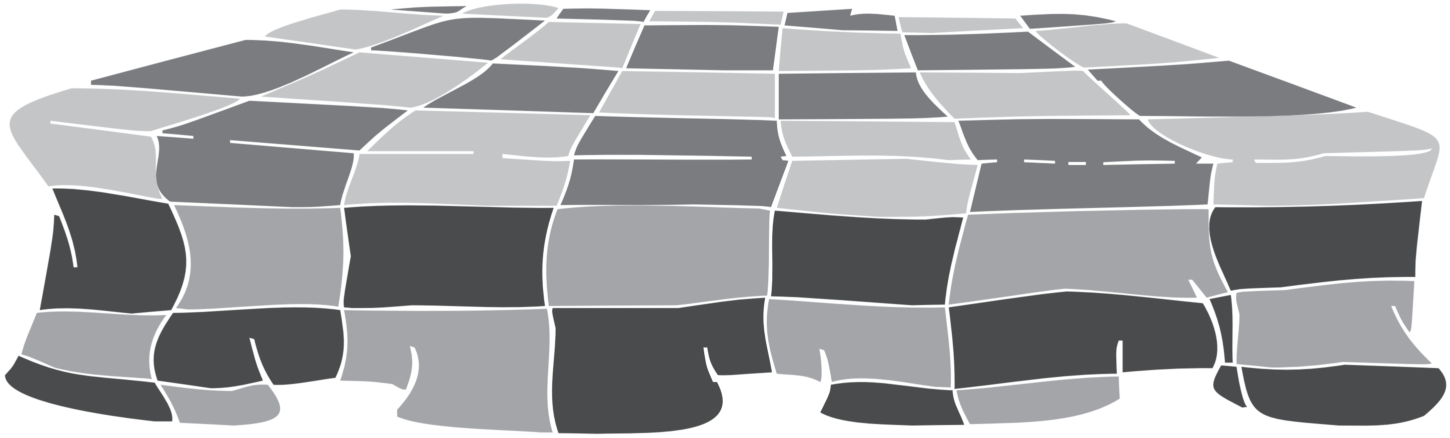
No Picnic

A Labor Day 2006 Update on
The State of Working Iowa

The Iowa Policy Project



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The Iowa Policy Project

Formed in 2001, the Iowa Policy Project is a nonpartisan, nonprofit organization based in Mount Vernon, with its principal office at 120 N. Dubuque Street #208, Iowa City, IA 52245.

The Iowa Policy Project promotes public policy that fosters economic opportunity while safeguarding the health and well-being of Iowa's people and the environment. By providing a foundation of fact-based, objective research and engaging the public in an informed discussion of policy alternatives, the Iowa Policy Project advances accountable, effective and fair government.

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Revised Sept. 25, 2006

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A Labor Day 2006 Update on
The State of Working Iowa

By Colin Gordon, Elaine Ditsler and Peter S. Fisher

As Labor Day rolls around each year, we take the opportunity to assess the state of our economy – and particularly the fortunes of working Iowans and their families. In broad strokes, the economic picture is clear: The boom of the 1990s came to a screeching halt in early 2001. By the end of that year, the core measures of economic performance (profits and gross domestic product) began to trend upward again. We have been "in recovery" ever since, although by many measures (in particular, job and wage growth) that recovery has been fairly anemic. This brief report updates information from our more expansive *The State of Working Iowa 2005* by asking: What has the current business cycle meant for the incomes, the prospects, and the security of working Iowans?

To answer that question, we need to look beyond the parade of monthly and quarterly reports on growth or employment. We need to consider longer term trends, running across several business cycles, particularly Iowa's standing compared to our national and regional (Midwestern) peers. And we need to consider the ways in which the pain of the recession and the gains of the recovery have been distributed across the state and the population.

