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**Folder Title:**  
Census: Minimum Wage 1999 [3]

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# Withdrawal/Redaction Sheet

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### COLLECTION:

Clinton Presidential Records  
National Economic Council  
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### FOLDER TITLE:

Census: Minimum Wage 1999 [3]

2016-0531-F  
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### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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P3 Release would violate a Federal statute [(a)(3) of the PRA]  
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]  
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b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]  
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b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]  
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

March 11, 1999

MEMORANDUM FOR THE DEPUTY SECRETARY

FROM: LISA B. STUART  
Special Assistant to the Chief Economist

SUBJECT: Current Minimum Wage Proposals

In thinking about the Quinn proposal it may be helpful to review the Kennedy/Bonior proposed levels as well as the historical levels of the minimum wage.

The table below compares inflation-adjusted levels of the minimum wage, current through 2004, under both proposals. In the year 2001, the values are identical. However, in 1999 and 2000, the Kennedy/Bonior bill results in higher wage levels while in 2002 and future years, assuming no additional legislative action, the Quinn bill results in higher wage levels.

|                   | Nominal Dollars <sup>1</sup> |        | Real 1998 Dollars <sup>2</sup> |        |
|-------------------|------------------------------|--------|--------------------------------|--------|
|                   | Kennedy/Bonior               | Quinn  | Kennedy/Bonior                 | Quinn  |
| September 1, 1998 | \$5.15                       | \$5.15 | \$5.15                         | \$5.15 |
| September 1, 1999 | \$5.65                       | \$5.55 | \$5.53                         | \$5.43 |
| September 1, 2000 | \$6.15                       | \$5.85 | \$5.88                         | \$5.60 |
| September 1, 2001 | \$6.15                       | \$6.15 | \$5.75                         | \$5.75 |
| September 1, 2002 | \$6.15                       | \$6.29 | \$5.62                         | \$5.75 |
| September 1, 2003 | \$6.15                       | \$6.44 | \$5.49                         | \$5.75 |
| September 1, 2004 | \$6.15                       | \$6.58 | \$5.37                         | \$5.75 |

Under the Quinn proposal, the minimum wage would be indexed to a 1998 comparable level of \$5.75. Historically, this level is low compared to the 1961 through 1981 period (\$6.49 average), however, it is high when compared to the 1982 through current period (\$4.96 average) as well as the pre-1960 period (\$4.08 average). See attached chart.

While there has been no explicit formula for setting the level of the minimum wage over time, on average it has been 46 percent of the average hourly earnings of production and non-supervisory workers; (since 1947 when such data was first collected). Pegging the minimum wage to average wages of other workers or some other measure of wages (e.g. ECI), in general, may be an appropriate alternative to basing increases on the price of goods and services (i.e. CPI-U).

The Quinn proposal index cap of 4 percent may cause the minimum wage to fall behind the rate of inflation. Historically, in 43 percent of the years since the minimum wage went into effect in 1938, the change in the CPI-U averaged more than a 4 percent increase.

Regardless of the level, indexing the minimum wage to the rate of inflation locks in a real minimum wage and limits our ability to allow the economy to respond to changes in the low-wage labor market. For example, absorbing the "Baby Boomers" into the labor market in the 1970s would have been more difficult under a constantly rising minimum wage. A flexible minimum wage that is periodically adjusted may make more economic sense than one that is fixed over time.

