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The Minimum Wage: Increasing the Reward for Work

March 2000

A Report by the National Economic Council
with the Assistance of the Council of Economic Advisers
and the Office of the Chief Economist, U.S. Department of Labor

EXECUTIVE SUMMARY

- **Raising the Minimum Wage by $1 to $6.15 an Hour Would Potentially Benefit More than 10 Million American Workers—Most of Whom are Adult Workers.** An analysis of labor market data shows that in 1999, 10.1 million hourly paid workers made between $5.15 and $6.14 an hour, and thus would potentially benefit from a $1 increase in the minimum wage. About 69 percent of these workers are adults (age 20 or over), about 60 percent are women, about 45 percent worked full-time, and about 33 percent were parents with children under 18 years old. In 1997, the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.

- **Raising the Minimum Wage to $6.15 an Hour Would Restore the Real Value to What It Was in 1982.** Since it was first established in 1938, the minimum wage has been increased 19 times. Between January 1981 and March 1990, the minimum wage was fixed at $3.35 an hour, while prices rose by nearly 50 percent. The proposal to raise the minimum wage by $1 over two years would restore the real value of the minimum wage to what it was in 1982.

- **Increasing the Minimum Wage Would Help Hard-Pressed Families Pay for Groceries, Rent, and Other Necessities.** Raising the minimum wage from $5.15 to $6.15 would raise the annual earnings of a full-time worker by about $2,000 a year. A study of spending by low-income families found that they spend on average about $300 per month on groceries and about $400 per month on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent.

- **Recent Increases in the Minimum Wage Had No Discernable Negative Effect on Employment.** Since the minimum wage increase in 1996, the economy has created more than 10 million jobs and the unemployment rate has fallen from 5.2 percent in September 1996 to 4.1 percent in February 2000, near its lowest level in thirty years. Labor market trends for workers most affected by the minimum wage increase—including younger workers, workers with lower educational levels, and minorities—also show no negative impact of the minimum wage on employment. Numerous careful economic studies, including ones by David Card and Alan Krueger, have shown that increasing the minimum wage has no negative effect on employment. Recent research has even suggested that higher wages can increase employment, because they increase employers' ability to attract, retain, and motivate workers. And they benefit workers by increasing the reward to work.

- **The Minimum Wage Plays a Key Role in Ensuring That All Workers Share in a Growing Economy.** In the last seven years, incomes have grown nearly as strongly at the bottom as at the top of the income distribution, ending a decades long increase in inequality. In contrast, in the previous two decades inequality widened, as poorer families saw their incomes decline in real terms. Research has shown that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women.

- **The Minimum Wage Has Helped Reduce the Welfare Caseload.** By increasing the reward to work, a higher minimum wage attracts new workers into the workforce. An analysis by the Council of Economic Advisers showed that higher federal and state minimum wages were responsible for 10 to 16 percent of the decline in welfare caseloads between 1996 and 1998.

- **The Minimum Wage and the Earned Income Tax Credit Are Complementary.** A working parent with two children earning the minimum wage in 1993 made $10,563 with the EITC (in 1998 inflation-adjusted dollars)—well below the poverty line. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty line—making $13,268—a 26 percent inflation-adjusted increase in its standard of living.

1. Introduction

The American economy is in the midst of the longest economic expansion in history. Since January 1993, the economy has created nearly 21 million new jobs. The unemployment rate in February 2000 was 4.1 percent, near its lowest level in three decades. The overall performance of the economy has only grown stronger over time. In the last four years, labor productivity has grown at a 2.9 percent annual rate and GDP has grown at a 4.4 percent annual rate. At the same time, the underlying core inflation rate in 1999 was 1.9 percent—the lowest rate since 1965.

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In contrast to the previous twenty years, the strong economy of the last seven years has contributed to shared growth across all income groups and substantial poverty reduction. As indicated in Chart 1, incomes have grown nearly as strongly at the bottom as at the top of the income distribution, ending a decades long increase in inequality. The poverty rate has fallen to 12.7 percent, the lowest level since 1979. The strong labor market has been beneficial to people across the economic and demographic spectrum. In 1999, the unemployment rates for African

Americans and Hispanics fell to the lowest levels ever recorded.

Strong growth is necessary but not sufficient to produce sustained income gains and poverty reduction. Also important are policies that insure that all workers are rewarded for their work. The Clinton Administration has consistently sought to make work pay through a range of policies, including expanding the Earned Income Tax Credit in 1993, reforming welfare in order to increase work incentives, and increasing investments in child care for working parents. And an additional key element was the 1996-97 increase in the minimum wage. These policies interact in a beneficial way for low-income families. For instance, a working parent with two children earning the minimum wage in 1993 made $10,563 with the EITC (in 1998 inflation-adjusted dollars), well below the poverty threshold. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty level—making $13,268—a 26 percent inflation-adjusted increase in their standard of living.

This report examines the role that the minimum wage plays in increasing the reward to work and boosting incomes for workers at the bottom of the earnings distribution. The report also examines the recent evidence about the effect of the minimum wage on employment.

2. Background on the Minimum Wage

A federal minimum wage of 25 cents was first established as a part of the Fair Labor Standards Act of 1938 (FLSA). Since its inception, the federal minimum wage has been increased 19 times, and the FLSA has been amended numerous times to expand the workers covered by the minimum wage provision. In recent years, about two thirds of wage and salary workers have been covered by the FLSA minimum wage. (Workers who are exempt most often are in executive, administrative, and professional occupations.)

The federal minimum wage reached its highest value in real terms in 1968, at $7.67 in 1999 dollars (see Chart 2). With five increases during the 1970s, the minimum wage held its value at approximately $6.60. The last increase of the 1970s left the inflation-adjusted value at $6.66. From January 1981 through March 1990, the minimum wage was unchanged, while at the same time prices rose by nearly 50 percent. This eroded the real value of the minimum wage at the end of the 1980s to $4.50. The dollar level of the minimum wage was increased from $3.35 to $3.80 in 1990 and to $4.25 in 1991. In real terms the value of the minimum wage was still well below the 1968 peak.

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Even with the modest inflation of the 1990s, the minimum wage lost value, falling to $4.65 in 1995. By 1996, the minimum wage adjusted for inflation was approaching a 40-year low. Inflation had largely wiped out the last increase in the minimum wage in 1990. In August 1996, Congress passed and President Clinton signed into law a two-step increase, lifting the minimum wage from $4.25 to $5.15. The first step of that increase went into effect October 1, 1996 and the second step on September 1, 1997. More recently, President Clinton proposed to increase the minimum wage by $1 over two years, raising it to $6.15. If the full increase were implemented in 2001, this would restore the real value of the minimum wage to its 1982 level, about 75 percent of the 1968 peak value.

3. The 1996-97 Minimum Wage Increase

The $0.90 increase in the minimum wage in 1996 and 1997 is estimated to have benefited almost 10 million American workers. This section examines the impact of this increase on employment and the distribution of wages.

Effect on Employment

Since the 1996-97 increase in the minimum wage, the American economy—and labor markets in particular—have continued to perform very strongly. Between September 1996 and February 2000, 10.2 million jobs were created—an average of 248,000 per month, even stronger job growth than in the previous 2 years. In retail trade, which has a large concentration of minimum wage workers, there were 1.4 million new jobs. Over this same period the overall unemployment rate fell from 5.2 percent to 4.1 percent.

In addition, welfare rolls have declined 44 percent since welfare reform was enacted in August 1996. A report by the Council of Economic Advisers (1999) suggests that 10 to 16 percent of the welfare caseload decline from 1996 to 1998 was attributable to the increases in federal and state minimum wages. Other important factors were changes in welfare policy and the decline in unemployment.

See Bernstein and Schmitt (1998).

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The strong labor market of the last four years, however, is not definitive proof that the minimum wage has no adverse effects on employment. Numerous other factors affect the job market, and workers paid at or near the minimum wage are a relatively small fraction of the overall workforce. A better test of the impact of minimum wage increases is the experience of workers most likely to be affected by the increases. An examination of data for these workers also shows no discernable negative effect of the last minimum wage increase. For example, adults (age 25 and above) with lower levels of education generally have relatively low wages. As Chart 3 indicates, though, quarterly unemployment rates have generally declined for both high school graduates with no college and those with less than a high school education. Chart 4 shows, similarly, that over the past five years the employment to population ratio generally held steady or increased for both groups of adults. No visible disruptions to these trends are apparent following either the 1996 or 1997 minimum wage increases. Comparable observations pertain for teenage workers in general, and for African American teens specifically (Charts 5 and 6).

These data provide evidence that the minimum wage increase did not have a major negative

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One careful statistical analysis (Neumark, 1999) shows that the 1996-97 minimum wage increases had no effect on the general employment of 16-19 year olds.

effect on employment. Still, as suggestive as this evidence is, it does not provide rigorous statistical tests that control for the myriad of factors that affect employment. Section 5 reviews the evidence from recent economic studies.

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Effect on Wages for Low-income Workers

Recent increases in the minimum wage in the U.S. have improved the distribution of wages at the low end of the distribution. Fortin and Lemieux (1997) demonstrate the importance of the minimum wage in boosting wages at the low end, and reducing wage inequality. They show that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women. Card and Krueger (1995) conclude that the 1990-91 minimum wage increase reversed about 30 percent of the increase in wage inequality that occurred during the previous decade.

The effect of the recent minimum wage increase—in October 1996 and September 1997—on the wage distribution is clearly evident in wage data. Statistics tabulated from the Current Population Survey (CPS), show that in the first two quarters of 1996, when the federal minimum wage was $4.25, about 10 percent of all hourly wage workers earned less than $5.00. The

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The analysis presented in this paper excludes salaried and other non-hourly workers. Research has shown, however, 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 minimum wage. BLS does not routinely minimum wage increase (to $5.15) clearly increased wages in the low end of the distribution; by the first two quarters of 1998, the fraction of workers earning less than $5.00 declined to 2 percent.

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Chart 7 illustrates the effect of the 1996-97 minimum wage increases on the low end of the wage distribution ($3.00 to $7.99) for just one demographic group of interest, women who maintain families and have at least one child present in the household. For 1996, the distribution of wages shows that a relatively small share of workers with hourly wages earn between $3.00 and $3.99.

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estimate hourly earnings for nonhourly workers because of data concerns that arise in producing these estimates. See Haughen and Mellor (1990) for further information.

A family maintained by a woman is one in which the householder (person in whose name the housing unit is rented or owned) is female, and no spouse is present. Here we examine such households when a child under 18 is present.

The presence of workers with reported wages below the minimum wage does not necessarily indicate violations of the Fair Labor Standards Act. There are several reasons why the reported wage for a worker may be below the Federal minimum. First, certain workers are exempt from the minimum wage provisions of the law, including workers for whom tips might serve to supplement the hourly wages received. Second, there may be a misreporting or rounding in the survey responses. When the minimum wage is $5.15, for example, a large number of workers report a wage of exactly $5.00.

In contrast, a substantial fraction earned between $4.00 and $4.49. (The chart shows the distribution by 50-cent increments.) This jump, of course, reflects the clustering of workers whose wages were at or near the minimum wage. The comparable distribution for 1998 indicates a shift that was clearly due to the change in minimum wage policy. In the first two quarters of 1996, about 9 percent of these women earned less than $5.00. By the first two quarters of 1998, this fraction declined to 2 percent.

At the same time, an increasing share of workers earned wages above $6 and $7, suggesting that the increase in the minimum wage had spillover benefits for workers above the minimum wage. Such spillover effects have been documented more formally in research by Grossman (1983), Katz and Krueger (1992), and Card and Krueger (1994).

4. Raising the Minimum Wage to $6.15: Who Is Directly Affected?

Raising the minimum wage from $5.15 to $6.15 would raise the annual earnings of a full-time worker by about $2,000 a year. A study of spending by low-income families found that they spend on average about $300 per month on groceries and about $400 per month on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent. This section provides a detailed examination of the workers that would benefit from a further increase in the minimum wage.

Characteristics of Minimum Wage Workers in 1999

Evidence about workers who currently earn the minimum wage is available from unpublished tabulations provided by the Bureau of Labor Statistics (BLS) based on data from the CPS. In 1999, 72.3 million workers were paid at hourly rates, representing about 61 percent of wage and salary workers. It is estimated that 3.3 million workers—4.6 percent of all workers who are paid an hourly rate—earn a wage at or below the current $5.15 Federal minimum. Of these 3.3 million workers, about 1.1 million reported a wage at exactly $5.15, while the remainder, 2.2 million, earned a wage less than $5.15. A study by Bernstein and Schmitt (1998) indicated that in 1997 the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.

Selected demographic and economic characteristics for these workers are presented in Table 1. The statistics indicate that about 70 percent of workers earning $5.15 or less were age 20 or older. 64 percent of these workers are women.

How Many Workers would be Affected by an Increase in the Minimum Wage?

Using the CPS data described above, it is possible to examine the number and characteristics of workers who would potentially receive a pay raise from a $1.00 increase in the federal minimum wage. Table 2 presents the number of individuals who currently have an hourly wage between $5.15 and $6.14. This table indicates that:

- There are approximately 10.1 million workers within this wage range—about 14 percent of all workers paid an hourly rate.
- 69 percent of the affected workers are adults age 20 or older.

- About 60 percent of these workers are women.
- 16 percent are African American and 20 percent are Hispanic.
- 37 percent are the household head or a spouse who contributes to family income.

Other respected studies have looked at the question of who would potentially benefit from an increase in the minimum wage, focusing on family and income characteristics. Some highlights from these studies are:

- Parents with children under 18 years old comprise almost 33 percent of those potentially affected. (Bernstein, Hartmann, and Schmitt, 1999).
- Over 50 percent of the proposed gains would go to households with incomes less than $25,000 per year. (Bernstein, Hartmann, and Schmitt, 1999).
- 45 percent of the gains go to families with incomes below 200 percent of the poverty level, and an additional 19 percent to families with income below 300 percent of the poverty level. (Burkhauser, 1999).

There are other workers who would also likely benefit from a $1.00 minimum wage increase in addition to those workers that report hourly wages between $5.15 and $6.14. As noted above, a number of the over 900,000 workers who report a $5.00 per hour wage are also likely to be workers currently at the minimum wage, but mis-reporting their earnings. There is also evidence, as discussed earlier, that workers who earn wages just above the new minimum can see their pay rise as a result of the minimum wage increase. To help gauge the size of this group in the event of a minimum wage increase to $6.15, Table 2 also presents the number of workers with hourly wages between $6.15 and $7.14. In 1999 there were approximately 8.4 million such workers, many of whom could indirectly benefit from a minimum wage increase.

Appendix A presents a breakdown of the number of workers that would benefit by state. While the most populous states would have the greatest number of workers in these wage categories (California, for example, has almost 1.5 million workers with wages between $5.15 and $6.14) the evidence suggests that thousands of workers in every state would potentially benefit from a $1.00 increase in the minimum wage.

Table 1. Employed Wage and Salary Workers Paid Hourly Rates with Earnings At or Below Minimum Wage, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demographic group who earn $5.15 or less
	Total paid hourly rates	Paid $5.15 or less	Total paid hourly rates	Paid $5.15 or less	
Total, 16 years and over	72,306	3,340	100.0	100.0	4.6
AGE					
16 to 19 years	6,600	1,006	9.1	30.1	15.2
20 and over	65,706	2,334	90.9	69.9	3.6
SEX					
Men, 16 years and over	36,073	1,214	49.9	36.3	3.4
Women, 16 years and over	36,233	2,126	50.1	63.7	5.9
RACE AND HISPANIC ORIGIN					
White	58,999	2,698	81.6	80.8	4.6
African American	10,126	515	14.0	15.4	5.1
Hispanic	9,402	513	13.0	15.4	5.5
FULL- AND PART-TIME STATUS					
Full-time workers	54,931	1,320	76.0	39.5	2.4
Part-time workers	17,227	2,010	23.8	60.2	11.7
FAMILY RELATIONSHIP					
Husbands	17,609	242	24.4	7.2	1.4
Wives	16,996	622	23.5	18.6	3.7
Women who maintain families	5,395	288	7.5	8.6	5.3
Men who maintain families	1,815	50	2.5	1.5	2.8
Other persons	30,491	2,082	42	62	28

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.
Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

Table 2. Distribution of Wage and Salary Workers Paid Hourly Rates, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demographic group who fall in wage category	
	$5.15 - $6.14	$6.15 - $7.14	$5.15 - $6.14	$6.15 - $7.14	$5.15 - $6.14	$6.15 - $7.14
Total, 16 years and over	10,093	8,370	100.0	100.0	14.0	11.6
AGE						
16 to 19 years	3,133	1,482	31.0	17.7	47.5	22.5
20 and over	6,960	6,888	69.0	82.3	10.6	10.5
SEX						
Men, 16 years and over	4,076	3,405	40.4	40.7	11.3	9.4
Women, 16 years and over	6,018	4,965	59.6	59.3	16.6	13.7
RACE AND HISPANIC ORIGIN						
White	8,027	6,668	79.5	79.7	13.6	11.3
African American	1,602	1,336	15.9	16.0	15.8	13.2
Hispanic	1,989	1,447	19.7	17.3	21.2	15.4
FULL- AND PART-TIME STATUS						
Full-time workers	4,563	5,301	45.2	63.3	8.3	9.7
Part-time workers	5,512	3,048	54.6	36.4	32.0	17.7
FAMILY RELATIONSHIP						
Husbands	851	990	8.4	11.8	4.8	5.6
Wives	1,821	1,962	18.0	23.4	10.7	11.5
Women who maintain families	855	807	8.5	9.6	15.8	15.0
Men who maintain families	171	167	1.7	2.0	9.4	9.2
Other persons	6,396	4,445	63	53	84	58

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

5. Economic Research on the Effect of the Minimum Wage On Employment

The impact of a moderate increase in the minimum wage on employment is a key question for policymakers. Clearly, while an increase in the minimum wage benefits those workers who receive it, some have raised concerns that these direct gains may be partially or fully offset if the minimum wage increase leads to greater unemployment among lower income workers. Section 3 discussed some of the aggregate evidence from the 1996-97 experience. This section discusses the economic theory and empirical evidence behind the effects of the minimum wage on employment.

Recent Economic Theory on the Impact of the Minimum Wage on Employment

The traditional economic theory of supply and demand predicts that an increase in the minimum wage above the market rate would increase the cost faced by employers, causing them to reduce employment. Recent theoretical analyses, however, have challenged this conventional wisdom, examining reasons why some employers may respond to a moderately higher minimum wage by expanding employment. Specifically, higher wages can help firms attract better workers, motivate them to work harder, and retain them for longer periods. (While firms always have the option of increasing their pay rate, some managers leave wages unchanged because of reluctance to increase average labor costs.) At least five papers—recently published in peer-reviewed economics journals—rigorously study this logic. These papers show that a moderate minimum wage can have a positive effect on employment. In general, then, an increase in the minimum wage has an ambiguous effect on employment. The only way to determine the effect in practice is to look at the empirical evidence.

Recent Empirical Evidence on Employment Effects

In an important book, economists David Card and Alan Krueger (1995) provide a critical analysis of previous research, and present their own extensive exploration of the wide variation in minimum wages across states found in the late 1980s and early 1990s. Their work shows that there were no negative employment effects even for teenagers, the group for whom any disemployment effects should be most apparent. Similarly, their detailed analysis fails to find disemployment effects of a minimum wage in the retail trade or in employment of fast food restaurants. More recent studies confirm these results.

Employment in Fast Food Restaurants. To determine the impact of minimum wages on employment, one would like to gather data from firms prior to a minimum wage increase and see how firms adjust employment relative to other similar firms for which the minimum wage does not increase. New work by Card and Krueger (forthcoming) comes closest to doing this. In 1992, New Jersey imposed a higher minimum wage, and yet the neighboring state of Pennsylvania did not. And then in 1996 an increase in the federal minimum wage affected Pennsylvania but not New Jersey. These two episodes provide an experiment that can be used to infer the effects of a minimum wage increase on employment. Card and Krueger use the BLS's

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See Bhaskar and To (1999), Dickens, Machin, and Manning (1999), Lang and Kahn (1998), Manning (1995), and Rebitzer and Taylor (1995). Additional discussion of these models are found in Chapter 11 of Card and Krueger (1995).

employer-reported payroll files from 1991 through 1997 to evaluate employment growth of fast food restaurants in New Jersey and nearby counties in Pennsylvania. They conclude that the minimum wage changes had very little (and possibly slightly positive) effect on employment.

The British Experience. Dickens, Machin, and Manning (1999) studied the British experience with minimum wages. They found "...strong evidence that [minimum wages] compressed the distribution of earnings and no evidence that they have reduced employment."

6. CONCLUSION

The evidence is convincing that moderate increases in the minimum wage have provided meaningful additional earnings for many of America's most hard-pressed working families with no discernible negative employment effects. Increasing the minimum wage is one of the ways that government can help ensure that everyone continues to share in the benefits of growth. When the minimum wage was fixed from 1981 to 1990, the wages and incomes of poorer workers fell in real terms. Thanks to the 1996-97 minimum wage increase, today the minimum wage is helping to ensure that a single parent with two children does not have to raise his or her children in poverty.

The minimum wage is just one component of an overall strategy for insuring that all families benefit from the nation's economic growth. The President's proposed expansion in the Earned Income Tax Credit—to increase benefits for families with three or more children, reduce the marriage penalty, and reduce the phaseout rate—would enhance the value of a higher minimum wage, especially for families with more children and thus greater needs. At the same time, the President is committed to continuing to make important investments in people. Since 1993, the budget for education and training programs has nearly doubled and the President is proposing record increases for a number of key education programs, including Head Start, in his FY 2001 budget. Together, these policies are an investment in continued strong and shared economic growth.

