



Testimony on Accountability for
Economic Development Programs

Submitted to

Senate Community, Economic and Recreational Development Committee
And
House Finance Committee

By

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Members of the Committee(s),

Thank you for the opportunity to submit written testimony on the subject of accountability for economic development grants and loans from the Commonwealth of Pennsylvania.

We have long argued that the best course to chart for improving the business climate in the state that will attract new businesses, retain existing ones, and allow nascent companies to grow is to rein in state spending so that taxes can be lowered for everyone, pass a Right to Work law, get rid of prevailing wage requirements on construction projects, and reform Pennsylvania's 45th ranked litigation system that piles on additional costs of doing business in the Commonwealth.

Those changes would go a long way to making Pennsylvania more competitive and reduce its need to follow the top down development approach it has relied on for so long. It would enable the state to depart from the current strategy of attracting, retaining, and growing companies through an arsenal of over 80 separate economic development programs under the direction of the Department of Community and Economic Development.

These programs—like all other economic development programs around the country—try to put the government in the position of picking and backing winners by awarding subsidies to favored companies. A serious downside is that economic development largess creates long term business dependency on the taxpayer money because the favored companies come back for more assistance while the losing companies keep working hard to win the next time. This is detrimental to the real entrepreneurial spirit needed to produce a dynamic, vibrant private sector.

In addition, there is little proof that economic development spending achieves sufficient economic growth to warrant the Commonwealth's hefty expenditures. In recent years—2002-2009—Pennsylvania's expenditures on "economic development" grew 29%, from \$1.245 billion to \$1.605 billion, and we know that Pennsylvania has long had well above average per capita expenditures on economic development when compared with other states. Nonetheless, Pennsylvania still trailed the U.S. average on population growth (1.2% to 5.7%) and job gains.¹

Our own work from 2006 found that despite differences in per capita state expenditures on economic development in the Commonwealth's 13 metropolitan areas the high spending areas often grew at a slower pace than those that had lower rates of per capita expenditures.²

¹ Commonwealth of Pennsylvania, Comprehensive Annual Financial Report for the year ended June 30, 2009: Financial Trends "Revenues by Source and Expenditures by Function—All Government Fund Types for the Last Ten Fiscal Years ended June 30" and "Population and Per Capita Personal Income for the Last Ten Calendar Years"

² Allegheny Institute, "Pennsylvania's Ever-Expanding Economic Development Industry" Report #06-01 (http://www.alleghenyinstitute.org/administrator/components/com_reports/uploads/06_01.pdf)

Not only is the link between development spending and economic growth weak, so too is the link between awards and evaluation. Two audits this decade—one by the Legislative Budget and Finance Committee in 2000 and the other by the Auditor General's office in 2007—showed there is often a very big gap between what is promised and what is delivered. Data collection on job results is not rigorous, not verified, and often self-reported.

While those audits were welcome and necessary, there is a lot more to do. There are over 80 individual economic development programs at DCED, and others administered through the Office of the Budget and the Commonwealth Financing Authority. In other words, the light that was shone by previous work illuminated just a small part of the issue.

Until Pennsylvania divorces itself from the current economic development model it must work diligently to ensure there is accountability, control, and evaluation of all programs. With so many, including some that go back many decades since their creation, the Legislature should put in place a sunset provision for economic development programs or begin an outright phasing out of programs, especially when new ones are created.

Taxpayers need to know who is applying for money, what they want to use the money for, how many jobs are to be created and/or retained (if that is the goal of the money), and what punitive measures will be taken if that goal is not met. It goes without saying that political considerations should be completely removed from deciding who gets state funds. Strict oversight of the subsidy granting process by the Auditor General or comparable disinterested agency ought to be an integral part of any new legislation.

Thank you for your time.