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GETTING THE FACTS STRAIGHT ABOUT STATE AND LOCAL PAY

Growth of pay in private and state/local sectors

State and local workers have not seen their wages and compensation (including all benefits) grow any faster than that of private-sector workers. According to the data, the *wages* of state and local employees grew 0.6% annually from 1990 to 2010 (after adjusting for inflation), which was actually slightly slower than the 0.7% rate for private-sector workers.[1] Both groups saw their inflation-adjusted hourly *compensation* grow at an identical 0.9% annual rate.

About 54% of public-sector and 35% of private-sector employees have a college degree.[2] Given that college graduates have seen faster-than-average wage growth in recent decades, we would expect the college graduate-intensive state/local sector to have faster wage growth, but that clearly has not happened. This ratio still didn't result in a wage-growth advantage for public-sector employees in the 1990-2010 period. Furthermore, it is noteworthy that workers in both sectors saw their pay grow far more slowly than the economy's 2.5% annual productivity growth.

Growth of private-sector and state/local wages by education[3]

The total growth of inflation-adjusted wages for high school educated workers in the private sector between 1989 and 2010 was 4.8%, slightly faster than the 2.6% wage growth for comparable public employees. This means that inflation-adjusted wages have been essentially flat for two decades for high school educated workers regardless of sector. In contrast, productivity growth, reflecting the increase in the economy's overall gains, grew 62.5% in the 1989-2010 period.

For those with a bachelor's degree (but no further education), inflation-adjusted wages grew by 19.5% in the private sector from 1989 to 2010, far more than the 9.5% growth seen by state employees.[4]

Comparing wage and compensation levels of state/local and private sectors

Wage and compensation analyses should compare workers by occupation and education level. For instance, workers in restaurants, on average, make less than workers in many other industries because, in part, they employ far fewer white-collar or college-educated workers. Claims that state and local workers make exorbitant wages and compensation almost always fail to consider the occupation or education levels of the workers being compared. Studies which make an apple-to-apple comparison (controlling for education and other worker characteristics) show that state and local workers are not overpaid:

- Heywood and Bender (2010) find that "Wages and salaries of state and local employees are lower than those for private-sector workers with comparable earnings determinants (e.g., education). State employees typically earn 11% less; local workers earn 12% less." Heywood and Bender also find that "State and local employees have lower total compensation than their private-sector counterparts. On average, total compensation is 6.8% lower for state employees and 7.4% lower for local workers, compared with comparable private sector employees."[5]
- Keefe (2011) finds that "On average, full-time state and local employees are undercompensated by 3.7%, in comparison to otherwise similar private-sector workers. The public employee compensation penalty is smaller for local government employees (1.8%) than state government workers (7.6%)."[6]
- Schmitt (2010) finds that "When state and local government employees are compared to private-sector workers with similar characteristics—particularly when workers are matched by age and education—state and local workers actually earn 4% less, on average, than their private-sector counterparts. For women workers, the public-sector penalty is about 2% of earnings; for men, it is about 6% of earnings."[7]

Contrary to claims frequently advanced by opponents of state and local public-sector employees, these workers are, if anything, routinely undercompensated.

— February 17, 2011

Endnotes

1. US Bureau of Labor Statistics, 2011, *Employment Cost Index: Historical Listing – Current-dollar March 2001 – December 2010*, http://www.bls.gov/web/eci/echistrynaics.pdf, Tables 1 and 2, and US Bureau of Labor Statistics,2006, *Employment Cost Index Historical Listing – Current-dollar* 1975-2005, http://www.bls.gov/web/eci/echistry.pdf, Tables 1a and 1b.
2. Jeffrey H. Keefe, 2010, *Debunking the Myth of the Over-compensated Public Employee*, (Economic Policy Institute), http://www.epi.org/publications/entry/debunking_the_myth_of_the_overcompensated_public_employee, p. 4.
3. The computations in this section are of BLS CPS Outgoing Rotation Group files presented in the forthcoming EPI paper by Heidi Shierholz and Lawrence Mishel, *Wage Trends in the State and Private Sectors.*
4. The Economic Policy Institute has written extensively about this productivity/wage gap. See, for example, Lawrence Mishel and Jared Bernstein, 2007, *Economy's Gains Fail to Reach Most Workers' Paychecks*, http://www.epi.org/publications/entry/bp195/ .
5. Keith A. Bender and John S. Heywood, 2010, *Out of Balance?: Comparing Public and Private Sector Compensation over 20 Years*, (National Institute on Retirement Security), http://www.nirsonline.org/storage/nirs/documents/final_out_of_balance_report_april_2010.pdf, p. 3.
6. Keefe (2010, 1).
7. John Schmitt, 2010, *The Wage Penalty for State and Local Government Employees* (Center for Economic and Policy Research), http://www.cepr.net/documents/publications/wage-penalty-2010-05.pdf, p. 1.