

# The State of Working Pennsylvania 2014

**Mark Price, Stephen Herzenberg, and Natalie Sabadish**



The Keystone Research Center  
Harrisburg, Pennsylvania



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## About the Authors

Mark Price, KRC's Labor Economist, holds a PhD in economics from the University of Utah. He is a coauthor of *The Increasingly Unequal States of America: Income Inequality by State, 1917 to 2011*, published in 2014 by the Economic Analysis Research Network.

Stephen Herzenberg, KRC's Executive Director, holds a PhD in economics from MIT. He is a coauthor of *Losing Ground in Early Childhood Education*, published in 2005 by the Economic Policy Institute, and *New Rules for a New Economy: Employment and Opportunity in Postindustrial America*, published in 1998 by Cornell/ILR Press.

Natalie Sabadish, is a summer research fellow/analyst for the Keystone Research Center. She has previously worked as a research assistant for the Economic Policy Institute, as well as an intern for the Delaware Department of Labor and for KRC in her time as an undergraduate. She has a B.S. in economics from the University of Delaware and is currently pursuing an M.S. in Public Policy and Management from the Heinz College at Carnegie Mellon University.

## Acknowledgments

The authors thank the team at the Economic Policy Institute (EPI), which provides support to the Keystone Research Center and the other state think tanks within the Economic Analysis Research Network (EARN); this team includes Doug Hall, David Cooper, and Alyssa Davis. Thanks to Estelle Sommeiller of the Institute for Research in Economic and Social Sciences (IRES) for her work to update the state by state top income series. Thanks to Ellen Lyon, Communications Director for KRC and its Pennsylvania Budget and Policy Center (PBPC), for editorial assistance and guidance, and to Stephanie Frank, KRC Office Manager, for producing the charts and figures in this report.

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## Executive Summary

It is now more than six-and-half-years since the Great Recession began. After three years in which Pennsylvania job growth declined each year, Pennsylvania has seen more rapid job growth in 2014 and a significant decline in its unemployment rate. Yet even in July 2014, the latest month for which we now have data, Pennsylvania still had 20,000 fewer jobs than in December 2007 – with no jobs created to absorb Pennsylvania’s population growth of 3.7% since then (which would require another nearly 220,000 jobs). These facts set the context for our annual review of the Pennsylvania economy. Pennsylvania and the nation have experienced a deep and traumatic recession and a long, slow, and painful recovery. The evidence we present in this report indicates that the recovery has been longer, slower, and more painful than it needed to be because of misguided policies crafted in Washington D.C. and Harrisburg.

Since the end of 2010, as the successful American Recovery and Reinvestment Act began to wind down, economic policy from Washington and Harrisburg have been guided by the idea that we can cut our way to prosperity – that reducing spending at a time of high unemployment and sluggish economic growth would restore the economy to health.

This approach, which flies in the face of an overwhelming body of experience, has not worked.

We start this report (in Chapter 1) by presenting the basic facts on Pennsylvania’s recent economic experience, in some cases comparing it to the nation.

- Pennsylvania job growth per month finally picked up at the end of 2013 and in 2014 but remains below the level of 2010.
- The Pennsylvania unemployment rate has fallen substantially in the past year, to 5.7%, and is once again below the national unemployment rate, albeit not as far below as from 2009 to 2011.
- A broader and more reliable definition of the share of people who have less paid employment than they would like, the “underemployment rate,” remains at 12.5% in Pennsylvania, one out of eight of all employed plus underemployed people.
- Partly as a result of continuing labor market slack, inflation-adjusted hourly wages in 2013 in Pennsylvania remain below their 2010 levels, 35 to 55 cents per hour below for the lower 80 percent of the distribution – roughly \$750 to \$1,150 dollars less per year for a full-time worker.
- From 2010 to 2012, preliminary data show that the top 1% in Pennsylvania received *more than 100%* of the increase in total income in Pennsylvania. While the average income of the top 1% climbed nearly \$150,000 in just these two years, the average income of the bottom 99% declined.

Chapter 2 steps back to the policy context for Pennsylvania’s recent economic performance, at the national and state level: the ascendancy of “austerity economics” in Washington and Harrisburg following the 2010 mid-term elections, an economic approach that emphasizes cutting government spending even in a high-unemployment economy.

Chapter 3 then compares Pennsylvania’s economic performance against that of other states since the more explicit and pronounced turn to a cuts-only approach to economic policy in Washington and in Harrisburg – i.e., since 2010 (or since January 2011 for indicators available monthly). We examine the performance of the state’s economy on four categories of indicators: job growth, labor-market slack, income and wages, and economic growth. We rank Pennsylvania on each indicator against other states. To make the bottom line findings easier to understand, we convert these rankings into “grades” based on a curve that translates a mid-point ranking (25<sup>th</sup> or 26<sup>th</sup>) into a C+, gives 11 states some kind of A, and only the bottom

three states an F. We also produce an overall summary grade. (See the online [technical appendix](#) for the data and rankings for each state.)

Pennsylvania's overall grade over the past three-and-half-years is a C-. Eight states received a lower overall grade.

1. Job Growth: Pennsylvania's received its lowest ranking and grade on job growth, the first of our four categories of indicators.

- Thanks to improved performance in 2014, Pennsylvania has climbed from 49<sup>th</sup> place since January 2011 to 47<sup>th</sup> place – moving the state from an F to a D-. While the state often ranks low for job growth because of low population growth, state job-growth rankings depend less on population growth during a recovery, as indicated by the state's top 10 ranking in 2010.
- The improvement in the state's job performance this year stems partly from job growth in the construction industry. One factor in this improvement could be the transportation infrastructure package enacted by the legislature near the end of 2013 – a move away from a cuts-only approach and towards investing in the future.
- Pennsylvania also received a low grade for manufacturing job growth (D).

2. Labor Market Slack: Pennsylvania had a more mixed performance on labor market slack.

- Both the Pennsylvania and U.S. unemployment rates have fallen substantially in the past year, to 5.7 percent and 6.2 percent respectively.
- Measured by the percent change in the unemployment rate since January 2011, Pennsylvania ranks 23<sup>rd</sup>, earning a B-. Over this period, the state's unemployment rate declined by 2.4 percentage points from 8.1%.
- Since the unemployment rate is an imperfect measure – sometimes improving because more people who cannot find jobs drop out of the labor force – we also measure labor market slack using the underemployment rate. This includes “discouraged workers” and people working part-time when they want full-time jobs. On underemployment, Pennsylvania ranked 38<sup>th</sup> since 2010, earning a grade of D+.
- The underemployment rate fell from 14.7% in Pennsylvania in 2010 to 12.5% in 2013-14. Over the same period, the national underemployment rate fell further, from 16.7% to 12.9%.

