The Political Economy of the Rent-Seeking Society: The Case of Public Employees and Their Unions*

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Evidence is accumulating which suggests that public employee pay levels may contain substantial rent components. The purpose of this study is twofold: to relate the theories of public choice and competitive rent seeking to this evidence and to improve upon existing estimates of rent levels by incorporating the effects of fringe benefits and stability of employment. This study concludes that once nonwage forms of compensation are included, economic rents are contained in pay levels at all three levels of government for both sexes.

I. *Introduction*

There is growing evidence that public employees are overpaid relative to comparable workers in the private sector. Recent empirical studies by Smith (1976a, 1976b, 1977b) and Quinn (1979) conclude that males employed in federal and state government receive substantial economic rents on their human capital, while females in all levels of government earn more than their private sector counterparts.

Membership in public employee unions or associations is also growing. In 1977 nearly 48 percent of full-time state and local government employees were organized, and 58 percent of all federal government employees were unionized.[1] In 1964 only 7.7 percent of all state and local employees, and 38 percent of federal workers, were members of employee organizations [see Cohany and Dewey (1970)]. Pascal (1980) has suggested that the "fiscal limitation" epidemic sweeping the United States may encourage even more organizing and tougher bargaining by public sector unions.

One criticism of most empirical comparisons of public and private sector pay levels is that nonwage forms of employee compensation have been ignored.

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[1]These statistics are derived from U.S. Civil Service Commission (1978) and U.S. Department of Commerce (1979).

Furthermore, the empirical research has not been integrated with the emerging theoretical literature on competitive rent seeking [see Krueger (1974), Posner (1975), and Tullock (1967, 1975)]. This paper provides a link between the theory and evidence on public sector wage determination and improves upon existing estimates of public employee rents by incorporating available data on nonwage compensation. In sections II and III, using existing theories of political behavior and competitive rent seeking, we offer an interpretive description of rent creation and rent seeking in public employment. Special attention is given to the potential political activity of public employee organizations. In section IV we adjust previous estimates of public/private sector wage levels for sectoral differences in fringe benefits and job security. A brief summary and conclusion follow in section V.

II. *The Creation of Rent*

The optimal division of labor between the public and private sectors requires that the value of the marginal product of labor be equalized across sectors.[2] If decision makers in the private sector seek to maximize profits, while those in the public sector seek to maximize the excess of benefits over cost of government programs, competition for the existing labor supply will assure that net wages will be equal in the two sectors. By net wages we mean nominal wages adjusted for any sectoral differences in the nonwage forms of compensation such as fringe benefits, working conditions, or job security. Assuming that in both sectors an excess supply of labor to that sector is rationed by a fall in wages, and an excess demand by a rise in wages, no rent is generated.

The fact that, under efficient conditions, the net wage will be equal across sectors creates empirical difficulties unless we can derive a numerical value for the nonwage components of pay or we can assert that working conditions or job security are roughly equivalent or offsetting in the two sectors. The difficulties would disappear if the latter is true since efficiency would be associated with equality of nominal wages, which is an empirically observable datum. In fact all studies of public-private pay differences of which we are aware compare nominal wages or earnings. In this and the following section our discussion assumes that nonwage compensation is equivalent between the public and private sectors. (This assumption will be dropped in section IV.)

Most economists would argue that it is unrealistic to assume that public decision makers seek to employ labor efficiently and that changes in the wage rate are used to ration excess labor demand or supply in the public sector. The lack of realism is not important unless replacement of these assumptions with others more compatible with real world behavior will yield significantly different predictions. Replacement with the assumptions of public choice theory will, in fact, yield different predictions. Specifically, we will henceforth assume

[2]The marginal product of labor in the private sector should be defined in social rather than private terms for this statement to be valid. At the same time, part of the product of labor in the public sector may include the value of policing or eliminating externalities in the private sector. For a formal discussion see Bellante and Jackson (1979), chapter 14.

that public decision makers maximize their own utility, which, for elected officials or those whose careers are dependent upon the fortunes of elected officials, essentially means vote maximization.[3] Reder (1975) posited a vote production function and discussed its elements in terms of their expected direction of impact on public employee pay levels. Much of the ensuing analysis follows lines of argumentation that complement Reder's approach.

