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Position Paper: Governor Wolf's Proposed Budget

Summary

Governor Wolf's budget contains three key proposals: Fairer funding of the Commonwealth's public schools, a gradual minimum wage increase, and a more progressive tax structure. While I believe some modifications are needed, I support these three approaches in general, because together they provide opportunity for working people. Dismantling barriers to basic educational and income opportunities is central to boosting our economy, strengthening our families, and improving the resilience of our communities and our country. I will continue to fight for all families and our small businesses as long as I serve in the General Assembly.

Fairer State Funding for Schools

Fairer public education funding will help schools suffering from lack of resources begin to rebuild, so students everywhere have a fighting chance.

Pennsylvania's current education funding system is among the most inequitable in the nation, and it's failing our children. One reason is that only one-third of public education funding is provided by the state, and this funding does not consider financial need or even student enrollment. (The remaining two-thirds comes from local property

taxes.) Since 1992, the state has adhered to a “hold harmless” approach for its portion of the funding – a policy that school districts cannot receive less funding vs. the year prior regardless of changing enrollment or student needs. As a result, even districts with declining enrollment, which collectively lost one-fifth of their student bodies over the past half century, never lost any state funding; they now receive \$590 million annually tied to students they no longer educate.¹

Governor Wolf’s budget proposal begins to reverse this policy by investing an additional \$1.55 billion into our state’s schools and distributing these funds through the *fair funding formula*. This investment is justified from the standpoint that state public education funding has been stagnant *in real terms* for the past six years. The fair funding formula, developed by the bipartisan Basic Education Funding Commission (BECF) in 2015, takes into consideration not only the number of students in each district but the extra expenses and needs of school districts that serve a high proportion of students growing up in poverty and English language learners. Under Governor Wolf’s proposal, a full 84% of the state’s basic education funding would be distributed through this formula.

Under Governor Wolf’s proposal, NO school district will see its state funding decrease for the fiscal year 2021/22. All districts, including West Chester Area and Unionville-Chadds Ford, will receive at least as much state funding as they did in fiscal year 2020/21.

Finally, it is crucially important to focus investment on the poorest districts not only because the students in these districts are most in need, but because this is where

¹ Public Citizens for Children + Youth. “Hold Harmless: A Quarter Century of Inequity at the Heart of Pennsylvania’s School System.” <https://www.pccy.org/wp-content/uploads/2021/01/PCCY-HoldHarmlessReport-2020-Final-2.pdf>

our educational investment will see the highest return. Every student must be provided with an equal chance to succeed, and this is not just morally good politics. It's economically good politics, too. Bright young students who have potential to grow up to be thriving professionals who contribute to our economy and society cannot do so if they are made to go to a school that can't even afford textbooks, toilet paper, or a functional heating system.

It is for these reasons that I support Governor Wolf's proposal to make the state portion of public education funding fairer, and I will continue to work for the success of *all* of Pennsylvania's students just as I promised coming into office.

A Gradual Minimum Wage Increase

Eliminating poverty wages injects money into the local economy, lifts people out of reliance on state assistance, and increases revenue to the state without raising taxes.

During the past 40 years, inflation-adjusted wages for working people and the middle class have declined sharply, and Pennsylvania's current minimum wage has remained so low it puts people into poverty even when they work full time. A single parent with one child earning minimum wage in PA would need to work 134 hours/week to earn a living wage.² During these times of the pandemic this is especially important, because half of current minimum wage workers are classified as "essential,"³ and they are struggling more than ever just to survive. Further, prominent economists support a

² Living Wage Calculator. <http://www.livingwage.mit.edu/states/42>

³ Brookings. <https://www.brookings.edu/blog/the-avenue/2021/02/05/essential-workers-deserve-minimum-wage-increase/>

gradual increase of the minimum wage to \$15 by 2024,⁴ and research shows that paying workers more boosts profits for companies.⁵ This is a primary reason I support Governor Wolf's proposal to increase the minimum wage to \$12/hour beginning July 1, 2021, followed by \$0.50 annual increments until we achieve \$15/hour in 2027.

