

A Pay Raise for Iowa?

Falling Behind at the Minimum Wage

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July 2006

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Revised Sept. 25, 2006

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Iowa's minimum wage remains at the lowest level allowed by the federal government: \$5.15 per hour. When the minimum wage was set at \$5.15 in September 1997, gasoline prices in the Midwest averaged \$1.22 per gallon, the average home sale price in Des Moines was \$84,187, and in-state tuition and fees at the University of Iowa (UI) were \$2,470. Almost nine years later, these figures are \$2.89, \$107,588 and \$6,135.¹

In percentage terms, gasoline prices have increased 137 percent since 1997, Des Moines housing prices have increased 28 percent, and UI tuition has increased 148 percent. In addition, the average employer-sponsored health insurance premium for a family of four increased by 73 percent between 2000 and 2005.²

There was a time when the federal government regularly adjusted the minimum wage for inflation. For example, adjustments were made every year between 1974 and 1981, except for 1977.³ But if the federal minimum wage is not increased by September 2006, American workers will have suffered through the longest period without an adjustment in U.S. history. Federal inaction has allowed inflation to erode the value of the minimum wage to its lowest level since 1949.⁴

Unwilling to allow further decline in the real minimum wage, 22 states and the District of Columbia have acted on their own.⁵ More than half of the U.S. population is now covered by a state minimum wage higher than the federal level of \$5.15 per hour, including Iowa's neighbors in Wisconsin, Minnesota and Illinois. Three southern states (Arkansas, North Carolina and Florida) also have a higher minimum wage.

¹ Gasoline price data is based on retail prices for regular, conventional gasoline for the Midwest on September 1, 1997, and July 3, 2006. These data are from the Department of Energy, Energy Information Administration http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_history.html. Last accessed July 6, 2006. Tuition and fee information is from the University of Iowa, Office of the Registrar. Costs are based on tuition and mandatory fees for undergraduate students in the College of Liberal Arts and Sciences for the 1996-97 and 2006-07 school years. Average home sale price data is from the City of Des Moines, Community Development Department for 1998 and 2005.

² Kaiser/ HRET Survey of Employer-Sponsored Health Benefits, 2005. Available at: <http://www.kff.org/insurance/7315/sections/upload/7316.pdf>. Last accessed July 10, 2006.

³ U.S. Department of Labor, Employment Standards Administration. Available at <http://www.dol.gov/esa/min-wage/chart.htm>. Last accessed July 7, 2006.

States Above \$5.15

State	Current Rate
Alaska	\$7.15
Arkansas*	\$6.25
California	\$6.75
Connecticut	\$7.40
D.C.	\$7.00
Delaware	\$6.15
Florida**	\$6.40
Hawaii	\$6.75
Illinois	\$6.50
Maine	\$6.50
Maryland	\$6.15
Massachusetts	\$6.75
Michigan*	\$6.95
Minnesota	\$6.15
New Jersey	\$6.15
New York	\$6.75
North Carolina*	\$6.15
Oregon**	\$7.50
Pennsylvania	\$6.25
Rhode Island	\$7.10
Vermont**	\$7.25
Washington**	\$7.63
Wisconsin	\$6.50

Source: U.S. DOL

* Future effective date

** Adjusted yearly for inflation

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A Higher Minimum Wage Benefits Thousands of Iowans

A higher minimum wage would benefit thousands of Iowans working to support themselves and their families. Workers earning less than any new minimum wage level, workers earning a few dollars more than any new minimum wage level, and all tipped employees would receive an immediate pay raise.⁶

If the minimum wage were increased to \$6.15 per hour, about 53,000 Iowans, or 4 percent of all workers, would receive an average hourly wage increase of 37 cents.⁷ Of the workers who would benefit from the increase ...

- 57 percent are adults over the age of 20.
- 61 percent are female.
- 27 percent are full-time workers and another 34 percent work between 20 and 34 hours per week.
- 12 percent are parents to some 11,000 children.
- 49 percent work in the retail trade or leisure and hospitality industries.

If the minimum wage were increased to \$7.25 per hour, about 257,000 Iowans, or 18 percent of all workers, would receive an average hourly wage increase of 60 cents.⁸ Of the workers who would benefit from the increase ...

