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# **The State of Working Iowa 2001**

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Peter Fisher  
Colin Gordon

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## **The Iowa Policy Project**

318 2<sup>nd</sup> Avenue North, Mt. Vernon, Iowa 52314  
319-895-8731 (phone) – 319-895-0022 (fax)  
[www.iowapolicyproject.org](http://www.iowapolicyproject.org)

The Iowa Policy Project was founded in the summer of 2000 to produce and disseminate research on a broad set of issues of importance to the citizens of Iowa. We are a non-profit and non-partisan organization. We engage scholars to produce sound, independent research.

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# Executive Summary

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Since the early 1990s, the American economy has done very well. The last decade marks one of the longest sustained economic booms in American history, and the last six years of that boom (since 1995) have yielded real gains for working Americans and their families. Unemployment is down, median family incomes are up, and—for the first time in a generation—low-wage workers have made up ground. But the news is not all good news: wage inequality persists, consumer debt and hours worked continue to rise, job quality remains a serious issue, and recent recessionary anxieties suggest that our recovery from the misery of the 1980s might be fragile.

*The State of Working Iowa, 2001* traces the experience of working Iowans and their families in this larger national story. How have we fared against national averages, other states in the region, and our own recent experience? In our regional comparisons, we consider eight “peer states”: Minnesota, Wisconsin, Illinois, Indiana, Missouri, Kansas, Nebraska, and South Dakota.

We draw on a wide variety of data, including the most recent Census figures, employment and wage data collected by the Bureau of Labor Statistics, the Bureau of Economic Analysis, and Iowa Workforce Development, and state-level analyses produced by the Economic Policy Institute and the Center for Budget and Policy Priorities. Our findings, summarized below, are laid out in detail in the full report.

## Key Findings

***Despite recent growth in manufacturing in the State, Iowa’s employment trends mirror the national pattern of “deindustrialization.”***

Iowa’s manufacturing economy has grown little since the late 1970s, suffering heavy losses in the 1980s and showing only modest gains in the 1990s. Over this period, farm employment has fallen by nearly half (to just under 6% of total employment) and service employment has steadily increased its share (from around 19% in the late 1970s to about 27% in 1999). Services and retail trade, both low-wage sectors, together accounted for 71 % of the increase in non-farm employment in Iowa from 1979 to 1999. These trends have occurred unevenly across the state: the bulk of recent job growth has been concentrated in the State’s more urbanized counties.

***Iowa’s low unemployment rate is the product of steady economic growth accompanied by sluggish population growth.***

Employment grew almost 20% in Iowa from 1989 to 1999, a rate that placed Iowa ahead of most of its regional peers. And because this growth in jobs was accompanied by sluggish population

growth (just 5.4%, by far the lowest in the region), Iowa led the region with a historically low unemployment rate of just 2.3% in 2000. The unemployment rate in Iowa stands at about two percentage points below the national rate. Low unemployment no doubt contributed to substantial improvement in wages in the latter 1990s, but it is also a formula for labor shortages.

***Labor shortages will be smaller than recent predictions indicated.***

While we do not question the likelihood of labor shortages over the next several years, the magnitude of the problem has been considerably overstated. For the period 2000 to 2010, population projections suggest that the labor force will increase by somewhere between 63,000 and 126,000 workers. This is about 91,000 to 154,000 short of the number needed to fill the new jobs that are forecast for the decade.

***Iowa's wage performance has been mixed, but overall we remain a low-wage state.***

In Iowa, low-wage workers have made recent gains that outpaced national wage gains and raised average wage rates slightly above their inflation-adjusted 1979 level. For median-wage workers (half of workers earn more, half less), the gains were smaller. Median wages by the end of the 1990s remained 5% below 1979 levels; Iowa ranks near the low-end of the scale in the region and 31<sup>st</sup> in the nation on this measure. And higher-wage workers in Iowa fall well behind national and regional standards; only 20% of Iowa's wage and salary workers over the age of 18 earned more than \$17.35 per hour in 1999. For the U.S., 20% earned over \$19.93.

***A substantial share of working Iowans remain locked in to poverty-level employment.***

Fully a quarter of working Iowans—about the same share as in 1979—work at jobs that do not pay enough to keep a family of four out of poverty. This reflects the growth of low-wage jobs in recent years, a trend that is likely to continue; state employment projections indicate that nearly one-third of the job openings will be for jobs that typically pay less than the poverty level wage.

