate up to $156.9 million of county roadbuilding money to incentives to ThyssenKrupp.

Mississippi's state legislature approved incentive packages for Nissan and Toyota in 2003 and 2007, respectively. In Georgia, the General Assembly in 2004 granted the state Department of Economic Development broad new powers, including the ability to buy land for industrial prospects and a multimillion-dollar pool of bond money to pay for it.

In some fundamental ways, industry recruitment remains the same game it has always been, just on a bigger stage with bigger dollars. States try to lure jobs, using whatever means work best—financial incentives, superior workers, advantageous location, or any combination of those and more factors. Techniques and conditions may change, but the jobs race among states in the Southeast remains hard-fought.

This article was written by staff writer Charles Davidson.

Federal Reserve Bank of Atlanta, 1000 Peachtree Street NE, Atlanta, GA 30309-4470 Tel. (404) 498-8500

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The Lower Mississippi River: The Flow of Trade

One of the world's most extensive waterways, the Mississippi River occupies a near-mythical role in the national psyche. The river also plays a very real—and crucial—role in U.S. commerce.

From 1997 through 2006, total tonnage on the Mississippi River has exceeded 300 million tons annually, with the exception of the Hurricane Katrina-affected 2005, according to the U.S. Army Corps of Engineers.

Few if any natural features of the United States have the far-reaching impact of the Mississippi River. With a basin covering more than a million square miles—including all or parts of 31 states and two Canadian provinces—the Mississippi River drains 41 percent of the continental United States. The river's drainage basin is the world's third largest, exceeded in size only by the watersheds of the Amazon and Congo rivers.

The Mississippi plays a central role not only in the U.S. ecosystem but also as a commercial shipping hub. The five ports on the lower Mississippi combine to form the nation's largest port complex, in terms of tonnage. The largest of the five, the Port of South Louisiana, ranked first in the nation (with 225 million short tons) in total (domestic and foreign) trade in 2006. (A short ton is 2,240 pounds.) Its companion ports also ranked high: The Port of New Orleans was eighth (77 million short tons), the Port of Baton Rouge 12th (56.3 million short tons), and the Port of Plaquemines 13th (55.9 million short tons). The St. Bernard Port handled nearly four million short tons in 2006.

Is the mighty Mississippi underused?

The unquestionably massive reach of the Mississippi River as a domestic transportation infrastructure impresses many, but after centuries of use, some still consider it underutilized.

The Mississippi River links the heartland of the United States to the rest of the world through its ports. "From our standpoint, we believe the inland waterway system—not just the Mississippi River, but the 14,000 miles of navigable waterway connected to the Mississippi River—are probably the nation's most underutilized natural resource, especially from a transportation

Related Links

On the Web:

American Association of Port Authorities

U.S. Army Corps of Engineers' Waterborne Commerce Statistics Center

Port of New Orleans

Port of South Louisiana

perspective," said Robert Landry, director of marketing for the Port Authority of New Orleans.

[Port of Baton Rouge]

Landry sees the potential for growth. "As money gets very tight for building highways and bridges, [besides dredging] you don't really have to do anything to the navigable waterway system in the United States," he said. "We can handle big ships. We can handle a lot of barges. I think you're going to see more and more companies look at inland waterway options as a means to moving their cargo. And that bodes very well for the lower Mississippi River and our future."

Statistics from the U.S. Maritime Administration (MARAD) highlight the advantages of shipping on inland waterways. According to MARAD, domestic waterborne shipping for all waterways in the United States moves 14 percent of the national cargo tonnage for less than 2 percent of the freight bill. It also provides an estimated 124,000 direct jobs, generates $10 billion in annual freight revenue, and provides $300 million and $55 million in federal and state tax revenue, respectively.

But even Jim Murphy, the director of MARAD's East Gulf Lower Mississippi Gateway Office, recognizes some of the limitations for inland waterway shipping.

"If you're shipping steel from New Orleans to Pittsburgh, a barge on the Mississippi is a good option," Murphy said. "If you're shipping something from Fort Pope, La., to Fort Carson, Colo., it doesn't make as much sense."

How much can Old Man River carry?

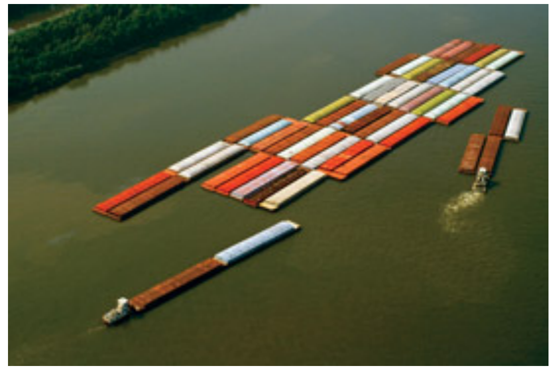
From 1997 through 2006, total tonnage on the Mississippi River has exceeded 300 million tons annually, with the exception of the Hurricane Katrina-affected 2005, according to the U.S. Army Corps of Engineers (USACE). During that 10-year period, food and farm products made up the largest commodity heading downriver (65 million tons in 2006), and petroleum and petroleum products were the largest category heading upriver (42 million tons in 2006), according to USACE (see the table).

How close those numbers are to reaching the river system's capacity, no one is sure. "One of the things we've not done a good job of is measuring how much capacity our inland waterway system has," Murphy said. "One way to look at capacity is to compare volume over time. If they used to ship five million tons a year on the Missouri River and now they ship one million, then you could say it's at 20 percent capacity. But that assumes there's no change in how the river is managed. The Missouri River is holding water [dammed] now because of endangered species and recreation.

"Even though we haven't measured capacity to four decimal points, we do believe the [Mississippi] river has a much larger capacity. We're still encouraging people to use water transportation when it makes sense," Murphy said.

One way to increase the capacity of the river, Murphy notes, is to increase the amount of cargo barges can carry. Above Baton Rouge, USACE is charged with keeping the water depth at nine feet. Barges are required to have a draft of eight feet, six inches, which leaves six inches for clearance. "Let's say you had a barge with a draft of eight feet, six inches with 12,000 short tons," Murphy said. "If you could give that barge a 12-foot draft, you could increase the load from 12,000 tons to 18,000."

Even without deepening the inland waterway, USACE has its hands full maintaining the river. The biggest challenge lies in dredging the deep shipping channel that runs from Baton Rouge to the Gulf of Mexico. In 1994, USACE deepened this channel from 40 to 45 feet. Since then, USACE has been committed to keeping the river at the same full depth and width all the time, not a cheap or simple task.



Organizations that promote regional trade and commerce would like to see an increase in containerized cargo traffic on the Mississippi because container traffic tends to attract large distribution centers for companies such as Wal-Mart and Target—and therefore jobs.

"For the whole Mississippi River deep draft project, we dredge about 30 million cubic yards. The total project budget is an average of about $55 million a year," said Michelle Ulm, USACE's operations manager of the Lower Mississippi River project. "The Mississippi River Navigation Project is the largest navigation project in the Corps of Engineers."

The flow must go on

Whereas snow and ice pose the biggest threat to ground and air transportation, the Mississippi River and other inland waterways have their own challenges from the elements.

"One of the things people don't like to talk about is reliability," Murphy noted. "Whenever there's a flood or a drought, it has an impact on the reliability of the system."

Even so, USACE has done a good job of keeping the lower Mississippi River open, even when confronted with the challenge of Hurricane Katrina.

