



Testimony of

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on

**House No. 4234:
“An Act Providing for the Investment in and Expansion
of the Life Sciences in the Commonwealth.”**

Joint Committee on Bonding, Capital Expenditures and State Assets

Life Science Hearing
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Room 222

Good morning and thank you for the opportunity to testify on House No. 4234: “An Act Providing for the Investment in and Expansion of the Life Sciences in the Commonwealth.” This legislation, which was proposed by Governor Patrick, would provide \$500 million in bond funding for capital projects through the Massachusetts Life Sciences Center and set aside \$15 million for the Massachusetts Life Sciences Investment Fund for fellowships, research grants and loans, and workforce training programs. It would also establish a Life Sciences Sector Investment Incentive Program which would among other things awards tax incentives to businesses that locate or stay in Massachusetts and grow jobs. Unsurprisingly, the state’s life sciences community, comprised of universities, hospitals and pharmaceutical firms, expressed strong support for the governor’s initiative.

Before the legislature endorses this proposal, it should put the glamour associated with biotech in perspective. The emergence of biotech as a growth industry should be seen as just another chapter in Massachusetts history – a hugely impressive chapter to be sure, but in many ways similar to what we have seen before.

Decades ago Massachusetts had a comparative advantage in textiles and shoes. Then those industries died out and were replaced by companies like Digital Equipment Corporation, Data General, Wang and Prime Computer. Now they are gone and have been replaced by a new generation of firms, important among them, biotech firms such as Genzyme and Novartis. Biotech was attracted to Massachusetts by factors that have always worked to our state’s advantage: its highly-skilled and highly-educated workforce and its proximity to major research universities. Moreover, venture capital has been a ready source of financial support. Which is why biotech firms have decided to base their research and development units here in the Bay State – often forgoing generous incentives packages available in Europe and elsewhere.

I sketch this history as a reminder of how well Massachusetts has been able to reinvent itself over the years without adopting a comprehensive development strategy or any kind of “industrial policy.” If there was a strategy in recent years, it consisted of avoiding the

kind of ruinous tax increases that have taken place in states like Michigan, whose plight was brought to our attention in the run-up to yesterday's primary.

What Massachusetts has never needed and doesn't need now is a policy of throwing state money at sectors deemed to be "winners," to the inevitable disadvantage of those implicitly ruled out as "losers." Just because other states want to glamorize biotech with ill-considered public subsidies doesn't mean that Massachusetts has to go along.

The governor is correct, to be sure, in pointing out that the Bay State is "the largest life sciences supercluster on the planet and that is a thing to be proud of." And the state needs to be ever mindful that industries like biotech can slip away unless we are attentive to the importance of keeping taxes down and maintaining our infrastructure.

The governor's proposal is another matter, though. It represents a substantial commitment of taxpayer dollars to a sector that does not, for any demonstrable reason, deserve to be singled out for public support. It's a commitment that would divert funds from well-publicized infrastructure needs. And it would contribute to budgetary pressures to raise business taxes and bring in casinos, palliatives that hardly amount to a strategy for accelerating long-term economic growth.

So the question before this committee is as follows: Should the Commonwealth try to shore up its economy by subsidizing particular ventures deemed to be "winners," or should it keep its eye on the fundamentals, which is to say, should it keep taxes low, provide for an educated workforce and see to the maintenance of our roads and bridges?

As it happens, the Beacon Hill Institute has been amassing data for years that can help answer this question. Since 2001, BHI has been publishing a *Competitiveness Report* that ranks the 50 states in terms of their ability to compete effectively for workers and capital. Massachusetts has always ranked either first or second.

The BHI competitiveness index is based on a broad set of 42 indicators divided into eight subindexes: government and fiscal policy, security, infrastructure, human resources, technology, business incubation, openness and environmental policy. The breadth of our index distinguishes it from more narrowly focused measures of competitiveness that target just one dimension such as taxation, high tech, or economic freedom.

Massachusetts consistently ranks Number 1 in the technology subindex. Broken down by variable, the Bay State ranks:

- 2nd in Academic R&D
- 1st in NIH support
- 5th in new patents
- 1st in science and engineering graduates,
- 1st in the number of science and engineering degrees,
- 2nd in the number of scientists and engineers as a fraction the labor force, and
- 5th in high tech business as a share of all business.

And there's a robust financial sector as well. We are first in venture capital and second in IPOs.

The upshot of our analysis is that Massachusetts is already doing very well, particularly in high tech. It already provides the best-in-the-nation home for technology and has a far stronger economy than a number of other high-tech states.