3. Wages and Income: nationally and in most states, wages and income have been flat since 2010 and all the way back to 2000. Against this backdrop, Pennsylvania finished somewhat below the middle.

- Pennsylvania's median wage fell 3% since 2010, ranking 32<sup>nd</sup> and earning a C-.
- “Market income” measures income excluding public assistance. This measure improved in most states as the economy climbed out of the Great Recession and more people found jobs. On this measure, Pennsylvania saw an increase of 5.8% since 2010, ranking 29<sup>th</sup> and earning the state a C.

4. Economic Growth: on two measures of economic growth, real per capita GDP growth and growth in real consumption expenditures, Pennsylvania ranked slightly below average (30<sup>th</sup> and 31<sup>st</sup>), receiving a C.

In sum, Pennsylvania's economic performance has been a little below average in three areas (labor market slack, economic growth, and wages and income), and near the bottom in the fourth area (job growth).

One question, of course, is how much this reflects state policies versus factors beyond the short-run control of legislators and the Governor. As we explain in the conclusion to this report, we think it clearly reflects both.

When it comes to job growth, for example, there is a direct connection between the state's education funding cuts and the layoff of 27,000 public education employees. The delay in the state's decision to invest in transportation infrastructure also contributed to the state's D- in job growth. Similarly the delay in the state's acceptance of federal dollars to expand Medicaid is slowing job growth this year. The reduced job growth resulting from these policy decisions, in turn, also impacts our other indicators, lowering Pennsylvania's overall grade on economic performance.

In absolute and relative terms, this year's *The State of Working Pennsylvania* makes emphatically clear, our economy is not performing well from the perspective of typical families. The embrace of a cuts-only approach to managing the economy at the national and state level have been a dismal failure. Middle-class families across Pennsylvania continue to pay the price.

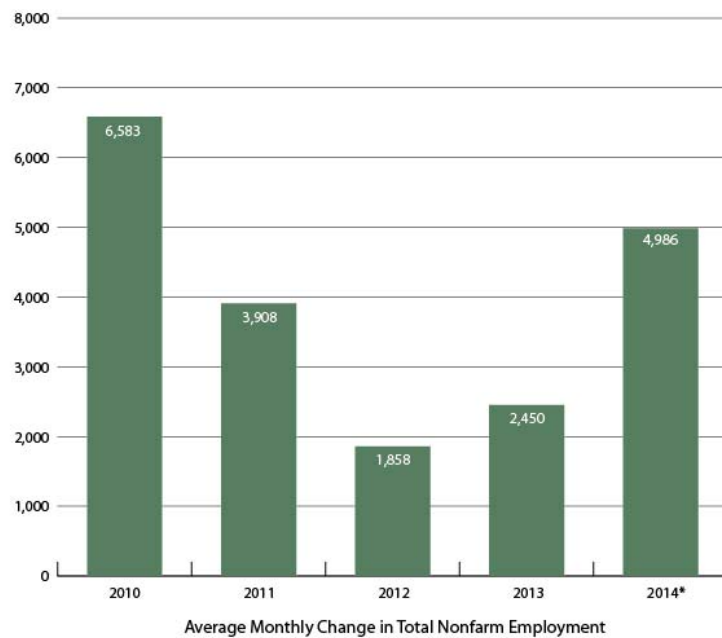
## Chapter 1: The State of Working Pennsylvania

This chapter pulls together a short summary of recent economic trends in Pennsylvania, in some cases compared to the nation.

### Job Growth

We start with job growth. In the second half of 2013 and the first seven months of 2014, Pennsylvania has experienced the first improvement in job growth since 2010 (Figure 1). Pennsylvania added 6,600 jobs per month in 2010. Job growth slowed in 2011 and 2012 to 3,900 and 1,900 jobs per month respectively. Job growth improved somewhat in 2013 with the economy adding 2,500 jobs per month. So far in 2014 Pennsylvania has added just under 5,000 jobs a month from January to July.

**Figure 1. The Pace of Job Growth in Pennsylvania has Picked Up in 2014**



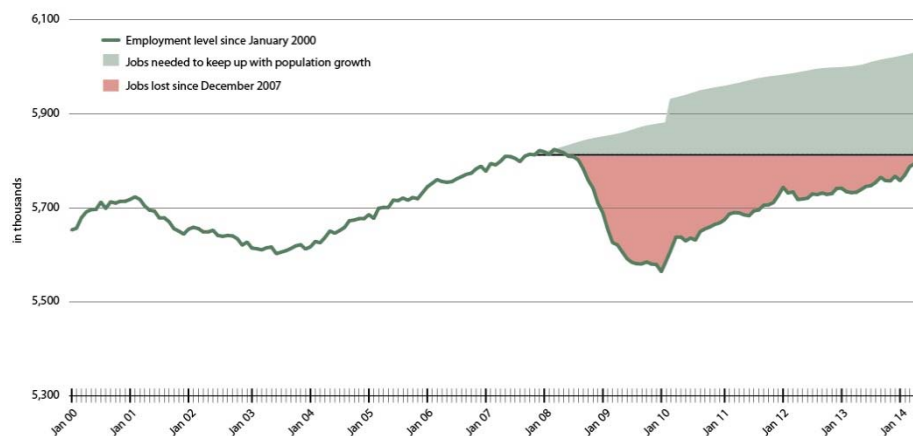
\*Data for 2014 is current through July.  
Source: Keystone Research Center based on Current Employment Statistics.

Nationally, the number of jobs exceeded the December 2007 number in May 2014. In Pennsylvania, the number of jobs remains below the December 2007 level by nearly 20,000. That can be seen on Figure 2, which shows the number of jobs and also shows a trend line indicating how many more jobs must be created to keep pace with population growth.

