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Public sector compensation lower than that of comparable private sector workers: A literature review

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Public sector workers do valuable jobs that enrich our communities and warrant decent compensation. This brief memo provides links to some recent research related to public sector compensation. The studies find that public employees are substantially more educated and experienced than private employees. Controlling for this, public sector workers have lower compensation than those in the private sector. It is true that wages are more equitable in the public sector: in fact, the lowest-paid private sector workers are paid so poorly that many rely on public benefits to make ends meet. Below is some of the analysis from which these conclusions are drawn.

An April 2010 study, jointly released by the National Institute on Retirement Security and the Center for State and Local Government Excellence and conducted by University of Wisconsin – Milwaukee economists Keith Bender and John Heywood, compared twenty years of publicly available data from the U.S. Bureau of Labor Statistics.¹ They found that:

- Public jobs require more education on average than private sector jobs. State and local public employees are twice as likely to have an advanced degree as private sector workers.
- The wages and salaries of state and local employees are 11 and 12 percent lower, respectively, than those for private sector workers with comparable education and experience.
- Over the last two decades, earnings for state and local employees have generally declined compared to similar private sector workers.
- Benefits, such as pensions, make up a greater share of compensation in the public sector.
- Including benefits, state and local employees still have lower total compensation. On average, total compensation is 6.8 percent lower for state and 7.4 percent lower for local workers, relative to comparable private sector workers.

In a report issued last month (May 2010), economist John Schmitt of the Center for Economic and Policy Research found a slightly lower wage penalty for working in the public sector.² Half of state and local employees have a four-year college degree or more, and nearly one-fourth have an advanced degree, as the figure on the next page shows. Less than 30 percent of private sector workers have a four-year college degree and less than 10 percent have an advanced degree. The report also found that the typical state or local worker is about four years older than the typical private-sector worker.³

¹ http://www.nirsonline.org/storage/nirs/documents/final_out_of_balance_report_april_2010.pdf

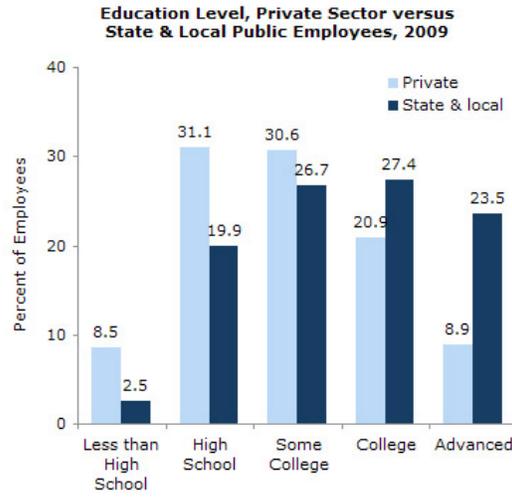
² Both Heywood and Schmitt used Current Population Survey Outgoing Rotation Group data, but Heywood combined multiple years while Schmitt just used 2009 data.

³ <http://www.cepr.net/index.php/publications/reports/wage-penalty-state-local-gov-employees/>

Schmitt found that when state and local government employees were compared to private-sector workers of similar education and experience levels, state and local workers earned a little less than 4 percent less, on average, than their private-sector counterparts, as the figure below shows.

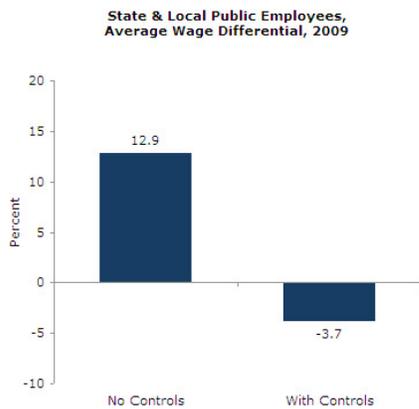
The public sector penalty was about 2 percent of earnings for women and about 6 percent of earnings for men. “Prosecutors and defense attorneys rightly earn more than retail clerks but they generally earn less than attorneys in private practice,” said Amy Hanauer, Policy Matters Ohio Executive Director.

Schmitt found that the wage penalty rose as jobs became higher skill. While low-wage workers received a small wage premium in state-and-local jobs (about 6 percent for a typical low-wage worker), the typical middle-wage worker earned about 4 percent less in state-and-local work, and the typical high-wage worker made about 11 percent less than a similar private-sector worker.



Source: CEPR

The lowest-wage private sector workers are often compensated so poorly that they need to receive Medicaid, cash assistance or food assistance. Advocates have pushed for public sector jobs to have higher standards than that, reasonably arguing that workers collecting our trash, helping in our children’s lunchrooms and taking care of our parents should not be left deep in poverty. A 2008 report from Policy Matters Ohio found that



Source: CEPR

the state of Ohio spent more than \$100 million to provide Medicaid for the employees of fifty large private Ohio employers, a 29 percent increase between 2004 and 2007 among the firms that could be compared during the two years.⁴ “It’s true that many Wal-Mart and McDonald’s employees are paid so little that they need Medicaid and food stamps,” Hanauer said. “I’m not sure that’s what we should aspire to for those doing jobs that clean up our communities, work with our children and keep us safe.”

Hanauer concluded with a reminder about what public sector jobs really are. “The question is, do we want to cut the pay of our soldiers putting their lives on the line in Iraq and Afghanistan, our firefighters who keep us safe here at home, the disaster-relief workers cleaning up from this month’s tornados, prison psychologists who already earn much less than private sector psychologists, or the already very low-paid and dedicated homecare workers that help to care for our parents?” Hanauer asked.

⁴ <http://www.policymattersohio.org/PublicBenefits2008.htm>