



THE COST OF CUTS IN PENNSYLVANIA

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

Pennsylvania'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, Pennsylvania 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 Pennsylvania lawmakers have cost Pennsylvanians 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

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 Pennsylvania lawmakers are no exception. They have made cuts to health care, including access to prescription drugs and dental care,⁶ and to schools, with the rollbacks falling disproportionately on poor districts.⁷ Universities and community colleges, child care, and environmental protection also have been hit with steep cuts.⁸

At the same time, the Legislature failed to adopt measures to raise revenue, such as closing corporate tax loopholes that favor large, out-of-state corporations over small businesses, or taxing natural gas drilling. Similarly, the Legislature did not extend taxation to smokeless tobacco or update the sales tax system to include services used primarily by wealthier residents.

Meanwhile, Pennsylvania'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 (11.2 percent), compared to the top 1 percent, which was paying 3.9 percent. Meanwhile, families with an average income of \$45,200 paid 9.1 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 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 Pennsylvania. 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

Pennsylvania lawmakers have cut spending by \$190 (10 percent) per capita from FY 2009 to 2010. This reduction has hurt the employment picture in Pennsylvania. The impact is large, with a 1 percent cut in state spending associated with 4,770 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 faced a staggering 16.2 percent unemployment rate and Latinos faced a rate of 15.5 percent. For whites, the unemployment rate during this period was 7.8 percent.

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.

Pennsylvania lawmakers should reverse this course of disinvestment and commit to building a prosperous future for all Pennsylvania'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
- Require natural gas drillers to contribute to state revenues
- Update the sales tax system to include services
- End the sales tax break for smokeless tobacco
- Promote economic and racial equity by preserving public investments and public sector jobs



Jobs lost with
1% spending cut

4,770

Unemployment
by race

White: 7.8%

Black: 16.2%

Asian: 10.7%

Latino: 15.5%

Total: 8.6%



● William Bell | Philadelphia

My children and I live in a predominantly black neighborhood with many working class homeowners and a good sense of community. When I have the time, I like to get outside and go fishing.

For years, I worked in my family's business as an exterminator. Right now, though, the monthly income for our family of three is \$750. I rely on food stamps to keep food in the refrigerator for my kids. We also have Medicaid and Medicare to help us with our health care costs. I have several prescription drugs that I need to take, and my daughter Sade suffers from kidney stones and has been hospitalized numerous times.

State budget cuts will definitely affect my family's day-to-day life. Public services that are losing funding are what make it possible for us to do basic things like eat and stay in good health. I'm already feeling the squeeze. On April 1, I started paying out-of-pocket for prescriptions I haven't had to pay for in the past.

I just don't know how long I can afford to keep doing that.



● David Fattah | Philadelphia

Over the past 40 years, I've been back and forth to Harrisburg many times to sit down with legislators and Governors Shapp and Thornburgh. As the co-founder and field director of the House of Umoja, which supports the youth in my community, I see the importance of state investments in health care, education, child care, and other services. I also see what happens when those investments are removed.

The Philadelphia school district and my organization have set up a number of programs to address dropout rates. The budget cuts in Harrisburg put the brakes on those efforts, especially at a time when we've been struggling to raise reading levels and make sure our children pass the Pennsylvania School System Assessment Test.

Our classrooms are going to grow to the point where we're packing 40 children in a room. As a former teacher, I know what that means. When you're in that classroom, and it's hot and piled up with kids, it really affects the quality of education you can deliver.

The Health Department has lost funds for placing nurses in schools.

All of this has repercussions when it comes to employment. Cuts to education will mean layoffs for teachers. As you begin to cut off opportunities for those with education, they begin to drift downward in the employment chain and knock out the people without the educational background to compete.

You begin to put a terrible downward spiral into place.

I'm disappointed about the values I see expressed in our state budget. When you eliminate more than \$600 million in K-12 education, that severe, draconian cut says what you value. What you don't value you cut and throw away.

At the same time, those who are drilling for natural gas in Pennsylvania are not even being taxed, and they might be upsetting and hurting the environment.

Many thousands of people went to Harrisburg to try to talk to the Governor. The result makes you wonder what he thinks about poor people, older people, senior citizens. I am asking and hoping for a different approach.

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 Under-scores 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.]
- 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** Pennsylvania Budget & Policy Center, "Budget Analysis: Pennsylvania's 2011-2012 Budget," July 13, 2011, p. 6, viewed at: <http://pennbpc.org/sites/pennbpc.org/files/2011-12-State-Budget-Analysis-final.pdf>.
- 7** Ibid, p. 5.
- 8** Ibid, pp. 5-6, 9-10.
- 9** Institute on Taxation & Economic Policy, "Who Pays: A Distributional Analysis of the Tax Systems in All 50 States," November 2009.