



FACTS & OPINIONS

On Public Interest Issues

Quotes

When an excess of power prevails, property of no sort is duly respected. No man is safe in his opinions, his person, his faculties, or his possessions.

- James Madison

Government exists to protect us from each other. Where government has gone beyond its limits is in deciding to protect us from ourselves.

- Ronald Reagan

It has been a source of great pain to me to have met with so many among [my] opponents who had not the liberality to distinguish between political and social opposition; who transferred at once to the person, the hatred they bore to his political opinions.

- Thomas Jefferson

Overpaid Federal Workers

CATO Institute - www.downsizinggovernment.org

by *Chris Edwards*

Chris Edwards is the director of tax policy studies at the Cato Institute and a top expert on federal and state tax and budget issues. He is the author of "Downsizing the Federal Government" and co-author of "Global Tax Revolution."

As a consequence, the average federal civilian worker now earns twice as much in wages and benefits as the average worker in the U.S. private sector.³ A recent job-to-job comparison found that federal workers earned higher wages than did private-sector workers in four-fifths of the occupations examined.⁴

Introduction

With projections of huge federal deficits for years to come, policymakers should scour the budget looking for places to cut spending. One area to find savings is the generous compensation paid to the federal government's 2.1 million civilian workers.¹ Total wages and benefits paid to executive branch civilians was \$230 billion in 2010, indicating that compensation is a major federal expense that can be trimmed.²

During the last decade, compensation of federal employees rose much faster than compensation of private-sector employees.

The federal workforce has become an elite island of secure and high-paid workers, separated from the ocean of average American workers competing in the global economy. It is time for some restraint. Federal wages should be frozen or cut, overly generous federal benefits should be overhauled, and the federal workforce downsized through program terminations and privatization. It is unfair to ask taxpayers to foot an ever-increasing bill for federal workers, especially when private-sector compensation has not kept pace.

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Focus on Iowa Wesleyan College

Iowa Wesleyan College has completed another successful spring and the campus prepares to welcome back the students for the fall semester. The new football coach will debut his new team in late August.

Iowa Wesleyan baseball star, Edder Morales received national recognition this spring, being named an NAIA Honorable Mention All-American. He had earlier been named Midwest Collegiate Conference Player of the Year. He finishes his IWC career with an outstanding .359 batting average and a .655 slugging percentage.

The Iowa Wesleyan campus had some excitement this spring as the PBS television series "The History Detectives," paid a visit. The episode aired on June 28 on Iowa Public Television. The host filmed interviews on and around the campus in December as he prepared the research for the episode. The story concerns Henry Clay Dean who was a famous political activist during the American Civil War. Mr. Dean had strong links to Iowa Wesleyan College. The episode features many views of the IWC campus.

It is always exciting to look forward to the first few days of the fall semester when the students return to the picturesque central campus in Mt. Pleasant.

What's New at Public Interest Institute?

Public Interest Institute is happy to welcome a summer intern to our group. Jeremy Donaldson is at home in Mt. Pleasant for the summer and will be working in our office. Jeremy is going to be a senior this fall at Rocky Mountain College in Billings, Montana. He is majoring in political science and history.

Jeremy will be examining issues related to limited government and individual liberty this summer and we will be publishing some of his work. He has an active interest in the issues. He is President of the Young Americans for Liberty club on his campus and has regularly served in the student body senate. He is also active on the school debate team and is a member of the school drumline.

He is an avid traveler and a regular snowboarder. He expands his knowledge of limited government philosophy by reading policy-related books on the theory of Austrian economics and the works of classical political authors.

We are happy to have the opportunity to have Jeremy spend the summer with us to further his educational experience and to assist us in getting out our limited government message. Welcome Jeremy!

Overpaid Federal Workers

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Growing Federal Pay Advantage

In 2008, federal civilian workers had an average wage of \$79,197, according to data from the U.S. Bureau of Economic Analysis.⁵ By comparison, the average wage of the nation's 108 million private-sector workers was \$50,028.

When benefits such as health care and pensions are included, the federal compensation advantage over private workers is even larger, according to the BEA data. In 2008, federal worker compensation averaged \$119,982, or double the private-sector average of \$59,909.

An analysis by *USA Today* revealed particularly fast wage growth at the top end of the federal workforce in recent years.⁶ By 2009, there were 383,000 federal civilian workers with salaries of more than \$100,000, 66,000 with salaries of more than \$150,000, and 22,000 with salaries of more than \$170,000. Between late 2007 and mid-2009, the number of federal workers earning more than \$150,000 more than doubled, even as the economy fell into a deep recession during that period.

