

Are Government Workers Overpaid?

The Great Recession inflicted severe damage on state fiscal situations. Since the federal government will not likely ride to the rescue this time, governors and legislatures struggle to balance state budgets. One group targeted for budget saving is state workers. Conventional wisdom identifies state workers as overpaid. The recent spate of articles in the local press drives home that preconception.

Are government workers overpaid? To answer this question properly, we need to determine why wages and salaries differ between individuals. Differences in experience and education, for example, give rise to wage differentials. The standard approach, which the recent press articles use to document that government workers are overpaid, compares average salaries earned by private and public sector employees, possibly by occupation category, without correcting for education, experience, or other factors that labor economists identify as important determinants of wage and salary differentials. That data clearly show that public sector workers earn more than private sector workers. What explains the difference? The short answer is differences in education and experience. Public sector workers on average possess more experience and education.

The Bureau of Labor Statistics collects employment information from two separate surveys – the household (Current Population Survey, CPS) and establishments (Current Employment Statistics, CES) surveys. Typically, comparisons of wages and salaries use the CES. This data source, however, does not include demographic information on education, experience, and so on.

We use a national sample from the CPS that does include demographic information. The sample includes well over 3 million observations from 1989 to the present. We analyze the data under a couple of scenarios – determine wage and salary differences between private and public workers with and without controlling for education, experience, and other factors.

We find that without the additional control variables, federal government workers earn 54.9-percent higher wages than the private sector workers, state government workers earn 18.5-percent higher wages, and local government workers earn 26.2-percent higher wages. This confirms the conventional wisdom expressed in the press.

When we control for education, experience, hours worked, the cost of living, the unemployment rate, and so on, federal government workers earn 20.4-percent higher wages than private sector workers, state government workers earn 3.6-percent lower wages, and local government workers earn 2.3 percent lower wages. So at the national level over our sample

period, state and local public sector workers earn lower wages after adjusting for education, experience, and other factors.

But, how do Nevada workers differ from the nation as a whole? We redid the analysis using the entire national data set, but controlling for Nevada residents. Now, without additional control variables, Nevada private sector wages exceeded private sector wages in the rest of the country by 9.3 percent. Nevada federal government workers earn 39.4-percent higher wages than Nevada private sector wages, state government workers earn 30.3-percent higher wages, and local government workers earn 35.7-percent higher wages. In short, Nevada federal workers do worse and Nevada state and local works do better than government workers in the rest of the country.

Now, when we control for education, experience, and the other factors, Nevada private sector wages exceeded private sector wages in the rest of the country by 5.4 percent, reducing the premium somewhat. In addition, Nevada federal government workers earn 11.3-percent higher wages than Nevada private sector workers, Nevada state government workers earn 1.3-percent higher wages, and Nevada local government workers earn 0.9-percent higher wages.

In the second analysis above, private sector workers in the nation formed the base group. We ran a third analysis for only Nevada workers – private and public. Without additional control variables, we exactly replicate the percentages from the last analysis – federal, state, and local government workers earn 39.4- 30.3-, and 35.7-percent higher wages than the private sector, respectively. This exact replication occurs because we do not control for any other possible explanatory variables.

Now, when we control for education, experience, and the other factors, Nevada federal government workers earn 15.7-percent higher wages than Nevada private sector workers, Nevada state government workers earn 6.2-percent higher wages, and Nevada local government workers earn 5.9-percent higher wages.

When we consider the subsample of Nevada residents, we find that the federal, state, and local government workers all earn around 5-percent higher wages than Nevada private sector workers than when we used the entire national sample and compared Nevada to the nation. Why is this? Answer: The rest of the country, on average, places a slightly higher premium on education and experience than we do in Nevada.

Examining the findings for the demographic factors, more education uniformly increased wages and salaries. That is, the number of years of schooling, receiving a high school diploma, graduating from college, and receiving graduate degrees all boosted wages.

Experience also increased wages, except for those over 65 where wages fell. Women earned just over 20-percent lower wages than men do.

A recent study by Thompson and Schmidt (*The Wage Penalty for State and Local Government Employees in New England*) find results similar to ours for workers in New England. They state, "The average state and local government worker does earn higher wages – but this is because they are, on average, older and substantially better educated than private-sector workers."

Further, Thompson and Schmidt also examine compensation, which includes benefits, not included in our analysis. They conclude that state and local benefits are modestly better than large private-sector firms, the relevant comparison. Nonetheless, state and local workers still experience a small penalty in total compensation compared to private sector counterparts.

In sum, we find in our national analysis that the higher wages earned by state and local government workers are more than completely explained by demographic factors. That is, when we control for the education and experience of state and local government workers, the higher wages are explained, leaving state and local government workers earning a lower wage than similarly qualified private sector worker.

A slightly different picture emerges in Nevada. Controlling for demographic factors, state and local government workers in Nevada earn 6-percent higher wages than private sector workers, since Nevada labor markets place a smaller premium on education and experience.

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J. Thompson and J. Schmitt, "The Wage Penalty for State and Local Government Employees in New England," Working Paper, Political Economy Research Institute and Center for Economic and Policy Research, September 2010.
(See http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_201-250/WP233.pdf)