The pink shaded area shows the jobs needed since December 2007 to keep pace with population growth – 217,800 jobs as of July. Adding these jobs to the nearly 20,000 decline in the absolute number of jobs since December 2007 yields today’s total “jobs deficit” in Pennsylvania:

237,700. This is the number of jobs needed to bring back a job market as strong as existed before the recession, in December 2007.

**Figure 2. The Growth in Employment in Pennsylvania Lags Population Growth**



Source: Economic Policy Institute

## Labor Market Slack

The economic indicator other than job growth that is followed most closely month-to-month is the unemployment rate. As Figure 3 shows, Pennsylvania's unemployment rate has improved substantially over the past year. Unemployment was 5.7% in July 2014, versus a U.S. rate of 6.2%.

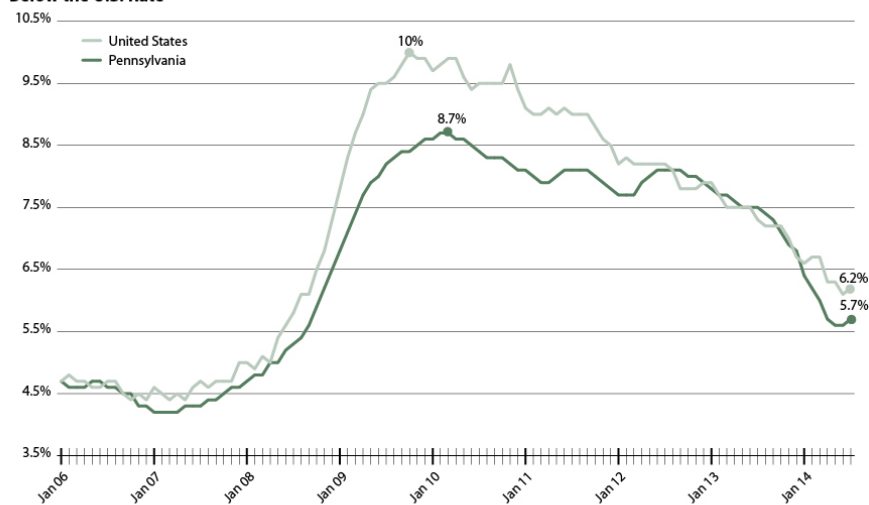
Pennsylvania's unemployment rate was one to one-and-half percentage points between the national rate for most

of 2009 to 2011, fluctuated around the national rate for most of 2012 and parts of 2013, and has been under the national rate again in the last seven months, but by less than a percentage point.

Since the unemployment rate is an imperfect measure – sometimes improving because more people drop out of the labor force who cannot find jobs – economists also look at two other indicators of labor market slack for which changes can more easily be interpreted as positive or negative.

One of those indicators is the employment-to-population ratio (Table 1). This has increased recently by eight tenths of a percentage point, to 58.6% in 2013, but remains well below its prerecession level of 61.7%. Prime age workers (25 to 54 years of age) did not to see an improvement in their employment-to-population ratio since 2010. This rate, at 76.5%, remains close to the 2011 trough of 76.1% and far below the recent peak of 80.9% in 2008.

**Figure 3. Since the Start of 2014 the Unemployment Rate in Pennsylvania Has Once Again Dipped Below the U.S. Rate**



Source: Keystone Research Center based on Bureau of Labor Statistics data.

Table 1.

year	Employment to population ratio			
	16+	16 to 24	25 to 54	54 +
2007	61.7%	54.5%	80.5%	36.2%
2008	61.8%	54.3%	80.9%	36.4%
2009	59.2%	51.9%	77.8%	36.0%
2010	57.8%	47.0%	76.8%	35.9%
2011	58.2%	52.0%	76.1%	35.9%
2012	59.0%	52.7%	76.8%	37.0%
2013	58.6%	49.4%	76.5%	38.1%
Change 2007 to 2010	-3.9%	-7.5%	-3.7%	-0.3%
Change 2010 to 2013	0.8%	2.4%	-0.3%	2.2%

Source: Economic Policy Institute (EPI) analysis of Current Population Survey (CPS) data



The second alternative measure of labor market slack is a broader definition of the unemployment rate (technically called “U6”) (see Table 2). This includes “discouraged workers” and “involuntarily part-time” workers who want full-time jobs but cannot find one. The underemployment rate has fallen since 2010 by just over two percentage points to 12.5% in the most recent 12 months. The U.S. underemployment rate fell 3.8 percentage points over the same period, to 12.9%.

### Wages and Incomes

Table 3 shows wages over time for low-, middle- and high-wage workers in Pennsylvania. Wages for very low- (10<sup>th</sup> percentile) and low-wage (20<sup>th</sup> percentile) workers are down by just over 4% since 2010.

Workers at the median did somewhat better, with earnings down 3% since 2010. Higher-wage workers have fared better than most other workers since 2001. After adjusting for inflation, workers at the 70<sup>th</sup> percentile and above are the only ones with wages higher today than in 2001. In general trends in hourly wages for workers in the U.S. (Table 4) have followed the same pattern as in Pennsylvania.

The hourly wage data summarized above is collected from a survey of households which is known to miss income trends among the highest 1% of earners. For this reason researchers examine top 1% income trends using tax data. Our preliminary analysis of 2012 data from the Internal Revenue Service show that all income growth in Pennsylvania recently has occurred among the highest paid 1% of earners.<sup>1</sup> Since 2010 the average income of the top 1% in Pennsylvania has climbed 16% to \$1,069,318 – a jump of roughly \$150,000 – while the average income of the remaining 99% of

Table 2.

Underemployment rate		
Year	Pennsylvania	United States
2007	7.7%	8.3%
2008	9.3%	10.5%
2009	13.8%	16.2%
2010	14.7%	16.7%
2011	13.9%	15.9%
2012	13.9%	14.7%
2013	13.4%	13.8%
2013-14*	12.5%	12.9%
Change since 2007	7.0%	8.4%
Change since 2010	-2.2%	-3.8%

\*Measured from the 3rd Quarter of 2013 to 2nd Quarter of 2014

Source. Keystone Research Center analysis of Bureau of Labor Statistics data

Table 3.

