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## 6 Explaining the Success of Federal Employees as an Interest Group

### 6.1 Introduction

A major hypothesis advanced in this volume is that civil service reform allowed federal workers to become an entrenched special interest group of their own. The evidence presented in the previous two chapters suggests that they have been successful at increasing their compensation and job benefits relative to comparable private- and other public-sector workers, thus raising the question of how this record of successes was achieved. Clearly, there are fundamental differences in employer/employee bargaining in the federal sector compared to that in the private sector. Because negotiations over pay and civil service rules involve politicians and take place in the political arena, the observed differences between private and federal workers may be due to the voting power of the latter. The accomplishments of federal employees may also be due to the lobbying strength of federal unions in obtaining favorable statutes regarding the civil service system. In this chapter, we examine both the voting and the lobby lobbying influence of federal employees.

Voting power has received most of the attention. For example, Richard Freeman has noted, "Public sector unions, more so than private sector unions, can influence the employer's behavior through the political process. The principal reason for this is that public sector employees help elect both the executive and legislative branches of government" (1986, 42). Since public-sector employees help elect politicians, they are in a position to use their voting power to set the agenda at the bargaining table, and politicians have incentives to be responsive. In addition, there is an extensive literature that argues that public-sector employees are strongly motivated to use their voting power to elect candidates who support the expansion of government (see Downs 1967; Tullock 1974; Buchanan 1977; Bush and Denzau 1977; and Bennett and Orzechowski 1983).

The notion is that the salaries of these public-sector employees will increase with the growth of government.

With over 3 million full- and part-time federal civilian employees, federal workers clearly constitute a potentially powerful voting block. Nevertheless, we argue that there are a number of offsetting factors that limit the ability of federal workers to act as a cohesive voting force. First, with the exception of the Washington, D.C., metropolitan area, the federal labor force is geographically dispersed. Not only does this dispersion tend to dilute these workers' voting power, but it also increases the potential for free riding by raising the costs of collective action.<sup>1</sup> Second, because federal workers are highly protected by bureaucratic rules, they have less incentive to vote than if they were subject to political removals, as are patronage workers or other political appointees. Indeed, we show that the probability that a federal worker votes in a general election is no higher than that for a comparable private-sector worker. In contrast, the probability that a state or local government employee votes is significantly higher than that for a federal worker. Moreover, the number of employees in the state and local sector has grown far more rapidly over the past forty years than has federal employment. Even so, despite lower voter participation rates and slower growth, the empirical evidence indicates that the salary of a typical federal worker exceeds that of state and local employees by a substantial margin and that this wage advantage has persisted over time.<sup>2</sup>

These findings present a challenge to conventional arguments that stress the roles of voting power and the growth of government as central for understanding the relative successes of federal government employees. Although it is unlikely that the expansion of the federal sector would have had a negative effect on salaries, the evidence indicates that government growth is neither a necessary nor a sufficient condition for generating higher salaries for federal civilian employees. Instead of government expansion, the most important factor in explaining the comparative achievements of federal workers has been their ability to change civil service rules through statutes and (occasionally) executive orders to better reflect their interests. They have accomplished that objective through effective lobbying by federal employee unions.

In this regard, federal unions have acted much like other interest groups, promising votes and contributing money to campaigns. They too have benefited because they bargain at the national level, where the mobility of taxable resources is restricted relative to those of state and local entities. In bargaining with their employees over compensation plans, and in taking other actions that affect tax rates, state and local government officials must consider competing jurisdictions. High taxes in one region encourage firm migration to other regions. This is a less relevant concern for federal officials. Further, in their lobbying efforts, federal employee unions have been assisted by private-sector unions. Since resource mobility is of less concern to federal politicians, private-sector unions often have sought both national labor legislation that ap-

plies to most jurisdictions and legislation for federal employees because of the precedents that can be established for private workers. Accordingly, our explanation for the success of federal workers in obtaining attractive levels of compensation and workplace benefits emphasizes the attributes that have made them an effective interest group. Voting power is but one of those attributes, and the evidence presented in this chapter suggests that it has been overemphasized in the literature as an explanation for public-sector wage patterns.

## 6.2 The Voting Power of Federal Employees

One of the distinguishing features of the public choice paradigm is the assumption that individuals in the political arena, as in the marketplace, behave rationally and pursue their own self-interests. An excellent example of this approach is the hypothesis advanced by Anthony Downs that rational, utility-maximizing citizens would calculate relevant benefits and costs in deciding whether to vote. The fortunes of those in both the private and the public sectors are of course likely affected by who wins an election, but Downs argued that government employees had an especially strong incentive to vote because their incomes were closely tied to the outcome (Downs 1957, 254). As it has evolved, the hypothesis that government employees should have higher voter participation rates than the general population rests on the fundamental tenet that there is a positive relation between a public employee's income and the growth of the public sector. Because of that asserted relation, government workers are assumed to be more motivated than are their counterparts in the private sector to participate in political campaigns and to vote for those candidates who advocate an expansion of government services. Indeed, the idea that government workers would have higher voter participation rates, with an implied preference for government expansion, has been a major theme in much of the literature on the growth of government.<sup>3</sup>

In this section, we first review the evidence on public-sector voter participation rates. We then offer explanations for why federal workers are less likely to vote than are their state and local sector counterparts. As a result, we conclude that the voting power of federal workers cannot explain their wage advantage over state and local government employees and that we must look elsewhere to explain their political influence.

### 6.2.1 Public-Sector Voter Participation Rates

One of the earliest studies of voter behavior is Martin's (1933) analysis of local elections in Austin, Texas. His findings revealed a voter participation rate of 87 percent for public employees but only 58 percent for the general public. Although Martin's study was very limited in its scope, later studies have been supportive of his findings. James Bennett and William Orzechowski (1983), for example, presented empirical results, based on national elections, for the

years 1964–78. Their study indicated that voter participation rates for all public employees—federal, state, and local—were approximately 18 percent higher than that for the general public. More recently, we used Current Population Survey (CPS) data tapes containing information on individual voter behavior for the 1984 and 1986 national elections to examine public-sector voting (Johnson and Libecap 1991). The calculated voter participation rates in 1984, measured as the number in a particular sample subgroup who stated that they had voted divided by the total population of the subgroup, were 77.1 percent for federal employees, 81.3 percent for state employees, 85.8 percent for local government employees, and 65.2 percent for private-sector employees. For the 1986 elections, the figures were 55.4 percent for federal workers, 69.1 percent for state employees, 72.4 percent for local government workers, and 46.7 percent for private-sector employees.

These results seem to indicate that public-sector employees have higher voter participation rates than do their counterparts in the private sector. If the federal relative wage advantage over state and local government workers is to be explained by voting power, it must follow that federal workers have higher voting participation rates than do their colleagues. The data, however, indicate just the opposite, that federal workers have lower, not higher, voter participation rates than other public-sector employees.

Although highly suggestive, the participation rates referred to above do not control for the various attributes of the voters. Within the context of Downs's model of voter participation, what matters is the marginal effect of a variable, *ceteris paribus*. That is, the correct test of the hypothesis posed by Downs requires an answer to the question, Do public-sector workers have an *added* incentive to vote? Accordingly, when testing the hypothesis, it is important to control for other differences in voter attributes that are likely to affect observed voter turnout. A number of studies have used estimating procedures that account for the effect of other variables besides occupation. One of the most noted studies is that of Raymond Wolfinger and S. J. Rosenstone (1980). In their extensive study of voting behavior, Wolfinger and Rosenstone use a probit model and CPS data to estimate the propensity of certain groups to vote. Included in their estimating equations are a broad array of individual socioeconomic characteristics, such as level of education. For the 1974 national elections, they find that the marginal increase in the probability of voting for teachers and federal employees, relative to private-sector employees, is only 5 percent. On the other hand, the marginal increases in voting for state and local employees, compared with private-sector employees, are 13 and 17 percent, respectively.

Wolfinger and Rosenstone's results suggest a smaller overall effect of government employment on the decision to vote than do the simple voter participation figures, but the pattern across political entities remains. Despite their grouping of federal employees and teachers, the probability of voting appears to be higher for state and local employees than for federal workers. Since many

teachers are also local government employees, it is important to isolate the voting patterns of federal government workers.

