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Public Yawns At 104th Congress So Far
**STRONG SUPPORT FOR MINIMUM WAGE HIKE
AND PRESERVING ENTITLEMENTS**

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STRONG SUPPORT FOR MINIMUM WAGE HIKE AND PRESERVING ENTITLEMENTS

While the Contract for America is getting all the play in Washington these days, there is still a lot of New Deal thinking in the rest of the country. No fewer than 79% of respondents in the latest Times Mirror Center survey say they approve of Bill Clinton's proposal to increase the minimum wage - a level of affirmation that is very unusual for this administration. The poll also finds that although the public thinks taking steps to balance the budget deficit is more important than a middle class tax cut, by a 70% to 24% margin it feels that maintaining Social Security and Medicare benefits is more important than deficit reduction. Republicans, Democrats and Independents give about equally high priority to preserving these entitlements and all strongly approve of a hike in the minimum wage.

The telephone survey of 1209 adult Americans conducted this weekend finds the public not swept off its feet by the activities of the 104th Congress. At best, Americans say they are following the activities of the new Congress only fairly closely. And despite the dramatic transition in Washington, attitudes toward the GOP congressional leadership, and the Clinton Administration have changed little over the past two months,

Only 19% say they have been paying very close attention to the activities of the new Republican congressional leadership, and just 13% have followed very closely the debate in Congress about the balanced budget amendment.

The public continues to be optimistic that the Republican congressional leadership will be successful in getting its programs passed into law, but is no more so than it was in December. More Americans than in the earlier survey were familiar with the Contract for America (61% vs 48%), yet only 42% have a favorable reaction to it.

Pluralities think the Republican leadership has better ideas than Clinton and the Democrats about reducing the size of government, balancing the budget and reforming the political system. But Americans also think Clinton or the Democrats in Congress have better ideas than the GOP about reducing crime, improving the job situation, and cutting taxes for the middle class.

By a 56% to 37% margin, the public believes it is more important to take steps to balance the budget than to cut taxes for the middle class. The budget deficit is given higher priority than the much bally-hooed tax cut by every political and demographic group identified in the survey.

As he has become much better known over the past few months, Newt Gingrich's favorable ratings have increased more (25% to 41%) than his negative ratings (28%

Clinton Policy Decisions (Continued)

	<i>Proposal to Raise The Minimum Wage</i>		<i>Decision to Send U.S. Troops to Haiti</i>	
	<u>Approve</u>	<u>Disapprove</u>	<u>Approve</u>	<u>Disapprove</u>
<i>Total</i>	79	18	47	47
<i>Sex</i>				
Male	75	23	54	44
Female	83	14	42	50
<i>Race</i>				
White	77	20	47	47
Non-white	93	5	48	49
<i>Age</i>				
18-29	81	15	45	47
30-49	79	18	51	45
50-64	79	18	51	43
65+	78	22	37	55
<i>Education</i>				
College Grad.	70	27	56	40
Some College	74	24	49	47
H.S. Grad.	85	12	46	49
< High School	85	14	37	53
<i>Family Income</i>				
\$50,000+	69	28	55	42
\$30,000-49,999	79	20	53	44
\$20,000-29,000	84	13	45	48
<\$20,000	88	9	39	51
<i>Region</i>				
East	81	17	45	50
Midwest	78	20	47	47
South	79	18	47	47
West	79	19	51	44

Question:

Do you approve or disapprove of President Clinton's proposal to raise the minimum wage?... And how do you feel about his decision last September to send U.S. troops to Haiti?

	<i>Proposal to Raise The Minimum Wage</i>		<i>Decision to Send U.S. Troops to Haiti</i>	
	<u>Approve</u>	<u>Disapprove</u>	<u>Approve</u>	<u>Disapprove</u>
<i>Community</i>				
Large City	82	16	54	39
Suburb	78	19	54	43
Small City/Town	81	16	41	51
Rural Area	76	22	45	51
<i>Party Identification</i>				
Republican	66	31	41	55
Democrat	92	7	54	39
Independent	80	17	49	46
<i>1992 Presidential Vote</i>				
Bush	56	42	41	57
Clinton	91	8	56	38
Perot	76	22	41	53
<i>Presidential Job Approval</i>				
Approve	89	9	57	38
Disapprove	68	29	37	58
Don't Know	84	10	48	42
<i>1994 Congressional Vote</i>				
Republican	60	38	40	57
Democrat	87	13	58	36
Did not vote	86	11	46	47

MAR 13 1995

BRUCE BARTLETT

Tell-tale minimum wage data

President Clinton has proposed an increase in the federal minimum wage from \$4.25 per hour to \$5.15 per hour over the next two years. Although there is strong opposition in the Republican Congress, the proposal is by no means dead on arrival. Senate Majority Leader Bob Dole has already suggested that he would support an increase in the minimum wage in return for Mr. Clinton's backing for a cut in the capital gains tax. Other Republicans are also known to feel that opposing the minimum wage could be bad politics and are looking for ways to support an increase.

Any deal that involves an increase in the minimum wage, even in return for a capital gains tax cut, however, would be a bad deal for black teen-agers. They will suffer higher unemployment and lower earnings throughout their entire lifetime if the minimum wage is raised.

Since the federal minimum wage first took effect on Oct. 24, 1938, at 25 cents per hour, economists have studied its effects intensely. Virtually every study that has ever been done has shown that increases in the minimum wage reduce employment, especially among teen-agers. At a recent Joint Economic Committee hearing, Rep. Jim Saxton,



New Jersey Republican, released a list of more than 100 such studies from top academic journals. Most economists would agree with the Minimum Wage Study Commission, whose 1981 report concluded that a 10 percent increase in the minimum wage reduces teen-age employment by 1 percent to 3 percent.

Furthermore, research has consistently shown that the burden of higher teen-age unemployment tends to fall disproportionately on black males. As George Mason University economist Walter Williams points out, in 1948, when the minimum wage was much lower in real terms and applied to far fewer workers than it does today, the unemployment rate among black males age 16-17 was just 9.4 percent, while the comparable rate for whites was 10.2 percent. Today unemployment rates for all teen-agers are sharply higher. In 1993 the rate for white males age 16-19 was 16.3 percent and 37.6 percent for blacks.

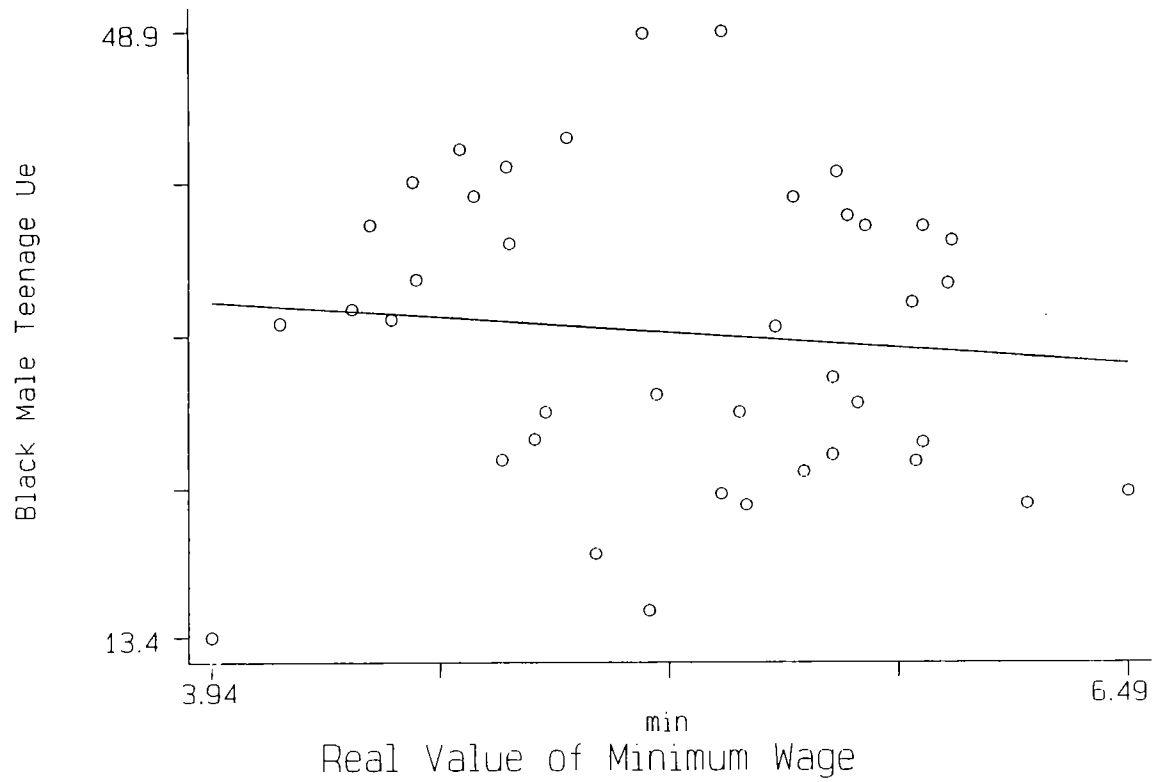
The chart shows the relationship

between changes in the real (inflation-adjusted) minimum wage and the unemployment rate for black teen-age males. Although there are points at which they move in opposite directions, due to cyclical or other factors, over time there is a definite tendency for the unemployment rate to rise and fall with changes in the minimum wage.

When teen-agers cannot get their first job, they lose far more than the few dollars they might earn working part-time. They lose a wealth of training and skills that can only be learned on the job. For this reason, economists have long identified teen-age unemployment as an important factor in lifetime earnings and employment. A higher minimum wage today, therefore, could well mean a lifetime of lower pay for many.

Bruce Bartlett is a senior fellow with the National Center for Policy Analysis and a contributing writer for The Washington Times.

Relationship Btwn Min. Wage and Ue
1955-1994



Stata™

June 14, 1995

MEMORANDUM FOR SECRETARY REICH

FROM: Alan Krueger 
SUBJECT: Black unemployment and the minimum wage

Here is a copy of talking points you requested I prepare for you and the President on the minimum wage and black teenage unemployment.

letters@economist.com

Dear Sir:

Your article ("Of magic, myth, and the minimum wage", 9/30/95) states that state-wide employment data corroborate the finding that an increase in New Jersey's minimum wage caused job loss. This is wrong. According to payroll data from the Bureau of Labor Statistics, employment in eating and drinking places increased by 6.8 percent in New Jersey and by 6.0 percent in Pennsylvania during the time period covered by the studies cited in the article. Moreover, county-level data show the same result. These data provide support for the findings of David Card and Alan Krueger study that you call "plain wrong". There are now nearly two dozen studies--a majority of those published in peer-reviewed journals--concluding that a minimum wage increase would have a negligible effect on jobs. And almost every recent study that finds a contradictory conclusion is in some way associated with the oh-so disinterested restaurant lobby.

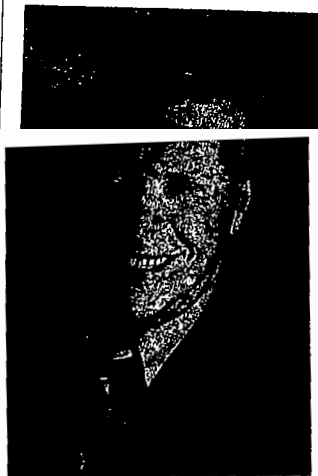
Sincerely yours,

Jonathan M. Orszag

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Princeton, New Jersey
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BY PAUL CRAIG ROBERTS

A MINIMUM-WAGE STUDY WITH MINIMUM CREDIBILITY



BAD CALL:
Slipshod
search is
about to be
honored. Is
that because
the laughable
findings have
friends in high
places like the
Oval Office?

KATHERINE LAMBERT

Paul Craig Roberts is John M. Olin
of the Institute for Political
Economy and Distinguished Fellow of
the Cato Institute in Washington, D.C.

If newspaper accounts can be believed, the American Economic Assn. intends to award its top prize to an economist who does not believe in the law of demand, the cornerstone of economic science.

Princeton University economist David Card is apparently due to receive the John Bates Clark Medal next January for research concluding that an increase in the minimum wage does not cause unemployment and may even produce an increase in jobs. President Clinton has based his case for a hike in the minimum wage on Card's conclusion, which is contradicted by economic theory and a vast accumulation of empirical evidence.

Normally, when confronted with research results that challenge a basic tenet of a science, scientists look at the data before they proclaim that the sky is falling. But not Professor Card. Even more curious, neither the reviewers and editors of *The American Economic Review*, who rushed Card's results to print, nor the economists who selected Card for the medal examined the data that produced the counterintuitive result.

If anyone in the peer review process had peeked at the data, it would have been obvious that something was seriously amiss. The association would have spared itself and Professor Card the embarrassment that comes from awarding a prestigious prize for flawed results.

Card and his Princeton colleague Alan B. Krueger, currently chief economist for Labor Secretary Robert B. Reich, drew their iconoclastic conclusion from data they collected from telephone interviews. They surveyed fast-food establishments in New Jersey and Pennsylvania before and after an 80¢ hike in New Jersey's minimum wage in 1992 to see if employment in the Garden State suffered by comparison.

MEDIA CHORUS. The data they collected are characterized by implausibly large employment variations in the same establishments over the eight-month period between their surveys in February and November, 1992. For example, one Wendy's went from zero full-time and 30 part-time employees (0/30) in February to 35 full-time and 30 part-time employees (35/30) in November. Another Wendy's went from 30/10 to 0/30. One Burger King went from 6.5/20 to 30/25, while another went from 50/35 to 15/18.

The anomalies appear to result from differ-

ent people answering the before-and-after telephone inquiries: In each case, respondents read into the question their own definitions of employment and the time period for which it was being reported. The replies may have ranged from employment on the shift during which the telephone survey took place to an entire payroll period. Moreover, the survey asked about the number of workers but not the hours worked. The imprecisions in data-collection would have warned any scientist against putting stock in the results.

DUNCE CAPS. Instead, the Clinton Administration and its media allies spoke of this irreparably flawed study as "Nobel prize material," to cite *The New York Times*, as if the empirical evidence accumulated over decades meant nothing. Democrats used the study at a Feb. 22, 1995, Joint Economic Committee (JEC) hearing to impugn the integrity of witnesses who testified that a higher minimum wage would price some workers out of jobs. Representative Pete Stark (D-Calif.) was so abusive of witnesses who disagreed with Card's findings that he had to be publicly rebuked in front of TV cameras by JEC Vice-Chairman Jim Saxton (R-N.J.).

The media blitz aroused skepticism among many economists, including my fellow columnist Gary S. Becker (BW—Mar. 6). Some of them put the Card-Krueger "study" to the test. Michigan State University Professor David Neumark and Federal Reserve economist William Wascher acquired the actual payroll data from fast-food establishments in New Jersey and Pennsylvania. The payroll data show that fast-food employment did not increase in New Jersey after the minimum-wage increase. Instead, it declined 4.8% relative to the control group in neighboring Pennsylvania. Thus, unsurprisingly, the law of demand still holds.

Since few in the field of economics can believe that the cornerstone of their edifice could be undermined by such flawed data as Card's, serious questions arise about the quality of the review process at *The American Economic Review* and the rigor of the selection process for the awarding of the John Bates Clark Medal. Political correctness seems to have crept into the inner sanctum of the AEA, discrediting its scholarly journal and debasing its top prize. Unless the association cleans up its act, it can kiss its credibility good-bye.

THE ATLANTA CONSTITUTION

For 125 Years the South's Standard Newspaper

Between rich and poor

"Nothing struck me more forcibly than the general equality of condition among the people. ... The more I advanced in the study of American society, the more I perceived that this equality of condition is the fundamental fact from which all others seem to be derived."

— Alexis de Tocqueville
"Democracy in America," 1835

Alexis de Tocqueville, a young French aristocrat, spent nine months traveling this country in the early 19th century, producing a study of the American nation and character that continues to be quoted for its enduring insights. House Speaker Newt Gingrich, upon taking control of the 104th Congress, recommended Tocqueville for those who would try to see America as Gingrich sees it.

However, what Tocqueville described as "the fundamental fact" about the United States is no longer valid: The "general equality of condition" that gave this nation its character has evaporated over the past 25 years. We now suffer the greatest disparity between rich and poor of any nation in the industrialized world. And the gap is growing.

The political response to that change has been curious. Rather than try to close the gap, Gingrich and others in Congress seem intent on making the rich still richer, through tax cuts and other devices. They are also committed to making the poor still poorer, by cutbacks in welfare, nutrition and job training, and perhaps even the abolishment of the minimum wage.

There's a theory behind that madness, beyond mere selfishness. By punishing the poor, Gingrich and his colleagues believe they are punishing laziness and other symptoms of moral inadequacy. And by rewarding the rich, they believe they are encouraging moral superiority. They are trying to use economic and tax policy as tools to bring about a moral renaissance in this country. But that is crazy.

As Tocqueville pointed out, great inequality of wealth contradicts much of what America is

supposed to symbolize. Celebrating that inequality is even more un-American. The people of this nation have never subscribed to the theory that a person's virtue should be judged by his or her bank account. Yet we are about to enshrine that attitude in government policy.

We had better think carefully about the consequences of that. Throughout history, societies have found it almost impossible to sustain great disparities between rich and poor. The social, economic and political strains created by that disparity simply become too much to withstand, and the social structure collapses into violence.

The gap between rich and poor in America must be reduced, but to do so we need to understand its causes.

The explanation is complicated, but it begins with technology. The rich have grown richer because technology has concentrated economic power in the hands of those who are educated and have access to computers. It has also allowed companies to increase production and profits and double or triple the amount paid to top executives, while simultaneously laying off thousands of lower-paid workers.

On the other side of the gap, the poor and lower-middle class have gotten poorer because technology has devalued their

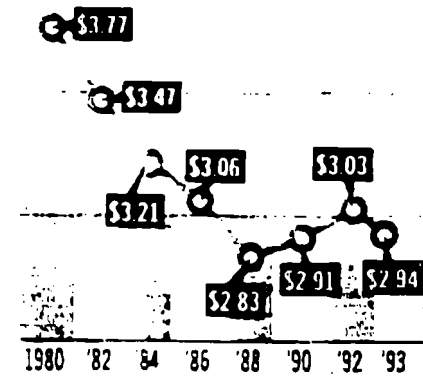
labor. A rising tide may lift all boats, but this economy is a rip tide, sucking weaker swimmers under water even as it lifts others quickly.

The problem has been written about extensively by Peter Drucker and other economic analysts who have studied the impact of technology. They have been explicit about the need to confront the growing income gap through public policy. But Gingrich, who repeatedly quotes Drucker to support his vision of the positive side of the New Economy, steadfastly refuses to acknowledge the darker side of our technological future.

Gingrich came close to addressing the problem only once, at a House committee meeting early in his tenure as speaker. Maybe the poor, he mused out loud, should be given tax credits for purchase of laptop computers. That's been the extent of his leadership on the issue.

Minimum wage loses power

The minimum wage adjusted for inflation



Source: U.S. Census Bureau

Staff

WALTER WILLIAMS

A-20

Wash Times

Minimum wage, maximum folly

Economic theory is quite simple but yields powerful predictions. You don't have to be an economist to understand economics. It's easy. Say you commissioned me to do a study to make recommendations on how to eliminate Haitian poverty. Upon completion of the study, I tell you what's needed is for the Haitian legislature to enact a \$7-an-hour minimum-wage law. That way, Haitians would no longer be poor. President Clinton and Labor Department Secretary Robert Reich would probably compliment me on my findings, but you'd probably say, "Williams, you are a fool." You'd be right. If higher minimum wages were an effective anti-poverty device, world poverty would have been eliminated ages ago.

Minimum-wage proponents say higher minimum wages won't cause unemployment. The first fundamental law of demand, to which there are no exceptions, says when prices rise, people tend to buy less, and when they fall, people tend to buy more. When beef prices rise, we buy less beef. When interest rates rise, we take out fewer mortgages. After all, if people didn't respond that way, sellers could charge any price they wanted and we'd still buy their products. Labor services are no different. When labor's price exceeds its value — what it can produce — employers will buy less of it and seek substitutes. Among those substitutes are automation, moving to a lower-wage country and customer self-service.

"Williams," you say, "but what can be done to raise people's wages?" Low wages are more a result of people being under-productive rather than underpaid. They simply do not have the skills to produce and do things their fellow man highly values. Seldom do we find poor highly productive individuals or nations. Those who earn low wages tend to have low skills and education. Our challenge is this: How can we make these people more productive? Raising minimum wages will not raise worker productivity; however, it can sabotage worker potential to acquire higher productivity.

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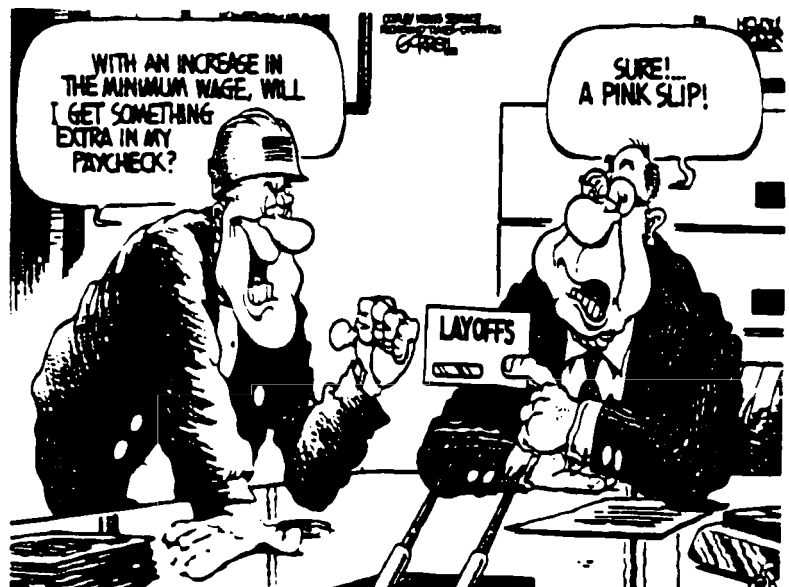
Put yourself in the place of an employer, and ask: If I must pay Mr. Clinton's minimum wage of \$5.15 per hour, does it pay me to hire a worker so unfortunate as to have skills enabling him to produce only \$3-an-hour worth of value? Most employers would see that as a losing economic proposition and wouldn't hire such a worker. Therefore, a major impact of the minimum-wage law is to discriminate against the employment of low-skilled workers. The denial of a job makes the disadvantages of low-skilled workers more permanent. After all, one of the most important means to higher skills is to be employed in the first place and receive on-the-job training and learn about other opportunities.

