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The Costs of Corporate Welfare

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Introduction

Over the last four and a half decades, government spending in the Keystone State has risen dramatically. Consequently, Pennsylvania workers now labor under one of the highest tax burdens in the country. Of the last 46 state budgets, only one did not increase total spending.[1] This explosion has been fueled in part by special subsidies doled out to select businesses, creating an economic system favoring the privileged few at the expense of everyone else.

Matt Mitchell, in his 2012 paper, Pathology of Privilege, explains the danger of such government favoritism:[2]

> Privileges limit the prospects for mutually beneficial exchange—the very essence of economic progress. They raise prices, lower quality, and discourage innovation. They pad the pockets of the wealthy and well-connected at the expense of the poor and unknown. When governments dispense privileges, smart, hardworking, and creative people are encouraged to spend their time devising new ways to obtain favors instead of new ways to create value for customers. Privileges depress long-run economic growth and threaten short-run macroeconomic stability.

The evidence in this paper mirrors many of Mitchell's findings. Government favoritism stunts economic growth, misallocates resources, and leads to higher tax bills. By ending government favoritism and moving toward a tax system devoid of special treatment for moneyed interests, lawmakers can improve the state's business climate and create opportunities that will lead to better lives for all Pennsylvanians.

For reformers, the best place to begin is with the $700 million in special subsidies identified in the 2015-16 budget.[3] Regrettably, Gov. Wolf wants to increase this amount, even as he argues for higher taxes on low- and middle-income people. This would move Pennsylvania in the wrong direction, further concentrating economic power in the hands of a few.

The following sections focus on a few these subsidies (listed below), along with other seemingly popular economic development tools, which have led to the misuse of funds and made the state economically and financially worse off.

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[1] This includes the 2015-16 budget, which increased spending from 2014-15 levels by more than $1 billion but was partially vetoed by Gov. Wolf in an effort to force lawmakers to enact even higher levels of spending.
[2] Matthew Mitchell, "The Pathology of Privilege: The Economic Consequences of Government Favoritism," http://mercatus.org/sites/default/files/Mitchell-web.pdf.
[3] Gov. Wolf vetoed some line items identified as corporate welfare in the 2015-16 budget, but Table 1 assumes all funding will be restored by supplemental appropriations.

Table 1. Corporate Welfare Programs in Operating Budget (in thousands)	2015-16 Budget (projected)	2016-17 Budget (projected)
Spending Programs		
Agricultural Excellence	$1,100	$0
Agricultural Research	$1,587	$0
Agricultural Promotion, Education and Exports	$250	$0
Ben Franklin Tech Development Authority Transfer	$14,500	$14,500
Commonwealth Financing Authority Transfer	$88,812	$95,614
Council on the Arts	$892	$903
Food Marketing Research	$494	$494
Grants to the Arts	$9,590	$10,590
Hardwoods Research and Promotion	$350	$0
Industry Partnerships	$1,813	$11,613
Infrastructure and Facilities Improvement Grants	$19,000	$30,000
Keystone Communities	$6,350	$15,000
Livestock Show	$177	$0
Marketing to Attract Business	$2,005	$3,014
Marketing to Attract Tourists	$7,014	$4,291
Municipalities Financial Recovery Revolving Fund Transfer	$3,000	$4,000
New Choices/New Options	$500	$0
Open Dairy Show	$177	$0
Partnerships for Regional Economic Performance	$11,880	$9,880
Pennsylvania First	$20,000	$45,000
Pennsylvania Race Horse Development Fund	$253,471	$250,073
Tourism-Accredited Zoos	$550	$0
Transfer to the Nutrient Management Fund	$2,714	$2,714
Office of International Business Development (World Trade PA)	$5,829	$6,942
Youth Shows	$140	$140
Total	$452,195	$504,768
Tax Credits		
Film Tax Credit	$60,000	$60,000
Job Creation Tax Credit	$10,100	$10,100
Research and Development Tax Credit	$55,000	$55,000
Keystone Opportunity Zone	$70,300	$78,000
Keystone Innovation Zone	$25,000	$25,000
Resource Enhancement and Protection Tax Credit	$10,000	$10,000
Alternative Energy Production Tax Credit	$2,000	$0
Total	$232,400	$238,100
Total	**$684,595**	**$742,868**

