

Testimony to the Pennsylvania House Democratic Policy Committee How Radical Conservative Policies are Crushing the Middle Class

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I want to thank the committee for inviting me to provide testimony today that gives an overview of public policy in the Commonwealth over the last ten years, during which time the House and Senate have been under control of the Republican Party.

That control was a consequence not just of the choice of voters but of the partisan redistricting of the electoral map. As we pointed out in a paper written before the new maps were drawn for this decade, Pennsylvania, for the last two decades has had among the most gerrymandered legislative districts in the country (table 1).

Table 1

Measures of Partisan Bias					
Republican Bias					
	Efficiency Gap	Partisan Bias %	Partisan Bias Seats	Mean-Median	Average shift in seats necessary to change party control in decade
Senate 2012-2020	+7.6%	+8.5%	4.25	+3%	4.8
House 2012-2020	+6.9%	+7.5%	15.23	+6%	13.5
Senate 2002-2010	+8.1%	+9.0%	4.5	+4.9%	4.6
House 2002-2010	+4.1%	+4.3%	8.73	+5%	4.7

The result has been a General Assembly, and public policy, that is often out of step with what polls show the people of Pennsylvania want.

State Spending Has Shrunk

For more than a decade, the Republican majority in the General Assembly has called for austerity. And despite the efforts of Governor Wolf, that is exactly what the state has seen. Despite claims that the state budget has been growing out of control what we have seen up to the start of the pandemic, when emergency spending largely funded by the federal government led to new spending, the state budget has been shrinking as a share of the gross state product (table 2).

Table 2

Pennsylvania General Fund Expenditures and Revenues as a Percent of Gross State Product (GSP)			
Fiscal year ending	Expenditures / GSP	Revenues / GSP	Reduction in Spending Compared to 1997-2011
Average 1997 to 2011	4.66%	4.85%	
Average 2012 to 2015	4.22%	4.34%	-9%
Average 2016 to 2019	4.22%	4.36%	-9%
Governor's budget 2020-21	4.13%	4.26%	-11%

Up until recently austere state budgets have been the norm. And as you know we have struggled each year to balance the budget. Year after year Pennsylvania has relied on one-year revenues (such as the sale of gaming licenses), or transfer from special funds to balance the budget. We have shifted revenues back and spending forward at the cusp of the year. For few years the yearly state budget deficit was closed by underestimating Medical Assistance, which became something of an art form in this state. And despite the constitutional requirement that we balance the budget, one year we overspent by over \$1.3 billion and had to issue bonds backed by tobacco settlement funds to close the gap.

Revenues are unfairly raised and too low

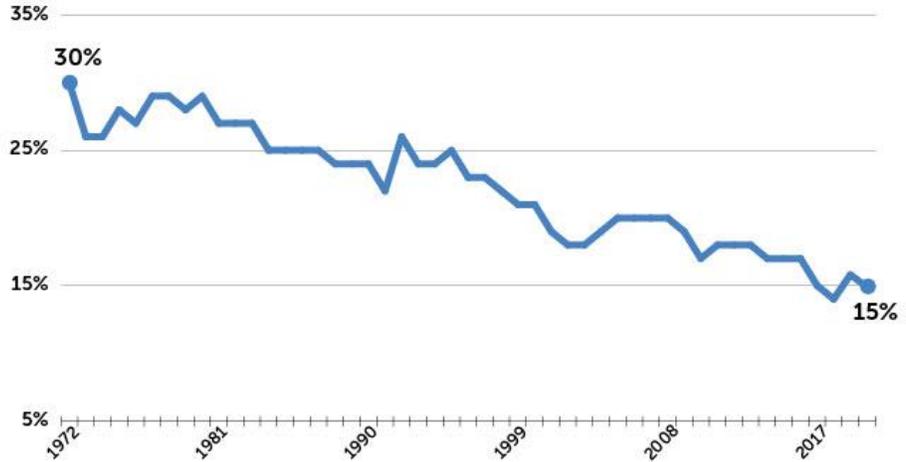
The struggle to close the yearly spending was not a fact of nature. It was a policy choice that had two parts.