This is not just my view. Americans and Pennsylvanians resoundingly do not want an economy or a society made up of businesses that rely on poverty wages.^{6,7} This January, 20 states raised their minimum wages, including Florida, after citizens there voted to pass a minimum wage ballot measure. Right now, Pennsylvanians earn less than someone doing the exact same job in Delaware, Maryland, Ohio, New Jersey, New York or West Virginia.

For too long, we have agreed to tax cuts for millionaires and large corporations, which resulted not in a boon for workers as promised, but in a boon for high-level corporate executives and large shareholders at the expense of R&D, capital investment, and employee wages. Our community's future prosperity relies on a balanced approach.

The increase will protect jobs & inject money into our economy

I want to address the concerns of business owners and the broader impact a minimum wage increase would have on the economy. First, I understand the concern that minimum wage hikes can increase unemployment. There is truth to this argument, as businesses will obviously not employ workers at a loss. However, the conventional

⁴ Economic Policy Institute. <https://www.epi.org/minimum-wage-statement/>

⁵ Wall Street Journal. <https://www.wsj.com/articles/the-case-for-higher-wages-in-hard-times-11611241084>

⁶ Pew Research Center. <https://www.pewresearch.org/fact-tank/2019/07/30/two-thirds-of-americans-favor-raising-federal-minimum-wage-to-15-an-hour/>

⁷ Hart Research Center. <https://www.nelp.org/news-releases/poll-two-thirds-voters-battleground-congressional-districts-support-raising-federal-minimum-wage/>

wisdom that *any* increase in the minimum wage will *de facto* cause job losses is unfounded and based on an overly simplistic supply and demand model of the labor market. Few people can simply run from job to job at the drop of a hat, for example, and there's no single wage at which a worker has his or her pick of employers. As a result, rather than receiving the full value of their marginal revenue, workers usually get substantially less. In other words, they get stuck – and they get squeezed.

By increasing the minimum wage, we can push wages up to where they would otherwise be in a fair market and lift workers out of poverty without any significant increase in unemployment. The data bear this out. The Federal Reserve has found that since New York state increased its minimum wage to \$15 late last year, workers there have seen wages increase faster relative to other states *without an increase in unemployment*. Some studies have even shown that moderate minimum wage increases reduce unemployment, because the prospect of higher wages brings more people into the labor force. A single mother who may not be able to take a job at \$7.25/hour because childcare costs more than she could ever make may suddenly be able to enter the labor force when the minimum wage goes up.

The key to setting a successful minimum wage without impacting employment is to put it at the right level so it is not too high. A strong body of research shows there is a threshold to how high the minimum wage can go before it starts causing unemployment. Very conservatively, this threshold occurs when the wage floor reaches 60% or more of the median wage. In Pennsylvania, that would be roughly \$12, or the starting minimum wage for Governor Wolf's plan, which also provides a path to gradually increase it to \$15 as the median wage increases in tandem. This is why the Governor's proposal

makes sense; by staying below this threshold, we not only protect jobs, but we reduce dependency on state aid by lifting 38,000 adults out of Medicaid while generating \$4.4 billion of consumer spending in year one.⁸ This will go a long way to helping our businesses.

The increase will benefit middle- and high-income workers

Research also shows that *all* workers – including middle- and high-income workers – benefit when the minimum wage is increased. Studies in the U.S., Britain, Germany, and Croatia have shown that wages go up for all workers when the minimum wage is raised, even for those already making significantly more than the new minimum. The most commonly cited reason is because employers have to preserve the wage differential between their lowest- and highest-paid employees.

