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The Case for a Linn County Minimum Wage

Inaction by Congress and state legislatures has led many cities and counties to adopt a local minimum wage. We show that a $10.10 county minimum wage, phased in by 2017, would raise the incomes of at least 18,400 workers in Linn County; the majority would be full-time workers and a third would have families. This in turn would increase spending in local retail and service establishments, boosting the local economy.

By Peter S. Fisher

The average worker in America has seen little improvement in wages over the past 40 years. While worker productivity has risen steadily and the incomes of the rich have soared, wages have barely kept pace with inflation.

Part of the reason for wage stagnation is the failure of Congress and many state legislatures to raise the minimum wage apace with the rising cost of living and rising productivity. The U.S. minimum was set at $7.25 per hour in July 2009 and has not been raised in the six years since, nor is the current congress likely to enact an increase in the foreseeable future. Meanwhile, labor productivity continues to increase and the cost of living has risen 10 percent, reducing the real value of the wage.

Federal inaction has prompted the majority of states to enact their own minimum wage. Twenty-nine states now have a minimum higher than the federal. That includes five of the six states surrounding Iowa, Wisconsin being the only holdout.

Localities have also responded to legislative inaction by establishing a local minimum wage. Twenty-nine cities and counties across the country now have a higher minimum wage than the federal, and the list will continue to grow. Campaigns to raise the minimum wage were planned or underway in at least 13 cities as of December 2015.

In this report, we evaluate the case for establishing a minimum wage in Linn County and increasing the wage gradually over the next two years to $10.10 per hour. We conclude:

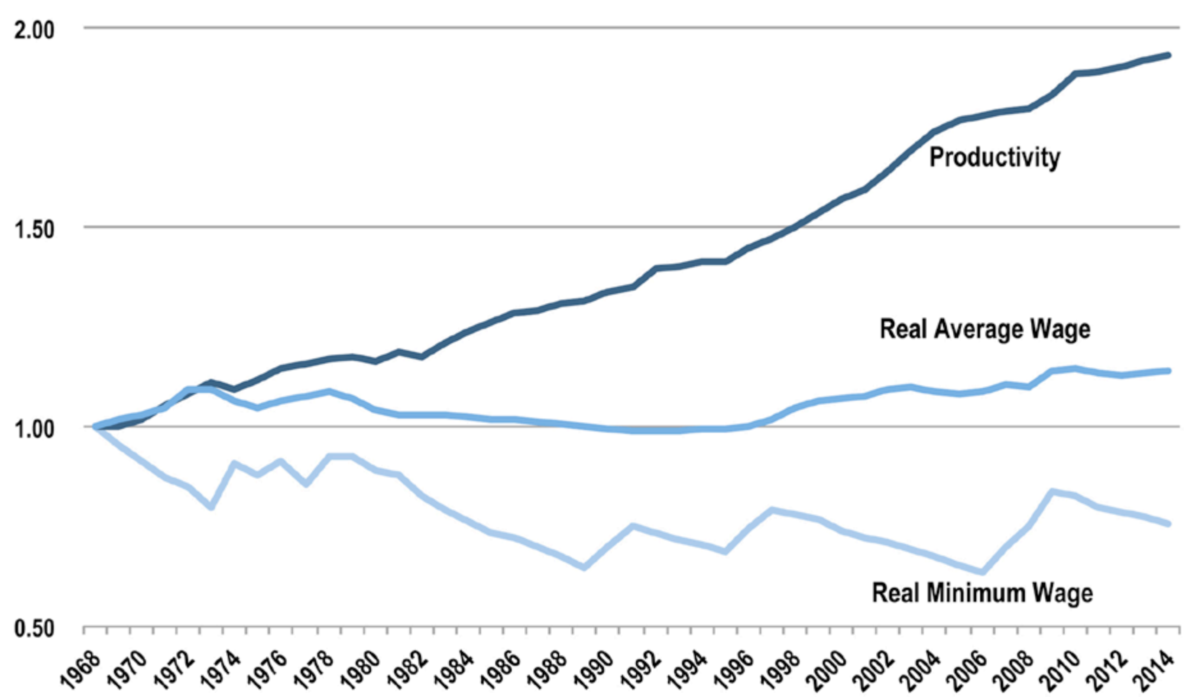
- While productivity has nearly doubled since 1968, the real value of the minimum wage has fallen 25 percent. If the minimum wage were increased to match the average growth in productivity since 1968, it would be over $18 per hour today.
- Most families in Linn County need to earn more than $15 per hour just to pay for basic needs.
- Most of the cities and counties that have adopted a local minimum wage have set the wage above $10 per hour, many at $15, and most have indexed the wage to inflation.
- About 18,400 workers in Linn County would benefit directly from an increase in the minimum wage to $10.10 per hour.

