

Intel Comes to Ohio: Prospects and Challenges

A Supplement to *Transforming Ohio's Economy in the Wake of the Great Pandemic*

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On January 21, 2022, officials from Intel Corp. and the state of Ohio announced the largest development prize in the history of the state. The agreement called for the California-based computer chip maker to invest \$20 billion in Ohio to build two semiconductor fabrication plants employing at least 3,000 workers. These jobs are expected to pay, on average, \$137,000 a year.¹

Ohio reportedly beat out 40 other states. Not only is the investment expected to produce 3,000 jobs when the plants open in 2025, but it is also projected to produce 7,000 one-time construction jobs. In addition, Intel estimates that another 10,000 permanent jobs will be created by suppliers who move to the area, as well as additional support jobs in distribution, retail, entertainment, health care and other businesses. In exchange for Intel's planned investment, Ohio promised more than \$2 billion in incentives.²

Company leaders have expressed a desire to expand these facilities even further over time. Ohio development officials also expect that this commitment from a California firm that had not previously invested in Ohio will serve as a catalyst to attract other companies to the state.³

A Look Back

Many observers compared this deal to the Ohio and Honda Motor Co. partnership, arguably one of the most successful in the country. The Japanese automaker had no presence in Ohio until recruited here by former Gov. James A. Rhodes. The partnership began modestly with the opening of a \$35 million motorcycle plant in Marysville in 1979 that initially employed 64 people. Three years later, Honda opened an auto assembly plant in Marysville, followed by an engine plant in Anna in 1985 and another assembly plant in East Liberty in 1989.

By its 40th anniversary in Ohio in 2019, Honda could claim an \$11 billion investment and more than 15,000 employees in the state. Honda suppliers were reported to employ

thousands more.⁴ By any measure, Honda has been a great success for the state of Ohio.

But Honda's success is not always repeated in large development projects. At about the same time Honda was building its motorcycle plant, the Commonwealth of Pennsylvania announced it had reached a deal with Volkswagen to open a plant in New Stanton to employ 20,000 people making Volkswagen Rabbits. The plant was built, but the German automaker's Rabbit never took off with consumers. The facility closed just 10 years later, leaving 2,500 workers jobless and Pennsylvania taxpayers with a \$70 million loss.⁵

A more recent example of the vagaries of large development projects occurred in 2017, when Wisconsin officials announced a huge deal with Taiwanese electronics maker Foxconn to build a \$5 billion plant purported to employ 3,000 workers by 2020 and 13,000 by 2022. The workers would make flat-panel displays for cell phones and other products. The state offered a whopping \$3 billion in incentives. Foxconn never delivered on its promises, and the deal has since been scaled back significantly. The number of jobs Foxconn created in Wisconsin as of the end of 2021 was just 579.⁶ Intel is no Foxconn, which carries with it a reputation for not following through on development announcements.⁷ However, no development deal is totally exempt from the uncertainties of markets and changing realities.

Even more recently, we witnessed how market dynamics can affect investment decisions. In May 2021, New York-based Peloton, maker of popular, high-end exercise bikes, announced it would invest \$400 million in a new plant in Northwest Ohio that would employ 2,000 when it opened in 2023. Barely nine months later, amid a drop-off in customer demand, the company saw its stock price plummet, changed its management team and decided to scrap plans for its Ohio plant.⁸

Experience has shown that announcing jobs and creating jobs are far from one and the same. Intel is not Peloton, Foxconn nor Volkswagen, but it does exist in a very competitive industry where success is not guaranteed. Intel is a financially solid company that is a leader in a vital industry, and federal legislation to assist domestic chip makers has now passed both the House and Senate. The legislation should give Intel a boost, but Wall Street analysts are divided as to the company's future growth prospects.⁹

Another challenge involves the impact on the rest of Ohio's economy. A factory of this size is not without precedent. In 1964, General Motors broke ground for a new plant on 1,000 acres of vacant land in Lordstown in Trumbull County. It was described at the time as the largest and most advanced auto assembly plant in the world. The facility was expected to employ 4,500 workers when it opened in 1966 to build popular Chevy models and then to grow to 8,000 employees.¹⁰

In fact, the GM plant at Lordstown did even better, employing 10,500 workers at its peak in 1985. But after a very successful 20-year run, Chevy and other domestic auto products lost their dominant market position. Employment at Lordstown dropped steadily to fewer than 1,500 workers before GM announced it would close the facility in 2019.¹¹

Meanwhile, the Honda plants in central Ohio continued to grow and provide even more good-paying jobs. But during this entire period, from the time the Lordstown plant opened and through Honda's surge, Ohio's growth in jobs and in per capita income continued to lag the nation as a whole. This is not a reflection on GM or Honda; the decline would have been much more severe without them. Instead, it underscores the magnitude of the challenge of turning around a large and complex state economy. These issues are discussed in more detail in our report on *Transforming Ohio's Economy*.

A Look Ahead

There is no silver bullet here. Gov. Mike DeWine and his team have earned the right to take a victory lap to celebrate what has the potential to be a big win for Ohio, but the race is not over, and years of hard work remain.

Job One will be to successfully open the first semiconductor fabricating plants on schedule. That may not be as easy as it sounds. These plants are extremely sophisticated and expensive. Intel has not opened a new plant in 40 years. Ohio has opened many new manufacturing plants but nothing like this. The learning curve will be steep.¹² This project will require 7,000 construction workers at a time when both skilled workers and building materials are already in short supply due to lingering effects of the COVID pandemic and efforts to mitigate its spread. State and Intel officials are aware of all this and will need to work together to overcome any unanticipated roadblocks.

