Key Facts: Public Versus Private Sector Pay in Pennsylvania

August 23, 2011

In Pennsylvania, as in other states, better benefits for public sector workers make up for lower salaries, on average, than in the private sector.

- Controlling for other factors that influence compensation—most importantly, education—“apples-to-apples” comparisons show that public sector workers earn the same or less in wages plus benefits as private sector workers.
- In Pennsylvania, public employees earn a statistically-insignificant 2.1% less in hourly compensation than similar private sector workers. When compared on an annual basis, full-time state and local public employees in Pennsylvania earn 5.4% less than private sector workers—a statistically significant difference.
- The Keefe study overcomes two limitations of previous studies: 1) it controls for differences in the characteristics of public and private sector workers, such as education, which have an impact on wages and benefits; and 2) it is the first study in Pennsylvania that includes the cost of benefits and compares total compensation—wages plus benefits.

The Pennsylvania public sector workforce is more highly educated than the private sector.

- 53% of full-time Pennsylvania public sector workers hold at least a four-year college degree, compared to 32% of full-time private sector workers.
- The higher education of public sector workers explains why uncontrolled “averages” show that public sector workers earn more. However, all this means is that large public sector occupations of college-educated workers (teachers and professionals in state agencies) earn more than large private sector occupations that do not require a college degree (e.g., retail and hospitality workers).
- Comparing the compensation of public to private workers without taking account of educational and other differences is an apples-to-oranges comparison.

Pennsylvania state and local governments and school districts pay workers with a bachelor’s degree (or more) receive 27% less in compensation (salaries plus benefits) than do private employers.

- At the top end of the pay scale, public sector workers earn much less than their private sector counterparts. For example, the highest-paid CEO in Pennsylvania in 2010 (Glen Senk of Urban Outfitters—see http://people.forbes.com/profile/glen-t-senk/10480) earned $30 million, as much as the top 165 public sector workers combined. (On the highest-paid public sector workers, see http://www.post-gazette.com/pg/09088/958830-85.stm.)
• The much lower pay at the top end of the public sector is why people never say: “I’m leaving the private sector to go make more money.”
• Low pay at the top end contributed to the difficulty Governor Corbett had filling some political positions in state agencies: except for very young appointees, the top state government jobs represented a pay cut for many potential appointees.

With regard to consistency with American values and from a productivity point of view, public sector compensation is a model for the private sector, not the reverse.

• Highly educated public sector workers accept lower pay plus benefits than they could earn in the private sector because they are “mission driven”—they believe in the public purpose of their jobs, whether those jobs protect Pennsylvania’s environment and state forests, enforce minimum labor standards, or teach children.
• Public workers such as school secretaries and bus drivers, state clerical workers and building custodians are still able to earn a middle-class wage and secure retirement.
• The lower gap between top and bottom earners makes it easier for public sector managers to organize their entire “team” behind the mission of the agency or school.
• The bottom line: the problem is not that the middle class is too strong in the public sector; the problem is that the middle class is disappearing in the private sector.

Since overall pay plus benefits in the Pennsylvania public sector is comparable or slightly lower than in the private sector, state and local government can’t cut spending significantly by slashing public sector pay and benefits.

• College-educated workers—the bulk of the public payroll—are already substantially undercompensated; therefore, any cuts in benefits would need to be combined with offsetting salary increases that make it possible to retain and attract high-quality workers.

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