

ASSESSING THE PRIVATE VERSUS PUBLIC SECTOR PAY DEBATE

Over the years, there has been much discussion as to who makes more money – employees in the public or the private sector. But it’s not as simple as “more” or “less” overall – any study must compare similar types of jobs and similar types of employees. Many politicians, think tanks and even the government have weighed in. Here’s what they’ve had to say, which indicates this debate will continue for some time.

According to the 2015 Federal Salary Council (FSC) annual report, federal employees are paid 34.07 percent *less* than their private-sector counterparts, based on data collected by the Bureau of Labor Statistics (BLS).

The FSC calculation is based on Bureau of Labor Statistics data, which is more comprehensive and accurate, as it uses a job comparison methodology that measures data from job matches in the public and private sector. The results show a widening pay gap that needs to be addressed, especially as federal salary rates were frozen for three years, and employees received miniscule raises in the subsequent years.

A January 2012 report from the Congressional Budget Office (CBO) found that when benefits are weighed, America’s most educated and experienced federal workers earn about 18 percent *less* in total compensation than they would if they worked in the private sector. The report also found that federal workers with less experience and education earned slightly more than their counterparts in the private sector. As such, the report opposes across-the-board changes in pay or benefits for federal employees. Additionally, the study suffers from a few shortcomings:

While the CBO study controls for occupation, general education and years of work experience, it does not take into account level of job responsibility, specialized training and length of tenure with an employer, all of which employers take into account when determining pay. Federal jobs often involve high levels of responsibility and require specialized training or a high-security clearance.

The study also only uses data only through 2010. Over the following three years, federal pay scales were frozen while private-sector wages increased.

The study controls for certain factors, such as age, race and gender, that, legally, are irrelevant for the purposes of determining pay.

An August 2013 article published by the Cato Institute alleges “the average federal civilian worker now earns 74 percent more in wages and benefits than the average worker in the U.S. private sector.” This conclusion is based on grossly misleading analysis due to use of inapt data and inappropriate comparisons.

Cato relies on data for the total compensation of federal civilian employees that include catch-up payments from the government to the Civil Service Retirement and Disability Fund (CSRDF) for previously accrued liabilities, as well as payments for benefits to those already retired. Including payment to those already retired is problematic for several reasons:

- Most retirees are covered by the now defunct, older Civil Service Retirement System (CSRS), which provides a substantially greater defined-benefit annuity than under the newer Federal Employees Retirement System (FERS), which covers most current employees;
- Even if the benefit systems for current employees and current retirees were the same, the annual value of benefits paid to all retirees is not the same as the annual value of payments made by the government to the CSRDF to fund adequately the future benefits of current employees.
- Retirees who were covered by CSRS did not accrue Social Security benefits for their civil service. Thus, part of the benefit is in lieu of Social Security benefits, which CATO did not factor into its private-sector compensation totals.

The Cato analysis fails to take into account any of the important differences in occupation, skill level, age and education that determine salaries. Notably, it fails to consider the following:

- Federal civilian workers have higher levels of education: 51 percent of federal employees hold bachelor’s degrees, versus 35 percent in the private sector.
- The federal government has a higher proportion of white-collar jobs. Today, blue-collar workers make up less than 10 percent of the federal workforce. Similarly, 49 percent of the federal workforce consists of professionals and managers, compared to only 38 percent in the private sector.
- The average age of employees in the federal workforce is 47, while the average age in the private sector is 41.
- Federal employees have more on-the-job experience than the average private-sector employee, with 25 percent of federal employees having served their nation for more than 20 years.