Inflation Hearing – House GOP Policy Committee
June 9, 2022 – Treasurer Stacy Garrity

***

Chairman Causer and members of the Policy Committee, thank you for inviting me to testify before you today.

I appreciate the attention you're giving to the issue of inflation, which is clearly the most important issue facing Pennsylvania – and our entire country – today.

When you talk about inflation, it's hard to do it without including numbers – a lot of numbers.

But I want to start by focusing on the impact that inflation is having on hardworking Pennsylvanians – the men and women driving to work every day, taking their children to school and daycare every day, and putting food on the table every day.

These are the people we're elected to represent, and these are the people being hurt most by inflation.

Unfortunately, I agree with those who predict that the negative impact of the current high rate of inflation will extend well into the future.

As you heard from the Independent Fiscal Office yesterday, the current year-over-year inflation rate is 8.4 percent as of the end of April.

8.4 percent sounds high because it is. We haven't seen inflation like this since December 1981. Said another way, the last time inflation was this high, Pennsylvania was represented in the U.S. Senate by John Heinz and a freshman senator named Arlen Specter.

The impact of inflation on Pennsylvanians is clear.

Over the course of one year – just one year – people are expected to spend an average of $2,000 more on gasoline and an average of $1,000 more on food.

That's $3,000 just for food and gas – and doesn't even begin to account for the other rising costs that everyone is facing.

Food and gas are necessities. If people are paying $3,000 a year more on food and gas, they're not putting that money toward other things. They're not spending that $3,000 on entertainment or clothes, they're not spending it on DIY projects at their homes, and they're certainly not saving it for the future.

And – as we all know – costs like this hit hardest on the people who can least afford it.

I'd like to dig into the cost of gasoline a bit more, because higher transportation costs have a very broad impact.

Since January 2021, gas prices have risen in 15 out of 16 months, and there's no end in sight. Many Pennsylvanians are now paying more than $5 per gallon. The average price of gas in December 2020 was $2.12 per gallon. It has more than doubled since then.

But it goes far beyond that. Higher prices at the pump affect the cost of just about everything.

Fuel and fertilizer, combined, are responsible for about half – and sometimes more than half – of the total costs of food production.

Because food is often transported in vehicles that use diesel fuel, we should also talk about diesel. In fact, just yesterday I was talking to Rep. Gleim about the fact that we're starting to see reports of diesel shortages on the East Coast.

And, of course, the law of supply and demand says that if you have a shortage of supply and high demand, then prices will go up. That's certainly true for diesel prices, which are the highest they've been in the U.S. since the government began tracking them.

In December 2020, diesel fuel cost $2.50 per gallon. Today, a gallon of diesel fuel costs $6.17 per gallon – again, well over double the cost.

Even very large companies like Target and Walmart are being affected. Target recently reported that it anticipates $1B in additional freight costs this year.

By the way, it's worth mentioning that Pennsylvania has the highest gasoline tax and the highest diesel tax in the nation – about 58 cents and 75 cents, respectively.

The cost of diesel also hurts our farmers since many farm vehicles run on diesel.

And farmers are getting hit with a one-two punch, because the cost of fertilizer has tripled – and in some cases, quadrupled.

Part of that is because of events on the world stage. Russia, the world's largest exporter of fertilizer, attacked Ukraine in February. Since then, the world has economically isolated Russia as much as possible. Which, by the way, is absolutely the right thing to do.

But fertilizer prices were soaring even before that attack. An article posted on the American Farm Bureau's website in December 2021 said, "the fertilizer sticker price farmers in some areas are reporting is up more than 300% – and delivery times are anyone's best guess."

All of this adds up to skyrocketing prices for Pennsylvanians.

But it doesn't stop there.

One of President Biden's first actions after taking office was to halt new oil and gas leases on federal lands and waters. The Biden administration has delayed decisions on these leases – a move that results in higher energy costs.

The administration canceled the Keystone XL pipeline and suspended oil and gas leases in New Mexico and the Arctic National Wildlife Refuge. And it has imposed rules which increase barriers to energy projects.

Recently, the administration cancelled three major offshore oil and gas lease sales in Alaska and the Gulf of Mexico. There are still 4,300 drilling permit applications sitting on the President's desk, waiting for approval.

There's also the not-so-small issue of financing for these projects. Companies can't explore and drill, or build necessary pipelines, without capital. Financial regulators in the Biden administration are working behind the scenes to cut it off.

In May of last year, I joined with 14 other state treasurers to call on President Biden and his administration to stop attempts to pressure financial institutions into divesting from coal, oil and natural gas companies.

These companies play a critical role in the economies of many hardworking, middle-class communities across Pennsylvania and the United States. They rely on and deserve access to capital from financial institutions, just like any other law-abiding American company.

The federal government should not pick and choose which companies can do business with banks based on a political agenda.

