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Minimum Wage Hike a Bright Spot Entering '08 Buck Boost Bucks Other Trends for Low-Income Iowans

MOUNT VERNON, Iowa (Monday, Dec. 31, 2007) — Iowa will take an unusual place as a regional leader Tuesday when its minimum wage rises to \$7.25 per hour.

“It’s nice to be ahead of the curve for a change,” said David Osterberg, executive director of the nonpartisan Iowa Policy Project (IPP). “This will be good for low-income families, and will be good for Iowa businesses that depend on local purchases. It is a bright spot in an economy that is offering few such signs for low-income folks.”

Iowa’s minimum hourly wage will rise from \$6.20 to \$7.25 on New Year’s Day. It is the second boost in nine months as part of a two-step increase approved in 2007 by the Iowa Legislature and signed by Gov. Chet Culver.

Previously, the wage stood at the federal level of \$5.15 per hour, and had not been increased since 1997, steadily losing purchasing power. Since the Iowa increase was approved, a three-step federal increase was approved, but will not reach \$7.25 until July 2009. In the region, only Illinois at \$7.50 will have a higher minimum wage than Iowa.

Osterberg noted the Jan. 1 increase affects the bulk of the 257,000 Iowans who benefit from the two changes, and that about half of those affected actually will be above the new minimum wage. Their pay is expected to be adjusted as a result of the changes at the lower-end of the wage scale.

“This is not just pin money,” Osterberg said. “Twenty percent of those benefiting from the new minimum wage are parents of some 94,000 children.”

Osterberg noted low-income families in Iowa face many challenges.

“More Iowans are in poverty. Food insecurity is up. Health coverage is stagnant and the Bush administration is standing in the way of improvements to cover more kids. Median income in Iowa continues to lag most of our neighboring states,” he said.

“If not for increases in the minimum wage and the tax credit for low-income working families, it would be hard to find good signs for those families heading into 2008,” Osterberg said. “Another good change in 2007 was a move to end abuses in car-title loans, but better policy in many areas is needed to level the playing field for economic opportunity in this state. Those changes need to happen in both Des Moines and Washington.”

The plight of those on the lowest rungs of the economic ladder is substantiated by economic statistics released during the year.

Poverty

About 1 in 9 Iowans live in poverty, according to the Census Bureau, and the proportion has grown. Iowa's poverty rate for 2005-06 was 10.8 percent, up 3 percentage points over five years.

"Better wages would help to ease this," Osterberg said, noting IPP's "State of Working Iowa 2007" report showed 1 in 4 Iowans earned below poverty-level wages (\$9.91 per hour) in 2006.

Income

Iowa lags the region at high-, middle- and low-wage levels, and median income in Iowa actually dropped in 2006 to \$44,491, from \$45,039 the year before, and is down from \$45,150 in 2001 (all in 2006 dollars).

The 20th percentile wage in Iowa was \$9.01 in 2006. Osterberg said the new minimum wage should raise that level.

"More income in the hands of lower-income families means they will have more to spend with local businesses. This is good for the Iowa economy," Osterberg said. "A pizza shop owner should understand that better-paid pizza delivery people can more easily afford pizzas for themselves.

"The minimum wage had stagnated for 10 years until this change — and this will be a problem again in the future unless it is indexed so it rises with inflation."

Jobs

Iowa job growth has been slow but at a long-term steady pace in recent years — slow compared with the high-growth 1990s, but steady compared with the marked month-to-month hills and valleys that distract from a big-picture view.

"If you look at Iowa job numbers with the perspective of time — over several months or a year — you can see the overall trends better," Osterberg said. "And those trends are clear: Over the past four years, we're seeing a net increase in payroll jobs averaging about 1,700 per month. In the mid-1990s, we were seeing an average increase over a comparable period at over 2,600 per month.

"As we've shown in our 'State of Working Iowa' reports, Iowans work long hours to support their families. If they're working two jobs, even the growth we've seen may be a misleading indicator. In addition, jobs now are less likely to include health benefits and retirement programs," Osterberg said.

Osterberg noted the state's unemployment rate in recent months has held at 3.9 percent.

Health coverage

Census data from two surveys released around Labor Day both showed a lingering problem of lack of health insurance in Iowa. Using the most conservative of the two measures, a three-year average of results from 2004-06, the Census Bureau found 9.4 percent of Iowans without insurance — about 271,000 people.

In addition, research by IPP and the Economic Policy Institute in Washington, D.C., demonstrates that job-based insurance is on the decline in Iowa. At the same time the cost of coverage has jumped, with the average worker now contributing twice as much as in 2000 for family coverage (now almost \$3,300 per year). A recent report from Families USA pointed out that even those with insurance are paying a larger share of their income for health care.

Perhaps most notably, significant progress has been made in covering children, but bipartisan efforts to reach more children eligible for coverage under the highly popular and successful State Children's Health

Insurance Program (SCHIP), have been blocked by the Bush administration and a minority in Congress. SCHIP serves about 37,000 children in Iowa, most through the hawk-i program.

In Iowa, the Census has put the number of uninsured kids at 44,000 for 2006. State officials have estimated that almost three-fourths of uninsured kids are eligible but not receiving public services such as Medicaid and *hawk-i*.

Food security

New figures released in November by the U.S. Department of Agriculture show alarming trends in food security for Iowa families. Using a three-year average from 2004-06, the number of Iowa households experiencing food insecurity has risen to 11.4 percent — up from 9.5 percent from 2001-03 and 8 percent from 1996-98.

“This means 1 in every 9 Iowa households has trouble or uncertainty at some point in the year about putting food on the table,” Osterberg noted. “This makes the advancements passed in both the House and Senate Farm Bills to stop the erosion of Food Stamp benefits, and to better allow for child-care expenses, extremely important to Iowa families.”

Tax policy

An ongoing problem in Iowa and nationally are tax modifications that often avoid a fundamental question: Are changes in tax policy leading toward a system that is based on ability to pay and are changes designed to raise adequate revenue to fund essential public services?

Osterberg said the Iowa Legislature in 2007 took a positive step by raising the Earned Income Tax Credit (EITC) for low-income working families and making it refundable. It also raised the tax on cigarettes to reflect the medical needs brought on by smoking.

“The EITC and the minimum wage increase are important moves to help families make work pay,” Osterberg said.

More attention to tax policy toward low-income families is needed, however, he said. The Center on Budget and Policy Priorities last March reported that Iowa is 1 of 19 states that taxes families in poverty. Iowa assesses \$236 of income tax for a family of four at the poverty line, and is 1 of 8 states where taxes owed by those low-income families have increased since 1994.

“We should celebrate the increase in the state minimum wage. It’s the bright spot in the lives of low income Iowans,” Osterberg concluded.

The Iowa Policy Project is a nonprofit, nonpartisan policy research and analysis organization based in Mount Vernon, with its principal office in Iowa City. IPP reports on job and income trends, tax and budget policy, and energy and the environment are available for free downloads at <<http://www.iowapolicyproject.org>>.

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