Among academic economists,

there is little or no debate over the unemployment effects of minimum wages. Our only debate is the magnitude of unemployment. Close to 90 percent of academic economists agree minimum wages cause unemployment, especially for teenagers; particularly black teenagers. Check it out yourself: Introductory college textbooks in most sciences represent a distillation of what constitutes a broad consensus in the field. Virtually all economic textbooks that say something about minimum wages conclude it causes unemployment.

People working at or near the minimum wage are exercising their best-known alternative. Even though their income is meager, we shouldn't destroy that alternative just so we can feel good. The minimum wage and other regulations help explain why today's underclass has taken on a permanency not typical of yesteryear. I'm with House Majority Leader Dick Armey. The minimum-wage law is evil legislation and deserving of repeal altogether.

Walter Williams, an economics professor at George Mason University, is a nationally syndicated columnist.



If such legislation finds its way to the floor of the House, it could become the flashpoint for debate over President Clinton's proposal to raise the minimum wage by 90 cents from \$4.25 an hour currently to \$5.15 an hour over a two-year period (see related article in this report). Republican leaders are opposed to any increase on grounds that it undermines job creation, and at least one top Republican, House Majority Leader Richard K. Armey (R-Texas), has called for repeal of the minimum wage.

Employer witnesses told the subcommittee that FLSA's coverage rules have become so outdated and permeated with meaningless distinctions that it is difficult to determine what types of employees come within the act's ambit. The Department of Labor's response, they say, has been to do nothing to clarify the situation, while an increasing number of salaried managerial and professional employees, who were not considered candidates for overtime when the law was originally enacted in 1938, are bringing lawsuits claiming entitlement to millions of dollars in back-pay for overtime.

But some members of Congress and union officials prefer to leave the law alone and to fix the problem administratively by updating the existing regulations issued by DOL. They say they do not want to see changes in the law that would enable employers to legally require employees to work longer hours without paying them overtime.

—By *Court Gifford*

Minimum Wage

OUTLOOK FOR PROPOSED INCREASE IN WAGE RATE REMAINS MURKY

Based on increasingly vocal opposition from Republicans, it appears that the Clinton administration's proposed 90-cent increase in the federal minimum wage continues to face an uphill battle.

Since the introduction of the administration's proposal in the House (HR 940) and the Senate (S 413) in February, it has been the subject of two hearings before the Joint Economic Committee, which has no legislative authority. There are currently no hearings scheduled on Clinton's proposal before committees that have jurisdiction over the Fair Labor Standards Act, which includes the minimum wage. However, general oversight hearings on FLSA are planned by the House Economic and Educational Opportunities Committee and the Senate Labor and Human Resources Committee.

The White House proposes to raise the minimum wage in two increments (45 cents each) from its

current \$4.25 an hour to \$5.15 an hour by July of 1996. It has not been increased since 1991.

After the second JEC hearing on April 5, Rep. James Saxton (R-NJ) went so far as to declare "victory on the minimum wage debate" (66 DLR A-13, 4/6/95). He and other GOP members argue that they have won the debate largely because they contend the White House is relying on a study by economists David Card and Alan Krueger that has been criticized by some analysts.

Card, a Princeton University professor, and Krueger, who is on leave from Princeton and is the Labor Department's chief economist, found no job losses at a sample of fast-food restaurants in Pennsylvania and New Jersey after New Jersey raised its minimum wage in 1992. In redoing the study, economists David Neumark of Michigan State University and William Wascher of the Federal Reserve have found job losses resulting from the New Jersey wage hike (66 DLR A-13, 4/6/95).

House Democratic Leader Richard Gephardt (D-Mo) said in a recent National Press Club appearance, summing up the first 100 days of Congress, that Democrats still consider raising the minimum wage a top priority under the theme of improving the standard of living for working Americans. Senate Minority Leader Tom Daschle (D-SD) also renewed his support for the plan in his remarks just before Congress recessed.

Early on, the administration linked the proposed increase to welfare reform, arguing that "making work pay" for lower-income workers would encourage them to leave welfare. However, welfare reform made it through the House without any minimum wage amendments.

In the Senate, it remains to be seen whether there will be more opportunities to attach the minimum wage hike to welfare reform, or any other legislation. As it holds hearings on proposed FLSA amendments favored by Republican leaders, the Senate Labor and Human Resources Committee may discuss the minimum wage proposals, but Sen. Nancy Landon Kassebaum (R-Kan) has said she opposes any increase in the federal rate.

—By *Pam Ginsbach*

Job Training

JOB TRAINING CONSOLIDATION EFFORTS TO SPEED UP WHEN CONGRESS RECONVENES

The concept of reforming the job training system is one that enjoys bipartisan support, although the means of accomplishing this goal undoubtedly will be a subject of debate. Sen. Nancy Landon Kasse-

Pay and jobs

Minimum wage, maximum fuss

America's Democrats and Britain's Labour Party have welcomed research that suggests minimum wages do not destroy jobs. But this work is controversial

ECONOMISTS delight in mocking well-intentioned but hare-brained political nostrums. Minimum-wage laws are a special favourite. Most economists say that by raising the cost of employing workers they turf people out of jobs. Hence the furore caused by a series of recent economic studies, mainly from America, which argue that minimum wages do not cut the number of jobs—and sometimes even increase it.

A new book* by David Card and Alan Krueger, two economists at Princeton University, assembles the revisionist evidence. Their best-known study estimated the effect of an 18% increase in New Jersey's minimum wage in April 1992, by measuring the change in employment in the state's fast-food restaurants between February and December that year. Oddly, the number of jobs grew in restaurants where pay had to rise, compared with those already paying more than the minimum wage—and compared with joints in neighbouring Pennsylvania, where the minimum did not change.

The most compelling evidence, say the authors, is the response of teenage employment to the most recent increases in the federal minimum wage, by 13% in 1990 and 12% in 1991. According to the standard theory, teenage employment should have been hardest hit in states where a high proportion of youngsters had been earning less than the minimum. But the study found no difference between low- and high-wage states.

In America and Britain, left-leaning politicians have greeted these results with glee. Both the Democrats and the Labour Party want to reverse the whittling-down of minimum wages. The real value of America's federal minimum wage has fallen by 33% since 1979 (see chart). Britain has abolished all but one of the boards that set minimum wages in some industries. Now only farm workers are covered.

For the moment, change is unlikely: both Britain's Conservative government and the Republican majority in America's Congress oppose it. In February the Clinton administration proposed lifting the federal minimum wage from \$4.25 an hour to \$4.80 in July 1995 and to \$5.15 a year later. But in Congress this idea is be-



A flipping great row

ing discussed only by a committee with no legislative power. It will probably fail.

Even so, the minimum wage's political cheerleaders are delighted at their new academic respectability. In America, they have even given professors political jobs. Mr Krueger, for example, is the Department of Labour's chief economist. (His predecessor, Lawrence Katz, now back at Harvard University, is another leading revisionist.) Mr Krueger's research predated his appointment and was not politically motivated; but he says, "It's inevitable that when you do work on this, it gets used in policy debates."

Defenders of the faith

Now the heresy is under attack. The New Jersey study by Messrs Card and Krueger is a case in point. Carlos Bonilla of the Employment Policies Institute (EPI), which is financed by retailers, restaurateurs and manufacturers, says the data used in it are wrong. The Princeton pair got their data from a telephone survey; the questions, he says, were vague, and errors crept into the numbers. A study financed by the EPI and conducted by David Neumark of Michigan State University and William Wascher of the Federal Reserve used firms' payrolls instead. It found that New Jersey fared worse than Pennsylvania after the minimum wage rose.

Mr Card retorts that, although telephone data are less reliable than payroll records, there is no reason why they should be biased. Moreover, he points out that the EPI sample includes only 71 restaurants, compared with 410 in the original research. And neither study suggests that minimum wages have a significant effect on employment.

Daniel Hamermesh of the

University of Texas also has his doubts. The minimum-wage increase was passed long before it took effect. Thus, he says, firms may have cut jobs before the study began. He also doubts that the study isolated the effect of the minimum-wage increase from other differences between Pennsylvania's economy and New Jersey's. Messrs Card and Krueger disagree. The fate of the New Jersey law, they say, was uncertain until the last minute. In any case, fast-food restaurants can cut staff at short notice. And interstate differences do not alter their finding that New Jersey's low- and high-wage restaurants reacted differently to the rise.

The study of the federal minimum-wage increases of 1990 and 1991 has also come under fire. Donald Deere and Finis Welch of Texas A&M University and Kevin Murphy of the University of Chicago agree that low-wage states did better than high-wage ones after the changes[†]. But they put this down to regional variations in economic growth, not the minimum wage. Moreover, they find evidence for the conventional theory. Because younger workers are likelier than older ones to be poorly paid, their jobs should be more at risk when minimum wages go up. The same is true for blacks and Hispanics (compared with whites) and less-educated workers (compared with better-educated ones). Sure enough, these groups all suffered when the minimum wage rose.

Some say that a higher minimum wage also has more subtle costs. In another new study** Messrs Neumark and Wascher argue that it makes American 16-19-year-olds more likely to leave school. And youngsters who have already left school, whether or not they had jobs before minimum wages rose, are more likely to become unemployed.

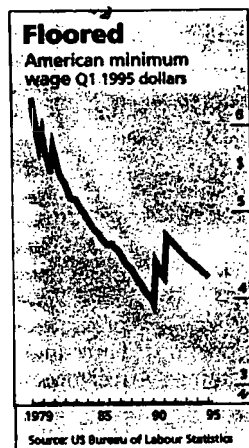
No doubt there is more to come from both sides. However, politicians who support the minimum wage should be cautious. Its advocates, says Mr Card, "overreacted to the New Jersey study." The revisionist work suggests only that when minimum wages are low they make little difference to employment. Few doubt that at higher levels, such as still prevail in much of continental Europe, they destroy jobs—especially those of young workers.

At what level do minimum wages start to cost jobs? That will vary from industry to industry—even from firm to firm. For that reason, governments may be right to let minimum wages wither. Yet the argument over whether to do so will run and run—among professors as well as politicians.

* "Myth and Measurement: The New Economics of the Minimum Wage". Princeton University Press, March 1995

† "Employment and the 1990-91 Minimum Wage Hike". American Economic Review (AER), May 1995

** "Minimum Wage Effects on School and Work Transitions of Teenagers". Also in AER, May 1995



Measuring the Real Costs and Benefits of Saving Lives

TRENDLINES, From C13

people tend to give up risky jobs, like coal mining, and move out of unsafe neighborhoods, like District Heights. With more money, they will opt for safety extras such as air bags and antilock brakes on their cars, take less-accident-prone airplanes rather than cars for long-distance travel, buy more health care, join exercise clubs that keep them in shape, purchase vacation homes in places with cleaner air and water and generally enjoy less stress and more leisure time in their lives.

Conversely, a sudden loss of income is associated with a deterioration in health. Studies have shown that unemployed men visit doctors five times as often as men with jobs and spend five times as many days in bed. Other analyses have shown that every 1 percent increase in the nation's baseline unemployment rate leads to 19,000 additional heart attacks and 1,100 more suicides.

This is not to say the money spent by companies to comply with health and safety regulation would always be more effectively spent if it were distributed in the form of higher wages for employees, higher dividends for owners and lower prices for goods and services. After all, it takes a lot of money when spread over 260 million people to induce people to switch jobs, change their consumption patterns or alter their living habits. And even then, only a small percentage of every dollar in extra income would actually be spent in ways that actually enhance health and safety.

But at some point, the argument goes, a regulation may cost so much to implement and save so few lives that, by reducing national

income it winds up causing more deaths than it averts.

Calculating the precise tipping point is tricky. Duke University economist W. Kip Viscusi has put it, conservatively, at \$50 million per statistical life saved, while Randall Lutter and John F. Morrall III, Office of Management and Budget economists, have put it closer to \$12 million.

But even practitioners of this particular form of comparative risk analysis concede it is still evolving and there are several wrinkles to work out.

Consider, for example, the three leading causes of premature death in the United States—smoking, heavy drinking and obesity. On the surface, statistics show that these conditions tend to decrease as income increases. But it doesn't necessarily follow that there is always a causal connection—that if you magically gave \$1,000 a year to people they would curb their bad habits. In fact, there is some evidence that a third factor—education, perhaps, or the amount of innate self-discipline—may be the key variable in determining both how much people earn and how much they smoke, drink and eat. If so, reducing regulatory costs wouldn't necessarily make people healthier.

There are also some distributional problems with this analysis. Studies suggest that increased income will generate significant increases in health for poorer people while doing little for the rich, who have already purchased as much health and safety as is available. If so, a regulation that increases the cost of yachts might not have any negative effect on health while a regulation that

increases the cost of children's clothing could require closer scrutiny.

Despite these shortcomings, Paul Portney, a regulatory economist with Resources for the Future here in Washington, concludes that this analysis is a useful tool in facing up to the tough question of how much health and safety regulation is too much. The real danger, he said, is taking its seemingly precise answers too literally or too seriously.

"As with any economic analysis, you don't want to believe it too much," Portney said.

A Jan. 11 Trendlines reported on a new study by Princeton University economists Alan Kreuger and David Card that cast doubt on the traditional view that a modest rise in the minimum wage invariably leads to loss of minimum-wage jobs. Their conclusions were based on data collected from fast food restaurants in New Jersey and Pennsylvania at a time when New Jersey had raised its minimum wage and Pennsylvania had not.

Since then, two other economists, David Neumark of Michigan State University and William Wascher of the Federal Reserve Board staff, have reviewed the Card-Kreuger work. Last week, Neumark and Wascher reported that they had found significant discrepancies between what the restaurant managers told Card and Kreuger about their employment and the restaurants' actual payroll data. On the basis of their more limited payroll survey, Neumark and Wascher found that every 10 percent increase in the minimum wage would translate into a 2.5 percent decline in the number of minimum-wage jobs.

Stay tuned.

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James K. Glassman

Raising the Minimum Wage Isn't the Answer

The biggest economic problem right now is not growth, inflation or unemployment. It's that so many Americans can't earn a decent living even though they work long hours at tough jobs.

"As a group," says Labor Secretary Robert Reich, "these Americans go by a name that ought to be an oxymoron: the working poor."

Over the past 15 years, the real earnings of lower-income families have dropped while those of upper-income families have risen. That's an abrupt change from the 1950s, '60 and '70s, when real incomes doubled across all income groups.

The divergence is growing, and it has serious moral, political and social implications. For example, it nearly defeated important trade legislation last year since many Americans believe, incorrectly, that foreigners are to blame for their low pay.

What can Reich and his colleagues do to help the working poor? Alas, not much. Like many economic problems, this one is not really amenable to a government solution.

To understand why, just look at one step that President Clinton has proposed—raising the minimum wage from \$4.25 to \$5.15 an hour. He believes this increase is long overdue: If the minimum wage set in 1979 had been adjusted for inflation, it would be about \$6 today.

Last year, only 3 percent of full-time American workers earned \$4.25 or less. But a hike in the minimum wage could affect a far higher proportion—certainly everyone making up to \$5.14 an hour and probably those making \$6 or \$6.50 as well. The Economic Policy Institute estimates that 20 percent of the work force would feel the change.

But the government can't simply require businesses to pay workers more without

"Ultimately the cure for low working wages may be nothing more mysterious than high personal diligence."

causing some adverse consequences. Otherwise, as a paper issued by Republicans on the Joint Economic Committee puts it, "there would be no logical reason why the minimum wage could not be set at \$10 or \$400 per hour."

One result is that some workers would lose their jobs. In a famous 1978 survey in the American Economic Review, 90 percent of economists agreed that raising the minimum wage increases unemployment among low-skilled workers.

That stands to reason. The Clinton legislation, for example, would cost a business with 100 minimum-wage workers about \$200,000 a year. That extra cost could come out of profits (thus, no expansion next year), or it could be defrayed by firing 20 low-paid workers and replacing them with machines or with a few more skilled workers, whose wages don't have to rise by government decree.

But this link between minimum wages and lost jobs was recently challenged by research conducted by economists David Card and Alan Krueger of Princeton. (Krueger was later hired by Reich as chief economist for the Labor Department.)

In April 1992, New Jersey raised the minimum wage within its borders from \$4.25 to \$5.05, so Card and Krueger looked at how employment at fast-food restaurants in that state changed—before and after the in-

crease. They compared those changes with fast-food employment in nearby Pennsylvania, which kept the the \$4.25 standard.

The results surprised most economists—including Card and Krueger themselves. They found "no evidence that the rise in New Jersey's minimum wage reduced employment." In fact, employment went up! New Jersey outdid Pennsylvania by 12 percentage points.

Had Card and Krueger found an economic perpetual-motion machine? Some administration officials seemed to think so. Said Laura D'Andrea Tyson, chairman of the Council of Economic Advisers, "The theory that somehow an increase in the minimum wage might affect employment is now at odds with the empirical evidence."

But is the evidence valid? Economists David Neumark of Michigan State and William Wascher of the Federal Reserve Board have doubts.

While Card and Krueger studied the results of a telephone survey of employers, Neumark and Wascher, in a reevaluation published last week, examined actual payroll records from Burger King and Wendy's franchises. These records gave the opposite conclusion: Jobs in New Jersey decreased 5 percent compared with Pennsylvania.

The Labor Department disputes the findings, pointing out that Neumark and Wascher

received their data courtesy of the Employment Policies Institute, an interest group funded in large part by restaurants, and that they looked at a far smaller sample than Card and Krueger.

These differences will be hashed out tomorrow at a hearing of the Joint Economic Committee, whose senior economist, Reed Garfield, says, "Compassionate politicians and well-meaning government programs like the minimum wage cannot repeal the laws of supply and demand any more than they can repeal the law of gravity."

In fact, the real reason that so many workers are paid so little is that the work they do isn't valuable enough.

"Skills matter more" is the way Reich describes the workplace today, and he has the numbers to prove it. A worker with a high school education and no training earns an average of \$365 a week while a trained worker with the same education earns \$513 and a trained worker who has graduated from college earns \$785.

The real question is how to improve the skills of the lower half of the work force so employers will pay them more. It's doubtful, based on history, that the answer will come from government.

Instead, it will come from businesses—which will have a better chance to fund training if they're relieved of some of the high costs government imposes, including the minimum wage.

But the ultimate answer lies with workers themselves. In a high-tech world, what they earn is directly tied to what they know. Government can help a bit through tax breaks for education, but ultimately the cure for low working wages may be nothing more mysterious than high personal diligence.

Study Backing Wage Increase Flawed, Panel Told

By JOHN D. McCLAIN

Associated Press Writer

WASHINGTON (AP) - A study used by the Clinton administration to support an increase in the \$4.25 hourly minimum wage is fatally flawed, Congress was told Wednesday.

President Clinton has asked Congress to raise the ceiling to .15 an hour in two 45-cent steps spread over two years. Many economists and congressional Republicans contend such an increase would result in lost jobs.

But Labor Secretary Robert Reich often cites a Princeton University study that suggests a moderate increase in the wage ceiling has a minimal effect on jobs. It was conducted by economists David Card and Alan Krueger, whom Reich later named as the department's chief economist.

Rep. Jim Saxton, R-N.J., acting chairman of the congressional Joint Economic Committee, told the panel the Card-Krueger data obtained by telephone surveys "are fatally flawed" and "bear no resemblance to the real payroll data."

Card and Krueger surveyed managers and assistant managers at fast-food restaurants in New Jersey, both before and after that state raised its minimum wage in 1992 from \$4.25 to \$5.05.

At the same time, they conducted similar interviews with supervisors at fast-food restaurants in neighboring eastern Pennsylvania, which maintained a \$4.25 wage ceiling.

The study, involving 410 restaurants, found "no evidence that the rise in New Jersey's minimum wage reduced employment." Indeed, it found the number of jobs in New Jersey actually rose, while those in Pennsylvania were unchanged.

Economist David Neumark of Michigan State University told the committee he and William Wascher of the Federal Reserve conducted their own study of 72 restaurants in both states, using actual payroll records and comparing the results with data from the Card-Krueger survey.

"Our evidence supports two conclusions," Neumark told the committee. "First, Card and Krueger's telephone survey led to unreliable data. Second, more reliable data from actual payroll records indicate that the New Jersey minimum wage increase resulted in a sizable decline in fast-food employment."

The data in the Neumark-Wascher study was provided by the Employment Policy Institute, a Washington research organization funded in part by the restaurant industry. Neumark said that neither he nor Wascher received any money from the institute, which opposes raising the wage ceiling.

Another economist, Gary Burtless of the Brookings Institution, a liberal Washington think tank, defended the Card-Krueger study.

"I don't think these criticisms have much merit," he said of charges that the Card-Krueger data are unreliable or their research methods suspect. "Their conclusion of 'no change' or 'a small rise' in employment following a minimum-wage hike seems to me the most plausible interpretation."

And Krueger, in an interview after the hearing, defended his findings.

"If you look at the literature as a whole, the evidence of the job loss is weak and therefore one would expect any loss of employment to be small for a moderate increase in the minimum wage," he maintained.

