

# 1975-1984

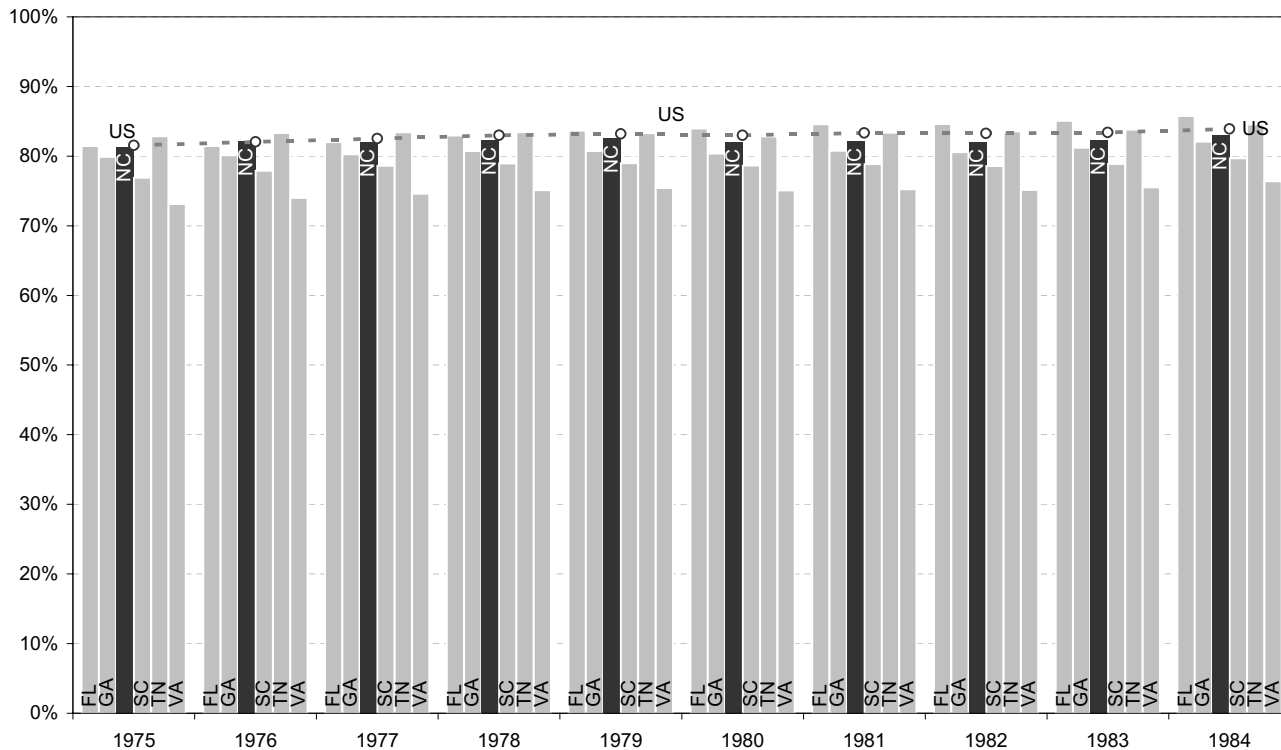
## General Economic Trends: 1975-1984

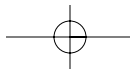
From the mid-1970s to the mid-1980s, the U.S. economy went through two distinctly different phases. The last half of the 1970s was a period marked by a dramatic recession and double-digit inflation, while the first half of the 1980s thrived under the Reagan recovery. The North Carolina economy followed the path of the national economy, although recovery for the state came somewhat later.

In North Carolina, the nature of the recovery is indicated by a shift in two economic indicators: private employment as a share of total nonfarm employment and personal per capita income compared to the national average.

As shown in Figure 1, from 1975 to 1984 North Carolina's private employment share rose marginally, from 81 percent of total nonfarm employment to 83 percent. While the U.S. economy grew more strongly, North Carolina remained one percentage point behind the national average. Virginia, by contrast, experienced stronger growth in private employment, although at much lower levels: from 73 percent of total nonfarm employment to 76.5 percent.