- 75 percent are adults over the age of 20.
- 58 percent are female.
- 42 percent are full-time workers and another 34 percent work between 20 and 34 hours per week.
- 20 percent are parents to some 94,000 children.
- 45 percent work in the retail trade or leisure and hospitality industries.

A higher minimum wage benefits Iowans statewide. Figures 1 and 2 show the number and share of all workers affected by minimum wage increases to \$6.15 and \$7.25, respectively, for 19 geographic regions.⁹ As depicted by the darker shading, workers in the more rural northern, western and southern parts of the state would benefit the most from a minimum wage increase. Only 34 percent of the workers who would benefit from a higher minimum wage work in the six most populous counties (Polk,

⁴ After adjustments based on the Bureau of Labor Statistics' Consumer Price Index for all urban consumers.

⁵ U.S. Department of Labor, Employment Standards Administration, <http://www.dol.gov/esa/minwage/america.htm>. Last accessed July 11, 2006. A few states that recently passed minimum wage increases, such as North Carolina, may not be updated on the DOL website yet. Nevada voters are expected to approve a minimum wage increase in November 2006 in order to become the 23rd state with a minimum wage higher than the federal level. Arizona, Colorado, Montana, Ohio, and Missouri have active ballot initiatives for the Fall 2006 elections as well. See Figure 4 (on page 6) for a map of all states with a higher minimum wage or a pending ballot initiative.

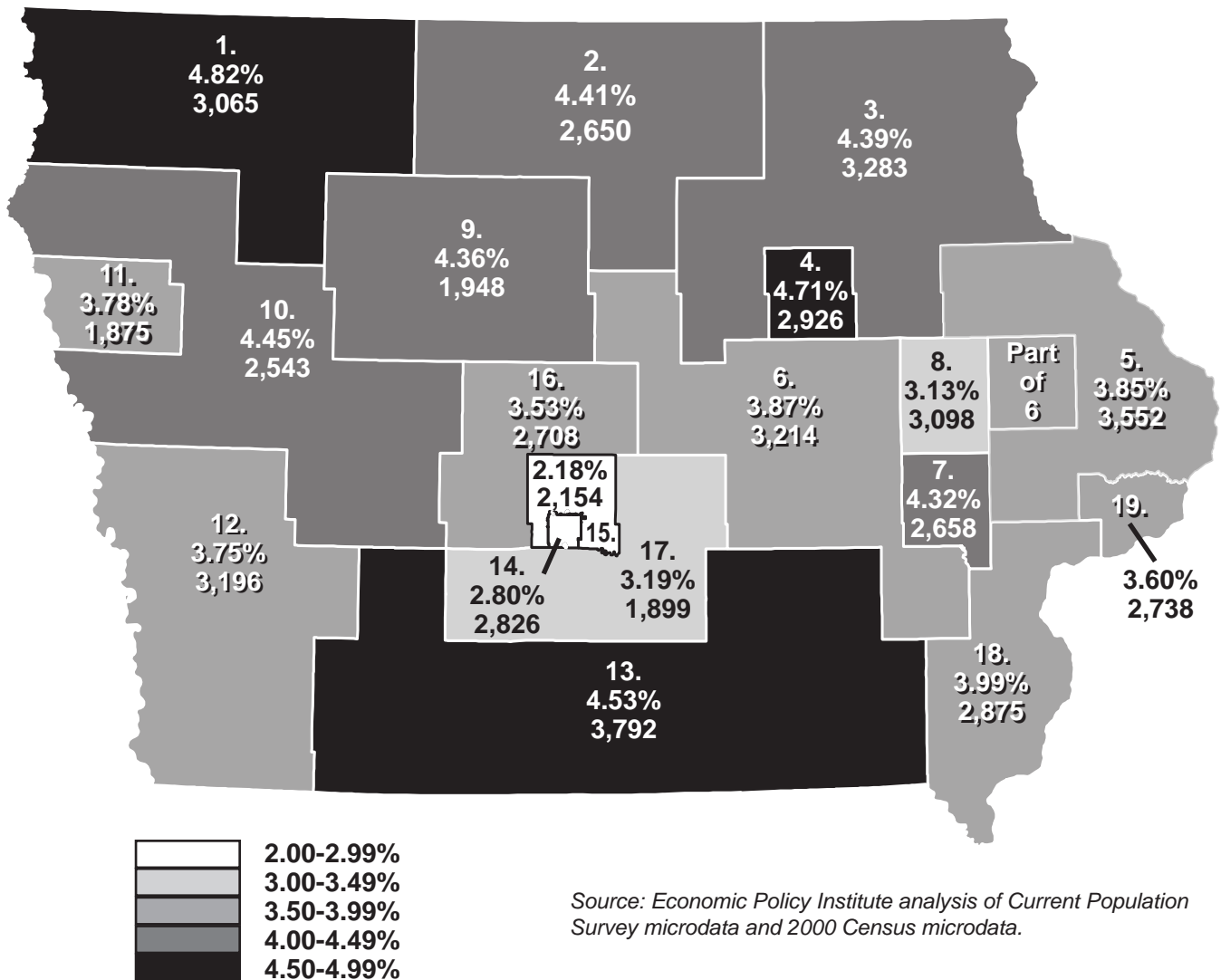
⁶ Tipped employees in Iowa must receive a wage from their employer of at least 60 percent of the minimum wage level. See the Department of Labor website at <http://www.dol.gov/esa/programs/whd/state/tipped.htm>. Last accessed July 10, 2006. Workers earning slightly above any new minimum wage level also receive a pay raise as companies adjust their internal pay structure. See Chapman, Jeff, *The Wage Effects of Minimum Wage Increases*, Washington, D.C.: Economic Policy Institute (forthcoming).

