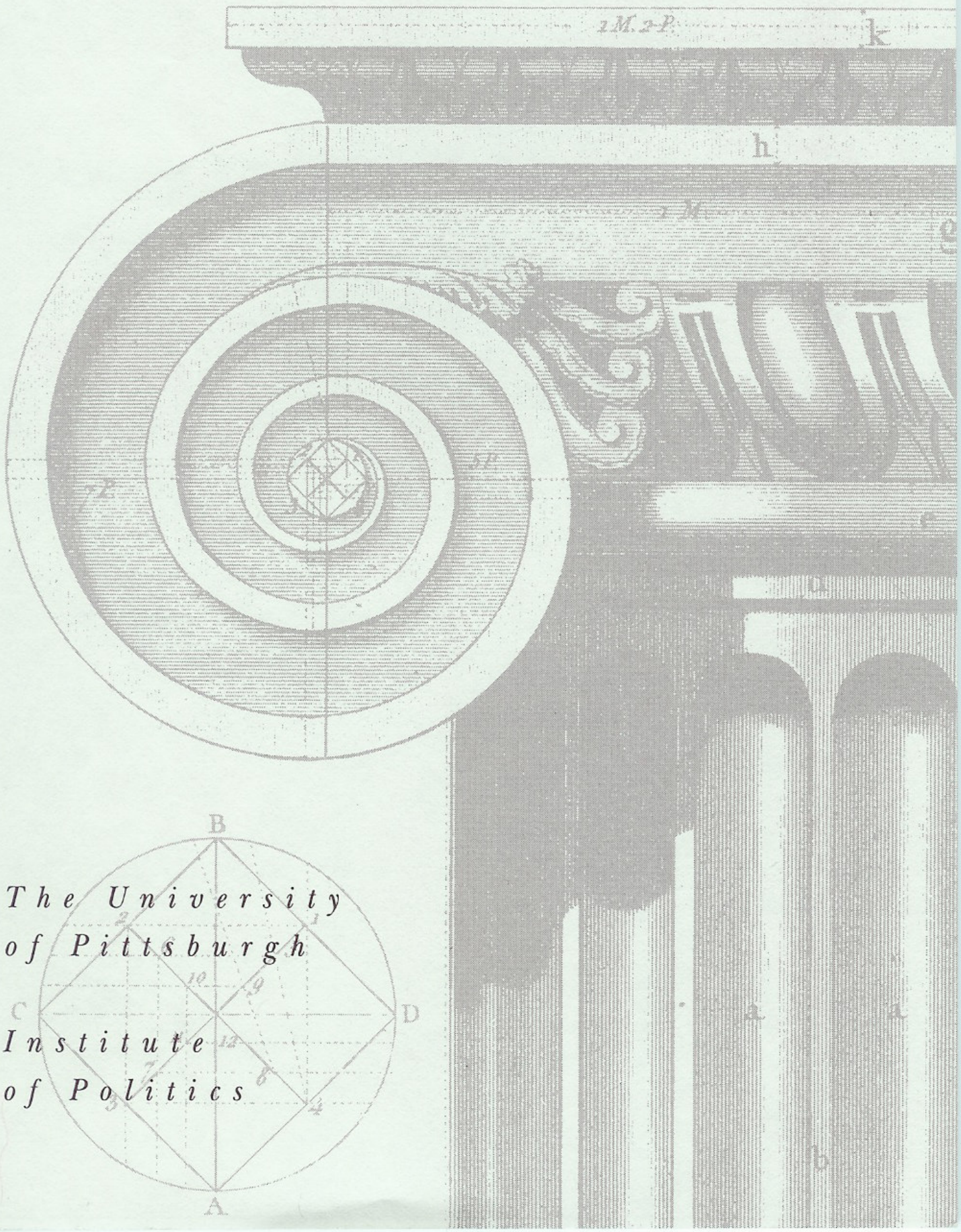
I s s u e s

GETTING THE 'JOBS' DONE

Clarke M. Thomas



The University of Pittsburgh

Institute of Politics

Table of Contents

Getting the 'Jobs' Done

Clarke M. Thomas

"Jobs!"

That's the answer you'll get from government officials up and down the line when you ask them to name the greatest pressure on them nowadays.

"Jobs!"

And they don't so much mean jobs in the old patronage sense. What they mean is the creation of new jobs, whether by attracting new industries or business or through government outlays.

State Rep. Tom Michlovic of North Braddock, representing a Monongahela Valley district, said, "I spend 40 to 50 percent of my time on economic development." To varying degrees, that is true of officials from the Statehouse down through the borough and township level.

Particularly in an era of declining manufacturing and of large pockets of unemployment, citizens expect economic-development action, including from their local and county officials. It is the name of the game nowadays, a gauge by which officials often stand or fall at the next election. So what can a local official do? Here are some elements of practical advice gleaned from dozens of interviews, with specific tips later in this issues paper:

1. There may be little you can do by yourself. Learn what you can do and what you can't do.

2. Your best bet is to work with others through larger entities, such as regional development groups with their more sophisticated experience.

3. Learn what help is available from the county and the state, as well as from private and public economic-development agencies. One suggestion: The Ben Franklin Technology Center in Pittsburgh has published a *Business Resource Directory*, subtitled "A Practical Guide to Financing and Business Development Services in Southwestern Pennsylvania," with 171 pages of listing, running alphabetically from "Accounting Assistance Programs" to "Westmoreland Economic Development Corporation."

4. Realize that you will need to work with different levels of government on particular issues. For example, the county in many localities for community colleges and some elements of transportation, such as mass transit; the state for major highways and other transportation connections, for state taxes and environmental concerns; and the federal government on trade issues. Some major issues, such as bringing the Software Engineering Institute to Pittsburgh, required cooperation at all levels of government, plus that of Pittsburgh's higher educational institutions.

5. For all the talk about business and taxes, levies may be the least important — or at least the last — item for consid-

eration on a corporation's list.

6.Therefore, don't lay out tax concessions the first thing as bait. As in poker, save them as your "hole card" for the end of the game. Besides, location-seeking corporations know that game far better than you do. That's yet another reason for following the advice in Item 2 above.

7.Keep in touch with local businesses and labor to learn what they want, the better to build local coalitions to improve the climate for both keeping and attracting business and industry.

8.Your local schools are highly important, too. After all, these are the entities that a wise incoming business or industry will certainly check with, especially in terms of job training. Are you certain they are on your side in the jobs-creation endeavor?

9.Finally, be sure about the kind of jobs you want to attract. Some municipalities have had heart-rending experiences with the costs of providing infrastructure for incoming industries; or with the environmental problems the newcomers have created; or with the fact that the new arrivals have brought their workers with them, rather than hiring local citizens; or with jeans factories or shopping malls that took advantage of concessions and then departed or closed down not too many years later.

There are larger philosophical concerns, too, in the job-creation realm. A big one: Does everyone need to go to college?

Bear in mind that despite all the hoopla about college degrees, only about 30 percent of America's jobs require a college degree. In terms of wisely using human and financial resources, societal attitudes on this factor need to be changed. (See "Making Training A Priority" later in this issues paper.)

And what about industrial parks, superhighways, and the fragmentation of local government so frequent in Pennsylvania (130 municipalities in Allegheny County alone)?

With all these caveats, you, the local official, still want more jobs in your municipality. Right? So let's elaborate on all these considerations and more.

We start with what every marketer must know: What does the customer want? For instance, consider the "customer" as an industry or business looking for a new location.

What Industry Wants

The stock saying in real estate circles is that the three important considerations are: "Location, location, location."

Location in relation to markets and to suppliers is fundamental. But seldom is there one supremely obvious location. Too many variables come into play.

