The political push for state-worker COLLECTIVE BARGAINING

State-worker collective bargaining would cost Nevada $500 million annually.

Is it necessary?

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Executive Summary

Extending the ability to collectively bargain to Nevada state government workers will increase state spending by approximately $500 million annually — a price that will be paid by taxpayers via higher taxes, decreased government services or both.

The argument put forward to justify this staggering increase in future spending is based on a false belief that state workers are underpaid.

This paper shows that, when measured on a variety of metrics, compensation for Nevada state government workers is already significantly above market levels. Median earnings for Nevada state workers are 29 percent above private earnings — a gap that is the fourth largest nationwide.

> **"Compensation for state workers is already well above market levels, making the $500 million in additional annual spending an unnecessary burden on taxpayers."**

Average compensation for Nevada state workers ranked 10th highest nationwide on a raw, unadjusted basis, and fifth highest when accounting for the different price levels among the 50 states.

A state-by-state ranking that compared compensation for state government workers against their similarly skilled and educated private-sector counterparts found Nevada government workers earned 29 percent more than their private-sector peers — a premium that was the ninth largest nationwide.

Finally, Nevada state government workers themselves demonstrate that current compensation levels are more than adequate via a voluntary quit rate that is just a tiny fraction of the overall quit rate of workers nationwide.

Taken together, this evidence makes clear that compensation for state government workers is already well above market levels, and the additional cost associated with extending collective bargaining to state workers is an unnecessary burden on taxpayers.

In spite of this, Nevada lawmakers are poised to extend collective bargaining to state government workers. While the added cost for such a policy is clearly deleterious from a social welfare perspective, it makes tremendous sense from a political perspective — as the concentrated support bestowed upon compliant politicians from what will become essentially a taxpayer-funded political action committee far outweighs any dispersed costs that they will face from the average taxpayer.

This corrosion of the democratic process is precisely why collective bargaining for government workers has historically been opposed by economists, pro-union lawmakers and even labor unions themselves.

Giving state workers the ability to collectively bargain will further corrupt the political process in Nevada at the expense of taxpayers and citizens.

Background

> "The entire basis for collective bargaining in the private sector does not exist in the public sector, which has neither owners nor profits over which to negotiate."

Nevada passed its first collective bargaining law in 1965, which expressly prohibited bargaining with government unions for all employee groups.

The entire basis for collective bargaining in the private sector — that an organization is needed to counteract business owners' desire to personally profit by underpaying their workers[1] — does not exist in the public sector, which has neither owners nor profits over which to negotiate.

Of course, the biggest difference between government and the private sector is government's ability to tax. As Geoffrey Lawrence and Cameron Belt explain in their primer on government unions:

> A key reason that government unions enjoy so much leverage relative to their private-sector counterparts is that governments wield the power of compulsion over taxpaying citizens. In the private sector, the ultimate check on union power is the fact that transactions are voluntary, and consumers are only willing to spend so much for a given good or service. In the government realm, however, taxpayers can be coerced into financing an expanding workforce with above-market compensation.

But the danger of unionization for government workers isn't merely that the politicians who act as employers can pay them with other people's money, it's that the politician-employers are politically incentivized to charge taxpayers monopoly prices for services and deliver higher compensation to government unions.

The Center for Responsive Politics reports that the largest donor to political campaigns nationwide since 1990 is the Service Employees International Union, which is comprised mostly of public workers. Public unions also occupy the 6th, 8th and 9th spots on the list.

A Heritage Foundation report explains the corrupting effect this has on the democratic process:

> **Politician-Employers.** Politicians have taken careful note of government unions' ability to influence elections. Many politicians actively seek union political support. Some politicians will give government unions generous contracts in exchange for their help in getting elected. As labor economists Jeffrey Zax of Queens College and Casey Ichniowski of Columbia University observe, "The political objectives of government officials and of public employees may often be in concert rather than in conflict."
>
> Harvard professor Richard Freeman suggests that this alignment of interests between government unions and their politician-employers is a major reason for the rapid growth of unions in government. Instead of resisting union demands, politician-employers have a keen interest in encouraging unionization among government employees because the union political machines can help them to secure re-election.

In other words, mandatory collective bargaining in the public sector has led to a very one-sided, exploitative arrangement — something *private*-sector unions were originally designed to prevent — with organized labor wielding the power at the expense of the taxpaying public.

