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Dig A Hole and Fill It Up: A Metaphor for a Pittsburgh Approach to Job Creation

One of the most mindless and self-indulgent arguments used by union leaders and their allies as they lobby for economically unjustifiable publicly funded construction projects is, “they create good construction jobs.” This is akin to asserting that make-work ventures funded by taxpayers are necessary and appropriate for keeping people employed.

Unfortunately, Pittsburgh and Pennsylvania have seen far too many of these ill-founded developments that will never produce a reasonable return for taxpayers. And it must be noted that some contractors, real estate developers, engineering firms, etc., will be in the unions’ corner fighting to get questionable projects funded.

It is important to bear in mind that construction costs are just that—costs. The investment return for taxpayers of publicly funded projects is the flow of benefits over time, including any incremental tax revenues, stemming from the structure that would not occur absent the structure. Obviously, the present value of those benefits must exceed costs to justify public expenditures for a project. In far too many instances, the benefits of projects are overstated by their advocates and frequently costs are understated or not fully accounted for—such as the forgone tax revenue from buildings that must be destroyed along with any attendant employment losses as well as from the land used to build a public structure.

Allegheny County’s list of highly questionable projects is illustrative of the disdain public construction advocates have for their fellow citizens. Just in recent years we have seen the Wabash Tunnel (\$40 million), the Overbrook Light Rail line (\$386 million), the West Busway (\$285 million), and the South Hills Garage (\$20 million). All of these have failed to produce anywhere close to the predicted benefits used to justify the expenditure of public dollars. Then too, we have seen two new taxpayer funded stadiums and a new, much larger convention center get built largely with tax dollars. There is no evidence to suggest these facilities have lived up to the heavily hyped promises of energized economic growth for the City and County. Certainly, state taxpayers outside the county have little to show for coughing up half the cost of structures costing nearly one billion dollars.

Furthermore, the modest increases in City tax revenues attributable to the new facilities have been far too small to make a dent in the City’s grim financial picture.

And then there is Lazarus: The gift that keeps on giving for the construction industry. Heavily subsidized, the Lazarus (renamed Macy's) store cost about \$60 million to build, was used for the minimum required five years and then abandoned. Remember that the TIF bond issued to fund part of the massive infusion of public money must still be repaid. After sitting vacant for a few years, the building was sold for \$8 million to a developer who will get another round of subsidies to refashion the department store for other uses--more work for the contractors and labor.

What is really obnoxious about the gargantuan wastes of money on the transportation fiascos is that the money, especially Federal flex funds and state funds could have been used for other truly needed work,. For the impending North Shore Connector, the picture is even starker. The state is strapped for money to repair highways and bridges and there are recommendations for major tax hikes to pay for that work. One is forced to ask, "Why on earth would the state pour over \$70 million into this project and perhaps much more depending on cost overruns when it has so many truly urgent needs elsewhere?" It defies logic to the point of being incredible. Funding needed highway and bridge repairs that have direct and substantial payoff for the public will create construction jobs that are every bit as good as building projects with very dubious benefits. But that point seems lost on the advocates of wasteful spending.

And to make matters worse, all projects using public subsidies must use prevailing wage labor, which is, for all intents and purposes, union labor. As a result, the cost of a project can run 15 to 30 percent higher than if built with free market wage labor, depending on the labor cost share of total construction costs. Thus, not only are taxpayers saddled with providing resources to be wasted on economically unjustified projects, the waste is larger than it would be in an unfettered, freely operating, competitive labor market.

Facing a tremendous repair and upgrade program that is sure to be very expensive, Pennsylvania must now look assiduously for every cost savings possible. It could start by stopping money for the North Shore Connector and it could make a real dent by eliminating prevailing wage requirements. Otherwise taxpayers will face higher taxes for costs they should not have to bear. The legislature needs to act quickly to limit any additional taxpayer burden. Pennsylvania's tax climate, especially for business, is already bad. It should not be made more onerous because of funding for unjustified projects and prevailing wage requirements.

This is all about what economists call opportunity costs. Resources are scarce, which means when they are used for one purpose, other uses must be forgone. The best forgone alternative use of a resource is the true cost of the use that is actually chosen. Thus, with about \$150 million of combined Federal flex funds, state funds and local funds slated to be spent on the North Shore Connector and its puny benefits, the County and region will be giving up many worthwhile projects that could actually payoff handsomely in terms of reduced congestion and improved traffic flow.

Rather than succumbing to the self-serving entreaties of the unions, their supporters and the other “let’s build something with tax dollars” special interests, elected officials must make a dedicated, conscientious effort to arrive at decisions based on sound, reliable and independently vetted cost-benefit analyses. If and when they adopt such a hardnosed approach, there will be many fewer wasteful fiascos to answer for such as the South Hills Garage or Lazarus department store.

It is not appropriate or seemly for officials to hope that people will forget who voted to approve funding for boondoggles. That is a poor substitute for doing the right thing in the first place. And it is not an acceptable argument to say that “everyone does it” or “we have always done it this way”. Those rationalizations simply delay the taking of responsibility and acting in the best and general interests of all citizens and taxpayers.

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We wish all our readers a safe and happy Thanksgiving holiday.

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