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[Minimum Wage Issues] [2]

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ARMEY Packet

"THE MINIMUM WAGE FOR FAMILIES ACT"

LEGISLATIVE DESCRIPTION AND SUMMARY

This proposal will fundamentally redesign the EITC, and rename it the "Working Families Support Credit".

RATIONALE

It has become difficult in recent years to support a family on a minimum-wage salary. There is agreement among both Republicans and Democrats that we need to provide assistance to the "working poor", but there is significant disagreement on the best way to accomplish this goal.

The administration has proposed an increase in the minimum wage as the solution to this problem. While such an increase would provide some relief to the working poor, it would also have much more far reaching effects, including placing large economic constraints on the private sector, a loss of entry-level positions, and an inflationary ripple effect on wages. A minimum wage increase would also affect those persons who arguably are not in need of this assistance, such as teenagers working during their summer vacation.

Our proposal would accomplish the goal of providing assistance to those who are truly in need -- working families -- while at the same time avoiding the additional problems associated with a minimum wage increase.

BACKGROUND

The Earned Income Tax Credit (EITC), which was created in 1974, provides a refundable tax credit to lower-income working families with children and currently to some adult childless workers. The EITC has expanded greatly since its creation as a result of both Congressional and Presidential initiatives, including efforts by the Reagan, Bush and Clinton administrations.

RECIPIENTS

Under current law, there are an estimated 18.2 million tax units eligible for EITC. 12.7 million of these tax units are families with children, of whom roughly 5.3 million have one child and 7.4 million have two or more children. The remaining 5.5 million eligible tax units are childless workers ages 25 through 64.

PROPOSAL

This EITC reform proposal, which builds upon the reforms in the Republican Balanced Budget Act of 1995, will redesign and reform the current EITC program in an effort to return the program to its original purpose of serving low-income working families. The proposal will address the following:

* Convert large annual "lump sum" EITC payments into equal monthly payments so as to more practically supplement family income

* Deny credit to undocumented workers

* Eliminate credit for childless adults

* Increase the support credit for parents

* Rename Earned Income Tax Credit the "Working Families Support Credit"

With the savings generated from these reforms, we will significantly increase the amount of credit recipients of the Working Families Support Credit would receive.

If you believe that those people who are in need of wage assistance are America's working families, as opposed to teenagers employer during their summer vacation, please join us in support of The Minimum Wage Increase for Families Act.

If you would like to cosponsor this legislation or if you have additional questions, please contact Chuck Seyfarth with Representative Hutchinson at 5-4301.

There Are 153,900 Stories in Wisconsin's Restaurants.

Here's a Great One.

Wisconsin's Success Stories

Cheri Dohse
Cousins Submarines

Cheri Dohse is one of the more than 153,900 people who work in Wisconsin's restaurants.

As a teenager, she started working for Cousins Submarines as a cashier. Her family needed the money and Cheri thought it would make for a nice temporary job.

But Cheri found she couldn't afford college, and then her son Michael arrived. "I thought about going on welfare," Cheri says, "but I decided to stick it out with Cousins."

And Cousins stuck with Cheri.

First they got her into a management training program, and later they paid for her tuition so she could start college.

Today, Cheri Dohse is a District Supervisor for Cousins and oversees seven restaurants. Her next goals are to own a Cousins franchise and to finish her college degree.

When she managed her own Cousins restaurant, Cheri worked with a lot of troubled neighborhood kids from broken homes — sometimes feeding them, sometimes counseling them.

The lesson Cheri tried to teach them is the lesson she learned — a job helps you climb higher. And once you start climbing, there's no telling how high you can go.

Cheri Dohse's story is extraordinary in many ways, but it's pretty typical in America's Restaurants. In fact, more than 60% of managers and owners began in entry level, hourly jobs.

Wisconsin's Restaurants.
Good Jobs. Great People. Extraordinary Opportunity.

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Robert J. Samuelson

Minimum Wage: Stale Symbolism

The debate over the minimum wage is an exercise in stale symbolism. The proposed increase—from the $4.25 an hour to $5.15—would not do much to help the poor. It might even hurt them. As such, the minimum wage is less about social policy than politics. Roughly three-quarters of Americans think raising it is the decent thing to do. So opponents are easily stigmatized as cruel. In an election year, this is a simple way for Democrats (who generally favor it) to embarrass Republicans (who don't).

If you doubt that, ponder some facts gathered by New York Times reporter David Rosenbaum. With computers, Rosenbaum had the official presidential papers—including presidential speeches, statements and press conferences—searched to find the number of times Clinton advocated a higher minimum wage in 1993 and 1994, when Democrats controlled Congress. The answer: zero. In 1995 and 1996, with Republicans controlling Congress, Clinton plugged a higher minimum 47 times (through March 11).

Public sympathy for a higher minimum rests on two false beliefs. The first is that there's a permanent group of workers always stuck at the minimum. It follows, then, that if the minimum isn't raised, their buying power constantly erodes to inflation. By this theory, we should find some fixed, irreducible share of workers (say, 5 percent) at the minimum.

Well, we don't. Even at the bottom of the wage scale, inflation and competition for workers gradually raise pay rates. Between 1981 and early 1990, the minimum wage remained at $3.35. What happened? In 1981 there were 7.8 million workers at the minimum, or nearly 8 percent of 100 million workers. By 1989, only 3.2 million workers received the minimum, about 3 percent of the 117 million workers. If the minimum had stayed at $3.35, almost no one would receive it now. In 1995 3.7 million workers were at the $4.25 minimum, 3 percent of the 125 million workers.

The second myth is that many minimum-wage workers are family heads. In one press release, the Labor Department says that 40 percent of minimum-wage workers "are the sole bread winners of their family." The implication is that their low wages constitute an important source of poverty and hardship for children. Not so.

To justify its statement, the Labor Department counts single people living by themselves as family heads—a definition that, though defensible, defies common sense. In 1995 only 28 percent of minimum-wage workers were married. Many were not in poverty, because the family had two earners. Others didn't have children. Obviously, some single parents earned the minimum wage. One study puts their number at about 3 percent of minimum-wage workers.

One familiar argument for a higher minimum is that a full-time worker at the minimum should have enough income to escape poverty. For singles, this is no problem. Someone working 40 hours a week at $4.25 an hour earns $8,840 a year, which is above the poverty line of $7,900 for singles. But the Labor Department complains that a full-time worker with three dependents can't reach the poverty line of $15,600.

This may be, but the Labor Department's example is hardly typical. Consider:

- Changes in the minimum don't affect most poor adults, because about 60 percent don't have jobs, and only about 10 percent have year-round, full-time jobs.
- Among minimum-wage workers in 1995, about three-quarters didn't work 40 hours a week. Most (55 percent) were part-timers, working less than 35 hours a week. (The share of part-timers was identical among those earning between $4.25 and $5.15 an hour.)
- Most minimum-wage workers aren't poor. In 1990, just before the last increase, about three-quarters came from families with incomes above the poverty line, estimates economist Richard Burkhauser of Syracuse University. About two-thirds had incomes at least 50 percent higher than the poverty line.

