

Public v. Private Sector: Income Differences in New Mexico **Are New Mexico's government employees underpaid?**

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Introduction

As New Mexico's dismal economy struggles towards recovery and the 2013 legislative session heads toward a conclusion, the issue of pay for public employees has remained prominent. Given the fact that the Legislature hasn't provided an across-the-board pay raise for public employees since 2008, there is a push under way to increase government employee pay.¹

New Mexico is one of the poorest states in the country.² Its economy has continued to shed jobs while neighboring states have been adding them. Nonetheless, nearly twenty percent of the state's workforce³ is fueled by tax payers and those in the public sphere continue to assert that they make significantly less than those in the private industry.⁴

This report examines this assertion by analyzing government data to determine the earnings and compensation differences among employees of similar characteristics, skill sets, and occupations within the public and private sectors. Regression analysis has been used to produce a careful analysis of data on both total compensation and benefits. **The study finds that with benefits included, public workers in New Mexico make over 8 percent more in total compensation than a similar worker in the private sector.**

Definition: "Regression" In statistics, regression analysis includes many techniques for modeling and analyzing several variables when the focus is on the relationship between a dependent variable and one or more independent variables. More specifically regression analysis helps one understand how the typical value of the dependent variable (e.g. real earnings) changes when any one of the independent variables (e.g. education experience gender fringe benefits) is varied while the other independent variables are held fixed.

¹ Barry Massey, "NM Legislative panel proposes state worker pay raise, *Las Cruces Sun-News*, January 9, 2013, http://www.lcsun-news.com/new_mexico-legislation/ci_22336632/nm-legislative-panel-proposes-state-worker-pay-raises

² Barry Massey, "Poverty Rate Up in NM," *Albuquerque Journal*, September 13, 2012, <http://www.abqjournal.com/main/2012/09/13/news/poverty-rate-up-in-nm.html>

³ Nash, Kate "1 in 5 N.M. Workers on Government Payroll," *The Santa Fe New Mexican*, June 7, 2010. http://www.santafenewmexican.com/Local%20News/1-in-5-N-M--workers-on-government-payroll#.UNN5w_G3KTg

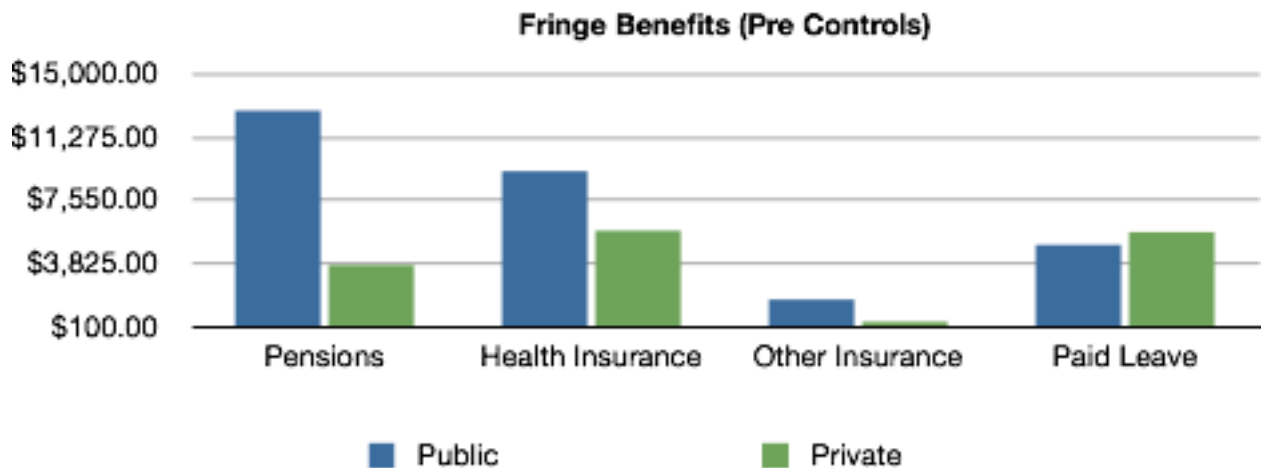
⁴ Carter Bundy, "Apples to Apples: Public Workers Make Less," NMPolitics.net, January 17, 2011, <http://www.nmpolitics.net/index/2011/01/apples-to-apples-public-workers-make-less/>.