Following Wolfinger and Rosenstone, we utilized a standard probit model and CPS data files for November 1984 and 1986 that contained special sub-sample surveys on whether individuals voted (Johnson and Libecap 1991). Included in the estimating equations were variables measuring each individual's education, age, marital status, sex, union membership, race, earnings, and occupation. The probit estimates of the coefficients for the local, state, and federal employee identifiers are reported in table 6.1. The results for all the included variables are shown in appendix D. The excluded category is private-sector employees. For both 1984 and 1986, the results indicate that federal employment does not significantly increase the probability of voting, relative to individuals employed in the private sector. The sign of the coefficient on the federal employment variable for 1986 actually is negative, although not statistically different from zero. In contrast, the coefficients on the state and local identifiers are significantly different from zero at the 5 percent level, one-tail test.

The marginal effects, obtained using the estimated parameters of the probit equation, are reported in table 6.2. These results indicate a much smaller effect of state and local government employment on the probability of voting than the corresponding figures of 13 and 17 percent reported by Wolfinger and Rosenstone (1980, 101). In addition, the results shown in table 6.2 indicate that federal workers are not compelled by some *added* incentive to vote more frequently than their counterparts in the private sector.<sup>4</sup> Thus, whether one considers the marginal effects or the basic statistics on voter participation rates, all the available evidence points in the same direction; namely, state and local employees are more likely to vote than are federal workers.

### 6.2.2 Comparing the Incentives of Public-Sector Employees to Vote

One possible explanation for why federal workers have lower voter participation rates than do state or local employees is the geographic distribution of

**Table 6.1** Probit Estimates of the Effect of Public-Sector Employment on Voting

Variable	1984 Elections	1986 Elections
Federal	.058 (.73)	-.032 (-.38)
State	.160 (1.88)	.282 (3.74)
Local	.279 (4.32)	.312 (4.85)

Source: Johnson and Libecap (1991).

Note: *t*-statistics are given in parentheses.

**Table 6.2** Marginal Effects on Voting Participation by Level of Government

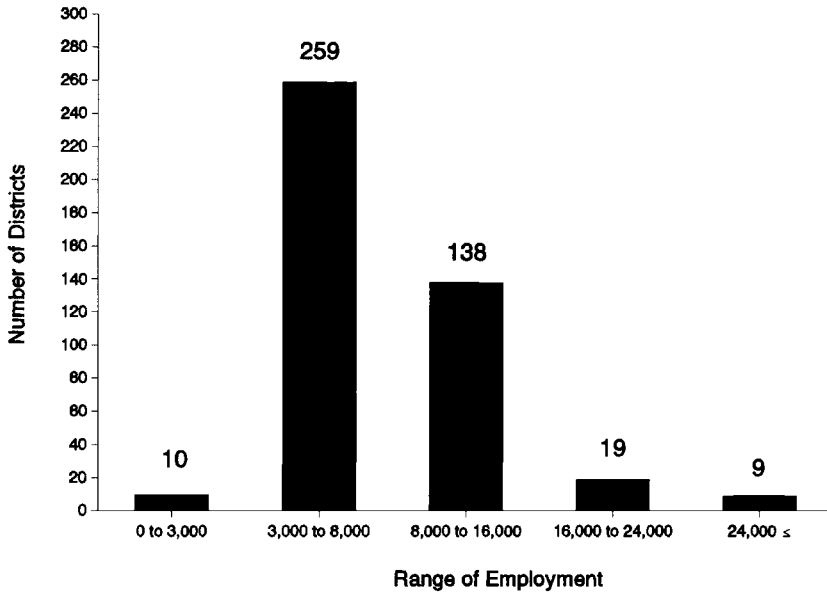
Election	Increase in the Probability of Voting Relative to Private-Sector Employees (in percentage terms)		
	Federal	State	Local
1984	1.59	3.96	6.21
1986	-1.12	9.08	9.77

Source: Johnson and Libecap (1991).

the federal civilian workforce. If federal workers are to be an effective block, either in voting for president or in collectively determining a slate of favorable congressional candidates, they would have to overcome the tendency to free ride.<sup>5</sup> Peer-group pressure or explicit monitoring by federal unions and employee groups to limit shirking, however, are options, but they are unlikely to be effective because federal workers are so geographically dispersed. Although approximately 12 percent of all federal civilian employees work within the Washington, D.C., metropolitan area, most of the rest are located uniformly across the country. Figure 6.1 shows the distribution of federal employees by congressional district. Note that there are only ten districts, out of a total 435, with fewer than 3,000 federal employees and only nine districts with more than 24,000 federal employees in residence.<sup>6</sup>

With the exception of a few congressional districts, most of which are located close to the Washington, D.C., area, this dispersion means that federal employees are not a sufficiently large portion of the labor force to wield substantial voting power. Even in districts where their numbers are relatively large, federal employees may exert little influence in Congress. For example, the congressional delegate from the District of Columbia, where federal employees constitute almost 30 percent of the total workforce, is a nonvoting member of Congress. Moreover, to the extent that a federal worker did desire to vote for a congressional candidate who favored the expansion of his or her agency, there may be few opportunities to do so. Given their geographic dispersion, it is likely that only a small percentage of federal employees will reside in the district or state of those members of Congress who sit on important agency review committees. Given these conditions and the potential for free riding to occur, it is not surprising that the results in tables 6.1 and 6.2 indicate that the marginal effect of federal employment on the probability of voting is insignificant.

Besides group dispersion, there is another reason why federal workers would be less motivated to vote than are state and local employees. The former have been subject to much less patronage pressure than the latter. Although, as we discuss in chapter 8, recent Supreme Court rulings have greatly limited patronage practices, patronage remained a factor for state and local government employees long after it withered away at the federal level.<sup>7</sup> Under patron-



**Fig. 6.1** Federal civilian employment by congressional district.

*Source:* U.S. Department of Commerce, (1983).

age, public-sector employees who owe their positions to political sponsors have a relatively greater stake in the outcome of an election than do those who have no such ties. In 1970, over 92 percent of all federal workers were within the classified or merit system (U.S. Department of Commerce 1975, 1102). As indicated in chapter 5, civil service rules protect federal employees from reductions in force and other adverse election outcomes. Of the remaining federal employees not covered by merit rules, most are in positions that are not considered political in nature and, hence, are unlikely to be affected by a change in administrations, at least, purely on the basis of party membership. To be sure, there are a limited number of federal political appointments at the senior level whose positions are temporary, lasting only as long as the administration. Presently, approximately 5,000 positions are available to the president for political appointments (see Pfiffner 1987).

Accordingly, should there be a change in the party controlling the White House, the vast majority of federal employees need not fear for their jobs. State and local government employees, however, have had much less protection. Rabin et al. (1985, 58) claim that only about 65 percent of state and local employees are covered under merit-system rules, and Glenn Stahl (1983, 47) notes that, at the state and local level, the mere presence of a merit-system law does not always provide security from changes in administration. In comparison to state and local government employees, then, federal employees have had



less incentive to vote because of the widespread coverage of the civil service system and the comprehensive protections it provides.

So far, we have focused on the reasons why most rank-and-file federal employees would have less reason to vote in elections. It is time now to return to Downs's hypothesis to analyze the reasons underlying the prediction of greater voting participation by government employees. A basic tenet in much of the literature on bureaucratic behavior is that government workers are more motivated to vote than are private-sector workers because their career advancement and salaries depend on the growth of government.

There is support for this notion from the private sector. As described by Peter Doeringer and Michael Piore (1971), promotional opportunities are an integral part of internal labor markets, and advancement is often tied to the performance of the firm. There is also evidence indicating a positive relation between salary increases and organizational growth in large, private-sector firms (see Rosenbaum 1979). The pyramidal job structure described by Doeringer and Piore is assumed implicitly by those who assert significant positive relations among the growth of government, salaries, and the corresponding incentive for public-sector employees to vote. For example, Bennett and Orzechowski stated that, "as the firm (bureau) grows and new jobs are created, there is an increase in the likelihood of an employee (bureaucrat) rising to another position within the firm (bureau) where wages and productivity are higher." They emphasized that, "in the public sector, the effect is of greater importance because bureaucrats, as a voting block, can have an important influence on the outcome of elections" (1983, 272).

