



# The Final Verdict

## A Cuts-Only Approach to the Budget Doesn't Work

By Mark Price and Ellis Wazeter<sup>1</sup>

[Keystone Research Center](#) • 412 North 3<sup>rd</sup> St., Harrisburg, PA 17101 • 717-255-7181

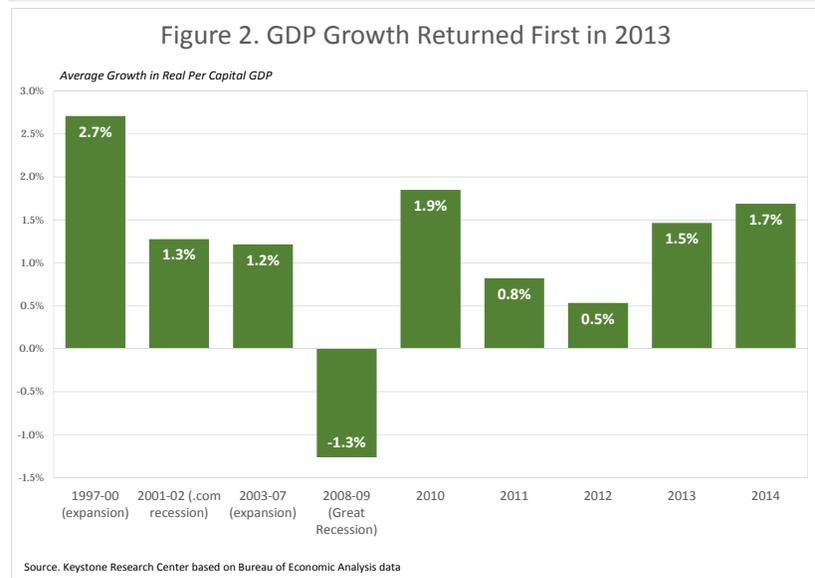
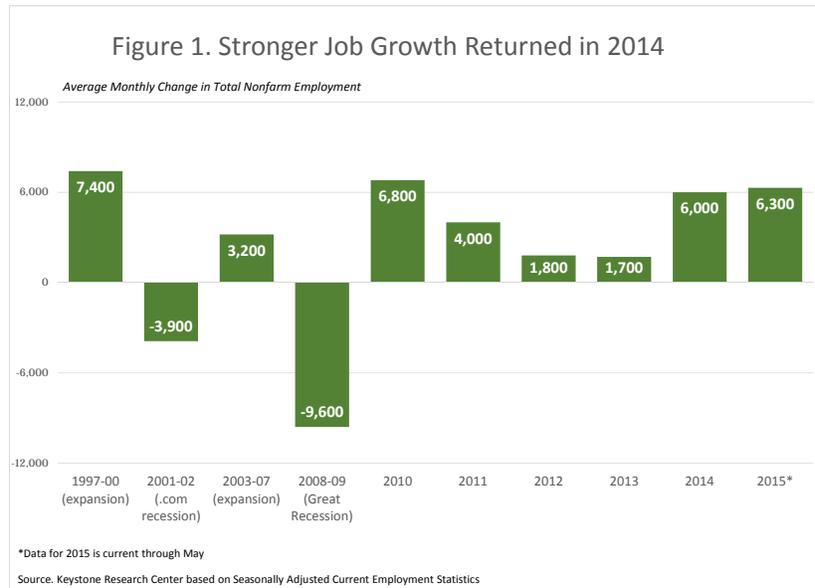
June 23, 2015

In retrospect, the last days of June 2011 were the defining moments of Tom Corbett's term as Pennsylvania governor. His signature achievement in the face of recession-induced weak revenue collections and expiring federal aid was to balance the budget without raising taxes. Over the next four years that choice in 2011 would affect nearly every citizen of the Commonwealth, in part because that first budget would make deep cuts in state spending on education. Those education cuts translated into class size increases, school program cuts, teacher and staff layoffs, and local property tax hikes in many of the state's 500 school districts.

In this briefing paper, we focus on the performance of the Commonwealth's economy since those fateful budget

decisions of 2011. Although scarring from the Great Recession ran deep in Pennsylvania, the state's labor market weathered it better than most states and emerged in 2010, the first full year of the recovery, with healthy job and GDP growth. (Figures 1 & 2).

But the wind was knocked out of the Pennsylvania economy in late 2011, as school districts cut staff in the wake of Governor Corbett's first budget. All told, over the last four school years,



school districts shed 32,000 workers a decrease of 11%.<sup>2</sup> These job losses helped slow employment and economic growth in Pennsylvania in 2011 and 2012. In 2014 and the first five months of 2015, Pennsylvania has seen more rapid job growth.

Taking into account the whole period from 2011 to 2015, Pennsylvania lags behind the rest of the country in employment growth, labor market slack, and revenue growth, proving that the state's cuts-only approach to the budget hasn't worked. An online technical appendix containing the data and ranks summarized below is available in Excel and PDF at the following link [www.keystoneresearch.org/finalverdict](http://www.keystoneresearch.org/finalverdict).

## Job Growth

In evaluating employment, we examine the change in total nonfarm jobs and manufacturing jobs.

