
4. What Should We Do? Policies for Working Iowa

The Iowa economy suffered more than most states in the 1980s, and the state's relative position in terms of employment, population growth, wages and income slipped substantially. But the national economic expansion of the 1990s was good for Iowa; we ended the decade with one of the lowest unemployment rates in the nation, wages (particularly in lower-wage occupations) rose, poverty rates fell, manufacturing rebounded, and employment and population grew. The level of poverty and income inequality is now substantially lower than in the country as a whole.

But the news is not all good, and the decade we are now in may present some special problems for the state. There are still far too many families in Iowa who are working but poor: an estimated 150,000 people live in families that work over 40 weeks per year and yet have incomes below the poverty line. Projections of job growth indicate a continuation of the trend towards more jobs with poverty level wages or less. Average annual earnings are much lower than in the U.S. as a whole. We have done poorly in creating jobs at the higher end of the wage scale and the payoff for getting a college degree in Iowa is comparatively low. Furthermore, like most other states, we face a shortage of labor that will constrain economic growth.

Taking the High Road

Clearly, policies that may have been appropriate in the economic doldrums and high unemployment of the 1980s are not likely to be sensible policies in a time of labor scarcity. While we argued that the labor shortage by the year 2010 will not be as large as some have predicted, we do not dispute the likelihood of a shortage. In an environment where states are going to be competing with one another for a pool of labor that will be growing slowly everywhere, the state must exert leadership in making Iowa a worker-friendly state. Such policies would operate on many fronts at once: making Iowa a more appealing place to stay after graduation from high school or college, making Iowa a more attractive destination for in-migrants, and making work a more feasible and rewarding option for those already here.

We should not lose sight of one very important fact, however. The 1990s saw a reversal of a long trend towards declining real wages for many. What does this tell us? That it took an economic expansion unprecedented in its length and size to finally get everyone to work and begin to raise wages for those at the bottom. It took a tight labor market. We do not need to embark on policies that will reverse the gains of the 1990s by reintroducing labor surpluses. Our goal, presumably, is not growth for the sake of growth, but growth in the standard of living of the average Iowan.

In the face of income inequality that continues to rise, we need to focus on policies that ensure that the prosperity that comes with growth is more widely shared. Where should we look for a model? Should we strive to emulate our neighboring states to the west, or the states to our east and north? Are strong unions and high wages an impediment to growth? If we look at the experience of our regional peer states in the 1990s, one thing becomes quite clear: the “high road” to growth can work; the “low road” can fail. The five states in the top half of Table 4.1 are the five that experienced the largest rates of population growth in the past decade. They also, on average, experienced higher rates of growth in state personal income. Interestingly, they are also the five non-right-to-work states, and have on average almost twice the percentage of the workforce that is unionized, compared to the four slow-growth states, and all five have higher wage levels than any of the four in the bottom of the table. The five faster-growth states include the two highest tax states in the region, Minnesota and Wisconsin, and on average have higher state and local taxes as a percent of income than the slow growth states.

Table 4.1
Growth, Wages, Unionization, and Tax Burdens in the 1990s: Iowa and Peer States
 (States ranked by population growth rate)

	Population Growth Rate, 1990-2000	Growth in State Personal Income, 1990-1999	Median Hourly Wage, 1999	Right-to- work state	Union Density, 1999	State and local taxes as a percent of state personal income, 1996-97
Minnesota	12.4%	67.5%	\$13.45	No	19.3%	12.9%
Indiana	9.7	58.7	11.69	No	15.7	11.1
Wisconsin	9.6	61.5	11.84	No	18.7	12.8
Missouri	9.3	58.5	11.89	No	13.7	10.2
Illinois	8.6	59.0	12.43	No	18.0	10.6
Average	9.9	61.0	12.26		17.1	11.5
Kansas	8.5%	57.8%	\$10.89	Yes	7.9%	11.3%
South Dakota	8.5	62.3	10.05	Yes	6.0	9.2
Nebraska	8.4	57.6	10.43	Yes	8.8	11.3
Iowa	5.4	52.1	11.01	Yes	13.8	11.1
Average	7.7	57.5	10.60		9.1	10.7

Sources: U.S. Census, Bureau of Economic Analysis, Economic Policy Institute

While the numbers in Table 4.1 change over time, the general pattern has been the same from the start of the decade: the higher wage, more unionized states in 1990 were the ones that grew faster in the next ten years, and they did so while *remaining* higher wage, more unionized states. Two of the fastest growing states—Minnesota and Wisconsin—have always had higher tax levels. We would not claim from this a causal relation—that high wages cause higher growth. We do claim that it shows that Iowa need not pursue a policy of low wages, weak unions, and an underfunded public sector to attain growth. A “high road” strategy of higher wages, a strong labor movement, and well-funded and modernized schools and public services is a workable strategy for attaining economic prosperity.

