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Minimum Wage

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The Minimum Wage

o The Administration has promised to revisit the minimum wage after the impact of health care reform on employers was resolved.

o In Putting People First and during the campaign, President Clinton promised to index the minimum wage to prevent a decline in its purchasing power and to "make work pay." Since its last increase (April 1991), the real value of the minimum wage has declined by 45 cents.

o The Federal minimum wage is currently $4.25 an hour. The minimum wage increased to $4.25 in April 1991 and to $3.80 in April 1990. It was frozen at $3.35 per hour 1981-90.

o The real value of the minimum wage is now 33 percent lower than it was in 1979. If the minimum wage does not increase again, by 1996 it will sink to its lowest real level since 1955.

o The recent expansion in the EITC, while very helpful, only partially offsets the erosion in the value of the minimum wage. In the best case scenario (for a married couple with a year-round minimum-wage earner) the EITC brings the after-tax hourly wage rate up to $5.14 in 1994 -- still below the poverty level.

o The phase out of the EITC increases the marginal tax rate for some workers, which may discourage work. The minimum wage has the opposite effect -- it makes work more desirable.

o The EITC is only claimed by about 80% of eligible families, and the EITC is generally paid in a lump sum. The benefits of a minimum wage hike are received with every pay check.

o The standard criticism of the minimum wage is that it raises employer costs and reduces employment opportunities for teenagers and disadvantaged workers. Recent research finds no convincing evidence of significant adverse employment consequences of moderate (e.g., $1.00 or less) increases in the minimum wage. See pages 4 and 5.

o The youth subminimum wage that was enacted in 1989 for a three year period. Much evidence suggests that employers very rarely took advantage of the subminimum wage.

o On a theoretical level, the minimum wage may not harm employment because some employers will be able to fill vacancies faster and reduce turnover if there is a a moderate rise in the minimum wage. Employers don't do this on their own because it cuts into profit. Of course, too high a rise in the minimum could have adverse consequences for employment.

o Two-thirds of minimum-wage workers are adults. The dramatic changes in the wage structure the last 15 years (i.e., the rise in wage dispersion) has meant that many prime-age workers are earning wages at, or near, the minimum wage. The average minimum-wage earner brings in 40 percent of his or her family's labor income.

o Wage growth for median and low-wage earners has been remarkably low in this recovery. In 1993, and so far in 1994, the median worker (as well as lower-wage workers) has experienced a decline in his or her earnings.

o A recent study concludes that the declining real value of the minimum wage since 1979 accounts for 20 percent of the rise in wage inequality for men, and 30 percent for women.

o A $1.00 rise in the minimum wage would directly raise the pay of some 13 million low-wage workers, and could have a "ripple" effect on another 4 million.

o Last year five bills were introduced in Congress to raise or index the minimum wage. Senators Kennedy and Sarbanes made raising the minimum wage an effective campaign issue this year. Senator Kennedy plans to reintroduce his bill this year.

