

Special Topic: South Carolina

The adversary.

It is difficult to judge a place that you have never seen, but South Carolina sounds like a pleasant part of the country. *The Economist* reports that the second 787 Dreamliner assembly plant is located outside “the lovely old city of Charleston.” Columbia, the state’s capital, occasionally makes the list of the nation’s most livable cities.

While South Carolina has a certain appeal, it is not because of a robust economy. Historically, the state has endured middling job growth, above-average unemployment, and extremely low per capita income. Between 2000 and 2008, employment expanded at a 0.4 percent annual rate, much slower than Washington’s 1.2 percent pace. In 2008, the South Carolina unemployment rate stood at 6.9 percent, the fifth highest in

the nation. Its per capita income totaled \$32,666, the sixth lowest in the nation.

The recession has further aggravated economic conditions in South Carolina, jacking up the unemployment rate to 12.6 percent at the end of 2009. Only Michigan (14.3 percent), Nevada (13.0 percent), and Rhode Island (12.9 percent) registered higher rates.

The lackluster performance of the South Carolina economy explains the willingness—indeed eagerness—of local leaders to tender \$450 million in tax and other financial incentives in order to land the 787 plant. The \$750 million facility is expected to create 2,000 temporary construction jobs and 3,800 permanent aircraft jobs. Taking into account the indirect economic activity generated by the plant, the total impact could amount to 10,000 jobs.

What does Boeing stand to gain by setting up shop 3,000 miles from its central operations? One thing is cheap labor. The company expects to cut payroll costs by 40 percent.

Although South Carolina’s low wage rates are enticing, it is not clear that they will necessarily improve Boeing’s bottom line. Including benefits, the pay of assembly workers is a small fraction—maybe as little as 5 percent—of the total cost of developing and manufacturing a 787. Thus, the potential savings of building a Dreamliner in South Carolina instead of Washington amounts to only two percent of the airplane’s total cost. Moreover, if workers in North Charleston turn out to be less productive than their Everett counterparts—South Carolina ranked 46th in labor productivity and 41st in educational attainment in 2008—the two percent cost savings could easily evaporate.

The main draw of South Carolina, a “right to work” state, is the absence of labor unions. In 2008, only one out of every twenty-five workers belonged to a union. The state ranked 49th in union membership, while Washington ranked 4th.

By locating in South Carolina, Boeing is effectively creating a “competitive” two-tier production system—low-wage nonunion workers in South Carolina and high-wage union workers in Washington—in an attempt to solve its longstanding labor problems. As quoted in *The Seattle Times*, Boeing commercial airplane chief Jim Albaugh said, “We can’t afford to have a work stoppage every three years. And we can’t afford to continue the rate of escalation of wages.” But the two-tier tactic, especially if it foments dissension within the ranks, seems to carry its own risk.

South Carolina and Washington Economic Characteristics, 2008¹

	South Carolina	Washington
Employment (thous.)	2020.6	3192.3
Employment growth rate, 1970-08 (%)	1.7	2.4
Unemployment rate (%)	6.9 (46)	5.3 (25)
Personal income (bils. \$)	146.3	280.7
Per capita income (\$)	32666 (45)	42857 (13)
Per capita Gross Domestic Product (\$00)	28364 (46)	40407 (13)
Average hourly wage rate (\$)	17.33	22.32
State and local taxes, FY 2007 (% of income)	10.3 (39)	10.9 (26)
Population (thous.)	4479.8	6549.2
Median home price, 2008.4 ² (\$ thous.)	193.8	325.9
Educational attainment (% with college degree)	23.5 (41)	30.3 (12)
Union membership (% of employment)	3.9 (49)	19.8 (4)
Percent of total employment		
Manufacturing	12.0	9.1
Information	1.4	3.3
Professional and business services	11.1	11.1
Leisure and hospitality	10.9	9.0

¹Rankings among fifty states and District of Columbia shown in parentheses.

²Home prices for Charleston MSA and Seattle MSA.