Public Servants / Public Service

This column provides an opportunity to discuss recent developments in the rapidly changing public sector employment arena.

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In the early 1960s, then President John F. Kennedy said, “Ask not what your country can do for you but what can you do for your country.” As a result, a large number of idealistic young men and women elected public service as a career choice. Interestingly, there were numerous job opportunities and there was not a big difference in compensation between entry-level jobs in public service versus the private sector, even if some of the jobs turned out to be disappointments to many who thought that they were going to have significant impact on society through some of the social programs of the time.

Fast forward to today: public sector employees, perhaps as a result of increasing unionization of government employees (at least in the hourly ranks) are generally paid as well as, if not better than, nonexempt employees in the private sector. Recently, however, the economy has had a substantial impact on both the private and the public sectors, resulting in significant numbers of job losses in the private sector. This has impacted the public sector in a variety of ways, only one of which is the reduction in the amount of tax revenue generated to sustain public sector programs at all levels of government. As a consequence, many public agencies—especially state and county governments—have been experiencing significant reductions in programs. Even so, the public sector, which according to the U.S. Department of Commerce, represented just 30 percent of the Gross National Product (GNP) in 1960, (the total GNP was $521 billion) while it now represents more than 34 percent of the GNP (the 2015 U.S. GNP was about $16 trillion), although it spiked in the recession to 41%. Total government spending increased from $150 billion in 1960 to approximately $6.36 trillion in 2015. Regardless which side of the debate you are on in terms of the size and role of government, government (at all levels) has simply become bigger and more expensive.

Recent studies of public versus private sector compensation levels have shown that public agencies continue to pay nonexempt employees better than private sector employers. When benefits are factored into the mix, the differential becomes even greater. However, in looking at professional level jobs and above, the private sector continues to pay more than the public sector, although the comparisons are not as clear cut as they are for nonexempt jobs. According to Glassdoor Economic Research, while pay ratios in the public sector decreased from 10:1 20 to 30 years ago (the highest paid employee earned about 10 times as much as the lowest paid employee) to something closer to a 5:1 ratio
today, we see examples in the private sector where the ratio may be 375:1 or even greater. So the way the private sector has rewarded employees has trended in the opposite direction from how the public sector is trending. This has caused some interesting pay issues in government and employees looking over the fence to private sector pay.

One of the major draws for public sector employers in years past was the stability of employment. However, as public sector organizations have been forced to retrench, many agencies have had to use layoffs, furloughs and other means to reduce staffing and payroll costs. While this may appear to be painting a bleak picture for prospective public sector employees, we believe that it is just the opposite. In fact, we believe that opportunities exist in the public sector that rival the opportunities that existed back in the 1960s. This is based on several reasons, not the least of which are:

• Public sector employment opportunities continue to offer greater stability than the private sector.
• Public sector jobs tend to be more knowledge based. As a result, overall compensation levels should continue to remain competitive with the private sector.
• Public sector employment offers the opportunity to make a contribution to society that many today find appealing.

According to the U.S. Department of Labor, there was one job opening for every 1.4 unemployed workers who sought jobs in May 2016. Prior to the recession, there was one job opening for every two unemployed workers. While there will be increased competition for those public sector jobs that do exist, the overall quality of the applicants should increase because they will represent a larger potential employee pool. This should bode well for the public sector, as it will bring in employees who might not have previously considered employment in the public sector.

When it comes to pay, there have been numerous surveys conducted to determine what both public and private sector employers are doing to weather the current storm. While the reported numbers vary widely depending on the survey reviewed, this year’s WorldatWork Survey indicates that, on average, across employee type, the number of organizations reporting no structure increase was 45% in 2009 but in 2016, the average increase is hovering around 3% of pay. This data demonstrates that even in difficult times, the majority of employers are still attempting to align their pay structures with the market. We may not have turned the corner completely on the recession, but it appears more promising than in the past several years that employees will earn a pay increase.

Conclusion

While the past economic climate has caused considerable pain for most public sector organizations, it is difficult for many to realize that the real challenge ahead will be shifting from short-term survival of the organization to long-term sustainability. Public service and public employment opportunities will not be going away. Rather, the demand for services will continue, if not increase. The demographic shift in this country will result in large numbers of current public sector workers retiring within the next 5 to 10 years. The population in the U.S. is aging and will continue to put more stress on public sector organizations, ranging from the federal government (Medicare and Social Security) to local governments in terms of programs for senior citizens. This alone will create a great number of new opportunities for public employers to entice motivated and highly skilled workers into public service. Unless the fundamental role of public sector organizations changes, which we do not believe will happen, the need for even more highly skilled workers will exist. We will continue to need teachers, nurses, doctors, and public safety personnel to deal with an aging population. In order to meet these needs, it is our opinion that governments should re-
evaluate the way business is done. For sustainability, leaders will need to take a longer term view than seems to be the case at present. Although the overall numbers of public sector employees may decrease over time, the skill levels will need to increase. This will, in turn, necessitate that public sector pay be competitive with the private sector at all levels and not just at the hourly, nonexempt level. This is clearly going to be a difficult pill for those taxpayers and elected officials who advocate that there is no need to pay public employees competitively.

We see some consistent patterns throughout the country in terms of how public employee pay and public sector jobs are shown in the media. If we are to have any hope of changing public perception, public agencies need to do a substantially better job of educating their various stakeholders about the need for a well-educated workforce and the challenges that exist in meeting these needs. One simple step is to educate your own employees about their pay and benefits both in terms of the total package they receive, as well as how this relates to the community at large. If you are not educating your employees and your prospective employees about the value of your compensation program, you are tacitly acknowledging that public employees are entitled to their pay and benefits as a right. Since we know that salaries and benefits represent the largest share of most agency budgets, employers need to recognize the overall value of the pay and benefits provided to employees and take credit for these programs. Failure to do so will only make it more difficult for you to recruit and retain the talent needed to effectively provide the services that are so vital to our society and the foundation of the public service.

The Comp Doctor™ is the team of Jim Fox and Bruce Lawson, Managing Directors in the Human Resources & Compensation Consulting practice of Arthur J. Gallagher & Co. They specialize in assisting governments in fixing their compensation and classification systems.

You may find them on the web at www.ajg.com/compensation.

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