Current Proposal to Increase Public Compensation in New Mexico

Among the many issues discussed in the legislative session is a recommendation for a 1 percent pay increase for state employees. The recommendation has met strong opposition from Governor Susana Martinez, who has stated that “At a time when New Mexico families are still struggling across the board, pay increases for government employees is not something I can include in my budget.”⁵ Martinez’s budget proposal of \$5.8 Billion contains no across-the-board raises for public employees, although teachers would most likely see significant increases in pay due to the governor’s proposal of setting aside \$11.3 million for those educators deemed “high performance”.

Summary Benefit Statistics

A crucial factor to consider is the importance of fringe benefits in relation to total compensation of workers. Many fail to acknowledge this, and merely point to the income differences in terms of real earnings. The chart below provides the average value of each fringe benefit in the public and private sector.



Using a variety of government datasets and regression analysis, this analysis compares public and private employees of similar work experience, education, gender, race, and disability status. It also controls for annual hours worked and includes broad occupational controls. (The hours adjustment is important for full-time/part-year employees like teachers, whose compensation would be understated if reflected across the entire year.)

The report also includes fringe benefits on top of annual wages, including paid leave; health insurance (including retiree health); other insurance such as long-term care; legally required benefits; and pension (including a pension markup to reflect a more realistic rate of return). (A technical document describing the methodology and a detailed regression table are included as an appendix, authored by the economists who performed the analysis for Rio Grande Foundation.) Even organizations that serve as advocates for public sector employees have acknowledged that top-line comparisons of occupational earnings are flawed.

⁵ Terrell, Steve “Governor, Legislature could tussle over state worker pay raises”. *The Santa Fe New Mexican*. January 10, 2013. <http://www.santafenewmexican.com/Local%20News/011113Salaries#.UP3Q5PFzbUQ>

Apples-to-Apples Comparison

It's widely agreed that regression analysis — known as the “human capital” approach — is necessary to facilitate an apples-to-apples comparison. This report is based on regression analysis which attempts to eliminate the impact of extraneous variables in statistical analysis so that we can come to a better understanding of the two primary areas of interest: the overall compensation of government workers vs. private sector workers, and specifically the “premium” associated with being a public employee.

Public employees often claim that they're underpaid relative to the private sector. Indeed, a simple comparison of the average earnings in the public and private sectors in the state yields a 28 percent difference in salary -- \$57,254 in the private sector vs. \$44,574 in the public sector.

Of course, that's not the whole story. Comparing salary averages ignores the considerable differences in education, work experience, and occupation between the two sectors. Controlling for these relevant factors using a regression analysis (Appendix 1) shows that the actual salary difference between the public and private sector is much smaller—roughly 13 percent.

But even this analysis omits a sizable portion of employee compensation: Fringe benefits. As the chart below illustrates, even the average employee in the public sector receives considerably more benefits than someone in the private sector. This analysis includes all varieties of fringe benefits, including the value of health insurance, pension, paid leave, and other insurance and legally required benefits (Appendix 2).

When properly accounted for in a regression, we find that public employees in New Mexico earn 8.6 percent more than a comparable employee in the private sector.

Conclusion

This public employee premium of 8.6 percent is significant, and is undoubtedly due to the generous levels of fringe benefits government workers receive. Of course there are non-monetary benefits that exist outside of total compensation. These non-monetary benefits include job tenure, layoff and quit rates, which have not been verified for this study. With this said, it has been verified that on average public workers retire earlier than those in the private sector (59 years old v. 63).