This is why even President Franklin Delano Roosevelt, one of the most vocal supporters of the labor movement, warned that:

> [T]he process of collective bargaining, as usually understood, cannot be transplanted into the public service. It has its distinct and insurmountable limitations when applied to public personnel management. The very nature and purposes of Government make it impossible for administrative officials to represent fully or to bind the employer in mutual discussions with Government employee organizations. The employer is the whole people, who speak by means of laws enacted by their representatives in Congress.

This sentiment was echoed by *labor organizations* themselves in the past. AFL-CIO President George Meany declared in 1955 that, "It is impossible to bargain collectively with the government." The AFL-CIO executive council formally codified a resolution to that effect just four years later.[2]

Nothing changed regarding the understanding of the corrosive effect government unionization would have on the political process. Rather, when unions became desperate for new members as a changing private-sector workforce led to a sharp decline in their membership, the promise of captive, public-sector members was too tempting to pass up.[3]

While Nevada eventually reversed its course and granted mandatory collective bargaining to all *local* government workers, the prohibition on collective bargaining for *state* government workers has remained intact to this day.

But with Democrats in full control of the Legislature and Governor's Office, it is very likely that lawmakers will extend collective bargaining to state government workers in 2019.

The purported basis for this radical reversal of existing law is that collective bargaining is necessary for government workers to obtain fair wages. Advocates frequently claim that current compensation is below market levels or, in the most hyperbolic cases, "unlivable."[4]

This claim is false and has no empirical support of any kind. To the contrary, an analysis of all relevant data suggests precisely the opposite: compensation for Nevada state government workers is already well above market levels.

To demonstrate as much, we analyze three distinct categories of information:

1. Earnings and compensation data, compared to both Nevada private-sector workers and state government workers in the other 49 states.
2. An "apples-to-apples" comparison between Nevada state government workers and *similarly skilled and educated* private-sector workers.
3. Voluntarily quit rates of Nevada state government workers as compared to private-sector workers nationally.

Each metric, on its own, strongly suggests that Nevada state government workers receive compensation that is already well above market levels.

As a whole, the data demonstrate there is no factual basis for the claim that Nevada state workers are underpaid. On the contrary, compensation for Nevada state workers ranks among the very highest nationwide.

"Each metric, on its own, strongly suggests that Nevada state government workers receive compensation that is already well above market levels."

Comparison to other state government workers nationwide

The U.S. Census Bureau recently published 2017 median earnings data for full-time, year-round workers in Nevada. Median earnings for state government workers in Nevada were 2 percent greater than the national median and ranked 22nd out of the 50 states. Private-sector earnings in Nevada, however, ranked 41st and were 12 percent *below* the national median.

Median 2017 earnings, by class of full-time, year-round Nevada worker

Nevada Worker Type	Median 2017 earnings	50-state ranking	NV vs US
Private	$40,259	41	**-12%**
State Govt	$51,948	22	**2%**
Local Govt	$58,664	11	**15%**

While earnings for Nevada private-sector workers ranks among the bottom quintile of states nationwide, median earnings for state government workers surpass what their government peers in the majority of states nationwide receive.

This disparity is highlighted when government earnings are measured as a percentage of private-sector earnings.

At 29 percent more than private-sector median earnings, Nevada state workers had the 4th largest pay gap nationwide.

Nevada Worker Type	Earnings as % of private-sector earnings	Rank among the 50 states
State Govt	129%	4
Local Govt	146%	1

Mandatory collective bargaining for Nevada's local government workers is performing exactly as intended. Median earnings for Nevada's local government workers were 46 percent greater than private-sector earnings, a gap that was by far the largest nationwide.

Raising taxes on those with median earnings of around $40,000 to further inflate the pay premium enjoyed by Nevada's government workers is neither fair nor sustainable.

While state government workers would obviously benefit in the short-run, this deadweight loss would ultimately make the state poorer as a whole, to the detriment of all Nevadans, *including state workers*.

Wages plus benefits

The Federal Bureau of Economic Analysis publishes compensation data, which reflects the cost of health and retirement benefits in addition to wages. Including these costs magnifies the disparity found above.

A caveat to this data is that it reflects both full-time and part-time workers. The median earnings cited above was limited to full-time, year-round workers.