Winners and Losers

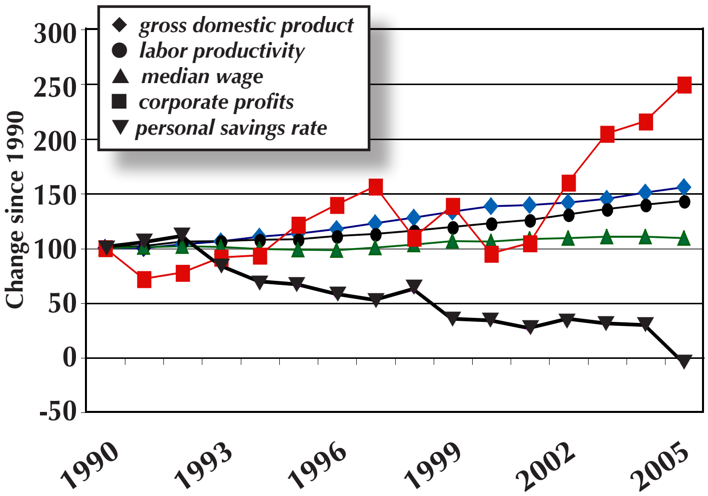
Figures 1 and 2 provide an overview of national and state economic trends since 1990.[i] For each of these measures, the 1990 level has been set at 100, and the lines trace the percentage change over time through 2005. Figure 1 tracks aggregate economic growth (gross domestic product, or GDP), increases in productivity, growth in corporate profits, and changes in median wages for the nation. Between 1990 and 2005, the economy grew 55 percent and labor productivity (output per hour) increased by 43 percent – an annual rate of increase of 3.7 percent and 2.8 percent, respectively.

Despite declines in the recessionary eras around 1991 and 2001, corporate profits have dramatically outpaced economic growth, gains in productivity, and workers' wages. After-tax corporate profits posted a remarkable increase of 149 percent since 1990, or 10 percent annually. By contrast, real (inflation-adjusted) median wages in the U.S. have risen only marginally, from $13.12 per hour in 1990 to $14.28 in 2005 – a growth rate of less than 1 percent annually.[ii] Since 2003, real median wages have fallen slightly.

i National data is the only or most reliable source of data for labor productivity, corporate profits, and personal savings. Thus, national data is presented first, followed by a graph with Iowa-specific information.

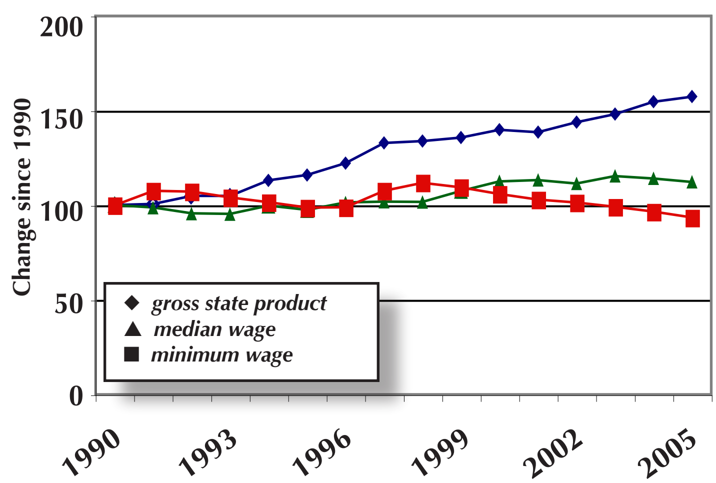
ii The median wage is the wage at which exactly half of all workers earn more and half earn less.

Figure 1. Major U.S. Economic Trends, 1990-2005
Wages, GDP in 2005 dollars; indexed to 1990*



Sources: Bureau of Labor Statistics, Major Sector Productivity Index (% change year ago, output per hour, nonfarm businesses); Bureau of Economic Analysis, National Economic Accounts; EPI/ IPP analysis of Current Population Survey data; Bureau of Economic Analysis, National Income Product Accounts, Table 2.1.

Figure 2. Major Iowa Economic Trends, 1990-2005
2005 dollars; indexed to 1990*



Sources: Bureau of Economic Analysis, Regional Economic Accounts; EPI/ IPP analysis of Current Population Survey data; U.S. Department of Labor

* ***Values are indexed to 1990, the point represented as 100 on these graphs. This allows an illustration of trends from a common date for very dissimilar measures and values. Thus, for example, in Figure 1, corporate profits in 2005 were at an inflation-adjusted 249 percent of their value in 1990 — or a 149 percent increase.***