While some critics of Card and Krueger expressed concern about their data collection, the most recent research uses BLS employment records and finds basically the same results.

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Appendix: Distribution of Wage and Salary Workers Paid Hourly Rates by State, 1999

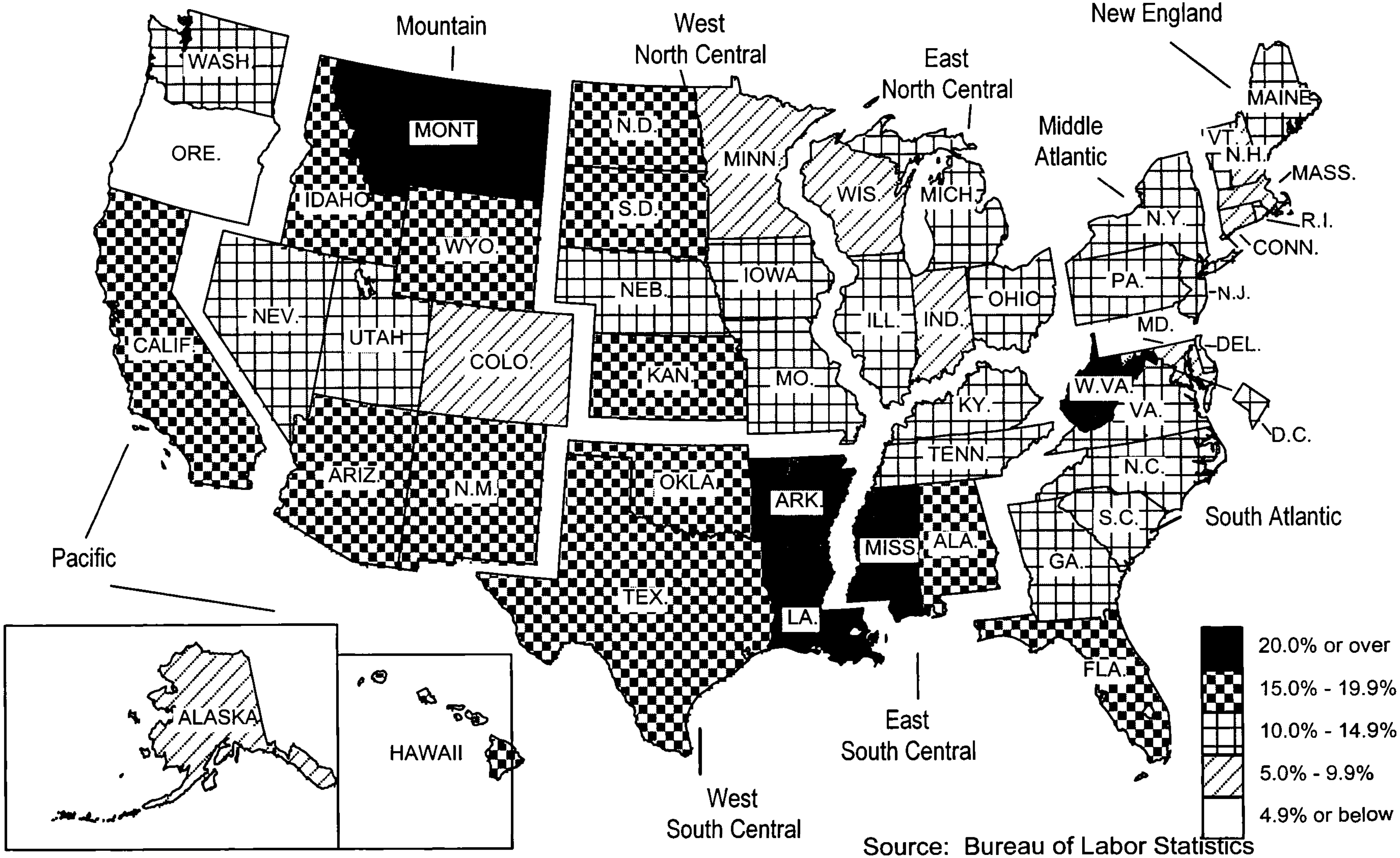
	Number (in thousands)		Percent of All Wage and Salary Workers	
	$5.15 to $6.14	$6.15 to $7.14	$5.15 to $6.14	$6.15 to $7.14
Total	10,093	8,370	13.9	11.6
Alabama	202	146	18.1	13.1
Alaska	9	13	5.5	7.6
Arizona	200	157	15.2	11.9
Arkansas	130	101	20.9	16.2
California	1,463	1,023	17.4	12.1
Colorado	79	92	7.3	8.4
Connecticut	62	70	7.5	8.6
Delaware	22	21	10.8	10.0
DC	12	12	10.0	10.7
Florida	597	530	15.5	13.8
Georgia	267	248	13.1	12.3
Hawaii	47	29	15.0	9.4
Idaho	58	45	15.6	12.3
Illinois	428	354	13.2	10.8
Indiana	180	209	9.8	11.4
Iowa	103	91	11.2	9.9
Kansas	123	96	15.6	12.3
Kentucky	157	161	14.2	14.7
Louisiana	297	123	25.9	10.7
Maine	45	39	11.8	10.4
Maryland	125	137	9.5	10.5
Massachusetts	161	162	9.6	9.7
Michigan	341	312	11.3	10.3
Minnesota	115	121	8.0	8.4
Mississippi	146	74	22.7	11.5
Missouri	172	169	11.9	11.8
Montana	54	32	21.5	12.7
Nebraska	67	68	13.2	13.6
Nevada	60	60	11.2	11.3
New Hampshire	29	31	8.2	8.5
New Jersey	205	187	10.6	9.8
New Mexico	75	39	18.0	9.1
New York	566	395	14.8	10.3
North Carolina	247	223	12.4	11.2
North Dakota	34	29	18.3	15.9
Ohio	427	356	12.7	10.6
Oklahoma	170	126	19.6	14.5
Oregon	35	184	3.7	19.7
Pennsylvaina	454	338	13.8	10.3
Rhode Island	37	25	13.4	9.3
South Carolina	153	116	14.9	11.3
South Dakota	33	29	15.2	13.7
Tennessee	208	216	13.6	14.2
Texas	929	653	18.5	13.1
Utah	61	84	10.1	14.0
Vermont	21	20	12.4	11.5
Virginia	218	207	13.6	12.8
Washington	180	158	10.9	9.6
West Virgina	106	60	22.2	12.8
Wisconsin	157	177	8.9	10.0
Wyoming	25	19	17.8	13.8

Note: Workers in the $5.15 to $6.14 category would be directly affected by a $1.00 increase in the minimum wage. Those in the $6.15 to $7.14 category could be affected by spillovers.
Source: U.S. Department of Labor, Bureau of Labor Statistics, unpublished tabulations from the Current Population Survey, 1999.

Percentage of workers paid hourly rates earning between \$5.15 and \$6.14 per hour, by State

(U.S. percentage = 14.0 percent)

1999 annual averages



Source: Bureau of Labor Statistics

before tackling thornier issues would make it harder than ever to restructure the Social Security system.

The bill would cost about $23 billion in its first decade, but would have no long-term budget impact since seniors who continue to work pay the Social Security payroll tax and income taxes.

"This is motherhood and apple pie a la mode," said Budget Committee ranking Democrat Frank R. Lautenberg, N.J.

The House passed the bill March 1 on a 422-0 vote. President Clinton has promised to sign it if it reaches him "clean," without substantive amendments.

The Senate will need to vote on a technical amendment making corrections to the legislation. This would require the measure to return to the House for final approval before it can go to the president.

LAW & JUDICIARY

BOTH PARTIES BLAME POLITICS FOR STALLING GUN LEGISLATION

President Clinton Tuesday urged key Republican lawmakers to work out gun legislation he can sign into law by April 20, the anniversary of the shooting at Columbine High School in Littleton, Colo.

But after a White House meeting, Senate Judiciary Committee Chairman Orrin G. Hatch, R-Utah, said he made no promise to Clinton that he would call a conference with the House on the long-stalled juvenile justice bill (S 254), which addresses some key gun issues. Hatch told reporters he was concerned that "instead of compromise it might help polarize it more," and preferred to continue informal negotiations.

Clinton called Hatch, House Judiciary Committee Chairman Henry J. Hyde, R-Ill., and the ranking committee Democrats, Sen. Patrick J. Leahy, Vt., and Rep. John Conyers Jr., Mich., to the White House in an effort to jump-start the gun control talks.

While they did not reach agreement on the most divisive issue, background checks on purchasers at gun shows, they agreed to continue talking.

Both sides blame the stalled conference on politics. Leahy points a finger at the powerful gun lobby, while Hyde supporters contend Democrats want the bill to fail because they don't want to give the Republican-controlled House an election-year boost.

"You don't retake the House by having the House accomplish anything," said a GOP aide familiar with the debate. "Their plan is to get everyone's attention ... let it sink, and then blame us."

"We have a compromise bill. If the Democrats want a bill, we can do it," Hyde said. He said 197 Democrats voted against a limited gun safety bill last year. "What is the president doing to bring these Democrats on board?"

But Conyers sharply criticized Hyde's proposal, saying the definition of "gun show" would exempt "the vast majority" of such shows from the bill's requirements.

"We're poles apart on what can or cannot be done. But we're certainly going to continue talking," Hatch said after the White House meeting.

At the heart of the debate is a Senate provision, crafted by Frank Lautenberg, D-N.J., and opposed by Republican leaders, that would require a three-day waiting period while a background check is completed on purchasers at gun shows. It also would increase the minimum age for handgun purchases from 18 to 21. And it would require handguns to be sold with trigger locks or other safety devices.

Similar provisions failed to garner enough support to pass the House when it considered its gun control bill (HR 2122). The House legislation would have required a 24-hour background check.

Negotiators are closer to agreement on other provisions sought by Clinton: child safety locks and a ban on importation of ammunition clips.

There is broad consensus on the underlying bill, which would revamp the current juvenile justice program, initiate several new programs, and substantially increase state and local funding for prevention and prosecution of juvenile crime.

Hatch and Hyde both indicated a willingness to strip the gun provisions and move the underlying bill, but said that is not preferred.

TRADE

LOTT SCOLDS CLINTON FOR POOR LOBBYING EFFORT ON CHINA NTR

Neither the full Senate nor the Finance Committee will rush to act on granting China permanent normal trade relations (NTR) status, Majority Leader Trent Lott, Miss., declared Tuesday, because the White House is doing little to generate support for the controversial trade policy.

"We are not interested in a feckless exercise that produces no result," Lott told U.S. Trade Representative Charlene Barshefsky and Agriculture Secretary Dan Glickman during a subcommittee hearing on agricultural trade. "I am not going to stick my neck out and take up the time of the Senate if you all are not going to get into a war room status and go all out."

Lott's shot across the bow of the administration was the latest indication that permanent NTR legislation faces a tough road and that a political blame game may develop if it falters further. Clinton was meeting with Senate backers of China trade late Tuesday and planned what is billed as a major speech Wednesday to promote the U.S.-China trade agreement negotiated last fall. The White House may yet send proposed China NTR legislation to Capitol Hill this week.

The majority leader later told reporters he was attempting to shake up the administration and warn the president that he needs to invest more political capital in order to bring home a victory on permanent NTR.

"Here's the key," Lott said. "Getting trade legislation through the Senate is not about a speech in California right after a fundraising event or to the Business Roundtable. Getting votes on permanent trade status is hard work, member to member, House and Senate. It's saying to labor, 'This is the right thing for America and for all workers and we're going to do it.'"

Senate Minority Leader Tom Daschle, S.D., said he thinks Clinton deserves credit for his efforts on behalf of China NTR and predicted there will be much more lobbying to come. "They're calling people down one by one and in small groups," Daschle said. "The president is speaking out. I don't know what else you can do."

TECHNOLOGY

END RUN ON E-SIGS CONFERENCE RUNS INTO DASCHLE ROADBLOCK

Senate Republicans tried a new tactic in moving digital signatures legislation to conference Tuesday: a unanimous consent without Democratic approval.

Majority Leader Trent Lott, Miss., asked for unanimous consent on naming 11 Commerce Committee and three Banking Committee members to a conference with the House on the bill (S 761).

Having heard nothing about this plan, Minority Whip Harry Reid, D-Nev., asked Lott if Minority Leader Tom Daschle, S.D., had been consulted. Daschle, dumbfounded at what was taking place, raced from his office just off the floor to complain that he had not been consulted and did not agree.

Democrats objected that Republican leaders intend to give Senate Banking Chairman Phil Gramm, R-Texas, a seat on the conference panel while ranking Judiciary Committee Democrat Patrick J. Leahy of Vermont, would be left off.

Lott apologized for the floor maneuver telling Daschle, "[I] thought you had been notified."

Daschle repeated his call to put Leahy on the conference panel, saying

continued on page 7

HillNews

really important to our working seniors. It's a travesty to penalize them," Lott said.

If there is an objection, Lott could file for cloture on a motion to proceed.

Minority Leader Tom Daschle, S.D., said he would urge Democrats to support the unanimous consent request and was working to convince Kerrey to drop his resistance. "My inclination is to agree with Senator Lott that we ought to take it up, pass it, and send it to the president," he said.

The legislation would abolish a Depression-era Social Security restriction that lowers benefits paid to seniors ages 65 to 69 who earn more than a specified amount each year. This year, about 800,000 seniors will lose $1 in benefits for every $3 they earn beyond $17,000.

Kerrey, the cosponsor of a bipartisan bill (S 1383) to overhaul Social Security, is frustrated that Congress is not considering proposals to restructure the entitlement program for retirees. The program faces insolvency by about 2032, according to estimates made last spring.

Kerrey would like to offer amendments to highlight the system's long-term problems. Because the House-passed bill is being brought straight to the Senate floor, without a Finance Committee markup, he had no such chance in committee.

Kerrey argues that approving "sweeteners" like repeal of the earnings limit

House Leaders Must Perform Balancing Act on Wage Bill

ECONOMIC AFFAIRS

House Republican leaders return to the Capitol on Wednesday to face the arduous task of finalizing ground rules for debate on legislation that would increase the minimum wage.

The leadership will meet at midday, before a Rules Committee meeting scheduled for mid-afternoon. Then, leaders will try to sell their plan to a House Republican Conference meeting late in the day.

But exactly what the plan for Thursday's floor debate will be remained unclear Tuesday after days of negotiations aimed at satisfying both moderate and conservative Republicans and reassuring business groups — many of whom oppose any increase in the $5.15 per hour federal minimum wage.

The House is expected to debate two separate bills — a package of business tax breaks (HR 3832) costing roughly $46 billion over five years and a $1 increase in the minimum wage phased in over three years (HR 3833). The rule would merge the two upon passage of both.

The unusual process, similar to that used in 1996 when Congress last approved a minimum wage increase (PL 104-188), is designed to allow moderate Republicans who favor a minimum wage increase to vote "yes" on the measure while letting conservatives who oppose the hike to vote against it and for business tax cuts.

House leaders must still resolve several issues, beginning with who, if anyone, will be allowed to offer a substitute wage increase. Democrats have collected 165 signatures on a petition aimed at forcing House action on their plan (HR 325) to raise the wage by $1 over two years. [illegible] under pressure from business lobbyists, GOP leaders have shelved an earlier plan to allow Rep. Donald L. Sherwood, R-Pa., an endangered Republican moderate, to offer a two-year proposal as a substitute. But they may yet allow the minority party to offer it.

However, with business lobbyists and many Republicans determined to defeat the faster wage increase, the leadership is unlikely to give Democrats an easy shot. If they do get an opportunity to offer their substitute, the Rules Committee may stack the deck in favor of the GOP three-year plan.

Also unclear Tuesday was whether Democrats will be able to offer a substitute tax-relief proposal. In a letter to House Speaker J. Dennis Hastert, Ill., Minority Leader Richard A. Gephardt, Mo., urged Republicans to allow Democrats to offer "a tax bill that would be deficit neutral, targeted at small businesses affected by the minimum wage increase and not aimed exclusively at high-income individuals."

Hastert suggested last week that Democrats will not get that opportunity, but aides said no final decision had been made.

On the other hand, Republicans may have an incentive to make the rule palatable to Democrats. Conservative Republicans are pushing the leadership to give procedural advantage to an amendment that would allow states to set their own minimum wages, with $5.15 per hour as a floor. If they are rebuffed and join Democrats in opposition to the rule, the minimum wage and tax package could die before the debate begins. If conservatives do prevail, moderates will likely be the deserters.

"I kind of feel for the leadership on this," said a business lobbyist. "There's a lot of people in the business community wondering who's in charge, and we view this as a real test of the leadership — can they defeat $1 over two?"

Tax Cost Estimate

The House Ways and Means Committee has put a preliminary $46 billion five-year price tag on the tax cut package that GOP leaders plan to couple with the minimum wage increase. Detailed cost estimates have not yet been released.

A report by the Joint Committee on Taxation on the legislation introduced by Ways and Means Chairman Bill Archer, R-Texas, lists the following provisions among the bill's highlights:

- A reduction in the top rate for estate, gift and generation-skipping taxes from 55 percent to 50 percent by 2002. All estate and gift tax rates would be reduced by one percentage point in 2003 and in 2004. Estates worth more than $675,000 would be taxed at an 18 percent rate in 2001, down from the current 37 percent initial rate. The 5 percent surcharge on estates worth more than $10 million would be repealed.
- A host of pension law changes, including increased annual contribution limits on pre-tax salary retirement plans including 401(k) plans by $1,000 per year until the current $10,000 limit reaches $14,000 in 2004. Workers 50 years of age or older would be permitted to contribute more to retirement savings plans.
- Businesses would be permitted to deduct 55 percent of the cost of business meals beginning next year, and 60 percent in 2002. The current deductibility is 50 percent. Pilots, truck drivers and other transportation workers could deduct 80 percent of meal costs beginning next year, rather than the current 60 percent.
- Self-employed taxpayers could deduct the full cost of health and long-term care insurance premiums beginning next year. The current 60 percent deduction is now scheduled to increase to 100 percent in 2003.

— Julie R. Hirschfeld

RAISING THE MINIMUM WAGE:
AN OVERDUE PAY RAISE FOR AMERICA'S WORKING FAMILIES
March 8, 2000

Today, President Clinton will call on Congress to pass clean, straightforward legislation to raise the minimum wage by $1 – from $5.15 to $6.15 – in two equal steps. The President will discuss how working families deserve a raise that simply restores the value of the minimum wage to what it was in 1982 and will reiterate his opposition to legislation that holds this increase hostage to provisions that delay this overdue pay raise – costing a full-time minimum wage worker more than $900 over two years – or jeopardize our ability to strengthen Social Security and Medicare and pay down the debt by 2013 for future generations. The President will also release a report by the National Economic Council which shows that raising the minimum wage is good for American workers and good for the American economy. Some highlights from the report are:

- **The President's Proposal to Raise the Minimum Wage by $1 to $6.15 an Hour Would Potentially Benefit More than 10 Million American Workers – Most of Whom Are Adult Workers.** The report finds that 10.1 million hourly paid workers make between $5.15 and $6.14 an hour and would potentially benefit from a $1 increase in the minimum wage. About 69 percent of these workers are adults (age 20 or over), about 60 percent are women, about 45 percent worked full-time, and about 33 percent are parents with children under age 18. In 1997, the earnings of the average minimum wage worker accounted for 54 percent of their family's total earnings.

- **Increasing the Minimum Wage Would Help Hard-Pressed Families Pay for Groceries, Rent, and Other Necessities.** Raising the minimum wage from $5.15 to $6.15 would raise the annual earnings of a full-time worker by about $2,000 a year. For a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent. *Delaying the minimum wage increase by spreading it out over 3 years would cost a full-time worker earning the minimum wage over $900 over two years.*

- **The President's Modest Increase Would Simply Restore the Real Value of the Minimum Wage to What it Was in 1982.** Raising the minimum wage by $1 over two years would simply restore the real value of the minimum wage to what it was in 1982. This would help erode the erosion in the real value of the minimum wage during the 1980s when, between January 1981 and March 1990, the minimum wage remained at $3.35 an hour, while prices rose by nearly 50 percent.

- **The Impact from Last Minimum Wage Increase Is Clear: 10 Million Workers Got A Raise and There Is No Evidence Jobs Were Lost.** Since the last 90 cent minimum wage increase signed into law by President Clinton in 1996, the economy has created more than 10 million jobs and the unemployment rate has fallen from 5.2 percent in September 1996 to 4.1 percent in February 2000, near its lowest level in thirty years. Labor market trends for workers most affected by the minimum wage increase – including younger workers with lower educational levels and minorities – also show no negative impact of the minimum wage on employment.

- **Economic Studies Find No Negative Effect of the Minimum Wage on Employment.** Numerous careful economic studies, including ones by David Card and Alan Krueger of Princeton University, have found that increasing the minimum wage has no negative effect on employment. Recent research has even suggested that higher wages can *increase* employment, because they increase employers' ability to attract, retain, and motive workers. And they benefit workers by increasing the reward to work.

- **The Minimum Wage Plays an Important Role in Ensuring That All Workers Share in a Growing Economy.** In the last seven years, incomes have grown nearly as strongly from the bottom to the top of the income distribution, ending a decades long increase in inequality. In contrast, in the previous two decades inequality widened, as poorer workers saw their incomes decline in real terms. Research has shown that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women.

