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BTC Brief

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STATE BUDGET WILL COST EASTERN NORTH CAROLINA 4,200 JOBS: “Right-sizing” state government downsizes region’s economy

*Timely,
accessible,
and credible
analysis of
state and local
budget and tax
issues*

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KEY FINDINGS:

- Eastern North Carolina will lose \$1.80 in spending cuts for every \$1 it gains from tax cuts in the new biennial state budget.
- Taken together, the tax and spending decisions in the state budget will cost Eastern North Carolina 4,156 jobs and \$191 million in lost labor income by FY2012-13 – and 42% of the jobs lost come from the private sector.
- The budget will damage rural Eastern North Carolina more than urban regions in the state: for every job the budget creates in Eastern North Carolina through tax cuts, it kills 4.2 jobs, while urban Charlotte only loses 2.5 jobs from spending cuts for every job gained by tax cuts.

Background

On June 15, 2011, the North Carolina General Assembly enacted a biennial state budget for FY2011-13, overriding a veto by Governor Beverly Perdue. As reported by previous BTC analyses, this budget included \$4.6 billion in spending cuts over the biennium to core public investments like education, healthcare, and public safety. Despite facing an estimated \$2.6 billion revenue shortfall in FY2011-12,¹ the budget also contained an additional \$3.1 billion in total revenue reductions over the biennium, including the expiration of a temporary 1-cent sales tax, the expiration of temporary personal and corporate income surtaxes, and a permanent reduction in business income taxes, by exempting the first \$50,000 in business income.

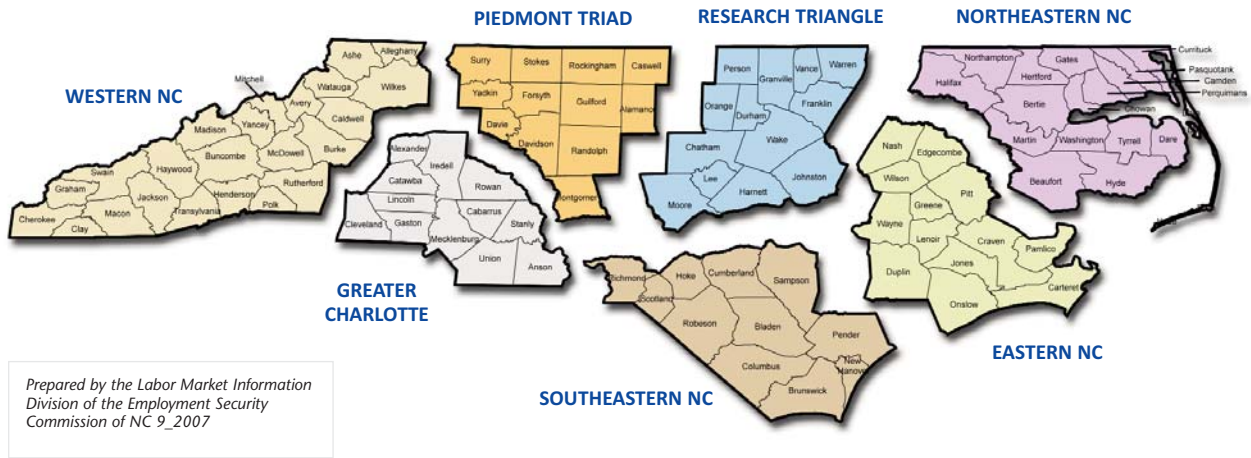
This *BTC Brief* uses industry-standard economic impact methods to estimate the effects of the biennial budget’s tax and spending changes on the state’s economy. Given that spending by the state government, businesses, and households in Eastern North Carolina is different than in

METHODS

Using industry-standard economic impact analysis, this brief assesses the effects of the biennial budget’s spending and tax changes as distributed across each region for each fiscal year. In doing so, the spending side and the tax side are analyzed separately and then taken together to find the net effect on each region. This analysis was conducted using IMPLAN 3.0, an industry-standard input-output economic impact modeling software, coupled with the software’s proprietary 2009 data for the North Carolina economy. While limitations to this model exist, in terms of its ability to assess the actual behavior of households or businesses as a result of changes in policy, given its use during the 2011 budget debate and its reputation as an industry standard, the findings present a reasonable assessment of employment and economic impact. For a complete description of the modeling techniques and assumptions used in this brief, please see the Technical Appendix available at the BTC website:

<http://www.ncjustice.org/?q=node/26>.

FIGURE 1: NC's Seven Economic Development Regions



other regions in North Carolina, this report specifically analyzes the local economic impacts of these budget policies on the Eastern region of the state.

North Carolina’s legislative leaders claimed the cuts to state spending would “right-size” government and boost economic growth. However, this “whole-budget” analysis finds that the negative consequences of the spending cuts far outweigh any positive effects of the tax-cut package in terms of lost jobs and lower labor income, demonstrating that “right-sizing” government will actually result in downsizing Eastern North Carolina’s economy.