Sluggish wage growth has been accompanied by other trends that, taken together, underscore a dramatic decline in basic economic security. Personal savings have evaporated steadily over the past 15 years, and in 2005 fell onto the negative side of the ledger.[1] In 1990, the per capita savings rate in the U.S. was 7 percent; by 2005, it was a negative 0.4 percent. This has been accompanied by a dramatic rise in credit card debt which, at just under $800 billion, has more than doubled since 1990.[2] The recent decline in job-based health insurance plans, which fell from covering 64 percent of the population in 2000 to 60 percent in 2004, has also increased the economic insecurity of Americans. Uninsured medical costs are now one of the leading sources of both rising debt and individual bankruptcies.[3]

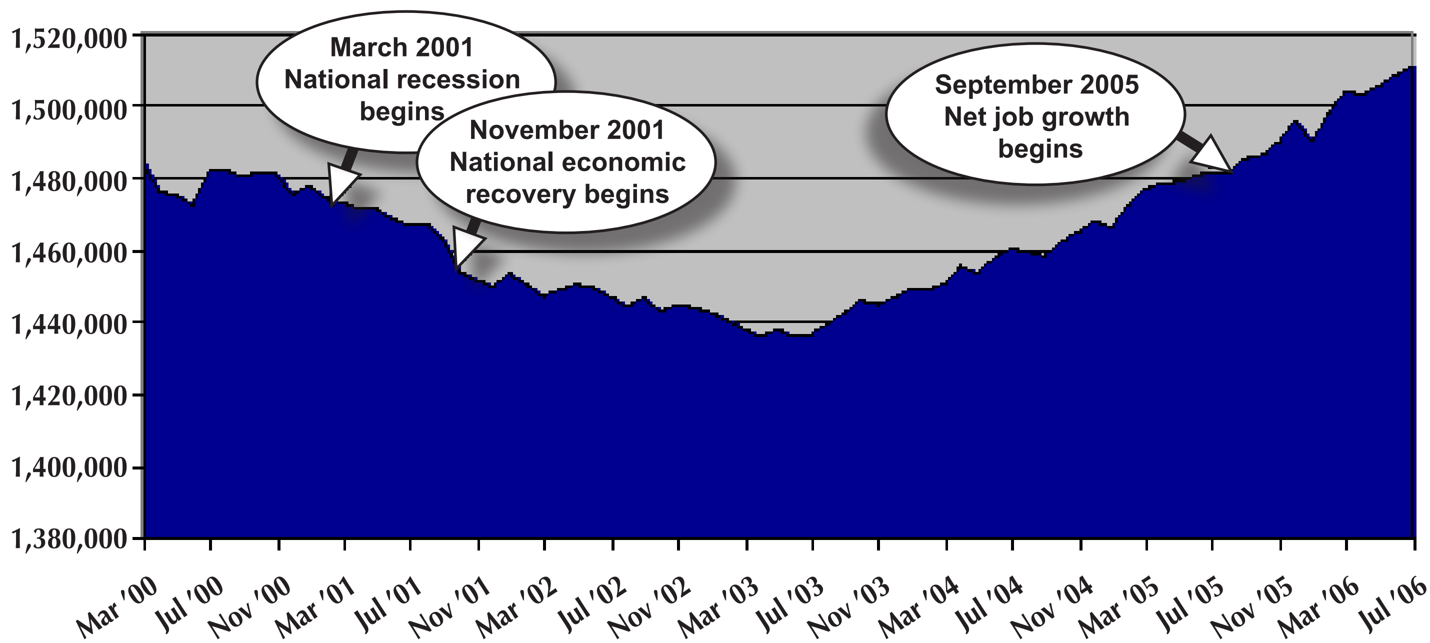
In Iowa, the economic trends are similar to those of the nation (Figure 2). Iowa's economy, as measured by gross state product (GSP), has grown 57 percent since 1990, or 3.8 percent annually. By contrast, real median wages have increased from $11.96 in 1990 to $13.44 in 2005, or less than 1 percent annually. Recent wage trends in Iowa are more dismal: In 2005, the median wage was still below the 2000 level and had declined 37 cents since 2003.

State and federal failure to enact a higher minimum wage has further harmed the wage growth potential of Iowa's low-wage workers. While a majority of the U.S. population lives in one of the 22 states that have enacted a minimum wage higher than the federal level, Iowa remains at $5.15 per hour. As a result, the purchasing power of Iowa's minimum wage has steadily deteriorated since 1997 — the last time Congress increased the minimum wage — and is now at its lowest level since 1949.[4]

After growing only about 1.4 percent per year since the mid-1970s, productivity increased about 2.2 percent per year from 1995 to 2000 and then accelerated to 3.1 percent per year during the last five years. This type of productivity growth creates the possibility of rising living standards for all Americans with minimal inflation. (When wage increases are matched by productivity gains, there are no inflationary pressures.) Yet, nearly five years into the current economic recovery that began in November 2001, the benefits of economic and productivity growth have still not reached workers' wages. How can this be?