Rising federal compensation stems from legislated increases

in general pay, increases in locality pay, expansions in benefits, and growth in the number of high-paid jobs as bureaucracies become more top-heavy. Compensation growth is also fueled by routine adjustments that move federal workers into higher salary brackets regardless of performance, and by federal jobs that are redefined upward into higher pay ranges.

Politics also plays an important role. Federal workers are a powerful special-interest group, and they are very effective lobbyists. Members of Congress who have large numbers of federal workers in their districts push relentlessly to expand pay and benefits. Another factor is that the George W. Bush administration supported large pay increases for the uniformed military, and that prompted federal unions to demand similarly large increases for civilians.

Some people argue that the federal government has a unique high-end workforce, which deserves to be paid handsomely. But let's consider some ordinary and mundane offices in the U.S. Department of Agriculture. In 2010, the USDA's Office of Communications employed 77 people and paid \$9 million in wages and benefits. That works out to \$117,000 each for these public relations workers, which is close to the overall federal compensation average.⁷ Or consider that the 62 employees of the USDA's Office of Chief Economist earned an average

\$177,000 each in wages and benefits in 2010.⁸ It isn't just rocket scientists who are earning high federal compensation, it is also workers in many run-of-the-mill bureaucratic jobs.

More importantly, the federal workforce has always had a heavy contingent of skilled professionals such as lawyers. So that is not new, and thus it cannot explain the dramatically faster growth in federal compensation compared to private compensation. In 2000, the average federal worker earned 66 percent more in total compensation than the average private-sector worker. By 2008, that ratio had risen to 100 percent.⁹

Another way to evaluate federal pay is to compare average compensation in 72 industries tracked by the U.S. Bureau of Economic Analysis.¹⁰ In 2008, federal civilian workers had the seventh-highest average compensation level of the 72 industries. The federal workforce had a higher average compensation level than such high-skill industries as computer systems design, chemical products, and legal services.

In the past, there was a view that because it was a privilege for citizens to serve the public in a federal agency, federal pay should be fairly modest. Unfortunately, that sort of thinking has gone out the window as the federal pay advantage continues to increase.

Job-to-Job Wage Comparisons

Despite the escalation of federal compensation, federal labor unions and some government officials continue to claim that federal workers are underpaid. Indeed, they claim that federal workers suffer from a large “pay gap” with private-sector workers. The government’s Federal Salary Council releases an annual memo reporting on the size of the supposed pay gap, which in 2009 was 26 percent.¹¹ The gap is supposed to be determined based on job-to-job comparisons, but the results rest on calculations that are non-transparent and subject to a large amount of statistical modeling.

One reason why the official pay gap results are suspicious is that they don’t square with Bureau of Economic Analysis data on overall pay trends. The BEA data show that average federal wages have grown faster than average private wages for many years, yet the official pay gap has remained very large. The official pay gap was 22 percent in 2001 and 25 percent in 2008, thus supposedly indicating that federal workers became a bit worse off relative to private-sector workers during that period.¹² Yet the BEA data show that average federal salaries rose 46 percent between 2001 and 2008, which was much faster than the 26 percent increase in the private sector.

Since the BEA data are authoritative, there must be something wrong with the official pay gap methodology.

The other problem with the official pay gap data is that simple job-to-job comparisons show that federal workers are generally overpaid, not underpaid. A recent *USA Today* analysis of more than 200 occupations revealed that — rather than suffering from a 26 percent pay gap in 2009 — federal workers typically have wages 20 percent higher than private-sector workers.¹³ The analysis found that “federal employees earn higher average salaries than private-sector workers in more than 8 out of 10 occupations... accountants, nurses, chemists, surveyors, cooks, clerks, and janitors are among the wide range of jobs that get paid more on average in the federal government than in the private sector.”¹⁴ And note that the *USA Today* analysis did not include benefits, which are very generous in the federal government.

Employee Benefits

Comparisons of federal and private pay often just look at wages and do not consider the superior benefits received by government workers. The Bureau of Economic Analysis provides data showing the average value of federal and private-sector benefit packages.¹⁵ In 2008, federal workers enjoyed aver-

age benefits of \$40,785, which compared to average benefits in the U.S. private sector of just \$9,881. That huge advantage stems both from more federal workers receiving certain types of benefits and from particular federal benefits being more lucrative than those available in the private sector.

Federal workers receive health insurance, retirement health benefits, a pension plan with inflation protection, and a retirement savings plan with a government match. They typically receive generous holiday and vacation schedules, flexible work hours, training options, incentive awards, generous disability benefits, and union protections.

