PA House of Representatives
Republican Policy Committee

414, Main Capitol Building
Harrisburg, PA 17120
(717) 260-6144

Rep. Joshua D. Kail
Chairman

PA House Republican Policy Committee Hearing

"Relief is Possible: Combatting the Crisis of Cost"

October 7, 2024, at 9 a.m.

House Republican Caucus Room
Room 418, Main Capitol Building
Harrisburg, PA

9:00 a.m.	Welcome and Pledge of Allegiance
9:10 a.m.	**Bryan D. Smith** *Executive Director, Lebanon County Christian Ministries*
9:15 a.m.	**Greg Moreland** *Pennsylvania State Director, NFIB*
9:20 a.m.	**Emily Greene** *Pennsylvania State Director, Americans for Prosperity*
9:25 a.m.	Questions for the Testifiers
9:55 a.m.	Closing Comments

Testifier Biographies

PA House of Representatives Policy Committee Hearing

"Relief is Possible: Combatting the Crisis of Cost"

Bryan D. Smith
Executive Director, Lebanon County Christian Ministries

Bryan Smith is an accomplished executive with over 25 years of leadership experience in healthcare and emergency services. Currently serving as the Executive Director for Lebanon County Christian Ministries, Bryan brings a wealth of expertise in nonprofit management, emergency response, and system development. He has a robust background in Emergency Medical Services (EMS) and has played a pivotal role in implementing clinical innovations across Pennsylvania.

Prior to his current role, Bryan served as the Executive Director and Chief of Operations for First Aid and Safety Patrol of Lebanon, where he led a team of over 100 staff handling 29,000 incidents annually. Under his leadership, the organization was named Ambulance Service of the Year for the Commonwealth of Pennsylvania in 2009 and achieved multiple honors, including the American Heart Association's Mission: Lifeline Gold Plus status.

Bryan is a paramedic graduate of the Center for Emergency Medicine, studied business administration at Capella University, and has received accolades such as Pennsylvania Emergency Health Service's EMS Administrator of the Year and Lebanon County Ambulance Association's Ralph Backenstoes Lifetime Achievement Award.

Greg Moreland
Pennsylvania State Director, NFIB

Greg Moreland is NFIB's Pennsylvania State Director, responsible for NFIB's advocacy, communications, and operations on behalf of the 13,000 small business members across every industry and community in the Keystone State. A former paratrooper in the U.S. Army, 82nd Airborne, Moreland served as a policy analyst to then-Speaker Mike Turzai, and later chief of staff to the late state Sen. Dave Arnold.

As spokesperson for NFIB in Pennsylvania, Greg is a resource on policy matters and economic conditions affecting small businesses, including taxes, spending, and the state budget; mandates, regulations, and red tape; the general business environment, the cost of healthcare, energy, insurance, and workers' compensation. He has been quoted and appeared on broadcasts for publications and outlets across the state.

In 2022, Greg was highlighted in City & State Pennsylvania's, "The 2022 Pennsylvania Forty Under 40" list.

Emily Greene
Pennsylvania State Director, Americans for Prosperity

Emily Greene, State Director for Americans for Prosperity-Pennsylvania, has always had an interest in politics and government. After graduating from the University of Pittsburgh, she immediately jumped head-first into political campaigns.

After several campaign cycles and a healthy mix of wins and losses under her belt, Emily joined the Americans for Prosperity - Pennsylvania team in 2018 in the Greater Pittsburgh region. Over five years later, Emily now serves as the Pennsylvania State Director where she works to build policy coalitions in Harrisburg and fights for policy that allows Pennsylvanians to realize economic prosperity.

Under the dome, Emily loves to take on policy fights that bring unique coalitions and unlikely partners to the table. Through broad-based partnerships, Emily fights for policy within the health care, regulatory reform, criminal justice, and better budgeting space.

Emily is a 2019 graduate of the Anstine Series and an alumna of the American Council of Young Political Leaders.

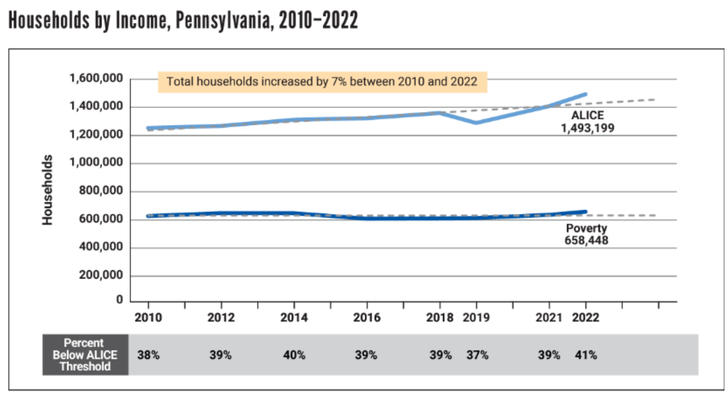
HOUSE REPUBLICAN POLICY COMMITTEE
SEAL OF THE HOUSE OF REPRESENTATIVES OF PENNSYLVANIA

October 9, 2024 Written Testimony

Bryan D. Smith, B.S.