The probable answer to this riddle is a weak labor market. In Iowa, it took four years (November 2001 to September 2005) for the current economic recovery to reach the pre-recession job peak of 1.48 million jobs (Figure 3). In fact, while the national recession officially began in March 2001 and ended in October 2001, Iowa continued to lose jobs until June 2003. Compared to previous recovery periods, job growth has been extremely slow in the current expansion. In July, nonfarm jobs in Iowa were 37,700 ahead of the March 2001 start of the recession. At the same 64-month point after the start of the 1990 recession, Iowa saw an increase of 139,700 payroll jobs.

Figure 3. Job Growth in Iowa, March 2000 (Pre-Recession Job Peak) – July 2006



Source: Bureau of Labor Statistics, Current Employment Statistics

A slack job market has left workers with little bargaining power to garner wage gains from their higher productivity. In this respect, the recent experience in Iowa and in the U.S. stands in stark contrast to most of the post-war period, when rising productivity was accompanied by rising wages. Since 2001, by contrast, productivity has increased at rates that are very high by historical standards, yet workers have seen little or nothing of the gains in productivity. Instead, most of the gains have gone to corporate profits, which have recovered quite nicely since 2001.

Jobs

Iowa's economic recovery has been accompanied by sluggish job growth and declining job quality. Private employment (as Table 1 shows) grew briskly in the late-1990s, fell back during the 2001 downturn, and has only just recovered to pre-recession levels. During that period, only construction, transportation, and some financial and service sectors saw significant growth. The losers (shaded in gray) were led by manufacturing – long the foundation of good wages and good benefits for working Iowans.

Table 1. Job Gains and Losses in Iowa, 1995-2005

	Employment ('000s)			Percent Change		Health Coverage (2004)	Avg Annual Earnings (2004)
	1995	2000	2005	since '95	since '00		
Total Nonfarm	1358.0	1478.4	1481.1	9.1%	0.2%		
Total Private	1127.7	1235.1	1235.7	9.6%	0.0%	53.8%	$31,668
Trade	243.3	257.9	248.0	1.9%	-3.8%	49.5%	$26,052
Government	230.2	243.3	245.5	6.6%	0.9%	74.4%	$34,320
Manufacturing	236.5	251.4	229.6	-2.9%	-8.7%	72.3%	$42,172
Educ./Health Services	166.8	181.8	195.4	17.1%	7.5%	57.7%	$30,732
Leisure and Hospitality	115.9	125.4	129.9	12.1%	3.6%	27.8%	$11,336
Prof./Bus.Services	89.1	107.6	112.7	26.5%	4.7%	53.3%	$31,616
Financial Activities	77.8	89.6	98.4	26.5%	9.8%	65.2%	$45,292
Construction	55.1	63.9	71.2	29.2%	11.4%	43.1%	$36,348
Transportation and Utilities	51.3	57.8	58.8	14.6%	1.7%	67.8%	$38,948
Other Services	56.8	56.7	56.2	-1.1%	-0.9%	37.1%	$21,632
Information	32.6	40.3	33.3	2.1%	-17.4%	68.9%	$38,688
Resources and Mining	2.0	2.1	2.1	5.0%	0.0%	81.2%	n/a

