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CONTACT:
ALLAN FREYER
919/856-2151
allan@ncjustice.org

P.O. Box 28068
Raleigh, NC
27611-8068

www.ncjustice.org

THE JOBS AND ECONOMIC IMPACT OF THE FY2011-13 NORTH CAROLINA STATE BUDGET:

A Whole-Budget Analysis Shows Widespread Private-Sector Job Losses Across all North Carolina Regions

BY ALLAN FREYER, *Policy Analyst*

Executive Summary

- Every region will have more money taken out of the local economy through spending cuts than is put back in through tax cuts. Rural regions are especially hard-hit, averaging a loss of $1.80 in spending cuts for every $1.00 put back into those regions through tax cuts, while urban regions only lose $1.50 in spending cuts for every $1.00 gained through tax cuts.

- Once budget cuts take full effect in FY2012-13, the whole-budget impact will cost each region between 1,624 and 9,242 lost jobs and between $65 million and $486 million in lost labor income.

- A high percentage of these job losses will occur in the private sector, ranging from 42% in the Eastern region to 60% in the Piedmont Triad.

- The impacts are especially negative for rural areas, which lose an average of 4 jobs due to spending cuts for every job gained back through tax cuts. Urban regions only lose an average of 2.7 jobs from spending cuts for every job gained from tax cuts.

- Within these overall impacts, the unnecessary loss of federal matching dollars for SCHIP and Medicaid will also cause significant job losses, ranging from a low of 529 jobs lost in the Northeastern region to a high of 3,900 jobs lost in the Research Triangle.

Overview

On June 15, 2011, the North Carolina General Assembly enacted a biennial state budget for fiscal years 2011-13, overriding Governor Beverly Perdue's veto. Despite facing an estimated $2.6 billion revenue shortfall in FY2011-12, the legislature included $3.1 billion in total revenue reductions in the two-year budget, 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, including an exemption for the first $50,000 in business income. The tax-cut package worsened the budget shortfall, requiring deeper spending cuts than otherwise would have been necessary. The $19.7 billion budget for FY2011-12 included nearly $1.7 billion in spending cuts to core public investments like education, health care and public safety. Without the revenue losses, the budget could have been balanced with only one-tenth of the spending cuts legislative leaders included in their final plan.

Legislative leaders claimed the spending cuts would "right-size" government and that reducing public-sector employment to finance deep tax cuts would result in stronger private-sector economic growth and job creation. This BTC Report puts this theory to the test by using industry-standard economic impact analysis methods to estimate the effects of the biennial budget's tax and spending changes on the state's economy. Given that spending by state government, businesses and households varies from region to region across North Carolina, this report specifically analyzes the local economic impacts of these budget policies on each of the state's seven regions. Unlike other analyses that examined only the plan's tax-cut package, this BTC Report *provides a "whole-budget" analysis of the regional economic impacts of both sides of the budget—spending cuts and tax changes.*

The 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. While these negative tradeoffs hold true across the entire state, the budget is particularly damaging to predominantly rural regions in western and eastern North Carolina, which lose proportionally far more jobs and income than the more urban regions. Indeed, these findings demonstrate that "right-sizing" government will actually result in downsizing the state's economy.

The Importance of the Public Sector for Private-Sector Performance

The idea that cutting the public sector helps the private sector has no basis in mainstream economics. According to a number of recent studies, cutting state employment in the midst of a difficult recovery damages the state's economy by dragging down consumer purchasing and private-sector job growth in the short run, and the damage done to public structures and investments reduces the state's economic competitiveness over the long run.

In the short run, public-sector spending cuts and layoffs harm the economic recovery because public-sector workers, like all Americans, spend their wages at private-sector businesses; without this spending, those private businesses earn less money, make lower profits and hire fewer workers. In addition, money for public programs, such as Medicaid, often goes to private businesses, like hospitals, doctor's offices and medical-device manufacturers, so cuts to such programs reduce the ability of these private businesses to grow and hire new workers.[1]

Public-sector spending cuts are also harmful over the long term because public-sector investments in education, health care and infrastructure are critical for sustainable, long-term economic growth.[2] First, research shows the skill requirements for private-sector jobs are increasing and cannot be met without significant investment in public education at the pre-K-12, community-college and university levels. Moreover, public spending on physical capital improvements can improve productivity by lowering transportation and communication costs, making businesses more profitable and more likely to hire new workers. Finally, skilled workers will be more attracted to regions with quality public services like good schools, a clean environment with recreation opportunities, and neighborhoods adequately protected by police; in turn, attracting additional workers will strengthen the state's labor market while placing downward pressure on wages and encourage business expansion. The spending cuts in the new budget put all of these public investments in jeopardy.

Given the tight connection between public sector investments and private sector economic performance, it is clear that the budget's approach to "right-sizing" state government will likely serve to downsize the state's economy.

State Budget Summary

In order to assess the regional economic impacts of the budget, it is critical to understand the overall shape of both the state's spending plan and tax plan. As enacted, the biennial budget includes state and federal spending cuts of $1.9 billion in FY2011-12 and $2.6 billion in FY2012-13, with one-time transfers and accounting changes taken into account. The budget's tax-cut package totals $1.46 billion in FY2011-12 and $1.68 billion in FY2012-13. As indicated in Figure 1, the spending cuts hit every major function and department in state government.

On the spending side, once one-time transfers and accounting changes are taken into account, these cuts represent actual changes in spending from the previous year's baseline and can be grouped into three major categories:

1) Cuts to K-12 and higher education, including community colleges and the UNC System ($858 million in FY2011-12 and $861 million in FY2012-13)
2) Cuts to non-education state spending, including Medical Assistance, Public Safety, Natural & Economic Resources, and General Government ($684 million in FY2011-12 and $903 million in FY2012-13)
3) Foregone federal matching funds for Medicaid and SCHIP due to an insufficient state share of contributions to these programs ($440 million in FY2011-12 and $833 million in FY2012-13)

These spending cuts represent real dollar amounts being taken out of the economy and count as a loss of economic benefit to households and businesses in the state. As an example, a hospital receiving fewer Medicaid dollars due to state cuts and foregone federal matching funds will spend less money on medical devices, employee payroll, and service provision, resulting in fewer dollars spent throughout the economy.

