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Public Sector Compensation

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Public sector employees are better compensated than their private sector counterparts, according to the United States Bureau of Labor Statistics (BLS). Traditionally, public sector employees have foregone higher wages for increases in pension and retirement benefits. However, in recent years they have enjoyed the best of both worlds. Data shows that for positions existing in both the private and public sectors, federal employees earned an average of \$67,691 in 2008, compared to just \$60,046 in the private sector.[\[1\]](#) These salary figures do not include the value of total benefits, such as health care and pensions, where the public sector holds a substantial advantage. Additionally, there is a certainty in public sector benefits that is absent from the private sector. The Bureau of Economics calculated that health, pension, and other benefits were worth, on average, \$40,785 per federal employee in 2008, compared to just \$9,882 per private worker. [\[2\]](#)

Salaries are more comparable at the state and local level than the federal level, but benefits still push the public sector far past the private sector in total compensation. In 2008, state government employees averaged approximately five percent less in salary than comparable private sector positions, while city and county employees earned about two percent more than comparable private sector workers, according to the U.S. Bureau of Economic Analysis. [\[3\]](#) Benefits for state and local employees were worth an average of \$15,761 per employee - 37 percent higher than private sector benefits.

However, these figures are misleading. State and local employees work significantly fewer hours than their private sector counterparts. A more accurate comparison would be to look at compensation on an hourly basis. The BLS reported that private sector workers averaged 12 percent more hours than the average public sector workers.[\[4\]](#) In calculating the total compensation per hour worked, the report showed that private sector employees earned an average of \$28.13 per hour in June 2011. State and local government employees received an average of \$40.40 per hour worked in June 2011 - a difference of 30 percent.[\[5\]](#)

Furthermore, a nonmonetary value can also be applied to the public sector: job security. In general, individuals value limiting risk more than the potential of higher returns. The American Enterprise Institute states that private employees are 14 percent more likely to be laid off in a given year than federal employees.[\[6\]](#) Assigning a

monetary value is difficult due to the subjective nature of risk aversion on an individual basis; nevertheless, job security is a desired characteristic of employees and adds substantial value to an already generous compensation package.

Public sector unions make it extremely difficult to reduce government employment levels for any reason. They protect poorly performing individuals and campaign for larger staffing requirements and increased compensation. Over seven million workers in the private sector have lost their jobs as a result of the recession. From 2008 when the recession began through 2009, the private sector shrunk by 6.9 percent, while state and local governments expanded employment over the same period by adding 110,000 jobs.[\[7\]](#) Public sector unions combine support for increased staffing, compensation and benefits with vigorous opposition to more accountability. This rigidity reduces the quality of public services and limits innovation.[\[8\]](#) The status quo is protected to the benefit of the union members and at the expense of efficiency. Addressing the impact of public sector unions, Richard Epstein, a law professor at New York University, stated:

To avoid strikes, compliant public officials grant unions guaranteed wage and pension contracts that shift all the risk of the economic downturn onto public treasury. Bad times have led to a collapse in the stock market and a decline in tax revenues. So what if private citizens are taken to the cleaners? Who cares if discretionary public services are cut? The union ship continues to ride, untroubled, high on the roiling seas.[\[9\]](#)

The common defense of public sector compensation is that public employees are better educated and more experienced than the average private sector employee, and therefore deserve to be better compensated. They may in fact be, on average, better educated and more experienced, but that is not an economically sound justification for their elevated pay. Higher education may not be necessary to adequately complete the duties of the position, yet because the size and cost of government labor is driven primarily by the political process and not economic realities; the chances of hiring an overqualified individual are greater in the public sector.[\[10\]](#)

Finally, a strong indication of the generous compensation awarded to public employees can be observed in voluntary quit-job rates. A low quit-job rate is an indication of generous compensation and the lack of better opportunities elsewhere for the employees. A paper written by the Cato Institute's Chris Edwards revealed that the quit rate is substantially lower in the public sector than in the private sector. During an eight year period in the last decade, the public sector experienced a quit rate one third of the private sectors' rate.[\[11\]](#)

Public sector employees-with the help of powerful unions -have extracted generous compensation packages from the public purse. The true value of public employment is realized when adding the nonmonetary value of job security to an already more than adequate monetary value of salary and benefits. A more socially optimal allocation of government funds could be obtained by reducing public compensation to a more appropriate level and redirecting the resources to infrastructure, education, and

economic development.

[1] Golden, Melissa, and Getty Images. "Federal pay ahead of private industry - USATODAY.com." News, Travel, Weather, Entertainment, Sports, Technology, U.S. & World - USATODAY.com. http://www.usatoday.com/news/nation/2010-03-04-federal-pay_N.htm (accessed September 13, 2011).

[2] Ibid

[3] Ibid

[4] Edwards , Chris. "Public Sector Unions and the Rising Costs of Employee Compensation." Cato Journal. www.cato.org/pubs/journal/cj30n1/cj30n1-5.pdf (accessed September 13, 2011).

[5] "Employer Costs for Employee Compensation - June 2011." News Release. www.bls.gov/news.release/pdf/ecec.pdf (accessed September 13, 2011).

[6] Biggs, Andrew . "Valuing Job Security as a Public Employee Benefit - Public Sector Inc. Articles." Public Sector Inc.. http://www.publicsectorinc.com/psi_articles/2011/01/valuing-job-security-as-a-public-employee-benefit.html (accessed September 14, 2011).

[7] Sherk, James . "Fiscal Impacts of Public-Sector Unions." *Sweeping the Shop Floor*. Olympia, WA: Evergreen Freedom Foundation, 2011. 28-33; Michael Cooper, "Government Jobs Have Grown Since Recession," in *New York Times*, August 19, 2009.

[8] "Public-sector workers: (Government) workers of the world unite! | The Economist." The Economist - World News, Politics, Economics, Business & Finance. <http://www.economist.com/node/17849199> (accessed September 14, 2011).

[9] Epstein , Richard . "A Three-Point Plan For Reforming Public Employment - Forbes.com." Information for the World's Business Leaders - Forbes.com. <http://www.forbes.com/2010/08/16/employment-union-pensions-bailouts-opinions-columnists-richard-a-epstein.html> (accessed September 14, 2011).

[10] Summers, Adam . "Reason Foundation - Comparing Private Sector and Government Worker Salaries." Reason Foundation. <http://reason.org/news/show/public-sector-private-sector-salary> (accessed September 14, 2011).

[11] Ibid



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