

A Jobs and Economic Recovery Plan for Washington

HOW RAISING REVENUE FOR PUBLIC SERVICES WILL SPUR JOB GROWTH



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State and local government budget cuts and layoffs, combined with the sharp falloff of federal investment, are slowing down the tenuous beginnings of economic recovery and threatening to derail it altogether.

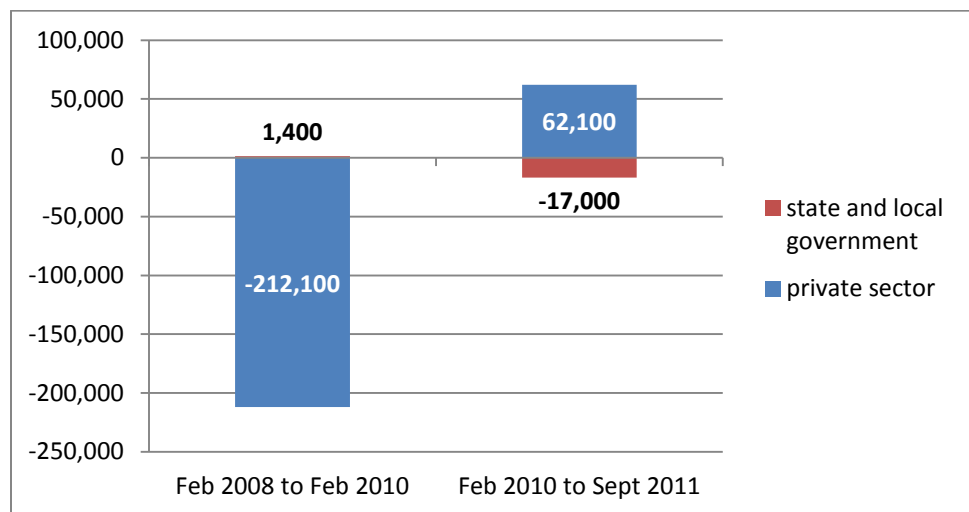
Since 2009, Washington policymakers have slashed billions of dollars from the state budget, harming individuals, schools, and communities. Those cuts have hurt the economy and cost jobs in both the public and private sectors. Had policymakers balanced cuts by raising an equal amount of new revenue over the past three years, they would have saved or created up to 40,000 jobs across sectors throughout the state.

Now state policymakers are faced with another budget hole of \$1.4 billion that could grow to \$2 billion. Washington's economy will produce more jobs and rebound more quickly if policymakers raise taxes rather than cut spending further. Ending corporate tax breaks and maintaining investments of \$2 billion in education, health care, and services for struggling state residents would result in 9,000 to 17,000 additional private and public sector jobs.

Public Cuts Dragging Down Job Growth

Washington lost 206,000 private and public sector jobs between February 2008 and February 2010, due to the Great Recession. By September, 2011, the private sector had gained back 62,000 jobs (adjusted for seasonal differences). Employment in state and local government continued to shrink, however, losing 17,000 positions since early 2010. Those numbers include 6,500 fewer jobs in K-12 public education and 4,300 jobs lost from the higher education system.¹

PUBLIC AND PRIVATE SECTOR JOB CHANGE SINCE FEBRUARY 2008, WASHINGTON



Source: Washington Economic Security Department, Nonfarm Jobs, Seasonally Adjusted Historical Series

OCTOBER 2011

62%

PORTION OF STATE
SPENDING
FLOWING TO
PRIVATE SECTOR

Cuts in public spending reduce private sector jobs, along with those in public service. The majority of state spending – 62% – flows to the private sector and supports jobs in a wide range of industries, through direct purchasing and contracting, transfers to individuals who thus spend more in their communities, and spending by public employees from their salaries.² Every dollar of state spending results in \$1.31 in economic activity, according to economist Mark Zandi of Moody's Economy.com – who served as Republican candidate John McCain's economic advisor during the 2008 presidential campaign.³ Other economists have estimated multipliers of between 1.7 to 2.1 from state government spending.⁴

Those multipliers become negative when the state cuts spending, resulting in a slower economy and fewer jobs. Although no longer officially in recession, the American economy is creeping along with an annual growth rate of just 1.3% in the second quarter of 2011.⁵ Across the nation, state and local government cuts are predicted to reduce total U.S. gross domestic product (GDP) growth by about 0.5% both in 2011 and 2012.⁶