On the revenue side, the tax-cut plan included four separate pieces:

- Expiration of a temporary 1-cent sales tax
- Expiration of a temporary personal income surtax
- Expiration of a temporary corporate income surtax
- A permanent reduction in business income taxes, by exempting the first $50,000 in business income from the state income tax

With the exception of the sales-tax expiration, each of these tax cuts are subject to federal income tax offsets of varying levels, as specified in Figure 2. Federal offsets represent the amount of additional income subject to Federal taxation due to reductions in state taxes. Taken together, these various tax changes, including federal offsets, will decrease revenue by a combined $1.4 billion in FY2011-12 and $1.6 billion in FY2012-13 and provide households

FIGURE 1: Total Budget Cuts, FY2011-2013

PROGRAM	FY11-12 VALUE	FY12-13 VALUE
Education		
Public Education	($394,040,243)	($408,532,300)
Community Colleges	($117,475,214)	($117,475,214)
UNC System	($347,117,332)	($335,057,688)
TOTAL	**($858,632,789)**	**($861,065,202)**
Health & Human Services		
Central Management & Support	($19,593,563)	($25,192,953)
Aging Division	($200,000)	($200,000)
Child Development*	($50,515,674)	($50,515,674)
Public Health*	($4,391,755)	($4,391,755)
Social Services	($7,632,911)	($7,632,911)
Medicaid, State only	($225,383,396)	($446,396,865)
Medicaid, Federal only	($413,277,403)	($818,541,829)
NC Health Choice (SCHIP), State share	($8,921,489)	($4,655,941)
NC Health Choice (SCHIP), Federal share	($27,197,900)	($14,194,023)
Services for the Blind	$0	($16,224)
Mental Health/DD/SAS	($57,962,880)	($12,962,880)
Health Service Regulation	$0	$0
Vocational Rehabilitation	($2,058,522)	($2,058,522)
TOTAL	**($817,135,493)**	**($1,386,759,577)**
Public Safety		
Corrections	($83,828,422)	($70,456,539)
Crime Control & Public Safety*	($5,766,174)	($7,219,958)
Judicial	($38,269,527)	($42,048,468)
Judicial - Indigent Defense	($12,678,720)	($10,021,513)
Justice	($8,966,931)	($8,806,806)
Juvenile Justice	($15,701,495)	($20,154,622)
TOTAL	**($165,211,269)**	**($158,707,906)**
Natural and Economic Resources		
Agriculture & Consumer Services*	$3,706,850	$444,620
Commerce	$11,944,959	($5,656,918)
Commerce – State Aid	$1,681,736	($1,017,305)
Dept. of Energy and Natural Resources*	($23,187,514)	($40,824,296)
Clean Water Management Trust Fund	($88,750,000)	($88,750,000)
Labor	($1,005,792)	($1,005,792)
NC Biotech Center	($1,950,190)	($1,950,190)
Rural Economic Development Center	$2,735,915	$2,735,915
Wildlife Resources Commission*	$0	$0
TOTAL	**($94,824,036)**	**($136,023,966)**
General Government	***($47,636,250)***	***($53,764,174)***
State education cuts, including K-12 & higher education	($858,632,789)	($861,065,202)
All other State spending cuts	($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)**

FIGURE 2: Benefits from Tax Cut Package		
TOTAL TAX CHANGES W/ FEDERAL OFFSETS	**FY2011-12 FOREGONE REVENUE**	**FY2012-13 FOREGONE REVENUE**
Expiration of 1-cent Sales Tax	$1,124,330,000	$1,137,970,000
Expiration of personal income surcharges, less 13% federal offset	$149,727,000	$151,554,000
Expiration of corporate income surtax, less 35% federal offset	$18,850,000	$19,045,000
Reduction in business income taxes, less 5% federal offset	$125,020,000	$319,580,000
TOTAL W/OFFSETS	**$1,417,927,000**	**$1,628,149,000**

NOTE: Personal income and business income offsets estimates from ITEP.

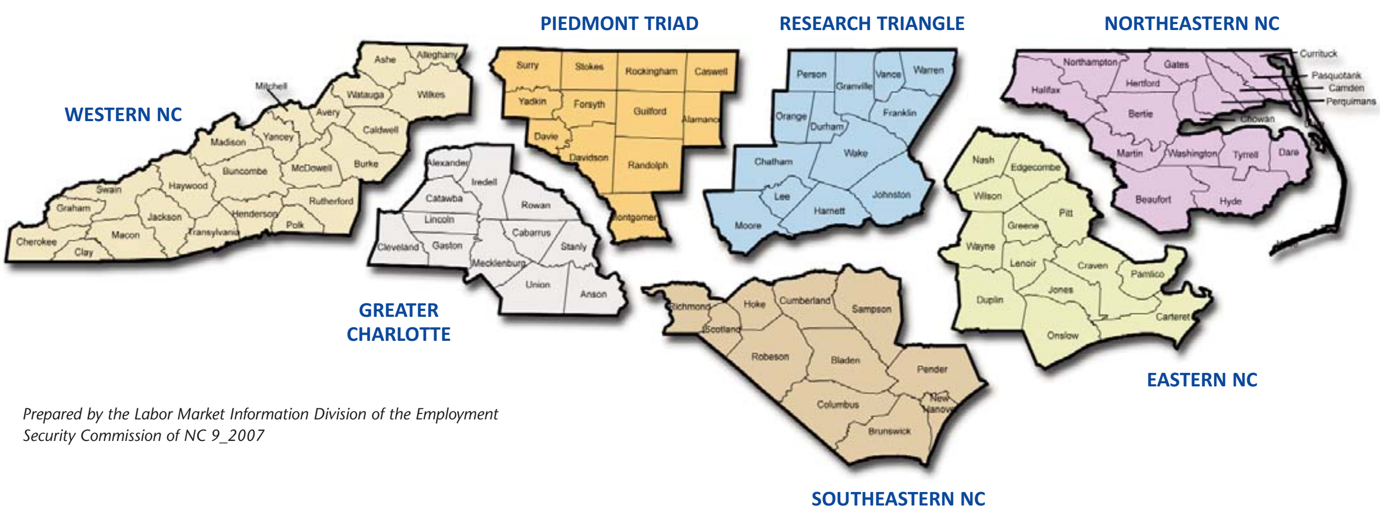
and businesses with an economic benefit equal to these amounts. For example, the sales-tax expiration will accrue to households in the form of additional income that can be spent back into the economy. This analytical model does not account for the research that demonstrates that households of differing income levels spend or save additional income at different levels. For example, a high-income person is less likely to spend additional income than a lower-income person who must meet basic needs with purchases.

