New study finds public workers earn less than private sector workers, even factoring in benefits

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With unemployment in the region lingering at record levels, and job security a wistful memory for many, it's easy to look for scapegoats. Thus a familiar refrain--government workers are overpaid, and our tax dollars are going towards outsized benefit and salary packages--has come back again. But as with most scapegoating, there's not much truth to the accusation: the reality is just the opposite. Once age and education are factored in, state and local workers actually earn less, on average, than their private-sector counterparts. The wage penalty for state and local government workers in New England is close to 3 percent.

In their new study, The Wage Penalty for State and Local Government Employees in New England, Jeffrey Thompson of the Political Economy Research Institute at the University of Massachusetts Amherst and John Schmitt of the Center for Economic Policy Research demonstrate that the average state or local government worker does earn higher wages than the average private-sector worker--but this is because they are, on average, older and substantially better educated. The higher average wage in the public sector means that the teachers, engineers, accountants, and others who are running government offices, schools, and public services in New England are more experienced and highly trained, on average, than workers in the private sector. But despite these qualifications, their pay is on average lower than that of those counterparts. Another way to look at it is: given two workers of the same age and same level of experience, a public sector worker earns less than a private sector worker.

As the report’s co-author, Jeffrey Thompson, explains, "If you simply compare the wages in the public and private sector, you end up learning more about the skill levels of those workers than about the sector where they work. All that comparison tells you is that state and local government workers in New England are more highly educated and more experienced than their counterparts in the private sector. But once you properly control for education and experience, it becomes evident that public sector workers get lower wages."

More than half of state and local government employees in New England have a four-year college degree or more, and 30 percent have an advanced degree. By contrast, only 38 percent of private-sector workers have a four-year college degree or more; and only 13 percent have an advanced degree. In New England, the typical state and local worker is also about four years older than the typical private-sector worker.

The wage gap becomes more significant at higher-paid professional levels. The lowest paid government workers do earn slightly more than their private counterparts (in other words, the state tends to pay its lowest-wage workers better than, for example, Wal-Mart does), but for engineers, professors, and the like, the wage penalty for working for a New England state or local governments rises to almost 13 percent. These wage differences are also found across workers with different levels of education: high school graduates in the state and local sector in New England, for example, have a small wage premium (less than 2 percent) relative to the private sector, while those with bachelor’s degrees experience a wage penalty of 7 percent.

Critics of public workers sometimes claim that the real pot of gold is in the benefits packages--that public workers receive far more generous insurance, leave and retirement benefits than private workers. And while state and local workers on average do indeed receive more valuable benefits than private-sector workers, the difference only reduces the wage penalty for the average state and local government worker. The better benefits packages are not better enough to offset the lower base pay.

The situation in New England is echoed on a national scale, where, according to Debunking the Myth of the Overcompensated Public Employee: The Evidence by Jeffrey Keefe, released today by the Economic Policy Institute, the public employment penalty is slightly larger at 3.7 percent. That study places the issue squarely in the context of the crisis over state and local budgets: "Thousands of state and local public employees will lose their jobs, and their families will experience considerable pain and disruption. Others will have their wages frozen and benefits cuts. Not because they did not do their jobs, or their services are no longer needed, nor because they are overpaid. ... They do not deserve bullying or our ridicule and condemnation by elected officials and the media looking for scapegoats."

Provided by University of Massachusetts Amherst

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