

MEMORANDUM

February 11, 2011

TO: Councilmembers

FROM: Karen Orlansky, Director
Office of Legislative Oversight

SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget:
Recap of Recent Studies on Private vs. Public Sector Pay and Benefits**

This memorandum responds to requests from several Councilmembers for additional comparative information on the pay and benefits of public sector vs. private sector employees.

Challenges to Comparing Public vs. Private Sector Pay and Benefits. There are differences between the public and private sector workforces that pose challenges to conducting “apples to apples” comparisons of pay and benefits. The differences most commonly cited in the compensation research literature are:

- Public and private sector work activities are not identical, a fact which makes it hard to find parallel jobs to compare across the two sectors. For example, positions such as police officer and firefighter largely do not exist in the private sector; and many factory and retail jobs in the private sector have few equivalents in the public sector.
- A larger portion of public sector jobs require higher levels of education and training compared to private sector jobs; public sector employees tend to be older and more experienced than their private sector counterparts.
- Some frequently identified advantages of public sector employment, such as greater job security and more flexible working arrangements, are difficult to quantify and therefore excluded from most comparisons of pay and benefits.

While these factors do not invalidate all comparisons of pay and benefits across the public vs. private sectors, they should be kept in mind when reviewing the various studies, particularly when the data used in the research represent averages for large classes of employees from either the public and/or private sector.

Despite the vigorous debate over whether the data show employees in the private or public sector as more highly compensated, there are several findings which the research consistently supports. Specifically, there is general agreement that public sector benefits tend to be more generous than private sector benefits; and that while lower-skilled positions tend to receive higher wages in the public sector, higher skilled positions tend to be better compensated in the private sector.

Organization of Memo. The rest of this memo is organized into two parts. **Section A** summarizes information contained in reports compiled by federal agencies on private vs. public sector employee pay and benefits. **Section B** summarizes the findings from studies conducted by four other (non-governmental) organizations on public vs. private sector employee pay and benefits.

In addition, attached (beginning at ©1) are six examples of the many articles published in the past year or so that draw varying conclusions about public vs. private sector pay and benefits.

A. Public vs. Private Pay Data Compiled by the Federal Government

Highlights of data contained in three reports compiled by the federal government on public vs. private sectors pay and benefits are summarized below.

1. “Employer Costs for Employee Compensation,” September 2010

“Employer Costs for Employee Compensation” (ECEC) is a quarterly report prepared by the federal Bureau of Labor Statistics. The ECEC includes data on average employer costs paid for employee compensation (pay and benefits) by state and local governments, and by private industry employers.

The table below summarizes the data on average employer costs per hour worked, as contained in the ECEC, published in September 2010. The data show higher total pay and benefits paid per hour by state and local governments, compared to private industry.

**Average Employer Costs (Paid Per Hour) for Employee Pay and Benefits
Data from Bureau of Labor Statistics, ECEC Report, September 2010**

Component of Compensation	Private Industry	State and Local Government
Wages/Salaries	\$19.68	\$26.25
Total Benefits (see list of benefits below)	\$8.20	\$13.85
Total Compensation	\$27.88	\$40.10

Calculation of total benefits includes:		
Paid Leave	\$1.88	\$3.03
Supplemental Pay (e.g., overtime)	\$0.78	\$0.33
Insurance (Health, Life, Disability)	\$2.24	\$4.80
Retirement and Savings	\$0.99	\$3.26
<i>Defined Benefit</i>	<i>\$0.44</i>	<i>\$2.94</i>
<i>Defined Contribution</i>	<i>\$0.55</i>	<i>\$0.32</i>
Legally Required Benefits (e.g., Social Security, Medicare)	\$2.31	\$2.42
Total Benefits	\$8.20	\$13.85

Consistent with the challenges cited above to using data across large classes of workers when comparing public vs. private sector compensation, the Bureau of Labor Statistics includes the following caveat/warning to using the information provided in the ECEC report:

Compensation cost levels in state and local government should not be directly compared with levels in private industry. Differences between these sectors stem from factors such as variation in work activities and occupational structures. Manufacturing and sales, for example, make up a large part of private industry work activities but are rare in state and local government. Management, professional and administrative support occupations (including teachers) account for two-thirds of the state and local government workforce, compared with two-fifths of private industry. (ECEC, September 2010)

2. “Employee Benefits in the United States”, March 2010

“Employee Benefits in the United States” is a report prepared quarterly by the federal Bureau of Labor Statistics. It contains information on the types of benefits offered to employees by private industry employers as well as state and local government.

The data summarized in the table below show the percent of employees (by sector) that have access to retirement and medical benefits, and the percent who have access to a plan that go ahead and enroll. (This second percent is known as the “take up rate.”) The table also shows the average cost share of medical care premiums paid by employers for single and family medical coverage.