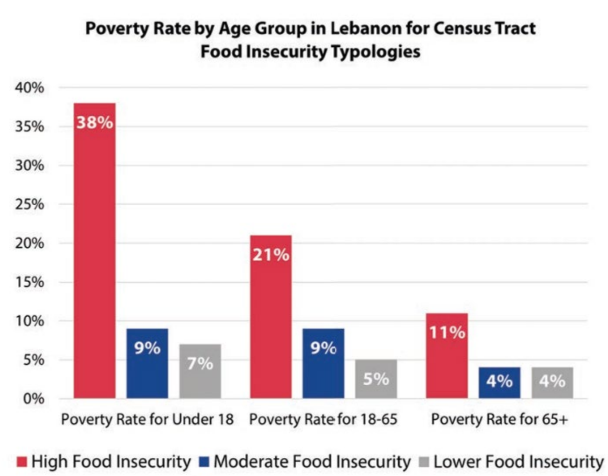
Executive Director – Lebanon County Christian Ministries

2 in 5 Pennsylvanians live in a home struggling to make ends meet. These individuals are living in ALICE, or Asset Limited Income Constrained, Employed,[1] or poverty. The number of individuals living below the ALICE threshold increased 4% between 2019 and 2022, with a 2% increase in just one year from 2021 to 2022.



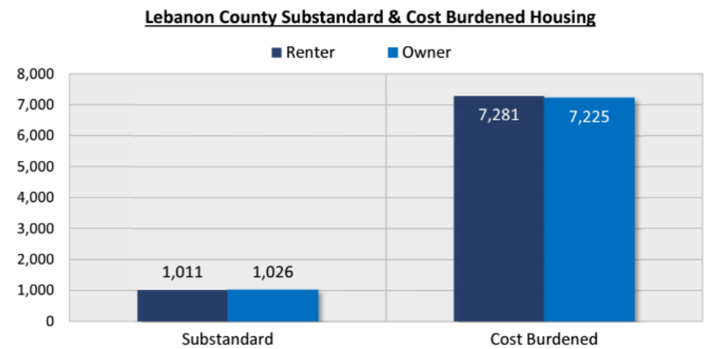
Lebanon County, my home county where I work and reside, is in line with the statewide ALICE and below data. A 2023 Hunger Mapping report from the Central Pennsylvania Food Bank[2] reports that in Lebanon County, children are 71% more likely to experience food insecurity than adults, with a child food insecurity rate of 14% compared to the adult rate of 8.4%. As the executive director of Lebanon County Christian Ministries, I see food insecurity firsthand. Our base of operations is in the City of Lebanon where 18% of the population of Lebanon County resides, but is home to 39% of all food insecure individuals across the county.

While we are focused on Lebanon County, let me introduce you to the 2 out of 5 families who live in a home struggling to make ends meet. Meet Mindy and the Jones family (not their real identities for privacy). Both families have two working adults, working "good" jobs, but are not earning enough to make ends meet. Both Pennsylvania and Lebanon County have unemployment rates of 3.4%, compared to the US rate of 4.2%. We are not unemployed in Lebanon County, but we are underemployed. This is reported in the Lebanon County Housing study, which highlights the mismatch between area wages and affordable housing. A significant share of the labor force is contained within healthcare, manufacturing, and retail trade. Many workers in the area have typical wages generally ranging between $30,000 and $35,000 annually.[3] Both of these families are enrolled in our upLIFT program, a program utilizing the evidence-based framework of More Than Food Consulting and their leader Dr. Katie S. Martin. This program walks alongside guests in meaningful relationships, utilizing motivational interviewing and goal setting to achieve



more in life. The key to the program's success is individuals/families who have a hunger to change their circumstances. We believe in our vision at LCCM: Investing in people. Improving lives. We can invest in our guests, but they must be ready for change. However, many of them face circumstances that they have had no control over. These are circumstances that you and I feel daily – the increase in food costs, vehicle insurance, medical expenses due to increasing prevalence of high-deductible healthcare, the cost of receiving healthcare at an employer, the cost of fuel, and much more.

Let's revisit Mindy, she has a partner and is a mother who works full-time at a grocery store and earns $17 per hour. She *is* ALICE. Due to her income, she does not qualify for SNAP and many other governmental programs designed to support individuals who are living in poverty. At her baseline assessment, Mindy scored very low in food security. The upLIFT program provides a few baseline resources on day one. One of those resources is shopping every two weeks in a food pantry specifically set-up for guests of the upLIFT program. Mindy was able to shop and save an estimated $350 a month on food. This supplements her own shopping and at the end of month 3, Mindy's assessment resulted in an increase in her food security. In parallel, the one-on-one financial counseling has provided her support, and her financial wellbeing scoring has also improved. Mindy is a statistic – living in ALICE, and in her assessment, reported that she is spending more than 50% of her monthly income on housing. Per the 2023 Lebanon County Housing Assessment[3] cost burdened households pay over 30% of income toward housing costs. Over two-fifths (45.0%) of renters and 18.7% of owners in the county are cost burdened, which are similar shares compared to the state (43.5% and 19.7%, respectively). Overall, the county has an estimated 7,281 renter households and 7,225 owner households that are housing cost burdened, with a combined total of 14,506 cost burdened households.