Rep. Pete Stark of California, the committee's ranking Democrat, called the hearing a "kangaroo court for the benefit of the restaurant industry."

"After we dispense with the restaurant industry's circus, I hope that we can still resolve some of the questions about the economic effects of the minimum wage," he said.

KEEPING UP

A magic word for business, minimum confusions, the importance of being home, and other matters.

ADVOCATES UNLIMITED

■ Hey, how do you get to be an advocate around here? Or rather, how do you get to the point where the media routinely use the high-minded "A" word to characterize your role in planetary affairs instead of just calling you a hustler, or promoter, or lobbyist? We mention that last term because it has had inescapably pejorative connotations ever since high school civics, and the corporate sector has long needed a replacement. And guess what: We have our first sighting of "business advocates." The Roanoke Times & World News thusly labeled the guys in Virginia who dealt with Governor George Allen on income tax cuts.

The media being what they are, most folks labeled advocates are still identified with causes deemed progressive. Early in February, Nexis was offering to show you 27,832 stories mentioning consumer advocates. Homeless advocates scored 7,099, abortion rights advocates 6,045, civil rights advocates 4,068, children's advocates 2,401, advocates for the disabled 2,330, gay rights advocates 2,163, animal rights advocates 1,655, and women's rights advocates 1,323.

But a few conservative groups are beginning to put numbers on the board. We found all of 62 stories about homeowner advocates, 33 about taxpayer advocates, and—a special favorite—46 about landlord advocates. (The news stories suggest that their main role in life is to weep over the decisions of local rent-control boards.) Business rights advocates score only three thus far, and in two of the cases the term seems to be used as a smear of one politician by another. But you have to start somewhere.

GREAT MOMENTS IN EDITING

■ *Grammatik*, a computerized writing aid ... made by ... *WordPerfect*, not only zooms in on incorrect word usage and punctuation but seeks out offensive terms ...

Grammatik is loaded into an estimated ten million computers worldwide ...

Some have already pointed out the limits of style and usage checkers ...

A California newspaper ... inserted the preferred "African American" instead of "black" in an article. It subsequently ran this correction:

REPORTER ASSOCIATE Pully de Llosa

"An item in Thursday's Nation Digest about the Massachusetts budget crisis made reference to new taxes that will help put Massachusetts 'back in the African American.' The item should have said 'back in the black.'"

—From an article in the Salt Lake Tribune.

VOODOO ECONOMICS, MINIMUM WAGE DEPT.

■ "His desk was ever a mess, but he always knew where the New York Times stood on the minimum wage." Or do you think that's a bit wordy for a fellow's tombstone inscription? One increasingly yearns for some kind of recognition in this area, where tracking the *Timesian* flip-flops—the latest came a few weeks ago, in a January 26 editorial—is no breeze and one often eerily senses that he is more concerned about the editorial board's logical consistency than are the boarders themselves.

Just to show what a person is up against here, consider the record since the late Seventies of the world's arguably greatest newspaper. Back then, the paper's editorials routinely lent support to the minimum wage. On one occasion in 1977 an editorialist went so far as to chuck affirmatively over some loony proposals for a global minimum wage. In 1980 the *Times* suddenly seemed much less sure of itself. An editorial in September praised presidential candidate John Anderson for proposing a two-tier minimum wage (one that would be lower for teenagers), yet the line three months later was that "the best course would be to abandon the minimum wage altogether,"

since it generated inflation and reduced job opportunities for unskilled workers. But then in 1982 the editorialists were extolling retiring Representative Shirley Chisholm for battling to extend the minimum wage to domestic employees, whose job opportunities have evidently been forgotten. And in 1983, having also forgotten about Anderson, they were denouncing Reagan for proposing a two-tier minimum. In 1987 the *Times* had it just about perfect in an editorial titled "The Right Minimum Wage: \$0.00." Title over the highly imperfect January 26 effort, which was enthusing over Clinton's State of the Union call for a boost in the minimum: "A Proposal Worth Fighting For."

The economics profession as a whole has always believed what the *Times* sometimes believes: that increasing the minimum wage decreases employment. For unskilled workers, as for computers and lollipops, price increases in market economies tend to reduce demand. Here on the messy desk right now is an analysis of the employment effects of the 1990-91 increases in the federal minimum wage (which rose in two steps from \$3.35 to \$4.25). Composed by Donald Deere and Finis Welch of Texas A&M and Kevin M. Murphy of the University of Chicago Business School, and soon to be published in the *American Economic Review*, the study examines the state-by-state employment of groups with high levels of low-wage workers: males, females, and blacks who are either teenagers or high school dropouts. After controlling for overall job levels in each state, the study found that all six of these groups had lower employment rates after the minimum-wage hike than before. The decline for teenage blacks was 10%, and the authors observe at the end: "The regression estimates have no surprises."

To be sure, there are always a certain number of economists off at the Reichian-Galbraithian end of the spectrum trying to prove that it all ain't so—that you really can raise the wages of competence-challenged workers without reducing demand for their services. The case invariably incorporates an argument that our labor markets are not really competitive. Currently onstage with a variant of this case and giving solace to certain editorial boarders are Princeton

By Daniel Seligman



economists David Card and Alan Krueger, whose views are lengthily argued in the just-published *Myth and Measurement: The New Economics of the Minimum Wage*. Krueger is now working for Robert Reich in the Clinton Administration's Department of Labor.

As that title implies, he and Card are positioning themselves as empiricists challenging tired old theories. They are putting forward data said to prove that in many situations, minimum-wage increases do not destroy low-wage jobs. How can it be? In some cases, they argue, the employers (typically fast-food chains) have been able to pass along the additional costs to their customers. An obvious implication of this story is that the employers as a group did not notice they had the market power to raise prices until the minimum-wage law came along—a scenario that seems counterintuitive in these greedy times. The authors also seem to believe that employers need the government to tell them which kinds of wage strategies maximize profitability. Or so one has to assume when Card and Krueger argue that the higher wages mandated by Congress and resisted by business are what enable companies to reduce turnover, attract better employees, and generally thrive despite managerial dumbness. All very implausible, one might say, depending on which editorial board he worked for.

ONLY IN AMERICA (Cont'd)

■ **LOS ANGELES**—The Ninth U.S. Circuit Court of Appeals ... re-affirmed increased sentences for two police officers convicted of civil rights violations in the 1991 beating of Rodney G. King ...

■ **LOS ANGELES**—In Mr. King's civil suit, U.S. District Judge John G. Davies told the city of Los Angeles to pay his attorneys \$4.6 million—disallowing \$2.8 million ...

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ASK MR. STATISTICS

■ **Dear Normalcurver:** My wallet unfortunately levitated on New York's IRT subway line the other morning, and I blame an article I was absordedly reading in the *Ecology Law Quarterly* (Vol. 21, No. 2) by Professor Stanley Rothman of Smith College, who unfortunately got to the most fascinating details of all just as the passengers started milling about preparatory to debouchment at Grand Central.

The details are in a table wherein representative samples of (a) scientists and (b) environmental activists express opinions about the dangers associated with 11 different carcinogens. Four of these (e.g., dietary fat) were created by nature, while the other seven (e.g., dioxin) were created by humankind. The two groups were asked to rate the dangers of each carcinogen on a scale from zero to ten.

Now here is the part that caused my pocket to get picked. In rating the four natural carcinogens, the activists were very close to the scientists. In no case did the two groups' ratings vary by more than 1.31. But in rating the industrial carcinogens, the two groups diverged widely and always in the same direction. The activists always rated the man-made carcinogens far more dangerous than did the scientists, and in no case was the difference less than 1.9. Professor Rothman encourages one to suspect the activists of anti-business bias, but given the rather small sample of carcinogens, I wonder if those differential ratings may reflect naught but chance. Are the data really telling us anything about levels of intellectual honesty among the activists?

SWITCHING TO THE BMT

Dear Undergrounder: The data strongly imply that expected honesty among environmental activists is comparable to what one experiences on the Lexington Avenue line. Look at it this way. If you measure the gap between scientists' and activists' danger ratings on each of the 11 carcinogens, and then rank-order the differences from smallest to greatest, you have a possibility of 39,916,800 sequences. But only 120,960 of them—1/330th of the total—allow for the arrangement in which the seven largest differences all involve manufactured carcinogens. So anyone maintaining that the activists are honestly representing what scien-



tists know about man-made carcinogens is betting on a 329-to-1 long shot.

Dear Oddsperson: As the pro football season wound down in December and the playoffs loomed, we couch potatoes of America received endless expert testimony on the transcendent importance of the "home-field advantage." But none of the pigskin pundits chatting away on the tube ever got around to stating exactly how large the advantage is or even to proving that it actually exists. Quantitatively speaking, what gives?

SOFA SPUD

Dear Longuechaiser: Although conceptually difficult to distinguish from the visiting-team disadvantage, the home-field advantage does indeed "exist" in the strict phenomenological sense of the term. The empirical evidence supporting this unastounding statement currently resides in a Lotus 1-2-3 spreadsheet it took a weekend to create. The spreadsheet incorporates data on the 8,489 games played over the years by the 28 teams currently in the National Football League. The news is that when you take all those games together, you find yourself looking at a "home win percentage" of 57.8%.

Of possibly equal social utility is a figure derived from another data set: the scores of all 224 NFL games played during the 1994 regular season. A few teams did better on the road than at home—the hapless Washington Redskins scored all three of their wins on the road—but in the aggregate, the home teams outscored the visitors by 365 points, a figure that translates into an average home-field advantage of 1.6 points per game.

A23 WSJ 1-24-95 An Economist's Agenda at Labor

Labor Secretary Robert Reich's tenure has been a reveille for Democratic liberalism, but, thank goodness, his drum and bugle corps has room for a few rising young economists.

At a time of potential cooperation between the White House and the new Republican congressional majority, the chance that some employment issues are amenable to a political action makes the role of "scientific" analysis at the Labor Department worthy of note. Few of President Clinton's dispositions have invited as much ideological tussling as his attention to growing wage disparities, which are part of the standard brief against the 1990s.

In his post, Mr. Reich has manned many of the old class battlements. In recent weeks he has been identified with a

Business World

By Tim W. Ferguson

renewed attempt to boost the minimum wage, beat up on the strikebreaking Bridgestone/Firestone tire company and advanced curbs on entry of immigrant engineers alleged to be taking American jobs. All along, although he crossed the unions by supporting freer-trade pacts, he's wasted few opportunities to play the economic-inequality card.

Yet, if the president's State of the Union speech tonight signals a less contentious period, his old Oxford pal could oblige him. Mr. Reich's own writings while at Harvard's Kennedy School weren't doctrinaire, and at Labor he has stationed purer academics at his side, the sort who might question the cost of an OSHA impulse.

He made Lawrence Katz of Harvard, now 35, the agency's first chief economist ever, and when his one-year stay ended, followed up with Alan Krueger,

31, of Princeton. Both have been prolific contributors at the prestigious National Bureau of Economic Research under the influence of senior colleague Richard Freeman of Harvard.

These guys aren't political celibates, to be sure. Mr. Katz briefed the 1992 campaign. Mr. Krueger, appointed last summer, initially advised the infamous health-care task force, but shied away from its redistributive imperatives. Some of his wide ranging work has aided conservative arguments. Now he's using an encyclopedic familiarity with his field's paper trail to screen political initiatives. Peer review a la the hard sciences, he says, beats the way economics is normally practiced in Washington.

As it happens, Mr. Krueger and David Card of Princeton have a new book on the minimum wage. They and Mr. Katz have found minimal job loss after mandated rises in base pay, contrary to what the "textbook" predicts. But Mr. Krueger says he "wouldn't oversell" those results and advocates more studies.

He says he was surprised to find that a higher floor may be "an efficient way to raise [incomes] at the bottom of the wage distribution." Why? Search costs. A fast-food employer, for example, might choose not to fill a job rather than have to raise pay for existing workers in order to attract one more. Yet it could be economically optimal overall to avoid such vacancies. Right now, says Mr. Krueger, a "moderate" boost would probably not cause the pain that many retailers predict.

Though he points to other economists who've shaved estimates of the fallout from a hike, most of the discipline likely would opt to target relief to people who've been languishing at minimal pay, rather than those (poor or not) just getting a footing in the job market. That is being done through the Earned Income Tax Credit. More immediate help would come

from waiving payroll taxes for those stuck at the bottom. But doing that has its own serious side effects; Mr. Krueger suggests that compensatory tax increases would mean more trouble.

After all the commotion, the administration may take a pass on the minimum wage. In any case, Mr. Krueger would rather talk about the broader wedge in pay trends—what he calls "wage dispersion"—that threatens social sunder here and abroad. He and his boss link it to changing technology and then to schooling levels. You don't have to be a Democrat to be attracted to this topic.

The pay gap goes back to the late 1970s, says Mr. Krueger. Work he did (and Mi-

Computers at Work			
% of employees who use them, by years of school			
EDUCATION	1984	1988	1993
Less than HS	5.1%	7.7%	9.5%
High school	19.2%	28.4%	34.1%
Some college	30.6%	45.0%	50.9%
College/college +	42.4%	58.8%	67.4%

crosoft appropriated in an ad) found that those who use a computer at work earn 10%-15% more than similarly situated people who don't. And as the graph here indicates, electronic-keyboard usage is growing all the faster among the most educated sectors of the population.

Computers are a liberating tool for those who learn their language. We all know screw-offs from school days who've utilized their innate intelligence in the digital world. Alas, the discouraging inference to be drawn from studies such as Mr. Krueger's is that they are exceptions. There may be no reliable alternative to structured learning as a means of securing the promise of American life.

An activist, seeing this, is inclined to channel as many people into a classroom

as possible. Let us therefore hope that Mr. Krueger is right when he says he and Mr. Katz have "strengthened the ethic for doing evaluations" of Washington's various endeavors. Some programs show promise and others have flopped. On the cheap, basic job advice centers seem to pay off.

Caution should guard against training kicks based on changing notions of what are good or needed jobs. Audrey Freedman, a prominent private labor consultant, notes how fads have faded and points most recently to the "critical shortage" of nurses that suddenly became a surplus.

Most important, individual workers should make the choices. Mr. Krueger touts administration proposals for \$2,600 training grants. "They've made some progress in talking, anyway," allows Marvin Kusters, labor-policy specialist at the American Enterprise Institute. Mr. Kusters is good for a layer of reservation on top of Mr. Krueger's, but it's noteworthy how similarly they discuss the problems.

Which is not to imply a kind of technocratic unity. There are different schools of thought, and the "Chicago school" and its free-market variants are not to be found in this administration. As Thomas Hazlett, a UCLA Ph.D. (neo-Chicago) who spent a year as chief economist at the FCC under George Bush, observes, "The model you bring to work each morning is not just a political belief, but it's influenced by everything."

Mr. Krueger acknowledges that values ultimately matter, and that's as true in considering behavioral aspects of the knowledge and training issue as it is in deciding the minimum wage. But having somebody around who's aware of constraints, especially in a place like Labor where passions long carried the day, ought to hearten those of us who quarrel with the current secretary's flourishes. Economics may not always rouse, but it's music to these ears.

not fall. America's working poor deserve no less." January 25, 1995.

Congressman Ron Coleman (D-TX): "I applaud the president's call for raising the minimum wage. . . . If we really want to move people from welfare to work, then we've got to make work pay." The Houston Post, January 25, 1995.

Congressman Robert G. Torricelli: "I think if the nation is serious about reducing welfare, it continues to be important that people who work and work hard at least make as much as those on welfare." The Record (New Jersey), January 25, 1995.

Gov. Christine Todd Whitman: "There are some real concerns about what the impact has for part-time jobs and people who are just trying to make ends meet through the minimum wage jobs, because clearly minimum wage, at least in most states, is not going to be a living wage. In New Jersey, we are already about the minimum wage ... so that for us, depending on where they go, it doesn't have an impact." CNN & Company, January 25, 1995

Anti:

Rep. Thomas Petri (R-WI): Says he opposes minimum wage increase because EITC is better way to help low income people with families. Claims it's "in effect, part of the Republican - Contract With America proposal" - then references the \$500 per child tax credit. Calls minimum wage an unfunded mandate. Won't say minimum wage should be abolished, but says its a relic of the past. Votes aren't there to increase the minimum, but "I do think the votes are there to increase help for the working poor through earning income tax credit or a focused - minimum that isn't a mandate, that the government pays for." President supported EITC during campaign, "[s]o I think that we can work together, and it may be a little bit a matter of characterization, but we want to help people who are trying to work and support a family, and make work competitive with the world of welfare". CNN, NEWS, January 26, 1995

Rep. Scott Klug: Said he would not support the president's proposal for a "modest increase" in the minimum wage because he doesn't think it would be "good for the economy right now." Capital Times (Madison, WI), January 25, 1995

Ross Perot: Delivering the 99th Landon Lecture at Kansas State University, Perot criticized the President's call for a higher minimum wage, saying the move would be another incentive for businesses to send jobs overseas. "If you raise the minimum wage now, you're going to hurt the very people you're trying to help," Perot said. "You'd think with all the Ph.D.s around the White House somebody could figure that out." The Kansas City Star, January 25, 1995

Congressman Cal Dooley (D-CA): He is "concerned" about the proposal a minimum-wage increase. "That's a policy of the past that I'm not convinced provides real benefit to low-income people." The Fresno Bee, January 25, 1995

Senator Kay Bailey Hutchison: "This is not the time to be talking about raising the minimum wage." The Houston Post, January 25, 1995.

Congressman Jim Saxton (R-N.J.): "I'm afraid the minimum wage is going to be a problem with Republicans. One of the things we pledged to do is make it easier for our free enterprise system to create jobs." The Record (New Jersey), January 25, 1995.

Senator Orrin Hatch: "Raising the minimum wage is the most egregious government intrusion, Hatch said. Utah's senior senator believes boosting the wage will eliminate entry-level jobs. 'It hurts the underclass more than anything else.'" The Salt Lake Tribune, January 25, 1995.

St. Louis Post-Dispatch: The Clinton administration has rung in the new year with an old idea: raising the minimum wage. Today only one in seven minimum-wage workers lives in a poor household; most of the rest are middle-class teen-agers or wives in pursuit of a little extra income. Thus the benefit from a minimum-wage hike would go mostly to middle- and upper-income families. ... [M]inimum-wage legislation is costly policy. When the minimum wage is increased, employers in labor-intensive industries, like retail stores, pass along part of their increased labor costs to consumers in the form of higher prices. ... People with low incomes would be particularly hard hit by higher food and clothing prices because they spend a larger proportion of their budget on those items than do rich people. This wouldn't be so bad if poor minimum-wage workers outnumbered poor people who do not work at the minimum wage. In fact, the opposite is true. Of the 23.5 million poor adults in America, only about 1 million work at the minimum wage (15 million don't work at all). Those 1 million minimum-wage workers probably would be made better-off by a minimum-wage increase (assuming they don't lose their jobs), but the 22.5 million poor people who are not minimum-wage workers would definitely be made worse-off." January 25, 1995.

U.S. Newswire, January 25, 1995

HEADLINE: Minimum Wage Hike Could Kill Welfare Reform, Says Employment Policies Institute Foundation

The following was released today by the Employment Policies Institute Foundation:

As President Clinton proposes a major increase in the minimum wage, new evidence reveals that raising the entry-level wage has an unexpected effect: it leads to longer spells on welfare for low-skilled women.

Based on data in a new study, it is clear that raising the minimum wage could undermine the President's own goal of "ending welfare as we know it."

Mothers on welfare in states that raised their minimum wage stayed on public assistance an average of 44 percent longer than welfare mothers living in states that did not raise their minimum wage, according to the report "Jobs Taken by Mothers Moving from Welfare to Work." The study was conducted by Peter Brandon of the Institute for Research on Poverty, University of Wisconsin; it was commissioned by the Employment Policies Institute Foundation.

"The President says that a higher minimum wage might 'lure people back into the job market,' and he's right. But this study clearly indicates that people who are 'lured' into entry-level jobs after a minimum wage hike are crowding welfare recipients out of the job market," said Richard Berman, executive director of the foundation. "The evidence shows that mothers on welfare are all too often left behind by a higher minimum wage. They simply can't compete with workers who appear more attractive to employers after the entry-level wage rises," he said.

In addition, mothers receiving welfare in states that did not raise their minimum wage reported leaving welfare for work about 25 percent more often than welfare mothers in states that did raise their minimum wage, according to the study.

Brandon also reported new data on the types of jobs women take when they leave welfare. Nearly 70 percent of welfare recipients take jobs such as cashiers, nurses' aides, waitresses, bartenders or hotel/motel maids.

"Many welfare recipients can only be classified as potential entry-level workers," said Berman. "They have been out of the job market completely for extended periods of time, and they have not built basic work skills through employment. Because most of the positions women take when leaving welfare can also be filled by young people and students, the already-difficult competition for jobs is made worse for welfare recipients by mandating a higher entry-level wage," he continued.

"Raising the minimum wage, as President Clinton has proposed, simply 'raises the bar' that job applicants must clear to prove their worth to an employer," Berman said. "Unfortunately, welfare recipients who are already at a disadvantage in the search for jobs find their prospects even dimmer after a minimum wage hike," he concluded.

The Employment Policies Institute Foundation is a non-profit research

organization dedicated to studying issues surrounding entry-level
employment.

The New York Times

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A Proposal Worth Fighting For

On three separate occasions during his State of the Union address, President Clinton declared that he and the Republicans must work to "build the middle class and shrink the underclass." He said too many Americans had been left behind by the economy's recovery, and he offered several remedies. One was new — raising the minimum wage. One was old — cutting taxes on the middle class. The others consisted mainly of limp warnings to Republicans not to pass irresponsible welfare programs or constitutional amendments.

