STATE OF WORKING WEST VIRGINIA 2022

A LOST DECADE AND A PATH FORWARD

WEST VIRGINIA CENTER ON
BUDGET & POLICY

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Sean O'Leary, Senior Policy Analyst

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Introduction

Heading into the COVID-19 pandemic, West Virginia was already facing an economic crisis. The natural gas boom had fizzled, and in the months leading up to the pandemic, the Mountain State was steadily losing jobs and experiencing weak income and GDP growth. In 2019, West Virginia's unemployment rate was 4.9 percent, the fourth highest rate in the country and 1.2 percentage points higher than the national average.[1] Those West Virginians who were working found themselves earning some of the lowest wages in the country, with the fourth lowest median wage nationwide, $2.28/hour lower than the national average.[2]

But these circumstances were more than just a temporary slump. Prior to the pandemic, West Virginia experienced a lost decade, with essentially no economic growth from 2009 to 2019. This happened despite years of so-called business friendly policies like tax cuts, right to work, repeal of the prevailing wage, and cuts to state spending that were promised to unleash growth and move West Virginia forward. Instead, working class West Virginians were left behind as the tax system became more unfair, public services were neglected, and the promised growth never materialized.

This report, the 15th edition of the State of Working West Virginia, looks back at the past decade, examining the most prominent policies that were enacted to promote growth, their uniform failures and consequences, and the need to avoid repeating past mistakes as the state emerges from the pandemic and recession.

1 US Bureau of Labor Statistics, Local Area Unemployment Statistics.

2 Economic Policy Institute analysis of Current Population data.

SECTION 1

Business Friendly Policies Don't Live Up to Promises

West Virginia's Business Tax Cut Experiment Failed

Perhaps the biggest and most impactful policy enacted in West Virginia's effort to make the state more attractive to businesses was the series of business tax cuts enacted from 2007 through 2015. But the results were far from what was promised. Instead of fueling job growth, West Virginia's economy saw almost no impact from the tax cuts, as the state continued to underperform relative to its neighbors and the rest of the country. Instead, the impact was felt in the state budget, as the tax cuts resulted in hundreds of millions in lost revenue annually, leading to multiple years of budget shortfalls and cuts to programs and services.

West Virginia's business tax cut experiment began in 2007, with an initial cut to the corporate net income tax rate from 9.0 percent to 8.75 percent, along with a cut in the business franchise tax rate from 0.7 percent to 0.55 percent. The following year, Governor Manchin's State of the State Address focused on job creation, and called for further reductions in business taxes to spur growth.[3] At Governor Manchin's request, the legislature enacted SB 680, which phased out the business franchise tax, fully eliminating it in 2015, and phased in cuts to the corporate net income tax, further reducing it from 8.75 percent to 6.5 percent by 2014.[4]

At the time, the business tax cuts were celebrated and valid concerns were dismissed. While an analysis from the State Tax Department showed that the tax cuts would cost the state over $200 million per year in lost revenue,[5] supporters of the tax cuts argued that the lost revenue would be made up through the economic activity that the tax cuts would create.[6] The Tax Foundation argued that West Virginia's business tax cuts would put the state "in a better position to compete regionally with Pennsylvania and Virginia and place itself in a better position nationally,"[7] while the conservative Cato Institute gave West Virginia an "A" grade on their 2008 Fiscal Policy Report Card on America's Governors, claiming Governor Manchin enacted, "probably the most pro-growth tax reforms of any governor."[8]

Despite those claims, none of the promised growth from the tax cuts materialized. Instead, while the nation as a whole enjoyed a decade of solid job growth emerging from the Great Recession, West Virginia was one of only two states that lost jobs between 2009 and the beginning of the pandemic in 2020. From January 2009 to January 2020, total nonfarm employment nationwide increased by 13.5 percent, while in West Virginia it declined by 0.36 percent **(Figure 1)**.

3 West Virginia Office of the Governor, 2008 West Virginia State of the State Address, January 9, 2008.

4 Senate Bill 680, West Virginia Legislature, 2008 Regular Session.

5 West Virginia State Tax Department, Significant West Virginia Tax Reductions Since 2006.

6 Walt Williams, "Legislature ends session with focus on stimulating state's stagnant economy," *The State Journal*, March 13, 2008.

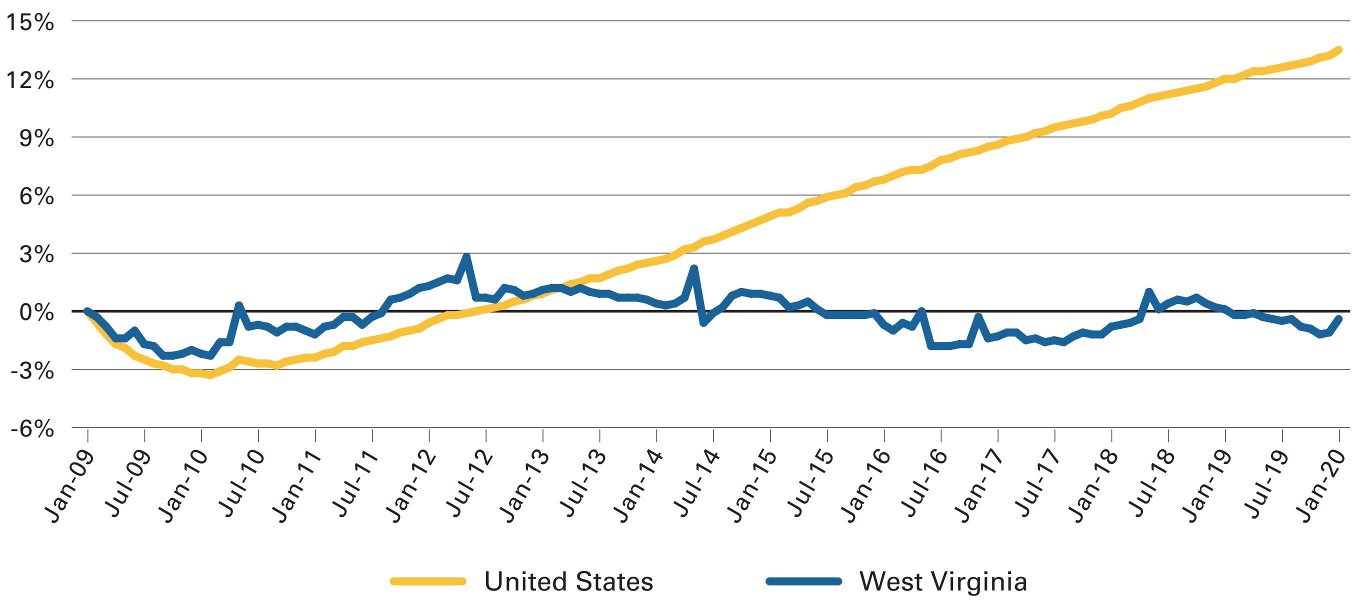
7 Curtis S. Dubay, "What West Virginia Needs to Do in Order to Compete in the 21st Century," Tax Foundation testimony to West Virginia Legislature, December 11, 2006, https://files.taxfoundation.org/legacy/docs/sb20061211.pdf.

8 Chris Edwards, "Fiscal Policy Report Card on America's Governors: 2008," Cato Institute, October 2008.

Figure 1

Tax Cuts Failed to Deliver Promised Growth to West Virginia

Total nonfarm employment growth, United States and West Virginia, indexed to January 2009 (seasonally adjusted)



Source: WVCBP analysis of US Bureau of Labor Statistics data

West Virginia is not alone when it comes to tax cuts failing to deliver for states. A large body of economic research makes clear that tax cuts do little to boost economies.[9] Of the five states that cut taxes in the wake of the Great Recession, four trailed the US in job growth. Tax-cutting states in the two prior recessions also trailed the US in job growth.[10]

The most significant economic effect of the tax cuts was the damage done to the state budget. Far from paying for themselves, they caused a steep drop in revenue. Between FY 2007 and FY 2019, corporate net income and business franchise tax revenue fell from $509.7 million to $228.5 million, adjusting for inflation **(Figure 2)**. As a share of the economy, West Virginia's corporate net income tax and business franchise tax revenue fell from 0.7 percent of private sector GDP in FY 2007, to just 0.3 percent in FY 2019.[11] The meager growth in the economy was not enough to offset the major loss in revenue.

9 Michael Mazerov, "State Taxes and State Economic Performance," Center on Budget and Policy Priorities (prepared for NCSL Task Force on State and Local Taxation), January 17, 2017.

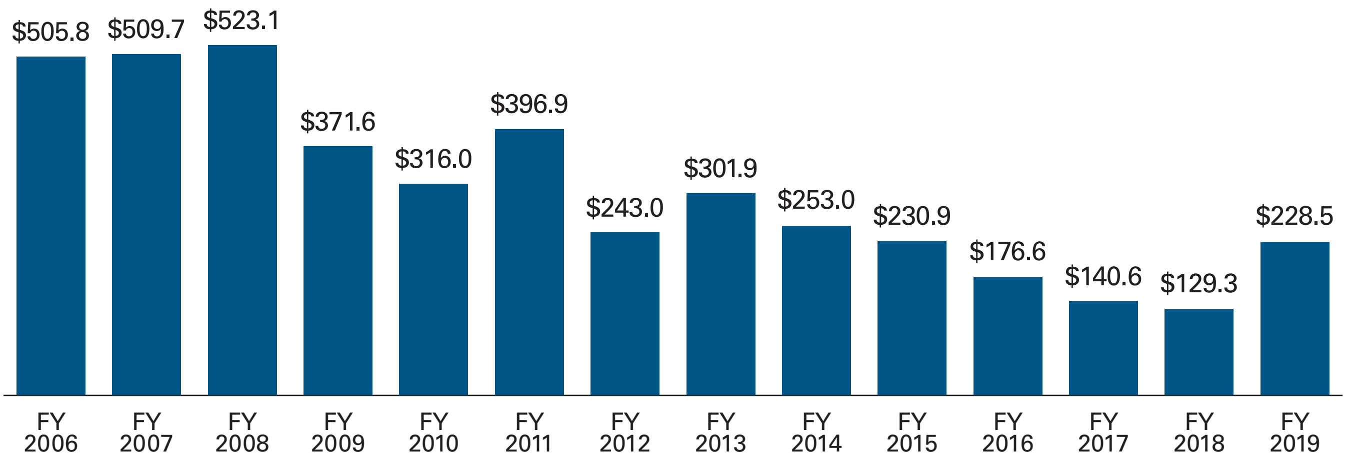
10 Michael Leachman and Michael Mazerov. "State Personal Income Tax Cuts: Still a Poor Strategy for Economic Growth," Center on Budget and Policy Priorities, May 14, 2015, https://www.cbpp.org/research/state-budget-and-tax/state-personal-income-tax-cuts-still-a-poor-strategy-for-economic.