Retirement and Medical Benefits by Sector, March 2010	Private Industry	State and Local Government
Retirement Benefits		
Percent of employees with access to a plan	65%	90%
Percent of employees who have access to a plan that enroll	76%	95%
Medical Benefits		
Percent of employees with access to a plan	71%	88%
Percent of employees who have access to a plan that enroll	73%	83%
Average share of medical plan premium paid by employer:		
Single Coverage	80%	89%
Family Coverage	70%	73%

3. “National Income and Products Account Tables”, 2009

The federal Bureau of Economic Analysis prepares the National Income and Products Account Tables (NIPA), which report the distribution of incomes earned across different sectors of the economy. The table below summarizes the most recently published NIPA data (2009) for the private sector, the federal government (civilian), and state and local government sectors. The NIPA data only track data on wages/salaries and do not include the cost of employee benefits.

2009 Bureau of Economic Analysis Data on:	Private Industry	Federal Gov’t (civilian)	State/Local Government
Wages/Salaries (\$ in millions)	\$5,113,359	\$158,616	\$862,579
Full-Time Equivalent Employees (FTE)	101,331,000	1,952,000	16,258,000
Average Wage and Salary/FTE	\$50,462	\$81,258	\$53,056

The data show that, in 2009, the average wage and salary per full-time employee for private industry workers and state/local government workers were \$50,462 and \$53,056, respectively. On average, federal government (civilian) employees received approximately \$30,000 more than either state/local government or private sector employees.

B. Other Studies of Private vs. Public Pay and Benefits

During the past year, a number of private and non-profit organizations have weighed in on the issue of employee pay and/or benefits across the public vs. private sectors. For the most part, the various studies use the same data sets compiled by the federal government (reviewed in the first part of this memo), but do not reach the same conclusions. The major findings of four studies, all released during 2010, are summarized below. They are presented in chronological order, based on the date the studies were issued: January, April, May, and July 2010.

Following the summaries is a list of websites for the studies themselves. The home site for each organization contains additional information about the priorities and stated mission of the different groups conducting these various studies.

The Cato Institute¹ “Public Sector Unions and the Rising Costs of Employee Compensation.” January 2010
<ul style="list-style-type: none">• State and local workers receive more generous pension, health insurance, and paid leave benefits than private sector workers.• Government workers experience higher job security than private sector workers.• Public sector unionization increases the cost of the workforce by an average of 8%.• Public sector pension systems often include benefits not offered in private sector systems, including early and disability retirement.
Source of Data: Bureau of Labor Statistics, “Employer Costs for Employee Compensation”

Center for State and Local Government Excellence/National Center for Retirement Security² “Out of Balance: Comparing Public Sector and Private Sector Compensation over 20 Years.” April 2010
<ul style="list-style-type: none">• The public and private workforces vary in significant ways, including levels of education, training, experience, and types of employment.• The wages and salaries of state and local employees are 11-12% lower than those for private sector workers with comparable education and experience.• Benefits account for a greater share of compensation in the public sector.• On average, total compensation is 6.8% lower for state and 7.4% lower for local government workers compared to equivalent private sector workers.• Earnings for state and local employees have generally declined compared to equivalent private sector employees over the past two decades.
Source of Data: Federal Bureau of Labor Statistics, “Employer Costs for Employee Compensation”

Center for Economic and Policy Research³
“The Wage Penalty for State and Local Government Workers.”
May 2010

- State and local workers tend to be older and better educated than private sector workers.
- Low-wage public sector workers received about 6% more than their private sector counterparts.
- Middle-wage public sector worker earned about 4% less than their private sector counterparts.
- High-wage workers earned about 11% less than their private sector counterparts.

Source of Data: Census Bureau/BLS, Current Population Survey & Bureau of Labor Statistics, “Employer Costs for Employee Compensation”

Heritage Foundation⁴
“Inflated Federal Pay: How Americans Are Overtaxed to Overpay the Civil Service.”
July 2010

- Federal employees have increased job security irregardless of an economic downtown. Federal employment has increased 12% since the recession began.
- Federal employees earn approximately 30-40% more in total compensation (wages and benefits) than comparable private-sector workers.
- Making federal compensation equitable to private-sector compensation would save approximately \$47 billion in 2011.
- Averages distort compensation across occupations and skill levels. Federal employees in highly skilled occupations receive market wages while semi-skilled federal workers earn significantly more than their private sector counterparts.

Source of Data: Census Bureau/BLS, Current Population Survey

1. The Cato Institute; <http://www.cato.org/pubs/journal/cj30n1/cj30n1-5.pdf>
2. Center for State and Local Government Excellence/National Center for Retirement Security
<http://www.slge.org/vertical/Sites/%7bA260E1DF-5AEE-459D-84C4-876EFE1E4032%7d/uploads/%7b03E820E8-F0F9-472F-98E2-F0AE1166D116%7d.PDF>
3. Center for Economic and Policy Research;
<http://www.cepr.net/index.php/publications/reports/benefits-of-state-local-gov-employees>
<http://www.cepr.net/index.php/publications/reports/wage-penalty-state-local-gov-employees>
4. Heritage Foundation; <http://www.heritage.org/research/reports/2010/07/inflated-federal-pay-how-americans-areovertaxed-to-overpay-the-civil-servic>

Attachments:

Examples of Articles on Public vs. Private Sector Compensation	Circle
O’Leary, John. “Fair Pay for Public Employees: A Question of Efficiency”. <i>Governing</i> . February 2, 2011	1
Reich, Robert. “The Shameful Attack on Public Employees”. <i>Huffington Post</i> . January 5, 2011	3
Tumulty, Karen and Ed O’Keefe. “Public Servants Feel Sting of Budget Rancor.” <i>Washington Post</i> . December 21, 2010.	5
Thompson, Derek. “Pampered Public Employees: Why Government Sees Higher Wages and Benefits.” <i>The Atlantic</i> . September 13, 2010.	10
Cauchon, Dennis. “Federal Pay Ahead of Private Industry.” <i>USA Today</i> . March 8, 2010.	12
Folbre, Nancy. “Are Federal Workers Overpaid?” <i>The New York Times Economix</i> . October 13, 2009	15

Fair Pay for Public Employees: A Question of Efficiency

John O'Leary | February 2, 2011

Finally, something everyone can agree on: Public employees should be compensated fairly. While excessive pay for public employees is unfair to taxpayers, inadequate pay is not only unfair to public workers, it's inefficient. Agreed? Good.

So, what's fair? Ahh. Let the arguments commence.

Right now, a debate is raging over whether public employees are overcompensated.

A *USA Today* article notes that in 2009, federal employees earned \$123,000 per year on average in pay plus benefits, compared to just \$61,000 in the private sector. Even state and local employees averaged \$70,000. At first blush, it sounds like public pay is way out of whack.

Not so, argues former Secretary of Labor Robert Reich. In his article, *The Shameful Attack on Public Employees*, Reich disputes the idea that public employees are overcompensated. According to Reich, "Even if you include health and retirement benefits, government employees still earn less than their private sector counterparts with similar educations." That last phrase covers a lot of territory. Reich contends that 48 percent of federal workers hold college degrees, compared to just 23 percent of their private-sector counterparts, and that on average the degree of difficulty of public work more than justifies any salary differential.

Indeed, the debate over public pay usually centers on averages. But here is the Goldilocks truth: Among any group of public employees, some are underpaid, others overpaid and still others are just paid about right.

Even among cohorts earning off the same pay scale, such as union teachers, janitors or firefighters, inequity prevails. The best employees are paid the same as the worst. How is that fair? Often, union contracts prohibit basing pay on performance. Seniority -- and the byzantine steps and lanes that go with it -- means that governments reward endurance rather than productivity. Does that make sense?

Fair pay is often in the eye of the beholder. Anti-government types will loudly complain about the New Jersey turnpike worker who made \$321,985 or the Boston police lieutenant who made \$271,882. On the other hand, public-sector managers know how hard it is to attract capable lawyers, accountants and IT professionals who are being offered more money in the private sector. Does government overpay or underpay? Yes, it overpays *and* underpays.

Then there is the whole question of pensions. While most of the world has moved to defined-contribution plans, or 401(k)s, the public sector is mostly still immersed in the defined-benefits world, a world where the public-sector employer -- and hence the taxpayer -- bears all the risk. During the recent stock market downturn, the typical taxpayer saw the value of their own retirement account decline. At the same time, they discovered they were on the hook to make up public pension shortfalls -- a double whammy that doesn't seem fair.

The structure of retirement benefits can have a huge impact on organizational effectiveness. Today, most public pensions are based on years of service and age at retirement. As a rule, these systems follow a "hockey stick" curve, meaning the value of retirement benefits increase dramatically over the last few years of service.

This creates a circumstance where employees in their late 40s and 50s can become financially trapped in their jobs. It often becomes economically prohibitive for these public employees to look elsewhere. The result is disgruntled yet immovable workers, frustrated managers and underserved taxpayers.

Some communities have taken steps to alter the playing field. Back in 1998, the city of Orlando, Fla., mandated that all new hires (except public safety employees) would be covered by a defined-contribution plan. Orlando's plan enhances the portability of retirement benefits, which is important in an era when individuals often change jobs multiple times during their career. The Orlando plan isn't ungenerous -- the city contributes between 7 and 10 percent of pay -- but it gives Orlando predictability and insulates it from the shocks of market downturns. Orlando wisely chose to "grandfather" in all existing employees, which avoided some messy politics.

Similarly, Utah closed entrance to its legacy defined-benefit pension system in 2010, offering new hires either a 401(k)-type defined-contribution plan or a hybrid plan. Though unions resisted the change, polls found that Utah voters supported the reform. The state contribution is capped at 10 percent, except for public safety.

Unlike defined-benefit plans, capped contribution systems are harder to game. The political temptation to sweeten retirement benefits for current workers has contributed to the massive underfunding of post-employment pension and health-care benefits -- hence the "trillion dollar gap" currently facing state governments.

Overpaid? Underpaid? Go ahead and knock yourself out with that screaming match.

But while you're at it, tackle this question: With the exact same pot of money we are spending today, couldn't we design a better compensation system? Some questions to consider: How can our compensation approach promote more efficient operations? Should seniority always bring higher pay? How can we attract and retain good employees yet make sure underperformers aren't rewarded?

Designing a compensation system that is both fair and promotes efficiency is a real challenge. Too many people, however, obsess over the size of the compensation package while ignoring the detrimental impact that the structure of both the pay and pension systems can have on operating efficiency.