Most minimum-wage work consists of part-time, non-career jobs in fast food, retailing or even telemarketing. These jobs are filled heavily by young, single, often middle-class workers. In 1995 two-thirds of them were under 30; only 20 percent were over 40. Even the benefits of a higher minimum for the poor are exaggerated. Take the Labor Department's family of four. With food stamps and the Earned Income Tax Credit, this family's income ($14,766) is now only 5 percent below the poverty line. The higher minimum wage would, after changes in food stamps and the EITC, raise the family's income 2 percent above the poverty line—assuming the worker still had a job.

There's the catch. Higher wages, if artificially induced, may price some unskilled workers out of the market. True, some economic research questions whether modest increases in the minimum cause job loss. But this research has been harshly criticized, and most economists believe that every 10 percent rise in the minimum could erase between one percent and 2 percent of affected jobs. By this math, a $5.15 minimum might jeopardize between 100,000 and 200,000 jobs among younger workers, estimates economist David Neumark of Michigan State University.

All exact estimates are suspect. Economists can't predict the precise effects of small changes in government policies. Because wages are rising anyway, a legislated increase may mainly affect the timing of future changes. At most, the poor might benefit slightly; at worst, they might suffer slightly. The real deception is that something important is being done when all that is occurring is a game of political one-upsmanship.

The danger is that people will believe the deception. They will think that government can raise incomes by fiat, when most people advance through their own efforts and skills. If people accept the illusion, they will want bigger (and more damaging) increases in the minimum. Even economists who support the present proposal agree that increases to, say, $6 or $7 would cost jobs for the low-skilled. Because a low-paying job is often the best way to a high-paying job, that would be a huge step backward.

No matter. Our leaders are more comfortable with replaying ancient (and irrelevant) debates than facing present problems. These rituals are more than dishonest. They are a sign of political decadence.

DLC

Supporting the Efforts of Low Wage Working Americans

Raising the Minimum Wage Is Not the Answer

March 1996

It is an election year, and the parties are once again arguing over the minimum wage. Democrats are right that government has a critical role to play in helping people work their way out of poverty, in raising living standards, and in reducing inequality. Increasing the minimum wage, however, is the wrong strategy to promote these goals.

In 1989, the Progressive Policy Institute (PPI) demonstrated that raising the minimum wage could be counterproductive, raising prices for poor people while helping mainly middle class families. Instead, PPI and the Democratic Leadership Council (DLC) argued that Congress should reform the Earned Income Tax Credit (EITC) to ensure that people who work full-time, year-round would be able to support their families above the poverty line. In 1990, and again in 1993, Congress expanded the EITC along the lines proposed by PPI, and Congress should reject calls to retreat from this commitment.

At the same time, there are ways to expand opportunities for low wage workers to work their way up the income scale. The key is to cut the deficit while investing in broader prosperity. Congress should repeal up to $75 billion a year in unproductive industry spending and tax subsidies; the lion's share of these resources should be channeled to deficit reduction. The remainder could be dedicated to public investments to expand access to higher education, through the National Service program and the school-to-work initiative, and to skills enhancement through vouchers for retraining.

These approaches offer sound, market-based assistance for low income workers. By contrast, raising the minimum wage would be, at best, a blunt instrument.

- *The vast majority of minimum wage workers are in families that do not need public wage supports because their incomes are well above the poverty level.* Most minimum wage workers are not the sole support of low income families, but secondary workers in moderate or middle income families, or primary workers in families with other significant sources of income. Seventy percent of minimum wage workers are in families *well above* the poverty level, and nearly 40 percent are in families with incomes in the *top half* of the income distribution.

- *More than 75 percent of all poor Americans are ineligible for the minimum wage, and so would not benefit from an increase.* They don't qualify because they (1) don't work (the elderly poor as well as the welfare poor), (2) earn more than an increased minimum wage (but work only part-time or part of the year), (3) work for themselves, or (4) work in jobs not covered by the minimum wage law.

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- *The costs of an increase in the minimum wage would be borne disproportionately by lower income families.* In the short run, a higher minimum wage raises costs and prices, transferring resources from consumers to minimum wage workers. There are some workers in low income families who would benefit significantly, but the vast majority of poor families would have to pay higher prices. Therefore, increasing the minimum wage would produce a regressive transfer, making most poor people a little worse off in order to improve the lives, at least for a time, of a group of people which is predominately non-poor.

- *A higher minimum wage does not protect jobs.* Some have argued that a higher minimum wage could *protect* jobs, because the higher wage would give firms an incentive to figure out how to use their minimum wage workers more productively. In effect, these analysts argue that higher wages yield higher productivity, rather than the reverse. There is no reliable empirical evidence to support this view.

- *In the end, raising the minimum wage would be self-defeating.* Firms initially respond to an increase in the minimum wage in the same way they respond to any increase in fixed costs affecting all competing firms: They will incorporate the cost in higher prices. This will tend to reduce jobs over a longer term, as higher prices reduce demand for the industry's goods and services. Raising the minimum wage will also mean that no firms will hire additional workers whose value to the firm falls between the old minimum wage and the new one. So in many cases, a higher minimum wage can *reduce* job creation for low skilled people.

For these reasons, the Democratic Leadership Council and Progressive Policy Institute support other ways of helping low income workers. The EITC—long supported by PPI and expanded by President Clinton in 1993—is a much better way of targeting benefits to low income working Americans. For more information on the EITC, see *Work and Poverty: A Progressive View of the Minimum Wage and the Earned Income Tax Credit* (June 1989), and *An American Working Wage: Ending Poverty in Working Families* (February 1990), both by Robert J. Shapiro. We also support the use of vouchers for job training to replace the current system of more than 150 federal training programs—and other changes to empower workers—rather than burden business with additional rules and regulations.

The EITC program is not perfect, but many recent criticisms of it are either exaggerated or plainly incorrect. In their quest to attain a balanced budget, many Republicans in Congress have recently been very critical of the EITC program and targeted it for significant reductions. This has occurred even though the program was started by President Ford and received its largest expansion under President Reagan. For more information on why recent criticisms are off the mark, see *GOP Cuts in the EITC: Raising Taxes on the Working Poor* (June 19, 1995) by M. Jeff Hamond and Lyn A. Hogan.

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There Are 153,900 Stories in Wisconsin's Restaurants.

Here's a Great One.

Wisconsin's Success Stories

Cheri Dohse
Cousins Submarines

Cheri Dohse is one of the more than 153,900 people who work in Wisconsin's restaurants.

As a teenager, she started working for Cousins Submarines as a cashier. Her family needed the money and Cheri thought it would make for a nice temporary job.

But Cheri found she couldn't afford college, and then her son Michael arrived. "I thought about going on welfare," Cheri says, "but I decided to stick it out with Cousins."

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The lesson Cheri tried to teach them is the lesson she learned — a job helps you climb higher. And once you start climbing, there's no telling how high you can go.

Cheri Dohse's story is extraordinary in many ways. But it's pretty typical in America's Restaurants. In fact, more than [illegible]% of managers and owners began in entry level, hourly jobs.

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◆

Robert J. Samuelson

Minimum Wage: Stale Symbolism

The debate over the minimum wage is an exercise in stale symbolism. The proposed increase—from the $4.25 an hour to $5.15—would not do much to help the poor. It might even hurt them. As such, the minimum wage is less about social policy than politics. Roughly three-quarters of Americans think raising it is the decent thing to do. So opponents are easily stigmatized as cruel. In an election year, this is a simple way for Democrats (who generally favor it) to embarrass Republicans (who don't).

