

# Reinvigorating Pennsylvania with One-time American Rescue Plan Funds

## SUMMARY

- Pennsylvania's chronic overspending, [mediocre tax structure](#), and [high regulatory burden](#) are limiting growth and investment. We must pass reforms in these areas to make our economy healthier and more dynamic.
- We should use funds from the March 2021 American Rescue Plan (ARP) to assist in this goal, not to hobble our economy further. We offer guiding principles and a few specific ideas for using the federal money.

## REGULATORY AND FISCAL REFORM FIRST

- Pennsylvania was losing ground before COVID-19. In 2019, we were facing years of [billion-dollar budget deficits](#),<sup>1</sup> and we knew we would lose a congressional seat due to slow population growth. We are now well into the recovery, but small business activity is [still 25 percent below](#) pre-pandemic levels. [Payroll jobs are down](#) by over 400,000, and the Independent Fiscal Office (IFO) estimates it will take [six years to recover them](#).<sup>2</sup>
- To date, our efforts at fiscal and regulatory reform have failed. According to the IFO, at least a dozen Pennsylvania tax credits have underperformed, wasting [millions of tax dollars](#).<sup>3</sup> While targeted tax credits might reach some of their intended recipients, we offer superior solutions, which will benefit all businesses.
- The most critical fiscal reform is the **Taxpayer Protection Act (TPA)**, introduced as [House Bill 71](#) and [Senate Bill 286](#). This constitutional amendment will provide a long-term solution to the deficit problem by controlling spending overruns. Instead of mandating cuts, it will limit spending growth by tying it to population or income growth and inflation.
- Second, we must **improve our regulatory regime** to ensure that existing businesses survive, and new businesses thrive. Key reforms include [liability protection](#) from COVID-19 lawsuits (included in [House Bill 605](#)), [more scrutiny](#) of expensive regulations ([House Bill 72](#)), and [regular review](#) of existing regulations ([Senate Bill 32](#)).
- Finally, we should offer **tax relief to small businesses** ([see House Bill 395](#)). This will help small businesses recover by allowing them to deduct their 2020 operating losses. Currently, Pennsylvania has ["uncommonly stingy"](#) net operating loss rules, according to the Tax Foundation.<sup>4</sup>

## HOW TO SPEND \$7.2 BILLION

- We have an opportunity to use the latest round of federal stimulus dollars (more than \$7 billion from the American Rescue Plan) to strengthen Pennsylvania fiscally and economically. State legislators should follow three principles in allocating the money:

1. Fund one-time expenses.
  2. Do not fund or expand recurring expenses such as basic education, Medicaid, personnel costs, or transportation maintenance.
  3. Do not spend the money all at once; it lasts until 2024.
- Accordingly, we offer a list of one-time expenditures that will assist in reducing chronic deficits and revitalizing the economy. Some could be allotted in yearly installments until 2024.
    1. **Fund kids.** School districts have received billions in COVID relief, despite many schools remaining fully or partially closed. A [recent McKinsey report](#) found that in 2020, American children lost over half a year of learning, on average.<sup>5</sup> The best way to help kids is to give parents the resources necessary for their children’s education.
      - **Back on Track accounts.** [Back on Track educational accounts](#), like those introduced by [Sen. Judy Ward](#), would give parents flexible funds to pay for the educational services their children need (e.g., tutoring, online courses).<sup>6</sup>
      - **529 accounts.** Lawmakers could also direct funds to kids’ 529 accounts, as in the [Keystone Scholars program](#).
      - **Senate Bill 1.** [The soon-to-be-introduced Excellence in Education for All Act](#) provides a comprehensive solution to pandemic learning loss. The bill would put resources in the hands of parents to address the individual learning needs of their children; allocate funds to facilitate the creation and maintenance of charter schools; provide tax credits to businesses and groups that award scholarships to kids; foster and protect learning pods; and expand kids’ access to high-quality public schools.
    2. **Pay off unemployment compensation debt.** Pennsylvania’s public debt is roughly \$11,000 per person and nearly \$150 billion in total.<sup>7</sup> Lawmakers are not allowed to use ARP funds to address the largest liability, pensions (\$67 billion). However, they can use ARP funds to tackle unemployment compensation debt.<sup>8</sup> Since the pandemic hit, Pennsylvania has incurred [over \\$1.5 billion in new unemployment compensation debt](#).<sup>9</sup> Paying it off would (a) reduce the deficit and (b) prevent payroll tax hikes as the trust fund is depleted, making it easier for employers to hire new workers.
    3. **Incentivize hiring rather than subsidizing unemployment.** Pennsylvania’s unemployment rate is above the national average, yet our labor force participation is *dropping* ([down nearly 195,000](#) from January 2020).<sup>10</sup> The American Action Forum estimates that [almost half of Pennsylvania’s workers](#) have an economic incentive *not* to work, given the scale of current unemployment benefits.<sup>11</sup> Facing similar problems, more than a dozen states are moving to end unemployment bonuses before their September expiration. Pennsylvania should follow their lead and, crucially, [offer counterincentives](#) that motivate employers to hire and workers to work (e.g., work and hiring bonuses).

