



NC Justice Center

*Opportunity
and prosperity for all*

BTC Brief

▶ NC BUDGET & TAX CENTER

August 2011

STATE BUDGET WILL COST THE RESEARCH TRIANGLE REGION 9,200 JOBS: “Right-sizing” state government downsizes region’s economy

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

Author:
Allan Freyer
919/856-2151
allan@ncjustice.org
www.ncjustice.org

North Carolina
Justice Center
P.O. Box 28068
Raleigh, NC
27611-8068
www.ncjustice.org

KEY FINDINGS:

- The Research Triangle Region will lose \$1.64 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 the Research Triangle Region more than 9,200 jobs and \$486 million in lost labor income by 2013 – and 53% of the jobs lost come from the private sector.
- The budget is a bad trade-off for the Research Triangle, killing 2.9 jobs from spending cuts for every job gained back by tax cuts.

Background

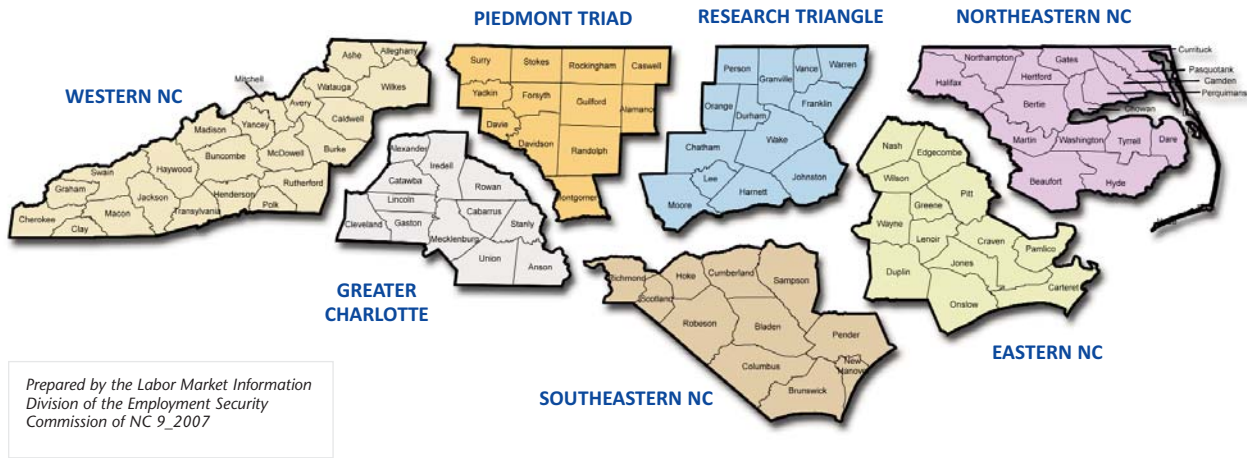
On June 15, 2011, the North Carolina General Assembly enacted a biennial state budget for FY2011-13, overriding a veto by Governor Beverly Perdue. As reported by previous BTC analyses, this budget included \$4.6 billion in spending cuts over the biennium to core public investments like education, healthcare, 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 the Research Triangle Region is different

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



than in other regions in North Carolina, this report specifically analyzes the local economic impacts of these budget policies on the Research Triangle 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 the Research Triangle’s economy.

The Budget and the Research Triangle Region

After adjusting for one-time inter-fund transfers and accounting mechanisms, the Research Triangle will experience total real-spending cuts of \$471 million in FY2011-12 and \$624 million in FY2012-13, based on

Figure 2: Spending Cuts Experienced by the Research Triangle Region

PROGRAM	FY2011-12	FY2012-13
State Education Spending, including K-12 & Higher Ed	\$-190,827,932	\$-191,368,526
All Other State Spending	-171,034,755	-228,055,741
Loss of Federal Matching Dollars (Medicaid & SCHIP)	-108,725,647	-204,983,652
Total Cuts	\$-470,588,333	\$-624,407,919

the region’s share of statewide employment in the industries affected by the budget’s program-specific cuts. 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, the Research Triangle will gain \$331 million in new economic

benefits from the tax cuts in FY2011-12 and \$380 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. The Research Triangle is especially hard-hit, losing \$1.64 from spending cuts for every \$1 it gets back in tax cut benefits.

