The State of Working Pennsylvania 1998

KEYSTONE RESEARCH CENTER

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The Keystone Research Center (KRC), a non-partisan think tank with offices in Harrisburg and the Philadelphia area, conducts research on the Pennsylvania economy and labor market. This research documents current conditions and seeks to develop innovative policy proposals to improve state economic, labor market, and social performance.

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OVERVIEW

By the standards of the recent past, the last year brought good news for Pennsylvania workers. For the second year in a row, the state's working people received a modest raise (seven-tenths of one percent in 1997, after adjusting for inflation, following a 2.1 percent raise in 1996).[1] Even low-wage workers made more in 1997 than they did in 1996.The state's unemployment rate in 1997 was at a nine-year low. Job growth is higher than in the recent past.

But don't break out the champagne just yet. The gains of the past two years have been modest. Comparing these gains to the declines of the past two decades, the story of the Pennsylvania economy remains one of great disparities. Consider the following:

- With the wage hikes of the past two years, Pennsylvania workers earned exactly three cents more per hour in 1997 than in 1989. Pennsylvania workers still earn six percent less than they did in 1979.
- Only one of Pennsylvania's major economic regions enjoyed substantial progress in 1997.
    - In 1997, the hourly earnings of a typical Philadelphia-area worker were $13.00 per hour, 83 cents higher than in 1996. Wages in the Philadelphia area are now higher than at any point in the last two decades.
    - But in metropolitan Pittsburgh, 1998 was a very bad year. Hourly wages plunged 76 cents per hour, falling below 1994 levels and wiping out almost all the gains Pittsburgh made earlier in the 1990s. Pittsburgh-area wages are now $2.55 per hour below their 1979 level.
    - In the rest of the state, wages stood still in 1997, remaining roughly 30 cents per hour below both their 1994 and 1989 levels.
    - And in the midst of regional prosperity, the city of Philadelphia still lost jobs in 1997, and its low-wage workers took a pay cut.
- Even in the last two years, hourly wage gains in Pennsylvania have trailed productivity increases.
- Most of Pennsylvania's job growth during the last few years has been in low-wage industries, unlike in the early 1990s, when most job growth was in high-wage industries. Since 1994, job growth in Pennsylvania has remained slower than in five of six neighboring states and the nation as a whole.
- African American men have not shared in recent wage gains.Their hourly earnings remain $1.45 less than in 1994 and $3.78 less than in 1979.
- Men, low-wage workers, and workers without a college degree still have lower wages than in 1989.
- Over a quarter of Pennsylvania workers earn too little to lift a family of four above the poverty line. These workers have fallen even further behind the poverty line since 1989.
- The gap between high-wage earners and low-wage earners in Pennsylvania jumped from 1989 to 1994 and has since stayed at its new high level. The richest 20 percent of Pennsylvania families received 87 percent of the total increase in Pennsylvania family income since the late 1970s and 69 percent of the increase since the mid-1980s.
- Youth, people without high-school diplomas, and African Americans have double-digit unemployment rates. Unemployment remains high in the cities of Philadelphia and Pittsburgh.

The last two years do not suggest that Pennsylvania has turned a corner towards a new era of broadly shared prosperity. Nor do the state's current public policies and political characteristics make such an era likely. For example:

- Pennsylvania does not invest equitably in the education of working people. The state has the 11th biggest gap in funding between schools in affluent and poor areas.

- Pennsylvania has one of the most regressive state and local tax systems in the country. Even after recent reductions in taxes for some working families, only three states tax their rich less and low-income people more than does Pennsylvania.

- The share of workers who belong to unions in Pennsylvania has declined faster than nationally. In addition to its direct impact on wages, declining union presence reduces the power of working people in setting public policy.

- Pennsylvania public policies continue to be shaped by an indiscriminate pro-business and pro-market philosophy. Businesses that pay at or above a living wage and are committed to improving performance in ways that will support rising living standards deserve the state's support. But so far the state has made no systematic effort to nurture these companies or to withdraw support from firms that compete at the expense of their workers or the environment.

The strength of today's economy gives Pennsylvania an opportunity to change direction and enact policies that would generate sustained improvements for the middle class and lower-income workers. In the 1970s and 1980s, Pennsylvania's old, manufacturing-based economy, which doubled living standards for working people in 25 years, collapsed. Since 1980, much has been learned about how public policy must now be updated to achieve better performance and better jobs in today's postindustrial economy. Now is the time to put the pieces together and lay the foundation for another generation of rising living standards and quality of life for all Pennsylvanians, not just a fortunate few.

- Now is the time for Pennsylvania to raise its minimum wage above the federal level and for the state and local governments to ensure that businesses benefiting from government dollars pay a living wage. These measures will not only make low-paid workers better off; they will also encourage employers to become more efficient.

- Now is the time to cut state and local taxes for the middle class and the working poor.

- Now is the time to create a world-class system of workforce development to support the high-wage, high-skill jobs and multi-employer careers of tomorrow.

- Now is the time to ensure that people can leave welfare for living-wage jobs and productive careers rather than get stuck in make-work or poverty-wage, dead-end jobs.

- Now is the time to begin improving public education and funding it more equitably, so that all our children can have an equal chance to participate in economic, political, and community life.

- Now is the time to redirect development to central cities and older suburbs, conserving Pennsylvania's natural beauty, recapturing the sense of community threatened by sprawl and decay, and taking advantage of population density to promote training and learning among high-skill firms.

- Now is the time for Pennsylvania to build on recommendations made by Governor Ridge's 21st Century Environment Commission and to define a new state-level quality of life index. That index should be constructed to let policymakers and the public know whether the lives of residents of the Commonwealth are improving in environmentally and economically sustainable ways.

The final section of this report lays out these proposals in more detail. Each of our proposals makes sense in and of itself. Put them together and Pennsylvania will achieve synergies that any two merging companies would envy. A better future is within our grasp.

THE STATE OF THE STATE

The State of Working Pennsylvania 1998 provides a statistical portrait of the economic status of Pennsylvania workers and their families. It maps Pennsylvania's performance on such indicators of well-being as wages, inequality, poverty, and unemployment. Most data are displayed over time, permitting current performance to be compared to the past. To put Pennsylvania in perspective, the report compares the state's economy to the national economy and sometimes to the performance of neighboring states.

Throughout the report, dollar values are adjusted for inflation and expressed in 1997 dollars (i.e., the buying power of wages at 1996 prices). For inflation adjustments, we use the CPI-U-X1, a consumer price index published by the Bureau of Labor Statistics.

Wages Now Three Cents Above 1989 Levels

Table 1 shows that the median hourly wage in Pennsylvania fell between 1979 and 1994 but rose slowly from 1994 to 1997. For the first time in the 1990s, the state's median wage now exceeds its 1989 level, by a scant 0.3 percent. (1989 was the high point in the last economic expansion before the current one. By comparing the present to 1989 we can see how much workers have gained during a business cycle.) Pennsylvania's median wage was still 6 percent lower in 1997 than in 1979.

Men's Wages Remain Lower than in 1980s

Table 1 also shows that, despite gains since 1994, Pennsylvania men's wages in 1997 were still 0.5 percent lower than in 1989 and about 12 percent lower than in 1979. In contrast, Pennsylvania women's wages were higher in 1997 than at any time during the previous 17 years.

African American Men Have Not Shared in Recent Wage Gains

Table 2 shows that black men's wages finally stopped declining between 1996 and 1997 after suffering huge losses during the previous 15 years. Black men's 1997 median hourly wage in Pennsylvania was $1.72 lower than in 1989 and $3.63 lower than in 1979. The wages of Pennsylvania's black women, white women, and white men were all higher in 1997 than in 1989,

Table 1. Median Hourly Wages in Pennsylvania and the United States, 1979–97

	All Workers		Men		Women	
	PA	U.S.	PA	U.S.	PA	U.S.
1979	$ 11.91	$ 11.46	$ 14.77	$ 14.38	$ 9.04	$ 9.03
1989	11.16	11.18	13.05	13.07	9.23	9.55
1994	11.00	10.79	12.71	12.11	9.37	9.49
1996	11.11	10.59	12.74	12.12	9.57	9.40
1997	11.19	10.82	12.99	12.19	9.84	9.63
% Change						
1979-97	-6.0%	-5.6%	-12.1%	-15.2%	8.8%	6.6%
1989-97	0.3	-3.2	-0.5	-6.7	6.6	0.8
1994-97	1.7	0.3	2.2	0.7	5.0	1.5
1996-97	0.7	2.2	2.0	0.6	2.8	2.4

Source: KRC, based on Current Population Survey (CPS) data and those of white and black women were also higher in 1997 than in 1979.

Wages of College-Educated Workers Fell in 1997

Looking at earnings trends based on educational attainment, Table 3 shows that in the 1990s as a whole, Pennsylvania men and women without a college degree have experienced income losses while more educated workers have gained ground. But contrary to predictions that educated workers would be the big winners in the knowledge economy, college-educated workers experienced a wage decline from 1996 to 1997.

Table 2. Median Hourly Wages in Pennsylvania by Race and Sex, 1979–97

	1979	1989	1994	1996	1997	Percent Change 1979-97	1989-97	1994-97	1996-97
WHITE	$ 12.05	$ 11.32	$ 11.05	$ 11.25	$ 11.52	-4.4%	1.8%	4.3%	2.4%
White Men	15.18	13.07	13.00	13.11	13.46	-11.3%	3.0%	0.8%	2.7%
White Women	9.11	9.19	9.42	9.79	10.00	9.8%	8.8%	6.2%	2.1%
BLACK	10.84	10.04	9.89	9.21	9.62	-11.3%	-4.2%	-2.7%	4.5%
Black Men	13.01	11.10	10.83	9.34	9.38	-27.9%	-15.5%	-13.4%	0.4%
Black Women	8.89	9.11	9.37	9.21	10.00	12.5%	9.8%	6.7%	8.6%

Source: KRC, based on CPS data.

Table 3. Median Hourly Wages in Pennsylvania by Education Level, 1989–97

	1989	1994	1996	1997	Percent Change 1989-97	1994-97	1996-97
MEN							
No HS Diploma	$ 11.00	$ 8.66	$ 8.44	$ 8.75	-20.5%	1.0%	3.7%
HS Graduates	12.06	11.75	11.25	11.50	-4.6	-2.1	2.2
1-3 Years Post-HS	12.94	12.24	12.28	12.15	-6.1	-0.7	-1.1
College Graduates	17.80	18.11	18.36	18.08	1.6	-0.2	-1.5
Postgraduate Education	21.91	24.07	24.59	25.00	14.1	3.9	1.7
WOMEN							
No HS Diploma	7.12	6.50	6.82	7.00	-1.7%	7.7%	2.6%
HS Graduates	8.41	8.31	8.44	8.25	-1.9	-0.7	-2.3
1-3 Years Post-HS	9.90	9.66	9.21	9.59	-3.1	-0.7	4.1
College Graduates	12.94	13.96	14.17	13.93	7.7	-0.2	-1.7
Postgraduate Education	16.83	19.18	19.31	18.75	11.4	-2.2	-2.9

Source: KRC, based on CPS data.

Table 4. Hourly Wages of High– and Low–Wage Earners in Pennsylvania and the United States, 1979–97*						
	High–Wage Earners		Low–Wage Earners		High–Wage Earners' Wage as Percent of Low–Wage Earners' Wage	
	Pennsylvania	United States	Pennsylvania	United States	Pennsylvania	United States
1979	$ 21.87	$ 22.46	$ 6.53	$ 6.42	335%	350%
1989	22.20	23.46	5.56	5.39	399	435
1994	23.44	23.66	5.44	5.36	431	441
1997	23.81	23.90	5.54	5.46	430	438
Percent Change						
1979-97	8.9%	6.4%	-15.2%	-15.0%		
1989-97	7.3	1.9	-0.4	1.3		
1994-97	1.6	1.0	1.8	1.9		

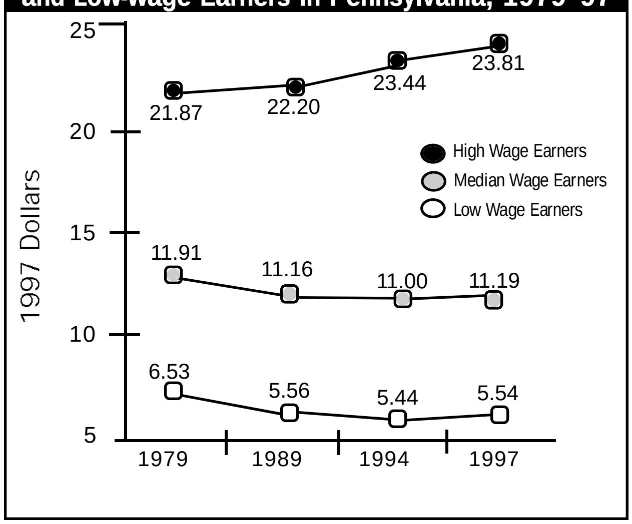
* In this report, "high-wage earners" are defined as those whose hourly wage is higher than that of 90 percent of all workers. "Low-wage earners" are those whose hourly wage is higher than that of 10 percent of all workers.

Source: KRC, based on CPS data.

Rich Workers Get Richer, Poor Get Poorer Over Last Two Decades

Table 4 and Figure 1 show what has happened to the wages of high-wage earners (defined here as those who earn more than 90 percent of all workers and less than 10 percent of all workers) and low-wage earners (those who earn more than 10 percent of all workers and less than 90 percent of all workers). High-wage earners in both Pennsylvania and the United States have seen their wages grow since 1979. Low-wage earners in both Pennsylvania and the United States experienced slow wage growth since 1994, in part because of increases in the federal minimum wage in 1996 and 1997.[2] But low-wage earners were still worse off in 1997 than in 1979 and, in Pennsylvania, worse off than in 1989 as well.

Figure 1. The Hourly Wages of High–, Median–, and Low-wage Earners in Pennsylvania, 1979–97



Source: KRC, based on CPS data.