- Of those who would benefit from the higher wage in Linn County, 54 percent are women, 52 percent work full time, and 23 percent are age 40 or older, while only 20 percent are under 20.
- Most workers who are now living below the poverty line would see a wage increase. A reduction in poverty has long-term benefits not just for low-wage workers but for their children and their future life chances, and the broader community.
- A higher minimum wage would put money in the pockets of low-wage workers and boost spending in the local economy, which in turn would lead to additional local retail and service jobs.
- Studies of moderate increases in the minimum wage have found no discernible effect on jobs. With an increase in the wage, the resulting boost in local spending, reduced employee turnover and hiring costs, and the ability of employers to make other adjustments will likely minimize effects on employment.

An Increase in the Minimum Wage Is Overdue

Over the past 40 years, the stagnation of real wages (wages adjusted for the rising cost of living) has left many workers little better off than they were in the early 1970s. Real wages have not grown at all over the past six years, and are just 4 percent higher than they were in 1972. Yet over this period, the productivity of American workers increased dramatically. In Figure 1 we show the growth in productivity and the change in the minimum wage from 1968 (the peak value of the real minimum wage) to 2014. This is an index graph: Each series starts at a value of 100 in 1968. We can see that productivity — the value of output per worker — nearly doubled over this period. The minimum wage, on the other hand, declined to only 75 percent of its 1968 value. Minimum wage growth has been allowed to fall dramatically below the growth in worker productivity.

Figure 1. Growth in Productivity, the Average Wage and the Minimum Wage: 1968-2014



The "average wage" is the average wage of production, non-supervisory workers. The average wage and the minimum wage are converted to 2014 dollars using the CPI-U-RS. Source: David Cooper, "Raising the Minimum Wage to $12 by 2020 Would Lift Wages for 35 Million American Workers." Economic Policy Institute, July 14, 2015.

Figure 1 plots the *average* productivity of the American worker. While the minimum wage affects only low-wage workers, it is clear that the productivity of low-wage workers increased as well. Consider how a key determinant of productivity — the level of education of the worker — has changed over this period. In 1968, 48 percent of low-wage workers had at least a high school diploma or the equivalent, but by 2012 this share had risen to 79 percent. In 1968, only 17 percent of low-wage workers had any college; by 2012, 46 percent had at least some college experience.[1] So there has undoubtedly been a substantial increase in the productivity of low-wage workers, defined as those earning below the 20th percentile wage. Yet the wages of these workers have been allowed to stagnate or shrink, in part because the minimum wage has failed to rise even with inflation, no less with productivity.