The minimum-wage proposal is worth fighting for. It would fulfill the President's campaign pledge to make work pay — by which he meant that full-time workers should earn enough to raise their families out of poverty. Mr. Clinton said he would let Congress write a minimum-wage bill and decide how much the rate should be raised, a strategy reaffirmed by his aides today. He needs to be more assertive and shoot for a \$5-an-hour minimum.

He reaffirmed an earlier pledge to trim taxes on the middle class while warning that he would reject a tax cut that "explodes the deficit." He was less forthright on other issues. He opposed punitive welfare reform, but did not threaten to veto a G.O.P. attempt to strip welfare programs of the guarantee that Congress would provide money to serve every eligible family. Mr. Clinton said he would fight a balanced-budget amendment but, oddly, he did not reject outright an idea he knows is rancid.

Some Administration officials have recommended raising the minimum wage from \$4.25 an hour to \$5. At that level, a fully employed parent of two children would earn almost \$10,500, and could also qualify for a tax credit — in effect a cash rebate — of up to \$3,500 and food stamps worth about \$3,000. After subtracting payroll taxes, the family would keep about \$16,000 — enough to lift it out of poverty.

The G.O.P. objects because higher wages, it says, threaten to strip low-wage workers of their jobs. The evidence is mixed, but most research shows that employment effects are small, perhaps trivial. Research also shows that most minimum-wage workers are adults, not teen-agers. Nor can Washington achieve the same end by boosting the tax credit alone; the complexity of this credit creates a strong disincentive to work at higher wages.

Sadly, the Republicans seem viscerally opposed to Mr. Clinton's proposal — even though his small hike would leave minimum wages, after accounting for inflation, well below levels that prevailed in the 1970's.

Though Mr. Clinton drew few sharp lines Tuesday night, fudging on the balanced budget amendment and on the G.O.P.'s welfare bills, he scored a rhetorical hit on the minimum wage — pointing out that his audience earned more in a month than minimum-wage workers earn in a year.

Economic Viewpoint

BY GARY S. BECKER

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To John Orzag	From M. Donihue
Co.	Co. CEA
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Fax # 219 4902	Fax #

IT'S SIMPLE: HIKE THE MINIMUM WAGE, AND YOU PUT PEOPLE OUT OF WORK



SEE YA, PAL:
The most
persuasive
research
shows that
it doesn't take
much of a
raise to price
low-skilled
workers out
of their jobs

MICHAEL L. ABRAMSON

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

Higher labor costs reduce employment. That is why President Clinton's proposal to raise the federal minimum wage should be rejected. A higher minimum will further reduce the employment opportunities of workers with few skills.

Teenagers, high school dropouts, immigrants, and other low-skilled workers frequently earn less than \$5.15 per hour, the proposed new minimum. They find employment in small establishments, especially in fast-food chains and other retail sectors. Increasing the minimum, as the President wants, would put some of them out of work since their productivity is not high enough to justify the cost to employers.

During the past several decades, many studies found that raising the minimum wage does reduce the employment of teenagers and others with low skills. But minimum-wage laws have remained popular among trade unionists and many politicians. And periodically, some economists have contested the prevailing wisdom about harmful effects.

SERIOUS FLAWS. A recent and widely cited challenge of this kind has come from several studies by two Princeton University economists, David Card and Alan B. Krueger—the latter now Robert B. Reich's chief economist at the Labor Dept. One study finds that the change in employment after a minimum-wage hike is generally not bigger in states with a larger fraction of low-wage workers—the group that should be most affected by higher minimums.

Another study is frequently mentioned by Reich and others in the Administration to bolster the argument that a higher minimum does not lower employment. That study compares employment changes in fast-food restaurants in New Jersey and Pennsylvania after New Jersey raised its own minimum in 1992. Card and Krueger argue that because employment fell in Pennsylvania as much as it did in New Jersey, the drop in both states must have been due to other causes than the raise in the minimum.

There are some, and I am one of them, who believe that these studies have serious defects. Several of these were spelled out by Donald R. Deere and Finis R. Welch of Texas A&M University and Kevin M. Murphy of the University of Chicago in research they reported at the January meetings of the American Economic Assn.

For example, the higher federal minimum in 1990 and 1991 caused a much larger drop in New Jersey's teenage employment than Pennsylvania's, which could explain why employment did not fall more in New Jersey when that state increased its own minimum in 1992. New Jersey employers presumably anticipated the increase in their state's minimum when they sharply cut employment in responding to the earlier wage hike.

DUELING STUDIES. The Card-Krueger studies are flawed and cannot justify going against the accumulated evidence from the many past and present studies that find sizable negative effects of higher minimums on employment. The Deere, Murphy, and Welch study shows that the two-stepped increase in the federal minimum from \$3.35 to \$4.25 in 1990 and 1991 reduced employment of teenagers, high school dropouts, and other groups with low earnings.

The magnitude of these reductions sounds about right, particularly after the authors take into account the economic recession of that time. After the 27% increase in the minimum wage, employment of male and female teenagers lowered by 12% and 18%, respectively, while employment of high school dropouts shrank by about 6%. If Congress raises the rate by 18%, to \$5.15 an hour, these results imply that employment of workers with few skills will fall by over 5%.

President Clinton justified the need for a higher rate of pay by noting that a family cannot live decently on minimum wage earnings. However, even Card and Krueger do not find that raising the minimum is an effective way to reduce poverty, since poor families typically get only a small fraction of their income from members whose wages are near the minimum.

The President also wants to increase current subsidization of the job training of less skilled workers, but these subsidies might be unnecessary if Clinton did not also advocate raising federal minimum wages. Higher minimums discourage on-the-job training of workers with few skills since they spend their time learning rather than producing.

Even a wizard would have a great deal of difficulty repealing the economic law that higher minimum wages reduce employment. Since politicians are not wizards, they should not try.

COMMENTARY

By Mike McNamee

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Gaskill & Wallace
Trevelli

A MINIMUM-WAGE HIKE SPELLS MAXIMUM DAMAGE

When Labor Secretary Robert B. Reich in early January revived the idea of raising the minimum wage, he set a rhetorical trap for Republicans—and House Majority Leader Richard K. Armey (R-Tex.) quickly took the bait. The minimum wage shouldn't be increased, Armey said, it should be eliminated, because it harms both the economy and the poor. The exchange broadcast exactly the message the Clinton Administration wants to send: compassionate Democrats up against heartless Republicans.

Trouble is, Armey's right. The preponderance of economic evidence still holds that the minimum wage keeps low-skill, low-productivity workers from getting the jobs they need. More important, new research shows that raising the minimum wage hurts exactly those people the Clintonites are trying to help. It tempts more teenagers to drop out of school.

And it raises the barriers that keep welfare recipients from finding work. When it comes to fighting poverty, Clinton should turn to a more effective weapon: the Earned Income Tax Credit.

FAULTY MODEL. Reich's call for a higher minimum wage—the White House is likely to propose raising it from \$4.25 an hour to \$5—leans on studies showing that boosting the minimum wage in 1990 and '91 didn't put a crimp in employment. In fact, Princeton University economists David Card and Alan B. Krueger found that New Jersey fast-food stores hired more workers after the state raised its minimum to \$5.05 in 1992. During the same period, employment fell at franchises in neighboring Pennsylvania, where the wage remained at \$4.25.

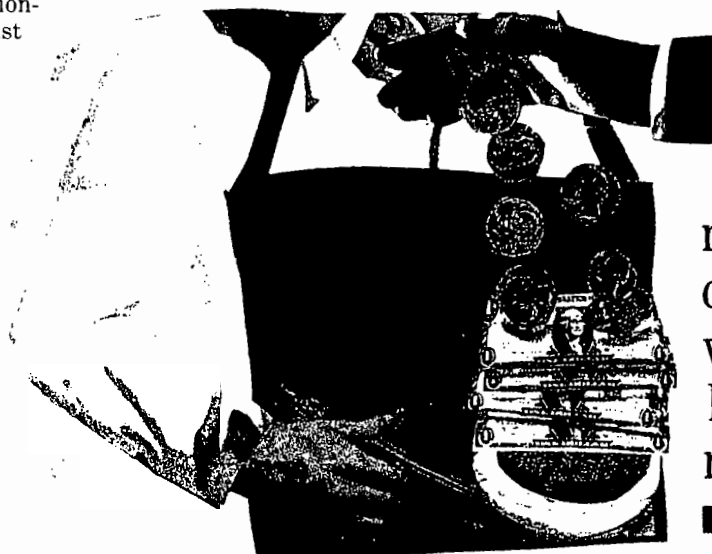
Card and Krueger—now Reich's chief economist—argue that low-

wage employers can fill vacant jobs and retain more productive workers when a higher minimum forces them to pay more. "The Econ 101 model of the labor market doesn't apply here," says Card.

But don't count out Econ 101 yet. In a study of dozens of federal and state minimum-wage hikes since the 1970s, David Neumark of Michigan State University found that total employment consistently dropped by 1% to 2% for every 10% rise in the mini-

that when their states raised the minimum wage, mothers on welfare stayed on the dole an average of 19.5 months, six months longer than mothers whose states didn't impose an increase.

EXPENSIVE MEDICINE. A minimum-wage hike does help some poor workers—but it's an expensive way to attack poverty. Of the \$9.7 billion cost of a 75¢ hike, only about one-quarter—\$2.7 billion—would go to poor or near-poor households, says



A higher
minimum
wage means
more dropouts,
displaced poor
workers, and
help for the
not-so-needy

mum. Texas A&M University economist Finis R. Welch compared job data from 1989 and 1992 and found that employment fell most steeply among the groups most likely to be affected by the 1990-91 minimum-wage increases, such as teenagers or high school dropouts.

A 2% drop may not sound like much—except that those losses are concentrated among poor, low-skilled workers. And teenagers, Neumark finds, face a double whammy. Higher minimums tempt high school students to sacrifice education and long-run income by dropping out and taking jobs. And the new entrants push aside less educated working teens—who end up with neither schooling nor jobs.

Welfare mothers also suffer. University of Wisconsin poverty researcher Peter D. Brandon has found

Syracuse University economist Richard V. Burkhauser. A bigger chunk—\$3.3 billion—would line the pockets of spouses or teenagers in families with incomes above \$43,000.

With the GOP in control of Congress, Reich has probably missed his opportunity to win a minimum-wage hike. Instead, he should follow up on Clinton's 1993 strategy of raising the Earned Income Tax Credit. Thanks to the credit, low-income workers with two children have an effective minimum wage of \$5.78 this year. The EITC costs a lot—\$16 billion a year—but nearly all the money goes to the poor. And studies show it actually boosts work among welfare recipients. Unlike the minimum wage, the EITC is an antipoverty program that works.

McNamee covers social policy.

Editorials

of Vance Truitt

SIMPLIFYING TAXES WOULD SAVE A BUNDLE

Let's talk taxes. The tax code has become so byzantine that the cost of compliance for individuals and corporations in the U.S. comes to \$75 billion a year—a figure that includes what Americans shell out to accountants and lawyers, the hours taxpayers spend dealing with tax affairs, and the budget of the Internal Revenue Service, according to Joel B. Slemrod, an economist at the University of Michigan.

Keep this huge cost in mind as the Democrats and Republicans fall over each other in the weeks ahead to offer tax goodies. Here's a partial list to date: a cut in the capital-gains tax rate, a child tax credit, expanded individual retirement accounts, homeowners' deductions on losses from house sales, and deductions for college. In short, tax-code social engineering is alive and well in Washington, and every change adds to the cost of compliance.

What a waste. Policymakers should be moving in exactly the opposite direction—toward radical simplification. They should be lowering rates by broadening the tax base through limits on exemptions and deductions. A simplified tax accomplishes two goals. First, it makes political choices transparent. Simplicity removes the social engineering by conservatives or liberals enacted through the tax code. Public spending made clearly visible on the government's ledger. Second, it reduces Uncle Sam's interference in the affairs of citizens and businesses, permitting markets to work more efficiently.

What exactly would radical simplification entail? There are a number of options. There's the flat tax, favored by Representative Richard K. Armey (R-Tex.), which builds on a plan developed by Hoover Institution economists Robert E. Hall and Alvin Rabushka. This extremely radical scheme

would levy a straight 17% on wages and pensions, with personal and dependent exemptions. Business couldn't deduct interest or dividend payments, but for individuals, investment income would be exempt. This would end the argument against personal savings currently built into the tax code. The somewhat related "X-tax" plan of David F. Bradford, an economist at Princeton University, investment income is exempt from personal tax, but he introduces more progressivity by having rates on labor compensation rise from 15% to 35%.

We favor a less radical "modified" flat-tax proposal that would be more politically palatable. It would flatten the structure into two or three rates and would preserve a few of the most popular deductions, such as home-mortgage interest and charitable contributions. In the early 1980s, Senator Bradley (D-N.J.) and Representative Richard A. Gephardt (Mo.) offered a plan with three brackets: 14%, 26%, and 35%. This proposal was designed to keep tax reform from falling too heavily on the poor. Gephardt is now drafting his own tax of 10% to 12% for most Americans, with a higher rate for the wealthy. The U.S. was happily headed in this direction with the Reagan tax reform of 1986.

Tax simplification is as appealing now as it was then. It would cut down on tax avoidance and eliminate the need for so many tax lawyers and accountants. It would let individuals and businesses make save-or-spend decisions free of government interference. And boy, would it save money: A simplified code could cut collection costs from \$75 billion a year to \$25 billion. That's a saving of \$50 billion over five years. Pass the bill. Congress: Want a real tax cut? Clean up the tax code.

WHY WE SHOULDN'T HIKE THE MINIMUM WAGE

To raise, or not to raise, the minimum wage: That is the question being debated in Washington. Both Democrats and Republicans are rolling out their big academic guns to prove that raising the wages of those on the bottom rung of the ladder would (a) boost income and not hurt job creation and (b) boost income and kill job creation. Who knows?

We think the timing is bad for a new tax on labor—which is what a legally enforced, rather than market-induced, hike in wages really amounts to. After two decades of stagnation, real wages are poised to take off on their own, without government interference. Indeed, real wages stopped falling in early 1994 and began rising.

Why the turnaround after 20 years? Productivity. Rising wages have almost always been associated with rising productivity. The 1960s was a decade of high corporate profits, strong 2% annual productivity growth, and hefty pay hikes. The 1990s are beginning to look a lot like that. Profits are up, and productivity growth is running at 3% for the corporate

sector—4.5% for manufacturing—and 1.5% to 2% for the economy as a whole (page 86). Wages can't be far behind.

It is true that the minimum wage (now \$4.25 an hour) is only 35% of the average wage—far lower than the 55% a decade ago. Those at the bottom clearly have less buying power than in 1985. But it's also true that a much smaller percentage of the workforce labors at minimum wage today than a decade ago. In 1981, 7.8 million workers got the minimum wage—15% of all hourly workers. In 1993, only 4.2 million workers were receiving minimum wage, a mere 6.6% of all hourly workers.

The solution to boosting real wages is not to raise the cost of hiring. If Washington wants to fight poverty, the earned income tax credit is a more effective weapon. But economic policies that promote high productivity and fast growth with low inflation are the paths to new employment and, after a lag, higher wages. It happened in the '70s. It's working in the '90s.

WALTER WILLIAMS

This wage costs jobs

Economic theory is quite simple but yields powerful predictions. You don't have to be an economist to understand economics. It's easy. Say you commissioned me to do a study to make recommendations on how to eliminate Haitian poverty. Upon completion of the study, I tell you what's needed is for the Haitian legislature to enact a \$7-an-hour minimum-wage law. That way, Haitians would no longer be poor. President Clinton and Department of Labor Secretary Robert Reich would probably compliment me on my findings, but you'd probably say, "Williams, you are a fool."

You'd be right. If higher minimum wages were an effective anti-poverty device, world poverty would have been eliminated ages ago.

Minimum-wage proponents say higher minimum wages won't cause unemployment. The first fundamental law of demand, to which there are no exceptions, says when prices rise, people tend to buy less, and when they fall, people tend to buy more. When beef prices rise, we buy less beef. When interest rates rise, we take out fewer mortgages. After all, if people didn't respond that way, sellers could charge any price they wanted and we'd still buy their products. Labor services are no different. When labor's price exceeds its value — what it can produce — employers will buy less of it and seek substitutes. Among them are automation, moving to a lower-wage country and customer self-service.

"Williams," you say, "but what can be done to raise people's wages?" Low wages are more a result of people being underproductive rather than underpaid. They simply do not have the skills to produce and do things their fellow man highly values. Seldom do we find poor highly productive individuals or nations. Those who earn low wages tend to have low skills and education. Our challenge is this: How can we make these people more productive? Raising minimum wages will not raise worker productivity; however, it can sabotage worker potential to acquire higher productivity.

Put yourself in the place of an employer, and ask: If I must pay Clinton's minimum wage of \$5.15 per hour, does it pay me to hire a worker so unfortunate as to have skills enabling him to produce only \$3 an hour worth of value? Most employers would see that as a losing economic proposition and wouldn't hire such a worker. Therefore, a major impact of the minimum-wage law is to discriminate against the employment of low-skilled workers. The denial of a job makes the disadvantages of low-skilled workers more permanent. After all, one of the most important means to higher skills is to be employed in the first place and receive on-the-job training and learn about other opportunities.

Among academic economists, there is little or no debate over the unemployment effects of minimum wages. Our only debate is the magnitude of unemployment. Close to 90 percent of academic economists agree minimum wages cause unemployment especially for teen-agers, particularly black teen-agers.

People working at or near the minimum wage are exercising their best known alternative. Even though their income is meager, we shouldn't destroy that alternative just so we can feel good. The minimum wage and other regulations help explain why today's underclass has taken on a permanency not typical of yesteryear. I'm with House Majority Leader Dick Armey. The minimum-wage law is evil legislation and deserving of repeal altogether.

Table 3. Employed wage and salary workers paid hourly rates with earnings at and around the prevailing Federal minimum wage by State, 1994 annual averages
(Numbers in thousands)

State	Total employed	Total at or below \$4.25		Below \$4.25		At \$4.25		\$4.26 to \$5.14		\$5.15 to \$5.99		\$6.00 and over	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Total, 16 years and over....	66,549	4,128	6.2	1,995	3.0	2,132	3.2	8,531	12.8	4,269	6.4	49,622	74.6
Alabama.....	1,071	98	9.2	30	2.8	68	6.4	194	18.1	77	7.2	702	65.5
Alaska.....	165	4	2.4	2	1.5	2	1.0	7	4.1	4	2.3	151	91.2
Arizona.....	1,035	66	6.4	32	3.1	34	3.3	150	14.5	65	6.3	754	72.8
Arkansas.....	637	56	8.8	22	3.5	34	5.3	104	16.4	49	7.7	428	67.1
California.....	7,344	491	6.7	129	1.8	362	4.9	793	10.8	390	5.3	5,671	77.2
Colorado.....	990	60	6.1	41	4.1	19	1.9	117	11.8	69	7.0	744	75.1
Connecticut.....	767	31	4.0	19	2.5	12	1.5	66	8.6	24	3.2	646	84.2
Delaware.....	194	12	6.1	9	4.5	3	1.6	25	12.8	9	4.4	149	76.8
District of Columbia.....	117	3	3.0	2	2.1	1	0.8	14	12.3	6	4.8	93	80.0
Florida.....	3,310	228	6.9	129	3.9	98	3.0	494	14.9	245	7.4	2,343	70.8
Georgia.....	1,749	123	7.0	51	2.9	72	4.1	240	13.7	117	6.7	1,268	72.5
Hawaii.....	303	5	1.6	2	0.6	3	1.0	11	3.8	25	8.2	261	86.3
Idaho.....	306	20	6.5	8	2.8	11	3.7	45	14.6	24	7.8	218	71.1
Illinois.....	3,187	190	5.9	120	3.8	70	2.2	431	13.5	172	5.4	2,394	75.1
Indiana.....	1,767	91	5.1	49	2.8	42	2.4	241	13.6	85	4.8	1,349	76.4
Iowa.....	825	35	4.3	29	3.5	6	0.8	114	13.9	92	11.2	583	70.7
Kansas.....	698	40	5.7	20	2.9	20	2.8	106	15.2	55	7.9	496	71.1
Kentucky.....	1,009	86	8.5	41	4.1	45	4.5	154	15.3	76	7.5	692	68.6
Louisiana.....	936	108	11.5	35	3.8	72	7.7	210	22.4	52	5.6	566	60.5
Maine.....	312	14	4.5	10	3.1	4	1.4	41	13.2	22	7.0	235	75.3
Maryland.....	1,370	50	3.6	40	2.9	9	0.7	103	7.5	80	5.8	1,138	83.1
Massachusetts.....	1,551	63	4.1	45	2.9	18	1.2	133	8.6	61	3.9	1,293	83.4
Michigan.....	2,738	171	6.3	100	3.7	71	2.6	323	11.8	166	6.1	2,077	75.9
Minnesota.....	1,450	66	4.6	23	1.6	43	3.0	136	9.4	85	5.9	1,163	80.2
Mississippi.....	633	69	10.8	29	4.6	40	6.2	115	18.2	46	7.2	403	63.8
Missouri.....	1,450	104	7.2	55	3.8	49	3.4	193	13.3	125	8.6	1,028	70.9
Montana.....	218	14	6.2	3	1.6	10	4.6	39	17.8	21	9.5	145	66.5
Nebraska.....	471	36	7.6	16	3.4	20	4.2	66	14.0	41	8.6	329	69.9
Nevada.....	463	21	4.6	7	1.5	14	3.1	44	9.5	33	7.2	364	78.6
New Hampshire.....	335	13	3.8	10	3.0	3	0.9	34	10.2	16	4.8	272	81.1
New Jersey.....	1,759	55	3.1	43	2.4	12	0.7	127	7.2	108	6.1	1,470	83.5
New Mexico.....	401	39	9.7	14	3.6	24	6.1	50	12.5	33	8.3	279	69.5
New York.....	3,759	205	5.5	107	2.8	99	2.6	431	11.5	168	4.5	2,955	78.6
North Carolina.....	1,870	103	5.5	49	2.6	54	2.9	251	13.4	127	6.8	1,388	74.2

See Note at end of table.

