Statement before the United States House of Representatives

Committee on Oversight and Government Reform

Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy

Hearing on Right-Sizing the Federal Workforce

Andrew G. Biggs

Resident Scholar

American Enterprise Institute

Chairman Ross, Ranking Member Lynch, and Members of the Committee. Thank you for granting me the opportunity to discuss the size of the federal workforce and efforts to right-size federal employment going into the future.

A score of academic studies have confirmed that individual federal employees receive significantly higher salaries than private sector workers with similar education and experience. My own work with Jason Richwine of the Heritage Foundation has extended the analysis to benefits and job security - including benefits, the federal pay premium reaches 35 percent, and adding the value of better federal job security raises the premium to 54 percent.[1]

However, much less is known regarding the appropriate size of the federal workforce. Do federal agencies carry larger staffs than similar private entities? Is the U.S. government workforce large relative to that of our economic competitors? These questions are more difficult than assessing the pay of individual workers and far less research has been done in these areas.

One area to start is to compare the federal workforce today to levels in the past. It is true, as some have noted, that the ratio of federal employees to the overall U.S. population has declined in recent decades. In 1969, for instance, there was one federal employee for every 67 Americans, whereas in 2009 there was one federal employee for every 111 Americans. But this should not be understood as implying that the federal government is understaffed. Assuming that the productivity of the federal workforce rises faster than the population, fewer public sector workers *should* be able to adequately provide services for a growing population. If productivity

[1] Biggs, Andrew G. and Jason Richwine. “Comparing Federal and Private Sector Compensation.” American Enterprise Institute Working Paper. May 2011 update forthcoming.

in federal services tracked productivity in the economy at large, each federal employee today would produce almost twice as much as in 1969. This would allow a federal workforce even smaller than today to provide federal services at levels comparable to the past. That is, if federal productivity tracked the economy at large, a workforce around 16 percent smaller than today's could provide services comparable to those of federal employees in 1969.

However, we lack solid data on federal productivity growth, in part because productivity is difficult to measure in a non-market environment. My old agency, the Social Security Administration, increased output by around 2.3 percent annually from 1976 through 2009, if measured by the number of beneficiaries each SSA employee services. However, this figure does not account for capital investments toward computerization, which the agency is aggressively pursuing as a means to handle the surge of Baby Boom retirements, nor does it control for changes in labor costs. Such comparisons are possible for an agency such as SSA, which performs large numbers of discrete services on behalf of the public, whose speed, quality and accuracy can be measured. For other agencies that are not as customer-oriented as SSA, productivity is harder to measure. And importantly, when something is difficult to measure, it is more difficult to improve.

We also lack data on how federal staffing levels compare to those of private sector entities, principally because federal activities often do not have clear private sector corollaries. At the state and local level such comparisons are easier to make; we know, for instance, that private schools often have less administrative overhead than public schools, allowing them to focus more resources on teachers in the classroom. Similarly, some local governments have outsourced activities such as trash-hauling to private firms who can offer the same services as lower costs. I suspect that overstaffing is most likely to occur in places where it is most difficult to detect, meaning that it could occur at the federal level, but the difficulty of detection itself obviously makes this suspicion hard to confirm.

Comparisons to our economic competitors are possible, although the American distinction of placing so much government activity at the state level means that the most meaningful comparisons of public sector workforce size encompass all levels of government, including state and local government. By this standard, the U.S. is around the middle of the pack. As of 2005, the total United States government workforce at all levels equaled around 14.1 percent of total employment, versus an OECD median of 13.5 percent. The U.S. public labor force is larger than that of 56 percent of OECD countries, meaning that it is slightly above the median. Our level of public employment is similar to that of Australia, but also matches that of Greece and Italy. The United Kingdom has significantly higher public employment at 19.1 percent of the workforce, though presumably a large part of this is attributable to the fact that nearly all U.K. health providers are employed by the government through the National Health Service. In Germany public employees equal 10.5 percent of the labor force while in Japan government workers equal only 5.5 percent of the workforce. More recent data is not available, so it is not clear how the financial crisis and other factors may have affected relative employment levels in recent years.

While the U.S. does not have an unusually large or small public sector labor force relative to all other countries, the American public workforce *is* large compared to governments whose expenditures match our own. The U.S. is a relatively low-spending country compared to other OECD nations, with total government expenditures in 2006 equal to around 36.4 percent of GDP. Compared to other countries whose governments spend around the same share of GDP, the total U.S. public workforce – again, federal, state and local – is on the high end. For instance, of the seven OECD countries that spend within plus/minus 3 percent of GDP relative to the U.S. (that is, between 33.4 and 39.4 percent of GDP), public employment in 2005 averaged 11 percent of the total workforce, versus 14.1 percent in the U.S. This seems unusual given how large a share of U.S. government outlays are essentially cash transfers either directly to individuals (Social Security) or to healthcare providers (Medicare, Medicaid).

One possible explanation for a relatively larger U.S. public sector workforce could be our larger military. However, while we spend more on our military than other nations, and in most cases spend more even relative to the size of our economy, this spending appears to be centered on equipment and other expenditures rather than a large standing Army. As of 2008, the U.S. had active military manpower of 1.385 million individuals, according to the CIA World Factbook, making up 0.3 percent of working age individuals. In Japan this figure is 1.1 percent and in Australia and Canada is 1.9 percent. Thus, it appears likely that our large relative public workforce compared to governments of similar size is due to non-military personnel.

