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Antony Davies & James R. Harrigan: State workers' benefit costs skyrocketing

ANTONY DAVIES & JAMES R. HARRIGAN | Saturday, Jan. 20, 2018, 6:42 p.m.



The Pennsylvania State Capitol in Harrisburg.

Over the past decade in the U.S., the per-hour cost of labor (<https://fred.stlouisfed.org/series/COMPNFB>) — including wages and benefits — has risen faster than inflation (<https://fred.stlouisfed.org/series/CPIAUCSL>) . That increasing cost has

hit home in Pennsylvania in a big way. How big? The Commonwealth Foundation recently [reported \(https://www.commonwealthfoundation.org/policyblog/detail/public-employee-compensation-reaches-100k\)](https://www.commonwealthfoundation.org/policyblog/detail/public-employee-compensation-reaches-100k) that, for the first time in Pennsylvania's history, the average state employee now costs state taxpayers more than \$100,000 annually (\$100,087, to be exact). At a salary over \$55,000, and with benefits worth almost \$45,000, the average state employee costs the taxpayer \$48.11 per hour — a whopping 43 percent more than the [\\$33.55 \(https://www.bls.gov/news.release/pdf/ecec.pdf\)](https://www.bls.gov/news.release/pdf/ecec.pdf) per-hour cost of the average private-sector employee.

Most taxpayers will find that state worker's \$100,000 price tag excessive, but there are any number of reasons why he or she might cost 43 percent more than a private-sector counterpart, not least of which is that the state needs employees with special skills. But the fact remains: State employees are expensive — very expensive. But it's benefits, not their wages, fueling that growth.

According to [Pennsylvania workforce statistics \(http://www.oabis.state.pa.us/SGWS/2018/2018_SGWS_Dashboard_Charts.pdf\)](http://www.oabis.state.pa.us/SGWS/2018/2018_SGWS_Dashboard_Charts.pdf), the average state worker's pay has grown 22 percent over the past decade while benefits have risen 113 percent. While those numbers are extreme, they mirror a nationwide trend: Over the past decade, [benefits \(https://www.bls.gov/charts/employment-cost-index/benefits-in-private-industry-and-state-and-local-government-3-month-percent-change.htm\)](https://www.bls.gov/charts/employment-cost-index/benefits-in-private-industry-and-state-and-local-government-3-month-percent-change.htm) have risen less than 30 percent for private-sector workers, almost 50 percent for public-sector workers.

Why are state governments, Pennsylvania's specifically, doling out such generous employment packages? There are two possible answers.

The first lies in how workers and employers negotiate compensation. The private-sector worker's goal is to get the most money he can, while the private-sector employer's goal is to control costs. The system isn't perfect, but it is balanced. Each side pulls in opposite directions, ending up at numbers both can live with. But in the public sector, workers or union representatives, whose goal is to get as much as they can, sit on one side of the table. On the other side are politicians, whose goal is not to control costs, but to get elected. Taxpayers, who pay state workers, aren't party to the negotiations. This lopsided negotiation causes some interesting behavior, largely because public-sector workers can vote for and contribute to the campaigns of the politicians with whom they “negotiate.” If those politicians can hide what they are paying state workers from taxpayers, both sides win. The trick, of course, is hiding what they are doing.

Which brings us to the second possible answer.

If today's politicians can promise compensation to state workers that won't be paid until later, it is far easier to hide what they are doing. The tools politicians use to pull this off are pensions. Pension benefits are convenient because the payouts are so far into the future that the politicians who grant them will be retired by the time the bill comes due. Of course, using pensions like this would mean that, over time, growth in state-worker wages would be modest, while benefits growth would be massive.

Which is exactly what we see in Pennsylvania. It's time the taxpayers started paying attention.

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