

Are Michigan Public Employees Over-compensated?

Date: Monday, February 7

Topic: Michigan Public Employees

February 3, 2011

BY JEFFERY H. KEEFE

ECONOMIC POLICY INSTITUTE

This paper investigates whether Michigan public employees are overpaid at the expense of Michigan taxpayers. The research is timely. Conservatives in some policy circles have long claimed that public workers earn substantially higher salaries and an even greater magnitude of benefits than private sector workers (Hohman 2010). Some elected officials are promoting public employee pay freezes and major benefits reductions as the antidote to the alleged overpayment problem and the key to reducing Michigan's budget deficit. Newly inaugurated Gov. Rick Snyder has said that public employee compensation at the state, local, and school levels must be judged in comparison with private sector employee pay (Egan 2011). This paper makes that comparison.

The research shows that state and local government employees (which includes school employees) in Michigan are not overpaid. Comparisons controlling for education, experience, organizational size, gender, race, ethnicity, citizenship, and disability reveal that public employees of state and local governments earn less than comparable private sector employees. On an annual basis, full-time state and local employee government employees in Michigan are undercompensated by approximately 5.3% compared with similar private sector workers. The compensation disadvantage of public employees is a smaller but insignificant 2.9% when annual hours worked are factored in. Full-time public employees, particularly employees with bachelor's, master's, and professional degrees, work fewer annual hours. Comparisons controlling for the difference in annual hours worked reveal no significant difference in total compensation between full-time local government employees and private sector employees. However, fulltime state employees suffer a 7.15% compensation penalty relative to private sector employees.