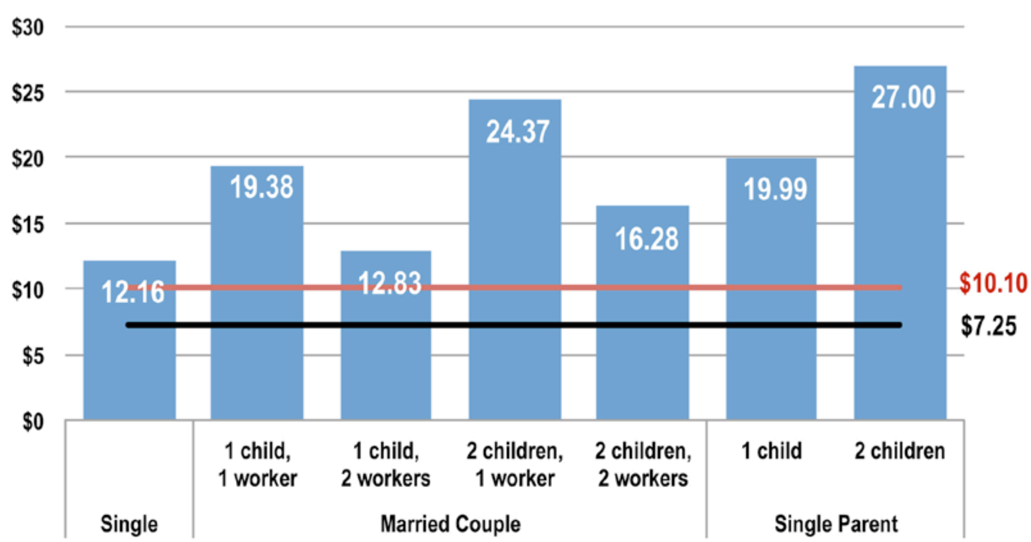
The key point is this: In an economy that distributed the gains from increasing economic efficiency and prosperity equitably, the wages of low-wage workers would rise with their increasing productivity. This means that real average wages, and the real minimum wage, would rise. A goal of restoring the minimum wage just to its 1968 purchasing power is setting the bar far too low. If the minimum wage were increased to match the average growth in productivity since 1968, it would be over $18 per hour today.[2]

Figure 1 shows how real wage growth became disconnected from productivity growth in the early 1970s. So if production and nonsupervisory workers were producing more and more per hour, but getting paid about the same, where was all that value going that they were producing? The answer is quite clear: It was going to management, to soaring CEO salaries, to incomes in the financial sector. This is the now familiar story of rising income inequality. Raising the minimum wage is an important strategy to counter this troubling trend by raising the wages of lower-wage workers (and raising the average in the process) to reflect those workers' greater productivity.

A Family Supporting Wage Is Much Higher than $7.25

The case for an increase in the minimum wage becomes compelling when the existing $7.25 minimum is compared to the actual cost of living. In a 2014 report, the Iowa Policy Project constructed basic family needs budgets for many family types for every county in Iowa.[3] A family in Linn County with one or two wage earners and one or two children needs $34,000 to $56,000 a year just to pay for the basic costs of rent, utilities, food, transportation, child care and health care.

Figure 2. Iowa Minimum Wage Well Below Wage Needed to Meet Basic Needs in Linn County



From these “basic needs budgets” we calculate the hourly wage needed — when working full time, year round — to leave the family with after-tax income equal to the cost of basic needs.

A married couple with one wage earner, and either one or two children, requires a job paying from $19 to $24 per hour. Most married couple families with children in Iowa have two wage earners, however. While working hours are doubled, expenses increase substantially because of the high cost of child care. For such families, each parent needs to earn between $13 and $16 an hour. For a single parent, the budget math becomes more daunting, as child care costs must be paid out of a single paycheck. Now an hourly wage of $20 to $27 is needed.

Even a single person with no children needs much more than the current $7.25 hourly wage to meet basic needs. An increase to $12 would be required for such a family unit to just get by.

These budgets include only basic expenses; there is nothing allowed for meals outside the home, trips or vacations, entertainment, or saving for college or retirement. Child care costs are for a licensed home; care in a licensed child care center would be higher. Health care includes the cost of a basic silver plan purchased on Iowa’s insurance exchange for 2014, plus average out-of-pocket expenses. Food costs are based on the U.S. Department of Agriculture’s thrifty food plan. Thus families living on these basic needs budgets would be just getting by.