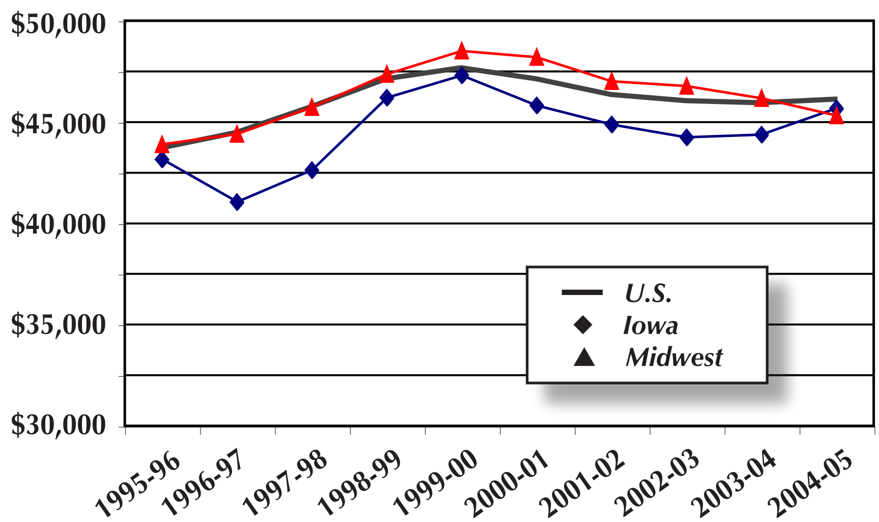
Sources: IPP analysis of Current Employment Statistics survey data; Employee Benefit Research Institute, 2005 Databook; Iowa Workforce Development QCEW.
Note: Health Coverage is the share of jobs in an industry that provide health insurance as a fringe benefit.

The trends of the last decade underscore a familiar and ongoing shift from manufacturing to services. The recent business cycle, in turn, has exaggerated and accelerated these trends. Jobs lost in the recession have been slowly replaced by jobs that offer lower average wages and less access to traditional employment benefits. Across the economic sectors that added jobs between 2000 and 2005, the average annual wage was just above $33,000 and the rate of health insurance coverage (job-based plans in the employee's name) was 54.2 percent. In those sectors losing jobs, by contrast, the average annual wage was just above $37,000 and the rate of health insurance coverage was 65.5 percent. While the economy has finally replaced the number of jobs lost in the 2001 recession, the quality of those jobs has declined.

Wages and Incomes

As a rule, Iowans work more but earn less than their national and regional peers. In 2005, Iowa's two-parent families worked an average of 3,850 hours per year, which is more than two-parent families in all but three states (South Dakota, Minnesota and North Dakota). Iowa's rate of participation in the labor force (for men and women at all ages) is also higher than the average for the nation and the Midwest (Iowa, Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Missouri, North Dakota, South Dakota, Kansas and Nebraska).[5] Despite all this, and a low unemployment rate, median household income in Iowa has been below the national median since 1995-96 (Figure 4).

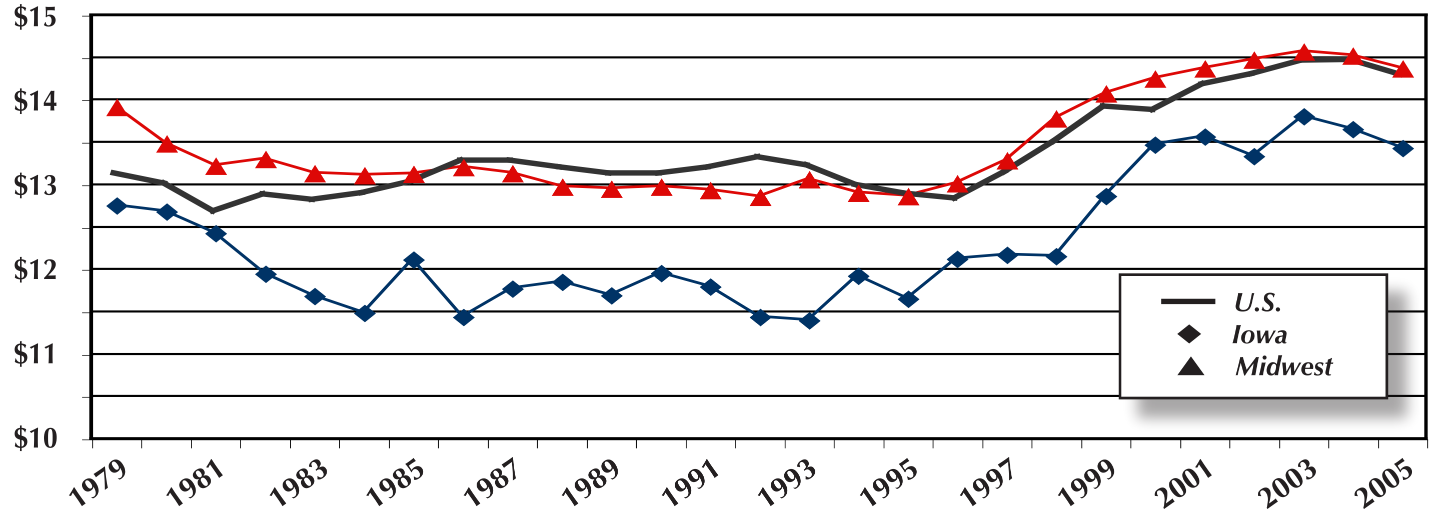
Figure 4. Median Household Income
Iowa, Midwest and U.S.,1995-2005 (2005 dollars)



