



HRPDC Special Report

Pay Freeze for Federal Employees No. 5

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President Obama has proposed a two-year pay freeze on the salaries of federal civilian employees in an effort to curb federal spending and reduce the national deficit. White House officials estimate that this initiative would save \$2 billion for FY 2011, \$28 billion over the next five years, and more than \$60 billion over the next ten years. The proposed pay freeze would apply to all civilian federal employees, including those working at the Department of Defense. The pay freeze **would not** apply to military personnel, new hiring, bonuses, or step increases. The President’s proposal, which still requires Congressional approval, would be applied in 2011 and 2012.

In 2008 there were 47,307 federal civilian employees in Hampton Roads (Bureau of Economic Analysis). Federal civilian employment comprises approximately 4.5% of the region’s total employment. Hampton Roads has the 4th highest concentration of federal civilian employment of the 100 most populous metro areas.

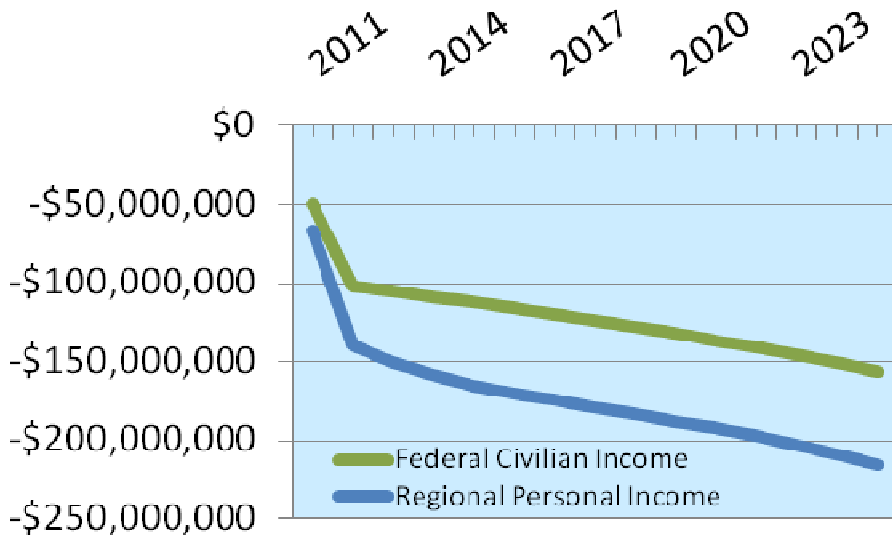
Federal Civilian Employees		
Locality	Number of Employees	Percentage of Total Employment
Hampton Roads	47,307	4.5%
Virginia	176,541	3.6%
United States	2,817,000	1.5%

Source: Bureau of Economic Analysis 2008

The impact of the high concentration of federal civilian employment in Hampton Roads is augmented by the relatively high wages paid in the federal civilian sector. Average earnings-per-worker for federal civilians in Hampton Roads in 2008 was \$96,756 compared with a regional average of \$62,745. Earnings in Hampton Roads’ federal civilian sector comprise 8.8% of total regional earnings (Bureau of Economic Analysis).

Given the significance of the federal civilian sector in Hampton Roads, President Obama’s announcement on wage freezing is especially important to this region. Using the Commission’s REMI model, it is estimated that

Projected Loss in Regional Income



Source: Hampton Roads Planning District Commission

eliminating the current planned pay increase of 1.4% for federal employees would directly reduce expected wages for the region’s federal civilian sector by approximately \$50 million in the first year. The total direct, indirect, and induced effect of this income adjustment would result in \$66 million fewer dollars flowing through the Hampton Roads economy. The impact would then be virtually repeated when the second year of wage freezes took place. The impact of a reset in baseline income for the federal civilian sector would continue indefinitely as future growth would then be based off a now smaller income base.