⁷ Economic Policy Institute analysis of 2005 Current Population Survey data, special data run for the Iowa Policy Project.

⁸ Economic Policy Institute analysis of 2005 Current Population Survey data, special data run for the Iowa Policy Project. For more on the Economic Policy Institute's methodology, see Chapman, Jeff, *The Wage Effects of Minimum Wage Increases*, Washington, D.C.: Economic Policy Institute (forthcoming). It should also be noted that the Iowa Policy Project originally reported in March 2006 that a minimum wage of \$7.25 would "directly affect" 132,000 workers and "indirectly affect" about 100,000 more workers due to the "spillover" effect of any minimum wage increase. The new overall estimate of 257,000 affected workers in 2007 differs in three respects. First, it combines both the directly and indirectly affected workers into one estimate. Second, the old estimate for the number of indirectly affected workers was based on a minimum wage increase to only \$6.15. The new estimate in this report accurately reflects larger indirect effects at higher minimum wage levels. Third, rather than assume an immediate increase in the minimum wage, it projects the number of workers at a variety of different wage levels in 2007 thus permitting an examination of how many workers would directly benefit from a given minimum wage increase in a specified year. As wages are expected to grow over the next several years, albeit fairly slowly, this means that there will be fewer workers earning less than \$7.25 per hour in the future than there are at present.

Linn, Scott, Black Hawk, Johnson and Woodbury), yet 39 percent of all workers are in these counties. However, there are important differences among Iowa’s urbanized counties. For example, Polk County and the City of Des Moines have the smallest share of affected workers, while Black Hawk County has the second highest share of affected workers. The larger areas of dark shading in Figure 2 show that the number of affected workers increases dramatically when the minimum wage is raised to \$7.25 vs. only \$6.15. The northern, western and southern parts of the state have the largest share of benefiting workers at both minimum wage levels.