Pennsylvania's Experience with Government Handouts

Horse Race Development Fund

Of the nearly $700 million the Commonwealth Foundation has identified as corporate welfare, almost 36 percent is dedicated to horse racing. Act 71 of 2004 established the Pennsylvania Horse Race Development Fund, which lawmakers funded with a tax on slot machines.[4] The law sends the tax revenue to licensees conducting live horse racing. Track owners must then set aside 80 percent of this revenue for "purses" or prizes awarded to racers, with the remaining revenue designated for five other funds.[5]

According to an investigative report conducted by the *Tribune Review*, track owners award much of the prize money to non-Pennsylvanians. Since 2013, $31 million of the $50 million awarded in harness racing went to partnerships with no Pennsylvanians. Similarly, 12 of the 20 top thoroughbred race winners did not live in Pennsylvania.[6]

Moreover, the subsidies for both in- state and out-of-state horse owners have not incentivized breeders to raise horses in the commonwealth. The number of thoroughbreds fell from a high of 1,540 in 2009 to 886 in 2013.[7] Standardbred breeding declined from 1,700 in 2010 to 1,477 in 2014.[8]

The industry is also struggling to garner outside interest. Horse betting has declined for years, and as a result, the state's Racing Fund faces a shortfall.[9] Lawmakers have bailed out the fund in the past[10] and will continue to do so annually[11] after the Gov. Wolf signed legislation changing the rules governing the horse racing industry.[12]

If the government stopped subsidizing the industry and made it strictly the responsibility of the private sector, taxpayers could save more than $250 million—a sum larger than the amount Gov. Wolf's proposed severance tax would raise.[13]

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4 Pennsylvania Office of the Budget, "2015-2016 Executive Budget," http://www.commonwealthfoundation.org/docLib/20151113_201516_Budget_Document.pdf.
5 Ibid.
6 Mike Vereshchagin, "Non-Pennsylvanians win bulk of taxpayer-subsidized racetrack purses," *Tribune-Review*, September 5, 2015, http://triblive.com/news/editorspicks/8976013-74/pennsylvania-state-horse#axzz3rJWGFUZs.
7 The Jockey Club, 2015 Pennsylvania Fact Book: A statistical guide to the Thoroughbred industry in Pennsylvania, http://www.jockeyclub.com/factbook/StateFactBook/Pennsylvania.pdf.
8 Pennsylvania Gaming Board, "2014 RaceTrack Benchmark Casino Report," http://gamingcontrolboard.pa.gov/files/reports/2014_Pari-Mutuel_Benchmark_Report.pdf.
9 The Associated Press, "PA Gov. Tom Wolf warns that horse racing may shut down amid budget stalemate," *The Morning Call*, http://www.mcall.com/news/nationworld/pennsylvania/mc-pa-budget-horse-racing-20151022-story.html.
10 Pennsylvania Office of the Budget, "2015-2016 Executive Budget," http://www.commonwealthfoundation.org/docLib/20151113_201516_Budget_Document.pdf.
11 House Committee on Appropriations, "Fiscal Note," http://www.legis.state.pa.us/WU01/LI/BI/FN/2015/0/HB0941P2662.pdf.
12 Charles Thompson, "Gov. Tom Wolf signs bill designed to modernize Pa. horse racing regulation," *Patriot-News*, http://www.pennlive.com/news/2016/02/wolf_signs_bill_designed_to_mo.html
13 Pennsylvania Office of the Budget, "2016-2017 Pennsylvania Executive Budget," http://www.budget.pa.gov/PublicationsAndReports/CommonwealthBudget/Documents/2016-17%20Proposed%20Budget/2016-17%20Budget%20Document%20Web.pdf.

Pennsylvania's Film Tax Credit

In an effort to expand Pennsylvania's film industry, lawmakers passed Act 55 of 2007, which allocated up to $75 million in salable tax credits (now $60 million) for eligible film and television production companies.[14] Act 55 allows the state to offer a tax credit equal to 25 percent of production expenses if the film or television project spends at least 60 percent of its production budget in Pennsylvania.[15] Recipients can sell the credits if the amount awarded exceeds their tax burden.

