The State of Working Iowa

Wages:
Iowa Needs a Raise

Colin Gordon

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About The State of Working Iowa

The State of Working Iowa is the longest-running research project of the Iowa Policy Project since the organization was founded in 2001. Originally planned for production every two years, publications were augmented with a supplemental report in the off-years before the project became an online product in recent years. It is now available at www.StateOfWorkingIowa.org and updated there as a resource for Iowans. We invite all Iowans to use the information for discussions about public policy issues affecting working families.

Author

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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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Iowa Needs a Raise

By Colin Gordon

At first glance, the Iowa economy seems to be doing well. The Great Recession is firmly in the rearview mirror, although it took over four years of “recovery” (June 2009 to July 2013) to return to our pre-recession levels of employment. In March of this year, Iowa’s unemployment rate dipped below 3 percent. And the “underemployment” rate (a measure that includes part-time workers who would like full-time work, and those who are looking for work but not recently enough to count as part of the labor force) has dipped to levels not seen since the boom of the late 1990s.

Unfortunately, none of this good news is showing up on the paystubs of Iowa workers. Wage stagnation, especially for those earning at the median wage or below, has plagued the Iowa and national economies since the 1970s. More troubling, the wage growth that has accompanied previous recoveries is nowhere to be seen in our long climb back from the Great Recession. The problem, in a nutshell, is that the policies and institutions that once ensured shared prosperity have broken down. Instead — as we have seen across the last business cycle — working families bear the brunt of economic downturns, and claim few of the rewards of economic growth.

The trajectory of wages

Let’s start with the basic trajectory of wages over the last generation. In Iowa, as in the rest of the country, the median wage (half of all workers earn more, half earn less) slipped during the 1980s, recovered during the full-employment boom of the late 1990s, and then leveled off. Across this span (see Figure 1), the Iowa median tracks below national trends and below regional trends — measured against the Midwest region (Minnesota, Kansas, Nebraska, the Dakotas, Missouri, Wisconsin, Michigan, Illinois and Indiana).
Figure 1. At the Middle, Iowa Wages Trail National and Regional Trends
Median Wages, Iowa, Midwest and United States (inflation adjusted, 2017 dollars)

Figure 2, which measures real (inflation-adjusted) wage growth for particular time periods, is
telling in this respect. Across the full 1979-2017 span, wage growth is essentially flat for all but the
highest-wage workers. Meager gains, in the 5 to 6 percent range for workers at the median or
below across this 38-year span are really no gains at all. Across this era, gains and losses reflected
background economic conditions. During the dismal 1980s, workers at all wage levels lost ground,
but the upturn of 1995–2000 turned this around — bringing sustained wage growth to even the
lowest-paid Iowans. From 2000 to 2007, wage gains were hoarded by the highest-paid 40 percent
of workers. Across the last business cycle, encompassing the recession of 2007-2009 and the
recovery through 2017, we saw further losses — especially for middle-wage workers.

Figure 2. Wage Gains Concentrated at the Top in Iowa
Wage Gains in Iowa, by percentile, 1979-2017

For a deeper look, see the interactive graph — wage gains and Losses, by demographic, percentile and era
https://public.tableau.com/views/changeinrealwagesIAndUS/Dashboard1?:embed=y&:display_count=yes&publish=yes
Wage trends for all workers mask important demographic differences. For men, the losses are even starker, especially during the 1980s. Real wages begin 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 (1989-1995). Some relief in the late 1990s is short-lived: Wage growth grinds to a halt in 2000–2007 and then retreats — for all but highest earners — from 2007–2017. Iowa women workers, by contrast, do relatively well: All but the lowest wage decile see impressive wage gains across the full 1979-2016 era. Low-wage women lost a lot of ground in the 1980s, but did better than their male peers during the 1990s boom.

The gender wage gap has closed substantially: In 1979, women made 62 cents for every dollar earned by men; today they earn 84 cents (Figure 3). The closing of that gap reflects, in about equal measure, the gains made by women over that era, and the losses suffered by men.

![Figure 3. Gender Wage Gap Narrows as Women Gain, Men Lose](image)


* Inflation adjusted using CPI-U-RS

We can see, in these demographic and chronological patterns, a number of factors at work. High unemployment in the early and mid-1980s undercut the prospects of all workers at the median or below. Wages were also eroded by declining unionization (especially for men) in the 1980s and beyond, and (especially for low-wage women) by the declining value of the minimum wage throughout the 1980s. Indeed, only the exceptionally tight labor markets of the late 1990s interrupted or slowed these general trends. And, across the full era, globalization and industry shifts pushed job growth into low-wage services and further undermined middle-class wages.

