Changing Pennsylvania
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Pennsylvanians famously resist change. Nowhere is this characteristic more in evidence than in the way we organize and run our governmental institutions.

Evidence for this proposition confronts the most casual encounter with Pennsylvania's antiquarian system of local governments—or for an even more historical experience, getting up-close and personal with the state's neo-colonial local tax system. Dare we mention the museum-quality experience awaiting anyone purchasing wine or spirits from the state liquor monopoly? We could go on and on.

This resistance to change is particularly pronounced where new taxation is concerned. Pennsylvania was after all the home of the notorious "Whiskey Rebellion" in 1794 during Washington's presidency. Washington may have been the "father of his country," but even he got scant respect in Pennsylvania when it came to taxes. He had to call out the militia to thwart the farmers of Western Pennsylvania who resisted paying the excise tax on distilled whiskey.

Pennsylvania's traditional resistance to taxes has continued in more modern times. In 1913, when Congress sent the federal income tax amendment to the states, the Pennsylvania legislature failed to ratify it.

But these instances pale in comparison to the obstacles encountered by successive governors attempting to establish the state's first income tax after World War II. In the 1950s, Gov. George Leader proposed a "classified" income tax—it went nowhere. Then in the 1960s, Gov. Ray Shafer proposed a graduated income tax and the opposition from his own party wrecked his political career.

In the end, Shafer's successor, Milton Shapp, had to propose not one, but two income tax proposals to finally get one that satisfied the state Supreme Court.

But all of this hoary tradition is about to be tested as we begin to talk about and debate the multiple proposals recently presented to the legislature by Gov. Rendell. There are many things not yet clear about the governor's complex series of proposals, but there is no lack of clarity about one thing: The governor is talking major change here—major change in the way we tax ourselves, the programs we spend it on, and the role government will play in the economy of the state.

Stripped of the detail (mercifully some might say who sat through Rendell's 75-minute-plus speech), here is what the governor is proposing:

* An increase from 2.8% to 3.75% in the state income tax to yield about $2.5 billion annually;

* New bond borrowing of $2 billion to support an array of economic development initiatives;

* Property tax cuts of $1.5 billion that will range across school districts from 15% to 60%, and average 30% statewide;
* New education spending for an array of new and enhanced programs, including full day kindergarten and reduced class size; and

* Legalized slots at as many as eight tracks to yield about $300 million the first year, and up to $700 million in later years.

And these are just the highlights. There's more, much more. But the really interesting question is, beyond the mountain of detail, formulas, and statistics accompanying the governor's proposals, what does it all mean? What would change if Rendell's proposals were adopted?

The short answer is that a lot would change. In particular, Rendell's proposals would bring about four fundamental changes in the Pennsylvania status quo.

**Some groups are going to pay more taxes while others pay less:** Rendell's proposals to shift some taxes while raising others would produce some clear winners and losers. Among the winners would be those who pay residential property tax, some seniors (particularly those who own property but don't work), lower income folks, and people who live in less affluent school districts. Among the losers would be renters, people with higher incomes, and people who live in more affluent school districts. Some groups are going to be very big winners, such as fixed-income seniors who own property and live in less affluent school districts, while other groups will be big losers, such as upper-income renters living in affluent school districts.

**Significant tax shifting from property taxes to income taxes will result:** Rendell's proposals are predicated upon significant tax shifting away from the base of the local property taxes to the base of the state income tax. This means that on average (a key qualifier) Pennsylvanians will pay more income tax and less property tax then they now do. But there will be wide differences among individual taxpayers.

**State revenues and expenditures will substantially increase:** Tax shifting by itself is "revenue neutral." It doesn't imply higher taxes or more revenues. The Rendell proposal, however, combines tax shifting away from the property tax with net revenue increases from the income tax and other taxes such as slots, wireless phones, and beer. Much of this new money will be earmarked for education.

**The tax system will become less regressive and more progressive:** Currently, state and local government taxes are largely a mix of regressive and proportional taxes. The property tax is generally regressive in that lower-and middle-income people pay a higher percentage of their income for property taxes than do higher income earners. But the nominally proportional state flat rate income tax is, in practice, mildly progressive because of various exemptions. Under Rendell's proposals, more revenues will be raised from the mildly progressive income tax at the expense of the regressive property tax. This represents a significant shift in philosophy about how to raise state revenues. And by Pennsylvania standards that would be a major change. Individually, these four changes each represent significant departures from existing revenue and expenditure policies. But collectively they comprise fundamental change in the way Pennsylvania taxes and spend its revenues.

And if we get any of them, we are likely to get most or all of them. Rendell's proposals are a package, albeit a package that could be phased in over time, and it is hard to imagine that any of these fundamental changes in taxation and spending would be adopted without most or all of them being adopted.
So, a lot of change or no change is what we are likely to get as we discuss and debate Rendell's proposal in the weeks and months ahead. One thing we know now, however, is that none of it will be easy. In Pennsylvania, doing things differently is always a hard sell. That's one thing even Rendell won't be able to change.

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