Listen to Robert Ady, president of P.H.H. Fantus of Chicago, the largest business consulting firm in the world. "A site selection process first of all is one of elimination. Whether you are talking about a worldwide, a Pennsylvania-wide, or a local search, you eliminate those with the greatest disadvantages and the fewest advantages. Frankly, if Pittsburgh is on a list of prospects and we go there, it is with the hope of rejecting it — to make the ultimate selection process easier."

Location factors are related to cost, Ady said, depending upon the company and the product. But there are five basic operating costs at stake — labor, transportation, utility, occupancy, and taxes. Ady gives a rough breakdown of the weight given, as follows:

For manufacturers, the cost of labor, 40 percent; transportation, 30 percent; utilities, 15 percent; occupancy, 10 percent; and taxes, 5 percent.

For office firms, the cost of labor, 72 percent; transportation, 0; occupancy, 15 percent; utilities, 10 percent; and taxes 3 percent.

Ady said that, aside from these operating condition factors, business and industry look at quality-of-life factors — education, recreation, housing costs.

Highly important, the Fantus official said, is the availability of a trained or trainable work force, including the assumption of responsibility for providing that component. "It's a big problem these days; no one wants to do it," Ady said. "They want to wait and see what jobs will be there before undertaking training.

"Sure, it's a chicken and egg situation. But what I'm saying is that it is much more convincing to say, 'We have people trained already.' You can always fine tune them when the plant locates in your community," Ady explained.

Ady said that a major problem is that with so much emphasis on college education, the greatest shortage is in the vocationally and technically trained student. So, on the one hand, in the coming years, "There won't be any unskilled jobs anymore. You can't even get into the door to talk to someone." On the other hand, "You are going to see people with master's degrees working in high-tech factories as technicians, not management."

A 1990 KPMG Peat Marwick study of foreign investors found the priority list for European firms of state — location factors to run as follows: 1) proximity to key industry/suppliers; 2) air transportation; 3) personal preference/executive in place; 4) acquisition/joint venture opportunity; 5) living conditions/ climate; 6) distribution advantages; 7) quality and cost of labor.

When it came to local issues of concern, the order went like this: 1) labor quality; 2) labor availability; 3) education of employees; 4) state and local tax system.

The Peat Marwick questions on personal issues of concern to European companies came up with this priority list: 1) education of family members; 2) insurance; 3) cost of housing.

What about tax incentives and other subsidies?

Ady said they have become too important, in the sense that "they tend to interfere with the basic economics of finding the optimum location." But the truth too often is that "when it comes down to the final choice, it depends on who gives you the most."

The category includes tax abatements, cash grants, low-cost financing, reduced mortgage rates, relocation assistance, infrastructure improvements such as a highway into the property, spousal opportunities, and day care.

Interestingly, the Peat Marwick study of state concerns for foreign investors ranked taxes as 12th. (For further discussion, see "How Important Are Taxes?" later in this issues paper.)

What Should a Community Do?

Suppose a prospect is coming to town? What should the community do? Fantus President Robert Ady has these suggestions:

- Have the political leadership available to meet with the prospect. If the prospect is sizeable, "the most important salesman in the state is the governor."

  (I was surprised in a visit with a corporate leader in Southwestern Pennsylvania to have him say that the plant-location executive in his firm had NEVER been contacted by any official in his municipality or county about locating a plant locally. Talk about missed opportunities!)

  Sometimes, of course, the prospective industry doesn't want to meet with the politicos, "looking on them as just good ol' boys." Accede accordingly.
- Be ready with your answers to all conceivable questions, such as the water rates and zoning requirements. Be sure all the prospect's questions are answered. "If you don't know the answer, say 'We'll get it for you.' If you try to bluff it out, the prospect will think you are lying," Ady said.

How about wining and dining?

A dinner can help establish the community's desire to have the industry locate there. But the problem is that staging a dinner takes away from the prospect's time to see the community and to ask questions — especially pertinent if the prospect only plans to spend a couple of hours there. "The goal shouldn't be to sit in a restaurant but to get around the town for a firsthand look," Ady explained.

The Fantus president has this bit of chastening advice for local officials. "The move these days is to regional economic development. There's not time for dealing with the individual municipality. There's no way a big prospect is going to come in and deal with supervisors."

Which brings us to a look at industrial and plant siting from the local viewpoint.

The major regional development agency in Southwestern Pennsylvania is Penn's Southwest, launched in 1974 by the Allegheny Conference on Community Development, the spearhead for Pittsburgh's corporate leadership. Jay Aldridge has been its president from the start, involved in helping bring into the area hundreds of firms — American, European (especially German), and Japanese.

His advice to local communities is to determine: (1) what you have to sell; (2) whom to sell it to; and (3) how to sell it.

For example, what is the nature of your work force? Do you have a high percentage of unskilled workers? Do you have systems for training them? Do you have workers with idled skills (such as former steel plant workers)? Or is your potential strength for certain industries what are called "phantom workers," people who want part-time work, such as homemakers whose children are ready for college?

For a man whose interest presumably would be real estate, Aldridge spends a lot of time talking about manpower and training. He estimates that 25 percent of the work force in this country is not ready for meaningful jobs. For example, 37 percent of black young adults are not in school or in the military or otherwise preparing themselves for productive jobs. The similar figure for white young adults is 23 percent, demonstrating it is not solely a matter of race.

The figures are especially daunting, Aldridge said, considering the demographic trends ahead that will mean a labor shortage in this country — particularly for skilled workers. (For more discussion on this topic, see "Making Training A Priority.")

Besides manpower, a plant-seeking community also needs to know exactly where it stands on such utilities as electricity, water, gas, sewage, and — Aldridge emphasizes — "the increasingly important matter of waste removal and disposal."

After inventorying No. 1, your best chances of answering questions 2 and 3 are to work with regional groupings, as well as state agencies (see "Where To Get Help"). That can include local or county urban redevelopment authorities, industrial development corporations, or associations such as the Mon Valley Progress Council.

That's because such matters of concern to manufacturers as transportation, human services (more than just labor cost), energy, and taxes (state as well as local) often lie beyond the ken of a local municipality.

Aldridge goes to a chalkboard in his office to draw a diagram explaining the ordinary parameters of a relocation search. Suppose a manufacturer's major suppliers are in the Central Time Zone, in Indiana, for instance. But it is finding its major markets to be in the Eastern Time Zone with its 120 million people. The corporation has determined that Greensburg is about as far east as it can settle, in terms of transportation costs from Indiana.

So the challenge is to find a location somewhere between Indiana and Greensburg that is the best pivot between suppliers and markets. It can be in Ohio or Western Pennsylvania — Meadville, for instance, in the particular diagram that Aldridge chose as his example.

"In a sense, the real estate is the easy part. It is all the other tangibles and intangibles that we've been talking about that can make the difference," Aldridge explains.

Another prominent actor in the job-creation scene is the Regional Industrial Development Corporation (RIDC), headquartered in Pittsburgh. Its president, Frank Brooks Robinson, said that industries particularly want trust and confidentiality, a reason that local officials often have to be kept in the dark until a deal is made.

Investors — and particularly corporations from abroad — worry about the property around them. That is a reason for the popularity of suburban campus-like industrial parks. The usual rule, therefore, is three acres of land for every acre of building.

That makes single-site development much harder. Robinson said that RIDC has drawn criticism for not doing more in the cities themselves, but a problem there often is the shortage of land for sizeable tract development.

Because of the pull and tug of demands, local governments try to spread the butter too thin, Robinson said. What they must realize is that a rising tide lifts all boats.

Robinson in this context cites the costly, agonizingly slow process of redeveloping for economic reuse of the former USX steel plants in Duquesne and McKeesport, for which the RIDC is responsible. "We weren't naive when we got into this, but I must say the scope and cost has been a real eye-opener in dealing with everything from old buildings and transformers to asbestos and what I call 'rainbow water.'"

