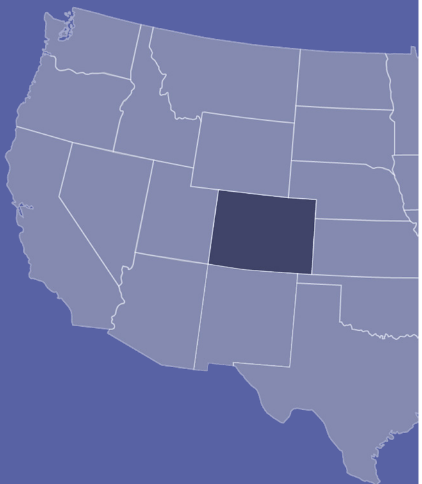
# THE COST OF CUTS IN COLORADO

**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 Colorado lawmakers chose to close through budget cuts rather than requiring corporations and the rich to share the sacrifice.

Colorado'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.

Yet Colorado ranks lower than most other states when it comes to investments in education and health.[1] The recent ruling in Lobato v. Colorado confirms that the state is falling short of its constitutional mandate when it comes to funding education for Colorado children.[2] State lawmakers compounded this underfunding to vital services through cuts to medical, dental, and long-term care, as well as cuts to education.[3] This decision harms not only those directly affected by the rollbacks, but the state's entire economy, as well.

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

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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.[4] 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.[5] As of 2009, foreclosures were projected to cost 92 million neighboring homeowners across the country an average $20,300 in property value loss over the 2009 to 2012 period, with a total national loss estimated at $1.86 trillion.[6]

Nationalwide, the recession has hit communities of color especially hard. From 2007 to 2009, Black and Latino borrowers, respectively, were 76 and 71 percent more likely than whites to experience foreclosure.[7] 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.[8]

Meanwhile, Colorado'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 lowest and second-lowest 20 percent of income earners, who respectively made an average of $11,400 and $28,700 annually, paid 9 percent of their income in state and local taxes. The top 1 percent, meanwhile, who made an average of $1.98 million annually, paid 4.2 percent. Much of this disparity can be attributed to Colorado's sales tax, which consumes 5.7 percent of the lowest 20 percent's income but just 0.8 percent of the top 1 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 others 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 Colorado. The data, which focuses on general fund spending, is taken from the National Association of State Budget Officers' annual expenditure reports. 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

Colorado lawmakers have cut general fund spending by 14 percent, or $194, per capita since 2007, according to an analysis by the Alliance for a Just Society. This reduction has hurt the employment picture in Colorado. The impact is large, with a 1 percent cut in state spending associated with 2,900 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' 2010 unemployment figures. At 13.2 and 12.8, respectively, Latinos and African Americans in Colorado have significantly higher unemployment rates than the state average of 8.7.

# RECOMMENDATIONS

The answer to our economic difficulties is not more budget cuts. This disinvestment in 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.

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

- Develop a stronger, more equitable tax systems that demands adequate contributions from corporations and the rich
- Promote economic and racial equity by preserving public investments and public sector jobs
- Uphold the decision in the *Lobato* case and work in the interest of Colorado students by fully funding our public education system
- Work proactively to address the foreclosure crisis which is contributing to significant revenue loss, job loss and loss of wealth

Jobs lost with
1% spending cut

**2,900**

Unemployment
by race

**White: 8.4%**
**Black: 12.8%**
**Latino: 13.2%**
**Total: 8.7%**

# ENDNOTES


**1** Colorado Fiscal Policy Institute, "Colorado ranks near the bottom in spending on services that support the economy and quality of life," December 15, 2011.

**2** "Denver judge's ruling on school funding levels blisters state's witnesses," The Denver Post, Dec. 11, 2011, viewed at http://www.denverpost.com/search/ci_19520710#ixzz1h76Jp7wO.

**3** Erica Williams, Michael Leachman, & Nicholas Johnson, "State Budget Cuts in the New Fiscal Year Are Unnecessarily Harmful: Cuts Are Hitting Hard at Education, Health Care, and State Economies," Center on Budget & Policy Priorities, updated July 28, 2011, pp. 15,18, viewed at: http://www.cbpp.org/files/7-26-11sfp.pdf,

**4** 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.

**5** 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 Theiss.]

**6** 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

**7** 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.

**8** Ibid.

**9** "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," The Institute on Taxation and Economic Policy, 3rd Edition, 2009, p. 26. Available at: http://www.itepnet.org/whopays3.pdf