

Pennsylvania's Stalled Economy

SUMMARY

- In 2021, Pennsylvania lagged behind most states in recovering from the COVID-19 shutdown.
- Challenges like historic inflation and labor shortages will likely persist throughout 2022.
- This year, lawmakers can reverse these trends with policy changes that will spur hiring and provide economic certainty.

BACKGROUND

Due to its draconian shutdown in March 2020, Pennsylvania suffered one of the largest economic contractions in the country. That year, it was second only to Michigan in its percentage of small business closures.¹ At its economic low point in April 2020, Pennsylvania's employment rate had fallen 27 percent from January 2020 levels. Low-wage workers (defined as workers who earn less than \$27,000 per year) suffered disproportionately. Whereas the employment rate for high- and middle-wage fell by 16 and 26 percent respectively, among low-wage workers it fell by 40 percent.²

Since that time, Pennsylvania has lagged behind most states in its economic recovery.³ It has recovered a lower percentage of lost jobs than most states, and nearly 4,000 Pennsylvanians migrated to other states between mid-2020 and mid-2021.⁴

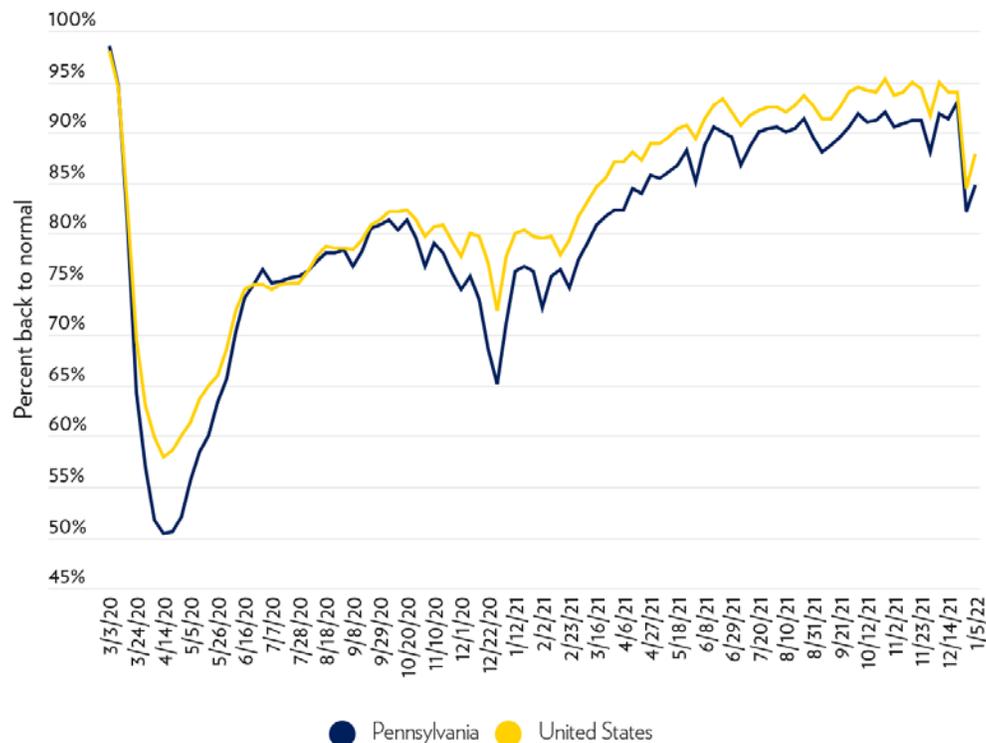
In 2022, lawmakers have fresh opportunities to restore jobs and stem the longstanding problem of resident out-migration.

STATE OF PENNSYLVANIA'S RECOVERY

- Pennsylvania currently ranks 45th out of 50 states in *CNN Business's* Back-to-Normal index., Updated weekly, the index estimates the nation's, and each state's, overall economic recovery since the pandemic began. For over a year, Pennsylvania has been near the bottom of the state rankings and significantly below the national average.⁵
 - CNN's index tracks a wide range of economic indicators, namely gross domestic product (GDP), restaurant patronage, workplace mobility, air travel, small business activity, new home postings, petroleum consumption, railroad traffic, unemployment insurance claims, employment levels, and business confidence.

Back to Normal, Pennsylvania v. United States

March '20 to January '22 (weekly data)



Source: Data taken from *CNN Business*, "Tracking America's Recovery," <https://www.cnn.com/business/us-economic-recovery-coronavirus>.