Full reutilization of old industrial sites even after toxic substances are removed or neutralized, Robinson believes, will require legislation capping the liability that worries potential tenants.

Robinson said he would like to make three points with local government officials concerning such remediation projects. One is that those properties won't come to complete fruition while present officials are in office, denying them immediate political gains. "They will have to be content with being proud that they started the process," Robinson said.

Second, officials in other municipalities also will have to be prepared for the long wait and be content with the eventual harvest of jobs for many of their citizens.

Third, as the renovated sites come on line, they may attract industries now in obsolescent housing elsewhere in the Mon Valley or Southwestern Pennsylvania. Robinson said officials must resist the temptation to sending up the battle cry: "Don't you dare move OUR company to McKeesport." To do this, the RIDC chief said, "would be ruling over the wreckage, rather than solving the problem."

Robinson said that some people talk as though for its brightest future this region should turn to high tech and forget manufacturing. But the two aren't incompatible, in Robinson's view. Increasingly, certain kinds of manufacturing will migrate to places that have high technology available. To him, the renovation of the former Westinghouse turbine plant in the Turtle Creek valley into an industrial mall called Keystone Commons is an example for the future.

Another aspect in the job-creation picture is highlighted by David Epperson, dean of the University of Pittsburgh School of Social Work and vice-chairman of the City of Pittsburgh's Urban Redevelopment Authority. Dean Epperson said a problem for the minority community is that the fragmentation of economic development programs makes it hard to play a meaningful role in the entire process.

Epperson contends, "We haven't learned from the positive experiences of the past. For instance, the War on Poverty program launched in the 1960s had all the job development activity under one rubric." Epperson speaks from personal involvement, as he was director of Community Action Pittsburgh, a major anti-poverty program in that era.

The cohesiveness of the approach in those days made it possible for such minority organizations as the Urban League of Pittsburgh to have a place at the table along with local governments and the corporations. That isn't the case nowadays, said Epperson, a former chairman of the Urban League board.

The result is that many errors are made with regard to the minority community. For one, Epperson contends, not enough care has been taken to make sure that the advent of the Midfield Terminal at Greater Pittsburgh International Airport 15 miles from central Pittsburgh helps employment in the minority community, rather than further discouraging it.

Given the prospective labor shortages because of demographics, the total community has a stake in the utilization of the minority population, quite aside from the fairness issue. Economic development efforts need to include minority viewpoints from the very beginning, Epperson contends. The plural word, "viewpoints," is important, as care must be taken never to assume there is any ONE minority viewpoint. More than one base needs to be touched.

Another job-creation idea for local government officials comes from Stanley Lowe, president of the Pittsburgh Community Reinvestment Group, which has been working with lending institutions to make mortgage and commercial business loans in low-income neighborhoods.

He argues that the potential for economic development in those neighborhoods is often overlooked by lending institutions that on a *pro forma* basis redline everyone in them, regardless of individual merit or entrepreneurial record or potential. He said studies by his group had shown there were some neighborhoods in Pittsburgh where not a single commercial or mortgage loan had been made in the past 10 years, despite the volume of deposits from those same areas.

Lowe contends that local government officials should work with banks to overcome these practices. They have both the leverage of their tax deposits, insurance and pension funds, and long-term bonded debt and also of a 1977 federal law requiring lending institutions to have equal lending practices. This doesn't mean they have to lend to any and everyone; the requirement is that they "develop and design products to meet the needs of the community."

Thus, different plans can be developed for different communities, but none can just be ignored, Lowe explained.

Lowe said government officials too often assume that government can do the job in low-income areas when, in truth, the private sector is the answer for the long pull. Also, government officials assume that "equal lending patterns and practices" are a given, when often they aren't, unless lending institutions are sufficiently prompted. He proposes:

"Local government officials should say: 'We want to do business with you if you will do business with our constituents — your customer base, our tax base. We want you to follow the letter of the 1977 law requiring equal lending patterns and practices for all.'"

Quite aside from fairness, such financial input into less-chance neighborhoods is the best way to encourage the development there of private-sector entrepreneurs, necessary to avoid the idea that government largesse is the only hope.

Support for this concept comes from the experience of Integra Bank Pittsburgh, formerly the Union National Bank. In June 1988, the institution became the first and only lending institution in Pittsburgh to sign a formal agreement with the Pittsburgh Community Reinvestment Group concerning lending in low- and moderate-income areas. Within a year, the bank had increased its first-mortgage lending in those neighborhoods by 2,300 percent.

From 1988 through 1991, the bank made more than $29.3 million first-mortgage loans in the designated areas. In its latest memorandum of understanding, it has set a goal of $101.7 million by the end of 1996. Similarly, it has set a goal of $180.7 million in commercial loans to small, minority, female and non-profit organizations by that same date (the 1988-91 record was more than $98.9 million.)

The grand total — in writing — of Integra's goals for all lending in designated neighborhoods is $357,839,260, including first and second mortgages, home improvement loans, and commercial real estate loans to non-profit developers; and commercial loans to small, minority, and female businesses and nonprofits.

Gayland Cook, Integra's president, was asked whether this "borrower friendly" attitude had hurt the bank in any way. He replied:

"No. It has allowed us to do business

with more narrowly defined focuses and create an atmosphere of willingness. The key is honestly to determine the ability of the borrower to repay, designing a program that works within their capacity to repay. We've had a very, very low delinquency rate as a result."

Stephanie Cipriani, assistant vice-president and manager of the bank's Community Development Department, suggested one major reason why the record of defaults on mortgages in low-income areas has been "less than minimal." She said, "Because people in a lot of cases had had no hope, when they finally got homes, they're not going to let them go. It means too much to them." The same low delinquency rate is true for commercial loans, Cipriani said.

Although other lending institutions have not signed formal agreements, they too have greatly expanded their business in low-income areas. An official in another bank said that the repayment record in his bank and others initially has been "squeaky clean," but expressed the cautionary note that — except for Integra — the experience time span is too short for a valid analysis.

In some cases now, the various Pittsburgh banks have formed public and private partnerships, including with each other.

Equally significant, the lending institutions now are beginning to compete for this business — thus giving, in Cipriani's words, "a chance for community groups to get the best deal."

Finally, on the question of plant location, it is worthwhile to hear from someone like Allen Wood of Westinghouse, who has participated in choosing sites for 65 Westinghouse facilities around the world. Wood explains:

If a unit of the company wants a new facility, Westinghouse first sets up a committee of corporate executives to make a cost analysis of the proposal before any search is made. The unit will face a 26-page questionnaire and be given two months to respond.

Wood said the four important cost variables are labor, transportation, taxes, and utilities. There is no special order, although Wood said that the latter two are not as major as the others.

Climate too, can be a factor. For instance, Florida and Alabama are poor places for sophisticated computers, Wood said.

If the proposal gets an OK, from 12 to 15 cities are selected. "We then determine the three most economical on the basis of those variables. Then we go to a state or local development agency — NOT the politicians — to help us with further research.

"In most metro areas, there is a Jay Aldridge type of person that you work with," Wood said.

Sometimes it turns out that none of the three final choices is satisfactory. If, for example, central Pennsylvania isn't quite right, Westinghouse will turn to something nearby with similar characteristics, such as Maryland or even northern Virginia.

Wood gave a small smile and said that many companies are not as sophisticated as Westinghouse. Sometimes even after a corporation has conducted a professionally organized search, the chairman of the board will step in and overrule the decision. And no matter what reasons he gives, his compatriots will suspect his selection was a good place to golf or lies near where he plans to retire.

It is noteworthy that the Peat Marwick study showed that many foreign companies were up front on this point — with the personal preference of the appropriate executive ranking No. 3 in the order of importance of state location factors.

That is one of the factors that gives pause to Tom Michlovic, the state representative who said he spends 40 to 50 percent of his time on economic development. "Sometimes you wonder whether all this effort really is worth it. Wouldn't it happen — or not happen — anyway?"