To obtain a credit, production companies must file an application with the Department of Community and Economic Development (DCED). Once DCED evaluates and approves an application, it could take years before the agency awards the production company a tax credit.[16] The production company can then apply the tax credit to offset its tax liabilities. However, an overwhelming majority of companies opt to sell the excess tax credits.[17]

The economic effects of the tax credit are questionable at best. According to the Independent Fiscal Office (IFO), about 70 percent of production-related wages are paid to non-residents, indicating Pennsylvania does not have an established movie production industry. This means most of the benefits accrue not to Pennsylvanians but to residents of other states.[18] Moreover, the IFO found for every one dollar in tax credits, the state recouped only 14 cents in related business activity.[19]

While a 2014 DCED report credited the program with creating 21,700 jobs since its inception,[20] the actual audited figures are much less impressive. According to an analysis of DCED numbers by *Watchdog.org*, the $55.4 million awarded led to the creation of only 2,758 jobs.[21] This lackluster job growth was predicted in a 2009 report authored by Pavel Yakovlev and Antony Davies.[22] At the time, Yakovlev and Davies pointed out the flaws in a government-contracted study touting the job creation benefits of the tax credits.

Across the country, film incentives have a poor track record. In Massachusetts, a Department of Revenue report found one job was created for every $118,873 issued in film tax credits.[23] In Maryland, a 2015 state report recommended ending the state's film incentive program because it "does not provide sustainable economic development and provides a small

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[14] Pennsylvania Office of the Budget, "2008-2009 Executive Budget," http://www.budget.pa.gov/PublicationsAndReports/Documents/2008_09_executive_budget.pdf.
[15] Pennsylvania Film Office, "Incentives," http://filminpa.com/incentives/.
[16] Independent Fiscal Office, "Uncapping the Film Production Tax Credit: A Fiscal and Economic Analysis," http://finance.pasenategop.com/files/2013/10/IFO-Report-on-Film-Production-Tax-Credit.pdf.
[17] Ibid.
[18] Ibid.
[19] Ibid.
[20] Pennsylvania Department of Community and Economic Development, "Report to the General Assembly on the Film Production Tax Credit Program," September 2014, http://filminpa.com/wp-content/uploads/2009/07/FY-2013-14-Film-Tax-Credit-Program-Report-to-Legislature_Aug-2014.pdf.
[21] Rachel Martin, "Pennsylvania ponders extras for film industry in shadow of $2.3 billion deficit," *Watchdog.org*, February 25, 2015 http://watchdog.org/202112/extras-to-film-industry-with-2-billion-deficit.
[22] Pavel Yakovlev & Antony Davies, "Pennsylvania's Flawed Film Tax Credit: What the ERA study won't tell you," July 2009, http://www.commonwealthfoundation.org/docLib/20090904_FilmTaxCredit.pdf.
[23] Massachusetts Department of Revenue, "Report on the Impact of Massachusetts Film Industry Tax Incentives Through Calendar Year 2012," September 16, 2014, http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2012.pdf.

return on investment to the state and local governments."[24] In Michigan, a Senate Fiscal Agency paper concluded the average cost of each job produced by film incentives was $186,519 in 2008 and $193,333 in 2009. Overall, spending on film tax incentives outweighed economic activity.[25] Missouri also found film incentives wanting. In a 2010 report, the Tax Credit Review Commission wrote that the program "fails to provide a positive return on investment to the state."[26]

These examples are not outliers. Joseph Henchman, vice president of legal and state projects at the Tax Foundation, summarized the literature on film incentives in a 2012 testimony, stating, "every independent study has found film tax credits generate less than 30 cents for every $1 of spending."[27]

Pennsylvania First Program

The Pennsylvania First Program was created to increase "investment and job creation in the commonwealth and to enable the commonwealth to compete more effectively in the global economy."[28] The program permits DCED to provide grants, loans, and loan guarantees to qualifying applicants. If applicants fail to meet investment and employment targets, DCED may impose a penalty to recoup some or all of the taxpayer dollars issued, with interest.[29]

As with other economic development programs, Pennsylvania First has an inferior track record. In 2013, DCED granted a Lehigh Valley Kraft plant $200,000 from the program, along with a $49,500 Guaranteed Free Training grant, and $90,000 in job creation tax credits.[30] Now, Kraft is planning to close its doors due to a merger with the Heinz Corporation.[31] An estimated 400 people could lose their jobs. DCED will have to decide if it will "claw back" the money granted to Kraft in 2013.