At first glance, the federal civil service system, especially for General Schedule (GS) employees, appears to be a classic internal labor market, with salaries a function of the position rather than of individual characteristics. Salaries increase as individuals move to higher positions within the hierarchy. We have examined the growth-salary relation in the federal government (Johnson and Libecap 1989a). A sample of 15,000 General Schedule employees in 1980 and in 1985 was used to test whether agency growth had a significant effect on salaries within the agency.<sup>8</sup> The data set and controlling variables used were similar to those described in appendix C. The research approach entailed pooling both data sets for 1980 and 1985 and introducing a set of dummy variables for the forty-five federal agencies within the sample. Since the dependent variable was the natural logarithm of individual wages, the inclusion of agency identifiers provided estimates of percentage changes in earnings associated with each agency over the five-year period.

Various estimating procedures were employed to examine the relation between changes in agency earnings and agency employment growth. In only one of the numerous tests performed did agency growth have a positive and statistically significant effect on salaries between 1980 and 1985. Even there, however, the effect was very small. On the basis of the estimated relation, an agency would have to double its size in order for salaries to increase by 4.4

percent, relative to an agency that did not grow. Moreover, when the Department of Defense was excluded from this particular sample, agency growth failed to have a statistically significant effect on salaries. Given the sensitivity of these results, it is difficult to conclude that a strong positive relation between agency growth and salaries exists.<sup>9</sup>

A principal weakness of the agency growth–salary hypothesis is that it fails to consider sufficiently the institutional environment. We point out two important examples. First, at least within the federal government, a pyramidal position structure, such as the General Schedule, does not imply pyramidal promotion opportunities. Under the civil service system, seniority within the federal government is so heavily weighted in promotion determination and salary-step increases that individuals who meet basic job qualification requirements will be advanced in many cases, regardless of what happens to agency size. Moreover, although in-grade step promotions are practically automatic, in other cases educational qualifications can impose severe restrictions on the upward mobility of federal workers. Finally, as outlined by civil service rules, ports of entry into the federal white-collar labor force exist throughout the range of GS grades, not just at that lower levels. Competition from new entrants could mitigate any positive effects that agency growth might otherwise have for the promotion of existing workers.

Second, under the civil service system, GS employees are paid according to a national pay plan, and government-employee salary increases typically have been in the form of across-the-board percentage adjustments. There is no specific link to agency characteristics in salary determination. Thus, any connection between government growth and salary increases would depend, instead, on the expansion of the total General Schedule labor force, not just on the growth of a particular agency.

It is conceivable that broad increases in the demand for government services could require higher salaries in order to staff new government positions. These conditions would force the president and the Congress to support new pay legislation. The size of the salary increase needed, of course, would depend on labor supply conditions.

We examine the relation between total federal employment growth and expansion of federal salaries. Table 6.3 reports regression results, where the dependent variable is the average annual, legislated percentage increase in pay for General Schedule employees from 1949 to 1990. These pay increases were regressed against the annual rate of inflation, the unemployment rate, and current and lagged annual rates of growth of total GS employment. Over the sample period, total GS employment expanded by 83 percent. Again, however, the evidence fails to support a positive relation between salary increases and staffing growth. None of the coefficients on the employment-growth variables is statistically significant from zero at the 5 percent level.

Certainly, there are some positions and special occupations for which the federal government has had difficulty in hiring and there is salary compres-

**Table 6.3** General Schedule Pay Legislation and Employment Growth, 1949–90

	Eq. (1)	Eq. (2)
Constant term	3.33 (2.40)	4.78 (3.06)
Inflation rate, $t$	.64 (3.91)	.63 (4.07)
Unemployment rate, $t$	-.32 (-1.27)	-.51 (-1.95)
GS employment growth, $t$	.04 (.25)	.06 (.33)
GS employment growth, $t - 1$	...	-.12 (-.97)
GS employment growth, $t - 2$	...	-.11 (-.93)
$\bar{R}^2$	.19	.22

*Sources and notes:* The average annual GS legislated pay increase is from U.S. Office of Personnel Management (1989). The rate of inflation was calculated using the GNP deflator. The source for the GNP deflator and the unemployment rate is the *Economic Report of the President*. GS employment is from the U.S. Bureau of the Census. Both reported regressions were corrected for autocorrelation in the residuals.  $t$ -statistics are given in parentheses.

sion.<sup>10</sup> These conditions have helped federal labor unions in their efforts to secure legislated across-the-board pay increases that benefit their members. Further, if the federal government expanded into areas where federal pay was not competitive, there could be pressures on Congress to increase the salaries of all GS employees, but this seems unlikely to be a source of major change in wages for GS employees. Some blue-collar government workers may have more incentive to promote the advance of government into new areas because they are paid under the Federal Wage System with its concept of meeting locally prevailing rates. All in all, however, the growth of the federal government does not appear to be the key for explaining the continued existence of a federal wage advantage, relative to that of state and local employees.

There is additional evidence on this issue. Consider, for example, what has happened over time to federal, state, and local relative wages and employment growth. The ratio of federal to state and local government salaries can be computed using national income and product account (NIPA) data. While these measures do not control for changing characteristics of each sector's workforce, they offer a consistent times series of the ratio of federal (including postal) to state and local employee wages. The average value of the ratio for the period 1949–90 was 1.30. Between 1949 and 1990, total federal civilian employment, both full and part time, increased by 63 percent. In contrast, state and local government employment grew by 292 percent. Nevertheless, despite sharp differences in the employment growth experience by the two sectors, the wage ratio remained within the relatively narrow bounds of 1.22–1.39 throughout the period.<sup>11</sup> In addition, during the same time, the number of employees

in the private sector increased 131 percent. Hence, not only did state and local employment grow much faster than did federal, but the slow growth of federal employment, relative to the private sector, implies that the voting power of federal workers most likely declined. Federal workers appear to have maintained their relative wage advantage independent of what was happening to their voting power or the expansion of government.<sup>12</sup>

Of course, it follows that, if the growth-salary linkage in the public sector is as weak as the evidence presented here suggests, public-sector voters would have little incentive to vote for the expansion of government, at least to facilitate advancement. They may, however, support the growth of government for other reasons. Although the evidence on the preferences of government workers for increases in the size of the public sector is limited, it does not indicate a strong desire for the expansion of government. For example, when Courant, Gramlich, and Rubinfeld (1980), examined a survey of Michigan voters regarding state and local government tax limitations, they found little difference between the preferences of state employees and those of the general electorate. Both groups preferred a reduction in state expenditures. State and local employees, however, desire a small increase in local government spending, while private-sector voters wanted a decrease. A much broader study is that of Blais, Blake, and Dion (1991), who examined voter preferences for the expansion of government in the United States and other countries. In their analysis for the United States, they assumed that Democratic party candidates were pro-growth and that voters who backed them were also pro-growth. The evidence that they mustered indicated that there was a tendency for public-sector employees to support Democratic candidates but that the link was modest at best.

When considered in its entirety, the evidence presented in this section does not support the hypothesis that public-sector employees have a strong incentive to use their voting power to promote the growth of government, with the objective of increasing their salaries. At least, this relation does not appear to be key for understanding the success of federal workers in obtaining comparatively high levels of compensation. Indeed, it is not at all clear why promoting public-sector growth would be the preferred route to higher salaries, rather than restricting the supply of government workers.<sup>13</sup> As both Tullock (1974) and Courant, Gramlich, and Rubinfeld (1980) have pointed out, there are likely to be limits to or an optimum size for the bureaucracy. If this limit were exceeded, a lower wage structure would result. Even in these models, however, the voting power of government workers is emphasized as a factor in determining the size of the bureaucracy. In contrast, we have shown that voting power alone cannot explain the success of federal workers. They appear, instead, to have relied more on lobbying to achieve their goals in the public arena.

## 6.3 Federal Workers: An Effective Interest Group

### 6.3.1 The Characteristics of Effective Interest Groups

In order to understand why federal employee unions seem to have been especially effective in the political arena, it is worthwhile reviewing some of the literature on interest groups. One common characteristic of successful interest groups is that they are small, relative to the group opposing them, and homogeneous. In setting regulation policy, and in other policy areas as well, small groups often seem capable of dominating larger ones. Sam Peltzman (1976) explains this phenomenon by showing that, in the political process, a small group with a large per capita stake in the outcome can outperform a much larger group, whose interests are diffused. Voting power matters in Peltzman's model, but voting is most often on a package of issues, and there are costs to being informed on each of them. Voters with a small per capita stake in the outcome are unlikely to expend substantial resources in becoming informed or in attempting to block the efforts of a group whose members have more at stake on a particular issue. Because of the free-rider problem, the small group will be relatively better at organizing its voters and in raising campaign funds to support selected officials. Vote-maximizing politicians can use these campaign resources to increase their probability of winning an election by attracting uninformed voters. Thus, campaign contributions and other political activities from small interest groups can make up for the lack of raw voting power.<sup>14</sup>

### 6.3.2 Federal Employees as an Interest Group and Their Political Environment

A large per capita stake in the outcome and organizational clout, generally enhanced by relatively small group size and homogeneity, are important characteristics of successful interest groups. As we will see, federal career employees, as a group, have some of these characteristics, but not all.

