



The Iowa Policy Project

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IPP POLICY BRIEF

Minimum Wage: Off the Pace Again

Five Years Past Increase, Buying Power Eats Through Wage Floor

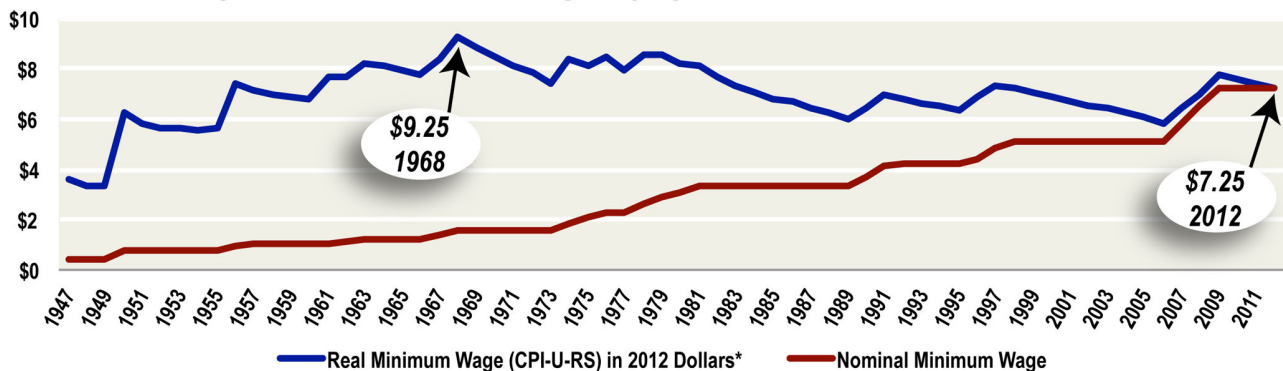
By Heather Gibney

Once upon a time, not so long ago, Iowa was among the leading states with its minimum wage of \$7.25 per hour for non-tipped workers. That was then. This is now.

When 10 states raised their minimum wage on January 1, Iowa was not one of them. Iowa's minimum wage has remained at \$7.25 for five years, since the last increase — from \$6.20 on January 1, 2008, the second part of a two-step increase approved by Iowa lawmakers in 2007. The federal wage did not catch up until July 2009, when it reached \$7.25. Since then, neither the federal nor state minimum wage has changed to help Iowa families working at or near that hourly level. Every year that goes by without increasing the minimum wage affects Iowa families who are trying to keep their heads above water. The cost of living increases nearly every year, so the buying power of every dollar continues to erode.

Today, the federal minimum wage is near its historic low — having lost 22 percent of its buying power from its peak in 1968, as shown in Figure 1. If the minimum wage had kept up with inflation since 1968, it would be worth \$9.25 per hour today.

Figure 1. Federal Minimum Wage Buying Power Down 22 Percent Since 1968



*We use the preferred CPI-U-RS (Consumer Price Index Research Series Using Current Methods) index of inflation, compared to the commonly cited benchmark of \$10.50 using the basic CPI. Source: IPP analysis of Bureau of Labor Statistics data.