The cost of goods will increase marginally

Another concern associated with raising the minimum wage is that it will drastically increase prices of things like food or other products in industries that rely on low-wage workers. However, this, too, is contradicted by the data, because labor comprises only a portion of the business's expenses (approximately 30% for restaurants). And in competitive industries like the food industry, firms are incentivized to keep prices low. A study of grocery stores in Seattle found no associated increase in

⁸ PA Budget and Policy Center, PA House of Representatives. On file.

grocery prices after the city raised its minimum wage to \$15.⁹ A 1995 study comparing data from New Jersey (which raised its minimum wage to \$5.05 in 1992) and data from Pennsylvania (which kept its minimum wage at \$4.25) found that the price of burgers increased only 0.9% in response to a 10% increase in the minimum wage.¹⁰ A more recent 2018 study using detailed data from the Bureau of Labor Statistics found that, for dine-in establishments, the menu price increases associated with minimum wage hikes are even smaller: Only 0.7% for a 10% minimum wage increase.¹¹

Small business owners must have support!

The final concern cited in debates surrounding the minimum wage is that it will hurt small business owners. As a representative of a district whose economy rests on the backs of its many small businesses, I share these concerns. It is true that while workers see immediate benefits and consumers are not harmed, employers, including small businesses, must cover the cost of wage increases at least in the short term. But in the longer term, since most people will have more disposable income to spend, businesses will benefit from a wealthier, larger consumer base. People will be able to spend their increased earnings to make their lives better and, in doing so, will grow the overall economy and increase sales for businesses small and large.

⁹University of Washington School of Public Health. Raising Seattle's Minimum Wage Did Not Increase Food Prices. <https://sph.washington.edu/news-events/news/raising-seattles-minimum-wage-did-not-increase-supermarket-food-prices>

¹⁰ Myth & Measurement: The New Economics of the Minimum Wage. <https://www.amazon.com/Myth-Measurement-Economics-Minimum-Twentieth-Anniversary/dp/0691169128>

¹¹ Int'l Environmental Research and Public Health. 2019; 16:102.

But it is not lost on me that in the short term, some small business owners may struggle, and we need to make absolutely sure these business owners are covered and given the necessary relief, especially during this time of economic and public health crisis. This is one reason I think it is so crucial to support President Joe Biden's COVID relief plan to make sure any business with 50 employees or fewer is *guaranteed* to get Paycheck Protection Program (PPP) benefits and to finance \$100 billion in low-interest business loans to struggling small businesses. The American Rescue Plan, currently making its way through Congress, includes \$50 billion in grants and financing programs to help small businesses survive and thrive during this time of hardship. What's more, Governor Wolf's budget includes \$3 billion to help workers and small businesses stabilize and recover from the pandemic, and I have co-sponsored legislation to provide individual grants for smaller community businesses in need of relief. The Governor's tax reform, if passed, will also mean a significant tax cut for any married couple with three dependents making less than \$100,000 a year and for any married couple with two dependents making less than \$85,000 a year. This is another way to help struggling business owners and their families offset any short-term cost increases they may face due to a minimum wage increase.

Progressive Tax Structure

Reducing or eliminating personal income taxes for 67% of Pennsylvanians will give families more money to purchase what they need and enhance consumer spending.

No one wants to pay more taxes, and during this economic and health crisis, this is especially important for those who are struggling to survive. That's why I support the basic idea behind the Governor's progressive tax proposal. It will increase the threshold for tax forgiveness so those earning lower wages will pay no PA personal taxes at all; a family of four earning \$50,000 will pay no personal income tax. It will produce a tax cut for a family of four earning \$75,000.

Where I differ with the current proposal is that it suddenly increases the tax rate from 3.07% to 4.49% for a family of four earning \$100,000. This amounts to a \$27.31 weekly increase (or \$1,420 annually). While I think the top tax rate of 4.49% for higher income earners is reasonable, *given this would retain PA's top individual tax rate below that of all but four other states in the nation*, I believe the increased rate should be further gradated by income so a family of four earning \$100,000 does not find itself at the top tax rate in the state. Financial and needs analyses are needed to determine how this should be gradated more fairly and, as we know, the budget is an ongoing work in progress!