Table 3. Employed wage and salary workers paid hourly rates with earnings at and around the prevailing Federal minimum wage by State, 1994 annual averages (cont.)
(Numbers in thousands)

State	Total employed	Total at or below \$4.25		Below \$4.25		At \$4.25		\$4.26 to \$5.14		\$5.15 to \$5.99		\$6.00 and over	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
North Dakota.....	168	17	10.3	7	3.9	11	6.5	33	19.7	18	10.8	99	59.2
Ohio.....	3,168	211	6.7	110	3.5	101	3.2	369	11.7	217	6.8	2,371	74.8
Oklahoma.....	754	69	9.2	29	3.9	40	5.3	155	20.5	53	7.1	477	63.2
Oregon.....	812	15	1.8	10	1.3	4	0.6	78	9.6	57	7.0	662	81.5
Pennsylvania.....	3,202	182	5.7	94	2.9	88	2.8	374	11.7	185	5.8	2,461	76.9
Rhode Island.....	270	10	3.7	8	2.8	2	0.9	31	11.7	21	7.6	208	77.0
South Carolina.....	951	61	6.4	32	3.4	29	3.1	146	15.4	79	8.3	665	69.9
South Dakota.....	199	13	6.5	6	3.2	7	3.3	32	16.0	21	10.8	132	66.7
Tennessee.....	1,455	90	6.2	43	2.9	48	3.3	209	14.4	97	6.7	1,058	72.7
Texas.....	4,405	410	9.3	185	4.2	225	5.1	781	17.7	329	7.5	2,885	65.5
Utah.....	537	45	8.4	24	4.4	21	4.0	77	14.3	43	8.1	372	69.2
Vermont.....	156	7	4.6	4	2.7	3	1.9	14	8.7	8	5.2	127	81.5
Virginia.....	1,685	73	4.3	29	1.7	44	2.6	219	13.0	124	7.4	1,269	75.3
Washington.....	1,417	24	1.7	20	1.4	4	0.3	143	10.1	85	6.0	1,165	82.2
West Virginia.....	416	47	11.3	20	4.9	27	6.4	69	16.6	28	6.7	272	65.3
Wisconsin.....	1,646	73	4.5	49	2.9	25	1.5	176	10.7	126	7.7	1,271	77.2
Wyoming.....	125	12	9.3	4	3.5	7	5.8	23	18.2	9	7.5	81	65.0

NOTE: Data are for wage and salary workers, excluding the incorporated self-employed, and refer to earnings on a person's main job. Data for 1994 are not directly comparable with data for 1993 and earlier years due to the redesign of the Current Population Survey (CPS) and the introduction of 1990 census-based population controls (adjusted for the estimated census population undercount). Users are cautioned that these data are based on a sample and are therefore subject to sampling error; the degree of error may be quite large for less populous States. It should be noted that it is not possible to determine whether workers surveyed in the CPS are actually covered by the Fair Labor Standards Act or by individual State minimum wage laws. Thus, some workers being reported as earning an hourly wage of \$4.25 may not, in fact, be covered by Federal or State minimum wage laws; at the same time, the presence of a sizable number of workers with wages below the prevailing Federal minimum wage does not necessarily indicate violations of the Fair Labor Standards Act or applicable State laws, because there are numerous exemptions to these minimum wage statutes.

It must be emphasized that these estimates of the numbers of minimum and subminimum wage workers pertain to workers paid at hourly rates; salaried and other non-hourly workers are excluded. As such, the actual number of workers with earnings at or below the prevailing minimum is undoubtedly understated. Research has shown that a relatively smaller number and share of salaried workers and others not paid by the hour have earnings that, when translated into hourly rates, are at, or below, the prevailing Federal minimum wage. However, these workers are not included in this table because of data concerns that arise in precisely estimating their number. For further information, see Steven Haugen and Earl Mellor, "Estimating the number of minimum wage workers," Monthly Labor Review, January 1990.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, unpublished tabulations from the Current Population Survey, 1994 annual averages.

Minimum Wage and Overtime Premium Pay Standards Applicable to
Nonsupervisory NONFARM Private Sector Employment
Under State and Federal Laws
January 2, 1995

State or other jurisdiction*	Future effective date	Basic mini- mum rate (per hour)	Premium pay after designated hours <u>1</u> /	
			Daily	Weekly
FEDERAL:				
Fair Labor Standards Act (FLSA)		\$4.25		40
STATE:				
Alabama		...		...
Alaska (1991)		4.75	8 <u>2</u> /	40 <u>2</u> /
Arizona		...		...
Arkansas (Applicable to em- ployers of 4 or more)		4.25		40
California		4.25	8 <u>3</u> / Over 12 (double time)	40 <u>3</u> / 7th day <u>3</u> /: First 8 (time and half) Over 8 (double time)
Colorado		3.00	12	40
Connecticut (1991)		4.27		40 <u>4</u> /
Delaware		4.25		...
District of Columbia <u>5</u> / (Oct 1, 1993)		5.25		40
Florida		...		...

Minimum Wage and Overtime Premium Pay Standards Applicable to
Nonsupervisory NONFARM Private Sector Employment
Under State and Federal Laws--Continued
January 2, 1995

State or other jurisdiction*	Future effective date	Basic mini- mum rate (per hour)	Premium pay after designated hours <u>1</u> /	
			Daily	Weekly
Georgia (Applicable to employers of 6 or more)		\$3.25		...
Guam		4.25		40
Hawaii <u>6</u> /		5.25		40
Idaho		4.25		40
Illinois (Applicable to employers of 4 or more)		4.25		40
Indiana (Applicable to employers of 2 or more)		3.35		...
Iowa		4.65		...
Kansas		2.65		46
Kentucky		4.25		40 7th day <u>7</u> /
Louisiana		...		...
Maine		4.25		40
Maryland		4.25		40 <u>8</u> /
Baltimore City Ordinance (Applicable to employers of 2 or more)		4.25		40
Massachusetts		4.25		40

See footnotes at end of table

Minimum Wage and Overtime Premium Pay Standards Applicable to
Nonsupervisory NONFARM Private Sector Employment
Under State and Federal Laws--Continued
January 2, 1995

State or other jurisdiction*	Future effective date	Basic mini- mum rate (per hour)	Premium pay after designated hours <u>1</u> /	
			Daily	Weekly
Michigan (Applicable to employers of 2 or more)		\$3.35		40
Minnesota				48
Large employer (enterprise with annual receipts of \$362,500 or more)		4.25		
Small employer (enterprise with annual receipts of less than \$362,500)		4.00		
Mississippi		...		...
Missouri <u>10</u> /		4.25		40 <u>9</u> /
Montana <u>cept</u> businesses with gross annual sales of \$10,000 or less		4.25		40
		4.00		
Nebraska (Applicable to em- ployers of 4 or more)		4.25		...
Nevada		4.25	8 <u>10</u> /	40 <u>10</u> /
New Hampshire		4.25		40
New Jersey	Apr. 1, 1992	5.05		40
New Mexico		4.25		40
New York		4.25		40
North Carolina		4.25		40 <u>11</u> /
North Dakota		4.25		40

See footnotes at end of table

Minimum Wage and Overtime Premium Pay Standards Applicable to
 Nonsupervisory NONFARM Private Sector Employment
 Under State and Federal Laws--Continued
 January 2, 1995

State or other jurisdiction*	Future effective date	Basic mini- mum rate (per hour)	Premium pay after designated hours <u>1</u> /	
			Daily	Weekly
Ohio		\$4.25		40
<u>except</u> , employers with gross annual sales from \$150,000 to \$500,000		3.35		
and <u>except</u> employers with gross annual sales under \$150,000		2.80		
Oklahoma				...
Employers of 10 or more full-time employees at any one location and employers with annual gross sales over \$100,000 irrespective of number of full-time employees		4.25		
All other employers		2.00		
Oregon		4.75	<u>12</u> /	40
Pennsylvania		4.25		40
Puerto Rico		1.20 to 4.25 <u>13</u> /	8, and on stat- utory rest day (double time)	40 (double time)
Rhode Island		4.45	<u>14</u> /	40
South Carolina		...		...
South Dakota		4.25		...
Tennessee		...		...

See footnotes at end of table

Minimum Wage and Overtime Premium Pay Standards Applicable to
 Nonsupervisory NONFARM Private Sector Employment
 Under State and Federal Laws--Continued
 January 2, 1995

State or other jurisdiction*	Future effective date	Basic mini- mum rate (per hour)	Premium pay after designated hours <u>1</u> /	
			Daily	Weekly
Texas		\$3.35		...
Utah		4.25		...
Vermont	1/7/96	4.50		40 <u>15</u> /
(Applicable to employer of 2 or more)	1/2/96	4.75		
Virginia		4.25		...
(Applicable to employers of 4 or more)				
Virgin Islands		4.65 <u>16</u> /	8	40
<u>except</u> businesses with gross annual receipts of less than \$150,000		4.30		On 6th and 7th con- secutive days
Washington	1/1/94	4.90		40 <u>17</u> /
West Virginia		4.25		40
(Applicable to employers of 6 or more at one location)				
Wisconsin		4.25		40
Wyoming		1.60	8 <u>18</u> /	48 <u>18</u> /

FOOTNOTES

10 States, the State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act (Arkansas, Georgia, Indiana, Kansas, Missouri, Oklahoma, Texas, Utah, Virginia and West Virginia). Five other States (Hawaii, Michigan, Montana, New Hampshire and North Carolina), have a contingent exclusion i.e. Federally-covered employment is excluded except when the State standard is higher than the Federal.

1/ The overtime premium rate is one and one-half times the employee's regular rate, unless otherwise specified.

2/ Alaska: Under a voluntary flexible work hour plan, with a written, signed employee/employer agreement filed with and approved by the Department of Labor, a 10-hour day, 40-hour week may be instituted with premium pay after 10 hours a day instead of after 8 hours.

The premium overtime pay requirement on either a daily or weekly basis is not applicable to employers of fewer than 4 employees.

3/ California: Under very specific rules, a 10 or 12-hour day (varying by wage order) may be instituted without premium pay after 8 hours, but overtime pay at applicable premium rates is required after 40 hours a week and for hours or days in excess of scheduled hours or days. For any such alternative workweek a prior voluntary written agreement is required, ratified by a two-thirds vote of affected employees in a secret ballot election, and signed by the employer.

Premium pay required: after 56 hours a week in ski establishments; after 54 hours a week for organized camp counselors and certain other care-provider occupations; and after 14 hours a day in motion picture industry under specified circumstances.

Premium pay on 7th day not required for employee whose total weekly work-hours do not exceed 30 and whose total hours in any one work day thereof do not exceed 6.

4/ Connecticut: In restaurants and hotel restaurants, for the 7th consecutive day of work, premium pay is required at time and one-half the minimum rate.

5/ District of Columbia: A \$5.45 minimum rate remained in effect for the laundry and dry cleaning industry as the result of a grandfather clause enacted when wage orders were replaced by a statutory minimum wage on 10/1/93.

6/ Hawaii: An employee earning a guaranteed monthly compensation of \$1,250 or more is exempt from the law.

7/ Kentucky: The 7th day overtime law, which is separate from the minimum wage law, differs in coverage from that in the minimum wage law and requires premium pay to those employees who have worked 40 hours on the six previous days.

8/ Maryland: Premium pay required after 48 hours in bowling alleys and for residential employees of institutions (other than a hospital) primarily engaged in care of sick, aged, or mentally ill.

9/ Missouri: In addition to the exemption for federally-covered employment, the law exempts, among others, employees of a retail or service business with gross annual sales or business done of less than \$500,000. Premium pay required after 52 hours in seasonal amusement or recreation business.

10/ Nevada: By mutual employer/employee agreement, a scheduled 10-hour day for 4 days a week may be worked without premium pay after 8 hours.

The premium overtime pay requirement on either a daily or weekly basis is not applicable to employees who are compensated at not less than one and one-half times the minimum rate or to employees of enterprises having a gross annual sales volume of less than \$250,000.

11/ North Carolina: Premium pay is required after 45 hours a week in seasonal amusements or recreational establishments.

12/ Oregon: Premium pay required after 10 hours a day in nonfarm canneries, driers, or packing plants and in mills, factories or manufacturing establishments (excluding sawmills, planing mills, shingle mills, and logging camps).

13/ Puerto Rico: Separate minimum rates are in effect for almost 350 nonfarm occupations by industry Mandatory Decrees. A few rates above the listed rate include a \$6.50 minimum rate in effect for cigarette manufacturing employees; a \$5 rate for occupations related to telephone and other related services of the Commonwealth; \$4.75 hourly rates applicable to other communications services and to television occupations and producers of radio and television programs; a \$4.50 rate for alcoholic beverage manufacturing employees; and a \$4.45 rate for radio broadcasting occupations.

14/ Rhode Island: Time and one-half premium pay for work on Sundays and holidays in retail and certain other businesses is required under two laws that are separate from the minimum wage law. These laws require a license or permit for Sunday/holiday operation that would otherwise be unlawful.

15/ Vermont: The State overtime pay provision has very limited application because it exempts numerous types of establishments, such as retail and service; seasonal amusement/recreational; hotels, motels, restaurants; and transportation employees to whom the Federal (FLSA) overtime provision does not apply.

16/ Virgin Islands: Implementation of an indexed rate, which was to have started January 1, 1991, has been delayed. (The law provides that on January 1, 1991, and each January 1 thereafter, the minimum rate is to equal 50 percent of the average private, nonsupervisory, nonagricultural hourly wage as determined by the Virgin Islands Wage Board for the previous November, rounded to the nearest multiple of 5 cents.)

17/ Washington: Premium pay not applicable to employees who request compensating time off in lieu of premium pay.

18/ Wyoming: Premium pay applies to females employed in a manufacturing, mechanical, mercantile establishment, laundry, hotel, public lodging house, apartment house, place of amusement or restaurant. On the basis of the State Fair Employment Act, which bans discrimination based on sex, the State recommends that an employer who is paying the State overtime rate to the female employees should also compensate the male employees at the same rate.

Note: Laws in 19 jurisdictions link changes in the State rate to changes in the highest minimum wage under the Federal Fair Labor Standards Act (FLSA).

Linkage provisions are of several types:

- 1) Laws in 11 jurisdictions do not contain current dollar minimums. Instead, these 11 statutes adopt the FLSA rate by reference, or mandate or authorize matching the FLSA rate by administrative action, thereby conforming to Federal changes on a continuing basis. These 11 jurisdictions are Delaware, Guam, Illinois, Maryland, Missouri, Montana (mandates administrative action), Nevada, (mandates administrative action), Oklahoma, Pennsylvania, Utah (authorizes, but does not mandate, administrative action) and Virginia.
- 2) Laws in Iowa, Maine, New Hampshire and Vermont have their own rates, but replace the State rate with the FLSA minimum if it is higher than the State minimum.
- 3) In Alaska, Connecticut, and the District of Columbia, the rates rise above the Federal rate by a fixed differential on a continuing basis. In Alaska, the rate is automatically set at 50 cents above the FLSA rate. In Connecticut, where the State rate previously was \$4.25, the State rate automatically increases to 1/2 of 1 percent above the FLSA rate if the Federal minimum equals or becomes higher than the State minimum. In the District of Columbia, the rate is set at \$1. above the FLSA rate.
- 4) Another type of linkage is in California. The California rate, now \$4.25, matches any higher Federal rate on a continuing basis. In California, the Industrial Welfare Commission sets rates administratively by issuance of industry wage orders. If the Federal rate is scheduled to exceed the state rate, the Commission is directed to adopt, in a public meeting, an order matching the higher rate, without the necessity of convening a wage board.

Prepared by:

Division of State Standards Programs

Wage and Hour Division, Employment Standards Administration

U.S. Department of Labor

January 12, 1995

Assume 34% inflation

YEAR	1996	1995	1996	1996	1997	1996	1997
FEDERAL MINIMUM WAGE	\$4.25	\$4.75	\$4.75	\$5.00	\$5.00	\$5.25	\$5.25
Minimum Wage Earnings	\$8,500	\$9,500	\$9,500	\$10,000	\$10,000	\$10,500	\$10,500
EITC (Family w/ 2 kids)	\$3,400	\$3,114	\$3,560	\$3,560	\$3,681	\$3,560	\$3,681
Employee Payroll Taxes	(\$650)	(\$727)	(\$727)	(\$765)	(\$765)	(\$803)	(\$803)
Net Income	\$11,250	\$11,887	\$12,333	\$12,795	\$12,916	\$13,257	\$13,378
Estimated Poverty Line (Family of 3)	\$12,557	\$12,183	\$12,557	\$12,557	\$12,948	\$12,557	\$12,948
POVERTY BALANCE	(\$1,307)	(\$296)	(\$224)	\$238	(\$32)	\$700	\$430
Food Stamps (Family of 3)	\$2,496	\$2,078	\$2,145	\$1,956	\$2,023	\$1,784	\$2,023
Net Income with Food Stamps	\$13,746	\$13,965	\$14,478	\$14,751	\$14,939	\$15,041	\$15,401
POVERTY BALANCE	\$1,189	\$1,782	\$1,921	\$2,194	\$1,991	\$2,484	\$2,453
Estimated Poverty Line (Family of 4)	\$16,092	\$15,612	\$16,092	\$16,092	\$16,593	\$16,092	\$16,593
POVERTY BALANCE	(\$4,842)	(\$3,725)	(\$3,759)	(\$3,297)	(\$3,677)	(\$2,835)	(\$3,215)
Food Stamps (Family of 4)	\$3,516	\$3,067	\$3,165	\$2,976	\$3,077	\$2,804	\$2,899
Net Income with Food Stamps	\$14,766	\$14,954	\$15,498	\$15,771	\$15,993	\$16,061	\$16,277
POVERTY BALANCE	(\$1,326)	(\$658)	(\$594)	(\$321)	(\$600)	(\$31)	(\$316)

BLS

1/9/95 request from DOL for Ann McLarnick at ASPE, DHHS

earnings $\$8,500/\text{yr} = 708 \text{ per month}$
 $\$10,000/\text{yr} = 833 \text{ per month}$

$\$8,500/\text{yr}$	$\$10,000/\text{yr}$
earnings 708.33	833.33
less sheltered -138	-138
less earned inc deduc (20% over) -141.67	-166.67
net so far 428.66	528.66

$$\text{sheltered} = \text{shelter expense} - \frac{1}{2} \text{ net inc. so far}$$

$$= 302 - 214.33 = 87.67$$

$$302 - 264.33 = 37.67$$

final net income 340.99
 benefit reduction (x.3) 102.30

490.99
 147.30

3 person	4 person
maximum 3.11	396
less ben. redact - 102.3	-102.3

3 person	4 person
3.11	396
-147.30	-147.30

Monthly allotment \$208

\$293

\$163

\$248

$$\times \text{shelter expense} = 1993 \text{ ave shelter expense indexed by CPI to 1996}$$

$$= \$280 \times 1.08035 = \$302$$

assumes: no dependent care deduction, no medical deduction (available to those over age 60 or disabled for out of pocket medical expense in excess of \$35), no child support payments to other households
 court ordered

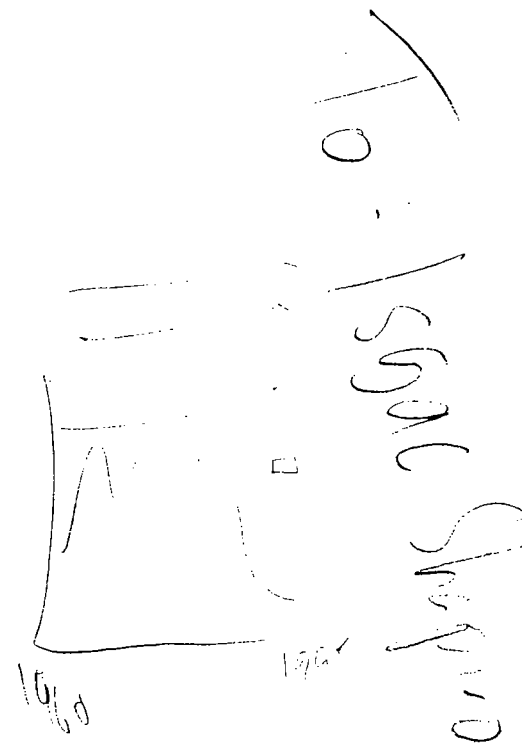
052.3

~~1993~~	~~Families w~~	
	1995	1996*
Minimum Wage Earnings	\$8,840	\$8,840
EITC (Families with 2+ Children)	3,110	3,536
Employee Payroll Taxes	-676	-676
Net Income	11,274	11,700
Est. Poverty Line, Family of 3	12,192	12,606
~~Poverty~~ Income Deficit	(918)	(906)
Est Poverty Line, Family of 4	15,621	16,152
~~Poverty~~ Income Deficit	(4,347)	(4,452)
Food Stamps, Family of 3	2,232	
Net Income with Food Stamps	13,506	
~~Poverty~~ Income Deficit "surplus"	+1,314	
Food Stamps, Family of 4	3,216	
Net income with Food Stamps	14,490	
~~Poverty~~ Income deficit	(1,131)	

* I included 1996 to show estimates don't change when EITC is fully phased-in (increase in EITC offset by another year of minimum wage erosion). Income deficits grow 1997 on because MW not indexed.