If you doubt that, ponder some facts gathered by New York Times reporter David Rosenbaum. With computers, Rosenbaum had the official presidential papers—including presidential speeches, statements and press conferences—searched to find the number of times Clinton advocated a higher minimum wage in 1993 and 1994, when Democrats controlled Congress. The answer: zero. In 1995 and 1996, with Republicans controlling Congress, Clinton plugged a higher minimum 47 times (through March 11).

Public sympathy for a higher minimum rests on two false beliefs. The first is that there's a permanent group of workers always stuck at the minimum. It follows, then, that if the minimum isn't raised, their buying power constantly erodes to inflation. By this theory, we should find some fixed, irreducible share of workers (say, 5 percent) at the minimum.

Well, we don't. Even at the bottom of the wage scale, inflation and competition for workers gradually raise pay rates. Between 1981 and early 1990, the minimum wage remained at $3.35. What happened? In 1981 there were 7.8 million workers at the minimum, or nearly 8 percent of 100 million workers. By 1989, only 3.2 million workers received the minimum, about 3 percent of the 117 million workers. If the minimum had stayed at $3.35, almost no one would receive it now. In 1995 3.7 million workers were at the $4.25 minimum, 3 percent of the 125 million workers.

The second myth is that many minimum-wage workers are family heads. In one press release, the Labor Department says that 40 percent of minimum-wage workers "are the sole bread winners of their family." The implication is that their low wages constitute an important source of poverty and hardship for children. Not so.

To justify its statement, the Labor Department counts single people living by themselves as family heads—a definition that, though defensible, defies common sense. In 1995 only 28 percent of minimum-wage workers were married. Many were not in poverty, because the family had two earners. Others didn't have children. Obviously, some single parents earned the minimum wage. One study puts their number at about 3 percent of minimum-wage workers.

One familiar argument for a higher minimum is that a full-time worker at the minimum should have enough income to escape poverty. For singles, this is no problem. Someone working 40 hours a week at $4.25 an hour earns $8,840 a year, which is above the poverty line of $7,900 for singles. But the Labor Department complains that a full-time worker with three dependents can't reach the poverty line of $15,600.

This may be, but the Labor Department's example is hardly typical. Consider:

- Changes in the minimum don't affect most poor adults, because about 60 percent don't have jobs, and only about 10 percent have year-round, full-time jobs.
- Among minimum-wage workers in 1995, about three-quarters didn't work 40 hours a week. Most (55 percent) were part-timers, working less than 35 hours a week. (The share of part-timers was identical among those earning between $4.25 and $5.15 an hour.)
- Most minimum-wage workers aren't poor. In 1990, just before the last increase, about three-quarters came from families with incomes above the poverty line, estimates economist Richard Burkhauser of Syracuse University. About two-thirds had incomes at least 50 percent higher than the poverty line.

Most minimum-wage work consists of part-time, non-career jobs in fast food, retailing or even telemarketing. These jobs are filled heavily by young, single, often middle-class workers. In 1995 two-thirds of them were under 30; only 20 percent were over 40. Even the benefits of a higher minimum for the poor are exaggerated. Take the Labor Department's family of four. With food stamps and the Earned Income Tax Credit, this family's income ($14,766) is now only 5 percent below the poverty line. The higher minimum wage would, after changes in food stamps and the EITC, raise the family's income 2 percent above the poverty line—assuming the worker still had a job.

There's the catch. Higher wages, if artificially induced, may price some unskilled workers out of the market. True, some economic research questions whether modest increases in the minimum cause job loss. But this research has been harshly criticized, and most economists believe that every 10 percent rise in the minimum could erase between one percent and 2 percent of affected jobs. By this math, a $5.15 minimum might jeopardize between 100,000 and 200,000 jobs among younger workers, estimates economist David Neumark of Michigan State University.

All exact estimates are suspect. Economists can't predict the precise effects of small changes in government policies. Because wages are rising anyway, a legislated increase may mainly affect the timing of future changes. At most, the poor might benefit slightly; at worst, they might suffer slightly. The real deception is that something important is being done when all that is occurring is a game of political one-upsmanship.

The danger is that people will believe the deception. They will think that government can raise incomes by fiat, when most people advance through their own efforts and skills. If people accept the illusion, they will want bigger (and more damaging) increases in the minimum. Even economists who support the present proposal agree that increases to, say, $6 or $7 would cost jobs for the low-skilled. Because a low-paying job is often the best way to a high-paying job, that would be a huge step backward.

No matter. Our leaders are more comfortable with replaying ancient (and irrelevant) debates than facing present problems. These rituals are more than dishonest. They are a sign of political decadence.

DLC

Supporting the Efforts of Low Wage Working Americans

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March 1996

It is an election year, and the parties are once again arguing over the minimum wage. Democrats are right that government has a critical role to play in helping people work their way out of poverty, in raising living standards, and in reducing inequality. Increasing the minimum wage, however, is the wrong strategy to promote these goals.

In 1989, the Progressive Policy Institute (PPI) demonstrated that raising the minimum wage could be counterproductive, raising prices for poor people while helping mainly middle class families. Instead, PPI and the Democratic Leadership Council (DLC) argued that Congress should reform the Earned Income Tax Credit (EITC) to ensure that people who work full-time, year-round would be able to support their families above the poverty line. In 1990, and again in 1993, Congress expanded the EITC along the lines proposed by PPI, and Congress should reject calls to retreat from this commitment.

At the same time, there are ways to expand opportunities for low wage workers to work their way up the income scale. The key is to cut the deficit while investing in broader prosperity. Congress should repeal up to $75 billion a year in unproductive industry spending and tax subsidies; the lion's share of these resources should be channeled to deficit reduction. The remainder could be dedicated to public investments to expand access to higher education, through the National Service program and the school-to-work initiative, and to skills enhancement through vouchers for retraining.

These approaches offer sound, market-based assistance for low income workers. By contrast, raising the minimum wage would be, at best, a blunt instrument.

- *The vast majority of minimum wage workers are in families that do not need public wage supports because their incomes are well above the poverty level.* Most minimum wage workers are not the sole support of low income families, but secondary workers in moderate or middle income families, or primary workers in families with other significant sources of income. Seventy percent of minimum wage workers are in families *well above* the poverty level, and nearly 40 percent are in families with incomes in the *top half* of the income distribution.

- *More than 75 percent of all poor Americans are ineligible for the minimum wage, and so would not benefit from an increase.* They don't qualify because they (1) don't work (the elderly poor as well as the welfare poor), (2) earn more than an increased minimum wage (but work only part-time or part of the year), (3) work for themselves, or (4) work in jobs not covered by the minimum wage law.

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- *The costs of an increase in the minimum wage would be borne disproportionately by lower income families.* In the short run, a higher minimum wage raises costs and prices, transferring resources from consumers to minimum wage workers. There are some workers in low income families who would benefit significantly, but the vast majority of poor families would have to pay higher prices. Therefore, increasing the minimum wage would produce a regressive transfer, making most poor people a little worse off in order to improve the lives, at least for a time, of a group of people which is predominately non-poor.