Policies for Working Iowa

We turn now to specific recommendations for bringing about shared prosperity in Iowa. To reduce the number of workers earning poverty level wages, to reduce the number of people who are working but poor, and to counteract the trend towards an increasing share of low-wage employment, we recommend increasing the minimum wage, enacting a living wage law, and expanding the earned income tax credit. To increase the potential earnings of college graduates we recommend increasing public sector professional wages. To increase job opportunities at the higher end of the wage scale we recommend reforming business incentive programs to target high wage employment. To address the problem of labor shortages we argue for a series of policies aimed at making Iowa a more worker-friendly state in order to keep young people here, attract skilled in-migrants where needed to fill critical job shortages, to make it possible for more Iowans to work, and to allow more Iowans to move from part-time to full-time work. These policies include better health insurance coverage, more family-friendly workplaces, and better job training and education.

Increase the Minimum Wage

Increasing the state minimum wage would move tens of thousands of Iowa workers closer to a wage that could support an individual or a family above the poverty level. It would facilitate the transition from welfare to work. It would help those with the least bargaining power and those most disadvantaged by the current structure of jobs and wages, particularly women and minorities in retail and service occupations. Finally, increasing the minimum wage helps workers earning above the minimum wage as well, as many companies adjust their general pay scale in response to a higher minimum wage in order to maintain parity within the firm.

The Iowa state minimum wage has been the same as the Federal minimum wage most years, and is the same now: \$5.15 per hour. But the real value of the minimum wage has declined; despite increases in the 1990s, it is now 24% below its level in 1979. If the state minimum wage were raised by \$1.00 over the next two years, about 61,000 Iowans would benefit directly. Ideally, the minimum wage would be indexed to inflation in order to maintain its real value over time.

Enact a State Living Wage Law

The State of Iowa should take a leadership role in establishing wage standards that assure a living wage for all state employees, for all those hired on state contracts, and for all employees of firms receiving state subsidies. Such a living wage law would establish a “floor”—set at the poverty-level wage, currently \$8.20/hour, or higher—for all wages paid for with taxpayers’ dollars. In its direct employment and contracting, the state can and should pay wages that support working families. In its economic development policies, the state can and should ensure that subsidies, loans, or tax abatements only go to private employers who are willing to make the same commitment. Such policies are in keeping with the prevailing political wisdom that gainful private employment (rather than public social policies) can and will ensure the security and the dignity of working Iowans. Such policies would recognize that government is already paying the hidden costs of low wage employment (such as Medicaid, food stamps, reduced-fee school lunches, the Earned Income Tax Credit and other programs).

Living wage laws have passed in over 50 cities nationwide (including Boston, Baltimore, Madison, Chicago, Santa Cruz, Los Angeles, and Detroit) since the mid-1990s. Where these policies are well established the benefits are clear. At little cost or risk (fears of capital flight were never realized), they have raised wages and improved the quality of life, for hundreds of thousands of public and private employees.

Target Business Incentives

The days are gone when one could plausibly argue for job creation at any price. In an era of labor shortages, one should question the need for incentives at all. They are a blunt instrument that may influence some location or investment decisions, but only by giving away millions of dollars to companies for doing what they would have done anyway. The result is a substantial drain on the state's treasury. Furthermore, the incentive wars ignore the role of public expenditures in business decisions—the quality of the state's infrastructure and its education system are important as well, and reducing state revenues through incentives erodes our ability to finance those investments.

At the very least, state and local business incentives should be available only for firms paying high wages and providing good benefits. Job standards have become widespread in state economic development programs in the past decade. Iowa is one of 37 states that now apply job quality standards in at least one of their economic development programs.¹ Iowa's New Jobs and Income Program requires that the firm pay production workers at least \$11.96 per hour (a minimum that is increased annually by the rate of inflation) or 130% of the average county wage, whichever is higher, and must pay 80% of health and dental insurance for employees. The Enterprise Zone program has a lower wage standard: 90% of the average county or regional wage. However, these are just two of many state and local economic development programs in Iowa that provide direct subsidies or tax breaks to firms; most of these programs have no wage or benefit standards at all.