Lily Garcia, a human resources specialist who contributes to the *Washington Post*, noted: “The primary advantages of working for the federal government are generous benefits, solid pay, and relative job security, a combination that is challenging to find in the private sector, even in the best of times.”¹⁶ Garcia summarized the federal benefits package:¹⁷

“Health Care: The Federal Employee Health Benefits Program offers the widest selection of health care plans of any U.S. employer. Federal employees also have access to vision and dental plans, life insurance, flexible spending accounts, and long-term care plans.”

Individuals like you who believe in individual liberty and free-market solutions envelope to make your tax-deductible contribution to this effort today.

"Paid Time Off: Federal employees enjoy liberal amounts of paid time off, including 13 days of sick leave per year, 10 paid federal holidays, and 13 to 26 days of paid vacation, depending on years of service."

"Retirement Benefits: Federal employees have access to retirement benefits through the Civil Service Retirement System or the Federal Employee Retirement System. Under both plans, retired employees receive an annuity, which is complemented by Social Security benefits and participation in the Thrift Savings Plan that offers 401(k)-type investment options."

"Family-Friendly Policies: Another notable benefit of federal employment is family-friendly policies, including flexible work schedules, telecommuting, part-time jobs, and job sharing. Not to mention the fact that federal employees enjoy first priority and subsidies at a number of top-notch day care facilities."

There is another important benefit of federal employment: extremely high job security. U.S. Bureau of Labor Statistics data show that the rate of "layoffs and discharges" in the federal workforce is just one-quarter of the rate in the private sector.¹⁸ Only about 1 in 5,000 federal nondefense workers is fired for poor performance each year.¹⁹

It seems clear that federal wages and benefits have grown to excessive levels in recent years. But we can "market test" that proposition by looking at the worker quit rate — at what rate do workers voluntarily leave the federal government to take other jobs? It turns out that the quit rate in the federal government is only one-quarter the quit rate in the U.S. private sector.²⁰ Federal workers know that they have a gold-plated compensation package and high job security, which is hard to match in the private market, and so they stay put.

Conclusions

It is often assumed that the federal government should have the nation's highest-skilled workers, and that it should pay top dollar to get them. But federal hiring of the very best workers imposes an "opportunity cost" on the economy by drawing talented people away from higher-valued activities in the private sector. Unlike, say, France, where the best university graduates historically have gone into government, the United States has historically prospered because the best and brightest have flocked to places such as Silicon Valley.

Federal pay should be reasonable, and we certainly need competent workers in federal jobs, assuming that they are jobs that are really required.

But the government industry shouldn't be one of the highest-paid industries in the nation. Indeed, an advantage of reducing federal pay would be to encourage more turnover in the currently very static federal workforce. That would get more young and energetic people in government, which would be a good thing.

Another way to help solve the federal pay problem would be to privatize federal jobs where possible. For example, a study found that the average annual compensation of federal air traffic controllers was \$166,000 in 2005.²¹ Is that too much? Let's find out by privatizing air traffic control — as Canada has done — and let the market decide. Does the government pay postal workers too much? Let's privatize postal services — as Germany has done — and let the market decide.

With regard to immediate policy reforms, Congress should freeze or cut federal wages and then start overhauling federal benefits to reduce costs. It should, for example, phase-out defined-benefit pension plans, as most private-sector employers have. To deal with today's large budget deficits, we need to restrain all areas of spending, and so it is reasonable to cut federal pay packages and better align them with private-sector practices.

(Endnotes)

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2009 is from the 2011 report.

¹² Federal Salary Council reports are available on the Office of Personnel Management's website at <www.opm.gov/oca/fsc>. The figures for 2001 and 2008 are from the 2003 and 2010 reports, respectively.

¹³ Dennis Cauchon, "Federal Pay Ahead of Private Industry," *USA Today*, March 8, 2010.

¹⁴ Dennis Cauchon, "Federal Pay Ahead of Private Industry," *USA Today*, March 8, 2010.

¹⁵ U.S. Bureau of Economic Analysis, National Income and Product Accounts, Tables 6.2D, 6.3D, and 6.5D, <www.bea.gov/national/nipaweb>. Divide compensation by full-time equivalents to get average compensation. To get benefits only, subtract wages from total compensation.

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¹⁸ See the U.S. Bureau of Labor Statistics monthly news release on Job Openings and Labor Turnover at <www.bls.gov/jlt>.

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²¹ Federal Aviation Administration, "Independent Firm Validates High Cost of Controller Compensation," press release, January 20, 2006.

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Keynesianism and Progressivism Are Not the Solution

By John Hendrickson

It is certainly true that the nation faces a serious spending and fiscal crisis as the nation is still struggling with 9.7 percent unemployment and an uncertain economy. Business confidence is uncertain because of the tax, spending, and regulatory policies of President Barack Obama and the Democrat Congress. The current Progressive and Keynesian economic policies will not resolve the fiscal crisis nor lead to an economic recovery. The best policy approach is to cut government spending, institute across-the-board tax cuts, and eliminate unnecessary regulation.