### Total Nonfarm Jobs

Our first job growth indicator is the percent change in total nonfarm employment, which is derived from a monthly survey of employers conducted by the Bureau of Labor Statistics.<sup>3</sup> Total nonfarm employment in Pennsylvania grew by 146,500 jobs from January 2011 to January 2015, an increase of 2.6% (nationally, nonfarm employment grew by 7.6% during the same period). Pennsylvania ranked 48th among the 50 states on this measure.<sup>4</sup>

### Manufacturing Jobs

Our second measure of job growth is the percent change in manufacturing jobs.<sup>5</sup> Between January 2011 and January 2015, Pennsylvania's manufacturing industry gained 7,600 jobs, an increase of 1.4%. Pennsylvania ranked 36<sup>th</sup> out of 48 states with manufacturing data available.

## Labor Market Slack

### The Unemployment Rate

Our first measure of labor market slack focuses on the change in Pennsylvania's unemployment rate between January 2011 and January 2015.<sup>6</sup> Over this period, the unemployment rate fell from 7.9% to 5.1%. Pennsylvania ranked 26<sup>th</sup> out of 50 states on this measure.

### *The Underemployment Rate*

Our second measure of labor market slack consists of the change in the labor department's broadest measure of the underutilization of labor, the "underemployment" rate. Unlike the official unemployment rate, the underemployment rate includes people who work part-time because they cannot find a full-time job and those who have stopped looking for a job because they do not believe they can find one.<sup>7</sup> In 2011, the underemployment rate in Pennsylvania was 13.9%. By 2014, it had fallen to 11.6%. Over the same period, the national underemployment rate fell nearly twice as much, from 15.9% to 12.0%. Pennsylvania's decline in the underemployment rate ranked 40<sup>th</sup> out of 50 states. This sluggish decline indicates that the ease with which Pennsylvania workers are finding enough work has not improved as much since 2011 as in most other states, a finding consistent with the state's low job creation rate.

## Revenue Growth

### *Tax Revenue*

After the recession of 2007, state governments experienced a loss of tax revenue, depletion of cash reserves, and increases in demand for certain services. While some states raised taxes to generate revenue to fund critical public services others, like Pennsylvania starting in 2011, resisted. From the 1<sup>st</sup> quarter of 2010 to 1<sup>st</sup> quarter of 2011 tax revenue increased 8.2% an increase that ranked sixth highest among states.<sup>8</sup> As a result of the budget signed in June of 2011 Pennsylvania created and expanded tax credits and made significant cuts to education spending. This led to a loss of education jobs that slowed the private economy and spurred decline in tax revenue that lowered Pennsylvania's ranking to 43<sup>rd</sup> among states in terms of the growth of tax revenue. From the first quarter of 2011 to the fourth quarter of 2014, tax revenue increased 12.8% nationally but only 2.3% in Pennsylvania.<sup>9</sup>

### Conclusion

Pennsylvania is facing another fateful budget choice. The record of the last four years should be a critical starting point for lawmakers considering their votes on a state budget. We know from Pennsylvania's own recent experience that a cuts-only approach is the wrong medicine, particularly in a still weak economic recovery. The failure to take a balanced approach—looking for both costs savings but also new revenues—ultimately lead to deep budget cuts that also had the effect of making the budget problems we face this June worse as the cuts of that first Corbett budget operated as a drag on the economy. What Pennsylvania needs now is sound fiscal management in concert with a budget that makes key investment in education, job creation, and communities.

---

<sup>1</sup> Mark Price is a Labor Economist and Ellis Wazeter is a summer intern.

<sup>2</sup> This calculation is preliminary as we do not yet have data for the final month (June) of the 2014-15 school year.

<sup>3</sup> Formally, data from this survey of employers is known as Current Employment Statistics. For more see <http://www.bls.gov/sae/>.

<sup>4</sup> The state was ranked 50th as of the September 2014 numbers, the last prior to the November 2014 gubernatorial election. Pennsylvania moved up two places with the release of the January 2015 data.

<sup>5</sup> Like total nonfarm employment, manufacturing employment is derived from Current Employment Statistics <http://www.bls.gov/sae/>.

<sup>6</sup> For more on this indicator, see <http://www.bls.gov/lau/>, and for the data see <http://www.bls.gov/lau/ststdsadata.txt>.

<sup>7</sup> Officially, the labor department classifies this measure as the U-6 measure of the underutilization of labor. For more on its construction and state-level data, see <http://www.bls.gov/lau/stalt.htm>.

<sup>8</sup> Across the states tax revenues grew over the same period by just 4.7%.

<sup>9</sup> Data collected by The Pew Charitable Trusts. Who source the data as follows: "The analysis is based on the U.S. Census Bureau's Quarterly Summary of State and Local Taxes, as adjusted by the Nelson A. Rockefeller Institute of Government in its data set "State Government Tax Revenue by State: 1994-2014," accessed May 19, 2015. Data are adjusted for inflation using the U.S. Bureau of Economic Analysis' Implicit Price Deflator for Gross Domestic Product, accessed May 19, 2015." The data is available online at <http://goo.gl/BZBeu7>