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Economists: Cut spending, regulations to counter inflation in Pennsylvania

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HARRISBURG — Members of the House Republican Policy Committee turned to economists for explanations and advice on inflation and what actions they could take to ease rising prices and unease.

Wednesday's meeting was the first of four on the topic of inflation. It comes as state lawmakers are negotiating Pennsylvania's next budget, due June 30.

"Inflation and the impact on those wages will be a big part of those discussions," Matt Knittel, director of the Independent Fiscal Office, said during testimony, referring to a combined 3.8% reduction in purchasing power for Pennsylvania's payroll workers in April.

The topic of inflation is front of mind for many. No single issue — not election reform, not abortion, not COVID-19 — topped rising prices and inflation as the most important issue influencing how voters will select candidates in state elections this fall, according to a recent poll by the Commonwealth Foundation. The closest issue was the economy and jobs.

Retail prices climbed 8.3% across all items tracked by the U.S. Bureau of Labor Statistics over the 12-month period ending in April. Food costs are slightly higher at 9.4%. Other items are substantially higher: new vehicles, up 13.2%; used vehicles, up 22.7%; gasoline, up 43.6%; fuel oil, up 80.5%.

The average cost of a gallon of gasoline topped $5 in Pennsylvania again on Wednesday, just above the national average of $4.95, according to daily data shared by AAA.

“Our assumption right now is that inflation will peak out potentially in August … and then decelerate next year to about 4.5 or 5%,” Knittel said.

Dr. Shawn Ritenour, professor of economics, Grove City College, explained that the root cause of inflation today is a flood of money without correlative increases in labor and productivity — an indirect reference to record federal stimulus programs and relief funding during the pandemic.

“It is monetary inflation that causes the price inflation that we see all around us,” Ritenour said.

Asked by state Rep. Martin Causer, R-McKean/Cameron/Potter, committee chair, what advice he’d give President Joe Biden, Ritenour said the Federal Reserve has much greater influence on the economy.

Simply put, Ritenour said reduced government spending, reduced regulations on business and industry and reduced taxes would do well to foster increased productivity as a counter to monetary inflation.

As to Gov. Tom Wolf’s proposal to provide $2,000 to individual Pennsylvanians from the state’s unallocated cache of federal pandemic relief funds, Ritenour called it a “mistake.”

“We’re in a dire situation, particularly people with low income. I don’t see how channeling more money to stimulate increased demand, driving up prices even more, is going to help the situation,” Ritenour said.

Christopher Hansford, director of state relations, CATO Institute, made similar suggestions: state lawmakers should consider cutting regulations on goods and services and expanding occupational licensure.

Increased government spending will only delay recovery from inflation, Hansford said. Reducing taxes could lower operational costs for businesses large and small, he said, allowing prices to stabilize or shrink.

“We specifically recommend that Pennsylvania reduce its spending on parking lots, public buildings and public welfare operations as well as employee retirement benefits which are inordinately high compared to national standards,” Hansford said.

Reducing the state’s 9.99% Corporate Net Income Tax (CNIT) is a matter that both Wolf, a Democrat, and Republicans in the General Assembly have proposed. The House moved in April, with bipartisan support, a bill that would drop CNIT to 8.99% next year and potentially lower in later years based on state finances. A similar bill moved from a Senate committee this week.