The first was that we reduced corporate taxes. One corporate tax—the Capital Stock and Franchise Tax was eliminated. And the base of the Corporate Net Income tax was narrowed. Meanwhile the Delaware loophole, which allows 73% of corporations operating in the state, mostly huge, wealthy multi-national corporations to avoid any taxes at all. The elimination of the CSFT, together with changes to the basis of the corporate net income tax (CNIT), costs the state [more than \\$4 billion per year in revenues](#). As figure 1 shows, corporate taxes as a share of general fund revenues have dropped drastically.

Figure 1

Corporate Taxes Are Providing a Smaller Share of General Fund Revenue Over Time

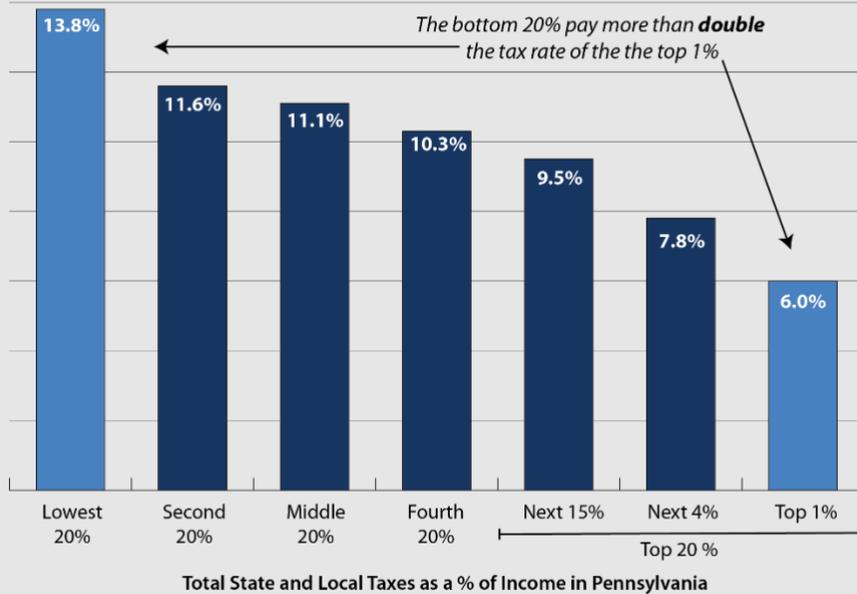
Corporate taxes, as a share of General Fund revenue, account for nearly half (15%) today of what it did in 1972 (30%)



As a result of corporate tax cuts and of the uniformity clause of the state constitution, which prohibits graduated tax rates, we have one of ten most upside down state and local tax systems in the country, with families at the bottom paying at twice the rates in taxes than families at the top. (figure 2).

Figure 2

In Pennsylvania, Higher Income Taxpayers Pay a Lower Share of Their Income in State and Local Taxes



Source: Institute on Taxation and Economic Policy, Who Pays? <http://www.itep.org/whopays/>

The unfairness of our tax system is not only a problem in itself, but it leads to far lower revenues than we would have secured with a fair tax system, simply because incomes are so much higher among the wealthiest Pennsylvanians than middle- and low-income Pennsylvanians. A fair tax system—which we could create by adopting combined reporting in our corporate tax system, by replacing the Personal Income Tax with what we call the Fair Share Tax, and by taxing natural gas drilling—would bring in three to four billion dollars a year while reducing taxes for the vast majority of Pennsylvania families as well as for corporations based in our state.

If we had those funds, we would not have had a decade of austerity, which has had terrible consequences for most Pennsylvania families and for our economy as a whole. To be clear, some of these trends to which I’m about to point pre-date the last ten years. But the key point is that the resources to reverse these trends were available but our General Assembly chose public policies that typically made them worse and refused to secure the funds that would allow us to reduce them.

