

An Upside to the Pay Freeze

Kellie Lunney | August 30, 2012

It's safe to say the two-year federal pay freeze has not been popular with government workers. Even those who support the freeze acknowledge its limitations: the savings it has generated (estimates are between \$60 billion and \$70 billion) is a drop in the deficit-reduction bucket, and it's not exactly a morale booster. The GOP policy platform, which calls for [overhauling the federal pay system](#) to bring it in line with the private sector's, and Obama's decision to [postpone a 0.5 percent pay boost](#) 2013 until Congress passes a budget, has put the issue in the crosshairs once again.

But there could be an upside to the pay freeze for feds. It puts a slight chink in the argument that federal employees are way overpaid compared to private sector workers -- a debate that rages on both sides and probably will never be settled definitively. The libertarian Cato Institute, the Washington think tank that has argued federal employees are too generously compensated compared to their private sector counterparts, acknowledged in a recent blog post that the "federal pay advantage" [has narrowed](#), partly as a result of the two-year pay freeze.

"Average private sector wages in the United States rose 3.0 percent in 2011, which was more than the 1.2 percent average increase for federal government workers," Chris Edwards, director of tax policy at Cato and a former senior economist on the Joint Economic Committee, wrote on the think tank's website. "This was the second year in a row that average private pay rose faster than average federal pay, but that comes after many years of an escalating federal pay advantage."

If average private sector wages continue to grow faster than average government salaries, it could alter the perception that some feds are grossly overpaid bureaucrats, as well as take the sting out of political rhetoric related to federal employees.

Edwards, who has studied federal pay for the last several years, said the issue of public and private compensation hadn't received much traction until recently "partly because the GOP took over the House and partly because the lousy economy reduced private pay and made private workers mad that public workers were still getting increases." He supports a government pay freeze, the phasing out of federal pensions (the defined benefit portion of feds' retirement package) and an outside audit of the methodology the Federal Salary Council uses to compare public and private sector pay.

While some think tanks (including Cato), lawmakers and other observers argue that federal workers are overpaid, the Federal Salary Council maintains there is a double-digit pay gap with government employees at a disadvantage. "It's a very complex method," Edwards said of the methodology the government uses to study the differences in public and private compensation. "You need a double espresso and a few hours to wrap your mind around how they make their comparisons."

People on both sides of the compensation debate agree that comparing wages and benefits of government employees and private sector workers is an imperfect science because there are many variables, including age, education, different pay scales and bonus opportunities.

In his studies, Edwards has used data from the Bureau of Economic Analysis. He found that federal civilian workers had an [average wage of \\$84,671 in 2011](#) compared to \$53,464 for private sector workers; the pay gap in favor of federal workers is even bigger when benefits are factored in, according to Edwards' analysis.

Still, he agreed the current pay freeze has helped narrow that gap and while he supports an extension of it, Edwards also said spending cuts have to come from other places too. "To the extent that Republicans are picking on federal workers and not other areas of the budget, I would criticize them on that. I'm glad Republicans in the House have pushed on this pay freeze, but I sure wish they would look at their own favorite programs," for savings, he said, citing farm subsidies and defense spending.