

Increasing the Minimum Wage

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Jerry Jackson earns \$6.25 per hour working full-time on a late shift in maintenance services for a downtown business. His wife, Carolyn, makes \$5.50 per hour as a cashier twenty hours a week. Their schedules enable them to have coverage for their two young children throughout the day, although they don't have too much time together, except on weekends. Both make above, but barely above, the federal minimum wage of \$5.15 per hour. Their earnings equate to \$18,720, putting them right at the federal poverty level, but well below what they need to get by. By the end of the month, they often have nothing left for food, and they have to choose how much they can pay on different bills to avoid getting their lights shut off or their furniture repossessed.

Both Jerry and Carolyn are considered good and dependable workers by their employers, but neither has any opportunities for job advancement in either position in the immediate future. They work hard, but they struggle to get by.

The federal minimum wage was first enacted in 1938 as part of the Fair Labor Standards Act and designed to prevent exploitation of low-wage workers. A minimum wage is particularly important for low-wage labor markets where workers generally have the least amount of bargaining power. Since that time, Congress has raised the minimum wage on a sporadic basis, the last time in 1996 – from \$4.25 per hour to its current \$5.15 per hour. Since that time, however, inflation has eroded its actual value. In fact, the inflation-adjusted value of the minimum wage was 26% lower in 2004 than it was twenty-five years before, in 1979.

While federal efforts to raise the federal minimum wage have stalled, public support

is strong for raising the minimum wage and an increasing number of states have taken action. In November, 2004, Florida and Nevada voters approved ballot proposals to raise the minimum wage by \$1.00 and index the wage to rises in inflation, with over two-thirds of voters supporting the ballot proposal in both states. Twenty-one states and the District of Columbia now have established their own minimum wages, including Iowa neighbors Wisconsin, Minnesota, and Illinois.

Raising the minimum wage most directly benefits workers whose current wages are at or slightly above the existing minimum wage, but it also has “spillover effects” in also raising the wages of workers with incomes slightly above the minimum wage increase. Employers generally need to maintain wage differentials between entry-level workers and more advanced workers, so the result of increasing the minimum wage generally results in further pay increases.

According to the Economic Policy Institute, if the Iowa minimum wage were increased by \$1 to \$6.15 per hour, about 53,000 Iowans, or 4% of all Iowa workers, would receive an average hourly wage increase of 37 cents. Carolyn and Jerry both are likely to receive some benefit (perhaps up to \$1 in Carolyn's case) from such an increase, perhaps by as much as \$2,000 per year, which would alleviate some of their economic difficulties.

If the minimum wage were increased to \$7.25 per hour, about 257,000 Iowans, or 18% of all workers, would receive an average hourly increase of 60 cents. In this instance, both Carolyn and Jerry would receive more substantial benefits, potentially by as much as \$4,000 per year. The increase also would provide greater Earned Income Tax Credit benefits and get the Jacksons closer to a livable income level. At the same time, it would increase by less than one-half of one percent the total salaries and wages paid in Iowa.

Clearly, raising the minimum wage represents only one tool to help working Iowans to get by and get ahead. For those in the lowest-wage occupations, like Carolyn and Jerry, however, it represents the most direct way. An increase in the minimum wage is long overdue and can contribute to lessening the economic burdens low-wage families face.

Specific state policies needed to address this issue are to:

- **Enact a state minimum wage**
- **Index that wage to ensure that it keeps pace with inflation.**