January 2023

FISCAL TOOLKIT FOR STATES
during economic uncertainty

Data and Analysis to Build the Case for Funding Public Education in an Inflationary or Recessionary Environment

NEA NATIONAL EDUCATION ASSOCIATION nea.org
Great Public Schools for Every Student

FISCAL TOOLKIT *during economic uncertainty*

TOPICS COVERED

A. Inflation

1. Latest Snapshot | *Economic Policy Institute and Center for American Progress*
2. Trend Explained | *Center for Economic and Policy Research*
3. Wages | *Economic Policy Institute*
4. Pensions | *National Institute on Retirement Security and National Association of State Retirement Administrators*
5. Policy Response | *Economic Policy Institute*

B. Potential Recession in 2023

1. Framework for Assessing the Potential Drivers | *Boston Consulting Group and Center for American Progress*
2. Labor Markets are the Most Important Question Mark | *Economic Policy Institute*

C. State Fiscal Conditions

1. State Revenues | *National Association of State Budget Officers*
2. State Tax Cuts | *National Association of State Budget Officers*
3. State Balances & Rainy Day Funds | *National Association of State Budget Officers and The Pew Charitable Trusts*
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1. Public Education: The Best All-Weather Investment | *National Education Association*
2. Why Federal Appropriations Matter for State and Local Governments | *Economic Policy Institute*

The purpose of the fiscal toolkit is to provide state affiliate leaders and staff with data and analysis to help build the case for both protecting and enhancing state funding of public education during economic uncertainty.

The toolkit contains national data and analysis primarily, but also links to state-specific information, where available. Each topic includes talking points to guide state advocacy efforts for the 2023 legislative sessions. The talking points have been curated to reflect the best sources available that are credible and appropriately aligned in supporting public education. The toolkit is a living document and will be updated periodically in response to changing circumstances.

NEA Economic Impact Team

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INFLATION

Latest Snapshot

- **Inflation is easing. Fed should slow rate hikes.** The Consumer Price Index (CPI), released by the U.S. Bureau of Labor Statistics (BLS), rose 0.1% in November, and the all-items index increased 7.1% year-over-year. The latest BLS report on the CPI "definitely should solidify any urge by the Fed to ramp down the pace of interest rate hikes," adding that "there was nothing in today's report that says anything but 'inflation slowing a lot,' even with the economy still looking healthy on many measures. In short, a 'soft landing' remains in reach, and the Fed should try really hard to secure it."

- **The remaining inflation in the BLS report was essentially food and shelter.** While rising food prices harm consumers, there's no policy lever that the Fed has to usefully target these. These price increases are related to Russia's invasion of Ukraine and global commodity markets more generally, not to any overheating of the U.S. economy. On shelter, the data strongly indicate that large rental inflation declines are on the way in 2023—they've already shown up in industry data, and these very reliably show up 6-12 months later.

- **Declines in large goods prices, as predicted once supply chains unsnarled, have finally arrived.** We saw huge declines in used car prices this month and these will continue. "These goods price declines should give us some real breathing room in the next four to five months to absorb the housing inflation that will persist for a little while longer before coming down in 2023."

- **Trends in wage growth, which some pundits blame for inflation, are a mixed bag at the moment, but definitely down since its peak in mid-2021 and early 2022.** No new wage data came out with the BLS data, so raising concern over wages in the face of today's favorable CPI report seems like some hand waving to distract attention from good news.

Economic Policy Institute

Inflation is a global issue. In nearly every advanced economy, inflation is currently higher than historic averages, putting pressure on individuals, businesses, and the stability of economies. Simply put, the United States is far from the only country dealing with rising prices.