In the 1990s, the wages of high-wage earners have risen by $1.61 per hour in Pennsylvania compared to $0.44 in the United States as a whole. This is a major reason why, as Keystone Research Center documented in a study earlier this year, the income gap between rich and poor families grew faster in Pennsylvania than in the entire United States. From the mid-1980s to the mid-1990s, the most affluent fifth of families received 69 percent of the total increase in family income for all Pennsylvania families. From the late 1970s to the mid-1990s, the richest fifth received 87 percent of the total increase in Pennsylvania family income.[3]

More Than One-Quarter of Jobs Pay a Poverty Wage

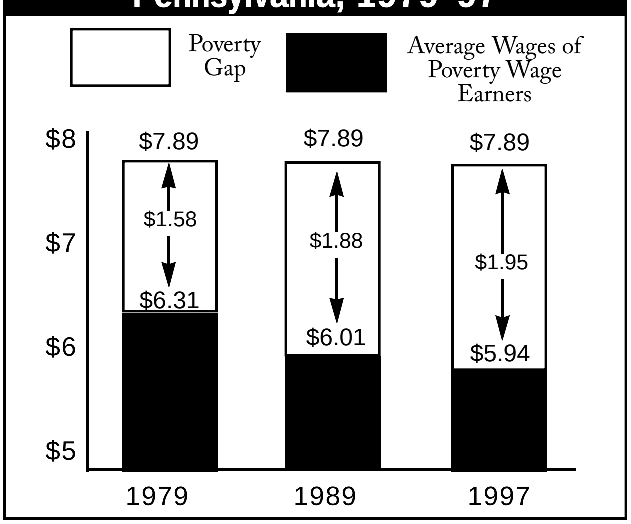
In 1997, a person who worked full-time throughout the year had to earn at least $7.89 per hour to exceed the official U.S. poverty level for a family of four ($16,404).[4] Figure 2A shows that in 1997, 27 percent of Pennsylvania workers earned less than this $7.89 per hour "poverty wage." This percentage is down from 29 percent in 1994 and 1996, but is the same as in 1989 and much higher than the 21 percent in 1979.

Figure 2B shows that the percentage of poverty wage earners is lower in Pennsylvania than in the nation as a whole but higher than in all surrounding states except West Virginia and Ohio.

Poverty Wage Earners Slip Further into Poverty

Even though the percentage of Pennsylvania workers earning poverty wages has now returned to its 1989 level, those workers who earn poverty wages are even poorer than they were in 1989 and much poorer than in 1979. Figure 3 shows the average hourly wage of Pennsylvania workers who earned less than $7.89. It also shows the "poverty gap"—the amount of extra money an average poverty wage earner would have needed to bring his or her wage up to $7.89 per hour. The poverty gap was $1.95 in 1997 but $1.88 in 1989 and only $1.58 in 1979.

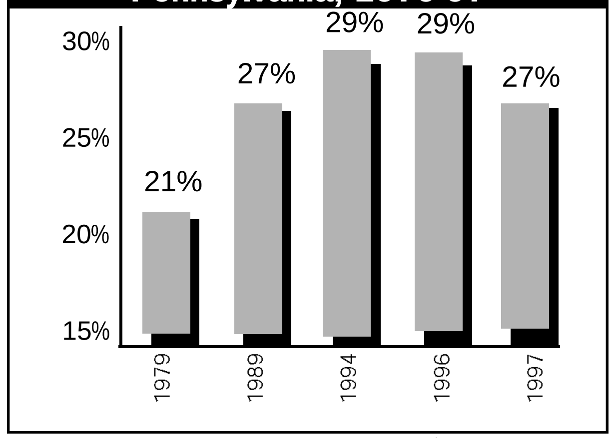
Figure 3. Average Wages of Poverty Wage Earners and the Poverty Gap* in Pennsylvania, 1979–97



• Difference between the poverty wage of $7.89 per hour and the average wage of workers who earned less than that wage (in 1997 dollars).

Source: KRC,based on CPS data.

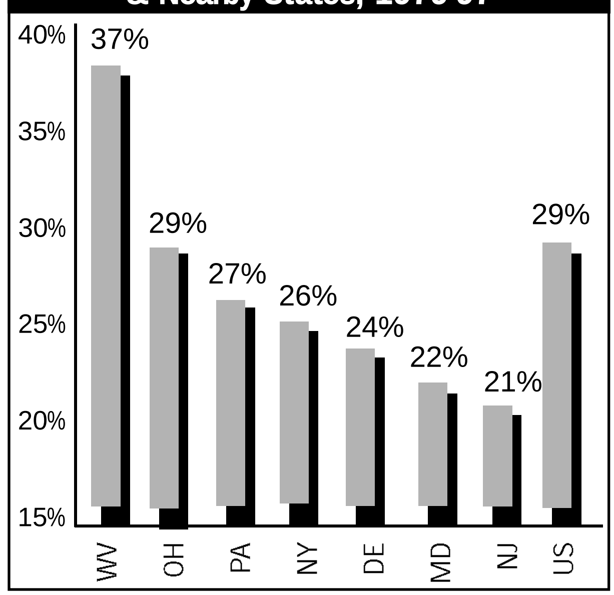
Figure 2A. The Share of Workers Earning Poverty Wages* in Pennsylvania, 1979-97



*Poverty wages are defined as wages lower than $7.89 per hour (in 1997 dollars).

Source: KRC, based on CPS data.

Figure 2B. The Share of Workers Earning Poverty Wages* in Pennsylvania & Nearby States, 1979-97



* Poverty wages are defined as wages lower than $7.89 per hour (in 1997 dollars).

Source: KRC,based on CPS data.

State's Job Growth Rises but Lags Behind U.S. and Nearby States

The total number of non-farm jobs in Pennsylvania grew by 206,000 from 1994 to 1997, almost twice as much as the 109,000 increase from 1991 to 1994. As Figure 4 shows, however, the state's job growth rate during each of these three-year periods was well below that of the nation as a whole and trailed that of four of Pennsylvania's six neighboring states.

Job Growth Has Shifted from High-Wage to Low-Wage Industries

Table 5 shows the 1997 median wage in each major industry in the state. Figure 5 shows the shares of Pennsylvania's non-farm job growth that occurred in high- and low-wage industries (those with median wages above and below the state as a whole, respectively)

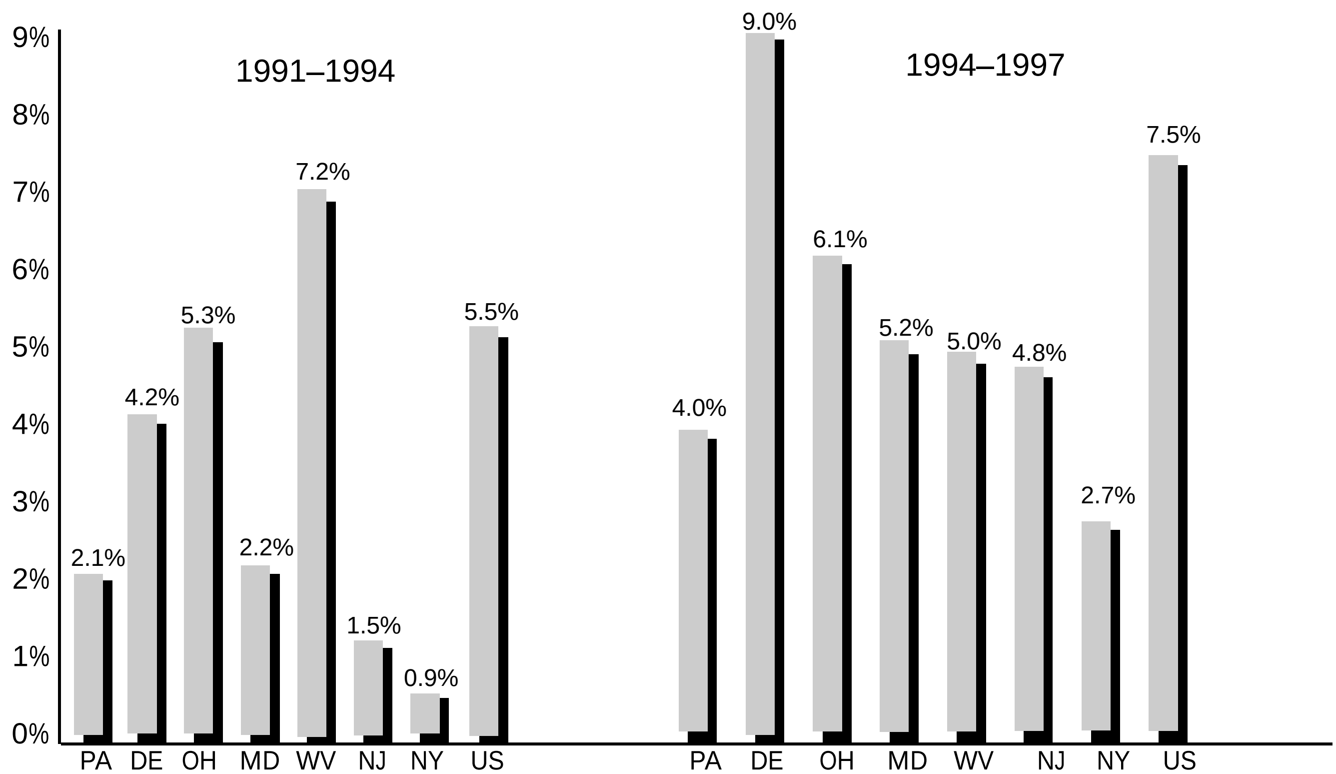
Table 5. Median Wage in Major Pennsylvania Industries, 1997

INDUSTRY	MEDIAN WAGE
Public Administration	$15.25
Mining	14.30
Transportation-Communication-Public Utilities	14.14
Manufacturing	12.50
Construction	12.31
Finance-Insurance-Real Estate	12.05
Professional Services	12.00
ALL INDUSTRIES	11.19
Wholesale Trade	11.00
Business and Repair Services	10.00
Entertainment & Recreation Services	8.00
Agriculture	7.50
Personal Services*	7.25
Retail Trade	6.92

*Includes hotels and other lodging places.

Source: KRC, based on CPS data.

Figure 4. Non-Farm Job Growth in Pennsylvania, Nearby States, and the United States, 1991–94 and 1994–97



Source: KRC,based on Bureau of Labor Statistics employer survey data.

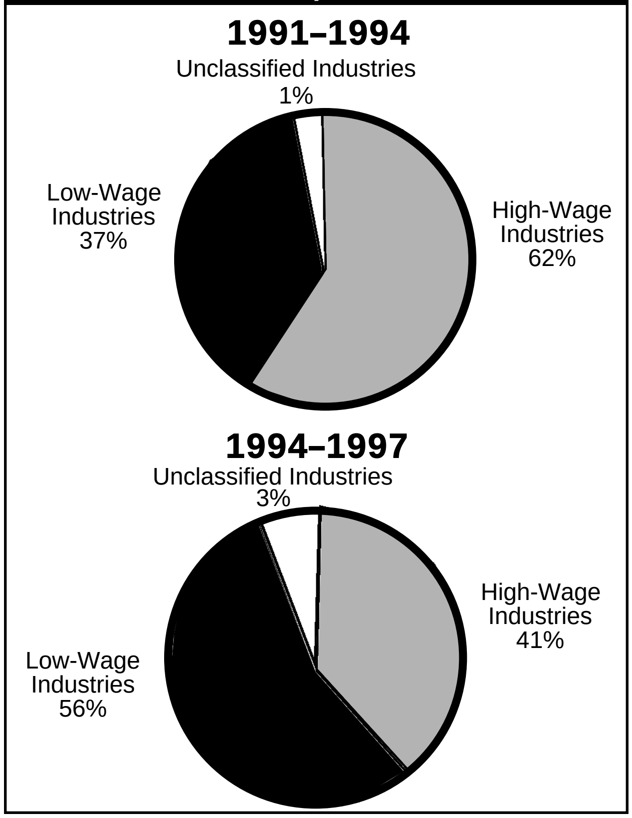
for 1991-94 and 1994-97.[5] In 1991-94, most of the state's job growth was in high-wage industries, but by 1994-97 most of the job growth occurred in low-wage industries. The major reasons for this shift were a dramatic rise in the share of job growth in wholesale and retail trade (a large low-wage industry) between 1991-94 and 1994-97, and a dramatic fall in the shares in health and social services (large parts of the high-wage professional services industry).

Since there are high-wage jobs even in low-wage industries, the shift of job growth from high- to low-wage industries does not necessarily mean that the quality of Pennsylvania's jobs is declining. Indeed, as Table 1 showed, the state's median wage (for all jobs, old and new) is now nineteen cents per hour higher than in 1994. But the changing character of Pennsylvania's job growth provides cause for concern. Although not all jobs in low-wage industries are bad jobs, the state's increasing reliance on low-wage industries as a source of jobs makes it less likely that recent wage gains will be sustained.

Youth, Less-Educated, and African Americans Still Have High Unemployment Rates

In 1997, the state's average unemployment rate for the year was 5.2 percent. But as Table 6 indicates, joblessness was not distributed evenly among all demographic groups in the state. Young people, people with less than a high school diploma, and African Americans had double-digit unemployment rates. Later sections of this report show that the cities of Philadelphia and Pittsburgh also had unemployment rates well above the statewide average.

Figure 5. Non-farm Job Growth in Pennsylvania: Shares of Job Growth in High- and Low-Wage Industries, 1994–97



For lists of low-wage, high-wage, and unclassified industries, see footnote 5.
Source: KRC,based on Bureau of Labor Statistics employer survey data.

Table 6. 1997 Unemployment Rates in Pennsylvania (percent)

ENTIRE STATE	5.2%
White	4.6
Black	10.8
Men	5.5
White Men	4.9
Black Men	11.3
Women	5.0
White Women	4.2
Black Women	10.3
No HS Diploma	12.5
Men	13.2
Women	11.6
HS Graduates Only	5.5
Men	5.6
Women	5.4
Age 16-25	12.4
No HS Diploma	19.4
HS Graduates Only	13.0

Source: KRC,based on CPS data.

