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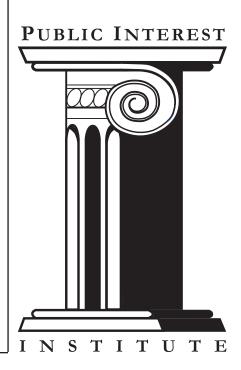
Iowa's Privileged Class: State Government Employees

POLICY STUDY

No. 11-1

by

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Iowa's Privileged Class: State Government Employees

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Executive Summary

Public Interest Institute first published an article highlighting the Pay Gap between Iowa's privatesector workers and the state's government workers in 1996. Since that time, we have periodically revisited this topic, providing updates with the latest economic data on the average annual wages of private-sector and government employees. Unfortunately, the results have remained the same throughout the years that the Institute has been publishing this information – Iowa has the largest Pay Gap in the nation. Iowa has held that status not only since 1996, but has held the top spot among states for the largest Pay Gap between government workers and private-sector workers for over two decades.

The Pay Gap is calculated using the data provided in the U.S. Department of Labor's Bureau of Labor Statistics' annual publication "Employment and Wages, Annual Averages" that gives the average annual wage of a state-government worker and the average annual wage of a private-sector worker for each of the 50 states and the District of Columbia. Our study uses these figures to determine the Pay Gap between the average state-government worker and

the average private-sector worker in each state. We then rank the states from highest to lowest Pay Gap. We do not directly compare private-sector wages to state-government wages; rather we compare the differences between the two numbers, and use that to rank the states. We use data from the federal government, and the only calculation we perform is to determine the percentage difference between the two figures. As such, the data is not manipulated or skewed in any way. If anyone disputes the numbers, their dispute is with the U.S. Department of Labor, not the Public Interest Institute

Iowa ranks as the number one state, with the largest Pay Gap between the average annual wages of state-government employees and the average annual wages of private-sector employees. In 2008, Iowa's state-government workers received an average wage that was 148.07 percent of what the average private-sector worker in Iowa was paid. Iowa's Pay Gap was larger than in any other state and the District of Columbia. That is, state government employees in Iowa earned relatively more than private-sector workers anywhere in the United States.

The argument is often made that state-government workers are paid more because they are generally more highly educated than the average private-sector worker, and state-government workers are typically full time employees. However, if this is true in Iowa, it is also true across the United States. Iowa's state government may include judges and football coaches and university physicians – but so does every other state. If Iowa's annual average wage for privatesector employees includes a larger number of part-time employees than does the stategovernment-sector, this is also true in every other state. If Iowa has a Pay Gap because of these differences, every other state should have a Pay Gap of a similar size. But Iowa's Pay Gap is larger by far than any other state. These differences may explain, in part, why there is a Pay Gap, but it does not explain why Iowa's Pay Gap is so much larger than in other states, and is the largest in the nation!

Those attempting to justify the nation's largest Pay Gap between state-government workers and private-sector workers in Iowa are often those who benefit from that Pay Gap – state government employees who obviously have a self interest in preserving the Pay Gap. Many have made false claims about what our study said, and claimed that those falsehoods have been discredited, but no one has ever been able to discredit our actual study, based on the government's own data.

Iowa's Privileged Class

Introduction

Public Interest Institute first published an article highlighting the Pay Gap between Iowa's privatesector workers and the state's government workers in 1996. Since that time, we have periodically revisited this topic, providing updates with the latest economic data on the average annual wages of private-sector and government employees. Unfortunately, the results have remained the same throughout the years that the Institute has been publishing this information – Iowa has the largest Pay Gap in the nation. Iowa has held that status not only since 1996, but has held the top spot among states for the largest Pay Gap between government workers and private-sector workers for over two decades.

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Calculating the Pay Gap

The Pay Gap is calculated using data provided in the U.S. Department of Labor's Bureau of Labor Statistics' annual publication "Employment and Wages, Annual Averages."

