



## **Testimony to the Joint Committee on Bonding, Capital Expenditures, and State Assets**

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**by Jim Stergios, Executive Director,  
Pioneer Institute**

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Good morning, Chairman Montigny and Chairman Flynn, and members of the Joint Committee. Thank you for the opportunity to testify today.

My name is Jim Stergios, and I am executive director of Pioneer Institute. Pioneer is a non-partisan public policy research institute.

Regarding the issue before the committee today – the \$500m bond authorization for the life sciences industry in Massachusetts and the related matters of its implementation through the Massachusetts Life Sciences Center – I would like to preface my comments by noting Pioneer Institute’s strong support for a vibrant, growing, and dynamic life sciences sector.

There are sections of the bill and Chapter 23I, for example, related to funding for basic research, that we support. My testimony, however, is solely related to Sections 2 – 4 of H. 4234.

The bill, and the proposed bond authorization concern us for three major reasons: the state’s ongoing fiscal challenges, the concentration on a

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Founded in 1988, Pioneer Institute is a non-partisan public policy think tank committed to keeping Massachusetts economically competitive and to strengthening the core values of an open society. The Shamie Center for Better Government seeks limited, accountable government by promoting efficient delivery of public services, elimination of unnecessary regulation, and a focus on core government functions.

specific industry segment, and the unclear nature of the authorization.

### **The State's Fiscal Health**

Next week, the Governor will present his budget in a challenging fiscal climate. It would not be surprising if this budget comes with a structural deficit embedded in it.

So, make no mistake about it – the \$500 million we choose to spend on biotech is money that we won't be spending on other items of fundamental importance. Given the constraints on our revenues, our need to service debt, and our debt capacity, committing \$500 million solely to biotech is part of a very costly, zero-sum game.

Experience of the past two years suggests that we have spending appetites that go well beyond our means, producing year-on-year increases of over a billion dollars before additional services or programs are even considered. In addition, a number of press releases this year from the Governor's Office suggest that these appetites are growing fast.

Fundamental aspects of the public sector's responsibilities lack adequate funding. We are not maintaining the transportation infrastructure that is crucial to public safety and to future economic prosperity; our cities and towns are dangerously teetering on the edge of grave fiscal difficulties; and on and on.

To restate the obvious, the laws of arithmetic apply to bond funds as well. Any increase in bond funding comes with an increase in operating costs, and any increase in operating costs adds to the fiscal pressure on the Commonwealth.

Yet, we are here today contemplating a massive allocation of capital funding to one specific industry sector.

### **Concentration on a Specific Industry**

Life sciences is an important industry sector. But we have many other large industries that deserve our attention. Financial services, hospitals, private higher education, and retailers each employ vastly more of our citizens than life sciences. And many of these industries are of far greater importance to certain regions of the state than the life sciences industry.

Further, in terms of job creation, a focus on small business development in all sectors could have important impacts. Such a focus would also have the benefit of helping to revitalize our older industrial cities, where so much poverty is concentrated.

So why this massive government investment in a single sector? The justification for this expenditure, as with many other programs put forward lately, is based on the notion of payback or return on investment. Unfortunately, that calculation fails to consider history and the context. It presupposes that a governmental entity has the skillset required to identify winners and losers in the private sector. I am sure that any one of us could name a number of such initiatives for other sectors, such as the internet or nanotechnology. A sober and honest appraisal of those efforts would suggest that the Commonwealth of Massachusetts is in no position to determine what players in the life sciences industry will flourish and which will fail.

I do not mean this as a general broadside against the government's ability to help attract business.

The Legislature has, in the recent past, done much good to improve the business climate, reducing cost drivers and expediting the permitting process. The Legislature has sought important investments in our infrastructure. The Legislature, with the 1993 Education Reform Act, implemented a regime of new investment, standards and accountability, and innovation through charter schools, that has taken Massachusetts from somewhere around tenth in the nation in student performance to the top-performing state for two consecutive years. Excellence in these core areas is, I believe, more important for the common prosperity of the Commonwealth than having the government choose among stem cell innovators.

In addition, consider the apparatus in place to make those investment decisions. We have an alphabet soup of entities making supposedly “vital” investments in certain sectors of the economy – the Emerging Technology Fund, the Mass Technology Development Corporation, the Economic Stabilization Trust, etc. To be perhaps too blunt, there is no real transparency on investment outcomes, particularly from the entities connected to quasi-public authorities. Stated another way, we have little to no evidence that they have filled a “capital gap” rather than just crowding out private sector investments.

In 2006, Pioneer released a report by the consulting firm Global Insight entitled *Measuring Up? The Cost of Doing Business in Massachusetts*, which surveyed nine key industries on the cost and challenges of operating in Massachusetts. Not one asked for more state programs. Rather, they focused on issues like unclear corporate tax policy, poor infrastructure, the cost of housing, and unpredictable permitting and regulatory enforcement.

### **The Unclear Nature of the Authorization**

So, what will this bill actually do? To understand that, the first order question is: What do we mean by “the life sciences industry”? The law governing the proposed authorization defines life sciences as “advanced and applied sciences.” I don’t have a comprehensive definition of life sciences, but I know that the definition I just shared with you includes a great many items that a reasonable person would judge to be outside the realm of life sciences.

The Life Sciences Initiative was rolled out with a great deal of public fanfare and a public commitment to make a series of investments in our institutions of public higher education, including stem cell banks, and innovation centers. However, there’s no language in the authorization that commits the Life Sciences Center to fulfill these specific commitments. So where will the money go?

It’s also not clear from the bill where these capital funds will be held and the process by which they will be disbursed. The Life Sciences Center has a fund, the Life Sciences Investment Fund, which is designated as the recipient of any bond funds. But that Fund has a broad mandate to engage in almost any form of investment or agreement, far beyond the authorization language in H.4234. And the bill before us actually expands the Fund’s investment options.

Absent clear explanations in the bill itself or the enabling act, or very clearly stated performance benchmarks and measurement requirements, the bill appears to say: “Trust us.” Accountability is important, in K-12 education, when building a Big Dig, or when empowering a quasi-public agency to burden the full faith and credit of the

Commonwealth.

I would sum up the unclear nature of the authorization by noting that the investments are loosely defined, disbursed opaquely, and silent on many of the priorities put forth by the Governor.

### **Closing**

In closing, the economic competitiveness of the Commonwealth is crucial. A vibrant life sciences sector is important to the state's future prosperity.

However, from our examination of Sections 2 – 4 of H. 4234 and related statutes, we believe that the concentrated focus on just a single sector of our diverse economy is poor policy. It puts the state in the position of neglecting more fundamental responsibilities and further burdening the public purse. The bond authorization and the related governance of the funds is, at best, unclear, and, at worst, badly flawed. Finally, I urge your careful consideration of the implications of giving public funds to a quasi-public agency with an unclear mandate.

Thank you to the Committee for the invitation and for allowing me to share my concerns with you.



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