

THE COST OF CUTS IN NEW MEXICO

Budget Cuts Hurt Families, Communities, and the Economy

INTRODUCTION

In 2008, the United States experienced a severe financial crisis, the result of increasingly risky practices among the country's large financial institutions and the deregulation that allowed these practices to flourish.

The resulting Great Recession unleashed widespread economic insecurity and deepened existing economic inequalities. It also caused revenue shortfalls that New Mexico lawmakers chose to close through budget cuts rather than requiring corporations and the rich to share the sacrifice.

New Mexico's investments in health, education, and other human and physical infrastructure form the basis for families' ability to participate in the economy and contribute to prosperity. These investments are especially important now, with continued high unemployment, a shattered housing market, and demand lagging for small businesses.

However, instead of raising adequate revenue, New Mexico lawmakers have asked lower-income people to sacrifice the most. This disinvestment has harmed not just those directly affected but also the state's economy.

This report shows that state budget cuts implemented by New Mexico lawmakers have cost New Mexicans jobs when jobs are needed most. It should remind our lawmakers that the cost of budget cuts is too high — and that it is time to raise revenue instead.



Alliance for a Just Society convenes community and racial justice organizations nationwide on critical public policy issues, providing research and policy analysis and fostering public conversation.

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GROWING ECONOMIC INEQUITY AND THE GREAT RECESSION

A spike in economic inequality preceded the Great Recession. By 2007, the country's top 10 percent of earners controlled 50 percent of total income, exceeding even the concentration of income in the late 1920s.¹ Such growing inequality and stagnation reduced the cushion that could have helped families make it through the downturn.

The Great Recession caused the biggest job loss of any postwar economic downturn, with high unemployment persisting.² As of 2009, foreclosures were projected to cost 92 million neighboring homeowners across the country an average of \$20,300 in property value loss from 2009 to 2012, with a total national loss estimated at \$1.86 trillion.³

The recession has hit communities of color especially hard nationwide. From 2007 to 2009, Black and Latino borrowers, respectively, were 76 and 71 percent more likely than whites to experience foreclosure.⁴ Income loss for the median African American family was double that for white families — a 4.4 percent versus 1.6 percent decline in real median income.⁵

Across the country, state lawmakers have chosen cuts over raising revenue, and New Mexico lawmakers are no exception. They have cut funding for key investments in families and communities, such as support for schools,⁶ food assistance for the elderly,⁷ and university education.⁸

Meanwhile, New Mexico's tax system lets the state's wealthiest residents off the hook for contributing to a prosperous economy from which all can benefit. As of 2009, the poorest families in the state paid the greatest portion of their income toward taxes after federal offsets (10.8 percent), compared to the top 1 percent, which was paying 4.5 percent. Meanwhile, families with an average income of \$35,700 paid 9.9 percent.⁹ By choosing the path of divestment over equitably raising revenue, state lawmakers are compounding economic inequality in the state.

THE RIPPLE EFFECT OF BUDGET CUTS

Cuts to state budgets ripple throughout the economy. Public sector workers who lose their jobs, experience furloughs, or have their wages frozen have less discretionary income to spend at local businesses. The same is true with individuals who have their benefits cut or businesses that lose income from government contracts.

The cuts are then felt by Main Street and other businesses that suffer from suppressed demand and consumption. With fewer customers and less revenue, these businesses refrain from hiring new workers, or they have to cut employees or their hours. In other words, the decline in public spending ripples in the private sector and harms economic activity and jobs.

METHODOLOGY

This report uses a linear regression analysis to compare expenditure and unemployment data in New Mexico. The data, which focuses on general fund spending, is taken from the National Association of State Budget Officers' annual expenditure reports and includes general fund spending. This data has been controlled for both population and inflation.

The regression analysis, using a six-month time lag, shows the impact of changes in state general fund spending on unemployment. Specifically, the variables we compare are percent changes in year-to-year, inflation-adjusted, per capita general fund spending with the percent changes in the year-to-year unemployment rate.

THE COST IN JOBS

New Mexico lawmakers have cut spending by \$570 (21 percent) per capita from 2007 to 2010. This reduction has hurt the employment picture in New Mexico. The impact is large, with a 1 percent cut in state spending associated with 1,040 lost jobs.

Communities of color have been particularly hard-hit by the decline of the job market, as seen in the U.S. Bureau of Labor Statistics' unemployment figures for 2010, when African Americans were facing a staggering 18.8 percent unemployment rate. The rate was 9.1 percent for Latinos and 7.8 percent for whites.

RECOMMENDATIONS

The answer to our economic difficulties is not more budget cuts. This disinvestment in our schools, health care, infrastructure, and public institutions is taking a toll on families and communities. It is also harming the economy and the job market.