This annual report from the Department of Labor gives the average annual wage of a state-government worker and the average annual wage of a private-sector worker for each of the 50 states and the District of Columbia. Public Interest Institute's study uses these figures to determine the

Pay Gap between the average state-government worker and the average private-sector worker in each state. We then rank the states from highest to lowest Pay Gap. We do not directly compare private-sector wages to state-government wages; rather we compare the differences between the two numbers, and use that to rank the states. We use data from the federal government, and the only calculation we perform is to determine the percentage difference between the two figures. As such, the data is not manipulated or skewed in any way. If anyone disputes the numbers, their dispute is with the U.S. Department of Labor, not the Public Interest Institute.

There is typically a lag in the time it takes the federal government to collect and report data. As such, the latest data available as of March 2011 for averge wages is from 2008. This is the data Public Interest Institute used for this latest update of our Pay Gap series.

For 2008, Iowa's state-government employees received an average wage that was 148.07 percent of what the average private-sector worker in Iowa was paid. That means that for every \$1.00 an average private-sector worker earns in Iowa, an average state-government employee in Iowa earns \$1.48. This wage disparity, or Pay Gap, is the highest of any state in the nation. That is, state-

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government employees in Iowa earned relatively more than private-sector workers in any other state. The 2008 average annual wages for private-sector and state government-sector employees in all 50 states and the District of Columbia, as well as their rankings by the size of the Pay Gap, can be seen in Table 1. Iowa ranks as the number one state, with the largest gap between the average annual wages of stategovernment employees and the average annual wages of private-sector employees. The Pay Gap of the next-highest state, Rhode Island, is 140.51 percent.

The Pay Gap's History

Table 2 shows the Pay Gap over the last decade for Iowa - which has maintained its number one ranking throughout that time – and the state with the next-highest Pay Gap. From 1998 to 2000 the nexthighest state was South Dakota; beginning in 2001 through 2008 the next-highest state was Rhode Island. Throughout most of the last decade, the difference in Iowa's Pay Gap and the Pay Gap of the next highest state was in doubledigits!

Iowa's state-government employees have, on average, consistently been paid between 45 and 49 percent more than Iowa's private-sector workers have earned, on average, from 1998 to 2008. That means that for every \$1.00 an average private-sector worker earns in Iowa, an average state-government employee in Iowa has earned between \$1.45 and \$1.49 over the last decade

As seen in Table 2, Iowa has held the dubious distinction of having the largest Pay Gap between government-sector workers and private-sector workers in the nation for the past decade. But its reign as number one goes back even further. Iowa had the largest Pay Gap in the United States when Public Interest Institute published our first article on the state's Pay Gap in May 1996. However, it goes back even further than that. Table 3 shows the ranking of Iowa's Pay Gap for the last 25 years, beginning in 1983, when Iowa's Pay Gap was the fifth highest in the nation. By 1987, Iowa had moved into first place, with the largest Pay Gap in the nation, a spot it has maintained every year since that time.

1975 is the year Iowa's collective bargaining law took effect. The Public Employment Relations Act, signed into law the previous year by then-Governor Robert Ray, "grants employees of the State and its political subdivisions, including cities, counties, and school districts, the right to join and participate in employee organizations, and the right to bargain collectively through such employee organizations." ¹

State Government Employees

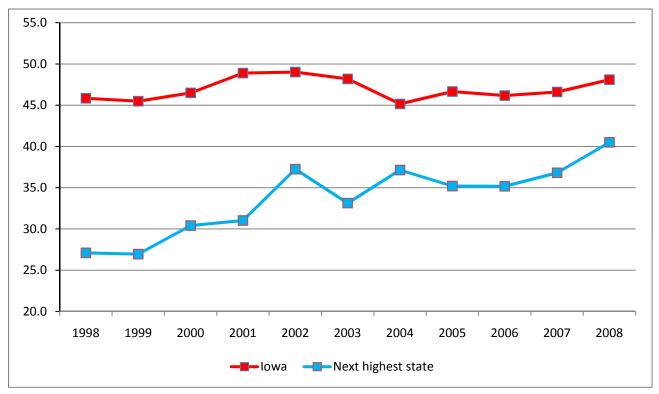
"By 1987, Iowa had moved into first place, with the largest Pay Gap in the nation, a spot it has maintained every year since that time."

