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FRINGE BENEFITS: COMPARISON OF PUBLIC & PRIVATE SECTOR EMPLOYMENT
IN US STATES WITH IMPLICATIONS FOR ARMENIA

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ABSTRACT

The current policy internship project that was conducted at the Ministry of Finance of the Republic of Armenia presents a comparison of public and private sector employment of the US states with implications for Armenia, and explores the role of fringe benefits in the remuneration system of the two sectors – public and private.

In the introductory part of the current research the aim of the policy internship paper is discussed and the research questions are presented that the paper aims at finding answers.

In the literature review sector several policy papers and survey research are discussed referring to both comparison of public and private sector employment, and the role and the appropriateness of fringe benefits in the compensation package of the employees.

Next come findings and analyses part of the paper that compares in details the public and private sector compensation methods of three US states, and then Armenian compensation system of two sectors is compared. From the analysis of the findings it is revealed that fringe benefits play an important role in the distribution mechanism of the two sectors' compensation of the US states. Fringe benefits appear to be a tool for the US states to cover the wage gap between the public and private sector employees. In Armenia compensation package does not include fringe benefits as a result of which the Armenian public sector employees' remain under compensation.

The last section of the policy paper brings some conclusions on the compensation systems of US states and Armenia and gives policy recommendations for Armenia. Particularly, it stresses the need for inclusion of fringe benefits in the compensation system of Armenia to equalize public and private sector employees' remunerations.

INTRODUCTION

The aim of the policy internship paper is to compare US states' and Armenia's public and private sector employment to explore and analyze the compensation systems of two sectors. For the research the case studies of three US states – Wisconsin, Missouri, and California – were conducted and the compensation systems of each state public and private sector were compared and analyzed.

The idea of analyzing the compensation systems of the US states is to understand whether there is distinction in the compensation systems of public and private sector employees in the US states, and, if any, to explore in which US state the public and private sector employees are more or less equally compensated, and also to discover the tool(s) that bring(s) equality in the employee compensation in the two sectors. The paper aims at analyzing the compensation system in Armenia to explore whether there is a difference in the compensation systems in the two sectors. After analyzing the Armenian compensation system in the two sectors and after finding the undercompensated sector in Armenia, the tool(s), mentioned above, can be implemented in the compensation system that can bring the undercompensated and the overcompensated sectors into equal levels.

Research Questions

The research questions posed in the course of this policy internship project are as follows:

- RQ 1 – Is there any distinction in compensation system for public and private sector employees in the US states?
- RQ 2 – What are the differences of public and private sector employment in Armenia?
- RQ 3 – Should the Armenian government raise salaries to raise public sector employee compensation level; or fringe benefits are also a solution?

Methodology

The policy paper is based on primary and secondary data. Primary data was collected through structured interviews with civil servants of the Republic of Armenia.

For the purpose of the policy internship project a survey was conducted in 32 public bodies out of 46.

The sampling frame of the survey includes 7,911 civil servants, out of which 128 civil servants were interviewed. The sample was created using multistage cluster sampling method. The first cluster involved 46 public bodies where civil servants work from which 32 were selected through random number generator. In the second stage four civil servants were randomly sampled from each of those 32 public bodies.

The primary data also include relevant legal documents of the Republic of Armenia. Secondary data of the paper, with regard to Armenian employment system, include mainly 2009 and 2010 research of National Institute of Employment and Social Research of the Republic of Armenia, and for considering the employment condition in US, the studies of Keefe on three US states – California, Wisconsin and Missouri - are analyzed.

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LITERATURE REVIEW

The issue of inequality between the public and the private sector employee compensations has been among the widely discussed topics in almost all the states during the last century. In US it was claimed that earnings inequality has been increased substantially since the 1970s and especially during the 1980s, but it has remained low over the next two decades (Kopczuk, Saez and Song, 2010, p.2). It is the distribution mechanism of employee compensation that is blamed on bringing inequality between the two sectors, and in almost all the states, like in US, the same mechanism works which is the following: public sector

employees are less paid in comparison with their private sector counterparts, while they are given more fringe benefits in comparison with private sector employees to balance the two sectors' compensations. However, for some scholars the public sector employees get a better deal of this compensation system while private sector employees appear to be on the losing side, and others claim that it's just the vice versa.

A university of Wisconsin study, done by Bender and Heywood (2010) has done a research on the wage and benefit of public sector employees. The aim of the study was to examine the extent to which public sector compensation in the United States is comparable to compensation in the private sector. The authors came to the conclusion that public sector employees have lower total compensation than their private sector counterparts, and, on average, total compensation is 6.8 percent lower for state employees and 7.4 percent lower for local workers in comparison with private sector employees. Also, the study states that for the last 20 years, the earnings of public employees have generally decreased compared with private sector employees despite the fact that Employees in public sectors are twice as likely as their private sector counterparts to have at least a college degree.

A National Bureau of Economic Research survey, conducted by Borjas (2002) was aimed at analyzing the wage structure of public and private sectors. The evidence of the analysis was that as a result of the relative compression of public-sector wages since 1970, high-skill private sector workers became increasingly less likely to quit their jobs to enter the public sector, and high-skill public sector workers became increasingly more likely to switch to the private sector. This is evidence that public sector employment is not competitive compared to private sector employment.

As it was stated above, some scholars keep on claiming that public employees are overcompensated in comparison with their private sector counterparts. Unlike the survey, just mentioned above, Edwards (2010) claims in his study that it is the private sector employment

that has become uncompetitive. The study revealed that the quit rate is significantly lower in the public sector than in the private sector and it concludes that if government workers were lesser compensated than the private sector workers, they would leave for those higher compensated private sector jobs and the quit rate would be much higher. Thus, the study recommends that in order to raise the competitiveness of private sector, higher-quality government services should be provided at lower cost to cover the state fiscal crisis, and that public sector compensation—and benefit plans in particular—need to be overhauled to ensure financial sustainability.

A survey on Public/Private Sector Salary and Benefit Packages in California, conducted by the Department of Personnel Administration of California (2010), reveals that in some classifications, public sector employees are compensated more than private sector while other sectors are not. Also, State employee compensation lead the private sector employee for clerical jobs, accountants, and trade classes such as electricians, stationary engineers, but lag behind similar jobs in the public sector.