Source: EPI/ IPP analysis of Current Population Survey data

Turning from family incomes to actual wages, the gap between Iowa and its peers is much clearer. As Figure 5 shows, the median wage in Iowa (half of Iowa workers earn less, half earn more) lost value in the early 1980s and did not recover until the boom of the late 1990s. While these gains were impressive, they ground to a halt in 2000. In 2005, the median wage in Iowa ($13.44) was actually lower (in terms of purchasing power) than it was five years earlier. Since the early 1980s, the Iowa median has tracked far below the national median. And it has tracked far below the Midwest median – which has surpassed the national median since the mid-1990s.

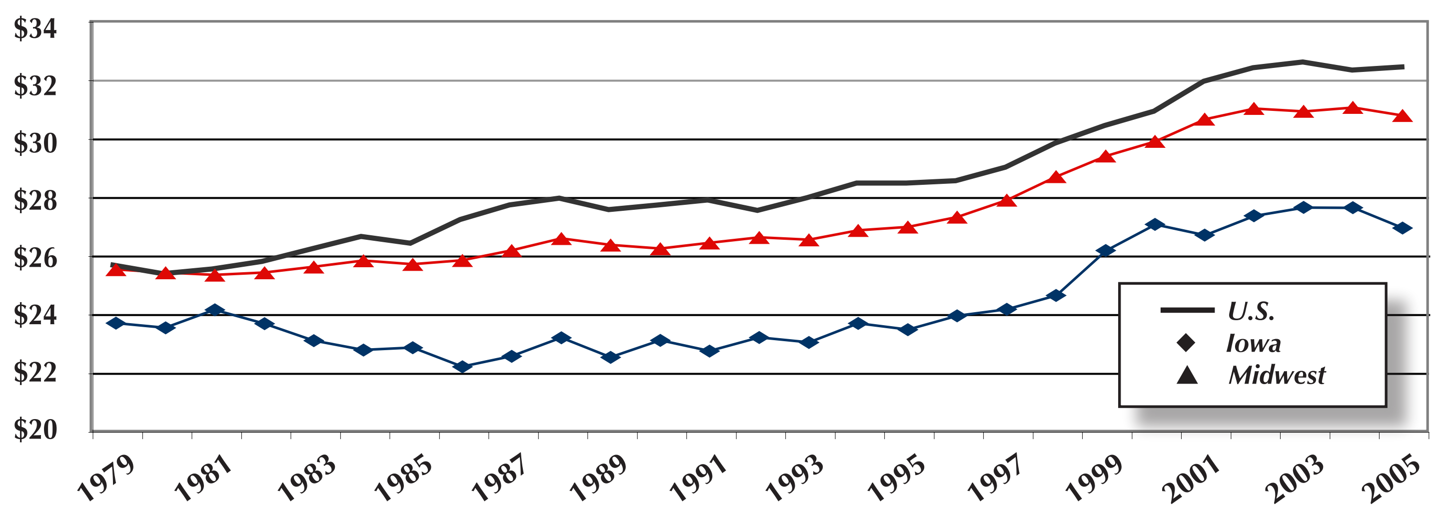
Figure 5. Median Wages: Iowa, Midwest and U.S., 1979-2005
(2005 dollars)



Source: EPI/ IPP analysis of Current Population Survey data

Iowa's weak wages are even more pronounced among those at the upper end of the earnings spectrum. As Figure 6 demonstrates, Iowa workers at the 90th percentile (10 percent earn more; 90 percent earn less) fall well behind their peers – they lost more ground in the 1980s, slightly narrowed the gap in the late 1990s, and then dropped off dramatically in the last year. The gap (about $5.50) between national and Iowa wages at this percentile cannot be easily dismissed as a reflection of regional wages or living costs; the 90th percentile wage for the Midwest has consistently run close to the national level.