This article was printed from: <http://www.governing.com/blogs/bfc/fair-pay-public-employees-efficiency.html>

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February 5, 2011

**OIL COMPANIES WE AGREE.
NEED TO GET REAL.**

DO YOU AGREE?



Robert Reich

Fmr. Secretary of Labor; Professor at Berkeley; Author, Aftershock: 'The Next Economy and America's Future'

Posted: January 5, 2011 09:14 PM

The Shameful Attack on Public Employees

In 1968, 1,300 sanitation workers in Memphis went on strike. The Rev. Martin Luther King, Jr. came to support them. That was where he lost his life. Eventually Memphis heard the grievances of its sanitation workers. And in subsequent years millions of public employees across the nation have benefited from the job protections they've earned.

But now the right is going after public employees.

Public servants are convenient scapegoats. Republicans would rather deflect attention from corporate executive pay that continues to rise as corporate profits soar, even as corporations refuse to hire more workers. They don't want stories about Wall Street bonuses, now higher than before taxpayers bailed out the Street. And they'd like to avoid a spotlight on the billions raked in by hedge-fund and private-equity managers whose income is treated as capital gains and subject to only a 15 percent tax, due to a loophole in the tax laws designed specifically for them.

It's far more convenient to go after people who are doing the public's work – sanitation workers, police officers, fire fighters, teachers, social workers, federal employees – to call them "faceless bureaucrats" and portray them as hooligans who are making off with your money and crippling federal and state budgets. The story fits better with the Republican's Big Lie that our problems are due to a government that's too big.

Above all, Republicans don't want to have to justify continued tax cuts for the rich. As quietly as possible, they want to make them permanent.

But the right's argument is shot-through with bad data, twisted evidence, and unsupported assertions.

They say public employees earn far more than private-sector workers. That's untrue when you take account of level of education. Matched by education, public sector workers actually earn less than their private-sector counterparts.

The Republican trick is to compare apples with oranges – the average wage of public employees with the average wage of all private-sector employees. But only 23 percent of private-sector employees have college degrees; 48 percent of government workers do. Teachers, social workers, public lawyers who bring companies to justice, government accountants who try to make sure money is spent as it should be – all need at least four years of college.

Compare apples to apples and you'd see that over the last fifteen years the pay of public sector workers has dropped relative to private-sector employees with the same level of education. Public sector workers now earn 11 percent less than comparable workers in the private sector, and local workers 12 percent less. (Even if you include health and retirement benefits, government employees still earn less than their private-sector counterparts with similar educations.)

Here's another whopper. Republicans say public-sector pensions are crippling the nation. They say politicians have given in to the demands of public unions who want only to fatten their members' retirement benefits without the public noticing. They charge that public-employee pensions obligations are out of control.

Some reforms do need to be made. Loopholes that allow public sector workers to "spike" their final salaries in order to get higher annuities must be closed. And no retired public employee should be allowed to "double dip," collecting more than one public pension.

But these are the exceptions. Most public employees don't have generous pensions. After a career with annual pay averaging less than \$45,000, the typical newly-retired public employee receives a pension of \$19,000 a year. Few would call that overly generous.

And most of that \$19,000 isn't even on taxpayers' shoulders. While they're working, most public employees contribute a portion of their salaries into their pension plans. Taxpayers are directly responsible for only about 14 percent of public retirement benefits. Remember also that many public workers aren't covered by Social Security, so the government isn't contributing 6.25 of their pay into the Social Security fund as private employers would.

Yes, there's cause for concern about unfunded pension liabilities in future years. They're way too big. But it's much the same in the private sector. The main reason for underfunded pensions in both public and private sectors is investment losses that occurred during the Great Recession. Before then, public pension funds had an average of 86 percent of all the assets they needed to pay future benefits – better than many private pension plans.

The solution is no less to slash public pensions than it is to slash private ones. It's for all employers to fully fund their pension plans.

The final Republican canard is that bargaining rights for public employees have caused state deficits to explode. In fact there's no relationship between states whose employees have bargaining rights and states with big deficits. Some states that deny their employees bargaining rights – Nevada, North Carolina, and Arizona, for example, are running giant deficits of over 30 percent of spending. Many that give employees bargaining rights – Massachusetts, New Mexico, and Montana – have small deficits of less than 10 percent.

Public employees should have the right to bargain for better wages and working conditions, just like all employees do. They shouldn't have the right to strike if striking would imperil the public, but they should at least have a voice. They often know more about whether public programs are working, or how to make them work better, than political appointees who hold their offices for only a few years.

Don't get me wrong. When times are tough, public employees should have to make the same sacrifices as everyone else. And they are right now. Pay has been frozen for federal workers, and for many state workers across the country as well.

But isn't it curious that when it comes to sacrifice, Republicans don't include the richest people in America? To the contrary, they insist the rich should sacrifice even less, enjoying even larger tax cuts that expand public-sector deficits. That means fewer public services, and even more pressure on the wages and benefits of public employees.

It's only average workers – both in the public and the private sectors – who are being called upon to sacrifice.

