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Misuse of Wage Data Results in Wrong Policy Prescription

A recent newspaper account asserted that Pittsburgh worker pay is low compared to other metro areas around the country. The news account cited data provided by PittsburghToday which in turn was referencing data from the U.S. Department of Labor's Occupational Employment Statistics program. PittsburghToday assembled the average wages for eighteen occupations in 14 other metropolitan areas (MSAs). The comparison did not paint a pretty picture for area workers by giving the impression they were being underpaid in most occupation categories.

Unfortunately for the region, the release of the metro wage comparisons with no explanation or analysis is not only misleading, it does the region a great disservice.

First and foremost, the occupational wage rankings mean little if the wages are not adjusted for cost of living differences between Pittsburgh and other metro areas.

Second, while wage rates do have an appreciable impact on per capita personal income, a region's economic well being is more accurately reflected in its per capita personal income. Per capita personal incomes in 2006 for the fifteen MSAs in the PittsburghToday sample, Baltimore, Boston, Charlotte, Cincinnati, Cleveland, Denver, Detroit, Indianapolis, Kansas City, Milwaukee, Minneapolis, Philadelphia, Richmond, and St. Louis shows Pittsburgh ranking 6th with per capita personal income of $43,333. Adjusting for cost of living moves Pittsburgh up to the 4th highest.

PittsburghToday compared the average wages of eighteen occupations and ranked the metro area wages in each occupation from one to fifteen. The average Pittsburgh ranking of all the occupations was 10.5, with roughly 70 percent of Pittsburgh's occupational wages (13 of 18 categories) ranking in the bottom five. Only two occupations finished in the top five and none ranked as the highest.

But these wages were not adjusted for cost of living which tends to be higher in cities like Baltimore, Boston, or Philadelphia. For example, a police officer working in Baltimore and earning an average wage of $52,590 would need only $42,062 to enjoy the same standard of living in Pittsburgh. In Boston, a police officer may make $53,320 on average, but would need only $37,545 for an equivalent life style in Pittsburgh. According to the Department of Labor, police and sheriff's patrol officers in the Pittsburgh MSA earn on average $50,100 which, adjusted for cost of living, is a much better wage than their counterparts in Boston, Baltimore, and Philadelphia earn. In fact, adjusting for cost of living for all metros areas raises Pittsburgh police wages from a ranking of 10th in the PittsburghToday comparison to 6th.

This story is repeated as the other occupations are similarly adjusted. Instead of having thirteen occupations in the bottom five, the adjusted rankings show only three remaining in that category,

with six occupations now ranking in the top five. In short, when wages are adjusted for the cost of living, the Pittsburgh MSA has a very respectable showing in most occupations compared to the other 14 MSAs.

Beyond the problems resulting from a failure to correct for cost of living differences, the selection of just 18 occupations out of the 800 the Department of Labor collects wage data for could create misleading conclusions. Why not include university professors, research scientists, marketing professionals, auto mechanics, bartenders, or a host of other categories?

Obviously, a very high ranking or a very a low ranking in any given occupation's wages will reflect a set of particular localized demand and supply factors within a specific metro area. The point is that as industry mix and overall economic fortunes change over time, there will be variations in relative occupation specific wages. The market will cause wages to be where they should be in each metro area.

If we want to know why wages differ from city to city among various occupations, it will be necessary to do detailed analysis of the demand and supply factors for each occupation in each city. Choosing a handful of occupations and using non-adjusted data tells us very little about the labor markets in the metro areas chosen for comparison.

Furthermore, if policy makers want to see higher wages as an inducement to get young people to stay, two things have to happen. First, demand for labor, which in turn depends on the demand for the goods and services being produced, must rise relative to supply of labor. In other words, existing firms need to grow, more firms need to be created and/or move into the region. And that to a large extent will be driven by the tax, regulatory and labor climate. Therefore, it would behoove policy makers to focus on improving the business environment.

Another more subtle reason for young people leaving is the relative lack of career opportunities. A starting job is one thing, but if a region does not provide opportunities to further one's career by having plentiful job openings at higher rungs on the career ladder, new graduates are likely to look elsewhere for those opportunities. Typically they opt for very large or fast growing cities.

The best way to provide upward mobility for the young and therefore attract them to—or keep them in—the region is to have a robust, dynamically growing regional economy. Which brings us back to business climate: create a lower and more favorable business tax structure, reduce regulatory burdens, adopt real reforms to reduce lawsuit abuse, and pass a right to work law.

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