THE STATE OF THE REGIONS

By themselves,statewide wage and employment trends paint an incomplete picture of the economic status of Pennsylvania's workers.Job and workforce trends vary considerably among the distinct regions that make up the state. In this section we show what has happened to median wages (Tables 7 and 7A), the wages of high- and low- wage earners (Tables 8 and 8A), the share of jobs paying poverty wages (Figure 6),employment growth (Figure 7), and unemployment (Table 9) in metropolitan Philadelphia,metropolitan Pittsburgh, and (for most information) the rest of the state. We also present some of this information separately for the cities of Philadelphia and Pittsburgh. For most of this section, we use the same data sources as for the state as a whole. For some detailed analyses of Philadelphia and Pittsburgh we combine three consecutive years of Current Population Survey data (i.e., 1994-96 and 1995-97) in order to have a sample large enough to make reliable estimates.

The State of Working Philadelphia: The Best of Times?

By many of the economic indicators used in this report,metropolitan Philadelphia's working people enjoy better conditions than they have at any time in recent history. Wage growth has been more robust than in other regions of Pennsylvania. With the exception of 1994-96, the region's median wage has gone up continually since the 1970s. At $13 per hour, it is now $1.81 higher than the median wage in the rest of the state and $2.18 higher than the U.S. median wage.

Table 7. Median Hourly Wages in Pennsylvania Regions

	Metro. Philadelphia*	Metro. Pittsburgh	Rest of State
1979	$ 12.20	$ 13.55	$ 11.06
1989	12.30	10.79	10.51
1994	12.32	10.83	10.56
1996	12.17	11.76	10.23
1997	13.00	11.00	10.22
Percent Change			
1979-97	6.6%	-18.8%	-7.6%
1989-97	5.7%	1.9%	-2.8%
1994-97	5.5%	1.6%	-3.2%
1996-97	6.8%	-6.5%	-0.1%

*As defined in this report,metropolitan Philadelphia includes the PA portion of the Census Bureau's Philadelphia Primary Metropolitan Statistical Area: Philadelphia, Bucks,Chester, Delaware, and Montgomery Counties. In 1979, metropolitan Pittsburgh (the Pittsburgh PMSA) included Allegheny, Beaver, Washington, and Westmoreland Counties. In 1989, Fayette County was added and Beaver removed. In 1996, Butler County was added and Beaver was included again. The three counties included throughout the period had 80 percent of the total metropolitan Pittsburgh population throughout the period.

Source: KRC,based on CPS data.

Table 7A. Median Hourly Wages in the Philadelphia and Pittsburgh Areas

	Metro. Philadelphia	City of Philadelphia	Metro. Pittsburgh	City of Pittsburgh
1994-96	$ 12.18	$ 10.69	$ 11.31	$ 12.76
1995-97	12.37	10.74	11.31	12.22

Source: KRC, based on CPS data.

Table 8. Hourly Wages of High– and Low–Wage Earners in Pennsylvania Regions, 1979–97

	Metro. Philadelphia			Metro. Pittsburgh			Rest of State		
	High-Wage Earners	Low-Wage Earners	High-Wage Earners' Wage as Percent of Low-Wage Earners' Wage	High-Wage Earners	Low-Wage Earners	High-Wage Earners' Wage as Percent of Low-Wage Earners' Wage	High Wage Earners	Low-Wage Earners	High-Wage Earners' Wage as Percent of Low-Wage Earners' Wage
1979	$23.04	$ 6.51	354%	$ 23.86	$ 6.51	367%	$ 20.43	$ 6.51	314%
1989	24.59	6.47	380	22.65	5.18	437	20.06	5.44	369
1994	27.07	6.23	435	23.85	5.26	453	21.66	5.41	400
1997	27.50	6.25	440	24.23	5.25	462	20.67	5.45	379
% Change									
1979-97	19.4%	-4.0%		1.6%	-19.4%		1.2%	-16.3%	
1989-97	11.8	-3.4		7.0	1.4		3.0	0.2	
1994-97	1.6	0.3		1.6	-0.2		-4.6	0.7	

* In this report, "high-wage earners" are defined as those whose hourly wage is higher than that of 90 percent of all workers. "Low-wage earners" are those whose hourly wage is higher than that of 10 percent of all workers.

Source: KRC, based on CPS data.

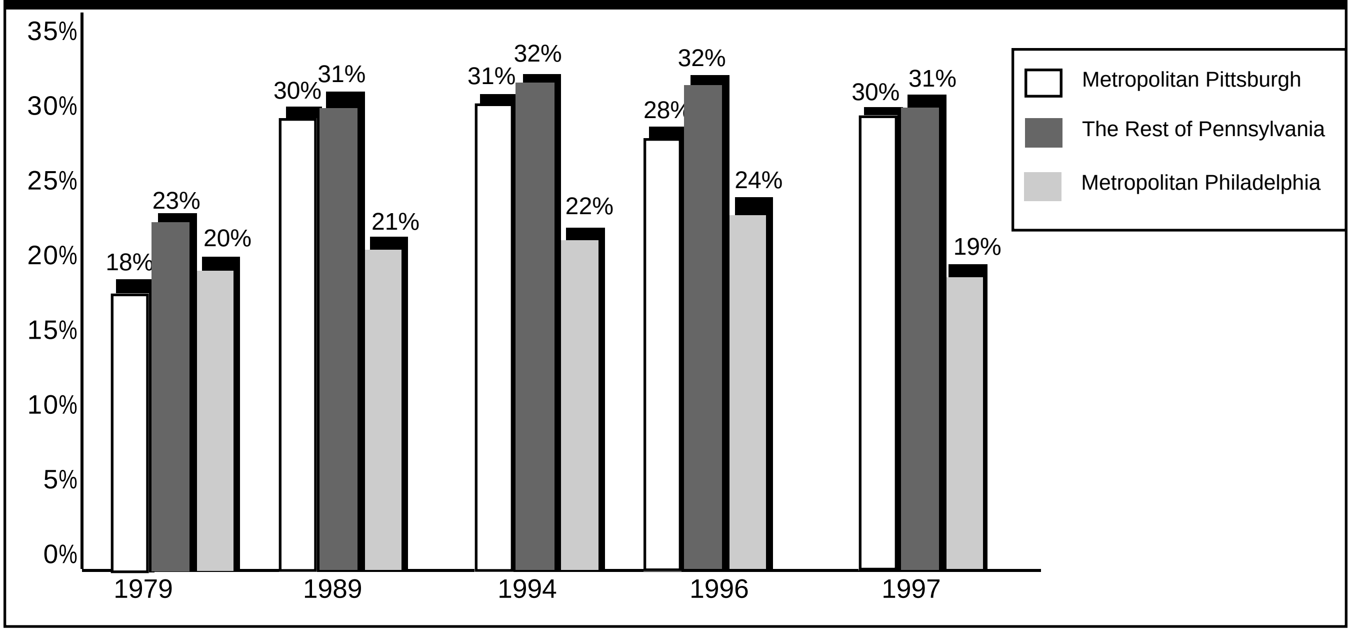
Table 8A.
Hourly Wages of Low–Wage Earners in the Philadelphia and Pittsburgh Areas*

	Metro. Philadelphia	City of Philadelphia	Metro. Pittsburgh	City of Pittsburgh
1994-96	$ 6.06	$ 5.41	$ 5.14	$ 5.63
1995-97	6.06	5.37	5.25	5.50

* "Low-wage earners" are those whose hourly wage is higher than that of 10 percent of all workers.

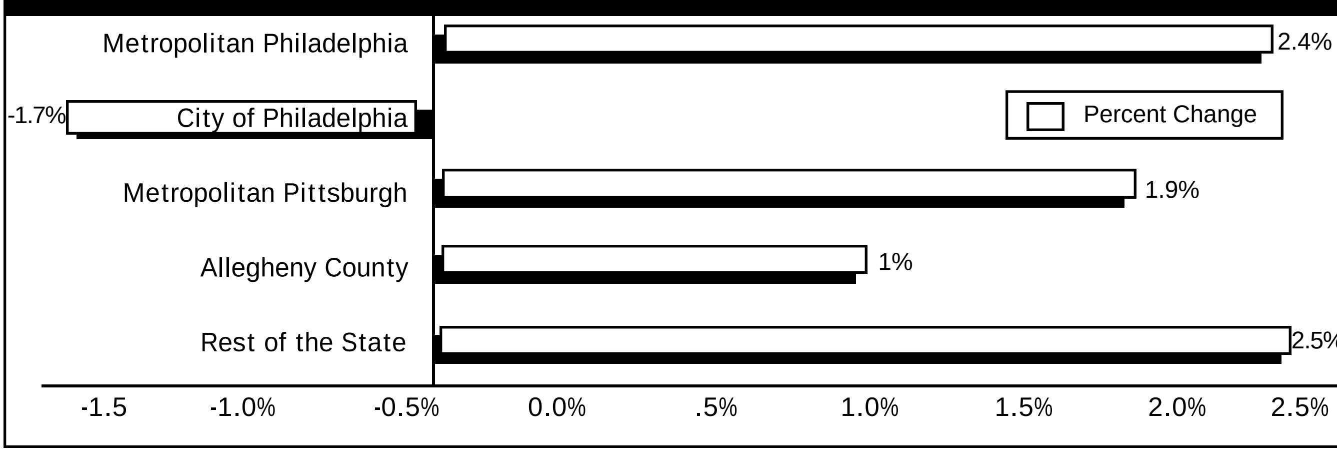
Source: KRC, based on CPS data.

Figure 6. The Share of Workers Earning Poverty Wages in Pennsylvania's Regions, 1979-97



Source: KRC, based on CPS data.

Figure 7. Job Growth in Pennsylvania Regions, 1994–1996



Source: Pennsylvania Department of Labor and Industry.

The share of workers who earn poverty wages, now 19 percent, is lower than in 1979 or at any time since then and is lower than in other regions of the state. (Keep in mind that our measure of the poverty wage does not take into account regional differences in the cost of living.) The incidence of poverty wages never rose sharply in the late 1980s and early 1990s as it did elsewhere in Pennsylvania.

Although job growth is still slow by national standards, the Philadelphia area had a net gain of about 39,000 jobs (or 2.4 percent) between 1994 and 1996 (the last year for which county data are available). This rate of job growth far exceeds that of the Pittsburgh area and is almost the same as the 2.5 percent job growth rate in the rest of the state over the same time period. With about 1.6 million jobs in 1996, the region has about a third of the state's jobs, as it has since at least 1980. The region's unemployment rate, 5.0 percent in 1997, was slightly below the statewide rate of 5.2 percent.[6]

But not everyone has shared in the region's prosperity. As the richest workers and (to a smaller degree) middle-income workers have enjoyed wage gains, the region's poorest workers have lost ground since the 1970s and 1980s. Low-wage earners have had very slight wage growth since 1994, but this growth has been too small to make up for a decade and a half of falling wages and has been slower than for low-wage earners in the state as a whole.

In most respects,working people who live in the city of Philadelphia have not shared in the region's prosperity. Although city residents' median wage increased between 1994-96 and 1995-97, it is still more than $1.60 per hour below that of the entire region and is also lower than that of the Pittsburgh region or the city of Pittsburgh. Low-wage earners living in Philadelphia saw their wages drop from 1994-96 to 1995-97, unlike their counterparts in the region as a whole. And 29 percent of employed city residents earned poverty wages in 1995-97, as compared with only 22 percent in the whole metropolitan area (Figure 8).

Unlike the rest of the region, the city continued to lose jobs.Between 1980 and 1996, the city lost more than 8,000 jobs (net); more than 5,000 of these were lost between 1994 and 1996 alone. With about 605,000 jobs in 1996, the city's share of regional employment fell from 48 percent in 1980 to 38 percent in 1994 to 37 percent in 1996.

Overall,unemployment is higher in the city (8.6 percent in 1995-97) than in the region as a whole (5.7 percent). This is true for all demographic groups. In both the city of Philadelphia and the metropolitan area,people

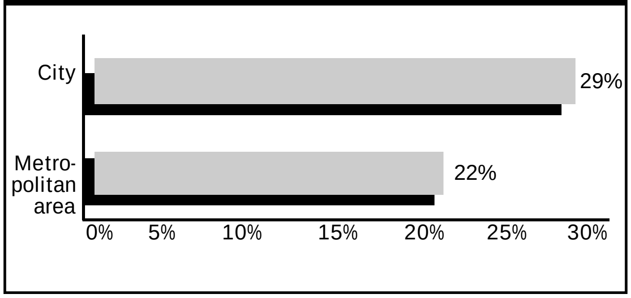
Table 9. Unemployment Rates in the Philadelphia and Pittsburgh Areas, 1995-97 (percent)

	Metro. Philadelphia	City of Philadelphia	Metro. Pittsburgh.	City of Pittsburgh
ALL	5.7%	9.4%	5.5%	6.9%
White	4.2	6.5	5.0	*
Black	12.0	13.3	*	*
Men	6.3	10.7	5.6	*
White Men	4.7	7.3	4.9	*
Black Men	15.0	17.4	*	*
Women	5.2	8.1	5.5	*
White Women	3.6	*	5.2	*
Black Women	9.3	9.7	*	*
No HS Diploma	15.2	22.3	14.6	*
Men	17.3	24.3	*	*
Women	12.6	*	*	*
HS Graduates Only	6.9	10.9	6.0	*
Men	7.5	12.6	6.0	*
Women	6.2	9.2	5.9	*
Age 16-25	12.4	18.7	12.1	*
Men	15.2	20.9	10.5	*
Women	9.9	*	13.8	*

*Sample size too small to permit reliable estimate.

Source: KRC, based on CPS data.

Figure 8. The Share of Workers Earning Poverty Wages in Philadelphia, 1995–97



Source: KRC based on CPS data.

without high school diplomas,African Americans,and youth have double-digit unemployment rates. Philadelphia men without high school diplomas had a 1995-97 unemployment rate of more than 24 percent, while the unemployment rate for men between the ages of 16 and 25 was nearly 21 percent.