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<sup>1</sup> Independent Fiscal Office, “Five Year Economic and Budget Outlook,” (January 2021), <http://www.ifo.state.pa.us/releases/320/FIVE-YEAR-ECONOMIC-AND-BUDGET-OUTLOOK/>.

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- <sup>2</sup> Percent of Change in Small Businesses Open, Data provided by Womply, (May 2021), <https://www.tracktherecovery.org/>; Independent Fiscal Office, "Five Year Economic and Budget Outlook," (January 2021), <http://www.ifo.state.pa.us/releases/320/FIVE-YEAR-ECONOMIC-AND-BUDGET-OUTLOOK/>.
- <sup>3</sup> Tirzah Duren, "Competition Not Corporate Welfare," Commonwealth Foundation, (August 2020), <https://www.commonwealthfoundation.org/policyblog/detail/competition-not-corporate-welfare-3-ways-to-help-all-businesses-flourish>.
- <sup>4</sup> Jared Walczak, "Pennsylvania: A 21st Century Tax Code for the Commonwealth," Tax Foundation, (September 2018), <https://taxfoundation.org/pennsylvania-tax-reform/>.
- <sup>5</sup> "Covid-19 and Learning Loss Disparities Grow," McKinsey (December 2020), <http://mckinsey.com/industries/public-and-social-sector/our-insights/covid-19-and-learning-loss-disparities-grow-and-students-need-help>.
- <sup>6</sup> Colleen Hroncich, "Understanding Back on Track ESAs," Commonwealth Foundation, (June 2020), <https://www.commonwealthfoundation.org/policyblog/detail/understanding-back-on-track-esas>.
- <sup>7</sup> Andrew Abramczyk, "A Report on the Public Credit," Commonwealth Foundation, (May 2020), [https://www.commonwealthfoundation.org/docLib/20200528\\_20200520slicingfinancialspart3debt.pdf](https://www.commonwealthfoundation.org/docLib/20200528_20200520slicingfinancialspart3debt.pdf).
- <sup>8</sup> Ibid.
- <sup>9</sup> U.S. Treasury, "Title XII Advance Activities Schedule," (May 2021), [https://www.treasurydirect.gov/govt/reports/tfmp/tfmp\\_advactivitiesched.htm?fbclid=IwAR0LKQCWEO4QdE3dawzEY4x1qFY2oVUlf92fhUyzv2luKMO57X2pAJS0Xzo](https://www.treasurydirect.gov/govt/reports/tfmp/tfmp_advactivitiesched.htm?fbclid=IwAR0LKQCWEO4QdE3dawzEY4x1qFY2oVUlf92fhUyzv2luKMO57X2pAJS0Xzo).
- <sup>10</sup> "Local Area Unemployment Statistics," U.S. Bureau of Labor Statistics, (May 2021), <https://www.bls.gov/lau/>.
- <sup>11</sup> Isabel Soto, "Revisiting Federal Pandemic Unemployment Compensation Under the Biden Administration," American Action Forum, (February 2021), <https://www.americanactionforum.org/research/revisiting-federal-pandemic-unemployment-compensation-under-the-biden-administration/>.