Real minimum wage Year-round minimum wage earnings

Year	Hourly MW value	YR Earnings	Two child EIC	payroll %	payroll am	Net incm	CPI-U-X1	Real Net 1994 \$	Net mw 2+ kids	% of 3- per pov line	minimum wage	% of 3- person po	Net mw No kids	mw-pay	eic no kids
1955	0.75	1550		2	-31	1529	29.1	7789	\$3.74	65.9%	\$3.82	67.3%	\$3.74	1529	0
1958	1	2080		2	-42	2038	29.6	10210	\$4.91	66.4%	\$5.01	68.2%	\$4.91	2038	0
1957	1	2090		2.25	-47	2030	30.5	9883	\$4.75	63.7%	\$4.86	65.6%	\$4.75	2033	0
1958	1	2080		2.25	-47	2030	31.4	9600	\$4.62	61.3%	\$4.72	63.1%	\$4.62	2033	0
1959	1	2080		2.5	-52	2028	31.6	9515	\$4.57	60.5%	\$4.69	62.6%	\$4.57	2028	0
1960	1	2080		3	-62	2018	32.2	9290	\$4.47	78.6%	\$4.60	81.1%	\$4.47	2018	0
1961	1.15	2392		3	-72	2320	32.5	10584	5.09	69.6%	5.25	92.4%	5.09	2320	0
1962	1.15	2392		3.125	-75	2317	32.8	10474	5.04	68.7%	5.20	91.5%	5.04	2317	0
1963	1.25	2600		3.625	-94	2508	33.3	11156	5.36	94.4%	5.57	98.0%	5.36	2506	0
1964	1.25	2600		3.625	-94	2506	33.7	11024	5.30	93.3%	5.50	96.8%	5.30	2506	0
1965	1.25	2600		3.625	-94	2506	34.2	10862	5.22	91.9%	5.42	95.4%	5.22	2506	0
1966	1.25	2600		4.2	-109	2491	35.2	10491	5.04	88.8%	5.26	92.7%	5.04	2491	0
1967	1.4	2912		4.4	-128	2784	36.3	11370	5.47	96.2%	5.72	100.7%	5.47	2784	0
1968	1.6	3328		4.4	-146	3182	37.7	12512	6.02	105.9%	6.29	110.8%	6.02	3182	0
1969	1.6	3328		4.8	-160	3168	38.4	11922	5.73	100.9%	6.02	106.0%	5.73	3168	0
1970	1.6	3328		4.8	-160	3168	41.3	11373	5.47	96.3%	5.74	101.1%	5.47	3168	0
1971	1.8	3328		5.2	-173	3155	43.1	10652	5.22	91.9%	5.50	96.9%	5.22	3155	0
1972	1.8	3328		5.2	-173	3155	44.4	10535	5.06	89.2%	5.34	94.1%	5.06	3155	0
1973	1.6	3328		5.85	-195	3133	47.2	9842	4.73	83.3%	5.03	88.5%	4.73	3133	0
1974	2	4160		5.85	-243	3917	51.9	11183	5.38	94.7%	5.71	100.8%	5.38	3917	0
1975	2.10	4368	363	5.85	-256	4475	56.2	11806	5.68	99.9%	5.54	97.5%	5.22	4112	0
1976	2.30	4784	322	5.85	-280	4826	58.4	12046	5.79	102.0%	5.74	101.1%	5.40	4504	0
1977	2.30	4784	322	5.85	-280	4826	63.2	11321	5.44	95.6%	5.40	95.0%	5.08	4504	0
1978	2.65	5512	249	6.05	-333	5428	67.5	11921	5.73	100.9%	5.82	102.5%	5.47	5179	0
1979	2.90	6032	496	6.13	-370	6158	74.0	12338	5.93	104.4%	5.81	102.3%	5.45	5662	0
1980	3.10	6448	444	6.13	-396	6497	82.3	11703	5.83	99.1%	5.58	98.3%	5.24	6053	0
1981	3.35	6968	379	6.65	-463	6884	90.1	11327	5.45	95.9%	5.51	97.0%	5.15	6505	0
1982	3.35	6968	379	6.7	-467	6880	95.6	10670	5.13	90.3%	5.20	91.5%	4.85	6501	0
1983	3.35	6968	379	6.7	-467	6880	99.6	10241	4.92	86.7%	4.99	87.8%	4.65	6501	0
1984	3.35	6968	379	6.7	-467	6880	103.9	9817	4.72	83.1%	4.73	84.2%	4.40	6501	0
1985	3.35	6968	493	7.05	-491	6970	107.6	9603	4.62	81.3%	4.62	81.3%	4.29	6477	0
1986	3.35	6968	493	7.15	-498	6963	109.6	9419	4.53	79.7%	4.53	79.8%	4.21	6470	0
1987	3.35	6968	648	7.15	-498	7316	113.8	9548	4.59	80.8%	4.37	77.0%	4.06	6470	0
1988	3.35	6968	874	7.51	-523	7319	118.3	9172	4.41	77.6%	4.20	73.8%	3.88	6445	0
1989	3.35	8968	910	7.51	-523	7355	124.0	8793	4.23	74.4%	4.01	70.5%	3.70	6445	0
1990	3.80	7904	953	7.65	-605	8252	130.7	9361	4.50	79.2%	4.31	75.9%	3.98	7299	0
1991	4.25	8840	1235	7.65	-678	9399	136.2	10231	4.92	86.8%	4.83	81.4%	4.27	8164	0
1992	4.25	8840	1384	7.65	-678	9548	140.3	10089	4.85	85.4%	4.49	79.1%	4.15	8164	0
1993	4.25	8840	1511	7.65	-676	9675	144.5	9928	4.77	84.0%	4.36	76.8%	4.03	8164	0
1994	4.25	8840	2528	7.65	-676	10692	148.3	10632	5.14	90.5%	4.25	74.8%	3.93	8164	12
1995	4.25	8840	3130	7.65	-678	11294	152.9	10954	5.27	92.7%	4.12	72.6%	3.82	8164	34
1996	4.25	8840	3536	7.65	-678	11700	157.9	10985	5.28	93.0%	3.99	70.3%	3.71	8164	57
1997	4.25	8840	3536	7.65	-676	11700	163.3	10624	5.11	89.8%	3.86	67.9%	3.60	8164	82
1998	4.25	8840	3536	7.65	-676	11700	169.8	10275	4.94	87.0%	3.73	65.7%	3.49	8164	108
1960s avg									\$5.27	92.8%	\$5.48	96.5%	\$5.27		
1970s avg									\$5.44	95.8%	\$5.56	97.9%	\$5.25		
1980s avg									\$4.82	84.9%	\$4.78	84.1%	\$4.45		

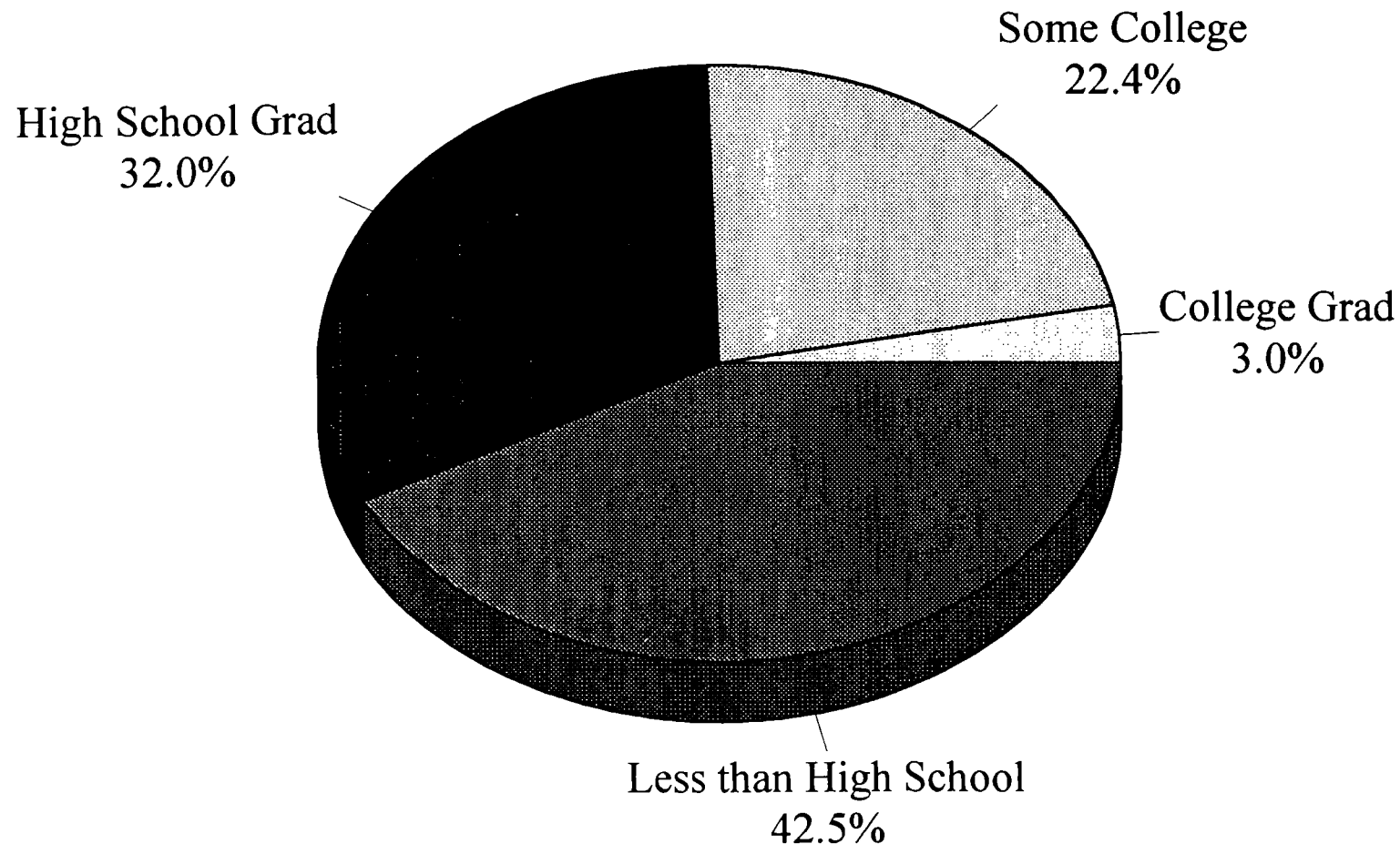


Use CPI-U-X
or CPI-U?

Inflation Assumptions

Figures in 1994 dollars. "Net" adds EITC and subtracts employee payroll tax

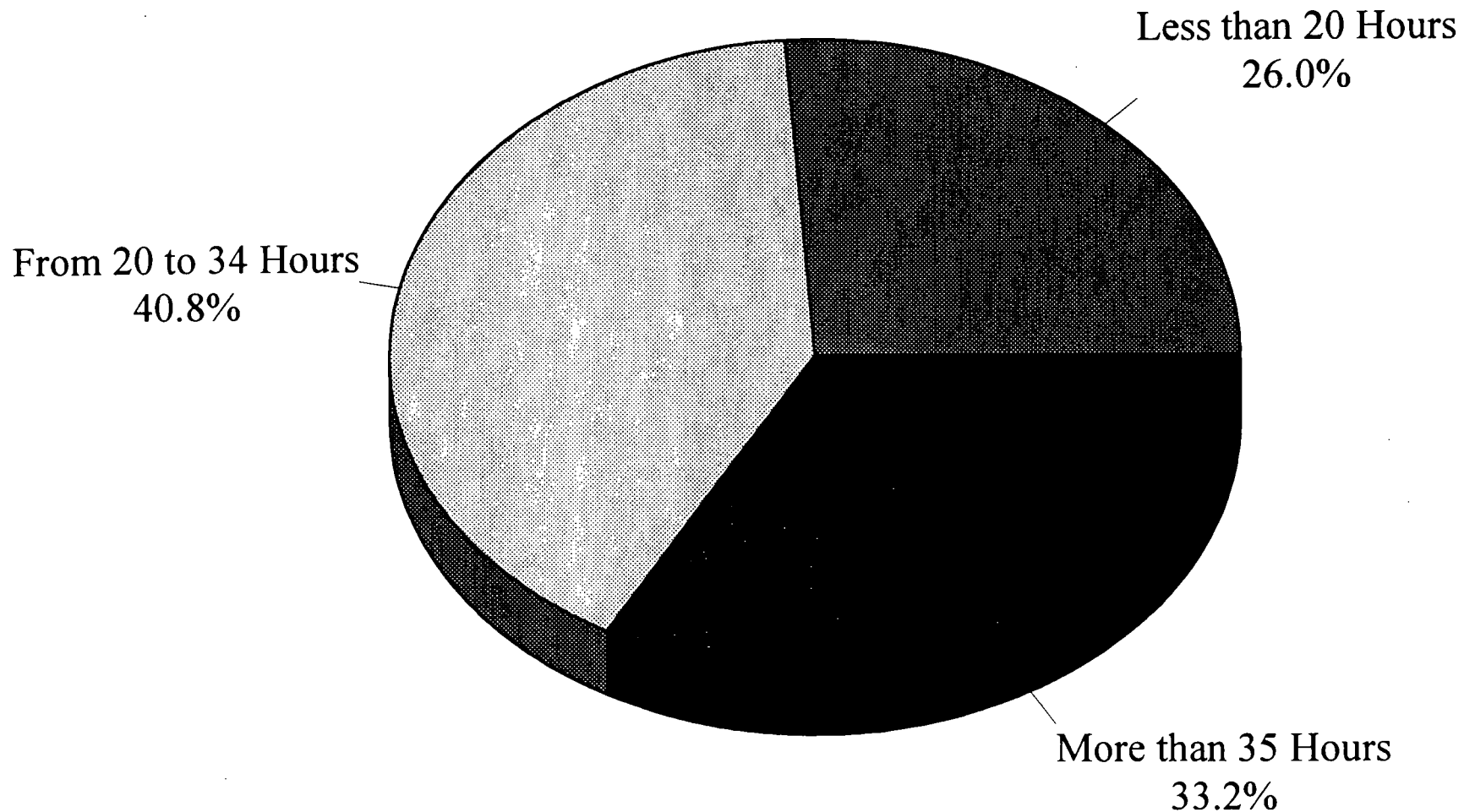
Distribution of Hourly-Paid Minimum Wage Earners by Education: 1993



Source: Bureau of Labor Statistics.

What Hours Do Minimum Wage Workers Work?

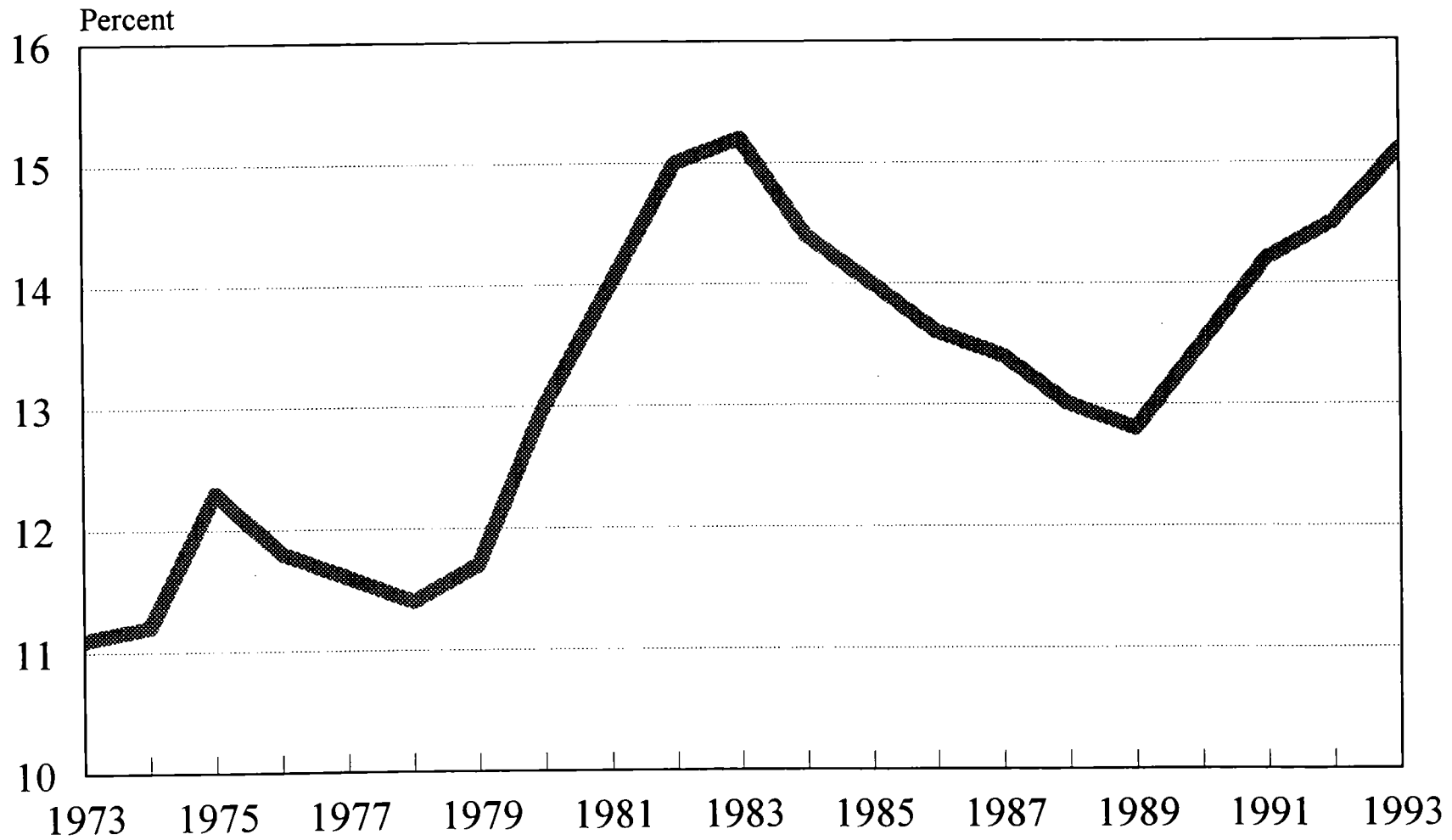
Distribution of Hourly-Paid Minimum Wage Earners by Hours Usually Worked per Week: 1993



Source: Bureau of Labor Statistics.

The Poverty Rate has Increased

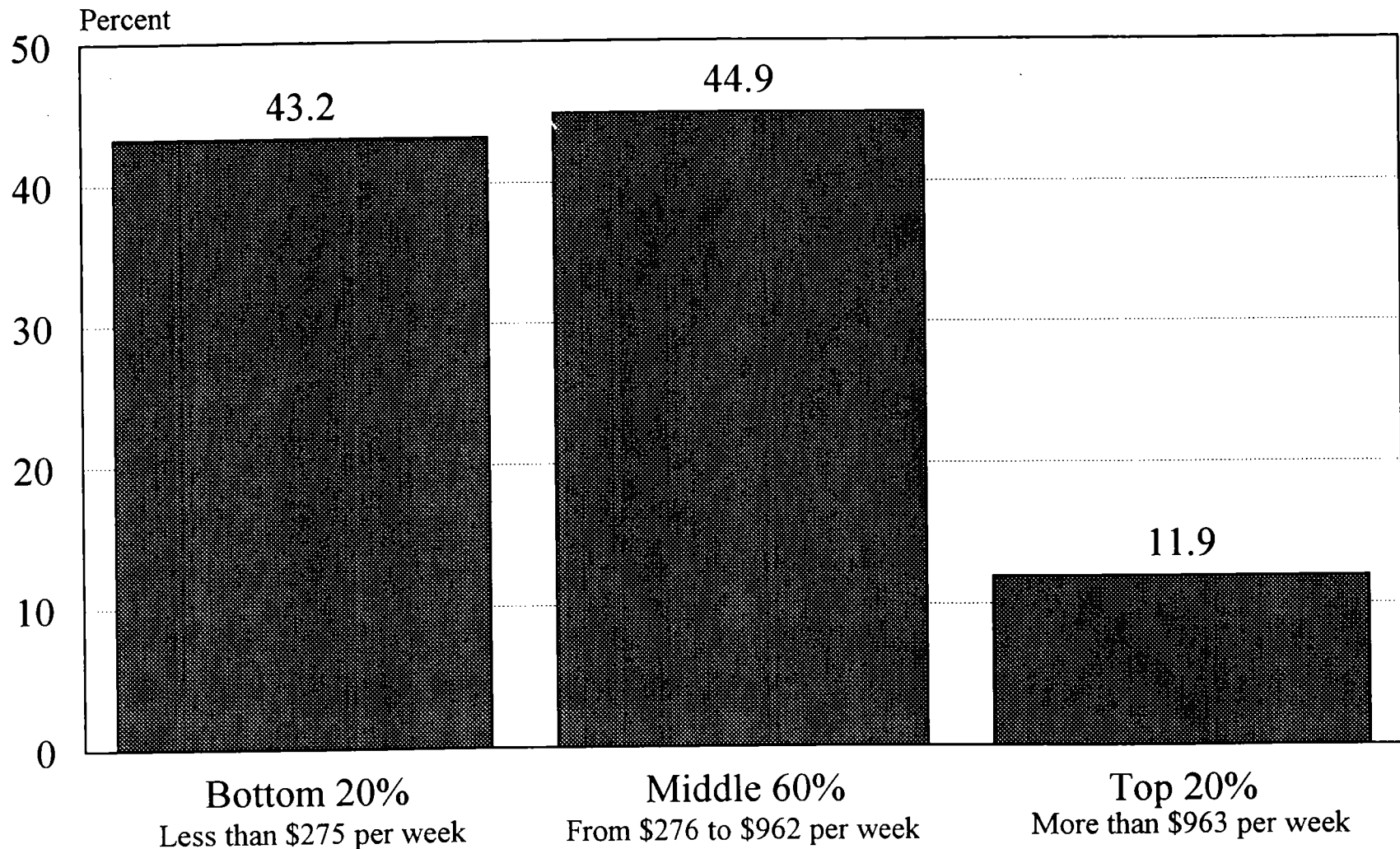
Poverty Rate: 1973-1993



Source: Bureau of the Census, Department of Commerce.