- **Recent Increases in the Minimum Wage Have Helped Reduce the Welfare Caseload.** By increasing the reward to work, a higher minimum wage attracts new workers into the workforce. An analysis by the Council of Economic Advisers showed that the 90 cent increase in the minimum wage signed into law by President Clinton in 1996 and increased minimum wages in some states were responsible for 10 to 16 percent of the decline in welfare caseloads between 1996 and 1998.

- **Helping Ensure Parents Can Raise Their Children Out of Poverty.** A working parent with two children earning the minimum wage in 1993 made $10,563 with the EITC (in 1998 inflation-adjusted dollars) – well below the poverty line. Because of the President's efforts to increase the EITC in 1993 and raise the minimum wage in 1996, a similar family in 1998 was above the poverty line – making $13,268 – a 26 percent inflation-adjusted increase in their standard of living.

The Minimum Wage: Increasing the Reward for Work

March 2000

A Report by the National Economic Council
with the Assistance of the Council of Economic Advisers
and the Office of the Chief Economist, U.S. Department of Labor

EXECUTIVE SUMMARY

- **Raising the Minimum Wage by $1 to $6.15 an Hour Would Potentially Benefit More than 10 Million American Workers—Most of Whom are Adult Workers.** An analysis of labor market data shows that in 1999, 10.1 million hourly paid workers made between $5.15 and $6.14 an hour, and thus would potentially benefit from a $1 increase in the minimum wage. About 69 percent of these workers are adults (age 20 or over), about 60 percent are women, about 45 percent worked full-time, and about 33 percent were parents with children under 18 years old. In 1997, the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.

- **Raising the Minimum Wage to $6.15 an Hour Would Restore the Real Value to What It Was in 1982.** Since it was first established in 1938, the minimum wage has been increased 19 times. Between January 1981 and March 1990, the minimum wage was fixed at $3.35 an hour, while prices rose by nearly 50 percent. The proposal to raise the minimum wage by $1 over two years would restore the real value of the minimum wage to what it was in 1982.

- **Increasing the Minimum Wage Would Help Hard-Pressed Families Pay for Groceries, Rent, and Other Necessities.** Raising the minimum wage from $5.15 to $6.15 would raise the annual earnings of a full-time worker by about $2,000 a year. A study of spending by low-income families found that they spend on average about $300 per month on groceries and about $400 per month on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent.

- **Recent Increases in the Minimum Wage Had No Discernable Negative Effect on Employment.** Since the minimum wage increase in 1996, the economy has created more than 10 million jobs and the unemployment rate has fallen from 5.2 percent in September 1996 to 4.1 percent in February 2000, near its lowest level in thirty years. Labor market trends for workers most affected by the minimum wage increase—including younger workers, workers with lower educational levels, and minorities—also show no negative impact of the minimum wage on employment. Numerous careful economic studies, including ones by David Card and Alan Krueger, have shown that increasing the minimum wage has no negative effect on employment. Recent research has even suggested that higher wages can increase employment, because they increase employers' ability to attract, retain, and motivate workers. And they benefit workers by increasing the reward to work.

- **The Minimum Wage Plays a Key Role in Ensuring That All Workers Share in a Growing Economy.** In the last seven years, incomes have grown nearly as strongly at the bottom as at the top of the income distribution, ending a decades long increase in inequality. In contrast, in the previous two decades inequality widened, as poorer families saw their incomes decline in real terms. Research has shown that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women.

- **The Minimum Wage Has Helped Reduce the Welfare Caseload.** By increasing the reward to work, a higher minimum wage attracts new workers into the workforce. An analysis by the Council of Economic Advisers showed that higher federal and state minimum wages were responsible for 10 to 16 percent of the decline in welfare caseloads between 1996 and 1998.

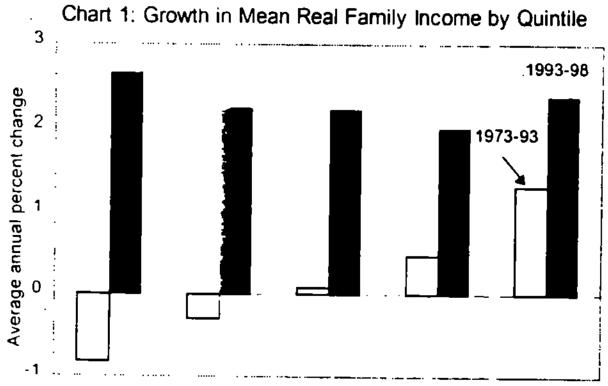
- **The Minimum Wage and the Earned Income Tax Credit Are Complementary.** A working parent with two children earning the minimum wage in 1993 made $10,563 with the EITC (in 1998 inflation-adjusted dollars)—well below the poverty line. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty line—making $13,268—a 26 percent inflation-adjusted increase in its standard of living.

1. INTRODUCTION

The American economy is in the midst of the longest economic expansion in history. Since January 1993, the economy has created nearly 21 million new jobs. The unemployment rate in February 2000 was 4.1 percent, near its lowest level in three decades. The overall performance of the economy has only grown stronger over time. In the last four years, labor productivity has grown at a 2.9 percent annual rate and GDP has grown at a 4.4 percent annual rate. At the same time, the underlying core inflation rate in 1999 was 1.9 percent—the lowest rate since 1965.

In contrast to the previous twenty years, the strong economy of the last seven years has contributed to shared growth across all income groups and substantial poverty reduction. As indicated in Chart 1, incomes have grown nearly as strongly at the bottom as at the top of the income distribution, ending a decades long increase in inequality. The poverty rate has fallen to 12.7 percent, the lowest level since 1979. The strong labor market has been beneficial to people across the economic and demographic spectrum. In 1999, the unemployment rates for African Americans and Hispanics fell to the lowest levels ever recorded.

Chart 1: Growth in Mean Real Family Income by Quintile



Source: Department of Commerce (Bureau of the Census).

Strong growth is necessary but not sufficient to produce sustained income gains and poverty reduction. Also important are policies that insure that all workers are rewarded for their work. The Clinton Administration has consistently sought to make work pay through a range of policies, including expanding the Earned Income Tax Credit in 1993, reforming welfare in order to increase work incentives, and increasing investments in child care for working parents. And an additional key element was the 1996-97 increase in the minimum wage. These policies interact in a beneficial way for low-income families. For instance, a working parent with two children earning the minimum wage in 1993 made $10,563 with the EITC (in 1998 inflation-adjusted dollars), well below the poverty threshold. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty level—making $13,268—a 26 percent inflation-adjusted increase in their standard of living.

This report examines the role that the minimum wage plays in increasing the reward to work and boosting incomes for workers at the bottom of the earnings distribution. The report also examines the recent evidence about the effect of the minimum wage on employment.

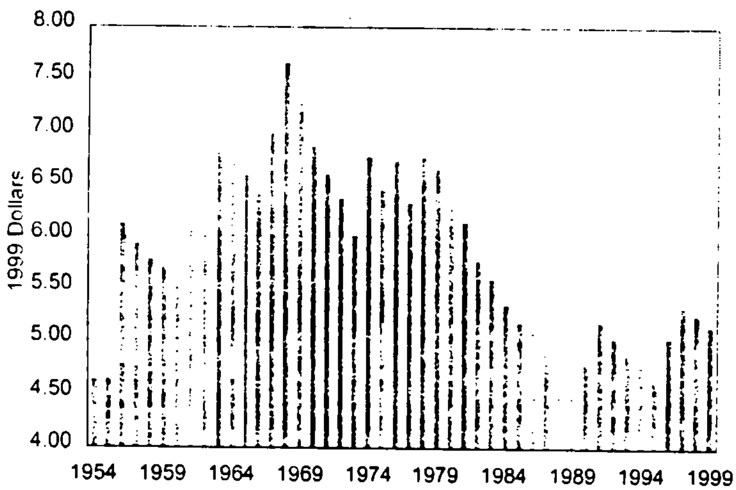
2. BACKGROUND ON THE MINIMUM WAGE

A federal minimum wage of 25 cents was first established as a part of the Fair Labor Standards Act of 1938 (FLSA). Since its inception, the federal minimum wage has been increased 19 times, and the FLSA has been amended numerous times to expand the workers covered by the minimum wage provision. In recent years, about two thirds of wage and salary workers have been covered by the FLSA minimum wage. (Workers who are exempt most often are in executive, administrative, and professional occupations.)

The federal minimum wage reached its highest value in real terms in 1968, at $7.67 in 1999 dollars (see Chart 2). With five increases during the 1970s, the minimum wage held its value at approximately $6.60. The last increase of the 1970s left the inflation-adjusted value at $6.66. From January 1981 through March 1990, the minimum wage was unchanged, while at the same time prices rose by nearly 50 percent. This eroded the real value of the minimum wage at the end of the 1980s to $4.50. The dollar level of the minimum wage was increased from $3.35 to $3.80 in 1990 and to $4.25 in 1991. In real terms the value of the minimum wage was still well below the 1968 peak.

Even with the modest inflation of the 1990s, the minimum wage lost value, falling to $4.65 in 1995. By 1996, the minimum wage adjusted for inflation was approaching a 40-year low. Inflation had largely wiped out the last increase in the minimum wage in 1990. In August 1996, Congress passed and President Clinton signed into law a two-step increase, lifting the minimum wage from $4.25 to $5.15. The first step of that increase went into effect October 1, 1996 and the second step on September 1, 1997. More recently, President Clinton proposed to increase the minimum wage by $1 over two years, raising it to $6.15. If the full increase were implemented in 2001, this would restore the real value of the minimum wage to its 1982 level, about 75 percent of the 1968 peak value.

Chart 2: Real Level of the Minimum Wage



Source: Department of Labor (Bureau of Labor Statistics).

3. THE 1996-97 MINIMUM WAGE INCREASE

The $0.90 increase in the minimum wage in 1996 and 1997 is estimated to have benefited almost 10 million American workers.[1] This section examines the impact of this increase on employment and the distribution of wages.

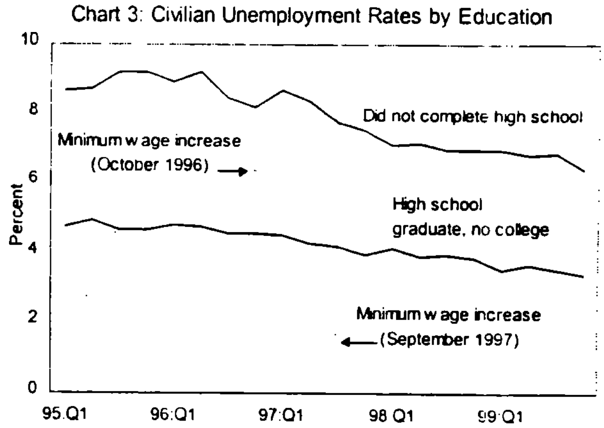
Effect on Employment

Since the 1996-97 increase in the minimum wage, the American economy—and labor markets in particular—have continued to perform very strongly. Between September 1996 and February 2000, 10.2 million jobs were created—an average of 248,000 per month, even stronger job growth than in the previous 2 years. In retail trade, which has a large concentration of minimum wage workers, there were 1.4 million new jobs. Over this same period the overall unemployment rate fell from 5.2 percent to 4.1 percent.

In addition, welfare rolls have declined 44 percent since welfare reform was enacted in August 1996. A report by the Council of Economic Advisers (1999) suggests that 10 to 16 percent of the welfare caseload decline from 1996 to 1998 was attributable to the increases in federal and state minimum wages. Other important factors were changes in welfare policy and the decline in unemployment.

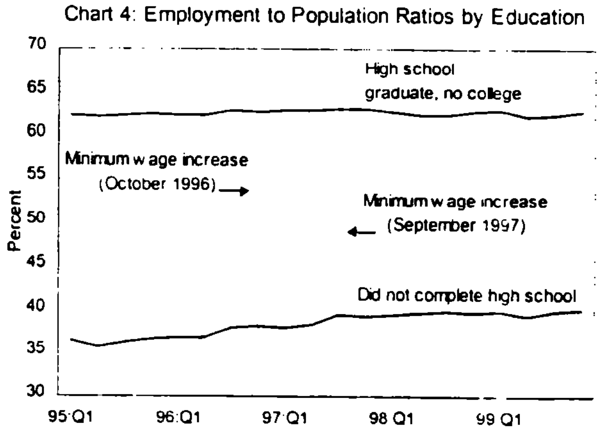
The strong labor market of the last four years, however, is not definitive proof that the minimum wage has no adverse effects on employment. Numerous other factors affect the job market, and workers paid at or near the minimum wage are a relatively small fraction of the overall workforce. A better test of the impact of minimum wage increases is the experience of workers most likely to be affected by the increases. An examination of data for these workers also shows no discernable negative effect of the last minimum wage increase. For example, adults (age 25 and above) with lower levels of education generally have relatively low wages. As Chart 3 indicates, though, quarterly unemployment rates have generally declined for both high school graduates with no college and those with less than a high school education. Chart 4 shows, similarly, that over the past five years the employment to population ratio generally held steady or increased for both groups of adults. No visible disruptions to these trends are apparent following either the 1996 or 1997 minimum wage increases. Comparable

Chart 3: Civilian Unemployment Rates by Education



Source: Department of Labor (Bureau of Labor Statistics)

Chart 4: Employment to Population Ratios by Education

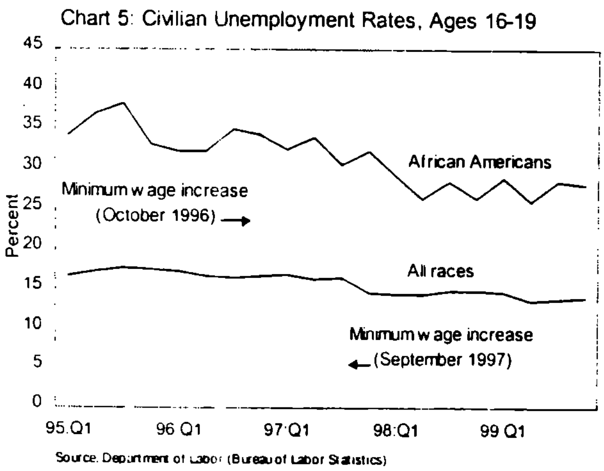


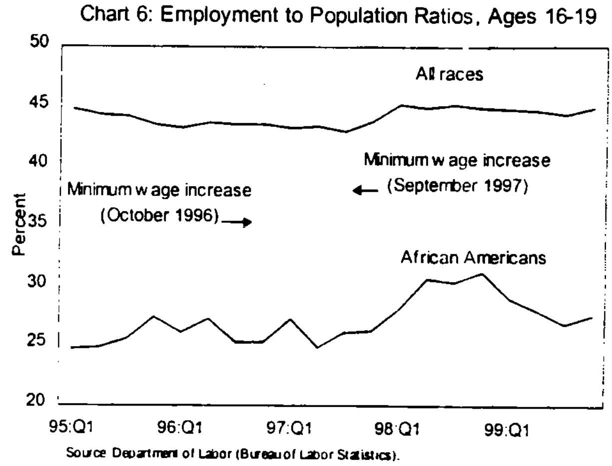
Source: Department of Labor (Bureau of Labor Statistics)

[1] See Bernstein and Schmitt (1998).

observations pertain for teenage workers in general, and for African American teens specifically (Charts 5 and 6).[2]

These data provide evidence that the minimum wage increase did not have a major negative effect on employment. Still, as suggestive as this evidence is, it does not provide rigorous statistical tests that control for the myriad of factors that affect employment. Section 5 reviews the evidence from recent economic studies.





Effect on Wages for Low-income Workers

Recent increases in the minimum wage in the U.S. have improved the distribution of wages at the low end of the distribution. Fortin and Lemieux (1997) demonstrate the importance of the minimum wage in boosting wages at the low end, and reducing wage inequality. They show that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women. Card and Krueger (1995) conclude that the 1990-91 minimum wage increase reversed about 30 percent of the increase in wage inequality that occurred during the previous decade.

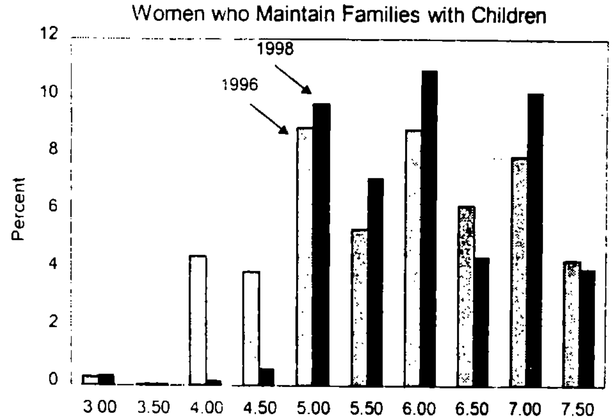
The effect of the recent minimum wage increase—in October 1996 and September 1997—on the wage distribution is clearly evident in wage data. Statistics tabulated from the Current Population Survey (CPS), show that in the first two quarters of 1996, when the federal minimum wage was \$4.25, about 10 percent of all hourly wage workers earned less than \$5.00.[3] The minimum wage increase (to \$5.15) clearly increased wages in the low end of the distribution; by the first two quarters of 1998, the fraction of workers earning less than \$5.00 declined to 2 percent.

[2] One careful statistical analysis (Neumark, 1999) shows that the 1996-97 minimum wage increases had no effect on the general employment of 16-19 year olds.

[3] The analysis presented in this paper excludes salaried and other non-hourly workers. Research has shown, however, 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 minimum wage. BLS does not routinely estimate hourly earnings for nonhourly workers because of data concerns that arise in producing these estimates. See Haughen and Mellor (1990) for further information.

Chart 7 illustrates the effect of the 1996-97 minimum wage increases on the low end of the wage distribution ($3.00 to $7.99) for just one demographic group of interest, women who maintain families and have at least one child present in the household.[4] For 1996, the distribution of wages shows that a relatively small share of workers with hourly wages earn between $3.00 and $3.99.[5] In contrast, a substantial fraction earned between $4.00 and $4.49. (The chart shows the distribution by 50-cent increments.) This jump, of course, reflects the clustering of workers whose wages were at or near the minimum wage. The comparable distribution for 1998 indicates a shift that was clearly due to the change in minimum wage policy. In the first two quarters of 1996, about 9 percent of these women earned less than $5.00. By the first two quarters of 1998, this fraction declined to 2 percent.

Chart 7: Wage Distribution, $3.00 to $7.99, Women who Maintain Families with Children



Source: Council of Economic Advisers tabulation of Current Population Survey data

At the same time, an increasing share of workers earned wages above $6 and $7, suggesting that the increase in the minimum wage had spillover benefits for workers above the minimum wage. Such spillover effects have been documented more formally in research by Grossman (1983), Katz and Krueger (1992), and Card and Krueger (1994).

4. RAISING THE MINIMUM WAGE TO $6.15: WHO IS DIRECTLY AFFECTED?

Raising the minimum wage from $5.15 to $6.15 would raise the annual earnings of a full-time worker by about $2,000 a year. A study of spending by low-income families found that they spend on average about $300 per month on groceries and about $400 per month on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent. This section provides a detailed examination of the workers that would benefit from a further increase in the minimum wage.

Characteristics of Minimum Wage Workers in 1999

Evidence about workers who currently earn the minimum wage is available from unpublished tabulations provided by the Bureau of Labor Statistics (BLS) based on data from the CPS. In 1999, 72.3 million workers were paid at hourly rates, representing about 61 percent of wage and salary workers. It is estimated that 3.3 million workers—4.6 percent of all workers who are paid an hourly rate—earn a wage at or below the current $5.15 Federal minimum. Of these 3.3 million workers, about 1.1 million reported a wage at exactly $5.15, while the remainder, 2.2

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[4] A family maintained by a woman is one in which the householder (person in whose name the housing unit is rented or owned) is female, and no spouse is present. Here we examine such households when a child under 18 is present.
[5] The presence of workers with reported wages below the minimum wage does not necessarily indicate violations of the Fair Labor Standards Act. There are several reasons why the reported wage for a worker may be below the Federal minimum. First, certain workers are exempt from the minimum wage provisions of the law, including workers for whom tips might serve to supplement the hourly wages received. Second, there may be a misreporting or rounding in the survey responses. When the minimum wage is $5.15, for example, a large number of workers report a wage of exactly $5.00.

million, earned a wage less than $5.15. A study by Bernstein and Schmitt (1998) indicated that in 1997 the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.

Selected demographic and economic characteristics for these workers are presented in Table 1. The statistics indicate that about 70 percent of workers earning $5.15 or less were age 20 or older. 64 percent of these workers are women.

How Many Workers would be Affected by an Increase in the Minimum Wage?

Using the CPS data described above, it is possible to examine the number and characteristics of workers who would potentially receive a pay raise from a $1.00 increase in the federal minimum wage. Table 2 presents the number of individuals who currently have an hourly wage between $5.15 and $6.14. This table indicates that:

- There are approximately 10.1 million workers within this wage range—about 14 percent of all workers paid an hourly rate.
- 69 percent of the affected workers are adults age 20 or older.
- About 60 percent of these workers are women.
- 16 percent are African American and 20 percent are Hispanic.
- 37 percent are the household head or a spouse who contributes to family income.

