



REMI Analysis of K-12 Budget Proposals on the Oregon Economy

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INTRODUCTION

In this report, we have modeled the economic effects of school funding on Oregon's economic future. Using REMI (Regional Economic Modeling, Inc.), we have calculated the effects of multiple proposed budgets for the K-12 State School Fund.

In the summary below, we have focused on the projected effects on Employment, Personal Income, and GDP, which can be taken as indicators of the state's general economic health. We have considered the effects into the year 2032.

WHAT IS THE REMI ANALYSIS?

REMI (Regional Economic Modeling, Inc.) is an advanced model generator that simulates the effects of economic policy changes on the economy. In the following report, REMI uses state-specific and national data to deliver a nuanced prediction of the varied, branching, and sometimes unexpected effects of economic policies.

In order to create comprehensive economic models, REMI incorporates data from the Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, and U.S. Department of Energy dating back to 1969, as well as data supplied by clients. By considering a huge range of factors, REMI can predict changes in employment, population, income, and other pertinent data sets.

The following report offers insight into the effects of proposed policy changes on the economy at the state level. Since 1980, REMI's econometric models have provided impartial, objective data that can help leaders make informed decisions, push for policy change, and plan for the future.

REMI clients include AARP, DC Office of the Chief Financial Officer, Massachusetts Department of Revenue, City of San Francisco, National Wildlife Research Center, Nevada Department of Taxation, Policy Analytics LLC, Washington State Department of Transportation, and many others, including federal and state agencies, universities, and national consulting firms.

PROPOSED POLICY INITIATIVES

Oregon has asked us to model effects of different levels of funding for the K-12 State School Fund.

State School Fund

Oregon's State School Fund (SSF) goes to 197 school districts, 19 Education Service Districts, and key K-12 programs, including education programs for adjudicated minors. The SSF is the major source of funding for elementary and secondary education in Oregon. We have used the Governor's Recommended Budget (GRB) of \$9.1 Billion as the basis for model.

- We have modeled the effects of enacting the Current Service Level (CSL) budget recommendation for the SSF, which is \$8.9 Billion.
- We have modeled the effects of the Oregon Education Association's estimation of the recommended CSL for SSF, which is \$9.6 Billion.

SUMMARY

The Oregon Education Association's adjusted CSL estimation of \$9.6 Billion for the State School Fund would have a positive impact on Oregon's economy. The official proposed CSL budget of \$8.9 Billion would have a negative impact on Oregon's economy. Both of these scenarios are in comparison to the Governor's Recommended Budget of \$9.1 Billion.

ANALYSIS

The following analysis details the economic outcomes of the proposed policy initiatives as indicated by effects on Total Employment, Education and Health Care Employment, Personal Income, and GDP.

State School Fund Models

Let's consider two budget proposals for the SSF: the official CSL recommended budget and the Oregon Education Association's calculation of the CSL recommended budget. The numbers generated are in comparison to the base budget, the GRB of \$9.1 Billion.

CSL Recommended Budget

We have modeled the effects of enacting the CSL budget recommendation of \$8.9 Billion for the SSF. The CSL is \$200 Million below the GRB. All numbers are in comparison to the GRB.

Total Employment

- 2,000 jobs lost in 2022
- 2,000 jobs lost in 2023
- 5,500 jobs lost over 10 years (2022-2032)

Education and Health Care Employment

- 860 Education and Health Care jobs lost in 2022
- 900 Education and Health Care jobs lost in 2023
- 2,600 Education and Health Care jobs lost over 10 years (2022-2032)

Personal Income

- \$130 Million lost in 2022
- \$153 Million lost in 2023
- \$571 Million lost over 10 years (2022-2032)

GDP

- \$156 Million lost in 2022
- \$164 Million lost in 2023
- \$444 Million lost over 10 years (2022-2032)

OEA's CSL Recommended Budget

We have modeled the effects of enacting the Oregon Education Association's CSL budget recommendation of \$9.6 Billion for the SSF. The OEA's CSL is \$500 million above the GRB. All numbers are in comparison to the GRB.

