August 30, 2023 **Allegheny Institute Op-Ed**

620 words

Pa. must start living within its means

By Colin McNickle

The influx of pandemic-spawned federal stimulus money boosted Pennsylvania general fund revenues in fiscal 2021 and 2022. But it also led to even more government spending, reminds a researcher at the Allegheny Institute for Public Policy.

And that's likely not sustainable.

"(T)he state will not be receiving any more pandemic stimulus money," reminds Frank Gamrat, executive director of the Pittsburgh think tank (in *Policy Brief Vol. 23, No. 30*).

"While the state hasn't spent it all yet, that deadline is looming," the Ph.D. economist warns. "Going forward, the commonwealth must live within its means."

Without the federal stimulus money, fiscal 2022's total general fund revenues were $44.92 billion. Fiscal 2023's total was $623.4 million or 1.4 percent higher than the previous year when federal stimulus is excluded.

"This is not a torrid pace but more along the lines of pre-pandemic average annual year-over-year growth, which, from fiscal 2010 through fiscal 2019, ranged from -0.55 percent (fiscal 2010 to fiscal 2011, in the tail end of a deep recession) to 9.15 percent (fiscal 2017 to fiscal 2018)," the think tank scholar says.

The average growth rate from fiscal 2010 to fiscal 2019 was 2.66 percent. The growth rate from fiscal 2022 to fiscal 2023 was slightly slower than average.

The three largest components of fiscal 2023's general fund revenues are personal income tax (39 percent of the total), sales and use-tax (31 percent) and the corporate net income tax (14 percent).

The remining 16 percent comes from minor tax collections on lesser items such as gaming, realty transfers, bank shares, utility property, cigarettes and alcohol. Also included are non-tax revenue, such as state liquor store profits, licenses and fees along with fines, penalties and interest.

Fiscal 2023's total general fund revenues of $44.92 billion are $10 billion, or 29 percent, greater than pre-pandemic fiscal 2019. Inflation remains a factor in the national and state economies and is still being felt, most likely with the Corporate Net Income Tax (CNIT) collection, which is up 80.8 percent since fiscal 2019 and 15.4 percent over fiscal 2022.

Act 53 of 2022 will cut Pennsylvania's CNIT by five percentage points over nine years. A new legislative proposal this year, still unpassed, would expedite those cuts to reach 4.99 percent in 2026 instead of 2031.

Notwithstanding significantly lower job counts in 2021 and 2022 than in 2019, the personal income tax and sales taxes are up 25 and 26 percent, respectively, since pre-pandemic fiscal 2019. However, currently they are down or flat over fiscal 2022.

"Perhaps this is an indication that the inflationary-fighting tactics of the Federal Reserve are taking hold as can be seen in be recent consumer price numbers, or perhaps some businesses are preparing for an anticipated economic downturn (see *Policy Brief, Vol. 23, No. 10*)," Gamrat says.

Indeed, the decrease in the CNIT from 9.99 percent to 8.99 percent is a good start. But more must be done to make the commonwealth more economically competitive with faster growing states.

And that certainly doesn't mean throwing more tax dollars to bribe companies to locate in Pennsylvania.

"Implementing Right-to-Work, abolishing the right of transit and teacher unions to strike and eliminating the prevailing wage law will go a long way in reducing the cost of government and reduce the reliance on such high tax collections," Gamrat concludes.

So, too, would a sobering look into the budget mirror and tightening expenditures across the board by more than a few belt notches.

Colin McNickle is communications and marketing director at the Allegheny Institute for Public Policy (cmcnickle@alleghenyinstitute.org).

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079
E-mail: aipp@alleghenyinstitute.org
Website: www.alleghenyinstitute.org
Twitter: AlleghenyInsti1