

# ***POLICY BRIEF***

An electronic publication of  
The Allegheny Institute for Public Policy

---

December 14, 2009

Volume 9, Number 76

---

## **Pittsburgh's Worsening Policy Spiral**

Pittsburgh's City Council is holding debates over proposed prevailing wage legislation. The legislation requires that any tenant of a subsidized development "would have to pay hotel, cafeteria, grocery, and building service workers prevailing wages, based on the averages paid to their peers in the city". This language is accompanied by feel good rhetoric and, not surprisingly, is heavily supported by the local labor unions. The proposed ordinance is sponsored by seven of the nine council members. This latest market interfering bill is opposed by the mayor and developers who argue strenuously that development in the City will come to a virtual standstill if the mandate is enacted.

Why does the Council feel compelled to push this legislation? Quite simply the City government's long held disdain for the private sector, free markets, property rights and profit seeking behavior in favor of government directed and controlled development has reached the inevitable stage of a dilemma wherein bad policy begets bad policy.

Over the past several decades, the City and City voters have become increasingly comfortable with changing government from an institution with limited core functions to a redistributive body, replete with regulations that hamper businesses, along with an environment generally unfriendly to free market capitalism. The high taxes faced by businesses and the issues created by labor-owner tensions have caused jobs and people to abandon Pittsburgh.

As businesses and jobs departed, taking tax base with them, City government embarked on a number of schemes to attract companies and development into the City. Because the cost of operating a business and the risks of locating in Pittsburgh were so daunting, it became necessary to offer subsidies to attract firms and jobs into the City. These came in the form of tax credits, heavily subsidized loans, grants from a myriad of programs, Tax Increment Financing, and so on.

Now the companies who were lured by the subsidies to invest in the City are threatened with a "prevailing wage" requirement.

Council members who have no sense of history about the role of excessive and heavy handed government in driving jobs away are easily led to the view that if the City is providing financial assistance to firms who will make a profit—or attempt to earn a

profit—then the City has a right to dictate terms relating to employee compensation and benefits. For them, this is entirely logical. It conforms neatly with their understanding of the role of government.

Rather than understanding that the subsidies they have given reflect the need to offset costs and aggravations of operating in the City, Council will plow ahead with this proposal. Because businesses already have to pay what the market requires to hire workers and because their hiring of workers helps supports wage rates above levels that would exist in the absence of that employment, this ordinance is not only unnecessary it will result in fewer jobs and less willingness of firms to come into the City.

If the prevailing wage legislation passes in its current form, the City will have, in effect, painted a big sign across the Fort Pitt Bridge entrance into town with the words, “Businesses who like government interference and control are welcome here.”

Making it even harder for business to operate successfully in Pittsburgh will lead to ever more generous subsidy offers as the clamor to promote jobs increases. And then the spiral will worsen. Heavy, costly-to-taxpayer subsidies become less and less likely to produce the desired payoff. Indeed, development subsidies ladled out by the state, County and local governments in recent years have failed miserably to produce the predicted economic impact. And as the subsidies become ever more generous, the probability of their success diminishes proportionately.

The cycle of bad policies begetting worse policies must stop. The time has come for a recognition and acknowledgement of the proper role of government as it relates to business and the economy. Unfortunately, that will not happen as long as the powerful special interests in the City who have created the legacy cost nightmare and the still excessive spending levels continue to hold sway with regards to public policy.

When a City plans to tax tuition of college students simply because it can and makes noises about grabbing some of the County’s drink tax revenue, we have more than ample evidence that powerful special interests are still very much in charge.

If it stays on the path it is following, at some point Pittsburgh will probably have to enter a Chapter Nine bankruptcy filing wherein it can begin to deal effectively with its legacy costs and excessive spending levels. Perhaps a wise judge can fix what the City itself is incapable of doing or unwilling to do.

---

**Jake Haulk, Ph.D., President**

**Frank Gamrat, Ph.D., Sr. Research Assoc.**

---

*Policy Briefs may be reprinted as long as proper attribution is given.*

*For more information about this and other topics, please visit our website:*

[www.alleghenyinstitute.org](http://www.alleghenyinstitute.org)

<p>Allegheny Institute for Public Policy 305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234 Phone (412) 440-0079 * Fax (412) 440-0085 E-mail: <a href="mailto:aipp@alleghenyinstitute.org">aipp@alleghenyinstitute.org</a></p>
---