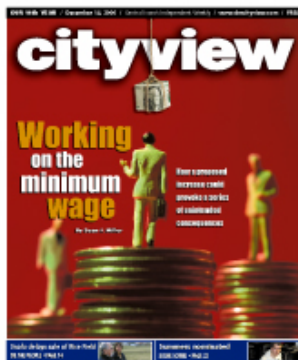



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◆ Working on the Minimum Wage

How a proposed increase could provoke a series of unintended consequences

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By Sean J. Miller



The Iowa Workforce Development office in Des Moines' East Village has a bustling main floor lined with more than 40 computers, where each day people sit and check job postings and print their resumes. Kim Dunn has been coming here for about a month.

The 29-year-old single mother of three recently quit her job as a cashier at a convenience store. She was making \$8 an hour, working full-time, but was "living paycheck to paycheck."

Employers "expect so much of the employee, but they give nothing back," she says.

Dunn, who lives on the South Side of Des Moines, is about half-way through an administrative assistant degree at Des Moines Area Community College and says her student loans are helping her get by while she's looking for a job. She wants to find something soon, though, she says. Most jobs she's applied for, at local grocery stores and restaurants, "pay six to eight (dollars an hour) to start," Dunn says.

That could soon become \$7 to \$9, as Iowa Democrats are considering increasing the minimum wage to \$7.25, which could subsequently bring up other wages along with it. Although only about 20,000 Iowans — 2.2 percent of wage earners — are paid at or below the federal minimum wage of \$5.15 per hour, about 117,000 make between \$5.16 and \$7.14 an hour, according to the U.S. Department of Labor.

"An extra 50 bucks a week is a lot," Dunn says. "Maybe a night out at the movies with the kids, or a dinner out."

Democrats made raising the state's minimum wage — which has matched the federal rate for the last nine years — a central issue in the November 2006 election and are now preparing to make good on their campaign promise.

"We're planning to introduce a bill to increase the minimum wage in the first weeks of the next legislative session," says Rep. Pat Murphy, the House Speaker-elect. "We'd like it to be the first bill [Gov.-elect] Chet Culver gets to sign."

The proposed bill would increase Iowa's minimum wage by \$2.10 to \$7.25, over a two-year period, Murphy says.

People on minimum wage "haven't seen a pay raise in nine years," he says. "It's pretty hard to get ahead at \$5.15 an hour."

Some Iowa Republicans say they agree with the Democrats' proposal.

"Everyone thinks we're lock-stock opposed [to a minimum wage increase]," says Christopher Rants, the outgoing Republican Speaker of the House. "That's not the case."

Although some Republican members might vote against raising the minimum wage, he says "we will not block it," adding, "by and large I expect it to pass."

Republicans, however, would suggest additional legislation in conjunction with an increase, Rants says.

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"We understand raising the minimum wage does raise the cost of doing business," he says. "We will offer suggestions to hold down or lower the cost of doing business."

"It's not McDonald's that's paying minimum wage, it's your small entrepreneur," Rants says. "We need to be careful or you won't have any jobs left to pay a wage, period."

Democrats say the current priority is helping wage earners.

Legislation to help small businesses will be considered separately, Murphy says. "It isn't about that individual [business owner], it's about the people working for them."

Raising the minimum wage could have unintended consequences for the working poor, small businesses and the state's overall economy.

Critics of the proposal say raising the minimum wage is more political than practical when it comes to helping the poor, and could price some workers out of the job market.

"It's basically using the poor for political ends," says Peter Orazem, an economics professor at Iowa State University and director of the Office of Social and Economic Trend Analysis.



"The minimum wage is almost irrelevant in Iowa," he says. "Average wages are much higher than the minimum wage."

Although the federal minimum wage of \$5.15 an hour hasn't changed since 1997, Orazem says, average wages have continued to increase.

And of the small percentage of Iowans who are working minimum wage, he adds, "there are few people who stay on minimum wage for their entire careers."

Orazem says the decision to raise the minimum wage revolves around the question: "Do you want to set a high price on low-skill labor and risk having a lot of them unemployed, or do you let the wage floor drop and have a lot of them employed?"

The market is good at providing workers with wage protection, he says. "Here in the U.S., we don't force people to work. If you don't like one [job] there's a million out there."

"The ability to walk away is more powerful than any federal law," he says. "It's the best protection for workers."

Raising the minimum wage "is an inefficient benefit," Orazem says, because it doesn't go to help the entire working poor.