The Scope of Washington's Budget Cuts

Since late 2008, lawmakers have faced a series of enormous budget gaps as the recession has increased the need for public services, while decreasing the flow of tax revenues. Some states have chosen to raise revenues in a variety of ways to meet public needs during the recession, but Washington policymakers have mostly cut spending to deal with the budget hole. Cuts have included:

- Elimination of student achievement funds, teacher cost of living adjustments, and other cuts to K-12 not considered basic education;
- Significant cuts in higher education spending that have resulted in reduced access and fewer course offerings, accompanied by large tuition increases;
- New restrictions on eligibility and reductions in numbers of children and adults receiving subsidized health, childcare, home health, and other services, along with cuts in the levels of service provided;
- Consolidation of state agencies, with associated job reductions;
- Postponement of purchases and programs, and bans on unnecessary travel; and
- Mandatory furloughs and higher contributions for health insurance for state employees, resulting in reduced take-home pay.

All of these cuts result in people across the state having less money to spend on goods and services from businesses in their local communities. Many also have caused direct reduction in employment. Some have caused serious harm and suffering to state residents, and will raise future costs as a result of poorer health and lost educational opportunities.

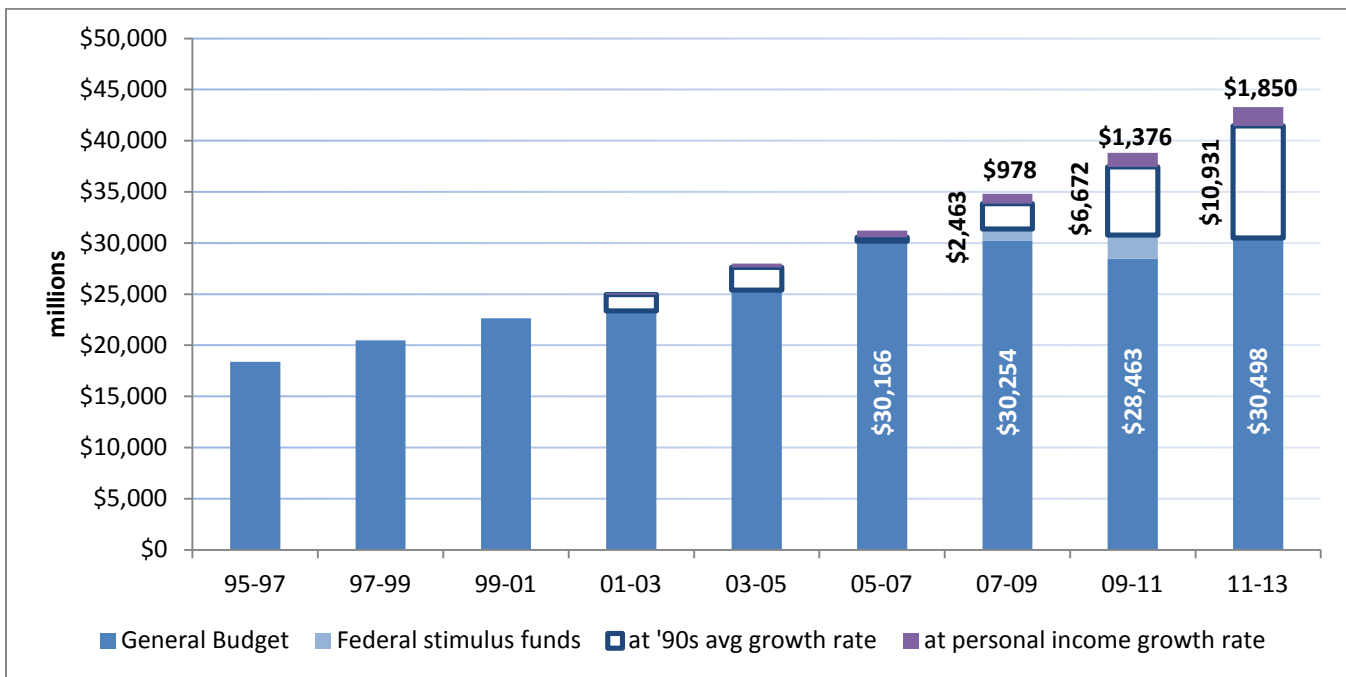
.5%

REDUCTION IN GDP
DUE TO STATE AND
LOCAL BUDGET
CUTS

Through the 1990s, Washington's General Fund and related budget grew at an average annual rate of 5.2%, reflecting inflation, population growth, and personal income expansion, along with policy changes such as more rigorous education standards and increasing access to health care. Washington's general fund and related spending over the three years from 2009 through 2011 has fallen \$8.5 billion below that rate of growth – even with the infusion of \$4.4 billion in one-time federal assistance. The 2011-13 budget adopted in the spring of 2011 is \$11 billion short, measured by the 1990s average rate of growth, and nearly \$13 billion short measured against the growth of personal income in Washington.⁷