This is what the current Republican attack on public-sector workers is really all about. Their version of class warfare is to pit private-sector workers against public servants. They'd rather set average working people against one another – comparing one group's modest incomes and benefits with another group's modest incomes and benefits – than have Americans see that the top 1 percent is now raking in a bigger share of national income than at any time since 1928, and paying at a lower tax rate. And Republicans would rather you didn't know they want to cut taxes on the rich even more.

Robert Reich is the author of Aftershock: The Next Economy and America's Future, now in bookstores. This post originally appeared at RobertReich.org.

[Public Service Employees]

AFSCME's Tribute to Public Service Employees
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Public Service Recognition Week 2009
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Public Service proposes retirement amendments

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The Washington Post

Public servants feel sting of budget rancor

By Karen Tumulty and Ed O'Keefe
Washington Post Staff Writers
Tuesday, December 21, 2010; 12:43 AM

Here are two words you don't hear much lately: public servant.

More and more, when politicians talk about government employees - whether they are federal, state or local - it is with the kind of umbrage ordinarily aimed at Wall Street financiers and convenience store bandits.

"We can no longer live in a society where the public employees are the haves and the taxpayers who foot the bill are the have-nots," Wisconsin's incoming Republican Gov. Scott Walker declared this month, as he raised the idea of stripping state workers there of collective bargaining rights.

Outgoing Minnesota Gov. Tim Pawlenty, who is mulling a GOP presidential bid, also sounded a class-war note last week on the op-ed page of the Wall Street Journal: "Unionized public employees are making more money, receiving more generous benefits and enjoying greater job security than the working families forced to pay for it with ever-higher taxes, deficits and debt."

That might sound like standard rhetoric from small-government Republicans. But at a time of staggering fiscal problems, Democrats, who have counted public-employee unions among

their most stalwart allies, also are taking a noticeably tougher line.

New York Governor-elect Andrew Cuomo is girding for battle there, warning that state employee salaries and benefits are unsustainable at a time when the state has a \$9 billion deficit.

Relative job security with generous benefits that extend into retirement has long been part of the appeal of working for the government. But an eight-hour day in a drab Independence Avenue office building can look like a supremely privileged lifestyle when Americans in the private sector are panicked and furious over what has happened to their own salaries, health coverage and 401 (k)s.

Add to that the growing view that the

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The Washington Post

Public servants feel sting of budget rancor

government has gotten too big and that deficits are going to swallow the economy, and you have all the makings of a backlash.

Three-quarters of those who were surveyed in an October Washington Post poll said they believe federal workers get better pay and benefits than people doing similar jobs outside the government, and 52 percent said government employees are overpaid.

When the NBC/Wall Street Journal poll this month sampled public opinion on the major proposals that were put forward by the president's deficit and debt reduction commission, the most popular by far - and the only one deemed "totally acceptable" by a majority of respondents - was freezing the salaries of federal employees and members of Congress for three years.

Officials of public employee unions say they have felt political wrath before, but that this time, it feels different.

"The extent and the depth of it is new. This is a concerted, deep attack on public employees and public workers," said Gerald W. McEntee, president of the 1.6-million-member American Federation of State, County and Municipal Employees. "The problem in the economy has not been created by public workers. It was created by Wall Street, and this political sleight of hand will do nothing to solve the problem."

Nor do he and others in labor see it as a coincidence that all of this is happening at a moment when, for the first time in history, a majority of union members work for the government rather than the private sector, where labor membership has plummeted.

"The balancing of the budget gives them an opportunity that they have seized upon to weaken the public-sector unions, because the public-sector unions are the heart and pulse of the American labor movement," McEntee said.

But there remains the question: Are government workers in fact getting a cushier deal than everyone else?

As with so many other things, the answer to that depends on how you dice the numbers - and on who is doing the dicing.

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The Washington Post

Public servants feel sting of budget rancor

Much repeated by Republicans is an August review of Bureau of Economic Analysis data by USA Today. It showed that the average salary and benefits of federal employees had grown faster than that of private employees for nine years running, to the point where federal compensation had reached \$123,049 in 2009 - more than twice the level of the average private-sector worker.

Other research suggests that once you adjust the numbers for the fact that government workers tend to be older, more educated and more experienced, they show that public employees don't do all that well in comparison.

Also complicating the equation is the fact that while government salaries are often lower than those in the private sector, benefits are often better.

The nonpartisan National Institute on Retirement Security found that, on average, total compensation is 6.8 percent less for state employees and 7.4 percent less for local employees than for comparable non-government workers.

Still others, including Andrew Biggs of the conservative American Enterprise Institute, have countered that the real bonanza for public-sector workers comes after they leave government, because of generous and secure retiree health and pension benefits.

This, too, could be changing. In Virginia, one of only four states where government workers make no annual contribution to their retirement fund, Republican Gov. Robert F. McDonnell proposed on Thursday that 87,000 state employees begin chipping in 5 percent. When combined with a 3 percent pay raise that McDonnell will request from the legislature, it would mean their take-home pay would drop by 2 percent.

A resistance movement may be stirring even in liberal Montgomery County, where spending on health and retirement benefits more than doubled over the past decade.