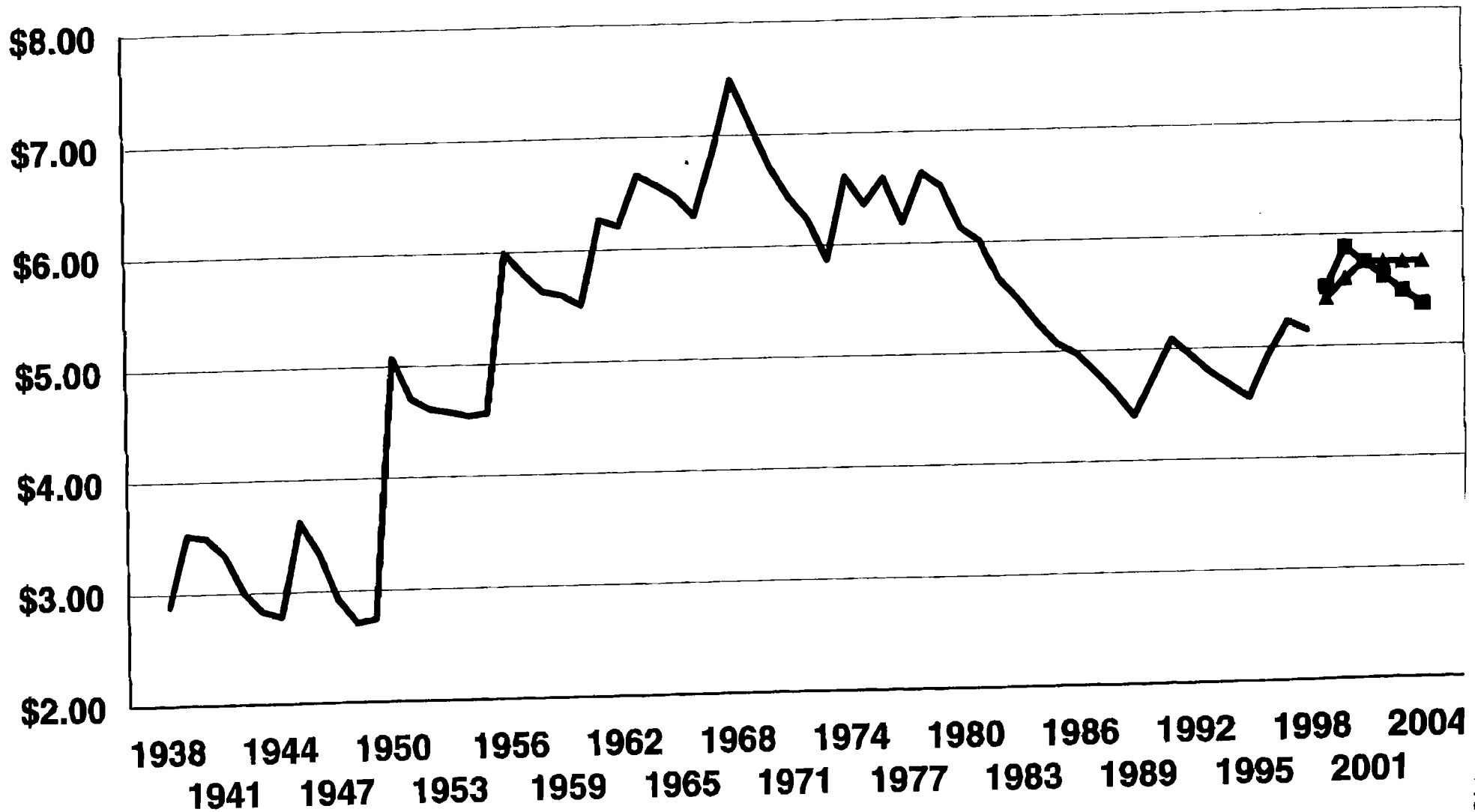
cc: Edward Montgomery, Geri Palast, Darla Letourneau, Bernard Anderson, John Fraiser, Seth Harris, Susan Green, Barbara Bingham

<sup>1</sup> Assumes that Quinn's increase in "proportion" to the CPI-U is 1:1; and that indexing starts covering the year Sept. 1, 2001 to Aug. 30, 2002. (Language was unclear; it may not be indexed that first year which would result in lower values starting in 2002.)

<sup>2</sup> Calculated in 1998 dollars using OMB projections and CPI-U year-over-year changes (versus year ending Sept 1): 1999: 2.2 percent; 2000: 2.3 percent, 2.3 percent each year thereafter.

# The Real Minimum Wage

## 1938-2002

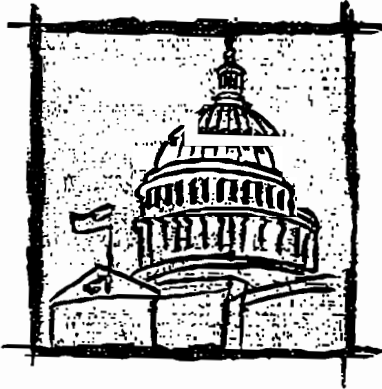


Note: The nominal value of the minimum wage is adjusted for inflation using the CPI-U, 1998 dollars and assumes OMB annual inflation project levels for future years. 1999 through 2004 use proposed values of the minimum wage (Green for Quinn, Blue for Kennedy/Bonier).

