Policy Matters Ohio

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Testimony by Amy Hanauer, Executive Director, Policy Matters Ohio
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Committee Chair Bacon and members of the committee, thank you for the opportunity to testify today. Policy Matters is a non-profit, non-partisan policy research institute focused on creating a more prosperous, sustainable, and equitable economy. Policy Matters has conducted or released a number of studies that are relevant to Senate Bill 5 and this testimony will briefly review some of those findings.

Our research leads us to several conclusions that support retaining collective bargaining at the state and local level in Ohio.

My first point is that Ohio's budget problem is a revenue crisis, caused by a weak economy and ill-advised tax reductions that have deprived the state of needed revenue. Eliminating collective bargaining is not going to solve a revenue crisis.

Second, we've worked with several top academic researchers nationally to understand public and private sector compensation in Ohio. The overwhelming conclusion is that public sector workers are, when we control for education and experience, compensated less well than private-sector workers. This research is the main thing I'll discuss today, but before I get into it, I'd like to make one more point.

My third major point is that deeper analysis of our economy and of multiplier effects of public jobs reinforces what logic would tell us: Paying workers adequately and giving workers a voice in their workplace actually strengthens the economy. Workers who are reasonably well compensated create more stable communities, do not have as much need for public services, can build assets and spend locally and are better able to focus on and excel at their jobs.

Revenue is a crisis – Better revenue is the solution
Upon taking office in 2005, Mitch Daniels in Indiana and Matt Blunt in Missouri eliminated collective bargaining agreements for state employees. Kentucky Governor Ernie Fletcher did the same in 2003. Yet according to data provided by the Center for Budget and Policy Priorities, the budget shortfalls of these states in 2010 ranged from 10.6 percent of general revenue fund (Indiana) to 14.5 percent (Kentucky) to 22.7 percent (Missouri), mirroring the fiscal crisis of states across the nation.

The point is not to highlight the struggles of individual states; it is to illustrate that the right of public workers to bargain collectively is not the cause of the budget shortfalls and eliminating that right to collective bargaining has not fixed the problem in states that have tried it. Deeper issues –investment, capital markets, trade and currency – are what shape regional economies.

Some states that forbid collective bargaining for state workers – Arizona, North Carolina, Nevada – face some of the highest state budget deficits going into 2011, all exceeding 30 percent. And some states that allow and encourage collective bargaining – Montana, Massachusetts, New Mexico, South Dakota – are in better budgetary positions with deficits under ten percent.

In truth, states with and without collective bargaining rights faced similar budget deficits in 2010. States with *no* collective bargaining rights for any public employees saw an average budget shortfall of 24.8 percent in 2010 while states (including the District of Columbia) with collective bargaining for *all* public employees had an average budget shortfall of 24.1 percent. For the 42 states (and the District of Columbia) with some (or all) collective bargaining rights for some (or all) public workers, the 2010 budget deficit averaged 23 percent. These numbers are all very close. The right of public workers to unionize is not driving the state revenue or fiscal crisis.

Comparing Compensation
Ohio public employees, including both state and local, are paid less than comparable private sector workers. We recently released a study conducted by Associate Professor Jeffrey Keefe of the school of Management and Labor Relations at Rutgers University which found that, controlling for education, experience, hours of work, organizational size, gender, race, ethnicity, citizenship, and disability, Ohio public employees in both state and local governments earn lower wages than private sector employees. On an annual basis, full-time state and local public employees earn lower wages by 5.7% in Ohio, in comparison to otherwise similar private sector workers in similarly-sized organizations (100 or more employees). When comparisons are made for differences in annual hours worked, full-time state and local employees are paid 3.1% less in Ohio.

Public sector occupations, on average, require much higher levels of education and Ohio public-sector workers are much more highly educated: 50% of full-time Ohio public-sector workers hold at least a four-year college degree compared to 26% of full-time private-sector workers. Ohio state and local governments pay college-educated employees 23% less in annual compensation, on average, than private employers. The earnings differential is greatest for professional employees, lawyers, and doctors.

State and local government employees receive a higher portion of their compensation in the form of employer-provided benefits, and the mix of benefits is different from the private sector. But considering both the cost of employer-provided benefits and direct wages, public-sector workers in Ohio earn less than they would in the private sector.

A standard earnings equation produced what some may feel is a surprising result: Ohio full-time state and local employees are paid 6.1% less. Full-time public employees, however, work fewer hours on average – when we control for that, state and local public employees make 4% less, including benefits, than private-sector employees in Ohio.

The table below, from Professor Keefe's research, shows the earnings differential by education level – the top of the table is just wages, the bottom includes benefits.

