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Wage-freeze proposal puts federal pay in spotlight

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President **Obama's** proposal to freeze most federal workers' salaries has intensified the debate over whether U.S. government employees are overpaid.

A report by the libertarian Cato Institute says that in 2009, the average federal civilian wage was \$81,258 per year, compared with \$50,462 in the private sector, based on U.S. Bureau of Economic Analysis data.

If you add benefits, total compensation swelled to \$123,049, roughly twice the private-sector average of \$61,051.

"In 2000, federal compensation was 66 percent above private-sector compensation. Today it's 102 percent above, so the gap is increasing," says Chris Edwards, author of the Cato report (available at downsizinggovernment.org).

Critics say such studies are flawed because the federal workforce has a lot more college-educated, white-collar workers than the labor force at large, which increases its average pay.

However, a study by USA Today, published in March, compared pay (excluding benefits) for more than 216 occupations that exist in both the public and private sectors. It found that average federal salaries exceeded average private-sector pay in 83 percent of these occupations in 2008, the most recent year Bureau of Labor Statistics data were available. On average, federal workers earned \$67,691, almost 13 percent more than their private-sector counterparts, it said.

Larry Mishel, president of the liberal-leaning Economic Policy Institute, says that federal workers are underpaid compared with their private-sector counterparts, based on the annual report by the President's Pay Agent. The report, authorized by Congress in 1990, is prepared by the Labor Department, Office of Management and Budget and Office of Personnel Management. It is designed to compare pay rates for federal versus non-federal workers for the same job in different parts of the country, and eliminate any disparities.

22 percent less

It estimated that on average, federal workers were making 22 percent less than their private-sector peers in 2009.

Edwards calls that report "a giant black box. It's an extremely complicated calculation, a bunch of statistical modeling. There is no published study on how they do it." (Read it at links.sfgate.com/ZKRD.)

Edwards says, "Congress or the White House should hire an outside auditor to audit the whole federal pay and methodology."

Ralph Smith, a former federal employee and government contractor who now runs the website FedSmith.com, says government pay could use an overhaul. "It's a big clumsy system designed in the 1940s. It is kind of tuned, but not really, to job markets."

Based on his experience, Smith says that government employees can be overpaid or underpaid depending on the position and location.

Some federal agencies have problems hiring administrative people in New York City or San Francisco because the salaries are not high enough. Likewise, it has a hard time competing for technology employees because companies such as Google "will pay more and get the best people," he says. But "if an administrative person in Alabama gets a job with the Army or NASA, they will be there for life because they make so much more" than they could in the private sector.

Smith says federal employers don't have the flexibility that private-sector employers have to quickly adjust pay to meet local competition.

Also, "There is not a good performance appraisal system," he says.

Government workers get raises when they move from one pay grade to the next. They also get step increases at certain intervals, which must be approved by a supervisor. Obama's proposal would not freeze either of these increases, Smith says.

Across-the-board raise

The freeze would affect the annual across-the-board increase federal workers typically get. The president proposes this increase, which must be approved Congress. Obama had proposed a 1.4 percent increase for 2011 before calling for a freeze.

The proposed freeze would apply to all executive branch workers, including civilian employees of the Defense Department, but not to military personnel, government contractors, postal workers, members of Congress, congressional staffers, or federal court judges and workers, according to the Washington Post.

Edwards said the freeze is a good first step, but "They also need to look at benefits."

Federal workers enjoy a traditional defined-benefit plan plus a 401(k)-style plan with an employer contribution. Most also participate in Social Security. If they retire before age 65, federal workers typically get health coverage until Medicare kicks in, he says.

Mishel called the proposed freeze "unjustified. It's symbolic. We have calculated it will reduce

deficit in 2020 by 0.3 percent."

He says that few private-sector employees get no wage increase. "The solution to our problems is not for people to be paid less. Reinforcing that is not good economics."

He adds that Obama should have demanded something from Republicans in return. "I think it's bad policy, and he didn't even get anything for it," Mishel says.

Net Worth runs Tuesdays, Thursdays and Sundays. E-mail Kathleen Pender at kpender@sfgate.com.

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