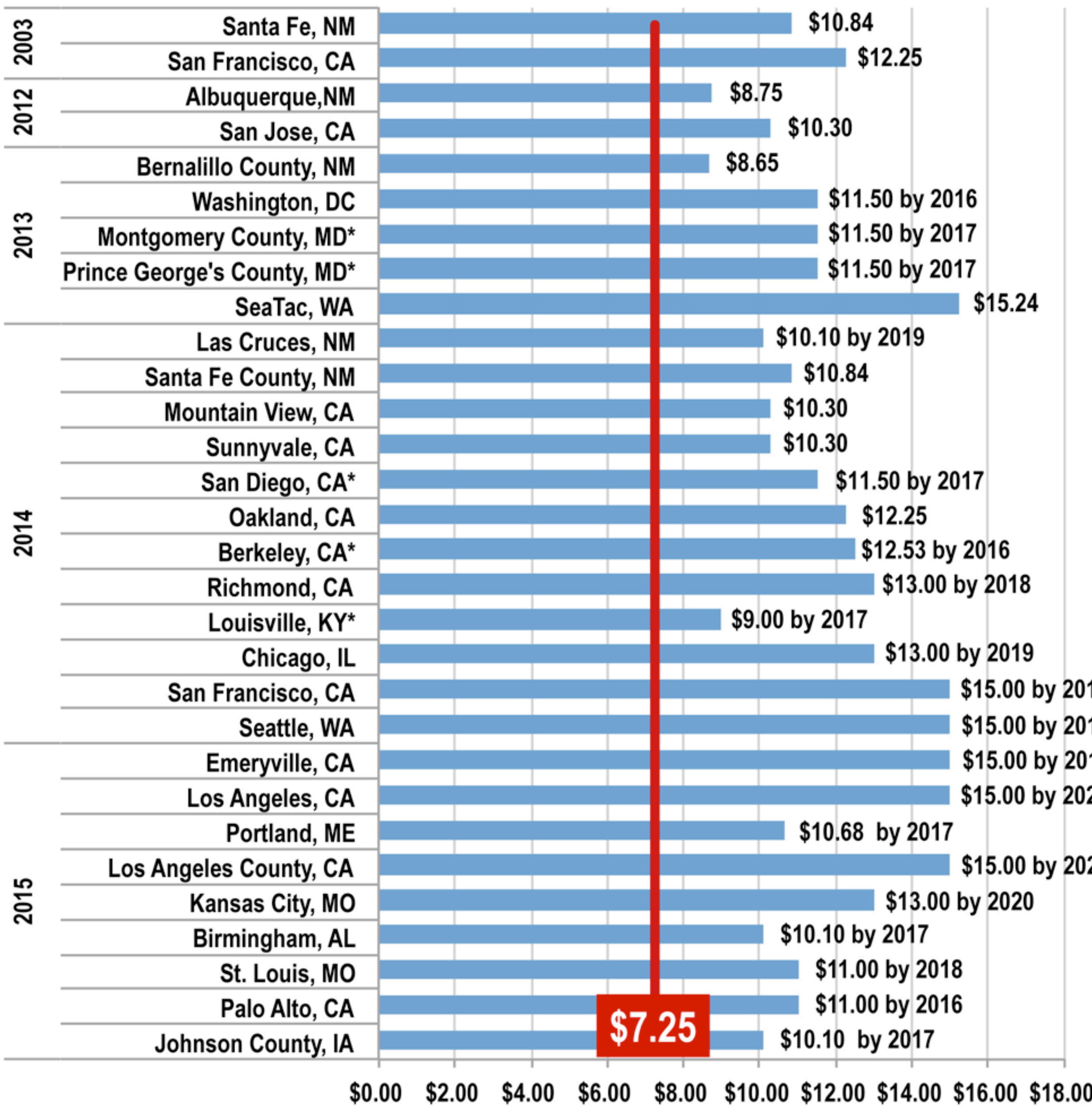
It is likely that the cost of living will continue to rise, and the wage required for a worker to be self-supporting at the basic needs level will rise with it. This reality is why so many state and local minimum wage increases have included a cost of living adjustment.

The Current State of Local Minimum Wage Ordinances and Campaigns

The first city minimum wage laws were enacted in 2003 in Santa Fe and San Francisco. But starting in 2012 and continuing into 2015, 21 more cities and six counties adopted such laws, most recently Johnson County, Iowa. Of the 26 ordinances enacted in the past three years, 24 have set a minimum above $10.00.[4] It is noteworthy that 24 of the 29 cities or counties have indexed the minimum wage to inflation.