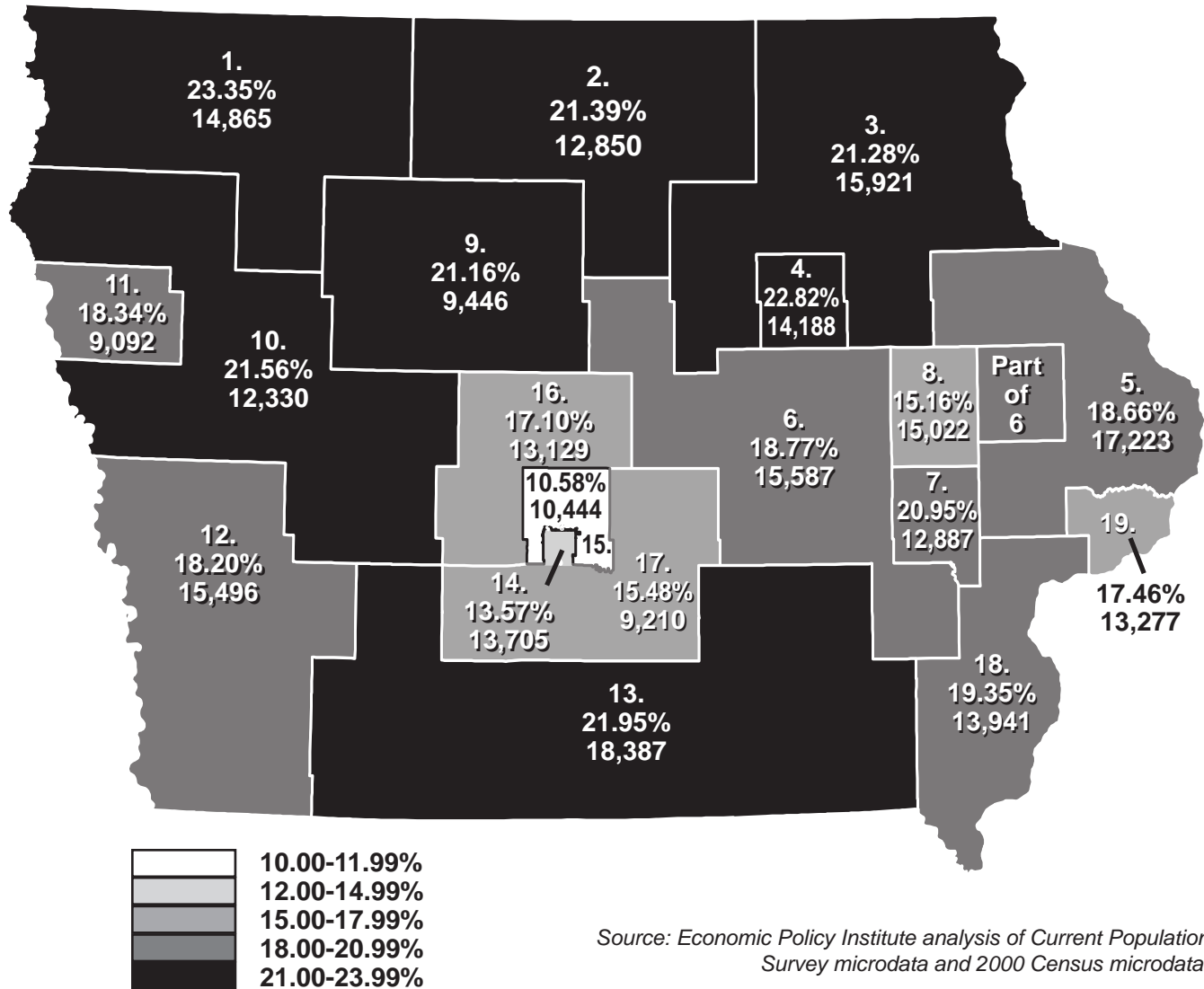
Figure 1. Percent and Number of All Workers Affected by a Minimum Wage Increase to \$6.15, by Region



⁹ Iowa’s 19 regions are as defined by the U.S. Census Bureau/Census 2000 Public Use Microdata Area (PUMA) files. The definition of a PUMA can be found at http://www.census.gov/geo/www/geo_defn.html#PUMA. More detailed information about Iowa’s 19 PUMAs can be found at: <http://ipums.org/usa/volii/2000pumas.html>. Last accessed July 12, 2006. The appendix to this report contains a list of the counties in each PUMA, or region.

¹⁰ Between 2001 and 2005, real (inflation-adjusted) GSP for Iowa increased 13.6 percent and real GDP for the nation increased 12.6 percent. Source of GDP and GSP data: Bureau of Economic Analysis, Regional Economic Accounts and National Economic Accounts.

Figure 2. Percent and Number of All Workers Affected by a Minimum Wage Increase to \$7.25, by Region



The Economic Rationale for a Higher Minimum Wage

A higher minimum wage is important in low-wage labor markets where workers have little bargaining power. The majority of workers' wages have declined in recent years despite strong economic growth as measured by gross state and national product.¹⁰ Median real wages in Iowa (50 percent of workers earn more, 50 percent earn less) declined by 1 percent between 2001 and 2005 (from \$13.57 to \$13.44 in 2005 dollars). Iowa's lowest wage workers have been hurt even worse. The 10th percentile real wage, at which only 10 percent of Iowans earn less, fell by 4.6 percent during the same period (from \$7.67 to \$7.32).¹¹

Opponents of a higher minimum wage typically argue that it will benefit only teenagers and that it will raise prices and discourage hiring. The first argument would be weak even if it were true. As we saw earlier, however, Iowans over the age of 20 make up the majority of workers affected by a minimum wage increase.