**Fig. 1. Private Share of Total Nonfarm Employment: Southeast States, 1975-1984**

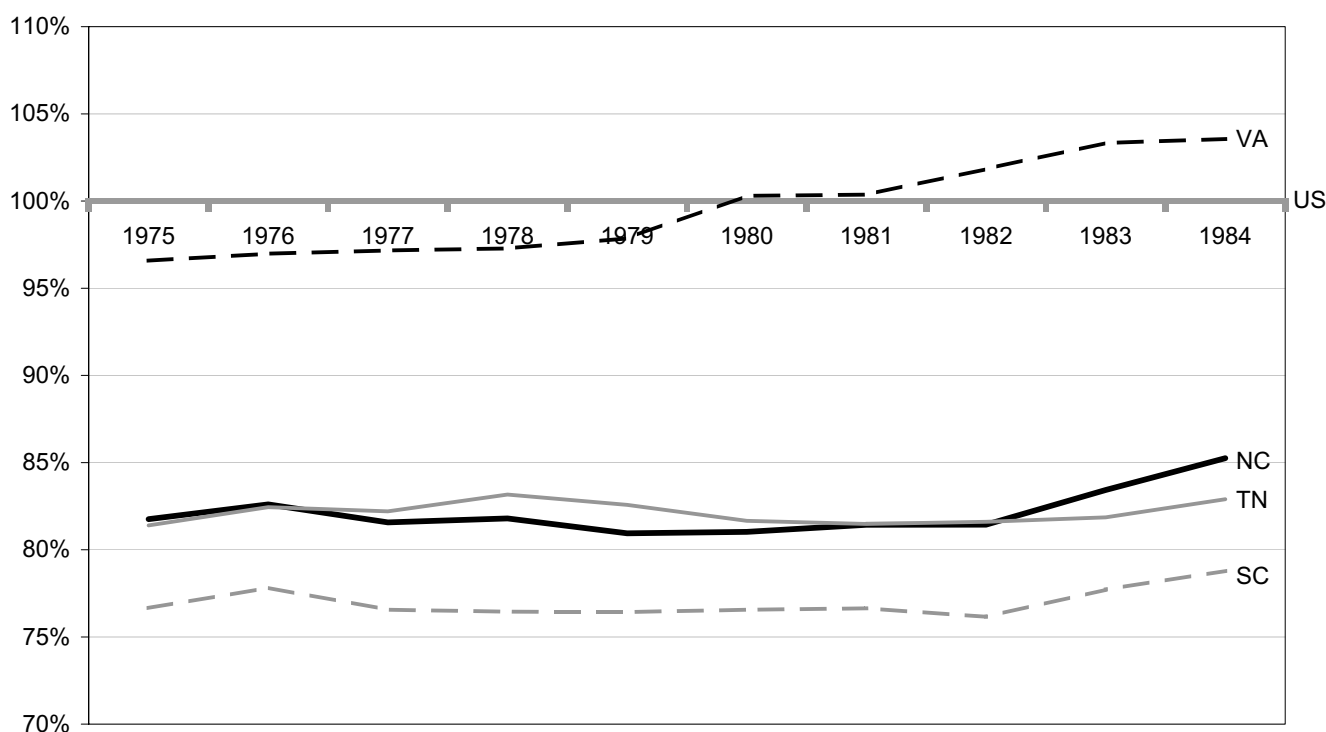




In neighboring states, such as Virginia, the growth of private sector employment translated into rapidly growing per capita personal income. Compared to the U.S. average, Virginia's per capita personal income grew from 96 cents to \$1.03. This means that by 1985, Virginians were making 3 percent more than the national average.

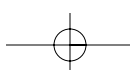
North Carolina, by contrast, trailed the national average for the entire time period, although from 1980 to 1985, the state's per capita personal income rose from 81 cents to 85 cents of the average U.S. per capita personal income.