When we consider the size of the public sector workforce, we also should bear in mind the increasing use of contract workers rather than civil service employees. Some, such as Brookings Institution scholar Paul Light, have argued that when contractors are included the total federal workforce has increased in size. Given the paucity of hard data, conclusions are difficult to reach – but it is clear that contract employment is large and has risen significantly in recent years. In addition to raising question on the aggregate size of federal employment, lawmakers must decide whether contract employment provides better value to taxpayers than permanent civil service employees. This is difficult to say, given the poor current analysis of civil service pay conducted by the Office of Personnel Management and the lack of pay data on contractors. While it is often argued that contractors are more expensive than permanent federal employees, hard conclusions await hard data. The fact that contract employees can be discharged or reassigned more easily provides what economists call an "option value" to contract employment, while permanent employment makes it more difficult to reduce the federal workforce or recast the skill-set of federal employees according to changing needs.

Policymakers hoping to reduce the size of the federal workforce have focused on attrition, which seems a fair and less disruptive way to reduce the labor force if it is desired. However, ordinary federal turnover is quite low compared to the private sector, in part due to the relatively generous pay and benefits provided in federal employment. According to the Bureau of Labor Statistics Job Openings and Labor Turnover Survey (JOLTS), federal employees are only around 29 percent as likely as private sector workers to be involuntarily discharged or voluntarily quit their positions. This implies that altering the size of the federal workforce through attrition would be slower than in the private sector.

At the same time, however, the federal workforce is around 5 years older than the private sector average (45 years versus 40 years) and is generally eligible to retire at younger ages. Almost 88,000 federal employees retired in Fiscal Year 2009, and the Office of Personnel Management estimates that almost one quarter of federal and postal employees are currently eligible to retire. Even larger percentages will be eligible for retirement over the next 10 years. Thus, there is the potential to reduce the size of the federal workforce without firings or layoff, through the gradual process of retirement.

However, when we think of right-sizing the federal workforce we need a clearer idea of what the right size will be. The President's Fiscal Commission recommended reducing the federal workforce by 10 percent over the next decade, through a process of hiring only one replacement worker for each employee who leaves federal service. Some Members of Congress have endorsed that policy. On one hand, a 10 percent reduction in the federal workforce is not a “hard” number; the appropriate amount could be higher or lower. On the other hand, given the state of the federal budget and the rising national debt, there is also the danger of studying the issue to death without doing anything to address it.

There appears to be some consensus on both sides of the aisle that “right-sizing” the federal workforce makes sense. The challenge is in determining what the right size of the federal workforce may be and implementing steps to achieve it. While no definitive answer is likely, one approach might to be to implement a gradual downsizing of the federal workforce while tasking the Government Accountability Office, Congressional Budget Office or other organizations with undertaking comparisons of the size of the federal workforce relative to private entities and relative to the public sector workforce in comparable countries. Along the way, policymakers should monitor the effects of workforce reductions on the productivity of the federal government. I am confident that we can do more with less, but lawmakers should work together to find ways in which to do so.

ANDREW GEORGE BIGGS March, 2011
Resident Scholar
American Enterprise Institute
1150 17th Street Northwest
Washington, D.C. 20036
(202) 862-5841
andrew.biggs@aei.org

Education

2004-2008 M.Sc. financial economics, University of London

1992-1995 Ph.D. government, London School of Economics and Political Science

1991-1992 M.Phil. social and political theory, Cambridge University

1988-1990 B.A. philosophy (honors), Queen's University of Belfast

1986-1988 Middlebury College

Professional background

2008-present	Resident Scholar, American Enterprise Institute
2007-2008	Principal Deputy Commissioner, Social Security Administration
2007	Deputy Commissioner for Policy, Social Security Administration
2005	Associate Director, White House National Economic Council
2003-2007	Associate Commissioner for Retirement Policy, Social Security Administration
1999-2003	Social Security Analyst, Cato Institute
2001	Staff analyst, President's Commission to Strengthen Social Security
1998-1999	Director of Research, Congressional Institute
1996-1998	Assistant communications director, House Committee on Banking and Financial Services

Miscellaneous

Research associate, Center for Retirement Research, Boston College

Affiliated researcher, RAND/Wharton/Dartmouth Financial Literacy Research Center

Member, National Academy of Social Insurance

Recent Publications

Biggs, Andrew G. "An Options Pricing Method for Calculating the Market Price of Public Sector Pension Liabilities." *Public Budgeting & Finance*. Forthcoming.

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Committee on Oversight and Government Reform
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Name: Andrew G. Biggs

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"The Treatment of Married Women by the Social Security Program."
Center for Retirement Research at Boston College through Social Security Administration. ($41,451)

"Improving the Social Security Statement."
RAND/Wharton/Dartmouth Financial Literacy Research Center through Social Security Administration. ($39,862)

"Exploring Alternate Ways to Express Estimated Future Retirement Benefits in the Social Security Statement."
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3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

I certify that the above information is true and correct.
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