Other respected studies have looked at the question of who would potentially benefit from an increase in the minimum wage, focusing on family and income characteristics. Some highlights from these studies are:

- Parents with children under 18 years old comprise almost 33 percent of those potentially affected. (Bernstein, Hartmann, and Schmitt, 1999).
- Over 50 percent of the proposed gains would go to households with incomes less than $25,000 per year. (Bernstein, Hartmann, and Schmitt, 1999).
- 45 percent of the gains go to families with incomes below 200 percent of the poverty level, and an additional 19 percent to families with income below 300 percent of the poverty level. (Burkhauser, 1999).

There are other workers who would also likely benefit from a $1.00 minimum wage increase in addition to those workers that report hourly wages between $5.15 and $6.14. As noted above, a number of the over 900,000 workers who report a $5.00 per hour wage are also likely to be workers currently at the minimum wage, but mis-reporting their earnings. There is also evidence, as discussed earlier, that workers who earn wages just above the new minimum can see their pay rise as a result of the minimum wage increase. To help gauge the size of this group in the event of a minimum wage increase to $6.15, Table 2 also presents the number of workers with hourly wages between $6.15 and $7.14. In 1999 there were approximately 8.4 million such workers, many of whom could indirectly benefit from a minimum wage increase.

Appendix A presents a breakdown of the number of workers that would benefit by state. While the most populous states would have the greatest number of workers in these wage categories (California, for example, has almost 1.5 million workers with wages between $5.15 and $6.14) the evidence suggests that thousands of workers in every state would potentially benefit from a $1.00 increase in the minimum wage.

Table 1. Employed Wage and Salary Workers Paid Hourly Rates with Earnings At or Below Minimum Wage, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demographic group who earn $5.15 or less
	Total paid hourly rates	Paid $5.15 or less	Total paid hourly rates	Paid $5.15 or less	
Total, 16 years and over	72,306	3,340	100.0	100.0	4.6
AGE					
16 to 19 years	6,600	1,006	9.1	30.1	15.2
20 and over	65,706	2,334	90.9	69.9	3.6
SEX					
Men, 16 years and over	36,073	1,214	49.9	36.3	3.4
Women, 16 years and over	36,233	2,126	50.1	63.7	5.9
RACE AND HISPANIC ORIGIN					
White	58,999	2,698	81.6	80.8	4.6
African American	10,126	515	14.0	15.4	5.1
Hispanic	9,402	513	13.0	15.4	5.5
FULL- AND PART-TIME STATUS					
Full-time workers	54,931	1,320	76.0	39.5	2.4
Part-time workers	17,227	2,010	23.8	60.2	11.7
FAMILY RELATIONSHIP					
Husbands	17,609	242	24.4	7.2	1.4
Wives	16,996	622	23.5	18.6	3.7
Women who maintain families	5,395	288	7.5	8.6	5.3
Men who maintain families	1,815	50	2.5	1.5	2.8
Other persons	30,491	2,082	42	62	28

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

Table 2. Distribution of Wage and Salary Workers Paid Hourly Rates, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demographic group who fall in wage category	
	$5.15 - $6.14	$6.15 - $7.14	$5.15 - $6.14	$6.15 - $7.14	$5.15 - $6.14	$6.15 - $7.14
Total, 16 years and over	10,093	8,370	100.0	100.0	14.0	11.6
AGE						
16 to 19 years	3,133	1,482	31.0	17.7	47.5	22.5
20 and over	6,960	6,888	69.0	82.3	10.6	10.5
SEX						
Men, 16 years and over	4,076	3,405	40.4	40.7	11.3	9.4
Women, 16 years and over	6,018	4,965	59.6	59.3	16.6	13.7
RACE AND HISPANIC ORIGIN						
White	8,027	6,668	79.5	79.7	13.6	11.3
African American	1,602	1,336	15.9	16.0	15.8	13.2
Hispanic	1,989	1,447	19.7	17.3	21.2	15.4
FULL- AND PART-TIME STATUS						
Full-time workers	4,563	5,301	45.2	63.3	8.3	9.7
Part-time workers	5,512	3,048	54.6	36.4	32.0	17.7
FAMILY RELATIONSHIP						
Husbands	851	990	8.4	11.8	4.8	5.6
Wives	1,821	1,962	18.0	23.4	10.7	11.5
Women who maintain families	855	807	8.5	9.6	15.8	15.0
Men who maintain families	171	167	1.7	2.0	9.4	9.2
Other persons	6,396	4,445	63	53	84	58

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

5. ECONOMIC RESEARCH ON THE EFFECT OF THE MINIMUM WAGE ON EMPLOYMENT

The impact of a moderate increase in the minimum wage on employment is a key question for policymakers. Clearly, while an increase in the minimum wage benefits those workers who receive it, some have raised concerns that these direct gains may be partially or fully offset if the minimum wage increase leads to greater unemployment among lower income workers. Section 3 discussed some of the aggregate evidence from the 1996-97 experience. This section discusses the economic theory and empirical evidence behind the effects of the minimum wage on employment.

Recent Economic Theory on the Impact of the Minimum Wage on Employment

The traditional economic theory of supply and demand predicts that an increase in the minimum wage above the market rate would increase the cost faced by employers, causing them to reduce employment. Recent theoretical analyses, however, have challenged this conventional wisdom, examining reasons why some employers may respond to a moderately higher minimum wage by expanding employment. Specifically, higher wages can help firms attract better workers, motivate them to work harder, and retain them for longer periods. (While firms always have the option of increasing their pay rate, some managers leave wages unchanged because of reluctance to increase average labor costs.) At least five papers—recently published in peer-reviewed economics journals—rigorously study this logic.[6] These papers show that a moderate minimum wage can have a positive effect on employment. In general, then, an increase in the minimum wage has an ambiguous effect on employment. The only way to determine the effect in practice is to look at the empirical evidence.

Recent Empirical Evidence on Employment Effects

In an important book, economists David Card and Alan Krueger (1995) provide a critical analysis of previous research, and present their own extensive exploration of the wide variation in minimum wages across states found in the late 1980s and early 1990s. Their work shows that there were no negative employment effects even for teenagers, the group for whom any disemployment effects should be most apparent. Similarly, their detailed analysis fails to find disemployment effects of a minimum wage in the retail trade or in employment of fast food restaurants. More recent studies confirm these results.

Employment in Fast Food Restaurants. To determine the impact of minimum wages on employment, one would like to gather data from firms prior to a minimum wage increase and see how firms adjust employment relative to other similar firms for which the minimum wage does not increase. New work by Card and Krueger (forthcoming) comes closest to doing this. In 1992, New Jersey imposed a higher minimum wage, and yet the neighboring state of Pennsylvania did not. And then in 1996 an increase in the federal minimum wage affected Pennsylvania but not New Jersey. These two episodes provide an experiment that can be used to infer the effects of a minimum wage increase on employment. Card and Krueger use the BLS's employer-reported payroll files from 1991 through 1997 to evaluate employment growth of fast

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[6] See Bhaskar and To (1999). Dickens, Machin, and Manning (1999). Lang and Kahn (1998). Manning (1995), and Rebitzer and Taylor (1995). Additional discussion of these models are found in Chapter 11 of Card and Krueger (1995).

food restaurants in New Jersey and nearby counties in Pennsylvania. They conclude that the minimum wage changes had very little (and possibly slightly positive) effect on employment.[7]

The British Experience. Dickens, Machin, and Manning (1999) studied the British experience with minimum wages. They found "...strong evidence that [minimum wages] compressed the distribution of earnings and no evidence that they have reduced employment."

6. CONCLUSION

The evidence is convincing that moderate increases in the minimum wage have provided meaningful additional earnings for many of America's most hard-pressed working families with no discernible negative employment effects. Increasing the minimum wage is one of the ways that government can help ensure that everyone continues to share in the benefits of growth. When the minimum wage was fixed from 1981 to 1990, the wages and incomes of poorer workers fell in real terms. Thanks to the 1996-97 minimum wage increase, today the minimum wage is helping to ensure that a single parent with two children does not have to raise his or her children in poverty.

The minimum wage is just one component of an overall strategy for insuring that all families benefit from the nation's economic growth. The President's proposed expansion in the Earned Income Tax Credit—to increase benefits for families with three or more children, reduce the marriage penalty, and reduce the phaseout rate—would enhance the value of a higher minimum wage, especially for families with more children and thus greater needs. At the same time, the President is committed to continuing to make important investments in people. Since 1993, the budget for education and training programs has nearly doubled and the President is proposing record increases for a number of key education programs, including Head Start, in his FY 2001 budget. Together, these policies are an investment in continued strong and shared economic growth.

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[7] While some critics of Card and Krueger expressed concern about their data collection, the most recent research uses BLS employment records and finds basically the same results.

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Appendix: Distribution of Wage and Salary Workers Paid Hourly Rates by State, 1999

	Number (in thousands)		Percent of All Wage and Salary Workers	
	$5.15 to $6.14	$6.15 to $7.14	$5.15 to $6.14	$6.15 to $7.14
Total	10,093	8,370	13.9	11.6
Alabama	202	146	18.1	13.1
Alaska	9	13	5.5	7.6
Arizona	200	157	15.2	11.9
Arkansas	130	101	20.9	16.2
California	1,463	1,023	17.4	12.1
Colorado	79	92	7.3	8.4
Connecticut	62	70	7.5	8.6
Delaware	22	21	10.8	10.0
DC	12	12	10.0	10.7
Florida	597	530	15.5	13.8
Georgia	267	248	13.1	12.3
Hawaii	47	29	15.0	9.4
Idaho	58	45	15.6	12.3
Illinois	428	354	13.2	10.8
Indiana	180	209	9.8	11.4
Iowa	103	91	11.2	9.9
Kansas	123	96	15.6	12.3
Kentucky	157	161	14.2	14.7
Louisiana	297	123	25.9	10.7
Maine	45	39	11.8	10.4
Maryland	125	137	9.5	10.5
Massachusetts	161	162	9.6	9.7
Michigan	341	312	11.3	10.3
Minnesota	115	121	8.0	8.4
Mississippi	146	74	22.7	11.5
Missouri	172	169	11.9	11.8
Montana	54	32	21.5	12.7
Nebraska	67	68	13.2	13.6
Nevada	60	60	11.2	11.3
New Hampshire	29	31	8.2	8.5
New Jersey	205	187	10.6	9.8
New Mexico	75	39	18.0	9.1
New York	566	395	14.8	10.3
North Carolina	247	223	12.4	11.2
North Dakota	34	29	18.3	15.9
Ohio	427	356	12.7	10.6
Oklahoma	170	126	19.6	14.5
Oregon	35	184	3.7	19.7
Pennsylvaina	454	338	13.8	10.3
Rhode Island	37	25	13.4	9.3
South Carolina	153	116	14.9	11.3
South Dakota	33	29	15.2	13.7
Tennessee	208	216	13.6	14.2
Texas	929	653	18.5	13.1
Utah	61	84	10.1	14.0
Vermont	21	20	12.4	11.5
Virginia	218	207	13.6	12.8
Washington	180	158	10.9	9.6
West Virgina	106	60	22.2	12.8
Wisconsin	157	177	8.9	10.0
Wyoming	25	19	17.8	13.8

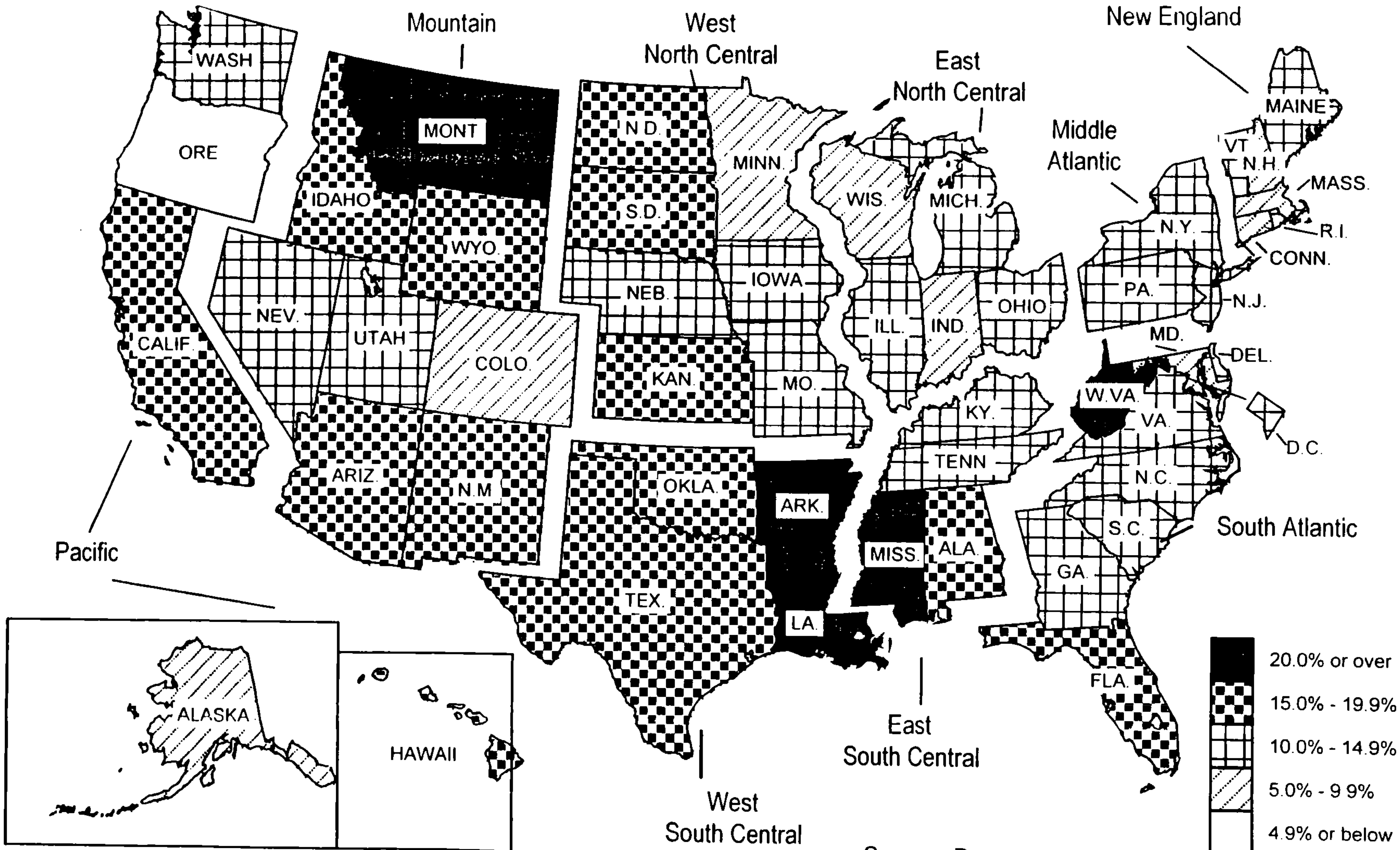
Note: Workers in the $5.15 to $6.14 category would be directly affected by a $1.00 increase in the minimum wage. Those in the $6.15 to $7.14 category could be affected by spillovers.

Source: U.S. Department of Labor, Bureau of Labor Statistics, unpublished tabulations from the Current Population Survey, 1999.

Percentage of workers paid hourly rates earning between $5.15 and $6.14 per hour, by State

(U.S. percentage = 14.0 percent)

1999 annual averages



Source: Bureau of Labor Statistics

08/28/00 MON 10:25 FAX
AUG. 28. 2000 9:58AM NO. 2392 P. 2/4

J. Dennis Hastert
Fourteenth District
Illinois

(202) 225-0600

Office of the Speaker
United States House of Representatives
Washington, DC 20515
August 28, 2000

The President
The White House
Washington D.C.

Dear Mr. President:

I have enjoyed working with you on several issues where we have found common ground. We have been quite successful this year in working together on repealing the Social Security Earnings Limit, fighting the war on drugs in Columbia, opening new markets in our poorest communities in America, and opening new markets oversees in China, Africa, and the Caribbean.

I would like to propose that we work over the next month to find common ground on your desire to increase the minimum wage by $1 and our desire to help alleviate the burdens on small businesses that would shoulder the costs of such an increase.

It is very clear that a vast majority of Congressional Democrats and Republicans would like to see a balanced approach achieved before we adjourn. While the House and the Senate have passed legislation that attempts to strike this balance, a variety of procedural hurdles have prevented us from getting that legislation to your desk for signature.

Our proposal is to increase the minimum wage by $1 in 50 cent increments that begin January 1st of next year and the remaining 50 cents on January 1st of 2002. We are also offering to drop the death tax and pension provisions in the bill that you regrettably find objectionable.

The remaining provisions are designed to assist small business with the costs of this wage increase and have a revenue impact of $24 billion over 5 years and roughly $76 billion over the next 10 years. We find this to be a reasonable and balanced offer that deserves your consideration.

I believe that we can work together to pass this legislation when we return in September with strong bipartisan majorities in the House and Senate. I have spoken with Senate Majority Leader Trent Lott and I believe he wants to achieve such a balanced approach as well. We would like your input and your assistance in getting this legislation to your desk before we adjourn this year. We will certainly need your help in removing the procedural roadblocks constructed to block such an effort. I look forward to working with you on this issue over the August recess.

Sincerely,

J. Dennis Hastert
Speaker of the House

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 12, 2000

THE DIRECTOR

The Honorable Orrin G. Hatch
Chairman
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Administration understands that, although conferees have not been named, congressional staff are discussing ways to reconcile the House and Senate versions of H.R. 833, the Bankruptcy Reform Act. The enclosure to this letter outlines the Administration's views on these two versions of the bill. As you and your staff develop an agreement on this bill, your consideration of these views would be appreciated.

The President supports balanced consumer bankruptcy reform that would encourage responsibility and reduce abuses of the bankruptcy system on the part of debtors and creditors alike. He believes that we can eliminate abuse without hurting those forced to turn to bankruptcy, the vast majority of whom are faced with some of the hardest circumstances that life has to offer -- divorce, unemployment, illness, and uninsured medical expenses. Although we should not countenance people using bankruptcy to escape bills they can afford to repay, we also should not enact punitive legislation that places insurmountable barriers before the people who file for bankruptcy as a last resort. We must remember that too often those who need bankruptcy's "fresh start" are single mothers or divorcing spouses, displaced workers, low-income households (many of whom are minorities), victims of predatory lending, or those who faced unexpected illness that reduced their income and burdened them with expensive medical bills.

To meet the test of balance, the bill that emerges from conference should be consistent with the key principles that have been set forth by the President. The President was disappointed that the House once again failed to produce balanced bankruptcy legislation that he could support. As we stated when H.R. 833 came to the House floor last spring, the President's senior advisors would recommend that he veto the House bill if it were presented to him. The bankruptcy provisions of the Senate bill generally do a better job of meeting the President's principles, although the Administration has serious concerns about some provisions. The detailed enclosure describes the President's principles, the Senate bill provisions that should be preserved, the Senate bill provisions that raise concerns, and our strong objection to various provisions of the House bill.

The Administration notes that certain non-relevant amendments have been included in the Senate version of the bill. The President has made clear on a number of occasions that he strongly supports an increase in the minimum wage of $1 over the next two years. However, as the Administration has stated previously, if Congress sends him a bill delaying the increase, repealing overtime protections for certain workers, adding costly and unnecessary tax cuts that threaten fiscal discipline and direct benefits away from working families, thwarting ongoing efforts to enforce pension law, and including an objectionable private school voucher provision, he will veto it.

Thank you for your consideration of the Administration's views on these bills. We would be happy to discuss any of these concerns with you or your staff.

Sincerely,

Jacob J. Lew
Director

Enclosure

Identical Letter Sent To The Honorable Patrick J. Leahy,
The Honorable Henry J. Hyde, and The Honorable John Conyers, Jr.

ADMINISTRATION VIEWS ON H.R. 833 – THE BANKRUPTCY REFORM ACT

NON-RELEVANT AMENDMENTS

The Senate version of the bankruptcy bill includes non-relevant amendments on the subjects described below.

Minimum Wage and Tax Amendment

The President strongly supports an increase in the minimum wage of $1 over two years. Working families across this country deserve this increase, which would restore the real value of the minimum wage to what it was in 1982, helping more Americans share in our current economic prosperity. But the Senate bill would delay the increase. The Senate bill also includes a provision that would repeal overtime protections for certain workers, and a tax and pension package that would direct benefits away from working families and reduce Federal unemployment taxes without addressing needed system reforms. These tax and pension provisions are regressive, could lead to cuts in retirement and health benefits for moderate- and lower-income workers, would not significantly increase plan coverage or national savings, and would hamper efforts to enforce pension law. Moreover, we must establish a proper framework for paying down the debt, strengthening Social Security and Medicare, and funding key priorities before we consider major new tax cuts. If the Congress sends the President a bill delaying the minimum wage increase, creating regressive, costly, and unnecessary tax cuts that threaten fiscal discipline, repealing protections for certain workers, hampering the enforcement of pension law, directing benefits away from working families and potentially reducing their retirement and health benefits, he will veto it.

Drug Amendment

The Administration also opposes the provisions that would reduce the current disparity between crack and powder cocaine sentences solely by increasing powder cocaine penalties dramatically instead of addressing both crack and powder cocaine penalties. Decreasing the threshold amount of powder cocaine that an individual must possess to receive 5- and 10-year mandatory minimum sentences may be counterproductive because it could significantly redirect Federal law enforcement resources from the most serious offenders. In addition, this amendment would actually exacerbate the disproportionate impact of cocaine sentencing on minorities because, according to U.S. Sentencing Commission statistics, approximately 31% of defendants sentenced at the Federal level for powder cocaine offenses in 1998 were African American, 48% were Hispanic, and only 19% were white. Please note, however, that the Administration supports many of the provisions contained in the amendment to combat the spread and abuse of methamphetamine and hopes that the Congress will consider them outside of bankruptcy legislation.

