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This report is available online with several of the graphs available in an interactive format, at http://www.stateofworkingiowa.org.

The Iowa Policy Project

Formed in 2001, the Iowa Policy Project is a nonpartisan, nonprofit organization headquartered at 20 E. Market Street, 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, IPP advances effective, accountable and fair government.

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For the past six years, our assessment of the State of Working Iowa has been shaped by background conditions of the Great Recession and the not-so-great recovery. Iowa was spared the brunt of the recession — which fell hardest on states that were more vulnerable to a housing crash (Florida, Arizona), or those that were more vulnerable to the collapse in consumer demand that followed (Michigan, Ohio).

But Iowans have experienced many of the same economic pressures — including a slow jobs recovery and stagnant wages. We also have experienced many of the same political pressures, including attacks on the public sector, shortsighted austerity budgeting, and a race-to-the-bottom scramble to cut business costs. In Iowa and the nation, the recession exaggerated a drift toward diminished employment security and widening inequality. And, in Iowa and the nation, the recovery has offered little respite.
Jobs

The State of Working Iowa is shaped by long-term trends in productivity, job creation, wages and incomes, as well as the more immediate state of the economy — or where we are in the cycle of bust and boom, recession and recovery. The sad irony, of course, is that our latest business cycle is starting to feel more like a long-term trend. It is now almost six years since the housing bubble burst in late 2007, and over four years since the start of the recovery (the national economy bottomed out in June 2009), and we are far from where we should be in terms of job growth, wages, and economic security.

The Jobs Picture: Recession and Recovery

The depth and duration of the Great Recession is captured by the graphic below, which compares our current downturn to all other postwar recessions — for Iowa and for the country as a whole. For the nation, the Great Recession was (and is) deeper and longer than any other postwar downturn. Almost seven years since the onset of the recession in December 2007, the national economy is still far short of pre-recession employment levels. For Iowa, the picture is a little better. In June, we finally returned to the employment levels of the pre-recession peak.

Figure 1. Coming Up For Air: Iowa Job Recovery from Recession
(Online interactive: Job Loss in Postwar Recessions, U.S. and Iowa)

Source: Colin Gordon analysis
http://public.tableausoftware.com/views/postwarrecessions2/SOWI?embed=y&display_count=no
But this is only part of the story. As the recession and weak recovery have dragged on, the state has continued to add to its labor force through immigration, domestic in-migration, and high school or college graduations. So to calculate our real jobs deficit it is not sufficient to look at the number of jobs in Iowa at the pre-recession peak over five years ago, but rather at the number of jobs, given our current labor force, needed to return to pre-recession rates of employment and labor-force participation. That deficit, captured in the graph below, is about 52,000 jobs. In order to clear that deficit in the next three years (during which time the labor force will continue to grow), we would need to add about 1,500 a month over that span. Over the past year, our rate of job creation has been a bit better than that (about 2,100 jobs/month), putting us on pace to clear the jobs deficit by August 2015.

![Figure 2. The Remaining Climb Ahead: Iowa's Jobs Deficit](image)

*Figure 2. The Remaining Climb Ahead: Iowa's Jobs Deficit*

Source: Economic Policy Institute

**Not Just Unemployment . . .**

In turn, the simple calculus of jobs lost and jobs gained underestimates the broader impact of a long recession and a slow recovery. While national employment rose from 4.5 to 10 percent as the recession took hold, **long-term unemployment** (the share of the unemployed who were without work for more than 27 weeks) shot from 16 percent to 45 percent (Figure 3a). While the national unemployment rate has slipped back to 7.6 percent, the long-term unemployment share — at 37 percent — is still more than double its pre-recession rate. In Iowa, the long-term unemployment share rose from 13.6 percent in 2007 to 33.5 percent in 2010 (over a third of Iowa’s unemployed, in other words, were jobless for more than six months), and had fallen only slightly (to 27.5 percent) by the end of 2012.¹

¹ On this and other labor force measures, the national figures are reported monthly, but those for a small state like Iowa can only be reported annually — so the latest we have are for 2012.
Our interactive graph online provides various looks at the elements of underemployment.