The State Budget by Region

Given that economic activity by state government, businesses and households varies widely from region to region across the state, the distribution of the budget's tax changes and spending cuts will also vary from region to region. Some areas will receive more of the tax-cut benefit than others, and likewise certain regions will experience deeper economic losses than others due to spending cuts. As a result, assessing the economic impacts of the budget at the regional level is critical to fully understanding the overall consequences of the budget for the state as a whole.

Accordingly, this BTC report analyses the economic impact of the budget on seven different North Carolina regions, matching the geographic footprints of all seven of the

FIGURE 3: NC Seven Economic Development Regions



Prepared by the Labor Market Information Division of the Employment Security Commission of NC 9_2007

Department of Commerce's Economic Development Partnership Regions and including all 100 counties in the state. As identified in Figure 3, these regions are Eastern NC, Greater Charlotte, Northeastern NC, the Piedmont Triad, the Research Triangle, Southeastern NC and Western NC. These regions consist of reasonably integrated labor markets and patterns of economic activity, providing an economically coherent geography for study.

In order to calculate the economic impact of the state budget on each of these regions, it is first necessary to determine the distribution of spending cuts and tax-cut benefits from region to region. On the spending side, each region is given a proportion of the total statewide spending cut based on that region's share of statewide employment in the industries directly impacted by program-level spending changes; these regional industry cuts are then added together to determine the total cut for the region. For example, if Western North Carolina employs 15 percent of the state's private hospital

FIGURE 4: Share of Total Spending Cuts by Region FY2011-12

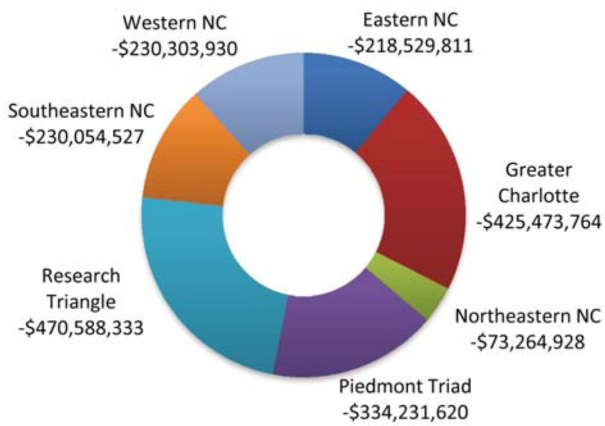
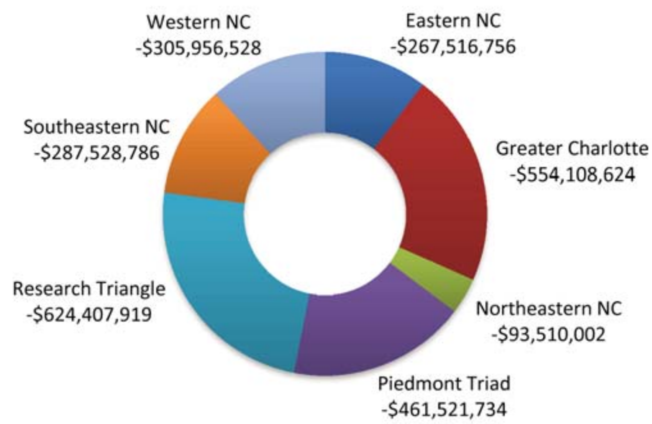


FIGURE 5: Share of Total Spending Cuts by Region FY2012-13



industry, then it is assumed that region will claim 15 percent of the state budget cuts to private hospital service providers. (For the percentages for each industry category and region, see the technical appendix.)

Using this method, it is possible to determine that the $1.9 billion in spending cuts for FY2011-12 and $2.6 billion for FY2012-13 will be distributed to across all seven regions as shown in Figures 4 and 5.

On the tax side, a similar method can be used to determine the distribution of tax-cut benefits to businesses and households across all seven regions. Foregone revenues from expired sales taxes and personal income surtaxes are assumed to translate into increases in household income, while revenue reductions from the expiration of the corporate

FIGURE 6: Share of Total Tax Cuts by Region FY2011-12

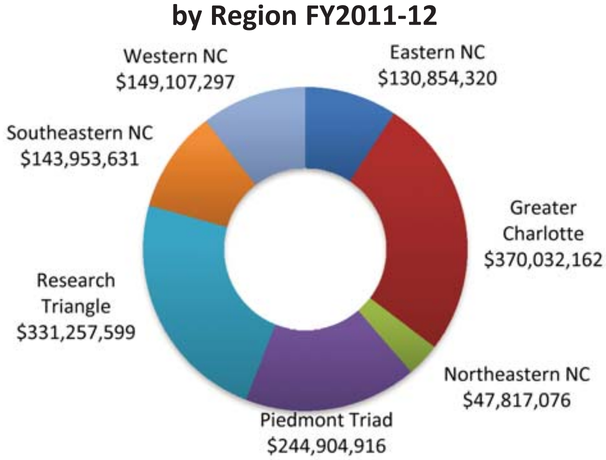
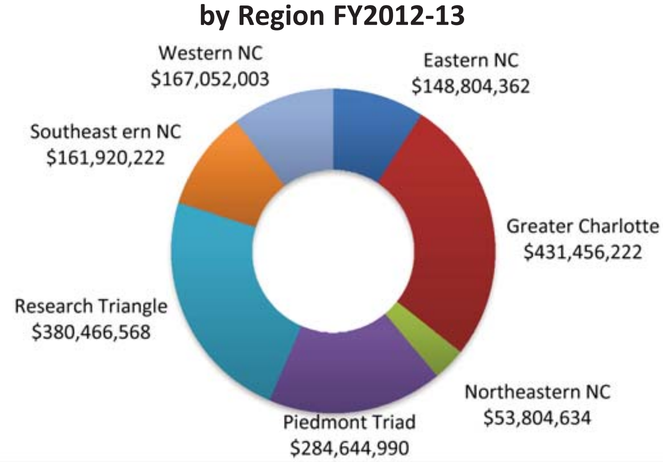


