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## The Myth of the Overpaid Public Employee

Steve Babson, *Editor*

It has become a mantra among conservative politicians: public employees, the argument goes, are overpaid compared to private-sector workers and will have to see their pay and benefits cut to balance the budget. The claim has been repeated so often that much of the public now mistakes myth for fact.

During this year's primary campaign, Republican gubernatorial candidate Mike Bouchard alleged that "almost every study" shows government compensation levels "between 17 and 24 percent higher" than private sector pay. Voters rejected

Bouchard's extreme views in the primary, but in the general election they voted for legislative Republicans who have already called for a five-percent cut in pay for government employees. Governor-elect Rick Snyder promises "to examine the costs of public employee compensation." He has, in the meantime, named conservative Democrat Andy Dillon State Treasurer while appointing conservatives from former Governor John Engler's staff to lead his transition team. Bouchard spoke for them all.<sup>1</sup>

With a looming budget crisis on the horizon for 2011, how do we respond to their claim that government workers are overpaid compared to their counterparts in the private sector?

### Figures Lie

The raw numbers appear to favor the call for steep cuts. "Overall, total compensation for state

and local workers," as *USA Today* reported last year, is "\$39.25 an hour-- \$11.90 more than in private business." With such numbers in mind, Democratic State Representative Tim Bledsoe (a former Political Science professor at WSU) warned earlier this year that "we are at the point in Michigan where

public employees, and particularly teachers, earn more than the average private-sector worker." Taxpayers, he added, should not be asked "to sustain the privileges of those who have more." With commentary like this in the foreground of the debate, it is

hard to defend-- much less increase-- the current pay and benefits of government workers.<sup>2</sup>

But as the old saying goes, "figures lie and liars figure." The claim that average pay should be the same in the public- and private sectors is based on the flawed assumption that the same kinds of people and jobs are equally represented in business and government. In fact, nothing could be further from the truth. Government employment, as several recent studies emphasize, requires substantially higher levels of education and professional training.

This should not be a surprise considering the kinds of jobs that predominate in the public sector: teachers, nurses, social workers, urban planners, college professors and other professionals. More than half of all jobs for the state of Michigan require at least a bachelor's degree-- more than double the rate of private-sector jobs. According to the report

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issued this spring by the Center for State and Local Government Excellence, 42 percent of private-sector workers can perform their jobs with a high school diploma or less, compared to only 20 percent of state workers and 22% of local government employees. (See Table 1)

Comparing the average pay in the two sectors is therefore a classic case of comparing apples and oranges. Public employees are called on to perform tasks that require higher levels of education, and if we limit our comparison to college-educated workers in private and public employment, it turns out that public employees are actually *undercompensated* compared to their counterparts in the private sector. The gap is sizeable according to data culled from the Census Bureau's Current Population Survey by the Center for Government Excellence: college-educated employees in state government earn 13 percent less than those in the private sector, while those in local government earn 11 percent less than their counterparts in the private sector.<sup>3</sup>

As the Center's report emphasizes, the overall averages frequently used in the media are misleading because "even though those with college degrees earn less in the public sector, they earn more than those without college degrees."

Economists Nicole Funari and Charles Ballard from Michigan State University draw similar conclusions for state workers in Michigan, using data from the Census Bureau's American Community Survey. They found that state government employees with no bachelor's degree but some college education earn slightly less than private-sector workers with the same level of education, while those with an associate's degree earn 5 percent less than their private-sector counterparts. From there, the gap widens dramatically: those with a bachelor's degree earn 28 percent less than private-sector employees with the same education; those with a professional degree earn 20 percent less; and those with a doctorate earn 24 percent less than their private-sector counterparts. (See Table 2)

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## What About Benefits?

Government workers sometimes get better benefits than private-sector workers, though the difference has little to do with public extravagance and more to do with the lousy benefits paid by most businesses.

As reported in a recent study by the Economic Policy Institute (EPI), the gap between public- and private-sector workers narrows when benefits are added to total compensation, but it doesn't disappear. For those with a high school diploma, or some college education, or an associate's degree, total compensation is actually 5-9 percent higher than private-sector employees with the same education, as indicated in Table 3. But for those with a bachelor's or graduate degree-- representing 55 percent of state and local employment in the case of Michigan-- total compensation is 21-37 percent lower than their counterparts in private business. The gap remains even when public-sector compensation is adjusted for the fewer hours worked by teachers and professors during the summer months.

## Scapegoating Public Workers

In the worst economic crisis for Michigan and the U.S. since the 1930s, public employees play an especially important role for the poor, the unemployed, the young and the sick. Jobless workers and youthful job seekers want an education geared to a changing world. People whose jobs and homes have been taken from them often have nothing but the social safety net-- what's left of it-- to cushion their fall. The sick and infirm with no health insurance have to rely on public assistance. When the street floods, or the house burns, or the thief threatens, we call our public servants.

