

POLICY BRIEF

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Spending Our Way To Prosperity Is A Bad Investment

If Pittsburgh and environs are in economic malaise, it is not *in spite of* the fact that billions of tax dollars have been lavished upon the region, but precisely *because of* it. The government largess has failed to mask the erosion of our private sector and is now dangerously close to reducing this region's so called entrepreneurs to little more than public wards caught up in a burgeoning socialist experiment. Pennsylvania's budget deficit stems from the bankrupt idea that government can spend its way to prosperity.

It should be obvious that the largely taxpayer funded economic development efforts underway in Pittsburgh have reached a critical juncture when no public outcry is generated by the bizarre news that the *Pittsburgh Regional Alliance* wants to develop a National Center for Defense Robotics at a cost of \$1 million per year. Apparently the mission of this region's self-appointed economic development elites is to identify opportunities to capture tax dollars to be lavished on spectacular concepts that no private sector enterprise would dream of undertaking. Underway is a massive and costly effort to "create" virtual industries, and with them, thousands of, so far, virtual jobs.

Project	Tax Dollars Invested	Project Inception	Jobs Projected	Net Change in Jobs to Date	\$ Cost Per job	Percentage Achieved
Accelight Networks	1,400,000	2001	900	60	23,333	7 Percent
BroadStreet Communications	650,000	1999	325	0	650,000	0 Percent
CoManage Corporation	200,000	2001	200	28	7,143	14 Percent
FORE Systems - Marconi	6,000,000	2000	941	-50	6,000,000	Negative
H.J. Heinz	10,050,000	2001	400	100	10,500	25 Percent
Home Depot, East Liberty	5,000,000	1999	200	75 (38 full time)	66,666	38 Percent
Nova Chemicals	3,500,000	1999	365	340	10,294	93 Percent
Pennsak, Inc.	400,000	1999	16	16	25,000	100 Percent
Rockpointe Airpark	3,000,000	1999	4,000	180	16,666	5 Percent
United States Gypsum	13,000,000	1998	400	178	73,033	45 Percent
TOTALS	43,200,000		7,747	927	46,602	12 Percent

The table above is a sampling of 11 projects, all funded at least in part by tax dollars. The overarching justification of such economic pump priming by state and local governments has been job "creation." But the results above demonstrate that, for the vast majority of these projects at least, the promises have yet to materialize. Creating jobs at a cost to taxpayers of more than \$46,000 each is an effort that cannot and should not be sustained. "Creating" 100,000 jobs at that rate would cost taxpayers \$4.6 billion! But using even that inflated figure, the public dollars spent on Pittsburgh's "Plan B" should have bought at least 16,000 new jobs; instead, a comparison of job figures shows April 2002 numbers were 11,000 lower than last April, when PNC Park opened. The Sports and Exhibition Authority of Allegheny County is proud of the fact that it has

presided over the application of nearly \$943 million (and counting) to the creation of two stadiums and a convention center. The promise was that more than 20,000 jobs would result, 20,000 residents would not flee the region, and \$1 billion in personal income would be spontaneously generated for the citizens of greater Pittsburgh. Only if professional sports' salary caps are repealed does the \$1 billion in income have any chance of materializing; but the jobs will not, and the region's population continues to shrink.

By every measure they have set, greater Pittsburgh's regional economic planners have failed to achieve their goals. Economic planning and community development in this region is now muddled into a miasma of concepts, ideas and philosophical paradigm shifts that are as illusory as they are impossible to evaluate. Part of the blame lies in a failure to grasp reality. For example, it is widely believed that Pittsburgh was a manufacturing hub until the 1980s and then our basic industries collapsed. In reality the greatest decline in manufacturing jobs in this region occurred between 1953 and 1976, when 163,700 jobs disappeared, representing a 43 percent loss. Some of those jobs were eliminated, victims of the normal progress of technology and innovation that made them obsolete. But the vast majority moved elsewhere. Pittsburgh is now a "virtual corporate capital" where headquarters still exist, but employees are few and far between. Choose from among this region's manufacturing giants, from ALCOA to H.J. Heinz, and you find that 97 percent of their work force is making things elsewhere. Why have manufacturers fled the area?

There can be only one explanation--it is too costly to make things here. Key factors, from labor, to raw materials, to red tape and regulation are more burdensome than elsewhere. Pittsburgh's political leaders, and increasingly Pennsylvania's in general engage in policies that encourage and reward inefficiency and waste. No enterprise can generate a quicker and more lavish funding response from government than one that is either threatening to leave or in danger of failing. Yet, in Pennsylvania, taxpayers subsidize even apparently healthy and profitable companies such as Heinz, Harley Davidson Motorcycles, Home Depot, Target and Wal-Mart. These five recently received more than \$36.5 million in public assistance, apparently essential to persuade them to locate new or expand existing facilities and ostensibly employ Pennsylvanians.

Something is wrong when a new employee requires a \$3,000 annual subsidy from the taxpayer in order to induce private enterprise to hire him. That is the practical effect of an initial \$46,000 "investment" stretched over an employee's 15-year-average tenure. It would be productive to determine why the idea of doing business here and throughout the state has become so unattractive as to require bribing employers to create or expand ostensibly profitable enterprises.

Any number of sacred cows will undoubtedly be gored by the answers, but failing to garner them will cost us dearly. There is no "free lunch." Taxpayers are burdened by these subsidies even as Pennsylvania is becoming less competitive and attractive despite them. This process helps explain why, regardless of all the efforts, greater Pittsburgh continues to lose population to places where people believe there is less likelihood they will have the arm put on them daily by government, intent on spending its way to prosperity.

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