Let's look at the second family, the Jones family. This is a married couple, both 21 years old. The husband works in banking and the wife works in healthcare and they have two children – a boy almost two years old and a girl who is six months old. At baseline assessment, this family scored as being food insecure, and after three months of programming they are food secure. The increase in food security represents a significant change in their ability to provide for their children. The cost of diapers, wipes, and formula has skyrocketed. An NBC News article from July 2024[4] reports the cost of diapers has increased by 48% since the pandemic and costing an average of $1,000 per year per child. Additionally, the cost of baby formula rose from $0.32 per ounce in 2019 to $1.15 per ounce in 2022.[5] There seems to be two or more factors causing this increase. One factor is inflation[6] and the second is those who manufacture and sell formula are inflating prices due to an increase in WIC enrollment. This increases the cost for those families who are purchasing without the assistance of a governmental program like WIC.[7]

The Jones family entered the upLIFT program with a heart for change. After three months, their food security scoring improved, as did their financial wellbeing. Beyond the food pantry access, they, in fact, report that their "life is better." This includes their marriage, their relationships with family, and their ability to be parents.

What is in common with both Mindy and the Jones family? The upLIFT program provided both with the support of food and financial counseling. Another investment in the Jones family was the provision of diapers, wipes, and formula. This support is provided through a grant from a local civic organization specifically to support families in upLIFT with these resources. As noted above, these expenses have increased at a rate more significant than most.

Taking a step back from the local level, we know that the government's anti-poverty measures, which include the temporary Child Tax Credit expansion, in 2021 drove child poverty to a record low of 5.2 percent. The White House released a white paper in November of 2023 that also makes mention that the failure to extend the expanded child tax credit caused child poverty to spike in 2022. In fact, the CEA (Council of Economic Advisers) finds that if the enhanced CTC had been in place in 2022, the child poverty rate would have been 4 percentage points lower, equaling 3 million fewer children living in poverty, which is consistent with other findings.[8]

Table 1: Child Poverty Rates with Alternate CTC Policies (in Percentage Points)

Year	Without Any CTC	With Current Law	With 2021 CTC Expansion	Share Lifted Out of Poverty by Expansion
2018	16.8	13.7	8.0	5.7
2019	15.2	12.5	7.8	4.7
2020	10.8	9.7	6.1	3.6
2021	9.2	8.1	5.2	2.9
2022	15.2	12.4	8.4	4.0

Note: The "with current law" column shows actual poverty rates for each year except 2021. For that year, the actual rate was 5.2% as shown in the "with 2021 expansion" column. Thus, the last column shows the share of children that *would have been* lifted out of poverty in the other years; in 2021, it shows the share that *were* lifted out.

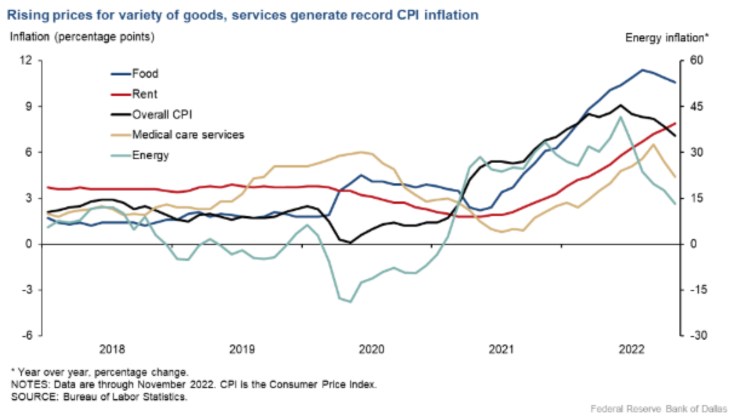
As part of the upLIFT program, we have started a cash infusion initiative. At the 3, 6, and 9-month assessments, upLIFT guests are provided $100 in gift cards. While this is a no-strings-attached initiative, the impact on these families is powerful and the families use the funds to pay utility bills, pay for food, add to their emergency savings funds, or maybe utilize it to make a payment on medical bills.

So, how has the increased cost of living impacted community benefit organizations like Lebanon County Christian Ministries? In July 2023, a complete revamp of the food distribution to a choice pantry named the Market on 7th has resulted in between 1,000 and 1,200 households being served on a bi-weekly basis.

In fiscal year 2019-2020, LCCM served 1,721 households in our food pantry. In fiscal year 2020-2021, that number was 925, a decrease of 46%. But in fiscal year 2021-22, we had an uptick of 51% - that's 1,396 households. This coincides with the expanded child tax credit's expiration. Additionally, we had operated The Emergency Food Assistance Program separate from our pantry distribution. In 2019-20, we served 6,968 households. In 2020-2021, we served 3,829 households – that's a drop of 45%. We held steady in the 2021-22 fiscal year. In 2022-23, we had a 47% jump to 5,722 households.

So, to this point I have address two necessities, food and housing. One more challenge for many families is paying utility bills. In FY 2023/2024, Lebanon County Christian Ministries spent $70,000 aiding with utility bills and the prior fiscal year spent $80,000. The profile of those seeking services are single women, age 40 with children and housing burden due to the average rent of $1,100.

