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How much is too much?

The gap in public and private pay and benefits is widening, and Washington is only part of the equation. The increasing cost of government, it turns out, is a home-grown product.

by Dennis Boone

"Government is not a solution to our problem; government IS the problem." —Ronald Reagan

Candidate Reagan popularized that saying on the presidential campaign trail in 1980, when the United States government employed nearly 2.9 million civilian personnel. As he left office eight years later, after two terms, the anti-government crusader was overseeing that federal work force of ... more than 3.1 million.

So the concept of right-sized government has long been in the eye of the beholder. Defying political stereotypes through ensuing administrations, the federal civilian payroll shrank throughout most of Democrat Bill Clinton's two terms. It dipped to less than 2.7 million early in the first term of Republican George W. Bush, then began a steady climb back up after 2002. Now, against the backdrop of federal program spending on an unprecedented scale, public-sector compensation is setting off alarms.

When national media outlets like *USA Today* and McClatchy Newspapers start printing stories that question the comparatively lucrative nature of federal pay and benefits packages, as they have in recent months, you know the issue has gone mainstream. Libertarian think tanks, conservative talk radio stations and proudly socialist Web sites alike are all engaged in roiling debate about the appropriate size of—and compensation levels for—the public-sector work force.

But regardless of which side of the debate resonates

Government: The Girth of Growth Here

Beginning in 2000, public-sector employment as a percentage of the work force began to soar in the Kansas City MSA before leveling off and beginning a new surge in 2010. Meanwhile, waves of layoffs cut private-sector employment after it had finally climbed past its 2000 levels in 2007–2008.

Year	Public Sector Employment (in thousands)	All jobs	Public as a % of total	Private Sector
2000	138.8	966.8	14.35	828.0
2001	142.9	971.6	14.70	828.7
2002	143.2	954.9	14.99	811.7
2003	145.0	946.0	15.32	801.0
2004	144.7	942.8	15.35	798.1
2005	146.1	960.8	15.21	814.7
2006	148.5	975.7	15.22	827.2
2007	151.0	991.6	15.23	840.6
2008	153.4	1004.3	15.27	850.9
2009	156.8	980.2	16.00	823.4
2010	154.1	950.6	16.21	796.5

Overall public-sector growth: 11.02 percent
Overall private-sector decline: 3.8 percent

*Figures are month-to-month comparisons through February 2010, the latest month for which figures are available.

Source: Mid-America Regional Council, Bureau of Labor Statistics most with you, disagreements over federal payrolls miss the true mark when it comes to growth of public-sector employment. The vast majority of government employment growth, according to federal statistics, has taken place not in Washington. It's in the Statehouse, the County Courthouse and at City Hall.

A Warning Signal?

That trend has dire implications for the nation's business climate, says Dave Trabert, president of the Wichita-based Kansas Policy Institute, which advocates for free-market public-policy principles.

"You go back to the basic economic principle of scarcity of resources," Trabert said. "Everybody has limited amounts of resources, individuals or businesses, and every dollar you have to spend on taxes is a dollar you cannot spend on something else—goods, services, employees."

In large part because of recession-driven layoffs since 2008, total employment nationally was up only 6.2 percent between 2000 and 2009. At the same time, public-sector employment in the U.S.—fueled by increases in workers below the federal level—grew half-again as fast, an increase of more than 9 percent, according to statistics from the Bureau of Labor Services.

Even in the comparatively conservative Midwest, neither Kansas nor Missouri has been an exception to the trend. Kansas, in particular, now exceeds the 14.11 percent national average of public-to-private sector employment; 15.8 percent of the people working in that state are in the public sector. And Missouri, while leaner than the nation as a whole at 12.8 percent public employment, is trending upward with that segment of its work force, notwithstanding recent layoffs issued from Jefferson City.

The bottom line? In the two-state region, as with the the nation, one worker in seven earns a paycheck thanks largely to what's taken from the earnings of six others.

Unsustainable Track

That government employment growth arc, Trabert says, is not just unsustainable, it's something that should have the attention of every business owner whose revenues help foot the bill for those public-sector jobs.