Average compensation by type of Nevada worker, 2017

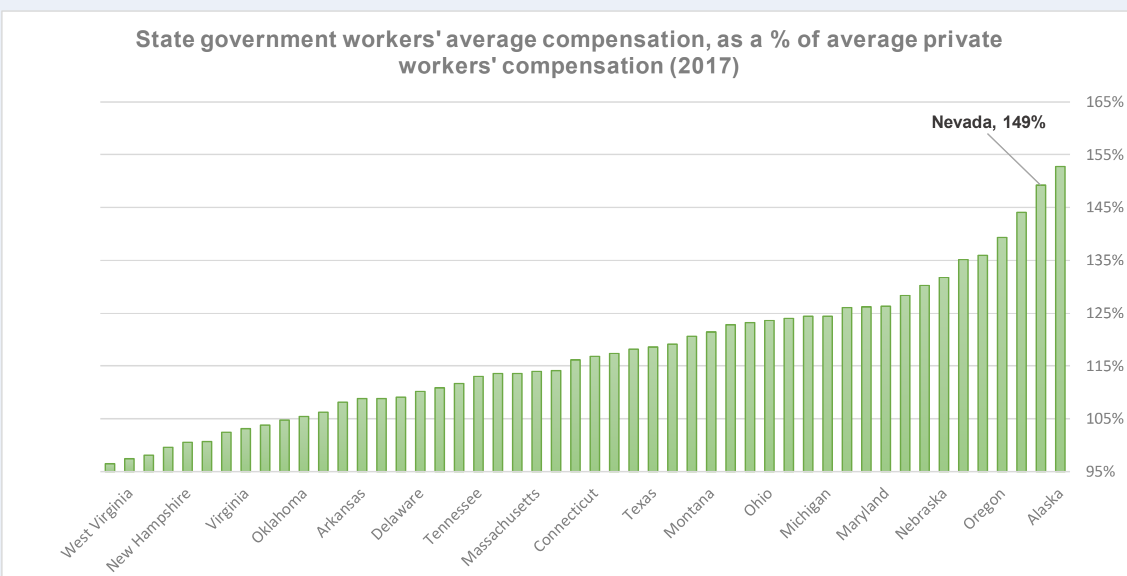
Nevada Worker Type	Average total compensation	Rank among the 50 states	Adjusted for difference in price levels
Private-sector	$57,117	35	41
State Govt	$85,258	10	5
Local Govt	$86,482	6	1

Average compensation for Nevada state government workers was $85,258, an amount that ranked 10th highest among the 50 states.

Average compensation greater than what state government workers in 40 states receive is strong evidence that Nevada state government workers are far from undercompensated.

When the values are adjusted to reflect the different price levels among the 50 states, average compensation for Nevada state workers ranked fifth highest nationwide — while private-sector Nevadans ranked 41st.

At 49 percent greater than the average private-sector worker, compensation for Nevada state workers ranked 2nd highest nationwide:



Once again, regardless of the measurement used, average compensation for Nevada state government workers consistently ranks among the very highest nationwide.