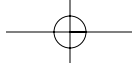
**Fig. 2. Per Capita Personal Income: Select Southeast States vs. U.S. Average, 1975-1984**



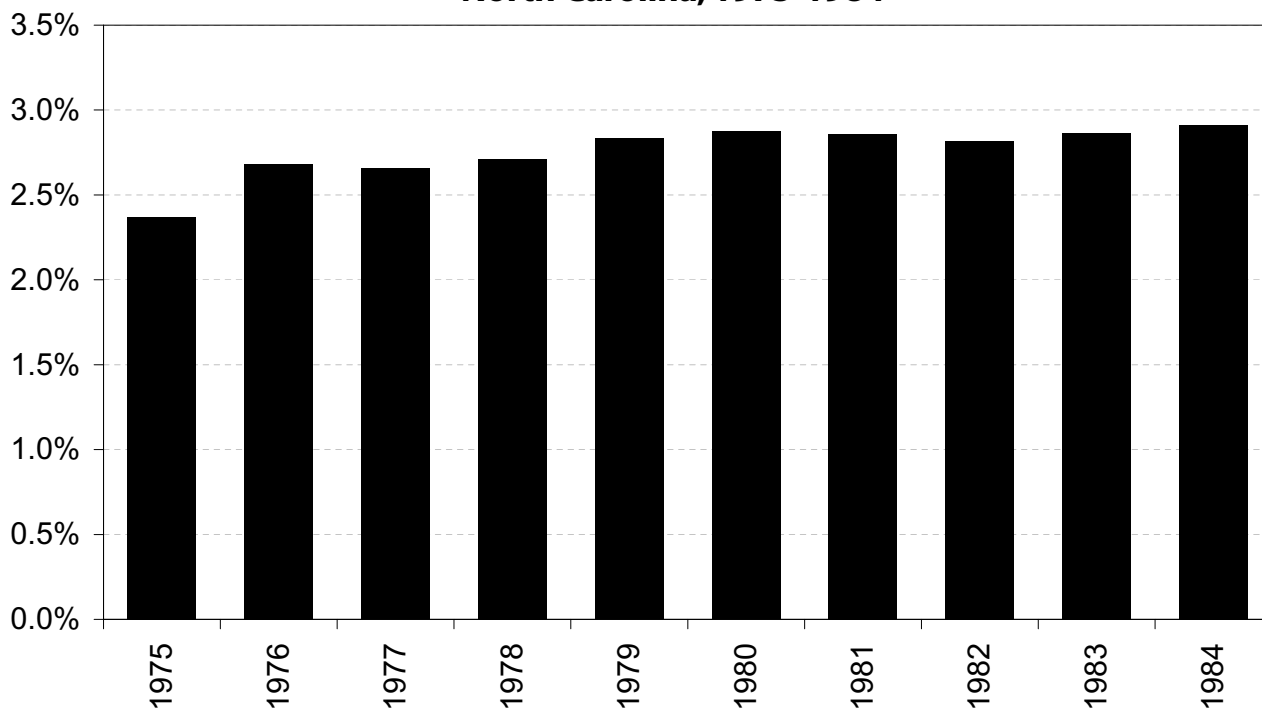
The rebound of the state's economy in the mid-1980s can be attributed to several factors. One was that state and local governments slowed their hiring, which freed up labor for the private market. This may also explain the slight delay in recovery in North Carolina compared to other states. Another explanation could also be that North Carolina increased personal taxes between 1975 and 1980. If the state had taxed personal income from 1976-1980 at the same rate as it did in 1975, the private sector would have kept at least \$639 million.<sup>1</sup> By comparison, personal taxes throughout the rest of the country remained relatively stable throughout the period. It seems that the tax increases implemented in North Carolina eroded purchasing power and consumer

<sup>1</sup>The dynamic effect of a lower tax trajectory, however, would have likely contributed to an even greater increase in personal income.





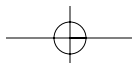
**Fig. 3. State/Local Taxes as Share of Personal Income:  
North Carolina, 1975-1984**

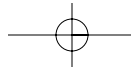


confidence. When taxes stabilized in the early 80s, consumer confidence recovered.