"A lot of this comes down to choices" on the policy end, he said. "What's the Number One thing we need to accomplish? These days, it's job creation. Whether you're implementing or extending a program, it comes down to how you fund it and the question of what is the long-term or short-term impact on job creation."

Jim Heeter, CEO of the Greater Kansas City Area Chamber of Commerce, acknowledged potential risks to business in the long term, but doesn't see things reaching a crisis point.

"Theoretically, it could be a problem for private-sector employers" if the compensation gap continues to widen, Heeter said, "but I have a strong belief that before it would become a real problem, it would find its own equilibrium, both in the public and private sectors."

Indeed, there are signs that government offices are beginning to respond to revenue shortfalls the way businesses always have, by tightening costs through staffing reductions and operational cuts. But if we're to achieve anything close to the equilibrium that Heeter suggests, something far more dramatic will have to take place in the public sector, given the surge in compensation that's taken place there over the past decade.

The Scales Tilt

Public-sector jobs have long been perceived as something of a trade-off with employment in corporate America. In exchange for generally lower salaries, government was able to offer more job stability and more generous benefits packages—the famed “golden handcuffs” that have kept public-sector turnover rates at roughly one-third of those in the private sector, according to the BLS.

But incremental changes over the past decade, compounded by a blockbuster shift in the makeup of the private work force after the recession-driven layoffs since 2008, have altered the compensation calculus.

Chris Edwards, director of tax policy studies for the libertarian Cato Institute, triggered much of the current back-and-forth with a Web examination of federal compensation last August, and a follow-up piece on state and local government workers earlier this year. His work cited BLS and other federal statistics that show an average compensation package—salary and benefits—of $119,000 for federal employees, slightly more than twice the value of the average private-sector package. (For his work, he notes, he is rewarded with hundreds of e-mails from outraged federal employees every time another news organization references his analysis: “It makes me wonder whether they have nothing better to do than sit around reading stories that question whether they’re overpaid,” he wisecracks.)

State and local compensation, by comparison, has not been as lucrative as federal work by historical standards, but there is evidence that those compensation levels have tilted dramatically, as well. Again, according to the BLS, average total compensation for state and local level public-sector employees was $39.66 an hour as of June 2009—45 percent higher than the private-sector hourly average of $27.42.

Even more generous, the same BLS data showed, were state and local programs for paid leave (1.7 times the private-sector compensation), health insurance (2.18 times private-sector levels) and especially defined-benefit pension programs, which were nearly seven times as lucrative as private-sector plans.

Whether the work is federal, state or local, critics of current public-sector compensation structures argue that lack of a true bottom-line imperative contributes to disparities with private-sector pay. Governments, they argue, are not subject to the same kinds of market-driven cost-control pressures that are everyday issues in the private sector.

Worth noting: Edwards’ work was based on changes in federal employment from 2000 to 2008, before massive layoffs began to propel the nation’s unemployment rate past the 10 percent mark. And his work doesn’t include the effect of the federal stimulus money that went to help preserve public-sector jobs at the local level, such as teaching positions.

The Business Concern

The government, of course, has lots of revenue streams through user fees—think fuel taxes, traffic tickets, national parks admissions and court-filing costs, among them. But the heavy lifting on public payrolls is done with tax receipts from individuals and private business. The more the public side growth outstrips the private sector, the smaller the work force that pays for it, a phenomenon not unlike the ever-shrinking numbers of workers supporting Social Security recipients.

A continuation of that trend, work-force analysts say, will make it difficult for companies to finance the additional hiring needed to expand operations. That’s especially true for smaller firms, always the biggest drive of job gains.

Average State/Local Government Compensation

Dollars per Hour Worked (June 2009)

	A. State and Local	B. Private Sector	Ratio of A/B
Total compensation	$39.66	$27.42	1.45
Wages and salaries	26.01	19.39	1.34
Benefits	13.65	8.02	1.70
Paid leave	3.27	1.85	1.77
Supplemental pay	0.34	0.83	0.41
Health insurance	4.34	1.99	2.18
Defined-benefit pension	2.85	0.41	6.95
Defined-contribution pension	0.31	0.53	0.58
Other benefits	2.53	2.40	1.05

Source: U.S. Bureau of Labor Statistics, Cato Institute

With the nation’s unemployment rate stubbornly flirting with double-digit levels, with projections that pre-2008 jobless rates may not return for another decade, and with the national debt set to overtake GDP next year—portending higher interest rates that could choke off business growth in a nascent recovery—

the issue becomes less an ethereal policy debate than one with real-world consequences for employer and employee alike.