In the weakening labor market, the share of part-time work also rose, from about 16 percent to about 20 percent of all national employment. And in the weak recovery, this share has stuck — and has been hovering around 20 percent ever since. More importantly, the share of “involuntary” part-time workers (Figure 3b, those who want full-time work but can’t get it) doubled during the recession — from 16 percent to over 33 percent — and is still around 30 percent. In Iowa, the part-time share is a little higher (around 25 percent) and did not change much during the recession and recovery. But the share of those that were “involuntary” part-timers nearly doubled to over 18 percent, and has stayed near that level.

Some of this is captured in the underemployment rate, (Figure 3 online) an alternative measure that counts involuntary part-timers and marginally attached workers (those who are not currently working or looking for work but would if economic conditions were better) along with the
unemployed. The national underemployment rate peaked at over 17 percent in late 2009 and early 2010 and — at 14 percent — is now near double the conventional unemployment rate. In Iowa, the underemployment rate was about 10 percent at the end of 2012, about double the state’s conventional unemployment rate.

In a very slack labor market, many workers leave the labor market entirely — some to early retirement, some to return to school, some to reliance on other family members. Indeed we have seen fairly dramatic swings in labor force participation over the last six years. The national labor force participation rate (the share of the working age (16-64) population working or seeking work) climbed to over 66 percent in the late 1980s and stayed there until early 2008 — falling below 65 percent by the end of 2009 and then continuing to tumble through the recovery — bottoming out at 63.3 percent earlier this year.

Labor force participation is historically higher in Iowa, where the pre-recession rate of almost 73 percent fell to 68.8 percent in 2012. Since people leave the labor force for a variety of reasons, including education and retirement, we can highlight this problem by focusing on the share of prime-age workers (those aged 25-54) with a job. The employment-to-population ratio of this group was just below 80 percent in the early 1980s, and climbed to near 90 percent by the end of the 1990s. But the last two recessions have taken their toll. The share of prime-age workers employed slipped back to about 80 percent during the recession of 2001, recovered only slightly, and then fell below 77 percent after 2007 — a trend that has continued through the recession.

All of this promises to do lasting damage. Long stretches of joblessness bring with them not only economic insecurity but (as Dean Baker and the Pew Fiscal Analysis Initiative underscore) stark personal and social costs. These costs include real barriers to re-entering the workforce, physical and psychological costs to workers and their families, and general productivity losses. The burden
of unemployment and underemployment, as John Schmitt and Janelle Jones have shown, falls disproportionately on those already disadvantaged in the labor market. Behind the general numbers in Figure 5 at right, our interactive graph online shows the demographics of unemployment and underemployment for Iowa, in which African Americans, Latinos, less-educated workers, and young workers all suffer higher rates of unemployment and underemployment.

What Kind of Jobs?
As important as it has been to add jobs over the recovery, it is also important that we pay attention to the quality of those jobs. The pattern is pretty stark: During the recession, as the National Employment Law Project has documented, jobs were lost across the economy. Yet in the recovery to date, job gains have been concentrated in lower-wage occupations. We see this pattern in Figure 6 online, which charts gains and losses in major sectors across the recession and recovery in Iowa and the U.S. Recessionary losses are dramatic, and near universal. The recovery is meager by contrast, and concentrated nationally in low-wage sectors like retail and hospitality (the spike in professional business services is misleading, as most of the job growth in this sector is in temp services — a subsector with average hourly earnings of only about $15). And losses have persisted, through the recovery, in sectors like construction, information, and state and local government.

As shown in Figure 6a, losses in Iowa were not as deep, but the distribution was similar. We saw steep recessionary losses in manufacturing, construction and business services.

Figure 6a. Job Growth and Loss by Sector, 2007-13, Iowa
The Impact of Recession, December 2007-June 2009 — and Recovery, June 2009-Present
Online interactive: Net impact U.S. and Iowa, December 2007-Present

http://public.tableausoftware.com/views/SOWrecessionbysector/Dashboard1?:embed=y&:display_count=no
Some of these losses were eased by the recovery, but — as of July 2013 — we still show a net decline of jobs in construction and manufacturing (Figure 6b). Health care added jobs through the recession and the recovery. The public sector added jobs slowly during the recession but, as austerity took hold, began shedding jobs during the recovery — especially at the local level.