If vote maximization describes the political process, what is implied about the level of public sector wages created by that process? The answer begins with recognition of the opposing effects on votes of taxing and spending. Since public employees are voters, the higher their wages, the more likely that they vote for the officials who provided those wages. The higher the taxes necessary to pay for those wage costs, the lower the number of votes attracted from voters employed in the private sector. However, these opposing effects cannot result in public sector wages permanently lower than wages prevailing in the private, competitive labor market or the public sector would then face chronic labor shortages. Thus the competitive wage of the private sector serves as a long-run floor to wages in the public sector.

It can be argued that the "wage effect" will dominate the "tax effect" with the result being relatively higher wages in the public sector. The public choice literature contains many arguments to the effect that a politician's chances of reelection are enhanced by the provision of "political" goods. Since the recipients of the benefits of political goods will be inclined to reward the politician providing those goods with their votes while the bearers of the corresponding tax burden will be more inclined to reward his opponent, it is in the politician's interest to propose a package of programs or policies in which the benefits of each are highly visible and concentrated, whereas the costs are vague and widely dispersed.[4] With a benefit for every interest group, the politician or officeholder maximizes chances for election or reelection even though the costs of the proposals may in the aggregate exceed the benefits. Of course, opposing politicians will be attracted to the same strategy so its adoption does not assure victory, but failure to adopt this type of strategy will result in a high probability of defeat.

One expected element in the politician's package of programs will be higher than necessary wages, or economic rents, to public employees. These benefits (economic rents) will be very clearly understood by recipients (public employees), and as long as the higher wages are financed with general revenues rather than user taxes, they will be largely unknown to the general public, most of whose members are unaware of the salaries of any public employees except those holding high elective offices. Even if public sector salaries are known, their impact on any one taxpayer would perhaps seem insignificant. In any event, the explicit cost of providing rents to public employees is hidden by being

[3]While it might be argued that any vote in excess of 50 percent is redundant, politicians make decisions under uncertainty. Maximizing the *probability* of election or reelection implies maximization of the *expected* number of votes.

[4]This position is argued in Tullock (1966). Empirical support is provided in Gwartney and Silberman (1973).

buried among the other items whose costs are also reflected in the taxpayer's liability.

The probability that public employee pay levels may contain substantial rents is increased by the kinds of political activities engaged in by public employee unions and associations. Once the rational ignorance of voters and politicians is recognized, it is possible to understand how a public employee organization, whose members comprise a minority among eligible voters in most cases, can exert more influence than a larger number of private sector workers. A public employee lobby serves as a conduit of information from public employees to politicians and public decision makers. Similarly, the lobby can inform the membership as to what politicians are most likely to further their interests. Thus, in a world of rational ignorance, public employee unions or associations can probably mobilize more voters than if public employees were unorganized. Bush and Denzau (1977) find, as expected, that public sector employees are more likely to vote than private employees.

The political activities of public employee organizations include direct lobbying in which lobbyists confront legislators face-to-face over the terms of public employment. Prior to the advent of collective bargaining in the public sector, direct lobbying was, and in many cases remains, the most effective technique for affecting the wages, fringe benefits, tenure and vacation policies, and related aspects of public employment. An often cited example of public employee lobbying power is the election year pay increase for federal employees passed by Congress in 1960, over the veto by President Eisenhower. More recently, the opposition to President Carter's federal pay reforms voiced by the American Federation of Government Employees insures that the reforms face a long road ahead through Congress. Examples of successful lobbying by state and local public employees are numerous [see UCLA Law School (1972)].

Direct lobbying would appear to be more effective as a source of political pressure when a union provides the lobbying effort, because a formal union will have a greater command over financial resources and because a union, with its organizational structure, will be in a better position to coalesce employee response to the success or failure of the direct lobbying effort.

Public employee organizations also utilize indirect approaches to influence legislators. Some examples of indirect lobbying include letter writing campaigns, television advertising, and marches on city hall or the state capitol to develop public support for the union's objectives (perhaps by pointing out the inconveniences and disruptions accompanying the cut off of public services when strikes occur). Finally, the financial resources which public employee organizations can provide to incumbent legislators or candidates for office who are "friendly" to the interests of public employees are an avenue of influence that should not be ignored.

