Mitchell's Musings 2-20-12: Ratios of Discontent

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As readers of this blog will surely know, public sector workers – especially at the state and local level – have been the targets of complaints in the last few years about overpay and cushy benefits. The forthcoming LERA 2012 research volume (which I am editing) will deal with this issue in various chapters. Indeed, some preview chapters were presented at the January 2012 LERA meetings in Chicago. Other papers on the EPRN website have also dealt with the issue of public sector pay relative to the private sector.

There have been three common themes in reviews by economists on the public worker issue. One is that it is incorrect just to compare average pay in the public and private sectors because of different occupational characteristics of the two. Public sector workers include larger proportions of white-collar workers and have higher educational levels, for example. A second theme involves the composition of pay, since many of the complaints about public worker pay have focused on benefits, particularly pensions. Economists will argue that what matters is *total* compensation, i.e., pay and benefits, and that it is incorrect to look at one component of pay at a time. You have to add up the total value of the pay package. A third theme is that the growth of income inequality is not driven by public sector pay and researchers express some puzzlement as to why CEO pay is not the target, rather than public worker pay.

I got to thinking about the issues raised regarding recent criticisms of the public sector because of an accident. I happened to come across some old children's records (audios of such records, actually) which suggested that in the 1940s, when the records were made, there was a positive attitude toward public sector workers. I put the audio (in video format) on the EPRN site in anticipation of this Musing.[1] See http://www.employmentpolicy.org/topic/402/blog/attitudes-toward-public-workers-1940s-reflected-childrens-records

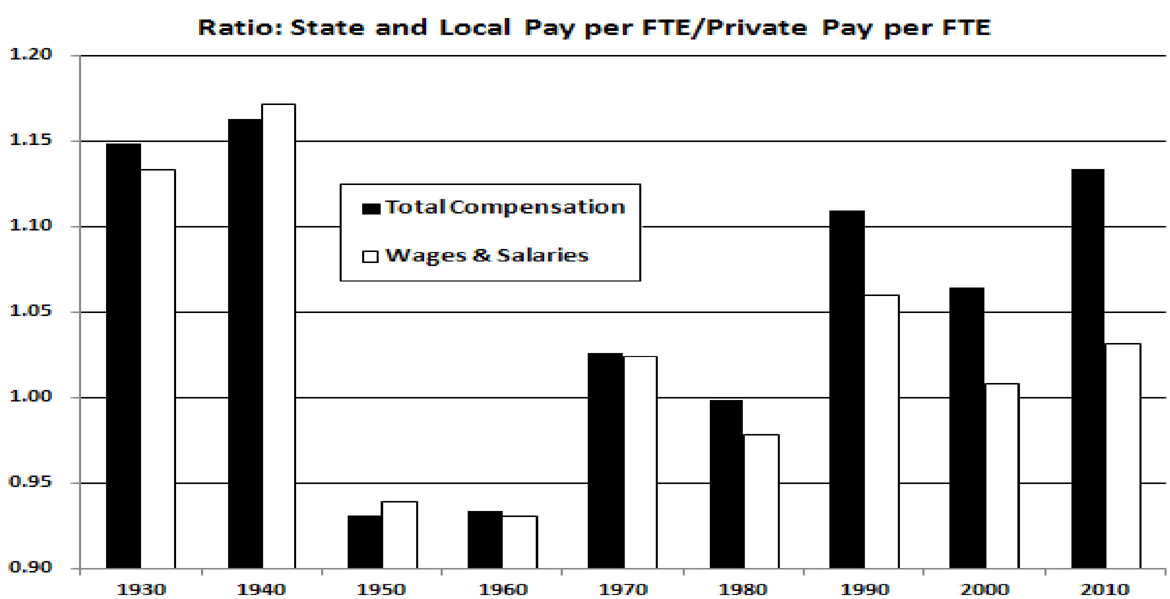
The puzzlement over the third observation – I think – is natural for academics who study income distribution and who know about what drives the distribution. But most ordinary people don't know any CEOs (and don't study income distribution). They don't interact with CEOs. But they do know and interact with public sector workers such as the teacher or police officer who lives down the block. So apart from some "Occupy" demonstrators, the comparisons ordinary people make are with those they do encounter who are familiar.

[1] Some readers or listeners may note that the records cite typically male occupations of that era: policemen, firemen, street sweepers, and postmen. There is no mention of teachers or librarians, presumably occupations children might encounter.

"Lifestyles of the Rich and Famous" is a TV show and not the real world to most folks. So, since the third observation is not such a puzzle, let's consider the other two themes in recent academic literature.

The kind of standardization in pay research for occupational differences between public and private workers is the technically correct approach if one is concerned about long-term employee quality and about recruitment and retention. Similarly, looking at the entire pay package – wages and benefits – is similarly the correct approach if those are the concerns. But ordinary people are not in the quality and recruitment and retention business. Nor do they have ways of adding up pay packages of the public worker who lives down the block. Put in that framework, the comparisons made are likely to be precisely those that violate themes #1 and #2. Does X who lives down the block get paid more than I do? Does he/she have a better retirement program than I do? Those could be – and may well be - the relevant questions in terms of raising general ire. However, there is a secondary question as to whether and when the economics and political climate brings those questions to the fore.