Of course, recouping taxpayer money would not be necessary if state government did not operate like an endowment or bank for the purpose of job creation, which is not one of its core functions. As evidence, a 2014 Auditor General's report concluded only 56 percent of the 600 government-subsidized businesses created and retained the total number of jobs pledged.[32]

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[24] Department of Legislative Services 2015, "Evaluation of the Maryland Film Production Activity Tax Credit" September 2015, http://dls.state.md.us/data/polanasubare/polanasubare_taxnfispla/Evaluation-of-the-Maryland-Film-Production-Activity-Tax-Credit.pdf.
[25] David Zin, "Film Incentives in Michigan," September 2010, http://www.senate.michigan.gov/sfa/publications/issues/filmincentives/filmincentives.pdf.
[26] Michael Rathbone and Jessica Stearns, "Testimony on Film Tax Credits," Show-Me Institute, March 5, 2015, http://showmeinstitute.org/sites/default/files/20150318%20Rathbone_SternsFilm%20Tax%20Credit_0.pdf.
[27] Joseph Henchman, "Important Questions to Ask in Evaluating a Film Tax Incentive Program," Tax Foundation, March 22, 2012, http://taxfoundation.org/article/important-questions-ask-evaluating-film-tax-incentive-program.
[28] Pennsylvania Department of Community and Economic Development, Pennsylvania First, September 2014, http://community.newpa.com/download/programs_and_funding/program_guidelines/PA-First_Guidelines_2014_2.pdf.
[29] Ibid.
[30] Staff and wire reports, *The Morning Call,* March 25, 2015, http://www.mcall.com/business/mc-heinz-kraft-merger-20150325-story.html.
[31] Jon Harris, *The Morning Call,* November 30, 2015, http://www.mcall.com/business/mc-kraft-upper-macungie-plant-folo-20151105-story.html.
[32] Commonwealth of Pennsylvania Department of the Auditor General, "Department of Community and Economic Development Job Creation Programs: Evaluation of business assistance awarded 2007-2010," December 2014, http://www.paauditor.gov/Media/Default/Reports/DCEDFinal12914.pdf.

The audit also found DCED lacked accountability guidelines and failed to measure the success of its job creation programs.

Additional State Programs Outside the Operating Budget

Redevelopment Assistance Capital Program

Created in 1986, the Redevelopment Assistance Capital Program (RACP) is a grant program tasked with "the acquisition and construction of regional economic, cultural, civic, recreational, and historical improvement projects."[33]

RACP uses borrowed money—financed by taxpayers—to pay for economic development projects. Since its inception, the program has released thousands of grants totaling more than $5.4 billion.[34] In the past, grants have funded controversial projects such as the Arlen Specter Library and Tastycake's corporate headquarters.[35]

Grants are awarded based on a point system, which takes into account job creation and retention, community impact, development of strategic clusters, financial impact, and the start date of construction.[36] The grant process is intended to be objective and apolitical, but as Adam Millsap of the Mercatus Center points out, almost 50 percent of funds awarded have gone to businesses in two counties: Allegheny and Philadelphia.[37] Although these are Pennsylvania's two largest counties, the total amount of funds granted exceeds the counties' share of the state's population.[38]

Millsap analyzed the program's job creation record and found RACP funding slightly increased county job growth, but this is not much to celebrate:

> It should be emphasized that the positive effect found here is not surprising and it does not show that the grant led to a net increase in Pennsylvania economic growth. Creating jobs via a grant process that gives certain businesses money to expand is a trivial achievement.