At Lebanon County Christian Ministries, we hear the stories. Our newly launched upLIFT Lite program is meeting with 15-20 families weekly to connect them to community resources and in



some cases provide financial support for utility payments. What we have learned is there is not one thing that occurs and creates need. It is the compilation of higher utility bills, higher grocery bills, higher fuel prices, and higher cost of medical care. A recent article from the Federal Reserve of Dallas[9] reported that inflation has caused an increase in food costs by 10.6 percent, gasoline rising 10.1 percent, rent increasing 7.9 percent and medical care services up 4.4 percent. The report also says inflation disproportionately impacts low-income households.

In closing, community benefit organizations like Lebanon County Christian Ministries are across the Commonwealth of Pennsylvania. Daily, we are engaged with community members - who are struggling to pay bills, pay rent, and put food on the table. They are working at jobs where their income does not mirror the rate of inflation. They take from one area of their budget to cover another area, never getting caught up or ahead. In some cases, the individuals are earning themselves out of governmental programs and then facing the benefit cliff. Some are working two jobs; others are staying home with their children because they can't earn enough at work to pay for childcare. We are committed to our vision statement: Investing in people. Improving lives. But in many areas the need is outpacing the available resources.

About Lebanon County Christian Ministries (LCCM):

LCCM is a community benefit organization, 501c3 non-profit. Found in 1982 and incorporated in 1991, LCCM has served the Lebanon Community for over 40 years. The mission of Lebanon County Christian Ministries is to share the love of Jesus through food, shelter, and connections to promote wellbeing and a healthy community. The LCCM vision statement is: Investing in people. Improving lives. This is achieved through a daily free noon meal, the Market on 7th (a charitable food pantry), a family homeless shelter, a program – upLIFT Lite which connects people to resources and may aid in paying a portion of utilities and/or providing gift cards for clothing at a local second hand store, and the upLIFT program where staff walk with guests for 9-months doing life together.

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September 30, 2024

The Honorable Joshua Kail and Committee Members
via electronic submission

RE: House Republican Policy Committee Meeting: Inflation

These comments are submitted on behalf of the National Federation of Independent Business in Pennsylvania (NFIB PA). NFIB is the nation's leading small business advocacy organization, representing nearly 13,000 members in Pennsylvania and about 300,000 members throughout the United States. Founded in 1943 as a nonprofit, nonpartisan organization, NFIB's mission is to promote and protect the right of its members to own, operate, and grow their businesses.

NFIB's average member has 10 or fewer employees and annual revenue of approximately $500,000.

STOP THE MASSIVE TAX HIKE ON SMALL BUSINESSES

Small businesses are the foundation of our economy, yet nine out of 10 of them are about to face a massive tax hike that would hurt their ability to create jobs and give back to their communities. The 20% Small Business Deduction was created as a part of the 2017 federal tax law to level the playing field between small businesses and larger corporations. It has empowered small business owners to overcome the economic challenges of the last few years – but it's *set to expire at the end of 2025*. The expiration of the small business tax deduction represents a massive tax hike on more than 30 million small businesses. Protecting small businesses is good for America and Congress must save the 20% Small Business Deduction.

Without the 20% Small Business Deduction, the 2017 tax bill would have almost entirely benefited Wall Street corporations. The Small Business Deduction was designed to ensure that small businesses can compete and that they aren't paying higher rates than big companies. Simply put, the Small Business Deduction empowers Main Street to grow and give back. Small businesses must plan years ahead, and right now, they don't have the certainty and confidence to make big investments. They simply don't know if the Small Business Deduction will continue to exist. Until they have that clarity, they can't do all the things they want to do for their team and hometown. Congress has already given permanent tax relief to Wall Street. Now they must do the same for Main Street. Lawmakers in Congress, and the President—no matter who it is—must make the 20% Small Business Deduction permanent.

In the meantime, small businesses are sounding the alarm about what will happen if they don't. Washington should listen before it's too late. Our leaders—both Republican and Democrat—need to make the Small Business Deduction permanent, and they need to do it as soon as possible.

NFIB released two new impactful reports regarding the 20% Small Business Tax Deduction, which is scheduled to expire at the end of next year. The reports illustrate what will happen to the small business economy if Congress makes the 20% Small Business Deduction permanent or if it fails to act.

Findings:

- The Ernst & Young (EY) analysis concluded that small businesses would flourish by making the 20% Small Business Deduction permanent, creating 1.2 million new jobs each year for the first ten years and 2.4 million annually every year thereafter.
- It would also result in a $750 billion GDP increase in the small business sector over the first ten years, and a $150 billion increase annually after that.
- The analysis also found that 33 million small pass-through businesses employ more than 68 million workers in the United States. Of those 33 million small pass-throughs, 25.9 million claimed the deduction in 2021.
- The 2024 NFIB Tax Survey assessed small business owners' biggest tax challenges, implications of potential changes to the tax code, and how tax policy impacts business operations.
- Most notably, 59% of small business owners reported that eliminating the 20% Small Business Deduction would have a negative impact on their business, with **61% reporting they would likely raise prices**, 44% reporting they would postpone or cancel capital investments, and 36% reporting they would postpone or cancel hiring additional employees.