106-1-2

March 31, 1999

## Save Social Security



### CWA Legislative Fact Sheet

CWA supports proposals to ensure the solvency of the Social Security System.

The aging of America poses great challenges for us as a nation. The number of elderly citizens is set to double by 2030, making the "baby boom" generation the largest group of seniors in the history of the United States.

Social Security is just one leg of the three-legged stool—envisioned to be supplemented by an employer's pension and private savings—that is designed to provide income security for the elderly. It is an insurance program that helps workers retire with dignity. Without Social Security, half of all older Americans would live in poverty. One out of three older Americans relies on Social Security for 90 percent or more of income. Only about a third of retirees receive any type of private pension. Social Security currently delivers benefits to more than 44 million people.

It is predicted that by the year 2032, the Old Age, Survivors and Disability Insurance (OASDI) program will have an unfunded liability of \$8 trillion dollars. (Note: OASDI is separate from the Medicare health programs of Social Security)

Since its beginning, the Social Security program has paid its own way, taking in more than it pays out. While Social Security is not in crisis today, by the year 2032, the Trust Fund will be unable to pay out the full benefits older Americans have been promised. The trust fund is expected to run a 2.19 percent deficit. There simply won't be enough funding from the 12.4 percent tax paid by workers and employers to support the program. However, making some minor program and funding adjustments will enable the Trust Fund to pay the full amount of benefits. Congress can close this gap—without dismantling the basic insurance functions it provides.

The 106<sup>th</sup> Congress will debate several controversial proposals to close the 2.19 percent funding gap in the Trust Fund. Some of these proposals will divert part of the payroll tax that funds Social Security to pay for the creation of personal retirement accounts (PRAs) and to invest in the risky stock market. Other proposals take a maintain benefits approach, supported by CWA, and secure future budget surpluses to ensure the solvency of the Social Security Trust Fund.

## 2

**CWA supports** keeping Social Security as a rock-solid guarantee. This includes proposals to reduce poverty among elderly women, who are nearly twice as likely to be poor as other seniors, and to eliminate the limits on what seniors who receive Social Security can earn in additional income.

**CWA opposes** proposals to make drastic cuts in guaranteed benefits, raise the retirement age, cut or eliminate the Cost of Living Adjustment (COLAs), or drain resources from Social Security in the name of saving it.

### **Private Retirement Accounts (PRAs)**

**CWA opposes** proposals to "privatize" Social Security by creating private retirement accounts (PRAs). PRAs would divert much-needed federal dollars away from Social Security, placing this program at risk of insolvency in future years.

Social Security is not just a retirement program. It provides millions of workers with disability and survivors benefits—something that plans for private investment accounts cannot guarantee.

Privatizing Social Security could result in as much as 20 percent of our retirement contributions going for administrative costs rather than benefits. Unlike Social Security, a privatized system could never ensure that we will receive guaranteed benefits that keep pace with inflation and that provide a minimum standard of living for a lifetime.

Guaranteed benefits should buy as many groceries ten years from now as they buy today. Privatization plans cut these guarantees. An individual's benefits should buy the same amount of food, medical care, and clothing in the twentieth year of retirement as it does in their first.

Privatization schemes would mean billions in fees for banks, insurance companies and investment firms (\$240 billion in the first 12 years alone) at the expense of cuts in benefits.

Recent findings of a report sponsored by the National Committee to Preserve Social Security and Medicare highlight several errors in assumptions used by Social Security actuaries related to personal retirement accounts. According to John Mueller, Senior Vice President and Chief Economist, Lehrman Bell Mueller Cannon, Inc., and former economic counsel to the House Republican Caucus, "Social Security was never intended to grow so large as to 'crowd out' investments in the private markets, or the even more important investment in raising and educating future citizens. But the current study clearly illustrates why moving in the opposite direction—'privatizing Social Security'—would be a big mistake."

Mueller puts a spotlight on the "transition tax" involved in moving away from the current "pay-as-you-go" system—in which each generation of workers pays for the benefits of its

parents. "Because of the pay-as-you-go, the first generations covered by Social Security received rates of return far above the long-term average. It also means that if pay-as-you-go Social Security were ended, the last couple of generations would have to pay twice: they would keep paying for their parents' Social Security benefits, while receiving drastically reduced benefits, or no benefits, themselves; at the same time, they would have to save for their own retirement through individual accounts. If pay-as-you-go Social Security were phased out over one lifetime, this 'transition tax' would fall on the Baby Boom, but especially on 'Generation X' and the children of the Baby Boom."