11 WVCBP analysis of US Bureau of Labor Statistics and West Virginia State Tax Department data.

Figure 2

West Virginia's Business Tax Cuts Did Not Pay for Themselves

Corporate net income and business franchise tax revenue, FY 2006 – FY2019, millions (inflation-adjusted 2022 dollars)



Source: WVCBP analysis of West Virginia State Tax Department and US Bureau of Economic Analysis data

The revenue loss from these tax cuts led to multiple years of harmful budget cuts, including cuts to higher education and a shrinking state workforce, but they were not the only business friendly policy to fail to deliver promised growth to West Virginia.

Right to Work Did Not Work

Soon after West Virginia's business tax cuts were fully in effect, but had not achieved their desired impacts, lawmakers moved onto another policy promised to attract new businesses to the state and increase job growth: right to work.

West Virginia's right to work law was enacted in 2016.[12] Right to work laws prohibit unions and employers from negotiating a contract that requires employees who benefit from union representation to pay for their fair share toward those costs. This weakens unions and strengthens the employers' hand in bargaining for lower pay and less generous benefits. By decreasing the likelihood that businesses will have to negotiate with their workers, proponents of right to work laws claim they lower labor costs, reduce the cost of doing business, and incentivize out-of-state manufacturers and other businesses to locate in right to work states.

Like West Virginia's business tax cuts, right to work was promised to immediately boost job growth in the state. Proponents touted a study from the West Virginia University Bureau of Business and Economic Research, which predicted that enacting right to work would boost West Virginia's three-year employment growth rate by 0.56 percentage points.[13] At the time, their Economic Outlook report estimated that West Virginia's employment growth rate would trail the national average by 0.4 percentage points per year for

12 Senate Bill 1, West Virginia Legislature, 2016 Regular Session.

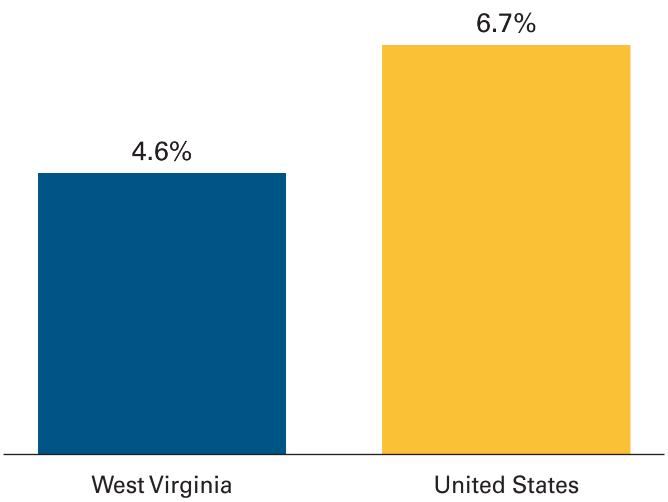
13 Christiadi; Bowen, Eric; and Deskins, John, "The Economic Impact of Right to Work Policy in West Virginia," Bureau of Business and Economic Research, 2015.

that same time period, prior to the enactment of right to work.[14] Based on these predictions, the enactment of right to work should have then boosted West Virginia's employment growth over the national average.

Figure 3

Despite Enactment of Right to Work, West Virginia's Pandemic Economic Recovery has Lagged Behind the Nation

Total nonfarm employment growth, West Virginia and United States, January 2021 – July 2022 (seasonally adjusted)



Source: WVCBP analysis of US Bureau of Labor Statistics data

However, the boost never occurred. As **Figure 1** showed on page 4, West Virginia's employment growth trailed the nation every year. And while the implementation of right to work was questioned in the court system, West Virginia's Supreme Court upheld the law in 2020.[15] Since then, the Bureau of Business and Economic Research has released two Economic Outlook reports, and neither report projects West Virginia's employment growth exceeding the national average, despite now being a right to work state.[16] And over the past year, with the recovery from the pandemic ongoing and right to work in effect in West Virginia, the state has continued to trail the nation in total employment growth **(Figure 3)**.

Like with business tax cuts, existing research strongly suggests that right to work laws have little to no impact on state job growth. While some studies have shown a positive impact of right to work laws on economic growth, especially manufacturing growth, they often failed to control for other important factors, and when other scholars included these other factors, the positive results often disappeared.[17] Instead, more recent research has found the right to work laws lower wages and unionization rates.[18] An analysis of Montana completed while it was considering becoming a right to work state found that it had faster wage and job growth than its right to work neighbors.[19] A lack of training and education are the primary reasons why states like West Virginia experience less economic growth, while the success of other states can be attributed to an emphasis on education and workforce development, not policies like right to work.[20]

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14 Lego, Brian and Deskins, John, "West Virginia Economic Outlook 2017-2021," Bureau of Business and Economic Research, 2016.

15 Brad McElhinny, "W.Va. Supreme Court upholds long-argued right to work law," *West Virginia MetroNews*, April 21, 2020.

16 Lego, Brian; Deskins, John; Bowen, Eric; and Christiadi, "West Virginia Economic Outlook 2022-2026," Bureau of Business and Economic Research, 2021; and Lego, Brian; Deskins, John; Bowen, Eric; and Christiadi, "West Virginia Economic Outlook 2021-2025," Bureau of Business and Economic Research, 2020.

17 Gordon Lafer and Sylvia Allegretto, "Does 'Right-to-Work' Create Jobs? Answers from Oklahoma," Economic Policy Institute, February 28, 2011; and Lonnie Stevans, "The Effect of Endogenous Right-to-Work Laws on Business and Economic Conditions in the United States: A Multivariate Approach," *Review of Law and Economics*, Vol. 5, No.1, pp. 595-614, 2009.

18 Nicole Fortin, Thomas Lemieux, and Neil Lloyd, "Right to Work Laws, Unionization, and Wage Setting," National Bureau of Economic Research, June 2022.

19 David Cooper and Julia Wolfe, "So-called Right to work is wrong for Montana," Economic Policy Institute, February 26, 2021.

20 Christopher Jepsen, Kenneth Sanford, and Kenneth Troske, "Economic Growth in Kentucky: Why Does Kentucky Lag Behind the Rest of the South?," Center for Business and Economic Research, Gatton College of Business and Economics, University of Kentucky, January 2008.

Prevailing Wage Savings Never Materialized

In the same year that the legislature passed West Virginia's right to work law, the state enacted another policy weakening labor under the guise of making the state more business friendly and saving taxpayer dollars — the repeal of the state's prevailing wage law.

Prior to the law's repeal, construction workers hired for public projects in West Virginia were required to be paid a minimum "prevailing" wage and benefits level, equal to the market wage rates based on geographic location and occupation. Prevailing wage laws help ensure that government-funded construction projects are done with highly skilled workers from the community, increasing productivity and strengthening the economy with good-paying local jobs. Prevailing wage laws not only result in better pay for construction workers and a more productive workforce,[21] they are also associated with fewer workplace injuries and lower worker compensation costs in the construction industry.[22]

Proponents of repealing the state's prevailing wage law claimed that the law inflated public construction costs. The state Chamber of Commerce claimed that the wage rates were too high, and "cost the public a minimum of 25 percent more on public works paid for with public funds."[23] Legislators claimed that repealing the law would save the state $300 million annually, and that "the economy of West Virginia will be measurably improved without the prevailing wage."[24]

As with business tax cuts and right to work, those claims were made without evidence,[25] and the state neither saved $300 million nor did the economy measurably improve after the repeal. An analysis of school construction costs, which were already lower in West Virginia than in neighboring non-prevailing wage states,[26] found no statistical impact on construction costs after the law's repeal. Instead, in comparison to neighboring states with prevailing wage laws, construction wages grew more slowly, apprenticeships fell, and injury rates increased.[27]

Fast forward to this year, when rising inflation caused construction costs to increase and the School Building Authority found itself going over budget by $50.8 million, and the $300 million per year in savings continued to be nonexistent.[28]

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21 Peter Phillips, "Kentucky's Prevailing Wage Law: An Economic Impact Analysis," University of Utah, January 2014.

22 Hamid Azari-Rad, "Prevailing Wage Laws and Injury Rates in Construction," in Azari-Rad et al., The Economics of Prevailing Wage Laws.

23 West Virginia Chamber of Commerce, "Policy Issues: Prevailing Wage," accessed from https://web.archive.org/web/20151010064450/http://www.wvchamber.com/CWT/External/WCPages/WCWebContent/WebContentPage.aspx?ContentID=2661.

24 Joel Ebert, "New GOP eyes repeal of longstanding prevailing wage law," *Charleston Gazette-Mail*, December 14, 2014.

25 Sean O'Leary, "West Virginia's Prevailing Wage: Good for Business, Good for Workers," West Virginia Center on Budget and Policy, January 2015.

26 Michael P. Kelsay, "The Adverse Economic Impact from Repeal of the Prevailing Wage Law in West Virginia," (Prepared for the West Virginia Affiliated Construction Trades Foundation), January 22, 2015.

27 Michael Kelsay and Fran Manzo IV, "The Impact of Repealing West Virginia's Prevailing Wage Law," Midwest Economic Policy Institute, May 2019.