First, consider the constraints that they face. At over 3 million strong, they are not a small group. Furthermore, lobbying activities are carried out by federal employee unions, but, as we indicated in chapter 5, not all federal employees who are represented are union members. Although the proportion of federal workers represented by unions is high, especially when compared to the private sector, many of those who are in exclusive bargaining units are not actual dues-paying members.<sup>15</sup> While Congress has allowed the "union shop," it has not required nonmembers to pay monthly fees that are equal to union dues, as is practiced in the private sector. Federal unions also do not have at their disposal the same arsenal as private-sector unions. They cannot offer to engage in collective bargaining over salaries or benefits. Federal salaries instead are set by statute, and the unions are prohibited by law from striking.<sup>16</sup>

Moreover, until recently, federal unions were less able to use peer group pressure to raise campaign contributions.<sup>17</sup> Under the Hatch Act, federal workers were constrained in their political activities. They were free to vote, to express their political views as citizens, to attend political rallies (as spectators only), and to contribute money to partisan political campaigns, but they could not solicit campaign contributions that could be used by federal unions or employee groups in political action.

Despite these constraints, federal employee unions have developed as a formidable political force. As Gary Becker has pointed out, “The political effectiveness of a group is mainly determined not by its absolute efficiency . . . but by its efficiency relative to the efficiency of other groups” (1983, 380). Becker was referring to the relative ability of interest groups to control the free-rider problem and to the potential gains that they could capture relative to the costs (including the deadweight costs associated with the transfer) that they imposed on opposing parties. According to Becker, those interest groups that are better able to control free riding and increase the returns and reduce the costs of transfers will be more effective at exerting political influence.

Because federal unions are concerned with civil service rules and salaries and benefits for the general bureaucracy, their efforts generally do not antagonize any specific constituent group. That is, they are not seen as lobbying for specific benefits from particular agencies that might crowd out or otherwise harm competing special interests. Accordingly, the lobbying efforts of federal unions typically do not ignite opposition from well-organized interest groups.<sup>18</sup> The main group affected by the actions of federal employee unions in obtaining preferential pay, benefits, and work rules is general taxpayers. Compared with general taxpayers, federal workers as a group are small and much more homogeneous. Moreover, they have high per capita stakes in civil service and federal salary legislation, while the per capita costs to general taxpayers of any one bill are small. These conditions provide general taxpayers with little incentive to collect accurate information about the costs of federal salary statutes or civil service laws, and the individual costs of gaining such information are high.

Peltzman, Becker, and others have stressed that a lack of information and the incentive to collect it on the part of the general electorate is a key to understanding the success of special interest groups. This situation provides a partial explanation for the general salary advantage of federal rank-and-file employees over their counterparts in state and local governments. We expect citizen disinterest in legislation regarding bureaucratic rules and salaries to be greater at the federal level than at the state and local level.

There are far fewer federal employees than the aggregate state and local total, and, as we have indicated, they are fairly evenly spread across the country. Firsthand or direct knowledge by taxpayers of a significant federal wage advantage is unlikely.<sup>19</sup> Further, despite generally higher individual salaries, the federal wage bill is much less than the total for state and local government

employees. In 1990, for example, total wages paid to state and local workers amounted to \$355 billion, while total wages paid to federal civilian plus government enterprise workers were \$101 billion (national income and product accounts, computer data files, updated 1991). Moreover, the federal wage bill is spread across all taxpayers, and it accounts for only a small part of total federal expenditures. In 1988, expenditures for wages and salaries at the federal level, including defense, were around 11 percent of total expenditures. The corresponding figure for state and local governments was around 35 percent (U.S. Department of Commerce 1988).

Accordingly, not only are the pay and performance of government workers more visible to state and local government taxpayers, but those taxpayers also have more reasons to be concerned and to collect information about them. This suggests that a state and local politician is more likely to be held directly accountable for increases in government wages than is a member of Congress. The latter is just one out of close to 500 elected federal officials, and, if the general electorate is disinterested in federal pay issues, so too will be elected officials.

Although direct evidence on just how disinterested federal officials are in civil service issues is difficult to come by, the lack of attention to these issues by most members of the Congress is apparent. Few members of the House seek assignment to the Committee on Post Office and Civil Service, and Congress as a whole appears to be largely unconcerned with pay and promotion issues. Consider, for example, the practice of grade inflation whereby supervisors routinely reclassify positions to higher GS grades than the position would otherwise warrant. Concern over grade inflation has been expressed in numerous federal studies by monitoring agencies. The U.S. Office of Personnel Management (1983, 4), for example, estimated that 14.3 percent of audited positions were overgraded. The U.S. Congressional Budget Office (1984, 9) charged that recent increases in the average GS grade were the result of supervisors responding to pressures to compensate workers for departures from pay comparability with the private sector, as mandated by the Federal Pay Comparability Act 1970. At least in part through grade inflation, the average GS grade has risen. For example, in only four years, the average GS grade rose from 8.16 in 1980 to 8.39 in 1984.<sup>20</sup> We compared the salaries of GS employees with identical characteristics in 1980 and again in 1985, using the same data set and variables described in appendix C (see also Johnson and Libecap 1989b). The results indicate that grade inflation contributed an additional 3 percent more to the salary of the typical GS employee than had been authorized by the Congress. Nevertheless, even though the existence of grade inflation has been reported to the Congress on numerous occasions, no real effort has been undertaken to curtail the practice, and it has continued. By 1989, for instance, the average GS grade had increased to 8.69 (U.S. Office of Personnel Management 1989, 10).

While federal taxpayers and their congressional representatives may be gen-

erally unconcerned about pay issues in the federal bureaucracy, federal employee unions are not. They work to develop close ties with specific members of Congress, especially those on the Postal and Civil Service Committees. Richard Fenno notes, "Congressmen who ask for membership on the Interior and Post Office Committees have the primary goal of helping their constituents and thereby insuring their reelection" (1973, 5). Although the committees dealing with civil service matters are not usually thought of as being the most preferred assignments, there is a tendency for members of Congress who have a relatively high proportion of federal workers residing in their districts to be members of those committees.<sup>21</sup> Moreover, because committee members are targeted by federal unions for special attention, having a major say over federal wage policy has its rewards.<sup>22</sup> As indicated by their presence in hearings on relevant legislation, federal unions closely monitor the actions of those members of Congress. In exchange for favorable legislation, federal unions offer political support in the form of articles and editorials in union newspapers and campaign activities by federal employees' spouses and friends who are not subject to Hatch Act constraints.<sup>23</sup> In addition, federal unions, just like the larger national labor unions, have their own political action committees (PACs), and these are not small.

Table 6.4 lists the top five federal employee PACs by the amount actually given to federal candidates. Although collectively the amounts given are large, it is the pattern of the campaign contributions that is most revealing. Data on the amount contributed by each of the five PACs listed in the table to individual members of the House and Senate are available from the Federal Elections Commission. If, as described above, these PACs focus their attention on members of the committees most directly concerned with civil service matters, then contributions to members of those committees should be higher than they are for nonmembers.

