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555 New Jersey Ave. N.W.
Washington, DC 20001
202/879-4400
www.aft.org

Memorandum

To: Jeff Zahler

From: Ed Muir, Associate Director
Matthew Di Carlo, Associate
Research & Information Services

Date: January 6, 2009

Subject: Impact of state budget cuts

A key argument supporting both federal aid to state and local government and tax solutions for state level budget gaps is the importance of the services that our members provide to working families and to society as a whole. Healthcare, education and public safety each have a value that is beyond calculation. A second and more concrete argument concerns the value that our members' work contributes to the overall economy. While we often look at that value in terms of the quality of services and reforms, during this current crisis we should also be prepared to look at it just in terms of the direct economic effect of our members' work.

State spending has a "ripple effect" on the size of the overall economy. In a 2008 paper released by Moody's Economy.com, economist Mark Zandi estimates that federal aid to states stimulates their economies (i.e., GDP's) by a factor of 1.36.[1] In other words, for every dollar a state spends, there is total of $1.36 in new economic growth. This is outside of any long term investment effect from the services themselves.

However, just as state government spending has a stimulative effect on the economy, so too does budget cutting have the opposite effect—contracting the economy. That's because budget cuts will generate a rise in unemployment and a decreasing demand for goods and services. In this sense, state budget cuts will serve to magnify the current economic crisis by further de-stimulating an already anemic economy.

A recent report by the Center for Economic Policy Research (CEPR) attempts to quantify this de-stimulating effect—and how it translate into job losses—by turning the logic of the Zandi factor on its head.[2] The author assumes that each dollar cut from a state's budget will *contract* its economy by the same factor (1.36).

For instance, imagine that a state had a one billion dollar shortfall. If it were to simply cut this much from the budget it would take 1.36 billion (1 billion x 1.36) out of the economy. If it were to cut one-half billion, it would take $680 million total out of the economy.

In either case, an inevitable consequence of this de-stimulus is job losses in both the public and private sectors (though mostly the former). CEPR has devised a method to project job losses for each state stemming from the cut-driven contractions. They do so by estimating an average "price" of just under $100,000 for each job in the economy. In the example above, a one billion dollar budget cut would lead to 13,671 jobs lost.[3]

The basic idea of this exercise is to provide some idea of the job losses each state can expect as a consequence of any spending cuts it may employ to close budget gaps. CEPR provides estimates for the effect on each state, using recent budget data from the NCSL. These projections are listed in the tables below, one for FY 2009 and one for FY 2010 (both taken directly from the CEPR report). During the last recession states made cuts equaling to an average of 40 percent of their budget gaps, with federal aid, new taxes and savings filling in the rest. The CEPR report calculates both the economic effect of absorbing all of each state's current budget gaps as well as the economic effect of closing 40 percent of the total gap with cuts. Of course, these estimates are subject to change as states' projections of their budget gaps change. As the gaps change, the formula to predict job losses can be recalculated using:

JOBS LOST = (((*projected gap* * 1.36) * *proportion made up by cuts*) / 99,481)

At the national level, if states respond to their current year shortfalls by cutting their budgets at a similar rate to that of 2001 (40 percent), the CEPR formula projects that the resulting de-stimulus will cost around 170,000 jobs, or 1.2 percent of the current active workforce. At the extreme end of the continuum, if all states made up 100 percent of their gaps with cuts, the total job loss would be around 426,000 jobs, or 2.9 percent. It bears noting that, in either case, these implied job losses are only those stemming from the budget cuts themselves, and do not include jobs lost to the general economic crisis.

We think this information would be useful to affiliates. We are hoping for guidance as to how best this information might be distributed as part of the overall campaign plan.

MDC : pc opeiu#2 afl-cio

cc: Tina Flournoy
Jewell Gould
Phil Kugler
John Ost

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[1] Zandi, Mark M. 2008. "*Assessing the Macro Economic Impact of Fiscal Stimulus 2008*." West Chester, PA: Moody's Economy.com. http://www.economy.com/mark-zandi/documents/assissing-the-impact-of-the-fiscal-stimulus.pdf.

[2] Sherman, Matthew. 2008. "*Will Workers Survive State Budget Belt-Tightening*?" Washington, D.C.: Center for Economic and Policy Research. http://www.cepr.net/documents/publications/2008-12-Will-Workers-Survive-State-Budget-Belt-Tightening.pdf.

[3] The actual cost per job is estimated to be $99,481. A one billion dollar budget cut has a $1,360,000,000 effect on the economy: 1,360,000,000 divided by $99,481 is 13,671.