CAP

The Economic Policy Institute (EPI) is the source for the summary points, data, and quotes, unless otherwise noted. EPI research has shown the role corporate profits have played in driving inflation. Center for American Progress (CAP) analysis of global inflation.

nea NATIONAL EDUCATION ASSOCIATION

INFLATION

Trend Explained

- **Inflation is falling much faster than most people know.** It's true that prices as measured by the CPI-U in November this year were 7.1 percent higher than a year earlier. But if we look at the five months that we have just experienced (July through November), the bigger news is really how much the rate of inflation has been coming down. For these five months, annualized inflation has been just 2.5 percent. Just to be clear: that 2.5 percent is not the increase in prices over these five months (July through November). It's the increase in prices that we would have if this inflation over five months continued for a year. By contrast, annualized inflation for the five months prior to July (February through June) was 11.8 percent. Although the Fed's target is 2 percent (the Fed uses a different measure of inflation than the CPI, but pretty close to it), most economists would not be worried about inflation of 2.5 percent.

- **Despite the hardships inflation has caused for many people, tens of millions of Americans are economically better off than they were before the change of government two years ago.** This is especially true for people who gained employment from the record 10 million jobs that have been created since then. Wages for lower-paid workers rose faster than inflation; workers in the hotel and restaurant sector (production and nonsupervisory) saw their wages rise by 3.8 percent more than inflation since the pandemic began. And importantly, over the past five months, wages for all production and nonsupervisory workers have risen at a 4.1 percent annualized rate.

- **The Fed's response to inflation may pose a bigger threat than the inflation itself.** The Federal Reserve itself has caused most of the US recessions since World War II by raising interest rates, and it may well be on track to do that again in the coming months, potentially throwing millions of people out of work. The way inflation is looking these past five months, the Fed should take a break from its interest rate hikes before, rather than after, it causes the next recession.

CEPR CENTER FOR ECONOMIC AND POLICY RESEARCH

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INFLATION

Wages

- **Wage growth has been dampening inflation all along.** The rise of inflation has unambiguously not been driven by tight labor markets pushing up wages. Nominal wage growth has been fast over the past year relative to the past few decades, but it has lagged far behind inflation, meaning that labor costs are dampening—not amplifying—price pressures.

- **Nonwage factors are clearly the main drivers of inflation.** If the only change in the economy over the past year had been the acceleration of nominal wage growth relative to the recent past, then inflation would be roughly 2.5–4.5% today, instead of the 8%+ pace it ran through prior months.

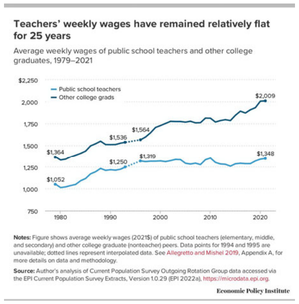
- **Inflation can be brought back under control without the Federal Reserve having to move interest rates to a radically more contractionary stance.** Claims that the Fed needs to shift into a much more hawkish mode to keep wages from amplifying inflation and to bring inflation back down to more normal levels are often greatly overstated and understate how much damage this strategy could cause.
    - As long as wage growth is dampening inflation (and it is), then the question of how hawkish the Fed must be is not a question of whether inflation will return to more normal levels, but just how quickly we want that to happen.
    - A much quicker return to more normal inflation would require sacrificing important gains that stem from low unemployment, even though a return to more normal inflation is quite likely to occur on its own. This makes the cost of a more hawkish stance (more joblessness) high and the benefits (a few months of slightly lower inflation as we get back to normal) pretty low.

- **Protecting low-wage workers from inflation means raising the minimum wage.** Faster inflation makes it more important, not less, to raise the minimum wage. Every year lawmakers don't raise the minimum wage is a year that they have effectively cut the purchasing power and living standards of this country's lowest wage workers.

Economic Policy Institute

Protecting educator pay from inflation means increasing compensation and funding for public education more generally. Without targeted and significant policy action, there can be no reasonable expectation of reversing the long erosion in relative educator wages and the widening gap in total compensation, which is currently at a record high.

Inflation-adjusted average weekly wages of teachers have been relatively flat since 1996



INFLATION

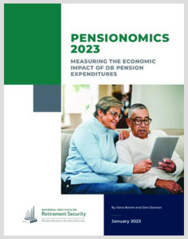
Pensions

- **Cost-of-living adjustments (COLAs) protect retirees from the effects of inflation.** Approximately 75% of public pension plans provide some form of COLA. Unfortunately, many state and local governments have moved to weaken one or more elements of their COLAs since the Great Recession. Most COLA provisions do not provide full inflation protection, and some are not automatic and/or can be capped or restricted in some manner. The recent period of higher inflation highlights the need to strengthen existing COLA provisions and create them where they do not currently exist.