28 Ryan Quinn, "Citing soaring inflation, past promises, WV agency won't award school construction, renovation money this winter," *Charleston Gazette-Mail*, August 11, 2022.

SECTION 2

Proud of Austerity

In his 2022 State of the State Address, Governor Justice declared he was "incredibly proud" to deliver a budget that was "essentially flat for the fourth year in a row."[29] But while the governor was proud to keep spending flat, that meant state programs and agencies were forced to make do with less for the fourth year in a row, as inflation and the costs of goods grew and their budgets remained flat. Further, there were no new investments to make higher education more affordable, increase access to child care and paid leave to help workers get back to work, improve K-12 schools, or address looming issues regarding the fiscal sustainability of the Public Employees Insurance Agency (PEIA) or Medicaid.

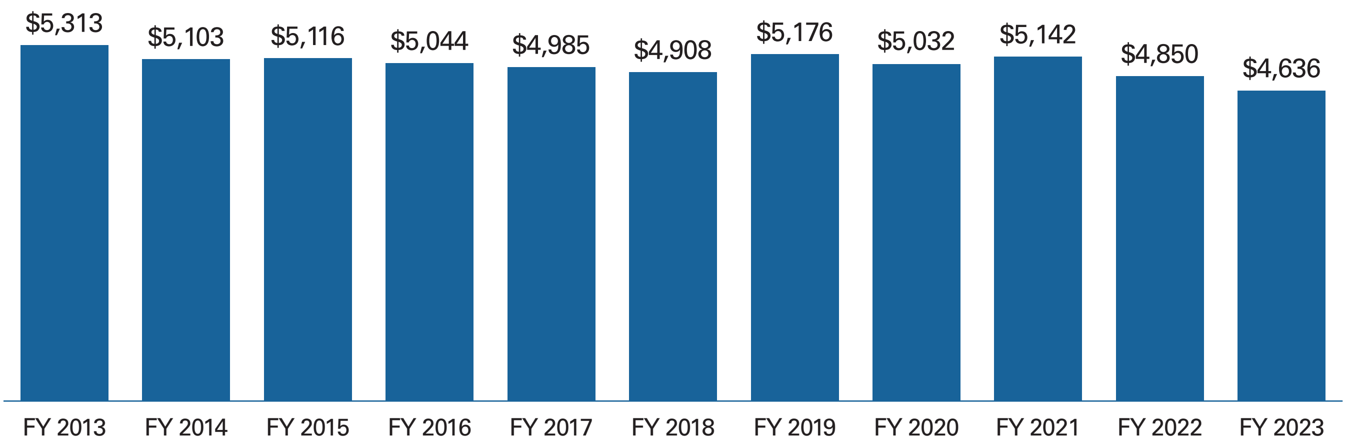
But even before Governor Justice's flat budgets, tax cuts and a lack of economic growth had resulted in years of budget cuts and underinvestment in health care, education, children, workers, and families, while also contributing to the state's unsustainable reliance on reserves and federal aid to keep the budget balanced. In addition to across-the-board and targeted cuts in multiple budget proposals over the past decade, the state was forced to enact over $271 million in mid-year budget cuts between FY 2014 and FY 2017, as business tax cuts took effect while the economy saw no benefit.

Overall, FY 2023's "flat" budget of $4.6 billion in general revenue spending is $677 million below general revenue spending in FY 2013, adjusting for inflation **(Figure 4)**. Higher education was a popular target for budget cuts during the past decade, and state expenditures on higher education alone are down $156 million, adjusting for inflation, since FY 2013. And while per pupil spending on K-12 education has increased by 23.2 percent nationally from 2013 to 2019, in West Virginia it has increased by less than 8 percent. West Virginia once invested $432 more per student than the national average, but it now invests $1,177 less.[30]

Figure 4

West Virginia's Shrinking Budget

General revenue expenditures, actual (FY 2013 – FY 2021) and budgeted (FY 2022 – FY 2023), millions (inflation-adjusted 2022 dollars)



Source: WVCBP analysis of WV State Budget Office and Bureau of Economic Analysis data

29 West Virginia Office of the Governor, "Gov. Justice delivers 2022 State of the State message to Legislature," January 12, 2022, https://governor.wv.gov/News/press-releases/2022/Pages/Gov.-Justice-delivers-2022-State-of-the-State-message-to-Legislature.aspx.

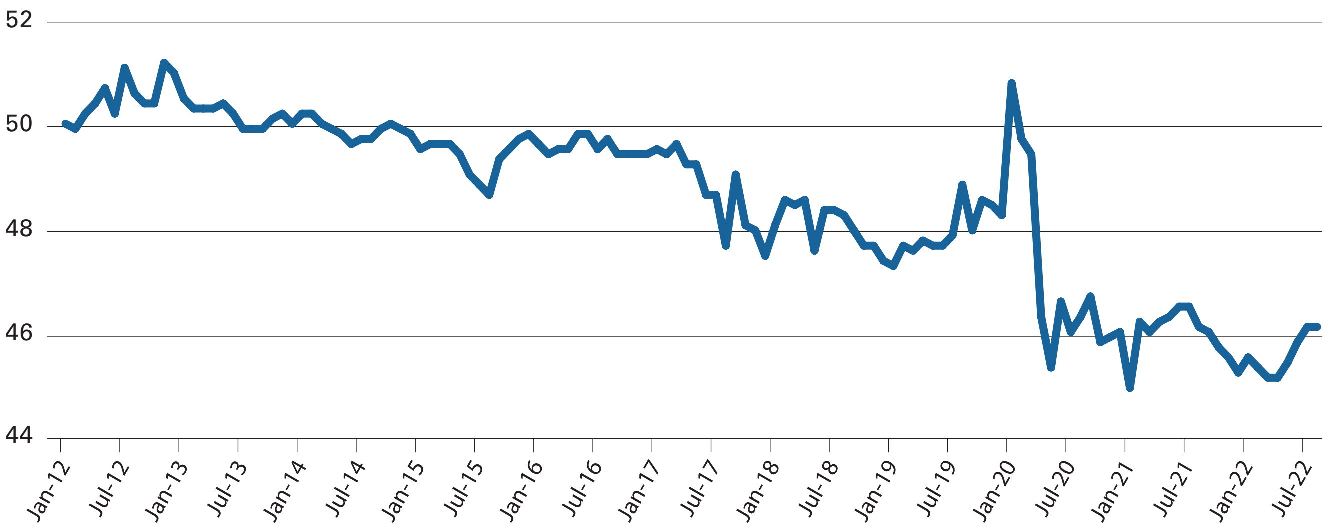
30 US Census Bureau, Public Elementary-Secondary Education Finance Data.

While spending fell, the size of state government also shrunk. Total state government employment in West Virginia fell from 51,000 jobs in 2012 to 47,000 jobs in 2019, before declining even further during the pandemic **(Figure 5).** Today the state struggles with thousands of vacancies, including 1,400 vacancies in the Department of Health and Human Resources (DHHR),[31] 1,200 teacher vacancies,[32] and 900 correctional officer vacancies,[33] as well has high vacancy rates of Child and Adult Protective Services workers and other social service workers.[34] These vacancies have had major consequences. Correction officer vacancies prompted the governor to declare a state of emergency in the state's correctional facilities,[35] while DHHR officials brought up trouble retaining their workforce while discussing difficulties faced by the agency, including abuse allegations from disability rights advocates.[36]

Figure 5

West Virginia's Shrinking State Government

Total state government employment, 2012-2022, thousands (seasonally adjusted)



Source: US Bureau of Labor Statistics

When all was said and done, the failure of tax cuts and other policies promising to create economic growth resulted in years of forced budget cuts and led to a decade of underinvestment in our state. Indeed, West Virginia has spent years unable to adequately address current needs or make new and necessary investments.

31 West Virginia Department of Health and Human Resources, FY 2023 Budget Presentation, January 2022.

32 Carrie Hodousek, "Lee projects teacher vacancies will top 1,500 in West Virginia this school year," *West Virginia MetroNews*, August 8, 2022.

33 Jeff Jenkins, "Correctional officer vacancies increasing toward 900," *West Virginia MetroNews*, April 26, 2022.

34 West Virginia Department of Health and Human Services, "Update on Child Protective Services and Other Social Service Positions," December 7, 2021.

35 West Virginia Office of the Governor, "Following legislative inaction on locality pay for correctional officers, Gov. Justice declares State of Emergency to address jail staffing shortages," August 8, 2022.

36 Erin Beck, "Advocates, lawmakers accuse DHHR of withholding abuse records," *Think Kids*, November 14, 2022.

SECTION 3

The Results

While out of state interest groups like the Tax Foundation (which improved their ranking of West Virginia's business tax climate from 47th to 21st),[37] the Heritage Foundation,[38] and the National Right to Work Legal Foundation[39] — as well as the state Chamber of Commerce[40] — praised West Virginia's efforts to become more "business friendly," Governor Jim Justice was far more "brutally honest" during a 2021 townhall, stating, "We passed the right-to-work law in West Virginia. And we ran to the windows looking to see all the people that were going to come — and they didn't come. We got rid of prevailing wage. We changed our corporate taxes and we've done a lot of different things. And we've run to the windows and they haven't come… We've absolutely built the field in a lot of different places thinking build the field and they'll come, and they didn't come."[41]

While the promised job growth never occurred, West Virginia also continued to fare poorly on a number of economic wellbeing indicators. Along with no job growth, West Virginians saw no wage growth over the past decade. Nationally, the real median wage — the wage earned by the worker in the middle of the wage distribution (50th percentile) — increased by 3.1 percent over the past decade. However, in West Virginia, the real median wage declined by 1.2 percent **(Table 1)**. In 2019, West Virginia had the fourth lowest median wage among the 50 states.