Consider first contributions to members of the House of Representatives. Since not all members received contributions, we utilize a tobit (censored regression) model to examine the relation between PAC contributions and membership on the House Committee on Post Office and Civil Service. Besides a qualitative variable for committee membership, the regression variables include a political party identifier (set equal to one if a Democrat) and a variable to account for the number of federal civilian employees residing in the member's district. The latter variable is included because interest groups supply both votes and money, which can be thought of as either substitutes or complements.<sup>24</sup> Tables 6.5–6.7 report separate results of tobit regressions for each of the three election cycles (1985–86, 1987–88, and 1989–90, respectively) and for each individual PAC. The first dependent variable in all three tables is the sum of contributions from all five PACs. While the results indicate that being a member of the Democratic party clearly increases PAC contributions, committee membership also has a strong positive effect.<sup>25</sup> Indeed, the coefficient on the committee membership variable is positive and statistically significant



**Table 6.4 Rank of Federal Union Political Action Committees in Terms of Contributions to Federal Candidates**

	Election Cycle					
	1985–86		1987–88		1989–90	
	Rank	Amount (\$)	Rank	Amount (\$)	Rank	Amount (\$)
Letter Carriers Political Action Fund	3	1,491,875	4	1,732,482	4	1,731,050
Political Fund Committee of the American Postal Workers Union	18	724,145	14	898,075	12	964,828
National Rural Letter Carriers' Association Political Action Committee	22	504,455	26	398,280	24	430,875
American Federation of Government Employees Political Action Committee	34	268,585	35	211,515	46	161,774
National Treasury Employees' Union Political Action Committee	36	209,070	41	167,295	42	192,531

*Source:* Federal Election Commission, Washington, D.C.

*Note:* Rank is based on all labor PACs. In addition to the above, the National Association of Retired Federal Employees Political Action Committee is a major contributor: contributions were \$1,493,395 in 1985–86, and the organization ranked fifth out of all contributors to federal candidates.

(at the 5 percent level) in all cases, strongly supporting the argument that federal labor unions focus attention on these particular members of Congress.

Table 6.8 presents the results of tobit regressions for PAC contributions to members of the Senate. Here, the relevant committee is the Subcommittee on Federal Services, Post Office and Civil Service of the Committee on Governmental Affairs. Because only one-third of the Senate is up for reelection in any given cycle, we combined all three election cycles (1985–86, 1987–88, and 1989–90), for a total of 300 observations.<sup>26</sup> Also, the federal employment variable is now measured as the ratio of total federal employment in the state to state total civilian employment. Because the Senate is substantially smaller than the House of Representatives, it is generally thought that the decision-making process there is less dependent on the committee structure.<sup>27</sup> Floor debate, for example, is more common in the Senate than in the House. As a consequence, we should not expect the results for the committee variable for the Senate to be as strong as it was for the House. Nevertheless, the results in table 6.8 indicate that federal employee PACs are more likely to contribute to

**Table 6.5** Tobit Estimates of PAC Contributions to Members of the House, 1985–86 Cycle

Variable	Dependent Variable					
	SUM	PAC1	PAC2	PAC3	PAC4	PAC5
Member post office and civil service	9,653 (7.57)	5,204 (6.05)	3,315 (8.12)	1,752 (4.78)	1,830 (8.22)	1,908 (5.98)
Democrat	8,487 (13.16)	6,443 (12.57)	3,614 (13.10)	1,668 (8.96)	1,078 (3.71)	2,297 (7.63)
Federal employment	.089 (2.26)	.047 (1.54)	.017 (1.26)	-.006 (-.49)	.025 (2.64)	.055 (5.06)
Constant	-4,419 (-7.15)	-4,890 (-9.29)	-2,864 (-10.03)	-1,011 (-5.45)	-2,365 (10.09)	-3,258 (-10.02)
SEE	5,428	3,700	1,658	1,591	1,142	1,283
Log-likelihood function	-2,934	-2,251	-2,001	-1,019	-1,044	-1,019
Frequency of contributions > 0	.66	.52	.50	.54	.25	.25
Number of observations	433	433	433	433	433	433

Sources: Federal Elections Commission; *Congressional Quarterly Almanac* (1985–90); and U.S. Department of Commerce (1983).

Note: Reported regression coefficients were obtained by multiplying the normalized coefficients by the SEE. Asymptotic *t*-statistics are given in parentheses. SUM = total contributions from all five PACs; PAC1 = Letter Carriers Political Action Fund; PAC2 = Political Fund Committee of the American Postal Workers Union; PAC3 = National Rural Letter Carriers' Association; PAC4 = American Federation of Government Employees; PAC5 = National Treasury Employees.

committee members than to nonmembers. The coefficient on the committee membership variable is positive in all cases and is statistically significant (at the 10 percent level) for four out of the five PACs.

Focusing attention on committee members appears to have paid off for the federal unions. The legislative histories of recent and major civil service reform bills indicate how important committee support can be to federal employee unions. Final action on bills dealing with salary issues and civil service rules are often perfunctory, with little discussion on the floor of either chamber, and with bills passing by large margins. Debate and resolution are most generally carried out in the relevant committees.<sup>28</sup>

Federal employee unions have asserted that they could do more politically and, hence, be an even stronger lobbying group if the restrictive Hatch Act were repealed. In 1989, both the House and the Senate passed bills that would have permitted federal employees to raise money for and participate in political campaigns.<sup>29</sup> These measures would have allowed federal workers, while off duty, to distribute campaign literature, to solicit votes, to endorse candidates, and to raise funds for political action committees. Hearings on the Hatch Act Reform Amendments of 1989 revealed that federal employee unions strongly

**Table 6.6** Tobit Estimates of PAC Contributions to Members of the House, 1987–88 Cycle

Variable	Dependent Variable					
	SUM	PAC1	PAC2	PAC3	PAC4	PAC5
Member post office and civil service	12.093 (8.69)	5.657 (6.51)	4.756 (9.09)	1.680 (4.65)	1.673 (5.35)	2.073 (5.20)
Democrat	8,926 (13.07)	5,761 (12.73)	4,082 (13.14)	1,409 (7.42)	1,550 (7.50)	2,411 (6.10)
Federal employment	.126 (2.92)	.012 (.39)	.030 (1.79)	.034 (2.81)	.054 (5.21)	.068 (5.26)
Constant	-4.107 (-6.30)	-2.719 (-6.10)	-3.102 (-9.82)	-1.533 (-8.07)	-2.444 (-11.40)	-4.062 (-9.53)
SEE	5.866	3.758	2.142	1.559	1.258	1.527
Log-likelihood function	-3,104	-2,674	-2,190	-1,838	-1,141	-770
Frequency of contributions > 0	.69	.62	.54	.43	.28	.18
Number of observations	432	432	432	432	432	

Sources: Federal Elections Commission; *Congressional Quarterly Almanac* (1987–88); and U.S. Department of Commerce (1983).

Note: Reported regression coefficients were obtained by multiplying the normalized coefficients by the SEE. Asymptotic *t*-statistics are given in parentheses. SUM = total contributions from all five PACs; PAC1 = Letter Carriers Political Action Fund; PAC2 = Political Fund Committee of the American Postal Workers Union; PAC3 = National Rural Letter Carriers' Association; PAC4 = American Federation of Government Employees; PAC5 = National Treasury Employees.

supported the repeal while President Bush adamantly rejected it.<sup>30</sup> Much of the testimony in support of the Hatch Act revisions emphasized that the law had a chilling effect on employee political participation. Although the evidence on voter participation rates presented in this chapter does not indicate that federal workers vote less than their counterparts in the private sector, the Hatch Act has restricted their active involvement in political campaigns.

Republicans in both the House and the Senate argued that the Hatch Act reform was based largely on the desire of Democrats to increase the contributions that they receive from federal employee PACs.<sup>31</sup> Nevertheless, both the House and the Senate versions passed their respective chambers by wide margins and included the yes votes of a number of Republicans.<sup>32</sup> President Bush, however, vetoed the bill, and the Senate, in a very close vote, failed to override it. But this defeat for the unions was short lived.

In 1993, both the House and the Senate again passed legislation that allowed greater political involvement by federal employees. (*Congressional Quarterly Weekly Report*, 25 September 1993, 2538). Under the compromise bill, however, federal workers would still be prohibited from running for partisan elective office, and supervisors would not be allowed to solicit funds from subordinates. In addition, restrictions were maintained for members of the Senior

**Table 6.7** Tobit Estimates of PAC Contributions to Members of the House, 1989–90 Cycle

Variable	Dependent Variable					
	SUM	PAC1	PAC2	PAC3	PAC4	PAC5
Member post office and civil service	11,519 (8.08)	5,900 (6.89)	4,305 (7.89)	1,497 (4.51)	1,564 (4.32)	2,349 (6.13)
Democrat	8,514 (11.91)	4,846 (11.10)	3,932 (12.79)	1,630 (8.87)	2,182 (6.22)	1,645 (5.70)
Federal employment	.064 (1.37)	.001 (.03)	.018 (1.02)	.022 (1.91)	.045 (3.64)	.050 (3.82)
Constant	-2,559 (-3.74)	-1,425 (-3.29)	-2,477 (-8.05)	-1,435 (-7.77)	-3,527 (-9.44)	-3,207 (-10.69)
SEE	6,343	3,860	2,395	1,497	1,415	1,630
Log-likelihood function	-3,264	-2,917	-2,411	-2,002	-768	-851
Frequency of contributions > 0	.72	.67	.58	.50	.18	.20
Number of observations	433	433	433	433	433	433

Sources: Federal Elections Commission; *Congressional Quarterly Almanac* (1989–90); and U.S. Department of Commerce (1983).

