

Data Alert

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Cuts in local government employment accelerated sharply in September

By Don Boyd and Lucy Dadayan

Friday's September employment report from the Bureau of Labor Statistics showed that total employment in the nation declined by 95,000 jobs in the past month. The decline was driven by a combination of very weak growth in the private sector (+64,000 jobs), a large decline in federal government employment (-76,000) reflecting the departure of 77,000 temporary Census 2010 workers, and a decline of 83,000 in state and local government jobs. (See Table 1.)

Table 1: Change in employment by sector
Employment (thousands)

	August 2010	Sept. 2010	September 2010 vs. August 2010		September 2010 vs. December 2007 recession start	
			Change	% Change	Change	% Change
Total nonfarm	130,296	130,201	(95)	-0.1%	(7,750)	-5.6%
Total private	107,906	107,970	64	0.1%	(7,604)	-6.6%
Government	22,390	22,231	(159)	-0.7%	(146)	-0.7%
Federal	2,919	2,843	(76)	-2.6%	88	3.2%
State and local government	19,471	19,388	(83)	-0.4%	(234)	-1.2%
State government	5,147	5,140	(7)	-0.1%	0	0.0%
State government education	2,394	2,386	(8)	-0.3%	59	2.5%
State govt., excluding education	2,754	2,754	0	0.0%	(59)	-2.1%
Local government	14,324	14,248	(76)	-0.5%	(234)	-1.6%
Local government education	7,955	7,905	(50)	-0.6%	(148)	-1.8%
Local govt., excluding education	6,370	6,344	(26)	-0.4%	(86)	-1.3%

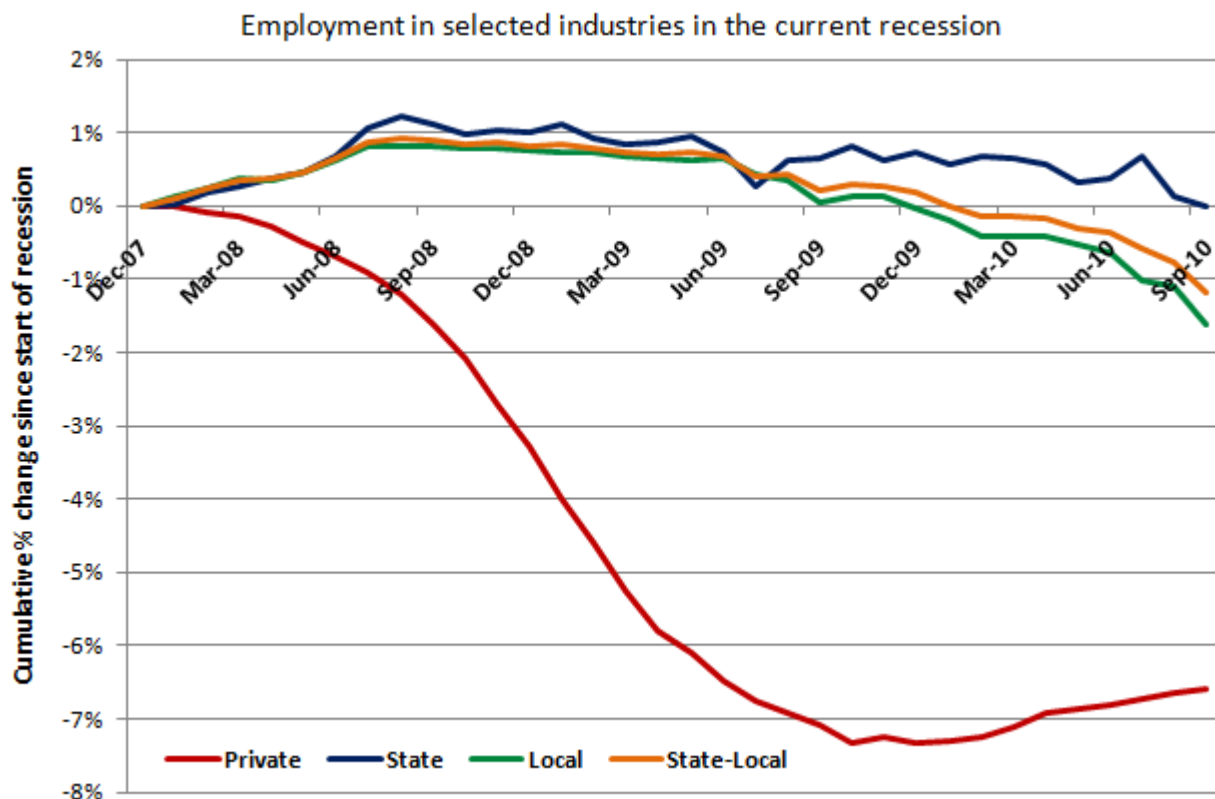
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics

The declines in state and local government employment reflected a loss from August to September of 7,000 state government jobs and 76,000 local government jobs. After rising for eight consecutive months at the start of the recession, state and local government employment has declined for 19 of the last 25 months. State and local

government employment is now down 234,000 jobs from the start of the recession, or 1.2 percent, and is down 416,000 jobs, or 2.1 percent, from its August 2008 peak.

