DOGE Cuts and the Labor Market

Gallagher Financial Planning's Investment Strategy Team

The Trump Administration has brought upon a plethora of changes in a short amount of time since Inauguration Day. Many of these changes can be attributed to President Trump's creation of the Department of Government Efficiency (DOGE) and the appointment of Elon Musk as the department's head as well as his senior advisor. This new department is primarily focused on cost cutting measures across the federal government through reducing government bureaucracy, cutting regulations, and eliminating "wasteful" spending. Ultimately the aim is to accomplish these goals through modernizing outdated federal technology, reviewing contracts and grants, and restructuring federal agencies to enhance efficiency.

DOGE does not have any official government powers but does operate in an advisory capacity to the White House and Congress

At its core, DOGE does not have any official government powers but does operate in an advisory capacity as it makes recommendations to the White House as well as Congress. Before we go any further in breaking down what DOGE has already been busy working on, it is important to understand the history of federal employment in the United States and how it has grown over many decades.

Historical of the Federal Government Context

Nearly one hundred years ago, when the United States was in the depths of the Great Depression, the President at the time, Franklin D. Roosevelt, implemented a major overhaul of the federal government to bring the country back to growth. This overhaul, called The New Deal, rapidly and dramatically expanded the federal government through a series of programs, public work projects, and financial reforms aimed to put the country back on track. Relief programs like the Civil Conservation Corps (CCC), the Works Progress Administration (WPA), and the Federal Emergency Relief Administration (FERA) all helped to stimulate the economy and provide relief and jobs to folks who in many cases, had nothing left. There were also reformative programs like the Social Security Act, the establishment of the Securities and Exchange Commission (SEC), and the Federal Deposit Insurance Corporation (FDIC) to protect bank deposits.

Since the New Deal was implemented by FDR's administration, government payrolls have grown significantly

All of these programs provided U.S. citizens with jobs, added financial security, and helped to stimulate economic growth. Since then government programs, contracts, and payrolls have ballooned. Coming back to the present, one of President Trump's main campaign goals was to trim unneeded government programs and jobs to pave the way for a more efficient government.

This isn't a novel idea either. During President Bill Clinton's term, his administration takes credit for a program called the "National Performance

Review”. This program accomplished many things, but most pertinent to our context here, reduced the federal workforce by over 400,000 employees. This resulted in the lowest federal payrolls since 1966 by the turn of the century. Since the year 2000 however, the number of employees has increased from approximately 2.7 million to now over 3 million.

On the surface, most Americans or even more broadly speaking, people in general would agree that having an efficient government is a good aspirational goal. A government that can work within a set budget while still offering its taxpayers ample benefits is, simply put, one of the main pillars of a healthy and successful government. So, from a high level, DOGE sounds like a good idea. However, where many people are getting nervous today, hence the heightened market volatility, is that they fear the Trump Administration and DOGE are moving much too quickly and “using a chainsaw instead of a scalpel” to cut what they view as unnecessary areas of the federal government.

Of the 163.3 million people employed in the U.S. 14% (23.6 million) are government employees

The Numbers

For the most part, sentiment towards DOGE has tilted negative considering the pace at which cuts are being made and the perceived prospects of how this program could affect the labor market down the road. However, a dive into the numbers may give investors some solace.

Looking at data as of the end of February 2025, there are 163.3 million employed individuals in the United States. Of these individuals, 23.6 million are government employees (federal, state, and local governments combined) which equates to approximately 14% of the current total workforce. Although this sounds like a large part of the working population of the United States, it is important to break out these numbers between federal, state, and local governments. With this greater level of granularity, we note that the federal government only employs roughly three million people, which is only 13% of the overall “government” category and a mere 1.8% of the total working population of the country. Another important item to note is that nearly 11 million of government employees are educators hired by local or state governments.

Detail of Government Workers

Category	Workers	Percent of Government Workers
Federal	**3,006.7**	**13%**
U.S. Postal Service	601.2	
Non-U.S. Postal Service	2,405.5	
State Government	**5,531.5**	**23%**
Educators	2,639.7	
Non-Educators	2,891.8	
Local Government	**15,076.3**	**64%**
Educators	8,206.0	
Non-Educators	6,870.3	
Total	**23,614.5**	

If DOGE was to cut 10% of the federal workforce, that would result in a reduction of nearly 300,000 jobs

Source: Bureau of Labor Statistics. Data in thousands.

Both President Trump and Elon Musk have said on multiple occasions that they plan to cut 10% of the federal workforce. However, as illustrated in the chart above, the vast majority of government payrolls are state and local government employees. Cutting 10% of the federal workforce would result in a reduction of approximately 300,000 jobs, less than President Clinton achieved with his "National Performance Review" program in the roaring 1990's. Yes, 300,000 is a large group of individuals, but only equates to a change of only 1.3% of all government employees (federal, state, and local). Going a step further and looking at this change relative to the total number of people employed in the U.S., it only has a 0.18% impact.

Enough to Move the Needle?

The federal government would need to cut 1.7 million jobs in order to material change the unemployment rate

As we have seen throughout history, even just a small change in the U.S. unemployment rate can represent a significant change in the number of payrolls in the overall labor market. Given that the generally accepted full employment threshold is 4.0%, let's talk about what a 0.1% change in the unemployment rate would translate to regarding the actual number of employed individuals it would impact.