The national debt is currently over \$13 trillion. The nation faces a \$1.5 trillion deficit for this fiscal year, and it appears that deficits and the debt will increase more rapidly unless Congress reins in spending. It is often assumed that the federal budget is consumed by defense spending, but entitlements — Social Security, Medicare, and Medicaid — "account for 56 percent of all federal spending and 14 percent of Gross Domestic Product..."¹ The big three entitlements are increasing in costs rapidly and are threatening to consume the entire federal bud-

get. As Michael Tanner of the CATO Institute wrote: “Social Security, for instance, faces unfunded liabilities of more than \$15.8 trillion...it is dwarfed by Medicare’s looming budget shortfall of between \$50 trillion and \$100 trillion...”²²

This does not include the newest entitlement of health-care reform, “which will add hundreds of billions to the federal deficit over the next ten years, and trillions more beyond that.”²³ If Congress fails to reform entitlements, these programs will take over the federal budget, and the needed tax increases to pay for these programs would cripple the economy. The current federal budget proposed by President Obama is over \$3 trillion and Federal Reserve Chairman Ben Bernanke has warned that the budget is not sustainable.⁴

President Obama has also requested Congress to extend the stimulus to support state and local governments. This would be an additional \$50-\$80 billion in spending, that will add to the growing deficit. The original stimulus that cost taxpayers over \$800 billion has not succeeded in its intended purpose of job creation and economic recovery. Economist Arthur Laffer has noted that in January 2011, “federal, state, and local tax rates are scheduled to rise quite sharply,” because the tax cuts initiated under President George W. Bush are set to expire.⁵ A tax increase will be a

major setback for the economy and will bring further unemployment.

President Obama and Democrats will not follow a limited government policy blueprint, so in this current situation conservatives must take the initiative. For example, in 1946 conservative Republicans recaptured Congress and pledged to reduce spending, cut taxes, and balance the budget.⁶ It was said that “Harry Truman woke up the morning after election night 1946 ‘with a bad cold and a Republican Congress.’”⁷ Republicans battled President Truman on cutting taxes and spending. In fact, the Republicans, led by Senator Robert A. Taft, were able to cut \$2.8 billion from the budget and cut income taxes on all income levels.⁸ “The Taft plan of reduced government spending and tax cuts — a 1940s version of 1980s supply-side economics — was philosophically prudent and turned out to be economically efficacious as well,” wrote Lee Edwards an historian of the conservative movement.⁹

Both President John F. Kennedy and President Ronald Reagan utilized across-the-board-tax cuts to stimulate the economy. “In the recession of 1981, Ronald Reagan, with his across-the-board tax cuts of 25 percent, bet the ranch on the private sector — and won his gamble,” wrote columnist Patrick J. Buchanan.¹⁰ The limited government policies of

President Warren G. Harding and President Calvin Coolidge that not only slashed taxes but also spending, should serve as a model for policymakers. The architect of the Harding-Coolidge economic policies was Secretary of the Treasury Andrew Mellon, whose policies led to the economic prosperity of the 1920s. As economic historian Burton Folsom wrote:

“Cutting both federal spending and tax rates across the board worked wonders for the American economy. American businessmen plowed capital into radios, cars, refrigerators, vacuum cleaners, telephones, and a variety of new inventions from the air conditioner to the zipper. Entrepreneurs knew they would be able to keep most of what they invested, and the American economy grew rapidly during the 1920s.”¹¹

President Obama’s philosophy is rooted in the progressivism of Presidents Woodrow Wilson and Franklin D. Roosevelt. It is unlikely that the Democrats will change course and abandon their progressive crusade to bring fundamental change to the American economy and society. Under the progressive philosophy, “government exists to dispense an ever expanding menu of rights — entitlements that serve an open-ended understanding of material and even spiritual well-being.”¹²

The reason why the federal and state governments are in

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fiscal trouble is that policymakers have too long rejected limited-government principles. "It shouldn't surprise anyone that the nine states without an income tax are growing far faster and attracting more people than are the nine states with the highest income-tax rates," noted Laffer.¹³ The solution to the fiscal crisis for all levels of government is to commit to lowering tax rates, slashing government spending, and reducing debt. This will result in job creation by allowing the private sector to work and by returning government back into its constitutional limits.

"Our tendency to concentrate power in the hands of a few men deeply concerns me. We can be conquered by bombs or by subversion; but we can also be

conquered by neglect — by ignoring the Constitution and disregarding the principles of limited government," wrote Barry Goldwater.¹⁴

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