



THE COST OF CUTS IN VIRGINIA

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

Virginia'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, Virginia 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 Virginia lawmakers have cost Virginians 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 Virginia lawmakers are no exception. They have slashed funding for key investments in families and communities — funding for classrooms, textbooks, hospital services, respite care for those taking care of people with disabilities, and other services.⁶ At the same time, Virginia lawmakers have been writing new loopholes into the tax code, creating even more mechanisms for corporations to avoid contributing to state revenues.⁷

They have taken these actions despite a state tax system that lets Virginia'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 (8.8 percent), compared to the top 1 percent, which was paying 5.2 percent. Meanwhile, families with an average income of \$46,300 paid 8.4 percent.⁸ 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 Virginia. The expenditure 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

Virginia lawmakers have cut spending by \$353 (18 percent) per capita from 2007 to 2010. This reduction has hurt the employment picture in Virginia. The impact is large, with a 1 percent cut in state spending associated with 950 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 11.2 percent, compared to 6.5 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.

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

950

Unemployment
by race

White: 6.5%

Black: 11.2%

Asian: 6.9%

Latino: 7.5%

Total: 7.5%

● Debbie Jessee | Dryden



I live in a rural, mountain community, where I'm a retired history teacher. Over the course of my career, I saw education change, with more emphasis on teaching to the test and a lot of the fun things we used to do getting tossed out the window.

As someone who dedicated so many years of my life to teaching, and as a former president of the Lee County Education Association, I'm very concerned about the attack on public workers. Once the economy started going downhill, the attacks began.

Many of our legislators are members of the American Legislative Exchange Council, which sits lawmakers down at the table with big corporations to write our laws. They want to privatize our schools, turn them into for-profit organizations, and get rid of public education.

Many legislators are also saying they won't raise new taxes to cover our shortfalls.

Rather than accept the need for more funding, they'll point at teachers. But we get very meager retirement and are not the problem. These politicians don't want to raise taxes, no matter what the effects are. They have a good soundbite: "Keep taxes low."

Meanwhile, the cutbacks take a toll on the whole community. My county is the poorest in the state, and our local government isn't mowing the highway and roads like they used to. The grass is coming up and making some of the roads dangerous. Yesterday I heard someone saying that the grass is so high they couldn't even see the ditch when they were driving. That's dangerous.

Politicians should have the political courage to let people know that we need revenue and can't thrive on a cuts-only approach.

● Linda Powell | Fredericksburg



If we want strong and vital communities, we need to show that through our investments, because you get what you pay for. I'm looking out my window right now, and I see that my street is torn up. A lot of our streets are going unpaved and are coming through the winter damaged. It's because we're not paying enough taxes.

Our local library is suffering, too. We used to love to go there. Our only child, who has an Autism Spectrum Disorder, met other kids there, and I connected with parents. The librarians knew us by name. They had so many programs. Kids read to dogs to practice their reading skills. They had chess matches.

But they cut chess, and then, one night, as we were going into a program, the librarian said, "This is my last night. We've had budget cuts." I don't go to the library anymore. There aren't enough librarians, the bathrooms are dirty, and it doesn't feel as safe. Now it just feels depressing. I see the same sort of deterioration in our education system, public transport, services for people with mental illness.

These budget cuts hurt people in so many ways. My husband works for the federal government, and they were nervous that they'd have to go on furlough. We would have been okay, but it really would have hurt the younger workers. My husband is a supervisor, and he had to talk to people in his office about how they'd handle it financially.

I'm very upset about the Governor and General Assembly. The legislators go

to Richmond and forget about needy people in their districts. A lot of people say, "I don't use those services, anyway." But everything affects us. Of course it does! We just moved back from Singapore, and everything is beautiful there and education is well-funded. That's because people are taxed, and they have an infrastructure to support that.

They could probably tax me more and I would be fine with paying it, because we have to invest in these things. I feel it is my patriotic duty to pay taxes. We have to put our people first, before profits. We must put our future first.

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. [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** The Commonwealth Institute, "Not Measuring Up: Virginia Continues Budget Cuts Despite Growing Needs in the State," April 2011, pp. 1-4.
- 7** Fredrick Kunkle, "Coalition aims to challenge Va. no-tax pledge in balancing the budget," Washington Post, August 4, 2011, http://www.washingtonpost.com/blogs/virginia-politics/post/coalition-aims-to-challenge-va-no-tax-pledge-in-balancing-the-budget/2011/08/04/gIQASGR4ul_blog.html.
- 8** Institute on Taxation & Economic Policy, "Who Pays: A Distributional Analysis of the Tax Systems in All 50 States," November 2009.