The State of Working Pittsburgh: Again a Reversal of Fortune

After enormous wage losses during the 1980s (a $2.76 per hour decline in the median wage from 1979 to 1989),metropolitan Pittsburgh's working people experienced a substantial wage recovery in the early 1990s (almost a $1 per hour rise in the median wage from 1989 to 1996). Most of the wage gains of that recovery were wiped out in 1997, as the median wage fell by 76 cents in one year. The region's 1997 median wage of $11 per hour is now almost 19 percent below its 1979 level. In 1979, workers in the Pittsburgh area made $1.35 more than Philadelphia-area workers. Now the Pittsburgh area's median wage trails the Philadelphia area's by $2 per hour.

Of the three large regions of Pennsylvania, the Pittsburgh area has the widest gap between the earnings of rich and poor. Today, rich Pittsburgh-area workers make 4.6 times what poor ones do; in 1979, the ratio was 3.7.

In 1979, the Pittsburgh metropolitan area had a lower share of poverty wage earners (18 percent) than the other two large regions of the state. This share skyrocketed to 30 percent in the 1980s and has since remained around that level.

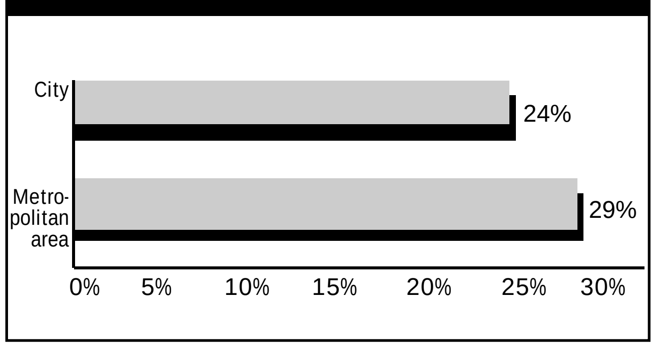
Recent job growth has been slower than in other regions of the state. The region had a net gain of about 18,500 jobs (or 1.9 percent) between 1994 and 1996. Job growth in the region's core, Allegheny County, was even slower (1 percent during the same period). With just under a million jobs in 1996, the region has about one-fifth of the state's jobs, the same percentage as in 1994 but down slightly from 22 percent in 1980.

The metropolitan area's 1997 unemployment rate of 5.4 percent was slightly higher than the statewide rate. Regional unemployment rates for youth and the less-educated were slightly lower than in the Philadelphia area.

In some ways,working people in the city of Pittsburgh are worse off than their counterparts in the region as a whole. The median wage of city residents dropped between 1994-96 and 1995-97, as did the wages of low-wage earners living in the city. The city's unemployment rate exceeds that of the region as a whole.

But unlike in Philadelphia,working people in the city are not worse off than suburbanites in every respect. The city of Pittsburgh's median wage is higher than that of the Pittsburgh metropolitan area. The city also has a lower share of poverty wage earners (24 percent) than the entire region (29 percent) (Figure 9).

Figure 9. The Share of Workers Earning Poverty Wages in Pittsburgh, 1995-1997



Source: KRC based on CPS data.

The Rest of Pennsylvania: More Jobs, Less Pay

The median wage in the rest of the state has declined continually since 1979, with the exception of a small increase in the early 1990s that was later wiped out. At $10.22 per hour in 1997, the region's median wage is almost 8 percent below its 1979 level and 3 percent below its 1994 level. It remains the lowest among the state's three large regions.

The region's share of workers earning poverty wages (31 percent) is, likewise, the highest among the three regions, as it has been since at least 1979, when it stood at 23 percent.The share of workers earning poverty wages has changed little since 1989.

Wage inequality and its growth have been moderate compared to the large metropolitan areas. The region's high-wage earners were richer in 1997 than in 1979 but not as rich as they were in 1994. Low-wage earners were poorer in 1997 than in 1979 but their wages changed little since 1989.The wage gap between high- and low-wage earners was the smallest of the three large regions.

Recent job growth has been faster than in the two large metropolitan areas. The region had a net gain of over 57,000 jobs (or 2.5 percent) between 1994 and 1996. The small metropolitan areas of central and southeastern Pennsylvania (Reading, Lancaster, York, Harrisburg, and State College areas), as well as a few rural counties, had job growth rates higher than the 2.5 percent regional average. With about 2.35 million jobs in 1996, the entire region had about 47 percent of all jobs in the state, the same as in 1994 and up slightly from 45 percent in 1980.

The 1997 unemployment rate was 5.3 percent,just above the statewide rate of 5.2 percent.

A BETTER AGENDA FOR PENNSYLVANIA

In the 1996 and 1997 editions of *The States of Working Pennsylvania*, we analyzed the roots of the wage stagnation and income polarization of the past two decades.[7] Interested readers can find there an examination of how much wage and income trends can be explained by the expansion of service industries, the globalization of the economy, deregulation, the falling value of the minimum wage, and deunionization.[8] Now the time has come to turn our full attention forward. While some of us may mourn the passing of old institutions and policies that made Pennsylvania workers part of the middle class, the 1970s are not coming back. We need new approaches and new institutions adapted to new conditions (although some traditional policy tools may be effective in new ways).

Our starting point is the observation that two years of better results do not mean that we are now on a path toward a generation of broadly shared prosperity. This recovery has been uneven. Two of the state's three major regions have not shared in it. In the last two years, the growth of the median wage in Pennsylvania has still trailed the national rate of productivity growth by roughly a percentage point.[9] Many groups of workers are worse off than they were in 1994, than they were at a similar point in the last economic recovery (1989), than they were in 1979. We see no evidence that either public policy or business behavior has changed in ways that will produce steady growth whose fruits will be distributed equitably.

If Pennsylvanians cannot yet count on the new economy continuing to deliver the goods, however, they can use today' economic climate to make sustained prosperity much more likely. In previous reports, we suggested a general approach the state needs to keep in mind: it should make it easier for companies to compete by improving productivity and quality and harder for them to compete by paying low wages and benefits or despoiling the environment. In this report, we have chosen to link our policy discussion more closely to ongoing Pennsylvania legislative and policy debates. We address issues on which action has been proposed in the last year or is anticipated in the next year: minimum wage and living wage, taxation, workforce development, welfare reform, educational quality and equity, and regional development. Some of our proposals in these areas link readily to the issue of how companies compete. Others do not deal with this issue directly, but do have a clear connection to the quality of life in the Commonwealth.

Raise the State Minimum Wage and Enact State and Local Living Wage Laws

The working poor have not benefited much from the recent recovery. Unlike workers in general, low-wage workers throughout the state have not caught up to their wage levels of the 1980s. Poverty wage workers have slipped further into poverty during the 1990s. Low-wage workers in Philadelphia continued to lose ground even in the last few years. And the gap between rich and poor workers remains wider than it was a decade ago.

A Higher State Minimum Wage. The working poor should see their wages rise as fast as those of other workers. Raising the state's minimum wage above the federal level is an effective way to make sure that this happens.

Minimum wage increases help the working poor without costing jobs. When the federal minimum wage rose from $4.25 to $5.15 per hour in 1996 and 1997, low-income working households benefited disproportionately. The wages of low-wage workers went up both in Pennsylvania and nationally between 1996 and 1997. Most of the benefits went to adults, not teenagers. And there was no slowdown in job creation, even in low-wage industries, after the minimum wage went up.[10]

The U.S. and minimum wage used to be raised regularly to enable the wages of the working poor to keep up with those of other workers. From the late 1940s to the late 1960s, the federal minimum wage rose along with productivity. Since then, productivity has continued to grow but the minimum wage has not. Even the recent federal minimum wage increase made up only a tiny portion of the long-term drop in the minimum wage relative to our overall living standard (Figure 10). If the minimum wage had kept pace with U.S. productivity growth since the late 1960s it would now be about $11 per hour.

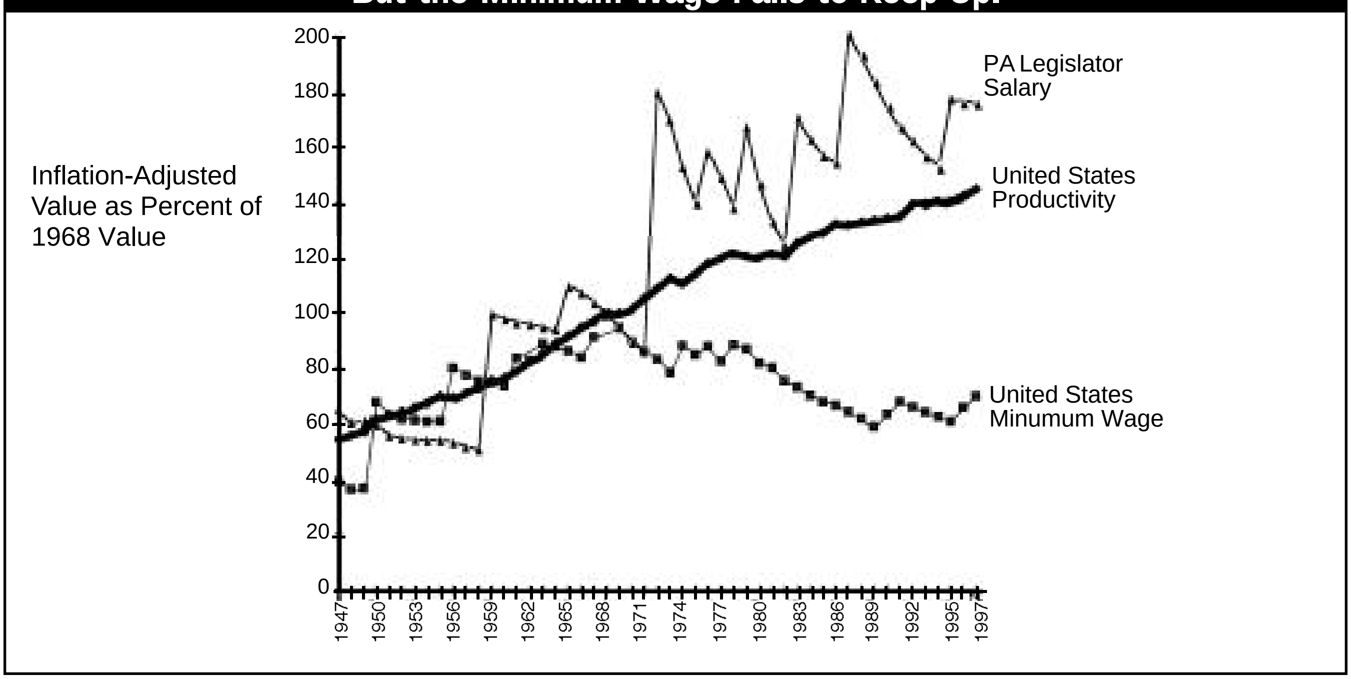
Raising the minimum wage not only helps the working poor; it also has long-term benefits for consumers because it makes employers more likely to improve performance. Many low-wage employers today do not focus their energies on improving how low-wage workers do their jobs. These employers simply keep wages and benefits low. Examples can be found in such industries as nursing homes, hotel housekeeping, child care, and retail trade. By making it hard to survive simply by keeping labor costs low, a higher minimum wage forces some of these employers to make their operations more efficient or their services more attractive to customers.

One way that a minimum wage increase can make low-wage employers more efficient is by reducing worker turnover. When low-wage workers get a raise, they quit their jobs less often, saving their employers the costs of hiring and training new workers and enabling employers to reduce the number of unfilled jobs.[11]

Pennsylvania may want to make a state minimum wage increase go into effect only if at least two of our neighboring states also raise their minimum wages above the federal level. In so doing, we would both put pressure on neighboring states to adopt this policy and respond to fears (mostly unfounded) that an increase in Pennsylvania alone might cause some businesses to flee to nearby states. (Seventy-eight percent of Pennsylvania employment is in the services. Many service industries are inherently tied to the place—metropolitan area, municipality, even neighborhood—where their customers live and work, and thus cannot leave the state. This is especially true of retail trade, personal services, health care, and social services, which employ the vast majority of near-minimum wage workers.)

One opportune time to seek a higher state-level minimum wage might be the next time state legislators seek to raise their salaries (beyond already scheduled inflation adjustments). As Figure 10 shows, while legislators' salaries fluctuate a lot, they have kept pace with the growth of productivity since 1970, and indeed since 1947. In 1995, state legislators indexed their own salaries to inflation.

Figure 10. Pennsylvania Legislators' Salaries Rise Faster Than Productivity, But the Minimum Wage Fails to Keep Up.



Sources: U.S. Bureau of Labor Statistics and Pennsylvania House of Representatives.

Table 10. Proposed Local Living Wage Legislation in Pennsylvania

Location	Description of Measure	Status
Philadelphia	Requires all city contractors and subsidized businesses to pay $7.90/hour, adjusted annually for inflation, plus health coverage or a higher wage if no health care is provided.	Bill had public hearings before city council this spring, which will continue this fall.
Pittsburgh/Allegheny County	Proposed legislation would cover city and county workers, contractors and subsidized businesses. Livable wage based on a locally assessed family needs budget. Health care coverage (or a higher wage if no health care is provided).	Coalition forming, supportive elected officials identified.
Reading	Called for $8/hour Livable Wage for city contractors, city-subsidized businesses, and city employees.	Withdrawn in 1997 for strategic reasons. Expected to be reintroduced in city council.
Montgomery County	Will require county contractors and subsidized businesses to pay a wage equal to 110% of the average hourly wage required to keep a family of 4 above the federal poverty line, plus health benefits (or a higher wage if no health care is provided).	Coalition Forming

Sources: KRC.

A Living Wage for Employees of Businesses that Receive Government Funds. Over the last few years, 20 cities across the United States—including Boston, New York, Baltimore, Chicago, and Los Angeles—have enacted "living wage" ordinances. These laws require city contractors and recipients of government subsidies to pay wages well above the minimum wage.The Chicago increase was achieved in late July when city aldermen sought to increase their own salaries (from $75,000 to $95,000). After a coalition publicized the city council's intent to pass this increase while refusing city contractor employees a living wage of $7.60, the aldermen implemented the living wage and their salary increase at the same time.