We are not a poor state. Our economy ranks sixth in the nation in total GDP. We have the resources to pay for public policies that would help working families. And yet if we look at the public policies that do the most to lift up working people and the middle class, Pennsylvania falls close to the bottom of all states in the country on a per capita basis. And the consequence is not just that lives are more difficult and opportunities more limited for working class and middle class people in Pennsylvanians than in other states. One consequence of our failure to provide critical public goods is that the Pennsylvania economy has been among the slowest growing in the country. In the last 24 years, our [average rate of economic growth](#) was only 5.6% a year, not accounting for inflation. That put us in the bottom 12 states, far below the average of 6.9% despite the large and vibrant economy the state had in 1997.

Let’s look at the trends in some key area of public policy.

Higher education

We rank 47th out in per capita support for [higher education](#) (figure 3). State spending on higher education has fall to 60% of what it was in 1982-1983. Relative to median income, it is more expensive to attending a state college in Pennsylvania than in 48 other states.

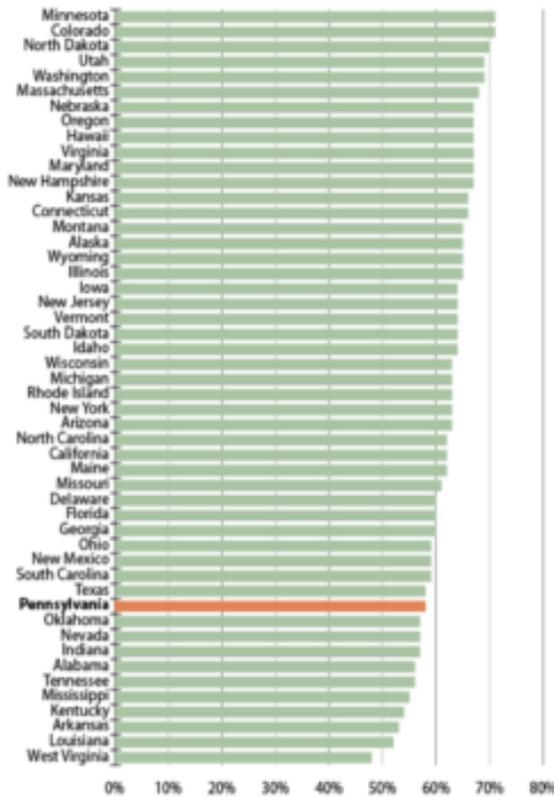
Figure 3



As a result, we rank in the bottom ten of all state for the percentage of adults with a college education. (Figure 4).

Figure 4

Pennsylvania Ranks 40th of 50 States for the Share of Adults, 25-64, With More Than a High School Education

