Discussion on
"Do State and Local Governments Offer Competitive Compensation?"
by Byron Lutz, David Ratner and Louise Sheiner

Alex Mas

What question does the public-private compensation gap answer?

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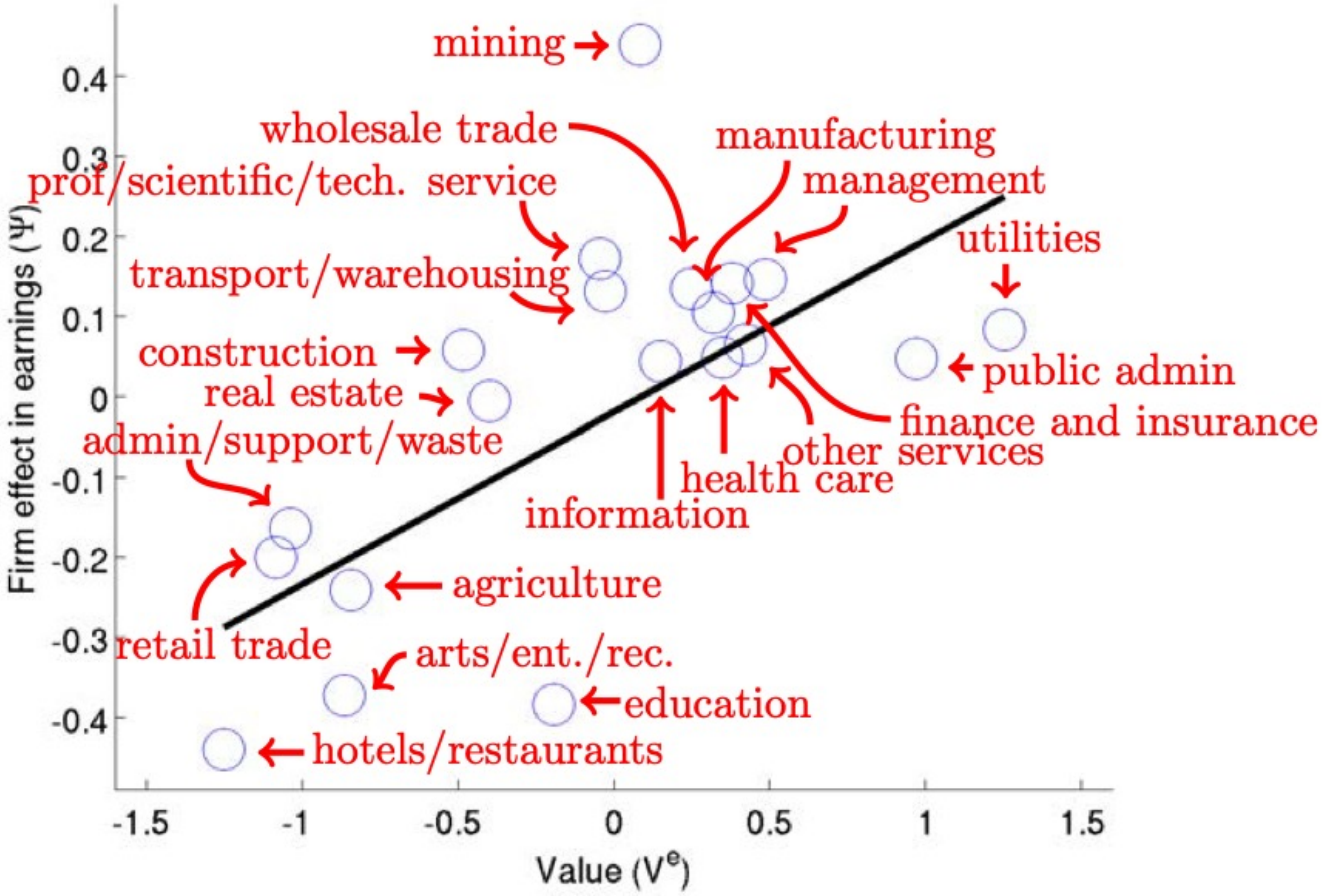
- **Version 1**: What would the same worker make if they moved to their best available option in the private sector?
  - Compatible with rents
  - Use of term “overcompensated” suggests this is the goal

What question does the public-private compensation gap answer?

- **Version 2**: How much does S&L compensate relative to private-sector employers with similar occupations or job-requirements?
  - Compatible with a competitive market and heterogenous worker productivity
  - Recognition of hiring difficulties is a nod to 2

What question does the public-private compensation gap answer?

- There can be a gap in version 2, even if there is no gap in version 1.
- Which of these is being estimated here?



Source: "Ranking Firms Using Revealed Preference", Sorkin (2018)

Wage estimation

- In principle the most straightforward part of the analysis, but requires caution
- Unobservables can be pernicious

It's Not (Just) About the Money: Pay and the Value of Working Conditions in Teaching*

Carolyn Tsao†

August 21, 2025

Updated frequently — [click here for latest version]

Abstract

Tsao (2025):

- CPS-style estimation with usual controls => teachers are underpaid, but quasi-experiment => same teacher has higher pay than next best job option (a version 1 vs version 2 issue, per last slide)

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- What percent of wages would have to be spent to buy a comparable annuity in the private market
- Average DB plans worth ~18% of wages
- Different accounting models wrt sensitivity to discount rates and inflations
- Ex-ante or ex-post returns?
- While DB generosity is nominally flat, are we missing changes in Social Security integration and DB-DC hybrid plans in public sector?
- Tiers? Age weighting?

Job stability I

- Use job earnings displacement estimates
- Value of a job is earnings – value of leisure
- Psychological costs of unemployment etc.
- Use a revealed preference measure, eg. Lachowka, Mas, Saggio and Woodbury (2005)

Table 4: Relationship between the PageRank index and employer effects on hours and wages

	(1)	(2)	(3)	(4)
Outcome: PageRank utility index				
Employer effect on hours (ψ^h)	5.224***	5.537***	5.132***	5.166***
	(0.713)	(0.538)	(0.537)	(0.555)
Employer effect on wages (ψ^w)	5.845***	7.005***	6.895***	6.890***
	(1.762)	(1.418)	(1.409)	(1.409)
Employer effect on job security			12.969***	12.973***
			(0.983)	(0.986)
Employer effect on within-job hours variability				0.423
				(1.239)
Number of employers	57,460	57,460	55,835	55,835

Source: “Work Hours Mismatch”, Lachowska, Mas, Saggio, Woodbury (2025)

a 1-percentage-point increase in the firm’s two-quarter employment-continuation probability is valued like ~1.9% higher wages

Job stability II

- $6 \times 0.0015 = 0.009 \Rightarrow$ wage-equivalent $\approx 1.88 \times 0.009 \approx 1.7\%$.
- Revealed-preference price of job stability works out to ≈ 1.75% of wages in recent years
- LRS displacement-based value ≈2% (2024)