



# POLICYPOINTS

Quick Facts from the Commonwealth Foundation

## State Government Spending

*Over the last several decades, the growth in state government spending has exceeded both the rate of inflation and increases in the income of citizens. Unlimited government spending growth has burdened working men and women and harmed Pennsylvania's economic competitiveness because increases in spending requires increases in taxes and fees. Placing reasonable limits on annual increases in government spending is a fiscally prudent means of bringing government spending in line with citizens' ability to pay.*

### **GROWTH OF STATE SPENDING**

- ♦ **Pennsylvania's General Fund** spending increased 110% from \$12.4B to \$26.1B between 1990 and 2006—an increase of **40% in inflation-adjusted dollars**.
- ♦ The **personal income** earned by all Pennsylvanians increased 88% between 1990 and 2006—an increase of **25% in inflation-adjusted dollars**.
  - ♦ **State government spending as a share of personal income** grew by **11.6% between 1990 and 2006**.
- ♦ **Pennsylvania's General Fund** spending increased 28% from \$20.4B to \$26.1B between 2002 and 2006—an increase of **15% in inflation-adjusted dollars**.
- ♦ The **personal income** earned by all Pennsylvanians increased 19% between 2002 and 2006—an increase of **7% in inflation-adjusted dollars**. During this same time period, the average weekly wage increased 14%—only **2.6% in inflation-adjusted dollars**.
  - ♦ **State government spending as a share of personal income** grew by **7.1% during Governor Rendell's tenure**.

### **MORE SPENDING REQUIRES HIGHER TAXES**

- ♦ According to the Tax Foundation, **state and local tax burden** (as a percentage of total income) in Pennsylvania **grew 13% since 1990**.
- ♦ Pennsylvania had the **9<sup>th</sup> lowest state and local tax burden in 1990**. Today, Pennsylvania ranks in the **top half of the fifty states**.
- ♦ This increased tax burden means that it takes Pennsylvania workers **16 weeks (nine days longer than just three years ago) to pay off their tax bills**.

## **NEW AND HIGHER TAXES**

As Pennsylvania's government spending has grown faster than the income of its residents, lawmakers have found new ways to tax its citizens.

- ▶ The state **Sales & Use Tax** first appeared in 1954 at the rate of 1%, but **increased by 500%** over the next 14 years to its current rate of 6%.
- ▶ Lawmakers then added the **Capital Stock and Franchise Tax** in 1968, as consumers started complaining about increases in the sales tax, then **doubled its rate** over the next 14 years.
- ▶ Policymakers added the **Personal Income Tax** in 1971 at the rate of 2.3%, which has **increased 35%** since then, to its current rate of 3.07%.
- ▶ State government also implemented the **Inheritance Tax** in 1971 which began taxing the estates of the recently deceased.
- ▶ In 2002, the state began taxing cell phone use for the first time under the **Gross Receipts Tax** and **increased the Cigarette Tax by over 300%**.
- ▶ In 2007, Governor Rendell proposed **another increase of the Cigarette Tax** and adding a **new tax on cigars and smokeless tobacco**, as well as **new taxes on businesses**.

## **SLOWING THE GROWTH OF STATE SPENDING**

Imposing reasonable limits on the annual growth of state government spending would protect working Pennsylvanians from tax increases that exceed their ability to pay.

- ▶ If the growth in **General Fund spending continues** on the historical trend of the past decade, by 2016-17 it would **increase to nearly \$42B—an increase of 59%**.
- ▶ If the growth in **General Fund spending were limited** to an index (the average of the three preceding years' rate of inflation plus population growth), by 2016-17 it would **increase to \$34B—an increase of 31%, an increase one-half the size of the historical trend projections**.
  - ▶ The **cumulative savings** (relative to the historical trend projections) would be **\$36.5B—or \$11,600 for each family of four**.

## **WE NEED SPENDING LIMITS**

Critics of reasonable limits on the annual growth of state government spending argue that lawmakers can curtail spending increase without statutory or constitutional restraints. Yet experience demonstrates otherwise.

During the 2005-06 legislative session, both the Pennsylvania House and Senate overwhelmingly passed (in different forms) legislation which would have limited the increase in General Fund spending to 3.47% for the next fiscal year—an increase of more than \$800 million in additional spending.

Despite the *desire* to limit the increase in spending, the General Fund budget eventually passed into law grew by 7.6%. Clearly, without placing “fiscal guardrails” around the budgeting process, spending increases will continue to exceed taxpayers' ability to pay and will eventually run Pennsylvania off an economic cliff.

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*For additional information on **Spending Limits**, go to [CommonwealthFoundation.org](http://CommonwealthFoundation.org) or call 717.671.1901. The Commonwealth Foundation ([www.CommonwealthFoundation.org](http://www.CommonwealthFoundation.org)) is an independent, non-profit public policy research and educational institute based in Harrisburg, PA.*