The new council chair, Valerie Ervin, a labor movement veteran, kicked off an epic battle when she put forward a relatively modest proposal that would have reduced the leverage of the unions in contract disputes. Over the next several months, worker salaries

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The Washington Post

Public servants feel sting of budget rancor

The political currency of bashing bureaucrats ended abruptly, however, when terrorist Timothy McVeigh in 1995 detonated a truck bomb in front of the Alfred P. Murrah Federal Building in Oklahoma City. After eulogizing the 168 people who died there, then-President Clinton vowed never to use the pejorative "bureaucrat" again.

As the country engages in yet another argument that pits government workers against the taxpayers they serve, some worry about the message it is sending to future generations of public employees, even as a significant share of the current generation nears retirement.

"Lost in the discussions are the ones we ought to be having, which are about the quality of the workforce," said Rep. Gerald E. Connolly (D-Va.), who counts 56,000 federal employees and at least as many government retirees among his constituents. "Where are we going to get the sophisticated skill set we need for the future, if we're demeaning that service in the first place?"

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Derek Thompson is an associate editor at *The Atlantic*, where he writes about economics, business, and technology. Derek has also written for *BusinessWeek*, *Slate*, and *The Daily Beast*.

Pampered Public Employees: Why Government Sees Higher Wages and Benefits

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Pampered Public Employees: Why Government Sees Higher Wages and Benefits

By Derek Thompson

With the economy stalled, wages stagnate, and government debt setting new records every month, it must make people furious to hear that the government coddles its workers with higher pay and richer benefit promises at the federal, state and local level. Federal employees' average compensation has grown to more than double what private sector workers earn, USA Today reported this week.

But was the story accurate? Does the private sector get a raw deal, or is the gap between public and private employees a myth? To find out I spoke with two experts on public and private compensation, one from the right and one from the left.

Here is an edited transcript of my interview with Andrew Biggs, a scholar with the American Enterprise Institute, who has written about the public/private wage gap for the Wall Street Journal. My interview with Christian Weller, a senior fellow at the Center for American Progress, is here.

Does the public sector get pampered?

When you control for the differences in characteristics like education and age, the federal government has salaries that are 12 percent higher than similar private sector workers.

You're aware that some studies have come the opposite conclusion: that federal workers are underpaid. Why are they wrong?

The government has produced numbers where they claim that federal workers are underpaid by 22 percent. We say they're overpaid by 12 percent. The difference is in the methodology. We looked at the same person -- based on age, education, all those things -- and put him in the federal government or the private sector. The government looked at the same job in the federal government vs. private sector.

They looked at jobs. You looked at people. Why does the distinction matter?

Because government promotes faster, and at a younger age, than the private sector. The federal government is saying "our senior accounts earn less than a senior accountant in the private sector." But somebody who might be a junior accountant in the private would be senior in federal government. For many people, getting more responsibility at a younger age is a reason to go to the government.

The issue of public sector compensation has become increasingly salient, especially the question of whether state pensions are too generous. What's your take?

It's true that many state pensions are disproportionately high. But it's not as simple as it seems. If you look at what employers pay toward employee benefits -- including health and pensions and vacations -- it looks the same. But the benefits are not the same. In the private sector, you get defined contributions. In the public sector, you get defined benefits.

Let me explain that. So let's say a public and private sector employer puts \$5,000 toward pensions for each employee. In the private sector that goes into 401(k) and an individual can either get a low risk/low benefits return by investing in government bonds, or higher expected return with a larger risk. In the public sector, the government promises high return and takes all risk. So a public sector worker with same amount of money going into pensions, and higher benefits, but less risk. That's how a public sector employee can get benefits twice as high for each dollar of contribution as a private sector worker.

Some government employees don't participate in Social Security. How does that change the benefits picture?

Right, I've heard some folks on the left say, "OK but these public employees don't get Social Security." But see, that's irrelevant because they're neither paying nor receiving benefits. If you follow Social Security, you know it pays a low rate of return. A typical person pays more in taxes than they get back in benefits. For them not to participate in Social Security is actually a benefit, because they're keeping more.

Let's assume that there is a public/private pay gap. So what? Money attracts talent and we want a talented federal work force. For example, we can't expect the SEC to have good bank regulators if they offer pittance.

You're raising an important point. The pay gap difference between federal and private jobs is not uniform. In general, the pay premium is very large for low skilled workers, and small or negative for highly skilled workers, like your SEC regulators. But most people don't have MDs or PhDs. Up through a Masters, you'll find on average that people make more in the federal government, especially at the low end with folks like paper clerks.

But you'd acknowledge that sometimes it makes sense for the government to pay super-competitively?

I don't have any issue with paying people what they're worth. You want to get qualified people. You gotta pay competitively, but we're paying more than competitively.

What would you say is the total cost of overpaying federal workers? What would competitive paying save us?

I'd say \$40 billion in overpayment a year. Four hundred billion over ten years. That's a lot of money. It won't fix Social Security with that, but it's a lot of money.