Hourly wages by percentile in Pennsylvania (2013 \$)

Percentile	2001	2010	2013	Percent Change	
				2001 to 2013	2010 to 2013
10th	\$9.02	\$8.83	\$8.44	-6.4%	-4.4%
20th	\$10.90	\$10.71	\$10.25	-6.0%	-4.3%
30th	\$12.92	\$12.81	\$12.46	-3.6%	-2.7%
40th	\$14.73	\$15.13	\$14.79	0.4%	-2.2%
50th	\$17.26	\$17.48	\$16.95	-1.8%	-3.0%
60th	\$20.04	\$20.33	\$19.78	-1.3%	-2.7%
70th	\$23.60	\$24.33	\$23.79	0.8%	-2.2%
80th	\$28.21	\$29.01	\$29.11	3.2%	0.3%
90th	\$37.19	\$38.62	\$38.51	3.5%	-0.3%

Source. Economic Policy Institute (EPI) analysis of Current Population Survey (CPS) data

<sup>1</sup> Top income shares for 2012 are preliminary estimates based on Estelle Sommeiller and Mark Price, *The Increasingly Unequal States of America: Income Inequality by State, 1917 to 2011*; online at <http://www.epi.org/publication/unequal-states/>

earners fell 1% to \$43,847. As result of these divergent trends the top 1% of earners captured 19.8% of all Pennsylvania Income, in 2012 up from 17.4% in

2010. Since the top 1% were the only group that enjoyed income growth over these two years they also captured all of the income growth in this period.

Table 4.

Hourly wages by percentile in United States (2013 \$)

Percentile	2001	2010	2013	Percent Change	
				2001 to 2013	2010 to 2013
10th	\$8.80	\$8.66	\$8.36	-5.0%	-3.5%
20th	\$10.61	\$10.50	\$9.99	-5.8%	-4.9%
30th	\$12.65	\$12.40	\$11.94	-5.6%	-3.7%
40th	\$14.50	\$14.71	\$14.19	-2.1%	-3.5%
50th	\$16.91	\$17.09	\$16.69	-1.3%	-2.3%
60th	\$19.79	\$20.22	\$19.73	-0.3%	-2.4%
70th	\$23.57	\$24.35	\$23.87	1.3%	-2.0%
80th	\$28.51	\$30.08	\$29.80	4.5%	-0.9%
90th	\$38.08	\$40.82	\$40.35	6.0%	-1.2%

Source. Economic Policy Institute (EPI) analysis of Current Population Survey (CPS) data

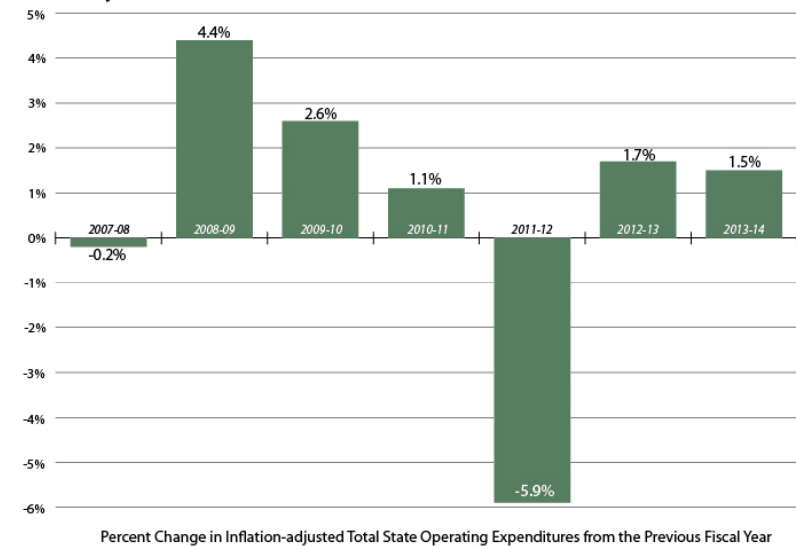
## Chapter 2: Behind Recent Pennsylvania Economic Trends: Austerity Economics

This chapter and the next one focus on the shift to “austerity economics” in 2011 and its impact on the economies of Pennsylvania and other states. Austerity economics is a short hand for the view that economic growth, whatever the state of the economy, is best fueled by cuts in public spending.<sup>2</sup> Before 2011, the national response to the Great Recession had relied on increased deficit spending by government to revive the flagging economy via the 2009 American Recovery and Reinvestment Act (ARRA). Pennsylvania state government had increased its spending each year in part by drawing on federal ARRA funds.

The abrupt embrace of a “cuts-only” approach to managing the economy can be seen in data on state government expenditures in Pennsylvania (Figure 4). After adjusting for inflation, state government expenditures in Pennsylvania rose 4.4% between the 2007-08 and 2008-09 budget year, 2.6% from 2008-09 to 2009-10 and 1.1% from 2009-10 to 2010-11. Then in a single budget year, 2011-12, expenditures fell 5.9%. In 2013-14, they remain 3% below their 2010-11 levels.<sup>3</sup>

While this decline in expenditures was driven by the end of the federal ARRA, state policies did not counter the impact on spending. In fact, an explicit policy commitment of Pennsylvania’s new Governor, having signed a no-tax pledge, was not to enact any tax increases. Reflecting this policy choice, total state revenues available for the 2011-12 budget declined by

**Figure 4. Pennsylvania’s First Austerity Budget Cut Real State Expenditures in 2011-12 by 6%**



Source: Keystone Research Center analysis of The Commonwealth of Pennsylvania, Governor's Executive Budget, 2008-09 to 2014-15 editions, all figures are adjusted for inflation using the consumer price index and are expressed in 2013-14 dollars.