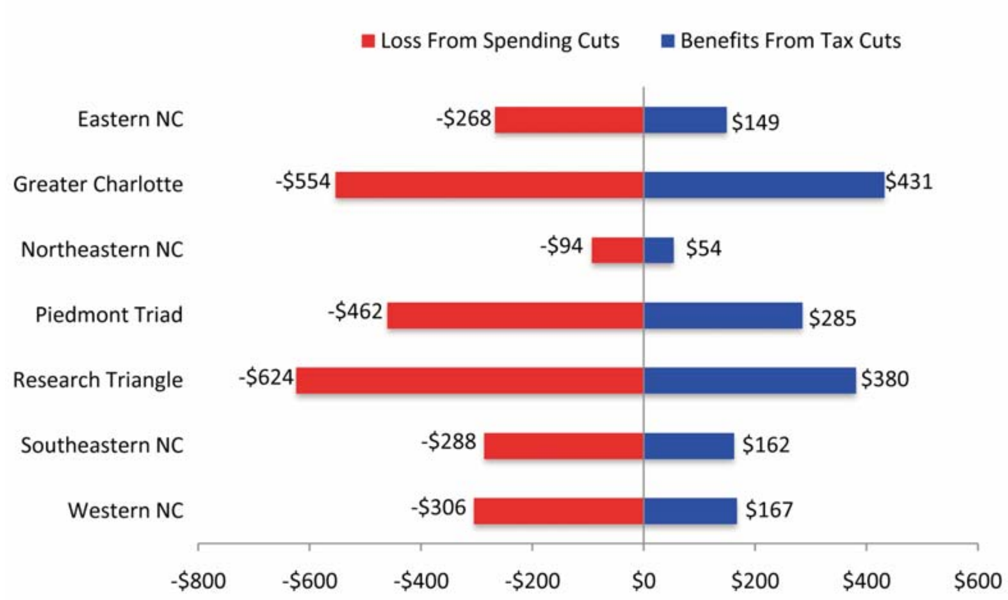
FIGURE 7: Share of Total Tax Cuts by Region FY2012-13



income surtax and cuts in business taxes translate into additional income for industries.

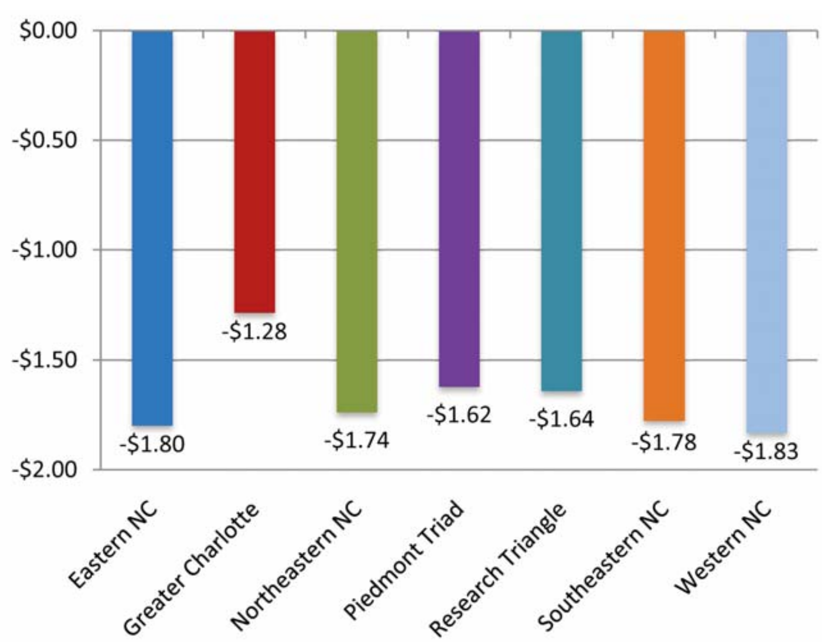
For the sales tax, this additional household income is spent back into the economy through retail purchasing at varying levels depending on income bracket, and, as a result, a region's share of the total sales-tax benefit is determined by its percentage of retail spending in each income bracket. Similarly, a region's share of the total benefit from the personal income surtax is determined by its percentage of eligible households in the specific income brackets targeted by the surtax: the $75,000 to $100,000 bracket; the $100,001 to $150,000 bracket; and the more than $150,000 bracket.

FIGURE 8: Total Spending Cuts and Tax Cuts in FY2012-13 Budget by Region (in Millions)



For the expiration of the corporate income surtax and the cut to business income taxes, it is assumed that the additional income will accrue to a region's industries according to each industry's share of the region's private-sector employment, and that each region's share of the total tax-cut benefit is determined by that region's share of statewide private-sector employment. From this, it is possible to determine how the $1.4 billion in tax-cut benefits for FY2011-12 and $1.6 billion for FY2012-13 will be distributed across all seven regions as shown in Figures 6 and 7.

FIGURE 9: Dollars Lost to Spending Cuts for Each Dollar of Tax Cut Gains, FY2012-13



As these figures demonstrate, the most heavily populated and urban centers in the state will receive the largest shares of the budget's spending cuts and tax-cut benefits, with the four most rural regions (Eastern, Northeastern, Western and Southeastern) accounting for less than 40 percent of the budget's spending and tax changes. This imbalance in the regional distribution of the tax and spending cuts does not imply that rural areas will be less affected by these cuts than urban regions; rather it is simply indicative of smaller populations in those rural areas. Indeed, while every region will lose more economic benefits from spending cuts than they gain back from tax cuts, the benefits gap for predominantly rural regions is significantly more pronounced than for urban regions. As Figures 8 and 9 indicate, the predominantly rural regions will lose about $1.80 in spending cuts for every dollar they gain from tax cuts, while the more urban regions will only lose an average of $1.35 in spending cuts for every dollar they gain from tax cut benefits. This reinforces the extent to which the budget disproportionately takes money out of rural regions.