Because jobs and consumer spending continue to grow more slowly than projected, state lawmakers face an additional \$1.4 billion shortfall between projected revenues for the 2011-13 biennium and budgeted expenses. That budget hole may grow to \$2 billion if sluggish economic growth continues.

**WASHINGTON STATE GENERAL FUND BUDGET, 1995-2013
WITH ADDITIONS TO MATCH 1990'S AND PERSONAL INCOME GROWTH RATES**



Sources: Washington Economic and Revenue Forecast Council, September 2011; Washington Legislative budget documents.

Raising taxes for public investments creates jobs

Washington could have raised new revenues in order to fulfill its commitments to provide amply for the education of every child, expand quality and access to preschool, open the doors of higher education to young adults and displaced workers, enable seniors and people with disabilities to receive support services in their own homes, assure basic public services reach rural communities, and provide a safety net for the working poor and unemployed.

Such investments would improve the quality of life and create more promising future prospects for our state's residents. They also would have added and

protected jobs, both directly in fields such as education, health care, and public safety, and indirectly throughout the private sector.

Where is the biggest bang for the buck?

Public spending is most effective in stimulating the economy when it puts money directly in the hands of struggling individuals and families who will immediately spend it. Zandi estimates that every \$1.00 spent on food stamps results in \$1.70 of economic activity. Unemployment insurance benefits have a multiplier of \$1.52. Infrastructure spending puts construction workers into badly needed jobs and returns \$1.44 for each \$1.00 invested. General state government spending returns \$1.31 on the \$1.00.

Tax cuts generally only produce positive economic results when targeted to low and moderate income people, because they spend the money. On the other hand, wealthy individuals hold onto a significant portion of their income, and corporations retain some income while distributing the rest to share holders who may live outside the state. Therefore, when it comes to stimulating the economy, direct state spending does a lot more good than tax breaks for corporations or wealthy people.⁸

\$1.44

AMOUNT ADDED
TO ECONOMY PER
\$1 INCREASE IN
STATE
INFRASTRUCTURE
SPENDING

32¢

AMOUNT ADDED TO
ECONOMY PER \$1
CUT IN CORPORATE
TAXES

ZANDI'S FISCAL STIMULUS MULTIPLIERS (FOR FEDERAL SPENDING ON U.S. GDP)

	Every \$1.00 spent adds to the economy:
Spending Increases	
Food Stamps	\$1.70
Extending Unemployment Insurance benefits	\$1.52
Increased infrastructure spending	\$1.44
General aid to state governments	\$1.31
Tax Cuts	
Child Tax Credit	\$1.38
Earned Income Tax Credit, ARRA parameters	\$1.23
Across-the-board tax cut	\$0.98
Make dividend and capital gains cuts permanent	\$0.39
Make Bush income tax cuts permanent	\$0.35
Cut corporate tax rate	\$0.32

Source: Zandi, "An Analysis of the Obama Jobs Plan," 2011, Moody's economy.com.

Had policy makers raised \$4.26 billion in taxes from 2009 through 2011 and cut spending only half as much, they would have saved or created 6,600 to 40,000 jobs, depending on how the taxes and spending were targeted. For example, eliminating corporate tax breaks to fund education, health care, and services for unemployed and low income residents would have increased overall employment in the state by 19,700 to 29,600 jobs, many of them in the private sector.⁹

Faced with another \$1.4 to \$2 billion budget hole, Washington’s policymakers could create jobs and give the economy a badly needed boost by raising taxes rather than making further cuts. Tax increases that fall primarily on wealthy individuals, corporations, or out-of-state residents could boost jobs by up to 17,000. Even general tax increases paid by all state residents and invested in infrastructure, education, and social and health services would add 3,000 to 9,000 public and private sector jobs throughout the state.

