

How state and local government layoffs threaten the economy

By Chris O'Brien
Mercury News Columnist
November 21, 2010
Sunday Business Section

In 24 years of working for the city of Santa Clara, Deputy City Manager Carol McCarthy has seen her share of booms and busts. But for the first time in all those years, the city has threatened to lay off employees to close a persistent budget deficit.

In weighing this once unthinkable step, the city and McCarthy find themselves caught up in what just may be one of the greatest threats to the fragile economic recovery: the collapse of state and local governments across the country.

While we tend to think of government budgets in terms of taxes and programs, we overlook their impact on the job market. In fact, state and local governments are the largest employers in the country, according to Mark Zandi, chief economist of Moody's Analytics. They have a combined 19.5 million jobs, including 2.2 million in California, according to the latest federal and state job statistics. Over the past two years they've cut more than 400,000 jobs. That includes 100,000 in California, just in this past year. And, he says, state and local governments across the country are still cutting jobs at a pace of 25,000 to 30,000 per month.

"If the largest employer in the country is laying off this aggressively, it's hard to see how we bring about lower unemployment," Zandi said.

It's clear that any talk of how to close these massive budget gaps starts and ends with what kind of cuts to make, and how deep to make them; more revenues seem to be off the table.

But before we plunge the knife in and begin slicing away, we should pause to consider the consequences.

Over in Santa Clara, the city has been cutting everything but people the last two years to deal with its budget crisis, McCarthy said. But with the city looking at a \$13 million shortfall, it's asked its unions to agree to various concessions over the next two months or face the prospect of eliminating the equivalent of 82 full-time positions.

"The economy hasn't recovered," McCarthy said. "What we are faced with is going to the place where the majority of our costs are found. And that's people."

While Silicon Valley has been adding jobs for the past several months, those have been offset in part by government cuts. Santa Clara County lost 5,600 government jobs over the past year,

while San Mateo County lost 1,800.

"We understand these rippling impacts," McCarthy said. "It's kind of heartbreaking to be in this position. We know it doesn't help the economy."

If you're an advocate of smaller government, this could be seen in a positive light. J.D. Foster, a senior fellow at the Heritage Foundation, a conservative think tank, argues that the crisis in state and local governments is a necessary correction to years of excess spending.

"What you have at the federal and state and local levels is government that outgrew its resource base," Foster said. "And it outgrew the willingness of taxpayers to fund it. And that means that government needs to right size itself. But it's a very painful process, even if you end up in a better place."

The problem, as Foster notes, is that while the private sector has recovered, it's not hiring fast enough to absorb these public sector layoffs. And many of the public workers on the wrong side of those cuts may find themselves stuck in houses with mortgages they can't afford, or worth less than they paid, making it difficult for them to relocate to find work, Foster said.

Things aren't quite that bad for Tony Martinez, 40, who just bought a house in Gilroy two months before he lost his custodial job with the city of San Jose in July. He hasn't had much luck finding more work.

What's tougher to swallow, though, has been the loss of what he thought would be a secure future when he was hired 31/2 years ago. With local governments cutting jobs at a rate not seen since the early 1980s, they are wiping out some of the last positions with some kind of security.

"My dad retired from the city of San Jose in the early '90s," Martinez said. "That's what I hoped my future would be. But that's all falling apart."

The bigger question for the rest of us is whether cutting loose more people like Martinez will ultimately help or hurt the economy as it wobbles back to its feet. Will the promised benefits of lower taxes and smaller government outweigh the short-term reduction caused from more people like Martinez having less money to spend?

What are the alternatives? We could mitigate some of the cuts by raising some modest taxes on corporations. Such a hike might not be felt on the economy until further down the road, whereas job cuts hit immediately. There's also another federal stimulus bill, or massive infrastructure spending, since the feds can borrow and run a deficit that state and local governments can't.

But either of these is unlikely, given the nation's new political reality. We just have to cross our fingers and hope the collateral damage to the economy isn't too severe.

"I think in the current situation, the drag from these cuts won't be enough to push the rest of the

economy back into recession," Zandi said. "But it's going to be an uncomfortably close call. And if anything else goes wrong, then we're back in recession.

"Everyone should be holding their breath," he added.

Contact Chris O'Brien at 415-298-0207 or cobrien@mercurynews.com. Follow him at [Twitter.com/sjacobrien](https://twitter.com/sjacobrien) or on Facebook at <http://www.facebook.com/ChrisOBrienJournalist>.