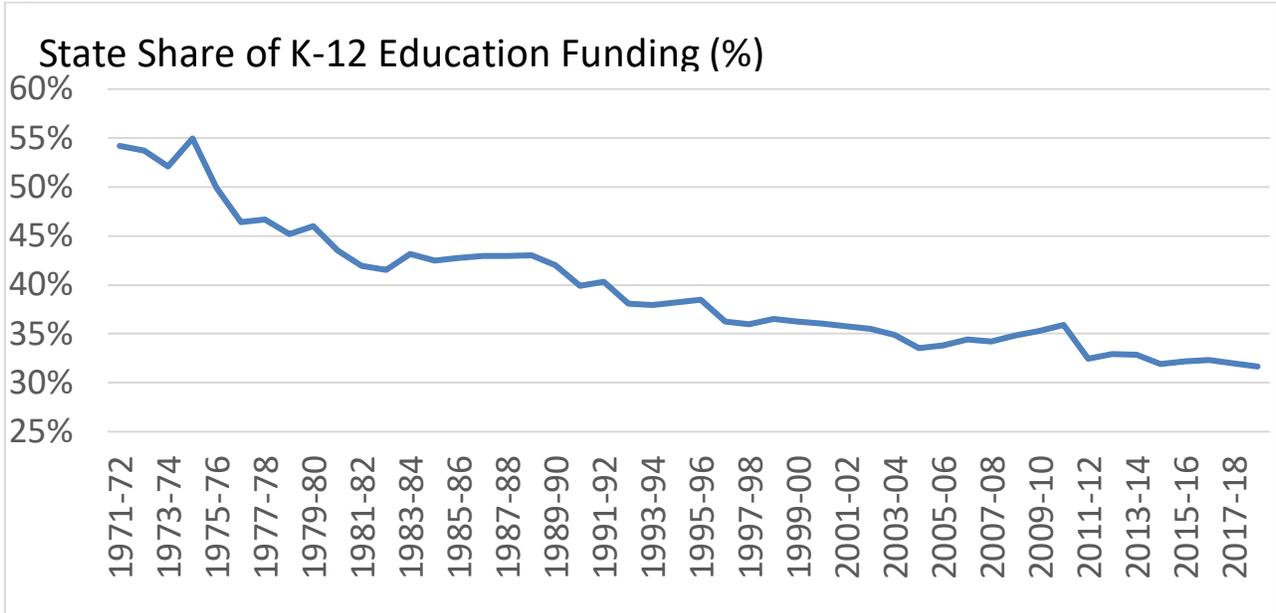


Let me add that we do not think college is for everyone. But in the contemporary world, some kind of post-secondary education or workforce training is critical for everyone, and Pennsylvania does not do very well for work force training either. The importance of post-secondary education for a state’s economy is clear: an additional year of schooling in a community is associated with 17.5% higher GDP per capita and 17.8% higher wages per capita.

K-12 Education

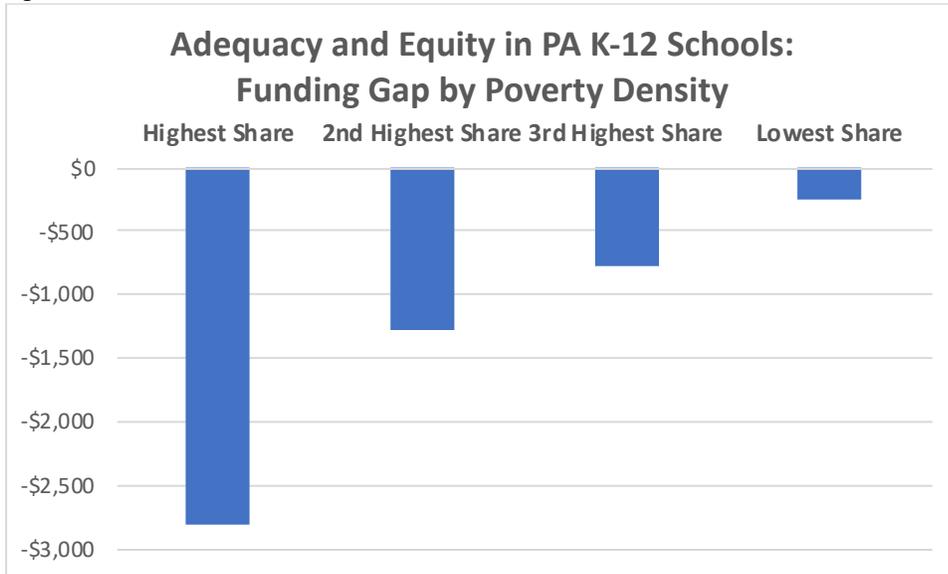
Pennsylvania ranks in the bottom five in state funding of [K-12 education](#) and thus we have the most inequitably funded schools in the country. The state’s share of K-12 education funding has been shrinking for 50 years. (figure 5). Because it has fallen so low, we rely too much on local resources to fund our schools which leads to great inequity in education as well as property taxes that, in portions of the state are far higher than that of neighboring states.