Private School Vouchers Amendment

The drug amendment discussed above also contains an objectionable school voucher provision that is unrelated to the underlying bill. The Administration's opposition to private school vouchers is well known. Rather than improving and reforming public schools, private school vouchers drain scarce resources from public schools and are a distraction from the serious work of education reform. Instead, the President is committed to a comprehensive agenda to improve our schools by investing more in them and demanding more from them. The Administration also opposes the provision to require States to mandate the expulsion of students who bring a "felonious" quantity of drugs onto school property. A similar provision was defeated in a bipartisan House vote during consideration of the juvenile justice bill last year, and we oppose the inclusion of this type of measure in bankruptcy legislation. Finally, the Administration objects to the inclusion of any provisions affecting elementary and secondary education in the bankruptcy bill, because the Elementary and Secondary Education Act of 1965 (ESEA) is currently being reauthorized in the House and Senate. Congress should continue to address elementary and secondary education issues through the ESEA reauthorization process.

CONSUMER BANKRUPTCY PROVISIONS

The President supports balanced consumer bankruptcy reform that would encourage responsibility and reduce abuses of the bankruptcy system on the part of debtors and creditors alike. To meet the test of balance, the bill that emerges from conference should be consistent with the key principles set forth by the President. The President was disappointed that the House once again failed to produce balanced bankruptcy legislation that he could support. As the Statement of Administration Policy said when H.R. 833 came to the House floor last spring, the President's senior advisors would recommend that he veto the House bill if it were presented to him. The bankruptcy provisions of the Senate bill generally do a better job of meeting the President's principles, although the Administration has serious concerns about some provisions.

Means Test

Principle: Access to Chapter 7 should not be governed by an arbitrary means test, but by reasonable guidelines that take into account individual circumstances. The goal of the means test is to identify those debtors who genuinely have the capacity to repay a portion of their debts under a Chapter 13 plan. Many debtors who now enter Chapter 13 fail to complete their plans. To ensure positive outcomes instead of higher failure rates and greater hardships, we should ensure that debtors' specific circumstances are considered in a meaningful way. Neither creditors nor debtors are helped by wasting scarce resources establishing and overseeing repayment plans that will quickly fail. The House bill fails to meet the President's principle (despite valuable efforts by Chairman Hyde to bring some balance to its provisions). Because it limits access to Chapter 7 through a tight, inflexible, and arbitrary means test, it would force into Chapter 13 repayment plans many debtors who are unlikely to succeed. Specifically, the House bill would:

-- allow exceptions to the means test only to those demonstrating "extraordinary circumstances" that require additional exceptional expenses or income adjustments -- a nearly insurmountable burden of proof that would deny bankruptcy judges the appropriate discretion in the application of the means test.

-- not allow for expenses related to the long-term care of family members, including the elderly and disabled. Such assistance may be essential to enable these family members to avoid institutionalization and maintain their quality of life, yet may not qualify the family member as a legal dependent of the debtor.

-- not allow for expenses that debtors may incur in protecting themselves against domestic violence. These expenses could include relocation expenses to move away from the violent spouse, transportation expenses to get to work from a new location or to work removed from the spouse's knowledge, legal costs to get and enforce a protective order, security costs, and income gaps associated with unavoidable absences from work.

-- rigidly use IRS guidelines that were designed for a different purpose – collecting taxes -- where they are applied far more flexibly than the means test would allow. We urge the Conferees to adopt Chairman Hyde's proposal to authorize the creation of standards specific to bankruptcy, using the IRS guidelines as a starting point.

-- not incorporate payments for arrearages on secured debt for necessary property, which must be paid under a Chapter 13 plan. Thus, the means test could leave some debtors in bankruptcy "no-man's land": unable to file under Chapter 7, but unable to get a Chapter 13 plan confirmed because they cannot pay these arrearages.

-- subject many debtors to burdensome paperwork that is not needed for bankruptcy determinations, including the collection of back tax returns regardless of their relevance at a cost of millions per year.

The House bill does take into account required administrative expenses under a Chapter 13 plan in calculating whether the debtor has the capacity to repay. (This important provision, which is not in the Senate bill, should be retained in the final bill.) It also contains both essential safe harbors: (1) protecting below-median income debtors from 707(b) "abuse" motions by creditors that could be the basis for threats or coercion; and (2) protecting below-median income debtors from 707(b) means-test motions by bankruptcy trustees. It includes a proposal by Chairman Hyde to allow adjustments for reasonable food and clothing expenses to take into account regional differences in costs. Finally, it clarifies sensibly the definition of household goods that a debtor can claim as exempt property (and thus upon which the debtor can void a non-purchase money, non-possessory lien), by limiting household goods to those "normally" found in or around a residence. These provisions should be retained.

The Senate bill uses a more reasonable means test, which provides more-appropriate relief to debtors, although improvements could be made. The Senate bill would:

-- allow exceptions to the means test to debtors who can show "special circumstances."

-- use a more appropriate threshold for access to Chapter 7.

-- provide a means test that includes expenses for the long-term care of elderly and other family members, and for protection of victims of domestic abuse and their families.

Certain provisions of the Senate bill, however, are also problematic.

-- The Senate bill also uses IRS guidelines for the means test, but includes a Congressional finding that the Treasury Secretary can modify the guidelines for bankruptcy purposes. Because this interpretation of existing Treasury authority is subject to legal challenge, we prefer Chairman Hyde's approach described above.

-- The Senate bill's means test calculation includes arrearages on secured debt for necessary property; however, it does leave some debtors in bankruptcy "no-mans' land" because it does not include the important provision, included in the House bill by Chairman Hyde, incorporating the required administrative expenses of a Chapter 13 plan in calculating the means test.

-- The Senate bill avoids needless filing of back tax returns and streamlines the means test for debtors between 100% and 150% of median income. However, further reductions in the paperwork burden on low-income debtors could be achieved at no cost to the effectiveness of the means test.

-- The Senate bill's motions safe harbor would protect below-median income debtors from 707(b) motions by creditors that could be the basis for threats or coercion. It fails, however, to provide a "safe harbor" for low-income debtors from means test calculations and paperwork or a full safe harbor from means test motions by United States trustees. Including both safe harbors would improve both the efficiency and fairness of the means test. If low-income debtors are abusing the process for other reasons, they would still be subject to general 707(b) motions by the court, the United States Trustee or the Chapter 7 trustee.

-- The Senate bill's definition of household goods is so narrowly drawn that the debtor may be deprived of reasonable or even vital household items that would be exempt under the House bill's definition.

Finally, we note that both bills contain inconsistent references to median income standards (State, Regional, and National). Administration of the new law will be eased by use of consistent standards.

Homestead Exemption and Other Loopholes for the Wealthy

Principle: **It is fundamentally unfair to ask low- and moderate-income debtors to devote future income to repay the debts that they can, while leaving loopholes that allow the wealthy to shield income and assets from their creditors.** High or unlimited homestead exemptions allow people with expensive homes to avoid their responsibility to repay a significant portion of their debts. Similarly, some wealthy debtors can file under Chapter 11 where they can shield their future income from creditors.

The House bill provides a $250,000 cap on homestead exemptions, but allows the states to opt out of the cap. With the opt-out, the provision is effectively the same as having no cap at all. Moreover, the bill does nothing to close the Chapter 11 loophole for wealthy debtors.

The Senate bill provides a meaningful cap of $100,000 on homestead exemptions. It also closes the Chapter 11 loophole for wealthy debtors. These provisions should be retained.

Protection Against Coercive Reaffirmations and Practices

Principle: **There must be appropriate safeguards against coercive creditor practices that compel debtors to forgo their rights and that disadvantage more scrupulous creditors.** Debtors often reaffirm debt on unfavorable terms, sometimes when they demonstrably cannot afford the future payments. These new commitments put their future, as well as their payments to socially more important debts (e.g., child support, alimony, and taxes), at risk. These reaffirmations are frequently the result of insufficient or misleading information and sometimes the result of intimidation or outright coercion. Unfortunately, such practices have been all too frequent, and the new legislation may increase the risk of such coercion by giving creditors new opportunities to challenge debtors' actions. In light of these new opportunities for abuse, the Administration cannot countenance weakening existing protections; in fact, enhanced safeguards are essential.

The House bill gives debtors the right to a hearing on a reaffirmation of wholly unsecured, non-credit union debt, but allows represented debtors to waive the hearing, which effectively does little to change current law and might inadvertently bolster arguments that courts have no authority to review agreements filed by represented debtors. The bill expressly provides a private right of action for failure to comply with reaffirmation agreements or willful violations of a discharge, but it precludes use of class actions to bring such claims. This eliminates the most effective approach -- used in the Sears case among others -- to remedy widespread coercive practices. The private right of action should be retained, but the bar on class actions should be dropped.

The Senate bill does not ban class action remedies. Moreover, it requires disclosure of the terms of debt being reaffirmed and creates a new presumption of undue hardship if the debtor does not have the capacity to repay debts that he or she is reaffirming. These mechanisms will go a long way toward preventing debtors from reaffirming debts because of creditor threats or intimidation or because of simple confusion. The bill proposes a form of disclosure, although it is not as comprehensive as the one developed by the Administrative Office of the U.S. Courts now in use in a few districts; Congress could provide districts discretion to use the more extensive form. The new Subsection 524(j) in the Senate bill codifies existing practice by providing that creditors can accept payments before and after a reaffirmation agreement is filed with the court; however, if debtors exercise their right to rescind a reaffirmation agreement or the agreement is found to be invalid, subsections (j)(2) and (j)(3) may raise issues in litigation and should be clarified or struck. Specifically, Congress should clarify that nothing therein is intended to preempt any Federal or State law or eliminate remedies available under current Federal or State law, including disgorgement of funds collected under invalid agreements.

Finally, the Senate bill includes a provision that would allow debtors to waive in advance bankruptcy protection for their retirement assets. We fear that those of limited means or sophistication could easily be compelled, perhaps even as a condition of receiving credit, to put these critical assets at risk. As the Department of Labor recently testified before the Senate Health, Education, Labor and Pensions Committee, this provision should be struck.

Improving Credit Card Practices

Principle: **Both debtors and creditors must be required to be responsible. Bankruptcy reform should be balanced by including provisions that address credit-card practices that may lead to bankruptcies.** Creditors should give consumers the information they need to manage their credit card debt successfully. Doing so would allow more consumers to make informed decisions and give many households better control of their finances, reducing the number of bankruptcies.

The House bill requires that consumers receive a generic description of the impact of making only minimum payments on the duration of the debt. However, it provides no way for a consumer to obtain more specific information about the impact of making the minimum payment in his or her own circumstance. The House bill requires conspicuous disclosures of "teaser" rates, but it does not require that the rates be labeled "introductory" or that the permanent interest rate be disclosed in close proximity to the teaser rate.

The Senate bill provides more-useful provisions though it could be further improved. It requires most lenders to provide an 800 number for consumers who want specific information about the impact of minimum payments in their situation. (The information provided could be more valuable, if it included the cost as well as the duration of debt when only the minimum payment is made.) It also requires that consumers be given clear and conspicuous notice of teaser rates by labeling them as introductory each time they appear in a solicitation, as well as disclosure of the permanent interest rate in close proximity to the teaser rate. Lastly, the bill includes new disclosures on high loan-to-value home equity loans so consumers are not misled about their tax implications.

Non-Dischargeable Debts and "Cram Downs"

Principle: **The goal of repaying creditors must be balanced with the need to protect social priorities, such as payment of child support, alimony and taxes, and to preserve a meaningful opportunity for a fresh start.** The Bankruptcy Code makes debts nondischargeable only where there is an overriding public purpose to protect those debts. To the extent that the bills make more credit-card debt nondischargeable and preserve secured claims regardless of the value of their collateral, these societal priorities will compete for scarce resources and the fresh start will become ephemeral.

The House bill gives secured creditors in bankruptcy unprecedented rights to collect amounts in excess of the value of their collateral. It precludes "cramming down" debt to the collateral value for any debt secured by personal property purchased within five years of the bankruptcy filing. Were these provisions to become law, societal priorities would suffer, unsecured creditors would be placed at a disadvantage, and secured creditors would have less incentive to evaluate properly lending risk. The House bill also makes nondischargeable all cash advances above $250 and all debts incurred to pay nondischargeable debts, both if within 90 days of bankruptcy. This rule endangers societal priorities and may trap debtors who are trying to feed their families or meet debt obligations before they realize that bankruptcy is inevitable.

The Senate bill is preferable because it protects under-secured debt other than for automobiles for only six months before filing; nonetheless, the ban for car loans should be far shorter than five years. Similarly, the Senate bill has a shorter window before bankruptcy in which cash advances (with a higher threshold) and debts incurred to pay nondischargeable debts become nondischargeable. An even better approach would be to limit the new nondischargeability provisions to above-median income debtors, as Senator Moynihan has proposed.

Barriers to Entry or Representation in the Bankruptcy System

Principle: **Inappropriate barriers should not be created to entry into or effective representation in the bankruptcy system.** Filing fees, fee-shifting provisions, and inflexible pre-filing hurdles can unfairly deny access to the bankruptcy system to people who do not have the ability to repay their debts.

The House bill would require mandatory credit counseling before a bankruptcy filing, but does not make clear that the requirement can be met by telephone or over the Internet, creating a barrier for those without convenient access to counseling. It also would require a debtor's attorney to pay a trustee's attorney's fees if the debtor is not "substantially justified" in filing for Chapter 7. Fear of such sanctions may deter attorneys from representing debtors with bona fide claims. However, the bill does allow courts to waive filing fees for debtors unable to pay, for the first time removing this important barrier to entry for indigent debtors.

The Senate bill ensures that mandatory credit counseling can be provided by telephone or over the Internet. It also applies an appropriate and more reasonable standard to the effort to deter abusive use of Chapter 7, allowing the trustee to recover reasonable costs from the debtor's attorney if filing under Chapter 7 was "frivolous." It also would allow courts to waive filing fees for indigent debtors, but would limit the courts' option to waive the fees only to debtors with incomes below 125% of the poverty level. We think no such cap is needed.

The Senate bill does require a debtor's counsel to attest under oath to the accuracy of any adjustments to income and expenses that the debtor provides (also under oath). This requirement will chill even the most responsible and scrupulous of attorneys from representing financially distressed debtors.

Prevent Abuse of Bankruptcy To Facilitate Clinic Violence

Principle: **The abuses of the bankruptcy system must be stemmed, including abuse by those who would use bankruptcy to avoid penalties for violence against family planning clinics.** The Administration is deeply concerned by the incidents of violence, vandalism, and harassment committed against family-planning clinics, some of which have resulted in the deaths and maiming of innocent people. The Administration believes that these unlawful activities must not be tolerated, and that when they are committed, those found liable should be held accountable. In 1994, Congress made clear its disapproval for those who would use unlawful means to deny citizens access to legal clinic services by enacting the Freedom of Access to Clinic Entrances Act (FACE).

Unfortunately, there is evidence that those found liable have been making strategic use of bankruptcy to avoid the penalties for their actions established by Congress and the States. This abuse of the bankruptcy system to facilitate unlawful behavior must not be tolerated. Senator Schumer's amendment, passed by the Senate by a margin of 80 to 17, would make court-ordered and other fines and debts resulting from family-planning clinic violence nondischargeable. The Administration opposes the expansion of categories of nondischargeable debt unless there is an overriding public policy objective and no other way to achieve that objective. The Schumer amendment meets that test, providing a necessary tool to ensure that bankruptcy is not used strategically to avoid the legal consequences of clinic violence and intimidation. It should be included in the final legislation.

Privacy Of Personal Financial Records In Bankruptcy

Principle: **The financial and personal privacy of those who seek protection in the bankruptcy system must be protected.**

The electronic aggregation and availability of public and non-public bankruptcy information could serve at least two important purposes: (1) it could lower costs for participants in the bankruptcy system; and (2) it could improve our understanding of bankruptcy trends and the impact of policy changes. The Administration strongly supports these goals. At the same time, however, disseminating bankruptcy information electronically could threaten the security and privacy of debtors in bankruptcy by making sensitive information (including account numbers, social security numbers, balances, income sources, and payment histories) widely available to curious neighbors, employers, marketers, and predators looking for those most likely to be lured by scams.

Far too little attention has yet been given to complicated questions such as: who needs what information and under what circumstances? Does new technology change our perception of what information should be in the public domain? And what kinds of information in bankruptcy records could be used to prey upon debtors and their families?

These questions have been raised as private trustees explore the development of a national database of bankruptcy information to answer creditor inquiries about the status of payments under Chapter 13 plans. The database may contain material obtained independently by the private trustees in the administration of the case, as well as records from the public court file. Though such a database would provide creditors with one location to obtain information about their claims, important decisions must be made about privacy and the commercial use of this information. The private trustees appear interested in performing this function responsibly, and the Executive Office for U.S. Trustees is working with the private trustees to explore ways to safeguard the privacy of this information. However, legislative language in both the Senate and House bills designed to facilitate efforts by the private trustees without taking into account privacy considerations is, at best, premature.

The House bill would protect the private trustees from liability for dissemination of information unless a trustee has actual knowledge that the information is false. This provision provides no safeguards against misuse; and no compelling argument has been presented as to why the normal liability rules should not apply. We strongly recommend that this provision be removed from the final bill. In addition, the House bill also expresses the "sense of the Congress" that all public record data held by bankruptcy clerks shall be released in electronic form to the public, subject to privacy safeguards that the Judicial Conference may determined. The privacy issues regarding bankruptcy information should be fully explored before the Congress makes any determinations in this area.

The Senate bill contains language (in a section regarding collection of child support) that would require Chapter 13 trustees to provide non-public information about their cases to any not-for-profit entity that shall provide such information to parties in interest. The bill also contains "sense of the Congress" language about dissemination of bankruptcy information. The possible implications of these provisions, in particular the risk to personal privacy, have not been adequately explored, so these provisions should be dropped.

OTHER ISSUES

New Provisions

The Administration understands that consideration is being given to including, in the conference report, additional provisions that were not in either the House or Senate versions of the bankruptcy bill.

First, the Administration would strongly oppose the inclusion of provisions, under the bankruptcy law or other law, that would alter the police and regulatory exception or the legal principles that allow governmental units to enforce regulatory programs with regard to debtors who may hold interests in licenses, permits, franchises or entitlements issued by the Government.

Second, the Administration understands that some are urging adoption of an amendment that would exclude collection of bad checks from the provisions of the Fair Debt Collection Practices Act (FDCPA). The Administration would oppose such a provision. Courts have repeatedly found that check collection is covered by the FDCPA, which protects consumers from invasion of privacy, harassment, abuse, false or deceptive representations, and unfair collection methods. No compelling argument has been made explaining why these protections provided by the Congress are not as appropriate to collection of checks as they are to collection of other debts. In any event, before any such important consumer protections are weakened or eliminated, the case for the change should be subjected to sunlight and public scrutiny.

Certain Contract for Electric Power Voided

The Senate bill contains a provision that would void a power supply contract between Hydro Quebec and a consortium of Vermont utilities. While the intent of this provision appears to be to protect Vermont utilities that may be facing bankruptcy, the legislative abrogation of a contract between two commercial entities raises troubling policy issues, as more fully set out in a letter, dated March 3, 2000, to Senator Jeffords from Assistant Secretary for Fossil Energy Robert W. Gee. The Department of Justice has also raised concerns that the provision could give rise to a "taking" of private property for which just compensation would be required under the Fifth Amendment of the Constitution. It is also possible that a claim for money damages could be brought to international arbitration under NAFTA on the theory that NAFTA affords comparable protections to investments through the investment chapter's expropriation provision (Article 1110).

CENTER ON BUDGET AND POLICY PRIORITIES

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SENATE BANKRUPTCY BILL NEARING PASSAGE INCLUDES COSTLY TAX CUTS THAT COULD HARM LOWER-WAGE WORKERS

by Iris J. Lav and Robert Greenstein

Bankruptcy legislation the Senate is expected to pass the week of January 31 includes a series of tax cuts costing $76 billion over 10 years that not only would largely benefit higher-income individuals but also are likely to lead to *reductions* in employer-provided pension and health benefits available to less well-compensated workers. These tax breaks were inserted into the bankruptcy bill last November as part of a package offered by Senator Don Nickles. That package included both a version of minimum wage legislation scaled back from the increase Senate Democrats had proposed and a series of tax cuts ostensibly intended to offset the effect of increased wages on small businesses. Most of the tax reductions, however, would benefit higher-income individuals who do not work in small businesses.

- The bankruptcy legislation includes the pension tax provisions of the tax bill that Congress passed and the President vetoed last summer. The pension provisions were among those cited as unacceptable in the President's veto message. The principal impact of the pension changes would be a major expansion of pension-related tax preferences for high-income individuals. Moreover, some of the provisions being considered could lead to a reduction in pension coverage among lower-income workers and those employed by small businesses.

- A costly new "above-the-line" deduction for health insurance premiums paid by individuals who purchase their own insurance — or whose employers subsidize less than 50 percent of the cost of health insurance premiums — also is included. This provision is likely to do little to make health insurance affordable for most of the nation's uninsured, 93 percent of whom either owe no federal income taxes or are in the 15 percent bracket and thus would at most receive a subsidy of 15 cents for every dollar spent on health insurance. Moreover, because the deduction would provide a far deeper percentage subsidy for purchasing health insurance to higher-paid business owners and executives than to lower-wage earners, it could encourage some small business owners to drop group coverage (or not to institute it in the first place) and to rely on the deduction for their own coverage. To the extent this occurs, the ranks of the uninsured and underinsured among low- and moderate-wage workers could increase.