Given that non-academic political/perceptual framework outlined above, I took a look at the national income (GDP) accounts which provide a gross public (state and local) vs. private pay comparison over a long period of time.[2] What kind of ratios of public/private pay prevailed when those children's records of the 1940s were made? The chart below summarizes the results.

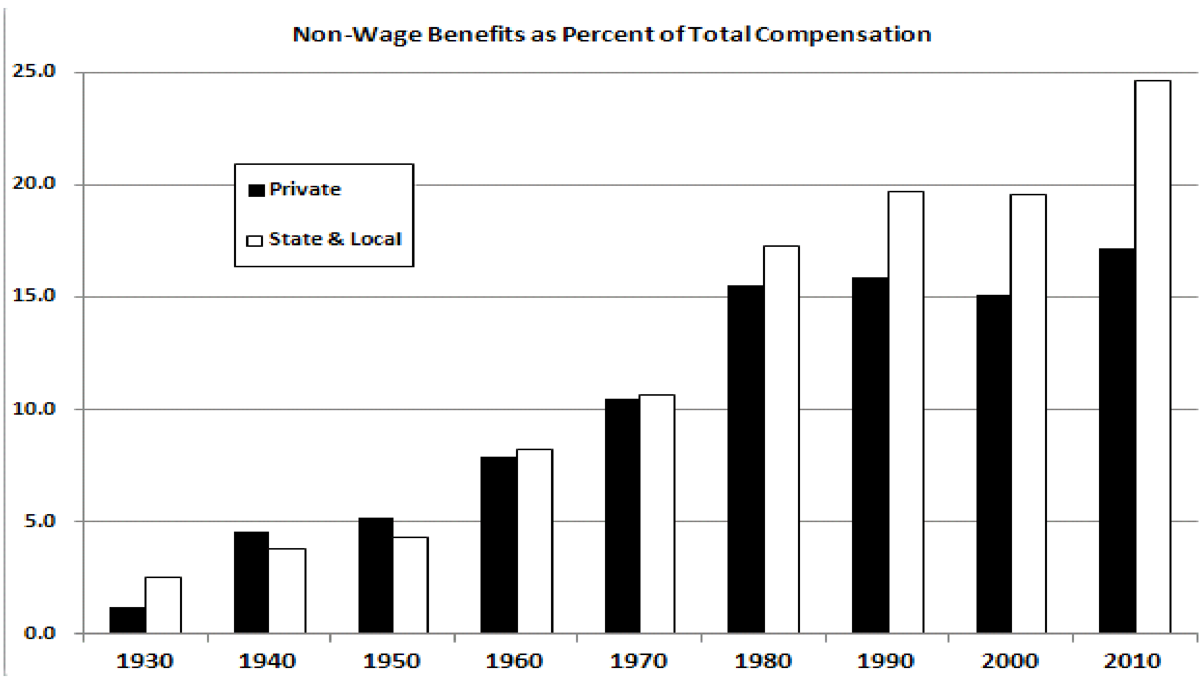


[2] Military workers could not be removed from the federal sector in the early period discussed below so the analysis was confined to state and local employees.

Note first the result that before World War II, state and local pay per full-time equivalent employee (FTE) – whether on a total compensation or wage-only basis was higher than typical private pay. Indeed, it was higher back then than it is now. However, in the 1940s, the ratio was falling so that by the end of that decade public sector pay was below private. The children's records were made in a period when public sector workers were losing (relative) ground. It was also a period in which the economy was prosperous, even taking account of the immediate postwar labor-market adjustments.

An advance of public sector pay relative to private doesn't occur until the 1960s and then proceeds erratically. The 2000s, however, were a period of public-to-private pay advance and ended in the Great Recession. Perhaps that is why you don't hear children's songs praising police officers – or, at least, some of the reason.

On the benefit side, the chart on the previous page indicates that the total compensation advance was more dramatic in the 2000s that the wage-only advance. The chart below highlights that point, indicating that the share of pay going to benefits rose in both the public and private sectors – but more dramatically so in the public sector.



Non-wage benefits, which include mandated social insurance as well as voluntary programs, did not amount to much in the earliest period shown. The national income data show only the employer cost. In the pension area, employer contributions were held down in the 1980s by the switch to riskier investments (with assumed higher returns) and then actual high returns from the stock market during the dot-com boom of the 1990s. Employers paid in less to their pension funds because the funds seemed to be earning more on their portfolios. Some cost control efforts in the health area may also have played a role in the break in trend. But during the 2000s, the upward march of benefit costs resumed – and especially so in the public sector.

In short, the 2000s were running in the opposite direction from the 1940s. Public sector pay was rising relative to private, particularly in the benefit area, and the decade ended in the Great Recession. When we go back to the 1930s, however, public sector pay seemed to be rising in relative terms compared with private and one could hardly view that era as prosperous. If there was great agitation during the Great Depression against public sector workers, I am not aware of it.[3] So the political climate seems to play a role in whether there is anger about public worker pay. Rising public sector pay compared to private in a period of Hard Times is a precondition for such agitation. But apparently, someone has to point to the trend and make an issue of it before the public/private comparison becomes a news item and a source of complaints.

[3] There were complaints about some New Deal "make work" programs with criticisms about leaf-raking and the like. Ordinary state and local civil servants were not the target.