

August 2012

*Iowa's
Privileged
Class:
State
Government
Employees*

POLICY

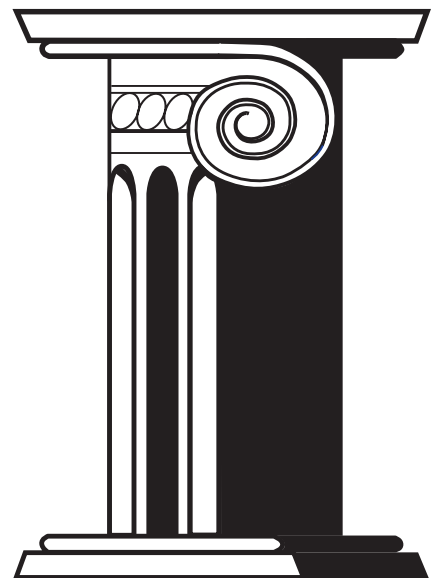
STUDY

No. 12-8

by

**Amy K. Frantz
Public Interest Institute
Mount Pleasant, IA**

PUBLIC INTEREST



I N S T I T U T E

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**Dr. Don Racheter,
President**

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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 private-sector 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," which 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 2010, Iowa's state-government workers received an average wage that was 150.28 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 private-sector employees includes a larger number of part-time employees than does the state-government 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, or those they can convince to make their case for them, 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

“Iowa has the largest Pay Gap in the nation. If anyone disputes the numbers, their dispute is with the U.S. Department of Labor, not the Public Interest Institute.”

Introduction

Public Interest Institute first published an article highlighting the Pay Gap between Iowa's private-sector 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.

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 August 2012 for average wages is from 2010. This is the data Public Interest Institute used for this latest update of our Pay Gap series.

For 2010, Iowa's state-government employees received an average wage that was 150.28 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 \$1.50. This wage disparity, or Pay Gap, is

the highest of any state in the nation. That is, state-government employees in Iowa earned relatively more than private-sector workers in any other state. The 2010 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 state-government employees and the average annual wages of private-sector employees. The Pay Gap of the next-highest state, Rhode Island, is 138.63 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. Since 2001, the next-highest state has always been Rhode Island. Throughout much of the last decade, the difference in Iowa's Pay Gap and the Pay Gap of the next highest state was in double-digits!

Iowa's state-government employees have, on average, been paid between 45 and 54 percent more than Iowa's private-sector workers have earned, on average, from 2001 to 2010. 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 \$1.54 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 1986, when Iowa's Pay Gap was the fourth highest in the nation. In the following year, 1987, Iowa 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

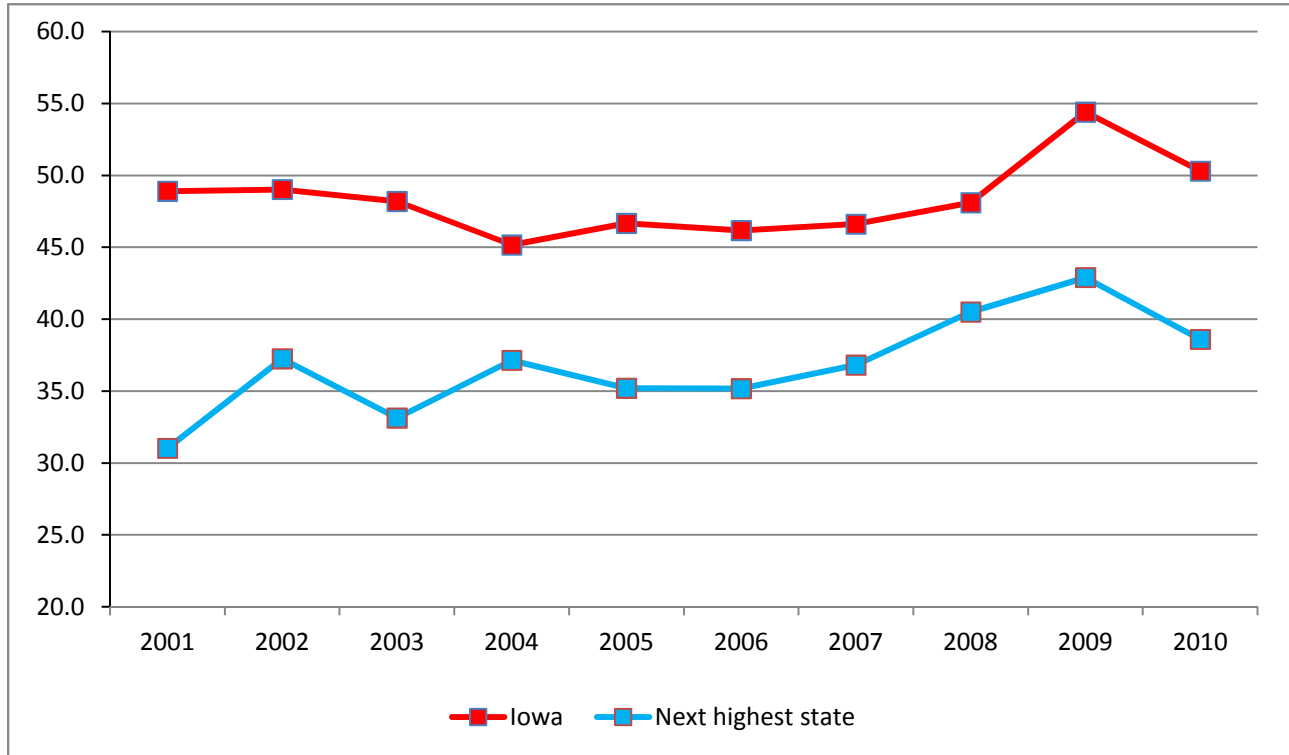
"In...1987, Iowa moved into first place, with the largest Pay Gap in the nation, a spot it has maintained every year since that time."