These two new studies prove how vital the 20% Small Business Deduction is to Main Street's economy. We encourage lawmakers, small business owners and voters to consider these facts and urge Congress to pass the Main Street Tax Certainty Act. By allowing small business owners to keep more of their hard-earned money, the 20% Small Business Deduction empowers middle class small business owners to grow their businesses, hire employees and raise wages, keep prices down, and give back to their communities.

[NFIB SMALL BUSINESS ECONOMIC TRENDS REPORT]

The net percent of owners raising average selling prices fell 2 points from July. Twenty-four percent of owners reported that inflation was their single most important problem in operating their business. Price hikes were most frequent in the finance (52 percent higher, 3 percent lower), retail (47 percent higher, 8 percent lower), construction (33 percent higher, 16 percent lower), and manufacturing (33 percent higher, 7 percent lower) sectors. Seasonally adjusted, a net 25 percent plan price hikes in August.

Single Most Important Problem

SINGLE MOST IMPORTANT PROBLEM

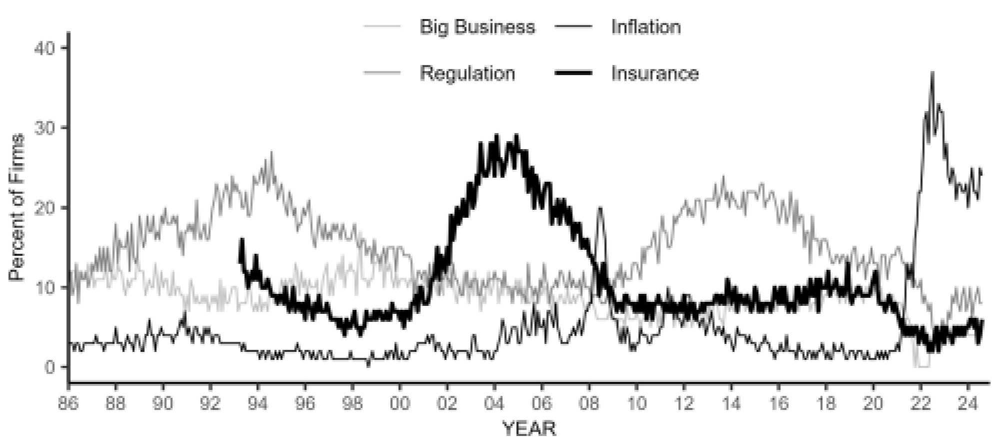
August 2024

Problem	Current	One Year Ago	Survey High	Survey Low
Taxes	13	17	32	8
Inflation	24	23	41	0
Poor Sales	8	5	34	2
Fin. & Interest Rates	4	2	37	0
Cost of Labor	9	8	13	2
Government Regulation	8	8	27	4
Comp. from Large Bus.	5	4	14	0
Quality of Labor	21	24	29	3
Cost/Avail. of Insurance	6	5	29	0
Other	1	4	31	1

SELECTED SINGLE MOST IMPORTANT PROBLEM

Inflation, Big Business, Insurance and Regulation

January 1986 to August 2024



Inflation is the line that spikes after 2020

NFIB SMALL BUSINESS PROLBEMS & PRIORITIES (2024)

This publication is based on a research procedure that has remained fundamentally unchanged since its inception. A large sample of small business owners, all members of the National Federation of Independent Business (NFIB), is sent a mail questionnaire. The questionnaire presents 75 potential business problems, including public policy-related issues.

Small business owners evaluated most problems in the 2024 survey as they did in 2020, the date of the last Problems and Priorities survey. Among problems increasing in importance, "**Interest Rates**," topped the list by rising 43 positions from a rank of 56th in 2020 to 13th in 2024. Four other problems rose 10 or more positions up the ranking starting with "**Pricing My Goods/Services**" moving up from 36th in 2020 to 21st in 2024. "**Cost of Natural Gas, Propane, Gasoline, Diesel, Fuel Oil**" and "**Real Estate Values**" moved 13 and 12 positions respectively.

The problem "**Cost of Supplies/Inventories**" moved up in importance from ranking **12th in 2020 to its current second place ranking.** Inflation and post-Covid supply chain disruptions have left many small business owners with higher costs. The percentage of owners who find it a critical problem increased from 9 percent in 2020 to 20 percent in 2024. This move up the ranking tracks NFIB's Small Business Economic Trends monthly survey that finds that still, one-in-five small business owners find inflation the biggest problem in operating their business.

"**Interest Rates**" leads as it moved up 43 positions from 56th to 13th. The percentage of owners assessing it as a critical issue has increased significantly from 6 percent in 2020 to 22 percent in 2024. Since 2022 the Federal Reserve has been increasing interest rates to combat post-Covid inflation. Although it is not a top-cited issue for small businesses, it is becoming increasingly difficult to navigate. NFIB's December 2023 Financing Sales Survey found that 80 percent of small business owners reported high interest rates as their largest financing complaint.

