

# How Government Overspending Hurts Pennsylvania Families

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## KEY POINTS

- Excessive government spending and borrowing is causing record-setting inflation and severe supply chain shortages.
- Voters want fiscal restraint from their government.
- High taxes and spending are making Pennsylvania uncompetitive, costing the state jobs and population.
- The Taxpayer Protection Act (TPA) would promote fiscal responsibility and help put Pennsylvania back on the path to prosperity.

## FEDERAL SPENDING AND DEFICITS

In 2020 and 2021, the United States saw [record-setting](#)<sup>1</sup> federal deficits of \$3.1 and \$3.6 trillion respectively—both more than doubled the previous record of \$1.4 trillion set in 2009.

- The deficit represents 15 percent of the U.S. gross domestic product (GDP) in 2020 and 16.7 percent of the GDP in 2021, the highest percentages since World War II.
- Federal debt is now approaching [\\$30 trillion](#)<sup>2</sup>. It's the equivalent to [133 percent](#)<sup>3</sup> of the nation's GDP, and the debt per taxpayer is now a whopping \$239,000.
- Federal debt growth has severely [accelerated](#)<sup>4</sup> since the passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March of 2020.
  - Congress' numerous COVID relief measures, including the American Rescue Plan Act (ARPA), will have a \$5.14 trillion [impact](#)<sup>5</sup> on the deficit.

## RECORD SETTING INFLATION

Rising inflation means consumers are paying more for groceries, more at the pump, and more for everyday services. Higher prices hit working families and seniors on fixed-incomes the hardest.

- In December, the [Consumer Price Index](#)<sup>6</sup> (CPI) reach a 7 percent year-over-year increase, the highest since 1982.
- The CPI for [all items less shelter](#)<sup>7</sup>, a more accurate measure of inflation, saw a steeper year over year increase of 8.5 percent.

- [Real average hourly earnings](#)<sup>8</sup>, a measure of wages adjusted for inflation, **have declined**. Real average hourly earnings decreased by 2.4 percent when compared to December 2020. While raw wages rose, they didn't keep up with inflation, meaning workers had less buying power.

## THE SOURCE OF INFLATION

The Biden administration and Sen. Elizabeth Warren (D-MA) have repeatedly [blamed](#)<sup>9</sup> inflation on “corporate greed.” Biden’s White House recently [launched probes](#)<sup>10</sup> into meatpackers, oil companies, and shipping companies for supposed antitrust violations. If allegations were true, these same industries would have been colluding to keep prices relatively low for decades, before conspiring to simultaneously raise prices.

The rise of inflation closely mirrors the rise of government spending and loose Federal Reserve policies.

- The Federal Reserve has paid for these massive spending packages, such as ARPA, by [creating new money](#)<sup>11</sup> to buy the debt they produce. The U.S. money supply has increased by approximately [40 percent](#)<sup>12</sup> since the pandemic began.
- ARPA provided a direct investment into economic markets, much [different](#)<sup>13</sup> from the usual monetary policy measures the Federal Reserve takes.
- As high inflation continues, it becomes [more and more evident](#)<sup>14</sup> that it was a result of these direct investments. Supply chain shock, another frequently cited source of inflation, usually only has short-term effects on pricing.
- Lawrence Summers, former head of Obama’s National Economic Council, [notes that](#)<sup>15</sup> attempts to break up companies would lead to further supply shortages and thus even higher prices.

## VOTERS WANT FISCAL RESTRAINT

As voters become more aware of the consequences of government spending on rising inflation, they are increasingly calling for smaller government and efforts to combat inflation.

- A September 2021 [Gallup](#)<sup>16</sup> poll shows 52 percent of respondents agree that “the government is trying to do too many things that should be left to individuals and businesses.” Among independents the number was 57 percent. In Gallup’s 2020 poll, with the pandemic creating major uncertainty, support for government intervention was much higher.
- A December 2021 poll by [CNN and SSRS](#)<sup>17</sup> found that 67 percent of respondents thought that government spending was a “major problem” for the economy.
- A recent [CBS/YouGov](#)<sup>18</sup> poll shows that 65 percent of respondents feel that the Biden administration is not paying enough attention to inflation, and 70 percent disapprove of the way he has handled inflation.
- A recent poll commissioned by Americans for Prosperity found [nearly two-thirds of Pennsylvania voters](#)<sup>19</sup>—across all party lines, ages and genders—favor limiting the growth of state government spending. Eighty-four percent of voters support putting the TPA as a ballot referendum.

## PENNSYLVANIA’S SPENDING AND TAXES

The federal government spending problem is not unique. Pennsylvania faces many of the same challenges.