- **Defined benefit pension expenditures can provide an economic stabilizer.** The National Institute on Retirement Security (NIRS) found that retiree spending of public and private sector pension benefits in 2020 generated $1.3 trillion in total economic output, supporting nearly 6.8 million jobs across the nation. This activity has already generated nearly $157.7 billion in tax revenue. The relative stability of this income and spending by retirees can become acutely important during recessions when other economic activity contracts.

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

State fact sheets on the economic impact of state and local pension plans



Public retirement system state fact sheets. NIRS has developed a series of state-by-state infographic fact sheets regarding the public employee and teacher retirement systems across the country.

AARP Real Possibilities | NRTA AARP's Educator Community | NATIONAL INSTITUTE ON Retirement Security Reliable Research. Sensible Solutions.

INFLATION

Policy Response

Economic Policy Institute

- **Inflation has not been driven by generalized macroeconomic overheating.** The argument that too-generous fiscal relief and recovery efforts played a large role in the acceleration of inflation by overheating the economy is weak.

- **Inflation was driven by COVID-19 distortions to the economy and most sources of inflationary pressure are set to relent.** The COVID-19 pandemic is the primary factor driving excessive inflation through demand and supply-side distortions. Going forward, the economic distortions imposed by COVID-19 are highly likely to become less extreme, providing relief on inflation.

- **Leverage, not just expectations, is the inflation amplifier.** The worry that inflation "expectations" among workers, households, and businesses will become embedded and keep inflation high is misplaced. What matters more than "expectations" of higher inflation is the leverage workers and firms have to protect their incomes from inflation. For decades this leverage has been entirely one-sided, with workers having very little ability to protect wages against price pressures. This one-sided leverage will stem upward pressure on wages in coming months and this will dampen inflation.

- **How effective will interest rate hikes be in stemming inflation? Are there downsides to raising rates?** Aggressive interest rate hikes will not slow inflation by themselves. The benefit of these hikes in convincing households and businesses that inflation is taken seriously by policymakers needs to be weighed against their possible downsides in slowing growth or precipitating a recession.

- **Raise the minimum wage now, which would have trivial effects on inflation.** Arguing that the minimum wage should only be raised after the current inflationary outbreak is far in the past is arguing that low-wage workers should have no serious protection against the damage to living standards being done by today's price growth.

FISCAL TOOLKIT *during economic uncertainty*

POTENTIAL RECESSION IN 2023

Framework for Assessing the Potential Drivers

- **Rather than asking whether there will be a recession, we are better off asking what would cause it.** Because economic forecasts fail frequently, shifting the perspective from potential outcomes to drivers is a preferred framework for assessing the likelihood of a recession. *"I don't think anyone knows whether we're going to have a recession or not, and if we do, whether it's going to be a deep one or not," Jerome H. Powell, the Fed chair, said during a recent news conference. "It's not knowable."* *(quote from The New York Times)*

- **Monetary policy-driven recession?** As we enter 2023, we're looking at an economy with many strengths, even though macroeconomic headwinds remain exceptionally strong. U.S. firms continue to hire and households continue to spend. From the Fed's perspective, these same strengths may require a more aggressive policy path on interest rates to tame inflation. The Fed believes that without a slowdown in the labor market, and with it wages, price growth will remain too fast. Slowing down the labor market with the Fed's blunt tool of the policy interest rate—with its long and variable lags—is a difficult maneuver and often leads to a recession. Monetary policy may remain a headwind to growth for years.

- **Financial crisis-driven recession?** As interest rates have risen rapidly, particularly after a long period of low rates, the possibility of a financial system breakdown increases as well. Visible signs of an emerging balance sheet problem are hard to spot. Delinquencies, charge-offs, and bankruptcies remain modest. Credit spreads remain compressed. And capital ratios remain healthy. Yet, it can't be dismissed completely.