In turn, the wage structure in Iowa is more compressed than it is nationally or in the Midwest. Low-wage workers in Iowa make about the same as low-wage workers everywhere else, but at the higher wages, Iowa workers fall further and further behind. Higher wage jobs are scarcer in Iowa than in most states. And wages in many professions — such as nursing or teaching — trail national and regional peers by wide margins.
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 Iowa workers have improved dramatically. The Iowa economy has grown steadily since the end of the Second World War. For the first generation of this era, economic growth lifted with it the wages and earnings of most Iowans. However, beginning in the mid-1970s, wage growth slowed — even as the economy continued to grow. The last generation has been marked by a stark disconnect between productivity growth (up about 62 percent in Iowa since 1979) and slow or stunted wage growth. Median compensation (a measure that includes the value of job-based health coverage) has grown just 12 percent over that same span. It is not the health of the economy, in other words, that has battered Iowa’s workers — but a dramatic change in the distribution of its rewards. Increased productivity has not been shared with workers in the form of higher wages, as was common in previous eras, but captured in business profits.

* Inflation adjusted using CPI-U-RS
Education shapes some of this growing wage gap: The real median wage for those with less than a high-school education in Iowa has fallen by almost 30 percent since 1979; for those with just a high-school diploma the real median has fallen about 7 percent. And the median wage for those with a university education has risen almost 20 percent. In other words, the 1979 median wage for a university-educated worker was $5.16 higher than the median wage for a worker without a high-school diploma; that gap has now more than doubled to over $13/hour. The payoff has slowed in recent years; not even the college-educated have seen real wage gains since 2000.

Figure 6. Educational Payoff in Iowa has Slowed
Median Wage in Iowa, by Education, 1979-2017 (2016 dollars)

Other factors, including bargaining power, wage norms, and patterns of educational and employment discrimination, shape wages as well. Figure 7 shows significant wage gaps by gender, by race, and by union status. At the median wage, non-union workers make 19 percent less than union workers; women make 16 percent less than men; and African-American and Latino workers make nearly 25 percent less than their white peers.

Underlying the weakness of wages and earnings — in Iowa and across the nation — is a dramatic decline in the

Figure 7. Significant Wage Gaps by Gender, Race and Union Status
Median Wage by Demographic, Iowa 2016*

* Inflation adjusted using CPI-U-RS

<table>
<thead>
<tr>
<th>Demographic</th>
<th>Median Wage</th>
</tr>
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<tbody>
<tr>
<td>All</td>
<td>$16.04</td>
</tr>
<tr>
<td>Male</td>
<td>$17.79</td>
</tr>
<tr>
<td>Female</td>
<td>$14.86</td>
</tr>
<tr>
<td>Bachelor's or higher</td>
<td>$23.85</td>
</tr>
<tr>
<td>Some college</td>
<td>$14.88</td>
</tr>
<tr>
<td>High school</td>
<td>$14.24</td>
</tr>
<tr>
<td>Less than high school</td>
<td>$10.68</td>
</tr>
<tr>
<td>White</td>
<td>$16.69</td>
</tr>
<tr>
<td>African American</td>
<td>$12.52</td>
</tr>
<tr>
<td>Hispanic</td>
<td>$12.61</td>
</tr>
<tr>
<td>Union</td>
<td>$19.21</td>
</tr>
<tr>
<td>Non-Union</td>
<td>$15.61</td>
</tr>
</tbody>
</table>

(* 2016 dollars; due to 2017 data limitations for some subgroups, we use 2016 data here)
quality of jobs. A nasty combination of recession, inflation, union decline, concessionary bargaining, and deindustrialization through the 1970s and early 1980s undercut wages for those at the median wage and below. As business refocused its managerial and political energies on cutting costs, the employment relationship itself began to deteriorate — not only with the losses of union coverage, but with relentless waves of downsizing and outsourcing. The patterns for the subsequent decades were clear: less security and job tenure, longer bouts of unemployment, more part-time work (much of it involuntary), more nonstandard “contingent” or “temporary” work arrangements.