Job Two is less immediate but no less important. It may take years for the full impact of this investment to play out fully. Meanwhile, state officials need to decide where they want to place their focus. When JobsOhio was created in 2011, the Kasich administration developed a list of nine targeted industries, including advanced manufacturing, to provide some discipline and focus geared toward Ohio's unique strengths and needs.¹³

But should Ohio focus on becoming the "Silicon Valley of the Midwest," as some have suggested, or should it continue to emphasize other targeted industries as well? Ohio officials are able to do more than one thing at a time, but capacity is not unlimited. This means finding the right balance in supporting expansion plans of Ohio's established companies, attracting firms that align with demonstrated strengths and nurturing startups with potential to become the high-growth firms of the future.¹⁴

What Ohio doesn't need is for a future governor to find it necessary to express buyer's remorse, as former Pennsylvania Gov. Richard Thornburgh did about the VW Rabbit deal when he was quoted as saying it may be better "to have 50 small companies with 100 employees each" than one with 5,000.¹⁵ Ohio needs a mix of large, headline-grabbing wins and smaller, steady gains to secure a thriving economy.

Questions for the Next Governor

Assuming this deal goes forward as described, it poses the following questions for whoever is the next governor of Ohio:

1. Intel's decision to invest here reflects its confidence in Ohio's ability to meet certain commitments, not only regarding land and incentives, but also in terms of support for related infrastructure and access to skilled workers. What would you do as the next governor to ensure these commitments are met?

2. Intel's decision to invest here also includes commitments on its part, not only in terms of creating high-wage jobs, but also in protecting Ohio's environment by recycling water and developing clean energy sources. What would you do as the next governor to ensure these commitments are met?

3. Intel's investment will provide a major boost to the regional economy, but it will also create pressure on the local transportation network, local school districts and the local housing market. What role, if any, would you see the state taking to assist these communities with this transition?

4. Intel's investment promises to bring many benefits to the economy of central Ohio, but the benefits will be less obvious to other parts of the state. This is especially true of Forgotten Ohio, such as those communities in Appalachia, the Mahoning Valley and the Miami Valley that have been hit hard by economic dislocation for more than half a century. What would you do as governor to help these communities prosper and grow?

5. How should Ohio pursue the effort to create a "Silicon Valley of the Midwest"? How can the governor assure this can be done without losing focus on supporting existing Ohio employers and nurturing startups among the state's more established industries of economic dominance?

The findings, conclusions and recommendations expressed in this document are the product of research conducted by the authors and do not represent the views of either the John Glenn College of Public Affairs or The Ohio State University.

¹ Office of the Governor, “Governor DeWine Announces Monumental Investment by Intel to Bring Their Most Advanced Semiconductor Manufacturing Plants to Ohio,” press release dated January 21, 2022, at ohio.gov.

² Mark Williams, “Intel incentive largest in state history,” *Columbus Dispatch*, January 29, 2022, A1.

³ Richard Florida and David J. Adams, “Goodbye to the Days of the ‘Rust Belt,’” *Wall Street Journal*, January 29, 2022, C3.

⁴ “Honda Celebrates 40 Years of Manufacturing in America,” *Hondanews*, September 10, 2019, at Hondanews.com.

⁵ Tim Moran, “VW production tripped up in U.S. Many problems led to closing of automaker’s Pa. factory,” *Automotive News*, October 17, 2005, at autos.ca.

⁶ David Shepardson and Karen Pierog, “Foxconn mostly abandons \$10 billion Wisconsin project touted by Trump,” Reuters, April 20, 2021, at reutersd.com, and Bridgit Bowden, “Foxconn qualifies for nearly \$30 million in tax credits,” Wisconsin Public Radio, December 26, 2021, at superiortelegam.com.

⁷ Mark Sommerhauser, “Foxconn jobs a boon for Wisconsin, but with \$3 billion incentive deal, a steep tradeoff,” *Wisconsin State Journal*, July 30, 2017, at Madison.com.

⁸ Sean McDonnell, “Peloton abandons plans for Ohio plant, will rely on third-party suppliers,” February 8, 2022, at cleveland.com.

⁹ For two contrasting views, see Howard Yu, “Opinion: Amid a global chip shortage, Intel is making less money—how did it happen?” *Market Watch: The Conversation*, February 3, 2022, at marketwatch.com, and Jose Najarro, “Is It Finally Time to Buy Intel Stock?” *The Motley Fool*, January 28, 2022, at fool.com

¹⁰ Kalea Hall, “GM Lordstown keeps cruzin’,” *Youngstown Vindicator*, September 29, 2014, at Vindyarchives.com.

¹¹ Associated Press, “‘Gut-wrenching’ day as production ends at Ohio GM assembly plant,” NBC News, March 7, 2019, at NBCnews.com.

¹² For an analysis of the environmental issues alone see, Patrick Cooley, “Intel’s chip manufacturing has a massive carbon footprint. What this means for Ohio,” *Columbus Dispatch*, February 1, 2022, A1.

¹³ These nine industries are: Advanced Manufacturing, Aerospace and Aviation, Automotive, Biohealth, Financial Services, Food Processing, Information Technology, Logistics and Distribution, and Shale Energy and Petrochemicals.

¹⁴ See, for example, the case for startups presented by Merissa C. Piazza and our colleague Ned Hill, “Not All High-Growth Firms Are Alike: Capturing and Tagging Ohio’s Gazelles,” *Economic Development Quarterly*, July 2021, at journals.sagepub.com.

¹⁵ Quoted in Peter K. Eissenger, *The Rise of the Entrepreneurial State*, Madison: University of Wisconsin Press, 1988, 242.