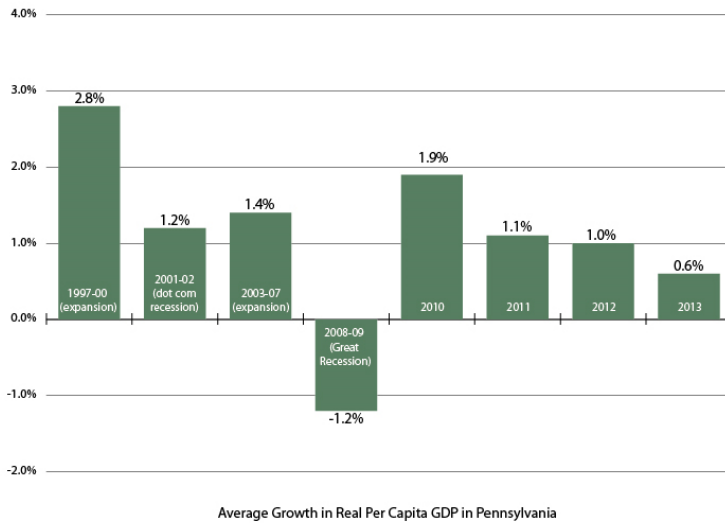
<sup>2</sup> This is a theoretical proposition about the role of public policy in countering the effects of a recession on employment and income that is not to be confused with the laudable desire to lower the cost and improve the effectiveness of the delivery of public services. The view that the best way to respond to a recession is to cut public spending was championed in the 1920s by the Pittsburgh banker and U.S. Secretary of the Treasury Andrew Mellon. Advocated by Mellon from his position in the Hoover administration this policy in concert with the Federal Reserve’s failure to stabilize the banking system deepened and prolonged the Great Depression. The failure of this approach, as manifested by an unemployment rate of 25% and the collapse of the banking system, resulted in this idea falling out of favor for several decades until it gradually returned to prominence, becoming politically dominant again in the 2010 midterm elections.

<sup>3</sup> Based on authors’ analysis of The Commonwealth of Pennsylvania, Governor's Executive Budget, 2008-09 to 2014-15 editions, all figures are adjusted for inflation using the consumer price index and are expressed in 2013-14 dollars.

2.2% in inflation-adjusted terms in the 2011-12 budget and did not increase over the course of the next two budgets.<sup>4</sup>

The impact of austerity economics can also be seen in data on economic growth in Pennsylvania. Figure 5 shows economic growth since 1996, measured as the percent change from the previous year in real per capita Gross Domestic Product. In 2010, the first year of the economic recovery, economic growth in Pennsylvania (1.9%) outpaced national economic growth (1.3%).<sup>5</sup> This strong economic performance was matched by job growth which put Pennsylvania in the top 10 states in 2010, an uncommon ranking for a state with a slow-growing population. Figure 5 shows that the years since 2010 have been marked by decelerating economic growth.

**Figure 5. The Shift to Austerity Economics in National and State Economic Policy Following the November 2010 Election Slowed Pennsylvania's Recovery from the Great Recession**



Source: Keystone Research Center based on Bureau of Economic Analysis data.

At the national level, the shift to austerity signaled by the wind down of ARRA meant no extension of aid to state and local governments despite historically high unemployment and the associated weak state and local tax collections. For a time, the shift to austerity was modulated by political compromises that extended unemployment insurance in exchange for continued tax cuts on high-income households. These compromises gave way to escalating political crises in which Congressional policy makers committed to austerity economics used their capacity to hold up the passage of important legislation to stall an increase in the U.S. debt ceiling, risking the debt default of the U.S. government. This political strategy culminated in the refusal to fund the ongoing operation of the Federal government unless the Affordable Care Act was repealed, a gamble that led to the shutdown of the U.S. government in the first half of October 2013.

The expiration of ARRA's aid to state and local governments combined with weak revenue growth in Pennsylvania and the policy decision not to raise state revenues led to cuts of nearly a billion dollars from education spending.<sup>6</sup> As a result of these budget cuts school districts moved to balance their budgets with staff reductions that so far have reduced education employment in Pennsylvania by 27,600 jobs.<sup>7</sup> To put

<sup>4</sup> An increase of 1.8% in state General Fund revenues available for the 2012-13 budget was offset by a decline of 1.7% in revenues available for the 2013-14 budget.

<sup>5</sup> Based on analysis of Bureau of Economic Analysis data <http://goo.gl/T3u2FE>.

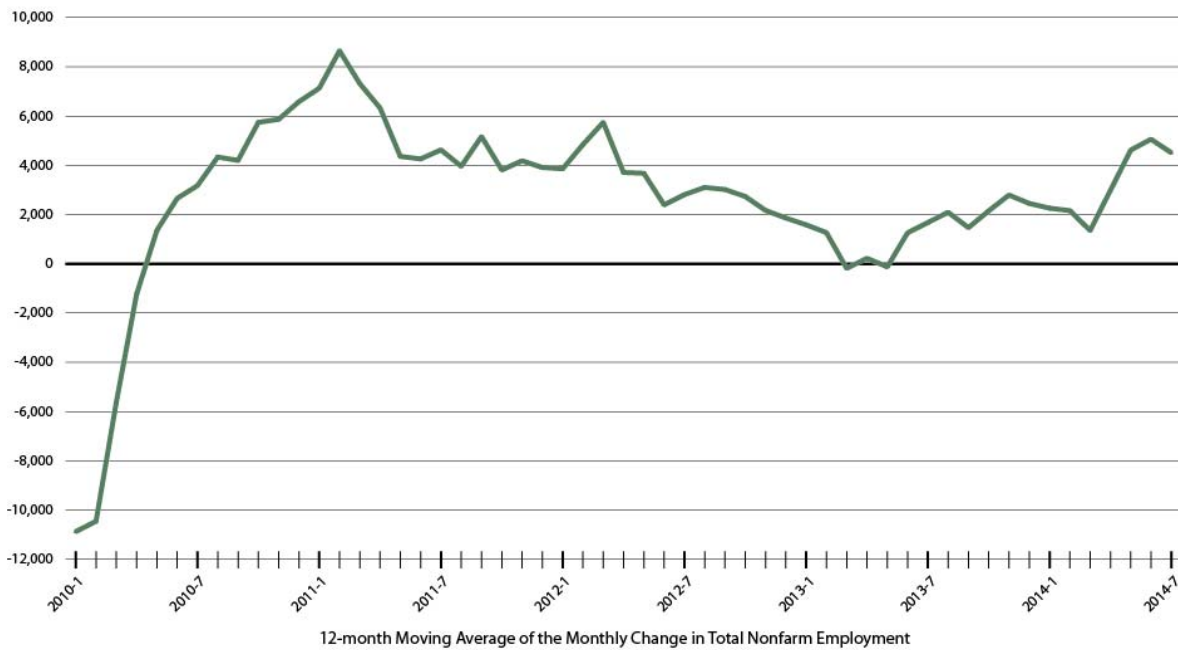
<sup>6</sup> The cut to K-12 basic education programs equaled \$863 million; cuts to the basic education subsidy, accountability block grants, and elimination of charter school reimbursements accounted for over \$800 million of the K-12 cuts. Adding cuts in funding to higher education, the total cut to education programs exceeded one billion. See Pennsylvania Budget and Policy Center, "2011-12 State Budget Highlights," online at <http://pennbpc.org/2011-12-state-budget-highlights>