According to Mueller, those who favor ending the pay-as-you-go system have resorted to various accounting tricks to disguise the "transition tax." These techniques involve income tax credits, or borrowing against general revenues, or some combination. But these gimmicks only attempt to disguise the cost of retirement benefits. They do not change the costs by a single penny.

A proposal being advanced by economists Martin Feldstein and Andrew Samwick claims to solve the Social Security Trust Fund shortfall with absolutely no changes in guaranteed retirement income or taxes. Under this scheme, the Federal Government would contribute 2 percent of each worker's earnings to a personal retirement account (PRA) annually. The plan allows a worker to convert this PRA to an annuity upon retirement.

The Feldstein proposal poses a threat to Social Security because it is based on questionable assumptions. It assumes that workers will earn enough money through these PRA's to allow for large cuts in Social Security benefits. For every dollar of retirement income received from the annuity, the retiree's Social Security benefit would be reduced by 75 cents.

The Feldstein plan establishes a new entitlement program which will lead to budget deficits rather than debt reduction. The plan does not correct the solvency problem. Instead it may lead to the deterioration of this country's most successful insurance program for workers and their families. The proposal utilizes nearly all the projected non-Social Security surpluses leaving no funds for Medicare, education, or other national priorities. This places a time bomb in the middle of the federal budget, set to go off in 20 years when the non-Social Security surpluses are projected to disappear. When surpluses are insufficient, Congress will be forced to cut programs currently funded by general funds, raise taxes, cut benefits, or borrow.

The Feldstein proposal is designed to help the already well-off the most. According to estimates by economists Henry J. Aaron and Robert D. Reischauer, high-income workers would see their total benefits rise at a rate twice that of low-income workers. This would occur because contributions to the PRAs would be made at the same 2 percent rate for all income levels. By contrast, today's Social Security program is structured to provide higher replacement rates to those who are most in need of benefits, lifetime low-wage earners.

The Feldstein proposal has the same structural flaws inherent in other individual retirement accounts proposals. Private accounts would be subject to the whims of the stock market—punishing those who simply retire at the wrong time in the market cycle. Those who make the wrong investment decisions would be hurt, regardless if the market is up or down. Beneficiaries would incur substantial administrative costs, including lifetime money management expenses, plus annuitization costs of as much as 15 to 20 percent.

### **Commit Federal Budget Surpluses to Social Security**

**CWA supports** the President's plan to protect and strengthen Social Security for generations to come by committing projected federal surpluses to save Social Security first. The President's plan has been accorded the prestigious designation of H.R. 1 in the House of Representatives. It sets aside 62 percent of the approximately \$4.5 trillion in unified budget surpluses that are expected to accumulate over the next 15 years and uses them to buy down the national debt, thus saving Social Security.

Another proposal offered by Congressman Jerrold Nadler (D-NY), H.R. 1043, "the Social Security Amendments of 1999," aims to strengthen the Social Security system to meet the challenges of the next century. H.R. 1043, completely eliminates the projected 2.19 percent actuarial deficit in the Social Security Trust Fund without raising the retirement age, cutting benefits, raising tax rates, or shifting the risk onto individuals through private retirement accounts funded by payroll taxes.

H.R. 1043 implements the President's proposal to transfer 62 percent of the projected budget surplus to the Social Security Trust Fund for a period of 15 years. It creates an Independent Social Security Investment Oversight Board that is authorized to hire managing trustees to invest up to 40 percent of Social Security money in index funds.

H.R. 1043 increases the cap on taxable wages. Currently, 93 percent of wage earners earn less than the cap, and will be totally unaffected.

*(Note: Less than 85 percent of all wages is subject to payroll contributions. This has slipped in recent years from the historic 90 percent due to the dramatic rise in disparity of wages. Raising the cap will restore the historic level, while affecting only the richest 7 percent of the population.)*

According to Social Security actuaries, H.R. 1043 brings the Social Security System into long-term actuarial balance for at least 75 years, while ensuring the guaranteed benefits Social Security provides.