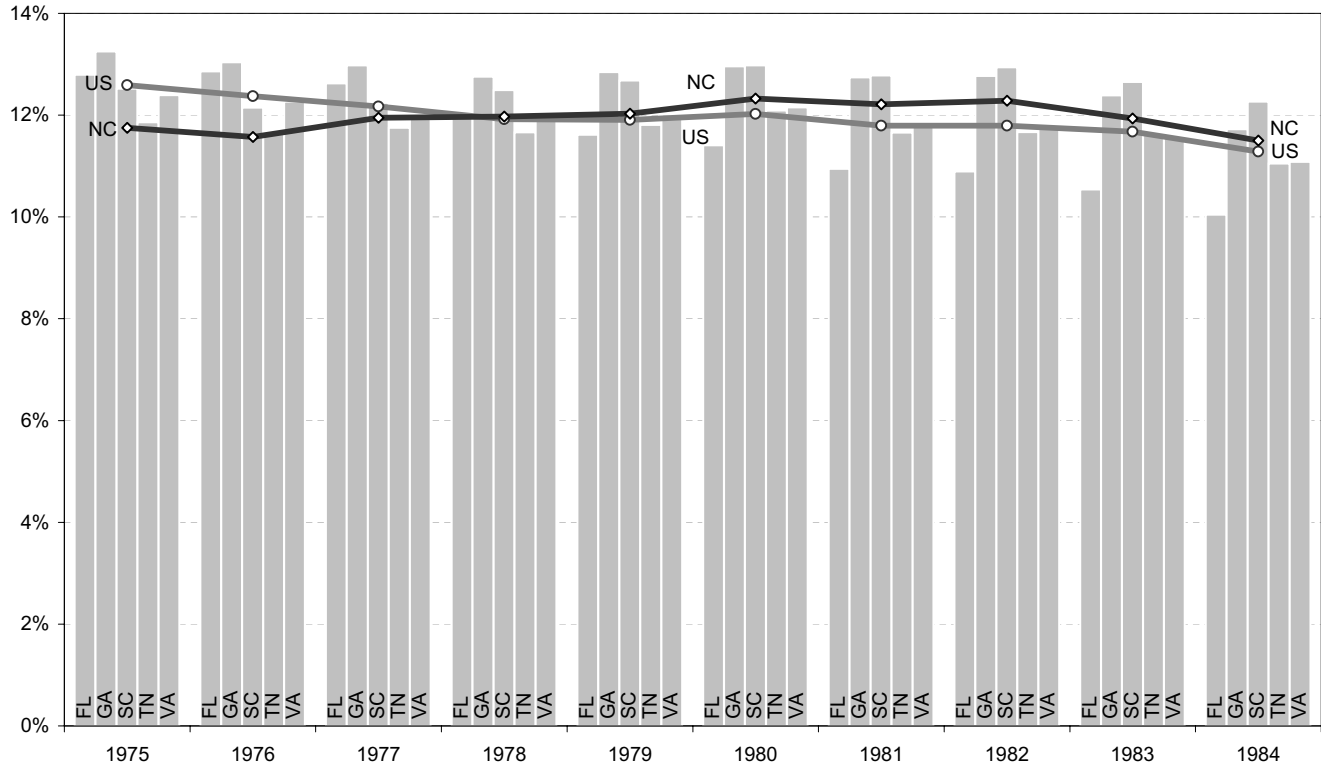
Figure 4 (below) illustrates the state and local share of total employment in North Carolina and three neighboring states. Virginia once again experienced the most dramatic change, with a drop in state and local employment from 12.5 percent of total employment to 11 percent. In North Carolina, South Carolina and Tennessee, the trend was less pronounced, but once the Reagan-era growth period began, the public sector's share of total employment gradually dropped as well.

State and local government employment in North Carolina, however, did not decrease in absolute numbers, which is also to say that the size of the government increased. In fact, the number of employees working for the state and local governments grew by 25 percent between 1975 and 1984. But because private employment grew by 30 percent, the net result was still positive for North Carolina's economy.