- Lagging employment recovery
 - According to FRED Economic Data's most recent figures, Pennsylvania's unemployment rate is 0.6 percentage points higher than it was in January 2020, before the pandemic started (5.4 to 4.8). By contrast, the national unemployment rate is only 0.4 percentage points higher than it was in January 2020 (3.9 to 3.5).⁶
 - Pennsylvania ranks 36th in employment recovery since the pandemic began.⁷
 - It currently has the 11th highest unemployment rate in the country.⁸
- An ongoing recession for low-wage workers
 - Data from Opportunity Insight showed last August, "the recession has ended for high-wage workers" but "[persists] for low-wage workers," both nationally and in Pennsylvania.⁹

- Specifically, among high- and middle-wage workers, the unemployment rate has been *below* pre-pandemic levels (January 2020) since mid-November 2020 and early May 2021, respectively.¹⁰ But among low-wage workers, it is still above pre-pandemic levels.¹¹
- Continued historic inflation
 - Not only is Pennsylvania’s economy currently operating significantly below capacity, Pennsylvanians, like all U.S. residents, will continue to experience historic inflation in 2022, according to the Independent Fiscal Office. In 2021, Philadelphia’s Consumer Price Index (excluding shelter) increased by more than 7 percent.¹²

HOW LAWMAKERS CAN HASTEN PENNSYLVANIA’S RECOVERY

In the coming months, lawmakers have an opportunity to hasten Pennsylvania’s recovery and improve the state’s long-term economic outlook by prioritizing the following reforms:

- Pass the Taxpayer Protection Act (TPA)
 - Overspending penalizes future generations and could lead to tax hikes after COVID stimulus funds are spent. The TPA provides limits to keep spending at sustainable levels.¹³
- Pass comprehensive regulatory reform to help small businesses
 - Pennsylvania’s small business owners were among the “hardest” hit during the pandemic. Lawmakers need to remove regulatory barriers and streamline processes to help them “stay” open for business.¹⁴
- Make COVID regulatory waivers permanent
 - Pennsylvania suspended various healthcare regulations during the pandemic to expand access to health care in the state. It should make these waivers permanent.¹⁵
- Jump-start hiring with tax relief and bonuses
 - Lawmakers should enact strategic tax relief. Options include allowing small businesses to carry forward losses and cutting income taxes, which eleven states did in 2021.¹⁶
 - Lower taxes would help to stem out-migration in Pennsylvania.¹⁷
 - They should also consider using American Rescue Plan Act (ARPA) funds for working and hiring bonuses.¹⁸

¹ “Business Response Survey to the Coronavirus Pandemic,” U.S. Bureau of Labor Statistics (henceforth BLS), <https://www.bls.gov/brs/2020-results.htm>.

² “Recession Has Ended for High-Wage Workers, Job Losses Persist for Low-Wage Workers,” Opportunity Insights Economic Tracker, <https://tracktherecovery.org/>.

³ Elizabeth Stelle, “7 Signs Pa.’s Pandemic Recovery Is Falling Behind,” Commonwealth Foundation (April 19, 2021), <https://www.commonwealthfoundation.org/policyblog/detail/7-signs-pas-pandemic-recovery-is-falling-behind>.

⁴ “Pennsylvania Population Change,” Commonwealth Foundation, <https://infogram.com/app/#/edit/a83fedab-c669-4809-a2d5-7de61dfb67f5>.

⁵ “Tracking America’s Recovery,” CNN Business, <https://www.cnn.com/business/us-economic-recovery-coronavirus>.

⁶ FRED Economic Data, “Unemployment Rate,” <https://fred.stlouisfed.org/series/UNRATE#0>; FRED Economic Data, “Unemployment Rate in Pennsylvania,” <https://fred.stlouisfed.org/series/PAUR>.

⁷ Adam McCann, “States Whose Unemployment Rates Are Bouncing Back Most,” WalletHub (December 17, 2021), <https://wallethub.com/edu/states-unemployment-rates/74907>.

⁸ “Unemployment Rates for States,” BLS, <https://www.bls.gov/web/laus/laumstrk.htm>.

⁹ “Tracking America’s Recovery.”

¹⁰ “Tracking America’s Recovery.”

¹¹ If overall unemployment is higher than it was in January 2020 but lower for middle- and high-wage workers, it must be higher for low-wage workers.

¹² “December 2021 Economic Update,” Independent Fiscal Office (December 7, 2021), <http://www.ifo.state.pa.us/releases/505/December-2021-Economic-Update/>.

¹³ Tirzah Duren, “The Taxpayer Protection Act,” Commonwealth Foundation (January 21, 2021), <https://www.commonwealthfoundation.org/policyblog/detail/the-taxpayer-protection-act>.

¹⁴ Tirzah Duren, “Clear the Red Tape to Build a Stronger Pennsylvania,” Commonwealth Foundation (April 27, 2021), <https://www.commonwealthfoundation.org/policyblog/detail/clear-the-red-tape-to-rebuild-a-stronger-pennsylvania>.

¹⁵ Duren, “Clear the Red Tape.”

¹⁶ “How Pennsylvania is Progressing in the Race to Rebuild,” Commonwealth Foundation (July 12, 2021), <https://www.commonwealthfoundation.org/policyblog/detail/how-pennsylvania-is-progressing-in-the-race-to-rebuild>; Katherine Loughhead and Jared Walczak, “States Respond to Strong Fiscal Health with Income Tax Reforms,” Tax Foundation (July 15, 2021), <https://taxfoundation.org/2021-state-income-tax-cuts/>.

¹⁷ Jared Walczak, “Americans Moved to Low-Tax States in 2021,” Tax Foundation (January 4, 2022), <https://taxfoundation.org/state-population-change-2021/>.

¹⁸ Brandon Van Dyck, “Pennsylvania’s Use of ARPA Funds,” Commonwealth Foundation (September 23, 2021), <https://www.commonwealthfoundation.org/policyblog/detail/pennsylvanias-use-of-arpa-funds>.