Economic Impact Analysis Methods

Using industry-standard economic impact analysis, this report assesses the economic effects of the biennial budget's spending and tax changes as distributed across each region. In doing so, the spending side and 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. IMPLAN was employed during this year's budget 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 in a region, such as a reduction in funding for hospitals from the previous year's levels or an increase in household income due to a new tax cut. These final spending changes are also referred to as modeling an exogenous change in final demand. 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 each region in the state.

The power of input-output methodology comes from its ability to measure the impacts of these final changes as they ripple across a region's economy, including the direct effects on the industries experiencing tax or spending-related changes (e.g., the loss of Medicaid funding on the hospital industry), the indirect effects on inter-industry purchasing that result from the direct changes (e.g., hospitals purchase fewer medical devices and hire fewer workers), and the induced effects related to changes in household spending attributable to the direct and indirect impacts (e.g., lower household spending due to lower payrolls at the hospital and medical device companies that lost Medicaid funding). Total impact

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 the budget's impact on employment and the economy. 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 – or –

http://www.ncjustice.org/sites/default/files/Whole%20Budget%20Economic%20Impact%20Analysis_Technical%20Appendix.pdf

FIGURE 10: Net Economic Impacts of Biennial Budget by Region

REGION	FY2011-12 LABOR INCOME*	FY2011-12 EMPLOYMENT	FY2012-13 LABOR INCOME*	FY2012-13 EMPLOYMENT
Eastern NC	-$161 million	-3,396	-$190 million	-4,156
Greater Charlotte	-$302 million	-6,173	-$387 million	-7,979
Northeastern NC	-$53 million	-1,284	-$65 million	-1,624
Piedmont Triad	-$241 million	-5,104	-$339 million	-7,318
Research Triangle	-$371 million	-6,936	-$486 million	-9,242
Southeastern NC	-$160 million	-3,403	-$194 million	-4,261
Western NC	-$172 million	-3,859	-$224 million	-5,113

represents the sum of these three separate effects; all results provided in this report are Total impacts.

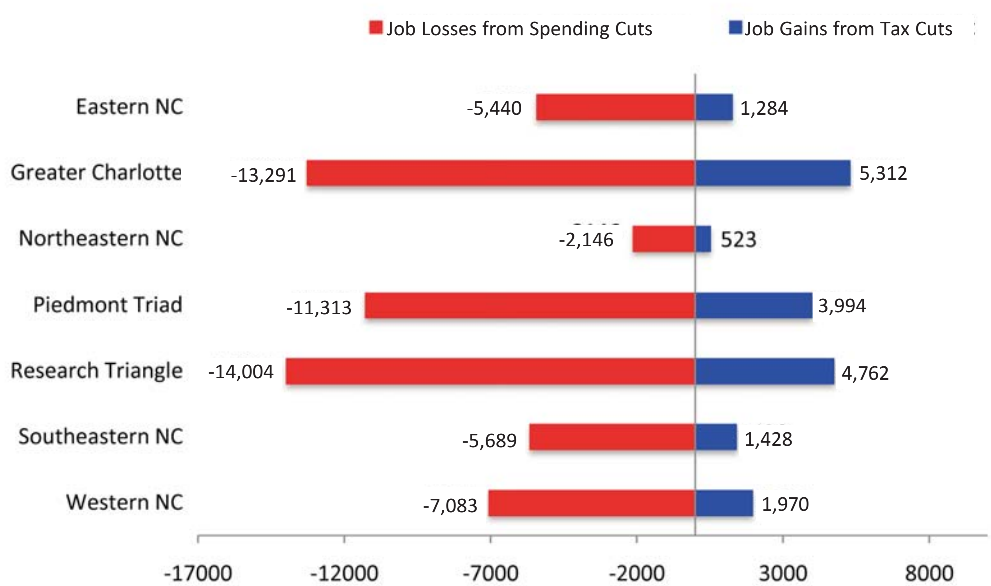
Finally, it is important to note that IMPLAN models are static, single-year models that cannot account for structural changes in a region's economy over time or year-over-year. As a result, this analysis models FY2011-12 and FY2012-13 separately, and it assumes the impacts for FY2012-13 represent the cumulative effect of these budget changes over the biennium. Specifically, it assumes the final spending in FY2011-12 produces initial impacts that are included in the final impacts for FY2012-13.