Table 1

Wages Fell in West Virginia in the Decade Preceding the Pandemic

Median wage, United States and West Virginia, 2009 and 2019 (2020 dollars)

	2009	2019	Percent Change
United States	$19.87	$20.49	+3.1%
West Virginia	$18.43	$18.21	-1.2%

Source: Economic Policy Institute analysis of Current Population Survey data

While those West Virginians who were working labored for low wages, West Virginia continued to have a relatively small share of its population participating in the labor force. West Virginia has historically had one of the lowest labor force participation rates — the share of the working age population that is either working or seeking work — in the country,[42] and that trend did not change despite the state's efforts to become more

37 Tax Foundation 2004 State Business Tax Climate Index and Tax Foundation 2022 State Business Tax Climate Index.

38 Chris Edwards, "Fiscal Policy Report Card on America's Governors: 2008," Cato Institute, October 2008.

39 National Right to Work Legal Defense Foundation, "Legal Victory: West Virginia Supreme Court Unanimously Upholds Right to Work," August 20, 2020, https://www.nrtw.org/newsletter-articles/west-virginia-right-to-work-08202020/.

40 West Virginia Chamber of Commerce, "CNBC 2019 Top States for Business Shows Improvement for W.Va.," July 10, 2019.

41 Brad McElhinny, "Justice says right-to-work, prevailing wage fizzled — and Democrats cheer," *West Virginia MetroNews*, February 25, 2021.

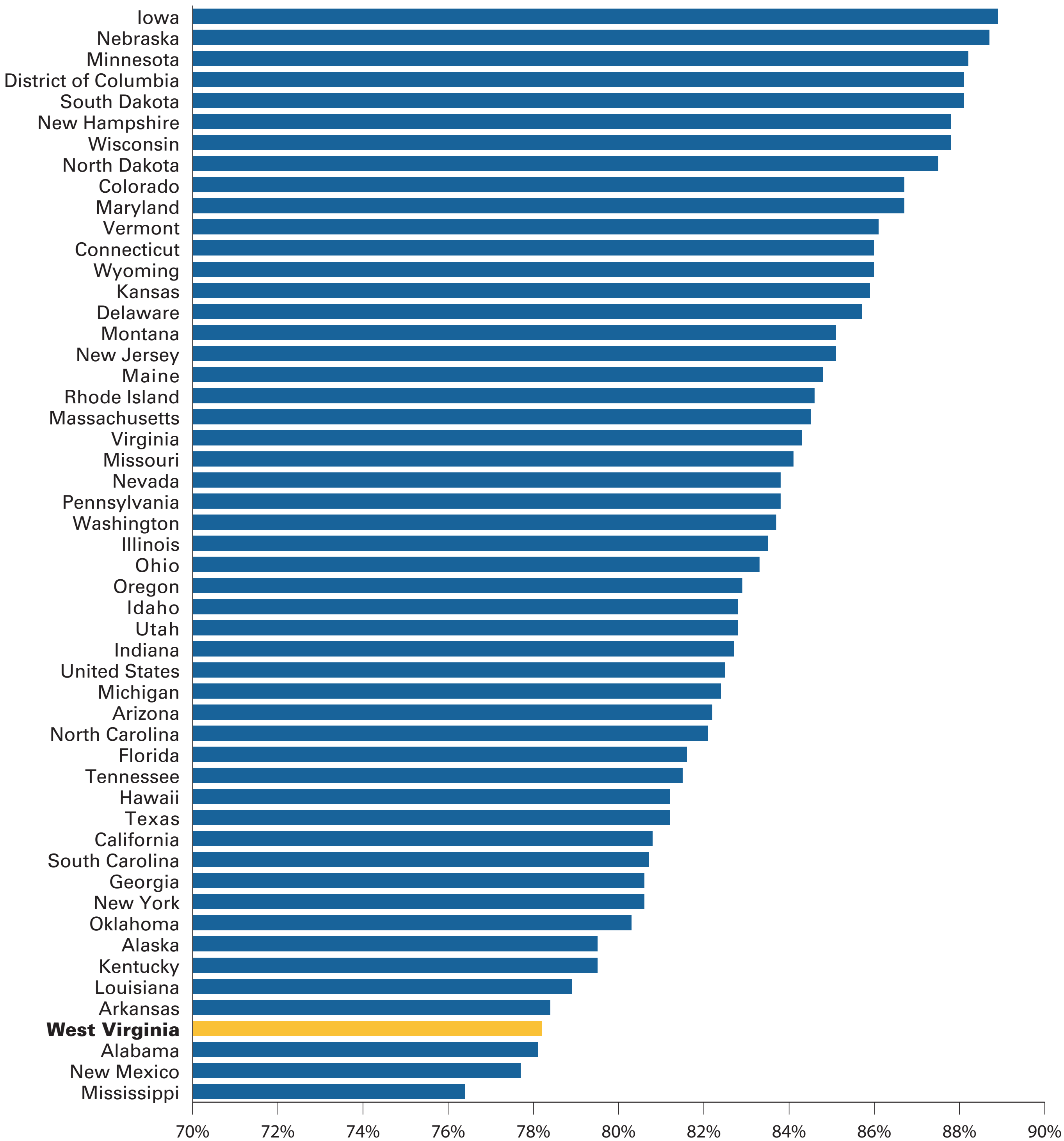
42 Sean O'Leary, Ted Boettner, and Mark Price, "The State of Working West Virginia 2015: Answers and Solutions to West Virginia's Low Labor Force Participation," West Virginia Center on Budget and Policy, November 2015.

"business friendly." In 2009, West Virginia's prime-age (ages 25 to 54) labor force participation rate was 73.7 percent, ranking last among the 50 states and D.C. In 2019, it had modestly improved to 78.2 percent, but the state still ranked only 48th nationally **(Figure 6)**.

Figure 6

West Virginia Continues to Have Low Levels of Labor Force Participation

Prime-age labor force participation rate by state, 2019



Source: Economic Policy Institute analysis of Current Population Survey data

West Virginia's low labor force participation rate relative to the rest of the country is complex, with the state's aging population and high rates of chronic illness and disability status among the main drivers. Further, the state has largely failed to invest in policies that could address its specific needs through family-friendly work policies, health care investments, and job training and infrastructure investments. But while West Virginia's low labor force participation rate is related to its generally older and less healthy population, it is also strongly related to the state's low levels of traditional educational attainment.[43] West Virginia has historically had fewer college graduates in its labor force than most other states. With tax cuts resulting in budget cuts that target higher education, it is no surprise that West Virginia continues to have a lack of educational attainment in its labor force. Nationally, the share of the labor force with a bachelor's degree or higher increased from 31.7 percent to 37.8 percent from 2009 to 2019, a 6.1 percentage point increase. In West Virginia, educational attainment increased as well, but by only 1.7 percentage points, from 23.7 percent to 25.4 percent. And after ranking 48th among the 50 states and D.C. in 2009 for the share of the labor force with a bachelor's degree, West Virginia lost ground over the decade preceding the pandemic, ranking last in 2019.[44]

The relatively low level of educational attainment in West Virginia's workforce can be directly tied to the failure of West Virginia's tax cuts and flat budgets. While tax cuts resulted in budget cuts to higher education, tuition at our state's colleges and universities has more than doubled, far outpacing inflation. From FY 2013 to FY 2023, after adjusting for inflation, tuition has increased by 57.7 percent at four-year institutions and 81.2 percent at two-year colleges. This significant increase in tuition passed onto students due to inadequate state investment likely pushed many West Virginians out of college affordability entirely. Notably, enrollment in the state's colleges and universities is down 24.3 percent over the same period.[45]

With low wages, low labor force participation, and low levels of traditional educational attainment, West Virginia continues to be one of the poorest states in the nation. In 2009, West Virginia's poverty rate was 17.7 percent, the sixth highest in the country. In 2019, after a decade of business friendly policies, West Virginia's poverty rate lowered slightly to 16.0 percent, but remained the sixth highest rate in the country **(Table 2)**.

The same story can be told with median household income. Median household income measures the income of the typical household — or the household in the middle of the income distribution — and serves as a good indicator for how the middle class is faring. West Virginia's median household income in 2009 was $45,523 (adjusting for inflation), the second lowest in the country. By 2019, West Virginia's median household income was still the second lowest in the country, at $48,850 **(Table 2)**. Over the decade preceding the pandemic, West Virginia made almost no progress in reducing poverty or increasing incomes compared to other states, despite hundreds of millions in business tax cuts and other business friendly policies.

Table 2

Little Progress in Poverty and Income for West Virginia in the Decade Preceding the Pandemic

Poverty rate and median household income, West Virginia, 2009 and 2019

	2009	2009 National Rank	2019	2019 National Rank
Poverty Rate	17.7%	Sixth highest	16.0%	Sixth highest
Median Household Income	$45,523	Second lowest	$48,850	Second lowest

Source: US Census Bureau, American Community Survey

43 Ted Boettner, Sean O'Leary, and Rick Wilson, "The State of Working West Virginia 2016: Why is West Virginia So Poor?" West Virginia Center on Budget and Policy, December 2016.

44 Economic Policy Institute analysis of Current Population Survey data.

45 Kelly Allen, "State Higher Education Investments Down 25 Percent Over Last Decade, Could Worsen with Amendment 2," West Virginia Center on Budget and Policy, October 2022.

SECTION 4

After the COVID-19 Pandemic

The COVID-19 pandemic and ensuing economic downturn reshaped West Virginia's economy in ways that are still affecting the state nearly three years after the virus first emerged. Aggressive and necessary federal pandemic aid has stimulated a relatively fast economic recovery and record budget surpluses, even as West Virginia has continued to lag behind other states. Record low unemployment and rising wages have helped some, but not all West Virginians, and while state leaders are quick to credit their policies, the reality is more nuanced. As federal aid has begun to be withdrawn, West Virginians are finding themselves struggling with high inflation and facing hardship while trying to make ends meet. The state's economic outlook continues to be bleak, with many of the state's underlying challenges remaining unaddressed.

