

## The Pay Gap at the Federal Level

By Amy K. Frantz

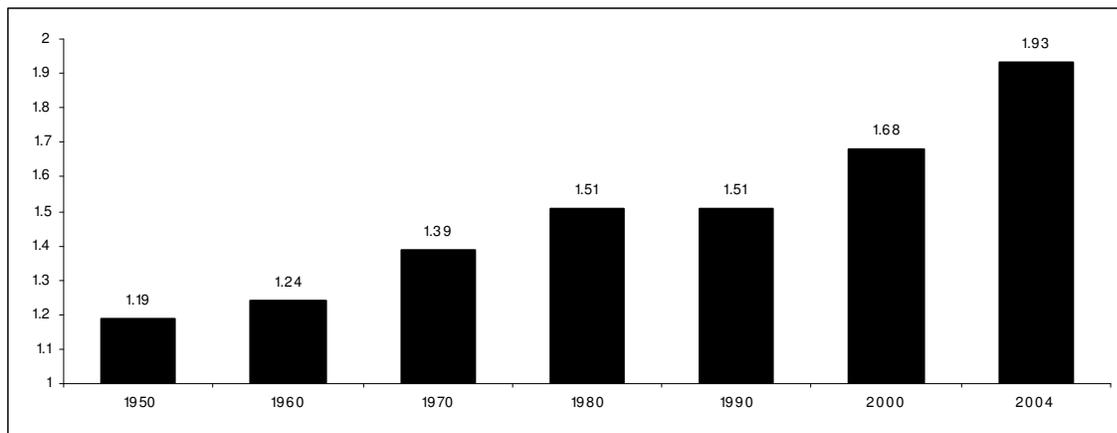
What is the salary of the average government worker compared with the salary of the average private-sector worker? Public Interest Institute has been reporting on this issue for state government workers for a decade. A recent report from the Cato Institute takes a look at this issue at the federal level.

In a recent *Tax & Budget Bulletin*, Chris Edwards of the Cato Institute looks at data from the U.S. Bureau of Economic Analysis to compare the compensation of the 1.9 million civilian workers in the federal government's executive branch to workers in the private sector in the United States. Edwards finds that federal government workers earned an average salary of \$66,558, compared to an average salary of \$42,635 for private-sector employees.<sup>1</sup> The average federal government employee earned 56 percent more than the average private-sector worker.<sup>2</sup>

When benefits are included, the gap between federal government workers and private-sector workers becomes even larger. Edwards writes, "The average federal worker earned \$100,178 in wages and benefits in 2004, which compared to \$51,876 for the average private-sector worker."<sup>3</sup> The average federal government employee earned 93 percent more in total compensation (salary and benefits) than the average private-sector worker.<sup>4</sup>

Not only is there a gap between the compensation received by federal government employees and private-sector employees, but that gap has been steadily growing. As you can see from the figure below, the gap between federal government workers and private-sector workers was 19 percent in 1950.<sup>5</sup> By 1990, the gap had grown to 51 percent, when the average compensation for federal government workers was \$46,496 compared to \$30,709 for private-sector workers.<sup>6</sup> By 2004, the latest year for which data is available, the gap stands at 93 percent.<sup>7</sup>

Figure 1. Ratio of Average Federal Civilian Compensation to Average Private-Sector Compensation<sup>8</sup>



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In the private sector wages are determined, at least in part, by the amount of revenue that is earned by the business that is employing the worker. The federal government does not seem to take this factor into consideration at all. If the federal government wants to spend more than it has collected in revenue, it will (and has done so for years). If a business in the private sector operated in that way, it would not likely be in business for very long. The federal government also can compel its “customers” (the taxpayers) to pay higher taxes, and the taxpayers have no choice but to pay them. A private business cannot compel its customers to pay any price it chooses for its products; if the price is too high the customer will shop elsewhere. Thus, the federal government has less (or no) incentive to think about the free market when determining the wages and benefits it will pay workers; something a business in the private sector must do.

On the state level, Public Interest Institute has periodically published *INSTITUTE BRIEFS* looking at the pay gap between Iowa’s state government employees and Iowa’s public-sector employees. The Institute then compares the size of the pay gap in Iowa to the size of the pay gap between state government employees and private-sector employees in the other 49 states. Since the Institute began publishing *BRIEFS* on this topic in 1996, Iowa has consistently had the highest pay gap in the nation.

If you believe that government workers work harder and deserve higher pay, on average, than those of us who work for private-sector employers, these pay gaps should be of no concern. However, as a taxpayer, particularly one living in the state with the highest pay gap in the nation, I believe that governments should try to emulate employers in the private sector, and consider the free market principles that guide them, when determining compensation packages for employees.

**Endnotes:**

<sup>1</sup> Chris Edwards, Director of Tax Policy Studies, Cato Institute, “Federal Pay Outpaces Private-Sector Pay,” *Tax & Budget Bulletin*, No. 35, May 2006, <<http://www.cato.org/pubs/tbb/tbb-0605-35.pdf>>.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

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