

THE COST OF CUTS IN MISSOURI

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

Missouri'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.

Instead of raising adequate revenue, by Missouri lawmakers have asked lower-income people to sacrifice the most. This decision has resulted not only in disinvestment in health, education, and other vital services but also harmed our economy on the short- and long-terms as well.

This report shows that state budget cuts implemented by Missouri lawmakers have cost Missourians 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.



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 \$20,300 in property value loss over the 2009 to 2012 period, with a total national loss estimated at \$1.86 trillion.³

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.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 Missouri is no exception. For the fiscal year 2012 budget, funding to higher education institutions was cut by an average of 7 percent, funding to the Missouri Housing Development Corporation Housing Assistance was cut in half, and funding for the arts, public TV and radio, and the health education centers was eliminated.⁶

Meanwhile, Missouri'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 state and local taxes, at 9.6 percent, after federal offsets. Meanwhile, the top 1 percent of Missouri income-earners, who make an average of \$1.2 million, paid just 5.4 percent.⁷ 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 furlough, 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 Missouri. The data, which focuses on general fund spending, is taken from the National Association of State Budget Officers' annual expenditure report. 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

Missouri lawmakers have cut spending by 15 percent, or \$178, per capita since 2009. This reduction has hurt the employment picture in Missouri. The impact is large, with a 1 percent cut in state spending associated with 1,210 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 15.3 and 13.5, respectively, African Americans and Latinos in Missouri have significantly higher unemployment rates than whites, at 8.7, and the state average, at 9.5.

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.

Missouri lawmakers should reverse this course of disinvestment and commit to building a prosperous future for all Missouri'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 and public sector jobs.
- Choose raising revenue rather than budget cuts that would harm the economy and Missouri's most vulnerable citizens.



Jobs lost with
1% spending cut

1,210

Unemployment
by race

White: 8.7

Black: 15.3

Latino: 13.5

Total: 9.5

● Susie Rolling | Kansas City



I'm a family advocate and a clinical case manager at Operation Breakthrough, which provides educational, health, and other services to children and their parents.

The clients we work with are in school, doing clinical nursing assistant work, serving fast food, cleaning hotel rooms. This is hard work performed for little pay. We predominantly serve single mothers and fathers. Many couples won't marry because they would lose the additional benefits they need to feed and clothe their children.

Our caseloads are growing, and parents that don't qualify for state-subsidized child care can't get care through us, because we don't have the funds right now. Yet, our state subsidy for child care ranks 49th in the nation — if you have one child and you make more than \$8.10 an hour, you won't qualify for a child care subsidy.

As an agency we used to be able to help the poor out of this mess. But now even if these single women get a good job, they lose child care subsidy, and that's a real disincentive to getting a better job. It just doesn't pay, because child care is so expensive. Any job is scarce, though. In the last two years I have never had so many clients unemployed. There are so many people that cannot even get a job at McDonald's.

One of my clients is a single dad with two kids. For nine years he worked at the Kansas City Star but he was laid off due to cutbacks there.

Now he's lost his house to foreclosure, lost his car, maxed out his credit cards, and is in a homeless shelter with his kids, trying to start over. He used to make at least \$2,500 a month and now makes \$234 with the little he gets in cash assistance and food stamps.

And yet it seems people are being blamed for being poor. The state passed a law to conduct drug-testing people who receive cash assistance. There's drug use among all classes, but only the poor have to undergo this kind of scrutiny. Meanwhile, there are no vacancies at drug treatment facilities, because of the budget cuts, so this is just punitive.

● Bradley Harmon | St. Louis



I'm a social worker in children's services and also president of our union, local 6355 of the Communications Workers of America. The members of our local work for state or local government, mostly in social services, where the budget's been cut every year for the past four years. This happened on top of massive Medicaid cuts

in 2005. According to the Bureau of Labor Statistics, our members are the worst paid government employees in all 50 states. On top of that, the state made a cut of several hundred million dollars, resulting in health care premium increases. For more than five years, our turnover rate has exceeded 25 percent. This hurts our ability to help people.

In rural communities, the state has been downsizing offices and, in some places, reducing staff to just one person. Now, there's usually just one person

for 90 miles to handle an application for help with food. Meanwhile, people go hungry. In some cases, people are waiting months on applications for health care, food stamps, even nursing home care.

The state needs 354 eligibility specialists to bring each worker's caseload to the recommended maximum. No specialist should have more than 350 cases at any time. We haven't identified anyone with fewer than 350 cases. In some cities, we have specialists carrying 1,100 cases. People are leaving, because they can't handle the stress, and the state leaves those positions open. The stress then gets worse for the remaining employees

On the child protection side, many rural communities have no service workers based in their county at all. Children who are in foster care, who've been abused or neglected, have to work with a caseworker more than 40 or even 60 miles away.

Then there are the people need to be assessed for home-based services before they can leave nursing home care. The average wait time just to get the phone answered is 90 to 180 minutes. The state outsourced this service to a private company, and that company has failed to make payroll, has laid off their employees, and has a big backlog.

The needs of the people should inform state budget decisions. Politicians from each party say that is what it is based on.

In Missouri there has been a dominant budget cutting mentality from the legislature and our governor are saying we are becoming more and more efficient but in reality it is impairing services not making them more efficient.

Missouri has a very regressive tax structure stuck in the 1930's, and still there was a push to replace the income tax with a sales tax, which hurts poor people the most. Revenue should come from people who can afford it. Last year we eliminated our corporate franchise tax at a cost of \$85 million a year. The corporations say any tax on them kills jobs, but we need to stop believing that what's good for them is good for the rest of us.

ENDNOTES

- 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.
- 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** "Income, Poverty, and Health Insurance Coverage in the United States: 2009," U.S. Census Bureau, September 2009, viewed at: <http://www.census.gov/prod/2010pubs/p60-238.pdf>, p. 8.
- 6** "FY 2012 Budget Approved with Additional Spending Reductions," The Missouri Budget Project, June 24, 2011, viewed at: http://www.mobudget.org/files/FY2012_Budget_Approved_with_Additional_Spending_Reductions.pdf, p. 3.
- 7** "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," The Institute on Taxation and Economic Policy, 3rd Edition, 2009, p. 66. Available at: <http://www.itepnet.org/whopays3.pdf>