"The channel was affected down at the jetty reach, which is at the end of the southwest pass [22 miles from the Gulf of Mexico]," Ulm said. "Within one week after Katrina, we were able to receive bids from hopper dredge contractors. We awarded a contract and had that part of the channel dredged out within one week. They dredged about 300,000 cubic yards. That was extremely fast. The total recovery was about two weeks, and that included getting everything surveyed so there weren't obstructions in the channel. That survey effort had to go from Baton Rouge to the Gulf of Mexico." Ulm said Hurricane Katrina has had no lasting effects on the lower Mississippi.

The cargo changes with the economy

But even as USACE keeps the channel clear and on course, other factors are bringing change to the river, specifically the cargo being transported.

Commerce on the Mississippi River
(millions of tons)

	2000	2001	2002	2003	2004	2005	2006
Downriver total	205.5	200.1	199.0	192.2	189.6	177.3	187.3
Food and farm products	80.4	81.0	83.9	76.1	71.3	62.8	65.2
Petroleum/petroleum products	42.9	42.2	39.7	41.6	41.6	40.9	40.8
Coal	37.7	35.6	34.1	30.5	32.7	32.2	34.9
Crude materials	26.7	24.7	24.4	24.5	24.6	23.2	28.6
Chemicals	10.0	8.9	9.9	10.9	11.3	10.2	9.6
Other	7.8	7.6	7.0	8.7	8.1	7.9	8.3
Upriver total	121.9	116.4	117.3	116.0	123.3	121.9	125.7
Petroleum/petroleum products	33.9	37.6	37.4	37.2	37.8	38.0	42.1
Crude materials	26.9	25.6	27.0	28.3	31.2	27.9	26.5
Chemicals	27.4	25.9	25.6	27.0	26.6	26.8	25.7
Manufactured goods	20.6	13.3	14.3	11.5	15.3	16.8	17.6
Coal	10.0	10.9	10.0	8.6	8.7	10.0	11.4
Other	3.1	3.2	2.9	3.3	3.7	2.4	2.5

Source: U.S. Army Corps of Engineers Waterborne Commerce Statistics Center

In 2007, traffic in the Port of New Orleans' single largest commodity—steel—was considerably down from previous years, Landry said. On the positive side, he notes a big increase in the volume of containerized cargo, which usually represents only about 30 percent of the port's business.

Containerized cargo traffic has grown this year by double digits, Landry said, to a large extent because of the economic slowdown and the weak U.S. dollar. "It made exports a lot more attractive to foreign buyers. They're buying food products; they're buying chemicals and all of the things that go in containers. There's definitely been a market shift in our cargo base," he said.

Moving from the kinds of commodities that are shipped in bulk (such as petrochemicals, coal, and steel) to containers is a good thing, according to Gene Schrieber of the World Trade Center in New Orleans, an organization that promotes regional trade and commerce.

Schrieber said the containers commonly called TEUs—or 20-foot equivalent units, with a capacity of 20 feet by eight feet—are an especially desirable type of business to ports. "The reason you want containers is because that's when you get a Wal-Mart distribution center, a Target distribution center, or a Circuit City distribution center. That's the kind of stuff that goes in containers. And that leads to even more jobs."

Regarding containerized cargo, the lower Mississippi River ports are playing catch-up. According to 2005 statistics on container freight from the American Association of Port Authorities, the Port of New Orleans ranked 25th nationally with 176,000 TEUs, Baton

Rouge ranked 45th with 1,826 TEUs, and none of the other three ranked in the top 50. (This volume lagged far behind the two leading U.S. cities in TEU traffic in 2005: Los Angeles, ranked 10th globally with 7.5 million TEUs, and Long Beach, Calif., 11th globally with 6.7 million TEUs.)

"We don't have a lot of containers, and that's not good," said Schrieber. "I'm not complaining about the cargo we have. Any port director is going to say, 'Look, my job is to fill ships. I don't care what it is. I just want a lot of heavy stuff.' " But as he noted, different kinds of containers have different economic impacts.

Employment goes ashore

While others may focus on the transportation possibilities of the Mississippi, Schrieber sees jobs.

"What you really want is an auto assembly plant or something, but only certain places get those, and it's not usually ports anyway," Schrieber said. "But you can still carry a lot of cargo going to those places. Mobile [Ala.] just beat out New Orleans in a national competition to get a [ThyssenKrupp] steel mill from Germany. The steel mill wouldn't have been in New Orleans. It would have been upriver. But it would have meant a huge amount of raw steel coming into the Port of New Orleans going up there. As it is, New Orleans is the biggest steel port in the country because of the auto plants in Kentucky and Tennessee."

So while some view the information superhighway as the key to the future, the lower Mississippi River region still looks at the untapped potential of a natural resource that predates civilization. Whether it's enhancing commerce or supporting distribution and manufacturing jobs, the lower Mississippi River will no doubt play a key role in the country's economic vitality.

This article was written by staff writer Ed English.

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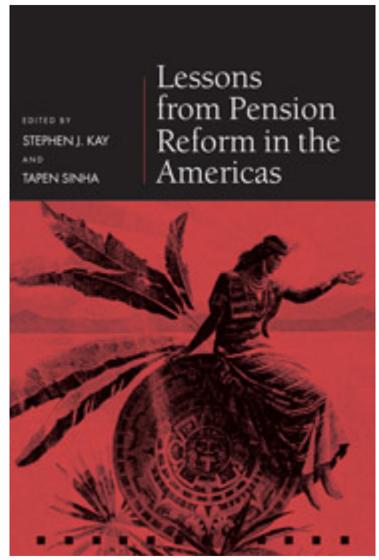
Putting Pension Reform Into Perspective

Governments looking for the best ways to craft viable pension systems for their citizens are looking for inspiration to the Americas, which have been a proving ground for pension reforms during the past 25 years. This article provides an overview of a new book, *Lessons from Pension Reform in the Americas*, that presents experts' views on a number of policy issues and highlights various countries' experiences.



This new book explores experts' views on policy issues and assesses pension reform in various countries in the "post-privatization" era.

Well over a century ago, Chancellor Otto Von Bismarck introduced a state-sponsored pay-as-you-go (PAYGO) pension system in Germany to reduce poverty among the aged. This aim remains a primary goal today in many countries even as policymakers struggle to address changing demographics and aging populations amid disagreement about the best path for reform. These struggles have been especially apparent in the Americas, which, since Chile's reforms, have become a laboratory for pension reform whose experiments the rest of the world is observing with great interest.

In 1981 Chile took the unprecedented step of switching from a PAYGO to a substitutive prefunded pension system. It continued to pay benefits promised under the old system by issuing recognition bonds and running budget surpluses during the initial years to finance these bonds. In 1994 Argentina and Colombia followed suit.

With the publication of the landmark study *Averting the Old-Age Crisis* that same year, individual prefunded accounts were officially encouraged by the World Bank and other leading international organizations. Since then, the World Bank has helped more than 80 countries make changes in their pension systems. Of these, a dozen Latin American countries have passed laws introducing mandatory saving, while a similar number in Europe and central Asia—mainly in the post-Soviet Union transition economies—have also introduced individual accounts.

But the policy prescriptions of the 1980s and '90s are now being reevaluated. With the euphoria of the initial phase of pension reform clearly over and with a decade or more of experience to review, policymakers and scholars have access to important new evidence to analyze the efficiency and equity of switching to individual accounts in this "post-privatization" era.