Note: Reported regression coefficients were obtained by multiplying the normalized coefficients by the SEE. Asymptotic *t*-statistics are given in parentheses. SUM = total contributions from all five PACs; PAC1 = Letter Carriers Political Action Fund; PAC2 = Political Fund Committee of the American Postal Workers Union; PAC3 = National Rural Letter Carriers' Association; PAC4 = American Federation of Government Employees; PAC5 = National Treasury Employees.

Executive Service and other sensitive positions. Nevertheless, the bill granted federal workers considerable leeway to engage in political activities during their off-duty hours. President Clinton signed the bill on 6 October 1993.

The recent history of Hatch Act reform legislation illustrates the formidable political influence of federal employee unions. The efforts of the federal unions to repeal the legislative restrictions on the political activity of their members had wide support in the Congress. Although President Bush's veto was maintained in the Senate, the House voted to override by a margin of 327 to 93.<sup>33</sup>

Returning to table 6.4, it is clear from the figures presented there that the postal workers are the most active of federal unions and that they are major contributors to candidates for federal office. Postal workers were, as we have explained, one of the first groups to unionize after the passage of the Pendleton Act, and they have been active ever since, even engaging in a massive and illegal strike in New York in 1970 (Nesbitt 1976, 386–90). Unlike the GS pay plan, which has considerable variation in occupations, postal workers are a relatively homogeneous group, contributing to group solidarity. The campaign services that they have supplied to members of the Congress have apparently

**Table 6.8** Tobit Estimates of PAC Contributions to Members of the Senate

Variable	Dependent Variable					
	SUM	PAC1	PAC2	PAC3	PAC4	PAC5
Member federal services, post office and civil service	8,752 (2.05)	2,039 (1.00)	2,622 (1.65)	3,724 (2.63)	2,017 (1.76)	2,457 (1.80)
Democrat	13,579 (6.36)	6,495 (6.35)	5,540 (6.59)	3,248 (4.33)	3,575 (5.31)	3,494 (4.49)
Federal employment/ state employment	17,045 (.42)	18,471 (.98)	18,151 (1.22)	5,974 (.42)	14,432 (1.32)	17,081 (1.29)
Constant	-11,993 (-4.94)	-7,737 (-6.51)	-6,858 (-7.08)	-4,943 (-5.71)	-6,154 (-7.96)	-6,893 (-7.67)
SEE	15,227	6,630	5,303	4,992	3,558	4,346
Log-likelihood function	-1,538	-1,072	-1,027	-988	-622	-636
Frequency of contributions > 0	.43	.32	.31	.30	.19	.19
Number of observations	300	300	300	300	300	300

Sources: Federal Elections Commission; *Congressional Quarterly Almanac* (1985-90); and U.S. Bureau of the Census (1983).

Note: Reported regression coefficients were obtained by multiplying the normalized coefficients by the SEE. Asymptotic *t*-statistics are given in parentheses. SUM = total contributions from all five PACs; PAC1 = Letter Carriers Political Action Fund; PAC2 = Political Fund Committee of the American Postal Workers Union; PAC3 = National Rural Letter Carriers' Association; PAC4 = American Federation of Government Employees; PAC5 = National Treasury Employees.

paid off; postal employees' earnings are substantially higher than those of their private-sector counterparts (see Wachter and Perloff 1992).

In comparisons among federal workers, however, postal workers do not appear to receive a wage premium.<sup>34</sup> This outcome is consistent, at least over the long run, with the notion that the postal workers have been trendsetters, in terms of compensation, for all federal civilian workers. It also points out how important is the concept of wage comparability to federal workers and why they have fought for legislation that requires it. With mandated wage comparability, the success of one group is likely to benefit others. In the political arena, the concept of wage comparability with its connotation of equality is not a concept that can be easily attacked by most elected officials. The wage regression studies summarized in chapter 5 support this argument. Those studies indicate that the relative federal/private-sector wage advantage is greater for women and minorities than it is for white males, yielding greater equality of wages in the federal sector. It is also important to note that, in the public sector, the union/nonunion wage gap is less than the wage gap found in the private sector.<sup>35</sup> One possible explanation for this is that spillover effects are greater in the public sector because elected officials are more easily pressured into concessions that tend to equalize pay than private-sector employers.

In their lobbying efforts, federal unions also receive important support from

organized labor. Indeed, there is a sort of symbiotic relation among labor unions, and most federal unions are closely aligned with larger private-sector unions.<sup>36</sup> In the private sector, unions have supported one another through sympathy strikes, work slowdowns, and company boycotts. Such actions appear costly, compared to the support that private-sector and federal unions can provide one another in the political arena. Given restrictions on strikes and collective bargaining in the federal sector, the focus is on legislation. In the political arena, votes and campaign contributions are what count, and both federal and private unions have become adept in political maneuvering.

An example of collaborative union action is Executive Order 10988, issued by President Kennedy in 1962 to recognize federal unions. As we pointed out in chapter 5, organized labor played a key role in securing presidential candidate Kennedy's support for federal union recognition, by offering votes in exchange for his promise to act on the issue. Organized labor also monitors the roll-call voting behavior of members of Congress on issues related to labor in general and reports the findings to their rank-and-file members. Similarly, federal unions rank politicians, not only on their support for issues directly affecting federal workers, but also on issues affecting organized labor in general.<sup>37</sup> Private-sector unions make substantial campaign contributions to many federal politicians, and how these elected officials vote on issues related to federal workers can be taken as a sign of their support or opposition to organized labor more generally.

State and local government workers benefit much less from this sort of collaboration. Organized labor is not as active in state and local governments. Although labor issues are not unimportant at the state and local level, organized labor especially has sought favorable legislation from the federal government. With many jurisdictions, an organized lobbying effort across most of the states, for example, would be very costly. More important, federal actions set precedents that state laws do not, and resources are more mobile across state lines than they are across international boundaries, suggesting that federal politicians would be less concerned about the cost effects of labor legislation than would be state politicians. For these reasons, focus on the federal government is the more effective choice. This focus, in turn, implies that organized labor will spend more effort on scrutinizing and promoting federal politicians than on state and local politicians. The attention given to federal politicians by organized labor benefits federal workers by increasing their ability to exert political pressure. In contrast, the comparatively lower interest of organized labor in state and local governments means that the opportunities to join forces with local government workers are fewer, reducing their relative effectiveness as political lobbyists.

The issue of limited factor mobility at the federal level has other implications and deserves more discussion. Courant, Gramlich, and Rubinfeld (1979) have argued that increases in public-sector wages are constrained by the mobility of private employers, who are the taxed group. Clearly, the potential for the

exit of residents and businesses (the Tiebout adjustment) to discipline elected officials seems greater at the state and local level. Not only is there considerable tax competition across states and localities, but the negative effects of state and local taxes on capital formation and personal income are substantially greater when expenditures are used for the explicit purpose of transferring income.<sup>38</sup> Wage premiums in the public sector would appear to fit that category. Moreover, the pressures on elected officials to curtail expenditures are far more apparent at the state and local level than at the federal. Tax-limitation legislation, such as California's Proposition 13, has proliferated across the country since the late 1970s. The implications of this discussion are clear. Because factor mobility is less at the federal level, the derived demand for the services of federal workers is also likely to be less elastic, and this condition gives federal unions greater power.<sup>39</sup>

There have been numerous studies that have estimated the elasticity of demand for public-sector workers at the state and local level (see Ehrenberg and Schwarz 1986). All these studies report well-behaved demand functions, with negative wage elasticities. In contrast, the number of published studies that report estimates of demand elasticities for federal workers is extremely rare. Indeed, Freeman, who reports estimated demand functions for state and local employment using NIPA data, notes that the regressions for the federal sector yield "quite different results" (1987, 202). Our own efforts at estimating federal employment demand, using variables similar to those used by Freeman for his state and local equations (total budget expenditures, the unemployment rate, and the rate of inflation), produced a positive, but not statistically significant, coefficient on the federal wage variable. The analysis and data presented by Larry Katz and Alan Krueger (1991, 1992) also reveal substantial differences between the two jurisdictions. Although Katz and Krueger do not estimate employment demand functions, the comparisons that they make show that federal wages are far less responsive to economic conditions and changes in private-sector wages than are state and local wages. Thus, the available empirical evidence supports the argument that employment demand at the federal level is less elastic than for state and local employees, and this condition contributes to the relative effectiveness of federal workers as an interest group.