This continued decline in job quality reflects a number of overlapping trends, some short term, some longer term. In the nation and in Iowa, we see a long trend toward lower-wage service employment. This is sometimes described as a polarization or “hollowing out” of the labor market, in which job growth is concentrated at the top and the bottom. But this characterization is misleading as job growth, over the last decade, is actually weak at the top as well. Sustained losses in key middle-income sectors — such as manufacturing and public service — have not been accompanied by real opportunities elsewhere in the economy.
Wages

All of this — recessionary unemployment, persistently high rates of underemployment, and weak job growth in the recovery (both in job numbers and quality) — have contributed to wage weakness across the economy. Indeed, recent research from the National Employment Law Project and others has suggested not only that job growth is concentrated in low-wage occupations, but that wages in those occupations are slipping.

Wage weakness, in Iowa and nationally, begins with the declining share of national income going to wages and salaries. For the last generation (and accelerating in recent years) capital income (interest, rent, dividends, and capital gains) has claimed a greater share of national income, while the share claimed by labor (wages and salaries, work-based benefits) has slipped. Labor’s share of national income hovered around 65 percent for most of the postwar era and then — beginning in the early 1980s — began to fall off. This is not just a categorical shift; labor income is distributed across American households but capital income is highly concentrated. As the latter gains share, it feeds inequality. In turn, the declining labor share tracks all wages and salaries — including those claimed by overpaid CEOs — so leaves uncounted the widening inequality gap in the distribution of wages and salaries. Not only is the overall labor share shrinking, but more and more of that share is going to top earners.

![Figure 7. Labor’s Falling Share of National Income](source: Bureau of Labor Statistics, Major Sector Productivity Series)

The key point here is not just that wages have stagnated, but they have done so over an era in which the productivity and educational attainment of American workers have improved dramatically. The last generation has been marked by a stark disconnect between productivity growth (up over 80 percent between 1973 and 2012) and slow or stunted wage growth. In Iowa (see figure below), the economy has grown about 67 percent since 1979 (we use state income here as a proxy for economic growth), but wage earners — even at the top of the wage distribution — have seen little of this growth. Wages at the 90th percentile, over the same span,
have grown about 16 percent; wages at the median have grown only a little more than 3 percent; wages at the 10th percentile have *fallen* about 3 percent.

These wage trends, for Iowa and the nation, are summarized in Figure 9 below. The real (inflation-adjusted) hourly wages of the median U.S. worker grew only 5 percent from 1979 to 2012. For Iowa workers at the median, the net gain (3.4 percent) was even more modest. Through the 1980s, losses in Iowa outran those of the nation — indeed even the state’s highest wage percentiles showed net losses over this decade. The economic boom of 1995–2000, by contrast, brought a brief respite of across-the-board wage growth, and gains in Iowa ran ahead of those at the nation as a whole. But most of this was lost, in Iowa and in the rest of the country, during the recessions that began in 2001 and 2007.
For men, the pattern (essentially similar for Iowa and the nation) is particularly stark. Real wages began falling for low-wage men in the mid-1970s, and this spread across all but the highest percentiles through 1979–1989 and through the first half of the 1990s. The late 1990s brought some relief, but this was short-lived: Wage growth slowed in 2000–2007 and then lost ground — for all but highest earners — from 2007–2011. The wage numbers alone (which include only men who are working) undercount the real damage. In 1970, 94 percent of men aged 25-64 worked. Today — reflecting chronic unemployment and higher rates of incarceration — that share is closer to 80 percent. The real earnings of all working-age men, whether they have a job or not, have dropped almost 20 percent since 1970.

Figure 10. Wage Trends in Iowa — Men, 1979-2012

Since 1979, the median female wage in Iowa has grown more than $2.00 (from just under $12.00/hr to just over $14.00/hr) and the gap between men and women has narrowed. In 1979, the median female wage in Iowa was 62.5 percent of the median male wage; today it is about 80 percent. Some of this represents real gains made by women, both breaking down occupational barriers and closing in on equal pay within occupations. But these gains are also exaggerated by the weakness of male wages. Indeed, the closing of the wage gap from 1979-1999 was almost all the result of falling male wages.