**For further information, contact:  
Rosie Torres, CWA Representative—Legislation,  
Department (202) 434-1315**




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## Economic Calendar

Apr 26 - Apr 30

## Last Week

## Next Week

| Date   | Time (ET) | Statistic             | For   | Actual | Briefing Forecast | Market Expects | Prior    | Revised From |
|--------|-----------|-----------------------|-------|--------|-------------------|----------------|----------|--------------|
| Apr 26 | 10:00 am  | Existing Home Sales   | Mar   | -      | 4.95M             | 4.90M          | 5.02M    | -            |
| Apr 27 | 9:00 am   | Mitsubishi Index      | 04/24 | -      | NA                | NA             | 0.2%     | -            |
|        | 10:00 am  | Consumer Confidence   | Apr   | -      | 132.0             | 133.0          | 133.9    | -            |
|        | 10:00 am  | Existing Home Sales   | Mar   | -      | 4.95M             | 4.90M          | 5.02M    | -            |
|        | 2:55 pm   | LJR Redbook           | 04/24 | -      | NA                | NA             | 0.6%     | -            |
| Apr 28 | 8:30 am   | Durable Orders        | Mar   | -      | 2.5%              | 1.0%           | -4.9%    | -            |
| Apr 29 | 8:30 am   | APICS Survey          | Mar   | -      | NA                | NA             | 49.3%    | -            |
|        | 8:30 am   | Employment Cost Index | Q1    | -      | 0.7%              | 0.8%           | 0.7%     | -            |
|        | 8:30 am   | Initial Claims        | 04/24 | -      | 310K              | 305K           | 314K     | -            |
|        | 10:00 am  | Help-Wanted Index     | Mar   | -      | NA                | NA             | 93       | -            |
|        | 10:00 am  | New Home Sales        | Mar   | -      | 870K              | 875K           | 881K     | -            |
|        | 4:30 pm   | M2                    | 04/19 | -      | NA                | NA             | -\$11.8B | -            |
| Apr 30 | 8:30 am   | GDP - Advance         | Q1    | -      | 3.0%              | 3.3%           | 6.0%     | -            |
|        | 8:30 am   | GDP Chain Deflator    | Q1    | -      | 1.1%              | 1.0%           | 0.8%     | -            |
|        | 10:00 am  | Chicago PMI           | Apr   | -      | 54.0%             | 56.0%          | 57.0%    | -            |
|        | 10:00 am  | Michigan Sentiment    | Apr   | -      | 104.8             | 104.8          | 104.8 P  | -            |

Key: Better or Worse than market expects.

More in-depth information is available from [Briefing.com](#), including "live" intra-day market analysis of the U.S. stock and bond markets, technology stocks, economic releases, earnings reports, and day trading highlights.

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# EPI Issue Brief

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Issue Brief #130

Economic Policy Institute

April 27, 1999

## THE NEXT STEP

### The new minimum wage proposal and the old opposition

*by Jared Bernstein*

Discussion in Congress is again underway over whether to increase the federal minimum wage from its current level of \$5.15 to \$6.15 by September 2000. This issue brief examines the implications of this proposal.

**Figure 1** shows the inflation-adjusted minimum wage from 1955-2000 (projected). The figure clearly shows the sharp decline in the minimum wage over the 1980s, when Congress failed to adjust the wage floor for nine years. Even with the recent increases in the 1990s, the inflation-adjusted minimum is 19% lower today than in 1979.

The dotted line at the end of the figure shows the impact of the new proposal. Without another increase, the real value of the minimum wage would fall to \$4.90 (1998 dollars) by the year 2000 (according to inflation projections by the Congressional Budget Office). The proposed increase would restore the wage floor to slightly above its 1983 level, still leaving it 13% below its 1979 peak.