Comparing Apples-to-Apples

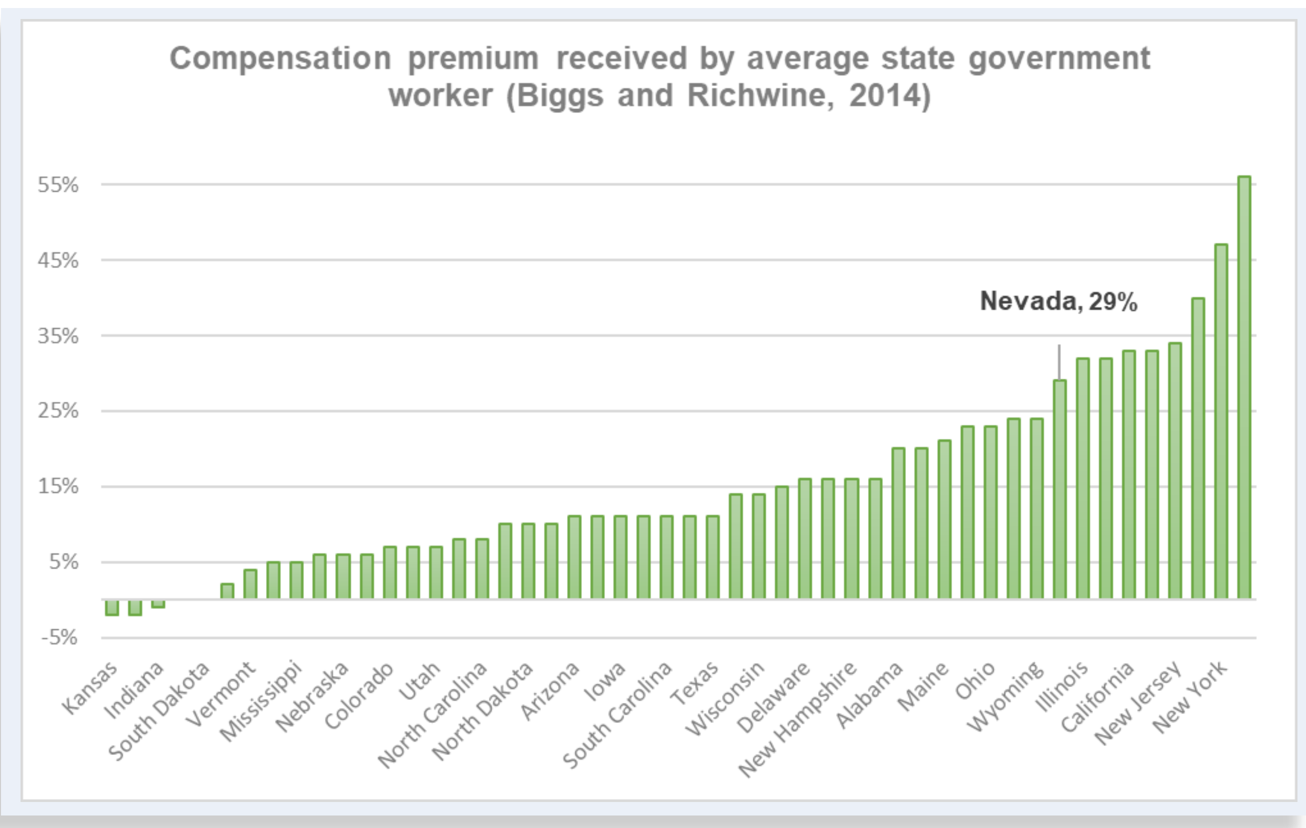
In 2014, nationally recognized experts Andrew Biggs and Jason Richwine published a study that analyzed the compensation of full-time state government and private-sector workers in each of the 50 states.

Biggs and Richwine ran a regression analysis that controlled for differences in education, experience, and other characteristics that predict earnings, which allowed the authors to make an "apples-to-apples" comparison and determine how state government pay compared to a ***similarly skilled and educated*** private-sector worker.

When those factors were accounted for, the *wage* gap between the average Nevada state worker and their private-sector counterpart disappeared.

But when total compensation — including pensions, health coverage, retiree health care, paid time off, and job security — was accounted for, the authors found that *the average state government worker in Nevada earned 29 percent more than their similarly skilled private-sector counterpart*.

This ranked 9th highest out of the 50 states and was nearly triple the 11 percent differential found at the median state nationwide.



Current NSHE Chancellor and former Clark County manager Dr. Thom Reilly found similar results when he compared government and private-sector compensation in a study for the peer-reviewed *Public Personnel Management* journal.[5]

Reilly estimated lifetime compensation of two categories of employees, adjusted for whether they worked for the average private-sector employer or a Nevada government agency:

1. Administrative assistants and secretaries
2. Architects and engineers

Reilly found that the much-richer benefits offered by Nevada's government agencies meant those employees would receive average annual compensation that was 57 and 38 percent greater, respectively, than their private sector peers. Reilly did not differentiate between state and local government workers, however.

While the Biggs and Richwine study is far more robust and authoritative, Reilly's findings nonetheless offer an additional data point worthy of consideration.

Voluntary separations

The Bureau of Labor Statistics (BLS) publishes national data on annual quit rates by industry. As the name suggests, this data reflects the number of quits in a particular industry, expressed as a percentage of average annual employment.

This data is extremely useful for testing the claim that one category of workers is underpaid relative to the market.

Given that most workers prefer higher pay to lower pay, we would expect to see a significantly higher quit rate among workers within an industry that offered below-market compensation to employees, reflecting these workers' desire to take advantage of the ability to perform the same job for more money elsewhere.

In 2017, the BLS reported a 29.1 percent quit rate for the total U.S. private sector.

A quit rate for Nevada state government workers significantly higher than 30 percent would be consistent with the claim that these workers are, in fact, underpaid.

Conversely, a quit rate substantially below the rate found in the private sector would strongly refute the hypothesis that state government workers are underpaid.

In addition to the annual quit rate for the total private sector, we have also included the annual quit rate for the professional & business services industry, as an additional point of comparison.

