

State and local government pay increases outpace five-year rise in private industry

Differences in occupational, industrial mix of workers account for much of difference in wage and salary gains, according to Employment Cost Index

RICHARD E. SCHUMANN

Pay increases for workers in State and local government, as measured by the Bureau's Employment Cost Index, have exceeded those for workers in the private sector over the 5 years for which comparable data are available from the ECI. During the June 1981-86 period, wages and salaries increased by 36 percent in State and local governments, while pay in the private sector increased 27.9 percent.

Much of the difference in the size of wage changes between the two sectors can be explained by differences in the industrial and occupational composition of their work forces. The industrial and occupational groups which had the largest pay gains accounted for a higher proportion of employment in State and local government than in the private sector.

Over the last 11 years, however, pay probably increased by about the same percentage in the two sectors. During the 1981-86 period, wage changes in State and local government were very similar to those of the service industry in the private sector. If this relationship in rates of pay change held in the 1975-81 period, and there is evidence to suggest that it did, then during that earlier period pay gains in private industry led those in State and local government by about the same percentage as they lagged them during 1981-86. That is, by 1986 the relative rates of pay in the two sectors were about what they were in 1975.

The occupational effect

A substantial part of the difference between the private

sector and State and local government in rates of pay increase during 1981-86 can be explained by occupational composition. As shown in table 1, the groups with the largest wage increases in both sectors are relatively more numerous in State and local government. For example, professional specialty and technical occupations, which show the largest percent change during June 1981-86 in both the private sector (34.0 percent) and State and local government (37.6 percent), account for nearly two-fifths of State and local government employment, compared with slightly more than one-tenth in private industry. Teachers, the largest group within the professional occupation, make up more than one-fifth of all State and local employment and received large pay gains during June 1981-86.

In contrast, blue-collar workers, whose pay gains were less than those of white-collar and service workers in both private industry (23.7 percent) and State and local government (31.9 percent), are relatively more numerous in the private sector. They account for three-eighths of private industry employment, compared with only one-eighth of State and local government employment.

Service occupations, such as police, firefighters, and janitors, show pay increases closer to those of white-collar workers, and they, too, are more significant in State and local government. The pay of these employees rose 28.0 percent in private industry compared with 34.4 percent in State and local government; they account for one-fifth of State and local employment, compared with one-eighth of private sector employment.

To assess the impact of the differing occupational distributions on the aggregate wage change, the Bureau recalcu-

Richard E. Schumann is an economist in the Office of Wages and Industrial Relations, Bureau of Labor Statistics.

Table 1. Cumulative percent pay changes in government and the private sector and percent distribution of employment, by occupation, June 1981–86

Occupational group	Cumulative pay change		Percent of employment	
	State and local government	Private sector	State and local government	Private sector
All workers	36.0	27.9	100.0	100.0
White-collar workers	37.0	31.1	67.1	50.1
Professional specialty and technical	137.6	34.0	38.6	11.2
Executive, administrative, and managerial	136.0	32.1	9.2	9.8
Sales	136.6	24.3	0.9	11.3
Administrative support, including clerical	134.3	30.8	18.5	17.8
Blue-collar workers	31.9	23.7	12.0	37.4
Precision production, craft, and repair	133.0	25.7	4.2	14.4
Machine operators, assemblers, and inspectors	132.0	23.6	1.4	12.2
Transportation and material moving	129.3	18.9	3.6	5.0
Handlers, equipment cleaners, helpers, and laborers	133.1	20.3	2.7	5.8
Service occupations	134.4	28.0	20.9	12.4

¹ Unpublished data

NOTE: The Employment Cost Index employment distribution is based on the 1980 census.

lated percent changes over the last 5 years for private industry workers, using the occupational distribution from State and local government.¹ The differing occupational mix accounted for about 40 percent of the difference between the rates of pay increase for the two sectors. That is, if private industry had the State and local occupational employment distribution, the June 1981–86 pay increase for private industry workers would have been 31.4 percent, compared with the actual 27.9 percent, but still below the 36.0-percent change for State and local government workers.

When this process was reversed and the State and local government cumulative change was recalculated using private industry employment distributions, about 25 percent of the difference could be explained by occupational compositions. The revised cumulative percent increase for State and local government was 34.0 percent, compared with the actual 36.0-percent change, but above the private industry figure of 27.9 percent. Thus, differences between the private sector and State and local governments in the occupational employment distribution account for 25 to 40 percent of the difference in wage and salary increases during 1981–86.

Effects of industrial activity

Virtually all of the differential in the June 1981–86 rates of wage and salary change between State and local government and private industry can be explained by differences in the distribution of employment by industrial activity. A major difference between the two sectors is in the importance of service industry activities—for example, hospitals and schools. As shown in table 2, service activities account for nearly two-thirds of the State and local government work

force, compared with about one-fifth in private industry. Workers in service industry activities had the largest June 1981–86 pay gains in both private industry (36.9 percent) and State and local government (37.1 percent).