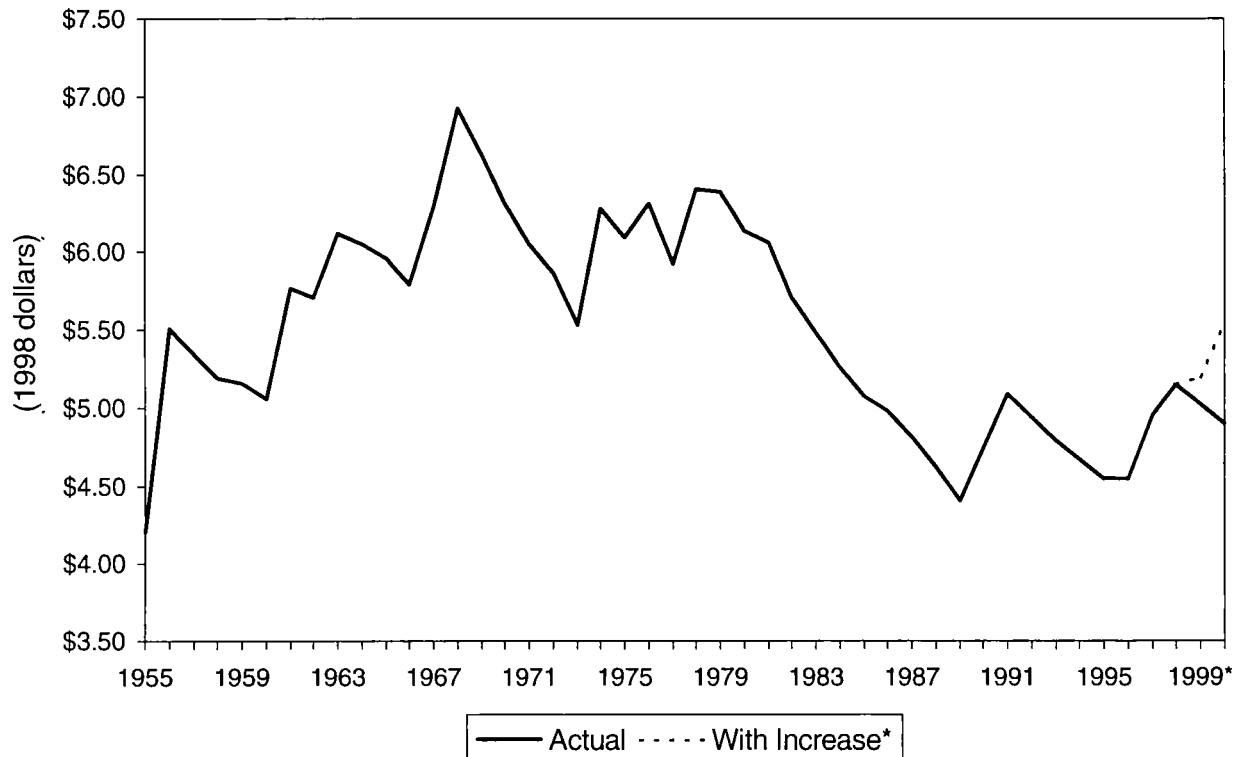
### Who would be affected by the increase?

**Table 1**, shows that 11.8 million workers (10.1% of the workforce) would receive an increase in their hourly wage rate if the minimum wage were raised to \$6.15. Since these workers earn, on average, \$5.65 per hour, the average hourly increase would be \$0.50.<sup>1</sup>

The rest of the table examines the demographic characteristics of workers by wage levels. The first column looks at those directly affected by the increase in the minimum wage (i.e., workers whose earnings are between their state's current minimum and \$6.15). Most of these workers (59.2%) are female, and about 72% are adults (age 20 or older). Close to half (48.2%) work full time, and another third (32.9%) work between 20 and 34 hours per week.

Comparing the first column (*Affected directly by increase*) to the last (*All*) shows the extent to which different types of workers are over- or under-represented in the affected range. Note, for example, that a disproportionate

**FIGURE 1: Real value of the federal minimum wage, 1955-2000**



Source: Economic Policy Institute.

\* See text.

share of minorities would be affected by an increase in the minimum wage. While African Americans represent 11.6% of the overall workforce, they represent 15.1% of those affected by an increase; similarly, 10.6% of the total workforce is Hispanic, compared to 17.4% of those that would be affected by the minimum wage increase. The table also shows that minimum wage workers are concentrated in the retail trade industry and underrepresented in the manufacturing sector. They are also the least likely group of workers to be represented by unions.

Various studies have found that, due to so-called “spillover effects,” the group earning just above the minimum (perhaps as much as a dollar above) also benefits from the increase.<sup>2</sup> Workers in this group, shown in the *Other low-wage workers* column, are more likely to be older (87% are adults) and to work more hours (69% are full time) than those in the directly affected range.

### ***State-level results***

**Table 2** shows by state the number and share of workers affected by the proposed increase.<sup>3</sup> As expected, states with lower wage levels, such as those in the Southern region, have larger than average shares of workers affected by the increase. In West Virginia (17.5%), Mississippi (16.3%), Arkansas (16.6%), and Louisiana (15.7%) relatively large shares of the workforce would be expected to benefit from the increase. Some Western states, such as Montana (16.5%), Wyoming (15.1%), and New Mexico (14.1%), also have relatively large shares of workers that would be affected by the proposed increase.