- *A higher minimum wage does not protect jobs.* Some have argued that a higher minimum wage could *protect* jobs, because the higher wage would give firms an incentive to figure out how to use their minimum wage workers more productively. In effect, these analysts argue that higher wages yield higher productivity, rather than the reverse. There is no reliable empirical evidence to support this view.

- *In the end, raising the minimum wage would be self-defeating.* Firms initially respond to an increase in the minimum wage in the same way they respond to any increase in fixed costs affecting all competing firms: They will incorporate the cost in higher prices. This will tend to reduce jobs over a longer term, as higher prices reduce demand for the industry's goods and services. Raising the minimum wage will also mean that no firms will hire additional workers whose value to the firm falls between the old minimum wage and the new one. So in many cases, a higher minimum wage can *reduce* job creation for low skilled people.

For these reasons, the Democratic Leadership Council and Progressive Policy Institute support other ways of helping low income workers. The EITC—long supported by PPI and expanded by President Clinton in 1993—is a much better way of targeting benefits to low income working Americans. For more information on the EITC, see *Work and Poverty: A Progressive View of the Minimum Wage and the Earned Income Tax Credit* (June 1989), and *An American Working Wage: Ending Poverty in Working Families* (February 1990), both by Robert J. Shapiro. We also support the use of vouchers for job training to replace the current system of more than 150 federal training programs—and other changes to empower workers—rather than burden business with additional rules and regulations.

The EITC program is not perfect, but many recent criticisms of it are either exaggerated or plainly incorrect. In their quest to attain a balanced budget, many Republicans in Congress have recently been very critical of the EITC program and targeted it for significant reductions. This has occurred even though the program was started by President Ford and received its largest expansion under President Reagan. For more information on why recent criticisms are off the mark, see *GOP Cuts in the EITC: Raising Taxes on the Working Poor* (June 19, 1995) by M. Jeff Hamond and Lyn A. Hogan.

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ARMEY Packet

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RATIONALE

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The administration has proposed an increase in the minimum wage as the solution to this problem. While such an increase would provide some relief to the working poor, it would also have much more far reaching effects, including placing large economic constraints on the private sector, a loss of entry-level positions, and an inflationary ripple effect on wages. A minimum wage increase would also affect those persons who arguably are not in need of this assistance, such as teenagers working during their summer vacation.

Our proposal would accomplish the goal of providing assistance to those who are truly in need -- working families -- while at the same time avoiding the additional problems associated with a minimum wage increase.

BACKGROUND

The Earned Income Tax Credit (EITC), which was created in 1974, provides a refundable tax credit to lower-income working families with children and currently to some adult childless workers. The EITC has expanded greatly since its creation as a result of both Congressional and Presidential initiatives, including efforts by the Reagan, Bush and Clinton administrations.

RECIPIENTS

Under current law, there are an estimated 18.2 million tax units eligible for EITC. 12.7 million of these tax units are families with children, of whom roughly 5.3 million have one child and 7.4 million have two or more children. The remaining 5.5 million eligible tax units are childless workers ages 25 through 64.

PROPOSAL

This EITC reform proposal, which builds upon the reforms in the Republican Balanced Budget Act of 1995, will redesign and reform the current EITC program in an effort to return the program to its original purpose of serving low-income working families. The proposal will address the following:

* Convert large annual "lump sum" EITC payments into equal monthly payments so as to more practically supplement family income

* Deny credit to undocumented workers

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* Rename Earned Income Tax Credit the "Working Families Support Credit"

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Well, we don't. Even at the bottom of the wage scale, inflation and competition for workers gradually raise pay rates. Between 1981 and early 1990, the minimum wage remained at $3.35. What happened? In 1981 there were 7.8 million workers at the minimum, or nearly 8 percent of 100 million workers. By 1989, only 3.2 million workers received the minimum, about 3 percent of the 117 million workers. If the minimum had stayed at $3.35, almost no one would receive it now. In 1995 3.7 million workers were at the $4.25 minimum, 3 percent of the 125 million workers.

The second myth is that many minimum-wage workers are family heads. In one press release, the Labor Department says that 40 percent of minimum-wage workers "are the sole bread winners of their family." The implication is that their low wages constitute an important source of poverty and hardship for children. Not so.

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This may be, but the Labor Department's example is hardly typical. Consider:

- Changes in the minimum don't affect most poor adults, because about 60 percent don't have jobs, and only about 10 percent have year-round, full-time jobs.
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Most minimum-wage work consists of part-time, non-career jobs in fast food, retailing or even telemarketing. These jobs are filled heavily by young, single, often middle-class workers. In 1995 two-thirds of them were under 30; only 20 percent were over 40. Even the benefits of a higher minimum for the poor are exaggerated. Take the Labor Department's family of four. With food stamps and the Earned Income Tax Credit, this family's income ($14,766) is now only 5 percent below the poverty line. The higher minimum wage would, after changes in food stamps and the EITC, raise the family's income 2 percent above the poverty line—assuming the worker still had a job.

There's the catch. Higher wages, if artificially induced, may price some unskilled workers out of the market. True, some economic research questions whether modest increases in the minimum cause job loss. But this research has been harshly criticized, and most economists believe that every 10 percent rise in the minimum could erase between one percent and 2 percent of affected jobs. By this math, a $5.15 minimum might jeopardize between 100,000 and 200,000 jobs among younger workers, estimates economist David Neumark of Michigan State University.

All exact estimates are suspect. Economists can't predict the precise effects of small changes in government policies. Because wages are rising anyway, a legislated increase may mainly affect the timing of future changes. At most, the poor might benefit slightly; at worst, they might suffer slightly. The real deception is that something important is being done when all that is occurring is a game of political one-upsmanship.

The danger is that people will believe the deception. They will think that government can raise incomes by fiat, when most people advance through their own efforts and skills. If people accept the illusion, they will want bigger (and more damaging) increases in the minimum. Even economists who support the present proposal agree that increases to, say, $6 or $7 would cost jobs for the low-skilled. Because a low-paying job is often the best way to a high-paying job, that would be a huge step backward.

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In 1989, the Progressive Policy Institute (PPI) demonstrated that raising the minimum wage could be counterproductive, raising prices for poor people while helping mainly middle class families. Instead, PPI and the Democratic Leadership Council (DLC) argued that Congress should reform the Earned Income Tax Credit (EITC) to ensure that people who work full-time, year-round would be able to support their families above the poverty line. In 1990, and again in 1993, Congress expanded the EITC along the lines proposed by PPI, and Congress should reject calls to retreat from this commitment.

At the same time, there are ways to expand opportunities for low wage workers to work their way up the income scale. The key is to cut the deficit while investing in broader prosperity. Congress should repeal up to $75 billion a year in unproductive industry spending and tax subsidies; the lion's share of these resources should be channeled to deficit reduction. The remainder could be dedicated to public investments to expand access to higher education, through the National Service program and the school-to-work initiative, and to skills enhancement through vouchers for retraining.

These approaches offer sound, market-based assistance for low income workers. By contrast, raising the minimum wage would be, at best, a blunt instrument.

- *The vast majority of minimum wage workers are in families that do not need public wage supports because their incomes are well above the poverty level.* Most minimum wage workers are not the sole support of low income families, but secondary workers in moderate or middle income families, or primary workers in families with other significant sources of income. Seventy percent of minimum wage workers are in families *well above* the poverty level, and nearly 40 percent are in families with incomes in the *top half* of the income distribution.

