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BLOATED BUREAUCRATS OR UNDERAPPRECIATED PUBLIC SERVANTS? HOW DO PUBLIC AND PRIVATE SECTOR WAGES COMPARE IN ALBERTA?

Richard E. Mueller¹

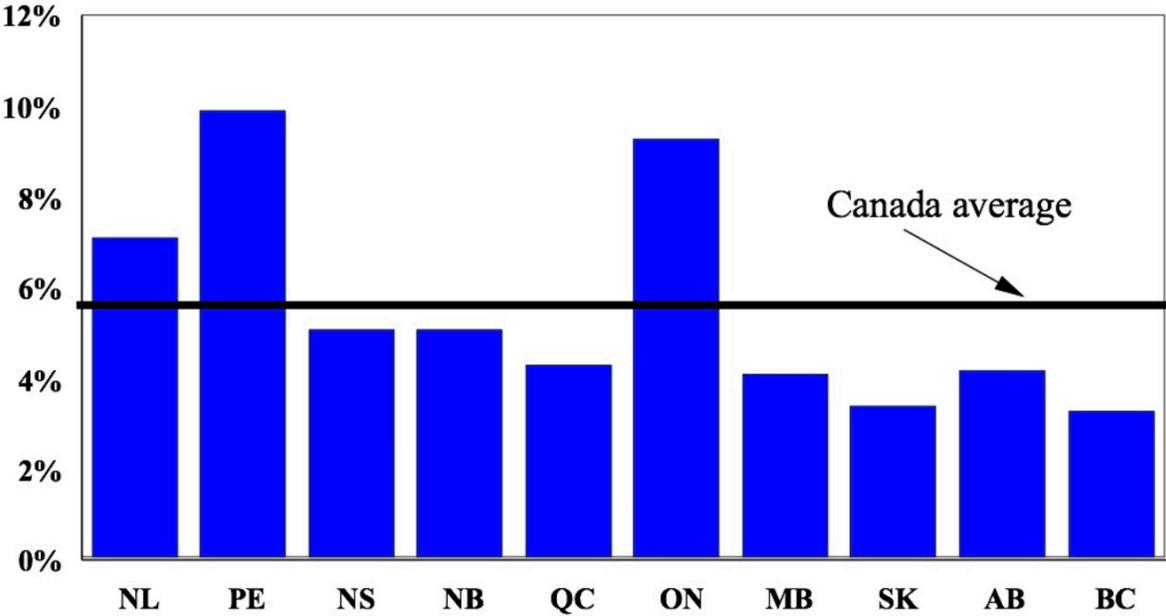
This communiqué is based on the following paper: Public Sector Wages in Alberta: How do these Compare to Other Provinces and to the Private Sector? by Richard E. Mueller

Are public sector workers in Alberta over paid? Or are they perhaps just the target of resentment from private sector workers, many of whom have lost their jobs and incomes in the past few years as the energy sector has shed thousands of positions? This communicate summarizes the main results in Mueller (2019) concerning the size of the public sector wage premium, which is the percentage difference between the earnings of workers in the public and private sectors. To determine whether there is public sector wage premium and its size, it is necessary to compare the wages and salaries of public sector workers with private sector workers with similar characteristics, such as education and age, and that work in industries that overlap both the private and public sectors. The Mueller study uses state-of-the-art econometric techniques and data on individuals' earnings from Statistics Canada's Labour Force Survey from January 2006 to December 2017. The database for Alberta contains 678,563 hourly wage observations over the 12-year period.

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This study reaches three basic conclusions regarding public sector wage premiums.² First, the average public sector wage premium varies widely across provinces. Figure 1 shows that the public sector wage premiums for non-administration public employees range from a low of about 3.3 percent in British Columbia to a high of about 9.9 percent in Prince Edward Island. The average wage premium in Alberta — at 4.2 percent — is below the national average of 5.9 percent. And a slightly more nuanced approach — more of an apples-to-apples comparison — puts the Alberta figure at 3.7 percent and the national average at 5.7 percent.