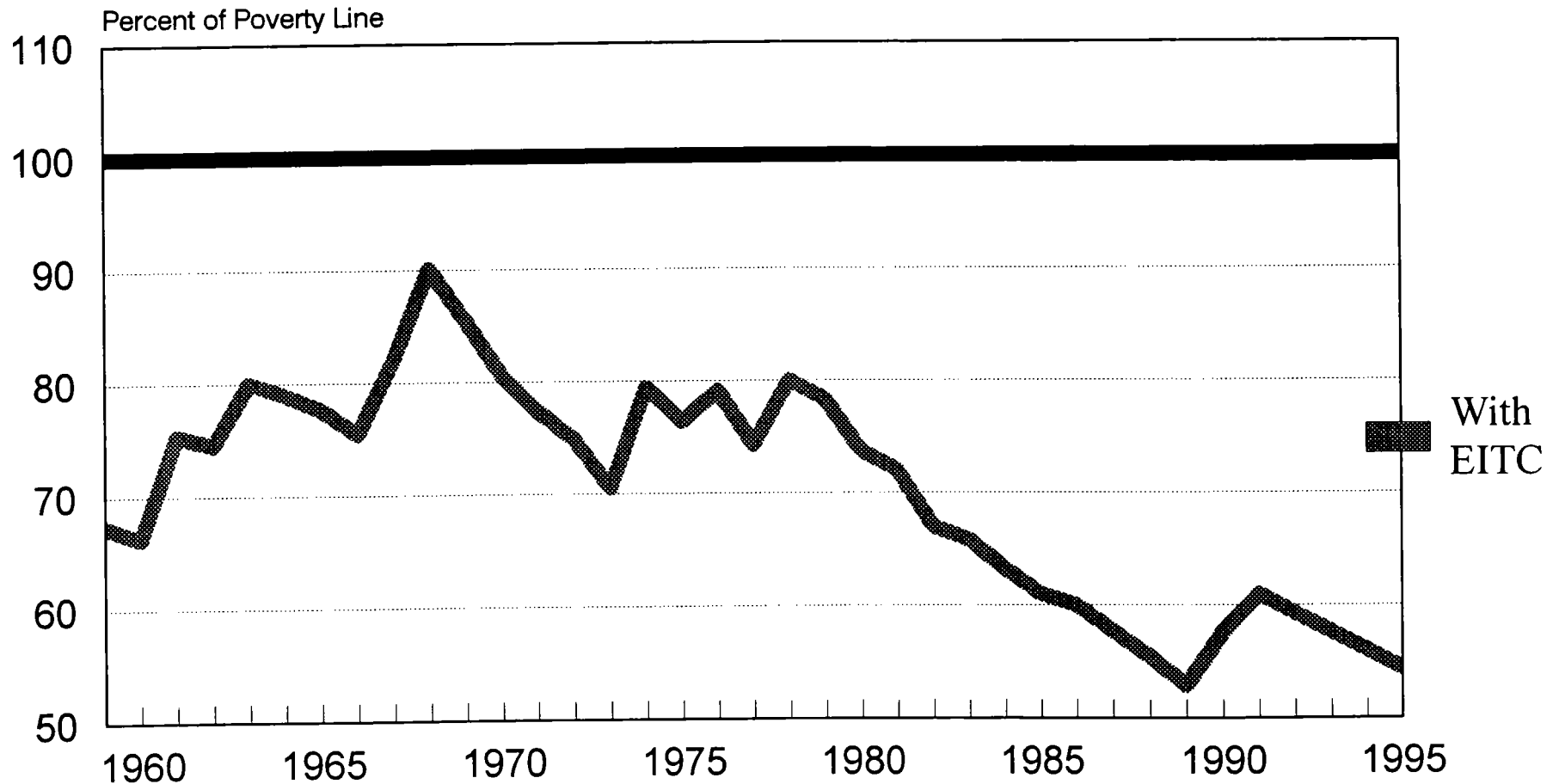
Who was Affected by the Last Minimum Wage Increase

Distribution by Family Earnings



Minimum Wage Work Does Not Lift Families Out of Poverty

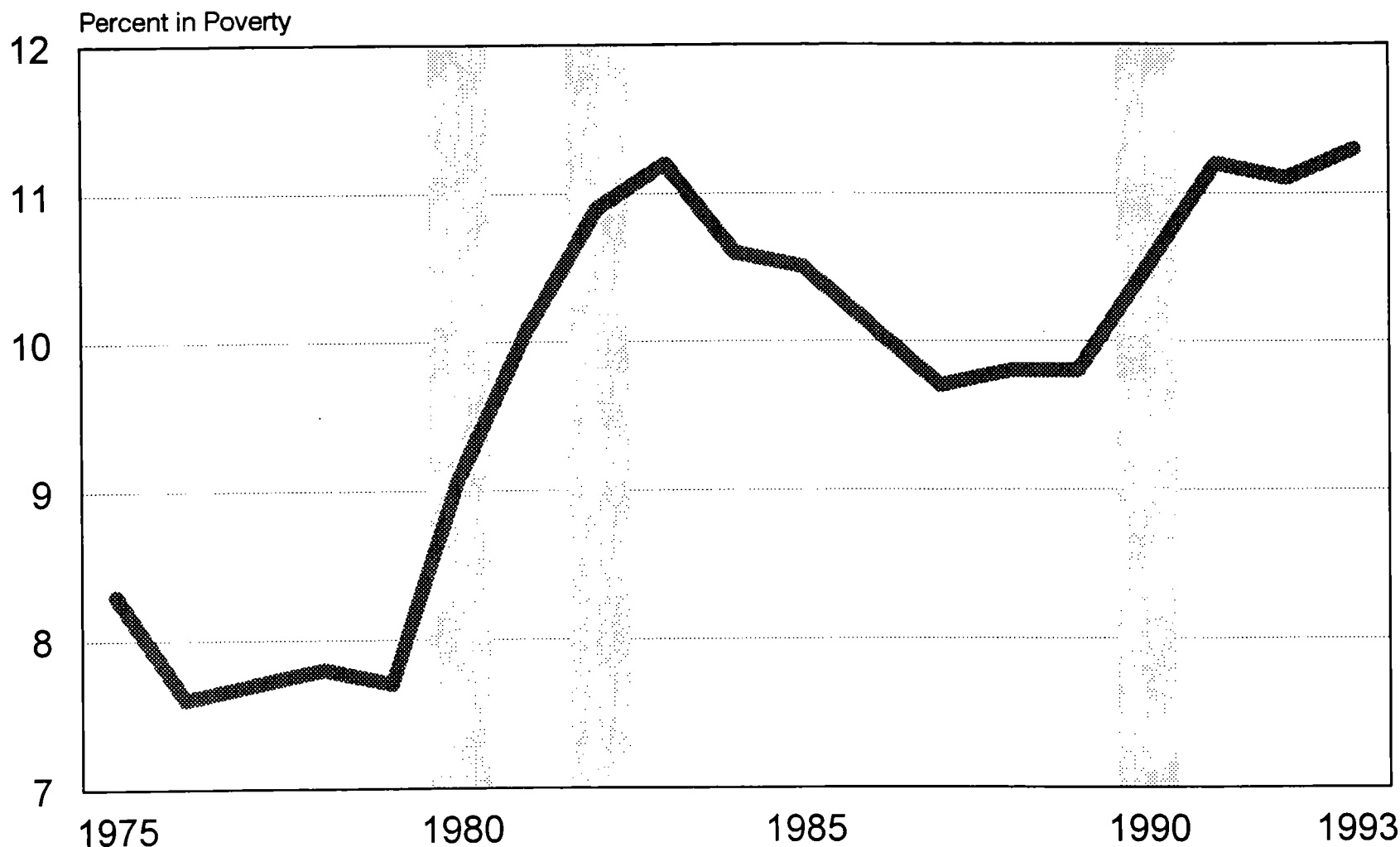
Annual Earnings at the Minimum Wage as a Percentage of the Poverty Line: 1959-1995



Note: Annual earnings for a family of four with one full-time, year-round minimum wage worker as a percentage of the four-person poverty line. The four-person poverty line for 1994 and 1995 are from Congressional Budget Office projections.

More Working Families are Poor

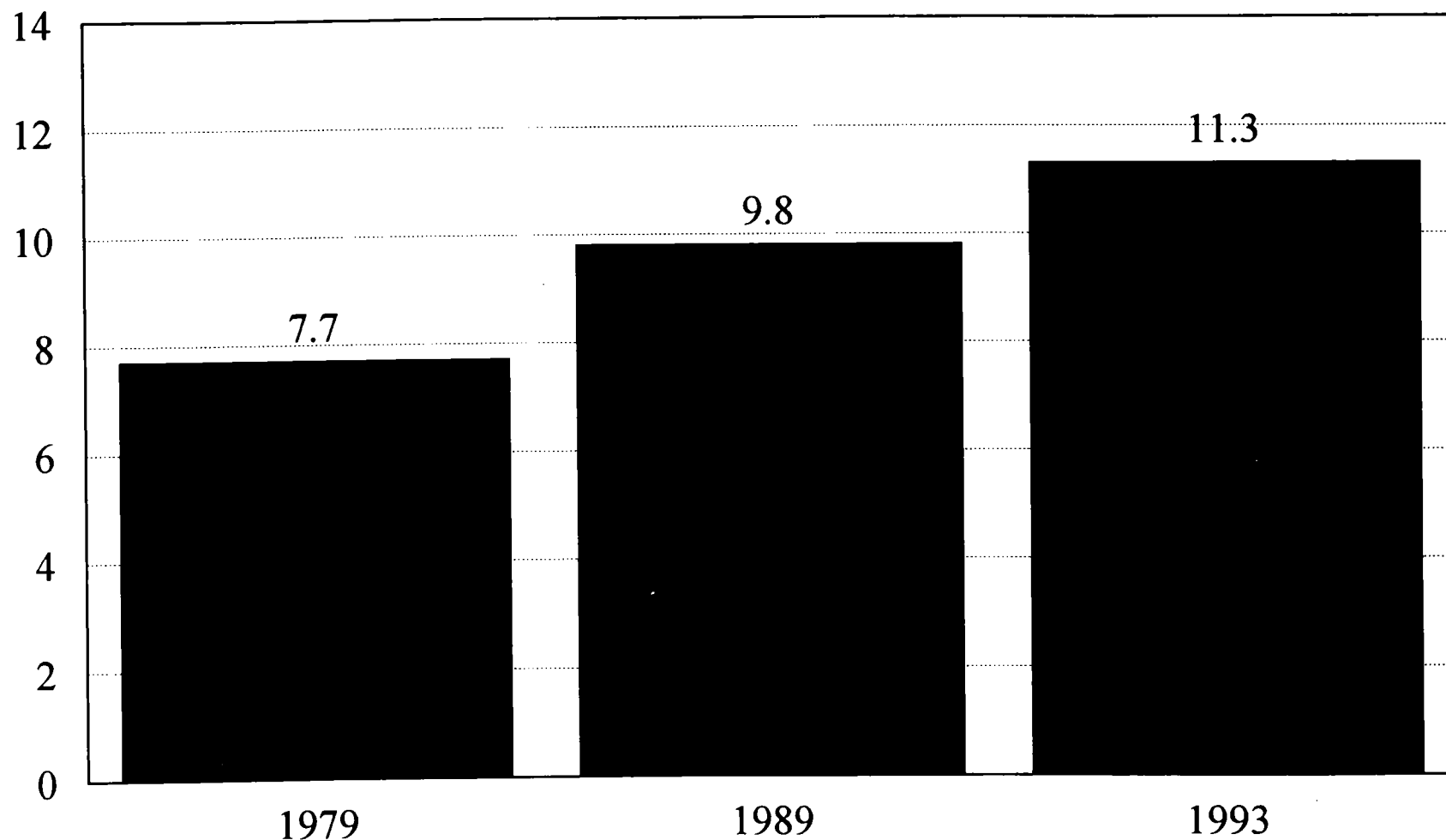
Percentage of Working Families in Poverty: 1975-1993



Source: Bureau of the Census, Current Population Survey. A working family is defined as one with children where someone in the household worked.

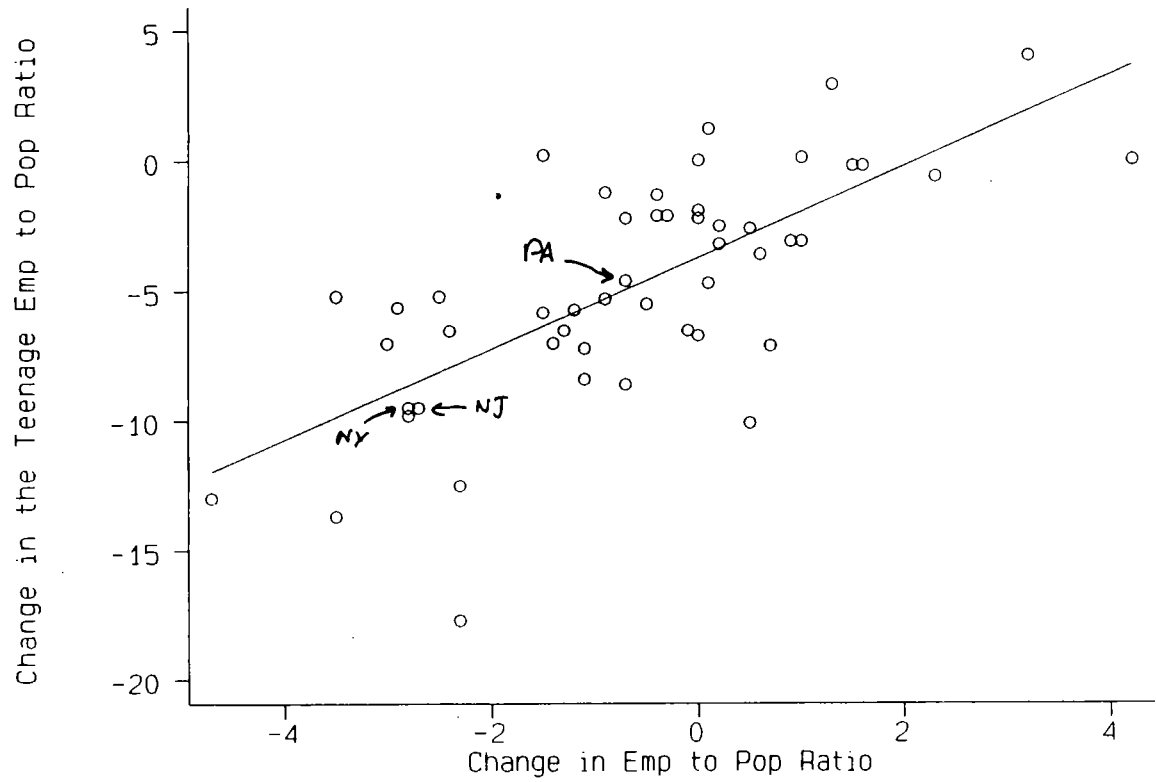
More Working Families are Poor

Percentage of Working Families in Poverty



Source: Bureau of the Census, Current Population Survey. A working family is defined as one with children where someone in the household worked.

Change in the Total and Teenage Employment to Population Ratio by State from 1989 to 1993



STATA

THE LOS ANGELES TIMES POLL

NATIONAL SURVEY; JANUARY 19-22, 1995

As you may know, the federal minimum wage is currently \$4.25 an hour. Do you favor increasing the minimum wage, or decreasing it, or keeping it the same?
 ("Eliminate" was a volunteered response)

	Increase	Keep the same	Decrease	Eliminate	Don't know
Total sample	72	24	1	1	2
GENDER					
Male	67	28	1	1	3
Female	76	21	1	-	2
AGE					
18-29 years old	76	19	1	-	4
30-44 years old	74	23	-	1	2
45-64 years old	69	27	1	1	2
65 year and older	69	28	1	1	1
ETHNICITY/RACE					
White	67	29	1	1	2
Black	92	5	-	-	3
INCOME					
Less than \$20,000	80	15	1	1	3
\$20,000-\$39,999	76	21	-	-	3
\$40,000-\$59,999	69	26	1	1	3
\$60,000 and more	60	38	-	1	1
EDUCATION					
High school or less	79	18	1	-	2
Some college	67	28	1	1	3
College graduate	59	36	1	2	2
RELIGIOUS BACKGROUND					
Protestant	72	24	-	1	3
Catholic	72	26	1	-	1
PARTY AFFILIATION					
Democrat	85	13	-	-	2
Independent	67	28	2	1	2
Republican	62	35	1	1	1
POLITICAL IDEOLOGY					
Liberal	82	16	-	-	2
Moderate	77	21	-	-	2
Conservative	63	33	1	1	2
VOTER REGISTRATION					
Registered to vote	69	27	1	1	2
Not registered to vote	80	16	1	-	3
92 PRESIDENTIAL VOTE					
Clinton	79	18	-	-	3
Bush	57	39	-	2	2
Perot	64	32	2	-	2
LOCATION OF HOME					
City	76	21	1	1	1
Suburb	67	29	-	1	3
Small town	72	24	1	-	3
Rural	72	25	-	1	2
NATIONAL REGION					
East	76	21	1	1	1
Midwest	67	28	1	1	3
South	74	21	-	1	4
West	71	27	1	-	1
UNION MEMBERSHIP					
Union member	82	16	-	-	2
Non union member	69	26	1	1	3
Union household	80	17	-	-	3
Non-union household	69	27	1	1	2
GENDER AND PARTY AFFILIATION					
Democratic men	82	17	-	-	1
Independent men	60	35	2	1	2
Republican men	60	36	1	2	1
Democratic women	87	10	-	-	3
Independent women	75	21	2	-	2
Republican women	64	35	-	-	1
GENDER AND AGE					
Men 18-44 years old	72	23	-	1	4
Men 45 years and older	61	35	1	2	1
Women 18-44 years old	77	20	1	-	2
Women 45 years and older	76	21	1	-	2

	Increase	Keep the same	Decrease	Eliminate	Don't know
PARTY AND IDEOLOGY					
Liberal Democrats	85	13	-	-	2
Other Democrats	84	13	-	-	3
Conservative Republicans	55	41	1	2	1
Other Republicans	73	26	-	-	1
WORKING PEOPLE AND GENDER					
Working men	66	28	1	2	3
Non working men	71	27	1	-	1
Working women	77	22	-	-	1
Non working women	76	19	1	-	4
CLASS AND GENDER					
Male upper class	53	45	-	1	1
Female upper class	66	33	-	-	1
Male upper class	66	30	1	2	1
Female middle class	77	20	1	-	2
Male working class	72	21	-	1	6
Female working class	81	16	1	-	2
GENDER AND RACE					
White male	63	32	1	2	2
White male	71	26	1	-	2

(-) INDICATES LESS THAN .5%

HOW THE POLL WAS CONDUCTED

The Times Poll interviewed 1,353 adults nationwide, by telephone, Jan. 19 through 22. Telephone numbers were chosen from a list of all exchanges in the nation. Random-digit dialing techniques were used so that listed and non-listed numbers could be contacted. Interviewing was conducted in English and Spanish. The sample was weighted slightly to conform with census figures for sex, race, age and education. The margin of sampling error for the total sample is plus or minus 3 percentage points. For certain other sub-groups the error margin may be somewhat higher. Poll results can also be affected by other factors such as question wording and the order in which questions are presented.

Column 98

12/14/94

HART - TEETER

NBC/WSJ (December)

Study 4055

December 10-13, 1994

0.23a. (FORM B) Do you favor or oppose increasing the minimum wage? *

Banner 1	Sex			Area				Race		Age			Income				Occupation			Other
	All Adults	Men	Women	North-east	Midwest	South	West	Whites	Blacks	18-34	35-49	50-64	65 and over	Under \$20,000	\$20,000-\$50,000	Over \$50,000	Professionals/managers	White collar workers	Blue collar workers	White fund-mentalists
Total	498	255	243	118	125	155	100	391	64	169	140	89	96	85	243	139	144	64	109	74
Favor	375 75%	186 73%	190 78%	92 78%	91 73%	112 72%	81 81%	291 74%	49 77%	144 85%	103 74%	64 72%	60 63%	59 70%	187 77%	106 77%	106 74%	51 80%	84 77%	55 74%
Oppose	98 20%	54 21%	44 18%	19 16%	29 24%	34 22%	15 15%	79 20%	11 17%	18 11%	32 23%	20 22%	28 30%	20 24%	44 18%	27 19%	30 21%	10 16%	23 21%	16 21%
Depends (VOL)	16 3%	10 4%	5 2%	6 5%	2 1%	6 4%	2 2%	11 3%	4 6%	6 3%	4 2%	3 3%	3 3%	4 4%	8 3%	3 2%	5 3%	2 3%	2 2%	1 1%
Not sure	10 2%	6 2%	4 2%	1 1%	3 2%	4 2%	2 2%	10 3%	-	1 1%	2 1%	3 3%	4 4%	2 2%	4 2%	3 2%	3 2%	1 1%	-	3 4%

* Asked of one-half the respondents.