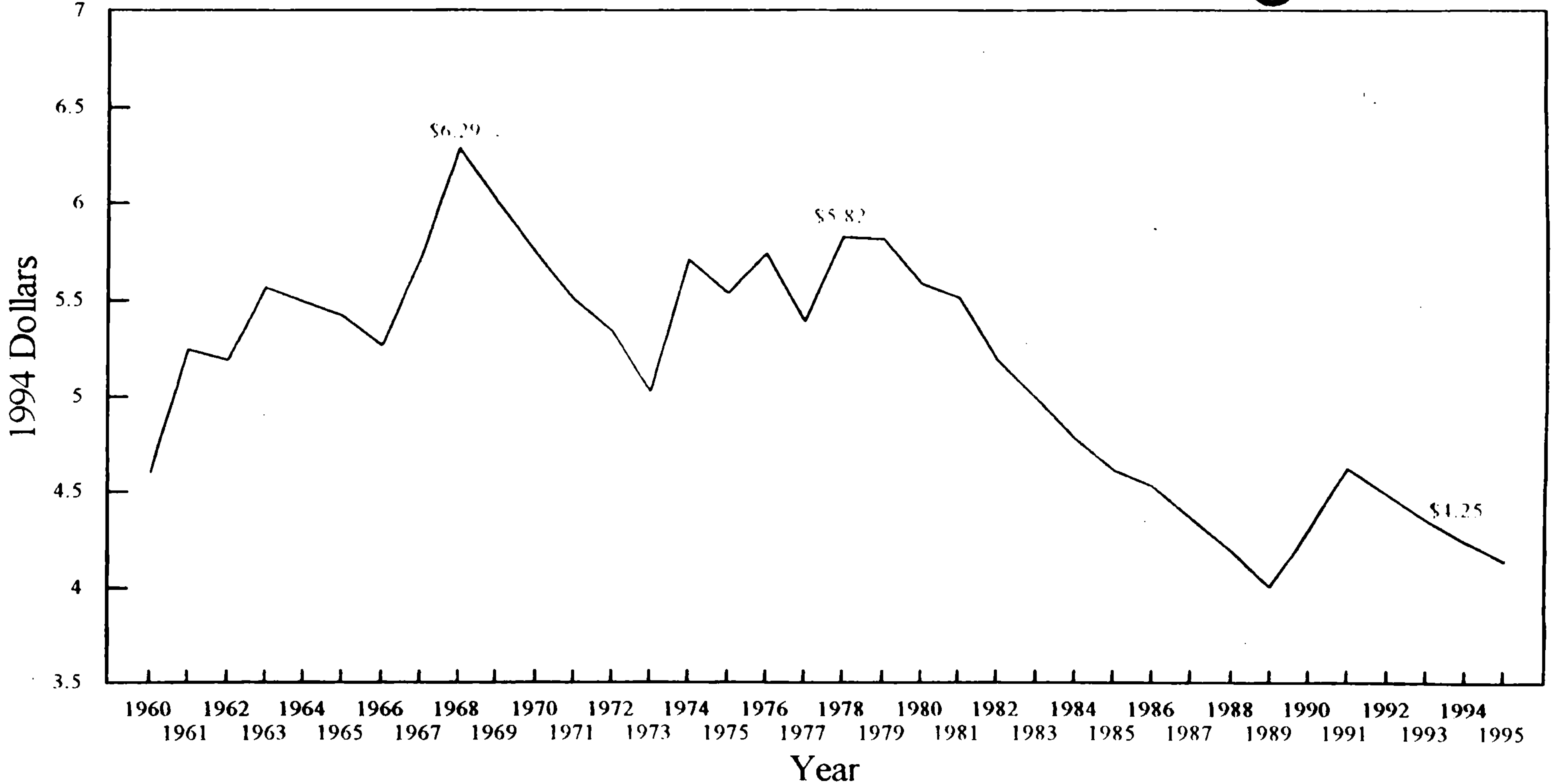
o A large majority of Republicans voted to increase the minimum wage to $4.25 in 1989 (including Newt Gingrich and Bob Dole).

o A 1992 Time-CNN poll found that 74% of the public favored raising the minimum wage to make work a more attractive alternative to welfare. Polls find that support for a minimum wage increase is strongest among women and minorities. Polls have found that most of the public is skeptical of claims that a minimum wage increase reduces employment. A majority of the public even supports a minimum wage hike if they are first told that a minimum wage rise will cost some people their jobs.

o The AFL-CIO has voiced its support for a minimum wage increase. In addition, women's groups (women currently make up 66% of minimum-wage earners), children's groups, and civil rights groups would favor a minimum wage increase.

o The interest groups opposed to the minimum wage (e.g., NFIB) are better organized and more influential than they have been in the past.

The Real Minimum Wage



NOTE: Minimum wage is in 1994 CPI-U-X1 Dollars. The inflation rate for 1994 and 1995 is assumed to be 2.7 and 3.1 percent, respectively.