Figure 11 illustrates the point, showing both the median male and female wage — and also a look at the female wage as a percentage of male wage both in actual terms and with no change in male wages. The beige bars show the median female wage each year as a percentage of the median men’s wage, with the right-side scale showing it has been around 80-85 percent in all but two of the last 11 years. The blue bars paint a different picture. The men’s median wage was $18.95 in 1979; had it stayed at that level, rather than dropping as it has, the women’s median would not have reached as high as a percentage of men’s pay. If male wages had remained constant at their 1979 value, the median wage of Iowa women in 2012 would be less than 75 percent the median male wage.
Wages and wage gaps are also shaped by education. The median wage for those with less than a high school education has fallen by almost 20 percent in the last 30 years. The median wage for those with just a high school diploma has fallen slightly. And the median wage for those with a university education has risen about 20 percent. In 1979, to put it another way, the median wage for a worker with a University education was about $8.00 higher than the median wage for a worker who had not graduated high school; today that gap is closer to $15.00/hour. At the same time, the educational payoff has slowed in recent years, (see graph below), the gap widened from 1979 to 2000, but since then median wages have not grown for any educational cohort.
The tragedy here is that workers are better educated than they were a generation ago, but many are not seeing the benefits. In 1980, 40 percent of low-wage workers (those earning less than $10.00/hr) had not completed high school and just over 25 percent had completed some college (see Figure 13). By 2010, these numbers had nearly reversed: Fewer than 20 percent of low-wage workers came from the “less-than-high-school” cohort; and more than 43 percent had some college under their belts. In other words, while low-wage workers have become a smaller share of the work force than they were 30 years ago, almost half of them have had at least some college education — about twice as great a share as 30 years earlier. Given the dramatic increase in educational costs over this same span, these trends underscore the uneven and uncertain returns from an investment in a college education.

Iowa’s wage profile reflects national and regional patterns. The rural states of the upper Midwest were not hit as hard during the last recession — and those riding commodity or energy booms (such as North Dakota) actually did quite well across the last business cycle. Indeed, as the graphic below suggests, wage gains or losses at the state level are shaped pretty decisively by state-level economic conditions: those hit hard by the recent recession suffered deep losses; those hit lightly by the downturn saw shallower losses and scattered gains. Consistent with this pattern, relatively low rates of unemployment in Iowa across the last six years yielded wage growth, though it was negligible (slight gains at some deciles, slight losses at others). These recessionary patterns (shown here for 2006-2012) stand in stark contrast to the more equitable gains — strongest at the low wage deciles, weakest at the top — during the boom of the late 1990s (1996-2002).

Measured against its midwestern peers, Iowa’s wage structure is more compressed — and weaker at the higher deciles. At the 10th, 20th, and 30th wage deciles (see Table 1 and Figure 14 map below), Iowa ranks among the top five states in the region, joining its more metropolitan and industrialized peers and Illinois and Minnesota, and two rural peers (Nebraska and North Dakota) enjoying energy booms. But, at the median and higher, we sink into the lower tier of states in the region. And at the 80th and 90th percentile, workers in only one state (South Dakota) in the 12-state region earn less.

The pattern, then, is pretty clear: Working families have lost a lot of ground across the last 40 years — a pattern interrupted only by the sustained growth and low unemployment of the late 1990s. As each year passed, a smaller and smaller share of national income went to wages and salaries, and the distribution of those wages and salaries grew more and more unequal. These years saw slow growth for all but the highest earners, despite steady gains in aggregate income.
and productivity, and steady gains in the educational attainment of workers. The last business cycle did not hit Iowa as hard as it hit the rest of the country, but our wages (especially in the upper deciles) were already low.

Table 1. How Iowa Stacks Up in Midwest Across Wage Levels — In Bottom Half Above Median Wage

<table>
<thead>
<tr>
<th>State</th>
<th>10th</th>
<th>20th</th>
<th>30th</th>
<th>40th</th>
<th>Median</th>
<th>60th</th>
<th>70th</th>
<th>80th</th>
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<td>$13.77</td>
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<td>$18.81</td>
<td>$22.26</td>
<td>$27.05</td>
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<td>$13.37</td>
<td>$15.89</td>
<td>$19.16</td>
<td>$23.06</td>
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</tr>
<tr>
<td>Missouri</td>
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<td>$11.80</td>
<td>$13.87</td>
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<td>$19.11</td>
<td>$22.77</td>
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</tr>
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<td>$17.91</td>
<td>$21.02</td>
<td>$25.10</td>
<td>$33.62</td>
</tr>
</tbody>
</table>