- **Real economy-driven recession?** Though global energy prices are a sharp headwind to the U.S. economy, it's the eurozone where a bigger shock has likely pushed more vulnerable economies into recession. In Europe, the question is how deep and long a downturn might be.

- **In the U.S., a "soft landing," remains possible.** An outcome where job openings are falling while the unemployment rate remains low, is plausible, though a recession is also likely.

BOSTON CONSULTING GROUP

The U.S. economy has recovered faster than its global counterparts. By the third quarter of 2021, the U.S. regained all real GDP—a measure of economic activity—lost since the start of the pandemic recession. The robust recovery in the U.S. was not a foregone conclusion, but instead the result of intentional policy choices. Strong fiscal supports passed by Congress, including the expansion of unemployment insurance and enhancements to the child tax credit, helped the United States avoid a prolonged economic downturn. Despite major uncertainty, the 2023 economic outlook is more promising for the United States than most other nations.

CAP

The Boston Consulting Group (BCG) is the source for the summary points, data, and quotes, unless otherwise noted. Center for American Progress (CAP) analysis of global inflation and economic recovery.

POTENTIAL RECESSION IN 2023

Labor Markets are the Most Important Question Mark

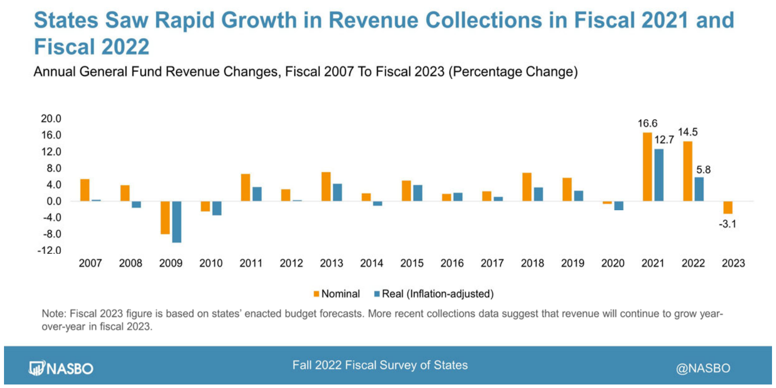
- **Latest jobs report a tale of two conflicting surveys.** The payroll survey—a survey of employers—showed 263,000 jobs added in November on par with the last few months, but the household survey continues to show signs of weakness with a decline in employment over the last three months.
- **When the two surveys conflict it may indicate a turning point in the business cycle.** The unemployment rate is holding steady—solidly below 4%—but participation has declined for the last four months and employment has declined for the last three, according to the household survey. On the other hand, the payroll survey—a survey of employers—shows continued gains, up 263k in November, and an average gain of 392k in 2022 so far.
- **Public sector employment—notably at the state and local level—has seen very slow progress over the last year and for much of the recovery.** While overall jobs have exceeded pre-pandemic levels, some sectors continue to experience deficits. Leisure and hospitality is down 980k since Feb 2020. While there have been small improvements in recent months, government jobs (e.g. public education) is down 461k since Feb 2020. Private-sector jobs bounced back heartily from fiscal support, but state and local government jobs continue to trail, still 2.3% below pre-pandemic levels.
- **Wage growth rises but remains lower than it was early in 2022.** Wage growth increased in November, with the three month annualized growth rate now at 5.1%, but remains substantially lower than it was earlier in the year (6.1% in January).
- **The overall numbers mask big disparities for different groups.** Due to the impact of structural racism on the labor market, people of color have much higher unemployment rates than white workers. For example, the unemployment rate is currently 5.7% for Black workers, 3.2% for white workers.

