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Borrowing Our Way To Prosperity: Lessons Not Learned.

Governor Rendell has spent the first month of his administration reminding Pennsylvanians that the Commonwealth is in dire financial straits. He also claims that he is searching hard for ways to trim government spending while apparently preparing us for a tax increase. As the Governor reminds us time and again, these are difficult times with Pennsylvania facing a potential budget shortfall of \$2 billion.

As a way to return the Commonwealth to fiscal and economic health, the Governor wants to borrow large sums of money to jump-start the state's economy. The rationale: the Governor argues that the state has a low debt level and that we should use our borrowing capacity to fund economic development projects. In other words, the Commonwealth should borrow the money because it can, even though it does not have a revenue stream in place to pay interest and retire the debt.

The financial reality is that in order to borrow and invest in a way that is economically sound, the investments undertaken must yield additional tax revenues sufficient to pay interest and principal on debts incurred. Otherwise, taxpayers will be forced to cover the shortfall.

Thus, the bottom line question is; what kind of projects will be undertaken to reinvigorate the state's economy? If history is any guide, most of the projects will not provide adequate returns on our investment, leaving the state's taxpayers on the hook to pay for this latest scheme.

Bear in mind that in 1997, while Mayor of Philadelphia, the Governor was very instrumental in obtaining funds to revitalize the Kvaerner shipyards, then one of the largest economic-development projects in state history at \$429 million. The deal cost state taxpayers \$227 million (with another \$202 million in local, regional and federal funds) with a promise of at least 700 jobs. What has happened? For one thing, a large share of the funds was spent on foreign built equipment. Moreover, the company currently employs only 200 people and has not been required to make any financial investments of its own. To make matters worse, in 1999 the company announced that it was seeking a corporate restructuring to get out of the shipbuilding business. Clearly, this project is now a burden on taxpayers and will be for some time to come.

Under the guise of promoting economic redevelopment, Philadelphia and Pittsburgh officials lobbied the legislature for taxpayer money to fund four new stadiums. The stadiums in Philadelphia have yet to begin operations, but the promised economic revitalization that would come in the wake of new stadiums in Pittsburgh has not occurred. Far from it. The short-term gains from construction spending are over and the realization has begun to set in that the much-ballyhooed economic benefits of new stadiums are not going to materialize. The ballparks may be

a boon to the teams' owners, but state and local taxpayers are picking up the tab for the bulk of their cost.

Then there are the Convention Centers in Philadelphia and Pittsburgh. Neither is living up to the hype surrounding the lobbying efforts to get them funded. And in all likelihood, they will never do so given the enormous revenue gap they must make up. Unfortunately, these examples are only the most visible of the long list of such efforts the state has undertaken in recent years.

Governor Rendell's proposal to borrow enormous sums to jump-start Pennsylvania's economy has the potential to be a real benefit to the economy if it were spent on infrastructure needs like the Mon-Fayette Expressway, improving traffic flow in and around the Pittsburgh, etc. However, we have no confidence in throwing borrowed money at highly questionable projects. If the money simply goes to subsidize retailers, entertainment and sports teams then we will be delaying a real revitalization. That experiment has been done at great cost to the state. Indeed, if earlier expenditures on alleged economic development projects and programs were working as promised, we would not be talking about yet another scheme to boost the state's economic fortunes.

If we don't learn from history we are doomed to repeat it, especially our mistakes. Trying to borrow and spend our way to prosperity through economic development projects has, for the most part, not worked in Pennsylvania. Instead of repeating mistakes, why not focus on the real problems that constrain Pennsylvania's growth? That would mean cutting high corporate tax rates, enacting Right to Work, eliminating prevailing wage laws, and curbing lawsuit abuse. We do not see these truly meaningful policy actions high on the Governor's agenda. That is the really bad news.

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