Local-Level Issues

John Nachbar, city manager for Overland Park, now the region's second most-populous city, acknowledged that growth in suburban communities like his had contributed to the increase of local public-sector jobs. He also pointed to the thickness of the government weave in a community like Johnson County.

"There has been a lot of government growth, there's definitely some truth to that," he said. "But a big part of it, really, is that there are so many units of local government. Look at Johnson County, what do we have, 20 cities? And how many school districts, separate water districts? There are just so many."

Those jurisdictions are starting to feel some of the budgetary pressures that businesses are experiencing, Nachbar said. This past winter, he had to cut the city staff by more than 60 positions—42 by layoff. "Actually, Overland Park now has virtually the same number of employees as when I came here eight years ago, and we've grown 30,000 in population in that time," he said.

Holding the line on employee numbers makes Overland Park an aberration in local-government circles, but the city's experience proves instructive.

Trabert said KPI's own studies showed that between 1980 and 2008, the Kansas population had risen 18.3 percent. Local government employment, meanwhile, was up nearly 65 percent. In Missouri, population growth of 21.1 percent was more than doubled by a 49.3 percent growth in state and local government jobs.

"To put that in perspective," Trabert said, "take, as we did, according to the BLS, the average wage of local government workers in Kansas in 2008, add 28 percent for benefits, and ask the question: What would the costs have been if local government had grown by that same percentage as the general population? How much less spending would there be? And the answer was $2.3 billion a year."

More sobering, he noted, was that while the BLS data count school administrators as public employees, teachers go into those records as private-sector workers, understating the true difference in those groups' growth rates.

Reality-Check Time

Growth of government in the suburban fringe, whether in county or city governments or local school districts, has not been met with corresponding reductions in the size of urban governance. That pattern, though, may be yielding to a new economic reality. In Kansas City, Mayor Mark Funkhouser says City Hall's work force has been reduced by 850 jobs, and on the schools side, Superintendent John Covington laid out an ambitious plan to close nearly half of the school buildings and trim positions from the Kansas City district's work force. That cost several hundred teachers and support staff their jobs.

That pressure won't go away soon, Nachbar said: "I think we're going to continue to see that trend for another couple of years."

At another rapid-growth community on the other side of the Kansas City region, Blue Springs Mayor Carson Ross said one of the reasons we are where we are today with the size of local government is that people too often aren't paying attention.

"They overlook what government does until there is a need that they have," he said. "I get confronted by people all the time: 'Why don't we have sidewalks here?' Well, there's a cost associated with that. 'Why don't we have a community center? Everybody else has one.' There's a cost associated with that."

Beyond that, said Ross, there are federal mandates, such as the requirement that every city in the United States move off of analog onto digital communications systems in public-safety offices by 2013.

“That’s $7 million to $9 million for us in Blue Springs,” Ross said. “There’s a cost associated with those quality-of-life things—we want a safe community, that’s what makes us what we are—but we’ve got to come up with the money. I think a lot of people, on the municipal level, are not realizing the value they’re getting for their dollar.”

Is There A Way Out?

If local, state and federal governments are going to reduce the trend, they won’t do it—probably can’t do it—through staff reductions alone, Trabert observes. Then again, he suggests, they don’t have to: Much of that goal can be accomplished through privatization.

Citing everything from school cafeteria and maintenance work to municipal landscaping, he said thousands of jobs in the region could come off the public rolls and be subjected to market forces that would improve efficiencies, reduce overall compensation costs, and as a bonus, take some heat off of a public pension programs that can’t come close to meeting estimated future obligations.

“You don’t have to put people out of work by cutting their public-sector jobs,” Trabert said. “Those people can still have jobs; they’ll just have them in the private sector.

“The alternative,” he said, “is to tax people more to pay for that work.”