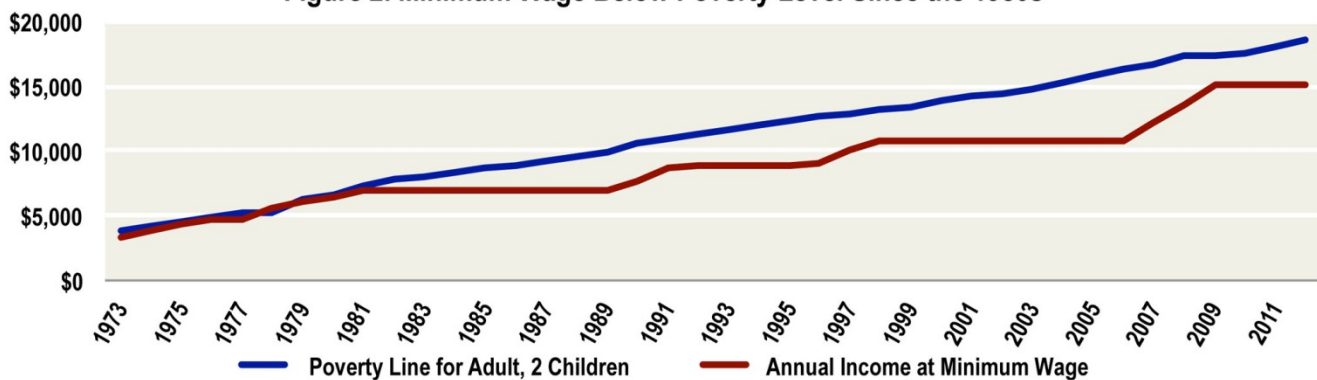
Recognizing that the federal minimum wage is too low, 19 states and the District of Columbia have a higher minimum wage than the federal, states with the highest being Washington at \$9.19 per hour and Oregon at \$8.95. Under the federal minimum wage law, a full-time Iowa worker earning a minimum wage makes \$290 per week or about \$15,000 per year before taxes, credits and cash assistance. There are some exceptions: Tipped employees in Iowa such as waiters or waitresses earn \$4.35 an hour, while new employees under 20 years of age can be paid as low as \$4.25 per hour for their first 90 days of employment.¹

In Iowa, nearly three-fourths of Iowa’s working single parents earn less than a family supporting wage. A single parent with two children has basic, no-frills monthly expenses of about \$3,545, or \$42,540 annually, according to IPP’s most recent *Cost of Living in Iowa* report.² This means that this family would have to make \$48,111 a year before taxes were taken out and credits and cash incentives were included in order to support themselves — a supporting wage of \$24.06 an hour.³

Using either that measure or the federal poverty level, the minimum wage does not keep a full-time worker out of poverty. The most current official poverty guidelines for a single parent with two children is \$18,498 — \$3,000 more than for full-time minimum-wage work and much less than a family supporting income. Poverty guidelines are the basis for determining eligibility for public programs designed to support struggling workers.⁴

The calculations that underlie the federal poverty guidelines assume that food is a larger expense than it is today and it ignores the fact that housing and transportation take up a much larger portion of a family’s budget than they did in the 1960s when the guidelines were developed. In addition, poverty guidelines do not account for taxes, cash assistance, the increasing costs of child care and healthcare, and changes in consumer spending.⁵ Even this inadequate poverty level exceeds the minimum wage. Up until about 1980, an adult earning minimum wage with two children could support her family at about the poverty level. But as Figure 2 shows, this is no longer the case.

Figure 2. Minimum Wage Below Poverty Level Since the 1980s



Measures not adjusted for inflation. Source: U.S. Census Bureau, U.S. Department of Labor.

What a Higher Minimum Wage Would Mean in Iowa

In 2012, the Fair Minimum Wage Act of 2012 was introduced in the U.S. Senate and House of Representatives — this would have incrementally raised the federal minimum wage to \$9.80 per hour by 2014. The rate would then have been indexed to inflation each year thereafter to keep up with the cost of living, a practice that 10 states have already adopted. A 2012 study from the Economic Policy Institute⁶ estimated that this bill if enacted would have affected 332,000 Iowans, 81 percent of whom are 20 or older, and 45 percent of whom work full time.⁷

In the recent State of the Union address, President Obama made the case that raising the minimum wage was a necessary step in the effort to grow our economy. He proposed raising the wage from \$7.25 per hour to \$9.00 per hour and indexing it yearly to keep up with the cost of living. Senator Tom Harkin of Iowa has introduced a bill to raise the wage in three increments to \$10.10, and index it.⁸ Passage of any of these proposals in the U.S. Congress, however, is in doubt.