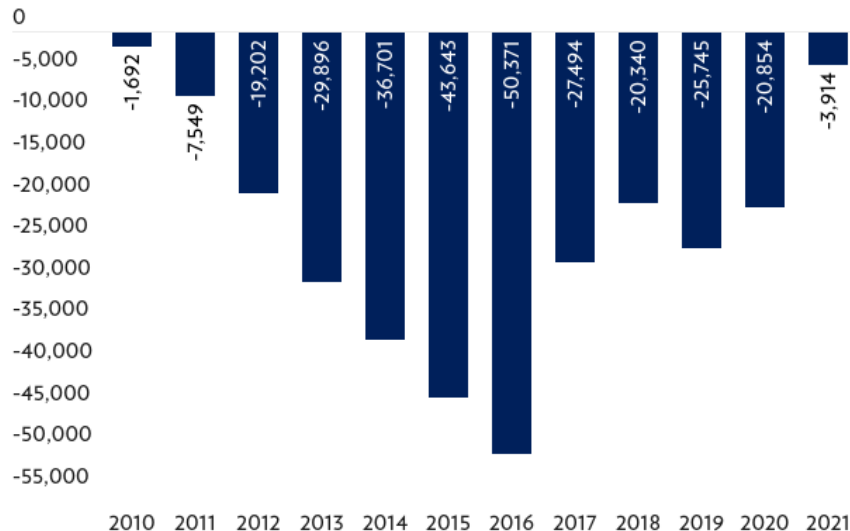
- In Fiscal Year (FY) 2021–22, Pennsylvania’s General Fund expenditures [increased](#)<sup>20</sup> by \$3.2 billion, excluding expenditures from federal offline stimulus money.
  - Since FY 2015–2016, Gov. Tom Wolf’s first budget, General Fund expenditures have increased by a total of \$10.6 billion, or about 35 percent.
- The state currently owes [\\$869 million](#)<sup>21</sup> to the federal government for loans taken out to cover expanded unemployment payments during the pandemic.
- According to a 2021 study from [WalletHub](#)<sup>22</sup>, Pennsylvania ranks 48th out of the 50 states and Washington D.C. in lowest tax burden (that is, the fourth highest) on the median household income.
- Among its many state and local taxes, Pennsylvania has the [third highest gas tax](#)<sup>23</sup> in the nation behind California and Illinois, and the [second highest corporate income tax rate](#)<sup>24</sup> (trailing only New Jersey).

## THE IMPACT OF PENNSYLVANIA’S SPENDING AND TAXES

Pennsylvania’s high taxes and bad spending habits are making the state unattractive to both current and potential residents.

- [Data](#)<sup>25</sup> from the United States Census Bureau shows that Pennsylvania lost nearly 4,000 residents to other states from July 2020 to July 2021.
  - This continues a long-term trend of the state losing population to domestic migration.
  - As a result, Pennsylvania has lost another congressional seat, as population has shifted to states like Texas and Florida.
- Data from moving companies also show significantly more residents fleeing Pennsylvania than coming into Pennsylvania.
  - Pennsylvania ranked 48th in the 2021 [U-Haul Growth Index](#)<sup>26</sup> and 37th for growth in the 2021 [United Van Lines National Movers Study](#)<sup>27</sup>.
- Domestic migrants favor states with low taxes and high fiscal stability. Pennsylvania has neither.
- Overall, migration patterns show [population shifting from higher-tax states to lower-tax states](#)<sup>28</sup>.
  - Four of the five states with the [highest fiscal](#)<sup>29</sup> stability saw net population growth from domestic migration. Pennsylvania ranks 48th in fiscal stability.
  - Seven of the nine states with [no state income tax](#)<sup>30</sup> saw net population growth from domestic migration.

# Pennsylvania: Annual Population Lost to Domestic Migration 2010-2021



United States Census Bureau, "Annual Population Estimates, Estimated Components of Resident Population Change, and Rates of the Components of Resident Population Change for the United States, States, the District of Columbia, and Puerto Rico: April 1, 2010 to July 1, 2020" <https://www.census.gov/programs-surveys/popest/technical-documentation/research/evaluation-estimates/2020-evaluation-estimates/2010s-state-total.html>  
 2021 Data: United States Census Bureau, "Annual and Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2021" <https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-total.html>