- *More than 75 percent of all poor Americans are ineligible for the minimum wage, and so would not benefit from an increase.* They don't qualify because they (1) don't work (the elderly poor as well as the welfare poor), (2) earn more than an increased minimum wage (but work only part-time or part of the year), (3) work for themselves, or (4) work in jobs not covered by the minimum wage law.

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- *A higher minimum wage does not protect jobs.* Some have argued that a higher minimum wage could *protect* jobs, because the higher wage would give firms an incentive to figure out how to use their minimum wage workers more productively. In effect, these analysts argue that higher wages yield higher productivity, rather than the reverse. There is no reliable empirical evidence to support this view.

- *In the end, raising the minimum wage would be self-defeating.* Firms initially respond to an increase in the minimum wage in the same way they respond to any increase in fixed costs affecting all competing firms: They will incorporate the cost in higher prices. This will tend to reduce jobs over a longer term, as higher prices reduce demand for the industry's goods and services. Raising the minimum wage will also mean that no firms will hire additional workers whose value to the firm falls between the old minimum wage and the new one. So in many cases, a higher minimum wage can *reduce* job creation for low skilled people.

For these reasons, the Democratic Leadership Council and Progressive Policy Institute support other ways of helping low income workers. The EITC—long supported by PPI and expanded by President Clinton in 1993—is a much better way of targeting benefits to low income working Americans. For more information on the EITC, see *Work and Poverty: A Progressive View of the Minimum Wage and the Earned Income Tax Credit* (June 1989), and *An American Working Wage: Ending Poverty in Working Families* (February 1990), both by Robert J. Shapiro. We also support the use of vouchers for job training to replace the current system of more than 150 federal training programs—and other changes to empower workers—rather than burden business with additional rules and regulations.

The EITC program is not perfect, but many recent criticisms of it are either exaggerated or plainly incorrect. In their quest to attain a balanced budget, many Republicans in Congress have recently been very critical of the EITC program and targeted it for significant reductions. This has occurred even though the program was started by President Ford and received its largest expansion under President Reagan. For more information on why recent criticisms are off the mark, see *GOP Cuts in the EITC: Raising Taxes on the Working Poor* (June 19, 1995) by M. Jeff Hamond and Lyn A. Hogan.

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ARMEY Packet

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This proposal will fundamentally redesign the EITC, and rename it the "Working Families Support Credit".

RATIONALE

It has become difficult in recent years to support a family on a minimum-wage salary. There is agreement among both Republicans and Democrats that we need to provide assistance to the "working poor", but there is significant disagreement on the best way to accomplish this goal.

The administration has proposed an increase in the minimum wage as the solution to this problem. While such an increase would provide some relief to the working poor, it would also have much more far reaching effects, including placing large economic constraints on the private sector, a loss of entry-level positions, and an inflationary ripple effect on wages. A minimum wage increase would also affect those persons who arguably are not in need of this assistance, such as teenagers working during their summer vacation.

Our proposal would accomplish the goal of providing assistance to those who are truly in need -- working families -- while at the same time avoiding the additional problems associated with a minimum wage increase.

BACKGROUND

The Earned Income Tax Credit (EITC), which was created in 1974, provides a refundable tax credit to lower-income working families with children and currently to some adult childless workers. The EITC has expanded greatly since its creation as a result of both Congressional and Presidential initiatives, including efforts by the Reagan, Bush and Clinton administrations.

RECIPIENTS

Under current law, there are an estimated 18.2 million tax units eligible for EITC. 12.7 million of these tax units are families with children, of whom roughly 5.3 million have one child and 7.4 million have two or more children. The remaining 5.5 million eligible tax units are childless workers ages 25 through 64.

PROPOSAL

This EITC reform proposal, which builds upon the reforms in the Republican Balanced Budget Act of 1995, will redesign and reform the current EITC program in an effort to return the program to its original purpose of serving low-income working families. The proposal will address the following:

* Convert large annual "lump sum" EITC payments into equal monthly payments so as to more practically supplement family income

* Deny credit to undocumented workers

* Eliminate credit for childless adults

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* Rename Earned Income Tax Credit the "Working Families Support Credit"

With the savings generated from these reforms, we will significantly increase the amount of credit recipients of the Working Families Support Credit would receive.

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If you would like to cosponsor this legislation or if you have additional questions, please contact Chuck Seyfarth with Representative Hutchinson at 5-4301.

There Are 153,900 Stories in Wisconsin's Restaurants.

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As a teenager, she started working for Cousins Submarines as a cashier. Her family needed the money and Cheri thought it would make for a nice temporary job.

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Wisconsin's Restaurants.

Good Jobs. Great People. Extraordinary Opportunity.

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Robert J. Samuelson

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Most minimum-wage work consists of part-time, non-career jobs in fast food, retailing or even telemarketing. These jobs are filled heavily by young, single, often middle-class workers. In 1995 two-thirds of them were under 30; only 20 percent were over 40. Even the benefits of a higher minimum for the poor are exaggerated. Take the Labor Department's family of four. With food stamps and the Earned Income Tax Credit, this family's income ($14,766) is now only 5 percent below the poverty line. The higher minimum wage would, after changes in food stamps and the EITC, raise the family's income 2 percent above the poverty line—assuming the worker still had a job.

There's the catch. Higher wages, if artificially induced, may price some unskilled workers out of the market. True, some economic research questions whether modest increases in the minimum cause job loss. But this research has been harshly criticized, and most economists believe that every 10 percent rise in the minimum could erase between one percent and 2 percent of affected jobs. By this math, a $5.15 minimum might jeopardize between 100,000 and 200,000 jobs among younger workers, estimates economist David Neumark of Michigan State University.

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DLC

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March 1996

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In 1989, the Progressive Policy Institute (PPI) demonstrated that raising the minimum wage could be counterproductive, raising prices for poor people while helping mainly middle class families. Instead, PPI and the Democratic Leadership Council (DLC) argued that Congress should reform the Earned Income Tax Credit (EITC) to ensure that people who work full-time, year-round would be able to support their families above the poverty line. In 1990, and again in 1993, Congress expanded the EITC along the lines proposed by PPI, and Congress should reject calls to retreat from this commitment.

At the same time, there are ways to expand opportunities for low wage workers to work their way up the income scale. The key is to cut the deficit while investing in broader prosperity. Congress should repeal up to $75 billion a year in unproductive industry spending and tax subsidies; the lion's share of these resources should be channeled to deficit reduction. The remainder could be dedicated to public investments to expand access to higher education, through the National Service program and the school-to-work initiative, and to skills enhancement through vouchers for retraining.

These approaches offer sound, market-based assistance for low income workers. By contrast, raising the minimum wage would be, at best, a blunt instrument.

- *The vast majority of minimum wage workers are in families that do not need public wage supports because their incomes are well above the poverty level.* Most minimum wage workers are not the sole support of low income families, but secondary workers in moderate or middle income families, or primary workers in families with other significant sources of income. Seventy percent of minimum wage workers are in families *well above* the poverty level, and nearly 40 percent are in families with incomes in the *top half* of the income distribution.