Putting reforms under the microscope

Beginning in 2004, a fundamental shift in thinking about pension reform became evident in international organizations such as the World Bank as well as in countries such as Chile that have undertaken reform. Chile convened the Marcel Commission in 2006 to draft pension reform proposals. The commission's report was the basis of reform legislation introduced in December 2006. The report addresses the particular challenges that developing countries face with respect to their sizable informal sectors, which comprise over half of the economically active population in developing countries. The informal sector is made up chiefly of people who are self-employed in activities that are not taxed or regulated.

Related Links

On this site:

A Reforma Previdenciária em Perspectiva

Americas Center's pension resources

On the Web:

Information about *Lessons from Pension Reform in the Americas*

The Pension Research Council at The Wharton School

International Center for Pension Research

The Marcel Commission report argues that pension reform, instead of "formalizing" the workers in the informal sector, should serve all workers, both informal and formal, and the report proposes a universal solidarity pension aimed at alleviating poverty. Because Chile's reform has been so influential, policymakers throughout Latin America and beyond are closely watching measures that address these policy challenges.

These challenges are all the more urgent given changing demographics over the past three centuries. In the book's foreword, Nobel laureate Robert W. Fogel argues that because of the intense interplay between physiological improvement and technological advances, humans have increased their body size by more than 50 percent in the past two centuries, and improvements in general sanitation, the reduction of air pollution in cities, and higher food intake have increased life expectancy. At the same time, per capita growth of gross domestic product (GDP) has increased dramatically. Fogel suggests that demographers have consistently underestimated the impact of such improvements. Paradoxically, longer life expectancy has had devastating financial implications for already overburdened social security systems and calls for a careful reexamination of social security to ensure future sustainability.

A closer look at prefunded accounts

New data from Chile could have a broad impact on policymaking in countries that have switched to prefunded individual accounts. The first microlevel longitudinal study of worker behavior tests the accuracy of people's knowledge of their own retirement savings, comparing their knowledge with their actual pension records and finding considerable information gaps. Alberto Arenas de Mesa and his coauthors stress that greater financial literacy is essential for enhancing the system. Furthermore, they argue that for the government to make useful budgetary projections, better data are necessary on who is in the system, who is contributing, and who is likely to try to obtain the minimum pension guarantee or social assistance.

In general, defined contribution savings plans require employees to make complex decisions, including how much to contribute and how to distribute contributions among a variety of investment funds. In a chapter examining default options, John Beshears, James J. Choi, David Laibson, and Brigitte C. Madrian provide evidence that refutes a standard notion from economic theory that if transaction costs are small, default choices should not matter. The authors note that the psychology literature has documented individuals' tendency to put off making decisions as the complexity of the task increases, a factor that would tend to lower participation in retirement savings plans.

To assess the effect of defaults on retirement savings, the authors examine the effect on worker savings when employers automatically enroll their employees and when workers must actively opt into a retirement savings plan. Among their findings, Beshears and his colleagues note that when automatic enrollment is the default option, participation rates are much higher than with opt-in enrollment. Furthermore, many individuals view the employer default savings option as an implicit endorsement of both the contribution rate and the distribution of funds. The authors find that default choices are not neutral but play a role in every stage of the lifetime savings cycle, including savings plan participation, contributions, asset allocation, rollovers, and the spending of assets in retirement. Default choices become even more crucial as pension fund plans introduce more investment options. Because default options carry such significant consequences for retirement saving, policymakers have been scrutinizing these options more closely and have sanctioned them in recent pension legislation in the United States.

Righting the wrongs of gender inequities

Gender issues are just now beginning to appear on policymakers' radar screens; as *The Economist* put it April 2006, "Forget China, India and the internet: economic growth is driven by women." But the role of gender in pensions is still not getting the attention it deserves. Chile's President Bachelet commented that the Chilean pension system to some extent "discriminated against women," and the Marcel Commission agreed.

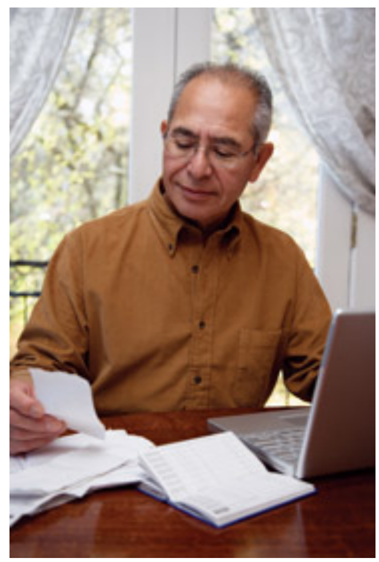
The commission found that women receive annuity benefits equivalent to only 42 percent of what men receive because of a variety of factors, including women's differential participation in the labor market (with lower wages), the division of household work, demographics, pension system regulations such as the option to retire earlier with reduced benefits, and the fact that insurance companies are permitted to use differential mortality tables. The Marcel Commission's frank assessment of pension reforms' effect on women has brought about policy prescriptions—including subsidized childcare and a measure that would pay women retiring at age 65 a bonus for each child they have borne—that are the first of their kind in Latin America and are destined to receive considerable attention from other countries that have followed Chile's path.

Learning their lessons

The wide range of pension reforms in Latin America provides lessons. In the book's epilogue, Olivia Mitchell notes that politicians have often focused on the "front end" of the reform so that accounts are set up and funds begin to accumulate, deferring, and sometimes neglecting, tax, health care, and capital market reforms. She argues that it is important for governments to follow through with necessary complementary measures after the adoption of major pension reforms. For example, reformers have often failed to put adequate legal rules and regulatory frameworks in place to support reforms, as is the case with investment rules that led to overreliance on domestic government bonds in Mexico or lax disability and survivorship rules in Brazil.

Clearly, pension reform is an ongoing project. Economies and labor markets evolve over time, requiring an effective response to changing conditions. Since 1981, Chilean policymakers have continually modified the country's pension system, changing investment rules and adding worker choices; the system is now moving toward a basic solidarity pension and improved gender equity. Unfortunately, for practical political reasons, political leaders are likely to pass reform measures piecemeal and to postpone the most politically costly measures, even if this approach undermines reforms. The critical question is whether policymakers will accept the challenge of continuing and deepening the reform process, with its many costs and obstacles, even after the front-end reforms have been implemented.

In some instances, however, governments may choose to return to state-sponsored PAYGO systems at the expense of individual accounts. This process appears to be taking place in Argentina, where in 2007 the legislature approved measures that would raise the benefit in the state-run system, allow workers to return to the public system from the private, place a ceiling on commission costs, and steer new workers who neglect to choose a pension fund into the public rather than the private system. Economist Rafael Rofman notes that these measures could result in a smaller private pillar limited to providing complementary benefits to a relatively small percentage of upper- and middle-income workers.



Making pension reforms a priority

In the Western hemisphere, many policymakers are clearly putting pension reform at the top of the agenda. In some countries, a movement toward retrenchment has occurred with respect to recent pension reforms after the election of administrations that opposed, or at least did not support, systems of individual accounts. Besides Argentina, proposed measures to retrench individual accounts have surfaced elsewhere in the region, including Bolivia and Uruguay.

Chile, which pioneered individual accounts, is engaged in its most serious attempt yet to correct the perceived shortcomings in its system of individual accounts and to universalize coverage to incorporate the significant percentage of workers who fail to accumulate sufficient funds in their accounts. Just as other policymakers in the region turned to Chile for inspiration when developing their reforms in the first place, they will no doubt watch Chile's ongoing reform efforts closely.