The problem with the second largest change from 2020 is "**Pricing My Goods/Services**" which jumped 15 positions to 21st. The rising costs of supplies, inventories, labor costs, and energy have been challenging for small business owners in figuring out how much and how often to raise prices on their goods and services and remain competitive.

Largest Changes in Problem Ranking, 2020 to 2024

More Difficult in 2024	2024 Rank	2020 Rank	Ranks Changed
Interest Rates	13	56	43
Pricing My Goods/Services	21	36	15
Cost of Natural Gas, Propane, Gasoline, Diesel, Fuel Oil	6	19	13
Real Estate Values	32	44	12
Cost of Supplies/Inventories	2	12	10
Minimum Wage/"Living" Wage	25	34	9
Employee Turnover	42	50	8
Undocumented Workers	65	73	8
Cyber Crime (viruses, hacking, etc.)	41	48	7
Crime, including Identity Theft, Shoplifting, etc.	55	62	7
Uncertainty over Economic Conditions	3	9	6

NFIB PA POLICY PRIORITES

NFIB has been vocal in sharing our priorities with the General Assembly. Unfortunately, due to divided government and the differing philosophical beliefs in the role of government, limited results have been achieved for our Main Street businesses.

Below you will find a list of legislation that would positively impact our small business community, while helping to reduce inflationary pressures.

HB 1404 (Topper) repeals Accelerated Sales Tax Prepayments.
SB 269 (Gebhard) lowers PIT to 2.8%.
HB 166 (R. Mackenzie) Pennsylvania Families Tax Relief Bill package; includes reduction of personal income tax rate.
HB 701 (Kutz)/ SB 662 (J. Ward) authorizes net operating loss for Small Businesses.
SB 346 (Rothman) increases the net operating loss carryover limitation.
HB 136 (Gaydos) eliminates the Pennsylvania inheritance tax.
HB 2278 (Friel) increases the discount rate for businesses who collect and remit sales tax, collected via credit card transactions.
SB 1051 (Hutchinson)/ HB 1994 (Briggs) improving the state Board of Finance & Revenue Appeals Process.
SB 188 (DiSanto) requires legislative approval for economically significant regulations.
SB 190 (Brooks) requires a review of all economically significant regulations three years after enactment.
SB 350 (Phillips-Hill)/ HB 734 (Fink) creates a tracking system for state permit applications and requires increased transparency throughout the process.

HB 545 (Zimmerman) insurance Renewal Rate for Small Businesses: 50-99 Employees
HB 886 (Grove) removes barriers for utilization of Direct Primary Care Model
HB 555 (Gaydos) authorizes Association Health Care Plans
SB 1015 (Pennycuick) provides business owners with 60 days to respond to a notice of website access compliance issues related to the ADA.

NFIB MEMBER TESTIMONIALS

What follows are NFIB member testimonials about how inflation has affected them. These responses were collected during the week of September 23-27, 2024:

- "We have less to spend on community support and outreach. This has affected the charities and community groups we support."
  Farmer in Nescopeck, PA

- "Everything has increased. We have to pay higher wages while people are not spending like they were."
  Retailer in Normalville, PA

- "[Inflation] has caused customers to hold back on purchases or buy less."
  Lumber Supply in Harmony, PA

- "The rising costs of supplies are soon going to require us to increase prices again. This will be the second time since 2021. Previously, we had not raised prices for almost a decade."
  Screen Printer in Perry County, PA

- "Customers do not want to see price increases, and [doing so] results in lost customers."
  Auto Service in York, PA

- "My business sales have dropped over half… [I'm] trying to stay open."
  Manufacturer in Phillipsburg, PA

- "Increased supply costs and other expenses make us increase costs to our customers. It never ends."
  Pool Service in Chester County, PA

- "[We've been affected by] any expense that is associated with the cost of energy, from utilities to shipping."
  Chiropractor in Warren, PA

- "Rising costs for transportation, raw materials, and extended payment receipts from our customers (related to increased costs in their businesses) have negatively affected our cash flow and profitability. Even though the inflation rate has fallen to between 2% and 3% from a high of 9%, the real negative effect is prices that are up significantly over the past 2-3 years. A business like ours cannot match our pricing at the current rates of increase and expect to maintain our business level."
  Industrial Equipment Supplier in Armstrong County, PA

- "Our overhead costs, electricity, gas, manufacturing consumables, insurance and employee costs have all gone up significantly and it is getting harder to pass these costs on."
  Metal Fabricator in Mars, PA

Thank you again for the opportunity to comment on behalf of Pennsylvania's small and independent businesses.

Sincerely,

Gregory B. Moreland
NFIB PA State Director

Hearing on "Relief is Possible: Combatting the Crisis of Cost" on October 9, 2024
Pennsylvania House of Representatives, Republican Policy Committee
Testimony of Emily Greene, Pennsylvania State Director, Americans for Prosperity

Chairman Kail, Representative John Schlegel, and members of the House Republican Policy committee:

Thank you for the opportunity to share views on the causes and consequences of inflation and America's affordability crisis. I look forward to discussing federal and state strategies to unleash prosperity and to refocus governments on their proper roles.