In Pennsylvania, living wage campaigns are underway in Philadelphia, Reading, Allegheny County, and Montgomery County. Table 10 shows the status of these campaigns as of August 1998. Living wage laws have the same advantages for the working poor and for long-term economic growth as minimum wage increases. In addition, they make a statement about the use of public money: that accepting government funds carries with it a special obligation to act in the public interest, not only by providing the government with needed services, but also by paying employees a wage that is high enough to ensure that they can be self-sufficient.

Since most manufacturers and geographically mobile service businesses (e.g., in financial services) pay at least $8 to $10 per hour, Pennsylvania and its local governments can require living wages up to that level without reducing investment in the state.

Cut State and Local Taxes for the Middle Class and Working Poor

This report shows that the before-tax wage gap between the rich and the rest of the population is wider than it was in the 1980s or 1990s. State and local taxes could have been used to counter this trend. But state and local taxes in every state place a higher tax burden on the middle and bottom fifths of income earners than on the top one percent (Table 11).

Pennsylvania's tax system is among the worst in the country in terms of both placing a high tax burden on low-income people and widening the income gap between rich and poor. Table 11 shows that in 1995 (the last year for which it is possible to compare all states), Pennsylvania's effective tax rate on the bottom fifth of income earners (13.2 percent) was tenth-highest among all states. On the middle fifth of income earners (9.8 percent) it was thirteenth-highest. But on the top one percent (4.5 percent) it was eleventh-lowest. Only three states, Washington, Florida, and Texas, taxed the bottom fifth at a higher rate and taxed the top one percent at a lower rate than Pennsylvania.

In 1997 and 1998, Pennsylvania took steps toward reducing the tax burden on the working poor by expanding eligibility for its low-income tax forgiveness credit. A married taxpayer with two dependents now owes no state income tax if her income is $25,000 or less and owes less than 2.8 percent if her income is between $25,000 and $27,250. Governor Ridge and the state legislature deserve credit for this tax change. But Pennsylvania needs to go further. According to calculations done for the Keystone Research Center by Citizens for Tax Justice, the expanded tax forgiveness provision only lowered Pennsylvania's tax rate on the bottom fifth from tenth–highest to thirteenth–highest (Table 11).

The expanded low-income tax forgiveness credit has three major drawbacks. First, the income limits are still too low, so that the state income tax continues to be a major burden to some low-income working families. In all but two Pennsylvania counties, a family of two adults, an infant, and a preschooler needs more than $27,250 (the income at which the tax credit is phased out completely for this family) to pay for food, rent, transportation, and other basic necessities.[12]

Second, Pennsylvania continues to tax its richest taxpayers very lightly compared to other states.The expanded tax forgiveness credit does nothing to raise the tax burden on the top one percent of income earners. A higher burden on the very richest taxpayers would make tax relief for low- and middle-income families possible without changing total tax receipts.

The final problem with the tax forgiveness credit is that if a family's income rises by only $2,250, then the family can go from paying no tax to paying a 2.8 percent tax on all its income. For a two-adult, two-child family whose income rises from $25,000 to $27,250, the state income tax goes from zero to $763 even though such a family cannot afford the basic necessities in most counties even after its income goes up. This sudden jump in state taxes is also bad policy because it discourages working poor people who have the opportunity from taking higher-paying jobs that will move them closer to self-sufficiency.

Introducing a standard deduction and a personal exemption in the Pennsylvania personal income tax, similar to those of a number of other states and the federal government, would solve all three problems. Instead of taxing all income above a certain threshold at 2.8 percent from the first dollar, only the dollars above the threshold would be taxed. In order to keep tax revenues from falling, the tax rate would have to be increased. But not all taxpayers above the threshold would see their taxes rise. Low- and middle-income people with incomes above the threshold would receive tax cuts, since they would pay a higher tax rate on a much smaller portion of their income. High-income people would pay more in taxes than they now do. The benefits of the standard deduction or personal exemption would fall gradually as income rose (but would never be completely wiped out, even for the very rich), eliminating the quick phase-out problem in the current tax forgiveness credit.

A sophisticated model would be needed to estimate precisely the shifts in taxes possible through a high enough standard deduction and personal exemption. Data on the family income distribution in Pennsylvania, however, can be used to get a very rough sense of the kinds of changes that would be possible. If standard deductions and personal exemptions were used to eliminate taxes on the first $27,250 of a typical family's income, and then the tax rate were raised to 3.9 percent, all families who earn $93,000 or less would pay the same or lower taxes than they currently do. Families in the second fifth of the income distribution who were above the tax forgiveness phase-out level (families that earn $27,250 to $40,000) would see roughly a $700 cut in their taxes. Families in the middle fifth, earning $40,000 to $59,000, would see a $240 cut in their taxes. The overall change would be revenue-neutral.[13]

Local wage taxes, such as those in Philadelphia and Pittsburgh, have the same inherent unfairness as the state income tax because they, too, are flat-rate taxes that begin with the first dollar of income. In fact, the local taxes are even worse than the state income tax because they have no exemptions for low-

Table 11. State and Local Taxes in 1995: Effective Rates* for Each Fifth of the Income Distribution (in decreasing order of rate paid by bottom fifth)

	Bottom Fifth	Second Fifth	Middle Fifth	Fourth Fifth	Top Fifth Next 15%	Next 4%	Top 1%
Washington	17.0%	12.2%	10.4%	8.9%	7.2%	5.4%	3.6%
New York	16.1	13.9	13.5	12.6	11.4	9.8	8.9
New Jersey	15.6	10.0	9.1	8.4	8.0	7.0	6.2
New Mexico	15.0	12.6	11.0	10.0	8.9	7.5	6.7
Florida	14.0	9.8	7.6	6.4	5.3	4.1	3.2
Texas	13.8	10.4	8.5	7.3	6.1	4.9	4.0
Wisconsin	13.6	12.1	12.0	11.1	9.8	8.1	6.4
Illinois	13.5	10.3	9.4	8.3	7.3	5.7	4.9
Louisiana	13.4	11.2	10.4	8.8	7.4	5.6	4.8
PENNSYLVANIA (1995 tax system)	13.2	10.7	9.8	8.9	7.7	6.2	4.5
Michigan	13.2	11.4	10.2	9.1	7.8	6.5	5.0
Rhode Island	12.8	10.9	9.9	9.4	8.7	7.5	7.5
Indiana	12.6	10.3	9.4	8.3	7.3	6.0	4.9
PENNSYLVANIA (with 1998 tax forgiveness credit)**	12.5	10.6	9.8	8.9	7.7	6.2	4.5
Iowa	12.3	11.0	10.2	9.7	8.7	7.5	6.1
Tennessee	12.3	9.3	7.6	6.4	5.3	3.9	3.2
Mississippi	12.1	9.7	9.6	9.1	7.7	6.4	5.4
Arkansas	12.0	10.5	9.6	9.0	8.1	6.8	5.7
California	12.0	9.0	8.5	8.1	7.8	7.4	8.1
Utah	12.0	11.2	10.6	9.8	8.4	7.0	5.7
South Dakota	11.7	8.9	7.8	6.6	5.7	4.0	2.6
Maine	11.6	9.7	9.9	10.1	9.4	8.2	7.2
Ohio	11.6	10.0	9.6	9.1	8.1	7.2	6.3
Alabama	11.5	10.3	9.0	7.8	6.5	5.2	3.6
Missouri	11.5	10.2	9.6	8.8	7.7	6.5	5.5
Massachusetts	11.4	10.2	9.6	8.7	8.0	7.0	6.0
Arizona	11.3	9.5	8.5	7.7	6.5	5.7	5.3
Connecticut	11.3	9.5	9.5	8.8	7.8	6.1	4.9
Georgia	11.1	9.9	9.3	8.4	7.4	6.3	5.7
Hawaii	11.0	10.1	9.7	8.6	7.9	6.9	6.2
Kansas	10.9	9.7	9.3	8.8	7.8	6.6	5.9
Minnesota	10.9	10.9	10.4	9.7	8.7	8.0	7.8
Maryland	10.8	10.7	9.8	9.0	8.2	6.7	5.6
Nebraska	10.8	10.1	9.7	9.1	8.3	7.2	6.4
Oregon	10.8	9.1	9.2	9.2	8.5	7.6	7.0
North Dakota	10.6	8.7	7.8	7.3	6.5	5.7	5.2
West Virginia	10.6	9.4	8.6	8.2	7.8	6.9	5.7
Washington D.C.	10.5	10.0	9.5	9.1	8.0	6.4	6.4
Kentucky	10.4	10.5	10.2	9.9	8.7	7.4	5.7
Colorado	9.9	9.0	8.4	7.7	6.6	5.6	5.1
Oklahoma	9.9	10.0	9.4	8.9	7.6	6.1	5.0
North Carolina	9.6	9.7	9.1	8.7	7.7	6.7	6.0
Virginia	9.6	8.8	8.3	7.6	6.8	5.9	5.0
Vermont	9.4	8.5	9.6	8.4	8.0	7.0	6.9
Idaho	9.2	9.2	9.0	8.8	8.2	7.1	6.8
New Hampshire	9.0	6.7	5.7	5.6	4.7	3.8	3.2
Nevada	8.9	5.6	4.7	4.1	3.4	2.5	1.6
Wyoming	8.2	6.5	5.7	4.7	3.8	3.0	2.7
South Carolina	8.0	7.0	7.8	7.8	7.0	6.3	5.6
Montana	7.6	6.5	6.6	6.9	6.6	5.9	5.5
Alaska	6.9	3.7	2.7	2.4	2.0	2.0	2.1
Delaware	6.3	6.5	6.2	6.0	5.8	5.2	4.9

*Effective rates are the ratio of average tax liability to pretax family income for each income grouping, after deducting the federal offset from state tax liability (since taxpayers can deduct state and local income and property taxes from their federal income tax liability).
** These estimates assume that,except for the tax forgiveness credit,the Pennsylvania tax system has not changed since 1995.

Source: Citizens for Tax Justice and Institute on Taxation and Economic Policy.

income taxpayers. Like the state tax, they could be improved through the inclusion of a standard deduction or personal exemption.

In addition, unlike the state income tax, the local taxes are levied only on wages, not on non-wage income such as interest and dividends. Because most non-wage income goes to high-income people, wage-only taxes blatantly favor the rich over the poor and middle class. Local wage taxes would be much fairer if they were turned into local income taxes.

We recommend a final tax change at the local level, partial regionalization of local property tax revenues, for reasons of environmental sustainability and educational equity. We therefore discuss this change in the sections on regional economic development and educational policy below.

Workforce Development: Build Training Consortia and Careers Across Firms

Over the past decade, criticism of the fragmented, inefficient U.S. employment and training system has become a cottage industry. With 163 federal programs and 36 state ones in Pennsylvania (many funded by the federal government), each with its own eligibility criteria, the current system is, in reality, no system at all.[14] Almost everyone agrees on the desirability of a less complex, more integrated system. When it comes to envisioning a new workforce development system, however, consensus and clarity give way to confusion. In the absence of a simple and widely shared framework for thinking about the new economy, debates about the government's role in work-related education and training are often hopelessly muddled.

The Case for Multi-Employer Partnerships. The way forward out of the current morass is actually quite simple: to recognize that building a new workforce development system that meets the needs of employers, workers, and the state hinges on strengthening multi-firm training partnerships.

Partnerships may bring businesses together in a wide variety of ways. For example, they might be established within individual sectors, across sectors that have more limited overlapping needs for particular occupational specialties (e.g., for information technology workers), or among companies that hire entry-level workers in a metropolitan area.

At the simplest level, the need to strengthen multi-employer partnerships stems from the inability of individual firms to satisfy their own needs for well-trained workers or their workers' need for security and advancement. If companies can't meet these needs alone, then groups of companies must pick up the slack. If this doesn't happen, businesses will lack the skills necessary to compete based on improving performance and are more likely to compete by lowering compensation.

Groups of firms are better able than individual employers, acting alone, to generate critical knowledge in today's volatile economy because:

- multi-employer partnerships can achieve economies in the development and delivery of classroom and work-based training.

- they can wield sufficient clout to "organize" the training market; establishing school-to-work programs and industrywide credentials, and clarifying for employers and workers what current and future skill needs are, which providers deliver quality training, and what the most promising inter-firm career paths are.

- partnerships enable negotiation of equitable multi-employer cost-sharing arrangements that can increase investment in broad, portable skills. Such skills are the lifeblood of employers that seek to compete by raising productivity and quality. But unless cost-sharing arrangements exist, individual companies have no incentive to pay for such skills.They have no way to be sure that portable skills they generate won't end up being used down the street at a competitor.

- partnerships have proved effective at spreading "best" (or at least better) practices among employers. For managers struggling to turn "teams" and "continuous improvement" from buzz words into reality, there is no better tutor than a manager at another company.

Two other characteristics of multi-employer partnerships justify their being the state's highest workforce development priority. First, they have the potential to leverage rather than displace private spending. Second, partnerships have a more legitimate call on public resources than individual firms. Grants to individual companies are unavoidably susceptible to distribution based on political criteria. By contrast, multi-stakeholder partnerships in key local industries have representation drawn from a cross-section of important area constituencies.They also invest in what economists call "public goods"—for example, creating widely recognized credentials or career ladders that, once established, are of value to the rest of the public, including other workers and employers.

A Consensus on the Value of Multi-employer Partnerships. In the last year, a consensus has emerged in Pennsylvania on the importance of multi-firm partnerships.[15] According to the Governor's Policy Office, promoting training consortia is now a top priority of Governor Ridge. On July 1, new guidelines for the state Customized Job Training program made "Industry-led Consortia Training" one of three funding areas. $4 million were allocated to such consortia over the next year.

In the private sector, shortages for qualified and technically trained workers have increased employers' willingness to devote time and energy to building consortia. A number of new employer-led training partnerships are now being built across the state. For example, on February 20, seven major companies and the Pennsylvania Manufacturers' Association approved a Charter for a Pennsylvania Manufacturing Consortium for Workforce Development.