- The bill includes a new deduction for 100 percent of the premiums paid to purchase long-term care insurance, which — like the health insurance deduction

— would provide the largest benefit to the highest-income taxpayers. Most low- and middle-income taxpayers would get no more than a 15 percent subsidy for the cost of long-term care insurance; this is too little to enable such an insurance policy to fit within the budgets of many middle- and lower-income families. This proposed deduction stands in sharp contrast to the provision President Clinton is proposing in his new budget, which is a *tax credit* for long-term care *expenses* incurred by middle-income families in caring for elderly or disabled relatives. Unlike the deduction, the tax credit does not favor taxpayers in high tax brackets. And unlike the deduction, which relieves the cost of buying insurance and thus helps only those families that can afford to buy an insurance policy to protect them from potential future long-term care expenses, the Clinton proposal relieves expenses actually incurred today by families that are hard-pressed by long-term care costs and are likely to have few excess resources.

- The legislation would relax limitations on the extent to which business could deduct a "three-martini lunch." Businesses currently may deduct 50 percent of business meals and drinks, a limitation intended to prevent excessively luxurious dining and drinking at taxpayer expense. The tax provisions in the bankruptcy legislation would raise to 80 percent the proportion of business meals and drinks that can be deducted by businesses with receipts up to $7.5 million a year.

- The net cost of the tax provisions included in the bankruptcy bill would be $18 billion over the next five years and $76 billion over ten years. By the tenth year, the annual cost would be more than $16 billion.

- This cost is not paid for; it is simply assumed to be covered by the non-Social Security surplus. There is a substantial risk, however, that Congress will consume far more of the projected surpluses than is prudent, given that the Congressional Budget Office continues to forecast that the nation will face severe long-term fiscal problems when the baby boom generation retires in large numbers. Before rushing to pass tax cuts, policymakers need to ascertain how much of the projected non-Social Security surplus can be counted upon as likely to materialize when realistic assumptions about discretionary spending (including defense spending) are made and the uncertainty of forecasts for years more than a few years in advance is taken into account. Policymakers also need to gauge how much of these projected surpluses will be needed for use in future Medicare and Social Security solvency legislation. Finally, they need to establish a budget framework and establish priorities for the use of those surplus funds that safely can be used for other purposes. This has not been done.

The argument usually advanced for including tax measures as an accompaniment to a minimum wage increase is that small businesses need to be compensated for the increased wages they would have to pay under a higher minimum wage. This argument is not well-founded; the evidence does not indicate that modest minimum wage increases have significantly negative effects on small businesses. For example, recent research that examined whether minimum wage increases contribute to the failure rate of businesses found "...there seems to be no discernible

How Much of the Surplus is Available for Tax Cuts?

When policymakers consider how much of the surplus is available for tax cuts, several factors should be taken into account.

- Estimates of the projected surplus should reflect realistic estimates of discretionary spending, including defense spending. Estimates of amounts of surplus funds available for tax cuts or program expansions also need to reflect the costs of legislation that is virtually certain to be enacted, such as legislation to extend the array of expiring tax credits that Congress extends every year or two, to change the Alternative Minimum Tax so it does not hit increasing numbers of middle-class families, and to provide additional payments to farmers beyond those the Freedom to Farm Act provides, as Congress has done each of the past two years. Such legislation, which is not reflected in the CBO or OMB projections of the surplus, could reduce the available surplus by close to $250 billion over 10 years.

- Consideration should be given as well to the fact that a high degree of uncertainty surrounds budget forecasts for years more than five years out. More than over 80 percent of the non-Social Security surpluses projected for the next 10 years would occur in the sixth through the tenth years. It is prudent to leave a substantial cushion within the projected surplus as a hedge against such uncertainty rather than to enact legislation that consumes most or all of the projected surplus.

- In addition, sufficient funds from the non-Social Security surplus need to be set aside for Medicare and Social Security so that the combination of reforms in these programs and these additional funds can restore long-term solvency to these programs and ease the nation's long-term budget problems in the process. If sufficient surplus funds are not set aside for this purpose — and solvency must be restored entirely through changes in these programs — the benefit reductions or payroll taxes entailed will be sufficiently large that it is unlikely any solvency legislation will pass for years to come.

Only when these steps are taken will policymakers be able to ascertain how much of the surplus it may be safe to use for other purposes. At that point, policymakers should adopt a budget framework establishing priorities for use of these funds. They should do so before beginning to consume these resources.

These steps have not yet been taken. In their absence, it is unwise and fiscally imprudent to rush off and commit tens of billions of dollars (and ultimately $16 billion a year) to a series of tax cuts that almost surely would not merit placement on a list of national priorities. It is hard to argue that increasing pension tax breaks for highly paid executives, adding a new health insurance tax break largely for the already insured, and fattening the three-martini lunch deduction are priorities that should have the first claim on the nation's budget surpluses.

correlation between minimum wage increases and a rise in business failures, either in the year the increase occurred or in the following year." [1] But whatever the merits of compensating small businesses, the tax cuts in this bill go far beyond any reasonable bounds for what might be justified as measures to cushion the effects of a higher minimum wage on small businesses. In addition to providing costly tax breaks to high-income taxpayers, most of whom do not work in small businesses, the tax cuts have the potential to hurt the very workers minimum wage legislation is intended to help.

Pension Provisions Are Poorly Targeted

The bankruptcy legislation includes the pension tax provisions of the tax bill Congress passed and the President vetoed this summer. These provisions have at most a tenuous connection to any problems that small businesses are said to experience as a result of a minimum wage hike.

The proposed pension changes would relax various provisions of current law that limit the contributions that highly paid individuals may make to pension plans, as well as the amount of the pension payments that such high-income individuals may receive when they retire. For example, the bill would increase the maximum tax-favored contribution that an employed individual is permitted to make to a 401(k) plan from $10,000 to $15,000. This change would primarily benefit the fewer-than-five-percent of individuals covered by a 401(k) plan who make the maximum $10,000 contribution today; this is a group that receives average pay of $130,000. The bill also would increase the maximum benefit that a retiree can receive under a defined benefit pension plan from $130,000 a year to $160,000. That change would benefit only those at the very top of the income distribution whose salaries are so large that they would be able to qualify for annual pension payments of more than $130,000 when they retire.

These and the other pension-related tax breaks in this bill have little to do with assisting small businesses. Most small businesses, in fact, do not even offer pension plans. In 1993, only 13 percent of full-time workers in firms with fewer than 10 employees — and 25 percent of workers in firms with between 10 and 24 employees — enjoyed pension coverage. It is unlikely that many small businesses with large minimum-wage workforces would be affected by these expansions in pension tax breaks.

By contrast, 73 percent of workers in firms with 1,000 or more employees have pension coverage.[2] Most of the benefit of the pension provisions in this bill would accrue to highly-salaried executives of large corporations that already offer generous pension coverage.

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[1] Jerold Waltman, Allan McBridge, and Nicole Camhout, "Minimum Wage Increases and the Business Failure Rate," *Journal of Economic Issues*, March 1998.

[2] U.S. Department of Labor, Social Security Administration, Small Business Administration, and Pension Benefit Guarantee Corporation, *Pension and Health Benefits for American Workers*, 1994.

An analysis by the Institute on Taxation and Economic Policy finds that 91 percent of the tax benefits from the pension provisions in the vetoed tax bill would go to the 10 percent of Americans with the highest incomes. By contrast, the bottom 60 percent of Americans would receive less than one percent of these tax benefits. The effect of these provisions would be a significant increase in the tax-preferred benefits of high-income individuals, with little expansion for the middle- and low-income workers — many of whom work for small businesses — who most need to build savings for retirement.

In fact, some of the pension provisions could lead to *reduced* coverage for some low- and middle-income workers. For example, the bill would raise the amount of salary on which pension contributions may be made from $160,000 to $200,000. This would enable small business owners and highly-paid executives to maintain contributions for their own pension plans while reducing the firm's contributions for other employees. Consider, for instance, the case of a small business owner with compensation of $250,000 who wants to have the business contribute $10,000 a year to his pension. Under current law, the owner would have to set the firm's pension contribution rate at 6.25 percent of pay (6.25 percent of the $160,000 limit is $10,000). Both the owner and the employees would receive contributions equal to 6.25 percent of their compensation. Under the higher $200,000 limit this bill would set, however, the business owner could reduce the firm's contribution rate for its employees to five percent and still have the firm contribute $10,000 to his own pension. The employer contribution for an employee earning $40,000 would drop from $2,500 (6.25 percent of $40,000) to $2,000 (5 percent of $40,000).[3]

Provisions in the bill also would relax pension anti-discrimination rules and other rules barring firms from treating highly compensated employees more generously than average workers. These provisions could induce further erosion in coverage among low- and moderate-paid workers.

In a November 1 letter to House Ways and Means Chairman Bill Archer commenting on identical pension provisions in legislation the House was considering (H.R. 3081), Treasury Secretary Lawrence Summers and Labor Secretary Alexis Herman strongly criticized the key pension provisions in the bill. Summers and Herman warned that the pension provisions that "...raise the maximum retirement plan contribution and considered compensation for business owners and executives and weaken the pension anti-discrimination and top-heavy protections for moderate- and lower-income workers....are regressive, would not significantly increase plan

[3] The pension tax provisions in the vetoed tax bill, all of which are included in the bankruptcy legislation, are explained more fully in the Center report, *Exacerbating Inequities in Pension Benefits: An Analysis of the Pension Provisions in the Tax Bill*, by Peter Orszag, Iris Lav, and Robert Greenstein, October 8, 1999 and Peter R. Orszag, Iris Lav, and Robert Greenstein, *Criticism of CBPP Pension Analysis Rests on Selective Use of Data And Leaves Misleading Impressions*, October 28, 1999. The vetoed tax bill also included provisions that would make Individual Retirement Account tax breaks more generous; these IRA changes are not included in the Nickles minimum wage bill. (The distribution data cited above on the tax benefits that the bankruptcy bill pension provisions would provide thus do not cover the IRA expansions of the vetoed bill. Data on the distributional effects of the full package of retirement tax benefits contained in the vetoed bill, including the IRA expansions, are provided in *Exacerbating Inequities in Pension Benefits.*)

coverage or national savings, and could lead to reductions in retirement benefits for moderate- and lower-income workers."

Health Insurance Deductions of Little Help to the Uninsured

Another provision of the vetoed tax bill included in the Senate bankruptcy legislation would create a new tax deduction for the purchase of health insurance by taxpayers who pay at least 50 percent of the cost of their health insurance premiums. At first glance, such a deduction may seem an attractive idea if it could help the uninsured obtain coverage or help small businesses cover their employees. Closer examination indicates, however, that this deduction — which would cost upwards of $8 billion a year when fully in effect — would provide little help to most of those lacking insurance and would not significantly reduce the ranks of the uninsured. Moreover, because the deduction provides a far deeper percentage subsidy for the purchase of insurance to higher-income business owners and executives than to lower-income wage earners, it could encourage small business owners to drop group coverage and rely on the deduction to help defray the cost of their own coverage. In addition, some workers would be forced to buy more costly and less comprehensive insurance on the individual market, and the ranks of the uninsured and underinsured could increase.

The deduction would provide little subsidy to lower-income wage earners, including most workers who currently are uninsured and those workers for whom employers pay inadequate shares of premiums to make insurance affordable.[4] Some 93 percent of all uninsured individuals either have incomes too low to incur income tax liability or pay income tax at the 15 percent marginal rate. These individuals would at most get a subsidy of 15 percent of the cost of purchasing health insurance, too little to enable most of these individuals to become insured. Rather than uninsured workers who today cannot afford the premiums required to obtain adequate health coverage, those who would receive the principal benefits from such a deduction are, by and large, individuals in higher tax brackets who already purchase individual insurance.

For low- and moderate-income families and individuals without employer-sponsored coverage, a 15 percent subsidy that leaves them with the other 85 percent of the premium cost is much too small a subsidy to make insurance affordable.

- For a family earning $35,000 whose employer does not offer insurance, the proposed deduction would reduce the out-of-pocket cost of a typical family health

[4] Census data show that at least 93 percent of uninsured individuals either pay no income tax or are in the 15 percent income tax bracket. Some 18 million uninsured individuals — 43 percent of all of the non-elderly uninsured — owe no income tax; their earnings are too low for them to incur an income tax liability. These uninsured individuals would receive no benefit from a tax deduction; a deduction would do nothing to make health insurance more affordable for them. Another 20 million uninsured individuals — 50 percent of the non-elderly people without health insurance — pay income tax at a 15 percent marginal tax rate. A deduction would provide these taxpayers with a subsidy equal to 15 percent of the cost of insurance not covered by an employer. General Accounting Office, Letter to The Honorable Daniel Patrick Moynihan, June 10, 1998, GAO/HEHS-98-190R, Enclosure II. The analysis is based on the 1996 Current Population Survey.

insurance policy that carries a $1,000 deductible from $6,700 to $5,860 — or from 19 percent of income to 17 percent of income.[5]

- An Urban Institute study shows that more than three-quarters of low- and moderate-income uninsured individuals will not purchase insurance that consumes more than *five* percent of their income.[6] Few families that have forgone health coverage because they cannot afford to spend 19 percent of income on it would find coverage affordable because a deduction had lowered its cost to 17 percent of income. (It is of note that the child health block grant established in 1997 set a limit on the premiums and co-payments that can be charged under programs receiving block grant funds, with the limit being *five* percent of income for families above 150 percent of the poverty line and smaller amounts for poorer families.)

This provision might be of modest help to some moderate-income families whose employer pays half or nearly half of the premium costs since the deduction would be in addition to the employer subsidy. But even families whose employers pay 50 percent of the premium would receive only very modest help from the deduction. The deduction would reduce the proportion of the premium these families have to pay only from 50 percent of the premium to 42.5 percent. While that might help some families afford insurance, the number of such families likely would be small.

In addition, the deduction could induce some employers currently paying more than 50 percent of premium costs to scale back their contribution to 50 percent or less. And as noted, some employers may drop coverage altogether.

The group that would appear to benefit most from this deduction would be higher-income taxpayers who purchase insurance as individuals. A health insurance deduction is worth more than twice as much to affluent individuals in the 31 percent, 36 percent, and 39.6 percent brackets than to moderate- and middle-income families in the 15 percent bracket. Many of these higher-income taxpayers who would benefit already purchase insurance as individuals.

While few low- and moderate-income workers would benefit, some could be harmed by the proposal. The proposed new health insurance deduction would allow small business owners

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[5] A General Accounting Office study found that in 1996, the middle of the range of premium costs was $5,700 for a family-coverage policy that included a $1,000 deductible. The proposed tax deduction would provide a subsidy of $840 for the purchase of a policy with a $5,700 premium ($840 equals 15 percent of $5,700). This means the family would have to pay the remaining $4,860, or 14 percent of its income, to purchase the health insurance policy. Since this premium is for a policy with a $1,000 deductible, another three percent of income would have to be expended before any benefits would be available. The family's net expenditure for health coverage — the premium plus the deductible — would total $5,860, or 17 percent of the family's income. Without the proposed tax deduction, the full cost of the policy plus the $1,000 deductible is equal to 19 percent of the family's income.

[6] Leighton Ku, Teresa Coughlin, *The Use of Sliding Scale Premiums in Subsidized Insurance Programs*, Urban Institute, March 1997.

or more highly-paid employees to purchase insurance for themselves, using the more generous subsidy the deduction provides for those in higher tax brackets, without the necessity of providing coverage for lower-paid employees. As a result, the deduction could provide an incentive for some small business employers to drop group coverage, or for some owners newly launching small businesses to decide to decline to provide such coverage. To the extent this occurs, it would adversely affect some of the same workers the minimum wage legislation is supposed to help.

Other Provisions

Two other provisions in the Nickles minimum wage bill are poorly targeted. These are the deduction for the purchase of long-term care insurance and the increase in the deduction permitted for business meals.

Deduction for Long-term Care Insurance

The bill includes a provision that would allow a new deduction for 100 percent of the premiums paid to purchase long-term care insurance. This provision would cost approximately $2 billion a year when fully in effect.

There are major problems relating to access to long-term care that need to be addressed. This proposal for a deduction for long-term care insurance premiums, however, would not help most middle-income people and could exacerbate the inequities in access and affordability that currently exist with respect to long-term care.

Three-quarters of all taxpayers, including most moderate- and middle-income taxpayers, pay federal income taxes at no higher than the 15 percent marginal tax rate. For this three-quarters of all taxpayers, a deduction would provide at most a subsidy of 15 percent of the cost of purchasing long-term care insurance. Long-term care insurance premiums are relatively expensive, and a 15 percent subsidy is unlikely to make long-term care insurance fit into the budgets of many middle-income families.[7]

The primary beneficiaries of the proposed deduction are likely to be higher-income taxpayers who currently carry long-term care insurance, and taxpayers in the higher tax brackets for whom a 36 percent or 39.6 percent subsidy makes purchase of long-term care insurance an attractive option. But these are likely to be the same taxpayers for whom long-term care access is not a major problem.

This proposed deduction for long-term care insurance may be contrasted with the *tax credit* for long-term care *expenses* incurred by middle-income families in caring for elderly or disabled relatives that President Clinton is proposing in his new budget. Unlike the deduction,

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[7] Long-term care premiums vary by the age at which the policy is purchased and the type and amount of long-term care expenses the policy will reimburse. A 1997 study by Consumers Union found premiums at age 55 ranged from $588 to $1,474 a year, while premiums at age 65 ranged from $1,042 to $3,100 a year. These policies cover individuals, so the costs for a couple would generally be double those amounts. *Consumer Reports*, October 1997.

the tax credit does not favor taxpayers in high tax brackets. The credit is targeted on middle-income and upper-middle-income families, phasing out beginning at $110,000 for couples and $75,000 for unmarried taxpayers. Furthermore, unlike the deduction, which relieves the cost of buying insurance and thus favors families that can afford to set aside money to guard against such future long-term care expenses, the Clinton proposal relieves expenses actually incurred today by families that are hard-pressed by long-term care costs and are likely to have few excess resources.

Business Meals Deduction

The bill also includes a provision to increase the proportion of business meals that small businesses (businesses with receipts below $7.5 million a year) may deduct. Currently, businesses may deduct 50 percent of business meals and drinks. This limitation on the "three-martini lunch" is intended to prevent excessively luxurious dining and drinking at taxpayer expense. The Bankruptcy bill would raise to 80 percent the proportion of business meals and drinks that can be deducted, at a cost to the Treasury of about $2.5 billion a year when fully in effect.

CENTER ON BUDGET AND POLICY PRIORITIES

November 8, 1999

Nickles Minimum Wage Bill Includes Costly Tax Cuts That Could Harm Lower-Wage Workers

by Iris J. Lav

Legislation Senator Don Nickles has put forth on behalf of the Republican leadership to increase the minimum wage by one dollar over three years, which is expected to be taken up on the floor this week, includes a set of tax breaks that not only would largely benefit higher-income individuals but that also are likely to lead to *reductions* in employer-provided pension and health benefits currently available to lower-wage workers.

- The bill features a series of changes in tax laws related to pensions that would make pension tax breaks considerably more lucrative for highly paid executives and other highly compensated individuals. Some of these pension provisions would allow smaller employers to retain or increase coverage for the owners and higher-paid employees while reducing coverage for more moderately-paid workers.

- A costly new "above-the-line" deduction for health insurance premiums paid by individuals who purchase their own insurance — or whose employers subsidize less than 50 percent of the cost of health insurance premiums — also is included. This provision is likely to do little to make health insurance affordable for most of the nation's uninsured, 93 percent of whom either owe no federal income taxes or are in the 15 percent bracket and thus would at most receive a subsidy of 15 cents for every dollar spent on health insurance. Moreover, because the deduction would provide a far deeper percentage subsidy for purchasing health insurance to higher-paid business owners and executives than to lower-wage earners, it could even encourage small business owners to drop group coverage (or not to institute it in the first place) and to rely on the deduction for their own coverage. To the extent this occurs, the ranks of the uninsured among lower-wage workers could increase.

- The net cost of the tax provisions in the Nickles minimum wage bill would be $18 billion over the next five years, and $76 billion over ten years. By the tenth year, the annual cost would be more than $16 billion.

- This cost is not paid for; it is simply assumed to be covered by the non-Social Security surplus. That surplus, however, has yet to materialize; projections of a sizeable non-Social Security surplus rest on the assumption that Congress will make substantial cuts in discretionary spending, an assumption that action on the current appropriations bills belies. Whether a non-Social Security surplus of any magnitude will materialize remains to be seen. Furthermore, this bill would make its inadequately designed and targeted tax cuts the first claim on such a surplus, ahead of needs in Social Security, Medicare, other emerging needs, and paying down more of the debt.

The argument usually advanced for including tax measures as an accompaniment to a minimum wage increase is that small businesses need to be compensated for the increased wages they would have to pay under a higher minimum wage. This argument is not well-founded; the evidence does not indicate that modest minimum wage increases have significantly negative effects on small businesses. For example, recent research that examined whether minimum wage increases contribute to the failure rate of businesses found "...there seems to be no discernible correlation between minimum wage increases and a rise in business failures, either in the year the increase occurred or in the following year." (1) But whatever the merits of compensating small businesses, the tax cuts in the Nickles bill go far beyond any reasonable bounds for what might be justified as measures to cushion the effects of a higher minimum wage on small businesses. In addition to providing costly tax breaks to high-income taxpayers, most of whom do not work in small businesses, the tax cuts have the potential to hurt the very workers minimum wage legislation is intended to help.