The Budget’s Economic Impact on the Research Triangle Region

As a result, the depth of the budget’s spending cuts in the Research Triangle Region eliminates any economic gains generated by the tax cuts. As seen in Figure 3, the budget’s spending cuts will destroy more than 14,000 jobs in the region by FY2012-13, almost three times the 4,700 jobs created by the tax cuts, leading to a total loss of 9,242 jobs and \$486 million in reduced labor income by 2013. At least 53 percent

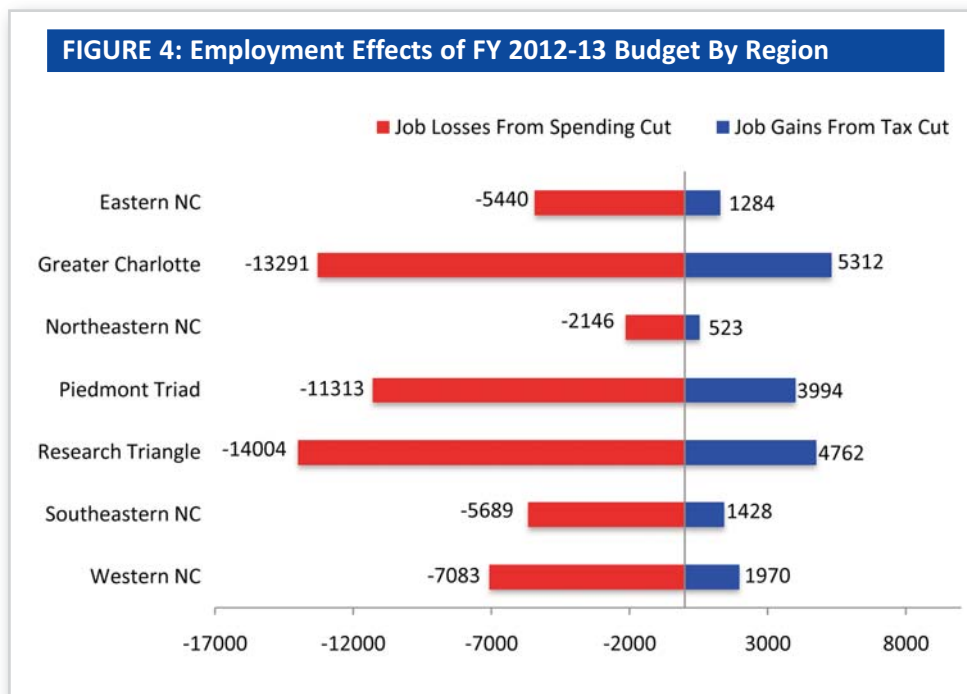
of these job losses will occur in the private sector, demonstrating the extent to which public-sector layoffs and spending cuts damage the private sector.

FIGURE 3: Whole-Budget Impacts on the Research Triangle’s Economy

IMPACT TYPE	TOTAL EFFECT	PERCENT PRIVATE SECTOR
Employment	-9,242	53%
Labor Income	\$486 million	50%

As seen in Figure 3, the state’s rural regions are hit especially hard in comparison with the state’s more urban regions like the Research Triangle—a lesson for the rural counties within the Research Triangle Region. Although the budget’s spending cuts destroy more jobs than are created through the tax package in every region across the state, this region fares better than the more rural regions of the state. Nonetheless, for every one job the budget’s tax cuts create in the Research Triangle, it loses another 2.9 jobs from spending cuts.

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



Finally, it is worth noting that the Research Triangle will lose 3,912 jobs through an unnecessary and short-sighted 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 Research Triangle economy. The budget’s

tax cut package is insufficient to balance out the jobs and labor income lost to misguided spending cuts. Despite the Research Triangle’s better performance compared to other regions, the greater damage inflicted on rural regions has ominous implications for the rural counties within the Research Triangle 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)