From the broad scope of pension reform in the region providing a wide range of policies and rules that affect pension adequacy, coverage, competition, costs, and minimum guarantees, governments have many choices of lessons they can learn from their neighbors.

This article was written by Stephen J. Kay, coordinator of Latin American analysis and of the Americas Center at the Atlanta Fed, and Tapen Sinha, the ING Comercial America Chair Professor in the department of actuarial studies at the Instituto Tecnológico Autónomo de México (ITAM) in Mexico City. Kay and Sinha are the editors of Lessons from Pension Reform in the Americas *(Oxford University Press 2008). The article was adapted with permission from the book's overview, written by Kay and Sinha.*

ECON SOUTH

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FED @ ISSUE

Melinda Pitts is a research economist and associate policy adviser in the Atlanta Fed's research department.

When Things Still Don't Add Up

Concerns often surface about the reliability of data used to determine monetary policy. In the fourth quarter 2006 issue of *EconSouth*, this column focused on how the real-time payroll employment estimates from the U.S. Bureau of Labor Statistics (BLS) in 2006 were underestimating the growth in employment. Data watchers are again questioning the reliability of BLS payroll estimates, but this time the focus has been on whether employment growth was being overestimated.

Tallying up

To understand how errors in payroll estimates could arise, it helps to understand how the estimates are created. Every month the BLS surveys 160,000 businesses to measure the number of workers on payroll, hours worked, and earnings. The time window for firms to respond is very small, and not all firms report their data in time to be included in the initial report. Thus, the BLS continues to adjust the estimate for any given month for two more months as late responses trickle in.

The sample includes only firms that responded to the survey in both the previous and the current month. No data are included for firms that went out of business during the month. The exclusion of jobs lost from these "firm deaths" is used to partially offset the absence of data on jobs created from "firm births" during the month. However, the relationship between job gains from firm births and job losses from firm deaths is not one-to-one. To extrapolate current net job creation, the BLS uses a statistical model to capture the birth/death relationship over the previous five years.

When is a trend not a trend?

It is this firm birth/death model adjustment that has attracted attention in the past year. Until 2007, the share of employment growth from net job creation had been relatively small and stable. From 2003 through 2006, the net birth/death adjustment accounted for 42.5 percent, on average, of the growth in the payroll estimate. But in 2007, net job creation accounted for 75 percent of the growth.

While the estimate of job growth derived from the birth/death model continued on an upward trend throughout 2007, the growth in employment in the real-time sample has dropped since April 2006 (see the chart). If this 2007 trend truly reflected changes in the composition of employment growth, then the share of growth attributed to the birth/death model would not be a concern. But the model's reliance on the past five years of data to extrapolate the birth/death adjustment causes current employment growth trends to be dominated by earlier patterns. Thus, the birth/death model continued to indicate the strong employment growth in earlier years while the sample was reflecting the more current, weaker level of activity in 2007.

The goal of the firm birth/death model is to provide a more accurate estimate of U.S. employment levels. Whether this adjustment is beneficial to forecasters is open to debate. From a forecasting perspective, economists are more interested in recent deviations from earlier patterns, so using a methodology that obscures the effect of the most current trends seems counterproductive.

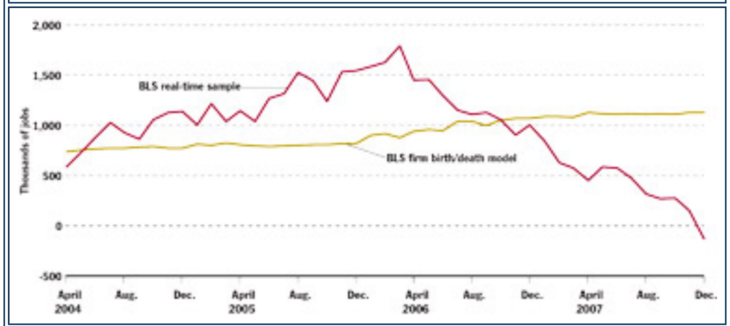
A preponderance of the evidence

These questions reinforce

Chart 1
Employment Growth in the BLS Real-Time Payroll Sample and

the idea that one cannot rely on just one snapshot of the economy when developing forecasts. Concerns about the BLS payroll estimates arose mainly because they seemed out of line with other sources of information on employment. Three of these sources—the BLS Household Survey, the ADP (Automatic Data Processing) National Employment Report, and the Quarterly Census on Employment and Wages (QCEW)—indicated a slower rate of employment growth than the BLS payroll estimates going back to the second half of 2006.

the Firm Birth/Death Model



Note: Data do not reflect February 2008 benchmark revisions.
Source: U.S. Bureau of Labor Statistics

The BLS Household Survey, although not as accurate in terms of levels, tends to pick up changes in trends more quickly than the payroll estimates do. The ADP report, based on a sample of ADP's business clients, was developed to provide another timely payroll estimate. The QCEW, also from the BLS and released six months after the payroll estimates, is an almost complete census of U.S. employment derived from unemployment insurance records.

Yet another data source—the Business Employment Dynamics statistics, derived from the QCEW and also released six months after the payroll estimates—provides information on job gains at expanding and opening firms as well as job losses at contracting and closing firms. Unlike the payroll estimate's birth/death model, the most recent QCEW statistics show no signs that the net contribution of jobs gained from firm births and deaths has increased over time.

All of these alternative sources indicated that the BLS payroll estimate was overstating employment growth. This conclusion was borne out by the annual payroll estimate revisions released in February 2008, when the BLS benchmarked payroll estimates to the QCEW from March 2007. Final adjustments were made to payroll estimates from April 2006 through March 2007, and preliminary adjustments were made to estimates from April 2007 through December 2007. The benchmark is used to correct for such things as sampling error and changes in the seasonal adjustment factor and the birth/death model.

In the February 2008 benchmarking, the seasonally adjusted payroll estimates for 2007 were revised downward by 273,500 jobs, which represent an average of 127,250 jobs added per month in 2007 versus the 150,000 originally reported. Because the revisions are benchmarked to March 2007, it remains to be seen if payroll employment for the remaining three quarters of 2007 will be adjusted even more with the February 2009 benchmark revisions.

Federal Reserve Bank of Atlanta, 1000 Peachtree Street NE, Atlanta, GA 30309-4470 Tel. (404) 498-8500

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Q & A

West Point Restarts Its Engines

Photo courtesy of City of West Point

West Point annexed 3,564 acres in 2007, an area that includes the Kia plant site. But since Kia announced its plans in March 2006, investors have snapped up another 1,300 acres.

The future of West Point, Ga., is a vast field of red dirt next to the interstate.

In February, more than a dozen con-struction cranes and fleets of earth movers crawled around a treeless 2,200-acre plain with a couple of metal building skeletons on it. Nearby, a huge, sculpted dirt pile will become an overpass spanning Interstate 85. Next to that, a new water tower is rising.

This site is the future home of a Kia Motors assembly plant that promises to create nearly more jobs than West Point now has people. The Korean automaker is scheduled to begin churning out midsized sport utility vehicles in November 2009. Already, the planned factory is transforming this old west Georgia textile town of 3,300 by the Chattahoochee River and the surrounding area known as the Valley.

"Landing these jobs is just fantastic for the economy of the whole area," said West Point City Manager Ed Moon.

With automaking come big changes

The projected impact of the new plant, according to data from a study commissioned by the Georgia Department of Economic Development, is enormous: 2,500 jobs at the plant itself, another 2,500 or so jobs at parts suppliers and other businesses, a $1.2 billion investment, production of 300,000 vehicles per year, and, all told, a $4 billion economic impact.

