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**Talk is Cheap—Good Policy is Hard**

In a recent press release from the Governor's office announcing the subsidy to move American Eagle Outfitters from one part of Allegheny County to another, the Governor congratulates himself on all the jobs that his administration has "created" since he took office (2003). The Governor, pointing to a modest two-year gain in jobs statewide, goes to great pains to claim credit for having boosted employment to its highest level ever. The release also notes that the Rendell administration has spent "more than \$781 million for 244 projects in Allegheny County". But for all of the money he has thrown around the Commonwealth, has there been an appreciable gain in jobs beyond what would have occurred if he had done nothing? Or has the Governor failed to deliver on yet another promise?

Let's look at the numbers. Statewide, the job count as of September 2005 was up only 2 percent from 2003 and is statistically insignificant from September 2000. That is to say, Pennsylvania employment has just barely recovered from the recession of 2000-2001. In contrast, the national job count is up 3 percent from 2003 and nearly 1.5 percent above the pre-recession peak. Note too, that many states have experienced much faster than national average gains.

As meager as the state job recovery has been, there is still a question of how much of this increase is attributable to the Governor's policies. One could reasonably argue that much of the increase is traceable to a national rebound that was spurred by tax cuts and low interest rates. Inexplicably, Pennsylvania chose to raise taxes during a recession. In any case, Pennsylvania has not kept pace with the national economy. Tellingly, neither the Philadelphia nor Pittsburgh area economies have returned to their September 2000 employment levels—with both areas running 20,000 jobs behind the five-year ago levels.

In September 2003, during the Governor's first year in office, the Pittsburgh Metro Area had 1,137,800 total non-farm employees. As of September 2005, the latest available data, Bureau of Labor Statistics figures show employment had climbed to 1,139,300—an increase of only 1,500 jobs (0.1 percent) in two years. As noted, the 2005 job total is still nearly 20,000 below the September 2000 reading of 1,157,100. Not a very good return on the taxpayers' \$781 million investment.

So where is the money going and where are the jobs? The Governor has been betting on retailers as evidenced by the subsidies he has poured on American Eagle Outfitters (\$9.5 million), Dick's Sporting Goods, and the proposed Victory Center in Washington. However, consider that the largest job gains in the last year have occurred in Education and Health Services (21,000) and Professional and Business Services (20,000). These two industries have accounted for over half of the last twelve month's job growth in the Commonwealth and for the most part have expanded without huge subsidies. Meanwhile, the Retail Trade sector, one of the biggest recipients of state

largess, has added a mere 7,000 jobs. At the same time, the beleaguered manufacturing sector continues its downward trend—losing 13,000 jobs since September 2004. Obviously, the Governor’s strategy leaves a lot to be desired.

Looking at the most recent corporate welfare recipient, American Eagle Outfitters, can provide clues as to why. The company will receive \$4 million to move their headquarters from the northern part of the County to the City. In addition, they will receive a \$1 million Opportunity Grant; \$500,000 in Job Training Assistance; and will receive another \$975,000 if they hire 325 new employees. The Urban Redevelopment Authority will ask for another \$3 million state grant to cover the cost of a parking garage so that employees can have free parking. The Governor states that “We’ll make back the money invested in a few years with the new taxes that are generated.”

Despite the modest employment gains promised by American Eagle, which had after tax profits of \$213 million in 2004, the company will receive significant state financial aid to relocate within the County. What’s worse, the company is moving its corporate headquarters to the South Side Works, a URA project that has received \$100 million in taxpayer subsidies.

It is reasonable to ask if taxpayers can expect to ever recover the \$100 million in additional tax revenues from the project. Bear in mind that many of the tenants in the complex are either retailers or office space users that have moved from other locations in the City. Thus, the tax revenues at the South Side Works do not represent much of an increase in net new revenues for the County and the state. Finally, as we have noted in an earlier *Policy Brief*, subsidizing retail has not generated a net increase in jobs in the region-and never will.

Unfortunately, the public deluding circus continues. The Governor travels around the state lavishing taxpayer dollars on projects, many of which simply create subsidized competition for existing businesses. But more importantly, the profligate doling out of subsidies further deepens the dependence of business on government to the long-term detriment of the state’s economy. This self-defeating strategy must be seen for what it is, a politically expedient substitute for doing the hard work of enacting the necessary business climate improvements in Pennsylvania. We have to do better.

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