Reckless spending in Washington, DC, caused the inflation surge. Inflation reached 41-year highs in 2022, and prices today are 20 percent higher than in January 2021. The average Pennsylvania household spends $984 per month for the same goods and services, and their cumulative cost of inflation is about $24,445.[1]

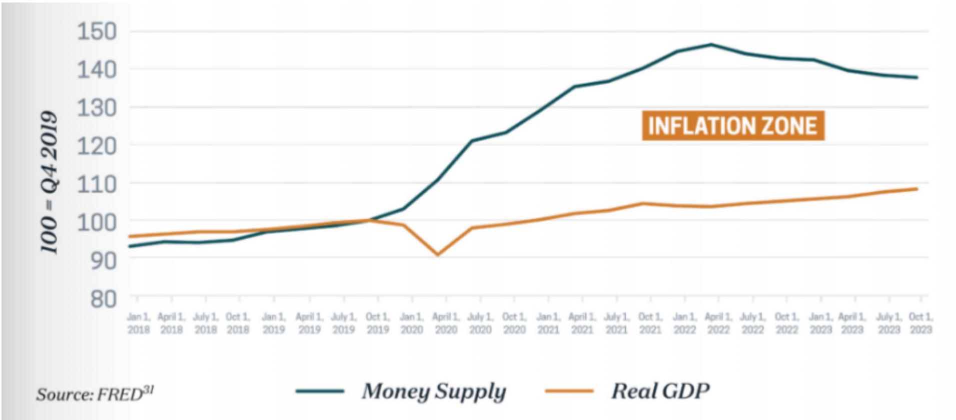
Inflation faded when one-party progressive control in DC ended because the federal borrowing binge slowed. Unfortunately, prices are permanently higher.

Let's consider how federal politicians caused inflation. The 2008 financial crisis and the COVID-19 pandemic gave cover for Democratic members of Congress led by House Speaker Nancy Pelosi to push expansive, debt-financed legislation to advance an ambitious progressive agenda. Nearly all Democrats went along with it, as have some Republicans at times.

During COVID, the Federal Reserve bought most of the new debt, more than doubled its assets, and monetized the debt. Federal Reserve assets are the monetary base, which bank lending amplifies into the overall money supply. The gap between money supply growth and real economic growth (see Figure 1) drives inflation.

[1] Joint Economic Committee Republicans, "State Inflation Tracker," https://www.jec.senate.gov/public/index.cfm/republicans/state-inflation-tracker, accessed 9/30/24.

Figure 1: Inflation is too much money chasing too few goods



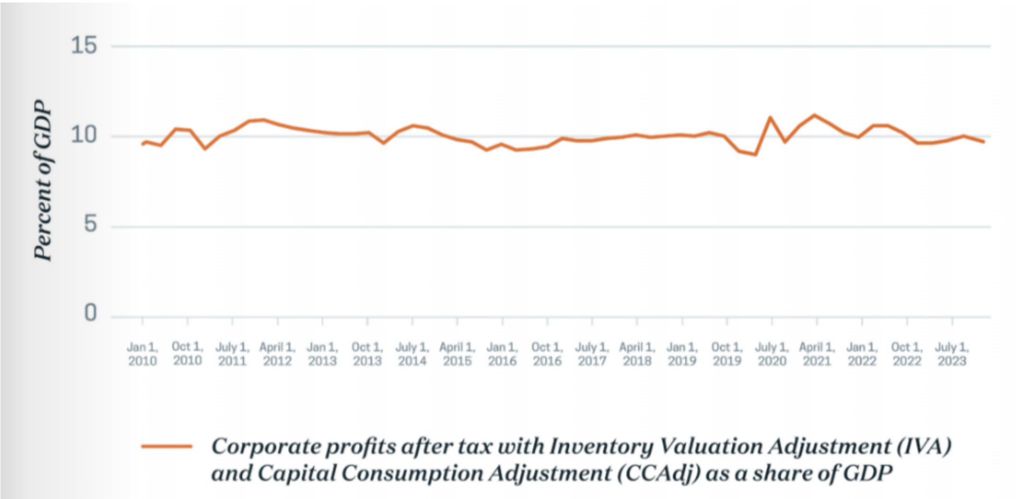
Regulatory burdens amplified fiscal and monetary mistakes. Pandemic lockdowns and an aggressive Biden-Harris Administration undermined economic growth and kept new supplies of goods and services from absorbing excessive money.

Disgracefully, some of the profligate politicians responsible for inflation want to mislead Americans into believing that corporate profits, "price gouging," and "greedflation" are to blame. Pennsylvania's own Senator Bob Casey is the high priest of deceit in this regard.

Corporate profits, properly measured, have been about 10 percent of the economy (see Figure 2). The federal flood of cash pushed them up a little during the pandemic, but they certainly did not cause inflation. I and a colleague explained Sen. Casey's errors and the causes of inflation in a paper this summer.[2]

Figure 2: Corporate profits have been stable as a share of GDP

[2] Kurt Couchman and Ilana Blumsack, "Bidenflation Blame Game: How Big-Spending Politicians Scapegoat Business," Americans for Prosperity, https://americansforprosperity.org/featured/afp-report-shows-that-bidenomics-not-business-creates-inflation/, June 27, 2024.