<sup>7</sup> Local government education related employment which includes school districts fell between the 2010-11 and 2011-12 school year by 15,492 jobs, declined again in the 2012-13 school year by 6,650 jobs and fell again in the 2013-14 school year by 4,673.

those job losses in context 27,600 lost jobs represent about 40% of the jobs lost in the relatively mild 2001 recession.<sup>8</sup> These layoffs dampened growth in consumer spending,<sup>9</sup> in market-based personal income<sup>10</sup> and in jobs. Figure 6 shows how closely the sharp reversal in a moving 12-month average of Pennsylvania job growth tracks the beginning of 2011. The same figure also shows how job growth continued to decline for two years, finally beginning to climb back up in 2013 – but remaining still at only about half the end-of-2010 peak.

Box 1 suggests that job growth may have accelerated in early 2014 because of a state policy compromise that broke with the doctrine of austerity – the enactment of a transportation infrastructure package.

**Figure 6. Is Pennsylvania’s Recovery Finally Back on Track?**



Source: Keystone Research Center based on Bureau of Labor Statistics data.

<sup>8</sup> Job loss is measured here as the change in total nonfarm employment from March to November 2001 the official start and end date of the 2001 recession. See <http://www.nber.org/cycles.html>.

<sup>9</sup> The job cuts which occurred late in 2011 lead to a decline in the growth of real per capita total personal consumption expenditures from 2.4% in 2011 to just 1% in 2012. Reflecting the relatively stronger position of Pennsylvania households in 2011 the increase in consumer expenditures in Pennsylvania was greater than in the U.S. which grew by 2.1% that year. In 2012 the growth in consumer spending in Pennsylvania lagged behind U.S. consumer spending growth of 1.5%. Based on Bureau of Economic Analysis data <http://goo.gl/4ACRCZ>.

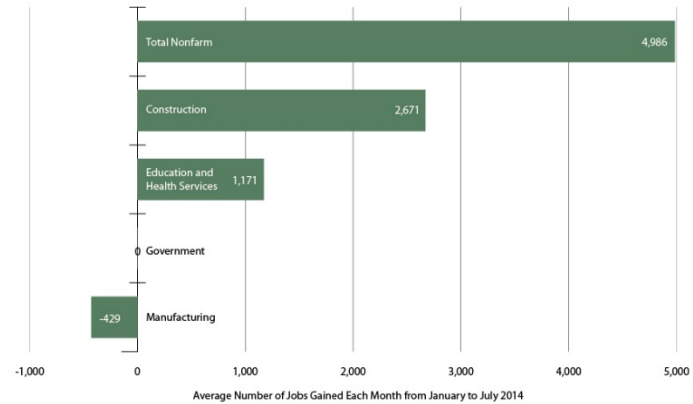
<sup>10</sup> We define market based personal income as personal income minus transfers. Because transfers include income from social security, food stamps and other forms of income assistance subtracting them from personal income provides a measure of the income generated from work and other market-related activities. In 2010, the first year of the recovery real per capita market-based personal income grew by 0.8% in Pennsylvania and 0.1% in the U.S. reflecting again Pennsylvania’s stronger economy. In 2011 real market-based personal incomes grew by 4.2% in both Pennsylvania and the United States. In 2012 market income growth in Pennsylvania fell to 1.4% lagging behind U.S. growth of 2%. In 2013 market incomes grew by 0.2% in Pennsylvania and 0.1% in the United States.

### Box 1. A Break With Austerity: The Construction Sector Leads PA Job Growth in 2014

Figure 7 breaks up monthly job growth so far in 2014 by major sectors in Pennsylvania. Most of the improved performance in 2014 is due to the construction sector. From December 2013 to July 2014 construction employment in Pennsylvania grew by 18,700, an increase of 8.4% that was exactly three times the national increase. One contributing reason for the surge in construction employment is that, in November 2013, shortly following the shutdown of the Federal government, Pennsylvania policy makers finally agreed to a long-debated increase in public spending

for transportation infrastructure. While the research literature suggests that Pennsylvania’s tax cuts targeted at banks and other businesses since 2011 would not stimulate job growth in an economy suffering from a shortfall of demand, economists at the University of Massachusetts estimate that each one billion in transportation infrastructure generates 19,000 jobs.<sup>11</sup> Governor Corbett’s transportation commission, which issued its report in August 2011, recommended ramping up annual transportation infrastructure spending to at least \$2.5 billion annually.<sup>12</sup> KRC called for a countercyclical “Buy Low” infrastructure and school construction policy three-and-a-half years earlier, in January 2008, when it was already clear that the collapse of the housing would lead to a deep recession.<sup>13</sup>

Figure 7. Most of the Improvement in Job Growth in Pennsylvania in 2014 Was Thanks to the Construction Sector Where There Has Been an Increase in Public Spending



Source: Keystone Research Center based on Pennsylvania Department of Labor data.

<sup>11</sup>James Heintz, Robert Pollin and Heidi Garrett-Peltier; *How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth*, Political Economy Research Institute, January 2009, available online at <http://www.peri.umass.edu/236/hash/efc9f7456a/publication/333/>

<sup>12</sup> Governor’s Transportation Advisory Commission, *Final Report*, August 2011; online at <ftp://ftp.dot.state.pa.us/public/pdf/TFAC/TFAC%20Final%20Report%20-%20Spread%20Version.pdf>.

<sup>13</sup> See Mark Price and Stephen Herzenberg, *A Building Storm: the Housing Market and the Pennsylvania Economy*, Keystone Research Center, January 2008, online at [http://keystoneresearch.org/sites/default/files/KRC\\_HousingStorm.pdf](http://keystoneresearch.org/sites/default/files/KRC_HousingStorm.pdf).

