

### **Public Sector Pay Study Completely Misses the Mark**

A study just released jointly by the Keystone Research Center and the Economic Policy Institute (*Public Versus Private Employee Costs in Pennsylvania: Comparing Apples to Apples*) comparing Pennsylvania's public employee pay to private sector job pay is a prime example of analytical speciousness and ideological bias.

Quoting the report's key finding: "*When compared on an annual basis, full time state and local public employees in Pennsylvania earn 5.4 percent less than private sector workers—a statistically significant difference.*" The report also asserts that college educated government workers earn 21 percent less than private sector employees. The implicit assumption of the report is that all high school grads, those with bachelor's degrees, master's degrees, etc., with similar years of experience should earn the same compensation as all other workers having the same level of education. Thus, from that fallacious assumption the author is able to reach the conclusion that, because college educated public sector employees make less than private sector college grads on average, it follows that government workers are underpaid relative to the private employees.

This conclusion, based as it is on inappropriate—and misleading—broad averages rather than comparisons of specific jobs and skill level requirements, is useless as far as understanding the true relative pay scales between the public and private sectors. Bear in mind that many of the highest paid private sector jobs are not performed to any great extent in the public sector so lumping all employees' earnings together creates a distorted view that helps support the specious claims made in the report. Unfortunately for the author of the study, in contradiction to the implied promise in the title, the study does everything but compare apples to apples by using a methodology that does the exact opposite.

The report claims to depart from most other comparative studies of compensation by controlling for factors such as education, which, if left unaccounted for explains why public sector workers make more than private sector workers. But as we shall show, the study's effort to "control" for education in pay levels between public and private workers demonstrates a serious lack of analytical acumen.

The study also purports to control for demographic variables including age, gender, race, experience, ethnicity, citizenship and disability. However, the report does not show or explain how that analysis was carried out. Finally, the study attempts to take into account organization size, noting that large private enterprises typically pay more as well as offer more generous

benefits. But again there is no explanation of how or by how much this factor affects the comparison of public versus private worker compensation.

Before returning to an in-depth discussion of the fallacies involved with the “control” for education, a couple of claims made by the report’s “fact sheet” cry out for comment. First, *“With regard to consistency with American values and from a productivity point of view, public sector compensation is a model for the private sector, not the reverse.”*

This is incredibly telling about the researcher’s ideological bias. When did the pay of people working for the government become the model for pay in the private sector? Who pays the taxes to support whom? And if government chooses to overpay for the work product of its employees, does that mean private, profit seeking enterprises must do the same? In such a world, profits will be much lower; investment and hiring by employers will go down and real wages depressed.

Moreover, virtually the entire product of the government sector is some form of service. Services for which supply and demand are politically determined as opposed to market driven. Thus the value of the services being “produced” cannot be determined in any meaningful economic sense unless they are provided on a fee for service basis. And there are few of those.

Continuing the fact sheet quotes: *“Since overall pay plus benefits in the Pennsylvania public sector is comparable or slightly lower than in the private sector, state and local governments can’t cut spending significantly by slashing public sector pay and benefits... College-educated workers—the bulk of the public payroll—are already substantially undercompensated; therefore any cuts in benefits would need to be combined with offsetting salary increases that make it possible to retain and attract high-quality workers.”*

How preposterous. The writer is saying that government cannot ask employees to take pay cuts, especially the college educated, because they would leave and would not be replaceable at the lower compensation level. In an environment with high unemployment across the country, the most likely result would be that many qualified applicants would show up for each and every government job opening created by a resignation due to unwillingness to accept any compensation reduction. Such illogical thinking is one of the prime reasons government gets so bloated and expensive. And it points directly to the real purpose of the report, i.e., to assist government workers in their efforts to answer requests by officials to take voluntary wage and benefit cuts and to fight any mandated cuts.

Now to the meat of the report’s methodology. The report claims that by looking at the education, work experience, gender, race, etc. of public workers compared to private workers a better comparison of pay in the two sectors can be obtained. Obviously education and experience can exert some influence on pay, but in the real world pay has to be tied to productivity and profitability of enterprises and the contribution of each worker to that productivity. The job specific skills brought by each worker are far more relevant than the number of years of education or degree held by the employee.

More importantly, the study makes the inexcusable mistake of not distinguishing between the types (academic fields) of bachelor’s degrees, master’s degrees, professional degrees and doctorates in evaluating education’s contribution to employee compensation. The report makes a central point of the fact that 53 percent of Pennsylvania government employees have a bachelor’s degree or higher while only 32 percent of private sector employees have a bachelor’s degree or higher. The implication is that public sector workers on average ought to make more than the

private sector. But as the study's data show, that is not the case. Master's degree holders who work for the state and local governments actually are paid substantially less (about 30 percent) than employees of private companies.

And since the greatest difference in private and public sector employment shares by education levels is for master's degree holders (21 percent of government workers, 7 percent private), the study's research methodology leads to the unavoidable but terribly misleading conclusion that private sector workers earn more than public sector workers with no reference to jobs actually performed. For that conclusion to be accurate or meaningful several things have to be true. First, the degree field and quality mix must be the same in the private and public sector. Second, the jobs must be very similar between the private and public sectors. Third, the job skills requirements must be the same and the workers must be comparably motivated and fourth, value of product per worker should be similar. There is almost zero probability these conditions are being met.

As noted earlier, the major difference in the percentages of the college educated category by sector is in the master's degree group where 21 percent of government workers hold the degree while only 7 percent of employees on private payrolls hold a master's degree. This gap is undoubtedly caused by the large numbers of teachers and other education employees on the public payrolls. Of the roughly 590,000 state and local government employees, 245,000 are in education where master's degrees are very common.

As mentioned, there is no discussion of the differences in academic disciplines of the degrees awarded to government and private sector employees. Degrees in petroleum engineering typically earn more than degrees in history or sociology. Therefore, simply using numbers of employees with bachelor's and master's degrees and implicitly arguing they should be paid the same as all other bachelor's and master's degrees is about as far from rigorous analysis as one can get.

In short, the entire approach used by the study is fatally flawed. Using education and demographic variables as the criteria to evaluate relative compensation of government and private employees entirely misses the point. The correct methodology is to look at specific jobs performed in both the public and private sector to see how much the employees in each sector are paid. For example, look at the pay of public transit drivers compared to intercity bus drivers. Transit drivers in Pittsburgh win hands down. Or look at compensation of teachers in public schools compared to teacher pay in private or parochial schools. The gap in favor of public teachers is enormous. And that is how to gauge relative pay scales correctly. Too bad the EPI chose to waste so much time and effort with their latest study.

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**Jake Haulk, Ph.D., President**

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| <p>Allegheny Institute for Public Policy<br/>305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234<br/>Phone (412) 440-0079 * Fax (412) 440-0085<br/>E-mail: <a href="mailto:aipp@alleghenyinstitute.org">aipp@alleghenyinstitute.org</a></p> |
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