Millsap makes an important point about assessing the effectiveness of an economic development program. Proponents of RACP cannot point to job growth where funds are distributed and declare victory. They need to measure economic growth in the entire state economy. Why?

State government has no money of its own. In order to spend, it must tax or borrow from the private sector. As government siphons resources from the private sector, businesses find it more difficult to invest. They now have less capital to work with because government is "crowding out" their potential investments, hindering overall job growth in the process.

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[33] Pennsylvania Office of the Budget, "Redevelopment Assistance Capital Program," http://www.budget.pa.gov/Programs/RACP/Pages/default.aspx#.VkozDnarTIV.
[34] Pennsylvania Office of the Budget, "Project Listings and Awards: Prior Grant Awards 1986-Present," http://www.budget.pa.gov/Programs/RACP/Listings-and-Awards/Pages/default.aspx#.Vko7WnarTIV.
[35] Ibid.
[36] Adam A. Millsap, "Does Pennsylvania Redevelopment Assistance Capital Program Develop Its Economy," September 2015, http://mercatus.org/sites/default/files/Millsap-PA-RACP-1.pdf.
[37] Ibid.
[38] Ibid.

This theory is borne out in the literature. Matt Mitchell, who specializes in government cronyism, reviewed 26 papers looking at the effects of economic development spending. He found only 4 percent of studies identified a positive relationship between government subsidies and the health of the larger economy. The other papers did not arrive at any statistically significant findings, found negative effects, or found mixed benefits.[39]

Fortunately, the State House has advanced two pieces of legislation critical to reforming RACP. The first seeks to impose annual spending limits on RACP and Public Improvement Projects. The second would lower RACP's debt ceiling from $3.45 billion to $2.95 billion. A similar reform passed in 2013.[40] An optimal solution completely phases out RACP and allows the private sector to lead in financing development projects.

Sports Stadium Subsidies

Since 2000, state taxpayers have shelled out more than $12 billion to sports franchises for the construction of their facilities.[41] Pennsylvania is just one of the many states using taxpayer dollars to support stadiums.

Lawmakers and other public officials funneled tens of millions of dollars to the construction of PPL Park—a soccer stadium in Chester.[42] Many thought the stadium would help revitalize the struggling community, but it has not lived up to expectations. In fact, Chester officials have asked the stadium's owners to do more for the city's economy and residents.[43]

The failure of the taxpayer-subsidized PPL Park to improve Chester is not surprising. In a 2011 paper, two professors at the College of the Holy Cross reviewed the research on the effects of sports events on the local economy and found "little or no economic benefits."

The professors identified three reasons: 1) people who attend sports events would have spent their money elsewhere; 2) sports events tend to reallocate spending by "crowding out" spending that would have already taken place; and 3) money earned from the events doesn't stay in the local economy.[44]

Dennis Coates, an expert in the field of Sports Economics, concludes, "Overall…sports-led development is unlikely to succeed in making a community richer. If the local government is looking for a policy to foster economic growth, far better candidate policies exist than those subsidizing a professional sports franchise."[45]

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[39] Matthew Mitchell, "Florida man seeks a quarter of a billion dollars that won't help state," October 30, 2015, https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e.
[40] Bob Dick, "Lawmakers Move to Protect Posterity," Commonwealth Foundation, October 23, 2015, http://www.commonwealthfoundation.org/policyblog/detail/lawmakers-move-to-protect-posterity.
[41] Judith Grant Long, *Public/Private Partnerships for Major League Sports Facilities*, p. 37.
[42] Caitlin McCabe, "Chester mayor prods PPL officials for greater economic input," *Philadelphia Inquirer*, June 1, 2015, http://articles.philly.com/2015-06-01/news/62882745_1_ppl-park-nick-sakiewicz-republican-wendell-butler.
[43] Ibid.
[44] Robert A. Baade and Victor A. Matheson, Financing Professional Sports Facilities," January 2011, http://college.holycross.edu/RePEc/hcx/Matheson-Baade_FinancingSports.pdf.
[45] Dennis Coates, "Growth Effects of Sports Franchises, Stadiums, and Arenas: 15 Years Later," September 2015, http://mercatus.org/sites/default/files/Coates-Sports-Franchises.pdf.