Knowing that there are approximately 163.3 million employed individuals in the U.S. currently, a 0.1% increase in the unemployment rate would require about 163,300 people to lose their jobs. Now, for the unemployment rate to spike materially[1], payroll cuts would have to take place at a much larger scale. Let's take a look at the example of 300,000 job cuts from earlier. If hypothetically, DOGE was to cut 300,000 federal payrolls (10% of the federal workforce), that math would result approximately in a 0.18% increase to the overall unemployment rate. For context, with the unemployment rate currently at 4.1% as of the February report, assuming no other movement in the labor market, would only move the overall unemployment rate up to 4.3%[2]. Taking it a step further, and assuming no other movement in the labor market, DOGE would have to cut approximately 1.7 million payrolls to move the unemployment rate 1% higher to 5.1%.

Let's look at another example just to illustrate this magnitude from the not-too-distant past. During the early stages of the COVID-19 Pandemic, at the beginning of 2020, the unemployment rate rocketed from 3.5% (below the generally accepted threshold of full employment) to 14.7% in April. This huge increase took place in just over two months and resulted in approximately 20 million job losses. Of course, using the COVID-19 pandemic is an extreme example, but it is useful when illustrating the magnitude at which job losses have to occur in order to materially move the unemployment rate.

[1] A material spike in the unemployment rate is generally defined as an increase of at least one full percent.
[2] Rounded to the nearest tenth of a percent.

Conclusion

The news is full of all sorts of information and discussion around the rapid changes taking place as well as those that are being considered. Hopefully, putting these conversations into perspective relative to the overall U.S. workforce should help investors navigate the turbulent markets. It is important to note that this is still an evolving pillar of the Trump Administration, but that their goal of reducing the federal workforce by 10% translates to a minor impact for the overall unemployment rate alone. While the follow-on impact of certain jobs being eliminated may have further consequences for the economy, it is too soon to tell if that will be the case or if we are entering another era like the 1990's in which the footprint of the federal government shrank, and the economy grew dramatically.

Jason Orlosky
Head of Investment Strategy & Platform
Area Vice President
Gallagher Financial Planning Team
Jason_Orlosky@ajg.com
(609) 532-3909

Jim McCarriston*

Client Investment Analyst
Gallagher Financial Planning Team
Jim_McCarriston@ajg.com
(781) 246-1433

Ryan Gallagher*

Client Investment Analyst
Gallagher Financial Planning Team
Ryan_Gallagher1@ajg.com
(781) 404-5202

*Jim McCarriston and Ryan Gallagher are not acting in the capacity of an investment advisor representative

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Index definitions

S&P 500 Index: is a capitalization weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 500 of the leading large cap U.S. companies.

Dow Jones Industrial Average Index: is a price weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 30 blue-chip stocks that are generally regarded as the leaders in their industry.

NASDAQ Composite Index: is a capitalization weighted index that is generally considered representative of the U.S. Technology market. It consists of all three tiers of the NASDAQ: Global Select, Global Market, and Capital Market.

Russell 2000 Index: is a capitalization weighted index that is generally considered representative of the U.S. Small Cap market. It consists of 2,000 of the leading small cap U.S. companies.

MSCI EAFE Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of developed international markets. The EAFE region includes developed market countries in Europe, Australasia, the Far East, and Israel.

MSCI Europe Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of European developed markets.

MSCI Japan Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Japanese market.

MSCI Emerging Markets Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

MSCI China Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Chinese market.

Bloomberg U.S. Aggregate Bond Index: is a broad-based flagship benchmark that measures the investment grade U.S. dollar denominated, fixed-rate, taxable bond market. The index includes Treasuries, government-related and corporate securities, Mortgage-Backed Securities or “MBS” (agency fixed-rate pass-throughs), Asset-Backed Securities or “ABS”, and Commercial Mortgage-Backed Securities or “CMBS” (agency and non-agency).

Bloomberg U.S. Government Bond Index: consists of the U.S. Treasury and U.S. Agency Indices. This index includes U.S. dollar denominated, fixed-rate, nominal U.S. Treasuries and U.S. agency debentures (securities issued the U.S. government owned or government sponsored entities, and debt explicitly guaranteed by the U.S. government).

Bloomberg U.S. Municipal Bond Index: covers the U.S. dollar denominated long-term tax-exempt bond market. The index includes four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Bloomberg U.S. Corporate Bond Index: measures the investment grade, fixed-rate, taxable corporate bond market. The index includes U.S. dollar denominated securities that are publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers.

Bloomberg U.S. Corporate High Yield Bond Index: measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating from the ratings agencies (Moody’s, Fitch, and S&P) are Ba1/BB+/BB+ or below. Bonds issued from an emerging market country are excluded from the index.

Crude Oil: is represented by the generic front month futures contract for West Texas Intermediate (WTI) crude oil.

Gold Spot Price: is represented by the current spot price of one Troy Ounce of gold in U.S. dollars.

Inflation: is measured by the year-over-year change for the Consumer Price Index or “CPI”. This index represents the changes in the prices of all goods and services purchased for consumption by urban households. User fees (such as water and sewer) and sales and excise taxes paid by consumers are also included.

Fed Funds Rate: is the target interest rate set by the U.S. Federal Reserve (Fed) or “Central Bank”. This index reflects the Fed’s efforts to influence short-term interest rates as part of its monetary policy strategy. The index value is calculated by using the midpoint of the Fed’s rate policy when they target a rate range (i.e., 0.25% - 0.50%).

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