Expand the Earned Income Tax Credit

Iowa should be proud to be one of the 14 states (including Illinois, Kansas, Minnesota and Wisconsin) to have adopted a state version of the Federal Earned Income Tax Credit (EITC). The EITC has been lauded by economists and by politicians of all political persuasions for its role in rewarding work, raising the incomes of lower income families, reducing the ranks of the working poor, and facilitating the transition from welfare to work. Iowa's version is simple: the taxpayer simply claims a credit equal to 6.5% of the Federal EITC. No additional calculations are required.

Unfortunately, Iowa's EITC, unlike the Federal and unlike that in nine of the state programs, is not refundable. If the EITC is worth more than the taxpayer's state tax liability after all other deductions and credits, then the taxpayer cannot use all of the EITC. The lowest-wage workers may owe little or no state income tax (though they will be paying a substantial share of their incomes in state sales taxes and local property taxes) and so will derive no benefit from the EITC. This means that the credit, which is intended to help lower-wage workers and to help them

¹ Good Jobs First, *The Policy Shift to Good Jobs*, Washington, D.C.: May 2000.

more the lower their wages, cannot really accomplish that purpose. Furthermore, Iowa is unusual in allowing taxpayers to deduct a portion of Federal income taxes on their Iowa returns; as a result, the lowering of a taxpayer's federal tax through the federal EITC lowers the Iowa deduction and raises Iowa income taxes. The existing Iowa EITC offsets this tax effect but provides little benefit beyond that.

The first step in boosting the EITC should be to make the credit refundable. This means that the worker will receive a refund check from the state when the EITC exceeds income taxes due. Iowa already has several refundable credits: the child and dependent care credit and three business credits (for research activities, purchase of assistive devices, and property rehabilitation). The second step would be to raise the percentage. It has been estimated that the total cost of a 10% refundable EITC in Iowa for fiscal year 2002 would be only \$19 million, while a 20% refundable credit would cost \$38 million.²

Increase Public Sector Professional Wages

As we have seen, recent gains for low-wage workers in Iowa have not been matched by higher wages for professional workers. Indeed Iowa ranks at or near the bottom of the region's professional wage ladder—especially in two of the historically female-dominated professions: teaching and nursing. In this respect, we support plans to raise teacher's salaries through increased state funding to school districts (especially rural ones). And we urge the state to raise nurses' salaries by increasing wages and reimbursement rates for state-funded health expenditures, and (as we argue elsewhere) to support the efforts of nurses themselves to achieve decent wages and working conditions through collective bargaining. A serious and sustained commitment to raising these wages would accomplish at least three things. It would establish a baseline of fair and equitable compensation for those who teach our children and care for us when we are sick. It would slow the "brain drain" of college-educated Iowans fleeing the state for better prospects. And it would help to close the substantial gender wage gap among Iowa professionals.

Ensure Access to Health Insurance

Health coverage remains organized around the expectation of private employment-based coverage, but that coverage has fallen off in the last decade. For Iowa, the situation is not as bleak. Only 8.3% of Iowans went without health insurance in 1999, nearly half the national rate (15.5%). Still, this means that about 240,000 Iowans have no health insurance. Furthermore, coverage for working adults—in Iowa and the nation—continues to slip. State regulation of HMO practices (such as the recently enacted Iowa "Patients' Bill of Rights") offer largely symbolic solutions and nothing to those who lack coverage. Once again, collective bargaining offers a partial solution by overcoming both political obstacles to mandated coverage and actuarial obstacles to the coverage of individual workers.

Iowa's "Hawk-I" participation in the Federal Child Health Insurance Plan is also important and has already contributed to a marked decrease in the percent of children uninsured. Hawk-I uses

² Center for Policy Alternatives, *Rewarding Work: State EITCs for Working Families*. Washington, D.C., October 2000.

super-percentages of the poverty level to determine eligibility and either identifies those eligible for Medicaid or establishes Hawk-I eligibility on a sliding scale up to 200% of the poverty level. At these levels, Hawk-I offers coverage to about two-thirds of the estimate 85,000 Iowa children without health insurance. Actual enrollment through fiscal 2000, however, is less than 20,000 and access to decent care is still worse than it was prior to the passage of welfare reform in 1996. We can and should improve on this by dropping all premiums, expanding eligibility to the maximum (250% of the poverty level) allowed by federal law, and stepping up enrollment efforts.