## Chapter 3: Grading Pennsylvania’s Recent Economic Performance

In this chapter we compare the performance of the Pennsylvania economy since 2010 against that of other states.<sup>14</sup> We use eight indicators of performance in four categories; employment, labor market slack, wages and income, and economic growth. For each indicator we rank Pennsylvania out of the 50 states and assign it a grade according to the scale in Table 5.

### Job Growth

In evaluating employment we examine the change in total nonfarm jobs and change in manufacturing jobs.

#### *Total Nonfarm Jobs*

Our first job growth indicator is total nonfarm employment, which is derived from a monthly survey of employers conducted by the Bureau of Labor

Statistics.<sup>15</sup> Total nonfarm employment in Pennsylvania grew by 128,000 jobs from January 2011 to July 2014 an increase of 2.2% (nationally nonfarm employment grew by 6.3%). Ranked against the 50 states Pennsylvania was 47th out of 50 over this period, yielding a D-.<sup>16</sup>

#### *Manufacturing Jobs*

Our second measure of job growth is the change in manufacturing jobs.<sup>17</sup> Between January 2011 and July 2014 Pennsylvania’s manufacturing industry lost 3,300 jobs, a decline of 0.6%. Pennsylvania ranked 39<sup>th</sup> out of 48 (because of the lack of data on two states), yielding a D.<sup>18</sup>

### Labor Market Slack

#### *The Unemployment Rate*

Our first measure of labor market slack focuses on the change in the unemployment rate in Pennsylvania between January 2011 and July 2014.<sup>19</sup> Over this period, the Pennsylvania unemployment rate fell from 8.1% to 5.7%. Pennsylvania ranked 23<sup>rd</sup> out of 50 on this measure, yielding a B-.

Table 5.

Grades associated with a states rank out of 50 (1=best, 50=worst)

Rank out of 50	Letter Grade
1-3	A+
4-7	A
8-11	A-
12-15	B+
16-19	B
20-23	B-
24-27	C+
28-31	C
32-35	C-
36-39	D+
40-43	D
44-47	D-
48-50	F

<sup>14</sup> When an indicator is available on a monthly basis we rank the percent change from January 2011 to July 2014. For indicators available on an annual or quarterly basis we rank the percent change from 2010 to the most recent year available (2012, 2013 or from the 3<sup>rd</sup> Quarter of 2013 to 2<sup>nd</sup> quarter of 2014).

<sup>15</sup> Formally data from this survey of employers is known as Current Employment Statistics, for more see <http://www.bls.gov/sae/>

<sup>16</sup> Private nonfarm employment growth in Pennsylvania grew by 3.5% between January 2011 and July 2014 which placed Pennsylvania 46 out of the 50 states and would give Pennsylvania a D-.

<sup>17</sup> Like total nonfarm employment, manufacturing employment is derived from Current Employment Statistics <http://www.bls.gov/sae/>

<sup>18</sup> The grade associated with different ranks was adjusted slightly to reflect the absence of data on manufacturing employment from Alabama and Oklahoma. Ranked out of 48, a D includes the states ranked from 39 to 42. The lack of data on two states results in a very small upward bias to the overall grades for states.

<sup>19</sup> For more on this indicator see <http://www.bls.gov/lau/> and for the data see <http://www.bls.gov/lau/ststdsadata.txt>

### *The Underemployment Rate*

Our second measure of labor market slack consists of the change in the labor department's broadest measure of the underutilization of labor, the "underemployment" rate. Unlike the official unemployment rate, the underemployment rate includes people who work part-time because they cannot find a full-time job and those who have stopped looking for a job because they do not believe they can find one.<sup>20</sup> In 2010 the underemployment rate in Pennsylvania was 14.7%. By 2013-14 it had fallen to 12.5%. Over the same period the national underemployment rate fell nearly twice as much, from 16.7% to 12.9%. Pennsylvania's decline in the underemployment rate ranked 38<sup>th</sup> out of 50 yielding a D+. The sluggish decline in the underemployment rate in Pennsylvania indicates that the ease with which workers are finding enough work has not improved as much since 2010 as in most other states, a finding consistent with the state's low grade in job creation.

### Wages and Income

#### *Median Hourly Earnings*

Our first measure in this section is the growth in median hourly earnings in Pennsylvania between 2010 and 2013.<sup>21</sup> Over this period median hourly earnings fell 53 cents to \$16.95 per hour a decline of 3%. National median earnings fell by 2.3% over the same period. Based on the change in the earnings of a typical worker, Pennsylvania ranked 32<sup>nd</sup> out of 50 states, yielding a C-.

#### *Real Per Capita Market Incomes*

Our second measure in this section is "real per capita market income" – the growth in personal income after subtracting out income from transfers from social programs.<sup>22</sup> Transfer income includes income from social security, unemployment insurance and other programs that supplement household incomes. Subtracting out transfers from personal income allows us to track growth in incomes from market activities which for most people is income from work. Between 2010 and 2013 market incomes in Pennsylvania grew by 5.8% compared to 6.4% nationally. Pennsylvania ranked 29<sup>th</sup> out of 50 on this indicator, yielding a C.

### Economic Growth

A final core aspect of state economic performance is "economic growth." We measure this using the change in consumer spending and the change in state Gross Domestic Product.

#### *Consumer Spending*

From 2010 to 2012 (the latest year for which data are available), real per capita total personal consumption expenditures ("consumer spending") rose 3.4% in Pennsylvania, 31<sup>st</sup> fastest out of the 50 states, which translates to a C.<sup>23</sup>

#### *Economic Growth*

From 2010 to 2013, real per capita Gross Domestic Product grew by 2.8%, 30<sup>th</sup> highest out of 50 states, earning a C.<sup>24</sup>

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<sup>20</sup> Officially the labor department classifies this measure as the U-6 measure of the underutilization of labor. For more on its construction and state-level data see <http://www.bls.gov/lau/stalt.htm>

<sup>21</sup> Economic Policy Institute analysis of Current Population Survey data.

<sup>22</sup> Author's analysis of Bureau of Economic Analysis data <http://goo.gl/tZcCPI>.

<sup>23</sup> Author's analysis of Bureau of Economic Analysis data <http://goo.gl/4ACRCZ>.

<sup>24</sup> Author's analysis of Bureau of Economic Analysis data <http://goo.gl/T3u2FE>.



