State Governments Are Not Likely To Cut Employment In The Current Fiscal Crisis

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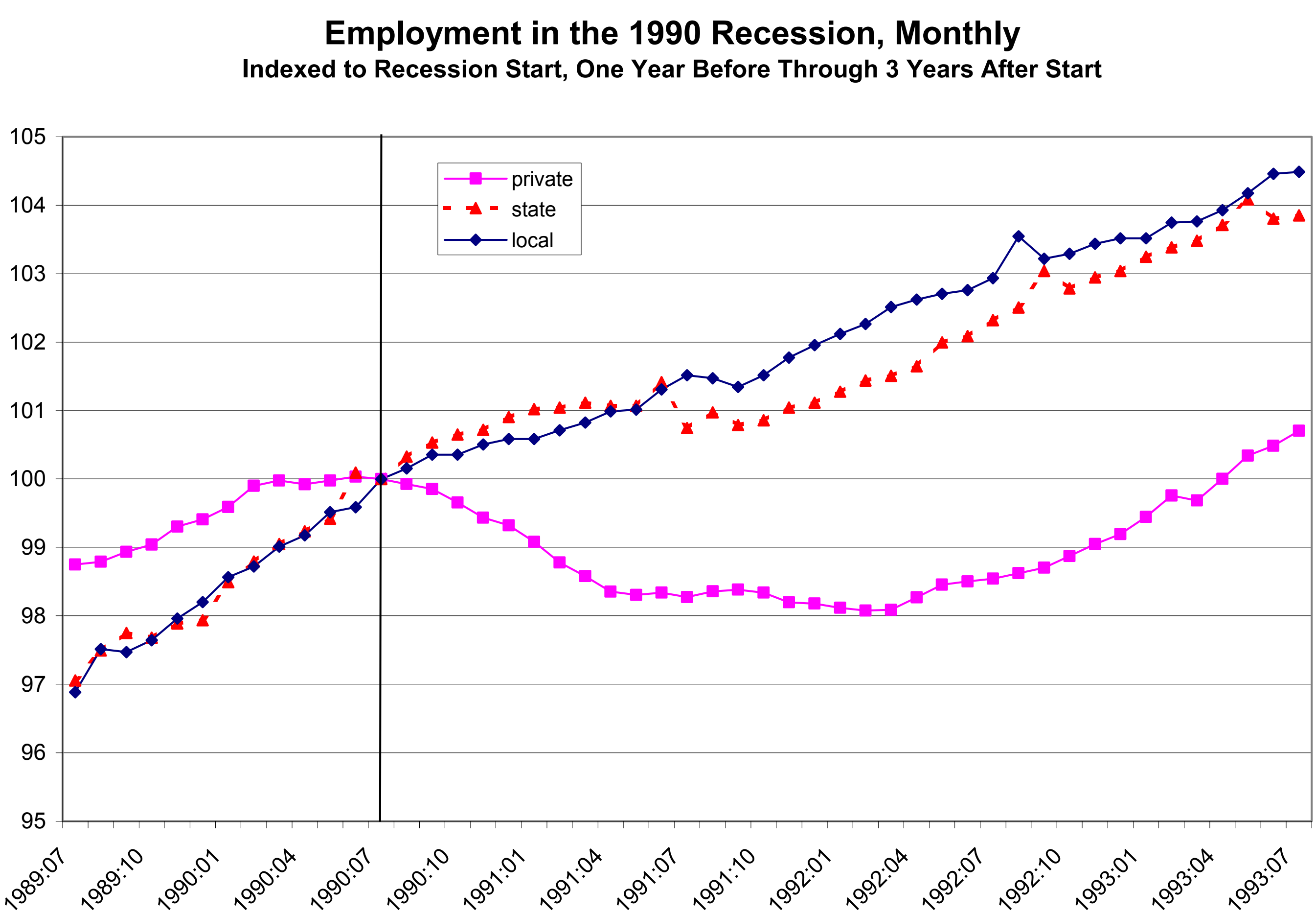
Although the economic recession may be over, the fiscal crisis for states lingers: a slow economic recovery, declining financial markets, and accelerating Medicaid costs are contributing to continuing tax revenue shortfalls and significant spending pressures. States are now completing their 2002-03 budgets, and significant broad-based tax increases are rare. Does this mean that states will have closed budget gaps by slashing the state government workforce?