Hamermesh (1975), Smith (1977a), and others have investigated whether public employee unions, because of the absence of profit-motive in the public sector, the inelasticity of demand for important public services, and the political vulnerability of public officials who decide to take a strike, are more powerful than private sector unions. Their findings suggest that generally union wage

effects are not larger in the public sector. Gerhart (1975) has noted that this may be explained by a number of limitations on public employee unions that reduce their power, such as restraints on the right to strike and limited union security provisions. Two points can be made concerning this issue. First, studies that compare union effects on only wages or earnings in the public and private sectors are not conclusive since less visible fringe benefits and nonwage conditions of employment are an area where public employee unions may exert powerful influence. (This point will be explored in section IV.) Second, and more important from the perspective of this analysis, public employee organizations can still engage in the kinds of political activities discussed above even when their "economic" power is constrained.

The role of information costs is crucial in the creation of rents. Voters have much more information about salaries (and whether an existing salary would draw a queue of applicants) at the local levels of government than at higher levels of government, particularly the federal level. Further, the impact of government salary scales on voters' tax burdens is more readily discernible at the local level. Also, the possibility at the federal level of financing budget deficits through monetary expansion makes excessive spending particularly attractive inasmuch as this process conceals information about program costs. The costs to taxpayers may be as high as they would be through direct taxation but will take the form of inflation rather than higher explicit tax rates. The resulting inflation is seldom viewed as a tax by the voting public, whose members are more likely to regard the inflation as the result of the greed of monopolists and trade unions rather than monetary expansion. The inverse relation between information cost and level of government leads us to expect that if public employee rents are created, they will be larger in the federal government than in local governments.

There is a secondary reason for expecting the political process to produce rents for public employees. Public sector jobs are frequently dispensed (and sometimes created) as rewards for political campaign effort. In some cases, political office-holders or seekers of such positions obtain campaign support through "bribery." A public sector job with little or no counterpart in the private sector — a virtual monopoly — is created in return for political support. More is involved than just a pure income transfer from taxpayers to political appointees. Social costs are incurred through the expenditure of resources to influence those in charge of making appointments and to obtain the receipt of the aforementioned "bribes, as explained in Krueger (1974) and in Posner (1975). A fuller discussion of such competition for rents is provided in the next section.

III. *Competitive Rent Seeking*

Tullock (1975) has discussed the subject of competitive rent seeking in order to explain the fact that many governmental programs initiated for the purpose of aiding a particular industry or interest group have failed, in that those who are allegedly protected from competition earn approximately normal returns. Tullock extended his analysis, by way of example, to public employees. In his argument, and in a similar one by Krueger (1974), overpayment in public jobs

will lead to competition for those jobs. Workers desiring to leave the private sector for the public sector will create an excess supply of workers to the public sector. For reasons given in the previous section, relative wage reductions are not used to remove the excess supply; rather some other method must be devised for rationing the available jobs, and the competitive civil service exam is the dominant rationing instrument. As a result, the jobs go to those persons whose education, intelligence and military service permit them to score highest on the exams. Those who get the jobs may have much more than the minimum qualifications for the job (as opposed to the qualifications necessary to score highly on the exam). The rationing process continues until persons of a given degree of human capital can receive a rate of return on their human capital which is competitive with what could be earned in the private sector. In this equilibrium situation, public employees receive no rent on their human capital. They are overpaid in terms of the job they perform, not in terms of their stock of human capital. Although the job holders do not benefit, a dead weight loss is imposed upon society through the misallocation of the labor resource which takes place.

The perspective developed by Tullock can be extended. For one thing, competition for rent-yielding jobs will not always proceed exclusively through the civil service exams or similar devices. As mentioned above, the apparent rent may actually be a payment for past or continuing political activities by the job holder. When rents are competed away in this manner, empirical examination of the pay levels of these individuals in relation to their human capital characteristics will indicate receipt of a rent when none is received by the marginal job holder. Instead, the rent is extracted by those in the position to dispense the jobs.

The aforementioned literature ignores the fact that regardless of the method by which rents are competed away at the margin, inframarginal rent may still be received. For example, when competitive civil service exams serve as the method of rent dissipation, rates of return on human capital are equalized between the public and private sectors only at the margin. Of course, if public employees could sell rights to their jobs, the present value of the future rents would quickly be capitalized. Continually holding the job rather than selling the job right would result in the incurrence of an opportunity cost; in this sense even inframarginal rents would be quickly eliminated. In fact, rents received through product markets are usually dissipated in this fashion. But public employees cannot sell rights to their jobs. Public employees can retain inframarginal rents only by retaining their jobs, hence *average* rates of return in the public sector will exceed those in the private sector after rates of return are equalized at the margin. If rents are not re-created, over time average rates of return will approach marginal rates through a slow process, its speed depending on rates of attrition among public employees and the rate of growth of public sector employment. As inframarginal rents are dissipated, the rents must continually be re-created by new politicians or old ones seeking new gains.

