



## LOCAL GOVERNMENT JOB LOSSES HURT ENTIRE ECONOMY

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America continues to reel from the worst recession in 75 years. While the American Reinvestment and Recovery Act successfully mitigated the severity and length of the downturn, robust economic recovery—though hoped for—is far from guaranteed.

Although recent economic indicators suggest a turnaround, much of the economy is still struggling, and these elements could keep unemployment high. Local governments in particular have suffered from the recession, which has led to massive budget gaps caused by a combination of depressed tax revenues and higher costs from a social safety net that more and more Americans are forced to rely on.

These budget gaps will translate into a loss of jobs, over half of which have yet to occur. Unlike the federal government, most local governments must balance their budgets each year. This means, among other things, that vital local public servants like teachers, firefighters, and police are a target of budget cuts and could be laid off. According to the Bureau of Labor Statistics, 180,000 local public-sector jobs have already been lost since August 2008.

And it will get worse—much worse. The budgets of local governments typically lag behind economic conditions by about a year-and-a-half to three years. This means that despite a slowly growing economy, local governments will still be faced with tens of billions of dollars in budget gaps for a long time (Hoene 2009). Our most recent calculations estimate that the current local budget shortfall nationwide is \$40 billion in state fiscal year 2010 (through June 2010), with another \$40 billion deficit in SFY2011 and a \$20 billion deficit in SFY2012 (Pollack 2009). These deficits are mainly driven by falling sales tax and property tax revenues, along with cuts in revenue transfers from state governments. Between now and June 2012 local governments will face an estimated cumulative \$66.7 billion shortfall.

So far local governments have laid off 3,338 public servants for each billion dollars they faced in deficits. Assuming the ratio remains constant, this suggests that local public employment will fall by 155,750 jobs between now and June 2011 and by 66,750 jobs between July 2011 and June 2012. This adds up to an impending 222,500 drop in local public employment between now and June 2012—in other words, over half of the local job losses have yet to hit the economy.

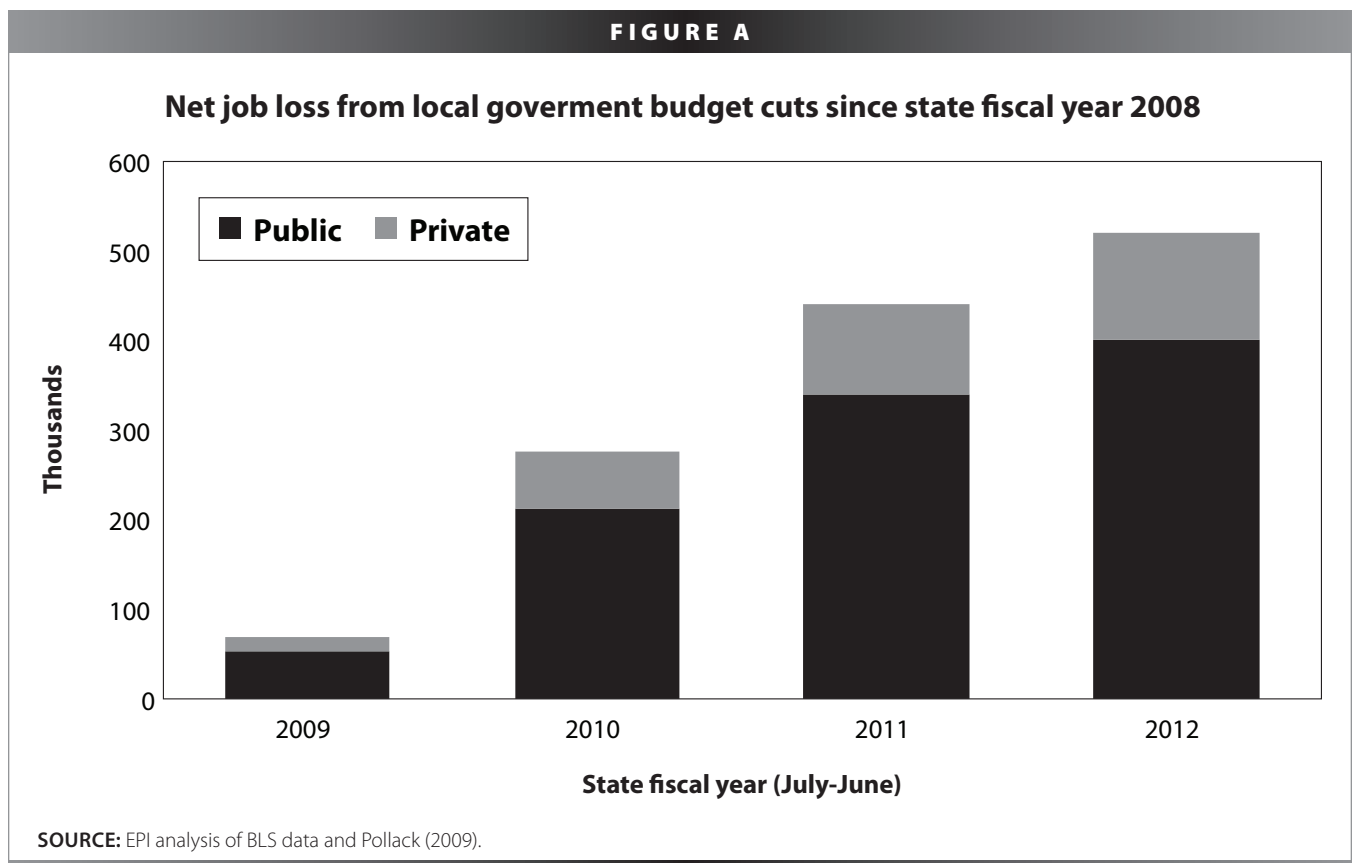
This back-of-the-envelope estimate may understate the total expected job impact: local governments tend to cut the low-hanging fruit first rather than immediately resorting to the politically unpopular and difficult option of public-sector layoffs. This suggests that the ratio of layoffs-to-deficits may increase in the future. For example, a recent report from the American Association of School Administrators estimates that through June 2011 around 275,000 education jobs (75% of which are funded by local governments) will be lost (Ellerson 2010).

This massive job loss will harm far more than the public servants who face unemployment. For one, our communities will be deprived of the vital services they deliver. Schools would see larger class sizes, our homes would be less protected from fire, and our streets would become less safe. This is already happening across the board—according to a survey from the National League of Cities, 71% of cities have instituted hiring freezes and layoffs (McFarland 2010).

These layoffs also ripple through the entire economy. Each 100 public-sector layoffs also leads to 30 private-sector layoffs, mainly due to a loss of incomes and consumer spending that reduces demand for goods and services across the economy. The total employment impact of these public-sector layoffs—including private job losses—would actually be just under 300,000 jobs lost.

**Figure A** shows cumulative net job losses due to local government spending gaps relative to state fiscal year 2008. By 2012, for example, the economy will have lost 520,650 total jobs as a result of public-sector cuts, and we would need to create 400,500 local public-sector jobs just to get back to where we were in 2008.

Preventing these impending layoffs by state and local governments should be an urgent priority for Congress and the Obama administration. U.S. Rep. George Miller (D.-Calif.), chairman of the House Education and Labor Committee, has introduced legislation (The Local Jobs for America Act, H.R. 4812) that the Committee estimates would create or preserve roughly 1 million jobs in local communities around the country. Among other things, this legislation would help to prevent layoffs of teachers and public safety professionals. Passing this legislation is essential to sustaining the labor market’s nascent recovery.



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