Table 1. Average Annual Wages in Private and State Government Sectors, All States

	Private Sector Average	State-Government Sector	State Government Percent of	State Ranking
State	Annual Wages	Average Annual Wages	Private Sector (Pay Gap)	of Pay Gap
Iowa	\$36,348	\$53,820	148.07%	1
Rhode Island	\$41,080	\$57,720	140.51%	2
Wisconsin	\$38,740	\$52,052	134.36%	3
Montana	\$31,928	\$42,744	133.88%	4
Vermont	\$37,596	\$47,840	127.25%	5
South Dakota	\$32,448	\$40,144	123.72%	6
New Mexico	\$36,660	\$45,240	123.40%	7
Nevada	\$41,808	\$51,428	123.01%	8
Michigan	\$43,836	\$53,820	122.78%	9
Alabama	\$37,752	\$46,020	121.90%	10
Nebraska	\$35,776	\$43,420	121.37%	11
Ohio	\$40,196	\$48,672	121.09%	12
Utah	\$37,492	\$45,344	120.94%	13
Maine	\$35,620	\$42,432	119.12%	14
Minnesota	\$46,072	\$54,184	117.61%	15
Mississippi	\$32,864	\$38,272	116.46%	16
Wyoming	\$41,132	\$47,892	116.43%	17
California	\$50,700	\$58,812	116.00%	18
Kansas	\$38,740	\$44,928	115.97%	19
Illinois	\$48,984	\$56,680	115.71%	20
South Carolina	\$35,412	\$40,404	114.10%	21
Idaho	\$33,592	\$38,064	113.31%	22
Kentucky	\$37,024	\$41,860	113.06%	23
Hawaii	\$38,480	\$43,264	112.43%	24
Arizona	\$41,912	\$47,060	112.28%	25
North Dakota	\$34,892	\$38,896	111.48%	26
Arkansas	\$34,476	\$38,428	111.46%	27
Pennsylvania	\$44,096	\$49,140	111.44%	28
New Jersey	\$54,912	\$61,152	111.36%	29
North Carolina	\$39,416	\$43,680	110.82%	30
Louisiana	\$40,404	\$44,356	109.78%	31
West Virginia	\$35,204	\$38,376	109.01%	32
Washington	\$46,124	\$49,920	108.23%	33
Alaska	\$45,084	\$48,724	108.07%	34
Colorado	\$46,748	\$50,336	107.68%	35
Indiana	\$38,480	\$40,716	105.81%	36
Florida	\$39,624	\$41,860	105.64%	37
Oklahoma	\$37,128	\$38,792	104.48%	38
Connecticut	\$59,384	\$61,776	104.03%	39
Oregon	\$39,988	\$41,288	103.25%	40
Maryland	\$47,528	\$48,932	102.95%	41
Tennessee	\$40,040	\$40,976	102.34%	42
Massachusetts	\$57,304	\$58,136	101.45%	43
Delaware	\$47,372	\$47,788	100.88%	44
New Hampshire	\$45,292	\$44,200	97.59%	45
Virginia Virginia	\$46,696	\$43,524	93.21%	46
Texas	\$46,748	\$43,056	92.10%	47
D.C.	\$71,292	\$65,416	91.76%	48
Missouri	\$40,716	\$36,504	89.66%	49
	\$43,004	\$36,504	89.66% 87.67%	50
Georgia New York	\$62,088	\$57,700	84.00%	51

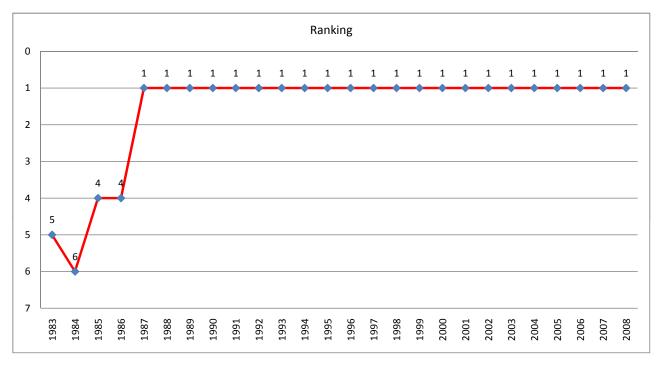
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Wages, Annual Averages 2008"

Table 2. Pay Gap of Iowa and Next-Highest State, 1998-2008



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Wages, Annual Averages" 1998-2008

Table3. Iowa's Pay Gap Ranking Among the 50 States and District of Columbia, 1983-2008



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Wages, Annual Averages" 1983-2008

Iowa's Privileged Class

The collective bargaining laws, found in Chapter 20 of the Iowa Code, establish detailed procedures for negotiating contracts between the state government and union-represented employees.