In any event, the available data demonstrates that public sector workers in New Mexico do in fact make more than those in the private sector, and that the assertion that government workers are “underpaid” is unwarranted. Both the AFSCME and the LFC are recommending increases in public spending on state employees, and the Governor is right to balk at these requests. The state's economy continues to be one of the worst in the country, and it is crucial for policy makers to assume fiscal responsibility. To increase compensation for public employees in New Mexico would demonstrate not only irresponsibility, but total disregard for the empirical reality shown in this paper.

Appendix 1: Regression Output

key:				
rearn: real earnings in 2010 dollars				
rearn adj: real earnings in 2010 dollars, adjusted for control variables				
Comp: total compensation				
Comp adj: total compensation, adjusted for control variables				
Public / Private Diff				8.55%
	NM	NM	NM	NM
VARIABLES	rearn	rearn adj	comp	comp adj
Public	-0.0872	-0.141	0.139	0.0820
	(-3.03)	(-4.88)	(4.83)	(2.78)
Experience		0.0175		0.0195
		(4.12)		(4.57)
Experience2		-0.000220		-0.000255
		(-2.62)		(-3.03)
High School Grad		0.150		0.183
		(4.04)		(4.82)
Some College		0.176		0.233
		(4.27)		(5.60)
Associates Degree		0.266		0.309
		(5.38)		(6.15)
Bachelors		0.535		0.581
		(10.9)		(11.8)
Masters		0.629		0.653
		(10.00)		(10.3)
Professional Degree		0.608		0.608
		(4.83)		(4.66)
Doctorate		0.904		0.898
		(8.88)		(8.87)
Female		-0.203		-0.188
		(-6.82)		(-6.25)
Black		-0.0227		-0.0148
		(-0.34)		(-0.22)
Asian		-0.269		-0.252
		(-3.15)		(-2.87)
Hispanic		-0.0461		-0.0280
		(-2.04)		(-1.22)
Disabled		0.0720		0.0563
		(0.64)		(0.49)
yr2		0.0620		0.0684

		(1.82)	(1.96)
yr3		-0.0246	-0.0351
		(-0.70)	(-0.98)
yr4		-0.0251	-0.00639
		(-0.68)	(-0.17)
yr5		-0.0455	-0.0427
		(-1.34)	(-1.25)
Lhrslyr (control variable for hours worked)		1.037	1.010
		(10.6)	(10.1)
1b.wemocg (wemcog controls for occupation)		0	0
		()	()
2.wemocg		-0.0360	-0.0276
		(-0.49)	(-0.37)
3.wemocg		0.0880	0.165
		(1.07)	(2.03)
4.wemocg		0.0995	0.129
		(1.70)	(2.19)
5.wemocg		-0.169	-0.126
		(-1.72)	(-1.25)
6.wemocg		-0.193	-0.197
		(-2.72)	(-2.73)
7.wemocg		-0.180	-0.147
		(-1.66)	(-1.27)
8.wemocg		-0.278	-0.292
		(-4.80)	(-4.93)
9.wemocg		-0.311	-0.266
		(-2.26)	(-1.92)
10.wemocg		-0.0914	-0.0453
		(-1.31)	(-0.65)
11.wemocg		-0.397	-0.452
		(-5.27)	(-5.75)
12.wemocg		-0.157	-0.112
		(-2.12)	(-1.52)
13.wemocg		-0.523	-0.576
		(-8.02)	(-9.05)
14.wemocg		-0.549	-0.559
		(-8.21)	(-8.15)
15.wemocg		-0.498	-0.586
		(-7.47)	(-8.62)
16.wemocg		-0.134	-0.151
		(-1.92)	(-2.15)
17.wemocg		-0.273	-0.221
		(-4.93)	(-4.00)
18.wemocg		-0.647	-0.707

