The Daily Dish

The State-Local Government Employment Picture

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Eakinomics: The State-Local Government Employment Picture

There has been a steady drumbeat of dire warnings from the left regarding the outlook for employment in the state-local government sector. In the absence of a large infusion of funds from the federal taxpayer, the argument goes, there will be massive layoffs that will undercut the economic recovery. As evidence, they point to the downturn and response in the Great Recession.

State government employment began falling from its peak of 5.2 million in September 2009 and ultimately declined by nearly 200,000. Indeed, to this day it has not recovered its pre-recession levels. Local government employment began declining from its peak of 14.6 million one month earlier; it ultimately fell by 588,000 and did not recover its pre-recession level until early 2019. In both cases the maximum decline was about 4 percent. Clearly, the sector was under some duress. The federal government, however, hardly sat on its hands, allocating over $50 billion – 6.8 percent – out of the $790 billion American Reinvestment and Recovery Act (ARRA) funds for state-local governments.

What is happening now? By the numbers, it is even more severe. State employment has fallen by 288,000 in the past three months, a decline of 5.5 percent. Local government employment is down 1.3 million in only two months – a decline of 8.7 percent. Just as the economic downturn is much more severe than in the Great Recession, state-local employment is down sharply as well. But despite what you may have heard, the federal government *has* responded, providing $150 billion or 8.3 percent of the funding in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

So what next? Is it just a matter of more federal dollars?

Perhaps, but as the saying goes, there is a spanner in the works: the $600 per-week federal bonus unemployment insurance benefit. There has been much discussion of the fact that the bonus makes unemployment insurance more financially attractive than returning to work for 63 percent of private sector workers. But there has been no discussion about the labor market incentives of state-local employees. My colleague Isabel Soto took a look at the American Community Survey on a state-by-state basis. In only one instance (the District of Columbia) is there a situation in which under 50 percent of government workers would make more by going to work. In the vast majority of the country, the fraction is well over 50 percent and frequently 70 to 80 percent.

These labor market incentives have two implications. First, they may help to explain the much more dramatic and swift layoffs in this recession, as both the municipal budget and the worker are better off with a layoff. Second, they imply that there may be more to supporting state-local employment that just appropriating federal funds.

Funding for state-local governments will be a key part of any further legislative response to COVID-19. But getting it right will require looking at a landscape larger than the budgetary outlook.