¹¹ Economic Policy Institute analysis of Current Population Survey data.

The second argument is a more serious claim, but it is also not substantiated. Current debates in Iowa center on increasing the minimum wage to \$6.15 or \$7.25 per hour. To put these modest increases in perspective, consider that even at the higher minimum wage level of \$7.25 per hour, total annual salaries and wages in Iowa would increase by less than one-half of 1 percent (or 0.4 percent). If we assume that all of this cost increase is passed on to consumers — which is extremely unlikely — then annual consumer spending would increase by just one-tenth of 1 percent (0.09 percent).¹² Thus, any resulting price increases would be imperceptible to consumers. And for the thousands of low-wage workers who benefit from the minimum wage increase, their higher pay would more than offset any price increases.

The most comprehensive and rigorous research has shown that a modest increase in the minimum wage does not lead to unemployment.¹³ In fact, a higher minimum wage may encourage more people to join the workforce and lead to higher worker productivity. After the minimum wage was last increased in two steps in 1996 and 1997, the U.S. economy experienced four years of robust and broad-based growth. One year after Florida’s higher minimum wage took effect in May 2005, Florida is experiencing record job growth even in the service industries that rallied against the new minimum wage.¹⁴

Many low-wage jobs simply cannot be outsourced to cheaper labor markets. Child care workers, nursing home workers, hotel maids, retail clerks, and fast food workers, for example, all work for businesses that must be located where the market exists to serve their customers.

Couple Higher Minimum Wage with Other Support

Failing any federal action, one of the first bills passed by Iowa’s 82nd General Assembly should be an increase in the minimum wage. However, increasing the minimum wage is only part of a successful effort to help workers better support themselves and their families. A full-time worker earning the current minimum wage of \$5.15 per hour cannot keep a two-person family above the 2006 poverty level of \$13,200. An increase in the minimum wage to \$7.25 would pay \$14,500 annually and put the family just above the poverty level (Figure 3). Yet even with an annual income of \$14,500, this family is going to have trouble meeting basic needs, much less saving for a home, retirement or a child’s education. Therefore, any increase in the minimum wage should be coupled with other efforts to support Iowans near the poverty level. While not addressed fully in this report, policy makers should consider expanding the state earned income tax credit (EITC) and dependent exemption credit in order to help working families in need.

Figure 3. Minimum Wage and Poverty
Annual Earnings at the Federal Minimum Wage Since 1960 (in 2006 dollars) and the Effect of a New \$7.25 Minimum Wage