## THE SOLUTION

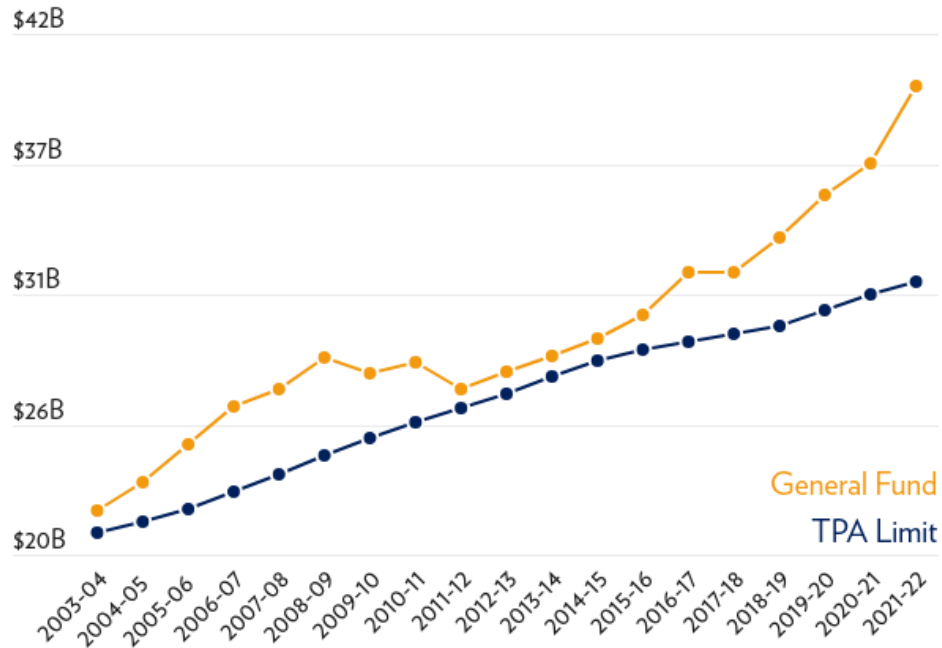
Pennsylvania can be a destination state again. The first step is right-sizing state government. The TPA (House Bill 71<sup>31</sup>, Senate Bill 286<sup>32</sup>) restricts government spending increases based on a formula that considers inflation, population, and personal income.

- Responsible growth in state spending is key to preventing tax increases, encouraging economic growth, and ultimately increasing prosperity for those that call Pennsylvania home.
- The TPA is a constitutional spending limit that keeps government growth in line with families' ability to pay—keeping more money in your pocket instead of in Harrisburg.
  - Enacting the TPA in FY 2003–2004 would have saved Pennsylvania taxpayers \$54.8 billion, (about \$4,315 per capita or \$17,260 per family of four).
  - The TPA does not mandate cuts to government spending. It slows the growth of spending by tying increases to the rate of inflation and population growth.
  - The TPA would allow the General Assembly to exceed spending limits for an emergency or justified need. This requires a two-thirds supermajority vote by the legislature.
- Had the TPA been in place, lawmakers would have been able to bolster the state's rainy day fund during the boom economy, to create a buffer for down years.
  - The recession caused by the pandemic and business lockdowns laid this bare. In 2020, Pennsylvania had enough reserves to fund state government for **less than three days**<sup>33</sup>.

- While state revenues have rebounded, now is the time to practice fiscal restraint, to avoid the mistakes of the past.

## State Spending Vs. Taxpayer Protection Act

*Savings if the TPA had been enacted in 2003.*



Sources: Pennsylvania Office of the Budget, "Governor's Executive Budget, Financial Statement of the General Fund, Actual Appropriations," (Fiscal years 2006-07 through 2021-22), .

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Methods: Spending isn't finalized until the two years following the budget year.

The TPA Limit is calculated using data from the U.S. Bureau of Labor Statistics, the U.S. Census Bureau, and the U.S. Bureau of Economic Analysis. For more information, visit

<https://www.commonwealthfoundation.org/policyblog/detail/the-taxpayer-protection-act>

<sup>1</sup> The American Presidency Project, "Federal Budget Receipts and Outlays," May 28, 2021, <https://www.presidency.ucsb.edu/statistics/data/federal-budget-receipts-and-outlays>

<sup>2</sup> US Debt Clock.org, "US National Debt," January 31, 2022, <https://www.usdebtclock.org/>

<sup>3</sup> Statista, "National debt in the United States in relation to gross domestic product (GDP) from 2016 to 2021, with a forecast to 2026," October 2021, <https://www.statista.com/statistics/269960/national-debt-in-the-us-in-relation-to-gross-domestic-product-gdp/>

<sup>4</sup> Alyssa Fowers, Tony Romm, "How U.S. federal debt got so big," Washington Post, December 14, 2021, <https://www.washingtonpost.com/business/interactive/2021/us-debt-growth/>,

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<sup>7</sup> FRED Economic Data, "Consumer Price Index for All Urban Consumers: All Items Less Shelter in U.S. City Average," January 12, 2022, <https://fred.stlouisfed.org/series/CUUS0000SA0L2#0>

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<sup>9</sup> Jim Tankersley and Alan Rappeport, "As Prices Rise, Biden Turns to Antitrust Enforcers," New York Times, December 25, 2021, <https://www.nytimes.com/2021/12/25/business/biden-inflation.html>

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