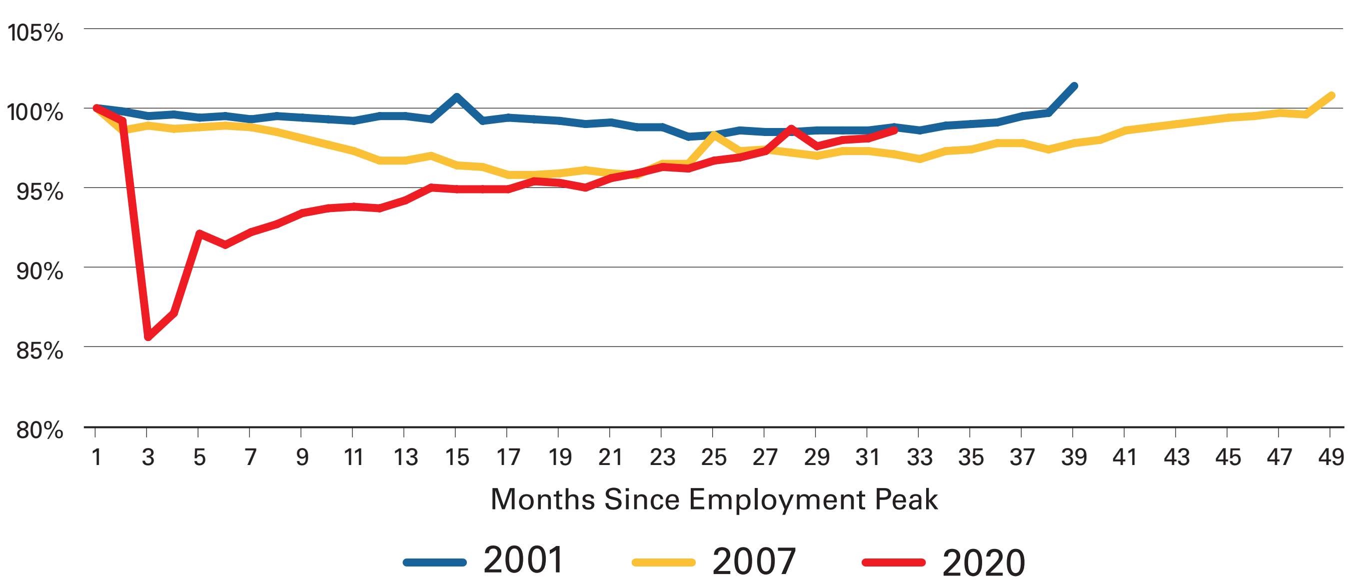
The early months of the pandemic took a significant toll on West Virginia's economy. The state lost 98,100 jobs in the month of April 2020, a drop of almost 14 percent. The state's unemployment rate more than doubled in one month, spiking from 6.4 percent to 15.4 percent.[46]

Nevertheless, West Virginia's recovery has been rapid by historical standards, with the state adding an average of 1,900 jobs per month over the past two years, putting the state on pace to return to pre-pandemic levels of employment much faster than the previous two economic downturns, despite a much steeper loss **(Figure 7)**.

Figure 7

COVID-19 Economic Downturn Fell Steeper, Recovered Faster Than Past Recessions

Nonfarm employment in West Virginia as a percent of pre-recession peak (seasonally adjusted)



Source: WVCBP analysis of US Bureau of Labor Statistics data

Note: First month corresponds to West Virginia's peak employment after the official national business cycle pre-recession peaks as identified by the National Bureau of Economic Research.

46 Workforce West Virginia, Labor Market Information.

West Virginia's rapid recovery can be credited in large part to the four rounds of federal relief, which provided an array of financial assistance to nearly every West Virginian beginning in March 2020.[47] Enhanced unemployment insurance and Supplemental Nutrition Assistance Program (SNAP) benefits, direct checks, a boosted child tax credit, state and local aid, forgivable business loans, and other programs kept tens of thousands of West Virginians out of poverty, stimulated the economy, and brought jobs back.[48] This federal aid amounted to over $12 billion and helped keep West Virginia afloat during the pandemic and fuel the recovery **(Table 3)**.

Table 3

Billions in Federal Aid Helped Boost West Virginia's Pandemic Recovery

Federal relief funding for West Virginia by source, 2020–2022

Relief Funding Source	Amount
Stimulus Checks	$4.9 billion
Enhanced Unemployment Benefits	$1.3 billion
Pandemic Unemployment Assistance	$168 million
Pandemic Emergency Unemployment Compensation	$192 million
Paycheck Protection Program	$1.8 billion
State CARES Act Relief Funding	$1.3 billion
American Rescue Plan Act (ARPA) State and Local Funding	$1.9 billion
Enhanced Medicaid Match Rate	$580 million
Enhanced Child Tax Credit	$539 million
Enhanced SNAP Benefits	$75 million

Source: Institute on Taxation and Economic Policy, US Department of Labor, Center on Budget and Policy Priorities, West Virginia Governor's Office, US Small Business Administration, Niskanen Center

While an abundance of federal aid helped fueled West Virginia's recovery, that recovery has not been even. For example, construction, manufacturing, business services, and mining are all above their pre-pandemic employment levels. But many service-based industries including health care, leisure and hospitality, and retail trade still have not fully recovered **(Figure 8)**. The pandemic's accompanying recession hit low wage workers — as well as women, young, and Black workers[49] — the hardest, and an unequal recovery is exacerbating those existing inequities.

47 Sean O'Leary, "Federal Relief Programs Cut Poverty in West Virginia by 71 Percent," West Virginia Center on Budget and Policy, August 2021.

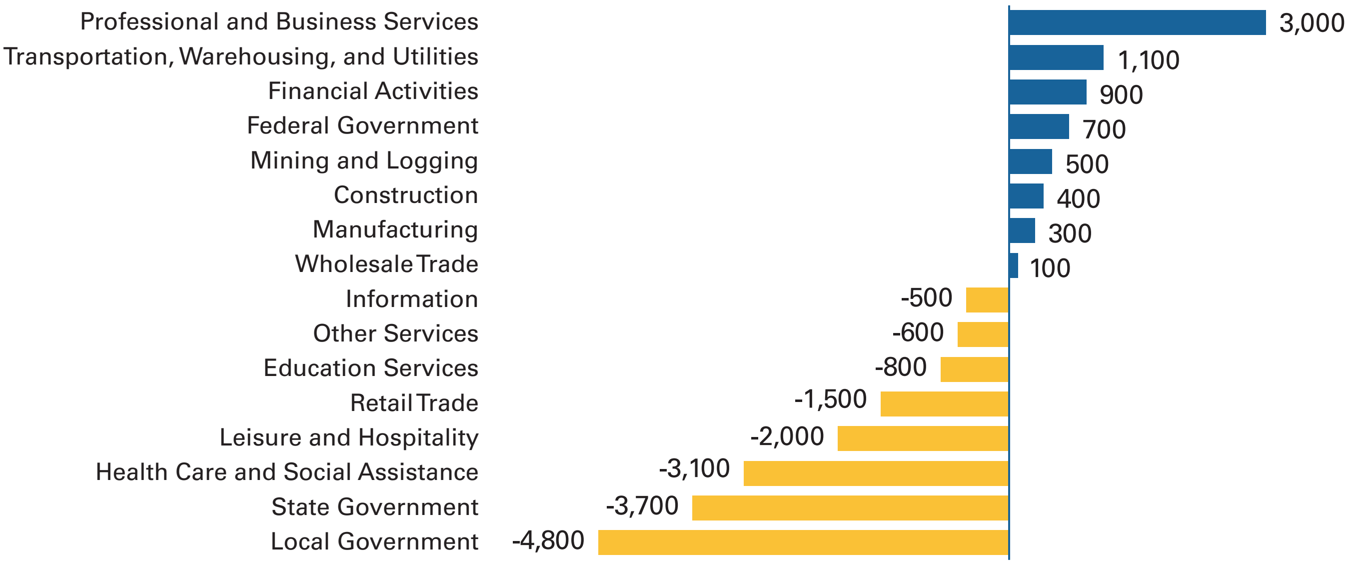
48 Laura Wheaton, Linda Giannarelli, and Ilham Dehry, "2021 Poverty Projections: Assessing the Impact of Benefits and Stimulus Measures," Urban Institute, July 2021.

49 Sean O'Leary, "Women, Minorities, and Young Workers Most Affected by Recent Job Losses," West Virginia Center on Budget and Policy, June 2020.

Figure 8

Pandemic Recovery Has Been Unequal Across West Virginia Industries

Change in total employment by sector, February 2020 – September 2022 (seasonally adjusted)



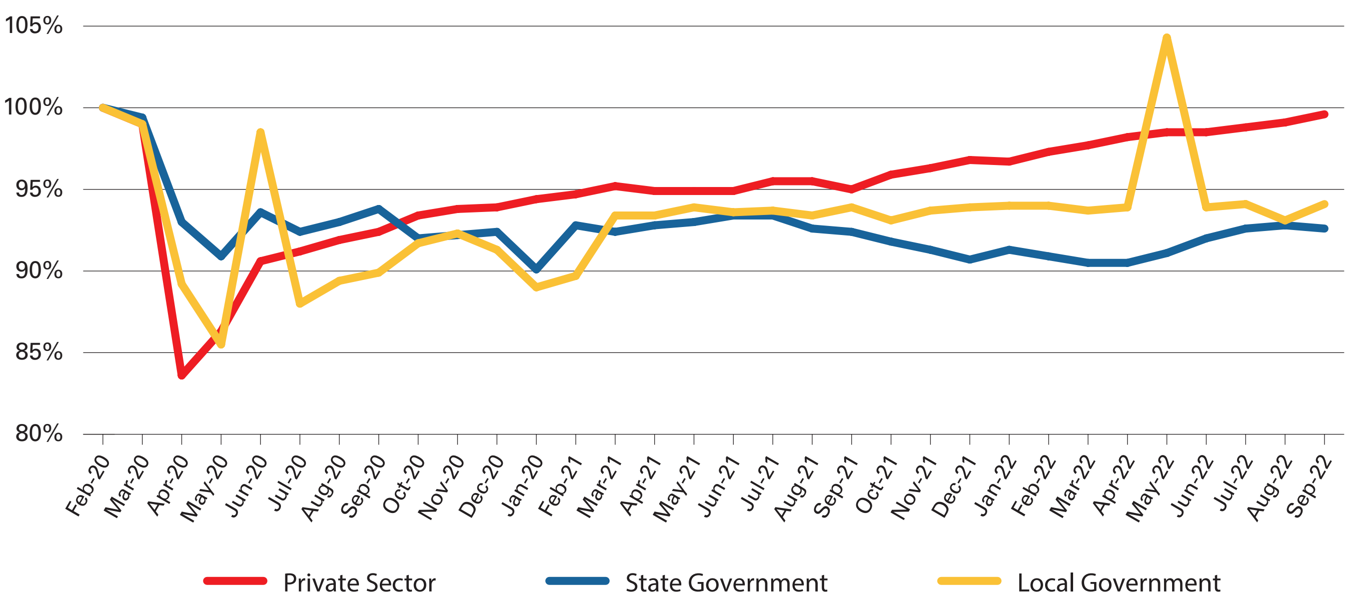
Source: WVCBP analysis of US Bureau of Labor Statistics data