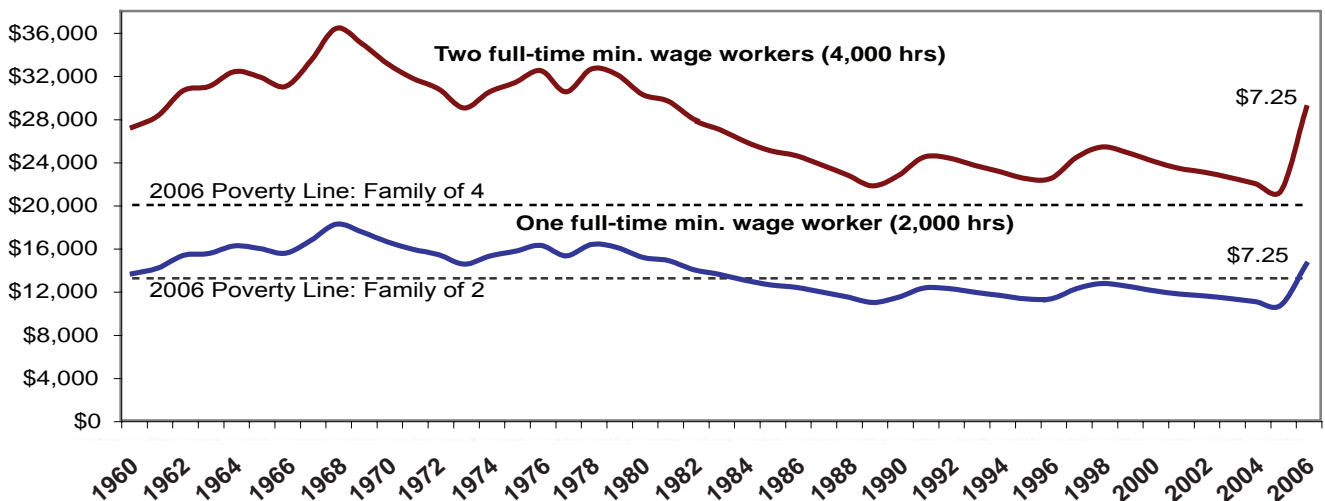
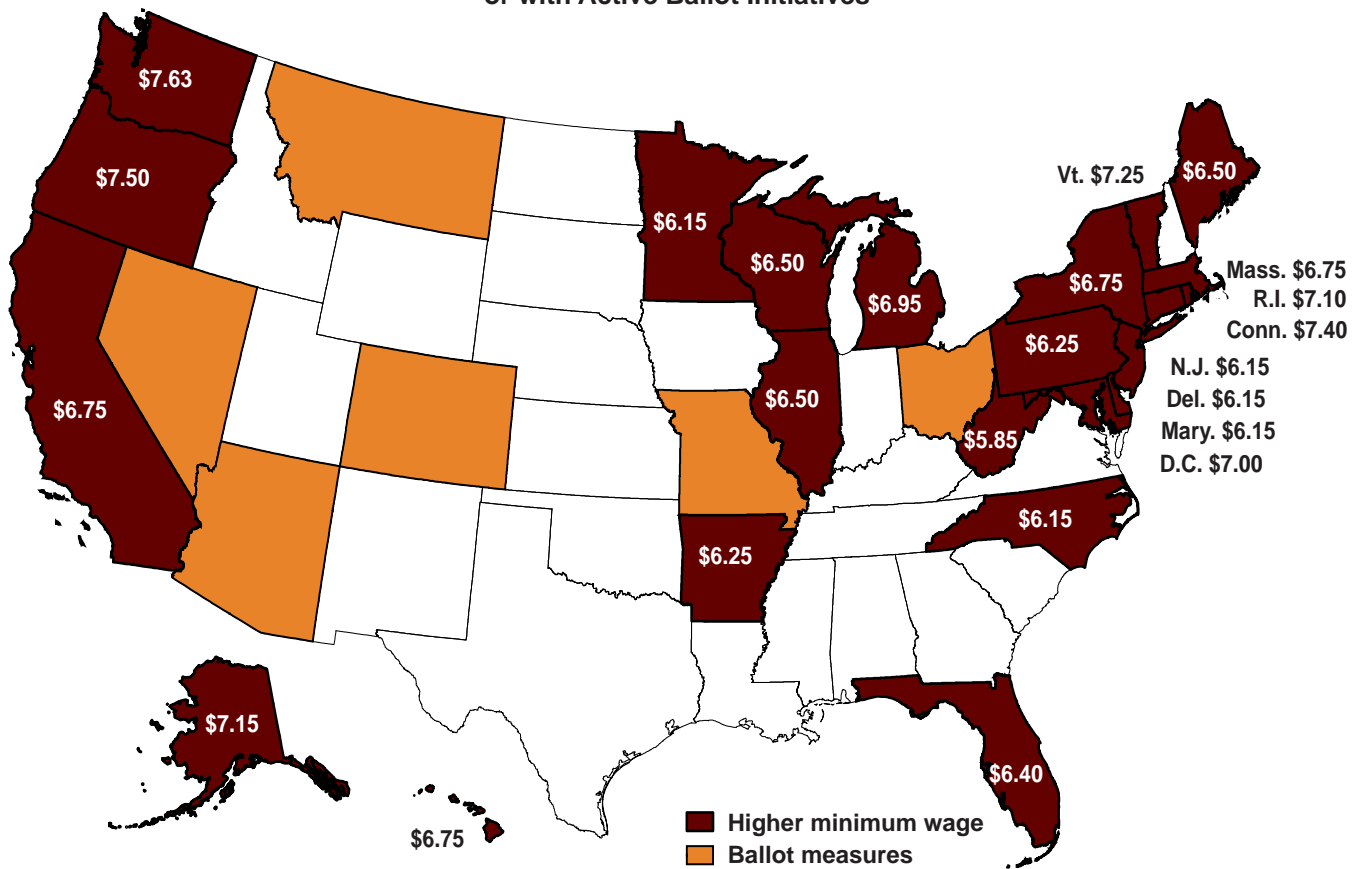