Economic Policy Institute

STATE FISCAL CONDITIONS

State Revenues

- **States saw two consecutive years of double-digit percentage revenue growth and collections far exceeding budget forecasts in fiscal 2021 and fiscal 2022.**
    - General fund revenue grew 14.5 percent year-over-year to total $1.17 trillion in fiscal 2022, following a 16.6 percent increase in fiscal 2021.
    - 49 states reported fiscal 2022 general fund revenue collections exceeded enacted budget forecasts, with collections in the aggregate exceeding original projections by 20.5 percent.
    - Revenue projections in fiscal 2023 enacted budgets are 3.1 percent below preliminary actual collections for fiscal 2022, but more recent revenue data suggest that revenue will continue to grow in fiscal 2023, with 33 states reporting collections exceeding budget forecasts.



NASBO
NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

[NASBO Fall 2022 Fiscal Survey of States Full Report]

State revenue forecasts. Links to each state's revenue forecast (and date).

FISCAL TOOLKIT *during economic uncertainty*

STATE FISCAL CONDITIONS

State Tax Cuts

- **States enacted net tax cuts in fiscal 2022 totaling $16.2 billion for all state funds and $15.5 billion for general funds (1.4 percent as a share of forecasted general fund revenue).**
    - Thirty-one states enacted net decreases in taxes and fees for fiscal 2023, while just five adopted net increases, resulting in a projected net revenue decline of $16.2 billion for all state funds.
    - Looking only at the impact on general fund revenue, these changes are estimated to reduce revenue on net by $15.5 billion, representing 1.4 percent of forecasted general fund revenues in fiscal 2023 governors' budgets. This reduction in revenues from enacted tax changes marks the largest net tax cut on record in the history of the Fiscal Survey, measured in nominal dollars. Measured as a share of general fund revenue, the percentage decrease would be similar to the reductions recorded in the late 1990s and fiscal years 2000-2001.

31 States Adopted Net Tax Cuts in Fiscal 2023

Summary of Enacted State Revenue Changes, Fiscal 2023

Revenue Type	Sales Tax	Personal Income Tax	Corporate Income Tax	Cigarette/ Tobacco Tax	Motor Fuel Tax	Alcohol Tax	Gaming/ Lottery Revenue	Other Tax	Fees	All Revenue Changes
# of States Enacting Increases	3	2	3	1	0	0	1	6	5	**5**
# of States Enacting Decreases	19	26	16	2	3	0	1	15	4	**31**
Net Change ($ In Millions)	-$1,621	-$8,346	-$4,021	+$27	-$1,147	$0	-$3	-$1,218	+$91	**-$16,237**
Net Change – General Fund Only ($ in Millions)	-$1,600	-$8,319	-$3,989	-$5.5	-$650	$0	-$10	-$929	-$27	**-$15,528**

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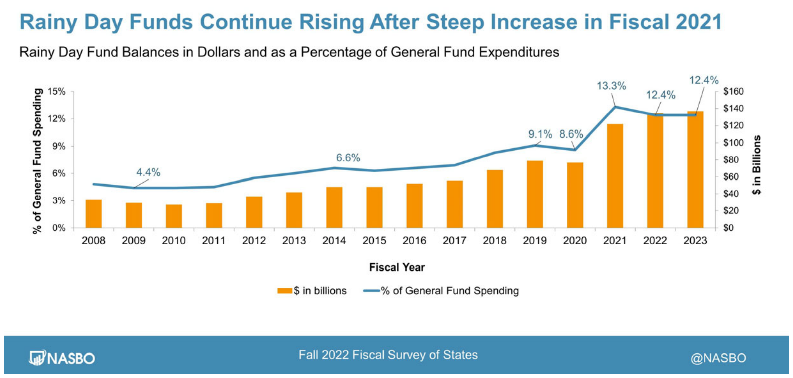
STATE FISCAL CONDITIONS

State Balances & Rainy Day Funds

- **State balance levels reached new all-time highs in fiscal 2022.**
  - Total balances (which include general fund ending balances and the amounts in states' budget stabilization or rainy day funds) have seen tremendous growth recently, roughly tripling in size over the past two years after revenues far exceeded enacted budget forecasts in fiscal 2021 and fiscal 2022. At the end of fiscal 2022, they totaled $343 billion, or 31.7 percent of general fund spending.
  - Rainy day fund balances continued to grow in fiscal 2022 after increasing 58 percent in fiscal 2021, and the median balance as a share of general fund spending is projected to be 11.9 percent in fiscal 2023. While reserve levels continue to vary by state, 44 states reported rainy day fund balances representing at least 5 percent of their general fund expenditures in fiscal 2022 – including 30 states with balances exceeding 10 percent of spending.



NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

[NASBO Fall 2022 Fiscal Survey of States Full Report]

STATE FISCAL CONDITIONS

State Balances & Rainy Day Funds

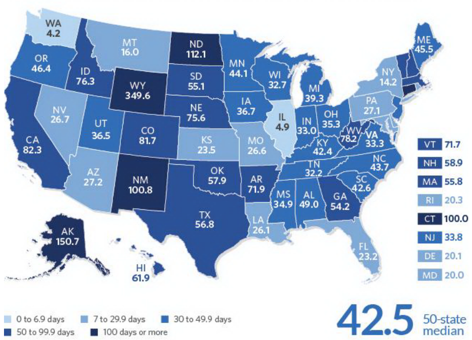
- **States could run government operations on rainy day funds alone for a median of 42.5 days, equal to 11.6% of spending—an increase from a year earlier.** This compares to 28.9 days in fiscal 2019, or just before the pandemic recession. The strength of states' rainy day funds ranged widely—from 349.6 days' worth of spending in Wyoming to 4.2 days in Washington. At least three states—Connecticut, Iowa, and Oklahoma—are projected to have filled their rainy day funds to their maximum balances.

- **States' total balances—the combination of rainy day fund balances and leftover budget dollars known as ending balances—would be enough to run state government operations for a median of 88.9 days, equivalent to 24.4% of spending—approximately 10 days fewer than a year earlier.** By the start of this budget year, states' collective ending balances are estimated to have nearly quadrupled, from $33 billion by the end of fiscal 2020 to $127.4 billion by the end of fiscal 2022.

Figure 1

Rainy Day Fund Strength Varies Widely by State

Number of days each state could run on savings alone, FY 2022 estimates



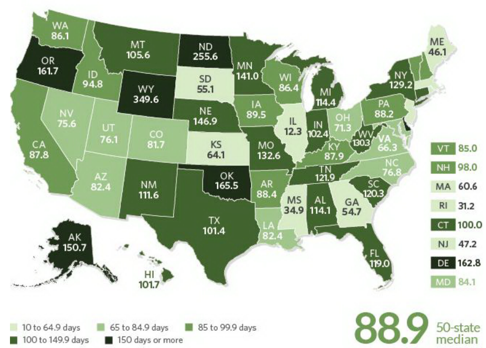
Note: Colorado and Illinois do not have a rainy day fund as defined by The Pew Charitable Trusts, despite balances reported within NASBO's surveys.

Source: Pew analysis of data from the National Association of State Budget Officers

Figure 2

Total Balances Vary Widely by State

Number of days each state could run on savings and ending balances, FY 2022 estimates



Source: Pew analysis of data from the National Association of State Budget Officers

PEW

State reserves and balances. To see individual state trends, download the data (XLSX).

STATE FISCAL CONDITIONS

Policy Response

- **Recommended uses of state surplus funds.** Large state balances are primarily the result of school rescue funds and other federal stimulus, as well as internet sales taxes and higher income tax revenues *(see C-3 and C-4)*. Options for use:
    - invest in education *(see sidebar and D-1)* and other state services
    - shore up pension liabilities
    - pay off government debt
    - invest in infrastructure (capital expenses like school facilities, roads, bridges, etc.)

- **Recommended response to excessive rainy day funds *(see C-3 and C-4)*.** The Government Finance Officers Association now recommends states set aside at minimum two months of operating expenditures (i.e., roughly 16 percent of total general fund spending), up from 3% in 2000. Yet, the average recession's impact on state budgets is usually about 3%, and are often cushioned from federal intervention. In fact, many states have emerged from recent recessions with higher rainy day fund levels. Options:
    - advocate for a change in the formula to require a 3% rainy day fund
    - advocate investing excess funds in public education, universal preschool and childcare, and Medicaid expansion

- **Revenue raising ideas.**
    1. **Protect and invest in state priorities to boost the economy, now and in the future.** Research shows that expanding and improving upon investments in education and infrastructure through well-targeted tax increases stimulates income and job growth *(see D-1)*. For example, spending on education, transportation, and public safety has been shown to stimulate economic growth in the short run and is among the most important determinants of economic growth and job quality in the long run.

