Cherry Picking Comparisons to Get a Pre-Determined Result: A Short Response to the Economic Policy Institute's (EPI) Report "Are Ohio Public Employees Over-Compensated?"

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With the intense interest across Ohio and at the Statehouse on the issues of public sector collective bargaining and the compensation packages of state and local government workers, we thought it would be helpful to explain the misleading findings of a recent report issued by EPI. The EPI report found that "Ohio state and local public employees cost essentially the same as comparable private sector workers."

First, EPI is a union funded, liberal think tank based in Washington, D.C. Not surprisingly, EPI issued four cookie-cutter reports in Ohio, Wisconsin, Michigan, and Indiana, where conservatives control both the legislature and the Governor's Office following the November elections. We assume EPI will soon issue a report on Pennsylvania now that conservatives are in control there, too.

Next, using only those private sector workers at companies with 500 or more employees ensures that the comparison pool is the best compensated private sector workers in Ohio. Because companies with 500 or more employees have greater resources to hire, those entities can offer very attractive pay packages to attract the best and brightest workers.

With many Fortune 500 companies in the sample (Cardinal Health; Procter & Gamble; The Limited; Worthington Steel; JP Morgan Chase; etc.), the private sector salary data is skewed high, ensuring that any government comparison will come in below the sample. Large private sector companies are large because they have been successful. In contrast, government is not big because it is successful; in some ways, it is big because it is <u>not</u> successful, so comparing the two entities is really not appropriate.

With the focus on degrees, the inclusion of K-12 teachers and administrators renders the results highly questionable. Because many K-12 workers hold a masters degree (62 percent or more) that has no external market value, comparing K-12 pay to private sector workers with masters degrees in big business – like MBA holders who are highly compensated – is not an apples-to-apples comparison. The improper comparison further skews the data to the benefit of public sector workers. An apples-to-apples comparison would compare public school teachers to private school teachers, which EPI knows would show an enormous pay differential benefiting public school teachers.

The teacher with a post-graduate degree also demonstrates the problem with focusing on degree holders. Studies show that holding a masters degree does not improve classroom performance, so taxpayers should not pay a premium for a degree that does not add value to the quality of their children's educations.

The degree focus also becomes problematic when one considers the incentive offering gold-plated compensation packages has on government. Because many people believe working for government, given all of the perquisites, is a plum job, degree holders routinely will apply for positions that do not require a degree, especially in a down economy. This trend increases the presence of degree holding government workers at lower paying jobs, which skews the government data downward (i.e., overpaying people will create a pool of "underpaid" over-degreed workers).

Next, the Employer Costs for Employee Compensation (ECEC) data fails to account for the full cost of benefits received by the public sector worker. Unlike a defined contribution plan used in the private sector that fully accounts for the benefit received (i.e., a 4 percent match from the employer), a defined benefit plan only accounts for the benefit received today (i.e., the 14 percent to 24 percent match) without accounting for the promised benefit received tomorrow.

Specifically, because the defined benefit plan promises the government worker a certain future return in excess of the actual amount contributed today, the ECEC data understates the benefit received because additional funds will be needed to meet the promised liability. This error also applies to the costs of health care provided in retirement.

Lastly, the report does not calculate the value of job security – according to the U.S. Bureau of Labor Statistics, the average private sector worker has a 20 percent chance of being fired or laid off in a given year, while the average public employee has only a 6 percent chance.

When these multiple issues are accounted for, the likelihood that public sector workers truly are compensated less than similar private sector employees is small.

There is another, more vital, element that gets forgotten in the battle of reports: the amount of revenue government has to pay government workers. Ohio has lost over 600,000 net private sector jobs in the last ten year – jobs that drove revenue into government. At the same time, Ohio government has roughly the same number of employees who make a lot more than they did ten years ago. Regardless of who makes more, we cannot afford to pay what we are paying today and raising taxes even higher is simply not a viable answer.