The Budget and Eastern North Carolina

After adjusting for one-time inter-fund transfers and accounting mechanisms, Eastern North Carolina will experience total real-spending cuts of \$219 million in FY2011-12 and \$268 million in FY2012-13, based on the region’s share of statewide employment in the industries affected by the budget’s program-specific cuts.

| FIGURE 2: Spending Cuts Experienced by Eastern North Carolina | | |
|---|------------------------|------------------------|
| PROGRAM | FY2011-12 | FY2012-13 |
| State Education Spending, including K-12 & Higher Ed | \$ -118,070,935 | \$ -118,405,417 |
| All Other State Spending | -66,361,224 | -84,115,326 |
| Loss of Federal Matching Dollars (Medicaid & SCHIP) | -34,097,652 | -64,996,013 |
| Total Cuts | \$ -218,529,811 | \$ -267,516,756 |

In this analysis, every dollar in spending cuts represents a dollar taken out of the region’s economy. In contrast to this loss of money, Eastern North Carolina will gain \$131 million in new economic benefits from the tax cuts in FY2011-12 and \$149 million in FY2012-13. These tax benefits will

accrue to households and businesses as additional income to be spent back into the economy for these specific years.

Unfortunately, the budget takes more money out of each region through spending cuts than it gives back to that region through tax cuts. Eastern North Carolina is especially hard-hit, losing \$1.80 from spending cuts for every \$1 it gets back in tax cut benefits.

The Budget’s Economic Impact on Eastern North Carolina

As a result, the depth of the budget’s spending cuts in Eastern North Carolina eliminates any economic gains generated by the tax cuts. As seen in Figure 3, the budget will destroy more than 5,400 jobs in the region by 2013, more than quadruple the 1,284 jobs created by the tax cuts, leading to a total loss of 4,156

jobs and \$191 million in reduced labor income by 2013. At least 42 percent of these job losses will occur in the private sector, demonstrating the extent to which public-sector layoffs and spending cuts damage the private sector.

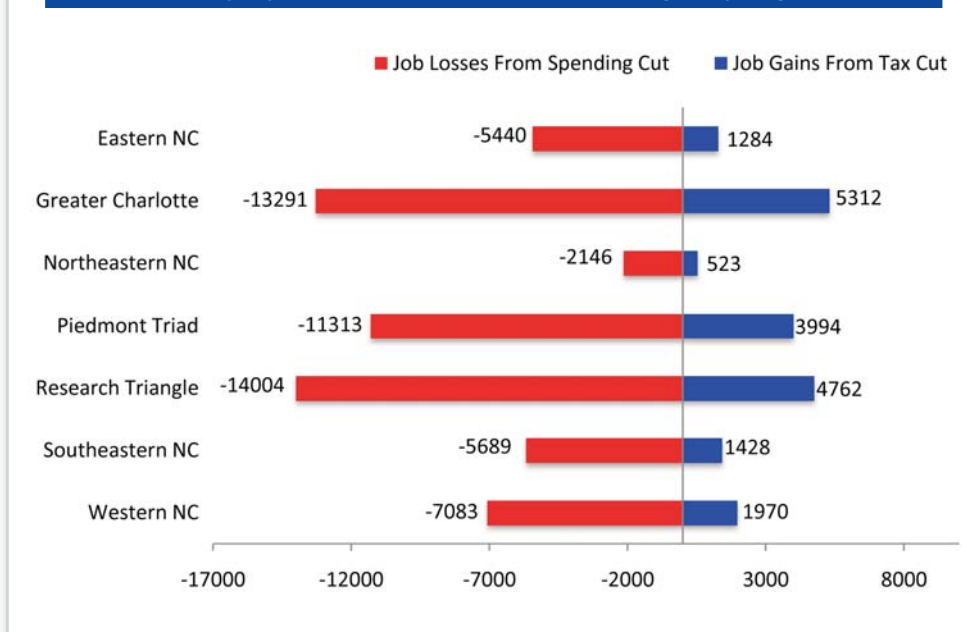
FIGURE 3: Whole-Budget Impacts on Eastern North Carolina’s Economy

| IMPACT TYPE | TOTAL EFFECT | PERCENT PRIVATE SECTOR |
|--------------|----------------|------------------------|
| Employment | -4,156 | 42% |
| Labor Income | -\$191 million | 35% |

spending cuts destroy more jobs than are created through the tax package in every region across the state, this region faces a worse trade-off than the more urban regions of the state. For every one job the budget creates in Eastern North Carolina through tax cuts, it kills 4.2 jobs through spending cuts, while an urban

As seen in Figure 3, Eastern North Carolina is hit especially hard in comparison with the state’s more urban regions. Although the budget’s region like Charlotte only loses 2.5 jobs from spending cuts for every job gained by tax cuts.

FIGURE 4: Employment Effects of FY 2012-13 Budget By Region



Finally, it is worth noting that Eastern North Carolina will lose almost 1,200 jobs through an unnecessary and shortsighted decision to cut North Carolina’s Medicaid and SCHIP programs, resulting in the loss of federal matching funds.

Conclusions

Based on this analysis, it is clear that the decision to “right-size” state government through deep spending cuts will only serve to downsize the Eastern North Carolina economy. The budget’s tax-cut package is insufficient to balance out the jobs and labor income lost to misguided spending cuts. Compared to the urban regions in the state, these findings show this budget will hurt rural North Carolina, especially the Eastern region.

1 NC Budget & Tax Center. “The 2011-13 Final Budget - Neglecting a Balanced Approach, Budget Costs Jobs and Delays Economic Recovery.” June 2011. Available at <http://www.ncjustice.org/sites/default/files/BTC%20Reports%20-%202011-2013%20Final%20Budget.pdf> (page 6)