And, finally, a recent survey from the U.S. Bureau of Labor Statistics (2011) revealed that state and local government employees total compensation composed 44% more in comparison with private sector – public employees earned total compensation of \$39.60 an hour compared to \$27.42 an hour for private industry workers.

Now it is time to refer to the fringe benefits which is an indivisible part of employee compensation package in the US. Fringe benefits were and still continue to be widely criticized by many economists and scholars on the ground of being unbeneficial for the employees, and that the employees will be better off from the increase in salaries not from fringe benefits, while there were and still are others who try to assert that compensation consisting of salary and fringe benefits are more beneficial than compensation that is composed of only salary.

Chung (2003) discovers that when fringe benefits are accounted for, inequality increases, and the evidence is that the greater decline in income for less skilled employees causes greater decline in health insurance coverage, which in its turn contributes to greater inequality growth when fringe benefits are accounted for.

A study, done by Woodbury (1983), aimed at discovering how well fringe benefits substitute for salary benefits revealed that when fringes are defined as health benefits and life insurance plus retirement benefits, salaries and fringe benefits are extremely good substitutes. In contrast, when fringes are defined as only health benefits and life insurance, they are not good substitutes. Hence, in the first case fringe benefits are preferred, while in the second case, they are not.

PUBLIC SECTOR EMPLOYMENT OF ARMEINIA

According to the 1st chapter, 3rd point of the of the RA “Law on Civil Service,” public service includes the following sectors: Civil Service, Judicial Service, diplomatic Service, Special Services of Defense, National Security, Police, Tax, Customs and Rescue Services in the republican executive bodies, in the National Security Council, as well as other services as provided by the legislation. As the public sector job positions are composed of four large groups – highest position, chief position, leading position, and junior position - the private sector job positions have also been divided into four groups by the National Institute of Employment and Social Research to compare it with the state sector. Those are: Leading position in the organization, Head of a Department in the Organization, Expert with high qualification, and Expert with mid qualification which, for comparing, are given the values of the Highest, Chief, leading, and Junior respectively.

According to the 2010 research done by the National Institute of Employment and Social Research, the average salary in the public sector composed 115 261 AMD (National Institute of Employment and Social Research, 2010, Graphics 1), which in comparison with 2009 statistics, when the average salary was 112 502 AMD (National Institute of Employment and Social Research, 2009, Graphics 34), has grown by 8.8%. Overall, in the public sector the closest to the average salary is the State Service in the Staff of the National Assembly with average salary of 119 158 AMD and Criminal Inspection Service - 110 552 AMD. The average salary of the civil servants has also grown - from 119 721 AMD to 126 416 AMD which is a growth of 5.6%.

Comparing the averages of the salaries of all the public sectors shows that in public service there is an essential difference in the average salaries. As it was stated the overall average salary of the public sector is 115 261 AMD. But if we compare the averages, we see that if in the Tax Service and the Customs Service the average salaries are 379 672 AMD and 314 688 AMD respectively, in the Court Bailiffs Service the average salary is 50 605 AMD. This shows that the wage gap between the highest and the lowest average salaries is about 7.5 times.

The difference between the highest salaries in the public sector is also great. While in the Customs Service and the Tax Service the highest salaries (like in the case of average salaries) are 976 810 AMD and 774 137 AMD respectively, in the Court Bailiffs Service the highest salary is 202 877 AMD (National Institute of Employment and Social Research, 2010, Graphics 2). This shows that the difference between the highest salaries in the public sector is about 4.8 times, and the differences are not systematic.

Civil Service

Based on 2010 research done by the National Institute of Employment and Social Research, the average position base salary of the civil servants is composed 101 006 AMD, the highest position base salary is 495 000 AMD and the lowest position base salary is 40 000 AMD (see table 1).

Table 1* The average, highest and lowest position base salary of civil servants of the RA from 2007-2010

Position base salary	2007	2008	2009	2010
Lowest	35 500	40 000	40 000	40 000
Average	84 017	99 115	99 254	101 006
Highest	495 000	495 000	495 000	495 000

Table 1* - based on table 1 of 2010 National Institute of Employment and Social Research.

From the table it can be seen that during the last four years the average monthly position base salary of the Civil servants has been increase for about 20%. However this increase is mostly connected with the change in the base salary from 35 500 AMD to 40 000 AMD and if we compare 2009 and 2010, we see that the increase is just for 1.7%.

In 2010 the average salary of the civil servants composed 126 416 AMD, the highest salary was 822 357 AMD and the lowest was 40 000. With comparison to the numbers of 2009 (average – 119 721 AMD, highest – 707 920 AMD, lowest - 40 000 AMD), there is an increase of 5.6% in the average salary, but when the inflation (108%) of the last year is considered, it appears that, in reality, it is the opposite – the average salary has not increased for 5.6% but decreased for 3% (National Institute of Employment and Social Research, 2010, p. 23).

If we consider the salary differences in the different civil service sectors we can see that the highest salary is in the State Nuclear Security Regulation Committee (822 357 AMD) which is twelve times higher than its lowest salary and the lowest 40 000 AMD salary is in the

National Statistical Service and in four Marzes – Vayoc Dzor, Syunik, Kotayk, and Lori (National Institute of Employment and Social Research, 2010, Graphics 7).

Having a look at the average monthly salary according to the position groups, we see that in 2010 the highest position employees earn on average 244 647 AMD, the chief position employees – 162 418 AMD, the leading – 107 087 AMD, and the junior – 71 758 AMD. This reveals that the junior employees get on average 33% less salary, than leading employees who themselves get 34% less than the chief employees. The chief employees, on their turn, are paid 33.7% less than the highest position employees. Hence, the difference between the junior and the highest position employees is about 3.4 times. (See table 2).

Table 2* The highest, lowest and average salaries of Civil Servants based on position group (in AMD)

Position	Lowest salary	Average salary	Highest salary
Highest	151 200	244 647	822 357
Chief	97 200	167 418	736 800
Leading	62 400	107 087	423 263
Junior	40 000	71 758	419 983

Table 2* - based on graphics 9 of 2010 National Institute of Employment and Social Research.