As we noted in our August report, state and local government employment declines are significant by historical standards. However, as is true of past recessions the declines pale in comparison to cuts in private sector employment; private employment is now recovering weakly but remains nearly 7 percent below the pre-recession peak as Figure 1 shows.

Figure 1: Employment by sector relative to the start of the recession



Source: U.S. Bureau of Labor Statistics (CES, seasonally adjusted).

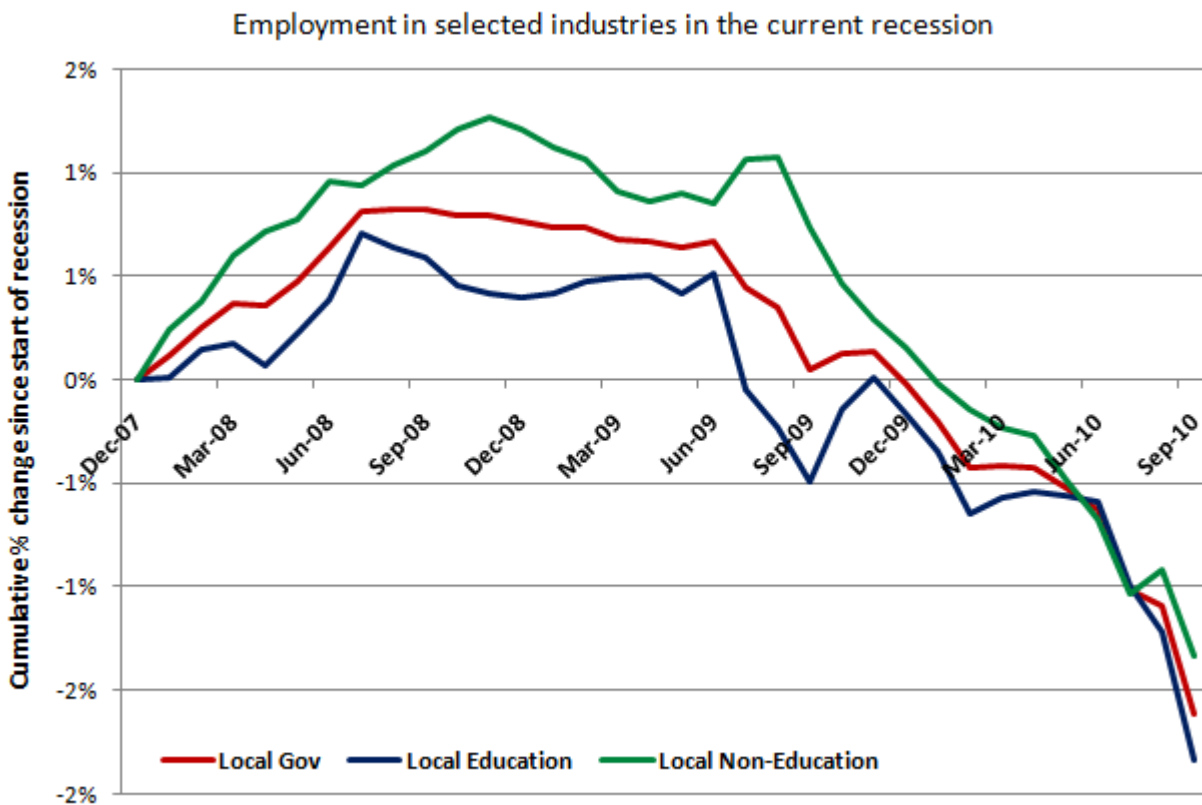
Still, the turnaround in local government employment is quite striking, as Figure 2 shows. As we have noted before, governments often feel and respond to the effects of recession with a lag. It takes time for private-sector pain to be reflected in some components of government tax revenue, and it takes time for governments to make policy decisions in response. The lags can be even greater for local governments than for state governments for two main reasons: First, the property tax, which is primarily a local government tax, generally responds to property value declines more slowly and less sharply than income, sales and corporate taxes (mainstays of state government budgets) respond to general economic downturns. Second, many local governments depend heavily on state aid, and lags in cuts by state government lead to further delays in local government responses. Those cuts are now underway in earnest and local

governments are responding. In addition, in the current fiscal crisis federal stimulus aid has helped to delay and stretch out some of the hard choices that state and local governments need to make.

Local government education employment rose in fits and starts until a June 2008 peak of 8.11 million jobs, then fell slowly for about a year. After July 2009 (the start of the 2009-10 school year in most states) local governments made much sharper cuts, with declines in almost every month. Local government education employment is now down 205,000 jobs, or 2.5 percent, from its June 2008 peak.

Local government non-education employment rose for the first 11 months of the recession, peaking at 6.51 million jobs in November 2008. After that, local governments began to cut back slowly for about three-quarters of a year. After August 2009 the cuts accelerated and have been nearly continuous. Local government non-education employment is now down 167,000 jobs, or 2.6 percent, from its November 2008 peak.