But the good news is that there are numerous resources available. Let's now turn to that topic.

Where to Get Help

For Pennsylvania communities seeking to create jobs there is one saving grace: There is no shortage of resources, both governmental and governmentally funded.

For instance, take the Pennsylvania Department of Commerce. Secretary of Commerce Andrew Greenberg notes that state government makes available each year $200 million in business financing of various kinds — grants, low-interest loans, etc.

The state has provided $30 million for rehabilitating the abandoned USX mill sites at Duquesne and McKeesport for industrial and commercial development. It has put $38 million into the package to Sony to place two factories at the former Volkswagen plant in New Stanton. "No community by itself could have afforded that kind of inducement," Greenberg remarks.

"Most of what we do is to recruit outside companies," Greenberg said. The state will particularly swing into action if an incoming business promises to provide at least 100 jobs.

But the state isn't neglecting holding

onto what it has. Just this year, the Pennsylvania Industrial Development Agency (PIDA) set aside $20 million for job-retention projects — that is, to help keep a corporation in Pennsylvania that might otherwise move its jobs somewhere else.

"This was both economically and politically the right thing to do," Greenberg comments. "Economically, because those businesses will create a big share of the new jobs in our state's economy. Politically, because it's tough being in business right now with the current recession. And this sends a message that we are not just looking for outside business to come in."

In fact, the state government has established a Governor's Response Team that includes officials from many agencies — Commerce, Community Affairs, Education, Environmental Resources, Labor and Industry. The Team's two-fold purpose: (1) to respond to any feelers from firms that might want to locate in Pennsylvania, (2) to act as an early-warning system to capture signals that a corporation might be thinking of leaving the state, in order to work with it and its community to head off that eventuality.

Its "cut-through-the-red-tape" strategy involves designating one person to handle any overture, a case-management system tied to a single individual who will be the answer-getter from every department.

At present, state agencies are eyeing Canada, particularly Ontario, where they detect a dissatisfaction with the business climate. They are shooting for medium-sized firms, those with $10 million to $100 million in sales.

"We did a survey of 4,000 Canadian manufacturers in that range and got 500 responses — a phenomenal rate as anyone in the business can verify," Greenberg said. The Commerce Department and other agencies are following up with mailings, telephoning, and doing-business-in-Pennsylvania seminars.

Another state agency heavily involved in job-creation efforts is the Pennsylvania Department of Community Affairs, with $200 million a year available for that purpose. It focuses its efforts particularly on problem-plagued communities, such as those that have lost plants or those in inner cities.

DCA Secretary Karen Miller said her agency can provide money for infrastructure, housing, planning, and intergovernmental cooperative efforts. It can help with training and technical assistance and what she engagingly calls "hand-holding" with communities and non-profit agencies.

A particular vehicle for help is the enterprise zone concept, in operation since 1983. This is a grant program to assist financially disadvantaged communities in preparing and implementing business development strategies to increase the quantity and quality of job opportunities.

A community entering the program first receives a planning grant for preparing a business development strategy for the proposed enterprise zone area. When that process is successfully completed, a planning zone becomes eligible to compete with other planning zones for designation as an enterprise zone. Zones so designated by Secretary Miller's office receive seed-money grants to stimulate investment and business activity. The zone also is given priority consideration when requesting other state resources.

There now are 43 designated Enterprise Zones, recipients of $43.3 million in grants since 1983. Since 1987, the DCA estimates that more than 9,800 new jobs have been created; more than $500 million in private sector business investment attracted, resulting in approximately 1,500 business expansions and starts.

Miller, former mayor of Reading, said that DCA has made intergovernmental cooperation a top priority because it represents a much wiser user of resources than municipality-by-municipality efforts.

"I'll have to admit that this effort is like turning the Queen Mary around. We still run into turf battles and the attitude that 'this is the way we've always done things.' But we've come far enough that communities now get defensive about why they are NOT doing intergovernmental cooperation," Miller said.

The DCA secretary said, "Unfortunately, in Pennsylvania we don't allow municipalities to die. Therefore, we end up with 'welfare municipalities.'"

Another resource is the Pennsylvania Department of Labor and Industry. L & I Secretary Thomas Foley said, "Labor-management cooperation is a bottom line process. We don't suggest that people work together just because it is a nice thing to do. We encourage it because we believe it goes to the bottom line in terms of productivity and increased ability to compete with competition both inside and outside the country."

Foley said, "You hear a lot of no-union talk and go-to-Mexico talk. But when you want to get something done in a plant, it's better to have a clear organization there to work with to get things done. Any economic development effort that has its labor package together constitutes a better way to go."

The L & I secretary said he could give example after example of where "toolbox meetings" involving workers and management had brought exchanges of ideas about injuries, lost work days, and the like that had resulted in bringing in projects on time and under budget.

Foley said L & I can help prospective companies with estimates on what workers compensation will cost and put them in touch with companies similar to theirs to obtain advice.

L & I has funds to help corporations with testing and training. One important segment is federal money for vocational rehabilitation, a funding stream that has increased yearly. Foley said this program can be especially helpful for small business. "For instance, we can provide money to train a disabled person to be an accountant for a small firm and even outfit the work site so that that person can do the job."

The Pennsylvania Department of Environmental Resources definitely is part of the job creation equation because of the effects of its permitting, enforcement, emergency, and compliance requirements.

DER Secretary Arthur Davis said that he has instituted three changes to provide better communication on the subject. First, he has appointed a full-time person to provide a link to local governments. He is John Brosius, a former Lehigh County commissioner after being the director of planning, zoning, and development for Whitehall Township in Lehigh County (Tel. 717-783-7005).

Second, each of the six DER regional offices is in the process of designating a liaison person with local governments and the media, similar to the role Brosius has at the state level.

Third, Secretary Davis has instituted periodic dinners in the east wing of the State Capitol building with each of three different groups: (1) local government officials; (2) business and industry leaders; (3) conservation and environmental organizations.

"I'm afraid Pennsylvania has a reputation of having technocrats who were too rigid and wouldn't listen. Some of that was true, some not. But we are making a basic shift on that," Davis said.

As an industrial state, Pennsylvania historically was the site of more air and water pollution than most. That is a major reason why it began imposing stringent laws in some realms.

But Davis won't buy the idea that at this point Pennsylvania's environmental laws are any stricter than in most states. "The difference is that the laws are enforced in Pennsylvania, as against some other states," Davis said. The result is a level playing field for all concerned throughout Pennsylvania.

Many of the laws and regulations worrisome to industry actually are the same anywhere in the country because they are federal.

The DER has problems both up and down the other levels of government. In some cases, Pennsylvania's laws are tougher than the federal, which brings pressure on the state to reduce its "regs" to the lower levels.

But Davis said that that would constitute a step backward for s state struggling to overcome the reality as well as the image of its polluted past. He contends that the quality of life as long-run asset for the state dare not be disregarded. In some cases where an incoming industry insists the rules must be bent, "We may just have to say, 'Sorry, you'll have to go elsewhere.'"

On the other end of the scale Davis is troubled by the continued stand-offs between the state and local governments on such matters vital to the state's industrial future as toxic waste disposal facilities — the NIMBY (not in my backyard) syndrome. There has to be a balance struck between industry and the communities. "In Pennsylvania, we are learning at the state level that we have not been as responsive and sensitive to communities as well as to industry," Davis said.

What advice does Davis have for local officials?

He suggests that as problems arise, the affected official contact the regional DER office first. That's a reason for the new regional liaison officers. "Have your facts straight, be businesslike, persistent, but reasonable. Don't just call up your local legislator; that seldom produces much."

The DER secretary said many localities that think of the DER in adversarial terms don't realize how important it is to have a bulwark against corporations that might run roughshod over them with "Do this or else" demands.