Results

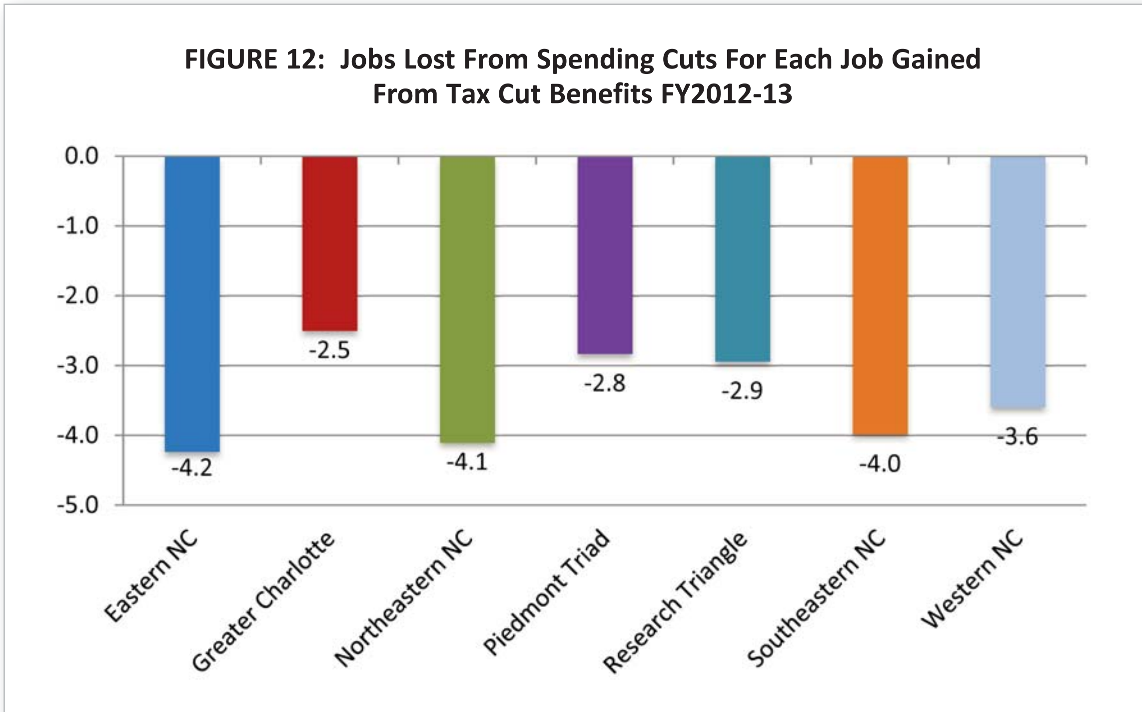
TOPLINES

Figure 10 presents the net economic impacts of the spending cuts and tax changes taken together for each region in terms of employment and labor income over both fiscal years. Employment results represent the number of jobs that exist in a region's economy in a given year due specifically to the economic events in question (e.g., spending cuts to hospitals or tax-cut-related increases in household income), and labor income represents the additional or reduced personal income derived from employment-related wages and salaries due to the same change in final demand. As previously stated, the FY2012-13 impact results are inclusive of the FY2011-12 results.

FIGURE 11: Employment Effects of FY 2012-13 Budget By Region



As the figure indicates, the net economic impacts of the budget's spending and tax changes taken together are negative for every region. For employment, the whole-budget impact will cost each region between 1,284 and



6,936 lost jobs in FY2011-12 before rising to a cumulative total of between 1,624 and 9,242 lost jobs in FY2012-13 once the budget cuts take full effect. Similarly, the whole-budget impact will reduce labor incomes between $54 million and $371 million in FY2011-12 and between a cumulative $65 million and $486 million in FY2012-13 for each region.

These uniformly negative impacts reflect the fundamental reality that the budget's deep spending cuts wipe out any positive economic growth generated by the tax-cut package. As seen in Figure 11, the minimally positive job creation numbers related to tax cuts are simply insufficient to make up for the jobs eliminated due to the budget's spending cuts. For example, the 4,000 jobs created in the urban Piedmont Triad due to tax cuts are completely reversed by the 11,300 jobs lost due to spending cuts, a situation mirrored in the rural Western NC region, which sees a 2,000-job gain from tax cuts eliminated by the 7,100-job loss arising from spending cuts. Across both urban and rural regions, these results reinforce the fact that spending cuts generate more damaging economic consequences than can be corrected by a dose of tax cuts; as a result, "right-sizing" state government appears simply to downsize each region's economy.

In numerical terms, job losses are more pronounced in the more densely populated and more urbanized regions, as these areas have a larger employment pool than the smaller, more rural regions. Despite this appearance, the rural regions experience a far more damaging trade-off between tax cuts and spending cuts than their urban counterparts. As seen in Figure 12, the four rural regions lose almost four jobs due to spending cuts for every one job they gain from tax cuts, while the urban Charlotte, Piedmont, and Research Triangle regions only lose an average of 2.7 jobs from spending cuts for every job gained from tax cuts. This urban/rural disparity is magnified by the fact that the rural regions simply have fewer jobs to lose, and as a result, each job lost affects these regions more than similar levels of job losses in urban regions. Based on these results, it is obvious that tax cuts have a much weaker stimulative effect in rural regions than in urban regions, a problem magnified by the fact that rural regions are also more dependent on state spending and thus are more vulnerable to spending cuts.

While the economies of North Carolina's rural areas will suffer disproportionately from the state budget's mix of tax cuts and spending cuts, it is clear that all seven regions in North Carolina will see large-scale job losses, clearly refuting the notion that financing big tax cuts with deep spending cuts is good for job creation.

PRIVATE SECTOR

Despite claims to the contrary by legislative leaders, this unbalanced approach to spending and tax cuts does nothing to help the private-sector economy. Instead, these results demonstrate the extent to which the budget actually hurts private-sector job creation and labor-income generation. As seen in Figure 13 for FY2012-13, more than half of all regional job losses will occur in the private sector, ranging from 42 percent in the Eastern region to 60 percent in the Piedmont Triad. Figure 14 reinforces this finding, with 47 percent of regional losses in labor income occurring in the private sector, ranging from 35 percent in Eastern NC to 60 percent in the Piedmont.

The losses in private-sector labor incomes are particularly striking, as they refute the argument made by legislative leaders that government spending only affects public employees: as a result of these spending cuts, each region's private-sector workers will lose between $25 million and $243 million in labor income. Although urban regions lose a greater absolute number of private-sector jobs and labor income than the more rural regions, these findings actually indicate significantly greater damage to total rural economies. Rural losses are more concentrated in the public sector, which employs a larger share of workers in rural regions. In effect, this budget takes an axe to rural regions' largest employers, begging the question of where unemployed public-sector workers in rural regions are supposed to find jobs,