Invest in education. States have a unique opportunity to use surplus funds to invest in public education so that schools come out of the pandemic stronger than before its onset. It starts with educator recruitment and retention programs and supports, which include, among others:

- increasing base pay and health insurance benefits,
- enhancing leave, and
- improving workload conditions, which entails increasing staffing to reduce class size and caseloads, providing planning time, and mental health supports for students and educators.

STATE FISCAL CONDITIONS

Policy Response

- **Revenue raising ideas.**
  2. **Reinvest to speed the recovery.** Many states need to rebuild public systems that are fundamental to job growth and a strong economy. Therefore, any rebound in revenues (surplus funds) should be used to reinvest in key areas like public education and health care and to sustain or expand investments that will help to get the economy back on track. For example, research clearly shows that investments in specific types of education and training can produce a high return on investment.

  3. **Scrutinize current spending on subsidies and contracting out services.** States should be prodded into better monitoring and evaluating the cost/benefit of economic development subsidies (most of which are ineffective and wasteful) and the over reliance on contractors.

  4. **Wean the state off of costly tax breaks.** Each year, states forfeit billions of dollars of revenue in the form of tax credits, deductions, and exemptions spent through the tax code as opposed to the regular appropriations process. Policymakers do not regularly examine these "tax expenditures" to determine whether they are effective the way they do for regular appropriations.

  5. **Pursue targeted tax increases.** For states that continue to face depressed revenues, tax increases on individuals and businesses at the top of the income scale, who are unlikely to spend less as a result, are preferable to spending cuts. State policymakers can raise taxes on high-income households and profitable corporations through the state income tax. Many states could also do so by reinstating taxes on inherited wealth. (Relatedly, reject the myth of wealth flight. The claim that taxing the wealthy will drive them from the state is false.)

Tax Break Tracker by state

Tax break tracker by state. Good Jobs First tracks the billions of dollars that public school districts lose to corporate tax breaks and subsidies.

STATE FISCAL CONDITIONS

Policy Response

- **Revenue raising ideas.**
  6. **Improve tax collections.** It makes sense for states experiencing a slow recovery to improve their ability to collect taxes already due rather than cut services. For example, the failure of those entities that sell products through catalogues or on the Internet to collect and remit state and local sales taxes costs states billions of dollars each year. Similarly, many states forego revenues by failing to ensure that online travel companies like Expedia, Orbitz, and Priceline collect and remit the appropriate amount of tax on hotel room bookings. And by requiring corporate parent companies and their subsidiaries to add their profits together, "combined reporting" states can nullify a variety of tax-avoidance strategies employed by large multistate corporations.

  7. **Modernize state revenue systems to match today's economy.** State lawmakers can fix the erosion of their sales tax systems by expanding the sales tax base to include more services. For instance, many states primarily levy sales taxes on tangible goods, even though services — many of which, like cable TV, did not exist when sales taxes were first enacted — make up an increasing proportion of household consumption and the American economy.

  8. **Leverage federal dollars through health reform.** State policymakers should look for opportunities to attract more federal dollars. State economies get a boost when new income flows into the state. One way to do that now is by expanding state Medicaid coverage to more low-income adults. For states presently using their own funds to provide health coverage and services to people ineligible for Medicaid, this option is particularly attractive, since it allows states to use federal money to cover part of the state's existing costs.

Defend state revenues. Avoid ineffective strategies and gimmicks that set sate economies back, protect income taxes especially, and steer clear of corporate tax cuts. Also, avoid harsh spending limits, reject supermajority measures, and oppose further increases in rainy day funds, among other efforts that impede the sufficient funding of public education.