Column 98

12/14/94

MART - TEETER

NBC/WSJ (December)

Study 4055

December 10-13, 1994

Q.23a. (FORM B) Do you favor or oppose increasing the minimum wage? *

Banner 2--Politics			Clinton Approval	Party Identification				Ideology		Attitude Toward Election Results		1992 Vote	Defectors	Other		Women	Whites		Attitude Toward Economy		
			=====	-----				=====		-----		=====	-----	=====		=====	=====		-----		
	Regis- All Adults	tered voters		Disap- prove	Demo- crats	Inde- pend- ents	Repub- licans	Lib- erals	Conser- vatives	Positive results	Negative results	Perot voters	Clinton defectors	Union house- holds	Talk show listeners	Working women under 60	White men	White women	Satis- fied	Dis- satis- fied	
			Approve																		
Total	498	392	239	224	179	82	184	106	170	325	136			61	106	118	115	191	200	231	261
Favor	375	279	199	150	145	62	124	87	110	231	114			49	88	79	93	135	156	174	197
	75%	71%	83%	67%	81%	76%	67%	82%	64%	71%	84%			80%	82%	67%	81%	70%	78%	76%	76%
Oppose	98	89	30	60	26	14	52	13	50	76	16			10	17	34	19	43	36	45	51
	20%	23%	13%	27%	15%	17%	28%	12%	30%	23%	12%			17%	16%	28%	16%	23%	18%	19%	19%
Depends (VOL)	16	14	5	9	5	4	4	2	7	13	2			2	-	5	2	7	4	7	8
	3%	4%	2%	4%	3%	5%	2%	2%	4%	4%	1%			3%		4%	2%	4%	2%	3%	3%
Not sure	10	10	5	4	3	1	5	4	3	6	4			-	2	1	1	6	4	5	5
	2%	2%	2%	2%	1%	2%	3%	4%	2%	2%	3%				2%	1%	1%	3%	2%	2%	2%

* Asked of one-half the respondents.

TIME/GI

TABLE 21

Q10A. FAVOR OR OPPOSE:

RAISING MINIMUM WAGE FROM ITS CURRENT LEVEL OF \$4.25

	PARTY ID				S E X		R E G I O N				A G E				I N C O M E				R A C E		
	REPU	INDE	DE-		MEN	MEN	EAST	WEST	TH	WEST	18 -	35 -	50 -	OVER	UNDR	\$20K \$35K			WH-	BL-	OTHR
	BLI-	PEN-	MO-								34	49	64	64		TO	TO	OVER			
	TOTAL	CAN	DENT	CRAT												\$20K	\$35K	\$50K	ITE	ACK	
EIGHTED TOTAL	800	237	273	252	400	400	168	200	272	160	222	288	157	114	131	197	166	201	677	58	49
AL RESPONDENTS	789	231	269	253	376	413	164	194	267	163	285	206	152	127	170	200	155	163	645	81	47
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
OR	611	149	213	224	272	340	139	140	207	125	233	159	123	83	143	165	117	123	480	76	44
	78%	64%	79%	88%	72%	82%	85%	72%	78%	77%	82%	77%	81%	65%	84%	82%	75%	75%	74%	94%	95%
OSE	154	75	41	28	97	57	21	41	57	35	47	42	23	37	24	32	34	35	143	4	2
	20%	33%	15%	11%	26%	14%	13%	21%	21%	22%	16%	20%	15%	29%	14%	16%	22%	22%	22%	5%	5%
SURE	23	7	14	2	8	16	4	13	3	3	5	5	6	7	3	3	4	5	23	1	-
	3%	3%	5%	1%	2%	4%	3%	7%	1%	2%	2%	3%	4%	6%	2%	2%	3%	3%	3%	1%	-
MA	788	230	268	253	375	413	164	194	266	163	285	206	152	126	170	200	154	162	645	81	46
	101%	100%	99%	100%	100%	100%	101%	100%	100%	101%	100%	100%	100%	100%	100%	100%	100%	100%	99%	100%	100%

	Total	Q1 DC App			Q1 NO App			Q18 Reg		Q17 Party ID						Q18 1992 Vote		
		Approve	Disappr	NS/Ref	Approve	Disappr	NS/Ref	Yes	No	Str Dem	W Dem	Str Rep	W Rep	Ind	Oth/NS/Ref	Bush	Clinton	Perot
Q9 Wage Favor	651 78%	173 87%	213 65%	65 81%	178 69%	210 81%	243 82%	494 75%	154 87%	120 89%	142 86%	77 61%	117 70%	150 80%	46 81%	138 62%	251 88%	73 71%
Q9 Wage Oppose	149 18%	46 11%	96 29%	7 9%	66 26%	42 13%	40 14%	130 20%	18 10%	11 8%	19 9%	42 33%	43 25%	28 15%	10 18%	66 30%	23 8%	27 27%
NS/Ref	39 5%	9 2%	22 7%	8 10%	25 6%	13 4%	11 4%	36 5%	3 3%	5 3%	7 4%	8 6%	9 5%	10 6%		18 8%	21 4%	3 3%
TOTAL	838 100	420 100	331 100	80 100	260 100	284 100	294 100	659 100	176 100	135 100	166 100	128 100	167 100	189 100	56 100	224 100	285 100	103 100

	Total	Q22 Sex		Q23 Age										Q24 Race			
		Male	Female	18-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65 +	White	Afr-Amer	Latino	Oth/Ref
Q9 Wage Favor	651 78%	306 71%	365 82%	70 82%	71 84%	81 78%	89 75%	93 72%	72 87%	65 78%	33 79%	31 63%	103 74%	628 76%	79 85%	32 73%	62 87%
Q9 Wage Oppose	149 18%	90 21%	59 13%	15 17%	10 12%	10 17%	10 20%	19 25%	10 12%	11 13%	7 16%	16 29%	25 17%	124 19%	13 15%	5 13%	5 11%
NS/Ref	39 5%	16 5%	21 5%	1 1%	3 3%	5 5%	5 5%	2 3%	1 1%	2 3%	2 5%	4 9%	13 9%	25 5%		1 0%	1 3%
TOTAL	838 100	396 100	445 100	85 100	84 100	107 100	93 100	74 100	83 100	58 100	62 100	50 100	149 100	657 100	92 100	40 100	69 100

	Total	Q21 Income							Q24 Region			
		< \$10k	\$10-20k	\$20-30k	\$30-40k	\$40-50k	\$50-\$75k	\$75k +	NE	MW	SO	WE
Q9 Wage Favor	651 78%	51 84%	105 85%	110 83%	93 76%	63 72%	92 74%	57 65%	146 81%	161 77%	213 76%	112 76%
Q9 Wage Oppose	149 18%	9 15%	12 16%	15 11%	24 20%	20 23%	24 21%	31 36%	30 15%	55 17%	50 21%	26 17%
NS/Ref	39 5%	1 1%	6 5%	7 5%	5 4%	5 6%	4 5%	6 5%	9 4%	13 6%	8 3%	9 4%
TOTAL	838 100	61 100	123 100	132 100	122 100	88 100	124 100	101 100	285 100	309 100	278 100	147 100

NBC/WSJ

The Cruelty of the Minimum Wage

Testimony of

Finis Welch

February 22, 1995

To understand that minimum wages are one of the cruelest constructs of an often cruel society you need only acknowledge that as a general rule people do as well for themselves as they can; inclusive of working conditions, fringe benefits, chances for advancement and pay, more is preferred to less. You need also acknowledge that when wages are increased by fiat there is no accompanying increase in productivity. It follows that you do no one a favor by passing a law that says if they cannot earn more they cannot work.

To see the perversity of such a law explore the alternatives available to employee and employer when the minimum wage is increased. The employee's alternative is to find a job that pays more or become a non-employee. That's it. The employer and the consumer (the employer's employer) have more extensive menus. The obvious alternative is to substitute in favor of employees who would earn more in any case; after all, the vast majority of workers have wages that exceed even the most aggressive proposal for wage floors. A second alternative is to outsource, to subcontract those activities where employee wages are low by going abroad or to self-employed contractors (since we have been unable to devise a scheme for imposing wage floors on the self-employed). A third alternative is to automate, to substitute machines that do not have legislated minimum prices. Finally, there is the alternative of just cutting back. If minimum wages accomplish anything, they increase the employer's cost and the purchasers of its product or service will search for lower priced alternatives. This may include choosing the same products from abroad or switching in whole or in part to different products. If the consequences of minimum wages are so straightforward, why do so many support them and what do the data show?

Regarding support for increased minimums, it is informative to observe who supports them. The hearings by legislative panels I have attended have invariably had testimony by organized labor favoring higher minimums although none of those testifying represented workers with wages below the proposed minimums. Is this altruism or a clear understanding that bargaining positions strengthen when substitutes become more expensive? In one of the more revealing exchanges, I attended hearings in 1973 before the House Subcommittee on Labor regarding a proposed increase that was sponsored by the Honorable John Dent of Pennsylvania. After lengthy questioning regarding my research, Congressman Dent volunteered, "I was here in 1938 when we passed the Fair Labor Standards Act. We had to do something; we were losing all of our jobs to the South ...". Was the support of the original Act based on a desire to help low wage workers in the South or was Northern manufacturing demonstrating an understanding of the simplest economic principles?

Regarding the data, few topics have been more researched. One line questions who would benefit if wages below a hypothetical minimum were raised. The other is not hypothetical. It examines the historical record comparing employment changes to increases in the minimum. The hypothetical work is an accounting exercise that records the incomes and characteristics of families where minimum wage workers reside. Researchers who have written on this point show no disagreement; the most recent paper (Horrigan and Mincy)—published in 1993—divides families into five equally sized groups according to total income. The authors define minimum wage families as those having at least one minimum wage earner and, using data for 1987, they identify where minimum wage families fall in the distribution of family income. The results are:

	Family Income Quintiles				
	lowest 1	2	3	4	highest 5
% of all families	20.0	20.0	20.0	20.0	20.0
% of minimum wage families	20.3	21.0	21.6	18.9	19.2

As shown, each quintile is defined to have exactly 20% of all families; it is coincidental that the representation of families with minimum wage workers is for practical purposes also 20%.

This result stems from two offsetting forces. Almost a third of the minimum wage families are families where the only minimum wage earner is a teenager and the majority of these families are in the upper two income quintiles. There is another equally large group of families with two working adults where one is a minimum wage worker and the other is not. Income of these families are skewed toward the higher quintiles. This leaves a minority of the minimum wage families that are female headed or consist of a single worker and they have low incomes indeed.

Even though the welfare implications of minimum wage increases ought to emphasize unskilled adults, the literature emphasizes teenagers. This is because higher proportions of teenagers are directly affected and effects are therefore more easily observed. The 1982 Survey by Brown, Gilroy and Kohen that grew out of the Congressionally mandated Minimum Wage Study Commission describes thirty studies linking teenage employment to minimum wages. The reviewers summarize the weight of the evidence as showing as a rough approximation a 10 percent increase in the minimum wage reduces teenage employment by somewhere between one and three percent.

More recently economists at Princeton and Harvard have challenged the earlier literature with case studies of fast food "restaurants" showing no reductions in employment following the 1990/1991 round of increases in the minimum wage (Card, Krueger and Katz, and Card and Krueger). Although our new Labor Secretary appears to take these studies seriously it is unlikely that they will have a lasting impact on the opinions of most economists. The major weakness is that the studies do nothing to account for changes in product demand among the establishment considered. A colleague whose opinion I value highly put it as directly as possible; "I guess we would all be eating hamburgers if the minimum wage were high enough!" Regardless of the recent case studies, the larger literature may leave one with an impression that the employment effects of minimum wages are unimportant. That would be unfortunate because a small percentage of a large number is not necessarily unimportant.

The recent two-step increase in the federal minimum brought it from \$3.35 to \$3.80 on April 1, 1990 and then to \$4.25 on April 1, 1991. Between March '90 to April '91 the minimum increased 27%. If we examine employment changes from the 12 months preceding the first of the two steps to the 12 months following the second increase in the federal minimum wage we find that: employment of teenagers fell relative to adults, employment of high school dropouts fell relative to employment of those with more education, employment of blacks fell relative to whites, employment of persons of Mexican descent fell relative to others and employment of those who are not married fell relative to those who are married. In short, employment fell the most where wages are lowest.

Notice that the 1990-91 recession followed the increases in the federal minimum wage. This is nothing new. It seems that employment growth usually slows when the minimum is increased and when growth is not robust, recessions typically follow. Even so, you may ask whether the reductions in employment among the low wage populations that followed the most recent minimum wage increase result from the increase in the minimum *per se* or from the recession.

In a paper that will be published in the annual proceedings issue of the *American Economic Review*, my colleagues, Donald Deere of Texas A&M University and Kevin Murphy of the University of Chicago and I address this issue. Judged against the increases in the relative employment of low wage labor that accompanied the mid-1980s expansion, we find independently of the recession, that the increased federal minimum led to approximately a 10 percent reduction in the proportion of teenagers who are employed. Effects for prime aged blacks and high school dropouts are significant but not as pronounced.

I will be happy to entertain questions.

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**Labor Market Consequences of a Minimum Wage Increase:
Comments Prepared for the Congress of the United States
Joint Economic Committee**

Lowell Taylor¹

The traditional policy analysis of a minimum wage relies on a simple application of the "law of demand"—when the price of something increases people buy less of it. Thus an increase in the wage employers must pay workers induces employers to hire fewer workers. Although a minimum wage hike does lead to higher wages for those unskilled workers who retain their jobs, it also restricts employment opportunities of unskilled workers.

The main question I wish to address in these comments concerns the general validity of the standard analysis. The law of demand, after all, is not an immutable truth. It is rather an empirical generalization that conforms with reality in a great many circumstances. Does this law apply to low-wage labor markets?

The evidence that I present on this issue comes from an analysis of California's most recent minimum wage increase. In July of 1988 Californians saw an increase in the minimum wage from \$3.35 to \$4.25. The immediate consequence of this increase was to raise average wages in low-wage industries. If the textbook analysis applies, we would also expect employment growth to be tempered in these same industries.

An obvious place to examine this proposition is in the retail trade sector. Prior to 1988, over 30 percent of workers in retail trade earned between \$3.35 and \$4.25. It is therefore not surprising that with the minimum wage change, the annual growth in pay per employee in California's retail trade sector jumped to over six percent, as compared with less than four percent in the rest of the United States. There was, however, wide variation in pay increases across industries within the broadly defined retail trade sector. For instance, in department stores and women's clothing stores wages grew much more rapidly between 1988 and 1989 in California than in the rest of the United States. In contrast, pay per employee did not escalate as rapidly in California's higher paying automotive and furniture retail outlets.

Conventional wisdom suggests that we should observe slow employment growth in industries with the larger wage increases. Data from the U.S. Department of Commerce, summarized in the table on p. 4, seem to indicate precisely such a pattern. In particular, in those industries where the wage grew most rapidly, employment growth lagged most severely in California.

Further evidence about the effect of the minimum wage increase comes from an examination of differing impacts across California's counties. Prior to the 1988 minimum wage increase there was substantial variation in California's counties in wages workers earned in retail trade. In some lower-wage counties a substantial proportion of retail trade workers earned minimum wages, while in more prosperous counties very few workers earned the minimum wage.

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Consider San Francisco County and Sutter County for instance. Sales tax records from the California State Board of Equalization indicate that these counties had nearly identical trends in overall taxable sales from 1988 to 1989.² We thus would expect that in the absence of a minimum wage increase both counties would have enjoyed similar growth in retail trade employment. San Francisco County, however, was a high wage county, with the highest average wage in retail trade of any county in California. Here the average wage grew by only 1.7% in 1988-1989, suggesting that the minimum wage increase had little "bite." County retail trade employment grew rapidly, by 8.0%. In contrast, Sutter County, an initially lower wage county, experienced a 9.2% increase in average retail trade wages and a change in retail trade employment of -2.1%.

In a paper forthcoming in an academic journal published by the American Statistical Association, a Carnegie Mellon graduate student and I undertake an extended statistical analysis of the patterns described in the preceding paragraphs.³ Our conclusion is that the data provide evidence that California's 1988 minimum wage increase generally tempered employment growth in low-wage retail trade industries. This effect was most pronounced in low-wage counties.

I would like to add two points.⁴

First, there is reason to be concerned that the negative relationship between wage growth and employment growth we observe in the data are due to errors in data collection by the U.S. Department of Commerce, and not due to the minimum wage increase. To check for this possibility we used these same County Business Patterns data for the years 1985-86, 1986-87, and 1987-88 to see if the negative relationship between wage growth and employment growth was found in these years. California's minimum wage did *not* change in any of these years. Thus our "statistical experiment" of looking for a negative relationship between employment growth and wage growth in low-wage industries should fail in these years, unless the negative correlation is due to systematic error in the data. Fortunately, the 1988-89 pattern does *not* appear at all in 1985-86, 1986-87 or 1987-88. This result gives greatly increased confidence in our paper's conclusion, but we still would like to have been able to work with higher quality data.

Second, my study is one of several recent studies looking at the minimum wage. If I were appearing before this Committee ten years ago I could present my findings on the minimum wage as more or less representative of the consensus view of my profession. On the basis of my analysis of the California case, I would predict that the federal minimum wage increase being discussed at this hearing will cause a rather substantial reduction in job growth in low-wage industries and low-wage regions of the country. However, recent case studies of the fast food industry indicate that a minimum wage increase need not always reduce short-term employment, and some additional work examining broader markets points to this same conclusion.

² From the 12 months preceding the minimum wage increase to the subsequent 12 month period, Sutter County taxable sales increased by 7.2%, while San Francisco County taxable sales increased by 6.9%.

³ Taeil Kim and Lowell Taylor, "The Employment Effect in Retail Trade of California's 1988 Minimum Wage Increase," *Journal of Business and Economic Statistics* (April 1995).

⁴ On both of these observations, see David Card and Alan Krueger, "Myth and Measurement: The New Economics of the Minimum Wage," Princeton: Princeton University Press (1995).

Perhaps the best way to view recent research on the minimum wage is as an uncomfortable reminder that economists should approach with considerable humility the task of predicting the effect of even simple policies like minimum wages in a setting as complex and varied as the low-wage labor market in the United States. My work indicates that a hike in the minimum dampens employment growth for low-skill workers. Others may disagree with this conclusion. But the evidence from the California case is not easy to dismiss. The Joint Economic Committee should recognize that a minimum wage increase does hold considerable risk as a strategy for accomplishing the goal of redistributing income to low-wage workers. This risk follows from a simple and compelling argument found in nearly every introductory economics textbook:⁵

Policymakers therefore face a tradeoff. Higher minimum wages increase the income of most low skill workers, but these gains come at the potential cost of fewer jobs for this same group of workers.

⁵ William Baumol and Alan Blinder, "Economics: Principles and Policy," Fort Worth: Dryden Press (1994), p. 401.

**Differences in Pay Growth and Employment Growth,
California - U.S., 1988-89**

	Pay per Employee	Employment
General Merchandise	6.86	-6.16
Eating and Drinking	4.63	-1.24
Food Stores	2.36	-0.37
Apparel and Accessory	2.31	1.19
Building and Garden Supplies	0.77	3.15
Furniture	0.00	3.87
Auto Dealer and Service Stations	-1.56	2.02

Column 1 gives the percent change in pay per person in California minus the percent change in pay per person in the rest of the U.S., while column 2 is the difference in the percent change in employment in California and the rest of the U.S. These categories represent all retail trade industries except "Miscellaneous Retail." These statistics are tabulated from the *County Business Patterns*, U.S. Department of Commerce.

TESTIMONY BEFORE
THE JOINT ECONOMIC COMMITTEE OF THE CONGRESS OF THE UNITED
STATES
ON THE
PROPOSED MINIMUM WAGE INCREASE

By

Charles P. Fuller
February 22, 1995

Mr. Chairman, members of the committee, I would like to thank you for affording me the opportunity to participate in this great democracy in which we live.

I am here today to voice my specific concerns about the impact on my business of the proposed increase in the minimum wage rate and to express briefly, if you will permit me, more general concerns about the principles at issue in this type of legislation.

My first job was at fifteen working as a janitor in a bookstore. I was paid minimum wage by a small business owner who took his time and money to train me and give me my first work experience. It was there that I began my climb up the socio-economic ladder.

I now operate three private bookstores serving the faculty and student body of the University of Georgia. I am in competition with both the State of Georgia, which operates its own bookstore on the campus, as well as with a branch of a large national bookstore chain. Book prices are set by publishers and are controlled by the competitive nature of the business. I cannot raise my prices to offset the increased cost of labor resulting from this legislation, nor do I have any effective way of reducing other overhead costs.

My employees are students, from all walks of life, struggling to put themselves through school. They are well-motivated, young people out to further their education and are glad to find part-time work with flexible hours and other benefits that directly affect their lives. I presently have four salaried employees, eighteen hourly wage workers and regularly hire an additional fifty to seventy-five minimum wage workers at the beginning of each quarter. If the minimum wage rate is increased, you will be voting a pay-raise for my entire hourly staff without providing me with a means to fund that pay-raise. If I am to be fair to the employees who have WORKED and EARNED raises above the minimum I must increase their wage by the same proportion as the minimum increase. Unfortunately I cannot afford to absorb this increase.

If this committee chooses to recommend the increase in the minimum wage you will also be choosing the unemployment line for 3 of my hourly employees and 25 of my temporary employees.

Minimum wage is viewed by many in this country as a right to a particular life style. Instead it should be viewed as the first step of opportunity to a better life. Minimum wage is not a living wage and should not be represented to the American people as a living wage. Minimum wage is not a reflection of what a person is worth but should be a reflection of what the market will bear. As an employer, today's minimum wage allows me to hire unskilled or first time workers and train them at a wage that is economically feasible. If you raise it the wage will no longer be feasible and some of these jobs will be lost. The sweat shop conditions of the 1930's that created a need for the minimum wage no longer exist. I believe that employers operating in a free market economy will pay labor a fair market rate. When I can no longer hire the quality of employee that I desire for what I am paying, then and only then, should I raise my wage rate. It should be the employers choice brought about by the demands of the market place, not because it was mandated by the government.

If this august body truly wishes to raise the standard of living for entry level minimum wage employees the answer is simple. Fund it yourself by releasing all hourly employees from the burden of withholding taxes. This will increase the employees check by as much as 20% and still allow employers to hire the number of employees they need to remain competitive.

I urge you to reject the minimum wage increase so that small businesses can continue to provide the same opportunities that I was afforded as a young worker.