Pension Provisions Are Poorly Targeted

The Nickles minimum wage legislation includes the pension tax provisions of the tax bill Congress passed and the President vetoed this summer. These provisions have at most a tenuous connection to any problems that small businesses are said to experience as a result of a minimum wage hike.

The proposed pension changes would relax various provisions of current law that limit the contributions that highly paid individuals may make to pension plans, as well as the amount of the pension payments that such high-income individuals may receive when they retire. For example, the bill would increase the maximum tax-favored contribution that an employed individual is permitted to make to a 401(k) plan from $10,000 to $15,000. This change would primarily benefit the fewer-than-five-percent of individuals covered by a 401(k) plan who make the maximum $10,000 contribution today; this is a group that receives average pay of $130,000. The bill also would increase the maximum benefit that a retiree can receive under a defined benefit pension plan from $130,000 a year to $160,000. That change would benefit only those at the very top of the income distribution whose salaries are so large that they would be able to qualify for annual pension payments of more than $130,000 when they retire.

These and the other pension-related tax breaks in this bill have little to do with assisting small businesses. Most small businesses, in fact, do not even offer pension plans. In 1993, only 13 percent of full-time workers in firms with fewer than 10 employees — and 25 percent of workers in firms with between 10 and 24 employees — enjoyed pension coverage. It is unlikely that many small businesses with large minimum-wage workforces would be affected by these expansions in pension tax breaks.

By contrast, 73 percent of workers in firms with 1,000 or more employees have pension coverage.(2) Most of the benefit of the pension provisions in the Nickles bill would accrue to highly-salaried executives of large corporations that already offer generous pension coverage.

An analysis by the Institute on Taxation and Economic Policy finds that 91 percent of the tax benefits from the pension provisions in the vetoed tax bill would go to the 10 percent of Americans with the highest incomes. By contrast, *the bottom 60 percent of Americans would receive less than one percent of these tax benefits.* The effect of these provisions would be a significant increase in the tax-preferred benefits of high-income individuals, with little expansion for the moderate- and low-income workers — many of whom work for small businesses — who most need to build savings for retirement.

In fact, some of the pension provisions could lead to *reduced* coverage for some low- and middle-income workers. For example, the bill would raise the amount of salary on which pension contributions may be made from $160,000 to $200,000. This would enable small business owners and highly-paid executives to maintain contributions for their own pension plans while reducing the firm's contributions for other employees. Consider, for instance, the case of a small business owner with compensation of $250,000 who wants to have the business contribute $10,000 a year to his pension. Under current law, the owner would have to set the firm's pension contribution rate at 6.25 percent of pay (6.25 percent of the $160,000 limit is $10,000). Both the owner and the employees would receive contributions equal to 6.25 percent of their compensation. Under the higher $200,000 limit the Nickles bill would set, however, the business owner could reduce the firm's contribution rate for its employees to five percent and still have the firm contribute $10,000 to his own pension. The employer contribution for an employee earning $40,000 would drop from $2,500 (6.25 percent of $40,000) to $2,000 (5 percent of $40,000).(3)

Provisions in the Nickles bill also would relax pension anti-discrimination rules and other rules barring firms from treating highly compensated employees more generously than average workers. These provisions could induce further erosion in coverage among low- and moderate-paid workers.

In a November 1 letter to House Ways and Means Chairman Bill Archer commenting on the identical pension provisions in the minimum wage legislation the House is considering (H.R. 3081), Treasury Secretary Lawrence Summers and Labor Secretary Alexis Herman raise concerns about the provisions in the bill that "...raise the maximum retirement plan contribution and considered compensation for business owners and executives and weaken the pension anti-discrimination and top-heavy protections for moderate- and lower-income workers." The letter emphasizes that the "...provisions are regressive, would not significantly increase plan coverage or national savings, and could lead to reductions in retirement benefits for moderate- and lower-income workers."

Health Insurance Deductions Little Help to Uninsured

Another provision of the vetoed tax bill that is included in the Nickles minimum wage legislation would create a new tax deduction for the purchase of health insurance by taxpayers who pay at least 50 percent of the cost of their health insurance premiums. At first glance, such a deduction may seem an attractive idea if it could help the uninsured obtain coverage or help small businesses cover their employees. Closer examination indicates, however, that this deduction — which would cost upwards of $8 billion a year when fully in effect — would provide little help to most of those lacking insurance and would not significantly reduce the ranks of the uninsured. Moreover, because the deduction provides a far deeper percentage subsidy for the purchase of insurance to higher-income business owners and executives than to lower-income wage earners, it could encourage small business owners to drop group coverage and rely on the deduction to help defray the cost of their own coverage. To the extent this occurs, the ranks of the uninsured could increase.

The deduction would provide little subsidy to lower-income wage earners, including most workers who currently are uninsured and those for whom employers pay inadequate shares of premiums to make insurance affordable.(4) Some 93 percent of all uninsured individuals either have incomes too low to incur income tax liability or pay income tax at the 15 percent marginal rate. These individuals would at most get a subsidy of 15 percent of the cost of purchasing health insurance. Rather than the uninsured or the workers who today cannot afford the premiums required to obtain adequate health coverage, those who would receive the largest benefits from such a deduction are, by and large, individuals in higher tax brackets who already purchase individual insurance.

- For low- and moderate-income families and individuals without employer-sponsored coverage, a 15 percent subsidy that leaves them with the other 85 percent of the premium cost is much too small a subsidy to make insurance affordable.

  For a family earning $35,000 whose employer does not offer insurance, the proposed deduction would reduce the out-of-pocket cost of a typical family health insurance policy that carries a $1,000 deductible from $6,700 to $5,860 — or from 19 percent of income to 17 percent of income.(5) An Urban Institute study shows that more than three-quarters of low- and moderate-income uninsured individuals will not purchase insurance that consumes more than *five* percent of their income.(6) Few families that have forgone health coverage because they cannot afford to spend 19 percent of income on it would find coverage affordable because a deduction had lowered its cost to 17 percent of income. (It is of note that the child health block grant established in 1997 set a limit on the premiums and co-payments that can be charged under programs receiving block grant funds, with the limit being *five* percent of income for families above 150 percent of the poverty line and smaller amounts for poorer families.)

- This provision might be of modest help to some moderate-income families whose employer pays half or nearly half of the premium costs since the deduction would be in addition to the employer subsidy. But even families whose employers pay 50 percent of the premium would receive only very modest help from the deduction. The deduction would reduce the proportion of the premium these families have to pay only from 50 percent of the premium to 42.5 percent. While that might help some families afford insurance, the number of such families likely would be small.

- Moreover, the deduction could induce some employers currently paying more than 50 percent of premium costs to scale back their contribution to 50 percent or less or even to drop coverage.

- The group that would appear to benefit most from this deduction would be higher-income taxpayers who purchase insurance as individuals. A health insurance deduction is worth more than twice as much to affluent individuals in the 31 percent, 36 percent, and 39.6 percent brackets than to moderate- and middle-income families in the 15 percent bracket.

- The proposed new health insurance deduction would allow small business owners or more highly-paid employees to purchase insurance for themselves, using the more generous subsidy the deduction provides, without the necessity of providing coverage for lower-paid employees. As a result, the deduction could provide an incentive for some small business employers to drop group coverage, or for some owners newly launching small businesses to decide to decline to provide such coverage. To the extent this occurs, it would adversely affect some of the same workers the minimum wage legislation is supposed to help.

Other Provisions

Two other provisions in the Nickles minimum wage bill are poorly targeted. These are the deduction for the purchase of long-term care insurance and the increase in the deduction permitted for business meals.

Deduction for Long-term Care Insurance

The bill includes a provision that would allow a new deduction for 100 percent of the premiums paid to purchase long-term care insurance. This provision would cost approximately $2 billion a year when fully in effect.

There are major problems relating to access to long-term care that need to be addressed. This proposal for a deduction for long-term care insurance premiums, however, would not help most middle-income people and could exacerbate the inequities in access and affordability that currently exist.

Three-quarters of all taxpayers, including most moderate- and middle-income taxpayers, pay federal income taxes at no higher than the 15 percent marginal tax rate. For this three-quarters of all taxpayers, a deduction would provide at most a subsidy of 15 percent of the cost of purchasing long-term care insurance. Long-term care insurance premiums are relatively expensive, and a 15 percent subsidy is unlikely to make long-term care insurance fit into the budgets of many middle-income families.(7)

The primary beneficiaries of the proposed deduction are likely to be higher-income taxpayers who currently carry long-term care insurance, and taxpayers in the higher tax brackets for whom a 36 percent or 39.6 percent subsidy makes purchase of long-term care insurance an attractive option. But these are likely to be the same taxpayers for whom long-term care access is not a major problem.

Business Meals Deduction

The bill also includes a provision to increase the proportion of business meals that small businesses (businesses with receipts below $7.5 million a year) may deduct. Currently, businesses may deduct 50 percent of business meals and drinks. This limitation on the "three-martini lunch" is intended to prevent excessively luxurious dining and drinking at taxpayer expense. The Nickles bill includes a provision that would raise to 80 percent the proportion of business meals and drinks that can be deducted, at a cost to the Treasury of about $2.5 billion a year when fully in effect. (Note that this goes beyond the vetoed tax bill, which would have raised the deductible portion to 60 percent.)

End Notes:

1. Jerold Waltman, Allan McBridge, and Nicole Camhout, "Minimum Wage Increases and the Business Failure Rate," *Journal of Economic Issues*, March 1998.

2. U.S. Department of Labor, Social Security Administration, Small Business Administration, and Pension Benefit Guarantee Corporation, *Pension and Health Benefits for American Workers,* 1994.

3. The pension tax provisions in the vetoed tax bill, all of which are included in the Nickles minimum wage legislation, are explained more fully in the Center report, *Exacerbating Inequities in Pension Benefits: An Analysis of the Pension Provisions in the Tax Bill*, by Peter Orszag, Iris Lav, and Robert Greenstein, October 8, 1999. The vetoed tax bill also included provisions that would make Individual Retirement Account tax breaks more generous; these IRA changes are not included in the Nickles minimum wage bill. (The distribution data cited above on the tax benefits that the Nickles bill pension provisions would provide thus do not cover the IRA expansions of the vetoed bill. Data on the distributional effects of the full package of retirement tax benefits contained in the vetoed bill, including the IRA expansions, are provided in *Exacerbating Inequities in Pension Benefits.*)

4. Census data show that at least 93 percent of uninsured individuals either pay no income tax or are in the 15 percent income tax bracket. Some 18 million uninsured individuals — 43 percent of all of the non-elderly uninsured — owe no income tax; their earnings are too low for them to incur an income tax liability. These uninsured individuals would receive no benefit from a tax deduction; a deduction would do nothing to make health insurance more affordable for them. Another 20 million uninsured individuals — 50 percent of the non-elderly people without health insurance — pay income tax at a 15 percent marginal tax rate. A deduction would provide these taxpayers with a subsidy equal to 15 percent of the cost of insurance not covered by an employer. General Accounting Office, Letter to The Honorable Daniel Patrick Moynihan, June 10, 1998, GAO/HEHS-98-190R, Enclosure II. The analysis is based on the 1996 Current Population Survey.

5. A General Accounting Office study found that in 1996, the middle of the range of premium costs was $5,700 for a family-coverage policy that included a $1,000 deductible. The proposed tax deduction would provide a subsidy of $840 for the purchase of a policy with a $5,700 premium ($840 equals 15 percent of $5,700). This means the family would have to pay the remaining $4,860, or 14 percent of its income, to purchase the health insurance policy. Since this premium is for a policy with a $1,000 deductible, another three percent of income would have to be expended before any benefits would be available. The family's net expenditure for health coverage — the premium plus the deductible — would total $5,860, or 17 percent of the family's income. Without the proposed tax deduction, the full cost of the policy plus the $1,000 deductible is equal to 19 percent of the family's income.

6. Leighton Ku, Teresa Coughlin, *The Use of Sliding Scale Premiums in Subsidized Insurance Programs*, Urban Institute, March 1997.

7. Long-term care premiums vary by the age at which the policy is purchased and the type and amount of long-term care expenses the policy will reimburse. A 1997 study by Consumers Union found premiums at age 55 ranged from $588 to $1,474 a year, while premiums at age 65 ranged from $1,042 to $3,100 a year. These policies cover individuals, so the costs for a couple would generally be double those amounts. *Consumer Reports*, October 1997.

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Joel K. Wiginton 01/25/2000 11:42

Record Type: Record

To: Charles M. Brain/WHO/EOP@EOP

cc: Rebecca Hunter/WHO/EOP@EOP, Joanna E. Slaney/WHO/EOP@EOP

Subject: Bad Stuff on the Bankruptcy Bill

Hey Chuck, thank you for addressing this issue. As a reminder, it would be great if you or Podesta could emphasis to the Senate Dem Caucus that they must make it clear that even if they vote for the underlying bill, that they will stand with the President and oppose the bill if it is returned from conference with the bad minimum wage and/or drug/school voucher amendments. Here is a quick summary of the objectionable nonrelevant amendments the Repubs added to the bankruptcy bill:

(1) Senator Domenici (R-NM) offered a successful (54-44) amendment to raise the minimum wage by $1.00 over three years and provide $18.4 billion in tax cuts over five years. The amendment also included a provision that would undermine overtime pay for hourly employees by excluding bonuses and commissions from the rate of pay used to determine overtime pay; and

(2) Sen. Hatch offered as successful amendment (50-49) to address the sentencing disparity between crack and powder cocaine only by reducing the amount of powder cocaine necessary to trigger the mandatory minimums, institute a school voucher program for public school students who are victims of school violence, and direct the FBI to conduct a study of the threat posed to the US national security by the former FALN members the President pardoned last year.

And here are the relevant sections from our SAP on S. 625, the Bankruptcy Reform Bill:

(1) On November 4, 1999, in a letter to the Majority Leader, the President made clear that he strongly supports an increase in the minimum wage of $1 over the next two years; however, if Congress sends him a bill delaying the increase, repealing overtime protections for certain workers, adding costly and unnecessary tax cuts that threaten fiscal discipline and direct benefits away from working families, and thwarting ongoing efforts to enforce pension law, he will veto it.

(2) The Administration opposes the drug-related amendment because it would reduce the current disparity between crack and powder cocaine sentences solely by increasing powder cocaine penalties dramatically instead of addressing both crack and powder cocaine penalties. Decreasing the threshold amount of powder cocaine necessary to obtain 5- and 10-year mandatory minimum sentences may be counterproductive because it could significantly redirect Federal law enforcement resources from the highest level offenders. In addition, this amendment would actually exacerbate the disproportionate impact of cocaine sentencing on minorities because, according to U.S. Sentencing Commission statistics, approximately 31% of defendants sentenced at the Federal level for powder cocaine offenses in 1998 were African American, 48% were Hispanic, and only 19% were white.

THE WHITE HOUSE

WASHINGTON

November 4, 1999

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

I am writing this letter to encourage you to pass a straightforward minimum wage bill that gives working Americans the pay raise they deserve. If we value work and family, we should raise the value of the minimum wage.

In 1996, the Congress and I worked together to raise the minimum wage by 90 cents over 2 years. Since then, the American economy has created nearly 9 million new jobs -- with more than 1 million of them in the retail sector where many minimum-wage workers are employed. The unemployment rate has fallen from the already low rate of 5.2 percent to 4.2 percent -- the lowest in 29 years. We have enjoyed larger real wage increases for more consecutive years than at any time in more than two decades, while inflation is the lowest it has been in more than three decades. The minimum wage increase has contributed to the 39 percent decline in the welfare caseload since the last minimum wage increase -- bringing the welfare rolls down to their lowest level in three decades. And the minimum wage increase has been a crucial factor in reversing the wage stagnation and declines of the previous decade, contributing to rising wages for even the lowest income groups. Our recent experience clearly demonstrates that what is good for America's working families is good for America's economy.

But as our economy continues to break records, we must do more to ensure that all Americans continue to benefit from it. It is time to build on the steps we have taken to honor the dignity of work. The expansion of the Earned Income Tax Credit in 1993 and the increase in the minimum wage have ensured that no full-time working parent with two children has to raise his or her family in poverty. It is important that we take steps to achieve this goal in the future. That is why I have proposed to raise the minimum wage by $1 an hour over the next two years -- from $5.15 to $6.15. This modest increase would simply restore the real value of the minimum wage to what it was in 1982. More than 11 million workers would benefit under this proposal. A full-time, year-round worker at the minimum wage would get a $2,000 raise -- enough for a typical family of four to buy groceries for 7 months or pay rent for 5 months.

All Americans should share in our historic prosperity. This is why Congress should not let politics get in the way of raising the minimum wage. If you send me a clean bill that increases the minimum wage by $1 over the next two years, I will sign it.

Unfortunately, some in Congress have proposed a more gradual increase in the minimum wage that would cost a full-time, year-round worker roughly $1,500 over three years compared with my proposal. They have added provisions that would repeal important overtime protections for American workers. And they have been playing politics with the minimum wage bill, using it as a vehicle for costly and unnecessary tax cuts that would threaten our fiscal discipline. As I have stated repeatedly, before we consider using projected surpluses to provide for a tax cut, we must put first things first and address the solvency of Social Security and Medicare. If Congress sends me a bill that threatens our fiscal discipline, I will veto it.

If paid-for tax cuts are attached to the minimum wage bill, they should reflect our priorities and address urgent national needs like deteriorating schools and the communities that have been left behind during this time of prosperity. In contrast, the bulk of the provisions attached to the minimum wage bill in the House are directed away from working families. Some of these provisions could even *reduce* the retirement benefits enjoyed by millions of working Americans.

America's workers show up to work every day and get the job done. Congress should do the same this year. I urge Congress to pass a minimum wage bill that does not at the same time add poison pills that bypass the priorities of working families.

Sincerely,

Bill Clinton

The President believes that balanced bankruptcy reform is essential to achieving reform that is both fair and improves the administration of the law; only reform that achieves these goals is truly beneficial to our society.

The President has furthermore made it clear that he strongly supports an increase in the minimum wage of $1 over the next two years, and strongly opposes the minimum wage provision in the Senate bill because it would delay the increase unacceptably and add costly and unnecessary tax cuts that threaten fiscal discipline. A delay affects millions of Americans who are struggling to get by, who deserve a raise. That raise ought to be done; it ought not to be done in a way that provides extra benefits to special interests and those who are already doing very well. It is inconceivable that such a provision would appear in any conference bill that is serious about bankruptcy reform. *[If the conference report retains the Senate provision, the President will veto it.]*

The House bill, HR 833, fails the test of balance. It limits access to Chapter 7 to debtors who meet an inflexible and arbitrary means test, so that a debtor whose ability to repay was even slightly above the minimum threshold would have to demonstrate "extraordinary circumstances" to gain access to the relief of that Chapter. It makes virtually no change in the process for debtors who wish to reaffirm debts and denies them the ability to bring class action lawsuits for violations of the requirements for reaffirmation agreements; as the cases of Sears and others have demonstrated, this ability is essential to ensuring all parties to the agreement abide by the law. It fails to require that debtors be provided clear information on their credit and the impact of not paying off credit card balances, to help debtors avoid undertaking huge debt burdens. At the same time, it provides unprecedented rights for creditors to collect amounts in excess of the value of their collateral in bankruptcy and makes certain credit card debts nondischargeable in bankruptcy, raising these debts to profit-making private entities to the same level of societal importance as child and family support debt, taxes, and education loans. If a bill emerges from conference that looks like the House bill, the President will *[not sign it—what the news conference said..?]*.

We believe that the Senate bill has actually fixed many of the bankruptcy-related problems that exist in the House bill, by making improvements in the balance to the benefit of consumers. However, particularly troublesome areas remain, to which we want to direct the attention of the conferees.

For example, we are concerned about a provision in the Senate bill that exposes low-income debtors to creditor motions to deny them access to Chapter 7 under the means test. While both bills protect these debtors against motions that might be brought under vague "totality of the circumstances" grounds, the House has wisely chosen to protect these debtors from means test motions as well. It is *[important, essential?]* that the conference bill retain this protection.

In addition, the House has unwisely chosen to eliminate the ability of debtors to bring class action suits for violations of reaffirmation requirements. It is essential that the conference bill retain this protection to provide balance between the unequal powers of the parties to such agreements.

The Administration also opposes the Senate provision relating to methamphetamine and other controlled substances because it would reduce the current disparity between crack and powder cocaine sentences solely by increasing powder cocaine penalties instead of addressing both crack and powder cocaine penalties. This could significantly redirect law enforcement resources from the highest level offenders, and would exacerbate the impact of sentencing on minorities.

We have a number of other concerns, explained in detail in the Attachment, which we hope to work out in conference. In particular, the House and Senate bills contain separate provisions relating to the release of data held by Trustees. As the privacy issues raised by these provisions have not been fully examined, it would be premature to include them in the conference report.

Attachment: Detailed Administration Views

Access to Chapter 7: Any means test should deny access to Chapter 7 procedures only to those debtors who genuinely have the capacity to repay a portion of their debts successfully under a Chapter 13 plan; and debtors must be given a meaningful opportunity to have their specific circumstances considered. The Administration strongly opposes the rigid, inflexible standard of "extraordinary circumstances" in the House bill. This would impose a nearly insurmountable burden of proof upon debtors; the Senate bill's "reasonable and necessary expenses" exception, while still relatively inflexible, is fairer to debtors.

