

## Government Payrolls Are Facing New Pressures

By SUDEEP REDDY - March 25, 2013

Governments bled hundreds of thousands of jobs after the U.S. economic recovery started. Now they're preparing to pass the knife around again as the federal budget comes under pressure.

The cuts in the public-sector workforce—at the federal, state and local levels—marked the deepest retrenchment in government employment of civilians since just after World War II. About 21.8 million civilians were directly employed by a government in the U.S. in February, accounting for roughly one out of every six nonfarm payroll jobs, according to the Labor Department. That is down by about 740,000 jobs since the recession ended in June 2009. At the same time, the private sector has added more than 5.2 million jobs over the course of the recovery.

Public employment is really on the ropes," said Brookings Institution economist Gary Burtless. "The overhang from the financial crisis seems to have lasted much, much longer in the public sector."

More than 97% of public-sector job cuts after the recession came from budget reductions by state and local governments, hit hard by falling tax revenue when housing prices collapsed. Their budgets are starting to stabilize as the housing market recovers, but their employment continues to shrink slowly.

Now, the federal workforce is preparing to take a hit. The U.S. government's workforce has fallen about 37,000 jobs over the past year. At about 2.8 million civilian workers, excluding roughly 1.6 million uniformed military personnel, it occupies a smaller share of U.S. jobs than most of the period since World War II.

The size and shape of the government workforce will rest largely on factors just starting to take shape: how coming federal cuts are implemented; the response from state and local governments to those moves; and the ability of the private sector to offset the retrenchment:

**Federal budget cuts.** Spending reductions that started March 1, known as sequestration, are set to take effect more widely in the coming weeks as agencies furlough workers and maintain hiring freezes. The cuts—about \$85 billion in the

fiscal year ending in September and \$109 billion a year after that—will disproportionately hit agencies that employ the most workers.

The effects will be tough to measure. Workers facing a one-day-a-week furlough, for instance, will remain on payrolls, but at lower pay. Some agencies might alter the cuts once they take effect and spur a public backlash. But the hiring freezes, and decisions by some agencies to eliminate open jobs, should trim the federal workforce. The cuts, if they remain in effect, would cut federal-government jobs by 100,000 annually, economists at UBS estimate.

**State and local responses.** Local governments employ about 14 million people, including teachers and emergency responders, while state governments have roughly 5 million people on their payrolls. About a quarter of all funding for state and local governments comes from the federal government, which implements some of its programs through governments down the line.

The reliance on state and local workers helped contain federal employment for decades while many federally funded programs expanded, pushing federal spending a share of the U.S. economy in recent years above its average of the past 50 years. "The federal government is not much bigger than it was in the late Eisenhower era in terms of employment," said Mr. Burtless of Brookings.

That means the federal budget cuts could pressure state and local government payrolls again.

Coming out of a deep downturn, many state officials, in particular Republican officeholders, have already shown a desire to contain public payrolls under the belief that limiting government spending would help the private sector in the long run. A pullback in federal funding would slow the rebound in state and local government employment even more.

**Private-sector response.** Government contractors, which are classified as private-sector workers, have been carrying out hiring freezes and job cuts for months as they prepare for the budget reductions. Because public-sector workers initially will be hit by temporary furloughs, which won't count as job cuts, private-sector contractors may be among the first measurable job losses due to budget cuts.

How the rest of the private sector responds to a shrinking of the federal government could play a bigger role in determining how the budget fight hits the workforce.

"The private sector in the U.S. is growing so much stronger than anyone had expected," said **Bernard Baumohl of the Economic Outlook Group**. "This organic growth is going to significantly offset the effect of the sequester in terms of economic output and employment."

If private firms keep hiring as they have in recent months, their expansion might relieve lawmakers of political pressure to undo the federal budget cuts. That alone could be enough to ensure that the federal workforce keeps shrinking.