Table 1. 2010 Average Annual Wages in Private and State Government Sectors, All States

State	Private Sector Average Annual Wages	State-Government Sector Average Annual Wages	State Government Percent of Private Sector (Pay Gap)	State Ranking of Pay Gap
Iowa	\$37,440	\$56,264	150.28%	1
Rhode Island	\$42,536	\$58,968	138.63%	2
Wisconsin	\$39,572	\$50,960	128.78%	3
Michigan	\$43,628	\$55,796	127.89%	4
Vermont	\$38,636	\$48,672	125.98%	5
Montana	\$33,228	\$41,288	124.26%	6
Wyoming	\$41,236	\$50,856	123.33%	7
Ohio	\$41,028	\$50,596	123.32%	8
Nevada	\$40,924	\$50,128	122.49%	9
Nebraska	\$36,660	\$44,772	122.13%	10
New Mexico	\$37,908	\$46,124	121.67%	11
South Dakota	\$33,904	\$41,184	121.47%	12
Illinois	\$49,504	\$60,060	121.32%	13
Utah	\$38,948	\$47,164	121.09%	14
Mississippi	\$33,540	\$39,988	119.22%	15
Kansas	\$39,416	\$46,800	118.73%	16
Alabama	\$39,260	\$46,488	118.41%	17
Maine	\$36,608	\$42,744	116.76%	18
Minnesota	\$47,008	\$54,496	115.93%	19
North Dakota	\$38,012	\$43,420	114.23%	20
Pennsylvania	\$45,344	\$51,740	114.11%	21
Idaho	\$34,632	\$39,364	113.66%	22
New Jersey	\$55,744	\$63,284	113.53%	23
South Carolina	\$36,764	\$41,392	112.59%	24
Arkansas	\$35,828	\$40,196	112.19%	25
California	\$52,572	\$58,968	112.17%	26
Louisiana	\$41,444	\$46,176	111.42%	27
Alaska	\$47,164	\$51,532	109.26%	28
North Carolina	\$40,872	\$44,564	109.03%	29
Kentucky	\$38,376	\$41,600	108.40%	30
Colorado	\$47,892	\$51,220	106.95%	31
Hawaii	\$39,312	\$41,964	106.75%	32
Washington	\$47,840	\$51,012	106.63%	33
West Virginia	\$36,972	\$39,364	106.47%	34
Indiana	\$39,208	\$41,392	105.57%	35
Florida	\$40,560	\$42,744	105.38%	36
Oklahoma	\$38,012	\$39,676	104.38%	37
Arizona	\$42,848	\$44,720	104.37%	38
Oregon	\$40,976	\$42,172	102.92%	39
New Hampshire	\$46,280	\$47,372	102.36%	40
Connecticut	\$60,372	\$60,476	100.17%	41
Delaware	\$48,568	\$48,516	99.89%	42
D.C.	\$73,060	\$71,136	97.37%	43
Massachusetts	\$58,344	\$56,264	96.43%	44
Maryland	\$49,504	\$47,580	96.11%	45
Texas	\$47,632	\$45,292	95.09%	46
Tennessee	\$41,756	\$39,572	94.77%	47
Missouri	\$40,872	\$37,492	91.73%	48
Virginia	\$49,140	\$44,356	90.26%	49
New York	\$61,568	\$55,016	89.36%	50
Georgia	\$44,304	\$39,364	88.85%	51

