

Public Sector Employment Growth in North Carolina

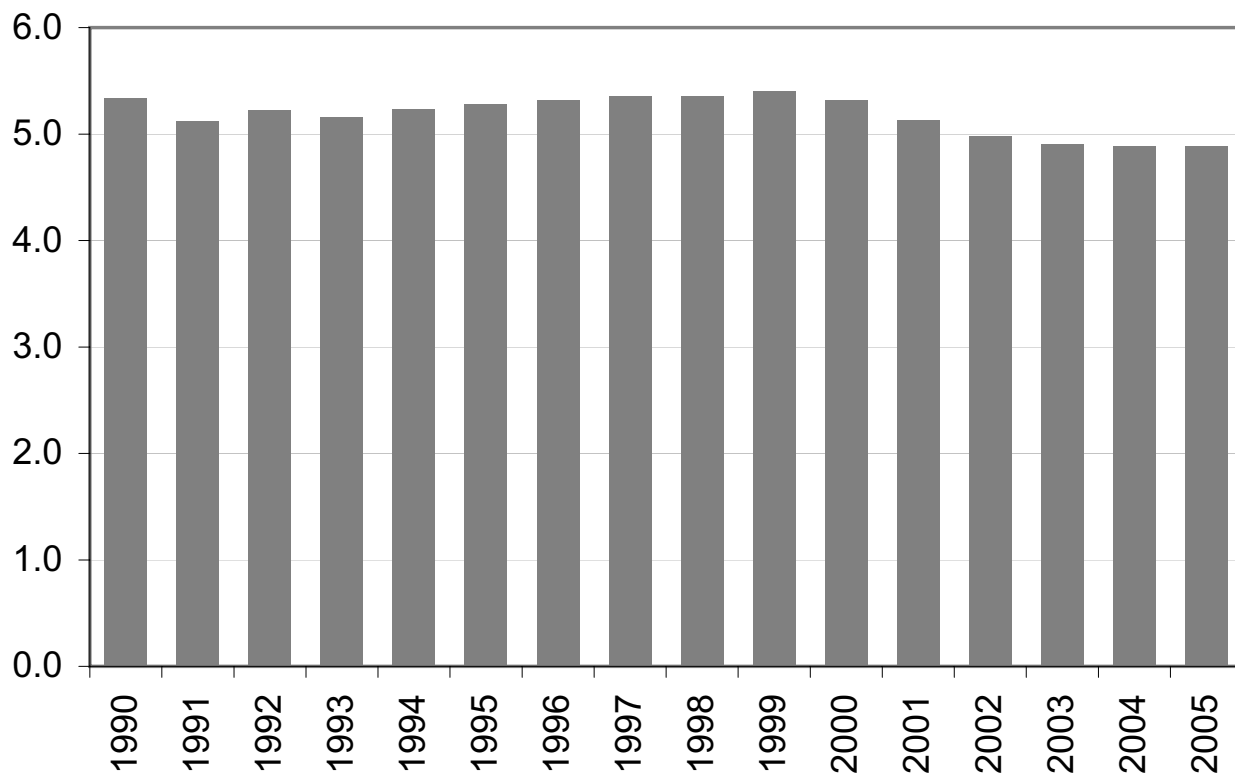
The size of the state government is arguably best measured by tracking the number of employees working for the state. People, after all, are what comprise the actual government. Similarly, the largest single expenditure in the state budget consists of salaries for state employees. By tracking the ratio of public to private employees we can thus get a good read on whether the size of the state government is actually increasing in relation to the private sector. What we find is that it is.

In 1985, North Carolina ranked 29th among the 50 states in terms of the ratio of state government employees to the private sector. By 2005, this ratio had jumped to 17th.

Today, the ratio of public employees to private employees is at an all-time high. As Figure 1 shows, in 2005 there were 4.9 private employees per public employee. This means that for every one public employee – state, federal and local – there were fewer than five employed in the private sector. (This ratio, however, does not account for those employees in the private market who are indirectly paid by the government – for example, farmers who receive subsidies and medical professionals reimbursed by Medicaid.)

In order to understand what this trend indicates, we need to realize that the

Fig. 1. Private Employees per Government Employee





Though the hiring freeze instituted by Gov. Mike Easley early this year has caused some hardships among state agencies, it hasn't really resulted in any significant drop in the number of state workers. There were 112,317 employees on the state payroll as of Nov. 1, compared to 112,333 who were on the payroll a year ago, according to the Office of State Budget and Management. Those figures do not include teachers and other employees in the secondary and elementary school systems.