Limited Progress. Despite progress, the strategic reorientation of the Pennsylvania workforce development system has been quite tentative. Only a small fraction of the state's roughly $750 million spent on employment and training, and of state economic development and industrial modernization funds, go to multi-firm efforts. Some policymakers and practitioners seem to see skill standards and "job profiling" (which "profiles" the math and literacy skills required to do different jobs) as magic bullets that will by themselves make labor markets function well when workers change employers frequently. In fact, these tools cannot substitute for the stakeholder ownership necessary to make partnerships vital and ongoing contributors to regional industries. In some high-profile new partnerships, industry participation appears to be limited to one or a few key leaders in the largest companies, with needs assessments and recruitment of larger networks of potential participants still to be done.There is little visible participation by non-employer stakeholders, such as labor and community representatives. In partnerships that lack broad and deep stakeholder participation, state investment risks serving as a new way to channel public funds to a few well-connected businesses.

Weak stakeholder participation in emerging partnerships also makes them more likely to disappear next time the labor market slackens. In particular, some form of worker representation is a feature of the vast majority of the successful and enduring U.S. training partnerships. Unions serve as the "glue" in multi-employer partnerships because workers' security in unstable firms and industries depends on multi-employer credentialing and careers.[16]

Worker representation—"the voice of the learner"—also leads to the development of more effective work-based learning and peer mentoring systems, as well as to the design of curricula informed by how workers' actually learn to do their jobs.[17]

The unionized construction trades illustrate the contribution of worker organization to industry partnerships. More than 1000 technically trained workers graduate from construction union apprenticeship programs in Pennsylvania annually. Non-union apprenticeship programs graduate about a quarter of this number even though the industry is now 80 percent non-union.[18] Lacking the presence of a union to ensure equitable investment across employers, non-union construction training programs have been underfunded.

Another limitation of Pennsylvania efforts to begin or promote partnerships has been the overemphasis on manufacturing and "high-tech" industries. Certainly, strengthening industries that export goods or services outside the state is critical. But the state would also gain enormously from partnerships in non-mobile service industries. Many of these laborintensive and human service industries rely heavily on low-wage workers, with the result that turnover is high and quality low. It would not be that difficult for them to improve their performance through more investment in workers and in communication among employers about how to improve practices. In the nursing home industry, for example, recent concern about the quality of care in Pennsylvania points to the high return possible from modest public investment in workforce development partnerships dedicated to promoting high-quality models of care.[19] Similar benefits would exist from supporting regional partnerships between employer associations and worker associations to improve the quality of child care.

Restricting government support of consortia to favored manufacturing and technology industries would represent micro-management and a variant of "picking winners." A better approach is to reward private sector initiative and proposals that convincingly demonstrate how public investment would serve the public good, regardless of industry.

Federal workforce development legislation (the Workforce Investment Act, WIA) finally passed both houses of the U.S. Congress this summer. Implementation of this legislation provides an opportunity to promote partnerships in Pennsylvania and to strategically reorient the state's workforce development system. The new federal law increases state and local flexibility in using the resources from about sixty federal programs. These programs may now be melded more easily into a cohesive system that serves workers generally. In any Pennsylvania legislation and regulations that follow from the WIA and in the operating procedures of the multi-constituency boards that oversee workforce development spending (both the statewide Human Resource Investment Council (HRIC) and local workforce development boards) the following principles should be incorporated.

- All programs and plans should have an explicit commitment to a state economic strategy based on improving quality and productivity.

- In statewide and regional boards, the system should be overseen by high-performance employers in collaboration with labor, community, and civic leaders.

- To the extent practical, employer representatives should be drawn from emerging high-performance partnerships with broad, multi-stakeholder participation.

- The state should give its new Human Resource Investment Council a modest research budget that enables it to gather information on leading partnerships across the country and the characteristics that make them successful. Detailed knowledge of concrete examples can be a life raft for those who feel overwhelmed by the complexity of today's workforce development challenge.

- Additional money should be allocated for planning grants and needs assessments with the potential to help create coalitions that might launch partnerships.

- Preference for seed funding should be given to broad, multi-stakeholder partnerships that have the characteristics listed under number five of the top ten list for workforce development reform (Box 1).

- Partnerships should also be required to develop criteria for evaluating their success in promoting workforce development and agree to share their assessments with others. Through communication among partnerships and research and policy support from the HRIC, Pennsylvania can learn over time how to build an effective workforce development system for the new economy.

Create Real Opportunities for Welfare Recipients and People Leaving Welfare

In 1996, Congress eliminated poor families' federal entitlement to welfare benefits under the Aid to Families with Dependent Children (AFDC) program. It replaced AFDC with a new program, Temporary Assistance to Needy Families (TANF), intended to reduce the welfare rolls and encourage welfare recipients to work. TANF is funded by federal block grants to states and by state appropriations. In order to receive the block grants, states must

Box 1. The Fruit Bat Group's Top Ten List for Workforce Development Reform in Pennsylvania

In a column in the *Philadelphia Inquirer,* Andrew Cassel suggested earlier this year that, in Harrisburg, successful idealists are as rare as fruit bats. With this in mind, and in the hope of pushing state policy debate in constructive directions, the Keystone Research Center convened a small group of stakeholders to discuss workforce development reform. In addition to the authors of the present report, the "Fruit Bat" group included Paul Gehris, Vice President of the Keystone Research Center's Board of Directors (and formerly with the Pennsylvania Council of Churches), two individuals from the business community, three from labor, three from the practitioner community, and two independent researchers.The group reached consensus on the following.

Pennsylvania's workforce development legislation should

1. Promote Pennsylvania by recognizing and reinforcing Pennsylvania's greatest assets
   - a strong work ethic
   - a history of quality workmanship
   - a tangible sense of community

2. Use Public Workforce Development Funds to Stimulate the Creation of Family-Sustaining Jobs and Career Opportunities for All Workers

3. Seek to Grow, Attract, and Raise the Visibility of "High-Performance" Firms that
   - offer family-sustaining jobs
   - model positive workforce development practices in their own operations and/or through their participation in multi-employer workforce development partnerships

4. Bring All Voices to the Table in Statewide and Regional Workforce Development Boards, including
   - high-performance employers whose needs workforce development must address
   - labor representatives with knowledge of skills required and of how workers learn
   - best practice providers with knowledge of client groups and training that works
   - disadvantaged labor market groups whose members do not have adequate access to family-sustaining careers today
   - civic and community leaders responsible for the well-being of the regional economy

5. Help Create Multi-Employer Training Consortia and Career Ladders that
   - are tightly linked to local and regional economies and to their leading manufacturing and service industries
   - deliver portable credentials
   - promote investment in training when workers move from firm to firm
   - give workers in entry-level jobs the long-term training necessary to advance into family-sustaining jobs (e.g., in apprenticeships)
   - make worker security less dependent on the fortunes of a single employer

6. Promote Career Opportunities For Members of Disadvantaged Labor Market Groups and of Economically Distressed Communities

7. Continually Benchmark and Encourage Improvements in the Effectiveness of Workforce Development Boards

8. Require Government to Lead by Example by promoting workforce development and providing lifelong learning and career opportunities

9. Strengthen the K-12 Education System in Order to Promote Quality Work and a Quality Working Life by adopting rigorous academic and work readiness standards

10. Promote Lifelong Learning So Adults May Enrich Their Lives and Pursue New Careers
    - through coordination between all levels of the public education system
    - reciprocal recognition of learning in class, work-based, and apprenticeship settings

- contribute some of their own money to the program,

- require welfare recipients on welfare for two years or more to engage in approved work activities (including subsidized or unsubsidized employment, workfare, community or volunteer service, job search, and, to a limited extent, education),

- reduce their welfare caseloads and increase the share of welfare recipients who are in approved work activities, and

- limit each recipient's lifetime eligibility for benefits to no more than five years.

Within these and other federal limits, states may design their own TANF programs. Shortly before and in anticipation of the change in federal welfare rules, the Pennsylvania legislature in 1996 enacted Act 35, its own welfare reform. Act 35 is generally consistent with the federal requirements but in several ways imposes restrictions not required by federal law or fails to impose restrictions permitted by federal law. It contains no wage floor for jobs that recipients are required to accept; this means that recipients may be required to take jobs that, when combined with the welfare grant, pay less than the minimum amount needed to pay for basic needs. Act 35 allows education to count as a permissible work activity only during a recipient's first two years. The Act prohibits recipients from reducing their earnings (for example, by switching from full-time to part-time work) or quitting a job, even to attend school. The sanctions on recipients who violate the state's rules can eventually be as severe as lifetime denial of welfare benefits to an entire family. Pennsylvania also has failed to use any of its TANF funds to pay for child care for poor working families who are not TANF recipients, even though federal law allows states to do so.

In addition, Pennsylvania's Department of Public Welfare has not trained its caseworkers to implement the law properly. Some caseworkers have erroneously told clients that the law requires them to work full-time or prohibits them from going to school. Caseworkers have not been trained to assess clients' needs, abilities, or interests regarding work. Some have pressured recipients into accepting any job offer, regardless of its suitability for the client's needs or interests.[20]

Because TANF encourages recipients to work, it affects the working poor generally, not just TANF recipients. Current policy, which will force large numbers of welfare recipients into competition for jobs with other low-wage workers, will put downward pressure on the wages of all the working poor. As shown below, the wages of low-wage workers are already less than the amount that a family of just one adult and one child needs for basic self-sufficiency. In Philadelphia, where many welfare recipients live, low-wage workers have suffered pay cuts even during the economic boom of the mid-1990s. Welfare policy should not try to improve the lot of current welfare recipients by further impoverishing the working poor.

The goal of family self-sufficiency through work is a desirable one for welfare recipients who are ready and able to work. But the reforms, as enacted and implemented in Pennsylvania, are based on the idea that all recipients can achieve self-sufficiency by getting a job immediately ("work first"), regardless of what kind. After working in that job for a while, they will be able to move on to better jobs. This idea is misguided. Ensuring self-sufficiency for welfare recipients requires reorienting welfare toward a job creation and workforce development program that gives recipients real job opportunities at decent wages. Pennsylvania should make the following legislative, regulatory, or policy changes, all of which are allowed under federal law.

Create Enough Jobs. A work-based strategy for self-sufficiency can succeed only if there are enough jobs for everyone who is required to work. Despite the state's generally low unemployment rate, demographic groups that make up much of the state's welfare population–youth, African Americans, and people without a high school diploma–suffer from double-digit unemployment rates. And the unemployment rates for these and other groups are higher in the city of Philadelphia, where many of the state's welfare recipients live, than elsewhere in the state. With the first group of Pennsylvania TANF recipients reaching the two-year mark on March 3, 1999, and others to follow every day thereafter, it seems unlikely that there will be enough private sector jobs to employ everyone who will be required to work. Although the Department of Public Welfare can avoid a crisis next spring by creating a workfare program for welfare recipients who do not find other jobs, this would not put recipients on the road to self-sufficiency. Workfare would create public jobs that recipients would have to take to receive their assistance, but these jobs would not pay a living wage and would, experience suggests, be dead-end, make-work jobs.

The state should create enough transitional public sector jobs that pay a family-sustaining wage to employ both welfare recipients who are required to work and people leaving welfare who cannot obtain private sector jobs. These new jobs should provide workers with opportunities to learn both interpersonal and vocational skills that they will be able to use in future jobs.

Ensure Family Self-Sufficiency for All Welfare Recipients Who Work. If family self-sufficiency through work is the goal, then welfare recipients who work should take home enough money to afford the basic necessities of daily life for their families. The combination of TANF benefits, wages from paid work, and the federal earned-income tax credit (for which caseworkers should help all working clients apply) should be enough to enable working TANF recipients to afford the basic necessities. Recipients should not be required to leave the program until they get unsubsidized jobs that pay at least enough to enable them to afford the basics.

The wage levels that provide this basic self-sufficiency income are considerably higher than the minimum wage $5.15 per hour or the wages of low-wage earners ($5.54 per hour statewide, $6.25 in metropolitan Philadelphia; see Table 8A.) For a family of one adult and one infant, self-sufficiency wages ranged in 1996 from $6.95 per hour in Sullivan and Fulton counties to $13.08 per hour in Pike County and $13.14 per hour in Chester County.[21] Adjusting these numbers for inflation since 1996 would produce even higher wage (or wage plus TANF benefit plus earned-income credit) requirements. Larger families would require higher wages (or wages plus benefits) as well.

Link Entry-Level Jobs With Better Jobs. Some welfare recipients need basic work experience, even in relatively low-wage jobs, as a way to develop basic work readiness skills, such as coming to work on time and interacting with co-workers and supervisors. The TANF program in its current form, though, assumes that people who develop these skills will automatically be able to move on to higher-paying jobs. At a time when employers are increasingly reluctant to promote from within, the assumption that an entry-level job is truly an entry-point to a career is inaccurate. Today, workers need to be able to advance by changing employers.

There have recently been some efforts among employers to begin linking low-wage, entry-level jobs with better jobs in different companies. For example, the owner of forty Burger King restaurants in western Michigan is implementing such a cross-company job ladder with a manufacturing employer in the region. Burger King is also in the process of recruiting other manufacturers who would hire its workers. In arrangements such as this, the higher-wage employers agree to give hiring preference to workers with experience at the lower-wage companies.The higher-wage companies benefit by getting new employees who have shown that they are work-ready. The lower-wage firms benefit from lower labor turnover; workers quit low-wage jobs less often when they know that those jobs lead to a better future. And workers benefit because they know that the low-wage jobs are the first step on a career ladder rather than a dead-end.[22]

State and local governments in Pennsylvania should encourage employers to link low- and high-wage jobs in this way by providing workforce development funds to employers who are interested in doing so. If Pennsylvania creates transitional public sector jobs, as we recommend, then the state should try to interest private employers with higher-paying jobs in linking their jobs with the transitional public jobs.

