

# Municipal trouble – all economics is local

**By The Economist**

America's most sordid government scandal of the year was probably one that took place inside one of its tiniest governments: that of the city of Bell. Bell is really more of a blue-collar neighbourhood within the vast conurbation of Los Angeles than anything recognisable as a city. But the city elders, eight of whom are now awaiting trial, nonetheless paid themselves outrageous pensions and salaries—almost \$800,000 a year in one case, about twice what Barack Obama makes—while fleecing residents in countless innovative ways.

Bell is a reminder that local government can cause big problems. There are roughly 90,000 local governments in America, mainly cities, counties and school and utilities districts. Together with the 50 state governments, they account for 15% of total employment. But whereas the private sector did most of its job-shedding early in the recession and is now slowly hiring again, state and local governments began lay-offs later and still have far to go. The National League of Cities thinks nearly 500,000 workers in local government will lose their jobs in the current and coming fiscal years.

The main revenue sources of local governments are sales and property taxes. Sales taxes dropped along with consumer spending and remain depressed. Property taxes only began falling some time after the housing bust, because the houses first had to be reassessed at their lower values. But now they are down for the foreseeable future. So are other local revenues, such as hotel fees, which depend on travel.

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