All of these efforts by the Biden administration have a direct and significant impact on the cost of energy – which, as we discussed earlier, affects the cost of just about everything else.

You heard this from the IFO yesterday, but it bears repeating: Energy prices were up 33% over the past year and are a clear driver of inflation.

And we have not yet felt the full impact of the Regional Greenhouse Gas Initiative. RGGI will increase energy bills dramatically. According to a March 2022 report from the Independent Fiscal Office, "RGGI auction prices [are] much higher than assumed."

Earlier assumptions were based on a nominal price of $3.57 for 2022. But the last two auction prices were $13.00 and $13.50 – more than 3.8 times higher. That's the cost to power plants, and of course it will be passed on to consumers.

In addition to higher costs, Pennsylvania will lose thousands of good, family-sustaining jobs if RGGI is allowed to be fully implemented. The taxes imposed by RGGI will directly harm miners, electrical workers, welders and fabricators. I hope the Commonwealth Court acts quickly to prevent this.

I could go on and on about energy and its importance to our state's economy. But energy is not the only concern.

The cost of durable goods – automobiles, trucks, appliances and furniture – were up 14% over the past year. Grocery prices are up 13% and increasing quickly.

All of that means hardworking Pennsylvanians are getting squeezed. Their paychecks are not keeping pace with inflation, so they're able to buy less and save less.

One traditional way to fight inflation is to increase interest rates, which the Federal Reserve is doing.

That, of course, brings its own set of issues. One example is that the cost of homeownership is going up as mortgage rates increase – at a time when housing costs are already very high.

State government will experience a similar phenomenon as the cost of borrowing for public infrastructure projects increases.

I'd like to wrap up my testimony with some recommendations.

Let's start by talking about the Rainy Day Fund.

We estimate that we'll end the current Fiscal Year with a budgetary balance of about $6.6B.

But a number of one-time factors, including billions of dollars sent to Pennsylvania by the federal government, are responsible for that large balance. It is, in many ways, a mirage.

We know that a fiscal cliff is coming soon, probably at the end of Fiscal Year 24-25 – just three years down the road. If we spend the entire General Fund balance now, as some are advocating, that cliff will be unmanageable. The same people trying to spend everything today will be calling for new taxes tomorrow.

The IFO projects a huge drop in revenue to the General Fund in the coming fiscal year – nearly $5.8 billion, or 11.5 percent. Such a dramatic decrease can't be ignored.

We have surplus funds now, and we know that we'll have less revenue in future years. The logical conclusion is that we should make another big deposit to the Rainy Day Fund while we have the chance.

The General Assembly committed $2.6 billion to the Rainy Day Fund last year, and I applaud you for that decision. Today, the Rainy Day Fund balance is $2.87 billion, which would cover state expenses for about 25 days. The national median is more than 43 days.

Being responsible isn't flashy, and it rarely grabs headlines. But we know exactly what lies ahead. Inflation and an increasingly likely recession will bring serious budget challenges to Pennsylvania for years to come.

The good news is that we can make the approaching fiscal cliff a lot smaller by making another significant contribution to our Rainy Day Fund this year. It's the right thing to do.

In terms of inflation, there are a few things we can do which I believe would have a direct benefit to hardworking Pennsylvanians.

First: Double the Liquid Fuels Tax Refund for farmers and volunteer emergency responders. This would require about $5.3M, a relatively small appropriation, but it would directly benefit our agricultural community and our volunteer emergency responders who have been facing intense financial pressure for years.

Second: Do not toll bridges in Pennsylvania. The reason is probably self-evident – motorists do not need to be paying more right now. It's estimated that PennDOT's bridge tolling initiative would cost the average commuter $1,000 per year. That's unacceptable.

Third: Enact policies which will encourage natural gas and oil production and distribution rather than restrict it – and find ways to increase refinery capacity in our region to fend off future diesel shortages. It currently takes 18 days for diesel to come up from the Gulf Coast via the Colonial pipeline, and it's more profitable for companies to sell diesel in Europe. I recognize that these steps won't have an immediate impact – and they will require action at the federal level as well – but the long-term benefits to Pennsylvania will be tremendous.

Fourth: Don't let RGGI take effect. I know there's a lawsuit pending in the Commonwealth Court, and I hope they do the right thing. But if there's anything more the legislature can do, I encourage you to do it.

Fifth: Start reducing the corporate net income tax. The House passed HB 1960 with an overwhelming bipartisan vote of 195 to 8. That bill will drop the corporate net income tax to 8.99% for 2023 – and, depending on economic conditions, could see it drop even further.

Finally: Enact the one-time bonus for the Property Tax / Rent Rebate program. Like everything else, rent is increasing and the Property Tax / Rent Rebate program does an excellent job of matching the funding with the need. Governor Wolf proposed this, and I think there should be strong bipartisan support.

Thank you again for inviting me to speak, and I'll be happy to answer any questions.

###