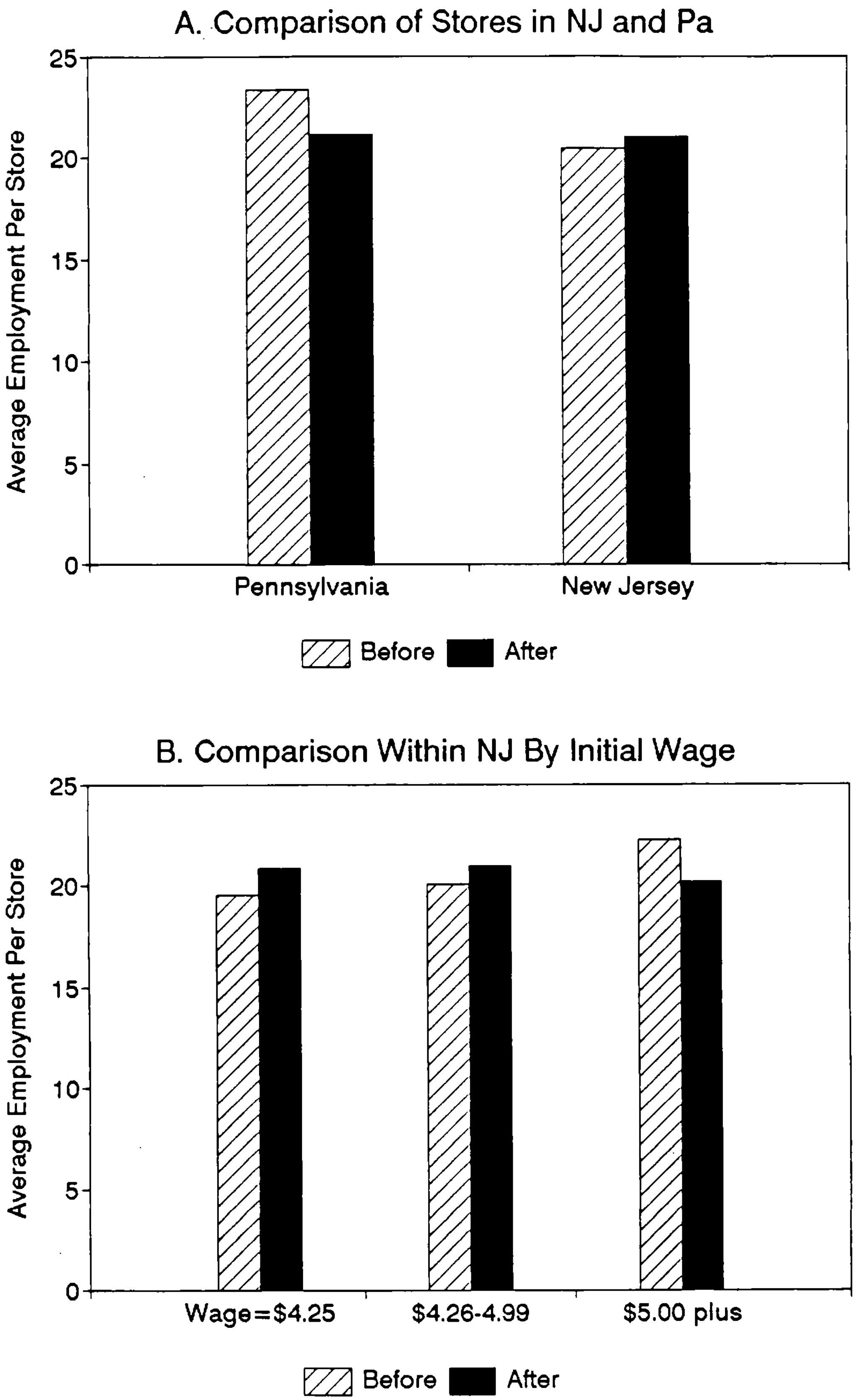


Figure 2.3 Average Employment Per Store, Before and After Rise in Minimum Wage

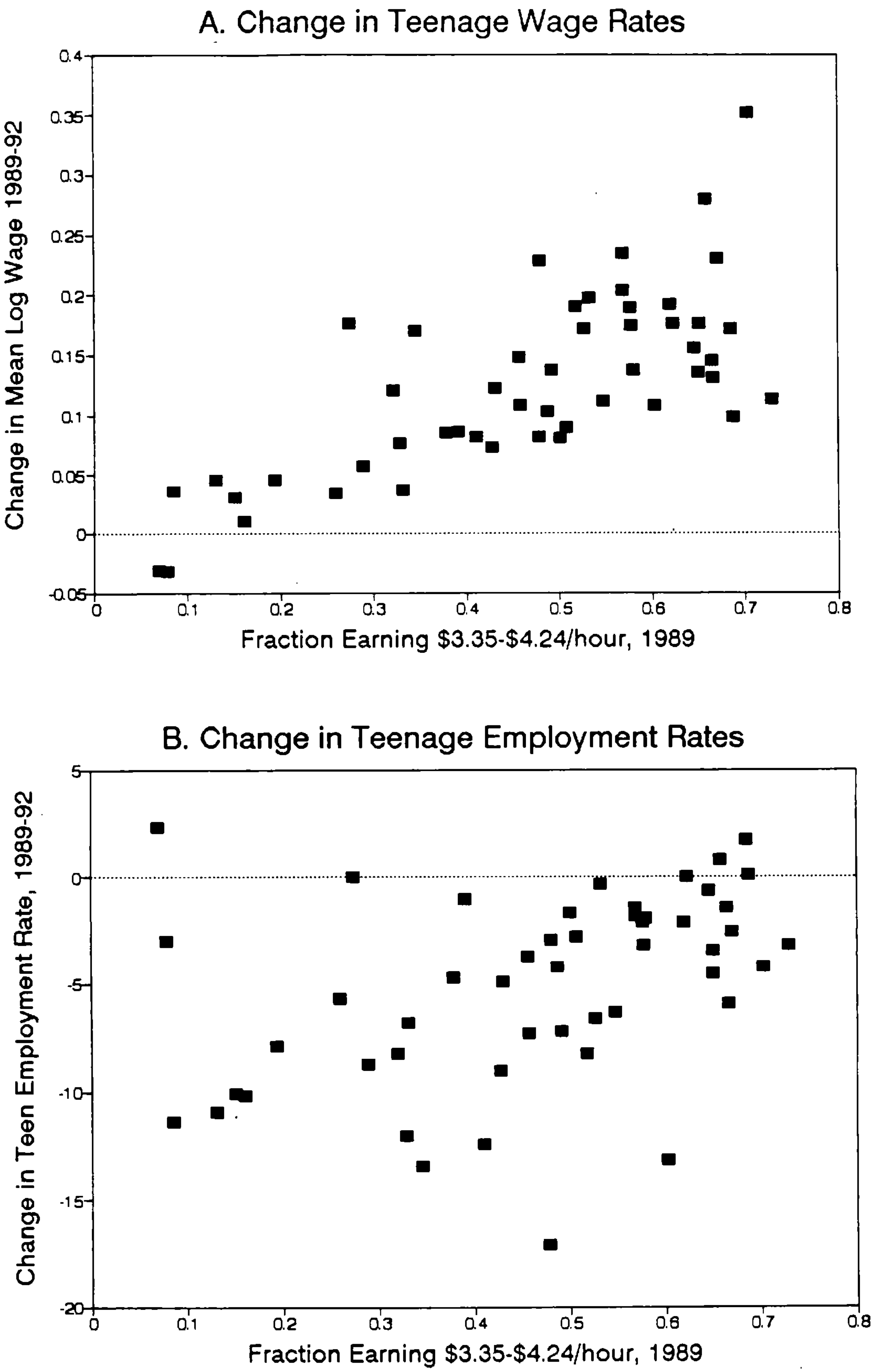


Figure 4.5 Interstate Patterns of Wage and Employment Growth,

Strengthening the Labor Sector

A strong and viable labor sector, including trade unions, is vital to the achievement of Summit goals of consolidating democracy, promoting shared prosperity, and achieving sustainable development. Labor policies are required that will foster a healthy, educated, and secure workforce, one which is productive and shares equitably in the benefits of economic growth.

National Actions

--Review national labor codes to ensure that the basic labor rights of freedom of association, the right to organize and bargain collectively, freedom from forced labor, and limitations on child labor are adequately enshrined.

--Fully implement and enforce such codes, reinforcing labor ministries or judicial systems as necessary.

--Adopt policies and programs that adequately prepare workers to enter the labor market and enable them to adjust rapidly to changing market conditions, particularly through the provision of adequate education and training systems.

--Ensure that workforce training matches the changing requirements of the contemporary work environment. The public and private sectors should support programs that will provide workers with the necessary combination of technical training, skills, and work experience, including vocational training and apprenticeship programs.

--Promote tripartite dialogue and the adoption of cooperative labor management practices to improve productivity.

International Actions

Working together, governments will:

--Meet at the Ministerial level in the first half of 1995 and as often as necessary to discuss matters of common concern relating to labor.

--Discuss approaches to effectively maintain high levels of labor standards in the Hemisphere to support the process of economic integration and trade liberalization.

--Sponsor regional or other plurilateral workshops to share experiences in what works with respect to strengthening the labor sector, focusing on areas such as labor-management relations, employee training, adjustment policies, and the transition of workers from rural to urban areas.

--Promote a formal dialogue among worker organizations, business organizations, and governments to improve the industrial relations climate and productivity in the hemisphere.

--Working through the IDB's Multilateral Investment Fund, establish a hemispheric center to provide research and technical assistance in promoting skills training programs, encouraging new and innovative techniques of labor-management relations, improving productivity and enhancing global competitiveness, and enhancing the stature and quality of services provided by ministries of labor.