FIGURE 1: PUBLIC SECTOR WAGE PREMIUMS BY PROVINCE

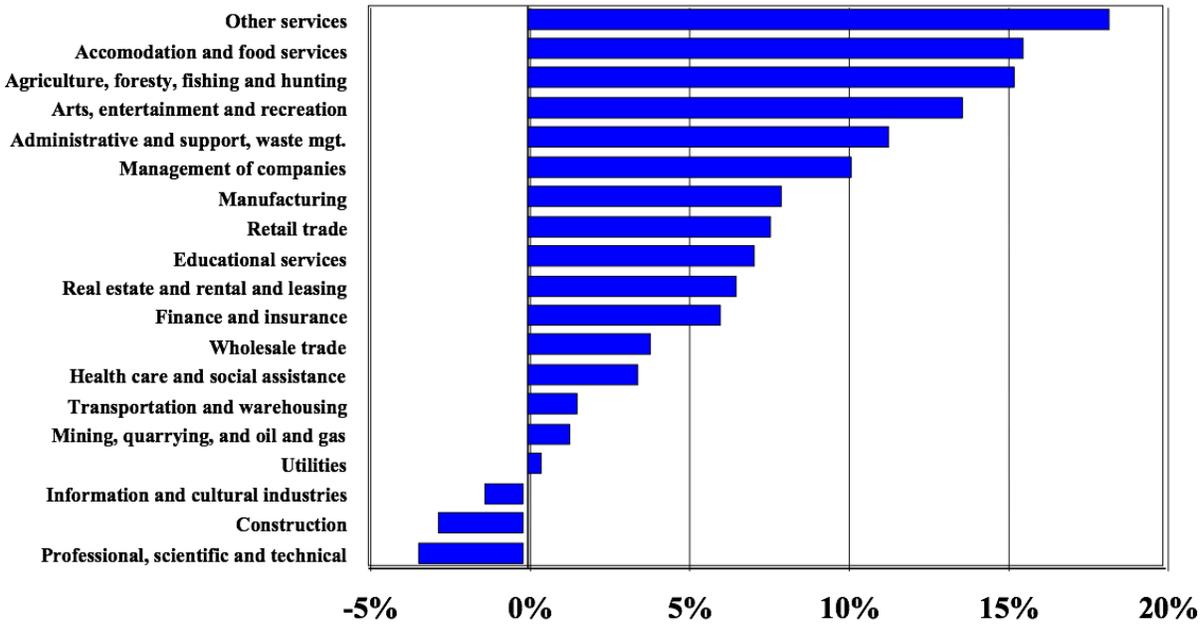


Source: Mueller (2019, Table 3A, page 22.)

Second, as Figure 2 shows, the public sector wage premiums in Alberta varies widely across industries. On the one hand, the public sector wage premiums exceed 15 percent in Other Services, Accommodation and Food Services, and Agriculture, Forestry, Fishing and Hunting. At the other extreme, those public employees in Professional, Scientific and Technical Services, Construction, and Information and Cultural industries earn less than those in the private sector.

² The public sector wage premiums reported here are for public employees not in public administration because there are, by definition, no private employees in that industry. See Mueller (2019) on the difficulty of public-private sector wage comparisons for employees in public administration. Those public sector workers not in public administration comprise about three-quarters of all public sector workers in Canada. The remainder are employed at the various levels of public administration, mainly at the federal, provincial/territorial and local levels of governments.