TABLE 1: Implied Job Loss from FY2009 State Budget Cuts

State	FY2009 Shortfall/Cut ($ millions)	Economic Effect ($ millions)[5]	Implied Job Loss w/ 40% Cuts (thousands)[6]	Implied Job Loss w/ 100% Cuts (thousands)
Alabama	123.5	-168	-0.7	-1.7
Arizona	1,235	-1,679.6	-6.8	-16.9
California	8,400	-11,424	-45.9	-114.8
Colorado	99.7	-135.6	-0.6	-1.4
Connecticut	391.8	-532.8	-2.2	-5.4
Delaware	128.7	-175	-0.7	-1.8
District of Columbia	131	-178.2	-0.7	-1.8
Florida	2,142	-2,913.1	-11.7	-29.3
Georgia	2,100	-2,856	-11.5	-28.7
Hawaii	220	-299.2	-1.2	-3
Idaho	27	-36.7	-0.2	-0.4
Illinois	2,300	-3,128	-12.6	-31.4
Iowa	35	-47.6	-0.2	-0.5
Kansas	136.8	-186	-0.8	-1.9
Kentucky	456.1	-620.3	-2.5	-6.2
Maine	140.3	-190.8	-0.8	-1.9
Maryland	138	-187.7	-0.8	-1.9
Massachusetts	1,200	-1,632	-6.6	-16.4
Minnesota	426	-579.4	-2.3	-5.8
Mississippi	85.5	-116.3	-0.5	-1.2
Nebraska	5.3	-7.2	0	-0.1
Nevada	337	-458.3	-1.8	-4.6
New Hampshire	250	-340	-1.4	-3.4
New Jersey	400	-544	-2.2	-5.5
New Mexico	253	-344.1	-1.4	-3.5
New York	1,475	-2,006	-8.1	-20.2
North Carolina	1,200	-1,632	-6.6	-16.4
Ohio	1,180.7	-1,605.8	-6.4	-16.1
Oregon	142	-193.1	-0.8	-1.9
Pennsylvania	2,000	-2,720	-10.9	-27.3
Rhode Island	350	-476	-1.9	-4.8
South Carolina	724.4	-985.2	-4	-9.9
South Dakota	7	-9.5	0	-0.1
Tennessee	800	-1,088	-4.4	-10.9
Utah	354	-481.4	-1.9	-4.8
Vermont	88	-119.7	-0.5	-1.2
Virginia	973.6	-1,324.1	-5.3	-13.3
Washington	413	-561.7	-2.2	-5.6
Wisconsin	281	-382.2	-1.5	-3.8
TOTAL	**31,150.4**	**-42,364.6**	**-170.6**	**-425.8**

SOURCE: Sherman, Matthew. 2008. "Will Workers Survive State Budget Belt-Tightening?" Washington, D.C.: Center for Economic and Policy Research.

TABLE 2: Implied Job Loss from FY2010 State Budget Cuts

State	Projected FY 2010 Shortfall ($ millions)	Economic Effect ($ millions)	Implied Job Loss w/ 40% Cuts (thousands)	Implied Job Loss w/ 100% Cuts (thousands)
Arizona	2,600	-3,536	-14.2	-35.5
California	19,500	-26,520	-106.6	-266.6
Connecticut	2,495	-3,393.2	-13.6	-34.1
Delaware	215	-292.4	-1.2	-2.9
Florida	4,650	-6,324	-25.4	-63.6
Georgia	2,100	-2,856	-11.5	-28.7
Hawaii	730	-992.8	-4	-10
Idaho	150	-204	-0.8	-2.1
Iowa	625	-850	-3.4	-8.5
Kansas	959	-1,304.2	-5.2	-13.1
Louisiana	1,300	-1,768	-7.1	-17.8
Maine	412	-560.3	-2.2	-5.6
Maryland	1,226	-1,667.4	-6.7	-16.8
Minnesota	2,600	-3,536	-14.2	-35.5
Nebraska	274	-372.6	-1.5	-3.7
Nevada	750	-1,020	-4.1	-10.3
New Jersey	2,500	-3,400	-13.7	-34.2
New York	12,518	-17,024.5	-68.4	-171.1
North Carolina	900	-1,224	-4.9	-12.3
Oregon	650	-884	-3.6	-8.9
Rhode Island	460	-625.6	-2.5	-6.3
South Carolina	600	-816	-3.3	-8.2
Vermont	118	-160.5	-0.6	-1.6
Virginia	1,500	-2,040	-8.2	-20.5
Washington	2,336	-3,177	-12.8	-31.9
Wisconsin	2,500	-3,400	-13.7	-34.2
TOTAL	**64,668**	**-87,948.5**	**-353.4**	**-884**

SOURCE: Sherman, Matthew. 2008. "*Will Workers Survive State Budget Belt-Tightening*?" Washington, D.C.: Center for Economic and Policy Research.