Iowa rank (of 12) | 5 | 4 | 4 | 6 | 8 | 9 | 10 | 11 | 11

Figure 14. How Iowa Fares at Median Wage Across the Midwest

Online Interactive: Wages in the Midwest, 2012

http://public.tableausoftware.com/views/SOWI_midwestwagemap/Dashboard1?:embed=y&display_count=no
Implications for Policy

The stakes here are high, because competing explanations also suggest competing political solutions. If the general trend is toward a polarized labor market, then the logical political solution is investment (public and personal) in education — providing workers the skills to jump from the low-wage to the high-wage jobs. Indeed, education remains vital. Educated workers have better prospects. And investment in education is one of the few state policies that consistently and reliably return higher wages, sustained growth, and shared prosperity. But it is also clear — based on the high unemployment and underemployment rates of young college graduates, and the increasing proportion of educated workers in low-wage jobs — that education alone will not solve our problems.

The unevenness and weakness of job growth is a reflection of slow growth and weak demand in the economy — meaning jobs are slow to return, and lousy jobs are crowding out good jobs in the recovery. For this, the best political response is a macroeconomic policy that stimulates the economy and combats unemployment. A state can do very little in this respect, save to participate fully and generously in opportunities (such as infrastructure spending, or extended unemployment insurance) presented by federal policy. State “incentives” do little to create jobs and, through competition with other states, may actually bid down the job standards and tax returns of any new investment. For this reason, we remain skeptical about Iowa’s expansive business tax breaks and credits, whose costs — in the form of direct assistance or forgone revenue — dwarf their returns.

In turn, we see a general trend toward lower-wage work, driven in part by occupational shifts across sectors and in part by downward pressure on wages across sectors. For this, the best political response is to gird the wage floor and enhance the bargaining power of workers. The most effective levers for this in state policy are the minimum wage, the enforcement of the minimum wage and other labor standards, a generous Earned Income Tax Credit, and support for collective bargaining rights. Let’s take each of these in turn.

The minimum wage now worth substantially less than it was a generation ago. As Figure 15 suggests, a minimum wage that had kept pace with productivity, inflation, or average wages would be substantially higher than even the most ambitious bumps currently being discussed. As it stands, the minimum falls substantially short of allowing Iowa workers and their families to meet the basic living standards.

The minimum wage and other labor standards can only raise the floor if they are enforced. On this score, Iowa is a stark laggard — employing one wage and hour investigator for a nonfarm workforce of over 1.5 million. As a result, “wage theft” — including paying less than the minimum, forcing workers off the clock, failing to pay overtime, or misclassifying workers as “independent contractors” (and not making tax or social insurance contributions on their behalf) — is rampant. Wage theft in Iowa robs workers of the wages they have earned, robs state and local businesses of consumer spending, and robs local, state and federal governments of tax revenues and social insurance contributions.

After a number of false starts and gubernatorial vetoes, the Iowa Legislature finally managed to expand the state’s Earned Income Tax Credit, which will rise from 7 percent to 15 percent of the federal credit over the next two years. One in six Iowa households benefit from the federal Earned Income Tax Credit, for a total credit of over $400 million. The EITC rewards work, and eases the
tendency of the state code to over tax low-wage workers. “A state that hands out tens of millions of dollars in tax breaks to large firms in the name of job creation,” as the Cedar Rapids Gazette concluded this spring, “should be able to afford providing a justifiably bigger break to Iowans already on the job.” Unfortunately, this small concession (a credit of 20 to 30 percent would make a bigger difference) was accompanied by lavish property tax breaks and business tax credits — to the tune of about $10 in effective business tax cuts for every dollar spent on the EITC increase.

Finally, we return to a consistent theme in these reports: the importance of collective bargaining to wage stability and the economic security of working families. Iowa’s low unionization rate (12.3 percent overall, 5.9 percent in the private sector) and “right-to-work” status do not encourage new investment or boost the state’s competitiveness (indeed, the consensus is that such laws have no discernible impact on job creation). But they do depress wages — for union and non-union workers alike — by an average of $1,500 a year. And, since decent job-based benefits often flow from collective bargaining, the hit to total compensation, family incomes, and family security is even harsher.

So, the lessons are clear as well: Shared prosperity rests on policies and institutions (collective bargaining, a decent minimum wage, strong labor standards, etc.) that sustain the bargaining power of workers. In the absence of those institutions, only exceptional stretches of full employment have interrupted the failure of the wages, incomes, and living standards of ordinary Iowans to keep up.