FIGURE 13: Net Private- and Public-Sector Job Losses in FY2012-13

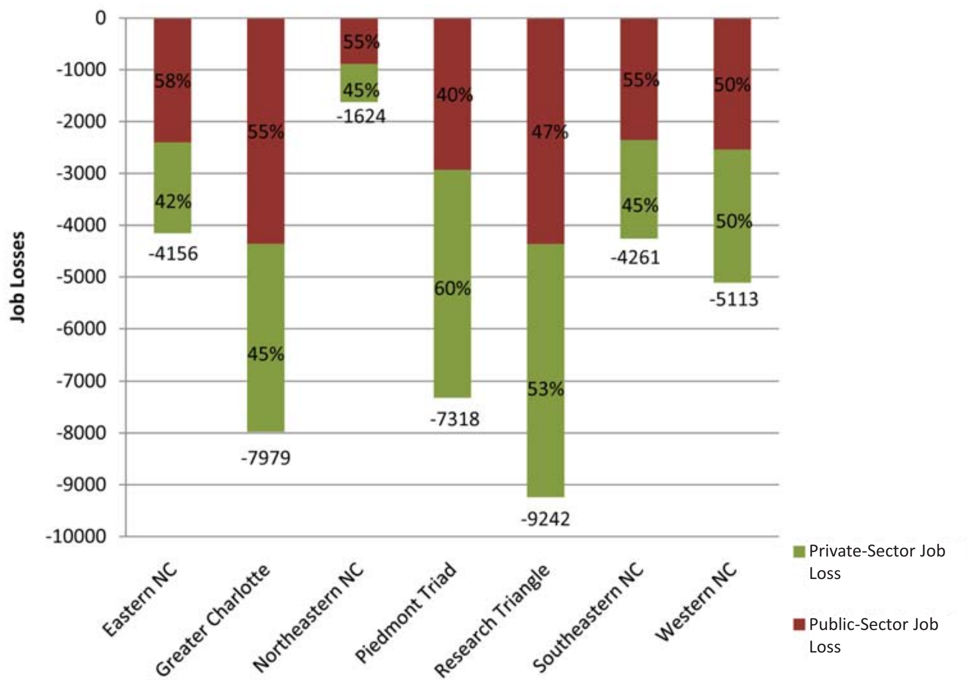


FIGURE 14: Net Private- and Public-Sector to Labor Income in FY2012-13

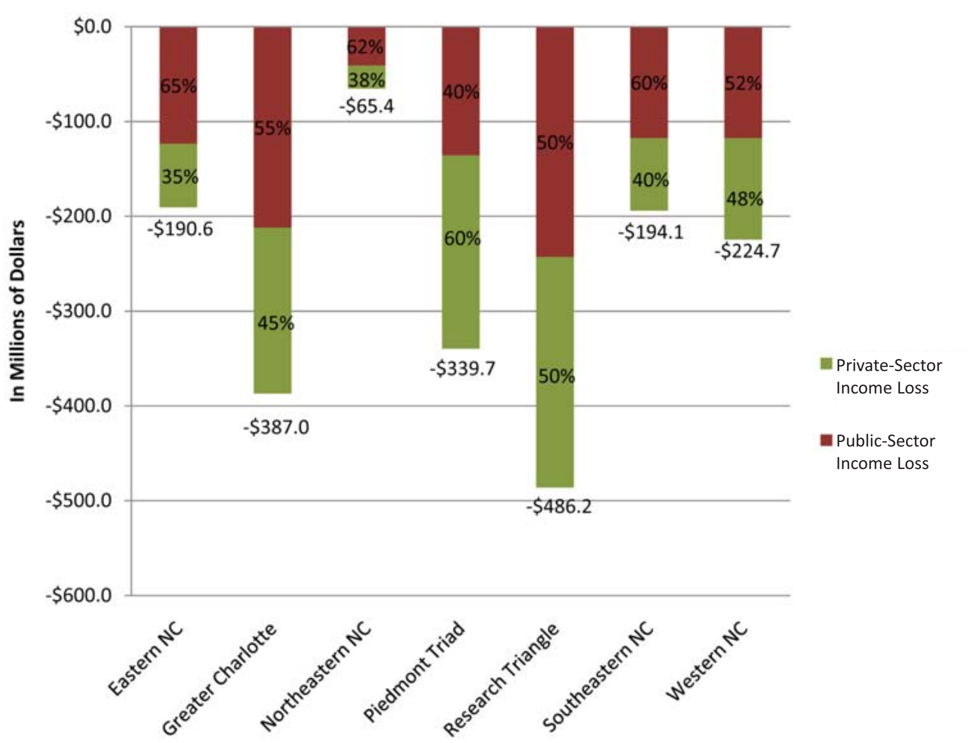


FIGURE 15: Top 5 Private-Sector Industries Impacted by Budget, FY2012-13

PIEDMONT TRIAD

PRIVATE-SECTOR INDUSTRY	JOB LOSSES
Nursing and residential care facilities	-1,020
Offices of physicians, dentists, and other health practitioners	-658
Private hospitals	-717
Medical and diagnostic labs and outpatient and other ambulatory care services	-263
Child day care services	-244
Top 5 Industries' % of Total Private Employment	10.7%

RESEARCH TRIANGLE

PRIVATE-SECTOR INDUSTRY	JOB LOSSES
Nursing and residential care facilities	-904
Offices of physicians, dentists, and other health practitioners	-862
Private hospitals	-863
Child day care services	-287
Real estate establishments	-275
Top 5 Industries' % of Total Private Employment	15.4%

NORTHEASTERN NC

PRIVATE-SECTOR INDUSTRY	JOB LOSSES
Nursing and residential care facilities	-226
Offices of physicians, dentists, and other health practitioners	-104
Home health care services	-95
Private hospitals	-58
Child day care services	-47
Top 5 Industries' % of Total Private Employment	11.5%

WESTERN NC

PRIVATE-SECTOR INDUSTRY	JOB LOSSES
Nursing and residential care facilities	-740
Offices of physicians, dentists, and other health practitioners	-443
Private hospitals	-375
Real estate establishments	-135
Home health care services	-104
Top 5 Industries' % of Total Private Employment	17.0%

EASTERN NC

PRIVATE-SECTOR INDUSTRY	JOB LOSSES
Nursing and residential care facilities	-652
Offices of physicians, dentists, and other health practitioners	-403
Child day care services	-220
Home health care services	-99
Medical and diagnostic labs and outpatient and other ambulatory care services	-76
Top 5 Industries' % of Total Private Employment	10.6%