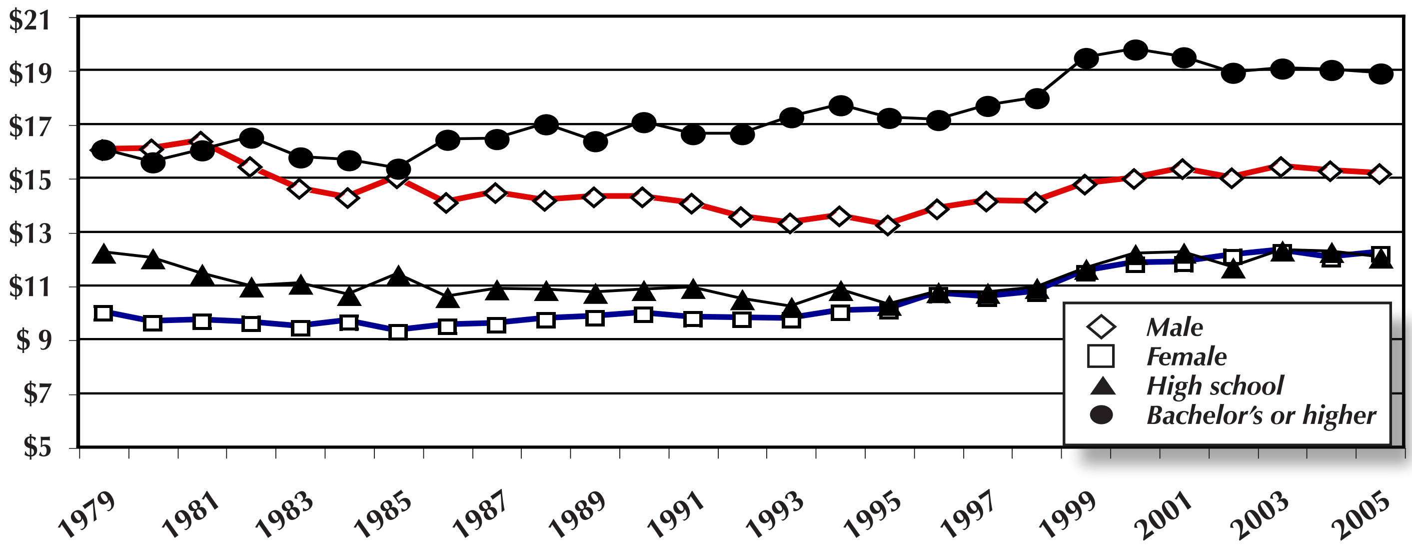
Figure 6. High (90th percentile) Wages: Iowa, Midwest and U.S., 1979-2005
(2005 dollars)



Source: EPI/ IPP analysis of Current Population Survey data

All of this has occurred against a backdrop of relatively steady gains in economic growth, productivity, and educational attainment. Working Iowans are much better educated and much more productive than they were a generation or a decade ago. But they have perilously little to show for it. Figure 7 traces median wages since 1979 for men and women, and by education level. For all men, median wages have actually fallen quite dramatically despite gaining almost $1.50 during the boom of the late 1990s. The median male wage ($15.13) remains almost a dollar less than its value in 1979. Women have fared much better (albeit from a much lower starting point), gaining a little over $2.00 ($10.01 to $12.21) over the same span.

Figure 7. Median Iowa Wages, by Sex and Education, 1979-2005 (2005 dollars)



Source: EPI/ IPP analysis of Current Population Survey data

The education gap has widened in Iowa as it has nationally over the past 25 years. Iowa college graduates earned about 30 percent more than those with a high school education in 1980 ($15.61 vs. $12.05). By the 1990s, the college wage premium had risen to about 62 percent. This was due both to rising real median wages of college graduates and declining real wages (at least through 1998) of those with just a high school education. Since 2001, however, real wages for college graduates have declined while those for high school graduates have stayed about the same, narrowing the college premium to about 58 percent in the 2001 to 2005 period.

