Associated Press

Government job losses a growing drag on recovery

By BY TOM RAUM, Associated Press – 3 hours ago

WASHINGTON (AP) — Conservative Republicans have long clamored for government downsizing. They're starting to get it — by default.

Crippled by plunging tax revenues, state and local governments have shed over a half million jobs since the recession began in December 2007. And, after adding jobs early in the downturn, the federal government is now cutting them as well.

States cut 49,000 jobs over the past year and localities 210,000, according to an analysis of Labor Department statistics. There are 30,000 fewer federal workers now than a year ago — including 5,300 Postal Service jobs canceled last month.

By contrast, private-sector jobs have increased by 1.6 million over the past 12 months. But the state, local and federal job losses have become a drag on efforts to nudge the nation's unemployment rate down from its painfully high 9.1 percent.

The economy has been expanding, at least modestly, since the middle of 2009. And state and local governments are usually engines of job growth during recoveries. But not now, said economist Heidi Shierholz of the labor-aligned Economic Policy Institute.

"The public sector didn't start to lose jobs right away. But then it did as the budget crunch really hit. State governments are not allowed to run deficits. So the private sector is expanding while the public sector is shedding jobs — to the tune of 35,000 jobs a month," she said.

President Barack Obama sought to ease the crunch by including $35 billion to prevent layoffs of police, firefighters and teachers in his $447 billion jobs package. But that big bill hit a GOP wall in Congress.

Efforts to pass what Obama called "bite-sized pieces" of the big bill have stalled, too. Republicans don't want to swallow them, regardless the serving size. Senate Republicans blocked the $35 billion installment late last week when Democratic leaders called it up as stand-alone legislation.

The dynamic is already reverberating through the gathering presidential campaign cycle, with Republicans making an issue out what they depict as Obama's inability to turn the economy around. This has been driven home in every one of the frequent Republican presidential debates, and is certain to become even more intense as the GOP field narrows. The weak economy is a main factor in Obama's current approval ratings, the lowest of his presidency.

No sitting president since Franklin D. Roosevelt in 1936 and 1940 has been elected with the unemployment rate as high as it stands today — hovering near or above 9 percent for more than two years. In 1936, the rate was 17 percent and in 1940, 15 percent, but then it was on a downward trend from over 24 percent earlier in the Great Depression.

Ronald Reagan's durable 1980 campaign slogan that government "is not the solution to our problem, government is the problem" is a cherished GOP refrain. Most recently, it's been echoed in tea party calls for smaller government.

Yet the federal bureaucracy grew by leaps and bounds during Reagan's eight years in office — and under every Republican and Democratic president since.

Reagan-inspired conservative visions of smaller government are usually premised on deep spending cuts, low taxes, and program eliminations. All current GOP presidential contenders have subscribed to this line, as have GOP congressional leaders.

The recession-forced shrinkage of state, local and federal workforces — even as the federal debt continues to swell — is not exactly what tea party activists and other fiscal conservatives had in mind.

Cities and counties are hampered by lower property tax revenue because of collapsing real estate values. States are hurt by lower income and sales tax revenue because of the deep recession and stubborn unemployment.

The National Association of State Budget Officers says states were able to sustain spending growth through 2010 principally with federal stimulus money. But it has since dried up. The loss of the federal stimulus "combined with a slow recovery in state revenue collections will continue the tight resource environment for states in fiscal 2012," reports the association. Most state fiscal years begin in July.

Private business gains are too modest to significantly lower the unemployment rate, despite last week's claim by Senate Majority Leader Harry Reid that "private-sector jobs have been doing just fine."

Economists suggest roughly 200,000 new jobs a month — or 2.4 million a year — are needed to significantly lower the jobless rate. It takes from 100,000 to 150,000 new jobs a month just to tread water and match working-age population growth.

All told, since the recession began, local governments have bled 405,000 jobs, state governments 50,000. The federal government has added a net 63,000 jobs after subtracting the more recent losses.

Statistically, the recession ended in June 2009, but it's been a tough slog since for nearly everybody. One exception: The number of people earning $1 million a year or more increased in 2010 by nearly 20 percent, the government reported last week.

Efforts to spur job growth — while also addressing chronic deficits — have been snarled by adamant GOP refusal to raise taxes of any kind, and Democratic stands against trimming popular government health and retirement programs.

And more government job losses could be looming as the clock ticks down on Congress' deficit-cutting supercommittee. The panel, a product of last summer's debt-limit deal and comprising six lawmakers from each party, is tasked with delivering recommendations by Thanksgiving for $1.2 trillion in deficit reductions over the next decade.

If the panel fails to strike a deal that wins congressional approval by year's end, the $1.2 trillion would be triggered in indiscriminate across-the-board cuts beginning in January 2013. Defense jobs, here and on installations across the nation, would be particularly vulnerable to layoffs.

Of course, once the recovery runs its course — and recoveries always have — the jobless rate may well return to 5-6 percent. Consumer spending will be up again, and so will tax revenues for federal as well as state and local governments. And government hiring will probably resume. The big question is when.

Chris Edwards, tax policy director for the libertarian Cato Institute, said he doesn't believe helping state and local governments should be a federal financial responsibility. "They should tighten their belts," he said.

"Governments are not very good at manipulating the economy in the short run," Edwards added. "We haven't solved recessions yet. And I don't think governments will with activist policies."

But Rob Shapiro, a former undersecretary of commerce in the Clinton administration and now chairman of Sonecon, an economic consulting firm, sees things differently.

Cuts in spending and regulation don't encourage private job creation by making government more business friendly, as conservatives politicians contend, Shapiro said. They just mean more lost jobs upfront because government spending cuts almost always breed more layoffs.

"We need to give significant help to the states. Their revenues are down because the economy is weak. And that's forcing them to cut spending. And the spending they can cut the most easily is workers," Shapiro said.

Absent a federal helping hand, "the states will certainly continue to lose jobs," Shapiro said.

Follow Tom Raum on Twitter at http://twitter.com/tomraum