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percent in 2003. Despite the state's late recovery from the recession – a recovery delayed by the 2001 tax increases (see Q & A: 11) – by 2006 the private sector had recreated the jobs lost during the recession.

The real cause of the surge in public sector hires is the refusal to make the politically difficult decision to cut the overall number of state jobs during economic downturns. From 2000 to 2003, for instance, employers in the private sector eliminated 163,000 positions. Meanwhile, the public sector – again, federal, state, and local – added some 19,200 people in North Carolina. Thus, even in spite of a hiring freeze instituted by Governor Easley in February 2001, the state added jobs – in part, because the freeze did not apply to “essential” and “critical” positions. Moreover, although the 2001 budget cut about 400 state jobs, state employees received an across-the-board raise of \$625. The budget also provided for

increase in public sector employment cannot primarily be attributed to ailing fortunes in the private sector. While employment in the private sector declined during the 2001-2003 recession, in 2004 and 2005 the private sector added 100,000 people to the payrolls. Unemployment in 2005 was 5.2 percent, down from 6.6

Fig. 2. Private vs. Other Employment

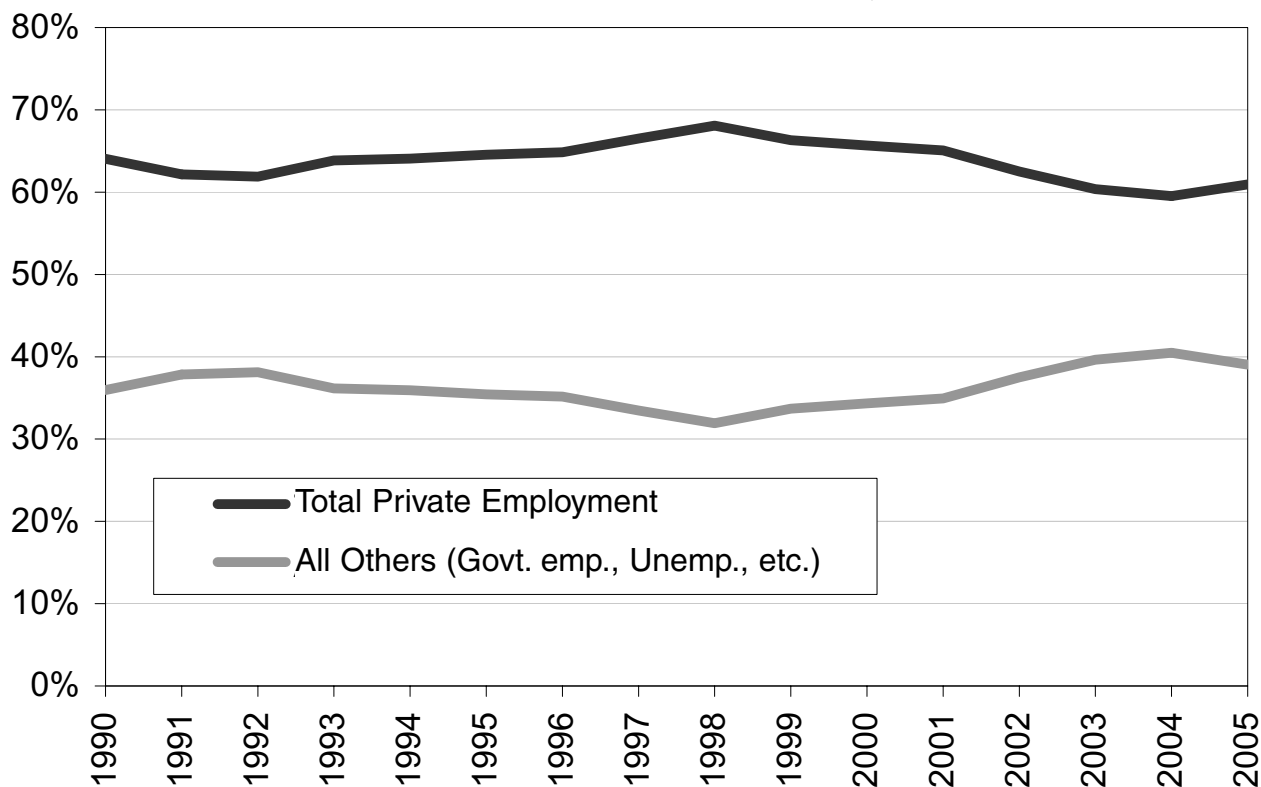
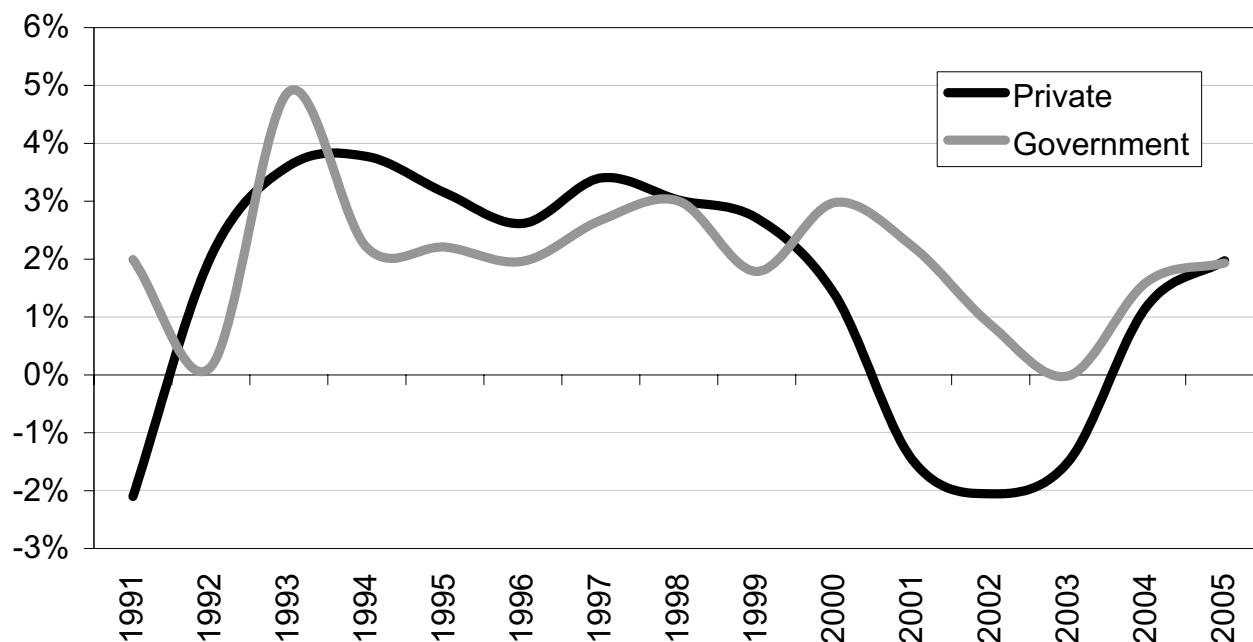