While an Iowan working full-time at minimum wage, without vacation or bonuses, will earn \$10,712 annually, the poverty line for a single-parent family of three reaches \$17,900 (about \$8.50 an hour, full-time).

"If people really cared about the poor, they'd be supporting programs that are actually well-targeted at poor people," Orazem says.

The Earned Income Tax Credit, for example, benefits 38 percent of people below the poverty line, whereas a minimum wage increase benefits only 13 percent, Orazem says.

With the minimum wage increase, he says, "you're missing a lot of the poor and most of the beneficiaries are actually not poor."

Teenagers who live at home with their parents are one group who would benefit from the minimum wage increase, he says. Nationally, they make up 26 percent of wage earners paid at or below the minimum wage, according to the Department of Labor.

But some teenagers now work to support their families, and themselves.

Myra Flores, a 17-year-old junior at East High School in Des Moines, was anxiously applying for jobs in late November.

She says she needs to find a job that pays at least \$6 an hour to support herself and her family.

"My mom's not working right now," she says, because she's sick. "I can help my mom out by working."

Flores is one of about 50 students enrolled in a work experience program at East High. Students get school credit for working, get paid and gain job skills.

Flores, nicknamed "Mya" by her friends, is worried about finding a job in the next couple weeks. Her dad works construction and is usually unemployed most of the winter, she says, adding that the money she would earn would go toward paying rent and other family bills.

Flores' situation isn't unique, says Fannie Cunningham, a career advisor at East High for the past 25 years. "A lot of times the kids are living independently," she says. "Or the parents don't make enough money to support the family."

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And in some cases, the teenagers are parents themselves.

Russell Daye — who's also in East High's work experience program — lives with his girlfriend and her family. The young couple has a two-month-old daughter.

Daye recently got his first job busing tables, for \$7 an hour plus tips, at Noah's Ark, an Italian restaurant on Ingersoll Avenue in Des Moines.



"I love where I work, but I mean all the stress of working and trying to get on with school, it's not worth what I'm getting paid," says the 16-year-old sophomore. "If I'm going to put my all into something, I should be [compensated] sufficiently."

"I need a car, I need a coat, my daughter needs diapers — my check is not going to cover it all," he says.

Although Daye is earning more than minimum wage he could still benefit from the proposed increase. Supporters of raising the minimum wage say that an increase will cause a ripple effect through the economy's wage structure.

"When the minimum wage increases it actually increases the wages of those above the minimum wage," says Elaine Ditsler, a researcher with the Iowa Policy Project — a non-partisan research organization based in Mount Vernon.

Ditsler, who recently published a report calling for an increase of the minimum wage, estimates that the ripple effect would be an average pay raise of 60 cents for all wage earners in Iowa. "The minimum wage is still meaningful as a wage floor."

Ditsler says Iowa would not lose jobs to neighboring states, even if it boosts its wage higher than theirs.

The retail and service industries are those primarily affected by an increase, she says, and those industries need to stay in Iowa in order to be close to their markets.

These jobs "cannot be automated and they cannot be outsourced," Ditsler says.

While prices for restaurant meals or hotel stays may increase slightly, the "overall benefits to the economy outweigh the costs," she says.

Ditsler's argument has some unlikely supporters.

Goldman, Sachs & Co., a global investment bank based in New York, recently issued a report detailing the impact of a federal minimum wage increase to \$7.25 an hour. It states:

"Low wage workers will see a net gain in income as a group — even if our simple estimates of a 1-2 percent drop in working hours is off by a factor of five, it would still be eclipsed by the 13 percent average increase in hourly pay — and some may be lifted out of poverty."

Andrew Tilton, vice president of the company's U.S. Economic Research Group and the report's author, says fears about inflation caused by a wage increase are unfounded.

"It's fair to say that at the economy-wide level it is unlikely to have a big impact on prices," he wrote in an e-mail. "But it could be meaningful for specific businesses that rely a lot on low-wage labor," such as restaurants.

Here in Iowa, the restaurant industry is worried about the impact of a minimum wage increase. The Iowa Association of Restaurants has lobbied against an increase, arguing that it will go to its highest paid employees — servers — and make labor too costly.

Restaurants are the largest private sector employer in Iowa with 140,000 people working in the industry, according to the Iowa Restaurant Association.

Suzanne Summy, general manager of Trostel's Greenbriar, a fine dining restaurant in Johnston, was seated at a booth in the restaurant's bar one evening in early December, ready to talk about the effect a minimum wage increase would have on her business.