My big point is that you can't have a protected sector of people who are getting better pay and benefits, who are unfireable. Private sector workers are five times more likely to get laid off. Is that good? Does that level of job security breed the best performance for the tax payer dollar? I haven't seen compelling reasons why you need such different sets of rules in the private vs. public sector.

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Federal pay ahead of private industry

"Federal pay ahead of private industry"; Federal employees earn higher average salaries than private-sector workers in more than eight out of 10 occupations, a USA TODAY analysis of federal data finds. Accountants, nurses, chemists, surveyors, cooks, clerks and janitors are among the wide range of jobs that get paid more on average in the federal government than in the private sector.

By Dennis Cauchon, USA TODAY

Federal employees earn higher average salaries than private-sector workers in more than eight out of 10 occupations, a USA TODAY analysis of federal data finds.

Accountants, nurses, chemists, surveyors, cooks, clerks and janitors are among the wide range of jobs that get paid more on average in the federal government than in the private sector.

Overall, federal workers earned an average salary of \$67,691 in 2008 for occupations that exist both in government and the private sector, according to Bureau of Labor Statistics data. The average pay for the same mix of jobs in the private sector was \$60,046 in 2008, the most recent data available.

These salary figures do not include the value of health, pension and other benefits, which averaged \$40,785 per federal employee in 2008 vs. \$9,882 per private worker, according to the Bureau of Economic Analysis.

Federal pay has become a hot political issue in recent months because of concerns over the federal budget deficit and recession-battered wages in the private sector.

Sen. Scott Brown, R-Mass., made federal pay an issue in his successful campaign to fill Edward Kennedy's seat and is fighting for a pay freeze.

The federal government spent about \$224 billion in 2008 on compensation for about 2 million civilian employees.

"The data flip the conventional wisdom on its head," says Cato Institute budget analyst Chris Edwards, a critic of federal pay policy. "Federal workers make substantially more than private workers, not less, in addition to having a large advantage in benefits."

But National Treasury Employees Union President Colleen Kelley says the comparison is faulty because it "compares apples and oranges." Federal accountants, for example, perform work that has more complexity and requires more skill than accounting work in the private sector, she says.

"When you look at the actual duties, you see that very few federal jobs align with those in the private sector," she says. She says federal employees are paid an average of 26% less than non-federal workers doing comparable work.

Office of Personnel Management spokeswoman Sedelta Verble, says higher pay also reflects the longevity and older age of federal workers.

USA TODAY used Bureau of Labor Statistics data to compare salaries in every federal job that had a private-sector equivalent. For example, the federal government's 57,000 registered nurses — working for the Veterans Administration and elsewhere — were paid an average of \$74,460 a year, \$10,680 more than the average for private-sector nurses.

The BLS reports that 216 occupations covering 1.1 million federal workers exist in both the federal government and the private sector. An additional 124 federal occupations covering 750,000 employees — air-traffic controllers, tax collectors and others — did not have direct equivalents, according to the BLS.

Federal jobs have more limited salary ranges than private-sector jobs, some of which have million-dollar payouts.

Key findings:

- **Federal.** The federal pay premium cut across all job categories — white-collar, blue-collar, management, professional, technical and low-skill. In all, 180 jobs paid better average salaries in the federal government; 36 paid better in the private sector.
- **Private.** The private sector paid more on average in a select group of high-skill occupations, including lawyers, veterinarians and airline pilots. The government's 5,200 computer research scientists made an average of \$95,190, about \$10,000 less than the average in the corporate world.
- **State and local.** State government employees had an average salary of \$47,231 in 2008, about 5% less than comparable jobs in the private sector. City and county workers earned an average of \$43,589, about 2% more than private workers in similar jobs. State and local workers have higher total compensation than private workers when the value of benefits is included.

Job comparison

Average federal salaries exceed average private-sector pay in 83% of comparable occupations. A sampling of average annual salaries in 2008, the most recent data:

Job Federal Private Difference

Job	Federal	Private	Difference
Airline pilot, copilot, flight engineer	\$93,690	\$120,012	-\$26,322
Broadcast technician	\$90,310	\$49,265	\$41,045
Budget analyst	\$73,140	\$65,532	\$7,608
Chemist	\$98,060	\$72,120	\$25,940
Civil engineer	\$85,970	\$76,184	\$9,786
Clergy	\$70,460	\$39,247	\$31,213
Computer, information systems manager	\$122,020	\$115,705	\$6,315
Computer support specialist	\$45,830	\$54,875	-\$9,045
Cook	\$38,400	\$23,279	\$15,121
Crane, tower operator	\$54,900	\$44,044	\$10,856
Dental assistant	\$36,170	\$32,069	\$4,101

