Research

Parsing the Reasons for Layoffs in State and Local Governments

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Executive Summary

- Tight state budgets are likely driving the recent rise in state- and local-government worker layoffs, but enhanced unemployment benefits may also be contributing to the job losses by encouraging the states to shift some of the payroll burden onto the federal government.
- At least 62 percent of all state and local workers could make more on the enhanced unemployment benefit of $600 a week than at work.
- Before federal policymakers inject more money into states and local governments, they should assess the various causes of the layoffs to ensure that the next policy response does not exacerbate the problem.

Introduction

The economic downturn is leading to millions of job losses across all industries. While much of the focus has been on losses in the private sector, states and localities are also facing depleted budgets—and large layoffs of government workers. In May alone, 585,000 government jobs were lost, with almost all the cuts coming from state and local governments.

Many are calling for additional federal aid to state and local governments to help them cover their budget shortfalls and retain their employees. Before spending more money, however, policymakers should understand the various drivers of the problem. The Coronavirus Aid, Relief, and Economic Security (CARES) Act afforded an additional $600 a week to individuals collecting unemployment, via the Federal Pandemic Unemployment Compensation (FPUC) incentive. Previous American Action Forum research found that around 63 percent of the overall labor force could be making more on the maximum expanded unemployment benefits than continuing or returning to work. This analysis finds that more than 50 percent of state- and local-government workers in each state (with the exception of the District of Columbia) could also be making more on the expanded unemployment benefits than continuing or returning to work. Nationally, at least 62 percent of all of these workers would make more on unemployment. As a result, the incentives created by the CARES Act could be contributing to the layoffs as well, and policymakers should keep this fact in mind when crafting any future response package.

Challenges and Support

Layoffs in the private sector are leading to a surge in state spending on regular unemployment, likely exacerbated by the FPUC incentive. With the majority of government and private-sector workers making more on unemployment, employers may be more willing to lay off or furlough workers knowing that they will likely be financially stable on UI. Moreover, as more individuals lose jobs, more will qualify for Medicaid, which is jointly funded by the federal and state governments, putting further strain on state budgets that are not seeing as much revenue coming in.

While spending is rising, revenue is declining. Since consumer spending has been in decline, state budgets aren't seeing money coming in from what is typically their largest source of revenue; around 48 percent of total state revenues came from sales taxes, while in 42 states year-over-year sales taxes have declined. The state- and local-government job losses thus far have been large, as noted, and many states are expecting more layoffs in the future. It is unclear, however, how large revenue losses will be or how long layoffs and revenue loss will persist.

While the situation does seem dire for state and local funds, the federal government has provided $150 billion in support directly to states, localities, and tribal governments through the Coronavirus Relief Fund. Laid-off workers are receiving support as well through the CARES Act's expanded unemployment provisions.

State and Local Layoffs

Nationally between 62 and 72 percent of all state- and local-government workers would make more on UI than at work (see the appendix for a methodological explanation of this range). States with the greatest percentage of government workers who would be better off on UI include New Mexico, Kentucky, and Oklahoma, where over 80 percent of state and local workers typically make wages under what they would receive on expanded UI. New York, Maryland, Arizona, California, and Delaware are on the end of the spectrum with just over 50 percent of their state- and local-government workers making more on unemployment. In every state (excluding the District of Columbia), the majority of state and local workers would make more on unemployment than at work. In 41 states more than 60 percent of workers would be better off on unemployment insurance (UI). Understanding how individuals could be helped or hurt by the UI expansion can shed light onto rising layoffs.

State- and local-government layoffs are high, but the economic situation may not be the sole reason behind the numbers. States and localities with tight budgets are unlikely to keep non-essential workers who would seemingly do better on unemployment. Depleted tax revenue combined with the added $600 a week could cause states and localities to justify laying off more workers knowing that those individuals will have access to expanded UI benefits, essentially shifting the payroll burden to the federal government.

Conclusion

State- and local-government workers are being laid off in the face of serious budgetary constraints, but those budgetary concerns may not be the entire reason for the high layoff numbers. With $150 billion from the federal government allocated for states and localities to cover some budgetary strain and an additional $600 a week for unemployed individuals, government layoffs could be occurring simply because they seem to be a prudent course of action. Before crafting legislation that would allocate additional federal funds to state and local governments, it is important to understand the entire story behind some of these layoffs and how previous policy decisions could be affecting employer decision making.

Appendix

Estimating the number of state- and local-government workers who could make more on unemployment was done using American Community Survey data and state by state unemployment compensation formulas. The FPUC inflection point is the point at which earning less means that a worker would make more on UI and earning more means a worker would make more being employed. The FPUC inflection point was determined by each individual states' unemployment insurance calculation.

The FPUC inflection points fall between state and local wage deciles. The estimates below for each state report the lower decile. For example, in Alabama the weekly earnings FPUC inflection point is between the 60th and 70th wage decile for local workers, so the 60th percentile is listed as a conservative estimate. National estimates were done by finding the total number of state and local workers in each state who would make more on unemployment (at the lower and upper end of the relevant decile) over the total number of state and local workers. Both the lower and upper decile were used to find the range of 62 to 72 percent of workers nationally who could make more on UI, meaning the true average lies somewhere in between.

States	Inflection point for FPUC (weekly earnings)	Local workers who would make more on UI (%)	State workers who would make more on UI (%)
Alabama	$875	60	50
Alaska	$959	60	50
Arizona	$840	50	50
Arkansas	$933	80	70
California	$977	50	50
Colorado	$933	70	70
Connecticut	$963	60	60
Delaware	$977	50	50
District of Columbia	$933	30	–
Florida	$875	60	60
Georgia	$965	70	60
Hawaii	$1,013	60	70
Idaho	$933	70	60
Illinois	$1,033	60	70
Indiana	$913	70	70
Iowa	$1,081	70	60
Kansas	$968	70	80

Kentucky	$1,152	80	80
Louisiana	$847	60	60
Maine	$1,014	70	70
Maryland	$1,030	50	50
Massachusetts	$983	60	60
Michigan	$962	60	50
Minnesota	$933	70	70
Mississippi	$835	70	70
Missouri	$920	60	70
Montana	$947	80	70
Nebraska	$933	60	70
Nevada	$947	50	60
New Hampshire	$981	60	60
New Jersey	$1,184	60	60
New Mexico	$1,007	80	80
New York	$933	50	50
North Carolina	$933	70	60
North Dakota	$933	80	70
Ohio	$1,038	70	70
Oklahoma	$977	80	80
Oregon	$1,033	70	70
Pennsylvania	$950	70	60
Rhode Island	$964	60	60
South Carolina	$926	70	60
South Dakota	$933	80	70
Tennessee	$875	70	60
Texas	$947	70	70
Utah	$928	80	70
Vermont	$985	70	60
Virginia	$978	60	60
Washington	$1,191	60	60
West Virginia	$1,024	80	80

Wisconsin	$970	60	60
Wyoming	$1,108	70	70

	Local workers who would make more on UI (%)	**State workers who would make more on UI (%)**
U.S.	61.8 – 71.8	61.9 – 71.9