## Pennsylvania's Overall Grade

Weighting each of our eight indicators equally Pennsylvania gets an overall grade of C-.<sup>25</sup> Among neighboring states Ohio, especially, and West Virginia performed better, with a B and C respectively. New York and New Jersey each earned a D+. Trailing the region were Delaware and Maryland, each with a D.

Table 6.

Grades on eight economic indicators in Pennsylvania, Delaware, Maryland, New Jersey, New York, Ohio and West Virginia							
Eight economic indicators	Pennsylvania	Delaware	Maryland	New Jersey	New York	Ohio	West Virginia
<b><i>Employment</i></b>							
Total nonfarm employment	D-	B-	D+	D	C+	C	D+
Manufacturing employment	D	D	F	F	D-	B	D+
<b><i>Labor Utilization</i></b>							
Unemployment rate	B-	F	D-	B-	D-	A-	D+
Underemployment rate	D+	D-	F	C-	F	B	F
<b><i>Wages and Income</i></b>							
Median Wages	C-	D	B	F	D+	C+	B-
Market Incomes	C	D-	F	C-	D+	A-	B-
<b><i>Economic Growth</i></b>							
Consumption expenditures	C	D+	D-	D-	B+	A-	B
Gross Domestic Product	C	F	D	D+	D+	A	A-
<b><i>Cumulative Grade</i></b>	<b>C-</b>	<b>D</b>	<b>D</b>	<b>D+</b>	<b>D+</b>	<b>B</b>	<b>C</b>

Source. Keystone Research Center

<sup>25</sup> Twelve states nationally had grades equal to or below Pennsylvania: Arizona, Massachusetts, Louisiana, New Hampshire, Maine, New York, New Mexico, New Jersey, Connecticut, Virginia, Delaware and Maryland. This list makes clear that population growth alone does not drive economic performance: six of these states have a rate of population growth in the top half of all states and half have on in the bottom half of states. The average population growth ranking of these states for the period December 2007 to July 2014 is 27.4.

## Chapter 4: Bad Policies = Bad Grades

The previous chapter established that Pennsylvania's economic performance since the federal and state embrace of austerity economics has been poor.

One question is how much Pennsylvania's bad economic report card reflects state policies and how much it reflects factors beyond the short-run control of legislators and the Governor. We think it clearly reflects both.

When it comes to the state's job growth, for example, there is a straight-line connection between a number of state job policies and the abrupt shift of Pennsylvania from a top-ten state in 2010 to a D- since then. Most obviously, the state's education funding cuts translated into a loss of 27,000 public education employees. Assuming that each of these jobs translated into the loss of another 0.43 private sector jobs, without the education funding cuts Pennsylvania might have another 38,610 jobs.<sup>26</sup>

Medicaid expansion is another policy that would have already increased jobs in Pennsylvania because of increase federal funds coming into the state to cover the health care costs of otherwise uninsured people. The Rand Corporation estimated last year that, by 2014, Medicaid expansion would create 35,200 jobs in Pennsylvania.<sup>27</sup> Adding these jobs to the jobs saved by not cutting education funding could have brought Pennsylvania to 36<sup>th</sup> place for job creation, a C- instead of a D-.

Another Pennsylvania policy choice that reduced job growth since January 2011 was the legislature's reduction in unemployment benefits via Senate Bill 1030 of 2011. These benefit reductions stripped an estimated \$300 million from unemployed workers and their families in 2014.<sup>28</sup> The additional buying power from higher benefits would have translated into several thousand additional Pennsylvania jobs. A fourth policy that held back job growth is the state's failure, until late last year, to invest in transportation infrastructure even though the Governor's own commission recommended such investment in 2011. (Keystone Research Center recommended investment in infrastructure as a good way to create jobs in a down economy in January 2008.<sup>29</sup>) At full phase in, \$2.5 billion in transportation infrastructure spending is estimated to create about 47,000 jobs.<sup>30</sup>

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<sup>26</sup> Ethan Pollock, *Dire States: State and Local Budget Relief Needed to Prevent Job Losses and Ensure a Robust Recovery*, Economic Policy Institute, November 19, 2009, online at <http://s1.epi.org/files/page/-/bp252/bp252.pdf>

<sup>27</sup> Carter C. Price, Julie M. Donohue, Evan Saltzman, Dulani Woods and Christine Eibner, *The Economic Impact of Medicaid Expansion on Pennsylvania*, Table 2, p. 16; online at

[http://www.rand.org/content/dam/rand/pubs/research\\_reports/RR200/RR256/RAND\\_RR256.pdf](http://www.rand.org/content/dam/rand/pubs/research_reports/RR200/RR256/RAND_RR256.pdf)

<sup>28</sup> "Changes to the Pennsylvania Unemployment Compensation System," online at <http://clsphila.org/learn-about-issues/changes-pennsylvania-unemployment-compensation-system-starting-january-1-2013>

<sup>29</sup> See Mark Price and Stephen Herzenberg, *A Building Storm: the Housing Market and the Pennsylvania Economy*, Keystone Research Center, January 2008, online at

[http://keystoneresearch.org/sites/default/files/KRC\\_HousingStorm.pdf](http://keystoneresearch.org/sites/default/files/KRC_HousingStorm.pdf). As we pointed out then, counter-cyclical public constructions makes sense not only to cushion the state from high unemployment but also because interest rates and construction costs tend to be low in a down economy. Thus the state would get great value for investment in infrastructure that takes place when unemployment is high. For this reason, we called this approach a "Buy Low" infrastructure initiative. Waiting until revenues are more flush, and the economy is strong, to invest in infrastructure both fails to soften the blow of unemployment and amounts to a "Buy High" policy since both construction costs and interest rates tend to be higher.

<sup>30</sup> James Heintz, Robert Pollin and Heidi Garrett-Peltier, *How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth*, Political Economy Research Institute, January 2009; online at <http://www.peri.umass.edu/236/hash/efc9f7456a/publication/333/>

Taken together, different policy choices in just these four areas could have moved Pennsylvania toward the middle of the pack on job growth. This, in turn, would have improved many of our other seven indicators, improving the state's overall grade.

In closing, this year's *The State of Working Pennsylvania* make emphatically clear that our economy is still not performing well from the perspective of typical families. The embrace of a cuts-only approach to managing the economy at the national and state level has been a dismal failure. Middle-class families across Pennsylvania continue to pay the price.