

Raising Minimum Wage Helps Iowa's Poor Families

Make no mistake about it, an increase in the minimum wage will help poor, working families in Iowa. In fact, 257,000 Iowans, or 18 percent of all workers, would be helped by a pay raise if the minimum wage were increased to \$7.25. In addition, another 94,000 children who reside with these workers would benefit from the extra household income.

Among the Workers Who Would Benefit ...

- 75 percent are over the age 20
- 20 percent are parents to some 94,000 children
- 42 percent work full time and another 34 percent work between 20 and 34 hours per week
- 27 percent work in the retail trade industry
- 18 percent work in the leisure & hospitality industry
- 50 percent (128,000) earn less than \$7.25 (31,000 earn less than \$6.15 and 97,000 earn between \$6.15 and \$7.25)
- 50 percent (129,000) earn within a few dollars above \$7.25 and benefit from the “spillover” effect as companies adjust their internal pay structure to maintain current wage differentials

A Pay Raise for the Affected Workers is Very Important to Their Families' Livelihood

- 52 percent of an affected worker's entire household income, on average, comes from their low-wage job
- 20 percent of affected workers are parents to 94,000 children

Indexing the Minimum Wage to Inflation Has Many Advantages

Twenty-eight (28) states have a minimum wage higher than the federal level of \$5.15, and 10 of those states index their minimum wage to inflation. That means the minimum wage is adjusted annually to reflect increases in the cost of living. Indexing has three main advantages: It protects the future value of the minimum wage from the eroding effects of inflation, it allows future legislative sessions to focus attention in other areas instead of on these redundant debates, and it provides employers with a measure of predictability when forecasting future costs.

There were steady increases in the federal minimum wage in the 1960s and '70s. For example, the minimum wage was increased every year between 1974 and 1981, except in 1977. Since 1981, however, the federal minimum wage has increased only twice and has remained at its current level of \$5.15 for nearly a decade. Iowa can take control of its own future by setting a higher state minimum wage and indexing it to inflation.

Old Economic Concerns Are Unfounded

The old arguments against a minimum wage increase do not apply today. Most low-wage workers are in jobs that cannot be outsourced because they must be located where the market for their services exists, and neither can they be automated.

According to a 2006 Goldman Sachs report [US Economics Analyst, Issue No 06/46, Nov. 17, 2006], an increase in the minimum wage to \$7.25 will have an immaterial effect on overall profits and inflation.

A higher minimum wage can actually benefit the economy by boosting consumer spending, leading to higher productivity, and encouraging more workers to join the labor force.

Debunking the Myth that ‘Only Wealthy Teen-agers Benefit’

Some claim that only teen-agers make the minimum wage, and therefore conclude that a minimum wage increase benefits only teen-agers. As the numbers above show, the vast majority of workers who would benefit from an increase to \$7.25 are 20 years or older. In addition, only about 1 percent of all workers, or 14,000 Iowans, earn exactly minimum wage. The vast majority of workers who automatically receive a pay raise from a higher minimum wage earn somewhere between \$5.15 and \$7.25 per hour. And let’s not forget that another 129,000 workers earning \$8, \$9 and \$10 per hour also see a pay raise as businesses adjust their internal pay structure.

Even if teen-agers were the only beneficiaries, their costs have also increased since 1997. For example, the price of an undergraduate education at the University of Iowa has increased 148 percent.

The Bottom Line

The minimum wage acts as a *wage floor* for labor markets while still allowing companies the freedom to set wages at any level above the minimum wage.

A modest increase in the minimum wage to \$7.25 can provide a meaningful pay raise to low-wage workers without harming the economy.

The 28 States Above the Federal Minimum Wage of \$5.15

Wages effective Jan. 1, 2007. * Star indicates state minimum wage is indexed to inflation