Research shows that bankrupt below-median income debtors simply do not have the ability to repay. It is an inefficient use of society's resources and a waste of court time, to entertain motions to deny these debtors Chapter 7 relief on the basis of a means test. It is hence important that the House "safe harbor" protection for below-median income debtors from motions to deny relief on the basis of the means test be retained in the conference bill.

The Senate "safe-harbor" protection against motions that might be brought under vague "totality of the circumstances" grounds is preferable over the House provision because it allows the trustee flexibility not to bring such motions for debtors with income only slightly above median who are not able to meet the repayment requirement from formulaic expenses. It is inefficient to require the trustee to bring motions to deny relief to such debtors.

Both bills contain separate provisions allowing exceptions for specific expenses. All of these are societally important and should be retained. *[assume this applies for the exemption for education IRAs?]*

Since debtors face a difficult burden of proof to gain access to Chapter 7, even if their expenses exceed the standards by minute amounts, it is important to allow courts limited and appropriate discretion in the application of the standards. The House provision, which assures a reasonable margin of discretion for essential food and clothing expenses, should be retained.

It is unfair and inefficient to require debtors to provide elaborate tax return data when no party to the case has an interest in them. The Senate bill provides some relief to debtors in this regard and is clearly preferable. In addition, it provides some flexibility as to how debtors can satisfy the mandatory counseling requirement. It is important to retain these provisions, which reduce the burden debtors face upon attempting to obtain the relief available under the law.

Reaffirmations: Debtors often reaffirm debt on unfavorable terms, and even when they demonstrably can not afford to commit to the agreement, putting at risk payments on more societally important debt. These reaffirmations are frequently the result of insufficient or misleading information. The Senate bill calls for debtors to be given adequate information for their decisions, sets out a definition of affordability, and requires that courts consider reaffirmations that the debtor cannot afford; it is preferable to the House provisions that make little change in current law.

The goal of the Senate process is to improve debtors' understanding of what they were doing when they agreed to reaffirm a debt that they were entitled – under the law – to have discharged, and to promote efficient handling of reaffirmations in the bankruptcy process. The whole basis of this approach to reaffirmations requires their timely filing. Such a requirement is implicit in the Senate bill and would be viewed in that light by the courts. However, the language of the Senate bill does not expressly specify a filing deadline. The reaffirmation provisions are dealing with an area that has been rife with misunderstanding and even abusive practices. Hence it is imperative to make this requirement as explicit as possible, and make certain technical changes in the description of the disclosures, so that the working of the law is as clear as possible and no one tries to circumvent the basic intent of the amendment.

Furthermore, in view of the prevalence of abusive practices, debtors should have remedies that provide real protection against culpable creditors. The House provides for a private right of action for willful failures of creditors to comply with reaffirmation requirements, but removes the ability to bring class actions, arguably diluting protection available currently to debtors. It is essential that the ability to bring class actions be preserved.

Credit Card Disclosures: The Administration continues to believe that reform must address the factor most strongly correlated with the rise in personal bankruptcies, rising levels of consumer debt. One of the most effective ways to reduce the number of bankruptcies is to require that creditors give consumers the information they need to manage their credit card debt successfully, recognizing the creditors' superior information. In particular, consumers must be given information on the terms of their credit and the financial implications of only paying the minimum on their credit card balances. Therefore, it is important that the additional debtor protections of the Senate bill, including disclosure of the impact of making only the minimum payment on credit card debt, be retained.

Cramdowns: Abuses of bankruptcy relief have been reported in the case of purchases of automobiles. Because the Senate bill prohibits extensive lien stripping only in the case of automobile debt, it is far preferable to the excessive House provision. Yet the protection it grants still outstrips the need for such protection, which extends only to the 2-3 year time during which the debt typically undertaken to finance the purchase collateral value of the automobiles exceeds the value of the collateral. Excessive protection puts at risk the repayment of other societally important debt post-bankruptcy and removes the incentive of the creditor to properly evaluate lending risk.

Homestead Cap: The Administration strongly supports the Senate provision that would cap the homestead exemption. An unlimited exemption for assets in the form of investment in a debtor's home protects wealthy debtors who can easily convert and hold assets in this form from having to repay their debts. Bankruptcy should not place a greater responsibility for debt repayment on moderate-and-low-income debtors than it does for wealthy debtors.

Nondischargeable Debt: Bankruptcy law makes debts nondischargeable only where there is an overriding public purpose. Since such debts compete with societal priorities, any proposals to increase nondischargeable debts should reach only so far as is demonstrably needed to prevent abuse. The Administration strongly prefers the more prudent Senate provisions, which offer some protection for child support and alimony debts, to those of the House bill.

Privacy: The House bill removes the liability of trustees when making disclosures of data from filings. The Senate bill requires that any not-for-profit entity created to make information about cases available to parties in interest in electronic format must disclose any "reasonable" information about each case. In particular, the House provision absolving the trustees of all but intentional errors unwisely strips away an incentive for accurate reporting, upon which all parties must rely, with no offsetting gain to public welfare, and should not be retained. The Senate's provision could expose debtors in different districts to considerable invasion of privacy, depending upon the interpretation of "reasonable". The wording of the provision should be changed to permit release of information pursuant to guidance from EOUST.

[DOJ list to be added?]
[Treasury list to be added, covering IRS and financial contracts?]

3|2

Noting that members overwhelmingly heard a message from constituents not to grant permanent NTR because it removes America's last leverage over China, the leadership source said Bonior is expected to ask the President today to "reassess and not bring this agreement up until labor, human rights, and environmental protections are included." Bonior is also expected to hammer the Chinese for repeatedly reneging on commitments made during the annual MFN process, and "we should not reward them when 85% of the American people oppose permanent MFN for China."

In the end, according to the leadership source, the House Democratic leadership believes "two-thirds of the Democratic caucus will be opposed to this – somewhere between 130 and 140." Acknowledging a very tight vote is likely, the leadership source concluded, "We might be fighting for just 18 votes."

Meanwhile, in other PNTR action, an unusual coalition of Teamsters President James Hoffa, Rep. Chris Smith, and Chinese dissident Harry Wu are expected to hold a press conference this afternoon to express their opposition to PNTR.

Also, pro-PNTR forces are buzzing over a Roll Call piece today which reports that House Democrats are threatening to vote against PNTR if the Chamber of Commerce does not endorse freshman Democrat Baron Hill. A House GOP source working for passage of PNTR said the piece not only calls into question Democratic vote counts – which will be crucial to passage – but should also serve as a wakeup call for the business lobby. According to the GOP source, Democrats "are selling their votes on China NTR based on endorsements, and we're supposed to think they're pro-trade."

UN Says Human Rights Abuses In China Are Getting Worse. UN human rights chief Mary Robinson said today that China's violations of civil and political rights, such as freedom of speech, religion and association have gotten worse during the past year. Robinson cited crackdowns on political dissidents, arrests and other harassment of members of unauthorized political groups, as well as actions taken against labor organizers. Robinson added, "My major concern is that there does seem to have been a deterioration." Robinson said she had constructive talks with Vice Premier Qian Qichen, the highest-ranking official she met during her visit, and other Chinese officials. She said there had been "considerable progress" in some areas, but that China had failed to move ahead on ratifying a UN covenant on civil and political rights. Robinson said, "There is some degree of slippage." Chinese Foreign Ministry spokesman Zhu Bangzao responded to Robinson's charges today by saying, "The 1.2 billion Chinese people are most eligible to comment on whether the situation of human rights in China is deteriorating or improving." Zhu added, "We hope that the UN High Commissioner on Human Rights can abide by the principle of fairness and justice and work with the Chinese side to push in depth the cooperation between the two sides on the basis of mutual respect."

- **Archer To Include Small Business Accounting Measure In Minimum Wage Tax Relief Bill.** House Ways and Means Committee Chairman Bill Archer announced this morning that he would include a bill sponsored by Rep. Wally Herger to reinstate the installment method of accounting for accrual basis in the tax relief package related to minimum wage legislation that the House of Representatives is expected to consider next week. In making the announcement, Archer said as many as 260,000 businesses a year could be negatively impacted if prior law is not restored.

  Archer also offered a broadside for the White House: "This is the real-life result of what happens when Washington tries to 'close loopholes' or 'pay for tax cuts' – taxpayers get gouged and people get hit. It's a simple fact of life but one which the White House seems to forget so easily – if you raise taxes, someone is going to have to pay more. I hope the White House will remember this lesson in tax-hike backfiring if they push for more seemingly 'harmless' tax increases in the future."

  The accrual method of accounting forces a business to claim income in the year in which the right to receive it takes place, rather than when the money is actually received. The installment method allows taxpayers to avoid recognizing income they have not yet gotten.

- **Clinton Pushes Patients' Bill Of Rights.** At an event timed to coincide with Congress' first formal conference meeting on Patients' Bill of Rights legislation, President Clinton today once again called upon the conferees to move in the direction of the House bill.

The President said, "Later today a conference committee will meet to take up the legislation. Many of the conferees does not reflect the will of the majority in the House or the will of the majority in the country. I told Congressman Norwood right before we came in here that I think this issue is the only issue with which I have dealt since I've been president that generated any controversy where there is in the country almost no difference in the level of support between Republicans, Independents and Democrats. Every major national survey shows that well over 70 percent of all Americans, without regard to their political party, support a strong, enforceable Patient's Bill of Rights. The American people support it and they're entitled to have their elected representatives ratify it."

Clinton continued, "The Norwood-Dingell Bill is the only bipartisan Patient Protection bill on the table. So far it's the only bill that can make its way to my desk. I will not sign legislation...that is a Patient's Bill of Rights in name only. It's not a real Patient's Bill of Rights if it denies people the right to see a specialist, if it fails to guarantee access to the nearest emergency room care, if it denies the right to stay with the health care provider throughout a course of treatment, and if it has a weak, if it doesn't include a strong enforcement mechanism to hold the health care plan accountable, or if it leaves more than 100 million of our fellow Americans out."

Clinton concluded his remarks with, "Let me say that if the Congress will send me a strong, enforceable Patients' Bill of Rights today, I'll send everyone of them an invitation to a signing ceremony tomorrow. Nothing would please me more than to see this issue removed from the context of partisan political debate and embedded in the daily lives of all our citizens."

At the conclusion of his remarks, the President introduced Republican Rep. Charlie Norwood, saying, "It is now my privilege to present the sponsor of the Norwood-Dingell bill, a long-time dentist, a man who has simply acted on his convictions and his experience. And I think we would all do well to listen to him. It's probably a little harder for him to come out for this bill than it was for me. And I feel particularly indebted to Congressman Charlie Norwood."

- **Holder Speaks Out On Shootings; Calls For Gun Control.** Deputy Attorney General Eric Holder today spoke out on the Michigan shooting of a 6-year old by another 6-year old today by repeating the Clinton's Administration's call for gun control measures. Holder said, "It seems to me that we owe it to our children and to ourselves and to our future to do all that we can to stop the carnage. ... We know that there is not one simple answer and we know that there is nothing we can do that will prevent every single crime or act of violence. But we also know that there are some common sense things that we can do and that we must do. And so I want to add my voice to those who are calling on Congress to finally – to finally – pass these very common sense gun measures. First, to require child safety locks for all handguns that are sold. Second, to ban violent juveniles from ever having the ability to own guns. Third, to pass the President's handgun licensing proposal, which requires safety certification for all handgun purchasers. Fourth, to support research in smart-gun technology, which can limit a gun's use to its authorized owner. And finally, to close the gun show loop-hole by requiring a background check for all gun purchases at gun shows. Every day that goes by, about 12, 13 more children in this country die from gun violence. We need these common-sense measures and we need them now."

- **Holder Addresses Possible Federal Role In Aftermath Of Diallo Verdict.** When asked by reporters today about meetings between Justice Department officials and members of the Diallo family over the recent verdict in the New York trial of the four officers who shot and killed Amadou Diallo, Deputy Attorney General Eric Holder responded, "Well, I expect we'll have a very meaningful exchange. There will be, I think, four or five members of Congress there; the Diallo family, representatives from the community, will be listening to the concerns that they have. We will share with them information to the extent that we can. These are difficult cases to prosecute. The standard that we have to meet on the federal side is a high one, but we will look at the case. We have been involved in the matter since shortly after the shooting. We had people, or a person, at the trial to monitor the trial as it was proceeding. So we will now have our Civil Rights Division in conjunction with our US attorney in Manhattan; one of our best US attorneys, Mary Jo White, apply their skills to look at the evidence and see whether or not federal involvement is appropriate."

CAMPAIGN FOR A FAIR MINIMUM WAGE

1625 K Street, N.W., Suite 210, Washington, D.C. 20006 * (202) 785-5980

March 16, 2000

TO: Campaign participants

FROM: Campaign for a Fair Minimum Wage

RE: Victory in the House of Representatives! Now what?

Everyone's perseverance and hard work paid off!

As you no doubt know by now, the House of Representatives voted on Thursday, March 9th, to increase the federal minimum wage by $1, from $5.15 to $6.15, over two years. The final vote was 246-179. That's the good news. The bad news is that it was then attached to a major tax cut bill, which the President said he would veto.

It is not yet clear how the House bill will proceed through the next steps in the legislative process. You will remember that the Senate had already passed their version of a minimum wage increase ($1 over three years plus a big tax cut) and attached it to a bankruptcy bill. That bankruptcy bill is now awaiting a conference with the House.

The first indications we may get on what to expect will come next week when the Senate returns from its recess. On Tuesday, March 21st, Sen. Kennedy is planning to introduce the House-passed minimum wage increase ($1 over two years) as a separate bill in the Senate, and urge its immediate adoption. Then, on Wednesday, March 22nd, Sen. Daschle, with Sen. Kennedy, will take the opportunity of Sen. Daschle's weekly meeting with the press to discuss the minimum wage issue in depth.

Next week would be an opportune time for your organizations to continue the drum beat on this issue. I think it is safe to say that the minimum wage would not be this close to passage if it hadn't been for the spotlight your organizations put on it. If you can get out a letter/press release next week also urging the Congress to take quick action on a clean $1/two year minimum wage bill, it would add weight to what is being said on Capitol Hill. We must continue to let the leadership of the House and Senate know that something as simple as a two-year, $1 increase in the minimum wage shouldn't be dragged through a long legislative delay.

For your information the House vote is attached:

FINAL VOTE RESULTS FOR ROLL CALL 43

(Republicans in roman; Democrats in *italic*; Independents underlined)

HR 3846 RECORDED VOTE 9-MAR-2000 9:10 PM
AUTHOR: Traficant of Ohio Amendment
QUESTION: On Agreeing to the Amendment

	AYES	NOES	PRES	NV
REPUBLICAN	42	173		6
DEMOCRAT	203	5		3
INDEPENDENT	1	1		9
TOTALS	**246**	**179**		**9**

---AYES 246---

Abercrombie	Castle	*Evans*	*HoyerHoyer*	*Luther*
Ackerman	*Clay*	*Farr*	Hyde	*Maloney(CT)*
Ackerman	*Clayton*	*Fattah*	*Inslee*	*Maloney(NY)*
Aderholt	*Clement*	*Filner*	*Jackson(IL)*	*Markey*
AllenAllen	*Clyburn*	*Forbes*	*Jackson-Lee(TX)*	*Martinez*
Andrews	*Condit*	*Ford*	*Jefferson*	*Mascara*
Baca	*Conyers*	*Frank(MA)*	*John*	*Matsui*
Baird	*Costello*	Franks(NJ)	Johnson(CT)	*McCarthy(MO)*
Baldacci	*Coyne*	Frelinghuysen	*Jones(OH)*	*McCarthy(NY)*
Baldwin	*Cramer*	*FrostFrost*	*Kanjorski*	*McDermott*
Barcia	*Crowley*	Ganske	*Kaptur*	*McGovern*
Barrett(WI)	*Cummings*	*Gejdenson*	*Kennedy*	McHugh
Becerra	*Danner*	*Gephardt*	*Kildee*	*McIntyre*
Bentsen	*Davis(FL)*	Gibbons	*Kilpatrick*	*McKinney*
Berkley	*Davis(IL)*	Gilchrest	*Kind(WI)*	*McNulty*
Berman	*DeFazio*	Gilman	King(NY)	*Meehan*
Berry	*DeGette*	*Gonzalez*	*Kleczka*	*Meek(FL)*
Bilbray	*Delahunt*	*Gordon*	*Klink*	*Meeks(NY)*
Bishop	*DeLauro*	*Green(TX)*	*Kucinich*	*Menendez*
Blagojevich	*Deutsch*	Greenwood	*LaFalce*	*Metcalf*
Blumenauer	Diaz-Balart	*Gutierrez*	LaHood	*Millender-McDonald*
Boehlert	*Dicks*	*Hall(OH)*	*Lampson*	*Miller,George*
Bonior	*Dingell*	*Hastings(FL)*	*Lantos*	*Minge*
Borski	*Dixon*	*Hill(IN)*	*Larson*	*Mink*
Boswell	*Doggett*	*Hilliard*	Lazio	*Moakley*
Boucher	*Dooley*	*Hinchey*	Leach	*Mollohan*
Brady(PA)	*Doyle*	*Hinojosa*	*Lee*	*Moore*
Brown(FL)	*Edwards*	*Hoeffel*	*Levin*	*Moran(VA)*
Brown(OH)	Ehlers	*Holden*	*Lewis(GA)*	Morella
Capps	*Engel*	*Holt*	Lipinski	*Murtha*
Capuano	English	*Hooley*	LoBiondo	*Nadler*
Cardin	*Eshoo*	Horn	*Lofgren*	*Napolitano*
Carson	*Etheridge*	Houghton	*Lowey*	*Neal*

Ney
Oberstar
Obey
Olver
Ortiz
Owens
Pallone
Pascrell
Pastor
Payne
Pelosi
Peterson(MN)
Phelps
Pomeroy
Price(NC)
Quinn
Rahall
Rangel
Reyes
Rivers
Rodriguez
Roemer
Ros-Lehtinen
Rothman
Roybal-Allard
Rush
Sabo
Sanchez
Sanders
Sandlin
Sawyer
Saxton
Schakowsky
Scott
Serrano
Shays
Sherman
Sherwood
Shimkus
Shows
Sisisky
Skelton
Slaughter
Smith(NJ)
Snyder
Spratt
Stabenow
Stark
Strickland
Stupak
Tanner
Tauscher
Taylor(MS)
Thompson(CA)
Thompson(MS)
Thune
Thurman
Tierney
Towns
Traficant
Turner
Udall(CO)
Udall(NM)
Upton
Velazquez
Visclosky
Walsh
Waters
Watt(NC)
Waxman
Weiner
Weldon(PA)
Weller
Wexler
Weygand
Wilson
Wise
Woolsey
Wu
Wynn
Young(AK)
Young(FL)

---NOES 179---

Archer
Armey
Bachus
Baker
Ballenger
Barr
Barrett(NE)
Bartlett
Barton
Bass
Bateman
Bereuter
Biggert
Bilirakis
Bliley
Blunt
Boehner
Bonilla
Bono
BoydBoyd
Brady(TX)
Bryant
Burr
Burton
Buyer
Callahan
Calvert
Camp
Campbell
Canady
Cannon
Chabot
Chambliss
Chenoweth-Hage
Coble
Coburn
Collins
Combest
Cook
Cox
Crane
Cubin
Cunningham
Davis(VA)
Deal
DeLay
DeMint
Dickey
Doolittle
Dreier
Duncan
Dunn
Ehrlich
Emerson
Everett
Ewing
Fletcher
Foley
Fossella
Fowler
Gallegly
Gekas
Gillmor
Goode
Goodlatte
Goodling
Goss
Graham
Green(WI)
Gutknecht
Hall(TX)
Hansen
Hastings(WA)
Hayes
Hayworth
Hefley
Herger
Hill(MT)
Hilleary
Hobson
Hoekstra
Hostettler
Hulshof
Hunter
Hutchinson
Isakson
Istook
Jenkins
Johnson,Sam
Jones(NC)
Kasich
Kelly
Kingston
Knollenberg
Kolbe
Kuykendall
Largent
Latham
LaTourette
Lewis(CA)
Lewis(KY)
Linder
Lucas(KY)
Lucas(OK)
Manzullo
McCrery
McInnis
McIntosh
McKeon
Mica
Miller(FL)
Miller,Gary
Moran(KS)
Myrick
Nethercutt
Northup
Norwood
Nussle
Ose
Oxley
Packard
Paul
Pease
Peterson(PA)
Petri
Pickering
Pickett
Pitts
Pombo
Porter
Portman
Pryce(OH)
Radanovich
Ramstad
Regula
Reynolds
Riley
Rogan
Rogers
Rohrabacher
Roukema
Royce
Ryan(WI)
Ryun(KS)
Salmon
Sanford
Sensenbrenner
Sessions
Shadegg
Shaw
Shuster
Simpson
Skeen
Smith(MI)
Smith(TX)

Souder
Stearns
Stenholm
Stump
Sununu
Sweeney
Talent
Tancredo
Tauzin
Taylor(NC)
Terry
Thomas
Thornberry
Tiahrt
Toomey
Vitter
Walden
Wamp
Watkins
Watts(OK)
Weldon(FL)
Whitfield
Wicker
Wolf

---NOTVOTING 9---

Cooksey
Granger
Johnson,E.B.
McCollum
Scarborough
Schaffer
Smith (WA)
Spence
VentoVento