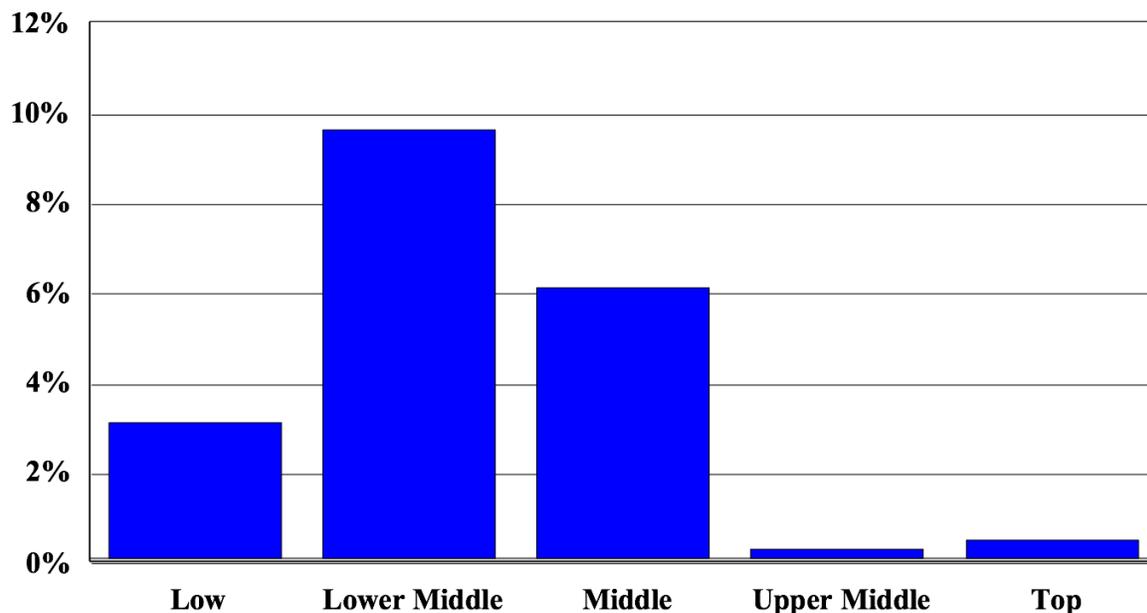
FIGURE 2: PUBLIC SECTOR WAGE PREMIUMS IN ALBERTA BY INDUSTRY



Source: Mueller (2019, Table 4, page 23.)

Third, the public sector wage premiums are higher for those public sector workers in the lower to middle range of the earnings distribution. Figure 3 shows at a low wage rate, where 10 percent of private sector workers earn less than that amount, the public sector wage premiums is 3.1 percent. At a higher wage rate, where 25 percent of private sector workers earn less than that, the wage premium is 9.6 percent. At the median earnings level, the public sector wage premium is 6.1 percent. Near the top end of the wage distribution, where 90 percent of workers earn less than that amount, the wage premium in Alberta is less than one percent. These results are consistent with the findings in previous studies. Generally, the public sector wage premiums are higher at the lower tail of the wage distribution and lower (and often negative) at the upper tail of the wage distribution.

FIGURE 3: PUBLIC SECTOR WAGE PREMIUMS IN ALBERTA ACROSS THE WAGE DISTRIBUTION



Source: Mueller (2019, Table 8A, page 30)

The study acknowledges that a number of data limitations that may have affected the estimated public sector wage premiums, including limited data on individual characteristics of workers, the absence of data at the upper and lower limits of the wage distributions, and the absence of data on non-wage compensation such as health benefits and defined-benefit pension plans. It should also be noted that the estimated public sector wage premiums are weighted averages for the dozen years between 2006 and 2017. Since 2015, private sector wages have fallen in Alberta while provincial government entered into zero-wage increase contracts with many public sector unions. The recent public compensation policies and private sector labour market factors are not reflected in the estimates of the public sector wage premium reported in the Mueller study.

While acknowledging this caveat, it is nonetheless interesting to calculate the impact of eliminating the public sector wage premium on the Government of Alberta's deficit. Eliminating the overall average Alberta public sector wage premium would save the government about \$800 million, or about 9 percent of the original 2018-19 budget deficit of \$8.8 billion. Implementation of such a blanket policy, however, would almost certainly be inappropriate given the estimated wage premiums (and penalties) across the wage distribution. An across-the-board cut in public sector wages in Alberta would result in the continued overpayment of those at the lower tail, while potentially exacerbating the wage penalty at the upper tail of the same distribution. Thus, government must be cognizant of the fact that any wholesale changes to wages would have quite different affects at different points of the wage distribution. While public employee wages do tend to be higher than private employee wages in Alberta, they are also higher elsewhere, and Alberta does tend to be on the low end, especially given the importance of the high paying resource extraction industry in the province.

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Richard E. Mueller is Professor of Economics at the University of Lethbridge and Academic Director of the Lethbridge Branch of the Prairie Regional Research Data Centre. Dr. Mueller has a wide range of interests related to education and labour market policy and has taught and given presentations in Europe, Asia, the US and Latin America. His research has been published in various economics, Canadian studies, and higher education journals, several edited volumes and reports, and highlighted by a variety of media outlets. .

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