- *More than 75 percent of all poor Americans are ineligible for the minimum wage, and so would not benefit from an increase.* They don't qualify because they (1) don't work (the elderly poor as well as the welfare poor), (2) earn more than an increased minimum wage (but work only part-time or part of the year), (3) work for themselves, or (4) work in jobs not covered by the minimum wage law.

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- *The costs of an increase in the minimum wage would be borne disproportionately by lower income families.* In the short run, a higher minimum wage raises costs and prices, transferring resources from consumers to minimum wage workers. There are some workers in low income families who would benefit significantly, but the vast majority of poor families would have to pay higher prices. Therefore, increasing the minimum wage would produce a regressive transfer, making most poor people a little worse off in order to improve the lives, at least for a time, of a group of people which is predominately non-poor.

- *A higher minimum wage does not protect jobs.* Some have argued that a higher minimum wage could *protect* jobs, because the higher wage would give firms an incentive to figure out how to use their minimum wage workers more productively. In effect, these analysts argue that higher wages yield higher productivity, rather than the reverse. There is no reliable empirical evidence to support this view.

- *In the end, raising the minimum wage would be self-defeating.* Firms initially respond to an increase in the minimum wage in the same way they respond to any increase in fixed costs affecting all competing firms: They will incorporate the cost in higher prices. This will tend to reduce jobs over a longer term, as higher prices reduce demand for the industry's goods and services. Raising the minimum wage will also mean that no firms will hire additional workers whose value to the firm falls between the old minimum wage and the new one. So in many cases, a higher minimum wage can *reduce* job creation for low skilled people.

For these reasons, the Democratic Leadership Council and Progressive Policy Institute support other ways of helping low income workers. The EITC—long supported by PPI and expanded by President Clinton in 1993—is a much better way of targeting benefits to low income working Americans. For more information on the EITC, see *Work and Poverty: A Progressive View of the Minimum Wage and the Earned Income Tax Credit* (June 1989), and *An American Working Wage: Ending Poverty in Working Families* (February 1990), both by Robert J. Shapiro. We also support the use of vouchers for job training to replace the current system of more than 150 federal training programs—and other changes to empower workers—rather than burden business with additional rules and regulations.

The EITC program is not perfect, but many recent criticisms of it are either exaggerated or plainly incorrect. In their quest to attain a balanced budget, many Republicans in Congress have recently been very critical of the EITC program and targeted it for significant reductions. This has occurred even though the program was started by President Ford and received its largest expansion under President Reagan. For more information on why recent criticisms are off the mark, see *GOP Cuts in the EITC: Raising Taxes on the Working Poor* (June 19, 1995) by M. Jeff Hamond and Lyn A. Hogan.

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ARMEY Packet

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This proposal will fundamentally redesign the EITC, and rename it the "Working Families Support Credit".

RATIONALE

It has become difficult in recent years to support a family on a minimum-wage salary. There is agreement among both Republicans and Democrats that we need to provide assistance to the "working poor", but there is significant disagreement on the best way to accomplish this goal.

The administration has proposed an increase in the minimum wage as the solution to this problem. While such an increase would provide some relief to the working poor, it would also have much more far reaching effects, including placing large economic constraints on the private sector, a loss of entry-level positions, and an inflationary ripple effect on wages. A minimum wage increase would also affect those persons who arguably are not in need of this assistance, such as teenagers working during their summer vacation.

Our proposal would accomplish the goal of providing assistance to those who are truly in need -- working families -- while at the same time avoiding the additional problems associated with a minimum wage increase.

BACKGROUND

The Earned Income Tax Credit (EITC), which was created in 1974, provides a refundable tax credit to lower-income working families with children and currently to some adult childless workers. The EITC has expanded greatly since its creation as a result of both Congressional and Presidential initiatives, including efforts by the Reagan, Bush and Clinton administrations.

RECIPIENTS

Under current law, there are an estimated 18.2 million tax units eligible for EITC. 12.7 million of these tax units are families with children, of whom roughly 5.3 million have one child and 7.4 million have two or more children. The remaining 5.5 million eligible tax units are childless workers ages 25 through 64.

PROPOSAL

This EITC reform proposal, which builds upon the reforms in the Republican Balanced Budget Act of 1995, will redesign and reform the current EITC program in an effort to return the program to its original purpose of serving low-income working families. The proposal will address the following:

* Convert large annual "lump sum" EITC payments into equal monthly payments so as to more practically supplement family income
* Deny credit to undocumented workers
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* Rename Earned Income Tax Credit the "Working Families Support Credit"

With the savings generated from these reforms, we will significantly increase the amount of credit recipients of the Working Families Support Credit would receive.

If you believe that those people who are in need of wage assistance are America's working families, as opposed to teenagers employer during their summer vacation, please join us in support of The Minimum Wage Increase for Families Act.

If you would like to cosponsor this legislation or if you have additional questions, please contact Chuck Seyfarth with Representative Hutchinson at 5-4301.

There Are 153,900 Stories in Wisconsin's Restaurants.

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Wisconsin's Success Stories

Cheri Dohse
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Cheri Dohse is one of the more than 153,900 people who work in Wisconsin's restaurants.

As a teenager, she started working for Cousins Submarines as a cashier. Her family needed the money and Cheri thought it would make for a nice temporary job.

But Cheri found she couldn't afford college, and then her son Michael arrived. "I thought about going on welfare," Cheri says, "but I decided to stick it out with Cousins."

And Cousins stuck with Cheri.

First they got her into a management training program, and later they paid for her tuition so she could start college.

Today, Cheri Dohse is a District Supervisor for Cousins and oversees seven restaurants. Her next goals are to own a Cousins franchise and to finish her college degree.

When she managed her own Cousins restaurant, Cheri worked with a lot of troubled neighborhood kids from broken homes — sometimes feeding them, sometimes counseling them.

The lesson Cheri tried to teach them is the lesson she learned — a job helps you climb higher. And once you start climbing, there's no telling how high you can go.

Cheri Dohse's story is extraordinary in many ways but it's pretty typical in America's Restaurants. In fact, more than 60% of managers and owners began in entry level, hourly jobs.

Wisconsin's Restaurants.
Good Jobs. Great People. Extraordinary Opportunity.

Robert J. Samuelson

Minimum Wage: Stale Symbolism

The debate over the minimum wage is an exercise in stale symbolism. The proposed increase—from the $4.25 an hour to $5.15—would not do much to help the poor. It might even hurt them. As such, the minimum wage is less about social policy than politics. Roughly three-quarters of Americans think raising it is the decent thing to do. So opponents are easily stigmatized as cruel. In an election year, this is a simple way for Democrats (who generally favor it) to embarrass Republicans (who don't).

If you doubt that, ponder some facts gathered by New York Times reporter David Rosenbaum. With computers, Rosenbaum had the official presidential papers—including presidential speeches, statements and press conferences—searched to find the number of times Clinton advocated a higher minimum wage in 1993 and 1994, when Democrats controlled Congress. The answer: zero. In 1995 and 1996, with Republicans controlling Congress, Clinton plugged a higher minimum 47 times (through March 11).

Public sympathy for a higher minimum rests on two false beliefs. The first is that there's a permanent group of workers always stuck at the minimum. It follows, then, that if the minimum isn't raised, their buying power constantly erodes to inflation. By this theory, we should find some fixed, irreducible share of workers (say, 5 percent) at the minimum.