Though in the “Law on Remuneration of Civil Servants” in article 5 point 7 it is said that any kind of discrimination including gender discrimination) against civil servants must be excluded however, there is still discrimination based on gender; women are paid the 82% of men’s salary. In 2009 the men’s average salary composed 133 867 AMD, and women’s average salary was 109 133 AMD (National Institute of Employment and Social Research, 2009, p. 43). Taking a look at the premiums that civil servants get, we can see that the number of women who get premiums is 12% more than men. It should be recalled that the employees are given premiums for having a higher position degree than the position degree corresponding to the subgroup of that particular position, which means that women are more qualified than men (National Institute of Employment and Social Research, 2009, p. 43).

The reason that in some public services the salaries are much more than in other public sectors is that in those sectors there is a higher risk of corruption, that is, for the most cases, the higher the salary the more the risk of corruption.

The great difference in salaries in the public service also speaks about different salary systems in different sectors. The factors creating such inequality are the different amounts of base salaries, different position classification mechanisms and different combinations of salaries and supplemental pay. It should be recalled that there are two groups of salary systems in the public sector:

- 1) Services, where the salary is counted through the tariff scale regarding the position base salary, the position that the employee holds and the work experience.
- 2) Services and positions, for which there is a fixed nominal salary with absolute or percentage.

Supplemental Pay in the Public Sector

However, there is another issue that brings differences; in the public, as well as in the private sector, employees' compensation package is composed of basic compensation, which is the employee's salary and additional salary, which is called supplemental pay. The greatest amount of supplemental pay can be seen in the Criminal Inspection Service (68.5%), Customs Service (56.4%), Civil Special Service (50.9%), Tax Service (49.5%) and in Civil Service it has reached to 20.1% (in 2009 it was 15.2%). This reveals that the public sector employees receive on average 39.7% supplemental pay out of their overall compensation.

Another point is that not only salaries but also supplemental pay can be divided into several large groups, which are:

- Appendages, which are connected with special working conditions such as the geographical area, extra working hours, working at nights, in weekends and holidays. Almost all the public sector employees are provided with these appendages. For those, whose workplace is harmful for their health or life get appendage equal to 24% of their position base salary, working in high mountainous places brings an appendage equal to 20% of position base salary, etc. But it should be mentioned, that the appendage cannot exceed 8000 AMD.
- Motivating premiums that are awarded to the employees for having long-term work experience, for performing the duties with high quality, etc.
- Annual one-time premiums, which are given for appraising the employees' civil activity, for special tasks and for performing the duties with high quality.

It may seem that the employee rewards are similar, but there is a difference in the reward distribution mechanisms and the rewards can be given both from the salary and the reward funds. Also it is not to say that the abovementioned rewards are the only types of supplemental pay provided in the public sector. There can be such rewards as raising the salary, some social payments, such as payments provided for food, medicine, housing, retirement appendages, and additional paid vacations.

There are some kinds of supplemental pay that are provided for the employees based on the type of sector where they are working. These are:

- providing free medical aids that are provided for the employees of the Rescue and Military Services, and providing the military servants with house or state financial aid for getting house in the case the employees are in need (National Institute of Employment and Social Research, 2010, p. 16),
- providing the Customs servants amends for transportation and connection tools expenditures (Law on Customs Service of the RA, article 42),

- providing annually 30 days of paid vacation for Special Inspection Servants (Law on Special Inspection Service of the RA, article 26),
- Payments for the health insurance of the employees working in the diplomatic service, and payments for the educational expenses of the diplomat's children, etc (Law on Diplomatic Service of the RA, article 46).

The supplemental pays are especially more in the Staff of the Government of the Republic of Armenia, in the State Adjunct Bodies of the Government of the RA, and in the ministries of the RA.

Taking a close look at the employee compensation package, we can notice that the huge compensation differences are connected with the supplemental pay. In particular, when civil servants are considered, we can see that the greatest amounts of supplemental pay are given to the State Revenue Committee and the State Committee of the Nuclear Safety Regulation.

Appendages, premiums and rewards are the basic supplemental pays of civil servants. The overall supplemental pay of civil servants, according to the 2010 data, composed the 20.1% of the employee average monthly salary. The average supplemental pays composed 25 416 AMD where the appendages were 2.57%, premiums – 6.18%, and the sum of the rewards composed 91.2% of the overall supplemental pay (National Institute of Employment and Social Research, 2009, p.25).

With regard to the premiums, that the employees are given for having a higher position degree than the position degree corresponding to the subgroup of that particular position is equal to 5% of their nominal wages. As analyses show, only 12.3% of civil servants get premiums and with comparison to 2009 it has grown by about 7%. (National Institute of Employment and Social Research, 2009, graphics 8)

There is a difference in the way supplemental pay is provided to each position in the civil service. The employees, who hold highest position, get on average 24% supplemental pay,

in chief position it is 21%, in leading position – 18%, and in junior – 20% of their average salary (National Institute of Employment and Social Research, 2010, p. 31).

If we go deeper and want to understand how much of each type of supplemental pay is provided for civil servants holding different positions, we see that rewards are, for the most, given to highest position employees (93.2%), and the least are given to junior position employees (89.7%) (National Institute of Employment and Social Research, 2010, p. 31). Considering the premiums, we see that premiums are mostly awarded to employees who hold chief and leading position (on average 6.6%).

PRIVATE SECTOR EMPLOYMENT OF ARMEINIA

State administration of salaries in the private sector is in too low level – it only works in the way of establishing the lowest level of salaries, and the job of employees is valued based on the market demand and supply of employees.

According to the National Institute of Employment and Social Research, in 2010 the average salary in the private sector was 195142 AMD, the maximum level of salary was 2 300 000 AMD and the minimum level was 30 000 AMD (National Institute of Employment and Social Research, 2010, p.17).

From Table 3 it can be seen that in comparison to the salary of 2009, in 2010 there is about 3.5% increase in average salary.

Table 3 The average, maximum and minimum amount of salaries of private sector employees of the Republic of Armenia in 2009-2010 (in AMD)

By Year	Average	Maximum	Minimum
2009	188 461	2 368 137	21 528
2010	195 142	2 300 000	30 000

In the private sector, in all the spheres, the gaps of employee average wages are huge.

Considering the economic sphere, the highest average salary can be seen in Mining and Quarrying (278 479 AMD), and Electricity, Gas and Water Supply (224 024 AMD), while the lowest average salary is in the Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles and Personal Household Goods (169 400 AMD) (National Institute of Employment and Social Research, 2010, graphics 3). Hence, the gap between the highest and the lowest average salaries is about 64 times.

