W ill the recent stimulus packages really energize our local economy? Or will they just help us get around to doing some of the things we’ve been meaning to do, such as fix the screen door on the back porch? Will we create long-term jobs and real economic development or just more “tunnels to nowhere”?

While the stimulus programs may not be perfect—some would argue far from it—action had to be taken. As Warren Buffett said, “I’ve never seen the consumer or Americans in general more fearful than this.” So John Maynard Keynes’s theory, “the paradox of thrift,” seems to be true. The idea is that, if everyone saves more during a recession, aggregate demand will fall. That will, in turn, reduce consumption and economic growth and ironically lower everyone’s total savings. In other words, we want you to be more responsible with your money, just not now.

Pennsylvania stands to receive an estimated $16 billion in stimulus funds to support transportation and other infrastructure, housing, energy independence, municipal relief, followed by education and health care. The state will allocate the biggest dollars to health care ($4 billion), education ($2.56 billion), transportation infrastructure ($1.4 billion), job training and other relief for Pennsylvanians ($1.1 billion), energy independence ($472 million), other infrastructure and housing ($361 million).

Another $50 million to $117 million will go to the $53 million North Shore Connector, termed a “tragic mistake” by Governor Ed Rendell. “There’s so many ways that money could’ve been applied to the transportation needs of this region in a more beneficial fashion,” he said. “It’s gone down the road now, and I guess you’ve got to finish it.”

Brother, can you spare a billion?

The stimulus funds’ impact on our region

The U.S. Army Corps of Engineers will receive $58 million for this area, with $24.8 million of that going to emergency repairs at the Emsworth Lock and Dam on the Ohio River and $15.9 million to upgrade locks and dams on the Monongahela in Braddock, Elizabeth and Belle Vernon. We’re also slated to get $7.7 million to upgrade Allegheny County’s public housing system, which, if you believe James Wilson and...
George Kelling’s “broken window” theory, will help reduce crime rates. It’s worked in other cities.

Of the $73.2 million for Pennsylvania law enforcement, 34 Allegheny County police departments will receive a total of $3.2 million. The bulk of that, $2.1 million, will go directly to the Pittsburgh Bureau of Police, which will install cameras on bridges and waterways. Mayor Ravenstahl also hopes to fund a summer youth employment project, expand security cameras citywide and increase police officers from 891 to 917.

Pittsburgh International Airport and Allegheny County Airport will receive $12 million, of which $10 million is slated to repair runway 14-32, one of four commercial service runways at Pittsburgh International. Perusing the statistics, sometimes I wonder if we need all those runways. In 2008, 8.7 million passengers flew into the airport, down from 9.8 million in 2007 and 20 million in 2001. These days US Airways has 50 flights a day out of Pittsburgh, compared with 550 a decade ago.

So looking at the whole package, it’s clear that local construction jobs will be created. But will this mean a jump start to real long-term prosperity? In my mind, long-term prosperity rests in business creation.

The Ewing Marian Kaufmann Foundation, a leading philanthropic organization supporting entrepreneurism, published its 2008 State New Economy Index recently. The Index ranked Pennsylvania 22nd. More important, the foundation outlined the following economic development strategies: investing in knowledge infrastructure; promoting broadband; empowering industry clusters; using the Web to support open innovation; aligning R&D tax credits with new federal R&D tax credits; benchmarking state procedures for starting businesses; creating digital tools to start a business; supporting angel capital networks; and expanding entrepreneurial training.

Most of the money from the president’s stimulus package has little to do with the Kaufmann Foundation’s recommendations.
But let’s look at things more simply. Various surveys indicate that the average small business doesn’t need a lot of capital to get started, just somewhere from $5,000 and $25,000. The Small Business Administration (SBA) defines small business as firms employing fewer than 500 people. These companies employ half of all private-sector employees, pay nearly 45 percent of U.S. payroll and created 60–80 percent of new jobs.

How many of the stimulus projects slated for our local economy really help small business people in our region?

Now, the Department of the Treasury has attempted to lower fees for SBA loans and grant higher lending guarantees. But what would be the impact of the commonwealth’s $16 billion if we gave our local businesses a tax holiday for a couple of years? Or, if you believe that it takes $25,000 to start a business, $16 billion could start a lot of businesses.

Instead, the president intends to raise the taxes of households making more than $250,000. That may make a lot of us feel good, but it’s going to hurt a lot of small business people. Many small firms choose not to become C-corporations to avoid a “double tax,” in which the business is taxed as well as the owners personally. As a result, with sole proprietorships, S-corporations, limited liability companies, and partnerships, all of a firm’s income runs through the owner’s personal income tax. And there are a lot of businesses that make more than $250,000, yet their owners aren’t driving Bentleys or living in mansions. The taxes they will be forced to pay will hurt their company’s ability to hire and reinvest.

But here’s an idea. Let’s not be pigs. How about if we just took the $50 million for the North Shore Connector and the $10 million for the airport and gave them out as small business loans? We could start 2,400 businesses. Let’s say that each business hires seven employees. That’s close to a Civic Arena sellout.

If that’s good enough for Mario Lemieux, it’s good enough for me.

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