

What Is a Government Worker Worth without a Free Market?

Richard M. Ebeling

Tuesday, May 16, 2017



Where are you more likely to earn a better income, in the private sector or working for the government? Well, it turns out that those employed by the federal government, who also have high school diplomas or college bachelors' degrees, are likely to be financially far better off.

The [Congressional Budget Office \(CBO\)](#) released a new study in April of 2017, "Comparing the Compensation of Federal and Private-Sector Employees, 2011-2015." The upshot of which is that, in terms of pay and benefits, federal employment is where your standard of living will likely be greater.

The federal government directly employs (not counting the military) around 2.2 million people. The CBO estimates that between 2011 and 2015, federal employees with no more than a high school diploma, made 34 percent more per hour than equivalent degree holders in the private sector. Whereas private sector employees earned an average of \$22.10, federal employees with equivalent education and work experience earned an average of \$29.60 per hour.

During the same time period, employees with a bachelor's degree (who make up about a third of the federal government's labor force) earned about 5 percent more than comparable employees in private enterprise. Meanwhile, those with doctoral or professional degrees earned 24 percent less, on average, than people who held similar jobs in the private economy.

In the private sector average hourly wages were \$68 per hour, but only \$51.90 for those employed in the federal government.

Fringe Benefits and Total Compensation Packages

The same divergence exists in the “benefits” category: health insurance, retirement benefits, and paid leave. An employee of the federal government, with a education level of high school diploma or less, received the hourly equivalent of \$21.30 in non-cash benefits, while a comparably educated person in the private economy only received benefits equivalent to \$11.10 per hour (93 percent more from working for Uncle Sam).

For those with bachelor’s degrees, federal government employees earned benefits equal to \$27.50 per hour, on average, compared to similar private sector workers who received benefits equal to, on average, \$18.10 per hour. In other words, a college graduate working for the government would receive 52 percent more in benefits than if they had worked for the private sector.

Yet again, for those with doctoral or advanced professional degrees, the reverse was true. The non-cash employment benefits of working for the federal government were the equivalent of \$29.70 per hour, while in the private sector they averaged \$30.70 (a difference of three percent).

Overall, a federal employee with a high school diploma or less received, in salary and benefits, 53 percent more than a person with the same profile in the private sector, for those with bachelor’s degrees, 39 percent more. However, for those with professional or doctoral degrees, the total compensation package from working for the federal government was about 18 percent less than the private industry.

Differences in pay and benefits between the federal government and the private sector have been growing. The CBO did [a similar study](#) covering the period between 2005 and 2010 and found that, for federal employees with high school diplomas or less, the total compensation packages of both salary and benefits increased by over 47 percent between these two periods.

For federal employees with a bachelor’s degree, total compensation increased 40 percent, but stayed the same for those with advanced professional or doctoral degrees.

Economic Calculation

Given these estimates, should we presume that those with a high school diploma or bachelor’s degrees are so much more productive and efficient in the government sector than in private enterprise? And should we presume that those employed by the federal government possessing higher professional or doctoral degrees are really so much less valuable compared to

Let me suggest that we really don't know, and cannot fully know. In competitive markets, products are sold to willing consumers and wages and benefits come from revenues.

Government acquires pays employee salaries from compulsory taxation; government imposes goods and services upon the citizenry from a monopoly position, with little way of knowing what the citizen recipients think those goods and services are really worth. In other words, government is a socialist enterprise that operates in the same arena where private enterprises are subject to the laws of the marketplace.

In the private sector, a businessman must speculate about what potential consumers may wish to buy. If he is starting a new business, he must draw upon his own savings (or borrow money, with the promise to pay it back with interest) to undertake the production process that hopefully will result in a product to offer to the buying public.

He must compete against other enterprisers who are hoping to successfully sell to consumers. Our businessman has to decide what he can afford to offer potential employees of various skills, education levels, and experience.

The maximum amount that he can afford to pay workers is determined by the selling price of his finished product and the quantity demanded at that anticipated price. The total costs he could afford to incur to bring his product to market is determined by the total revenues he speculatively anticipates might be his at the end of the production process.

How much he may actually have to offer for labor is determined by the "opportunity costs" of workers and other input providers, as captured in the wages and prices other employers may be willing to offer them.

Given his anticipation of the finished good's selling price, input prices (including workers' wages) enable him to decide whether a profit or loss is probably if he makes this product. If profit seems possible, what combination of the inputs (labor, capital, resources), would minimize his expenses and maximize his possible net revenues?

Taxation and Coercion

What I have briefly attempted to summarize here is the process of "economic calculation," the importance of which was emphasized by the Austrian economist, Ludwig von Mises, in his famous critique of socialist central planning almost a century ago.

Through this competitive market process, each employee's worth is determined and reflected in the wage he may be able to earn by being employed by different enterprises. The wage he accepts reflects his options for gainful employment and which offer had the most attractive wage and benefits package, plus non-pecuniary attractions (preferred location, pleasant work environment, interesting or enjoyable work). Non-pecuniary attractions sometimes result in a willingness to tradeoff for higher wages and benefits.

Government operates in a significantly different setting than private enterprisers in open, competitive markets. What government supplies is determined politically through either autocratic decision or by special interest politicking in the democratic process. Revenues are acquired from compulsory taxation that tells little or nothing about whether the citizens who are given or required to accept what government supplies really want it and at what value and price, if any.

There is none of the same rational economic calculability in government enterprise as there is in competitive market private enterprise. As long as labor is relatively freely offered and hired on a market, government must pay certain minimum wages to attract workers away from potential private employers.

But what the maximum salaries may be that are offered and paid to those employed by the government has no restraint similar to private enterprisers in the competitive market. Whether or not American taxpayers agree with the functional roles of federal employees, they will be forced to pay for their salaries out of taxes.

The salaries paid and benefits provided for those employed within the government's bureaus, agencies, and departments are determined by the interactions of politicians, the lobbying of department heads for maintaining or expanding their respective budgets, and the labor unions that represent various segments of the federal government's workforce.

Thus, the salary and benefits scales for government employees exist as semi-socialist islands of political decision-making that lack the same reasonableness, rationality or economic calculable efficiency as in the competitive private market process.

Attracting Public Sector Employees

Why would someone with an advanced degree work for the government rather than the private sector where their pay and fringe benefits are likely to be higher than with a government job?

There are always some non-pecuniary motives behind the employment choices we make. Some might forego a higher salary in the private sector because they sincerely want to do "good" for society. For some, there is the pleasure in socially engineering and controlling other people's lives through the government's power.

Others, to speak bluntly, may have advanced degrees – and the CBO study points out that the federal government proportionally hires more scientists and engineers than the private sector – but not the personality or expertise to cut it in the private sector. Thus, there may be no non-governmental next best alternative from which to secure employment without a significant reduction in salary and benefits.

Given the often-perverse incentive structures in existing bureaucracies, government employment sometimes attracts the corrupt and the deceitful. One of the most notorious examples of this is, of course, the Veterans Administration – an American monument for the depths to which socialized medicine can fall, at the tragic expense of those assigned to its care.

There is no “fix” for these wage, benefit and employment irrationalities and misallocations other than to radically reduce and more narrowly define government’s duties and responsibilities.

Return federal government employees to the private sector and, by their participating in the production of goods and services to the benefit of the consuming public, they will soon find out what their labor services are really worth.