JOBS CREATED BY RAISING NEW REVENUE TO SUPPORT \$2 BILLION IN STATE INVESTMENTS

If New Revenue is from:	Jobs Created by State Spending on:		
	Infrastructure	Assistance to Unemployed and Low Income	General – Education, Health, and Social Support
Closing corporate tax breaks	10,000 – 14,700	11,000 – 17,000	8,600 – 13,000
High income tax	10,000 – 15,000	12,000 – 17,700	9,000 – 13,500
General tax increases	4,000 – 6,400	6,000 – 9,000	3,000 – 4,600

For sources and methodology, see Endnote 9.

Here is how it works:

1. Legislature ends a corporate tax break, raising \$100 million. The total economy loses 32 cents of each dollar, or \$32 million.
2. The state spends this \$100 million on infrastructure. The economy expands by \$152 million, a net expansion of \$120 million.¹⁰
3. Our state economy sustains 1 job for each \$107,000 of gross state product, so the expansion of \$120 million results in 1,120 new jobs.¹¹
4. Because some of the materials will be purchased from out of state, not all of the new jobs will be in Washington. Washington will gain 560 to 840 jobs.¹²

Revenues to Rebuild Washington's Economy: Ending tax exemptions to restore jobs and opportunity

	State Revenue (\$millions) ¹³	
	FY 2013	2013-15
Repeal or Suspend Selected Business Tax Breaks		
Repeal 1st mortgage deduction -Since 1970, credit agencies can deduct interest earned from loans for first mortgages on residential property. JLARC found no evidence that the tax savings is passed on to consumers, and big banks are profiting.	\$50.8	\$104.1
Repeal 1st mortgage deduction for banks in more than 10 states	\$20.0	\$41
Sales tax exemption on custom software - Taxed in 11+ other states. Would not include "canned" software.	\$31.2	\$80.5
Sales tax on financial planning, investment advising, securities trading	\$46.9	\$104.3
B&O pop syrup credit and increase pop syrup tax from \$1 to \$2	\$16.7	\$34.5
B&O tax exemption for farmers with gross income above \$200,000	\$32.7	\$69
Sales tax exemption for non-organic fertilizers, sprays, and washes	\$44.6	\$96
Use tax exemption on extracted fuel - Primary beneficiaries are wood product industry and oil refineries. Generally businesses that produce and use tangible personal property owe a use tax, but extracted fuel has been exempt. 45 other states have a use tax; only 1 exempts petroleum-based extracted fuel.*	\$25.6	\$52
<i>Subtotal (with full 1st mortgage repeal)</i>	\$248.5	\$540.4
Expand Tax Base		
State admissions tax 5% (exclude youth non-profit and K-12 school activities)	\$43.4	\$95.2
Nonresident sales tax exemption – change to refund if over \$25 per year	\$19.3	\$39.5
Beverage tax (bottled water and carbonated) @ 2 cents per 12 oz.	\$70.3	\$142.2
Repeal sales tax exemption motor vehicle fuel	\$803.2	\$1,681.70
<i>Subtotal</i>	\$936.3	\$1,958.6
Progressive Taxes		
Luxury tax - 10% on motor vehicles, vessels, and aircraft over \$50,000	\$70.3	\$163.9
Estate tax - increase rates 50%	\$45.5	\$98
Income tax on incomes over \$1,000,000 – 5%**	0	\$1,358
<i>Subtotal</i>	\$115.7	\$1,619.9
Modernize Interpretation of Interstate Commerce Clause		
Repeal PUT exemption on Instate portion of interstate transportation - Public Utility Tax tax is not charged on the transportation of goods or people if any part of the trip is out-of-state. JLARC recommends ending the exemption. 46 states and DC already tax.*	\$30.6	\$59.70
Repeal PUT exemptions on through freight and shipments to ports - Two PUT deductions were enacted in 1937 specifically dealing with goods transported from one part of the state to another for storage or processing, then transported out of state. JLARC also recommends ending it. 45 states tax.	\$23.7	\$47.30
Repeal jet fuel tax exemption for commercial airlines and local commuter business - A jet fuel tax of 11 cents per gallon has been limited to private purchasers to support local airports and avoid violation of the US Constitution. But the funds are now used more broadly to benefit all aviation and the interstate commerce clause has been reinterpreted to allow broader taxation. Only 2 other states exempt fuel for use in interstate commerce.*	\$55.2	\$106.80
Repeal sales tax exemption on items used in interstate commerce - Air, rail, and water transportation companies engaged in interstate or foreign commerce are exempt from sales tax on fuel and other items. U.S. Supreme Court has ruled that states may tax such items, and many do. JLARC review in 2008 found no clear purpose for the exemption. At least 10 states explicitly tax airline fuel.*	\$139	\$278
<i>Subtotal</i>	\$248.5	\$491.80
Total	\$1,549.1	\$4,611

