Introduction

With projections of large 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. Total wages and benefits paid to executive branch civilians was about $254 billion in 2014.

During the past decade, compensation of federal employees rose faster than compensation of private-sector employees. As a consequence, the average federal civilian worker now earns 74 percent more in wages and benefits than the average worker in the U.S. private sector. A job-to-job comparison found that federal workers earned higher wages than did private-sector workers in four-fifths of the occupations examined.

The federal workforce has become an elite island of secure and high-paid workers, separated from the ocean of average Americans competing in the global economy. Policymakers instituted a partial freeze on federal wages over three years, which was a step in the right direction and saved taxpayers billions of dollars. The next reform steps should be to overhaul federal benefits and to downsize the federal workforce through program terminations and privatization.

Federal Pay Advantage

In 2013 federal civilian workers had an average wage of $81,076, according to data from the U.S. Bureau of Economic Analysis. By comparison, the average wage of the nation's 107 million private-sector workers was $55,424. Figure 1 shows average federal- and private-sector wages since 2000.

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 2013, federal worker compensation averaged $115,524, or 74 percent more than the private-sector average of $66,357. Figure 2 shows that average federal compensation grew rapidly for a decade, but has slowed recently.
An analysis by USA Today revealed particularly fast wage growth at the top end of the federal workforce. 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.

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 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 2012, the USDA’s Office of Communications employed 59 people and paid $8 million in wages and benefits. That works out to $136,000 each for these public relations workers. Or consider that the 49 employees of the USDA’s Office of Chief Economist earned an average $184,000 each in wages and benefits in 2012. It isn’t just rocket scientists that 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 does not seem to explain the faster growth in federal compensation than private compensation shown in Figures 1 and 2. In 2000, the average federal worker earned 50 percent more in total compensation than the average private-sector worker. By 2013, that ratio had risen to 74 percent.

Another way to evaluate federal pay is to compare average compensation in 72 industries tracked by the U.S. Bureau of Economic Analysis. 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. See these industry data charted here.

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
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. 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 in most years, yet the official pay gap has remained very large. The official pay gap was 22 percent in 2001 and 26 percent in 2009, thus supposedly indicating that federal workers became a bit worse off relative to private-sector workers during that period. Yet the BEA data show that average federal salaries rose 47 percent between 2000 and 2009, which was much faster than the 29 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 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. 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." 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. In 2013, federal workers enjoyed average benefits of $34,448, which compared to average benefits in the U.S. private sector of just $10,933. 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." Garcia summarized the federal benefits package:

- "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."
- "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. Just 1 in 200 federal civilian workers a year get fired for any reason, and just 1 in 1,000 in the senior executive service get fired a year.

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. 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 should not 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 static federal workforce, and to help more young and energetic people enter government.

Another way to help solve the federal pay problem would be to privatize federal jobs where possible. For example, the average compensation of federal air traffic controllers is remarkably high. Is it too high? We can 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 overhaul the federal benefits package 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.

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6 Dennis Cauchon, "For Feds, More Getting Six-Figure Salaries," USA Today, December 11, 2009.


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 2009 are from the 2003 and 2011 reports, respectively.


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.


19 Chris Edwards, "Federal Firing Rate by Department," Cato Institute, June 6, 2014.


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