Davis admits it is difficult to know what to do with a community that for financial reasons says it can't, for instance, install an advanced sewage treatment plant to meet federal and state regulations. "That puts us in an immediate adversarial position. Do we complain to the feds? Do we say to the municipality, 'Tough, just boil your water'?"

But Davis insists that whether it's a local government or an industry, there usually are ways to work it out. PENNVEST, the state bond issue to provide aid for municipalities with water and sewer problems, has been a help. "We've worked with more than 160 municipalities with that program," the DER secretary said. The state has issued more than $800 million in grants and loans under that program, as against an estimated $4 billion in needs.

In sum, Davis said, "We are not going to yield on environmental protection measures. But if proper compromises can be made within that framework that are of benefit to an industry or a locality, we are here to help."

Of the various nonprofit organizations that have been established in Pennsylvania to aid in job creation, none has achieved as much attention elsewhere as the Ben Franklin Partnership program established during the Dick Thornburgh administration. The private, nonprofit program was designed to link Pennsylvania's academic research facilities with business and industry, both in terms of providing advice and of transforming academic discoveries into actual products in the market arena.

At one point there was grumbling that the money mostly seemed to be lodging in the institutions of higher learning rather than going to the technology-transfer end. But that snag appears to have been straightened out.

Lawrence McGeehan, head of the Ben Franklin Technology Center of Western Pennsylvania in Pittsburgh, a regional office, said the emphasis of the $6 million-a-year program is on "working with what we have," leaving the attracting of new industry to others.

Dr. McGeehan said that 80 percent of its funding goes into research and development — by companies, by universities, and by university/business combinations. Another 10 percent goes into training programs and the final 10 percent into supporting business entrepreneurship, with emphasis on new-product development and the international market.

One emphasis these days is to help old-line manufacturers, particularly those that have lost defense business with the end of the Cold War. The Ben Franklin program also is constantly looking for niche production facilities such as sawmills, that, with a boost, can expand Pennsylvania markets.

With the imminent coming to Southwestern Pennsylvania of the Sony manufacturing facilities at New Stanton, McGeehan said that Ben Franklin program hopes to stimulate suppliers. This may require aiding many small firms to upgrade their processes or to change them entirely. For location and businesses interested in becoming a part of the process, the dates for proposals are September 1 and December 1. Information can be obtained from the Ben Franklin Technology Center (412-681-1520).

Another resource is the Technology Development and Education Corporation. TDEC is a nonprofit, independent affiliate of the Pittsburgh High Technology Council, fostering economic growth through programs devoted to manufacturing modernization, development of the region's technology base, work force development, and international trade. Its president is Ray Christman, former state secretary of commerce.

Its activities include:

- Southwestern Pennsylvania Industrial Resource Centers (SPIRC), a $2 million annual operation that so far has worked with 250 manufacturing companies to adopt modern manufacturing practices to improve profitability and competitiveness.

- Pittsburgh Biomedical Development Corporation, providing financial and management assistance to promising research and technology ventures emerging from the region's hospitals and universities.

- Pittsburgh Youth Apprenticeship Program, which as of September 1992 will be developing in four school districts in Allegheny and Westmoreland Counties a work-based learning program drawn from the German apprenticeship system (see "Making Training A Priority").

- Pittsburgh Regional Export Program, providing customized consulting assistance to smaller companies concerning export activities.

The point in all this is that local officials may do as much good as anything for the process of job creation by working with their local corporations to take advantage of the upgrading opportunities offered by such agencies as Ben Franklin, TDEC, and SPIRC.

BEYOND 'JUST ANY OLD JOB'

A discussion of job creation would be amiss if it didn't include a consideration of the caveats.

Frank Giarratani, a University of Pittsburgh economist, worries that many smaller communities "are so desperate that they'll take anything from anywhere," even if there are negative effects in terms of congestion, aesthetics, or the environment. And that often leads to a "beggar thy neighbor" attitude, rather than cooperation with adjacent municipalities.

Ralph Bangs of Pitt's University Center for Social and Urban Research (UCSUR) said the goal should be more than just creating jobs. "We should want good jobs — above-average wage jobs, at the equivalent of the $23,000-a-year jobs in 1980." The pay should be above average, full-time, in permanent growth industries, Bangs said. "Our goal should NOT be part-time, low wage jobs."

James DeAngelis of UCSUR interjects that this region already is 10 percent below the national wage average. The picture is complicated by the fact that while the population has not grown, labor force participation has, particularly with the addition of women. How to close that gap? Bangs and DeAngelis suggest:

1. A higher level of training. "Concentrate tax dollars on training, rather than on concessions."

2. Work to reduce health costs for firms. Chambers of commerce should form pools to negotiate with local hospitals and doctors on this score.

3. Concentrate on worker-compensation costs "so firms don't see it as a disadvantage here."

4. Nurture local businesses and encourage them to expand.

The two UCSUR academics also said that while the region has done well on short-term projects, such as developing the Greater Pittsburgh International Airport, it is uncertain about the long-range aspects.

The decaying infrastructure is one example, something that can hamper economic growth in the long run. Also, does this region want uniform density, decentralizing through constant road building to the outer regions? What are the chances that mass transit can alleviate the pressure on the road systems?

Elam Herr of the Pennsylvania State Association of Township Supervisors has seen the pitfalls as well as the achievements of economic development. He points to two examples in Lancaster County. In one case many concessions were made to attract to Rapho Township a truck transfer station that brought in 100 jobs. But only 10 of those jobs went to local people. Then the terminal closed down.

In another case, in Lancaster County's Lampeter Township, the Rockville Square shopping center was built near the Lancaster Outlet City, leaving the latter a ghost center. Both pieces of land were zoned commercial, and the township had no way to require a different use. "Municipalities have zoning powers, yes, but no way to say that enough is enough," Herr explained.

A prime example of a shackled municipality has arisen in Allegheny County, where Frazer Township officials balked at a proposal from the Zamias Corporation to build a shopping center, only to have Zamias go to work to carve out a new 275-acre municipality, Frazer Heights. If the move stands up legally, Frazer not only will be denied the tax revenues but inevitably will have to shoulder the burden of extra traffic on its roads, and other costs.

The precedent for fashioning new boroughs for such major developments goes back at least to 1983 when the owners of Seven Springs Mountain Resort in Somerset County seceded from Middle Creek Township to create Seven Springs Borough, enabling them to float bonds to provide sewer and other infrastructure improvements.

Herr said that what is particularly discouraging is when municipalities have implemented land-use planning and then had the rug yanked from under them.

An example came in 1991 when New Morgan Borough was created out of Caernarvon and Robeson Townships by developer Raymond Carr in the middle of pristine Amish country in Berks County. That paved the way for an $800 million residential development, complete with Victorian village, hotel, and golf course — and a solid waste facility. The site was the mouth of an old Bethlehem Steel underground coal mine. In this instance, Caernarvon and Robeson Townships had instituted land use and subdivision zoning as the experts advise, only to see it go for naught.

John Brosius of the Pennsylvania Department of Environmental Resources tells of the problems that arose in his home county of Lehigh with the siting there 17 years ago of a Kraft food processing plant and a Schaefer brewery (now Stroh's).

As part of the package to attract those industries, the taxpayers built a $4.7 million sewage treatment plant. Unfortunately, it failed to do the job. That set off a long legal battle, which eventually resulted in a requirement to construct a new $49 million sewage plant, for which the taxpayers' share came to $40 million — many, many times the original intention. "Everyone was misled — both sides. It turned out that the sewer systems simply weren't big enough for the waste output of the plants, and the taxpayers there have been playing catch up ever since," Brosius explained.

The point is that municipalities need carefully to look any gift horse in the mouth, no matter the temptation. Brosius suggests that it will never hurt for a municipality to check first with the state Department of Environmental Resources as to questions of noise, odor, waste, and the liabilities attached thereto. But another point is to question the haphazard system of planning and zoning that exists in Pennsylvania — only 53 percent of the state has any semblance of planning or zoning at all, according to Brosius.

