POLICY BRIEF

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Economic Development Spending: Misguided and Wasteful

Pennsylvanians have spent billions of dollars on so-called economic development programs so far this decade with promises of thousands of jobs and untold spin-off benefits. Yet this investment is not paying off as total private employment has grown by less than one percent per year from 2000 to 2006—and most of that has been in health and education sectors that are heavily driven by government created demand. Nowhere is this failed development strategy more pronounced than the Department of Community and Economic Development's (DCED) Opportunity Grant Program (OGP). A recent report from the Auditor General's office highlights the shortcomings of that program.

The requirements for an OGP grant are straightforward. The company receiving the grant must create and/or retain a number of projected jobs in Pennsylvania. They must raise at least $4 for every $1 of grant money and the company must remain at the site for at least five years. If any of these conditions are violated, the DCED can assess penalties and seek repayment of the original grant. According to the audit, even though the OGP was created in 1996, the DCED did not begin to monitor the grants until 2003.

The recent audit covered 724 grants issued from 2000 to 2005. These grants were to retain 172,714 employees and create 105,236 new jobs at a total cost of $215 million. In fact, the actual job numbers came in closer to 170,000 jobs either created or retained—about 60 percent of what was promised. Thus, the program has left the state with fewer jobs than the number the companies had when the grants were handed out. Unfortunately, there is no breakout in the Auditor's report of the number of jobs created as opposed to retained, but one can surmise there were not very many. Certainly no more than a small fraction of the number promised.

But even the 170,000 may be a stretch as the audit noted "..the (DCED) used grantees' self reported data that it did not otherwise corroborate." This is not the first time DCED has been accused of not independently verifying data. A 2000 report from the Legislative Budget and Finance Committee also noted that the DCED "often subsequently reports information based on reports submitted by company officials after the project is completed, but does not verify the accuracy of these reported jobs data." As stewards of taxpayer dollars, the DCED needs to be more cognizant of what is going on and gather first-hand data to evaluate the grants.

But this is just one of many economic development programs where oversight is lax leading to the misuse of billions of taxpayer dollars. As we noted in an earlier report (*Pennsylvania's Ever-Expanding Economic Development Industry*, #06-01), from 2003 through 2005 the state spent $1.24 billion on economic development functions. Still, it is nearly impossible to determine whether or not the state's efforts actually cause jobs to be created or retained. Furthermore, an earlier *Policy Brief* (Vol. 2, No. 32) documented that 11 projects in Western Pennsylvania funded in part, with state grants, produced only 12 percent of the jobs that were promised. While state and local officials claim their efforts are working, it is reasonable to be highly skeptical in view of the lack of oversight by the DCED as just uncovered by the Auditor General.

Despite mounting evidence that economic development spending is not working—as witnessed by meager growth in total private employment—the spending not only persists, but continues to grow. In addition to a panoply of programs that were enacted in the late 1990s and earlier (the OPG, the Machinery and Equipment Loan Fund, and Job Creation Tax Credits), more programs were created in 2004 (Business in Our Sites, Venture Guarantee Program, and Venture Capital Investment Program, among others). These programs were created despite the Pennsylvania Constitution's expressed prohibition in Article VIII, Section 8 "The credit of the Commonwealth shall not be pledged or loaned to any individual, company, corporation or association…"

But money continues to be spent and taxpayers continue to wait for a meaningful return on investment. What happens if the jobs aren't produced? What type of protections are taxpayers afforded from deals that do not live up to their promises? The problem here is that little, if any, recovery provisions are actually present in these grants and the DCED has been slow to recover any funds. The audit uncovered a lax effort in recovering grant monies and penalties assessed to companies who did not meet job creation and/or retention promises. For the Opportunity Grant Program, the DCED levied $26.2 million in penalties and repayments, yet only collected $3.35 million (13 percent).

Unfortunately, the Opportunity Grant Program is only a small part of the state's economic development efforts. The Auditor General's report sheds light on the failures of this program, but Pennsylvanians need to remember there are many other programs at the Commonwealth's fingertips that waste vast amounts of taxpayer money in the name of economic development. The irony here is that economic development money would not be necessary if Pennsylvania's business climate were at all conducive to growth. It is obviously easier to throw around taxpayers' money than tackle the real issues associated with labor policies, taxes, and regulations—the real reasons for Pennsylvania's anemic jobs growth.

There is one very obvious conclusion and recommendation arising out of this discussion. The Auditor General should create a dedicated group of staffers to do nothing but examine the array of DCED programs. There can be little doubt the findings would be similar to the Opportunity Grant findings. Certainly, the taxpayers of Pennsylvania deserve no less than a full accounting of what has been achieved by all the dollars spent on these programs.

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