Job	Federal	Private	Difference
Economist	\$101,020	\$91,065	\$9,955
Editors	\$42,210	54,803	-\$12,593
Electrical engineer	\$86,400	\$84,653	\$1,747
Financial analysts	\$87,400	\$81,232	\$6,168
Graphic designer	\$70,820	\$46,565	\$24,255
Highway maintenance worker	\$42,720	\$31,376	\$11,344
Janitor	\$30,110	\$24,188	\$5,922
Landscape architects	\$80,830	\$58,380	\$22,450
Laundry, dry-cleaning worker	\$33,100	\$19,945	\$13,155
Lawyer	\$123,660	\$126,763	-\$3,103
Librarian	\$76,110	\$63,284	\$12,826
Locomotive engineer	\$48,440	\$63,125	-\$14,685
Machinist	\$51,530	\$44,315	\$7,215
Mechanical engineer	\$88,690	\$77,554	\$11,136
Office clerk	\$34,260	\$29,863	\$4,397
Optometrist	\$61,530	\$106,665	-\$45,135
Paralegals	\$60,340	\$48,890	\$11,450
Pest control worker	\$48,670	\$33,675	\$14,995
Physicians, surgeons	\$176,050	\$177,102	-\$1,052
Physician assistant	\$77,770	\$87,783	-\$10,013
Procurement clerk	\$40,640	\$34,082	\$6,558
Public relations manager	\$132,410	\$88,241	\$44,169
Recreation worker	\$43,630	\$21,671	\$21,959
Registered nurse	\$74,460	\$63,780	\$10,680
Respiratory therapist	\$46,740	\$50,443	-\$3,703
Secretary	\$44,500	\$33,829	\$10,671
Sheet metal worker	\$49,700	\$43,725	\$5,975
Statistician	\$88,520	\$78,065	\$10,455
Surveyor	\$78,710	\$67,336	\$11,374

Source: Bureau of Labor Statistics, USA TODAY analysis

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The New York Times

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Explaining the Science of Everyday Life

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Are Federal Workers Overpaid?

By NANCY FOLBRE

Author's calculations from the 2009 March Current Population Survey.

Nancy Folbre is an economics professor at the University of Massachusetts, Amherst.

It's bad enough that the average federal worker is paid more than the average private-sector worker, especially taking into account the value of benefits like health insurance and pensions. But what's really shocking is that the gulf between the total compensation (wages plus benefits) enjoyed by federal workers and private-sector workers has increased since 1990.

So argues Chris Edwards, the tax director at the Cato Institute, a libertarian research organization.

Similar arguments were featured in a full-page ad sponsored by The Free Enterprise Nation in The Wall Street Journal on Sept. 22.

They were dramatized by Ilana Mercer in World Net Daily in a feature entitled "Life in the Oink Sector" and echoed by the conservative columnist Jeff Jacoby in The Boston Globe.

None of the sources provided any details about the characteristics of federal workers or their jobs. But such details (easily extracted from the regular Current Population Survey) explain why federal workers are paid more and why their average compensation has risen higher. They also show that federal employment creates proportionately far more middle-class jobs than the private sector.

In 2008, only 14 percent of federal workers were on part-time schedules, compared to 26 percent in the private sector. Federal workers were far older on average: 55 percent were between the ages of 45 and 64, compared to 36 percent of private-sector workers. Furthermore, 45 percent of federal workers held a college degree or higher educational credential, compared to 29 percent of private-sector workers.

Federal workers are more likely to receive employer-paid health benefits than private sector workers — 77 percent compared to 56 percent. This is one reason our highest-paid federal employee, the president of the United States, is fighting for universal health insurance coverage.

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Federal workers are also more likely than private sector workers to garner pension benefits (81 percent compared to 53 percent). Keep in mind, however, that for some federal employees, pension benefits come in lieu of Social Security payments.

Both health insurance and pension benefits are more expensive for older than for younger workers, and health insurance costs, in particular, have escalated rapidly since 1990. Also, age and educational attainment differences have widened considerably since 1991, when 20 percent of private sector and 31 percent of federal workers had a college degree or higher.

The biggest difference between private and federal employment, illustrated in the graph above, lies in the proportion of jobs paying less than \$25,000 a year. In 2008 more than 43 percent of private-sector workers earned less than \$25,000 a year. Most federal employees fell squarely in the middle earnings brackets, making \$25,000 to \$75,000 a year.

A larger share of federal than private-sector workers earned \$75,000 to \$150,000 a year. Beyond that level, private employees were overrepresented. The percentage earning more than \$250,000 in 2008 (not shown in the graph above) was twice as high as the percentage of federal employees (1 percent compared to 0.5 percent).

In order to protect the confidentiality of its respondents, the Current Population Survey assigns all extremely high levels of earnings the same value or "topcode." As a result, it's impossible to accurately compare all private sector and federal workers in the long right-hand tail of the earnings distribution

But not all earnings are confidential. We, know, for instance, that the president of the United States earned \$400,000 in 2008. He also enjoyed a \$50,000 annual expense account and rent-free accommodations for himself and his family at the White House.

By comparison, the compensation of the chief executive officers of the 500 biggest companies of the United States in 2008 came out to an average of \$11.4 million each.

Consistent with the overall picture described above, statistical analysis of the impact of individual education and experience on earnings in the United States by the Harvard economist George Borjas showed that federal employees are paid considerably less than comparable private workers at the top end.

As the conservative columnist Ross Douthat points out, earnings inequality is generally lower in public-sector employment, and countries with a larger public sector therefore experience less overall income inequality.

Some oinking can definitely be heard out there in the labor market, but anyone willing to follow the numbers can tell that the biggest piggies are not those employed by the federal government.

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