Fig. 3. Percent Change in Private vs. Government Employment

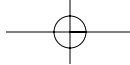
the hiring of more teachers in conjunction with the state's initiative to reduce class sizes. Teachers and university professors likewise received a 2.86 percent average pay raise. Similarly, in 2002, the state budget cut some 814 filled and unfilled positions, but then hired 1,050 new teachers and also gave teachers a 1.84 percent average pay increase. Indeed, according to numbers provided by the Fiscal Research Division of the General Assembly, total state employment increased by 26,195.5 positions from 2001 to 2005. This represents a 9.3 percent increase over the total state employee count (282,135) for 2001. Thus, even as the private sector was downsizing during the latter part of the recession, the state government expanded by almost 10 percent.

The continuous expansion of public sector employment has led to a drop in the number of private employees per public employee in North Carolina. As Figure 1 indicates, in 1990, 1995 and 2000 there were 5.3 private employees per public sector employee. By 2004 this figure had dropped to 4.9 private employees per public sector employee. This 7.5 percent

decrease is all the more important because it occurred during a period when the private sector was cutting jobs – and thus during a period when per capita tax revenue was declining.

In summary, only 6 out of 10 working-age (aged 18-64) North Carolinians now hold a private sector job. This rate is the lowest it has ever been. This means that 40 percent of the workforce is either working for the government, unemployed or outside the workforce – i.e., early retirees, students, and unemployed no longer looking (Figure 2).

Indeed, if we concentrate our analysis on the active labor force (a statistically defined group), rather than just the workforce-aged population, the results are even more startling. In 2005, three out of four people (75 percent) of the active work force were employed in the private sector. This is down from an 80 percent peak reached in 1998-99. Thus, over the course of Governor Easley's tenure, the number of persons either employed by the state or outside of the active workforce – measured in relation to the privately employed labor force – has increased by 25 percent (Figure 3).



DID YOU KNOW?

Between FY1990 and FY2001, state tax revenues doubled in North Carolina – increasing 99 percent from \$7.87 billion to \$15.63 billion.
By contrast, population growth, plus inflation, grew by only 67 percent.

Source: Cato Institute

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