Low employment within state and local governments is one factor that has kept West Virginia from fully recovering. State government employment has actually worsened over the past year, while local government employment has been flat with the exception of a spike due to temporary workers during a primary election. In fact, job growth has been so robust in the private sector and so poor in the public sector that total private sector employment has nearly fully recovered to pre-pandemic levels, while government employment has remained consistently low **(Figure 9)**.

Figure 9

West Virginia's Private Sector has Recovered, but Government Jobs Still Lag

Employment as a share of February 2020 levels by private and public employees (seasonally adjusted)



Source: WVCBP analysis of US Bureau of Labor Statistics data

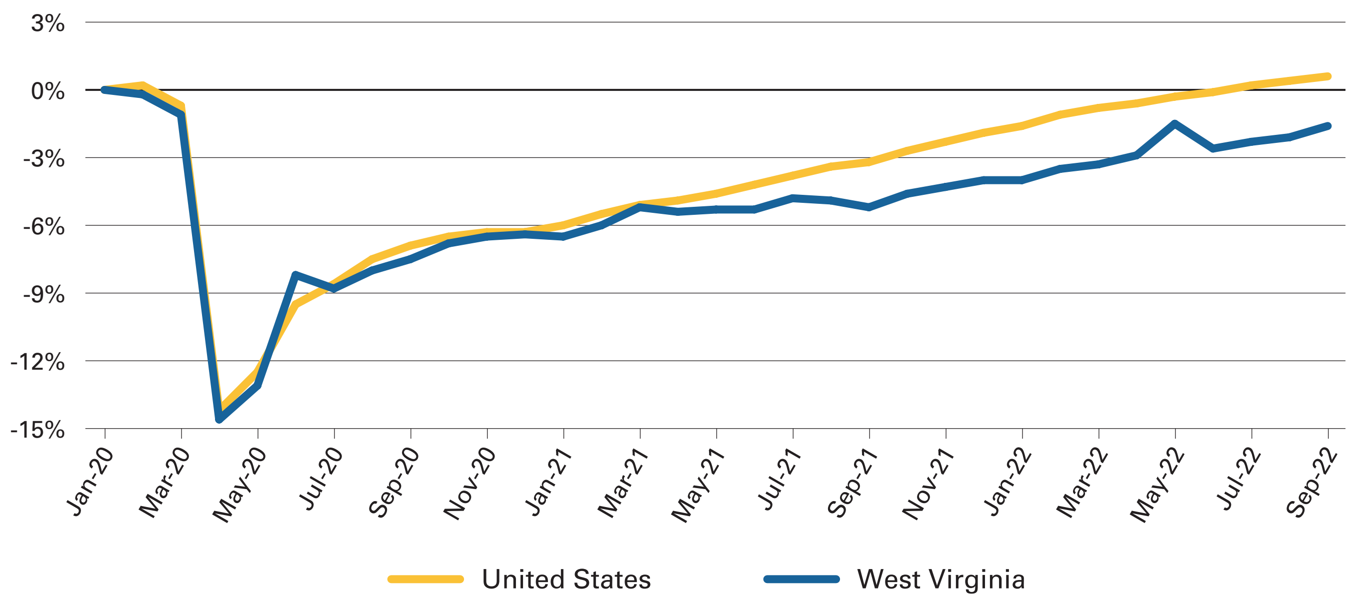
The pandemic recession leading to a decline in government employment follows the longer term reduction driven by tax cuts as covered earlier in this report. While the state legislature approved a five percent pay raise during the 2022 legislative session, vacancies remain high, and continuing to address compensation will be necessary to increase the state workforce, reduce vacancies, and improve government services.

Despite claims from the governor that the state's recovery is not "the result of us bouncing back from the pandemic" and instead the result of his policies,[50] West Virginia's recovery has largely followed — and eventually started to lag behind — the national recovery. The state's job losses during the pandemic were about average, and as of September 2022, the state ranks 39th for percent change in total nonfarm employment since January 2020 **(Figure 10)**. In addition, West Virginia's September 2022 preliminary unemployment rate of 4.0 percent ranks 10th highest among the 50 states and D.C.[51]

Figure 10

West Virginia has Experienced a Below Average Pandemic Recovery Relative to the Nation

Percent change in total nonfarm employment since January 2020, United States and West Virginia (seasonally adjusted)



Source: WVCBP analysis of US Bureau of Labor Statistics data

The story of West Virginia's tax revenue collections is largely the same. West Virginia's tax revenue collections made a fast turnaround after the initial decline in the early months of the pandemic recession. General revenue collections fell from $4.76 billion in FY 2019 to $4.49 billion in FY 2020, before bouncing back to $4.99 billion in FY 2021 and climbing even higher to $5.90 billion in FY 2022. West Virginia ended each fiscal year with substantial revenue surpluses, but those surpluses were largely built on temporary factors, including artificially low revenue estimates,[52] unexpectedly high energy prices,[53] and unprecedented amounts of federal aid and budget support.

50 West Virginia Office of the Governor, "6 IN A ROW: Gov. Justice announces West Virginia yet again breaks record for lowest unemployment rate in state history," April 12, 2022.

51 US Bureau of Labor Statistics, Local Area Unemployment Statistics.

52 Sean O'Leary, "Low Revenue Estimates Are Not a Reason to Pursue Tax Cuts," West Virginia Center on Budget and Policy, January 2022.

53 Lucy Dadayan, "The Winners and Losers of Rising Oil Prices," Tax Policy Center, April 2022.

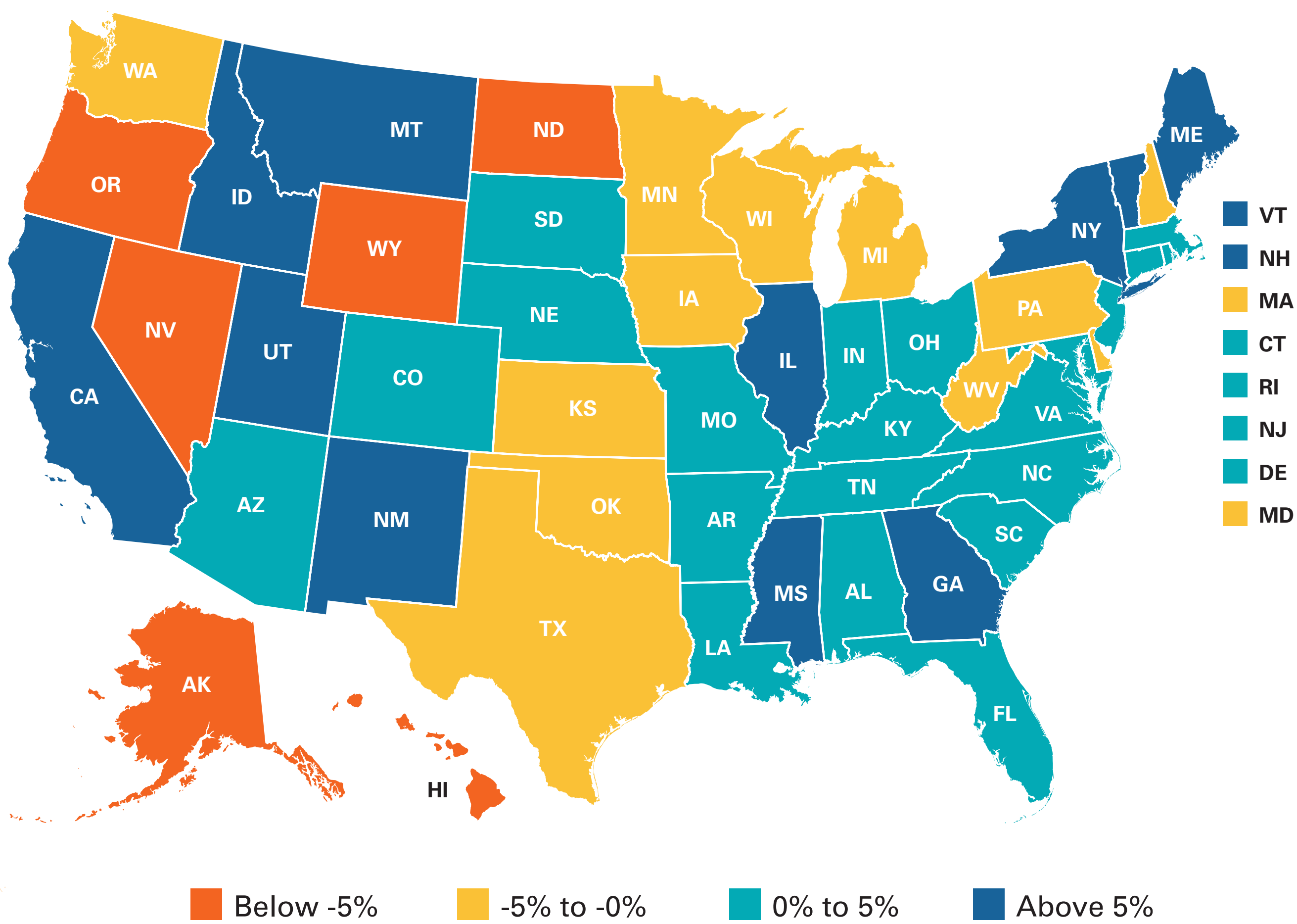
And while political leaders were quick to credit West Virginia's revenue growth and apparent surpluses to their own policies,[54] the reality is that states across the country are enjoying historic revenue growth and budget surpluses. At the end of the first quarter of 2022, total state tax collections were at their highest level since just before their historic decline in early 2020. In 31 states, tax revenue collections (adjusted for inflation) were even higher than they would have been if pre-COVID growth trends had continued, despite fallout from the pandemic and a two-month recession.[55]

Despite record surpluses, West Virginia was one of 19 states where cumulative tax revenue fell short of its pre-COVID growth trend, with the state actually underperforming compared to most other states and its own past trends **(Figure 11)**. This supports the point that West Virginia's surpluses were driven by low revenue estimates, and that its growth is largely due to the national recovery and other external factors, not its own state-level policies.

