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BTC Brief

NC BUDGET & TAX CENTER

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LEGISLATIVE BUDGET WOULD COST NORTH CAROLINA 30,000 JOBS, BILLIONS IN ECONOMIC OUTPUT

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

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KEY FINDINGS:

- **In FY2011-2012, the initial impacts of the proposed budget cuts will cost the state 32,022 jobs, $1.3 billion in lost wages for workers, and $2.8 billion in industry output. Once the budget cuts are fully realized in FY2012-13, the cumulative impact will rise to $1.8 billion in lost labor income and $3.9 billion in reduced industry output, resulting in a loss of of 44,576 jobs in total.**
- **Foregone Federal matching dollars for Child Health Insurance (CHIP) and Medicaid due to budget cuts will cost North Carolina a cumulative 13,355 jobs, $613.4 million in labor income, and $1.4 billion in industry output by FY2012-13.**
- **The budget's proposed tax cut package yields significantly weaker economic benefits than hoped, creating only 14,793 jobs by FY2012-13, $574.1 million in new labor income, and $1.73 billion in new industry output—clearly insufficient to counterbalance the negative impacts of the budget cuts.**
- **Taken together, the net effects of the tax cut package and budget cuts demonstrate that the proposed budget in its entirety will negatively impact the North Carolina economy. By FY 2012-13, this budget will cost the state a cumulative 29,782 jobs, $1.2 billion in lower wages, and $2.3 billion in lost industry output.**

Background

THE DEBATE OVER THE BUDGET has been focused on the impact that policy choices-- both on spending and revenue--will have on employment and the prospects for economic growth. At a critical time in the state's economic recovery from the Great Recession, this makes sense as job creation and a growing economy will minimize the hardship of North Carolina families and communities now and in the future.

While national research has found that investing in public structures is preferable in economic downturns, relatively little state-level analysis has been conducted about the impact of spending cuts on the economy.

Using industry-standard economic impact analysis, the N.C. Budget and Tax Center assessed the impacts of the proposed FY2011-2013 legislative budget on the North Carolina economy. Specifically, this analysis examined the budget's proposed (1) spending cuts, including reductions in state spending and Federal matching dollars; (2) tax cuts, including the expiration of existing sales taxes, individual and corporate income surtaxes, and new reductions in business income taxes; and (3) the net economic impacts of these budget-related changes to final demand in the state's economy.

Methods

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. IMPLAN has already been employed in the current policy debate to assess the impact of the Senate tax package and therefore using this same methodology is particularly important to assessing the spending side of the budget.

Input-output analysis models a final spending change in the local economy that would not have otherwise occurred (also referred to as modeling an exogenous change in final demand) for a specific region. In this case, the final demand changes are modeled as a reduction in state government spending on the one hand and the infusion of tax reduction-related household or business income on the other, for the state of North Carolina. 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 in the current debate and its reputation as an industry standard, the findings present a reasonable assessment of employment and economic impact.

The impacts of spending changes are assessed as direct, indirect, and induced. Direct effects represent the changes in key outputs for a given industry or institution resulting from increases or decreases in spending for that industry or institution. Indirect effects include impacts on all local industries resulting from successive rounds of inter-industry purchasing along supply chains due to the initial change in spending/final demand. Induced effects represent the changes in household spending attributable to income changes tied to the direct and indirect effects. Total impact represents the sum of these three separate effects. Lastly, it is important to note that IMPLAN models are static, single-year models that cannot account for structural changes in a region's economy over time or year-over-year. As a result, this analysis models FY2011-12 and FY2012-13 separately, and assumes that the impacts for FY2012-13 represent the cumulative effect of the budget over the biennium. Specifically, it assumes that the spending in FY2011-12 produces initial impacts which are included in the final impacts for FY2012-13.

Economic Impacts of Proposed State Spending Cuts

After adjusting for one-time inter-fund transfers and accounting mechanisms, the total real spending cuts proposed in the biennial budget have been calculated as follows and represent the inputs into the model of the impact of spending cuts.

In FY2011-2012, the initial impacts of these proposed budget cuts will cost the state 32,022 jobs, $1.3 billion in lost wages for workers, and $2.8 billion in industry output. As presented in Exhibit 2, once the budget cuts are fully realized in FY2012-13, the cumulative impact will rise to $1.8 billion in lost labor income and $3.9 billion in reduced industry output, eliminating a total of 44,576 jobs.

Figure 1. *Total Proposed Real Spending Cuts, FY2011-2013*

Program	FY2011-12	FY2012-13
State Education Spending, K-12 & Higher Education	-$858,632,789	-$861,065,202
All Other State Spending	-$684,331,745	-$902,519,771
Total Cuts to State Spending	-$1,542,964,534	-$1,763,584,973
Loss of Federal Matching Dollars (Medicaid & SCHIP)	-$440,475,303	-$832,735,851
Total Cuts	***-$1,983,439,837***	***-$2,596,320,824***

Critically, these losses are concentrated in middle-class jobs that pay an average income of $40,438.

Figure 2. Cumulative Impacts of Budget Cuts, FY2011-2013

ImpactType	Employment	Labor Income	Output
Direct Effect	-28,543	-1,191.4	-2,127.7
Indirect Effect	-5,580	-212.0	-671.5
Induced Effect	-10,453	-399.2	-1,196.2
Total Effect	-44,576	-1,802.6	-3,995.4
Avg Income per job		$40,438	
Multiplier	1.56	1.51	1.88

Note: Totals may not sum due to rounding

Within these total impacts, proposed cuts to the state's share of Medicaid and SCHIP will also cost North Carolina $440.5 million in foregone Federal matching funds for those programs in FY2011-12 and $832.7 million in FY2012-13. These forgone funds will cost the state a cumulative 13,355 jobs, $613.4 million in labor income, and $1.4 billion in industry output by FY2012-13.

This analysis also modeled the impacts related to the budget's proposed tax package, using the same methodology as the study by the UNC Center for Competitive Economies.[1] This yielded significantly weaker economic benefits than hoped. These tax cuts, according to this methodology, will create only 14,793 jobs by FY2012-13, $574.1 million in new labor income, and $1.73 billion in new industry output—insufficient to counterbalance the negative impacts of the budget cuts.

Lastly, this analysis assessed the net impacts of the budget's tax and spending changes on the state's economy. Taken together, the net effects of the tax cut package and budget cuts demonstrate that the proposed budget in its entirety will significantly damage the North Carolina economy. By FY 2012-13, this budget will cost the state a cumulative 29,782 jobs, $1.2 billion in lower wages, and $2.3 billion in lost industry output.

Conclusion

Fiscal decisions matter to the economy. Analysis of the Legislative Budget demonstrates that spending cuts will have a negative impact on employment in North Carolina. In turn, the loss of jobs will hurt the state's economy as North Carolinians cut back on spending and businesses see demand for their goods and services reduced.

1 This approach likely over-estimates slightly the impact of the sales tax and the personal income surtax, as it assumes that all households will spend all of the additional income inside the state, rather than saving it or using it to pay down debt.

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