Ballot initiatives to create a city minimum wage have recently been proposed in Lexington, Kentucky; New York City; Olympia and Tacoma, Washington; McCall, Idaho; and Sacramento, Pasadena and Davis, California. In six of those eight cities, the proposed minimum wage is $15.[5] In addition, measures to increase the local minimum wage to $15 are being considered in Washington, D.C., St. Louis and Kansas City, Missouri; Portland, Maine; and Palo Alto, California.

Figure 3. City and County Minimum Wage Laws in Effect as of December 2015
By year of enactment; wage shown is the minimum currently in effect or to be in effect as of year indicated



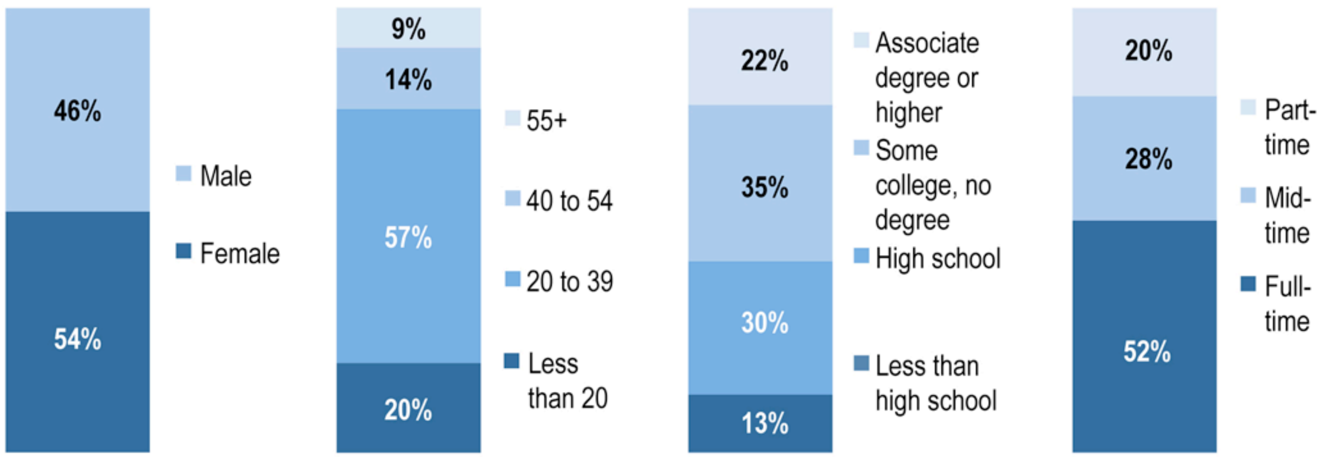
**Not indexed to inflation. Source: National Employment Law Project, City Minimum Wage Laws: Recent Trends and Economic Evidence; September 2015.*

Who Would Benefit from a Linn County Minimum Wage?

There are about 101,600 private sector wage-earners working in Linn County (including nonprofits). About 18,400 of those workers, or 18 percent, would benefit from a minimum wage that rose to $10.10 by 2017.[6] This is a conservative estimate, omitting public sector employees.

Over half of those benefiting from a Linn County minimum wage would be women, and 23 percent would be over the age of 40, while only 20 percent would be under age 20. About 43 percent would have a high school degree or less. Only one in five of the beneficiaries work part time (fewer than 20 hours per week); 52 percent work full time (35 hours per week or more).

Figure 4. Characteristics of Those Benefiting from a $10.10 Minimum Wage in Linn County: Gender, Age, Education and Hours Worked



Source: Analysis of Current Population Survey Data 2012-2014 by the Economic Policy Institute

Twenty percent of the beneficiaries are parents; about 13 percent are persons of color. About 19 percent of the potential beneficiaries are below the poverty line; 22 percent receive food stamps.

A Linn County minimum wage would affect all those working in the county, regardless of where they live, but it is estimated that 86 percent would be residents of Linn County.

A Higher Minimum Wage Would Reduce Poverty

About 73 percent of workers in Linn County who are now in poverty would see a wage increase as a result of a $10.10 county minimum wage. While we cannot determine how many in Linn County would be lifted above the poverty line, it is clear is that the *depth* of poverty — the gap between income and the poverty line — would be reduced for almost all those now working but living below poverty in those counties.