Since workers have an incentive to retain rent-yielding jobs, the average age of public employees should be greater than that of private employees, *ceteris paribus*. This expectation is based on the premise that turnover will be lower in

public employment than in private employment, and that turnover will lower average employee age since workers vacating their jobs will more likely be replaced by younger workers. The difficulty is in the *ceteris paribus* condition: public employment has been growing much more rapidly than private sector employment and, in the absence of rent, this should result in a lower average age in the public sector than in the private sector. Growth in public employment will be accommodated mainly by younger workers and new entrants into the labor market. Older persons employed in the private sector will have little incentive to leave their present employers for jobs in the public sector, since their specific human capital presently yields a return above their potential wages in other firms. The age-lowering effect of public employment growth may offset the tendency of initial public sector rents to raise the average age of public employees above the average of private employees. Consequently, empirical comparisons of average age levels in the two sectors may fail to give evidence of the public sector inframarginal rents that are being received.

As we have pointed out, competition will eliminate public employee rents at the margin. Inframarginal rents may remain, and their existence and size can be determined by examining average rates of return on human capital in the public and private sectors. In the following section we discuss the empirical issues involved in such comparisons, review some previous work, and present some new calculations.

IV. *Empirical Estimates of Public Employee Rents*

Any valid comparison of public and private sector pay levels must compare returns on equivalent amounts of human capital. Further, the coverage of the data must be sufficiently broad so that the peculiarities of individual occupations (e.g. policemen, firemen, air traffic controllers) do not bias the results.[5] Smith (1976a, 1976b, 1977a, 1977b) has estimated public/private sector wage ratios for workers with comparable human capital, utilizing national data from the Current Population Surveys of 1973 and 1975 and the 1960 and 1970 Census. Her findings can be summarized as follows: both males and females employed by the federal government receive higher wages than private sector workers with similar human capital characteristics. In state and local government jobs, females are paid more but males slightly less than comparable employees in the private sector.

For comparative purposes, we have taken Smith's regression equations and supplementary data and constructed indexes of public/private wage ratios in each of the three levels of government for males, for females, and for males and females combined.[6] Each public/private index is defined as

[5]For examples of studies that compare public and private pay in specific occupation, see Fogel and Lewin (1974) and the studies cited therein.

[6]Smith estimated separate male and female wage equations in each sector of employment (federal, state, local, private). Each wage equation is of the form $ln\ w_i = f(X_i)$, where w_i is the hourly wage rate of the i^{th} individual and the vector X_i includes education, race, work experience (age minus years of schooling minus 6), marital status, region, broad occupational category, veteran status, city size, and full-time/part-time job status.

$exp(\Sigma r_{pu_j} x_{pr_j})$ / $exp(\Sigma r_{pr_j} x_{pr_j})$ where r_{pu_j} is the *jth* regression coefficient in the relevant public sector wage equation, r_{pr_j} is the *jth* regression coefficient from the comparable private sector wage equation, and x_{pr_j} is the mean value of the *jth* independent variable in the appropriate private sector wage equation. This index compares public with private wages, using the characteristics of the private labor force as weights. Therefore, any resulting difference between public and private pay levels is due only to sectoral differences in the payoffs to human capital and other variables. Lines 1a – 1c of Table 1 provide these results. For example, the federal/private index in line 1a indicates that, holding constant the mix of productivity related variables, federal wages are 20 percent higher than wages in the private sector.

Table 1

Adjusted Public/Private Hourly Wage Ratios, 1975

Adjustment Factors	Line	Group	Federal / Private	State / Private	Local / Private
(1) Employee characteristics	(1a)	Total	1.200	1.022	.995
	(1b)	Males	1.177	.970	.960
	(1c)	Females	1.242	1.077	1.023
(2) Employee characteristics and fringe benefits	(2a)	Total	1.231	1.062	1.011
	(2b)	Males	1.208	1.008	.976
	(2c)	Females	1.275	1.120	1.040
(3) Employee characteristics, fringe benefits, and probability of unemployment	(3a)	Total	1.291	1.130	1.104
	(3b)	Males	1.289	1.068	1.057
	(3c)	Females	1.294	1.196	1.144

Source: see text

Smith's wage equations (and consequently our calculations in lines 1a – 1c of Table 1) contain no adjustments for intersectoral differences in nonwage compensation. Yet there is at least one reason to expect that the relation of fringe benefits to base wages may differ between sectors. We have argued that the ability to establish rents in public pay levels is affected by the degree of imperfection of taxpayers' information. Since by its nature information concerning fringe benefits is less clear than information concerning basic pay levels, fringe benefits may be a preferred rent-yielding instrument of public employee compensation. Furthermore, the cost of fringe benefits is sometimes deferred into the future, as in the case of public employee pensions. The "short sightedness" of public officials implies that they may be more willing to grant higher fringe benefits with deferred costs than immediate wage increases.

