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Why Carrier's new deal could set a troubling precedent

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(Photo: Kelly Wilkinson/IndyStar)

INDIANAPOLIS — The $7 million incentive package Carrier Corp. will receive as part of a deal the company reached with President-elect Donald Trumpand Vice President-elect Mike Pence represents a departure from how tax credits are typically used in Indiana.

It's also the kind of agreement Trump slammed on the campaign trail.

The furnace manufacturer will receive $5 million in tax credits over 10 years in exchange for keeping 1,069 jobs at its Indianapolis plant, with an average wage of $30.91 hour. The company also will receive $1 million in training grants and up to $1 million in additional tax credits based on Carrier's planned $16 million investment in the west-side factory.

The board of the state's economic development agency must still approve the deal. As governor, Pence is chairman of the board and appoints its members.

The deal was a major early victory for the incoming presidential administration. It was also welcome news for the plant's 1,400 employees, who had been told in February that their jobs would be eliminated and the work shipped to Monterrey, Mexico.

But the deal differs from most other economic development agreements in Indiana, where incentives are usually aimed at luring jobs, not merely retaining them. In fact, about 400 workers at Carrier will still lose their jobs under the deal, as will 700 employees at a related company in Huntington.

Some experts say the deal sets a troubling precedent.

"It’s a potentially dangerous policy where you reward a company that threatens to leave. It’s a dangerous precedent. Why wouldn’t every other company make the exact same pitch?" said Steve Weitzner of Silverlode Consulting, a site-selection firm. "In this case, you’re rewarding a company that is actually cutting a lot of jobs in the state."

But others say that economic development has to be handled on a case-by-case basis.

"It’s a judgment call," said Mitch Roob, who led the state's economic development agency under then-Gov. Mitch Daniels. "The IEDC has a fair amount of leeway, as they should, because there’s no way for the legislature to understand what the particular circumstances might be at a point in time."

Carrier Corp. will receive $7 million in incentives to keep 1,000 jobs in Indiana. The job-rentention deal, the sort that Donald Trump slammed on the campaign trail, is not unprecedented in Indiana. (Dwight Adams/IndyStar) Wochit

Roob said awarding incentives for retention was uncommon but not unprecedented.

"We tried not to do it, obviously," he said. "But there were certain circumstances when that became the best option for us, and we went ahead and did it."

Trump, however, has criticized the use of such incentives.

"I’ve watched as politicians talked about stopping companies from leaving our states," Trump said at a Pennsylvania campaign rally in August: " 'Here’s a tax abatement of any kind you want. We’ll help your employees.' It doesn’t work, folks. That’s not what they need. They have money. They want to go out, they want to move to another country, and because our politicians are so dumb, they want to sell their product to us and not have any retribution, not have any consequence."

Instead of incentives, Trump frequently called for tariffs as high as 35% on products produced by companies that move their factories outside the United States. Those threats were often aimed at Carrier.

At an event at the Carrier factory Thursday, neither Trump nor Pence mentioned the incentives. The details came from Carrier and officials at the Indiana Economic Development Corp., the state agency that administers tax and training grant incentives.

It remains unclear to what extent that threat and the state incentives played in Carrier's decision to keep some jobs in Indianapolis. The company said the incentives were important, but so were Trump's promises to work with the business community on creating an improved business environment.

Experts agree that the incentives offered to Carrier probably played only a minor role in persuading the company to keep operations in Indianapolis. The $700,000 a year in incentives from Indiana are a drop in the bucket compared with the $65 million a year Carrier has said it would save in labor and other costs by shifting production to Mexico.

Maintaining a good relationship with the incoming Trump administration was likely a more important factor, experts said, especially given that Carrier's parent company, United Technologies, receives billions of dollars a year in federal contracts.

Whatever the motivation, Weitzner said, the terms of Trump's deal with the company are striking given the president-elect's comments on the campaign trail.

"It’s exactly the opposite of what he said he would do," Weitzner said. "He said he was going to punish companies. Now he’s rewarding companies that are taking jobs away."

But for Pence, the soon-to-be vice president who played a key role in negotiating the deal, the terms are less surprising.

In 2014, the Pence administration awarded $8 million in tax credits to BAE Systems Controls to keep 1,000 jobs at its Fort Wayne facility.

Less than a year later, the company announced it would lay off up to 100 employees, and it has since reduced its workforce to about 850.

(Photo: Kelly Wilkinson/IndyStar)

The company told *The Indianapolis Star* in August that the layoffs were unrelated to production shifts to its facility in Guaymas, Mexico, over the past six years, but the U.S. Office of Trade Adjustment found that BAE’s decision to acquire products “from a foreign country” contributed significantly to the layoffs.

An *Indianapolis Star* review of incentive deals awarded under Pence found that the state had approved $24 million in incentives to 10 companies that sent work to foreign countries, costing hundreds of Hoosiers their jobs. In some cases, the state clawed back the money. But in several other cases, it did not. In some instances, that was because the incentive deals were specific to a particular plant, allowing the company to shift production overseas from other Indiana plants.

Greg Leroy, whose organization Good Jobs First tracks economic development incentives, said trying to stop offshoring with government incentives rarely works because lower labor costs often generate savings much larger than any incentive a state can offer.

What's really needed, he said, are broad federal policy changes.

"Until there's a systemic answer," he said, "until he’s got some policy in place to make it meaningful to other workers, there’s not much to it."

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