"It's going to hurt," Summy says, her smile disappearing. "Either the restaurant absorbs the cost or it gets passed on to the customer."

It's the servers who are paid minimum wage, or less, and they're actually the people making the most money, says Summy, who's been in the business for 20 years and is a co-owner of Trostel's Dish in Clive.

At the Greenbriar, servers are paid \$3.09 an hour because the restaurant gets a 'tip credit' — the restaurant can pay them sixty percent of the minimum wage because the servers make up the difference in tips.

"Our servers make more money than our chefs," she says. They typically walk out with \$100-\$200 a night in tips.

If the minimum wage is raised to \$7.25, as expected, restaurants would have to pay their employees around \$4.35 an hour.

Typically, labor is a restaurant's second highest cost, Summy says. The proposed wage hike would increase their labor costs significantly. It will be difficult to absorb when the restaurant's profit margin is three to five percent, she adds.

Summy calls herself a Democrat and says she voted for Chet Culver, but says she doesn't think the increase makes sense for restaurants. "You can't have a minimum wage that fits all [businesses]."

While Summy says she thinks the increase will likely trigger demands for a raise from some of her employees, other area-businesses say they have no plans to adjust their wage structure.

Wal-Mart employs 17,600 people at 15 stores, 41 Super Centers and 7 Sam's Clubs across Iowa, according to company spokeswoman Kelly Hobbs.

Wal-Mart's wage structure hasn't changed in other states that have increased the minimum wage, Hobbs says, noting that the company doesn't have positions that start at minimum wage.

The company hasn't taken a position on any state's initiative to raise the minimum wage; however, it does support an increase in the federal minimum wage, she says. "The reason Wal-Mart supports a federal increase is to benefit our customers. Many of our customers are working families who are struggling to get by."

Other local employers say they have no plans to bump their wages up if a minimum increase happens.

Qwest Communications International Inc., the state's largest telecommunications provider, employs 2,300 people across Iowa — including 400 in the Des Moines area.

The company won't be affected by a minimum wage increase because its lowest paid positions, call center personnel, start at \$8.50 per hour, says Michael Sadler, the director of governmental affairs for the company. Call center personnel also receive benefits, including fully paid health insurance.

"We're a company that's always paid good wages," Sadler says. If the minimum wage increases, "we wouldn't have to make an adjustment."

Today, there are 28 states as well as the District of Columbia with a minimum wage higher than the federal standard. Four of Iowa's neighboring states — Illinois, Wisconsin, Minnesota and Missouri — have set a standard wage higher than the federal minimum.

The Democrats' capture of the State Capitol in the November elections has made it likely Iowans will see their first minimum wage increase in almost a decade.

Orazem, the Iowa State economist, maintains that raising the minimum wage is more political than practical when it comes to helping the poor but admits that now is an opportune time for an increase.

"We're coming on the heels of extraordinarily strong, steady economic growth," he says. "It's hard to think of a better time." CV

A federal minimum wage has existed since Congress passed the Fair Labor Standards Act in 1938. Iowa, for the most part, has maintained the federal minimum. Only briefly did the state's minimum wage exceed the federal minimum. Between 1990-92, the state bumped its minimum up from \$3.85 to \$4.65. The federal minimum wage didn't catch up until October 1996, when it was raised to \$4.75.

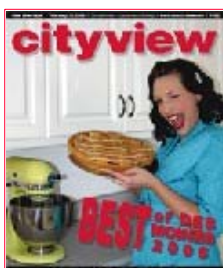
Recent History of the Federal minimum wage

- \$2.90 in 1979
- \$3.10 in 1980
- \$3.35 in 1981-89
- \$3.80 in April 1990
- \$4.25 in April 1991
- \$4.75 in October 1996
- \$5.15 in September 1997

Source: U.S. Bureau of Labor Statistics

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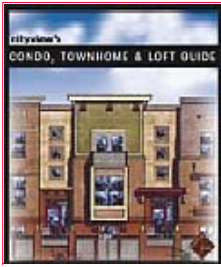
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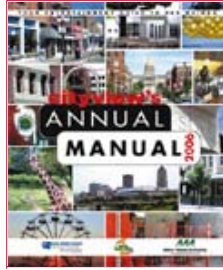
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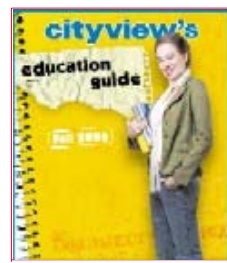
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