Tax Increment Financing

Tax Increment Financing (TIF) is a concept gaining popularity in Pennsylvania. Public officials designate an area in need of economic development and a contracting authority to oversee the disbursement of funds. The authority disburses the funds to businesses inside the designated area if they undertake projects aimed at economic revitalization. Pennsylvania has two major TIF programs: the City Revitalization Improvement Zone (CRIZ) and the Neighborhood Improvement Zone (NIZ). While both programs abide by the general TIF framework, they operate differently.[46]

City Revitalization Improvement Zone

Created in 2013, the CRIZ program allows state and local tax revenue generated inside the zone to pay for debt service on projects in the zone. A contracting authority may divert taxes above the "baseline" for revitalization purposes.[47] For example, officials determined Lancaster's state and local tax baseline was $400 million. Any revenue generated above this point in the zone is available to pay back bonds used to finance revitalization projects. A contracting authority will issue the bonds and must cover the cost of underwriting the bonds. If it fails to do so, the bill falls squarely on local taxpayers.[48]

Thus far, the program is off to a rough start. Businesses in Lancaster's CRIZ generated far less tax revenue than expected, putting the figure well below the estimated repayment obligations tied to Lancaster's projected borrowing costs.[49]

In Bethlehem, residents fought a measure to rezone a property in a CRIZ from primarily residential to a mix of residential and commercial. Two developers—who made significant campaign contributions to three council members—succeeded in convincing the city council to allow retail development at Martin Tower.

This change drives more tax dollars to the developers since payments authorized by CRIZ are contingent upon business tax revenue.[50] Residents maintain it is unfair to create "another downtown" with special tax advantages to compete against existing businesses outside the CRIZ.

Neighborhood Improvement Zone

NIZ works similarly to CRIZ. State and local tax revenue collected in a NIZ is used to repay debt issued by the development authority in Allentown.

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[46] Emily Previti, "NIZ v. CRIZ," *Keystone Crossroads*, October 14, 2014, http://crossroads.newsworks.org/index.php/local/keystone-crossroads/73636-niz-v-criz.
[47] Pennsylvania Department of Community and Economic Development, "City Revitalization and Improvement Zones," November 2014, http://community.newpa.com/download/programs_and_funding/program_guidelines/City_Revitalization_Improvement_Zones_Guidelines_2014.pdf.
[48] Ibid.
[49] Emily Previti, "Capitol Recap: Should Pa. cities still covet a special economic development designation?," *Keystone Crossroads* October 19, 2015, http://crossroads.newsworks.org/index.php/local/keystone-crossroads/87274-capitol-recap-should-pa-cities-still-covet-a-special-economic-development-designation.
[50] Erich Boehm, "Campaign contributions provoke cries of crony capitalism in Martin Tower zoning fight," *Pennsylvania Independent*, November 4, 2015, http://paindependent.com/2015/11/crony-capitalism-in-martin-tower-zoning-fight/.

(Note: Allentown is the only city that qualifies for a NIZ.)[51] NIZ draws its funding from tax dollars generated by both established businesses and new businesses in the designated zone. NIZ bondholders, not local taxpayers, must absorb losses if the development authority defaults on its obligations.[52]

The effectiveness of Allentown's NIZ is inconclusive. There has been little oversight of the program, making it difficult to determine whether it is a worthwhile tool for economic development. Generally, scholars have found TIF programs like NIZ and CRIZ generally ineffective at creating economic growth.

In their paper, Tax Increment Financing: A Tool for Local Economic Development, professors Richard F. Dye and David F. Merriman conclude, "We find evidence that the non-TIF areas of municipalities that use TIF grow no more rapidly, and perhaps more slowly, than similar municipalities that do not use TIF."[53]

Randal O'Toole, a senior fellow who works on Urban Growth at the Cato Institute, drew the same conclusion as Professors Dye and Merriman:[54]

> …TIF does not increase the level of economic growth or the taxes generated by that growth; all it does is direct some of those taxes to the city that creates the redevelopment district rather than to schools, other cities in the urban area, or other tax districts.