The median wage for those with a high school education did grow slightly in the tight labor markets of the late-1990s, but in 2005 (at $12.07) was still less than in 1979 ($12.25). The median wage for those with a university education (bachelor's degree or higher) grew steadily across the 1990s, peaking at $3.87 above the 1979 level, but has lost ground since – losing almost a dollar (from $19.79 in 2000 to $18.92 in 2002) during the recession and remaining flat through the recovery. There is perhaps no more dismal measure of our recent economic performance than the fact that university-educated, median-wage workers in Iowa earned just $18.90 in 2005, about $3.50 less than their national peers ($22.44), nearly $3.00 less than their Midwestern peers ($21.63), and nearly $1.00 less than they earned five years ago.

Conclusions

For Iowa's working families, this Labor Day offers little reason to celebrate. Measured against its regional and national peers, Iowa wages remain low. Measured across time, those wages have stagnated for most, and fallen in recent years even as worker productivity has increased. At the same time, other measures of basic security – personal savings and job-based health insurance coverage – are in decline.

The surge in productivity growth during the last decade gives the U.S. economy the capacity to lift the living standards of all working families. Public policy can play an important role supporting workers and ensuring that the benefits of economic expansion are more widely shared.

The first sensible step to achieve shared prosperity is a higher minimum wage. Twenty-two states maintain a minimum wage higher than the federal rate ($5.15), three of them (Illinois, Minnesota and Wisconsin) in the Midwest. An Iowa minimum wage of $7.25 (basically restoring the purchasing power of the minimum wage to its 1979 level) would directly benefit nearly one in five Iowa workers – most of them adults, many of them parents – especially in the state's less populous and prosperous counties.[6] A practical second step would be to expand Iowa's earned income tax credit (EITC). Like a minimum wage increase, this policy would target low-income families, encourage work and boost the take-home pay of Iowa's lowest paid workers. A higher minimum wage and expanded EITC are feasible policies with widespread support; they would provide immediate and meaningful relief to Iowa's working families. Although it is a more challenging task, improving access to health care is also urgently needed as affordable job-based health insurance becomes increasingly unavailable.

1 Bureau of Economic Analysis, National Income Product Accounts. Table 2.1 available at http://www.bea.gov/bea/dn/nipaweb/SelectTable.asp?Selected=N#S2

2 Federal Reserve, Consumer Credit Historical Data (credit card debt), www.federalreserve.gov/releases/g19/hist/

3 See Demos and The Center for Responsible Lending, *The Plastic Safety Net* (October 2005).

4 See Elaine Ditsler, *A Pay Raise for Iowa?* (Iowa Policy Project, July 2006).

5 Labor force participation for all Iowans over the age of 16 was 71.6 percent in 2005; in the Midwest it was 68.2 percent; in the U.S. it was 66 percent. Essentially the same gaps remain in any breakdown by gender, age, race and educational attainment. EPI/IPP analysis of 2005 Current Population survey data.

6 See Elaine Ditsler, *A Pay Raise for Iowa?* (Iowa Policy Project, July 2006).

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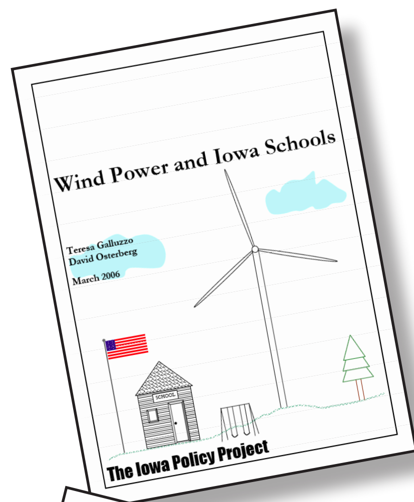

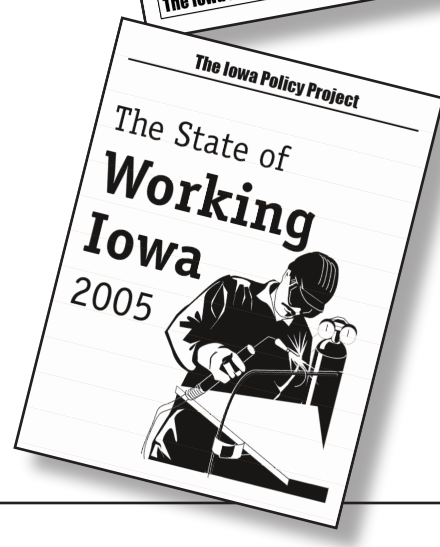

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