Impose Sanctions Only as a Last Resort, Never Unless There Are Enough Jobs and Never On Children. The success of TANF should be measured by the extent to which the program helps families to become self-sufficient through work, not by the extent to which it reduces welfare expenditures or the number of recipients. Sanctions on recipients who violate program rules–cutting benefit levels or terminating recipients from the program without jobs that pay a family-sustaining wage–are a sign of program failure, not individual failure, if they are imposed on many people. Sanctions should be used only as a last resort. Sanctions for failure to work should never be imposed unless the state has ensured that there are enough jobs to employ everyone who is required to work under the program. And sanctions should be imposed only on adults, not on children, for whom sanctions cannot be incentives but serve only to punish the innocent. Finally, to promote fairness in cases where the Department of Public Welfare is considering sanctions, the Department should appoint an ombudsman to review such cases before sanctions are imposed.

Stop Discouraging Education for TANF Recipients. Both the state and federal governments make education an important part of their workforce development strategies for non-TANF recipients. But Pennsylvania has actively discouraged TANF recipients from using education as part of their own strategies to achieve self-sufficiency. Education beyond high school is not a universal path to self-sufficiency, but it is a path to self-sufficiency for some people. If a TANF recipient has a realistic self-sufficiency plan that includes full-time schooling, that person should be allowed to go to school full-time, regardless of whether he or she is also working. Likewise, if a recipient's plan is to combine schooling with part-time work, he or she should not be forced to work full-time. Pennsylvania should remove the obstacles that it has placed in front of TANF recipients' attempts to achieve self-sufficiency through education.

- Allow education to count as a permitted work activity beyond the first two years on TANF, as federal law permits.
- Do not require TANF recipients to quit school to go to work if they are eligible to use education as a work activity.
- Do not require TANF recipients to work full-time.
- Do not prohibit TANF recipients from reducing their work hours or earnings to pursue educational opportunities.
- Some TANF recipients have been mistakenly forced by caseworkers to quit school (or prevented from starting school in the first place) and will soon reach their two-year mark, after which current state law prohibits them from using education as a work activity. These individuals should at least be allowed to go to school for the full period of time for which they were initially eligible to use education as a work activity (even if this period extends beyond the recipient's first two years on TANF).

Provide Career and Self-Sufficiency Counseling for TANF Recipients. Welfare caseworkers were not hired or trained to counsel clients about how best to achieve self-sufficiency. If TANF is to help recipients achieve self-sufficiency, then it must give recipients the services they need, including individualized assessment of clients' interests, needs, and abilities; advice about what kinds of jobs, schooling, or other activities will best help them achieve their self-sufficiency goals; and assistance in obtaining the jobs, schooling, or other activities that are needed. These are the same kinds of services that federal and state workforce development efforts propose to give non-TANF workers. If it is not feasible or desirable to train welfare caseworkers to provide these services to TANF recipients, then the state should ensure that other state employees or private contractors provide them.

Use TANF Funds to Pay For Child Care For the Working Poor. TANF pays for child care for welfare recipients but, in Pennsylvania, not for other working poor families. This policy discourages families from leaving TANF when they might otherwise be able to do so. Federal law allows states to use TANF funds to pay for child care for poor working families that do not receive TANF benefits. Pennsylvania should use its TANF funds to do so. In this way, the state will both remove a major obstacle to self-sufficiency for TANF families and make TANF a means of helping the working poor.

Equalize Educational Funding and Quality

Basic fairness requires that children's opportunity to enjoy a fulfilling life and economic security not be an accident of birth. As economic inequality has grown, however, so have the educational handicaps faced by the children of working people relative to the children of the privileged. At precisely the same time that a quality education and high levels of achievement have become prerequisites for earning a good income, declining wages and income-based geographical segregation have deprived working class communities of the resources necessary to give their children an equal start.

Inadequate and inequitable investment in children's education is also bad for employers and the state economy. State policymakers increasingly point to the quality of the workforce as the most important factor in attracting investment that will deliver good jobs and rising living standards. While the public education system cannot substitute for a strong system of occupational and work-based learning, it is the foundation upon which the employer-linked workforce development system must build.
To achieve growth with equity, Pennsylvania should adopt the following recommendations.

Reduce Inequities in the Funding of K-12 Education. Large inequities in funding for K-12 education exist among Pennsylvania's 501 school districts. Ignoring the greater expense of educating low-income and special needs poulations, Upper Merion Township (in Montgomery County) spends $11,627 per pupil and Radnor Township (in Delaware County), $12,338. The nearby city of Philadelphia spends only $6,846. Across the state, in Allegheny County, Fox Chapel spends $10,530 per pupil and South Allegheny school district spends $6,352.[23]

Table 12 shows the funding situation for Pennsylvania school districts divided into five groups (each of which educates one fifth of Pennsylvania's public school children) based on how rich school districts are (measured by the total personal income of residents of the district divided by the number of pupils in the school system). Table 13 shows some of the characteristics of the five groups. The highest-income districts received $8,264 per pupil in state and local funding in 1995-96 (adjusting for the higher costs of educating students on welfare), 39 percent more than the $5,951 per pupil received by the poorest group of districts.[24]

State funding does substantially reduce inequity in funding. Local funding per pupil in rich districts is over 2.5 times what it is in poor districts as compared to a 1.39 ratio after state funding. The poorest two groups of districts each receive 24-25 percent of state educational funding, compared to the 20 percent they would get if the state gave all districts the same amount of money per pupil. Even so, at this level of targeting, state spending is too low to make up for the huge variations in local funding. In 1991-92, Pennsylvania had the 17th–lowest state share of state and local educational funding in the nation, at 43 percent. The state share of funding fell to 42 percent by 1995–96.[25]

The gaps in funding between rich and poor school districts in Pennsylvania are larger than most states (and appear to be growing). Even in 1991-92 (the last school year for which comparable data are available), Pennsylvania had the 11th–largest gap in state and local funding per pupil between high-income and poor districts.[26]

Inequity of funding is not a result of lack of effort on the part of middle- and low-income districts. Table 13 (last row) shows that the poorest districts spent over 30 percent more on local schools per $1,000 in income than did the highest-income districts.[27]

Giving more money to poor schools would be a popular reform. According to a 1998 poll by Mansfield University, roughly 70 percent of suburbanites think the state should give more money to low-income school districts.

<u>Fund Education out of State not Local Revenues.</u> The simplest and most powerful way to make educational funding more equal would be to weaken or sever its connection to the affluence of school districts.This could be done by shifting funding of education from local property taxes to the state income tax, with the changes recommended above to make the income tax fairer to middle-class and low-income workers.[28]

Table 12. State and Local Funding Distribution in Pennsylvania, 1995-96

Funding Source	Mean Funding per weighted pupil					
	State	Poorest Fifth	Second Poorest Fifth	Middle Fifth	Second Highest-Income Fifth	Highest-income Fifth
Local Funding	$3,973	$2,522	$2,754	$3,846	$4,456	$6,399
State Funding	2,851	3,429	3,503	3,038	2,370	1,865
Subtotal	6,823	5,951	6,257	6,885	6,826	8,264
Federal Funding	213	433	207	237	107	66
Total Funding	7,036	6,384	6,464	7,121	6,933	8,330
Each Fifth's Share of State Funding		24.1%	24.6%	21.3%	16.6%	13.1%
Funding Change with Equal State and Local Funding		$872	$566	-$61	-$3	-$1,441

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

Table 13. The Demographic Characteristics of Pennsylvania School Districts, 1995-96

	State	Poorest Fifth	Second Poorest Fifth	Middle Fifth	Second Highest-Income Fifth	Highest-income Fifth
Total Districts	501	62	161	97	97	83
Total Pupils	1,773,044	354,035	356,884	350,857	356,568	354,700
Poverty Rate*	12.6%	35.2%	9.1%	12.1%	4.6%	2.2%
Per Pupil Income**	$92,346	$51,700	$63,184	$82,540	$103,462	$160,783
Tax Effort per $1,000 in income***	$44.11	$52.22	$44.38	$47.73	$43.47	$39.97

*Poverty rate is the number of students on Aid to Families for Dependent Children as a percent of the total number of pupils.
**Per pupil income is personal income (reported by residents of a school district on their tax returns) per unweighted pupil.
*** Tax effort equals all local tax revenues (e.g., property and occupational privilege taxes) divided by total personal income of the residents of the school district.

Regional Funding. A second approach would be to reduce funding inequities within sub-state metropolitan areas and regions.This could be done through regional sharing of some of the taxes collected for education. Within each county or metropolitan area, municipalities should be required to contribute part of the growth in their residential property-tax bases to a regional pool distributed in ways that alleviate intra-regional disparities. As with proposals for regional planning, the state could specify the relevant regions in legislation or create a process for election by each district of whether to join a region. By giving higher state subsidies to regions with intra-regional equity, the state could create an incentive for rich districts to join with nearby less affluent ones. A regional approach would make particular sense in metropolitan areas where intra-regional inequities are large (such as metropolitan Philadelphia and York County). It would not solve funding problems in large rural regions of Pennsylvania.

Regional funding might create a context in which area districts work more actively together to improve the quality of education. For example, some of the regional pool might be used to move the best mentors and master teachers to the schools in the region that need the most help, regardless of district. Regional approaches of this kind might help create a commitment to making all schools as good as the best ones. (This ethic is very difficult to establish in large districts that are largely poor, but would find more fertile conditions if regional funding gave large regions as a whole adequate resources.)

Reduce Class Size in Grades K-3. Another approach to improving educational outcomes, particularly for lower-income students, would be to reduce class size in kindergarten through third grade. Research shows that smaller classes in the early grades improve student test scores in a wide range of subjects. Achievement improves most for low-income and minority students.[29]

In the states of California, Massachusetts, Illinois, New York, and Texas, Republican governors have implemented or proposed reductions in class size in grades K-3. In polls conducted in each of the past three years by Mansfield University, more than 70 percent of Pennsylvanians favored smaller classes.

A modest approach would be for Pennsylvania to launch a class-size initiative that targets low-income schools that serve 25 percent of the state K-3 student population. In year one, these schools should establish all-day kindergarten classes of 15 students. In year two, first grade classes should be reduced to no more than 15 students. In year three, an experimental program of class-size reductions in grades 2 and 3 should be launched. We estimate that these recommendations would cost $100 million per year in the first two years.[30]

Bring an End to Sprawl: Redirect Development Toward Older Cities and Towns

Over the past several years, groups concerned about the environment, the decline of established towns and cities, and the quality of community life in Pennsylvania have rallied around the need to end "sprawl" and to redirect economic development toward older commercial, residential, and industrial areas. Suburban and exurban sprawl are part of a process of "rotting from the core." Evidence shows that after cities go downhill, inner suburbs tend to as well. Once inner suburbs start to decline, they do so quickly because they lack the cultural amenities, pockets of affluence, or concentrations of manufacturing or professional service industries that large metropolitan centers have. Decline also feeds on itself: once businesses and more affluent homeowners begin to leave, a lower tax base leads to lower quality services and education and to higher tax rates, which lead to further abandonment.

Sprawl in Pennsylvania has destroyed substantial rural land. The population of the state's 10 largest metropolitan areas grew by only 13 percent from 1970 to 1990, but their land area grew by 80 percent.[31] As development spreads out, it makes jobs less accessible to those who need them most and reinforces geographical segregation based on race and class. Unchecked, these trends point toward a society that is ugly to look at and ugly beneath the surface.

From an economic perspective, sprawl wastes established infrastructure. Less-concentrated development also makes it harder for groups of firms to come together to learn from each other and to address common workforce, technology, or marketing needs. It makes it more likely that local businesses will see reliance on low wages and low-skill workers as the only practical alternative.

At present, government policy accelerates sprawl by stacking the cards against developed communities. For example, uniform water and sewer rates result in established areas subsidizing the costly construction of lines for new suburbs. State spending for roads and transportation systems also favors affluent new outlying areas. Pennsylvania's fragmented local government structure leads to intense battles among municipalities for commercial and industrial development. To outcompete their neighbors, municipalities offer subsidies, tax cuts, and tax abatements. The "winners" of these competitions are often outlying suburbs or exurbs, which can offer businesses greater subsidies or tax breaks because they have wealthier residents. But competition among local governments over business location makes a loser out of local government as a whole, because it ends up lowering the total amount of money local governments, as a group, have available to spend on infrastructure and education.

A broad consensus now exists in Pennsylvania that sprawl is a problem. In area after area, studies commissioned by enlightened business or environmental interests and conducted with widespread civic participation have documented how rotting from the core has played out (in metropolitan regions such as Philadelphia, Pittsburgh, Reading, and York). In a June draft report, the 21st Century Environment Commission established by Governor Ridge offered an analysis on the process and roots of sprawl that overlaps ours.[32] In the legislature, bills that would take a first step towards reversing sprawl have been sponsored by Republicans in the House (Bill 1614, sponsored by Representative David Steil of Bucks County) and Senate (Bill 270, sponsored by Senator James Gerlach, whose district includes parts of Berks, Chester, Lehigh, and Montgomery Counties). Pennsylvania should use the final report of the 21st Century Environment Commission, due September 15, as a catalyst for implementing strong legislation to reverse sprawl.

One essential step, proposed above, would be to reduce or eliminate the dependence of local schools on local taxes. It is this dependence, more than any other single factor, that triggers a vicious circle of decline. Small wonder that conservative Republican Delaware County Council member Wallace Nunn, who lives in an inner-ring suburb near Philadelphia, has been a strong advocate of 100 percent state funding of education.

In addition to a substantial increase in the state share of educational funding, Pennsylvania should institute the following recommendations (each of which was proposed in some form by the Environment Commission in its draft report).[33]

Establish County or Metropolitan Regional Planning Councils. These should be required to develop regional transportation, sewer, water, and land-use plans and to create a "growth boundary" defining areas where new development would be directed.[34] The plans should encourage mixtures of low-, middle-, and high-income housing. (Restrictive zoning now makes it impossible for those who work in affluent communities, but are not rich, to live near work.) Regional plans should also encourage mixtures of business and housing, which enable more people to live close to work and shop close to home. The simplest and most democratic way to establish regional planning councils would be through direct elections (as is done in Oregon). An alternative (but more cumbersome) approach was contained in the original version of Senate Bill 270. Under this approach, triggered by a petition process, a county advisory committee would develop an integrated county comprehensive plan. If more than 50 percent of the municipalities containing more than 50 percent of the county population approved, the county would adopt the county plan. Where metropolitan areas encompass several counties, as in the Philadelphia and Harrisburg areas, legislation should make provision for extending the regional planning process throughout the entire metropolitan area.