Figure 2: Local government education and non-education employment have both been declining sharply

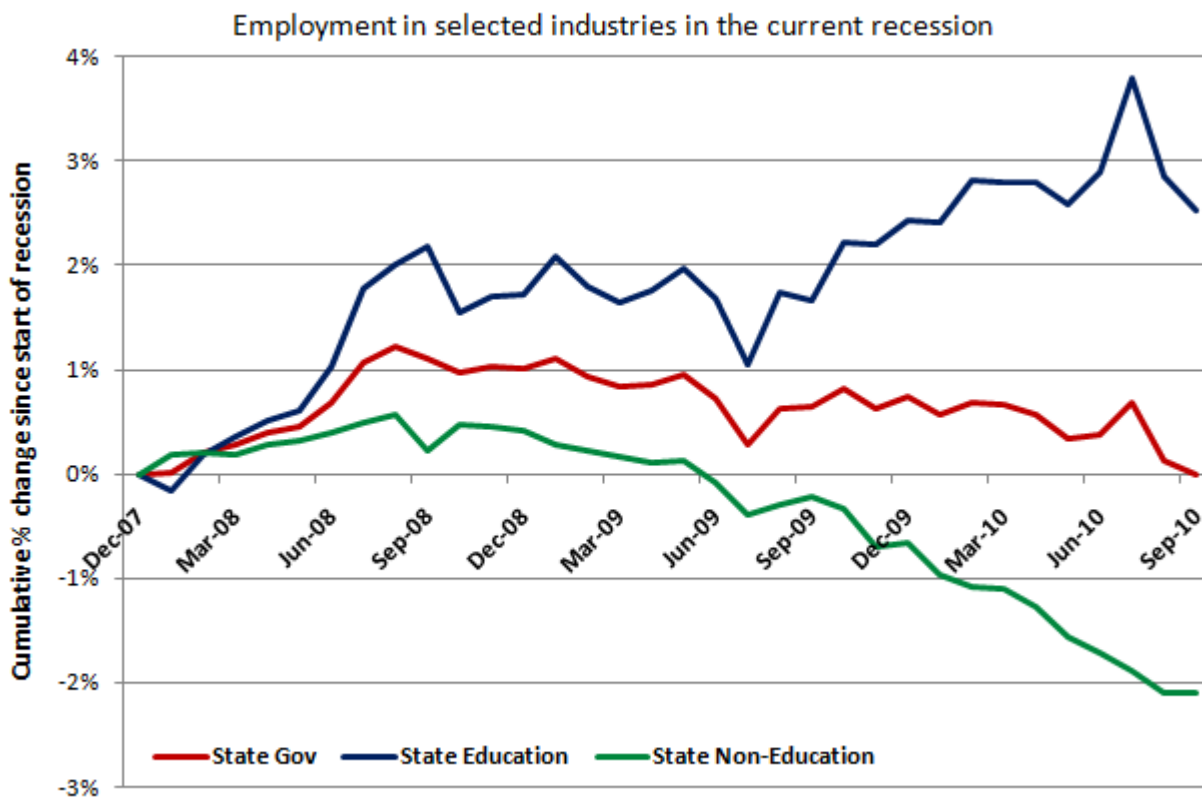


State government accounts for only about a quarter of state and local government employment and so its impact on the government jobs picture is much less significant. The state government employment response to the recession has been more varied

and muted than the local government response, as a comparison of Figure 3 to Figure 2 makes clear. State government education employment (primarily for state colleges and universities) rose fairly steadily until July 2010, but has fallen for the last two months, although it remains well above its level at the start of the recession. When jobs are hard to find, it is a good time to stay in school and build skills and so demand for higher education tends to rise in recessions. Universities and colleges often support this demand in the face of cuts in assistance from the state government by raising tuition and indeed tuition increases have been widespread and dramatic in this recession.

By contrast, state government non-education employment has been declining fairly steadily since its August 2008 peak, and it is now down 75,000 jobs, or 2.7 percent, from that peak.

Figure 3: State government non-education employment is 2% below the recession’s start



Source: U.S. Bureau of Labor Statistics (CES, seasonally adjusted).

As we noted in an August report, we expected the July 2010 decline in local government education employment to be followed by additional declines as schools prepared for the new academic year. Although Congress recently provided additional stimulus aid for education, it has been difficult for school districts to reflect that in their near-term plans because the aid was approved after many local budgeting and employment decisions were made. In addition, states and school districts generally

understand that current fiscal circumstances are likely to require additional cuts, and many did not want to boost employment temporarily only to embark on new cuts next year. This has likely dampened the employment effects of additional stimulus aid.

Finally, as we have noted in Rockefeller Institute revenue reports, although state government revenue has begun to stabilize, it remains well below the pre-recession peak. Spending has been propped up partly with temporary measures and can't be supported by the current level of revenues. More budget cuts, and more state and local government employment reductions, are likely for at least the next year.