



Rodney's Take

June 29, 2020

The Public Employment Crunch... And Taxes

The Bureau Labor Statistics (BLS) will release the Employment Situation Report on Thursday instead of Friday this week because of the Fourth of July holiday. The numbers are a tossup. Instead of worsening from almost 15% unemployment to 20% in May, the numbers improved to 13.3%. Still horrible, but less awful than expected.

Since then, continuing jobless claims have stabilized around 20 million and initial jobless claims, or those filing for benefits for the first time, have remained stubbornly high, at about 1.5 million per week. With that as a backdrop, it's a cinch that unemployment will remain above 10%, but as to whether it drifts higher by a point or two or improves a bit, no one knows.

Part of the issue is that many employers, particularly small business owners, are now facing the harsh reality that they won't ever reopen. Their current bills are too much to pay on reduced revenue, and it's not worth bankrupting themselves personally. The rational choice is to shutter the business and wait for another opportunity to restart. Maybe in 2021... or 2022.

But what about entities that can't just close down when revenue slows to a trickle? That's the issue with many local and state governments. Their tax revenue is a shadow of what it was just four months ago, and yet their constituents need more services, not less.

Local and state government education agencies have trimmed employment by 9.4% and 9.3%, respectively, as K-12 and public colleges drastically reduced operations in the face of the coronavirus pandemic. While more than 90% of those out of work are technically furloughed, that just means the employer eventually intends to bring them back, it doesn't guarantee the return. No matter what words are used, the employees aren't earning paychecks.

And things are about to get worse.

With the fiscal year ending tomorrow for most local and state governments, these entities must pass balanced budgets for the 2021 fiscal year that starts on Wednesday. With coronavirus cases surging and no federal stimulus on the horizon to assist, many of these entities must cut their biggest expense, people, to make ends meet. It will be painful.

Furloughs will turn into outright job losses, especially for education facilities that remain closed in the fall, and then cities and states will have to reach beyond education. So far, local governments have limited employment reductions outside of education to 7.9%. That's not great, but it's better than the 9.4% rate in education, and much better than the 13.3% national unemployment rate. At the state level, public employment outside of education has dropped a mere 0.9%. That will surely change in the months ahead.

As cities and states adjust to the new normal, we'll see more people looking for work, while our local and state governments provide fewer services and possibly raise taxes. That's a combination that is sure to cause more discomfort, as we work through the second half of this difficult year.

It's possible that the federal government will step in with a rescue package for state and local governments, but it's unlikely to be large enough to repair all of the damage. That's when cities and states will start looking for other ways to pay for essential services... which will mean higher taxes.

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Got a question or comment? You can reach us at info@hsdent.com.