With regard to Marzes the highest level of the average salary is seen in Syunik and Ararat, 228 294 AMD and 210 199 AMD respectively, and the lowest level of average salary is seen in Aragatsotn with 148 487 AMD which shows that the average wage salary of Syunik is 54 times higher than the average salary of Aragatsotn. Compared to 2009 when both the highest (2 368137 AMD) and the lowest (21 528 AMD) salaries were in Yerevan, in 2010 the lowest salaries were in Tavoush and Gegharqunik (both 30 000 AMD) while the highest still remains Yerevan (2 300 000 AMD) (National Institute of Employment and Social Research, 2010, graphics 4).

There is also a great distance between the highest and the average salary in the private sector. The greatest difference is in Lori where the average salary is 207 854 AMD and the highest salary is 1 956 240 AMD, which means that the difference between the average and the maximum salary is about 60 times.

It is worth mentioning that based on 2009 the National Institute of Employment and Social Research, despite the number of women working in the private sector is more (51.1%) than men, however, the average salary of men is higher than women's salary. The reason for this is that like in the case of public sector, men have the favor of holding higher positions than women; men are often seen in head positions while women are often in the mid-positions.

Moreover, even if women hold head positions they are 23% undercompensated than men holding the same position (National Institute of Employment and Social Research, 2009, p. 115). The same situation is for all the other positions, like in the case of women holding the position of a head of a department are paid 23.6% less than men of the same position, etc (See Table 4).

Table 4* The average salaries of private sector employees based on gender (in AMD)

Position	Gender	Average Wage
Leading position in the organization	Male	247 220
	Female	190 320
Head of a Department in the Organization	Male	258 780
	Female	209 220
Expert with high qualification	Male	221 070
	Female	174 000
Expert with mid qualification	Male	159 820
	Female	122 030

Table 4* - based on table 13 of 2009 National Institute of Employment and Social Research.

Supplemental Pay in the Private Sector

Besides salaries, supplemental pays are also to be regarded considering employee compensation. As it was stated above, the supplemental pays are appendages, premiums and rewards. In the private sector these pays comprised on the average 23.1% of the basic salary (National Institute of Employment and Social Research, 2009, p. 116).

In general, the employees who work under special conditions, such as in high mountainous, harmful places, work extra hours, work at nights, etc., are to be rewarded some supplemental pay as stated in the legislation. However, in private sector from 16.4%, who works in such conditions, not all the employees are given these rewards. Here the most suffered

employees are those who work in high mountainous places; only 0.3% is provided appendages and 0.3% - short workdays (National Institute of Employment and Social Research, 2009, table 14). And if some percent of the employees, who work in other special conditions, get extra paid vacation, none of those who work in high mountainous places gets these pays.

COMPARISON OF PUBLIC & PRIVATE SECTOR EMPLOYMENT OF ARMEINIA

It is worth comparing the state and the non-state sector employee compensation systems based on the position the employee holds because the employees are not compensated based on profession but on the position they currently hold.

Table 5 The comparison of State and Non-State sector average salaries based on position (in AMD)

Groups	Public & Private job positions	Average salaries
Group 1	Highest Position	245 088
	Leading Position in the Organization	608 800
Group 2	Chief Position	164 143
	Expert with High Qualification	226 144
Group 3	Leading Position	107 020
	Head of a Department in the Organization	181 130
Group 4	Junior Position	71 910
	Expert with Mid Qualification	156 949

Table 5* - based on graphics 17 of 2010 National Institute of Employment and Social Research.

From table 5, which gives us information on the average salaries of state and non-state employees based on their positions, we can see the average salary differences of the two sides. An important thing that can be noticed at first sight is that the non-state sector employees are significantly better off in all the job position groups than the state sector employees. Comparing the state sector Highest Position with the non-state sector Leading Position in the Organization,

we see that the highest position employees are underpaid for 59.7%. The same way the Chief Position employees are underpaid for 27.4%, the Leading Position employees – 59.7%, and the Junior Position employees – 45.8%.

Comparing public and private sector average salaries of 2009 data, we see the same problem in both cases concerned with women’s under compensation; it is blamed on the fact that men hold higher positions than women. However, the under compensation is more vividly expressed in private sector where women get paid 33.3% lesser than men. In civil service that difference is 18.5%, and in public sector, in general, it is 5.4%. This helps us to make the following judgment: though, compared with men, in private sector women are far more under compensated than public sector women, and those mostly under compensated private sector women compose 51%, however private sector employees are still better off in compensation than public sector employees (National Institute of Employment and Social Research, 2009, Graphics 72).

An inseparable component of employee compensation is education. To understand the connection between educational level and salary of a private sector employee, educational level is divided into the following degrees – master’s degree, bachelor’s degree, middle qualification degree, and high school education.

Table 6* the average, lowest, and highest salaries of Private sector employees based on educational level in 2009 (in AMD)

Educational Level	Average Salary	Often Repeating Average Salary
Master’s Degree	219 300	135 160
Bachelor’s Degree	183 480	92 610
Secondary Specialized	130 270	76 125
High School	151 350	67 580

Table 6* - based on graphics 67 of 2009 National Institute of Employment and Social Research.

From among those interviewed, 57.6% have master's degree, 8.6% has bachelor's degree, 27.4% - secondary specialized, and 6.3% - high school education. From Table 6 it can be seen that the employees with master's degree get the highest average salary – 219 300 AMD – and employees with secondary specialized degree get the lowest average salary – 130 270 AMD. Thus, in the private sector employees having secondary specialized degree, that is, 27.4%, are undercompensated compared to those with high school education.

Table 7 The average, lowest, and highest age for holding civil service positions (2009)

Position	Average age	Lowest age	Highest age
Highest position	49	29	65
Chief position	48	24	80
Leading position	44	20	67
Junior position	39	20	66
Total	44	20	80

If we take a look at the age distribution of civil servants, we can see that in civil service the stress is put on not the level of education but the work experience. In position passports of civil servants not often is there a requirement of a higher education, but for the most there is a requirement of working experience in the public sector.

From table 7 we can see that the average age of holding highest position is 49 years, for holding chief position – 48 years, 44 years for leading positions, and 39 for junior position. Moreover, in the highest position there are some civil servants who are 80 years old.