GREATER CHARLOTTE

PRIVATE-SECTOR INDUSTRY	JOB LOSSES
Nursing and residential care facilities	-1175
Offices of physicians, dentists, and other health practitioners	-864
Child day care services	-331
Private hospitals	-280
Medical and diagnostic labs and outpatient and other ambulatory care services	-237
Top 5 Industries' % of Total Private Employment	7.4%

SOUTHEASTERN NC

PRIVATE-SECTOR INDUSTRY	JOB LOSSES
Nursing and residential care facilities	-627
Offices of physicians, dentists, and other health practitioners	-430
Child day care services	-191
Home health care services	-158
Medical and diagnostic labs and outpatient and other ambulatory care services	-129
Top 5 Industries' % of Total Private Employment	11.1%

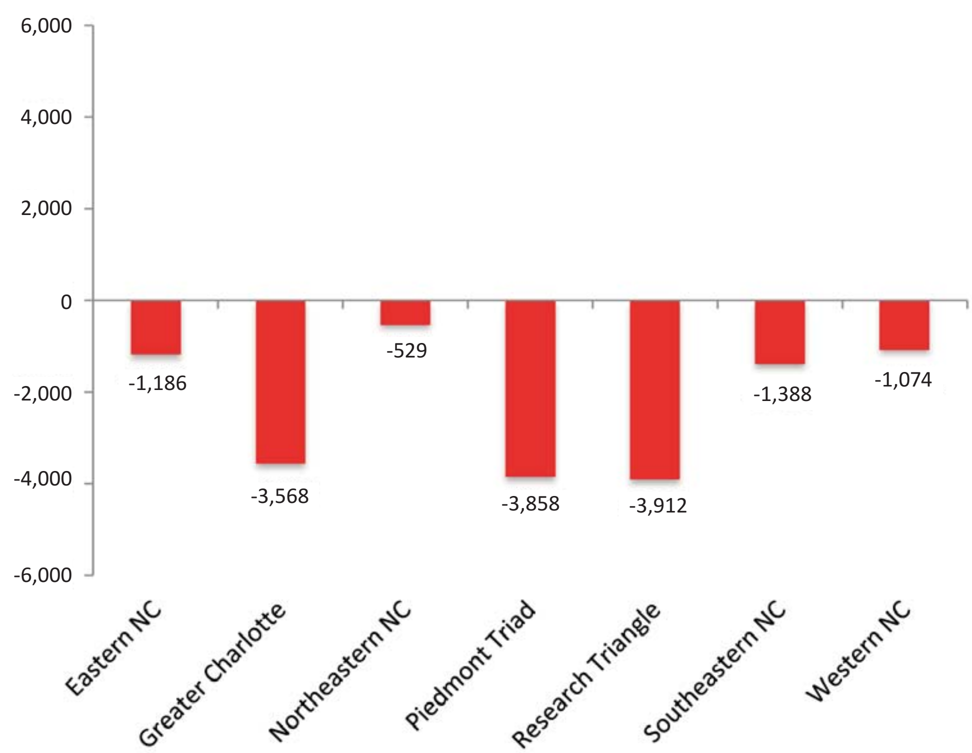
given that the budget's impacts reduce private-sector employment in these regions at the same time.

In each region, these employment and labor-income losses are concentrated in several top private-sector industries that employ a significant portion of the region's private-sector workforce. As seen in Figures 15 and 16, the budget hits health-care industries particularly hard across all regions due to Medicaid and SCHIP spending cuts, with child-care services and real-estate services also significantly affected in several regions. It is worth noting that these sectors employ a significant share of each region's workforce—between one and two of every ten workers per region are employed in these industries. These results reinforce the extent to which the state budget hurts core private-sector industries.

FEDERAL MATCHING FUNDS

Perhaps the most unnecessary spending cuts relate to the foregone federal matching funds for SCHIP and Medicaid. For every dollar North Carolina spends on these programs, the federal government contributes between two and three dollars, but because of spending cuts, the state will lose out on $440 million in FY2011-12 and $832 million in FY2012-13 in federal money. As a result, these spending cuts produce a significant and negative economic impact on employment levels in each region, as seen in the FY2012-13 numbers presented in Figure 16. The greatest absolute impacts are concentrated in the state's health-care centers in the Research Triangle, the Piedmont Triad, and Greater Charlotte regions. The impacts on rural regions are particularly damaging, however, given that the cuts hurt the most important private-sector employers in those regions. These losses, already included in the total impacts previously presented, range from a low of 529 jobs lost in the Northeastern region to a high of 3,900 jobs lost in the Research Triangle.

FIGURE 16: Employment Effects Due to Loss of Federal Matching Funds By Region FY2012-13



Conclusion

In passing this budget and overriding Governor Perdue's veto, legislative leaders enacted a budget with an unbalanced approach that they claimed would "right-size" state government but instead downsizes the state's economy. Contrary to their mistaken understanding of economics, financing big tax cuts with deep public-sector spending cuts damages the state's economy, as seen in the budget's economic impacts on every region in the state. According to this report's economic impact analysis, not only do tax cuts produce weak labor-income and job-creation impacts, the accompanying spending cuts more than wipe out any positive economic gains achieved through the tax package and result in significant losses to employment and wages. Moreover, these public sector spending cuts will directly damage the private sector: almost half of the total job losses for each region will occur in private-sector industries, most of which are key regional employers in the health-care sector. The budget is especially bad for North Carolina's predominantly rural regions, which lose more than four jobs from spending cuts for every job gained from tax cuts.

From this analysis, it is clear that the legislative leaders' strategy of "right-sizing" state government is a recipe only for downsizing the state's economy.

1 (Bartik; Wisconsin; Fischer)
2 (Bartik; Wisconsin; Fischer; Lynch)
3 http://www.ncjustice.org/sites/default/files/BTC%20Reports%20-%202011-2013%20Final%20Budget.pdf (page 6)

Technical Appendix

http://www.ncjustice.org/sites/default/files/Whole%20Budget%20Economic%20Impact%20Analysis_Technical%20Appendix.pdf

North Carolina Justice Center

P.O. Box 28068 ▪ Raleigh, NC 27611-8068
919/856-2176 ▪ alexandra@ncjustice.org

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