Finally, it is important to note that the desires of federal unions in lobbying for civil service and related pay legislation often coincide with the interests of the Congress and the president, but for different reasons. As we have suggested, the president and the Congress compete for control of the federal bureaucracy, particularly senior career officials, who are in a position potentially to mold and direct policy. To limit the opportunistic manipulation of senior members of the bureaucracy, the president and the Congress have supported legislation that limits their ability to access and pressure bureaucrats. As we explain in chapter 7 they have an incentive to support tenure guarantees against arbitrary removal and salary caps to limit the rewards that might be offered to senior officials in exchange for certain administrative actions. Federal unions,

whose membership is drawn largely from the rank and file, not from the senior levels, however, favor similar legislative provisions. They have sought tenure guarantees for their members, even though the rank and file are much less likely to be the targets of presidential and congressional competition. Moreover, salary caps for senior officials have served to assist unions in achieving a more egalitarian wage structure within the bureaucracy. Additionally, as the salary caps have contributed to an inability of the federal government to keep or hire senior officials, the popular solution has been to raise all salaries through across-the-board percentage increases.<sup>40</sup> Hence, the salary caps have provided a convenient mechanism for federal unions to focus the attention of Congress on wage increases for their members.

### 6.3.3 Summary

The evidence presented in this chapter indicates that relative interest group effectiveness, not voting power or the growth of government, explains the higher salaries achieved by federal workers compared to those paid to state and local employees. A major reason why federal unions are so effective is that they face relatively low costs in exerting political influence. Federal workers are a less conspicuous group to the general electorate, both in terms of their numbers and as a percentage of total budget expenditures, than are state and local government employees, and factor resources are less mobile at the federal level. In addition, both the president and the Congress appear receptive to legislation that can serve to demonstrate political support for benefits that are popular among the broader workforce. How well federal workers are treated provides a signal to organized labor that supplies both votes and funds to federal politicians. All these factors contribute to making the employment demand function at the federal level less elastic than it is at the state and local level. Federal workers have been organized to lobby Congress since the turn of the century, and they have been able to take advantage of these conditions to pressure for higher wages and other workplace benefits under the civil service system.

## Notes

1. We use the term *voting power* loosely and measure it as a simple ratio, such as the ratio of public-sector workers to the total labor force. A more precise measure would adjust for voter participation rates, family ties, and other factors and include the entire voting population. See, e.g., the voting power index suggested by Bush and Denzau (1977). Given the vast differences in the numbers of federal workers relative to the entire workforce or in relation to state and local employment, there is little to be gained for our purposes by such refinements.

2. Most studies that compare federal government salaries with state and local gov-



ernment salaries use CPS data and log-linear earnings regressions with demographic, occupational, and other controls. The studies summarized by Ehrenberg and Schwarz (1986, 1249) indicate that the federal/private wage differential is around 15 percent for males and 24 percent for females. The state/private wage differentials are negative for males and around 10 percent for females. At the local government level, the wage differentials are negative for males and close to zero for females. Similar findings are reported by Freeman (1987, 192). The following percentage wage differentials for federal/private-sector employees are based on his table 8.5B:

Type	1972	1977	1982
Federal public administration	31	26	20
State public administration	5	7	6
Local public administration	-5	6	10
Teacher	-1	-7	-11
Postal	25	32	35

This table indicates a substantial advantage for all types of federal civilian employees relative to state and local workers. See also the more recent estimates offered by Katz and Krueger (1991, 1992). While Katz and Krueger do not report an aggregate comparison such as Freeman's, their findings listed by gender, education, and experience reveal a federal wage advantage in all categories.

3. This argument has a long history, but its current prominence can largely be attributed to a collection of papers in a volume edited by Thomas Borcherding (1977). The lead paper in that volume is that of James Buchanan (1977, 14), who argues, "Bureaucrats are no different from other persons, and, like others, they will rationally vote to further their own interests as producers when given the opportunity. Clearly their interests lie in an expanding governmental sector, and especially in one that expands the number of employees. Salaries can be increased much more rapidly in an expanding agency than in a declining or stagnant one." For a brief survey of the literature on bureaucracy and the growth of government, see Mueller (1989, 337-42).

4. The major reason for the difference between the simple measures of voter participation rates, which show federal workers voting at a higher rate than private-sector workers, and the probit estimates is that the latter control for the level of education and federal workers tend to be more highly educated than are private-sector voters. The level of education has a very strong positive effect on the probability of voting. See the probit results reported in app. D.

5. Moreover, shirking is usually thought to be greater in larger groups than in smaller ones. See, e.g., the discussion by Olson (1965) and empirical evidence indicating that group size negatively affects voter turnout in Hansen, Palfrey, and Rosenthal (1987). In 1980, there were approximately 3 million full- and part-time federal civilian, 4 million state, and 10 million local government employees. Comparisons of federal, state, and local employment are from U.S. Bureau of the Census figures as reported in data files of the national income and product accounts. If we consider the entire nation as the relevant political jurisdiction for federal workers, then there is no other political jurisdiction, state or local, with anywhere near the same number of public employees. The closest is the state of California, with 380,000 state employees. Thus, it is also plausible that federal workers are less likely to vote because of their larger group size.

6. Employment figures are based on the 1980 census and are reported in U.S. Department of Commerce (1983), by state and congressional district.

7. See Wolfinger (1972). Although patronage creates an added incentive for public

employees to vote, the potential for free riding remains. However like politicians at the federal level in the nineteenth century, state and local politicians have an incentive to monitor the voting behavior of employees, and the failure of an employee to vote is taken as a sign of disloyalty. As Wolfinger and Rosenstone note, "Political machines often coerce their members to vote and keep records of their performance" (1980, 96).

8. Young (1991) provides a comprehensive survey of studies dealing with the relation between public-sector growth and salaries. In addition to our work, there is a study by Grandjean (1981), who analyzed a longitudinal sample of federal white-collar employees. While Grandjean reports results for only a few major agencies, his findings suggest that agency earnings differentials have little to do with fluctuations in agency size.

9. While there is evidence indicating that the size of a political entity, in terms of its budget, has a positive effect on salaries (Freeman 1987), there is no direct evidence supporting a positive growth-salary relation at the state or local level. It has, however, been suggested in the labor literature that public-sector unions are capable of influencing not only the supply of labor but its demand as well. Supposedly, increasing the demand for labor can lead to an increase in employment and wages simultaneously. There is some evidence indicating that unions at the municipal level have increased employment (Zax and Ichniowski 1988), leading some to argue that public-sector unions both desire to increase employment and have the political clout to do so. More recent evidence, however, questions those results and indicates that the observed effect may be due largely to endogenous choice, whereby unionization is more likely to occur in larger municipalities (Trejo 1991).

10. On problems in hiring and retaining scientists and engineers, see Campbell and Dix (1990). Also, this is a long-standing problem. Many senior management and professional groups have testified about the problems due to salary compression (U.S. Senate 1949). And salary is an often-stated reason for leaving the Senior Executive Service (SES) and other higher-ranking positions (U.S. Merit Systems Protection Board 1989, 1990).

11. The federal relative wage advantage did, however, decline in the 1980s. This decline is also consistent with the results reported by Katz and Krueger (1992), who used CPS data and earnings regressions to compare federal salaries with those of state and local employees. Nevertheless, this decline does not appear to be related to an increase in the rate of employment growth at the state and local level. The most rapid period of expansion for state and local employment was in the 1960s and the early 1970s. This was also the time when the federal wage advantage was the greatest.