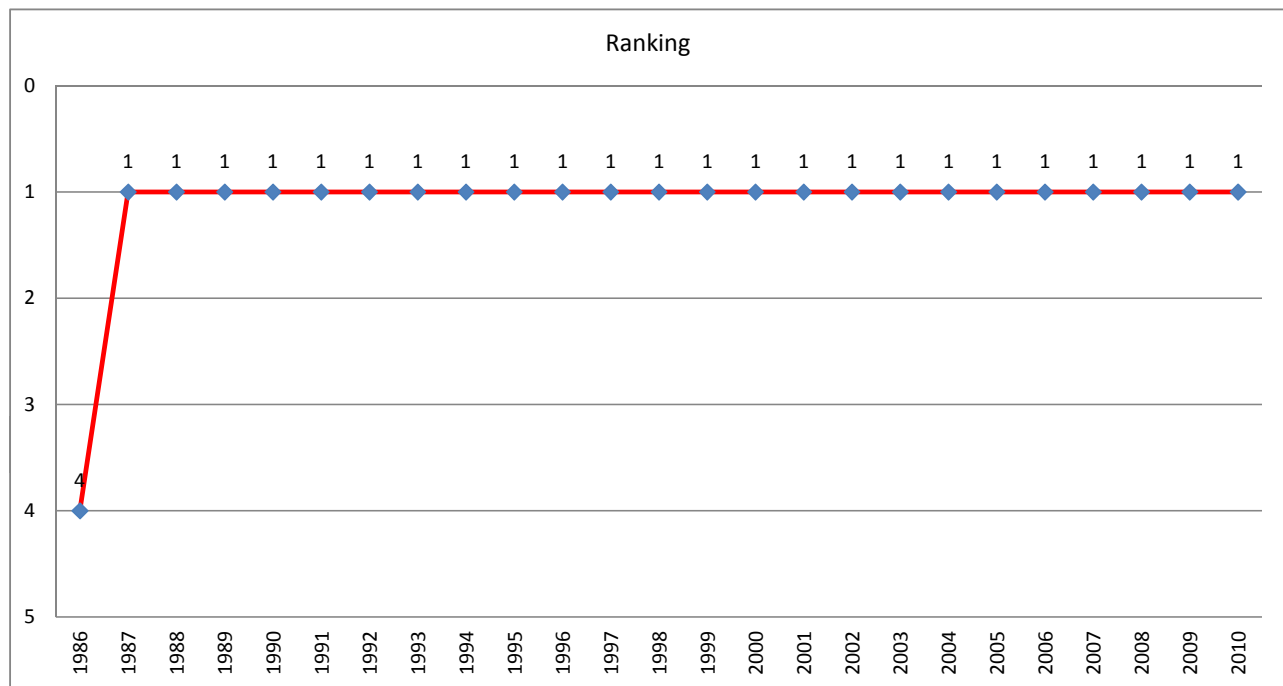
Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Wages, Annual Averages 2010"

Table 2. Pay Gap of Iowa and Next-Highest State, 2001-2010



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Wages, Annual Averages," 2001-2010

Table 3. Iowa's Pay Gap Ranking Among the 50 States and District of Columbia, 1986-2010



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Wages, Annual Averages," 1986-2010

Iowa's Privileged Class

“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.”

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.”³ 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 state-government employees and then-Governor Terry Branstad’s representatives went to binding arbitration. Despite a budget crunch at that time, the arbitrators awarded a 9 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

In fiscal year 2010 (which runs from July 2009 to June 2010), the unions that represent Iowa’s state-government

employees agreed to a “zero percent across-the-board salary increase.”⁷ 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*.⁸ “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.”⁹

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 2009, under then-Governor Chet Culver, the Pay Gap in Iowa reached a level higher than 50 percent for the first time. In that year, for every \$1.00 an average private-sector worker earned in Iowa, an average state-government employee in Iowa was paid \$1.54. In Table 4 you can see the Pay Gap in Iowa each year for the last 25 years.