The average age in the private sector is 40.85 years which is about four years younger than in the public sector. The employees with middle qualification, that correspond junior position in the public sector, have the lowest average age - 36.66 years - and the employees who hold a leading position in the organization, that corresponds highest position in the public sector, have the highest average age – 46.77 years. Thus, in the private sector the employees in

all the positions are younger than in the public service which shows the private sector tendency to employ younger and more educated employees than the public sector.

In the private sector there is a too slow internal personnel movement which is proven by the fact that, in average, work experience of the employees in the same position in 2009 was about 7.65 years. The same can be said for the external personnel movement as employees' work experience in the same organization was on the average 8.28 years. In contrast to private sector, in the public sector the employees do not seem to favor their job, because from the data provided by the Civil Service Council, it becomes clear that in 2010 about 64.5% of the all dismissed employees in civil service have left their job with their own initiative (National Institute of Employment and Social Research, 2010, p. 43). It speaks about the non competitiveness of the public sector compensation while in the private sector the employees work on average 8.28 years.

CASE STUDIES OF WISCONSIN, CALIFORNIA & MISSOURI

In order to compare public and private sector employment, educational attainment should be considered because education must be the most important determinant of employee compensation. Educational level for all the US states is divided into eight groups: less than high school, high school, some college, associate's degree, bachelor's degree, professional degree, master's degree, and doctorate. Comparing two sectors employment based on educational level should not be based on the comparison of only salaries, but fringe benefits as well. And there are three groups of fringe benefits: Insurance (life, health, short-term & long-term disability), Retirement and Savings (defined and defined contribution), and legally required benefits (social security, Medicare, federal & state unemployment insurance). All the US states are blamed on the fact that they provide public employees more fringe benefits, and therefore they are more

compensated than private sector employees. Summers says that in California and elsewhere, government employees' benefits have been raised by as much as 50 percent in the past decade or so, allowing many workers to retire as young as 50 or 55 years old with pensions equal to as much as 90 percent of their final salaries (Summers, A., 2010). However, let's see whether those increasing amount of fringe benefits have made public employees overcompensated compared with their private sector counterparts.

Employment System of Wisconsin

Higher educational levels are highly valued in all the US states and the higher the educational level of the employee, the higher will be the employee's compensation. From Table 8 it can be seen that Wisconsin public sector puts the stress on the educational level of the employees as 59 % of public sector employees of Wisconsin have bachelor's degree or higher degree.

Table 8*. Comparison of public & private sector employment by education in Wisconsin

Educational level	Public employees	Private employees	Earnings return to education compared
Less than high school	1 %	4 %	0 %
High school	11 %	34 %	29 %
Some college	14 %	19 %	35 %
Associate's degree	15 %	13 %	53 %
Bachelor's degree	30 %	23 %	82 %
Professional degree	3 %	1 %	164 %
Master's degree	22 %	5 %	95 %
Doctorate	4 %	1 %	125 %

Table8*- based on Table 1 of J.H. Keefe "Are Wisconsin public employees compensated?"

Thus, public employees of Wisconsin are among the most educated in US states and they are more educated than their private sector counterparts (table 8). In the private sector the number of those having at least bachelor's degree is 30% which shows that there is a 29% difference in the educational levels of public & private sector employees.

Table 9 introduces the annual salaries and the annual compensations of Wisconsin private and public sector employees by educational level. Here we can see that in comparison with private sector employees, in public sector only those employees are more paid, who have less than high school education. Having a look at table 8 we can see that only 1% of public sector employees have less than high school degree, which means that only 1% of public sector employees are overpaid in comparison with private sector employees. The rest of the public sector employees, that is, 99% of them, are underpaid in comparison with private sector employees.

Table 9*. Comparison of public & private sector annual salaries and overall compensation by education in Wisconsin

Educational level	Employee Salary		Employee Compensation	
	Private employees	Public employees	Private employees	Public employees
Less than high school	\$ 24,667	\$ 27,272	\$ 32,415	\$ 36,935
High school	\$ 36,166	\$ 34,822	\$ 47,469	\$ 46,213
Some college	\$ 38,765	\$ 35,364	\$ 50,324	\$ 46,707
Associate's degree	\$ 45,817	\$ 42,933	\$ 59,043	\$ 56,561
Bachelor's degree	\$ 65,302	\$ 47,174	\$ 82,134	\$ 61,668
Professional degree	\$ 178,413	\$ 110,466	\$ 225,644	\$ 143,569
Master's degree	\$ 80,323	\$ 57,305	\$ 100,296	\$ 74,056
Doctorate	\$ 101,545	\$ 71,056	\$ 128,306	\$ 91,623

Table 9*- based on Table 2 of J.H. Keefe "Are Wisconsin public employees compensated?"

It is to be mentioned that compensation of employees doesn't consist of only wages but of fringe benefits as well. In general, all the US states pay higher fringe benefits to its public sector employees, but as Bender and Heywood put it: "Workers in the state and local sector receive a slightly larger share of their compensation in benefits, but it is not dramatically larger. When we account for this difference, most of the estimates remain negative, suggesting lower total compensation in state and local sectors after accounting for worker and job characteristics" (Bender and Heywood, 2010, p.16). In Wisconsin, public sector employees' fringe benefits compose 26.7% of their overall compensation, and 73.3% is their wages, while in the private sector from their compensation 20.9% is fringe benefits, and 79.1% is their salary (see table 10). It shows that the difference of two sectors' fringe benefits is 5.8%.

Table 10 the distribution of public & private sector employee salaries & fringe benefits in Wisconsin

Total Compensation	Private Sector	Public Sector
Salaries (including paid leave & supplemental pay)	79.1 %	73.3 %
Fringe Benefits (itemized below)	20.9 %	26.7 %
Insurance	8.9 %	13.3 %
Retirement & savings	3.6 %	8.0 %
Legally required	8.4 %	5.4 %

Table 10*-based on table 3 of J.H. Keefe "Are Wisconsin public employees compensated?"

It can be seen from table 3, that in the case of legally required fringe benefits, private sector employees are better off for 3%, but for retirement and savings, and insurance, public sector employees are better off 4.6 % and 4.4 % respectively. The same situation is in every other US state, that is, private sector employees are given more legally required fringe benefits, while they are given less retirement and savings, and insurance benefits in comparison with their public sector counterparts. Thus, from three types of fringe benefits, in two of them public sector appears to be the winner, but does it mean that it can cover the wage gap between the

public and private sector employees. The 3rd and the 4th columns of Table 9 shows that when overall compensation is considered, i.e., fringe benefits are also calculated together with wages, there is no change in the situation; still only one per cent of public employees that have less than high school education, are better off compared with their private sector counterparts and 99% of public employees are on the losing side though the difference between the numbers is not so much. Hence, Wisconsin public sector employees are both underpaid and slightly undercompensated.