Under Chapter 20, contract negotiations involve the state government (represented by the Governor), the union, and a Public **Employment Relations** Board (PERB) which is appointed by the Governor. Contract negotiations involving the state employees are supposed to be completed by March 15th of the year the contract is supposed to take effect. However, if the state government and the union reach an impasse, then PERB can appoint a mediator to help resolve the dispute. If the mediator is unsuccessful after ten days, then PERB can appoint a fact-finder to examine the dispute and make a recommendation within fifteen days. If the fact-finder cannot resolve the dispute, the state government and the union can keep negotiating, or they can agree to binding arbitration. Under arbitration a panel of arbitrators, agreed

to by both the state government and the union, will make a final decision that both sides have to abide by.²

If negotiations reach the state of arbitration, the Iowa Code states that "the panel of arbitrators shall consider...the power of the public employer to levy taxes and appropriate funds for the conduct of its operations." Thus, arbitrators can take into consideration the state's ability to raise taxes in order to pay for an increase in pay for state-government employees.

In 1991, negotiations between union-represented stategovernment employees and then-Governor Terry Branstad's representatives went to binding arbitration. Despite a budget crunch at that time, the arbitrators awarded a nine percent raise for state employees.4 Governor Branstad vetoed the appropriations legislation providing the funds for the pay raise, citing "difficult fiscal circumstances."5 The unions filed a lawsuit, which was appealed to the Iowa Supreme Court, which affirmed the ruling that the state must fund the pay raise. In June 1992 the Iowa Legislature met in a special session to appropriate the funding for the pay raise.⁶ Interestingly, while Iowa has had the number one Pay Gap ranking since 1987 (as seen in Table 4), some of the largest

"Arbitrators can take into consideration the state's ability to raise taxes in order to pay for an increase in pay for state-government employees."

Pay Gaps experienced by Iowa can be seen in the years following this incident, with 1993 showing the largest Pay Gap in Iowa's history, at 49.52 percent.

Table 4. Iowa's State Government Average Wages as a Percent of Private Sector Average Wages (Iowa's Pay Gap) 1987-2008

1987	137.30
1988	139.56
1989	144.36
1990	145.97
1991	147.41
1992	147.51
1993	149.52
1994	147.13
1995	147.63
1996	147.95
1997	145.10
1998	145.84
1999	145.49
2000	146.50
2001	148.90
2002	149.02
2003	148.19
2004	145.16
2005	146.66
2006	146.17
2007	146.61
2008	148.07

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Wages, Annual Averages" 1987-2008

Why we measure the Pay Gap

Public Interest Institute looks at the Pay Gap rather than a direct comparison of private-sector and government-sector wages to preclude some of the difficulties that arise when directly comparing the average wages of private-sector and government-sector employees. These difficulties are discussed in a 2005 study by Dave Swenson and Liesl Eathington of the Department of Economics at Iowa State University:

First, the private sector is much larger and has a much more diverse array of jobs than the public sector. Simply on the face of it. one has to assume that the 'average' jobs in the public sector and the private sector are substantively different. Second, the private sector has a large number of part time and partial-year jobs, while the public sector primarily employs persons full-time and year-round. Having a substantially higher fraction of part-time, part-year jobs in the private sector, many of which are likely to be earning at the bottom of society's pay scale, reduces the average wage. Third, there are