In addition, the industry divisions which are important in only one sector tended to raise the State and local government cumulative increase and lower the private industry increase. Manufacturing; wholesale and retail trade; and finance, insurance, and real estate are important only in the private sector, and the pay increases in these industries were lower than the average for all private industry workers (29.7 percent). Public administration, which represents 25.4 percent of State and local government employment, averaged pay gains of 34.6 percent, well above the 29.7-percent increase for the private sector.

To assess the impact of the differences in the industrial composition of the two sectors, the Bureau recalculated the cumulative percent change for private industry for the period 1981–86, using the industry distributions from State and local government.² The recalculated private industry change of 34.8 percent is very close to the State and local government change of 36.0 percent. It is clear that the differing industrial composition of the two sectors is crucial in explaining the differences in the June 1981–86 changes.

The service industry as a proxy

Because State and local government workers were not included in the ECI prior to June 1981, it is not possible to determine from that index whether State and local pay gains exceeded those in the private sector during 1975–81 as they did during 1981–86. It is possible, however, to draw some conclusions about relative rates of wage change during the earlier period by examining pay gains of the service industry in the private sector.

Table 2. Cumulative percent pay changes in government and the private sector and percent distribution of employment, by industry, June 1981–86

Industry	Cumulative pay change		Percent of employment	
	State and local government	Private sector	State and local government	Private sector
All workers	36.0	29.7	100.0	100.0
Manufacturing	(1)	26.5	(1)	30.2
Construction	234.2	19.8	3.3	5.8
Transportation, communications, and public utilities	228.1	26.6	4.5	7.7
Wholesale and retail trade	(1)	25.8	(1)	25.1
Finance, insurance, and real estate	(1)	28.0	(1)	7.7
Services	37.1	36.9	63.8	22.4
Public administration	34.6	(3)	25.8	(3)
Other ⁴	(4)	(4)	2.9	1.4

¹ This category is included in the "other" category.

² Unpublished data

³ Not applicable.

⁴ "Other" includes mining in the private sector and mining, manufacturing, wholesale and retail trade, and finance, insurance, and real estate in State and local government.

NOTE: The Employment Cost Index employment distribution is based on the 1980 census.

Wage and salary increases for workers in State and local government have, since June 1981, approximated those of the service industry of the private sector. Both State and local government (36.6 percent) and the service industry of the private sector (36.9 percent) have had increases greater than the private sector as a whole (27.9 percent). In contrast, during the 1975–81 period, wage and salary increases for the service industry in the private economy (48.4 percent) were smaller than for all private industry (56.3 percent). Consequently, over the period from 1975 to 1986, increases for workers in the private service industry (103.1 percent) have been about the same as those for all private sector workers (99.8 percent).

If State and local government wage changes had approximated changes in the private service industry for the September 1975–June 1981 period as they did in the June 1981–June 1986 period, the change in State and local wages over the 1975–86 period would be about the same as the change in wages for the private sector.

Evidence supporting the hypothesis that the change in State and local government wages approximated the change in wages for the private sector service industry from 1975 to 1980 is provided by earnings data from the Bureau of the Census.³ During the 1975–84 period, the latest for which census data were available, the increase in earnings for State and local government workers (85.0 percent) did approxi-

Table 3. Annual and cumulative percent pay changes in government and in the private sector service industry, 1976–84

Year	Private sector ¹		State and local government ²
	Total	Service industry	
1976	7.2	5.4	6.1
1977	7.0	5.3	6.1
1978	7.7	6.7	5.3
1979	8.7	8.5	7.7
1980	9.0	8.7	9.0
1981	8.8	10.6	9.5
1982	6.3	8.0	8.4
1983	5.0	6.6	5.7
1984	4.1	6.2	6.0
1975–81	59.2	54.2	52.3
1981–84	16.2	22.4	21.5
1975–84	85.0	88.8	85.0

¹ Based on change in Employment Cost Index from December to December.
² Annual change based on monthly earnings for October of each year. Census data on earnings for State and local government and educational employees taken from *Public Employment*, Series GE No. 1 for various years.

mate the increase in the ECI private service industry (88.8 percent). (See table 3.) This indicates that the relationship between changes in the private service industry and State and local government held for the period before June 1981 and that, over the longer period (1975–86), the difference between changes in the private nonfarm sector and the State and local government sector virtually disappears. □

—FOOTNOTES—

¹ This was accomplished by apportioning the private industry census employment weight among the major occupational groups on the basis of the distribution existing in State and local government, and then multiplying the private industry wage rate for each group by the weight for that group.

² Separate wage rate data were not available for manufacturing; wholesale and retail trade; finance, insurance, and real estate; and mining. The recalculated index compares those industry divisions (construction; trans-

portation, communications, and public utilities; and services) which have significant employment in both sectors.

³ The comparison of earnings data based on average October earnings with Employment Cost Index wage and salary data from the December quarter is not ideal. The two series do not measure the same concept and earnings series may differ considerably from wage series. The comparison is made to indicate a general trend which exists, not to make an exact comparison.