**Fig. 4. State/Local Government Share of Total Nonfarm Employment: Southeast States, 1975-1984**

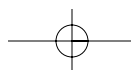


Most of the growth in state and local employment took place in 1976-1979, as Table 1 shows:

**Table 1**

**STATE, LOCAL EMPLOYMENT GROWTH**

1976	2.2%
1977	7.6%
1978	4.4%
1979	3.9%
1980	3.2%
1981	-0.3%
1982	-0.2%
1983	-0.1%
1984	2.2%



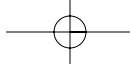
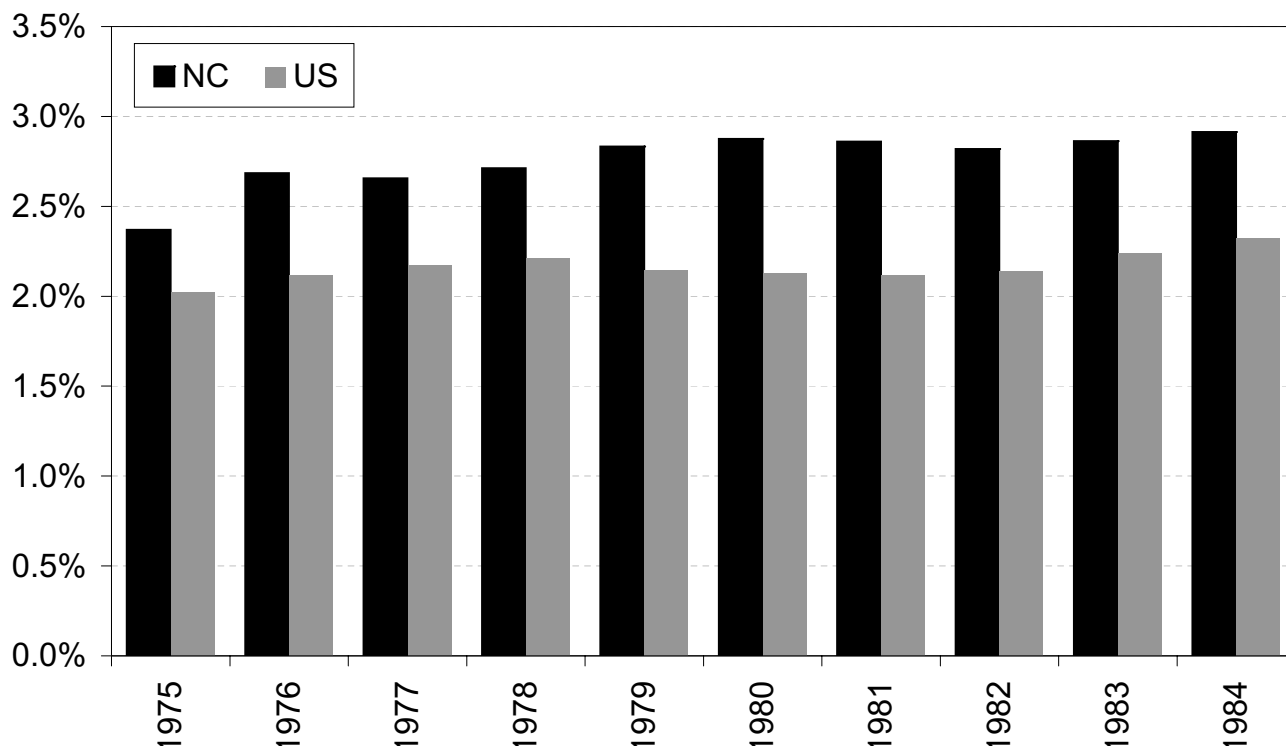
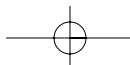


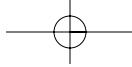
Figure 5 reflects this expansion. It shows how state taxes, especially state income taxes, grew as a share of personal income in North Carolina between 1975 and 1984.