New Mexico lawmakers should reverse this course of disinvestment and commit to building a prosperous future for all New Mexico's families, including a robust job market that supports Main Street businesses and overall community development. Lawmakers should:

- Develop a stronger, more equitable tax system that demands adequate contributions from corporations and the rich
- Promote economic and racial equity by preserving public investments



Jobs lost with
1% spending cut

1,040

Unemployment
by race

White: 7.8%

Black: 18.8%

Asian: 1.2%

Latino: 9.1%

Total: 8.5%

Tracy Chacón | Albuquerque

When I was a child, Medicaid was the reason I was able to go to the doctor. I have severe asthma, so I really needed that health care. I got all of the health care and medicine I needed because of Medicaid. I'm not sure what would have happened if I did not have free medical care at that point. My parents still do not have medical care and they have not gone to the doctor in upward of 20 years. Being sick as a child really showed me how important health care is, especially to a family without very much money, where food and housing comes before health care.

Now I'm a full-time student, work as a community organizer with the SouthWest Organizing Project, and have health insurance fully paid for by my employer. I still know how important Medicaid is, though, and I want to make sure it's there for other people.

Every day, I meet people who wouldn't have health insurance, child care, or education without our state making sure these programs are available and funded. It makes me sad to know that programs that are so important to community members are being cut.

Poverty is going to keep getting worse in my community. Life is very hard for so many people.

Because representatives in the Legislature and the Governor don't live in poverty every day, they don't see the firsthand effects the cuts they make have on poor people in my community. I wish they'd put themselves in the shoes of others and try to understand.

We should be taxing big corporations who get breaks from building in New Mexico. Instead of cutting what's important, like health care and education budget, we should be asking more of the rich.

Aurea Cardiel | Albuquerque

I've lived in Albuquerque all my life. I am a student, a mother, and a fellow with a non-profit organization. Through my fellowship, I earn about \$600 a month. I live on this and my student financial aid. Medicaid, food stamps, and the WIC program help my family get by, lowering the costs of our food and covering our health care. Without this support, I wouldn't have access to higher education, because my parents can't afford to support me.

I'm not alone. I live in the International District of Albuquerque, and most of the people here need public services in order to survive. People here have had their wages cut. Or they've lost their jobs. But fewer people are able to participate in community life now, because the capacity of these public services has been minimized.

We value people as people and consider ourselves the land of opportunity. Our policies should reflect that and give every person the opportunity to live a full life and not have to struggle to survive. Revenues should come from everyone pitching in, but rich corporations and people should put in a little more, because they have more to offer.

ENDNOTES

and public sector jobs

- 1** Emmanuel Saez, "Striking it Richer: The Evolution of Top Incomes in the United States (Update with 2007 estimates)," August 5, 2009, viewed at: <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2007.pdf>, Figure 1.
- 2** Rebecca Thiess, "The Great Recession's Long Tail: Third Anniversary Underscores Severity of Labor Market Woes," Economic Policy Institute, Briefing Paper #294, February 2, 2011, viewed at: <http://www.epi.org/publications/entry/6708/>, p. 2. [Hereinafter Thiess.]
- 3** Center For Responsible Lending, "Soaring Spillover: Accelerating Foreclosures Cost Neighbors \$502 Billion in 2009 Alone; 69.5 Million Homes Lose \$7,200 on Average, Over Next Four Years, 91.5 Million Families to Lose \$1.9 Trillion in Home Value; \$20,300 on Average," May 2009. Available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf>
- 4** Debbie Gruenstein Bocian, Wei Li, & Keith S. Ernst, "Foreclosures by Race and Ethnicity: The Demographics of a Crisis," Center for Responsible Lending, June 18, 2010, p. 8.
- 5** Ibid.
- 6** New Mexico Voices for Children, "Funding Public Schools in New Mexico in the Great Recession," October 2011, viewed at: <http://www.nmvoices.org/wp-content/uploads/2011/11/public-school-funding-in-recession-10-11.pdf>.
- 7** Barry Massey, "NM plans to stop food stamp supplement for the elderly," Associated Press, May 31, 2011, viewed at: <http://www.krqe.com/dpp/news/politics/nm-plans-to-stop-supplement-for-elderly>.
- 8** Erica Williams, Michael Leachman, & Nicholas Johnson, "State Budget Cuts in the New Fiscal Year Are Unnecessarily Harmful," Center on Budget & Policy Priorities, updated July 28, 2011, p. 16, viewed at: <http://www.cbpp.org/cms/index.cfm?fa=view&id=3550>.
- 9** Institute on Taxation & Economic Policy, "Who Pays: A Distributional Analysis of the Tax Systems in All 50 States," November 2009.