Consider, for example, the ten "Leading Technology States" identified by the Massachusetts Technology Collaborative. Of these states, only Massachusetts and Minnesota are among the ten most competitive states by BHI's 2007 competitiveness index. Only one other, Virginia, makes the top 20. The remaining seven states – California, Connecticut, Illinois, New Jersey, New York, North Carolina and Pennsylvania – have relatively unimpressive rankings. Furthermore Massachusetts

outscores all of these states just on the basis of its technology subindex. I present a table in my written testimony that presents the exact rankings.

Leading Technology States*		
Beacon Hill Institute State Competitiveness Index 2007		
	Overall	Technology
California	24	9
Connecticut	25	4
Illinois	36	18
Minnesota	6	8
New Jersey	43	24
New York	38	13
North Carolina	30	19
Pennsylvania	34	14
Virginia	16	11
Massachusetts	2	1

*As defined by the Massachusetts Technology Collaborative 2006

I would like to mention that North Carolina – one of our well-known biotech competitors – puts in a mediocre performance. California where voters passed Proposition 71, the Stem Cell Research and Cures Initiative in 2004, ranks in the middle. Long burdened with a highly taxed, highly regulated business environment, New York finishes 38th. New Jersey finishes at the bottom, at 43rd. The moral of the story is that a strong showing in high tech is not sufficient to maintain overall competitiveness and that Massachusetts registers a strong showing in high tech while beating out every state but one (Utah) in overall competitiveness.

I am not recommending that Massachusetts rest on its laurels. There is bad news, as well. We score poorly on infrastructure, ranking 46th in housing affordability. We are the 8th worst state for travel time to work, the 5th worst for electricity prices. Another weakness is our high corporate tax rate.

Maintaining a high level of competitiveness is like riding a bicycle: You have to go forward to stay up. We need to repair our roads, bridges and tunnels. We should find ways to reduce energy costs and reduce – not increase – corporate taxes. But it is these

matters that should get our attention, not the professed needs of one sector that seems now to represent the next wave of innovation.

And we should not get back into the business of targeting corporate tax cuts to special pleaders as we did back in the 90s. What we need is comprehensive corporate tax reform that will *broaden the base and lower the rate*. BHI has a study nearing completion that will provide a number of recommendations to that end.

Of course, there will be pressure on the legislature to do what “everyone else” is doing. California Proposition 71, allocates \$3 billion in state money for stem cell research. Biotech advocates like to credit Ireland, the “Celtic Tiger,” for the biotech development fund that it established in 2000. But as my colleague, Ben Powell, has shown, this act of industrial policy-making had nothing to do with Ireland’s recent economic growth. In fact Ireland’s economic growth slowed after the fund was established. Its growth increased when Ireland slashed a variety of corporate and income taxes and curbed government spending. Once that happened, the out-migration of Irish workers – noticeable in the Bay State during the 1980s – was practically reversed. And, in turn, Ireland, became a mecca for entrepreneurial activity. “State planning and subsidization were not the driving force of Ireland’s growth,” says Powell.

The fact that a number of biotech leaders in the Commonwealth are enthusiastic about H. 4234 does not guarantee that it will increase economic growth in Massachusetts. Nor does it demonstrate any business judgment other than the natural desire to get someone else – in this instance, the taxpayers – to pick up the bill.

In a 2004 article in the *Journal of the American Planning Association*, Alan Peters and Peter Fisher said that anyone who contemplates offering state incentives to business ought to ask three questions:

- 1) Do business incentives actually cause states or localities to grow more rapidly than they would have otherwise?
- 2) If so, is the growth targeted to help poor people or is it a zero-sum game?

- 3) What is the true cost to government of the provision of these incentives compared to the alternatives?

The answer to the first question appears to be, “No.” There simply is no compelling evidence that government-provided incentives targeted on individual businesses or business sectors stimulate economic growth.

The answer to the second question is that such incentives, when offered, are a zero-sum, not a positive-sum, game: They help one sector at the expense of another. One of the objectives of economic development programs has been to ameliorate the plight of low-income workers. Because Governor’s package addresses the research and development needs of a capital-intensive industry reliant on highly skilled workers, it is unlikely to be of any benefit to the workers who most need help. *Moreover, some firms hesitate to hire “targeted workers” because of perceived issues with productivity shortcomings.*

Third, in the long run, economic development programs cost state governments more than they are worth. By one recent measure, states and local governments spend approximately \$50 billion annually. There is no evidence that these programs pay for themselves.

The Commonwealth faces serious challenges in trying to address housing, infrastructure and energy costs. If it can draw any lessons about economic growth it is this: The state ought to fulfill its responsibilities in education and maintaining infrastructure while keeping taxes as low as possible. In that way, it will fortify the underpinnings of its already robust, though frequently underrated, economy. Biotech and every other private-sector enterprise can take care of itself.

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