Source: FRED[20]

Bidenomics is on the ballot this fall. Even so, prices for many of life's necessities were too high before this administration and before the pandemic.

Governments at all levels have enacted policies to subsidize demand and to restrict supply, which push up prices without necessarily increasing the supply of housing, health care, education, transportation, and more. These goods and services are often too expensive and often don't match our individual needs as well as they could.

State legislators can do little to address inflation, but they can reduce subsidies and unnecessary red tape to bring down prices across the board. To do so, legislators must scrutinize government activities regularly.

Legislative budgets should include and be able to manage all spending and revenue, including tax expenditures. Yet the Pennsylvania General Assembly and Congress consider separate appropriations bills that collectively cover a minority of spending and no revenue.

In Congress, new bipartisan legislation would build a complete budget around the appropriations bills and engage all committees.[3] Pennsylvania's General Assembly could do likewise, perhaps without a change in statute, simply by changing practices.

More legislators could participate in the process to drive better results across all activities. For instance, scaling back low-value activities to focus on doing core functions better could also make room for tax upgrades that improve Pennsylvania's competitiveness and grow prosperity.[4]

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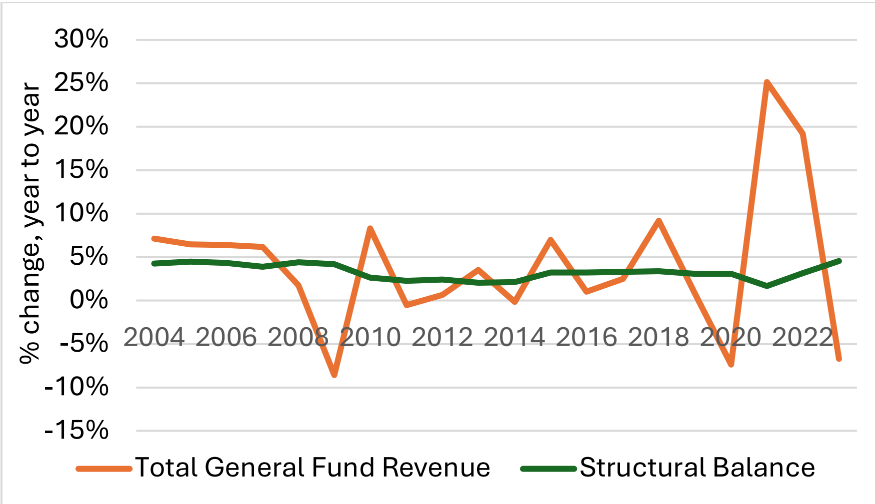
[3] Kurt Couchman, "What is the Comprehensive Congressional Budget Act?" Americans for Prosperity, https://americansforprosperity.org/blog/what-is-the-comprehensive-congressional-budget-act/, September 5, 2024.
[4] Tax Foundation, "2023 State Business Tax Climate Index," https://statetaxindex.org/, accessed 9/30/24.

More and better jobs can help Pennsylvanians overcome the burden of inflation. Better budgeting can fix problems, boost compensation and working conditions, and unleash more flourishing. Growing the economy by removing unneeded barriers can soak up excess money and reduce inflation, although any single state's impact would be small.

Pennsylvania should also adopt rules to balance the budget over the medium term instead of every year (see Figure 3). Surpluses in good years would become reserves to fill gaps in bad years. Policies would be more stable and predictable, which would unleash more private sector investment and opportunity. Legislators could seek permanent improvements instead of cobbling together temporary patches for revenue swings. [5]

[5] Kurt Couchman, "States Can Unleash Freedom and Reclaim Sovereignty With Structural Balance," Americans for Prosperity, https://americansforprosperity.org/wp-content/uploads/2022/11/AFP-States-can-unleash-freedom-and-reclaim-sovereignty-with-structural-balance.pdf, November 2022.

Figure 3: Structural balance provides near-term stability



Fiscally strong and independent states would deter congressional bailouts, which often carry federalism-eroding strings that last much longer than the money does. Legislation like the American Rescue Plan Act that triggered inflation might never have passed.

Several other states already do something similar, and it should have bipartisan support. Pennsylvania's Constitution appears to allow statutory structural balance rules.

Budgeting is central, but it isn't everything. Legislators should also divide up the regular review of laws in their committees' jurisdictions so they can seek out and reduce unmerited barriers.

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Excessive federal spending caused inflation. Ending the borrowing binge stabilized prices, but they are 20 percent higher than they were in January 2021. Some politicians have resorted to scapegoating others for the problems they caused.

State governments may be able to reduce inflation by growing their economies. They have greater scope to reduce high costs in housing, health care, education, and beyond by carefully reviewing and adjusting subsidies and regulations that drive up costs.

Legislators should embrace a comprehensive legislative budget and smart budget targets to empower them to drive better outcomes for those they represent. Greater fiscal independence by states would limit intrusions on their responsibilities and federal budget blowouts that may contribute to inflation.

Thank you for the opportunity to share these thoughts. I look forward to your questions and to working with you toward a brighter future for all Pennsylvanians and all Americans.