This has been accompanied by a steady erosion of workplace benefits, so that real compensation has slipped even further. Employment-based health care has fallen off sharply since its peak in the early 1970s, much more sharply for low-wage workers. In Iowa, employment-based health care covered over three-quarters (77.2 percent) of Iowans under the age of 65 in 1999; by 2015 that had tumbled to less than two-thirds (63.1 percent). As coverage has slipped so too has its quality: Premiums and out-of-pocket costs continue to run well ahead of inflation, especially for family coverage. And, while employment-based pension coverage has not fallen as steeply, the coverage that remains offers less value and less security.

We can also see this playing out in the persistently high share of low-wage work. About one in four American workers are in low-wage jobs (those paying less than two-thirds of the median wage), a share that is growing — and easily the highest rate among our democratic and developed peers. In Iowa, very nearly half (44.8 percent) of the workforce earns $15/hour or less. Across our most recent business cycles, low-wage workers have suffered the brunt of economic downturns and enjoyed few of the fruits of economic booms or recoveries. Since 2007, the lion’s share of recovery jobs are in lower-wage occupations than those lost during the preceding recession. And projections of future job growth are heavily skewed toward low-wage service occupations.

Aside from a brief uptick in 2014, national wage growth in the current recovery has barely exceeded the rate of inflation.

Why, in an economy near full employment, are workers not seeing the benefits?

Lagging wage growth

This brings us back to our opening riddle. As Figure 8 suggests, wage growth is a “lagging indicator” — that is, it takes a while, coming out of a recession, for lower unemployment to lead to higher wages. That pattern holds across the post-1965 era, with the exception of our current recovery. Aside from a brief uptick in the first half of 2014, national wage growth has barely exceeded the rate of inflation. Why, in an economy near full employment, are workers not seeing the benefits?
One possibility is that, despite low unemployment rates, there is still considerable “slack” in the economy. The unemployment rate, for example, does not account for those who have dropped out of the labor force entirely. There is some evidence for this “slack” in the national economy, where both the labor force participation rate and the employment to population ratio for prime age (25-54) workers remain stubbornly below pre-recession levels. In Iowa, however, rates of labor force participation are significantly higher, and have returned to pre-recession levels.

If there is little slack in the Iowa economy, slow wage growth must have other causes. The culprit here, evident even in a setting of near full employment, is the dismal bargaining power of workers.

Let’s start with the minimum wage. Bargaining power across the wage distribution depends, in large
part, on an adequate “floor” for wages. The minimum wage, last raised in Iowa a decade ago, sets a meager floor at $7.25 per hour, far below levels necessary for a family to meet a basic-needs budget. The Iowa minimum wage is now worth more than 12 percent less than it was in 2008. A broad body of research, including that based on Iowa’s brief experience with higher local minimum wages (an option pre-empted by state law in 2017) makes it clear that higher rates can raise the earnings of low-wage workers with no discernible impact on employment or growth. Our dismal labor standards (covering overtime, minimum wages, tipped wages) are accompanied by little serious enforcement.

As the bargaining power of workers has withered, the clout of employers has grown steadily. With each passing year, a higher share of national income shows up on the corporate side of the ledger. In turn, the market power of large employers — especially in smaller metro and rural settings — has made local labor markets less competitive, and less responsive to workers. In local settings where one or two major employers — a Hy-Vee, a Walmart, a packing plant — dominate the labor market, even very low unemployment rates may put little upward pressure on wages. In fact, as we see in Figure 11, wages are persistently lower in Iowa’s rural counties.
Finally, workers lack voice or bargaining power. Indeed, the benefits of collective bargaining — for union workers, for non-union workers, and for women — are increasingly elusive in a setting in which private-sector union membership has withered and public-sector unions are under constant attack. In Iowa (Figure 12), the share of the private workforce covered by union contracts has fallen by 73 percent just since 1983 — from 17.1 percent to just 4.6 percent.

The patterns here are clear. Iowa wages have stagnated since the 1970s. Wage inequality has grown. And working Iowans have seen little benefit of the long recovery from the Great Recession. And the causes are not hard to identify. 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 slow wage growth, rising inequality, and growing economic insecurity.

Just as clear is the fact that our public policies are contributing to the underlying problems, and not to the solutions. Rather than build bargaining power — and the prospects for Iowa’s working families — by respecting the rights of workers to organize, the Iowa legislature has dramatically curtailed bargaining for public sector workers. Not only has the Legislature failed to raise the minimum wage since 2008, they have pointedly barred local governments from raising wage and labor standards.