Out of Balance? Comparing Public and Private Sector Compensation over 20 Years

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Executive Summary

The current recession and the resulting fiscal difficulties faced by state and local governments have renewed interest in the compensation of the public workforce in regard to pay, pensions, and other benefits. In this report we examine the extent to which state and local government compensation in the United States is comparable to compensation in the private sector.

Levels of compensation help determine both the competence and the efficiency of governmental services. Excessive levels waste resources, depriving governments of the opportunity to address other costly objectives or to reduce burdens to taxpayers. Insufficient levels make it difficult, if not impossible, to attract workers of the quality needed to provide the services demanded by citizens. Comparability with the private sector is the most generally accepted standard by which economists and compensation specialists judge whether the processes for determining compensation in the public sector are working.

In this report we use publicly available data from the U.S. Bureau of Labor Statistics, along with an established methodology used by researchers since the 1970s, to compare worker earnings across and between private, state, and local sectors. We analyze differences in pay between each sector as reported for the last several decades, up to and including the latest estimates. We also estimate the variation of these trends across some of the largest states.

Next, to compare overall compensation across public and private sectors, we describe benefit levels and composition in public and private sectors. The earnings–comparability estimates are adjusted to include benefits.

The analysis finds that:

- Public and private workforces differ in important ways. For instance, jobs in the public sector require much more education on average than those in the private sector. Employees in state and local sectors are twice as likely as their private sector counterparts to have a college or advanced degree.
- 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 percent less; local workers earn 12 percent less.
- Over the last 20 years, the earnings for state and local employees have generally declined relative to comparable private sector employees.
- The pattern of declining relative compensation remains true in most of the large states we examined, although some state-level variation exists.
- Benefits (e.g., pensions) comprise a greater share of employee compensation in the public sector.
- State and local employees have lower total compensation than their private sector counterparts. On average, total compensation is 6.8 percent lower for state employees and 7.4 percent lower for local workers, compared with comparable private sector employees.

This recession calls for equal sacrifice, but long-term patterns indicate that the average compensation of state and local employees is not excessive. Indeed, if the goal is to compensate public and private workforces in a comparable manner, then the data do not call for reductions in average state and local wages and benefits.