We have adjusted the public/private wage ratios to take into account available information on fringe benefits. For the private, federal government, and state government sectors, 1972 data are available on fringe benefits as a per-

cent of base pay.[7] Similar data are available for the local government sector for 1970.[8] All three government sectors receive fringe benefits, expressed as a percentage of base pay, greater than those in the private sector. Consequently, all public/private pay ratios are raised when pay is defined to include fringe benefits. These results are given in lines 2a – 2c of Table 1. Note that only one public/private ratio, the one for males in local government, remains below 1.00—but only slightly so.

Further, there is reason to expect that even at equal nominal wage and fringe benefit levels, there would be an excess supply of labor to the public sector owing to the greater degree of employment security generally associated with public employment. There would be no excess supply only if pay levels were higher in the private sector by an amount sufficient to compensate the marginal worker for the lesser stability of employment in that sector.

Using a study by Bloch and Smith (1977), we are able to estimate sectoral differences in employment security, expressed in terms of a ratio of public to private sector employment rates. By multiplying each public/private compensation ratio in lines 2a – 2c of Table 1 by the corresponding employment ratio, we are able to generate *expected values* of public/private compensation ratios (lines 3a – 3c of Table 1). These public/private ratios, reflecting adjustments for intersectoral differences in fringe benefits and job security, are all in excess of unity. The smallest public/private ratio is 1.057 for males in local government. If labor market participants are risk neutral, then these ratios adequately reflect the part of public pay levels that is a negative equalizing difference compensating for the greater employment stability in the public sector. Since markets are usually dominated by risk avoiders, our calculations have underadjusted the public/private compensation ratios. Be that as it may, the results of lines 3a – 3c permit us to conclude that both male and female workers, at all three levels of government, receive greater compensation on average than comparable workers in the private sector.

Of course, gross averages such as those in Table 1 can conceal a considerable amount of information. It is therefore instructive to disaggregate the results by educational class by estimating average rates of return on human capital by sex and by sector for selected numbers of years of formal education. The calculated rates of return are based on wages predicted from Smith's sectoral wage equations for each year of age up to age 65, after adjusting for fringe benefits and employment stability, using the private sector mean value of all variables in the wage equations other than education and experience. The financial return from obtaining any level of education is then the difference between annualized expected earnings in a given sector for the number of years of education received and the earnings that the individual would have been expected to receive if employment had begun after eight years of schooling. The earnings profile for the comparison group, those with eight years of education, is not

[7]Data on fringe benefit levels in the federal sector are reported by the U.S. General Accounting Office (1975). Data for the state government sectors are from the U.S. Department of Labor (1976).

[8]Data for local government fringe benefits are derived from Friend (1972).

specific to the employment sector in question but is instead a weighted average of the wages received in each of the four sectors for those with eight years of schooling.

The costs of human capital investment were calculated as follows. Through 12 years of schooling, only foregone earnings were considered. Foregone earnings were calculated from the same data as benefits, and calculations were based on a weighted average of expected compensation in the four employment sectors. For subsequent years of schooling, a tuition cost was imputed. The annual tuition cost is a weighted average of median costs at public and private institutions of higher learning in 1973.[9]

These rates of return, reported in Table 2, answer the question, To what extent does the rate of return on additional investment in human capital differ according to the sector of employment? The reader should be reminded that these are *average,* not *marginal,* rates of return. For example, the rate of return for someone with 16 years of schooling is the rate of return on all investment past eighth grade. Also, workers are assumed to remain in the sector of initial employment. The data indicate that rates of return are lower in the private sector than the public sector in all but one category (male state employees with 10