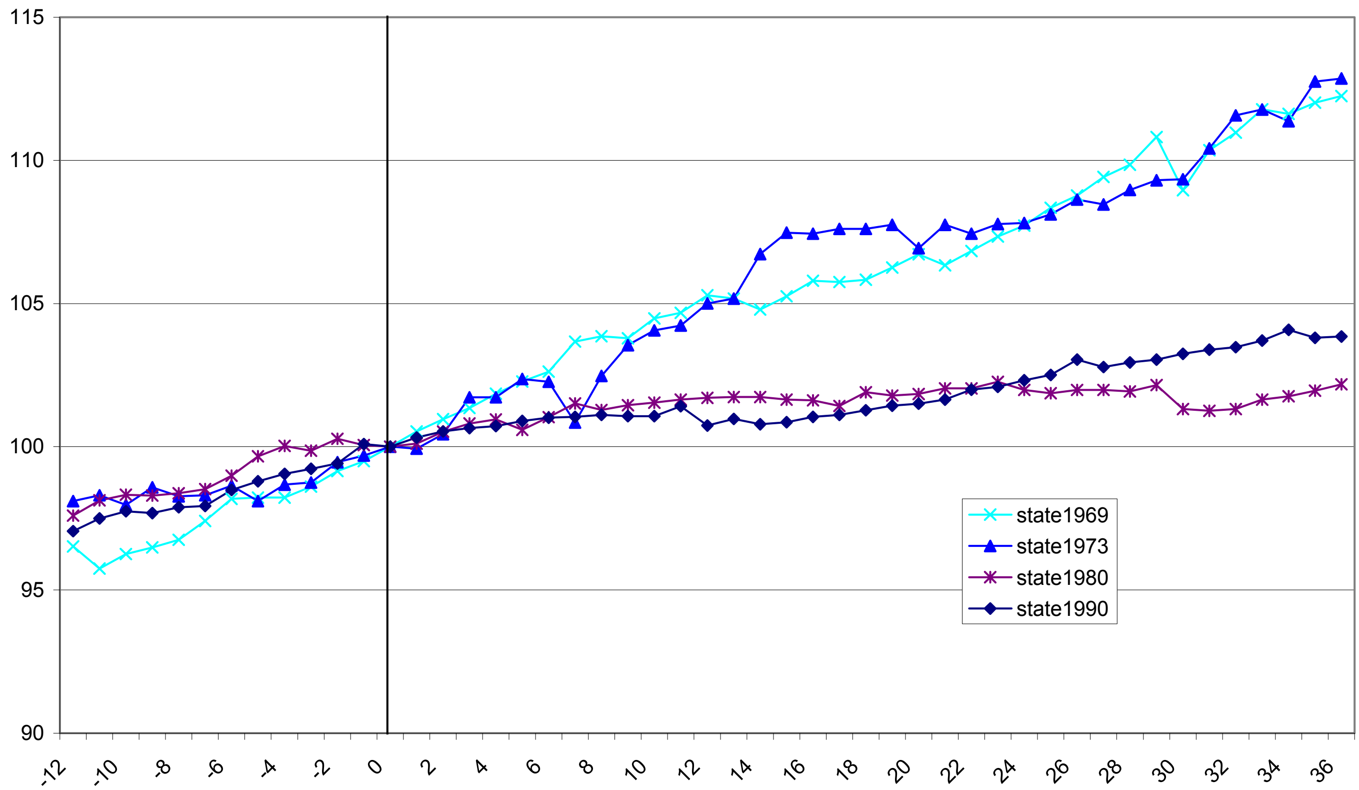
If history is any guide, the answer is "no." The first figure below shows private sector, state government, and local government employment in the most recent recession, which began after the July 1990 peak, indexed so that the value for all three sectors is 100 at the start of the recession.



