CORPORATE WELFARE'S HISTORY OF FAILURE

By Bob Dick, Commonwealth Foundation

In April, the York-based medical device company Unilife filed for bankruptcy after laying off more than a third of its workforce. What makes this unfortunate circumstance different from dozens of other business challenges in our ever-changing economy? Unilife had a helping hand from you, the taxpayer.

State government handed the company more than $6.4 million in grants and loans, betting it would thrive. Sadly, they bet wrong.

York is hardly alone. In the 1990s, Scranton spent hundreds of millions of tax dollars on county roads, museums, a stadium, a shopping mall, and an industrial park in hopes of spurring economic growth. Yet, the projects "largely failed" to revitalize the city, according to a study by the Mercatus Center at George Mason University.

These anecdotes raise an important question: Do government subsidies to select businesses help the economy?

The evidence says no. Since 2007, Pennsylvania has led the nation in such corporate welfare spending at a staggering $6 billion, outspending its nearest competitor by nearly $2 billion. Yet, these massive handouts to special interests have failed to boost economic growth.

From 2005-2015, the commonwealth underperformed in key economic indicators, ranking 35th in job growth, 31st in personal income growth, and 38th in population growth. In fact, the ten states spending the most on corporate welfare from 2007-2015—Pennsylvania first among them—saw less job growth than the ten lowest spenders.

Here's why. Normally, businesses make decisions based on what consumers want. But when government subsidies are on the table, businesses start competing for politicians' or government bureaucrats' favor.

Success is determined by who lobbies better, not by who makes the best product at an affordable price. The result? A few businesses "win"— though often temporarily—at their competitors' expense, and taxpayers suffer in the long run.

Consider Pennsylvania's Redevelopment Assistance Capital Program (RACP). This program gives an unfair advantage to large cities and awards grants disproportionately to businesses in Pittsburgh and Philadelphia. Workers in other cities, meanwhile, are left to pay the tab.

RACP isn't the only example. Commonwealth Foundation has identified more than $800 million in corporate welfare in this year's state budget.

One of the biggest winners is the horse racing industry, receiving about $250 million each year from the Race Horse Development Fund. A big chunk of this funds prize money, nearly 30 percent of which is spent outside of Pennsylvania. You can bet the house most Pennsylvania residents have not benefitted from this spending.

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What's more, a 2016 Pennsylvania Gaming Control Board report found attendance and wagering on horse racing dropped since 2011. Despite the perks, the industry is losing ground.

Horse racing isn't alone—Pennsylvania has given Fortune 500 companies like Aramark and Amazon millions in tax dollars while taxing small businesses, such as approximately 100 vape shops, out of existence.

With its history of failure, why is corporate welfare so prevalent? Optics, for starters. Headlines and ribbon cutting ceremonies give the appearance of growth. But this artificial "economic development" concentrates power, promotes cronyism, and siphons money from working people across the state.

When government officials divert dollars to their preferred economic projects, the net result is stagnation, not growth.

Instead of giving tax breaks and subsidies to select businesses, lawmakers should cut corporate welfare and use the savings to reduce tax rates for all businesses. This will attract investment, create jobs, and help reverse the trend of Pennsylvanians fleeing the state for job prospects elsewhere.

Thankfully, lawmakers are on the right track. House Majority Leader Dave Reed recently said of government favoritism: "some of the [economic development] efforts in the last number of years haven't always been all that successful, whether it be stimulus packages or corporate welfare or tax loopholes."

And House Appropriations Chairman Stan Saylor has proposed eliminating corporate welfare entirely.

This isn't just talk. The House recently passed a budget reducing corporate welfare spending by at least $56 million—with the possibility of further reductions.

Pennsylvanians deserve better than a system that favors the politically connected. Creating an environment where people can advance based on merit, not lobbying prowess, will put our state on a path toward growth and opportunity for all.

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