Use State Planning and Infrastructure Funds to Encourage Compliance with County or Metropolitan Plans, to restrict development outside growth boundaries, and to promote mixed income housing and mixed zoning. Without financial disincentives, individual municipalities are likely to violate regional plans if offered major commercial and industrial development in exchange.

Implement Regional Tax-Base Sharing. Within each county or metropolitan area, municipalities should be required to contribute part of the growth in their commercial and industrial property-tax bases (after some initial year) to a regional pool distributed in ways that alleviate intra-regional disparities. Municipalities with rapid commercial or industrial growth would, therefore, contribute some of the fruits of that growth to their slower-growing or declining neighbors.The latter, typically urban centers or inner suburbs, would gain extra revenues that they could use to improve services, cut taxes, or both. By improving services and/or cutting taxes in urban and inner suburban areas, regional tax-base sharing could help stem the vicious circle of decline that depopulates older communities.[35]

Define A New Index of Quality of Life in Pennsylvania

The recommendations above are intended to improve social and economic outcomes in Pennsylvania. To know whether that is happening, Pennsylvania needs a new index of state well-being. Since the 1930s, Pennsylvania has used economic growth as the primary indicator of how well the state is doing. Commonly used measures include per capita and personal income in the state, the average annual wage, and the rate of job growth. As long as a rising tide lifted all boats—middle and lower-income groups did as well as the affluent, pay improved in jobs at all levels—these measures sufficed as proxies for overall material well-being.

But the experience of the last two decades has shown that traditional economic measures no longer capture whether quality of life in the state is getting better. This is partly because of the disparities in wages and income documented earlier in this report. It is also because of increasing concern with the environmental sustainability of current economic and development practices. Economists have long known that measures of output and income do not take account of environmental damage. With rural lands and wildlife habitat disappearing, and with rising concerns about other ecological consequences of traditional growth patterns (such as global warming), this is an oversight that none of us can afford. There are also increasing technical difficulties that plague the calculation of economic growth.[36] As statisticians make ever more Herculean assumptions to compare Gross National Product and per capita income over time, these measures are increasingly recognized for what they have always been: accounting conventions, not "objective" measures of economic welfare.

For all these reasons, we endorse the 21st Century Environment Commission's recommendation that the state create a task force to develop a new accounting convention.[37] The Commission proposed calling this new measure of well-being the Pennsylvania Index.This index should be a comprehensible but more holistic measure of economic, social, and environmental health. In developing this measure, we can draw on earlier efforts such as the Oregon Benchmarks (developed by a bipartisan, multi-stakeholder Progress Board in Oregon) and the Development Report Card for the states put out annually by the Corporation for Enterprise Development.[38]

According to an ancient Chinese proverb, "If we do not change direction, then surely we will end up where we are headed." In our view, Pennsylvania is not headed toward a place its residents really want to go. The absence of an adequate measure of the general well-being has made it a little easier for the political process to pursue narrow interests even when they conflict with the welfare of the state as a whole. Developing a Pennsylvania Index gives us an opportunity to define what kind of Pennsylvania we want and then to devote our efforts to creating that Commonwealth.

Footnotes

1. Wage changes between 1995 and 1996 were reported in Stephen Herzenberg and Howard Wial, *The State of Working Pennsylvania 1997* (Harrisburg: Keystone Research Center, 1997).They are not repeated in this year's report.

2. See *Making Work Pay: The Benefits of the 1996-97 Minimum Wage Increase for Low-Wage Workers in the U.S.and Pennsylvania,* Keystone Research Center Briefing Paper 98/4.

3. Howard Wial, *Pulling Apart in Pennsylvania:The Incomes of Pennsylvania Families Since the 1970s,* Keystone Research Center Briefing Paper 98/3, p. 6.

4.The official U.S. poverty income is derived by assuming that a typical family spends one third of its income on food, and then calculating the cost of maintaining a subsistence diet. The measure takes no account of regional differences in the cost of living. A study of the cost of basic necessities in Pennsylvania in 1996 showed that a family of two adults, an infant, and a preschooler needed far more than a poverty income: anywhere from $23,831 to $41,082 (or 145 percent to 250 percent of the poverty level), depending on county, to achieve basic self-sufficiency. Calculated from Diana Pearce, *The Self-Sufficiency Standard for Pennsylvania* (Washington, DC: Wider Opportunities for Women, 1997).

5. Because the data in Figure 5 and Table 5 are from different sources that classify industries differently, the industry titles and definitions used in Table 5 approximate those used in Figure 5, but the titles and definitions are not identical. Two different data sources had to be used because there is no single reliable source of data on both employment and median wages.In Figure 5, high-wage industries include mining, construction, manufacturing, transportation and public utilities, finance-insurance-real estate, government, and the following professional services: health services, legal services, private educational services, social services, membership organizations, and engineering and management services. Low-wage industries include wholesale and retail trade, hotels and other lodging places, personal services, amusement and recreation services, and the following business and repair services: business services, auto repair, and misc. repair services. Unclassified industries are misc. service industries for which no separate data are available.

6. All regional job statistics are calculated from Pennsylvania Department of Labor and Industry data. All regional unemployment statistics for 1997 are calculated from the CPS.

7. Herzenberg and Wial, *The State of Working Pennsylvania 1997;* Stephen Herzenberg with Lesley Nearman, *The State of Working Pennsylvania* (Harrisburg: Keystone Research Center, 1996).

8. From 1983 to 1997, private sector union density in Pennsylvania fell almost by half, from 23 percent to 12 percent. In the United State as a whole, density dropped from 17 percent to just below 10 percent. Barry T. Hirsch and David A. Macpherson, *Union Membership and Earnings Data Book: Compilations from the Current Population Survey* (Washington, DC: Bureau of National Affairs, 1998 and 1996).

9.The median wage in Pennsylvania rose 2.8 percent from 1995 to 1997 while U.S. productivity growth increased 3.6 percent. No state-level productivity figures are available for 1995 to 1997.

10. See *Making Work Pay.*

11. Examples can be found in Stephen A. Herzenberg, John A. Alic, and Howard Wial, *New Rules for a New Economy: Employment and Opportunity in Postindustrial America* (Ithaca,NY: Cornell University/ILR Press, 1998).

12.The two counties in which a basic needs budget (or "minimum annual self-sufficiency income") is below $27,350 are Fulton and Sullivan. Across the state, this basic needs budget in 1996 ranged from $ 23, 831 in Sullivan County and $ 26,211 in Fulton County to $ 40,738 in Montgomery County and $ 41,082 in Chester County. Adjusting these figures for inflation since 1996 would produce even higher basic needs requirements. Calculated from data in Pearce, *Self-Sufficiency Standard.*

13. In deriving these very rough estimates we assumed, for the sake of simplicity, that every family has two adults and two children. We also assumed every family's income is now 10 percent higher (because of inflation and real income growth)

than it was in 1994-96. (The figures for 1994-96 are reported in Wial, "Pulling Apart in Pennsylvania.") The second fifth includes an income range within which some families already pay no taxes (because of the tax forgiveness law) but most families pay taxes. We assumed that 75 percent of families in the second fifth pay taxes and that these families account for 80 percent of the second fifth's total income.

14.The estimate of 163 federal programs comes from GAO/HEHS-95-85FS, *Employment and Training Programs - Information Crosswalk on 163 Employment and Training Programs.* The estimate of 36 in Pennsylvania comes from Report of the Technology 21 Initiative, *The Keystone Spirit: Putting Technology to Work,* p. 32.

15.The state's Technology 21 leadership group recently concluded in recommendations to the Governor that "[e]mployer-led training consortia should be encouraged through public programs and policies." *Keystone Spirit*, p. 8.

16. For examples and further elaboration on why a union presence is critical in multi-employer partnerships, see Herzenberg, Alic, and Wial, *New Rules for a New Economy*, especially chapter 7. See also Eric Parker and Joel Rogers, "Sectoral Training Initiatives in the U.S.: Building Blocks of a New Workforce Preparation System," in *The German System of Skill Provision in Comparative Perspective,* Pepper D. Culpepper and David Finegold, eds. (np: Bergahn Books, 1998).

17. Through its participation in a six-state "teaching factory" research and demonstration project, the Department of Community and Economic Development has itself come to appreciate the importance of informal on-the-job learning, and the value of "the voice of the learner" in overseeing efforts to nurture informal learning as well as make formal training work more effectively in conjunction with informal.

18. These estimates are based on U.S. Department of Labor, Bureau of Apprenticeship and Training data provided by Cihan Bilginsoy of the University of Utah.

19. For a discussion of work organization in "low-quality," "high-quality,"and "regenerative" (life-enriching) nursing homes, see Susan C. Eaton, *Pennsylvania's Nursing Homes: Promoting Quality Care and Quality Jobs* (Harrisburg: Keystone Research Center, 1997).

20. Janet E. Raffel, *TANF, Act 35, and Pennsylvania's New Welfare System* (Philadelphia: Twenty-first Century League, 1998).

21. Diana Pearce, *Self-Sufficiency Standard for Pennsylvania.*

22. For more discussion and examples, see Herzenberg, Alic, and Wial, *New Rules for a New Economy,* pp. 125-129.

23. The figures in the text equal the sum of state, local, and federal funding to the district divided by the average daily pupil population. (Pennsylvania Department of Education data provided by Eric Elliott of the Pennsylvania State Education Association.) These figures make no adjustment for the greater expense of educating poor students or students with disabilities.The U.S. General Accounting Office (GAO) assumes that each pupil on welfare costs 1.2 times as much to educate as other students, and each student with a disability costs 2.3 times as much. Adjusting only for the number of pupils on welfare, Philadelphia's spending per "poverty-weighted" pupil would drop to $5746. For details on the GAO methodology, see U.S. General Accounting Office, *School Finance: State Efforts to Reduce Funding Gaps Between Poor and Wealthy Districts* (GAO/HEHS-97-31, February 5, 1997).

24.These figures are spending per "poverty-weighted" pupil, with each student on welfare counting as 1.2 students.This is the same method the U.S. General Accounting Office uses to adjust for the extra expense of educating poor students. See *School Finance*.

25. U.S. General Accounting Office, *School Finance: State and Federal Efforts to Target Poor Students* (GAO/HEHS-98-36, January 28, 1998), p. 238.

26. *School Finance: State and Federal Efforts.*

27.This appears to be a shift from 1991-92, at which point GAO found local tax effort to be $32.55 in the poorest group of districts and $38.03 in the richest group. *School Finance: State and Federal Efforts,* p. 204.

28. A shift along these lines could be phased in to ensure that affluent districts do not experience cuts in educational funding. In 1990, Oregon voters approved by referendum a $5 limit (per $1,000 in property value) on how much local tax effort could contribute to schools. To make up for the loss in local revenue, Oregon raised the state share of educational funding from 33 to 59 percent.The equalization of state funding by district has been phased in over time so that rich districts as well as less affluent ones enjoyed increases in funding per pupil. U.S. General Accounting Office, *School Finance: State Efforts to Equalize Funding Between Wealthy and Poor School Districts* (GAO/HEHS-98-92, June 16, 1998), p. 35.

29. Alex Molnar, *Smaller Classes, Not Vouchers, Increase Student Achievement* (Harrisburg: Keystone Research Center, 1998), pp. 28-37.

30. Molnar, *Smaller Classes*, p. 48 note 4.

31. David Rusk is the source of this statistic. Cited in Pennsylvania 21st Century Environment Commission, *Redefining Progress:Recommendations from the 21st Century Environment Commission to Governor Tom Ridge*, draft, June 1998, p. 11.

32. *Redefining Progress.*

33. See *Redefining Progress,* pp. 18-21.

34.The Environment Commission report mentions "[u]se of growth boundaries as one potential tool to channel growth and direct infrastructure development."

35. Myron Orfield, *Metro Politics: A Regional Agenda for Community and Stability* (Washington, DC: Brookings Institution Press, 1987), pp. 84-90 and 142-55. Other approaches include a shift to regional taxation and legislative authorization of interlocal revenue-sharing by local governments. For details on legislative options, see American Planning Association, *Growing Smart Legislative Handbook:Model Statutes for Planning and the Management of Change* (Washington DC: American Planning Association, 1997), chapter 14.

36. It is one thing to count the annual increase in output in an economy dominated by Model T's in black, and men's shirts in white, but a much more intractable challenge in an economy dominated by customized services (e.g., health care, legal services) and pervasive introduction of new technologies and products (which means statisticians have to calculate what a video-cassette recorder, a compact disk, and a home computer with an Internet connection are worth in 1965 dollars). This paragraph and the text discussion of traditional measures of economic growth are based on Herzenberg, Alic, and Wial, *New Rules for a New Economy*, pp. 24, 32-36, and 169-170.

37. *Redefining Progress*, pp. 62-65 and 76.

38. See Oregon Progress Board, *Oregon Benchmarks: Standards for Measuring Statewide Progress and Institutional Performance* (Eugene: Oregon Progress Board, 1995 and 1997); Corporation for Enterprise Development, *The 1998 Development Report Card for the States* (Washington, DC: Corporation for Enterprise Development, 1998). Another accounting effort on which the state could draw is the attempt to define a new national "Genuine Progress Indicator" (GPI) to supplant Gross National Product (GNP), an effort led by an organization based in San Francisco (Redefining Progress) that has a name identical to the title of the Environment Commission report. See Clifford Cobb, Ted Halstead, and Jonathon Rowe, "If the GDP Is Up, Why Is America Down?, *Atlantic Monthly*, October 1995, pp. 59-78.

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