Government Subsidies Don't Produce Better Economic Growth

Special subsidies to politically privileged businesses do not spur strong job growth. Table 2 indicates the 10 states spending the least on economic development—which includes 11 different expense categories[55]—experienced faster job growth than the states spending the most.

From 2005-2015, employment increased by 6.18 percent in the states spending the least on economic development compared to 5.33 percent in the ten highest-spending states. Excluding the outliers—North Dakota and Texas—job growth figures still favor the lowest-spending states.

Pennsylvania has the dubious distinction of spending the most on economic development. Since 2007, the state has doled out more than $5.7 billion in special subsidies. Yet, this exorbitant spending has not translated into a stronger economy. Pennsylvania is 35th in job growth, 31st in personal income growth, and 38th in population growth since 2005.[56]

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[51] Marielle Segarra, "What is a Neighborhood Improvement Zone?," *Keystone Crossroads*, October 7, 2014, http://crossroads.newsworks.org/index.php/local/keystone-crossroads/73631-what-is-a-neighborhood-improvement-zone.
[52] Emily Previti, "NIZ v. CRIZ," *Keystone Crossroads*, October 14, 2014, http://crossroads.newsworks.org/index.php/local/keystone-crossroads/73636-niz-v-criz.
[53] Richard F. Dye and David F. Merriman, "Tax Increment Financing: A Tool for Local Economic Development," January 2006, http://www.lincolninst.edu/pubs/1078_Tax-Increment-Financing.
[54] Randal O'Toole, "Crony Capitalism and Social Engineering: The Case against Tax-Increment Financing," May 18, 2011, http://object.cato.org/sites/cato.org/files/pubs/pdf/PA676.pdf.
[55] The Council for Community and Economic Research, "The State Economic Development Expenditures Database," https://www.c2er.org/products/stateexpenditures.asp.
[56] Commonwealth Foundation analysis using data from the Bureau of Labor Statistics, Bureau of Economic Analysis, and Census Bureau.

Table 2. Expenditures on Economic Development Programs				
Highest-Spending States				
States	Total FY 2007-15	Population	Per-Capita	Job Growth FY 2005-15
Pennsylvania	$5,726,976,477	12,802,503	$447	2.31%
Ohio	$4,651,124,150	11,613,423	$400	-0.36%
California	$4,281,661,000	39,144,818	$109	7.31%
Florida	$3,013,753,905	20,271,272	$149	3.62%
Texas	$2,955,086,186	27,469,114	$108	20.22%
New York	$2,579,932,888	19,795,791	$130	8.09%
Louisiana	$2,473,151,386	4,670,724	$530	9.61%
Kentucky	$2,343,721,620	4,425,092	$530	5.20%
Michigan	$2,338,380,452	9,922,576	$236	-2.44%
New Jersey	$2,103,076,000	8,958,013	$235	-0.29%
		Average	*$287*	*5.33%*
Lowest-Spending States				
States	Total FY 2007-15	Population	Per-Capita	Job Growth FY 2005-15
Nevada	$546,938,776	2,890,845	$189	0.33%
New Mexico	$434,872,083	2,085,109	$209	1.37%
Maine	$390,633,587	1,329,328	$294	-0.83%
North Dakota	$280,158,449	756,927	$370	29.28%
Nebraska	$250,961,351	1,896,190	$132	7.43%
Vermont	$231,409,109	626,042	$370	2.68%
Delaware	$228,915,900	945,934	$242	2.76%
New Hampshire	$208,921,562	1,330,608	$157	1.83%
Idaho	$203,018,800	1,654,930	$123	10.08%
Montana	$155,310,474	1,032,949	$150	6.83%
		Average	*$224*	*6.18%*
Sources: U.S. Census Bureau; Bureau of Labor Statistics; State Economic Development Expenditure Database, The Council for Community and Economic Research (http://c2er.org)				

Economic Freedom as the Alternative to Subsidies

How can lawmakers create a growing economy that benefits everyone without handing out special subsidies to privileged businesses? Reducing government spending, scaling back burdensome regulations, and lowering the tax burden on working families and businesses would go a long to promoting statewide job growth.