A land rush has already begun.

West Point city officials have seen development plans that include enough housing to double the city's population. Physically, West Point has already more than doubled: The city annexed 3,564 acres in 2007, an area that includes the Kia plant site. But since Kia announced its plans in March 2006, investors have snapped up another 1,300 acres for potential development, said West Point Planning and Development Director Sammy Osborne. The city has annexed acreage at the request of landowners who want city water and sewer service and police and fire protection, Osborne said.

West Point, Ga.

Population	3,352
Troup County population	63,245
Households	1,354
Median household income	$31,886

Sources: Population figures are from 2006 U.S. Census estimates; household and income figures are from the 2000 Census.

West Point's City Council in January 2008 approved the preliminary master plan of a sprawling development that would encompass 756 single-family homes, 82 townhouses, and 10 acres for commercial development. Also, Kia suppliers are already moving in. In December, Georgia Gov. Sonny Perdue announced that parts supplier Sewon Precision of Korea will build a plant in nearby LaGrange that will employ 700 people.

The benefits run both ways

Closer to home, West Pointers are starting to routinely see strangers in local restaurants, such as the crews building the plant, roads, and other Kia-related infrastructure, Moon said. That infrastructure work is no small project.

Indeed, one of the reasons Kia decided to locate its first U.S. plant in Georgia is a $400 million package of incentives from the state and local governments that includes roadwork, a job training center, hefty tax breaks, and water systems, including the tank that will bear the Kia logo. In February, West Point finished designing a $10 million wastewater treatment plant twice the size of its existing facility. The new plant will require expansion as soon as it's finished in 2009, Osborne said.

All told, the city, whose fiscal year 2008 budget is $13 million, is doing about $20 million worth of water and sewer work before the Kia plant opens. Grants and loans from the U.S. Department of Agriculture and the Georgia Environmental Facilities Administration are funding some of those projects. City officials see ancillary development around the plant as crucial.

"We need some revenue and some growth to help pay back those loans and help build the city," Osborne said.

A dozen miles up the road, LaGrange is feeling Kia's presence too. A couple of parts suppliers, Sejong and DaeLim USA, have announced plans to employ a combined 325 people there. And the LaGrange-Troup County Chamber of Commerce recently hired a family support coordinator to help Korean families adjust to American life, said Jane Fryer, the chamber president. She said the staffer was guiding 52 families through such chores as acquiring Social Security numbers, enrolling children in schools, finding homes, and securing driver's licenses. Kia officials requested a non-Korean speaking support coordinator so the newcomers would more quickly learn

English, Fryer said.

The likely economic jolt is particularly welcome in the Valley. Over the past 20 years, total employment in the three Valley counties—Troup and Harris in Georgia and Chambers in Alabama—grew a meager 13 percent, according to the U.S. Bureau of Labor Statistics. That growth rate stands in contrast with 60 percent for Georgia as a whole. Since 2000, the Valley counties have added fewer than 1,000 jobs (a less than 1 percent growth rate) while Georgia's employment increased 13 percent.

Changing the economic engines

Like many Southern towns, West Point once lived by the loom. Founded by two veterans who fought for the Confederacy in the Civil War, homegrown textile giant WestPoint Pepperell once employed more than 10,000 people in the Valley, including hundreds at the corporate headquarters in downtown West Point.

Facts About West Point

- West Point was originally incorporated as Franklin on Dec. 26, 1831. On Dec. 24, 1832, its name was changed to West Point.
- Fort Tyler, in West Point, was the last Confederate fort captured by Union forces.
- James W. McClendon built the area's first textile mill and was West Point's mayor from 1865 to 1871. The mill eventually became part of WestPoint Pepperell, once a major regional employer.

"Most everybody over the years worked with WestPoint Pepperell in some form or fashion," said Osborne, whose parents lived across the street from one of the company's mills. "That's what kept everybody around here going for years. So Kia couldn't have come at a better time."

WestPoint International, as the company is now called, employs virtually no one in the Valley today, Moon said.

WestPoint Pepperell's fortunes, and by extension those of the Valley, have taken many turns in the past 20 years. After a highly leveraged hostile takeover in 1988, the company landed in Chapter 11 bankruptcy. It emerged from bankruptcy protection in 1992 only to end up there again in 2003.

The transformation of the U.S. textile industry exacerbated the firm's challenges. During the 1980s, thousands of manufacturing jobs throughout the textile industry began moving to lower-wage countries, a migration that continues. WestPoint International closed the last of its Valley plants over the past couple of years. Finally, in 2007, the company's New York-based parent, Icahn Enterprises, which bought the firm out of bankruptcy in 2005, shuttered the downtown West Point office building.

As the town's longtime economic bedrock slowly crumbled, most former textile workers in the Valley found jobs farther from home, in Columbus, Atlanta, LaGrange, and elsewhere.

WestPoint Pepperell wasn't just the area's biggest employer. It owned houses in mill villages and held mortgages that its employees paid. The company even once owned the West Point municipal water system, according to numerous reports.

Today, the city is hastily expanding that water system to serve the new company in what will once again be a company town. Only this time, the company is coming from far away.

This article was written by staff writer Charles Davidson.

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Q & A

"You Have a New Wave of Economic Developers"

An Interview With Neal Wade of the Alabama Development Office

The state of Alabama has been on an economic development roll. German steelmaker Thyssen-Krupp broke ground in November on a $3.7 billion plant north of Mobile that will employ 2,700 people at its scheduled 2010 opening. In July 2007, National Steel Car announced plans to build a rail car factory in Muscle Shoals that will hire 1,800. Hyundai in 2005 opened an assembly operation in Montgomery, the state's third automobile plant. And in February, the U.S. Air Force awarded a contract to build a new tanker airplane to a consortium that plans to locate an assembly plant in Mobile. Neal Wade, director of the Alabama Development Office, the state's economic development agency, is directly involved in the state's quest for new corporate citizens.

NEAL WADE

Title	Director
Organization	Alabama Development Office
Web Site	http://www.ado.state.al.us/
Other	Wade assumed his post in 2003 after serving as vice president for economic development of the St. Joe Co., Florida's largest private landowner. For nine years, he was president and chief executive officer of the Economic Development Partnership of Alabama, a consortium of private companies dedicated to industrial recruitment. For several years he was director of corporate communications for Alabama Power Co. A native of Monroeville, Ala., Wade graduated from Samford University in Birmingham.

EconSouth: *In 1993 Alabama awarded Mercedes incentives totaling about $250 million, a huge number that raised the bar for such deals. Critics said it was too much for a relatively small Southern state to give to lure a big corporation. That deal happened before you joined the state, but did Alabama give up too much to get Mercedes?*

Neal Wade: The incentive package was aggressive but responsible. The plant has tripled in size since then, and we now have Honda and Hyundai. Mercedes would say two things: The workforce and training package put together was the key to selecting Alabama. We've focused on that. We are going to make sure we have the workforce necessary to build the quality product they want built. Second—we've learned this throughout the economic development process—the partnership you establish between the state, the business community, and a particular company is critical. These companies want to believe that you're not going to love them and leave them, that you're going to stay with them, work with them, and help them grow. ThyssenKrupp made exactly that point in their announcement.