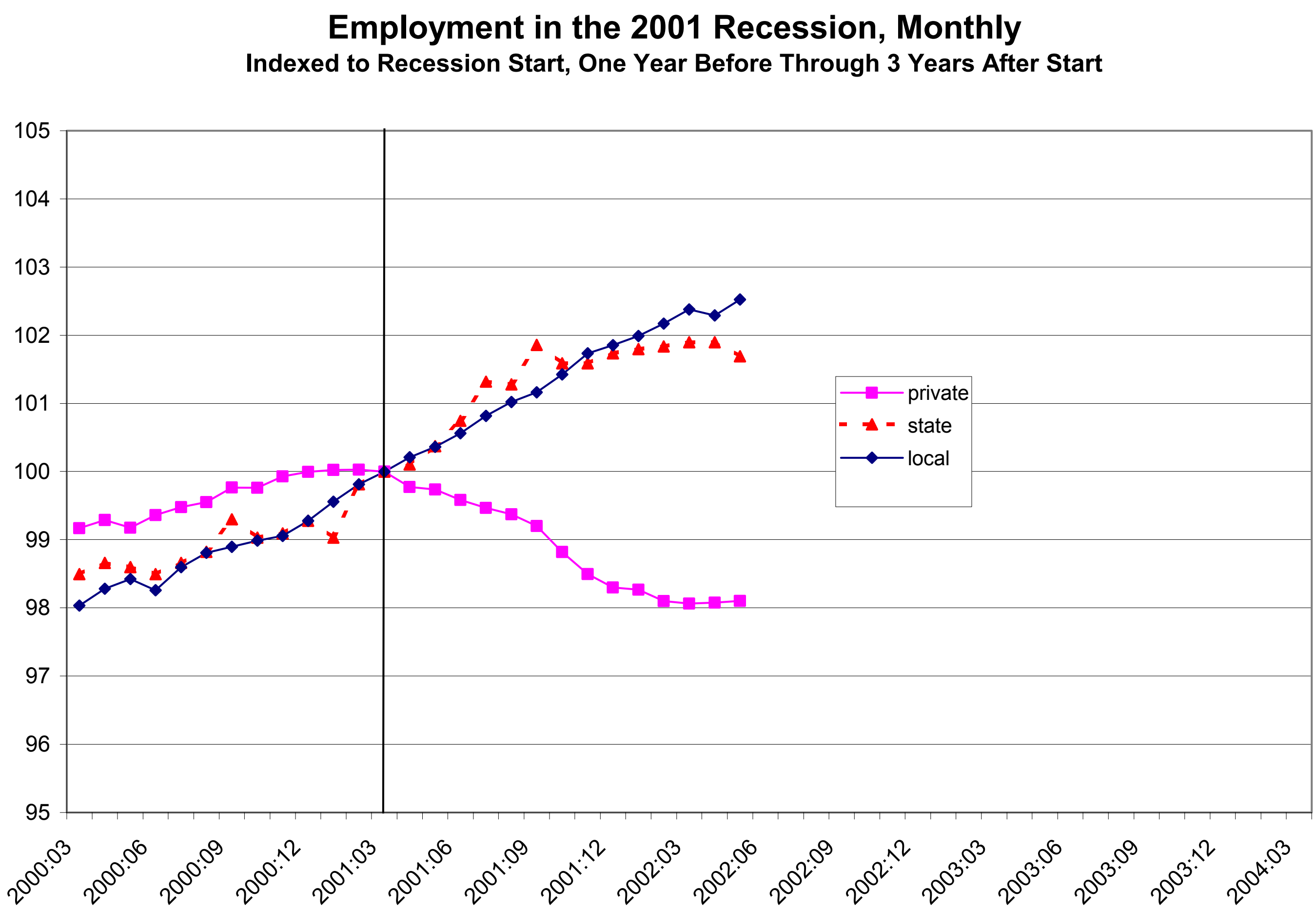
Private sector employment fell off rather significantly shortly after the recession began, while state and local government employment continued to rise. One and a half years after the recession's start, private sector employment was down about two percent from its peak while state and local government employment both were more than one percent above their level at the start of the recession.

This has been the pattern of most post-war recessions: private sector employment falls while state and local government continues to rise. The figure below shows that state government employment continued to rise in each of the four most recent recessions. The slower rise in the two most recent recessions (1980 and 1990), compared with sharper increases in the two earlier recessions (1969 and 1973), appears to reflect simply a slowing in the long-term trend of state government employment growth by the 1980s and 1990s, rather than something different about the recessions.[1]

State Government Employment In 4 Recent Recessions
Indexed to Recession Start, One Year Before Through 3 Years After Start



Finally, the next figure shows that the current recession, so far, is much like previous recessions: private sector employment has fallen while state and local government employment has continued to rise.



According to a recent Stateline.org article, 16 states have adopted hiring freezes this year, but as that article also noted, hiring freezes often are not as tough as they appear. Governments often exempt from these freezes jobs that provide for the health and safety of citizens, jobs that provide highly valued services such as education, jobs that raise revenue (e.g., tax auditors), and jobs that are funded by the federal government. Many state government jobs can fall into these categories, and so relatively large numbers of state government jobs can be exempt from freezes.

This does not mean that hiring freezes and other efforts by states to curtail employment have no impact. The graphs above are rather crude ways of looking at employment. If we use finer instruments – not elaborated on here - we can see that the *rate of growth* in government employment does tend to fall below its longer term trend in recessions. However, the point remains that growth may slow, but outright cuts generally have not occurred.

There are several reasons why government employment is so recession-resilient. One is that many of the services state governments provide have relatively stable demand during recessions, and demand may even increase. The top three employment areas for states are higher education, corrections, and health and hospitals, accounting for more than 60 percent of all state government employment. Demand for higher education can increase during recessions as people find skill-building and staying in school relatively more attractive when jobs are scarce; prison populations and the demand for prison guards appear relatively stable in recessions; and demand for health services is not especially sensitive to the economy, either. As a result, states often find substantial demand for their services even during recessions, contributing to stability in government employment.

The history of state government employment in recent recessions, and the history of this recession so far, certainly suggest that employment cuts will not be a large part of the solution to the current fiscal crisis.

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[1] Local government employment would show the same trend in most recessions, with the exception of the 1980 recession where changes in federal jobs programs appear to have skewed the trend.