The *Pottstown Mercury* in a notable 1990 series of editorials, "The Land: Ours to Conserve for Future Generations," carries a series of quotes from Robert Funicello of Westchester County, New York, who contends a new type of zoning is needed to protect open space.

"Traditional zoning laws were designed to rationalize the development of cities and other developed or partially developed areas. But traditional zoning laws, because they contemplate some form of development on all land, are ill-suited to protecting those values that are lost when land is developed. We are learning that one-acre, two-acre, and even four-acre zoning will not prevent development that eradicates the landscape, agricultural use, and openness values that together define these areas," the *Mercury* quoted Funicello as saying.

As the Frazer, Seven Springs, and New Morgan Borough affairs demonstrate, municipalities may think it's great to keep zoning matters in their hands and to fight any effort to widen zoning controls, say at the county level. But this system can leave them wide open to exploitation beyond their control.

Business groups such as the Allegheny Conference on Community Development in Pittsburgh in the name of efficiency periodically call for consolidations of municipalities. That inevitably seems to arouse the cry of "metropolitanism," as if anyone still believed that some kind of supergovernment is the answer.

Yet interviews for this issues paper found almost no evidence that municipal fragmentation made any difference in site decisions, even when the location itself overlapped municipal lines. If anything, some corporations use this diffusion for leverage purposes, working one municipality against another.

That factor, of course, could argue for moves toward overcoming fragmentation as a part of the job-creation process. Moreover, there is new evidence that citizens may be readier for change than is usually assumed.

Allegheny County's government has just completed a major community effort called Allegheny County 2001 to determine what citizens want by the end of the century. Panels of community leaders tackled such subjects as education and training; criminal justice and public safety; environmental quality; conservation and recreation and development, and then tested their proposals in public meetings.

One conclusion of the panel on development, chaired by Pittsburgh architect Donald Carter:

"In preliminary Development Panel meetings, discussion often came back to the structure of local government. Many said there was too much fragmentation in local government [130 municipalities, 42 school districts and more than 200 authorities in Allegheny County], that it hurt our growth, and that public resources were being wasted. Fragmentation, whether in public safety, zoning, or water, increases costs and results in questionable quality of service. This is wasteful. Local government is not wasteful. But the crazy quilt of local governments based on meaningless boundaries is."

A survey showed that more than 60 percent of those responding would be willing to merge their municipality with another if current public services would continue without increased costs; nearly 30 percent opposed. Even more surprising was that almost as many answered Yes as No (around 45 percent in each case) to the idea of merging their municipality if it meant better public services, even if at "a slightly higher, but fair cost to you."

Should counties as well as lower subdivisions of government decide mergers could help their job-creation potential, these data could have a bolstering effect.

MAKING TRAINING A PRIORITY

Interviews about the job creation process suggest that that phrase is becoming as much a key as the oft-expressed "location, location, location" real-estate definition. Person after person alluded to it at some point in discussions.

Robert Ady of the Fantus plant-location firm said, "The hot button for the future will be having a qualified work force available for a prospective employer." He said he wasn't talking only of blue-collar workers but of white-collar employees as well.

"In the next ten years there will be tremendous changes in office operations. They'll be paperless, just as plants are becoming paperless. There will be much less job definition; you won't come in and just work a word processor all day. There will be much more of a team concept; and we don't know how to work in teams," Ady explained.

In Pennsylvania the community colleges have taken an important role in job training. For example, the Community College of Allegheny County (CCAC) has provided customized training programs for a wide range of clients since 1973. Since 1988 its record includes such clients as General Motors Corporation, 4,025 employees trained; USX Corporation, 1,091; Kane Hospital, 1,372; H.J. Heinz Company, 1,132; and Westinghouse Electric, 314.

Equally important in terms of job creation has been CCAC's history of working with incoming plants to train new employees ready to work when the factory opens.

CCAC also has major programs for training nurses (2,275 students since 1985) and health-care workers (2,190 since 1985). In addition, of course, it prepares large numbers of graduates to continue their education (40 percent of the CCAC class of 1991), including transfers to four-year colleges (27 percent of the class).

A CCAC official said that community colleges across the state are offering similar training programs, tailored for the particular needs of their region. Here, then, is a valuable job-creation resource for governmental officials at all levels.

Meanwhile, public school systems are being urged to revamp themselves to meet the new requirements. What is particularly interesting is a new emphasis AWAY from the college-degree route.

People in business as well as some academics point out that, in reality, only about 30 percent of today's jobs require a college degree. Yet our society has acted on the assumption that everybody ought to go to college for four years to obtain a bachelor's degree.

Now more attention is being paid to the vocational-technical track and away from the notion that it is a dead-end good only for dumdums. A particular innovation is the so-called 2-plus-2 system, in which eligible high school juniors are put on a path of specialized work-study programs that continues through two years of post high school education. However, this is not just the old auto mechanics shop route. The idea is to integrate with vocational training the classroom math and English skills that workers must have nowadays — in such a way that presumably "boring" subjects make sense for the non-academically inclined. Moreover, every attempt is made to provide on-the-job experience at plants and offices.

Dr. Ferman Moody of the State Department of Education explains, "A kid can be fascinated by cars and working with them but get left at the beach if he's stuck with a degree without academic skills. The way things are constantly changing, we have to teach systems technology, not just a specific skill that may become outdated." Moody is state director of the Bureau of Vocational-Technical Education.

The Pittsburgh Public Schools, for example, have abolished the "general education" track, which often left a high school graduate with a degree and nothing else with which to seek a job. There are now just two tracks — college preparatory and the 2-plus-2 option.

Moody, commenting on the "general education" option, said that too often its graduates, in the absence of skills for a job, try to go on to college but are doomed to fail. He said that 60 percent of high school graduates in Pennsylvania go on to post-secondary training but that only 24 percent graduate with a bachelor's degree before they are 25 years of age. (The qualification is inserted in that statement because many students later go on to get degrees; the average age of community college students, for example, is 29.) "We are trying now to take care of that forgotten half," Moody said.

He noted that there are 530 comprehensive high schools in Pennsylvania with some sort of preparation both for jobs and for college. There are 87 vocational-technical schools offering everything from agriculture to home economics to masonry to skills necessary for working in computerized manufacturing.

Any discussion of this subject brings to the fore the German apprentice system. That model starts a youngster on the vocational-technical track much earlier and takes him or her through a program involving the business community as well as the schools — frequently with more days at work than in the classroom.

A major advantage is that in Germany historically the quality of the apprentice system has given stature and prestige to those graduating from it. They are not looked down upon as, unfortunately, can be the case in this country concerning people in the vo-tech system. However, there is general agreement that moving to anything like the German apprentice system would take a major change in thinking in this country, with its obsession with college degrees. Many parents don't want their children tracked so early; nor do they want to relinquish the "second-chance, late-bloomer" idea of obtaining a college degree somehow sometime. (Advocates of 2-plus-2 argue that there is nothing in that system that precludes a young person from altering course at any time toward a college degree. But to be able to switch, Moody asserts, "You must have the basics," the reason vo-tech education is being revamped.)

Beth Gill of the Workforce Excellence Commission in Pittsburgh contends that even those going on to college would benefit from some vocational and technological training as part of their preparation for a society constantly being changed by technology.

Workforce Excellence itself in the past two years has adopted what its executive director, Rob Rogers, calls "a broader vision." While it continues its original emphasis on dislocated workers and the disadvantaged, it now has enlarged its mission to include the creation here of a world-class work force.

In recent months Workforce Excellence also has concentrated on what can be done to train non-degreed persons for employment in industries expected to expand greatly in coming years. The first two fields chosen for specific forums were health care and environmental services.