**Fig. 5. State/Local Taxes as Share of Personal Income: North Carolina vs. U.S. Average, 1975-1984**

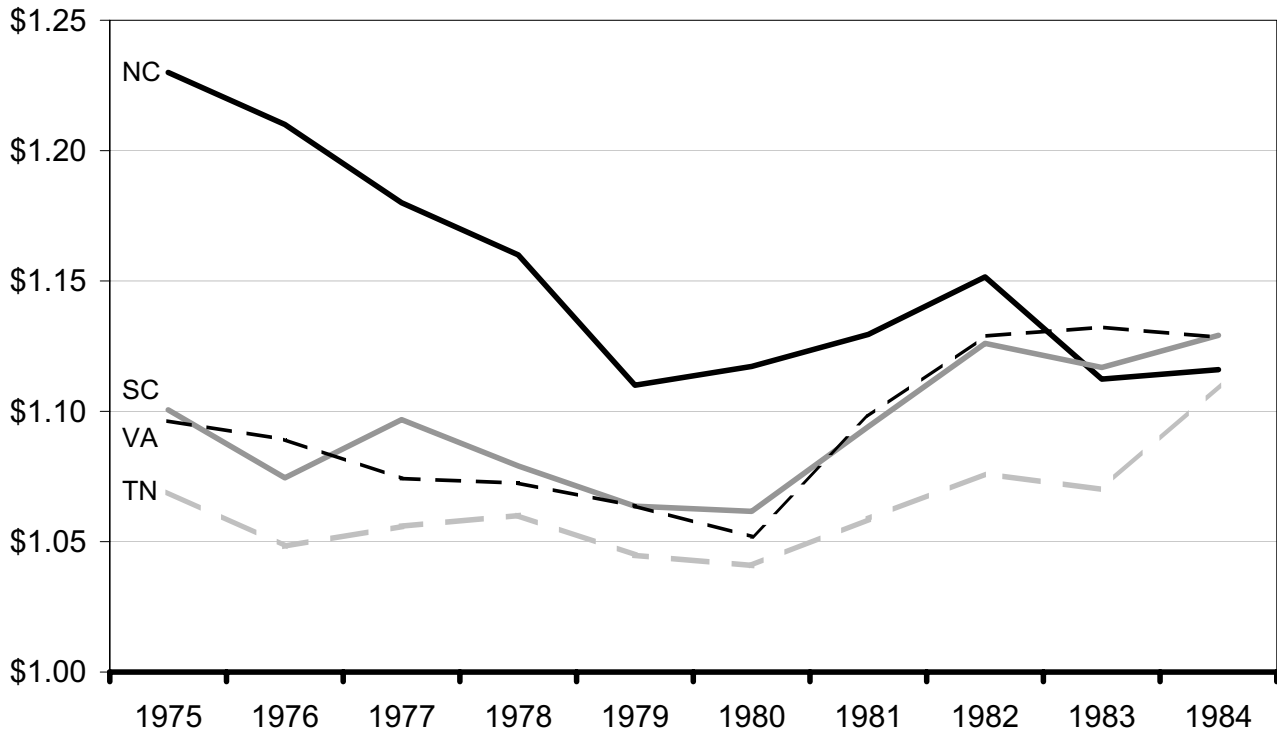


As the number of positions increased throughout the late 1970s, North Carolina also reduced the average salary of its public employees in relation to private sector compensation. In 1975 the total compensation per state or local employee was \$1.23 per dollar of employee compensation in the private sector. This was much higher than in neighboring states, such as South Carolina, Tennessee and Virginia, which averaged \$1.10-\$1.11 in public sector compensation per \$1 dollar in private sector compensation. As Figure 6 (below) shows, by 1984 state and local governments in North Carolina had brought their employee compensation down to \$1.12 per private sector dollar. This rate was identical to that in South Carolina and Tennessee, and two cents below Virginia.