Employment System of California

California as well puts a stress on its employee educational level in distributing salaries. But here education is given higher leverage than in Wisconsin because if Wisconsin pays those who have high school education 29% more salary than those who have not, from the 3rd column of table 11 we see that California pays 10% more than Wisconsin does.

Table 11*. Comparison of public & private sector employment by education in California

Educational level	Public employees	Private employees	Earnings return to education compared
Less than high school	3 %	12 %	0 %
High school	13 %	22 %	39 %
Some college	17 %	20 %	57 %
Associate’s degree	12%	9 %	70 %
Bachelor’s degree	34 %	24 %	98 %
Professional degree	2 %	2 %	178 %
Master’s degree	16 %	8 %	128 %
Doctorate	3 %	1 %	159 %

Table 11*- based on Table 1 of J.H. Keefe “The Truth about Public Employees in California: They are neither Overpaid nor Overcompensated.”

Having a look at table 11 can be seen that in California 55% of public sector employees have at least bachelor's degree and in private sector only 30% have. Thus, public sector employees are for 20% more educated than private sector employees.

From Table 12 we can see that in comparison with private sector employees, in public sector those employees are more paid, who have less than high school education, some college degree or associate's degree. Table 11 shows that the employees who have less than high school education, some college degree or associate's degree compose 32% of public sector employees. Thus, in California 32% of public employees are more paid, and the rest 68% are less paid in comparison with private sector employees.

Table 12*. Comparison of public & private sector annual salaries and overall compensation by education in California

Educational level	Employee Salary		Employee Compensation	
	Private employees	Public employees	Private employees	Public employees
Less than high school	\$ 25,964	\$ 29,640	\$ 33,607	\$ 41,725
High school	\$ 39,642	\$ 38,903	\$ 50,563	\$ 54,269
Some college	\$ 45,609	\$ 47,717	\$ 57,229	\$ 66,094
Associate's degree	\$ 53,376	\$ 53,617	\$ 66,695	\$ 73,622
Bachelor's degree	\$72,313	\$ 62,337	\$ 88,852	\$ 84,040
Professional degree	\$ 185,465	\$ 163,949	\$ 228,913	\$ 217,343
Master's degree	\$ 107,017	\$ 71,527	\$ 131,040	\$ 94,753
Doctorate	\$ 124,851	\$ 108,897	\$ 153,980	\$ 144,470

Table 12*- based on Table 2 of J.H. Keefe "The Truth about Public Employees in California: They are neither Overpaid nor Overcompensated."

However, the situation does change after calculating the overall compensations of the employees. But before going to the comparison of the compensations, let's look at the fringe benefits that are provided the Californian employees. From table 13 we see that 26.0 % of the

total compensation of public employees is fringe benefits, while in the private sector it composes 19.8 % of the total compensation. We also see that again private sector gets more legally required benefits (2.5% more in comparison with public sector), and public sector gets more Insurance, and Retirement & savings (4.1% and 4.6 respectively). Thus, public sector gets 6.2% more fringe benefits than private sector.

Now, after analyzing fringe benefits, it's time to return to table 5 to explore the employee compensation differences in public and private sectors of California. From 3rd and 4th columns we can notice that the compensation of the employees is greatly different from the salaries.

Table 13 the distribution of public & private sector employee salaries & fringe benefits in California

Total Compensation	Private Sector	Public Sector
Salaries (including paid leave & supplemental pay)	80.2 %	74.0 %
Fringe Benefits (itemized below)	19.8 %	26.0 %
Insurance	7.7 %	11.8 %
Retirement & savings	3.6 %	8.2 %
Legally required	8.5 %	6.0 %

Table13*- based on Table 3 of J.H. Keefe “The Truth about Public Employees in California: They are neither Overpaid nor Overcompensated.”

Looking at the compensation of public sector employees we see that those who have at least associate's degree are more compensated in comparison with their private sector counterparts, and those who have bachelor's degree or more are undercompensated. Thus, in four educational levels public employees are in a better situation compared with their private sector counterparts and for the rest four educational levels it is the vice versa.

Hence, due to the fringe benefits, provided the public sector employees, it can be said that Californian public sector employees are equally compensated in comparison with the private sector employees.

Employment System of Missouri

The third state that is considered for the policy paper is Missouri. Here again educational level of public sector employees is higher than that of the private sector employee. In Missouri 53% of public employees do have at least bachelor's degree (see table 14), while only 27% of private sector employees have it. Hence, the gap between the educational levels of public and private sector employees is similar to that of the Wisconsin case, i.e., the difference between those who have at least bachelor's degree in two sectors is 26% in comparison with 29% in the case of Wisconsin.

Table 14*. Comparison of public & private sector employment by education in Missouri

Educational level	Public employees	Private employees	Earnings return to education compared
Less than high school	3 %	6 %	0 %
High school	21 %	36 %	22 %
Some college	14 %	21 %	41 %
Associate's degree	9%	10 %	54 %
Bachelor's degree	27 %	19 %	78 %
Professional degree	2 %	1 %	143 %
Master's degree	21 %	6 %	89 %
Doctorate	4 %	1 %	123 %

Table 14*- based on Table 1 of J.H. Keefe "Are Missouri Public Employees Overcompensated?"

From the 3rd column we see that for having high school education, employees in Missouri are paid 22% more than those who are a step behind them. Comparing with the other two states the least progression in educational levels is in Missouri (as it was mentioned, in Wisconsin employees get 29% more, and in California – 39% more compared with those who have not high school education) which is a sign that the least importance to educational attainment is given in Missouri compared with California and Missouri.

Like in Missouri, here as well only those public sector employees are paid more in comparison with their private sector counterparts, who have less than high school education, and these employees compose only 3% of the overall public employees on Missouri. Thus, 97% of Missouri public sector employees are underpaid.

