

Pennsylvania budget underfunds education, cuts taxes for the wealthy

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The \$29.9 billion budget proposed for Pennsylvania continues the underfunding of education and other social programs along with tax hikes for the working class and tax cuts for the wealthy. Newly elected Democratic Governor Tom Wolf presented the budget last week.

Tax increases for the working class underwrite much of what is new in the budget. Wolf is seeking a 20 percent increase on individual income tax from 3.07 percent to 3.7 percent. His proposal does include tax forgiveness for those earning under 150 percent of the poverty line. But outside of this exception, Pennsylvania's income tax is a regressive flat tax falling most heavily on working class and low-income individuals.

A recent study by the Keystone Research Center shows that the richest 1 percent, who receive nearly 20 percent of all income in the state, pay just 4.2 percent of their income in state and local taxes, while the middle 20 percent pay on average 10.3 percent of their income on state and local taxes.

The state sale tax will also be increased by 10 percent, from the current 6 percent to 6.6 percent. This is expected to raise the state some \$1.6 billion in new revenue. Many exemptions to the sales tax, such as legal work, accounting and dry cleaning, will be ended. While food, clothing and prescription drugs will still be exempt, sales taxes are very regressive, since lower income people spend a much larger percentage of their earnings on items covered by the tax.

In addition, so-called "sin" taxes will be increased. The tax on a pack of cigarettes will rise from \$1.60 to \$2.60.

The Wolf administration claims that families earning under \$100,000 a year would see no tax increase because his budget includes \$2.1 billion in property tax

relief. Neither Wolf nor other administration officials provided any details supporting this claim, while obvious facts point to the opposite.

Seventy percent of Pennsylvania households are homeowners, which leaves 30 percent of households that will not receive any of the property tax relief in the budget. Furthermore, this 30 percent is disproportionately made up of low-income workers, young families and minority households who rent and cannot afford a home. In those cases, landlords still pocket the tax break.

In total, these taxes are expected to bring in an additional \$4.25 billion. While Wolf is increasing the taxes that will fall on the working class and the poor, he is cutting taxes for the wealthy and big business. Wolf is seeking to cut the corporate income tax from its current rate of 9.99 percent to 5.99 percent next year and 4.99 by 2018, a 50 percent reduction.

Wolf brags that the cut in the tax for corporations will mean that only three other states have lower income tax on corporations throughout the entire country. He claims that the tax cut will be offset by closing tax loopholes, but Republican lawmakers counter that it will cost \$1.25 billion in revenue.

Wolf is also proposing a 5 percent tax on the value of natural gas extracted from the Marcellus and other shale gas. Long criticized for being the only gas producing state without any tax on gas extraction, falling gas prices means Wolf's proposals will fall far short of the revenue he is claiming it will produce, leaving a gaping budget hole.

Education

Wolf's defeat of his predecessor, Republican Tom Corbett, is generally attributed to the hostility of people to the deep cuts that Corbett made to education during his four years as governor. Wolf had promised that he would restore funding to education and other social services that were cut. This claim was further presented by the state's two largest teachers unions as well as the unions representing state workers, who will now support and campaign for Wolf's tax hikes.

Wolf's budget does include an additional \$1 billion for public education, but a closer look reveals that education remains massively underfunded.

First of all, Wolf has tied the increased education spending to his tax hikes. For their part, the Republicans who control the state legislature have said they will only consider increased taxes if there is a deal to cut the pensions of teachers and the 79,000 other state workers in return.

Second, \$400 million of the \$1 billion in additional funding going to local school districts is for teachers' pensions, which have been underfunded for years. When the amounts put into the pension plans are not included, Wolf's proposal for education amounts to an additional \$260 million that can be used by school districts to hire teachers and pay for books and other supplies.

Wolf's proposal does not address the general underfunding of education throughout the state. When compared to the 2010-11 school year, the year before Corbett's cuts, Wolf's budget amounts to an additional \$142 million. Counting for inflation, Wolf's proposed education funding amounts to a cut of over \$600 million.

The five-year cumulative impact of the education cuts is \$2.1 billion, when the money for pensions are taken into account. When not included, the cumulative five-year deficit is a staggering \$5.5 billion. This lack of funds has forced the vast majority of school districts in the state to lay off teachers, close schools and cut programs.

The same holds true for higher education. Wolf's budget increases spending on higher education from \$1.6 billion to \$1.76 billion, a \$160 million increase over last year. However, spending on higher education still falls \$166 million short of 2010-11 levels. When inflation is taken into account, the spending cut is \$318 million from 2010-11, while the cumulative impact is a

cut of over \$2 billion in the past five years.

Pensions

Wolf claimed that his budget would fully fund the pensions for 79,000 state workers and 49,000 public school employees, which are currently underfunded by some \$55 billion. In fact, Wolf's proposal is merely to pay into the pension funds the amount stipulated in a 2010 act that, if followed for 30 years, might restore the pension to full funding if all other assumptions prove true.

Furthermore, the \$1.75 billion that Wolf is promising for the public school employees' retirement system is based solely on the passage of the increased sales tax, which itself falls disproportionately on lower income workers and their families.

On top of this, the pensions that cover the tens of thousands of municipal workers are underfunded by \$7.7 billion. (See: Pennsylvania Democrat calls for cuts to pensions for municipal workers) Wolf made no mention of providing the funds needed to secure the pensions for these workers.

Republicans who control both chambers in the state legislature have stated that they will not consider any of Wolf's proposed tax increases unless he makes changes to the pensions for state workers and teachers.

The contracts for the 79,000 state workers expire this summer. Most ideas being floated include moving new and younger employees into 401(k) style pensions, which do not provide guaranteed benefits. Other proposals include raising the retirement age, increasing employee contributions, and eliminating the use of overtime pay in computing pensions.



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