POLICY BRIEF
An electronic publication of
The Allegheny Institute for Public Policy

October 7, 2008 **Volume 8, Number 64**

More Self-Congratulatory Blather about Pennsylvania's Job Picture

The Governor remains optimistic about Pennsylvania's job situation. He compares employment changes in the Commonwealth to the nation as a whole and notes in the August Employment Report that "Pennsylvania's economy has performed well." He blames employment losses the Commonwealth has incurred on the national economy and promises to throw more taxpayer money on economic development projects—a strategy he has employed since taking office in early 2003 which has had little, if any, effect on the state's employment levels. The Governor's position is that if the state's jobs are growing it is because of his policies, if the jobs are slowing or shrinking, it is the fault of the national economy. A good PR ploy if you can get away with it.

As noted in a previous *Policy Brief* (*Vol. 8, No.50*), Pennsylvania consistently ranks as one of the top spenders on economic development—spending more than $1 billion over fiscal years 2005 and 2006. Only Ohio spent more. Of course in the Governor's opinion this has been money well spent as he says "our success is due, in part, to the strategic economic and workforce development investments we have made over the past several years…" But how is he measuring the success of these "investments"?

Surely the Governor is not measuring the return on investment by the number of jobs created. Since the pre-recession high of August 2000 through the most recent data of August 2008, Pennsylvania's private sector jobs have grown at roughly half the national pace (1.73 percent vs. 3.27 percent). Since August 2003, the year the Governor took office, Commonwealth private sector job gains have lagged well behind the national rate (4 percent vs. 6 percent).

While job growth over the last several years seems to be fairly respectable, it is important to bear in mind where the jobs are increasing. Not surprisingly, manufacturing has continued its long trend of job losses. But we have also seen substantial declines in jobs in the information sector. In both cases losses in Pennsylvania have been greater than in the nation as a whole. But where there have been strong gains, notably in education and health services, professional and business services, and leisure and hospitality sectors, Pennsylvania lagged the nation in all but one (professional and business sector). In most cases the national growth rate is substantially higher.

Here is the big problem for the Governor and his oft repeated claims of the efficacy of his spending on economic development: Since 2003, education and health care jobs in the state have accounted for 61 percent of the net increase in private sector jobs. Nationally, those two sectors have accounted for 36 percent. The point is that most of Pennsylvania's job gains have occurred in sectors that are growing for reasons virtually unrelated to the economic development spending by the state.

Finally, the Governor compares Pennsylvania's performance to other struggling states such as Michigan and Ohio, saying that the Commonwealth has "fared significantly better than" these other large industrial states. Over the past year, from August 2007 to August 2008, Pennsylvania's private sector job total was essentially flat while Ohio fell -0.43 percent and Michigan, a perennially poor performer in recent years, suffered a large 1.8 percent drop in jobs.

As noted above, the Governor took the opportunity to attribute Pennsylvania's better performance to his economic development spending. Unfortunately, for his argument, if spending on economic development were the answer to job creation, Ohio, which spent more in total and significantly more on a per capita basis, would not have had job weaker numbers than Pennsylvania.

As we have shown previously, economic development spending in Pennsylvania has proven to be an ineffective and very expensive way to encourage private sector growth and job creation. Clearly, any thinking person should realize that continuing to engage in unproductive, wasteful behavior ought to be stopped. There is a better approach and it's very simple. Make Pennsylvania a more attractive place for businesses to locate or expand, based on a business friendly tax structure, and a business friendly regulatory climate. Reducing onerous business taxes must happen if the state is to break out of its perennial languorous economic condition. Taking on public sector unions by reforming Act 111, taking on private unions by repealing the prevailing wage law and rolling back the minimum wage would be good way to start needed regulatory changes.

For the last eight years Pennsylvania has been unable to keep pace with the nation in terms of job creation. The prevailing strategy of heavily subsidizing select firms through state controlled economic development programs has not worked. A new strategy needs to be implemented—one that takes into account the realities of fiercely competitive national and global economies.

Frank Gamrat, Ph.D., Sr. Research Assoc. **Jake Haulk, Ph.D., President**

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www.alleghenyinstitute.org

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org