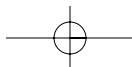
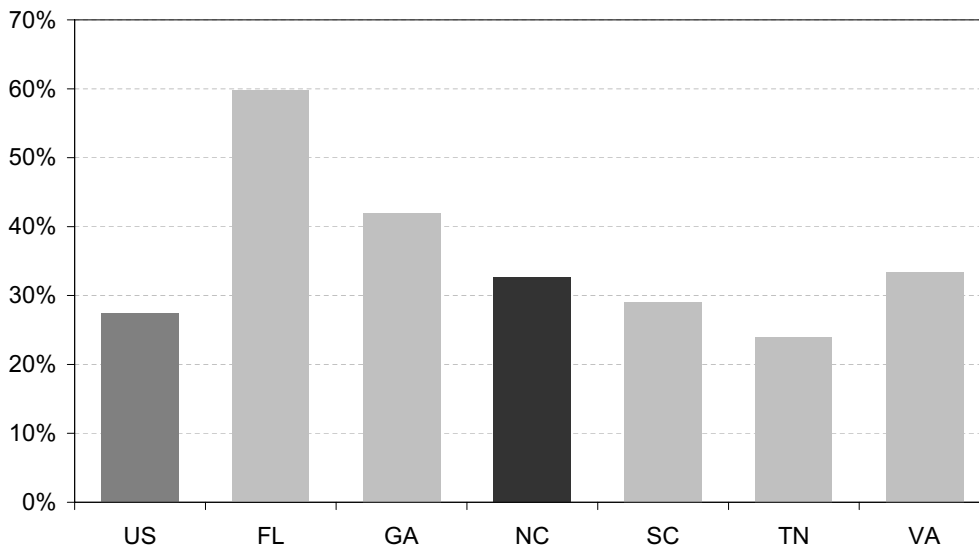


