



THE COST OF CUTS IN FLORIDA

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

Florida'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, Florida lawmakers have expanded tax exemptions for corporations¹ while cutting funds for schools (including the school readiness program for low-income children), raising university tuition,² and taking away public sector jobs.³ This approach has resulted not only in disinvestment in health, education, and other vital services, but also harmed the state's economy.

This report shows that state budget cuts implemented by Florida lawmakers have cost Floridians 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.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 of \$20,300 in property value loss from 2009 to 2012, with a total national loss estimated at \$1.86 trillion.⁶

Nationwide, 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, Florida'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, Florida was ranked as the second most regressive tax structure in the country. The lowest 20 percent of income earners, who made an average of \$10,500 annually, paid 13.5 percent of their income in state and local taxes. The top 1 percent, meanwhile, who made an average of \$2.4 million annually, paid 2.1 percent.⁹

In 2011, Florida lawmakers chose to make the state's taxation system even more skewed by increasing corporate income tax exemptions. By choosing tax breaks for corporations over investment in families and communities, 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 Florida. 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

Florida lawmakers have cut spending by 30 percent, or \$413, per capita between 2007 and 2010. This reduction has hurt the employment picture in Florida. The impact is large, with a 1 percent cut in state spending associated with 31,000 of 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 16.7 and 13.6, respectively, African Americans and Latinos in Florida have significantly higher unemployment rates than the state average of 11.1.

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.

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

31,000

Unemployment
by race

White: 10.2%

Black: 16.7%

Asian: 4.6%

Latino: 13.6%

Total: 11.1%

ENDNOTES

- 1** 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. 9-10, viewed at: <http://www.cbpp.org/files/7-26-11sfp.pdf>.
- 2** Ibid, p. 15.
- 3** Ibid, p. 22.
- 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 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 Thiess.]
- 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-spill-over-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. 34. Available at: <http://www.itepnet.org/whopays3.pdf>.