ES: *What are other key elements in Alabama's economic development strategy?*

Wade: Partnerships, as we just discussed, is a big one. And Gov. [Bob] Riley is a key. We basically term him the chief economic developer for the state. Companies want to know the governor is going to be there to help them. His scheduler told me [recently] that he's going to Mobile to see the president of ThyssenKrupp while he's there. He does that all the time. I think that's part of what we have figured out has to happen—that involvement at the top government level throughout the process.

ES: *Just how significant are financial incentives in industry recruitment today?*

Wade: With some projects, it is the most important thing. [Companies from] some countries, some cultures, focus on it more than other cultures do. It does become a very, very important part of the process. Sometimes site consultants use it as more of a factor than maybe it ought to be. Sometimes in the smaller projects, discretionary incentives are more important than in some of the larger projects. But the site [of a proposed facility] is the first issue to be solved. You get sites, then you start breaking it down in terms of workforce, education, quality of life, incentive package, and local leadership. In the case of ThyssenKrupp, had we not worked out the logistics of getting steel slabs from Brazil to the site up the [Tombigbee] river, we couldn't have played the game at all.

Photo courtesy of ThyssenKrupp

Attracting German steelmaker ThyssenKrupp, which is building a $3.7 billion plant north of Mobile, is the latest success story for the Alabama Development Office.

ES: *How do you determine how much is the right amount in incentives?*

Wade: We run a cost-benefit analysis for every project for cash [incentives]. Statutory incentives are on the books: You meet the criteria, crunch the numbers, it's automatic. When we get into putting discretionary funds into a project at the local and state level, the cost-benefit comes in. With Gov. Riley, we started doing analysis that shows—at a particular number of jobs, average wage, investment, etc.—if we put X dollars into the project, we'll start seeing a positive return to the state in year three, four, or five. It's a guide. We go beyond that sometimes, depending on whether there are intangible reasons why we want a particular company to come.

ES: *How has economic development changed most over the years?*

Wade: It used to be wine 'em and dine 'em. Now it is a business approach. It is numbers. Companies are very thorough in due diligence, especially the large companies that are making multibillion-dollar decisions. We make sure we get them the answers they need. I think that's changed more on our side than on the companies' side. Economic developers at the state and local level would play golf, drink, go to dinner, stay out late. Now, you have a new wave of economic developers who clearly understand it is a numbers game.

ES: *What do companies generally want in a workforce?*

Wade: National Steel Car is hiring 1,800 people in Muscle Shoals. Fifteen hundred will be welders. We've got to show them that through the two-year college system, the center to be built there, and elsewhere how we're going to provide 1,500 welders. You break down what they'll hire and say, "This is how we're going to solve those issues and provide the workers." We bring [the state's industrial training program] in to work with us, take the company's workforce needs—wage level, timing, etc.—and they put together a program that will screen and provide candidates, deliver them the candidates, and then train those candidates based on the criteria that the company sets up. What we do in essence is a partnership with our industrial clients.

This interview was conducted by staff writer Charles Davidson.

FEDERAL RESERVE BANK of ATLANTA

Economic Research

ECON SOUTH

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The State of the States

Recent events and trends from the six states of the Sixth Federal Reserve District

- A $300 million country music entertainment complex, Country Crossing, will be built in Houston County. The project's developers anticipate that it will create up to 4,000 direct and indirect jobs within five years. The complex's exact location has yet to be decided, but four locations in Houston County are under consideration.
- Champion Enterprises, a maker of manufactured and modular homes, recently shuttered its plant in Guin. The company said the facility, which employed 200 people, was closed because of challenges in the U.S. housing market.
- In late February, the U.S. Air Force awarded a $40 billion contract to Northrop Grumman Corp. and EADS North America, Northrop's European partner, to build 179 aerial refueling tankers. The tankers will be built at a new assembly plant to be located in Mobile and will employ nearly 2,000 workers.

- Rockwell Collins Inc., a developer of communication and aviation electronics for both commercial and government applications, is expanding its operations in Melbourne with a new building and the addition of

250 jobs, which have an average annual salary of $60,000.

- Lockheed Martin announced that it received a $49.5 million contract extension from the U.S. Air Force to continue support for the C-130 cargo plane. The contract was originally awarded in 1999 to Lockheed Martin Simulation, Training & Support in Orlando for a one-year period with nine extension options. The company employs more than 5,000 people in central Florida.
- The downturn in the homebuilding industry spilled over to U.S. Gypsum, a Jacksonville wallboard manufacturer. The company closed its paper mill at its site on Jan. 15, laying off about 60 workers. The mill produced heavy paper sheets for wallboard.

- Scientific Atlanta, best known by consumers for its television set-top cable boxes, plans to add 500 jobs to its Lawrenceville headquarters as part of an expansion. The plant currently employs 1,700 people.
- A Korean company that supplies parts to Kia Motors will create 700 jobs and invest $170 million in a new plant in LaGrange. Sewon Precision will produce stamped components and decorative trim for Kia, which is building a $1.2 billion factory in West Point. Construction on the parts plant is expected to begin in spring 2008.
- The homebuilding slump has hit Atlanta-based Home Depot, the nation's largest home improvement retailer. The company laid

off 500 employees at its headquarters in January, citing the slowdowns in the housing market and consumer spending.

- An 11.4-month supply of homes was on the market in mid-December 2007 in greater New Orleans, according to Latter and Blum, a local real estate brokerage firm, compared with a 4.6-month supply at the end of 2004, a 5.1-month supply at the end of 2005, and a 6.7-month supply at the end of 2006.
- Louis Armstrong New Orleans International Airport will soon gain more direct flights to more cities, the latest in a series of additions that officials hope will boost the airport to pre-Hurricane Katrina passenger levels by 2009. In 2007, about 7.5 million passengers traveled through the airport, a number that should rise to about 9 million by 2009.
- Mardi Gras, the NBA All-Star Game, college football's championship game, and the Sugar Bowl helped pump nearly $1 billion into New Orleans' economy in the first eight weeks of 2008. Mardi Gras attendance neared pre-Katrina levels, boosting area hotels' occupancy rate to 92 percent.

- The state's shipbuilding industry continues to expand. VT Halter Marine of Gulfport recently received a $254 million contract to build three 330,000-barrel tank barges for Vessel Management Services Inc.
- The convention business along the Mississippi coast is bouncing back,

according to state tourism officials. Motorcycle and car clubs, government agencies, and large companies have held conventions there since Hurricane Katrina struck. The Mississippi Coast Convention Center has begun an expansion to more than double its size and is already selling space for late 2009.

- State tourism officials said tourists from the Northeast and Midwest have flocked to casinos, hotels, and parks for recreational vehicles along the Mississippi coast. Record-breaking low temperatures and snowfall throughout the United States brought visitors to the state earlier than usual this year. Mississippi casinos' gross gaming revenues hit record highs in December.

- General Motors plans to reopen its plant in Spring Hill in the second half of 2008, according to a company spokesman. GM closed the original Saturn factory, which employed almost 4,000 people, for retooling early in 2007. When it reopens, the plant will produce the Chevrolet Traverse, a crossover vehicle.
- French energy company Alstom will create at least 350 jobs in Chattanooga when it builds a plant that will make steam and gasoline turbines. The construction project, which will take about two years, represents an investment of $280 million for the Paris-based company, which already employs more than 600 people in Chattanooga.
- Nashville tourism officials expect that higher gas prices and a listless economy will hold tourism

spending in 2008 to around last year's levels. Visitors to Davidson County are forecast to spend $4 billion this year, about the same as in 2007.

This information was compiled by Dave Avery, a senior economic analyst at the Atlanta Fed.