Well, we don't. Even at the bottom of the wage scale, inflation and competition for workers gradually raise pay rates. Between 1981 and early 1990, the minimum wage remained at $3.35. What happened? In 1981 there were 7.8 million workers at the minimum, or nearly 8 percent of 100 million workers. By 1989, only 3.2 million workers received the minimum, about 3 percent of the 117 million workers. If the minimum had stayed at $3.35, almost no one would receive it now. In 1995 3.7 million workers were at the $4.25 minimum, 3 percent of the 125 million workers.

The second myth is that many minimum-wage workers are family heads. In one press release, the Labor Department says that 40 percent of minimum-wage workers "are the sole bread winners of their family." The implication is that their low wages constitute an important source of poverty and hardship for children. Not so.

To justify its statement, the Labor Department counts single people living by themselves as family heads—a definition that, though defensible, defies common sense. In 1995 only 28 percent of minimum-wage workers were married. Many were not in poverty, because the family had two earners. Others didn't have children. Obviously, some single parents earned the minimum wage. One study puts their number at about 3 percent of minimum-wage workers.

One familiar argument for a higher minimum is that a full-time worker at the minimum should have enough income to escape poverty. For singles, this is no problem. Someone working 40 hours a week at $4.25 an hour earns $8,840 a year, which is above the poverty line of $7,900 for singles. But the Labor Department complains that a full-time worker with three dependents can't reach the poverty line of $15,600.

This may be, but the Labor Department's example is hardly typical. Consider:

- Changes in the minimum don't affect most poor adults, because about 60 percent don't have jobs, and only about 10 percent have year-round, full-time jobs.
- Among minimum-wage workers in 1995, about three-quarters didn't work 40 hours a week. Most (55 percent) were part-timers, working less than 35 hours a week. (The share of part-timers was identical among those earning between $4.25 and $5.15 an hour.)
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At the same time, there are ways to expand opportunities for low wage workers to work their way up the income scale. The key is to cut the deficit while investing in broader prosperity. Congress should repeal up to $75 billion a year in unproductive industry spending and tax subsidies; the lion's share of these resources should be channeled to deficit reduction. The remainder could be dedicated to public investments to expand access to higher education, through the National Service program and the school-to-work initiative, and to skills enhancement through vouchers for retraining.

These approaches offer sound, market-based assistance for low income workers. By contrast, raising the minimum wage would be, at best, a blunt instrument.

- *The vast majority of minimum wage workers are in families that do not need public wage supports because their incomes are well above the poverty level.* Most minimum wage workers are not the sole support of low income families, but secondary workers in moderate or middle income families, or primary workers in families with other significant sources of income. Seventy percent of minimum wage workers are in families *well above* the poverty level, and nearly 40 percent are in families with incomes in the *top half* of the income distribution.

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- *In the end, raising the minimum wage would be self-defeating*. Firms initially respond to an increase in the minimum wage in the same way they respond to any increase in fixed costs affecting all competing firms: They will incorporate the cost in higher prices. This will tend to reduce jobs over a longer term, as higher prices reduce demand for the industry's goods and services. Raising the minimum wage will also mean that no firms will hire additional workers whose value to the firm falls between the old minimum wage and the new one. So in many cases, a higher minimum wage can *reduce* job creation for low skilled people.

For these reasons, the Democratic Leadership Council and Progressive Policy Institute support other ways of helping low income workers. The EITC—long supported by PPI and expanded by President Clinton in 1993—is a much better way of targeting benefits to low income working Americans. For more information on the EITC, see *Work and Poverty: A Progressive View of the Minimum Wage and the Earned Income Tax Credit* (June 1989), and *An American Working Wage: Ending Poverty in Working Families* (February 1990), both by Robert J. Shapiro. We also support the use of vouchers for job training to replace the current system of more than 150 federal training programs—and other changes to empower workers—rather than burden business with additional rules and regulations.

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ARMEY Packet

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This proposal will fundamentally redesign the EITC, and rename it the "Working Families Support Credit".

RATIONALE

It has become difficult in recent years to support a family on a minimum-wage salary. There is agreement among both Republicans and Democrats that we need to provide assistance to the "working poor", but there is significant disagreement on the best way to accomplish this goal.

The administration has proposed an increase in the minimum wage as the solution to this problem. While such an increase would provide some relief to the working poor, it would also have much more far reaching effects, including placing large economic constraints on the private sector, a loss of entry-level positions, and an inflationary ripple effect on wages. A minimum wage increase would also affect those persons who arguably are not in need of this assistance, such as teenagers working during their summer vacation.

Our proposal would accomplish the goal of providing assistance to those who are truly in need -- working families -- while at the same time avoiding the additional problems associated with a minimum wage increase.

BACKGROUND

The Earned Income Tax Credit (EITC), which was created in 1974, provides a refundable tax credit to lower-income working families with children and currently to some adult childless workers. The EITC has expanded greatly since its creation as a result of both Congressional and Presidential initiatives, including efforts by the Reagan, Bush and Clinton administrations.

RECIPIENTS

Under current law, there are an estimated 18.2 million tax units eligible for EITC. 12.7 million of these tax units are families with children, of whom roughly 5.3 million have one child and 7.4 million have two or more children. The remaining 5.5 million eligible tax units are childless workers ages 25 through 64.

PROPOSAL

This EITC reform proposal, which builds upon the reforms in the Republican Balanced Budget Act of 1995, will redesign and reform the current EITC program in an effort to return the program to its original purpose of serving low-income working families. The proposal will address the following:

* Convert large annual "lump sum" EITC payments into equal monthly payments so as to more practically supplement family income
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With the savings generated from these reforms, we will significantly increase the amount of credit recipients of the Working Families Support Credit would receive.

If you believe that those people who are in need of wage assistance are America's working families, as opposed to teenagers employer during their summer vacation, please join us in support of The Minimum Wage Increase for Families Act.

If you would like to cosponsor this legislation or if you have additional questions, please contact Chuck Seyfarth with Representative Hutchinson at 5-4301.

There Are 153,900 Stories in Wisconsin's Restaurants.

Here's a Great One.

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Cousins Submarines

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As a teenager, she started working for Cousins Submarines as a cashier. Her family needed the money and Cheri thought it would make for a nice temporary job.

But Cheri found she couldn't attend college, and then her son Michael arrived. "I thought about going on welfare," Cheri says, "but I decided to stick it out with Cousins."

And Cousins stuck with Cheri.

First they got her into a management training program, and later they paid for her tuition so she could start college.

Today, Cheri Dohse is a District Supervisor for Cousins and oversees seven restaurants. Her next goals are to own a Cousins franchise and to finish her college degree.

When she managed her own Cousins restaurant, Cheri worked with a lot of troubled neighborhood kids from broken homes — sometimes feeding them, sometimes counseling them.

The lesson Cheri tried to teach them is the lesson she learned — a job helps you climb higher. And once you start climbing, there's no telling how high you can go.

Cheri Dohse's story is extraordinary in many ways. But it's pretty typical in America's Restaurants. In fact, more than 60% of managers and owners began in entry level, hourly jobs.

Wisconsin's Restaurants.
Good Jobs. Great People. Extraordinary Opportunity.