Raising the minimum wage would restore much of its historic value and make an enormous difference to millions of families. More than 30 million American workers would get a raise under the bill. More than half of these are women (17 million). The vast majority (88 percent) are adult workers, not teen-agers, and 23 million children (30 percent of all children) have parents who would get a raise. Increasing the minimum wage to \$10.10 per hour would give \$51.5 billion in raises to millions of workers over the

course of three increases, and increase GDP by nearly \$33 billion as workers spend their raises in their local businesses and communities. This economic activity would generate an estimated 140,000 new jobs over the course of three increases.⁹

These benefits would come at little risk of the pitfalls forecast by opponents, who can be counted upon in every minimum-wage debate to warn — without evidence — that jobs will be lost. Despite economists' thorough study of the employment impact of the minimum wage, this ill-advised argument continues to drive opposition rhetoric against minimum-wage improvements. The Center for Economic and Policy Research¹⁰ has examined the most recent empirical research on the minimum wage since the early 2000s to determine the best current estimates of the impact of increases in the minimum wage on the employment prospects of low-wage workers. It found that minimum wage increases are consistently associated with statistically significant and economically meaningful increases in the wages of affected workers. Employers and workers are able to adjust to an increase in the minimum wage through several different channels — explaining why the employment effect is so small.

The American Dream is supposed to be about creating a better life for yourself and your children. If you work hard and play by the rules, achieving your goals should not be out of reach. Unfortunately, millions of hard-working Americans cannot lift themselves out of poverty because they are working at such low-wage jobs. Even if they work all year long, they cannot make ends meet, much less join the middle class. Increasing the minimum wage puts money back into people's pockets, improves the economy, and helps struggling communities thrive again.

¹ J.T. Rushing, "States Raising Minimum Wage," *The Gazette*, January 1, 2013.

<http://thegazette.com/2013/01/01/states-raising-minimum-wage/>

² Lily French, Peter S Fisher and Noga O'Connor, "The Cost of Living in Iowa," Iowa Policy Project, May 2012.

<http://www.iowapolicyproject.org/2012docs/120531-COL.pdf>

³ Lily French, Peter S Fisher and Noga O'Connor, "The Cost of Living in Iowa," Iowa Policy Project, May 2012.

<http://www.iowapolicyproject.org/2012docs/120531-COL.pdf>

⁴ However, these guidelines are flawed because they do not take into account regional differences in basic living expenses and were developed using spending patterns from over 45 years ago that are less relevant to today's household budgets.

⁵ Lily French, Peter S. Fisher and Noga O'Connor, "The Cost of Living in Iowa," Iowa Policy Project, May 2012.

<http://www.iowapolicyproject.org/2012docs/120531-COL.pdf>

⁶ Doug Hall and David Cooper, "How Raising the federal minimum wage would help working families and give the economy a boost," Economic Policy Institute, Issue Brief #341, August 14, 2012.

<http://www.epi.org/files/2012/ib341-raising-federal-minimum-wage.pdf>

⁷ Doug Hall and David Cooper, "Characteristics of workers who would be affected by increasing the federal minimum wage to \$9.80 by July 2014," Economic Policy Institute, Issue Brief #341, August 14, 2012.

<http://www.epi.org/files/2012/minimumwagestateimpact.pdf>

⁸ Congressman George Miller, "Sen. Harkin and Rep. Miller Statement on President Obama's Minimum Wage Proposal," February 13, 2013.

<http://georgemiller.house.gov/press-release/sen-harkin-and-rep-miller-statement-president-obama%E2%80%99s-minimum-wage-proposal>

⁹ Senator Tom Harkin and Representative George Miller, "Raising the Minimum Wage: Please cosponsor the Fair Minimum Wage Act of 2013," Congress of the United States, February 25, 2013.

¹⁰ John Schmitt, "Why Does the Minimum Wage Have No Discernible Effect on Employment?" Center for Economic and Policy Research, February 2013.

<http://www.cepr.net/documents/publications/min-wage-2013-02.pdf>

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The Iowa Policy Project

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