

## More on That Federal Pay Cut

Last week we wrote that one way the federal government could show it was serious about the budget deficit would be an across-the-board pay cut of 10% for all civilian federal workers. Although the savings would be only about \$15 billion per year (roughly 1% of the budget deficit) the “cut” would send a clear signal to our creditors that policymakers were concerned about the deficit and were willing to take on sacred cows.

It seems like we touched a nerve. No article we’ve ever written has generated as much response.

In the larger picture, this is a bad sign. If government has become so big that articles about changes to government generate more interest than articles about stock prices, then government has become too big and too entangled in the lives of the American people. Government has become the intermediary in so much of our life that it has crowded out ways of relating to each other through civil society itself.

That said, while many of the comments we received were supportive, the majority were downright hostile. Some were too silly to warrant a reply. Maybe it was just a coincidence, but those comments seemed to come from federal employees during work hours.

Other criticisms were more serious and fell into a couple of groups. One argument against the pay cut was that many young federal workers are already underpaid.

Truth be told, we’re sympathetic. Young workers may do the same jobs as older workers, yet they receive much lower pay – think TSA passenger screening. But, since federal pay is based on seniority, they can move up that scale rapidly and once ensconced in the federal system become very difficult to dislodge. While the federal system attempts to use merit-based pay, the seniority system can undermine the productivity improvements that come from merit.

In addition, federal pensions are generous when compared to the private sector, as is worker pay and other

benefits. A story published in USA Today three days after our last Monday Morning Outlook ([link](#)) showed that federal workers were paid more than their private sector counterparts in more than 80% of occupations. And that does not include benefits which are on average four times higher in the public sector versus the private sector. Maybe that’s why the statistics show that federal workers only quit their jobs at about 25% the rate of private-sector workers. This is an amazing difference. If that’s not the definition of highly paid, we’re not sure what is.

Another argument used by government employees was that the earnings of federal workers get spent in the local community, which multiplies the benefits of their pay across the economy. So a pay cut would hurt the economy.

This multiplier argument is fallacious and worries us because it seems that government employees do not understand basic economics. Every dollar the federal government pays its workers has to come from someone else (through taxes or borrowing), who would have spent it anyhow. Why is a federal paycheck more likely to be multiplied than a private paycheck?

Even if you buy into the idea that a boost in federal spending can temporarily have a multiplier effect, raising pay for government workers – who would provide the same services anyhow – is wasteful. The same money could be spent on hiring new workers to perform *additional* tasks, like greater port security, for example.

Also, the “multiplier” argument implicitly accepts that federal workers are not really paid for the value of the services they render, but instead receive a premium for some larger social good. In essence, they are saying federal pay is a form of “workfare,” a hybrid of a paying job mixed with a welfare payment. That’s a reason to cut pay right there.

We are ready for more criticism... and support...from our readers, but we think we have made our point.

| Date/Time (CST) | U.S. Economic Data          | Consensus    | First Trust         | Actual | Previous    |
|-----------------|-----------------------------|--------------|---------------------|--------|-------------|
| 3-10 / 1:00 pm  | Treasury Budget - Feb       | -\$220.0 Bil | <b>-\$223.0 Bil</b> |        | -\$42.6 Bil |
| 3-11 / 7:30 am  | Int'l Trade Balance - Jan   | -\$41.0 Bil  | <b>-\$40.6 Bil</b>  |        | -\$40.2 Bil |
| 7:30 am         | Initial Claims - Mar 6      | 460K         | <b>457K</b>         |        | 469K        |
| 3-12 / 7:30 am  | Retail Sales - Feb          | -0.2%        | <b>-0.5%</b>        |        | +0.5%       |
| 7:30 am         | Retail Sales Ex-Autos - Feb | 0.0%         | <b>-0.1%</b>        |        | +0.6%       |
| 7:30 am         | Business Inventories - Jan  | +0.1%        | <b>+0.6%</b>        |        | -0.2%       |
| 8:45 am         | U. Mich. Consumer Sentiment | 73.9         | <b>75.0</b>         |        | 73.6        |