Build Family Friendly Workplaces

To make it easier for single parents to work, for both parents to work in families with young children, and for parents to move from part-time to full-time work, we need to expand the availability of affordable childcare. Iowa Workforce Development puts it well:

Today the labor market is radically different from that of yesteryear. Companies are facing the difficulty of finding and keeping workers with the skills required to be productive in the modern highly technological workplace. For employers, the advantages of offering childcare services are many: improved ability to recruit skilled workers, lower turnover, higher levels of productivity, lower absenteeism, and better community relations.³

The situation in Iowa is acute. Iowa ranks first in the nation in the percentage of working parents with children under the age of six (77% against a national average of 66%). And yet, there is an acute shortage of spaces in accredited childcare facilities. According to the Iowa Childcare and Early Education Network, there is a gap of 59% between the demand for, and the availability of, openings in accredited child care centers (in part because barely 13% of Iowa's child care facilities meet accreditation standards). For older children the situation is even worse. Only 11% of Iowa schools offer after-hours programs (half the national average) and the gap between demand and available spaces for school-age children is 89%.

As a solution, we can only second the recommendations of the Governor's Childcare and Early Education Taskforce (February 2000). First, the state should raise the income eligibility threshold for state subsidies. Iowa currently subsidizes child care only when family incomes fall below \$16,670—far below the maximum cutoff allowed by federal law (over \$33,000) and lower than the thresholds in 48 states. Second, the state should raise reimbursement rates for child care centers receiving public funding. Current reimbursement rates stifle the development of new child care centers and Before-After School Programs, and they perpetuate the low wages and high turnover among child care workers. Third, the state should rationalize the fragmented and penurious funding stream (which runs across various state and federal post-welfare programs). Taken together, such initiatives would support both working Iowans generally (by making decent child care more accessible) and child care workers specifically (by bringing wages and professional recognition in line with their immense responsibilities).

³ Iowa Workforce Development

Enhance Training and Education

One of the clearest wage trends of the past two decades has been the widening gap between the earnings of graduates of four-year colleges and those with just a high school diploma, or those who did not graduate from high school. In part, this is a consequence of the decline of the manufacturing economy that, especially in its unionized firms, sustained occupational (and wage) mobility along clearly defined skill- and seniority-based job ladders. In an economy increasingly dominated by low-wage service employment, fragmented and subcontracted manufacturing employment, and mobility across firms (rather than within them), the ability of workers to “move up” by claiming skills and experience based on previous employment has largely evaporated. The labor market, as a consequence, is a riddle for employees and employers alike: Employees find it difficult to climb out of “dead end jobs.” And employers, especially in the tight labor markets of the Midwest, find it difficult to find or retain workers.

The state should be doing everything it can to ensure that its young people are prepared for the kind of jobs demanded in today’s economy, and to provide opportunities for older workers to acquire new skills and further their education. In this respect, free or low-tuition access to post-secondary education and existing job-training programs run through Iowa’s community colleges are important but also insufficient. A more expansive cooperative effort by the state, the labor movement, and employers—along the lines of the innovative Wisconsin Regional Training Partnership—could replicate or recapture the sort of occupational mobility and skills training which, until recently, was embedded in the labor markets of large manufacturing firms. The result, ideally, would be a system of regional or community job ladders in which employers and employees alike would have a means of recognizing and honoring skills and experience as workers moved from firm to firm. In some sectors (such as health care and child care) this could be facilitated by a much more systematic effort to professionalize or certify jobs and skills. In some sectors, such as services, this could be facilitated by community hiring centers serving employers and employees.

Fields of Opportunity?

Iowa’s population has become more diverse in the last decade, and this trend is likely to continue. Clearly, we should remember that we are, in large part, a nation of immigrants; just as we celebrate the heritages of our ancestors who came to Iowa from Norway, Ireland, Germany, Czechoslovakia, Holland, and elsewhere, we should welcome new immigrants from other parts of the world.

Whether Iowa needs a policy to aggressively recruit immigrants is not so clear. Recruiting workers from out of state to fill lower wage jobs could have the effect of reversing the wage gains in those jobs that we have seen in the 1990s, jobs that still leave many Iowans working but poor. Instead, we have focused on policies aimed at adding to the labor force in other ways: by reducing out-migration of college graduates, for example, and by making it easier for more Iowans to enter the labor force and to work full-time.

We must build and sustain an economy that will, on its merits, encourage Iowans to stay and beckon those (with a wide variety of skills) from other states and other countries. That economy

would pay its workers “living wages” sufficient to support working families. It would respect the individual and collective rights of workers. It would work to diminish wage inequities based on gender or race or region. It would encourage “high road” economic development by offering public subsidies only when the payoff (measured by corporate accountability, high wages, and good benefits) is clear. And it would provide workers and firms the resources to adjust to changes in labor or product markets. It’s trite but true: If you build it, they will come.