Illustrations by Jay Rogers

Federal Reserve Bank of Atlanta, 1000 Peachtree Street NE, Atlanta, GA 30309-4470 Tel. (404) 498-8500

ECON SOUTH

Volume 10, Number 1
First Quarter 2008

Research Notes and News

Research Notes and News highlights recently published research as well as other news from the Federal Reserve Bank of Atlanta.

Atlanta Fed president discusses credit market instability

Atlanta Fed President and Chief Executive Officer Dennis P. Lockhart delivered a pair of speeches in February in which he discussed recent turmoil in the nation's credit markets.

Lockhart placed recent events in a global context, explaining that the U.S. economy and credit markets continue to deal with persistent global imbalances—trade imbalances, savings and investment imbalances, fiscal imbalances, and foreign-owned dollar surpluses.

In Feb. 7 remarks to the Atlanta chapter of the Association for Corporate Growth, Lockhart addressed four questions stemming from recent financial turmoil: Are banks going to regain their share of credit intermediation? Is securitization dead or dying? Will there be permanent shrinkage in the leveraged loan market? And will foreign investors flee U.S. credit markets?

On the first question, Lockhart said that despite the rise of off-balance-sheet special purpose vehicles, hedge funds, and other nonbank entities, recent financial turbulence has made it clear that banks have retained a central role in channeling credit to borrowers. As to whether securitization was dead or dying, Lockhart said "the answer is an unambiguous no." But participants in the securitization process must address certain issues, he said, including lowering of standards and, in some cases, fraudulent behavior by originators.

In the leveraged loan market, Lockhart believes the private equity industry will continue to operate but at more modest levels of deal size, leverage, and loan terms. Finally, Lockhart said that while foreign investors might become more selective, they will not retreat from American credit markets.

In fact, in a Feb. 8 speech to the Southern Center for International Studies, Lockhart emphasized the significant role of global financial imbalances, particularly foreign dollar surpluses, in the domestic economy and credit markets.

The effect of those imbalances is that large, mature countries like the United States can be net debtors to the rest of the world for long periods of time. This development can be a creative force: The movement of capital from net saving countries causes financial market innovation as bankers try to design vehicles that appeal to investors, including foreign investors, Lockhart said.

Certain countries have amassed surpluses of dollars from selling large quantities of goods and commodities, such as oil, to the United States, Lockhart noted. In the

1970s and 1980s, many of those dollars were channeled through banks to uncertain emerging-market debt. More recently, that money helped finance risky U.S. household debt, again with banks in the middle, Lockhart said.

"At this point conclusions about cause and effect are more speculation than science," he said of the role of global imbalances in U.S. markets. "But I am persuaded that the liquidity conditions created by foreign-owned dollar surpluses trying to find an investment home in this country contributed to markets' recent unstable conditions."

Lockhart stressed that the United States "should not become identified with investment protectionism," nor should the nation impose excessive regulation that would undermine innovation and competition.

"If global imbalances are unlikely to disappear for some time, and we must live with them, then market practitioners and financial authorities must improve their ability to monitor global investment flows and recognize incipient problems," he said.
Speeches index

Atlanta Fed launches Regional Economic Information Network

In April, the Federal Reserve Bank of Atlanta launched the Regional Economic Information Network (REIN), which was created to enhance the Atlanta Fed's knowledge and expertise about the Southeast's economy.

The REIN—at frbatlanta.org under "Economic Research & Data"—has two components: an online repository of Southeastern data and analysis, and the Local Economic Analysis and Research Network (LEARN).

The repository of data and analysis contains Atlanta Fed reports on regional economic data that are updated on a regular basis. One new data series, the D6 Factor (Sixth District Common Economic Factor), is an estimate of the trend common to 25 distinct monthly series of economic data for the six Southeastern states in the Sixth Federal Reserve District. Other reports examine developments in the Southeast's agriculture, construction and real estate, consumer spending, financial services, industrial activity, labor markets, and state government finances.

LEARN is a forum for academics and researchers who have a detailed knowledge of economic developments in local economies in the Southeast. LEARN participants discuss and exchange ideas on research, methodologies, and current economic developments.

"In our monetary policy role, we collect and analyze data covering various industries and indicators within the Sixth District," said John Robertson, vice president and regional research team leader at the Atlanta Fed. "Sharing information helps to better position the Atlanta Fed as a knowledge source. In addition, LEARN will hone our analysis and expand relationships. At the end of the day, our objective is enhanced understanding of the economy. More information leads to more informed decision making."
Regional Economic Information Network (REIN)

FEDERAL RESERVE BANK of ATLANTA

Economic Research

ECON SOUTH

Southeastern Economic Indicators

Volume 10, Number 1
First Quarter 2008

		Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee	6th District	U.S.
Total payroll employment (thousands)[a]	**2007Q4**	**2,019.2**	**8,149.1**	**4,170.8**	**1,927.3**	**1,164.8**	**2,814.4**	**20,249.2**	**138,044.3**
Percent change from	2007Q3	0.1	0.1	0.2	0.1	0.3	0.2	0.1	0.2
Percent change from	2006Q4	1.3	1.2	1.8	2.3	1.4	0.8	1.4	0.9
Manufacturing payroll employment (thousands)[b]	**2007Q4**	**298.0**	**392.5**	**432.3**	**154.6**	**171.4**	**386.6**	**1,835.5**	**13,803.0**
Percent change from	2007Q3	–0.5	–0.8	–1.0	0.0	–0.3	–0.5	–0.6	–0.8
Percent change from	2006Q4	–0.5	–1.5	–2.7	–0.8	–1.9	–2.1	–1.8	–1.9
Civilian unemployment rate[a]	**2007Q4**	**3.5**	**4.4**	**4.6**	**3.7**	**6.4**	**4.9**	**4.5**	**4.8**
Rate as of	2007Q3	3.7	4.0	4.5	4.0	6.3	4.3	4.3	4.7
Rate as of	2006Q4	3.6	3.3	4.6	4.3	6.9	5.0	4.1	4.4
Existing single-family home sales (thousands of units)[c]	**2007Q4**	**102.0**	**239.6**	**185.6**	**65.6**	**58.0**	**137.2**	**788.0**	**4,957.0**
Percent change from	2007Q3	–13.0	–5.2	–9.0	–14.1	–1.4	–10.7	–8.7	–8.5
Percent change from	2006Q4	–14.4	–29.0	–23.8	–23.0	–8.2	–14.5	–21.9	–20.9
Single-family building permits YTD (units)[b]	**2007Q4**	**18,434**	**71,964**	**52,832**	**16,282**	**10,658**	**28,366**	**198,536**	**973,262**

Percent change from	2006Q4	–23.0	–51.8	–35.2	–26.9	–21.8	–25.5	–39.6	–29.5
Personal income ($ billions)[c]	**2007Q3**	**151.4**	**706.4**	**320.1**	**144.0**	**83.7**	**206.4**	**1,611.9**	**11,727.1**
Percent change from	2007Q2	1.4	1.5	1.3	1.8	1.8	1.3	1.5	1.4
Percent change from	2006Q3	5.9	5.5	6.3	6.4	6.5	5.6	5.9	6.5