We should be willing to pay for these vital services, and many of us with jobs and the modest means to protect ourselves are prepared to do so. But many others are persuaded by free-market ideologues that poverty and economic distress are the fault of the victim, that it is a dog-eat-dog world and the Darwinian struggle will make the "winners" stronger; too bad

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**Table 1: Workforce Characteristics in Private and and Public Employment, 2008**

	<u>Private Sector</u>	<u>Public Sector</u>	
		<u>State</u>	<u>Local</u>
Hourly Wage	\$20.57	\$22.17	\$22.15
Male	60.2%	43.2%	42.4%
White	66.6%	72.1%	73.2%
Black	9.6%	13.4%	11.5%
Hispanic	17.1%	8.3%	10.8%
No HS Diploma	10.7%	2.3%	3.1%
HS Diploma	31.4%	17.5%	18.6%
Some College	29.6%	24.4%	25.1%
College Degree	20.6%	28.7%	28.8%
Post College	7.7%	27.1%	24.5%
Age in years	39.8	44.1	43.7
Union contract	9.2%	39.1%	50.6%

**Notes:** Percentages are means of variables for full-time workers from the Current Population Survey. Figures for education indicate highest level achieved.

**Source:** Keith Bender and John Heywood, "Out of Balance? Comparing Public and Private Sector Compensation Over 20 Years," Table 1, Center for State and Local Government Excellence, April 2010.

**Table 2: Average Earnings of State Workers in Michigan as Percent of Private-Sector Counterparts with Same Level of Education**

High School Diploma	93.2
Some college, no degree	99.4
Associate's Degree	94.9
Bachelor's Degree	72.4
Master's Degree	62.2
Professional Degree	80.4
Doctoral Degree	76.1

**Notes:** Comparison is limited to salaries of full-time workers.

**Source:** Charles Ballard and Nicole Funari, "The Retrenchment of the State Employee Workforce in Michigan," Table 1, Department of Economics, Michigan State University, August 2009.

**Table 3: Average Total Compensation by Education Level in the U.S.**

	<u>Private v. Public Sector</u>		
	<u>Private</u>	<u>Public</u>	<u>Public Premium/Penalty</u>
Less Than High School	\$38,918	\$36,407	-6
High School	50,596	53,880	+6
Some College	56,279	61,210	+9
Associate	62,162	65,165	+5
Bachelor	91,256	68,290	-25
Professional	192,977	121,192	-37
Masters	118,918	82,297	-31
Doctorate	151,875	120,642	-21

**Notes:** Comparison is limited to salaries and benefits of full-time workers.

**Source:** Jeffrey Keefe, "Debunking the Myth of the Overcompensated Public Employee: The Evidence," Economic Policy Institute Briefing Paper #276, September 2010.

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for the rest. Politicians meanwhile clamor for tax cuts and smaller government, and voters who should know better stay home on election day. Those politicians who *do* know better are slow to speak out. It isn't political-ly expedient to say the right thing.

It has been this way in Michigan for some time now, and the result has been a devastating erosion of state and local government. Even before the current crisis, 11,000 jobs were cut from the state workforce between 2001 and 2008, representing 18 percent of total employment. The remaining state employees have been subjected to periodic salary freezes, furloughs, "banked leave time," and substantial increases in premiums, co-pays and deductibles for health insurance. New employees hired since 1997 have also seen their pensions cut from defined-benefit to defined-contribution plans. Economists Funari and Ballard estimate that the total savings to the state from all of the above measures amounts to a cumulative \$3.7 billion over the 2001-2008 period. Cuts at the local level have also been substantial.<sup>4</sup>

Many of our political leaders think this is not enough, and it is hard to shake the impression that this has something to do with their lack of empathy for a workforce that is disproportionately female, black, and union. (See Table 1)

So long as tea partiers, ideological conservatives, and the corporate rich dominate the political scene, it will only get worse. For now and for the long term, it is therefore imperative that we speak for an

alternative politics that focuses on government's positive potential for leading a revitalized economy, one that benefits all of its citizens. The public sector can be an incubator of change-- through its schools and universities, its infrastructure investments, its promotion and regulation of green technologies and high-tech ventures. It can fund such an approach by reforming the tax structure so that those most able to pay-- and most likely to profit from a revitalized economy-- take on a proportionally greater share of the cost.

Such an approach has a far greater chance of success than scapegoating public employees.

#### Endnotes

1. Todd Heywood, "Bouchard Says Public Employees Overpaid," *Michigan Messenger*, 6/24/10; Peter Luke, "After Easy Win, How Incoming Rick Snyder Plans to 'Reinvent' Michigan," Mlive.com, Booth Newspapers, 11/3/10; Eartha Jane Melzer, "Snyder Taps Meijer President, Former Engler Officials to Lead Transition Team," *Michigan Messenger*, 11/5/10.
2. Dennis Cauchon, "Benefits Widen Public, Private Workers' Pay Gap," *USA Today*, 4/10/09; Timothy Bledsoe, Op-Ed, *Detroit Free Press*, 4/16/10.
3. Keith Bender and John Heywood, "Out of Balance? Comparing Public and Private Sector Compensation Over 20 Years," Center for State and Local Government Excellence, April 2010, 8.
4. Charles Ballard and Nicole Funari, "The Retrenchment of the State Employee Workforce in Michigan," Department of Economics, Michigan State University, August 2009, 3.

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