Figure 11

Tax Revenue in West Virginia Underperforming Pre-pandemic Trends

Cumulative tax revenue from Q1 2020 to Q1 2022 compared with pre-pandemic growth trend (inflation-adjusted)



Source: Pew analysis of Urban Institute, US Census Bureau Quarterly Summary of State and Local Government Tax Revenue

54 West Virginia Office of the Governor, "Gov. Justice: West Virginia really cooking after another month of huge surplus," November 2, 2022

55 Pew Charitable Trust, "Fiscal 50: State Trends and Analysis," October 2022.

Without the federal aid helping keep the state budget flat, boosting the economy, and fueling a quick recovery, West Virginia may not have made it through the pandemic and recession without any significant budget problems. And while the state is currently experiencing large budget surpluses, revenue collections are below what they would have been if the pandemic had not occurred. As the pandemic ends and federal aid winds down, it will be increasingly important that the state uses its surpluses wisely to restore investments that benefit all West Virginians and carefully plan for future budget requirements.

Unfortunately, that is not the plan from state leaders.

SECTION 5

State Leadership's Plan to Move Forward Would Repeat Past Mistakes

Despite the failure of the past decade and the temporary nature of West Virginia's budget surplus, state leaders are pushing for more of the same — regressive tax cuts for the wealthy and businesses — all while continuing to neglect growing state needs.

Unsatisfied with a decade of business tax cuts that cost the state hundreds of millions of dollars per year, lawmakers pushed hard in the fall of 2022 for the enactment of the Property Tax Modernization Amendment, which would have delivered hundreds of millions of tax cuts to primarily large, out-of-state corporations,[56] including coal companies that had just received a severance tax cut costing the state tens of millions per year.[57]

Fortunately, voters rejected the Property Tax Modernization Amendment, protecting $515 million in funding for local services and public education.[58] In addition, voters across the state approved or renewed excess levies — increases in property taxes dedicated to funding particular local services, including fire protection, libraries, and education — showing that when given the direct choice, the people of West Virginia will choose funding public services over tax cuts.[59]

However, Governor Justice is using the defeat of the amendment to push yet again[60] to cut or eliminate the state's personal income tax, which would lead to major and ongoing revenue losses for the state, while giving the vast majority of the tax cuts to the wealthiest West Virginians.

The personal income tax is West Virginia's largest source of tax revenue, providing the state with $2.5 billion in FY 2022 and accounting for 43 percent of the state's general revenue fund.[61] The income tax is also the state's fairest source of revenue. West Virginia has progressive income tax rates, meaning that they are structured such that higher-income residents pay a larger share of their income in personal income taxes relative to low- and middle-income residents. This structure helps ensure that wealthier taxpayers pay their fair share, allows for lower tax rates on low- and middle-income families, and provides a counterweight to more regressive taxes, such as the sales tax.[62] That progressive structure is also why cuts to the income tax almost always favor the wealthy.

Every tax cut plan recently proposed by the legislature and the governor would have cost the state hundreds of millions of dollars, while delivering large savings to the wealthy and comparatively little to everyday West Virginians. The governor's latest plan, unveiled during a Special Legislative session in July of 2022, would have cost the state $250 million per year, a number that would grow over time given the income tax is one of the state's most reliable sources of revenue growth.[63]

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56 Sean O'Leary, "Amendment Two: A Power Grab that Puts Local Public Services at Risk," West Virginia Center on Budget and Policy, August 2022.

57 HB 3142, 2019 West Virginia Regular Legislative Session.

58 Brad McElhinny, "Amendment Two on personal property taxes is resoundingly defeated," *West Virginia MetroNews*, November 8, 2022.

59 Ryan Quinn, "Kanawha residents extend excess levies supporting schools, libraries," *Charleston Gazette-Mail*, November 8, 2022.

60 Sean O'Leary, "Nothing New About Governor Justice's Special Session Income Tax Cut Plan," West Virginia Center on Budget and Policy, July 21, 2022.

61 West Virginia State Budget Office, June 2022 Revenue Report.

62 West Virginia Center on Budget and Policy, "Who Pays? Rethinking West Virginia's Tax System," January 2020.

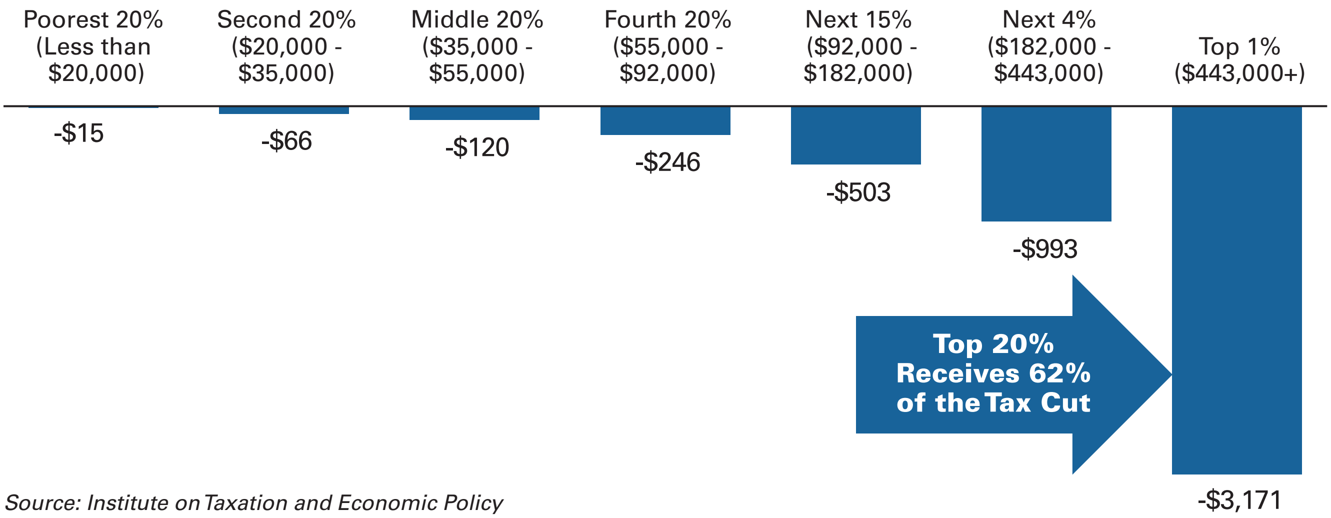
63 Sean O'Leary, "Nothing New About Governor Justice's Special Session Income Tax Cut Plan," West Virginia Center on Budget and Policy, July 21, 2022.

Like with the governor's previous attempts, the latest proposal generates the greatest savings for the state's highest income earners, with middle- and low- income households receiving only meager savings in comparison. Middle-income West Virginians, with incomes between $35,000 and $55,000, would receive an average tax cut of just $120, compared to an average tax cut of $3,171 for the wealthiest one percent of West Virginians, or those with incomes over $443,000. On average, the wealthiest 20 percent of West Virginians would receive 62 percent of the total $250 million tax cut, with the wealthiest one percent of West Virginians receiving 14 percent of the tax cut **(Figure 12)**.[64]

Figure 12

Wealthiest West Virginians Benefit the Most from Governor's Proposed Tax Cut

Average tax change by income group from reducing state income tax brackets to 2.0%, 3.7%, 4.2%, 5.5%, and 5.98% in West Virginia (2022 incomes)



Source: Institute on Taxation and Economic Policy

Implementing a substantial and permanent tax cut based on West Virginia's current surplus could quickly cause problems for the state, particularly as the surplus is temporary and was only made possible by artificially low revenue estimates, a strong national recovery from the pandemic, billions in federal aid, and high energy prices. Given expectations that revenue growth will slow[65] and energy prices will decline, it would be fiscally irresponsible to justify a major tax cut with the current surplus, especially with the knowledge that new income tax cuts are just as likely to fail to promote economic growth as the state's past attempts at tax cuts.[66]

The new proposal is particularly concerning as the state has several looming spending obligations in the near future. The state's Medicaid program is facing a $152 million shortfall in the coming years,[67] PEIA is facing a $92 million shortfall,[68] and the staffing vacancies mentioned previously continue to present problems across a number of sectors. All of these issues are a result of the forced austerity created by four years of flat budgets that failed to keep up with rising costs and the needs of West Virginia residents.

To adopt further tax cuts would be to repeat the mistakes of the past. They would deprive the state of necessary resources to address real needs and investments, while also failing to have a significant impact on the vast majority of West Virginia households and the economy. West Virginia doesn't need more ineffective tax cuts that largely benefit the wealthy — it needs consistent revenue to provide additional support to currently under-resourced public services.

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64 Ibid.

65 West Virginia Department of Revenue, Fiscal Forecast — FY 2023.

66 Sean O'Leary "States without Personal Income Taxes are Not Seeing Greater Economic Growth than States with Highest Income Tax Rates," West Virginia Center on Budget and Policy, January 12, 2021.