12. Despite substantial differences in rates of employment growth, changes in the relative size of these two public groups had no effect on their relative wages. Regressing  $Y_t$ , the ratio of the federal wage to state and local wages, on  $X_t$ , the ratio of federal employment to state and local, yielded the following results ( $t$ -statistics are given in parentheses):

$$Y_t = 1.33 - 0.13X_t \\ (22.5) \quad (-0.9)$$

13. The available evidence suggests that private-sector unions do not contract for added employment (Wessels 1991).

14. Becker also has a model of competition among pressure groups for political favors that emphasizes small group size and large campaign contributions as a major determinant. Indeed, he does not consider the constraint of majority voting important because "voter preferences are frequently not a crucial *independent* force in political behavior. These preferences can be manipulated and created through the information and misinformation provided by interested pressure groups" (1983, 392).

15. See Freeman (1986). For example, the number of employees represented by the American Federation of Government Employees is around 700,000. The number of active dues-paying members, however, is much smaller, 210,000 (AFGE 1988).

16. The right of state and local employee unions to strike is also greatly limited (see Freeman 1986).

17. Removal of the constraint on soliciting funds has been the major motive behind recent attempts to amend the Hatch Act. The reform amendments are discussed later in the chapter.

18. A reading of the congressional hearings for federal pay or civil service legislation reveals relatively little organized opposition from other interest groups. Federal unions and professional groups, as well as private-sector unions, dominate the testimony. Opposition has generally come only from the Civil Service Commission (now, the Office of Personnel Management) and the Bureau of the Budget (see, e.g., U.S. Senate 1962; and U.S. House 1970). We realize that, in the aggregate, the lobbying actions of federal unions do raise costs for other special interests because they affect the performance of government. Each statute regarding civil service rules or federal pay applies governmentwide, with only an incremental effect on particular agencies or interests. Most special interests have direct competitors and must focus on them.

19. Moreover, federal unions actively disseminate information that suggests that federal employees are underpaid, relative to their private-sector counterparts, and that disputes studies made by economists. Federal unions can point to wage disparities at the senior level, where wage compression has led to lower federal salaries. Senior career officials tend not to be union members, and caps on their salaries reflect (as we argue) a desire of the president and the Congress to control the opportunistic manipulation of senior administrators. Nevertheless, since the unions have an interest in providing information to taxpayers that indicates a salary discrepancy, more taxpayers are likely to believe that federal employees are underpaid rather than overpaid. For related discussion, see Lane and Wolf (1990) and Levitan and Noden (1983).

20. While some of this increase could be attributed to the hiring of more highly skilled professional employees, much of it appears to be due to grade inflation, as the results from Johnson and Libecap (1989b) indicate.

21. For example, we examined membership on the House Post Office and Civil Service Committee for the Eighty-sixth Congress (1960) through the 101st Congress (1988) to see whether representatives from the three districts surrounding Washington, D.C., were more likely to be on the committee. The test utilized compared the mean number of Congresses in which the three Washington, D.C.-area districts were represented on the committee with the mean for other congressional districts that were represented at least once on the committee. This provides for a somewhat stronger test than simply looking at all districts. The mean for the three Washington, D.C., districts was 6.67 (standard deviation, 0.71) Congresses, while the mean for the other 130 districts represented at least once on the committee was 3.09 (standard deviation, 2.83). A *t*-test indicates that these means are significantly different at the 1 percent level. The data utilized are from the U.S. Bureau of the Census, congressional district data for the various congresses.

22. Fenno (1973, 42) points out that lobbyists for the postal service unions spend much of their time with members of Congress, who are on the committees most important to their members and arrange testimonial dinners and other activities to raise funds and deliver votes.

23. For a discussion of postal unions' methods for influencing Congress, see Kappel Commission (1968, 4:7.60–7.64).

24. See the discussion offered by Stratmann (1992). His empirical evidence, which relates to agricultural PACs, indicates that campaign contributions at first increase with

the voting power of these interest groups but after a point decline with further increases in voting power. In addition to the results reported in tables 6.5–6.8 below, we also utilized a quadratic functional form for the federal employment variable. In none of the cases did the quadratic specification provide a better fit.

25. That labor PACs contribute more to Democrats than to Republicans is well known in the literature (see e.g., Peltzman 1984).

26. Contributions were deflated using the CPI.

27. Fenno notes, “The root institutional differences between the Senate and the House are those of size, procedure, constituency, and tenure. They, in turn, combine to produce very different decisionmaking structures in the two chambers. The smaller size of the Senate makes it possible for each individual Senator to have more of an impact on chamber decision making than the individual House member—both as a matter of proportional weight and as a matter of procedural opportunity” (1973, 145–46).

28. The legislative history of the Civil Service Reform Act of 1978 is illustrative. Lengthy hearings were held by the various committees, during which federal labor unions were given ample time to express their views (*Congressional Quarterly Almanac* 1978, 818–35). The Senate approved the conference agreement on a voice vote, while the House passed it by a vote of 365 to 8. Action on the 1990 federal pay reform bill was similar (*Congressional Quarterly Almanac* 1990, 406–7).

29. The House bill was H.R. 20 and the Senate version S. 135. For a brief history of this legislation, see *Congressional Quarterly Almanac* (1990, 408–11).

30. Hearings on S. 135 contain testimony by the major federal employee unions listing support, while the Department of Justice, the Federal Election Commission, and other federal agencies stated their opposition (see U.S. Senate 1989). Joining in support of the measure was the American Civil Liberties Union (ACLU), which argued that the Hatch Act effectively denied federal employees the guarantee of freedom of speech under the First Amendment to the Constitution.

31. See *Congressional Quarterly Almanac* (1990, 411) and U.S. Senate (1989). The results offered in tables 6.5–6.8 clearly support the view that federal labor unions contribute more to Democrats.

32. The House passed without amendment or conference the Senate version of H.R. 20 by a vote of 334 to 87. There were ninety Republicans voting in favor (*Congressional Quarterly Almanac* 1990, 410).

33. On the Republican side, there were eighty-four votes in favor of the override, while ninety voted against the measure (*Congressional Quarterly Almanac* 1990, 64–H). In the Senate, the override vote failed to obtain the two-thirds majority needed. The final vote was 65 to 35, with ten Republicans voting for an override and thirty-five against.

34. Borjas (1980) uses central personnel data files obtained from the U.S. Office of Personnel Management and estimates agency earnings differentials across the federal government. His results do not indicate a major difference between the postal service and other federal agencies. The results reported by Freeman (1987), who used CPS data, also show little or no difference between postal and other federal employees.

35. See, e.g., the discussion of these sector differences in Freeman (1986). Lewis (1990), however, points out that, while the gaps are smaller in the public sector, there are important exceptions.

36. For example, the American Federation of Government Employees is affiliated with the AFL-CIO.

37. Consider, e.g., the following ten issues voted on by the Senate in 1991 that the AFGE used for the purpose of ranking the members of that body: (1) Davis Bacon Act (amendments to); (2) Mexico Free Trade–Fast Track; (3) Gag Rule (prohibited funding

to clinics whose medical staff counseled on abortion; (4) Motor Voter Registration Act; (5) Unemployment Benefits Extension; (6) Capital Gains Tax Reduction; (7) Family and Medical Leave Act; (8) Family and Medical Leave–Substitute Amendment; (9) Supreme Court Nomination–Clarence Thomas; and (10) Unemployment Benefits Extension–Veto Override. Some of the issues used to rank members of the House of Representatives were somewhat more germane to federal workers as they dealt with working conditions and use of drug testing by federal agencies. Nevertheless, the above list shows that the rankings given to federal politicians depend on a broad array of issues. The source for the above list is the “1991 AFGE Voting Record—First Session—102nd Congress,” available from the AFGE, Washington, D.C.

38. See, e.g., Newman (1983), Helms (1985), and Benson and Johnson (1986). These studies suggest that the magnitude of the effect of taxes on economic growth depends on what the tax revenue is being used for. Pure transfers have a substantial negative effect. Since merely increasing the salaries of state and local workers would effectively amount to a transfer of income, the negative effects are likely to be greater than for other forms of expenditures.

39. Becker’s (1983) point that successful interest groups will be relatively more efficient (have lower costs) is applicable here as well. Because the demand function is less elastic at the federal level, the deadweight costs that result from the distorting effects of taxes used to pay for higher wages are likely to be less. Hence, redistribution through higher wages is less costly at the federal level.

40. As Congress considers pay legislation, for the reasons we have described in this chapter, it is politically difficult to enact salary increases just for the limited numbers of the most senior members of the bureaucracy.