Public and private pay by education, unadjusted				
Full-Time*	**Annual Wage Earnings**		**Difference (public over private)****	
	Private	**Public**	**Dollars**	**Percent**
Less than HS	$28,948	$23,901	-$5,047	-17%
High School	$35,579	$34,491	-$1,088	-3%
Some College	$39,780	$39,065	-$714	-2%
Associates	$43,086	$47,400	$4,314	10%
Bachelors	$62,042	$46,178	-$15,864	-26%
Professional Degree	$146,183	$138,510	-$7,673	-5%
Masters	$75,561	$57,074	-$18,487	-24%
Doctorate	$112,315	$85,679	-$26,636	-24%
All	$45,732	$47,472	$1,739	4%
Full-Time*	**Total Compensation**		**Difference (public over private)****	
	Private	**Public**	**Dollars**	**Percent**
Less than high school	$38,254	$30,737	-$7,518	-20%
High School	$46,250	$44,445	-$1,805	-4%
Some College	$51,186	$50,292	-$894	-2%
Associates	$54,855	$60,285	$5,430	10%
Bachelors	$77,530	$57,903	-$19,627	-25%
Professional Degree	$181,027	$178,341	-$2,687	-1%
Masters	$93,326	$71,245	-$22,081	-24%
Doctorate	$141,237	$108,816	-$35,421	-25%
All	$58,213	$59,001	$787	1%
*For full-time workers with 1,100 or more annual hours				

Keefe's research confirms what others have found in other states. An April 2010 study, jointly released by the National Institute on Retirement Security and the Center for State and Local Government Excellence and conducted by University of Wisconsin – Milwaukee economists Keith Bender and John Heywood, compared twenty years of publicly available data from the U.S. Bureau of Labor Statistics.[1] They found that:

- Public jobs require more education on average than private sector jobs. State and local public employees are twice as likely to have an advanced degree as private sector workers.
- The wages and salaries of state and local employees are 11 and 12 percent lower, respectively, than those for private sector workers with comparable education and experience.
- Over the last two decades, earnings for state and local employees have generally declined compared to similar private sector workers.
- Benefits, such as pensions, make up a greater share of compensation in the public sector.
- Including benefits, state and local employees still have lower total compensation. On average, total compensation is 6.8 percent lower for state and 7.4 percent lower for local workers, relative to comparable private sector workers.

[1] http://www.nirsonline.org/storage/nirs/documents/final_out_of_balance_report_april_2010.pdf

In a report issued in May 2010, economist John Schmitt of the Center for Economic and Policy Research found a slightly lower wage penalty for working in the public sector.[2] Half of state and local employees have a four-year college degree or more, and nearly one-fourth have an advanced degree. Less than 30 percent of private sector workers have a four-year college degree and less than 10 percent have an advanced degree. The report also found that the typical state or local worker is about four years older than the typical private-sector worker.[3]

Schmitt found that when state and local government employees were compared to private-sector workers of similar education and experience levels, state and local workers earned a little less than 4 percent less, on average, than their private-sector counterparts, as the figure below shows. The public sector penalty was about 2 percent of earnings for women and about 6 percent of earnings for men. Prosecutors and defense attorneys rightly earn more than retail clerks but they generally earn less than attorneys in private practice.

Schmitt found that the wage penalty rose as jobs became higher skill. While low-wage workers received a small wage premium in state-and-local jobs (about 6 percent for a typical low-wage worker), the typical middle-wage worker earned about 4 percent less in state-and-local work, and the typical high-wage worker made about 11 percent less than a similar private-sector worker.

Avoiding a low-wage model

The lowest-wage private sector workers are often compensated so poorly that they need to receive Medicaid, cash assistance or food assistance. Advocates have pushed for public sector jobs to have higher standards than that, reasonably arguing that workers collecting our trash, helping in our children's lunchrooms and taking care of our parents should not be left deep in poverty. A 2008 report from Policy Matters Ohio found that the state of Ohio spent more than $100 million to provide Medicaid for the employees of fifty large private Ohio employers, a 29 percent increase between 2004 and 2007 among the firms that could be compared during the two years.[4]

Ohio state and local public sector workers teach our children, protect our communities, save us from fires, guard those we've convicted of crimes, clean up our parks and do countless other tasks to improve Ohio and enrich our lives. These Ohioans deserve decent compensation and should not be vilified because we chose to cut taxes and make other choices that hurt our economy.

[2] Both Heywood and Schmitt used Current Population Survey Outgoing Rotation Group data, but Heywood combined multiple years while Schmitt just used 2009 data.

[3] http://www.cepr.net/index.php/publications/reports/wage-penalty-state-local-gov-employees/

[4] http://www.policymattersohio.org/PublicBenefits2008.htm