



THE COST OF CUTS IN NEW JERSEY

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

New Jersey'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, New Jersey 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 Jersey lawmakers have cost New Jerseyans 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.

3518 S. Edmunds
Seattle, WA 98118
Voice: (206) 568-5400
Fax: (206) 568-5444

allianceforajustsociety.org

WINTER 2012

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 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 from 2008 to 2009 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. In 2010, Gov. Chris Christie cut \$820 million in public school funding, a move that a New Jersey Superior Court judge later ruled to be illegal because the cuts were disproportionately slanted toward poor districts.⁶

Lawmakers also doled out a drastic cut in municipal aid, which resulted in one city, Camden, having to lay off nearly half of its police force.⁷ Other programs and institutions, like Rutgers University, legal aid, family planning, affordable housing, schools for the blind, the earned income tax credit, and a property tax rebate for the elderly were also drastically cut.⁸ Lawmakers even shut down New Jersey's public television station.⁹

Meanwhile, Gov. Christie vetoed a millionaire's tax that would have prevented many of these cuts.¹⁰

New Jersey'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 20 percent of income earners, who made an average of \$12,400 annually, paid 10.7 percent of their income in state and local taxes. The top 1 percent, meanwhile, who made an average of \$2.3 million annually, paid 7.4 percent. Much of this disparity can be attributed to New Jersey's sales tax, which consumes 5.8 percent of the lowest 20 percent's income but just 0.8 percent of the top 1 percent's earnings.¹¹

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 Jersey. The expenditure data, which focuses on general fund spending, is taken from 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

New Jersey lawmakers cut spending by \$500 (15 percent) per capita from 2008 to 2010. This reduction has hurt the employment picture in New Jersey, where a 1 percent cut in state spending associated with 10,195 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. African Americans faced an unemployment rate of 15 percent, compared to 9 percent overall.

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 Jersey lawmakers should reverse this course of disinvestment and commit to building a prosperous future for all New Jersey'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



Jobs lost with
1% spending cut

10,195

Unemployment
by race

White: 8.7

Black: 15.1

Asian: 5.3

Latino: 10.2

Total: 9.3

● Kelly Conklin | Bloomfield



I own a custom woodworking business, Foley-Waite Associates, and I've seen how well-designed programs — like New Jersey's family medical leave program, or the Children's Health Insurance Program — make a difference in people's lives. When these are on the chopping block, real people, including my employees and their families, are hurt.

We need politicians to start acting like they believe in America's future and start investing in it. In business, you've got to believe in your product. We deserve leaders who believe in their product too, who believe government can do things to help small businesses and set us up for success by investing for the future.

Looking at the global economy, there are countries that are on the rise and you know what? They're doing it by following a model we designed: educating their workforce, building the infrastructure that small businesses depend on, coordinating public and private investments. We should be raising the revenue needed for these priorities, not slashing corporate taxes and rewarding companies that pay less in taxes than they pay their CEOs.

I've borrowed money on various occasions, based on what was needed to grow my business.

When the economy went in the tank, we were in a desperate situation, and the next step was to declare bankruptcy. We laid off almost all our employees. Then we got a phone call. A new customer. A good customer. We took \$10,000 from our 401(k) and said, "Sure, we'll do this job." Sometimes you need to invest to get a return.

But, of course, government is different from businesses and families, and one of my pet peeves is when I hear politicians say, "We're going to manage the government like people manage their home budgets." Government is not like a family budget and it's not like a small business budget.

Government absolutely can create jobs — who pays our teachers, our firefighters, our public health workers? These good jobs are a critical component of the customer base for small businesses, and a big reason the economy has lost steam is that states have been cutting jobs left and right.

It's time to make big companies that extract tax abatements from the city and state government and dodge their tax responsibility pay up. If you want to fly the American flag outside your corporate headquarters, you should be paying your way.

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, viewed 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, viewed at: <http://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.pdf>, 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** "Christie's budget cuts left N.J. schools unable to provide 'thorough and efficient' education, judge rules," New Jersey Star-Ledger, March 22, 2011, viewed at: http://www.nj.com/news/index.ssf/2011/03/christies_school_aid_cuts_left.html
- 7** "Camden, N.J., to lose nearly half its cops," CNN, Jan. 17, 2011, viewed at: http://money.cnn.com/2011/01/17/news/economy/camden_police_layoffs/.
- 8** "The FY 2011 Budget Report Card," Better Choices for New Jersey, viewed at: <http://www.betterchoicesfornj.org/content/the-fy-2011-budget-report-card>.
- 9** "NJ Public Television Signs Off; Other PBS, NPR Stations Threatened by Cuts," USC Annenberg Center on Communication Leadership & Policy, July 5, 2011, viewed at: http://communicationleadership.usc.edu/blog/nj_public_tv_signs_off_other_pbs_npr_stations_threatened_by_cuts.html.
- 10** "N.J. Gov. Chris Christie swiftly vetoes 'millionaires tax,' property tax rebate bills," New Jersey Star-Ledger, May 20, 2010, viewed at: http://www.nj.com/news/index.ssf/2010/05/nj_gov_christie_vetoes_million.html.
- 11** "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," The Institute on Taxation and Economic Policy, 3rd Edition, 2009, viewed at: <http://www.itepnet.org/whopays3.pdf>.