As Table 3 shows, states with lower tax burdens see better job and income growth than states with the highest tax burdens.

Table 3. Tax Burden as Percentage of Personal Income			
Ten States with the Lowest Tax Burden			
States	State and Local Tax Burden as % of Income	Personal Income Growth Rate (2005-2015)	Non-Farm Payroll Employment Growth (2005-2015)
Alaska	6.50%	58.96%	9.76%
South Dakota	7.10%	49.60%	9.76%
Wyoming	7.10%	54.45%	6.84%
Tennessee	7.30%	43.93%	5.61%
Texas	7.60%	63.93%	20.22%
Louisiana	7.60%	46.11%	9.61%
New Hampshire	7.90%	40.25%	1.83%
Nevada	8.10%	28.06%	0.33%
South Carolina	8.40%	45.75%	8.54%
Mississippi	8.60%	33.31%	0.59%
Average	*7.62%*	*46.44%*	*7.31%*
Ten States with the Highest Tax Burden			
States	State and Local Tax Burden as % of Income	Personal Income Growth Rate (2005-2015)	Non-Farm Payroll Employment Growth (2005-2015)
Oregon	10.30%	45.55%	6.71%
Rhode Island	10.80%	34.74%	-1.41%
Minnesota	10.80%	42.33%	3.73%
Maryland	10.90%	42.31%	4.37%
California	11.00%	44.88%	7.31%
Illinois	11.00%	31.53%	0.19%
Wisconsin	11.00%	37.30%	1.35%
New Jersey	12.20%	34.75%	-0.29%
Connecticut	12.60%	36.48%	1.78%
New York	12.70%	42.23%	8.09%
Average	*11.33%*	*39.21%*	*3.18%*
Sources: Tax Foundation, US Bureau of Economic Analysis, US Bureau of Labor Statistics.			

In the lowest-taxed states, personal income grew faster as compared with the highest-taxed states. Job growth was also better in low-tax states—beating out high-tax states by more than four percentage points. These findings are consistent with the literature on taxes and their effect on economic growth.

William McBride conducted a literature review of 26 papers on the impact of taxes on economic growth, arriving at this conclusion:[57]

> I find twenty-six such studies going back to 1983, and all but three of those studies, and every study in the last fifteen years, find a negative effect of taxes on growth. **Of those studies that distinguish between types of taxes, corporate income taxes are found to be most harmful**, [emphasis added] followed by personal income taxes, consumption taxes and property taxes.

The bolded phrase above is particularly relevant to Pennsylvania because the state's 9.99 percent corporate net income tax rate is the second highest in the country.[58] It is a significant barrier to economic development, which is why the Commonwealth Foundation has proposed cutting the nearly $700 million in special subsidies identified above and using the savings to lower the corporate tax rate.

By devoting the $700 million in savings to cutting the corporate tax, lawmakers could lower the rate to 7.55 percent, making it the 19th highest in the country. This reform would increase Pennsylvania's employment by nearly 5,200 private sector jobs, according to a STAMP analysis.[59]

Conclusion

Government favoritism is blocking economic revitalization. Those concerned about the lack of good paying jobs, poverty, or income inequality should demand an end to programs that reward lobbying over merit. Eliminating corporate welfare would be an important first step towards a freer, fairer, and more prosperous commonwealth.

About the Author and the Commonwealth Foundation

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The Commonwealth Foundation is Pennsylvania's free-market think tank. The Commonwealth Foundation transforms free-market ideas into public policies so *all* Pennsylvanians can flourish.

[57] William McBride, "What is the Evidence on Taxes and Growth, Tax Foundation, December 18, 2012, http://taxfoundation.org/article/what-evidence-taxes-and-growth.
[58] Jared Walczak, "State Corporate Income Tax Rates and Brackets for 2015," Tax Foundation, April 21, 2015, http://taxfoundation.org/article/state-corporate-income-tax-rates-and-brackets-2015.
[59] STAMP is an acronym for State Tax Analysis Modeling Program.