POLICY BRIEF

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New Study Misses the Point

In a recently released report, the Brookings Institution highlighted the lackluster performance of Pennsylvania's economy over the past decade. The report pointed out that the Commonwealth ranks at or near the bottom of the nation when it comes to growing jobs and population. Most distressing is that these trends persist despite the fact that Pennsylvania is near the top in per-capita spending on economic development. While we agree with Brookings' description of the current state of Pennsylvania's economy, we could not disagree with them more about the causes of the state's slow growth.

The study claims that Pennsylvania's dismal comparative performance is largely the result of "sprawl", "weak and uncoordinated planning", and state development spending that fails to "target aid sufficiently on established municipalities". It goes on to assert that Pennsylvania does not fully realize the importance of education and skills and does not have sufficient revitalization tools in place.

The facts are that Pennsylvania spends huge amounts of money every year on job training and work force development, higher education, and redevelopment efforts. The state has established a plethora of programs for revitalization of depressed areas including: Tax Increment Financing, Keystone Opportunity Zones, tax abatements, and a myriad of grant programs for business development. Furthermore, Pennsylvania has not stinted in its financial support for new technologies, doling out millions of dollars for the Digital Greenhouse, biotech, and other cutting edge technologies to promote commercial development of research. Spending for education and skill development and revitalization tools are not in short supply in Pennsylvania.

In all likelihood, our regional agencies will be surprised to learn that their efforts are weak and uncoordinated. Undoubtedly, the Brookings report describes planning efforts that way because those efforts have not produced the outcomes Brookings views as desirable, i.e., they haven't prevented people from moving to the faster growing communities.

The report attempts to show that recent allocations by the Department of Community and Economic Development (DCED) have failed to funnel dollars to established communities. They measure this by looking at the dispersal of business assistance from seven DCED programs beginning in 1998 through mid-2003. Of the $863 million distributed, the so-called "older" communities received a 57 percent share. Cities, which make up a big portion of "older" Pennsylvania, received $88.51 per capita in DCED funding while the so-called "newer" Pennsylvania municipalities got just $71.11per capita. These figures hardly make the case that Pennsylvania's major urban cities were deprived of funding in order to favor faster growing suburbs.

Surprisingly, the study pays no attention to the role played by factors that are key determinants of economic growth and attraction. First, the report ignores the cost and performance of Pennsylvania schools. Our schools are some of the most expensive in the nation (as measured by spending per pupil) yet our students exhibit poor performance on the SAT, ranking 45th among all states in 2002. The burden of school property taxes is also important when talking about growth and development patterns. In most municipalities in Allegheny County, school property taxes account for two-thirds or more of the total property tax bill, which, across the County, averages nearly 3 percent of the market value of the real estate. Yet, academic performance and school taxes, which play such an important role in people's decisions about where to live, receive no mention.

They likewise fail to mention the role of business taxes in the state's economic malaise. In 1991, Pennsylvania's legislature approved the most massive tax hike in state history by boosting rates on corporate income, personal income, and the capital stock and franchise tax. As a result of this ill-advised tax hike, Pennsylvania was hobbled for years afterwards and has never really recovered a strong footing. That tax grab sent a clear signal to the business community that Pennsylvania was not serious about creating a friendly business climate. Undoing that damage is obviously of paramount importance.

Lastly, the report ignores the impact of regulations--prevailing wage, Right to Work, and binding arbitration, for example--that severely restrict the prospects of economic growth and prosperity in the state. All of these regulations work to boost taxpayer expense on government services, construction projects, and the like.

In sum, poorly performing and expensive schools, high taxes, and regulatory constraints are far more responsible for Pennsylvania's relatively dismal economic growth record than are the culprits that the Brookings' report attempts to blame. The Brookings report has ignored most of the truly important factors that determine the degree of prosperity in the state. As a result, most of their policy prescriptions will do little or nothing to return Pennsylvania to robust economic health.

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