◆

Robert J. Samuelson

Minimum Wage: Stale Symbolism

The debate over the minimum wage is an exercise in stale symbolism. The proposed increase—from the $4.25 an hour to $5.15—would not do much to help the poor. It might even hurt them. As such, the minimum wage is less about social policy than politics. Roughly three-quarters of Americans think raising it is the decent thing to do. So opponents are easily stigmatized as cruel. In an election year, this is a simple way for Democrats (who generally favor it) to embarrass Republicans (who don't).

If you doubt that, ponder some facts gathered by New York Times reporter David Rosenbaum. With computers, Rosenbaum had the official presidential papers—including presidential speeches, statements and press conferences—searched to find the number of times Clinton advocated a higher minimum wage in 1993 and 1994, when Democrats controlled Congress. The answer: zero. In 1995 and 1996, with Republicans controlling Congress, Clinton plugged a higher minimum 47 times (through March 11).

Public sympathy for a higher minimum rests on two false beliefs. The first is that there's a permanent group of workers always stuck at the minimum. It follows, then, that if the minimum isn't raised, their buying power constantly erodes to inflation. By this theory, we should find some fixed, irreducible share of workers (say, 5 percent) at the minimum.

Well, we don't. Even at the bottom of the wage scale, inflation and competition for workers gradually raise pay rates. Between 1981 and early 1990, the minimum wage remained at $3.35. What happened? In 1981 there were 7.8 million workers at the minimum, or nearly 8 percent of 100 million workers. By 1989, only 3.2 million workers received the minimum, about 3 percent of the 117 million workers. If the minimum had stayed at $3.35, almost no one would receive it now. In 1995 3.7 million workers were at the $4.25 minimum, 3 percent of the 125 million workers.

The second myth is that many minimum-wage workers are family heads. In one press release, the Labor Department says that 40 percent of minimum-wage workers "are the sole bread winners of their family." The implication is that their low wages constitute an important source of poverty and hardship for children. Not so.

To justify its statement, the Labor Department counts single people living by themselves as family heads—a definition that, though defensible, defies common sense. In 1995 only 28 percent of minimum-wage workers were married. Many were not in poverty, because the family had two earners. Others didn't have children. Obviously, some single parents earned the minimum wage. One study puts their number at about 3 percent of minimum-wage workers.

One familiar argument for a higher minimum is that a full-time worker at the minimum should have enough income to escape poverty. For singles, this is no problem. Someone working 40 hours a week at $4.25 an hour earns $8,840 a year, which is above the poverty line of $7,900 for singles. But the Labor Department complains that a full-time worker with three dependents can't reach the poverty line of $15,600.

This may be, but the Labor Department's example is hardly typical. Consider:

- Changes in the minimum don't affect most poor adults, because about 60 percent don't have jobs, and only about 10 percent have year-round, full-time jobs.
- Among minimum-wage workers in 1995, about three-quarters didn't work 40 hours a week. Most (55 percent) were part-timers, working less than 35 hours a week. (The share of part-timers was identical among those earning between $4.25 and $5.15 an hour.)
- Most minimum-wage workers aren't poor. In 1990, just before the last increase, about three-quarters came from families with incomes above the poverty line, estimates economist Richard Burkhauser of Syracuse University. About two-thirds had incomes at least 50 percent higher than the poverty line.

Most minimum-wage work consists of part-time, non-career jobs in fast food, retailing or even telemarketing. These jobs are filled heavily by young, single, often middle-class workers. In 1995 two-thirds of them were under 30; only 20 percent were over 40. Even the benefits of a higher minimum for the poor are exaggerated. Take the Labor Department's family of four. With food stamps and the Earned Income Tax Credit, this family's income ($14,766) is now only 5 percent below the poverty line. The higher minimum wage would, after changes in food stamps and the EITC, raise the family's income 2 percent above the poverty line—assuming the worker still had a job.

There's the catch. Higher wages, if artificially induced, may price some unskilled workers out of the market. True, some economic research questions whether modest increases in the minimum cause job loss. But this research has been harshly criticized, and most economists believe that every 10 percent rise in the minimum could erase between one percent and 2 percent of affected jobs. By this math, a $5.15 minimum might jeopardize between 100,000 and 200,000 jobs among younger workers, estimates economist David Neumark of Michigan State University.

All exact estimates are suspect. Economists can't predict the precise effects of small changes in government policies. Because wages are rising anyway, a legislated increase may mainly affect the timing of future changes. At most, the poor might benefit slightly; at worst, they might suffer slightly. The real deception is that something important is being done when all that is occurring is a game of political one-upsmanship.

The danger is that people will believe the deception. They will think that government can raise incomes by fiat, when most people advance through their own efforts and skills. If people accept the illusion, they will want bigger (and more damaging) increases in the minimum. Even economists who support the present proposal agree that increases to, say, $6 or $7 would cost jobs for the low-skilled. Because a low-paying job is often the best way to a high-paying job, that would be a huge step backward.

No matter. Our leaders are more comfortable with replaying ancient (and irrelevant) debates than facing present problems. These rituals are more than dishonest. They are a sign of political decadence.

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- *The costs of an increase in the minimum wage would be borne disproportionately by lower income families.* In the short run, a higher minimum wage raises costs and prices, transferring resources from consumers to minimum wage workers. There are some workers in low income families who would benefit significantly, but the vast majority of poor families would have to pay higher prices. Therefore, increasing the minimum wage would produce a regressive transfer, making most poor people a little worse off in order to improve the lives, at least for a time, of a group of people which is predominately non-poor.

- *A higher minimum wage does not protect jobs.* Some have argued that a higher minimum wage could *protect* jobs, because the higher wage would give firms an incentive to figure out how to use their minimum wage workers more productively. In effect, these analysts argue that higher wages yield higher productivity, rather than the reverse. There is no reliable empirical evidence to support this view.

- *In the end, raising the minimum wage would be self-defeating.* Firms initially respond to an increase in the minimum wage in the same way they respond to any increase in fixed costs affecting all competing firms: They will incorporate the cost in higher prices. This will tend to reduce jobs over a longer term, as higher prices reduce demand for the industry's goods and services. Raising the minimum wage will also mean that no firms will hire additional workers whose value to the firm falls between the old minimum wage and the new one. So in many cases, a higher minimum wage can *reduce* job creation for low skilled people.

For these reasons, the Democratic Leadership Council and Progressive Policy Institute support other ways of helping low income workers. The EITC—long supported by PPI and expanded by President Clinton in 1993—is a much better way of targeting benefits to low income working Americans. For more information on the EITC, see *Work and Poverty: A Progressive View of the Minimum Wage and the Earned Income Tax Credit* (June 1989), and *An American Working Wage: Ending Poverty in Working Families* (February 1990), both by Robert J. Shapiro. We also support the use of vouchers for job training to replace the current system of more than 150 federal training programs—and other changes to empower workers—rather than burden business with additional rules and regulations.

The EITC program is not perfect, but many recent criticisms of it are either exaggerated or plainly incorrect. In their quest to attain a balanced budget, many Republicans in Congress have recently been very critical of the EITC program and targeted it for significant reductions. This has occurred even though the program was started by President Ford and received its largest expansion under President Reagan. For more information on why recent criticisms are off the mark, see *GOP Cuts in the EITC: Raising Taxes on the Working Poor* (June 19, 1995) by M. Jeff Hamond and Lyn A. Hogan.

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