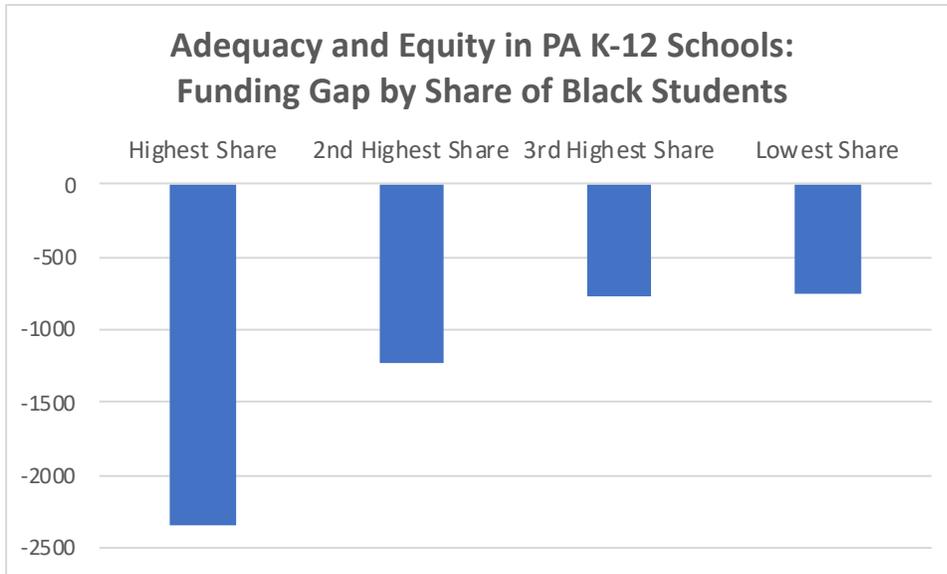
Figure 5



Measured by the states' own standards for an adequate education, funding per student is inequitable and inadequate both economically and racially (figure 6).

Figure 6





Source: PBPC analysis of updated costing-out study data provided by the Public Interest Law Center and school districts data provided by the Pennsylvania Department of Education.

Pre-K Education

Recent studies have confirmed earlier ones that show that good Pre-K education has dramatic long-term benefit, particularly in overcoming the effects of being raised in poverty. It leads to greater success in school, higher wages, and even longer lasting marriages. Yet despite some recent efforts, Pennsylvania is falling behind neighboring states in the [percentage of 3- and 4-year-olds in pre-K education](#). Only 56.4% of Pennsylvania 3 to 5 year olds are enrolled in school. In New Jersey it is 76.9%, in New York 70%, Maryland 62%.

Infrastructure

When it comes to infrastructure spending, Pennsylvania is falling behind as well. After traveling the state, I discovered that the term “pot hole tax” is not just a Philadelphia idiom. Pennsylvanians all over the state know the cost of repairing the damage to shocks, struts, and springs caused by the potholes in our streets and roads. According to PennDOT, we need an additional \$9 billion annually to main our roads and bridges. Our internet infrastructure is also sorely lacking, especially in rural parts of the state. A recent by [US News](#) that looked at all aspects of infrastructure put Pennsylvania 44th of all states.

Public health

Finally, at the state of the pandemic, Pennsylvania ranked among the bottom two states in [public health spending](#) per capita.

Where do we do lead the nation? We are in the top ten states for [opioid deaths per capita](#). And we are in the top five of all states for [student debt per resident](#).

Austerity is literally killing Pennsylvanians and leaving our young people in debt.

The opportunity before us

I could talk more about the failures of public policy in the last ten years. But let me close by talking about the opportunity we have before us.

The state is flush with cash—with a likely accumulated surplus of [almost \\$14 billion by the end of this month](#).

This gives us an opportunity to start reversing the trends of the last decade or more.

Republicans are still crying austerity. They still resist spending to equitably provide an education to every kid, to make college and post-secondary education affordable, and to help small businesses that are still trying to overcome the effects of the pandemic.

They say that we'll be facing a fiscal cliff when the federal money runs out. But even if we don't consider federal ARP funds, the state budget will run about a \$5.2 billion surplus in the current fiscal year. Even if Governor Wolf's budget of February were *adopted in whole*, the state would have a \$3 billion surplus in the fiscal year beginning July 1, 2022. And that is using the [IFO's current revenue projections](#), which are extremely conservative.

And there are about \$2 billion in ARP funds that remain available to address Pennsylvania families' current problems.

So, the question is if not now, when?

If this isn't the time to ensure that every child in our K-12 schools has access to a quality education, when will that time come?

If huge surpluses don't give us reason to ensure our high school graduates can secure post-secondary education or training that leads to a good job, when would we have a reason to do so?

If federal funds specifically enacted to help Pennsylvanians deal with the impact of COVID doesn't justify spending to help small businesses recover and families deal with the high costs of housing, child care and gas, what would justify it?

If not now, when?