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Lots of State Spending But Few Jobs

For several months the administration in Harrisburg has been trying to convince taxpayers that its economic strategy of handing out hundreds of millions of dollars for projects around the state is paying great dividends in terms of new job creation. Those claims do not stand up to close scrutiny.

According to press releases from the Governor's office, since January 2003 the administration has awarded over \$1.24 billion to projects around the state with plans to dole out much more over the next couple of years. From November 2002, just before the new administration took office, to November 2005-- the latest data available--Pennsylvania has seen a net increase of 85,000 private sector jobs. More importantly, Pennsylvania's private sector job count is still 11,000 below the level reached five years ago. Thus, the jobs recovery in the Commonwealth is still not complete.

If every additional new job over the last three years could be attributed to state handouts, the cost per job would be \$15,000. However, it is not reasonable to attribute all the jobs to the state's development spending which means the cost per job actually created is much higher. The fact that the nation has enjoyed a long period of low interest rates and very stimulative tax rate cuts is undoubtedly responsible for a significant portion of the state's relatively meager job gain. And, as an earlier *Policy Brief* illustrated, most of the industry sectors showing the biggest job increases were not the beneficiaries of government largesse and grew for other reasons as dictated by market forces.

It is also instructive to examine the jobs creation issue at the regional level. Nine metro areas in Pennsylvania have each received \$40 million or more over the last three years. The Philadelphia metro area has garnered \$322 million, with \$250 million going to the City of Philadelphia. The Pittsburgh MSA captured \$284 million with \$171 million targeted to Allegheny County. The remaining areas received much less, topped by Allentown-Bethlehem with \$69.7 million. The rest fall in the \$40 to \$50 million range.

Despite the heavy outlay of taxpayer money in Philadelphia, the City has seen the private sector lose 4,100 jobs over the last three years while the Philadelphia metro area has suffered the loss of 6,000 jobs. In the Pittsburgh metro area, private jobs rose by 6,800 over the last three years, a pickup of less than one percent. Strong increases in health related employment, along with moderate gains in business services and eating and drinking places were largely offset by losses in goods production and transportation.

In the remaining metro areas, job growth over the last three years has been mixed. Allentown-Bethlehem has shown the best strength with private jobs up 9,400. Gains have been fairly widespread with the exception of manufacturing. Even so, the job gains are far short of the

annualized growth of the late 1990s. Meanwhile, Lancaster turned in a moderate three-year increase of 5,300, a growth rate of about one percent per year but still significantly slower than the pace set in the late 1990s.

The Scranton, Erie, and Reading metro areas have posted slim increases in private sector employment. Nonetheless, neither of these areas has seen jobs recover to the pre-recession levels of five years ago.

All told, the evidence is pretty clear. Pouring huge sums of state taxpayer money into selected projects has had little, if any, positive impact on Pennsylvania's job totals. And little wonder. Pennsylvania's business climate does not compare favorably with other states and parts of the world in terms of being attractive to capital spending. High tax rates, overly restrictive regulations, unions and unfavorable labor laws all raise the cost of doing business in Pennsylvania, which lowers the return on investment. Lower returns lead to weaker private investment and slow employment growth.

The strategy of picking projects to pour taxpayer money into does nothing to address the business climate problem. Indeed, it makes it worse. First, if tax dollars are being handed out to some businesses, non-subsidized businesses are being forced to contribute through the taxes they pay. Second, these handouts to selected firms put unsubsidized firms at a competitive disadvantage and could lead to lower investment and job formation at those firms than would have otherwise been the case. There is no free lunch.

Third, to the degree that the state subsidies lead to private investment in projects that would not have happened without the taxpayer money because the return on investment would have been too low, then the subsidy is producing a misallocation of capital resources. Fourth, the program of handouts weakens the private sector by creating a group of businesses that believe they are entitled to special treatment by government--a group that will grow inexorably larger over time to the state's great detriment. Finally, it must be recognized once and for all that the government can never be a substitute for the market when in it comes to efficient allocation of resources.

A better strategy is needed. Pennsylvania should move expeditiously to enact a \$400 million a year business tax cut and quit spending \$400 million a year on the counterproductive giveaway programs. Where to get the money? Since 80 percent of school districts have opted not to take slots revenue to lower property taxes one can assume that most of the one billion dollars the state is expected to receive will be available for other purposes. All of that money should be used to reduce taxes. At least \$400 million should be set aside for business tax reductions and the remainder used to lower the personal income tax.

Among the states, Pennsylvania has long ranked as one of the top per capita spenders on jobs creation programs and yet it has continued to languish as one of the weaker performers in terms of employment gains. Doesn't common sense suggest it's time to try something else? In this case, a tried and true method of encouraging the private sector is to make significant business tax cuts.

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