POINT OF VIEW

Opinion: HB2 means slower growth for North Carolina

Andrew Brod is a senior research fellow in UNC-G’s Center for Business and Economic Research and a member of The Business Journal’s Editorial Board of Contributors. Reach him at 336-707-6439 or Andrew.Brod@uncg.edu. An archive of his columns is available at http://cber.uncg.edu.

Deal that never got far enough to be canceled. But it’s a start.

How big is $750 million? If we follow WRAL’s approach and compare it to state GDP, it is indeed a small number.

But that’s not the best comparison. In statistical parlance, GDP is a flow rather than a stock. Each year, income flows through the economy, and if the flow gets larger, we call that growth. Growth is one of our most important economic indicators, so it’s useful to see what effect HB2 is having on economic growth in North Carolina.

Nominal, i.e. non-inflation-corrected, GDP has been growing at an average of 3.3 percent per year in North Carolina, which corresponds to $15 billion to $16 billion of growth per year. The $750 million first-year cost of HB2 is about 5 percent of that. Therefore, instead of 3.3 percent, we could have had nominal growth of 3.5 percent.

We measure growth using real, i.e. inflation-corrected, GDP, and real growth rates are in the range of 2 to 2.5 percent in North Carolina. It might seem like small potatoes to lose one or two tenths of a point of growth each year, but it really adds up.

For example, an economy that grows at an annual rate of 2.2 percent for 50 years will be 10 percent poorer than if it had grown by 2.4 percent per year.

If we’re lucky, HB2 won’t still be hanging around the neck of the North Carolina economy in 50 years. But right now, it’s taking a small but significant bite out of our state’s growth.

Editor’s Note: This column was written and sent to our printer on Wednesday, ahead of the General Assembly’s repeal of HB2 on Thursday. Much of what is discussed here, however, remains relevant as it pertains to the economic impacts already identified and costs that could still be incurred.

It’s been one year since the passage of HB2, North Carolina’s notorious “bathroom bill,” which, among other things, bans transgender people from using public facilities that correspond to their gender identity.

The law continues to harm our state’s reputation and economic prospects. We’re all familiar with the list of canceled concerts and sports events. In addition, corporations citing HB2 have canceled plans to locate in the state.

Even more disturbing is the claim by economic recruiters that some companies are simply leaving North Carolina off their short lists in location decisions. But it’s hard to measure the loss of something that never happened.

How big is the economic damage? Soon after the law was passed, a report by the UCLA School of Law projected North Carolina’s annual economic loss to be $5 billion. However, that number included the roughly $4.8 billion in annual federal education funding put at risk by HB2. The risk disappeared when the Obama administration let North Carolina off the hook.

This week, the Associated Press came out with an analysis that pegged the 12-year cost of HB2 at $3.76 billion. That looks huge as well, but it was calculated in a very conservative manner, and on a per-year basis it almost certainly understates the full cost.

Last September, Raleigh’s WRAL estimated HB2’s economic cost at that point to be around $500 million. The report noted that the effect was less than 0.1 percent of the state’s Gross Domestic Product and said the costs “barely dent [the] NC economy.”

A more recent Forbes analysis concluded that the figure was $630 million. The Human Rights Campaign obtained a figure of $659 million. Each of these studies looked at periods shorter than a year, so it’s reasonable to guess that the economic cost for the first year is close to $750 million. That understates the true total cost given the unmeasurable cost of losing deals that never got far enough to be canceled. But it’s a start.

How big is $750 million? If we follow WRAL’s approach and compare it to state GDP, it is indeed a small number.

But that’s not the best comparison. In statistical parlance, GDP is a flow rather than a stock. Each year, income flows through the economy, and if the flow gets larger, we call that growth. Growth is one of our most important economic indicators, so it’s useful to see what effect HB2 is having on economic growth in North Carolina.

Nominal, i.e. non-inflation-corrected, GDP has been growing at an average of 3.3 percent per year in North Carolina, which corresponds to $15 billion to $16 billion of growth per year. The $750 million first-year cost of HB2 is about 5 percent of that. Therefore, instead of 3.3 percent, we could have had nominal growth of 3.5 percent.

We measure growth using real, i.e. inflation-corrected, GDP, and real growth rates are in the range of 2 to 2.5 percent in North Carolina. It might seem like small potatoes to lose one or two tenths of a point of growth each year, but it really adds up.

For example, an economy that grows at a real annual rate of 2.2 percent for 50 years will be 10 percent poorer than if it had grown by 2.4 percent per year.

If we’re lucky, HB2 won’t still be hanging around the neck of the North Carolina economy in 50 years. But right now, it’s taking a small but significant bite out of our state’s growth.

Editor’s Note: This column was written and sent to our printer on Wednesday, ahead of the General Assembly’s repeal of HB2 on Thursday. Much of what is discussed here, however, remains relevant as it pertains to the economic impacts already identified and costs that could still be incurred.

It’s been one year since the passage of HB2, North Carolina’s notorious “bathroom bill,” which, among other things, bans transgender people from using public facilities that correspond to their gender identity.

The law continues to harm our state’s reputation and economic prospects. We’re all familiar with the list of canceled concerts and sports events. In addition, corporations citing HB2 have canceled plans to locate in the state.

Even more disturbing is the claim by economic recruiters that some companies are simply leaving North Carolina off their short lists in location decisions. But it’s hard to measure the loss of something that never happened.

How big is the economic damage? Soon after the law was passed, a report by the UCLA School of Law projected North Carolina’s annual economic loss to be $5 billion. However, that number included the roughly $4.8 billion in annual federal education funding put at risk by HB2. The risk disappeared when the Obama administration let North Carolina off the hook.

This week, the Associated Press came out with an analysis that pegged the 12-year cost of HB2 at $3.76 billion. That looks huge as well, but it was calculated in a very conservative manner, and on a per-year basis it almost certainly understates the full cost.

Last September, Raleigh’s WRAL estimated HB2’s economic cost at that point to be around $500 million. The report noted that the effect was less than 0.1 percent of the state’s Gross Domestic Product and said the costs “barely dent [the] NC economy.”

A more recent Forbes analysis concluded that the figure was $630 million. The Human Rights Campaign obtained a figure of $659 million. Each of these studies looked at periods shorter than a year, so it’s reasonable to guess that the economic cost for the first year is close to $750 million. That understates the true total cost given the unmeasurable cost of losing deals that never got far enough to be canceled. But it’s a start.

How big is $750 million? If we follow WRAL’s approach and compare it to state GDP, it is indeed a small number.

But that’s not the best comparison. In statistical parlance, GDP is a flow rather than a stock. Each year, income flows through the economy, and if the flow gets larger, we call that growth. Growth is one of our most important economic indicators, so it’s useful to see what effect HB2 is having on economic growth in North Carolina.

Nominal, i.e. non-inflation-corrected, GDP has been growing at an average of 3.3 percent per year in North Carolina, which corresponds to $15 billion to $16 billion of growth per year. The $750 million first-year cost of HB2 is about 5 percent of that. Therefore, instead of 3.3 percent, we could have had nominal growth of 3.5 percent.

We measure growth using real, i.e. inflation-corrected, GDP, and real growth rates are in the range of 2 to 2.5 percent in North Carolina. It might seem like small potatoes to lose one or two tenths of a point of growth each year, but it really adds up.

For example, an economy that grows at a real annual rate of 2.2 percent for 50 years will be 10 percent poorer than if it had grown by 2.4 percent per year.

If we’re lucky, HB2 won’t still be hanging around the neck of the North Carolina economy in 50 years. But right now, it’s taking a small but significant bite out of our state’s growth.