Table 2

Estimated Average Rates of Return to Education (in percent), 1975

Years of Education and Sex	Percentage Rates of Return in Sector of Employment: Private	Federal	State	Local
(Males)				
10	2.00	23.80	1.90	3.60
12	3.40	12.00	3.70	4.40
14	3.60	8.50	4.30	4.80
16	3.90	7.30	4.80	4.50
18	4.20	6.40	5.20	4.60
20	4.50	6.80	5.60	4.70
(Females)				
10	5.10	13.30	10.10	1.90
12	5.80	9.20	8.70	6.50
14	4.30	7.10	5.70	7.50
16	3.60	6.20	5.70	6.90
18	3.00	5.90	6.00	6.60
20	2.60	5.80	6.60	6.50

Source: see text

[9]The tuition costs are calculated by Freeman (1976). In common with other studies on the rate of return to human capital, we have made no attempt to account for the income produced by part-time work by students. Incorporation of part-time earnings would have raised all rates of return calculated in Table 2 without changing the relative rankings.

years of education). Rates of return in the federal sector are very high for males with 10 or 12 years of schooling, and for females with 10 years of schooling. Interestingly, rates of return for females in the public sector are not always highest in the federal branch of government.

V. *Summary and Conclusions*

In this paper we have discussed the political institutional processes by which public employees may obtain higher wages than private sector workers, and have described the competitive behavior through which these economic rents may be dissipated, at least at the margin. As with most such descriptions of institutional behavior, the hypotheses advanced do not lend themselves to definitive testing. Nevertheless, our empirical work suggests that once public/private wage ratios are adjusted for fringe benefits and employment stability, significant rents exist, on average, at all levels of government.

Several caveats are in order. Quinn (1979) has recently provided tentative evidence that working conditions are more favorable in the public sector than in the private sector. If this finding is correct, then a negative "equalizing difference" should be present in the wage levels of public employees. In other words, public employees would be receiving rents even if other forms of compensation were equal in all sectors. And even if competitive rent seeking were completely effective in equalizing *average* rates of return between the public and private sectors, inclusive of equalizing differences, it merely disguises rather than solves the problem of overpayment in the public sector. Indeed, competitive rent seeking worsens the problem by leading to a misallocation of human capital. Besides, the process of competition for rent itself consumes resources.

That competitive rent seeking takes place seems undeniable, but proving its existence is difficult, if not impossible. However, we can provide some very tentative evidence suggestive of its existence. We argued in section III that in the presence of a growing public sector but in the absence of competitive rent seeking, recruitment of public sector employees would be predominantly from relatively new entrants into the labor force. Consequently, average employee age should be lower in the public sector than in the private sector. Yet we find that out of 54 narrowly defined occupations for which the Census Bureau reports significant numbers of employees in both public and private sectors in 1970, median age is higher in the public sector for 39 occupations. Median age is higher in the private sector for 13 occupations and roughly equivalent in 2 occupations.[10] Since the occupations examined cannot be regarded as identical in nature between the public and private sectors, any conclusions must be highly tentative. The evidence does however suggest that employees in the private sector may be queuing up for jobs in the public sector.

Of course, the ultimate test of whether public pay levels are excessive is to determine whether there is a chronic excess supply of workers to the public sec-

[10]The data are from the U.S. Department of Commerce (1973).

tor. Unfortunately, such data are seldom available on a wide scale. However, the *Wall Street Journal* (1978a) has reported that for every anticipated opening on the horizon of the federal civil service, 11 applicants have qualified and are waiting on civil service rolls.

A final caveat should remind the reader that our calculations are gross averages. In local government there are occasional reports of shortages in specific occupations such as nursing and police work, suggesting that some public employees receive no inframarginal rents and are actually paid less than a competitive wage.

It is difficult to be optimistic about the possibility of a political solution to the existence of these rents, since it is the political process that generates these rents and public employee organizing and potential political activity are growing. The so-called "comparability principle" of federal pay policy is no solution. There is ample evidence that the comparability principle, which is ostensibly intended to assure equality of pay between the federal government and the private sector, acts much like the Davis-Bacon Act in being the very instrument by which rent is established.[11] Nor should any optimism stem from the recent tax revolt in California and its national repercussions, which seem more likely to result in a reduction in employment levels (and consequently in the provision of public services) rather than in rent levels. Moreover, if taxpayer revolts lead to a shifting of governmental activities from local to federal levels, they will shift employment from where rents are smallest to where they are greatest.

[11]See the *Wall Street Journal* (1978b) on this subject. Also see Chapter II of Smith (1977a).

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