Notes

- ¹ Washington State Employment Security Department, Non-farm employment historical series, seasonally adjusted, www.workforceexplorer.com.
- ² Ethan Pollack, "Dire States: State and Local Budget Relief Needed to prevent Job Losses and Ensure a Robust Recovery," Economic Policy Institute, November 19, 2009, www.epi.org.
- ³ Mark Zandi, "An Analysis of the Obama Jobs Plan," September 2011, Moody's economy.com, http://www.economy.com/dismal/article_free.asp?cid=224641&tid=F0851CC1-F571-48DE-A136-B2F622EF6FA4&src=economy_homepage
- ⁴ Daniel Shoag, "The Impact of Government Spending Shocks: Evidence on the Multiplier of State Pension Returns," June 2011, Harvard University Economics Department, http://www.people.fas.harvard.edu/~shoag/papers_files/shoag_imp.pdf.
- ⁵ U.S. Bureau of Economic Analysis, "National Income and Product Accounts Gross Domestic Product, 2nd quarter 2011 (third estimate)," September 29, 2011, <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>.
- ⁶ Mark Zandi, "An Analysis of the Obama Jobs Plan," September 2011, Moody's economy.com, http://www.economy.com/dismal/article_free.asp?cid=224641&tid=F0851CC1-F571-48DE-A136-B2F622EF6FA4&src=economy_homepage.
- ⁷ State budget information from Washington Economic and Revenue Forecast Council, September 2011, <http://www.ercf.wa.gov/forecast/documents/rev20110915color.pdf>; and Washington Senate Ways & Means Committee, "2011-13 Operating Budget Overview," June 3, 2011, www.leg.wa.gov. State personal income from U.S. Bureau of Economic Analysis, http://www.bea.gov/newsreleases/regional/spi/spi_newsrelease.htm.
- ⁸ Mark Zandi, "An Analysis of the Obama Jobs Plan," September 2011, Moody's economy.com, http://www.economy.com/dismal/article_free.asp?cid=224641&tid=F0851CC1-F571-48DE-A136-B2F622EF6FA4&src=economy_homepage.
- ⁹ This analysis used: U.S. Bureau of Economic Analysis figures for Washington gross domestic product and Washington Employment Security Department figures for annual jobs to calculate 1 job for every \$107,000 in state domestic product (2009 figure; 2005 and 2006 were \$104,000 and 2010 was \$110,000); Zandi's multipliers of 1.31 to 1.7 for state spending options reduced by .32 to .98 to offset effects of tax increases, reduced to 50% to 75% to account for job creation outside of the state. For example, the formula to calculate effects of eliminating corporate tax breaks to fund general state spending on education, health, etc: $(1.31 - .032) * \$4.261 \text{ billion in budget cuts} / \$107,000 \text{ per job} = 39,424 \text{ jobs}$, multiplied by 50% and 75% to create a range of 19,712 to 29,568 jobs.
- ¹⁰ Mark Zandi, "An Analysis of the Obama Jobs Plan," September 2011, Moody's economy.com, http://www.economy.com/dismal/article_free.asp?cid=224641&tid=F0851CC1-F571-48DE-A136-B2F622EF6FA4&src=economy_homepage.
- ¹¹ U.S. Bureau of Economic Analysis figures for Washington gross domestic product and Washington Employment Security Department figures for annual jobs to calculate 1 job for every \$107,000 in state domestic product (2009 figure; 2005 and 2006 were \$104,000 and 2010 was \$110,000).
- ¹² Zandi's analysis provides multipliers of state spending for the whole U.S. economy, not one specific state.
- ¹³ Sources: Washington Department of Revenue Estimates for 2013-15, September 2011 Forecast;
* Based on JLARC estimates.
** Institute on Taxation and Economic Policy. Not available 2011-13 biennium.