Table 15*. Comparison of public & private sector annual salaries and overall compensation by education in Missouri

Educational level	Employee Salary		Employee Compensation	
	Private employees	Public employees	Private employees	Public employees
Less than high school	\$ 25,416	\$ 30,327	\$ 35,281	\$ 44,220
High school	\$ 35,822	\$ 30,578	\$ 49,097	\$ 43,234
Some college	\$ 41,830	\$ 33,721	\$ 56,651	\$ 47,721
Associate’s degree	\$ 47,776	\$ 36,876	\$ 63,855	\$ 51,852
Bachelor’s degree	\$67,353	\$ 40,761	\$ 89,028	\$ 56,450
Professional degree	\$ 154,173	\$ 57,035	\$ 203,782	\$ 78,362
Master’s degree	\$ 78,437	\$ 51,971	\$ 102,128	\$ 70,890
Doctorate	\$ 97,631	\$ 82,924	\$ 125,454	\$ 113,163

Table 15*- based on Table 2of J.H. Keefe “Are Missouri Public Employees Overcompensated?”

In Missouri, fringe benefits in public sector compose 24.5% of the overall public sector employee compensation (see table 16), while fringe benefits is 21.4% of the private sector employee compensation.

The table shows that the difference between the amounts of fringe benefits provided the two sectors, is only 3.1% which is the smallest difference in the three US states that are considered. This small difference assumes that when fringe benefits are calculated together with the employee salaries, the bad situation of the public employees will stay in its place.

Table 16* the distribution of public & private sector employee salaries & fringe benefits in Missouri

Total Compensation	Private Sector	Public Sector
Salaries (including paid leave & supplemental pay)	78.6 %	75.5 %
Fringe Benefits (itemized below)	21.4 %	24.5 %
Insurance	9.2 %	11.6 %
Retirement & savings	4.3 %	6.4 %
Legally required	7.9 %	6.5 %

Table 16*- based on Table 3 of J.H. Keefe “Are Missouri Public Employees Overcompensated?”

Having a look at the compensations of two sectors, presented in table 15, we see that indeed, the situation remains the same; still only the employees having less than high school education are better off compared with private sector employees, while in the rest of the educational levels private sector employees are better off. Thus, public sector employees are not only underpaid, but also greatly undercompensated.

From the examples of three US states – Wisconsin, California, and Missouri - it can be concluded that there is a great distinction in compensation system for public and private sector employees in the US states as in Wisconsin public sector employees are slightly undercompensated compared with their private sector counterparts, in California the employees of both sectors are equally compensated, and in Missouri public sector employees are greatly undercompensated.

As we saw, in all the three states of US, like in almost all the countries, the same compensation mechanism works: public sector employees are lesser paid in comparison with their private sector counterparts, while they are given more fringe benefits in comparison with private sector employees to balance the two sectors’ compensations. However, it doesn’t mean that the only way for covering the wage gap between the two sectors’ compensations is to

provide more fringe benefits to public sector employees; raising salaries of public sector employees is another way for solving the problem.

ROLE OF FRINGE BENEFITS IN EMPLOYEE COMPENSATION

With regard to the dilemma of providing either more fringe benefits or more salaries for the underpaid public sector employees, i.e., to understand whether the salaries of public sector should be raised to bring public and private level compensations into equal levels; or fringe benefits are a better source of public sector employee compensation to cover the wage gap between the public and private sector employees, the paper aims at studying fringe benefits, exploring both the positive and the negative sides of it Firstly, some general information should be provided on fringe benefits.

The term fringe benefits was first used in 1943 by a gifted regional chairman of the National War Labor Board who referred to "fringe issues" to denote virtually all forms of employee compensation other than basic straight-time wage and salary rates (Hill, 1954, p. 1). Fringe benefits, as John W. Budd put it, are non-monetary items used to attract, retain, motivate, and reward employees above and beyond traditional wage and salary payments. Major fringe benefits are health and retirement insurances, as well as other insurances, such as life insurance, short-term and long term insurances, federal and state unemployment insurances, and Social security, Medicare, etc. however, there are some so called family-friendly benefits such as parental and family leave, flexible work hours, on-site child care, job-sharing, and work-at-home programs (Budd, 2005, p. 2).

Fringe benefits are critical to the reproduction of the worker, and if they are removed the worker is then reproduced at a lower level of subsistence. According to Leopold, there are four approaches the employers provide the employees fringe benefits. These are: Traditional,

Standard, Flexible, and Progressive. On the basis of traditional approach are health insurance and retirement plans. Employers who support fully funded pension plans are most likely those who use the traditional approach. In the standard approach the focus is mostly on health insurance and some level of retirement contribution and these benefits are almost always given active employees. Flexible approach supports a wide range of benefits so as the employees will be able to choose the fringe benefits they mostly need. Progressive approach makes the shift on the diversity of fringe benefits programs including counseling services, onsite health resources, financial guidance in the workplace and pet insurance together with traditional types of benefits (Leopold, 2010, p. 2).

In general, fringe benefits are provided under social insurance and employee-benefit plans. Social insurance is any kind of program that provides cash or service benefits without a means test, to meet the risks of old-age retirement, death, unemployment, and sickness or disability of the worker, as stated by law. Employee-benefit plans are programs established by employers, by groups of employees, or both, to meet the same risks that are met by social insurance. However, if benefits are provided by employers as a result of legislation, this is called social insurance (Myers, 1965, p.2). And now, after getting some general information on fringe benefits, it's time to refer to the third research question, which is as follows: *RQ3. Should the Armenian government raise salaries to raise public sector employee compensation level; or Fringe Benefits are also a solution?*

To answer this question, the positive and the negative sides of fringe benefits should be put side by side for both the employer and the employee, in order to understand whether the increase in salaries or the inclusion of fringe benefits is beneficial.

The Positive Side of Fringe Benefits

With regard to the positive side of fringe benefits, first of all, it should be stated that the most important point is that there are some fringe benefits that are non-taxable or are taxed at a low rate. “Nonwage compensation is not categorized as a fraction of payroll. It is not, therefore, subject to either social security taxes or required insurance premiums such as workers' compensation payments” (Rhine, 1987, p. 6). This means that the higher the income the more fringe benefits are preferred, that is, for not paying high taxes employees will find it more useful to be remunerated through more fringe benefits and lesser salary.

Also, it can be beneficial when in that particular state taxes are high, and in this case it doesn't matter whether the employee's salary is large or small, in both cases fringe benefits will be preferred, and as Edwards, W. and Scott M. Fuess find it, “workers may be happy to see pay tilted more towards un-taxed fringe benefits” (Edwards and Fuess, 2005, p. 11).