***Iowa's low wages are explained both by the employment shift towards lower-paying economic sectors and by lower pay for a given occupation.***

The increasing share of jobs in the low-wage trade and service sectors is only part of the explanation for low-wage employment in Iowa. The other part of the explanation is that, regardless of sector, many occupations pay lower wages in Iowa than in the nation or in our peer states. Iowa ranks 40<sup>th</sup> in the nation in the pay of elementary school teachers, and 50<sup>th</sup> in pay for nurses. Wages are particularly low in a variety of other occupations as well, including food preparation workers, secretaries, several clerical occupations, accountants, telemarketers, auto mechanics, carpenters, and machinists.

***The incomes of most Iowa families have not improved in the past 20 years and the distribution of income in Iowa has become more unequal.***

Family income data for the 1980s and the 1990s shows that the incomes of the bottom 60% of Iowa families, when corrected for inflation, actually declined between the 1978-80 period and

1996-98. Incomes of the richest fifth of Iowa families, on the other hand, increased about 20% over that same period. Income inequality, measured by the spread between the richest and the poorest, or by the spread between the rich and the middle, increased in Iowa in the 1980s and the 1990s. Still, there is less inequality in Iowa than in the country.

***Poverty rates in Iowa have fallen but many Iowa families remain among the working poor.***

Iowa's poverty rate fell from 14.7% in the early 1980s to about 8.7% in the late 1990s, and is one of the lowest in the region. Women and children are more likely to be poor; this is in large part because many children live in single-parent families headed by women, who face the dual challenge of being sole provider and facing much lower wages than men. Of the 246,000 Iowans living in poverty in the late 1990s, about 150,000 or 61% were in working poor households. These families and individuals work a significant part of the year—the average number of weeks worked per year was more than 40—yet they remain poor.

***The gender gap in earnings persists.***

In Iowa, as elsewhere, increased labor market participation by women has been accompanied by the “feminization” of poverty. Occupational segregation and familial responsibilities continue to crowd women into lower-wage (and often part-time and no-benefit) service employment. While Iowa ranked 9<sup>th</sup> in the nation in 1998 in terms of the ratio of women's to men's earnings (76%), we ranked 31<sup>st</sup> in terms of the median annual earnings of women. This is because the narrowing of the earnings gap between men and women over the past 20 years was due largely to declining male wages rather than female wage gains: Iowa ranks 38<sup>th</sup> in the median annual earnings of men. Furthermore, Iowa ranks 39<sup>th</sup> in terms of the percent of women in managerial and professional occupations. And the high labor force participation rates of women are deceptive; much of that participation is in part time employment (women in Iowa are twice as likely as men to work part time), which in turn reflects the low wages in many “female occupations” combined with the high cost of child care.

***Region and education continue to shape economic opportunities and wages.***

There also remains a persistent income gap between the state's rural and urban counties, reflecting both the continued decline of the agricultural economy and the preponderance of low-wage manufacturing growth in rural counties. The education gap—the difference in earnings between those with high-school education or less, and those with a four-year college degree or more—is less pronounced in Iowa, in part because low-wage workers have made recent gains while higher-wage and professional workers have not. The opportunities for college graduates to get a good-paying job in Iowa are not very good, which helps explain why we do not do better in retaining graduates.

## **Policies for Working Iowa**

The five states that led the region in population growth and in growth in state personal income in the 1990s were the five with the highest rates of unionization and the highest wage rates; they also tended to have higher levels of taxation. The four lowest growth states (Iowa, Kansas,

Nebraska and South Dakota) were the four low-wage, right-to-work states. 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.

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, to 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 state minimum wage** and index it to inflation in order to reduce wage inequality and ensure that gainful employment does not leave workers and their families in poverty.
- **Enact a state “living wage” law** that would ensure that firms receiving state contracts or state economic development subsidies pay decent wages.
- **Target business incentives** exclusively to firms paying high wages and providing good benefits.
- **Expand the Earned Income Tax Credit** and make it refundable, in order to reward working Iowans, compensate for the increasing share of lower-wage jobs, and reduce the incidence of poverty among Iowa workers and their families.
- **Increase public sector professional wages** in an effort to close the professional wage gap between Iowa and its peers and ensure that education is rewarded in the labor market.
- **Ensure access to health insurance** for all Iowans, regardless of age or employment status; drop all premiums, expand eligibility, and step up enrollment efforts for the Hawk-I Child Health Insurance Plan
- **Build family friendly workplaces** by expanding access to high quality, professional and affordable child care.
- **Enhance training and education** in order to make it easier for workers to adjust to changes in the economy, and to make it easier for employers to find the skilled employees increasingly expected by the “new economy.”