FISCAL TOOLKIT *during economic uncertainty*

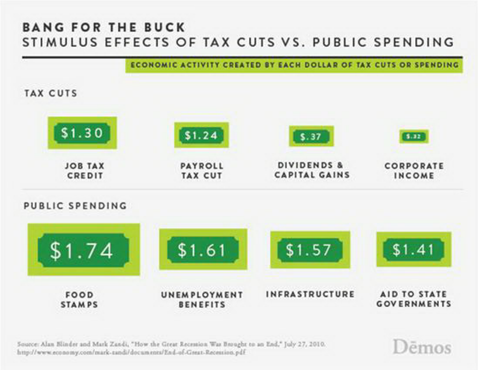
FUNDING PUBLIC EDUCATION

The Best All-Weather Investment

- **Investing in public schools acts as a catalyst for greater economic activity in the community.** New dollars going to school districts tend to stay in the local community, which creates a positive effect on the income and employment of the local economy. Extra income leads to more spending, which creates more income and more jobs, and so on—an economic principle known as the multiplier effect.

- **Most studies show that the economic multiplier for spending at the local level generates 1.3 to 1.5 times every dollar spent.** For example, if the multiplier is valued at 1.50, for every dollar invested in education, there is an increase of $1.50 in the local economy. This effect occurs because investing in the local economy increases consumer spending, which causes greater demand and leads to more jobs and increased wages.

- **Investment in public education generates a larger multiplier than most other professional sectors because it is a labor-intensive field with more of each dollar of revenue going into local hands for local spending.** Beyond public education's long-term benefits to individuals and communities—less unemployment, reduced dependence on public assistance programs, greater tax revenue, reduced crime, improved public health, and greater political and civic engagement—investing in public schools has an immediate and measurable economic impact on the neighborhoods where they are located.



Source of data for the chart

Local example—Fairfax County Public Schools. A printable infographic describing the impact Fairfax County Public Schools has on Fairfax County's economy.

FISCAL TOOLKIT *during economic uncertainty*

FUNDING PUBLIC EDUCATION

Why Federal Appropriations Matter for State and Local Governments

- **GOP to use debt limit to force spending cuts.** The annual appropriations debate has especially high economic stakes because of long-standing inaction in Congress to address the debt limit. The new House Republican majority in the 118th Congress has already signaled their willingness to once again use the debt ceiling to force harmful spending cuts.

- **State and local governments need significant funding to restore public services.** While private-sector employment has recovered from the COVID recession of 2020, the same is not true for the public sector. There are 461,000 fewer people in public-sector jobs since February 2020, and specifically in state and local governments, we are still 2.3% below pre-pandemic levels. Even worse, state and local employment is more than 5% below February 2020 levels in many states, including Louisiana, West Virginia, and Michigan.

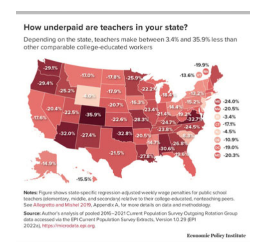
- **State and local governments never fully recovered from the waves of austerity that followed the Great Recession in 2008-09.** The shortfall in state and local government jobs is clearly driven by the inadequate wages paid to public-sector workers. Fully one-third of state and local government workers are paid less than $20 an hour, and 15% are paid less than $15 an hour. Black and Latinx employees are especially likely to be paid inadequate wages in the public sector, which also employs a disproportionate share of women workers. These workers need a raise, and state and local governments will need assistance in raising pay for their workers.

- **Dependable and growing federal appropriations will encourage state and local investment.** State and local governments need additional resources to help fill existing vacancies, expand public services in areas of highest need, and rebuild sufficiently to withstand future shocks. If Congress returns to spending that is uncertain, flat-lined, or worse, state and local policymakers may be dissuaded from making these needed investments.

Economic Policy Institute

Pay for public education employees are significantly below market. Teachers earn 23.5% less than similarly educated professionals and education support professionals earn significantly less than the median U.S. worker.

Teacher pay penalty by state



Raising pay is critical to solving staffing shortages and federal rescue funds can provide a down payment