Table 4. Iowa’s Pay Gap:

How Much Higher Is the Average Wage of an Iowa State-Government Employee than the Average Wage of an Iowa Private-Sector Worker? (1986-2010)

1986	29.0%
1987	37.3%
1988	39.6%
1989	44.4%
1990	46.0%
1991	47.4%
1992	47.5%
1993	49.5%
1994	47.1%
1995	47.6%
1996	48.0%
1997	45.1%
1998	45.8%
1999	45.5%
2000	46.5%
2001	48.9%
2002	49.0%
2003	48.2%
2004	45.2%
2005	46.7%
2006	46.2%
2007	46.6%
2008	48.1%
2009	54.4%
2010	50.1%

Source: U.S. Department of Labor, Bureau of Labor Statistics, “Employment and Wages, Annual Averages,” 1986-2010

State Government Employees

“In 2009, under then-Governor Chet Culver, the Pay Gap in Iowa reached a level higher than 50 percent for the first time. In that year, for every \$1.00 an average private-sector worker earned in Iowa, an average state-government employee in Iowa was paid \$1.54.”

Iowa's Privileged Class

“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.”

Following his defeat in the November 2010 election, former Governor Chet Culver agreed to the proposal by the unions representing many state-government employees for salary increases for the next two fiscal years. Public Interest Institute Research Analyst Deborah D. Thornton writes about this “gift” from Culver to the unions in the POLICY STUDY, *Iowa's Privileged Class: Time for a Change!*¹⁰

As widely reported in November 2010, outgoing Governor Chet Culver (Democrat) acted to limit incoming Governor Terry Branstad's (Republican) personnel funding options by signing a two-year contract with the American Federation of State, County, and Municipal Employees (AFSCME) union immediately following his re-election defeat.

That contract required a 2 percent salary increase [in July 2011], and another 1 percent this January (2012).

In addition, according to the contract signed by Governor Culver, the FY2012 salary increases are followed by another 2 percent across-the-board increase in July 2012 – at the

beginning of FY2013 – and another 1 percent increase in January 2013.¹¹

The total amount of the increases is expected to be over \$200 million in permanent additions to the state budget, plus the corresponding increases in pension and health-care contributions.

These raises were higher than those enacted in all other states for fiscal 2012, except Hawaii, which allowed a 5 percent across-the-board pay increase.¹² Nationally, according to the Bureau of Labor Statistics, the average increase for state government workers was 1 percent.

So in November 2010 Governor Culver gave a Christmas present to state government workers that was three times bigger than that received by workers in other states. The speculation was that this lame duck action was a ‘thank you’ gift to union workers for their support of Governor Culver in the election. Unfortunately, Iowa taxpayers will have to keep on funding this gift for a very long time.

If both Governor Culver and the unions were bargaining on the side of state-government employees, who was speaking for the taxpayers in this equation? No one.

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 historically substantial differences in the mean qualifications of 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.¹³

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.

The differences that exist between the typical types of jobs of private-sector workers and government-sector workers

State Government Employees

“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.”

Iowa's Privileged Class

“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.”

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 average wage for private-sector employees includes a larger number of part-time employees than does the state-government-sector, 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 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.

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, or those they can convince to make their case for them, 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.

In 2010, Iowa's state-government workers received an average wage that was 150.28 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?

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, <<https://www.legis.iowa.gov/DOCS/ACO/IC/LINC/Section.20.22.pdf>> accessed on August 8, 2012.

⁴ Hogberg.

⁵ "Frequently Asked Questions – Collective Bargaining in Iowa," p. 7.

⁶ *Ibid*, pp. 7-8.

⁷ 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.

⁸ *Ibid*.

⁹ *Ibid*.

¹⁰ Deborah D. Thornton, "Iowa's Privileged Class: Time for a Change!," Public Interest Institute

POLICY STUDY, January 2012, pp. 10-11.

¹¹ John Stephenson, "Iowa's departing governor approves a six percent wage increase for state workers," State Budget Solutions, November 23, 2010, <<http://www.statebudgetsolutions.org/blog/detail/iowas-departing-governor-approves-a-six-percent-wage-increase-for-state-workers>> accessed on December 7, 2011.

¹² "Fiscal Survey of the States, Fall 2011," National Governors Association and the National Association of State Budget Officers, Table 18, State Employee Compensation Changes FY 2011, pp. 24-27, <<http://www.nga.org/files/live/sites/NGA/files/pdf/FSS1111.PDF>> accessed on December 5, 2011.

¹³ 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.

State Government Employees

**Public Interest Institute
at Iowa Wesleyan College
600 North Jackson Street
Mount Pleasant, IA 52641-1328**

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www.LimitedGovernment.org