Reductions in poverty have long-term benefits not only for the poor working adults but for the children of poor families and for the community. The consequences of growing up in poverty have been well-documented.[7] Children growing up below the poverty line have poorer health outcomes, lower educational attainment and are more likely to become involved with the criminal justice system compared to children growing up in higher-income families. These consequences often carry into adulthood. Relative to an adult who grew up in a middle- or upper-income family, an adult who grew up in poverty is more likely to complete less schooling, earn a lower wage, experience physical and mental issues, face criminal charges and become a teen parent. Research has shown that eliminating poverty for a child under the age of 6 will increase his or her earnings as an adult by about 29 percent per year.[8] Higher earnings, in turn, translate into less reliance on public assistance programs.[9]

A Higher Minimum Wage Would Boost the Local Economy

A $10.10 minimum wage would put more disposable income in the pockets of about 18 percent of the private work force in Linn County. Much of that income would be returned to the local economy as workers spend more at grocery stores, car dealerships, clothing stores, restaurants, theaters — in fact, throughout the local retail and service sectors. Increased sales in turn would create a need for more workers.

A study of the effects of a $15 minimum wage in Seattle found that for every $1.00 in additional wages, $1.20 in additional economic activity would be produced.[10] This is due to the fact that low-wage workers spend a relatively large percentage of their incomes in the local economy, and because money spent locally gets re-spent several times over, as higher sales translate into expanded employment and earnings, which generates higher spending locally. In Linn County, the multiplier effect would be smaller, because the metro area is smaller and less self-sufficient, but still for every additional dollar of wages paid, there would be around an additional dollar increase in total county economic activity.[11]

A Higher Minimum Wage Would Likely Have Little Effect on Employment

City minimum wage laws have been in effect long enough that we can learn from their experience. There have been a number of rigorous studies of the effects of higher local minimum wages on employment, and the results have been consistent: There is no discernible effect on employment levels. Four of these studies, conducted by researchers at the University of California – Berkeley, the University of New Mexico, and the Center for Economic and Policy Research, examined the experience of particular cities: San Francisco and Santa Fe.[12]

Two other studies are especially significant because they employed a sophisticated methodology to examine large samples of contiguous counties where the minimum wage differed at some point in time. The counties were paired, with the two counties in each pair separated by a state line. For at least one period one of the two states had a higher minimum wage than the other. This is a crucial test of job effects because adjoining counties are similar in many important respects: They are essentially in the same market area, and businesses tap the same pool of workers and customers. Thus while not an examination of a city or county minimum wage, these studies provide a crucial test of what happens when the wage in one county is higher than in a neighboring county — the exact situation that Linn County would face if the county had a local minimum wage, though the largest neighboring county, Johnson, already has a $10.10 minimum wage in effect.

The first of these studies looked at 288 county pairs between 1990 and 2006 and focused on the major low-wage sectors (accommodations, food service, and retail).[13] They found that there was no employment effect from the kind of state minimum wage increases enacted during the 16-year period. The second study employed a similar methodology to examine the restaurant and bar sector in 1,825 counties and found "no evidence of disemployment" resulting from higher minimum wages.[14]

One reason a higher minimum wage does not have discernible effects on employment is that most low-wage jobs are in local retail and service sectors that can't relocate without losing their customer base. Furthermore, low-wage workers will spend much of their higher incomes in the local economy. The increased demand for local goods and services translates into increased need for workers in those sectors.

There are additional reasons that employment is not measurably affected.[15] First of all, the rise in the minimum wage does not translate into a large increase in overall costs for most businesses. Second, there are offsetting gains to business: lower turnover rates, reduced absenteeism, reduced costs of recruitment, and improved customer service. Lower turnover rates increase average worker experience and productivity.

Conclusions

There is a compelling case for a higher minimum wage. The federal and state minimum wage, now $7.25, has been significantly eroded by inflation and lags far behind the growth in productivity over the past 40 years. The wage does not come close to providing families with the income to meet basic needs; for families with children this is the case even when there are two full-time workers.