But what about the younger generation?

In Pittsburgh, the public schools and a unique organization called Partnerships in Education (PIE) have been working together for several years on a career system from kindergarten through high school to prepare young people for making decisions about their career paths.

PIE, located at the Greater Pittsburgh Chamber of Commerce, facilitates business involvement with the public schools through mentoring, helping with the curriculum, and providing on-the-job intern experience for high school youngsters. At present there are approximately 80 partnerships between schools — both elementary and secondary — and businesses or community institutions. Some schools have more than one partner.

A major vehicle for PIE's collaboration with the Pittsburgh Public Schools in recent years is called the Pittsburgh Promise. The main thrust of the Pittsburgh Promise has been the establishment on a model basis of Career Centers at two high schools, Oliver and Carrick, linked with approximately 70 employers. The program provides counseling, planning, and referrals. Its job component includes a pre-employment training course and a job-placement function, including summer job opportunities.

In its various efforts, PIE has worked with employers and community agencies to decide just which competencies in writing, math, etc., are needed for job-seekers in today's world.

Jeanne Berdik, PIE's director, explained, "What do we want our children to look like — in skills, attitudes — for a successful functioning in our society? And, likewise, how do we get all the stakeholders in society — schools, business, community organizations, job-training agencies — to agree on these competency goals and to take their proper role in following through?"

The career competencies that have been developed thus far through PIE's collaborative process were officially adopted by the Pittsburgh Board of Education in December 1991 and are being woven into the curriculum system-wide.

Rob Rogers said there might have been a time when educators were aloof in relation to business. But Rogers said that many superintendents and teachers admit they are floundering in seeking answers and consequently are eager to reach out to create links with business.

"Officials need to think of school systems as essential to the 'human capital formation' that is integral to economic development," Rogers said.

Other major job training entities in Pittsburgh are:

- Pittsburgh Partnership, the City of Pittsburgh's office supervising contracts for training disadvantaged adults and young people under the federal Job Training Partnership ACT (JTPA).
- The Allegheny County Bureau of Federal Programs, which includes under its duties the supervision of some federally funded job-training programs. However, the county's JTPA program is directed by Workforce Excellence.

Any survey of the job-training situation highlights the pressing need for more businesses and industries willing to provide internship opportunities for young people. It is not enough for business to engage in education-bashing in decrying the lack of preparation of persons seeking employment. It seems quite obvious to this writer that business needs to become an active part of the solution. Those hesitant should check with agencies such as PIE (412-392-4545), which can direct callers to corporations that have taken the plunge.

The Labor Climate

The question of the labor climate inevitably comes up in any discussion of job creation. While people in business are careful not to be quoted, it is clear that some of them consider the strength of unions to be a drawback for attracting and holding industries in Pennsylvania.

Indeed, some major employers have relocated to other states, particularly in the Sun Belt, and other countries to avoid unionization.

Some labor defenders contend the picture is distorted by the number of teachers' strikes that have occurred in Pennsylvania since the passage in 1970 of Act 195, the collective-bargaining act for governmental employees, including teachers. They say this has nothing to do with industrial strikes, where

Pennsylvania's record compares favorably with other industrial states. (No help for this argument, though, were the bitter 1992 strikes by the drivers against the Port Authority Transit of Allegheny County and by the Teamsters against the *Pittsburgh Press.*)

However, the constant battles in the legislature over attempts to amend Act 195 have kept the subject fresh. Note: These efforts resulted in the 1992 legislature's passing a revision law establishing a strict timetable for bargaining and mediation, outlawing selective strikes (sporadic walkouts and work stoppages at particular schools or departments), and promoting the use of fact-finding and non-binding arbitration procedures. The legislation had the support of the Pennsylvania School Boards Association and the state's two teachers' unions.

Some groups traditionally allied politically with organized labor complain, however, about Pennsylvania's spotty record concerning minorities and women.

On the other hand, the state has created a Harrisburg-based agency, whose acronym is MILRITE, with responsibilities for establishing cooperative activities among business, labor, and government. Here is an agency whose expertise is available to local government officials.

Lynn Williams, president of the United Steelworkers of America, disagrees that unions are a liability. He believes labor should be brought into the plant procurement process, something that almost never happens, he added. "Let's meet this question head-on by having some labor people talk to prospective employers so they won't be frightened to death. We could be quite reassuring about their coming into a labor town."

The USW leader pointed to such cooperative efforts as the no-strike agreement at the Greater Pittsburgh International Airport that has made possible maintaining a tight schedule for completing the Midfield Terminal there. Williams noted that the USW and the Building Trades Council of Pittsburgh have partnered with business in the effort to bring a magnetic levitation (Maglev) transportation experiment to Pittsburgh. And on the national scene, he termed the General Motors Saturn plant in Tennessee "a union-created project."

Williams said "If you want productivity and high quality it is best to have a union. When unions have a voice, in this age of participation, big things happen."

It is interesting in this connection that Duquesne Light in a portfolio for industrial prospects includes a chart entitled, "Work stoppages reduced in

Pennsylvania." It shows a decrease from a 700 high in 1975 to about 100 currently, with the greatest decrease coming in the private sector. The chart concludes: "In recent surveys, most business leaders in Western Pennsylvania rate the region's workforce as a tremendous asset to continued economic development."

Duquesne Light has also published a booklet containing extensive quotes from employers in the region praising the quality of their workers.

The latest "State of the Region Report" from University of Pittsburgh's Center for Social and Urban Research notes: "One measure of workforce quality is provided by the opinions of the region's employers. Our survey of October 1990 found that the region's employers are extremely satisfied with the quality of their workers. From 94 to 98 percent of the respondents rated their workers as excellent or good on attitude toward work, cooperation, productivity, ability to learn, willingness to learn, and literacy."

Note: Both union and nonunion employers are covered in such surveys.

USW's Williams noted that employers "among our successful competitors, such as Germany and Japan, work with their unions, rather than against them." For example, he said, they are not afraid of pattern bargaining — having a labor agreement worked out with one corporation that becomes the pattern for the entire industry.

Labor has found the Japanese easy to work with in already unionized plants, even though they usually resist unionization in non-union factories, Williams said.

The question this region — and the nation — must ask itself, the USW president contends, is whether it is going to follow a low-wage, union-avoidance policy or whether it will "stop its warfare with its own workers and start working with them instead."

HOW IMPORTANT ARE TAXES?

Local taxes as an incentive or disincentive may be the most overblown element in the whole business of job creation through attracting industry and business to locate in your bailiwick.

You wouldn't know it from all the ballyhoo on the subject. But Bennett Harrison of Carnegie Mellon University, after a large-scale study, concluded that tax factors "aren't even a hill of beans in the cost of operations, compared to labor and transportation, items that corporations really watch."

There are two reasons why tax rates don't deserve the attention they attract.

• As explained in previous sections of

this issues paper, in most cases taxes come near the bottom of the list, a consideration after a locality has passed muster on numerous other factors.

Besides, as Harrison points out, corporations know good and well that when they pay a dollar additional to the state or local government, they can deduct up to a third of it from their federal tax bill.

• State taxes usually are more of a factor than local taxes. But even there, the disadvantages in one state's tax system usually are offset by different disadvantages in its neighbor's levy structure. For instance, Jay Aldridge of Penn's Southwest cites six kinds of state levies that corporations eye closely — machinery tax, inventory tax, corporate net income (CNI) tax, capital stock tax, worker compensation, unemployment compensation. Pennsylvania, unlike some of its neighbors, doesn't have the first two — something that helps offset a CNI tax that business leaders think is overly high.

A 1990 survey of foreign-based companies by the Pittsburgh office of KPMG Peat Marwick found that for European firms lower taxes ranked 12th in importance among state location factors, far behind the lead items — proximity to key industry and market suppliers; air transportation; and the personal preference of executives. The report said:

"Contrary to accepted wisdom, state and local tax incentives are heavily outweighed by economic, environmental, and infrastructural issues in attracting foreign investment."