		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total payroll employment (thousands)[b]	**2007Q4**	**2,481.5**	**539.2**	**644.1**	**2,475.6**	**766.7**	**510.7**	**1,121.6**	**1,335.4**
Percent change from	2006Q4	2.2	1.0	1.5	1.2	0.6	3.2	2.2	1.1
Civilian unemployment rate[b]	**2007Q4**	**4.3**	**3.0**	**4.1**	**4.1**	**4.0**	**3.4**	**4.1**	**4.5**
Rate as of	2006Q4	4.3	3.0	3.1	3.3	3.8	4.1	2.9	3.1
Office vacancy rate[b]	**2007Q4**	**19.1**	**—**	**13.7**	**7.7**	**10.9**	**—**	**8.8**	**13.3**
Rate as of	2006Q4	19.0	—	13.3	7.7	10.6	—	7.0	10.1
Median existing home sale price (thousands of $U.S.)[b]	**2007Q4**	**164.3**	**156.1**	**177.6**	**345.9**	**—**	**158.2**	**240.4**	**201.6**
Median price as of	2006Q4	166.8	161.7	180.4	366.8	—	162.1	272.1	229.7

[a] Seasonally adjusted

[b] Not seasonally adjusted

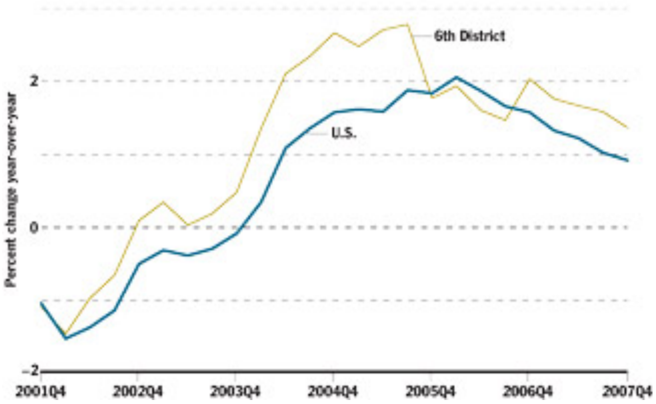
[c] Seasonally adjusted annual rate

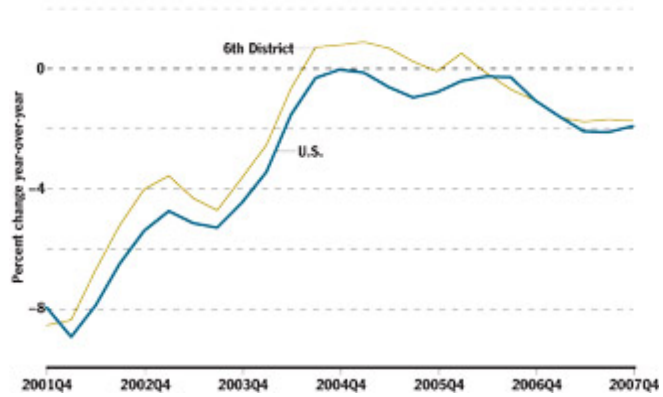
Sources: Payroll employment and civilian unemployment rate: U.S. Department of Labor, Bureau of Labor Statistics. Existing home sales and median existing home sale price: National Association of Realtors. Single-family building permits: U.S. Bureau of the Census, Construction Statistics Division. Personal income: Bureau of Economic Analysis. Quarterly estimates of all construction data reflect annual benchmark revisions. Office vacancy rate: CB Richard Ellis. Most data were obtained from Economy.com.

For more extensive information on the data series shown here, see historical data.

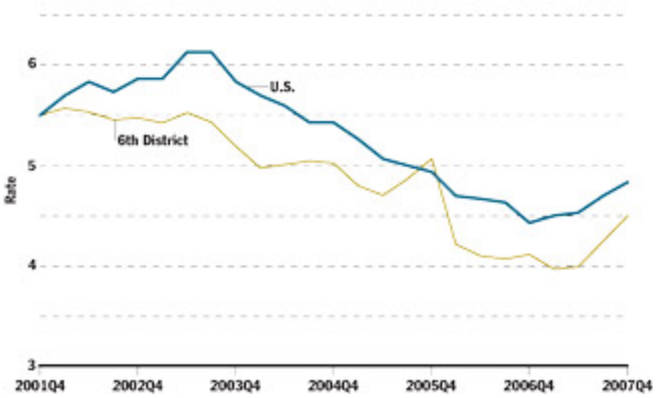
Total Payroll Employment

Manufacturing Payroll Employment

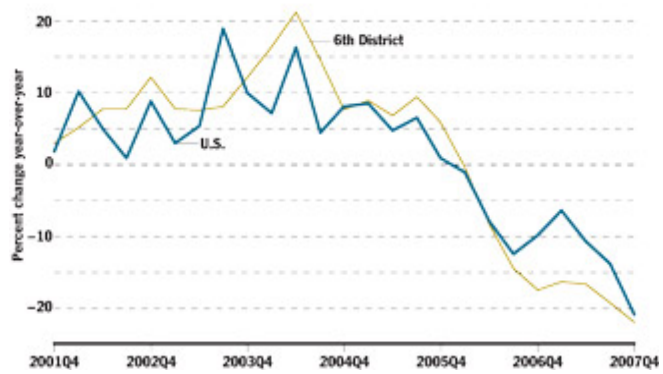




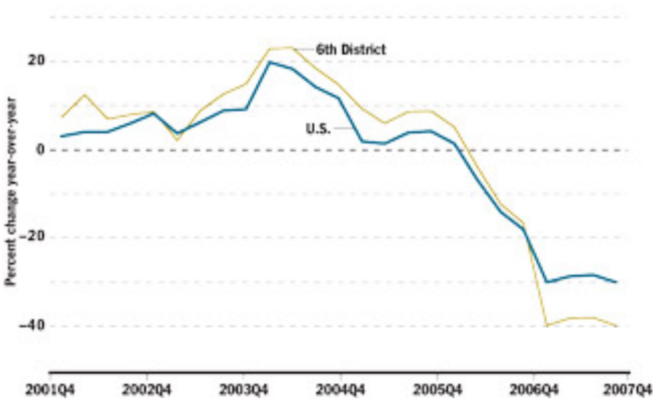
Civilian Unemployment Rate



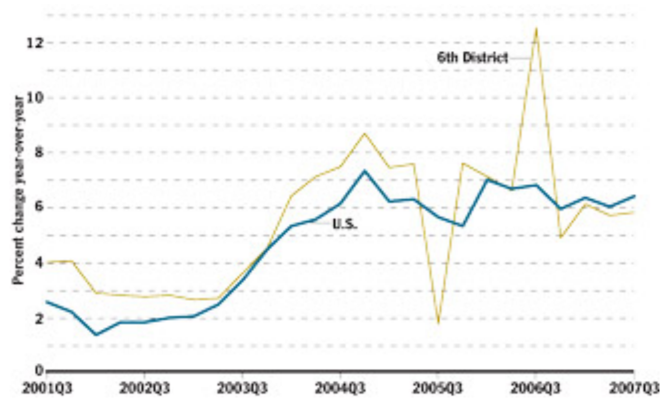
Existing Home Sales



Single-Family Building Permits YTD



Personal Income



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1000 Peachtree Street, N.E.
Atlanta, Georgia 30309-4470

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Editor's note: Throughout this issue, *Southeast* refers to the six states that, in whole or in part, make up the Sixth Federal Reserve District: Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.

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Back Ground

Photo courtesy of the State Archives of Florida

Although the financial incentives governments use to attract corporate citizens are far broader today, groundbreaking ceremonies remain a constant. Here, those involved in wooing U.S. Plywood to northwest Florida in 1969 celebrate their achievement.