Inaction by Congress and state legislatures has led many cities and counties to adopt a local minimum wage. A $10.10 county minimum wage, phased in between now and 2017, would raise the incomes of at least 18,400 workers in Linn County, the majority of them full-time workers, and most (4 out of 5) age 20 or older. The increased incomes of low-wage workers would in turn increase spending in local retail and service establishments, boosting the local economy.

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[1] Larry Mishel. "Low-Wage Workers Have Far More Education than They Did in 1968, Yet They Make Far Less." Economic Snapshot, Economic Policy Institute, January 23, 2014. http://www.epi.org/publication/wage-workers-education-1968/

[2] The minimum wage in 1968 was $9.54 in 2014 dollars. Productivity increased by a factor of 1.93 from 1968 to 2014. Thus 1.93 times $9.54 is $18.42.

[3] See *The Cost of Living in Iowa, 2014 Edition*. http://www.iowapolicyproject.org/2014Research/141029-CostOfLiving.html

[4] Of the 28 ordinances enacted in 2012 or later, one (San Francisco) replaced an earlier ordinance, so only 27 additional cities enacted a minimum wage in that time period.

[5] National Employment Law Project, September 2015, *City Minimum Wage Laws: Recent Trends and Economic Evidence*. http://www.nelp.org/content/uploads/City-Minimum-Wage-Recent-Trends-Economic-Evidence.pdf

[6]These estimates were based on wage data from the American Community Survey for the three-year period 2012-2014. The workers benefiting are assumed to be all those earning a wage that would still be less than $10.10 by the year 2017 if their wages rose by the estimated rate of inflation between now and then, using Congressional Budget Office inflation projections.

[7] Golonka and Hoffman. *State Strategies to Reduce Child and Family Poverty*. June 2008.

[8] Greg Duncan, Ariel Kalil, and Kathleen Ziol-Guest, *Economic Costs of Early Childhood Poverty.* Washington, D.C.: Partnership for America's Economic Success, February, 2008.

[9] Ibid.

[10] Nicole Keenan and Howard Greenwich. *Economic and Equity Outcomes of a $15/hr Seattle Minimum Wage*. Puget Sound Sage. April 2014.
http://www.pugetsoundsage.org/downloads/Economic%20and%20Equity%20Outcomes%20of%20a%20$15%20Minimum%20Wage%20in%20Seattle_1.pdf

[11] Analysis by David Swenson, Iowa State University, using the state economic model IMPLAN.

[12] John Schmitt and David Rosnick, "The Wage and Employment Impact of Minimum-Wage Laws in Three Cities." Center for Economic and Policy Research, March 2011 http://www.cepr.net/documents/publications/min-wage-2011-03.pdf ; Michael Reich, Ken Jacobs and Miranda Dietz (eds.), *When Mandates Work: Raising Labor Standards at the Local Level*, University of California Press, 2014 http://irle.berkeley.edu/publications/when-mandateswork/ ; Michael Reich, Arindrajit Dube, and Suresh Naidu, "The Economic Effects of a Citywide Minimum Wage," University of California-Berkeley, 2007 http://www.irle.berkeley.edu/cwed/wp/economicimpacts_07.pdf ; University of New Mexico, Bureau of Business and Economic Research, "Measuring the Employment Impacts of the Living Wage Ordinance in Santa Fe, Fe, New Mexico," June 30, 2006. http://bber.unm.edu/pubs/EmploymentLivingWageAnalysis.pdf

[13] Michael Reich, Arindrajit Dube, and T. William Lester, "Minimum Wage Effects Across State Borders," *Review of Economics and Statistics*, 92(4), November 2010: 945–964. www.irle.berkeley.edu/workingpapers/157-07.pdf

[14] John Addison, McKinley Blackburn, and Chad Cotti. "The Effects of Minimum Wages on Labor Market Outcomes: County-Level Estimates from the U.S. Restaurant and Bar Sector." *British Journal of Industrial Relations*, 50 (3), 2012: 412-435. http://www.rcfea.org/RePEc/pdf/wp02_08.pdf

[15] John Schmitt, *Why Does the Minimum Wage Have No Discernable Impact on Employment?* Center for Economic and Policy Research, February 2013. http://www.cepr.net/documents/publications/minwage-2013-02.pdf