Total Employment

- 4,900 jobs created in 2022
- 5,100 jobs created in 2023
- 13,700 jobs created over 10 years (2022-2032)

Education Employment

- 1,925 Education and Health Care jobs created in 2022

- 2,000 Education and Health Care jobs created in 2023
- 4,800 Education and Health Care jobs created over 10 years (2022-2032)

Personal Income

- \$323 Million created in 2022
- \$383 Million created in 2023
- \$1.4 Billion created over 10 years (2022-2032)

GDP

- \$390 Million created in 2022
- \$410 Million created in 2023
- \$1.1 Billion created over 10 years (2022-2032)

State School Fund

We are considering three State School Fund (SSF) budget options: the Governor’s Recommended Budget (GRB) of **\$9.1 Billion**, the official proposed Current Service Level (CSL) recommendation of **\$8.9 Billion**, and the Oregon Education Association’s adjusted CSL recommendation of **\$9.6 Billion**. Of the three SSF funding scenarios, the Oregon Education Association’s recommendation of \$9.6 Billion would have the greatest positive impact on Oregon’s economy.

When compared to the Governor’s Recommended Budget, the Oregon Education Association’s adjusted CSL recommendation of \$9.6 Billion for the State School Fund would have a greater positive impact on Oregon’s economy, while the official proposed CSL budget of \$8.9 Billion for the SSF would have a more negative impact on Oregon’s economy. Let’s consider two 10-year economic forecasts comparing the various State School Fund budget scenarios.

In 2022-2032, when compared to the GRB’s SSF recommendation of \$9.1 Billion, the OEA’s SSF recommendation of \$9.6 Billion would create:

- 13,700 more jobs
- 4,800 more Education and Health Care jobs
- \$1.4 Billion more in Personal Income
- \$1.1 Billion more in GDP

In 2022-2032, when compared to the GRB’s SSF recommendation of \$9.1 Billion, the official CSL SSF recommendation of \$8.9 Billion would result in:

- 5,500 jobs lost
- 2,500 Education and Health Care jobs lost
- \$571 Million lost in Personal Income
- \$444 Million lost in GDP

CONCLUSION

2020 was a difficult year from all standpoints, and Oregon’s economy has been severely impacted. However, as this simulation illustrates, judicious, considered application of funding can help Oregon and our economy recover.

The results shown in this model are impressive, yet predictable when viewed in the context of leading economic research. Research has repeatedly shown that economic gains and job growth follow tax increases, and higher rates of government spending result in a more robust economy with higher growth potential. In the face of a recession, fiscal stimulus from the government is more effective than austerity. Turning to austerity measures and cutting budgets while in a recession depresses economic recovery and prolongs economic recessions.¹

A recent example of the positive effect of government spending is the revival of the economy post-Great Recession thanks to government stimulus. Government spending pulled the United States out of the Great Recession. After the crash of the Great Recession, the economy began rising again in mid-2009 thanks to the enactment of the financial stabilization bill (TARP) and the American Recovery and Reinvestment Act.^{2 3 4}

If we consider the varied responses of individual states to the Great Recession, we see further evidence that austerity measures cripple economic recovery. States that cut their budgets during the Great Recession saw higher increases in unemployment and private sector job loss than states that increased their spending.⁵ Cutting public spending at the state and local level in response to recession does not help the economy; it hinders its growth.

States that increased their budgets in reaction to the Great Recession fared better than those that cut government spending. By 2011, these states were seeing positive economic growth, while states that cut budgets languished economically.⁶ Moreover, states that took steps to keep public-sector workers such as teachers and nurses employed maintained their private-sector employment levels saw fewer job losses overall, and less growth in unemployment. Post-recession, they saw faster job growth and recovered more than a year and a half faster than states that cut budgets and funding.⁷

Sources

¹ Madowitz, Michael. 2014, May 30. "What Have We Learned About Austerity Since the Great Recession?" The Center for American Progress.

<https://www.americanprogress.org/issues/economy/reports/2014/05/30/90621/what-have-we-learned-about-austerity-since-the-great-recession/>

² Center on Budget and Policy Priorities. 2020, April 12. "Chart Book: Tracking the Post-Great Recession Economy." <https://www.cbpp.org/research/economy/chart-book-tracking-the-post-great-recession-economy>

³ Bivens, J. 2018, October 26. "Increased government spending boosts growth, rising trade deficit and weak investment muffles it." Economic Policy Institute. <https://www.epi.org/press/increased-government-spending-boosts-growth-rising-trade-deficit-and-weak-investment-muffles-it/>

⁴ Faucher, A. 2009, December 4. "How We Know the Stimulus Is Working." Moody's Analytics.