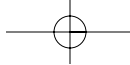


**Fig. 6. State/Local Employee Compensation per Dollar of Private Sector Employee Compensation**

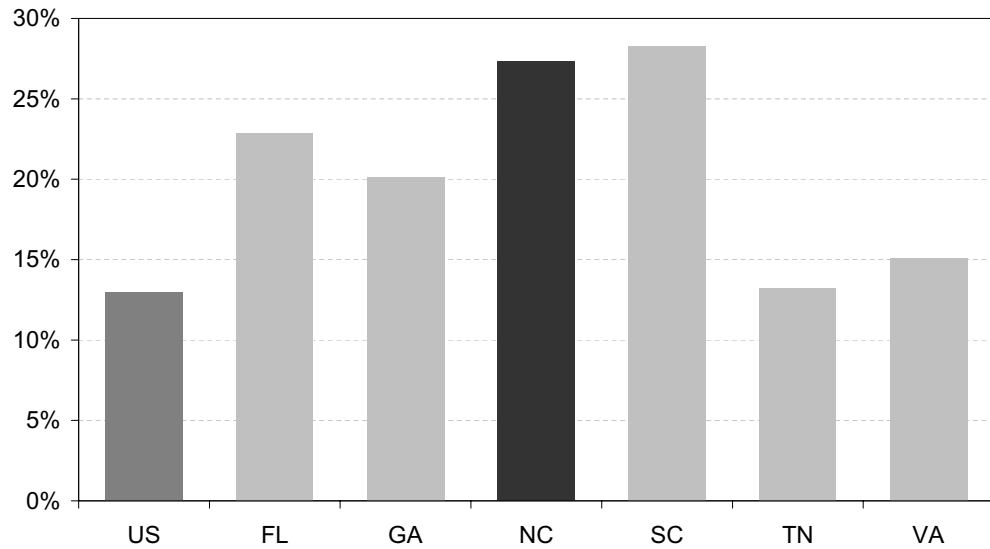


**Total Nonfarm Employment Growth: Southeast States, 1975-1985**

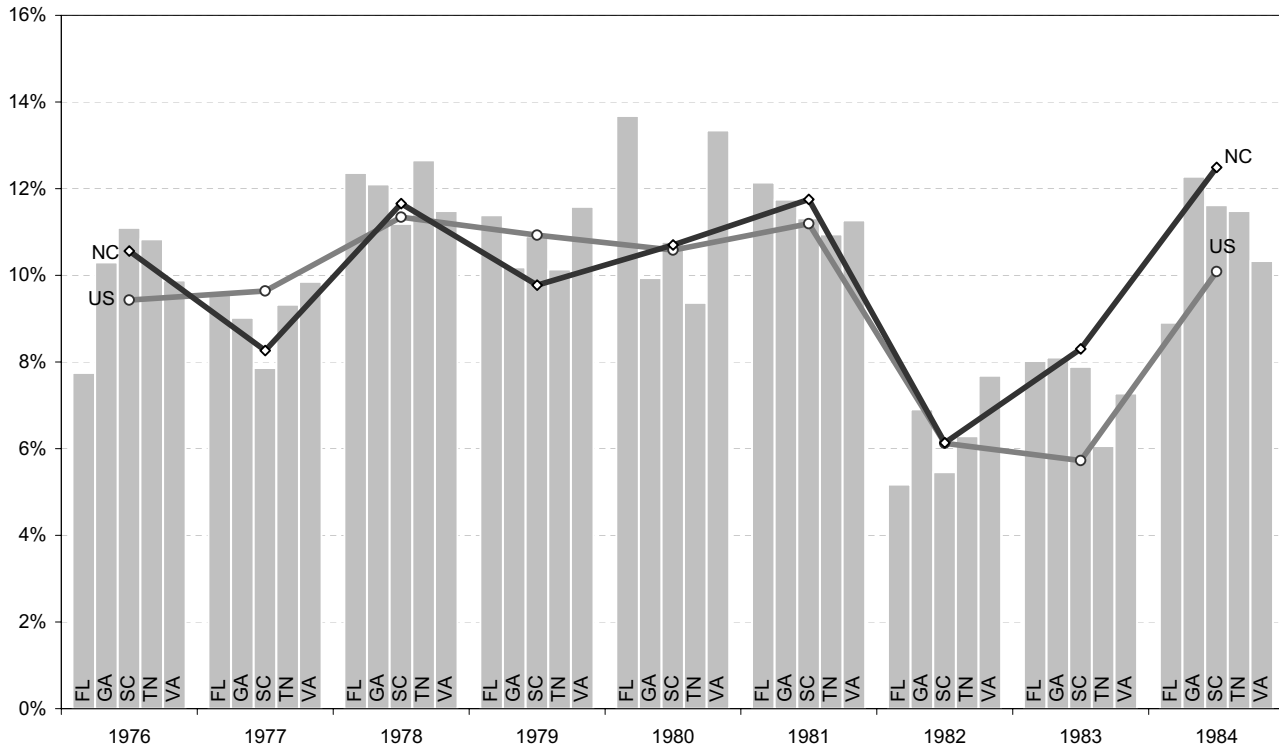




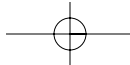
### State/Local Government Employment Growth: Southeast States, 1975-1985

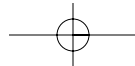


### Nominal Per Capital Personal Income Growth: Southeast States, 1976-1984



Note: The use of nominal growth is motivated by the fact that governments collect and project their tax revenues based on nominal, not real, growth in the tax base.





**Table 2**

<b>STATE TAX ON PERSONS:</b>		
	<b>U.S</b>	<b>and N.C.</b>
1976	2.68%	2.11%
1977	2.66%	2.17%
1978	2.71%	2.21%
1979	2.83%	2.14%
1980	2.87%	2.13%
1981	2.86%	2.12%
1982	2.82%	2.14%
1983	2.86%	2.24%
1984	2.91%	2.32%

percent of personal income

**DID YOU KNOW?**  
 Between FY1990 and FY2001, state tax revenues doubled in North Carolina – increasing 99 percent from \$7.87 billion to \$15.63 billion. By contrast, population growth, plus inflation, grew by only 67 percent.

Source: Cato Institute