67 West Virginia Department of Health and Human Resources, "Budget Presentation," February 2021.

68 Randy Yohe, "W.Va. PEIA Addressing Funding Challenges," *West Virginia Public Broadcasting*, October 24, 2022.

SECTION 6

A Better Path Forward

After a decade of policies designed to make the state more business friendly failing to live up to their promises, now is not the time to double down. A decade of stagnant growth combined with the current effects of inflation and the threat of a recession means it is time to shift focus and look to policies that support everyday West Virginians. While the needs of the state aren't new, the past decade and the changing economy show how badly West Virginia needs to implement policies that serve ordinary people — not just the wealthy and corporations.

Address the Consequences of Four Years of Austerity

This report has covered at length the consequences of four years of flat budgets — looming PEIA and Medicaid shortfalls, public employee shortages leading to safety crises, and a failure to keep up with the rising costs of child care, higher education, and health care. First and foremost, the state must address the pent-up need created by artificially keeping the budget flat and underfunding state agencies for four years.

West Virginia needs to avoid the mistake of pursuing further tax cuts and instead work to build a stronger, better budget that works for all West Virginians. Cutting the income tax and relying on temporary surpluses or increases to the sales and other taxes would devastate the state budget and make the tax system less fair. So far, West Virginia has rejected these regressive proposals and it should continue to do so.

Instead, West Virginia should build a stronger budget that includes properly funding Medicaid. Medicaid is the largest program in the state budget, providing health care to more than 630,000 West Virginians.[69] And yet, the program lacks a permanent and secure source of funding, and in recent year has been funded with surpluses, one-time transfers, and enhanced match rates from federal aid packages.[70] Without permanent and stable funding, these one-time measures will be quickly exhausted, and the pressure to fund Medicaid will continue to grow and negatively affect other areas of the budget.

The largest piece of the state general revenue budget is public education. The research is clear — better funding for schools leads to better long-term outcomes for students. Increases in per-pupil spending are associated with greater high school graduation rates, more school days per year, higher teacher pay, smaller student to teacher ratios, and higher individual earnings in adulthood.[71] However, the reality remains that K-12 schools in West Virginia are underfunded, particularly for a state with so many children living in poverty. In 2019, West Virginia ranked 28th nationally in per pupil education spending, nearly $1,200 less per student than the national average. The only border state that spent less per pupil in 2019 was Kentucky. West Virginia spends less per pupil than the national average in most categories, including instruction salaries (ranked 36th), pupil support (ranked 36th), instructional staff support (ranked 41st), general administration (ranked 37th), and school administration (ranked 33rd).[72] These rankings evidence West Virginia's current underinvestment in our schools. By increasing education funding, the state can benefit not just students, but also those who work within our public school system and the state's economic prospects.

69 Bureau for Family Assistance, Secretary's Report, August 2022.

70 Sean O'Leary, "Pay More, Get Less: The West Virginia FY 2022 Budget Proposal" West Virginia Center on Budget and Policy, March 2021.

71 C. Kirabo Jackson, Rucker C. Johnson, and Claudia Persico, "The Effects of School Spending on Educational and Economic Outcomes: Evidence from School Finance Reforms," *The Quarterly Journal of Economics*, February 2016.

72 US Census Bureau, 2019 Public Elementary-Secondary Education Finance Data.

The same is true for higher education. Even before the pandemic, a decade of budget cuts to higher education had increased the costs for students and worsened inequality in West Virginia. People who already face the greatest socioeconomic barriers to higher education are particularly at risk, with cuts and rising tuition jeopardizing West Virginians' futures and communities. The state can increase the skills and diversity of its workforce — and dramatically improve the future of its children and communities — by restoring higher education funding and making it more affordable and accessible.

Help West Virginians Lower Family Costs

One of the largest expenses families face is child care, and since most families need child care to participate in the workforce, it is imperative for families and our economy that such care is affordable. Unfortunately, current child care funding, which is made up of a federal block grant plus a required state match, only allows West Virginia to provide subsidies to about one in four families who meet income requirements for financial assistance.[73] While the American Rescue Plan Act provided funding for raising income eligibility, providing a longer phase out, increasing reimbursement rates to providers, incentivizing providers to pay their workers more, and improving the quality of care, that funding has already begun to expire. Without increased state investment, child care in West Virginia will become increasingly unaffordable and inaccessible.

Working families also struggle with household and medical costs, particularly when they are unable to work. A lack of paid family and medical leave has a significant negative impact on workforce participation, particularly among women and older workers, who often have no job protections if they have a new child or need time off to manage a serious illness or to care for a seriously ill family member. Currently in West Virginia, nearly four out of five workers lack access to paid family and medical leave. In addition to being a pro-family and pro-work policy that would ensure no one has to choose between their job and caring for a loved one, a paid family and medical leave program would have vast positive impacts on our state's economy and workforce.

One of the simplest ways to help families afford their basic needs is through cash assistance in the form of a state-level child tax credit (CTC) and earned income tax credit (EITC). The temporary enhanced federal CTC lifted 50,000 children out of poverty in West Virginia, but Congress let it expire before the end of 2021.[74] So far nine states have enacted and funded their own state-level CTCs that provide hundreds of dollars of aid to individual families.[75] The EITC provides additional income to low-wage workers based on family size, and 30 states have enacted state-level versions of that program.[76]

73 Kelly Allen, "Murray-Kaine Proposal Would Protect and Improve Child Care For Thousands of West Virginia Working Families," West Virginia Center on Budget and Policy, June 2022.

74 Kris Cox, Chuck Marr, Arloc Sherman, and Stephanie Hingtgen, "If Congress Fails to Act, Monthly Child Tax Credit Payments Will Stop, Child Poverty Reductions Will Be Lost," Center on Budget and Policy Priorities, December 2021.

75 Samantha Waxman and Iris Hinh, "States Should Create and Expand Child Tax Credits," Center on Budget and Policy Priorities, April 22, 2022.

76 Center on Budget and Policy Priorities, "Policy Basics: State Earned Income Tax Credits," Oct. 13, 2021.

Support Workers with Policies that Raise Wages and Strengthen Worker Power

One obvious policy that would have an immediate impact on wages in West Virginia is raising the minimum wage. West Virginia's current minimum wage of $8.75/hour is insufficient to meet most families' basic needs. But when set at an adequate level, the minimum wage protects workers and guarantees that work is a means to a decent quality of life, while also ensuring that all workers benefit from increasing worker productivity and a growing economy. Raising the minimum wage to $15 by 2025, as proposed in the Raise the Wage Act of 2021, would lift pay for more than one-third of West Virginia workers, a total of 250,000 people. The vast majority of the beneficiaries would be prime-age, full-time workers, many of whom are the primary sources of income for their families.[77]

Another way to promote a better work-life balance and improve compensation is through reforming overtime laws. Overtime pay rules are designed to guarantee that most workers who put in more than 40 hours per week get paid 1.5 times their regular pay for the extra hours they work. Almost all hourly workers are automatically eligible for overtime pay, but salaried workers are only eligible for overtime pay if they earn below a certain salary, and the salary threshold has not kept up with inflation or the changing economy.[78] Enacting state legislation to raise the overtime threshold would improve the work lives of thousands of workers in the state and restore the protections that the overtime pay rule was originally designed to provide.

To return the focus to the workers of West Virginia, West Virginia's right to work law should be eliminated. Right to work laws do not confer any right to a job and states that have adopted these laws typically have lower wages, lower union density, and higher income inequality than states that have not. Since its adoption, right to work has not improved business conditions in West Virginia, and instead harms all working West Virginians and weakens their ability to bargain for their rights statewide. Every worker deserves the benefit of union representation, and every worker should pitch in their fair share for that representation.

Another way West Virginia can support its workers is by requiring that employers provide paid sick leave. Everyone gets sick, but not everyone gets paid time off from work to deal with an illness. Nearly half of West Virginia's private sector workforce — 254,270 workers, or 46.1 percent — lack paid sick days.[79] Having access to paid sick days is crucial to reducing the spread of illness, keeping communities healthy, avoiding productivity loss, reducing workplace injuries and turnovers, and supporting parents and caregivers so they can balance work and family. In addition to paid sick leave, the paid family and medical leave programs mentioned above also allow workers to care for personal or family needs without losing income or fearing the loss of their jobs. Access to paid sick days and family and medical leave would lead to healthier families and a stronger workforce.

While all of these proposals cost money, the state does currently have a sizable surplus that would be better spent investing in the state's needs than being squandered on tax cuts. But to secure its future and make the budget stronger and more sustainable, the state should explore ways to raise new revenue and make the tax code more progressive. Options include phasing out personal exemptions for high earners, reinstating the estate tax, reversing business tax cuts, and legalizing and taxing cannabis. These options would create a more stable budget that centers racial equity, economic justice, and improved health and welfare for all residents.

77 Economic Policy Institute, "The impact of raising the minimum wage to $15 by 2025, by congressional district," January 2021.

78 Heidi Shierholz, "More than eight million workers will be left behind by the Trump overtime proposal," Economic Policy Institute, April 2019.

79 National Partnership for Women and Families, "Workers' Access to Paid Sick Days in the States," May 2015.

About the Author

Sean O'Leary is the senior policy analyst at the West Virginia Center on Budget and Policy. Since joining the Center in 2010, Sean has authored numerous reports on working family issues, economic development, and state and federal budget and tax policy, including annual reports on the state budget and the State of Working West Virginia. Sean also collaborates with West Virginia Kids Count for the annual West Virginia Kids Count Data Book and serves on the board of directors for the West Virginia Food and Farm Coalition. Sean holds a B.A. in political science and economics and a Master of Public Administration from West Virginia University.

WEST VIRGINIA CENTER ON
BUDGET & POLICY

8 Capitol Street, Fourth Floor
Charleston, WV 25301
304.720.8682 | Info@wvpolicy.org
@WVCBP • www.wvpolicy.org

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