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# The Government Pay Boom

*America's most privileged class are public union workers.*

It turns out there really is growing inequality in America. It's the 45% premium in pay and benefits that government workers receive over the poor saps who create wealth in the private economy.

And the gap is growing. According to the U.S. Bureau of Labor Statistics (BLS), from 1998 to 2008 public employee compensation grew by 28.6%, compared with 19.3% for private workers. In the recession year of 2009, with almost no inflation and record budget deficits, more than half the states awarded pay raises to their employees. Even as deficits in state capitals widen and are forcing cuts in services, few politicians are willing to eliminate these pay inequities that enrich the few who wield political power.

**Public vs. Private Pay**

Average compensation per hours worked, June 2009

| | State and local government | Private |
|---|---|---|
| Total compensation | $39.66 | $27.42 |
| Wages and salaries | 26.01 | 19.39 |
| Benefits | | |
| Paid leave | 3.27 | 1.85 |
| Health insurance | 4.34 | 1.99 |
| Defined benefit pension | 2.85 | 0.41 |
| Defined contribution pension | 0.31 | 0.53 |

Sources: Bureau of Labor Statistics, Chris Edwards, Cato Institute

Let's walk through the math. In 2008 almost half of all state and local government expenditures, or an estimated $1.1 trillion, went toward the pay and benefits of public workers. According to the BLS, in 2009 the average state or local public employee received $39.66 in total compensation per hour versus $27.42 for private workers. This means that for every $1 in pay and benefits a private employee earned, a state or local government worker received $1.45.

The BLS study breaks down where that 45% premium comes from. It turns out that public

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employees earn salaries that are about one-third higher on average than what is provided to private workers per hour worked. But the real windfall for government workers is in benefits. Those are 70% higher than what standard private employers offer, as shown in the nearby table. Government health benefits are twice as generous as what workers employed by private employees earn. By the way, nearly this entire benefits gap is accounted for by *unionized* public employees. Nonunion public employees are paid roughly what private workers receive.

What if government workers earned the average of what private workers earn? States and localities would save $339 billion a year from their more than $2.1 trillion budgets. These savings are larger than the combined estimated deficits for 2010 and 2011 of every state in America.

In a separate survey, the federal Bureau of Economic Analysis compares the compensation of public versus private workers in each of the 50 states. Perhaps not coincidentally, the pay gap is widest in states that have the biggest budget deficits, such as New Jersey, Nevada and Hawaii. Of the 40 states that have a budget deficit so far this year, 28 would have a balanced budget were it not for the windfall to government workers.

But these current fiscal problems are a picnic compared to the long-term benefit commitments that state and local politicians have made to public retirees. A 2009 study by economists Robert Novy-Marx and Joshua Rauh, published in the Journal of Economic Perspectives, estimated that these government pensions are underfunded by $3.2 trillion, or $27,000 for every American household.

The Orange County Register reports that California has 3,000 retired teachers and school administrators, who stopped working as early as age 55, collecting at least $100,000 a year in pensions for the rest of their lives.


Associated Press

Illinois's pension obligations are so costly the state had to issue $3.5 billion of bonds merely to meet its mandatory contribution to the worker retirement program, which faces $85 billion, or three years of state tax revenues, in unfunded liabilities. Near-bankrupt New Jersey would have to pay $7 billion a year if it properly accounted for its pension and health benefits.

California, Nevada New Jersey and Ohio all allow double dipping, which lets government workers retire in their 50s and then work another full-time job while collecting retirement checks. In Ohio, police, firefighters and teachers can retire after 30 years on the job, collect a full benefit each year and go back to work full-time doing the same job. This is called retire and rehire.

As the Columbus Dispatch reported last year: "Across the state, Ohio's State Teachers Retirement System paid out more than $741 million in pension benefits last school year to 15,857 faculty and staff members who were still working for school systems and building up a second retirement plan." Some teachers can earn nearly $200,000 a year in pensions and salaries.

The union response is that government workers deserve all this because they are more educated and highly skilled. That may account for some of the pay differential but not the blowout benefits. The unions also neglect one of the greatest perks of government employment: job security. Short of shooting up a Post Office, government workers rarely get fired or laid off.

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If government workers were underpaid, we'd expect high attrition rates, as they pursued better private opportunities. The reality is the opposite. Cato Institute economist Chris Edwards has analyzed Department of Labor statistics and found that private workers are three times more likely to quit their jobs than are government workers.

So if your state is broke, this is a major reason. Eventually, governors, state legislators and city council members are going to have to decide whether protecting America's privileged class of government workers is a higher priority than funding such core functions of government as public safety. Something has to give. It's time to close the biggest pay gap in America.Printed in The Wall Street Journal, page A18