Inflation also plays an important role with regard to making a choice between salaries and fringe benefits. The idea is that though the cash salary of the employee may be high, however, the worker might not be able to buy enough goods and services to subsist on it if he/she faces high prices.

Sometimes, the employees may like fringe benefits because they find it as free as believe that their salaries would not rise together with the rise of the value of the benefits. Sometimes it gives prestigious status for certain employees when, for example, they drive the company vehicle. And finally, fringe benefits are a tool of facilitating certain aspect of their life, such as apartment close to work, company provided meals, free on-site parking, etc.

Not only workers show a preference for fringe benefits but also employers choose to pay these benefits for several reasons. First of all it should be mentioned that in case the employer is the state, the greatest gain is achieved from the accumulation of savings at the expense of the employee-provided benefits. Next, employers can motivate workers through

seniority principle as there are deferred fringe benefits that are seniority based and the employee must be more efficient and stay on the job in order not to lose those benefits.

Employers can use fringe benefits to attract more highly educated employees because more highly educated workers are likely to be better informed about alternative compensation packages. It can help to attract workers with certain personal characteristics as well. For example, if the employer need the workplaces to be filled with women, a type of fringe benefit can be offered that will be attractive for women.

And, lastly, through providing fringe benefits in the form of transport will bring public employees to work punctually and health insurance will reduce absenteeism as health insurance companies from time to time provide information on the employees' health condition.

The Negative Side of Fringe Benefits

After presenting all the positive sides of providing fringe benefits, now the shift will be on its negative sides. Considering the negative sides of fringe benefits, it is to be mentioned that the strongest opponents of fringe benefits were the neo-classicists who favored wages as the best form of remuneration to the employees and found it an unfair non-wage-in-kind payments for their labor-power. They also stated that favorable tax treatment of fringe benefits distorts the fairness in the tax system with regard to those who pay taxes, and also reduces tax revenue as it is one of the most important factors that stimulate economic activity.

Next issue is that wages are more flexible, and can be more readily reduced if necessary; whereas fringe benefits, once established, become permanent fixtures (Hill, 1954, p. 13). Another problem with fringe benefits is that, in cases of high costs of fringe benefits, a wave of economic downturn will raise. Fringe benefits are not desired as a source of discouragement of investments.

With regard to the employees preferences, it is sometimes more preferable to have cash in their hands because they can choose the good or the service they need to purchase. But, although non-wage benefits are said to increase the cost of production and reduce a worker's choice and freedom in the neo-classical view, there are a number of reasons why these benefits are in high demand by workers.

The employees' preferences may be not only in getting more cash salaries instead of fringe benefits, but also in getting fringe benefits other than that/those provided by the employer. For example, as Luebke says, the employer hopes that by offering fringe benefits, it has the ability to attract employees, but often the employer fall into a "get them to" mentality: Get them to participate in the Wellness program. Get them to increase their 401 (k) contributions. Get them to elect a flex plan during open enrollment without thinking that the fringe benefit, he/she is providing, is probably not adequate for an employee (Luebke, 2011, p. 1).

Going deeper into the employees' preferences, we can see that, for example, not only retirement benefit may be more beneficial for the employee, than health insurance, but also from two kinds of retirement benefit plans the employee may prefer the one or the other. The employees may prefer defined benefit (DB) plans because in the future the employees will have more secure and more adequate retirement income than those who are provided 401(k) plans (Turner, 2010, p. 1). Hence, based on individual needs, the employees' preferences of this or that type of fringe benefit can be different. However, it is not the case of Armenia where the employees prefer one type of fringe benefit over the other, but they prefer cash money; from our questionnaires it turned out that the vast majority of civil servants prefer cash over fringe benefits, as a result of the unawareness of the benefits of an alternative compensation package which is composed of not only salaries but also fringe benefits.

CONCLUSION

The policy internship paper that explored the employment systems of public and private sectors of Armenia revealed that despite the fact that public sector employees have more work experience than private sector employees, and despite the fact that in private sector 51% of the employees, that are women, and undercompensated in comparison with men, however, public sector employees are greatly undercompensated in all the positions compared to their private sector counterparts. Also, while in many states employee compensation package consists of salaries (including supplemental pays and paid leave) and fringe benefits, in Armenia employees are compensated through only salaries.

The study of three US states – Wisconsin, California, and Missouri – revealed that there is a great distinction in compensation system for public & private sector employees in the US states; Californian public & private sector employees are equally compensated, Wisconsin public sector employees are slightly undercompensated and Missouri public sector employees are fully undercompensated compared with private sector employees. In all the three states public sector employees are lesser paid in comparison with their private sector employees, meanwhile they are given more fringe benefits to create balance in the two sectors' compensations. However, from those states it is only in California that employees of both sectors are equally compensated. The analyses showed that the tool of California is fringe benefits; Californian public & private sector employees are equally compensated by means of giving more fringe benefits for lesser paid public sector employees.

From the investigation of US states' & Armenia's employment system, it can be concluded that, in Armenia, public sector employees are undercompensated because of the lack of fringe benefits in their compensation package. There won't be such a huge compensation gap between the two sectors if the public sector employees had been given fringe benefits instead like the state of California does.

RECOMENDATIONS

After comparing the compensations of Armenian public and private sector employees and after revealing that as a result of under compensation of public sector employees the competitiveness of the public sector employment has been widely declined, it can be recommended that:

- Armenia should reduce the wage gap between the public & private sector employment for raising the competitiveness of the public sector employment.

The case of Californian compensation system was a sort of a successful one as Californian public & private sector employees are a kind of equally compensated, that is, for the first four educational levels public employees are overcompensated, but for the next four educational levels private employees are overcompensated. Hence, revealing that this so-called equality between the two sector employees is the outcome of giving more fringe benefits for lesser paid public sector employees, and considering the fact that everyone has his/her one preference concerned with fringe benefits, it can be recommended, that

- Armenia should include Cafeteria-style fringe benefits in the public sector in the employee compensation system.

From the analyses of fringe benefits it was revealed that more highly educated workers are likely to be better informed about alternative compensation packages. This means that the rest of the employees, who are not so highly educated, are not aware of the benefits of fringe benefit type of compensation. Thus:

- Armenia should raise public awareness on fringe benefits to be able to motivate employees to choose compensation package including not only salaries, but salaries plus fringe benefits.

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