Figure 4. States with a Minimum Wage Higher than the Federal Level of \$5.15 or with Active Ballot Initiatives



12 Economic Policy Institute analysis of Current Population Survey data and Economic Census data.
 13 The traditional view among economists that a minimum wage leads to unemployment has changed significantly in the past decade. New economic models that look specifically at low-wage labor markets show that employers may be able to absorb some of the costs of a wage increase through higher productivity and lower recruiting and training costs. See Card, David and Alan B. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton University Press, 1995; Bernstein, Jared, and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*, Washington, D.C.: Economic Policy Institute, 1998; Card, David, and Alan B. Krueger, *Minimum Wages and Employment: A Case Study of the Fast-food Industry in New Jersey and Pennsylvania*, *American Economic Review*, 2000; National Economic Council, *The Minimum Wage: Increasing the Reward for Work*, 2000; Bernstein, Jared, and John Schmitt, *The Impact of the Minimum Wage*, Economic Policy Institute, 2000; Levin-Waldman, Oren, *The Minimum Wage Can Be Raised*, The Levy Institute, 1999; The Fiscal Policy Institute, *States with Minimum Wages above the Federal Level have had Faster Small Business and Retail Job Growth*, 2006.
 14 Florida also chose to index its minimum wage to inflation, which opponents claimed would hurt the economy more than just a one-time minimum wage increase. See *The Florida Minimum Wage After One Year*, Florida ACORN and Florida International University Research Institute on Social and Economic Policy, May 2006.

Appendix
Counties in Iowa's 19 PUMA Regions (Figures 1 and 2)

Region 1

Buena Vista County
 Clay County
 Dickinson County
 Emmet County
 Lyon County
 O'Brien County
 Osceola County
 Palo Alto County
 Sioux County

Region 2

Cerro Gordo County
 Floyd County
 Franklin County
 Hancock County
 Kossuth County
 Mitchell County
 Winnebago County
 Worth County

Region 3

Allamakee County
 Bremer County
 Buchanan County
 Butler County
 Chickasaw County
 Clayton County
 Fayette County
 Grundy County
 Howard County
 Winneshiek County

Region 4

Black Hawk County

Region 5

Cedar County
 Clinton County
 Delaware County
 Dubuque County
 Jackson County

Region 6

Benton County
 Hardin County

Region 6 cont.

Iowa County
 Jones County
 Marshall County
 Poweshiek County
 Tama County
 Washington County

Region 7

Johnson County

Region 8

Linn County

Region 9

Calhoun County
 Hamilton County
 Humboldt County
 Pocahontas County
 Webster County
 Wright County

Region 10

Audubon County
 Carroll County
 Cherokee County
 Crawford County
 Greene County
 Guthrie County
 Ida County
 Monona County
 Plymouth County
 Sac County

Region 11

Woodbury County

Region 12

Cass County
 Fremont County
 Harrison County
 Mills County
 Montgomery County
 Page County
 Pottawattamie County
 Shelby County

Region 13

Adair County
 Adams County
 Appanoose County
 Clarke County
 Davis County
 Decatur County
 Jefferson County
 Keokuk County
 Lucas County
 Mahaska County
 Monroe County
 Ringgold County
 Taylor County
 Union County
 Van Buren County
 Wapello County
 Wayne County

Region 14

City of Des Moines

Region 15

Polk County, excluding the City of Des Moines

Region 16

Boone County
 Dallas County
 Story County

Region 17

Jasper County
 Madison County
 Marion County
 Warren County

Region 18

Des Moines County
 Henry County
 Lee County
 Louisa County
 Muscatine County

Region 19

Scott County

The Iowa Policy Project

Also find this report at
www.iowapolicyproject.org

The Iowa Policy Project was founded in the summer of 2000 to produce and disseminate sound, independent research on a broad set of issues of importance to the citizens of Iowa. We are a nonprofit and nonpartisan organization.