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North Carolina Budget & Tax Center

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TECHNICAL APPENDIX:

Economic Impact Analysis of the FY2011-2013 Budget

Summary

Following final passage of the FY2011-2013 biennial North Carolina state budget on June 4, 2011, the NC Budget & Tax Center conducted a comprehensive impact assessment of the budget on the state's economy. Unlike other revenues-only studies touted by legislative leaders, this "whole-budget" analysis examined the economic consequences of both spending and tax changes included in the budget.

After examining the impacts of these spending and tax changes, the analysis found the following results:

- 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 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.

Methods

Using industry-standard economic impact analysis, the BTC assessed the effects of the proposed FY2011-2013 legislative budget on the state's economy. Specifically, this analysis examined the budget's proposed (1) spending cuts, including reductions in state spending and Federal matching dollars, totaling $1.98 billion in FY2011-2012 and $2.60 billion in FY2012-2013; (2) tax cuts, including the expiration of existing sales taxes, individual and corporate income surtaxes, and new reductions in business income taxes, totaling 1.42 billion in FY2011-2012 and $1.63 billion in FY2012-2013; and (3) the net economic impacts of these budget-related changes to final demand in the state's economy.

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.

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.

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