The data reveals that Nevada state government workers appear enormously satisfied with the compensation provided to them, with an average quit rate that is just a tiny fraction of the rate found in the private sector:

Year	NV state government quits rate	Private sector quits rate	Private quits rate/NV state	Professional & business services	Prof & business/NV state
2017	8.8%	29.1%	**3.3*x***	37.7%	**4.3*x***
2016	9.2%	28.1%	**3.1*x***	36.6%	**4*x***
2015	9.8%	26.6%	**2.7*x***	32.0%	**3.25*x***
2014	9.5%	24.7%	**2.6*x***	29.5%	**3.1*x***
2013	9.3%	22.8%	**2.5*x***	28.5%	**3.1*x***

Such a low voluntarily quit rate reinforces the trend identified in the analysis of earnings and compensation data discussed above: current compensation for Nevada state workers is more than adequate.

Conclusion

There is no dispute that extending collective bargaining to state workers will increase compensation for state workers at taxpayer expense. When the cost of higher employment levels are also factored in, experts estimate this added cost at between $325 million to $685 million annually.[6]

Because there is no legitimate public policy basis for imposing this cost on taxpayers who, on average, earn much less themselves, advocates have instead engaged in a targeted misinformation campaign that falsely claims that state workers are underpaid — thus arguing that higher taxes and state spending are necessary to remedy this alleged inequity.

This analysis, however, demonstrates that regardless of the metric used, average compensation for Nevada state government workers ranks among the highest nationwide.

- After accounting for the price differences between the states, Nevada state workers are the fifth richest-compensated of state government workers nationwide.
- When measured as a percentage of private-sector compensation, Nevada state workers rank 2nd highest nationwide.
- When national experts ranked state government compensation across the 50 states, in an "apples-to-apples" comparison that compared similarly skilled and educated government workers against their private-sector counterparts, average compensation for Nevada state workers was 29 percent above market levels — the 9th highest disparity nationwide.

Perhaps the most compelling evidence against the claims that state workers are underpaid, however, is the expressed preferences of state workers themselves. With voluntary quit rates well below that of the private sector, Nevada's state workers have demonstrated a high level of satisfaction with their current compensation.

The fact that literally every metric used to measure compensation ranks Nevada State workers above-average, conclusively refutes the myth that collective bargaining is somehow needed to ensure "fair" pay for these public sector workers — a myth that is used to justify the staggering cost to taxpayers.

There are profound differences between the public and private sector. By ignoring these fundamental differences, those arguing for extending collective bargaining to public workers end up advocating for precisely the kind of one-sided, exploitative arrangement that collective bargaining in the private sector was originally designed to prevent.

> **"Taking from those with less to give to those with more is neither a fair nor a sustainable way to improve the well-being of Nevadans."**

Taking from those with less to give to those with more is neither a fair nor a sustainable way to improve the well-being of Nevadans.

Lawmakers should revert to the state's original prohibition on collective bargaining for all government workers and support policies that encourage sustainable, productivity-based wage growth instead.

As we've seen with the compensation of state workers so far, a prohibition of collective bargaining abilities will not result in wages far below market value. In fact, compensation for government workers would likely continue to outpace the private sector, due largely to the political incentives placed on politicians.

Unfortunately, it's those political incentives — rather than an admirable desire to ensure fair pay for government workers — that will become even more outsized should state workers be given the ability to collectively bargain.

Taxpayers, who earn far less than state government workers, should not be burdened with the fiscal cost of such a blatantly political maneuver.

Endnotes

1 The notion that employer greed determines wages is a myth. Wages in a competitive market are determined by productivity. See George Reisman, "Capitalism: A complete and integrated understanding of the nature of value and human life," pp. 613-628.

2 Jack Stieber, Public Employee Unionism: Structure, Growth Policy, Washington, D.C.: The Brookings Institution, 1973, p. 117

3 Geoffrey Lawrence and Cameron Belt "The Rise of Government Unions: A review of public-sector unions and their impact on public policy," January 2017.

4 Harry Schiffman, president of the American Federation of State, County and Municipal Employees, Local 404, in a Las Vegas-Review Journal op-ed entitled, "Nevada state workers get a raw deal thanks to prohibition on collective bargaining," April 20, 2018.

5 Reilly, T. (2013). Comparing public-versus-private sector pay and benefits: Examining lifetime compensation. Public Personnel Management, 42(4), 521-544. https://doi.org/10.1177/0091026013505504

6 In 2018 dollars. Original estimate of $307 to $647 million was in 2014 dollars. Lawrence, Geoffrey, James Sherk, Kevin D. Dayaratna, and Cameron Belt. 2016. "How Government Unions Affect State and Local Finances: An Empirical 50-State Review." SR-178. Washington, DC: Heritage Foundation.

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