<https://www.economy.com/economicview/analysis/119925/How-We-Know-the-Stimulus-Is-Working>

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⁶ Hawai'i Budget & Policy Center. 2021 Jan. "Healing Hawai'i's Economy." Hawai'i Appleseed Center for Law & Economic Justice.

⁷ Cooper, David. 2020, May 27. "Without federal aid, many state and local governments could make the same budget cuts that hampered the last economic recovery." Economic Policy Institute.

<https://www.epi.org/blog/without-federal-aid-many-state-and-local-governments-could-make-the-same-budget-cuts-that-hampered-the-last-economic-recovery/>

⁸ Barnum, M. 2019, August 13. "4 new studies bolster the case: More money for schools helps low-income students." Chalkbeat. <https://www.chalkbeat.org/2019/8/13/21055545/4-new-studies-bolster-the-case-more-money-for-schools-helps-low-income-students>

⁹ C. Kirabo Jackson & Rucker C. Johnson & Claudia Persico, 2016. "The Effects of School Spending on Educational and Economic Outcomes: Evidence from School Finance Reforms," *The Quarterly Journal of Economics*, vol 131(1), pages 157-218.

¹⁰ Hungerfore, T. and R. Wassmer. 2004. "K-12 Education in the U.S. Economy: Its Impact on Economic Development, Earnings, and Housing Values." National Education Association Research Department.

¹¹ Sims, R. 2004. "School Funding, Taxes, and Economic Growth: An analysis of the 50 States." National Education Association.

¹² Berger, N., & Fisher, P. 2013, August 22. "A Well-Educated Workforce Is Key to State Prosperity." Economic Policy Institute. <https://www.epi.org/publication/states-education-productivity-growth-foundations/>

¹³ Sims, R. 2004. "School Funding, Taxes, and Economic Growth: An analysis of the 50 States." National Education Association.

¹⁴ Wolfe, Barbara, and Samuel Zuvekas. 1995. "Nonmarket Outcomes of Schooling." University of Wisconsin, Institute for Research on Poverty, discussion paper no. 1065-95.

If we narrow our focus to consider government funding of Education, we see that increased government spending on Education has a positive effect on the economy. Research has consistently shown that spending more on Education results in better outcomes for students: higher graduation rates, better test scores, and higher wages after graduation.⁸ More completed Education also means less likelihood of adult poverty. According to a study by the National Bureau of Economic Research, Education contributed to economic growth at 8.7% of total growth from 1959 to 1998.⁹ Cuts to Education funding are shown to result in a decrease in personal income and a decline of home values.¹⁰ The opposite is true when Education funding is increased: home values and personal income go up.¹¹

Increased funding for Education means increased graduation rates, higher wages, and reduced likelihood of poverty, and all of this is good for the health of the overall economy. Better Education produces more educated graduates, meaning they are more adaptable, valuable assets for the workforce who can contribute to the economy in meaningful ways. By investing in Education and improving outcomes, former students can secure higher-paying jobs, which means they will contribute more to state taxes during their lifetimes, and they are less likely to rely on welfare.¹² Money invested in Public Education generally stays within the community, keeping more money in our state.¹³ Research also shows that higher parent Education means that their children enjoy better health, cognitive abilities, and academic achievement.^{14 15 16} Children of parents with higher-paying jobs are also less likely to rely on food stamps or welfare.^{17 18} This is the sort of beneficial cycle of Education that can change lives for the better and boost the economy at the same time.

¹⁵ Haveman, Robert, and Barbara Wolfe. 1995. "The Determinants of Children's Attainments: A Review of Methods and Findings." *Journal of Economic Literature*, vol. 33, no. 4, 1829–1878.

¹⁶ Smith, Judith R., Jeanne Brooks-Gunn, and Pamela K. Klebanov. 1997. "Consequences of Living in Poverty for Young Children's Cognitive and Verbal Ability and Early School Achievement." Pages 132–189 in *Consequences of Growing up Poor*, eds. G.J. Duncan and J. Brooks-Dunn. New York: Russell Sage Foundation.

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