Many states and localities are beginning seriously to question the wisdom of lavish concessions on taxes, low-cost financing, and bond issues.

Harrison, who has made one of the most comprehensive studies of the subject, came to the CMU faculty and the university's Center for Economic Development from the Department of Urban Studies and Planning at the Massachusetts Institute of Technology (MIT). In a report on the study, he wrote:

"Nearly every state government in the country uses tax credits, subsidized loans, and other instruments to induce private investors to expand or construct new facilities within its borders. A theoretical analysis of such policies, in the context of a realistic picture of the contemporary structure of American industry, indicates no reason to expect that tax or related cost-side incentives will — by themselves — generate new investment (if any segment of the business community is likely to be responsive, it would be those firms paying the lowest wages and employing the fewest workers). Finally, a political-economical analysis of business incentive policies leads [to the conclusion] that these costly subsidies constitute a form of 'welfare grant' to the business sector, especially in declining areas of the country," Harrison concluded.

Taking up this theme, *Newsweek* magazine in an article entitled "Can You Top This?" (February 17, 1992 issue) described how "the war between the states — for new business — rages on. But now some worry it's gone too far."

The heart of the article about the emerging beggar-thy-neighbor atmosphere: "States fighting other states over businesses has long been a blood sport. Though no one keeps figures on just how many deals are cut each year, state and local governments pay out billions to companies in cash grants, land and tax breaks to get new jobs or hold onto old ones. But the recent round of economic civil wars — from recent dogfights over airline maintenance facilities to the struggle over which General Motors plants will close in the company's 74,000-person layoff plan — have state officials and taxpayers wondering whether the investment pays."

Many states and localities that offered major tax-abatement lures have attracted jeans-factory types of business that then blithely moved on when the forgiveness period ran out. These are called "runaways" in the trade.

Newsweek cites Indiana's win over Kentucky for locating a big United Airlines maintenance center at Indianapolis. But that city now finds it has to pay \$112 million of Indiana's \$390 million promise to United — while it faces a \$15 million budget deficit of its own in 1993. Mayor Stephen Goldsmith lamented, "You can't say no, but you can't afford to say yes."

A University of Minnesota economics professor figured that loans, loan guarantees, and outright grants promised to Northwest Airlines for bringing in two new maintenance facilities will cost Minnesota taxpayers about \$500,000 for each job.

Of course, Pennsylvania had its problems along this line at New Stanton, first with Chrysler and with Volkswagen, where massive subsidies lured companies that didn't stay for the long haul. Susan Hansen, professor of political science at Pitt, has written about the Volkswagen project: "Estimates of the total cost of the benefit package ranged as high as \$100 million, including tax abatements, direct subsidies, and construction of a highway spur." That statement comes in a chapter Hansen has written for a forthcoming book, *The Government and Politics of Pennsylvania* (University of Nebraska Press).

It can be argued, of course, that part

of that cost will be recouped with Sony's decision to place two plants on that site. But, as Hansen points out, "the deal negotiated by the state involved forgiving most of the monies the state had loaned to Volkswagen."

States and localities also find themselves whipsawed by companies threatening to move. When Chase Manhattan Bank considered moving its back-office operation and about 5,000 workers to Jersey City in 1988, the city and state of New York stepped in with a commitment of $235 million in tax breaks and subsidies.

That's a reminder of how Pennsylvania's costly efforts to keep the Mack Truck facilities in Allentown came a cropper as the firm eventually moved almost everything to North Carolina.

Robert Gleeson of the Center for Business Entrepreneurship at Carnegie Mellon University says of the tax-incentive argument: "We say you just have to keep beating down that fire that keeps flaring up." The great danger is that a state or locality can cut seriously into its revenue base. But Gleeson added, a note of resignation is his voice, "The trouble is that people say that even if these incentives don't work, they send a pro-business signal." But if states aren't going to waste money on raiding their neighbors, what are their alternatives?

Arthur Rolnick of the Federal Reserve Bank of Minnesota urges states to "take your money and stick it in your roads, your sewer systems, your schools. That's the way you create a good business environment." And David Alan Aschauer, an economics professor at Bates College, estimates that spending $100 on water and sewer systems will prompt $250 in private-sector production, which is more efficient use of government funds than is projected for most giveaway deals.

Bennett Harrison makes a point of particular interest to a region talking of becoming a high-tech center. He said that a major reason for the success of Silicon Valley in California was that from the start the firms there made a kind of "social contract" with the local communities. Realizing the importance of the infrastructure — and particularly of educational excellence for the families of their executives as well as their employees — they made it clear they were willing to bear the necessary tax load if the communities would keep up their end of the quality bargain.

The consensus of these various experts suggests the wisdom of municipalities working through state and regional development agencies, rather than thinking they can outsmart "the big guys" by themselves.

And certainly it shows the wisdom of

not rushing forward with handfuls of concessions until the lay of the land is clear.

Final Observations

Despite some interviewees' comments to the contrary noted in this issue paper, I believe local government officials can play a role in the job-creation process. But they must do that in collaborative efforts, rather than as Lone Rangers.

Local government officials need to find out how they can work best with regional economic development groups. They need to support any economic stimulus in their area, even if it is in somebody else's bailiwick. After all, there are bound to be fallout benefits in terms of jobs for their residents.

At the same time, working with other municipalities might head off "beggar-thy-neighbor" deals where someone gets the plum, but loads the bulk of the traffic, noise, and pollution problems on surrounding municipalities.

Keeping the infrastructure — roads, bridges, sewer and water lines — in shape constitutes another role for local government. Again, this may require a banding together of municipalities to obtain needed action and aid from the county and state — particularly for the roads and bridges in their jurisdiction.

Helping build a favorable climate is something local officials can do. They need to visit their local business and industrial leaders to find what they can do to improve that climate. They also can help build better management-labor relations so that that can be a plus for their area, rather than a minus. Spotting labor leaders amenable to cooperating in economic development efforts can be most useful. The same is true of leaders from the minority community.

As this issue paper has made quite clear, job training is increasingly essential and sometimes can tip the balance in a corporation's decision to locate. School officials, therefore, definitely need to be brought into the picture. And this may mean an armistice on both sides to work out complementary tax arrangements rather than trying to make political hay by carping at the other fellow's levies.

Business and industry leaders need to be helpfully responsive to overtures by local government officials. They need to accept the fact that higher taxes may at times be necessary to keep the local infrastructure and particularly the schools at a high quality level. But they have every right and duty to push local governments to do more work together for greater efficiency.

It should be abundantly clear from this issues paper that the taxpayers of

Pennsylvania and its local governments have been most generous in providing money for economic development in many different ways. Schools and welfare obviously are not the only beneficiaries of government spending.

Business and labor also need to seek cooperative ways to enhance the labor climate. Business leaders cannot expect such cooperation if their hidden agenda is a union-free environment. There is something contradictory about, on the one hand, praising the quality of the work force in a strong-union region and, on the other hand, poor-mouthing that same region because it has unions.

Labor, on its part, must strive to demonstrate that its interest in economic development isn't just lip service.

Finally, a piece of job-creation advice by DCA Secretary Karen Miller to local government officials can be applied to all concerned:

"If you can't lend a hand, get out of the road."

***Clarke Thomas** is the senior editor (retired) of the* Pittsburgh Post-Gazette, *where during his 20 years as an editorial writer, local government was one of his prime topics.*

University of Pittsburgh
Institute of Politics
4200 Fifth Avenue
Pittsburgh, PA 15260

Nonprofit Org.
US Postage
PAID
Pittsburgh, PA
Permit No. 511

Published in cooperation with the Department of University Relations. PR 9310-892 Printed on recycled paper.