State Government Employees

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Iowa's Privileged Class

workers in the private sector and in the public sector. In the private sector, there are proportionately more workers with only a high school diploma or less, while the public sectors employ proportionately more workers with college degrees. Fourth, many public sector employees do very different tasks than private sector employees. The private sector does not have judges, the public sector does not have investment bankers.7 The argument is often made that state-government workers

historically substantial

mean qualifications of

differences in the

are paid more because they are generally more highly educated than the average private-sector worker, and state-government workers are typically full time employees. However, if this is true in Iowa, it is also true across the United States. The differences that exist between the typical types of jobs of private-sector workers and government-sector workers are not unique to Iowa; these differences exist in all states. If government-sector jobs in Iowa are substantively full-time and year round and require more education, is this not also true of government-sector jobs in other states? If Iowa's annual

employees includes a larger number of part-time employees than does the state-governmentsector, this is also true in every other state. Iowa's state government may include judges and football coaches and university physicians – but so does every other state.

If Iowa has a Pay Gap because of these differences, every other state should have a Pay Gap of a similar size. But Iowa's Pay Gap is larger by far than any other state. These differences may explain, in part, why there is a Pay Gap, but it does not explain why Iowa's Pay Gap is so much larger than in other states, and is the largest in the nation!

Another difficulty encountered in making state-to-state comparisons is the variation in cost of living between locations. However, the cost of living is the same in each state or location for private-sector workers and government-sector workers. Thus, in comparing the Pay Gap, rather than a direct comparison of pay levels from state to state, differences in cost of living are not a factor.

Conclusion

Some may say, particularly those working for the state government, that it is not state-government wages that are too high, but rather private-sector wages are too low. While those of us working in the private sector would always appreciate

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average wage for private-sector

higher wages, the difference is that in the private sector, a business cannot raise the prices of its goods and services and compel its customers to pay the higher prices. Consumers have the choice to shop elsewhere or not to pay the price at all by not buying that product. However, if the state government needs additional funds to pay its employees, it has the option of raising taxes, and its "customers" – the taxpayers of the state – must pay those higher taxes.

In fiscal year 2010, the unions that represent Iowa's stategovernment employees agreed to a "zero percent across-theboard salary increase."8 This may seem reasonable, given that many private-sector workers did not receive a raise that year, and many others were out of work. However, this is not the end of the story for Iowa's state-government workers. "Merit raises and other perks will pump up Iowa's state employee salaries by an average of 4.3 percent [for Fiscal Year 2010]," reported The Des Moines Register.9 "The increases are due to 'step' increases – bumps in salaries given to state employees who are not at the top of their field's pay grades. Around 50 percent of state employees qualify for such increases. Most are eligible for 4.5 percent raises."¹⁰

With many state-government employees who agree to "no"

raise, but still receive a 4.5 percent raise, it is no wonder that Iowa has the largest "Pay Gap" in the nation and has had the largest gap in the nation since 1987. In 2008, Iowa's state-government workers received an average wage that was 148.07 percent of what the average private-sector worker in Iowa was paid. Given Iowa has the nation's largest Pay Gap, isn't it time we take a hard look at state-government employee salaries?

State Government Employees

Endnotes

- ¹ "Frequently Asked Questions
- Collective Bargaining in Iowa," Iowa Department of Administrative Services, February 2007, p. 1, http://das.iowa.gov/images/pdf/faqs/collective_bargaining.pdf accessed on October 27, 2009.
- ² David Hogberg, "Reforming Iowa's Collective Bargaining Laws," Public Interest Institute *INSTITUTE BRIEF*, Volume 10, Number 13, May 2003.
 ³ Code of Iowa, Chapter 20, Public Employment Relations (Collective Bargaining), Section 20.22, Binding Arbitration, http://coolice.legis.state.
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 > accessed on November 13, 2009.
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- ⁶ Ibid, pp. 7-8.
- ⁷ Dave Swenson and Liesl Eathington, "Do Public Sector Employees in Iowa Earn More Than Private Sector Employees?," Iowa State University, Department of Economics, March 2005, http://www.econ.iastate.edu/research/webpapers/paper_12259.pdf accessed on November 11, 2009.
- ⁸ Jason Clayworth, "Merit, step raises to add \$121 million to state wages," *The Des Moines Register*, July 1, 2009, http://m.dmregister.com/news.jsp?key=484916> accessed on July 12, 2009.
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- 10 Ibid.

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