**TABLE 1**  
**Characteristics of Workers by Wage Range, 1998**

| Characteristic          | Affected directly<br>by increase | Other<br>low-wage workers<br>(minimum + \$1) | \$7.15<br>and above | All         |
|-------------------------|----------------------------------|----------------------------------------------|---------------------|-------------|
| Average Wage            | \$5.65                           | \$6.72                                       | \$16.13             | \$13.79     |
| Employment              | 11,776,770                       | 9,750,642                                    | 89,962,641          | 116,259,651 |
| Share of Total          | 10.1%                            | 8.4%                                         | 77.4%               | 100.0%      |
| <i>Demographics</i>     |                                  |                                              |                     |             |
| Male                    | 40.8%                            | 41.9%                                        | 55.4%               | 52.3%       |
| 16-19                   | 13.4                             | 6.4                                          | 0.9                 | 3.0         |
| 20+                     | 27.4                             | 35.5                                         | 54.6                | 49.3        |
| Female                  | 59.2                             | 58.1                                         | 44.6                | 47.7        |
| 16-19                   | 14.7                             | 6.4                                          | 0.6                 | 3.0         |
| 20+                     | 44.6                             | 51.7                                         | 43.9                | 44.8        |
| White                   | 63.3                             | 64.2                                         | 76.4                | 73.4        |
| Male                    | 24.6                             | 24.9                                         | 42.2                | 38.3        |
| Female                  | 38.8                             | 39.2                                         | 34.1                | 35.1        |
| Black                   | 15.1                             | 15.3                                         | 10.6                | 11.6        |
| Male                    | 5.5                              | 5.8                                          | 5.3                 | 5.4         |
| Female                  | 9.6                              | 9.4                                          | 5.3                 | 6.2         |
| Hispanic                | 17.4                             | 16.4                                         | 8.7                 | 10.6        |
| Male                    | 8.8                              | 9.2                                          | 5.5                 | 6.3         |
| Female                  | 8.5                              | 7.1                                          | 3.2                 | 4.3         |
| Teens (16-19)           | 28.1%                            | 12.8%                                        | 1.5%                | 5.9%        |
| <i>Work Hours</i>       |                                  |                                              |                     |             |
| Full time (35+)         | 48.2%                            | 69.2%                                        | 89.0%               | 81.8%       |
| Part time               |                                  |                                              |                     |             |
| 20-34 hours             | 32.9%                            | 21.7%                                        | 8.1%                | 12.6%       |
| 1-19 hours              | 18.9                             | 9.1                                          | 2.8                 | 5.6         |
| <i>Industry</i>         |                                  |                                              |                     |             |
| Manufacturing           | 9.0%                             | 12.7%                                        | 19.0%               | 17.0%       |
| Retail Trade            | 43.7                             | 30.3                                         | 11.4                | 17.1        |
| <i>Union membership</i> |                                  |                                              |                     |             |
| Union                   | 4.4%                             | 6.7%                                         | 18.3%               | 15.4%       |
| Nonunion                | 95.6                             | 93.3                                         | 81.7                | 84.6        |

Note: "Affected directly by increase" indicates those workers who earn between the minimum wage level in their state and the proposed new level (\$6.15).

Source: EPI analysis of 1998 CPS ORG data.

Higher wage states, such as those in the Northeast, typically have higher wage levels and thus fewer affected workers. In this region, the state with the lowest affected share is Connecticut, where 5.9% of the workforce would benefit from the increase.

**TABLE 2**  
**Affected Workers by State, 1998**

| STATE            | Share | Number    | STATE          | Share | Number     |
|------------------|-------|-----------|----------------|-------|------------|
| <b>Northeast</b> | 8.4%  | 1,859,298 | <b>South</b>   | 12.0% | 4,868,723  |
| Maine            | 10.9  | 56,908    | Delaware       | 8.0   | 26,961     |
| New Hampshire    | 7.4   | 41,084    | Maryland       | 6.6   | 155,043    |
| Vermont          | 8.3   | 22,134    | D.C.           | 5.7   | 12,658     |
| Massachusetts    | 6.5   | 183,230   | Virginia       | 9.0   | 274,738    |
| Rhode Island     | 10.2  | 43,644    | West Virginia  | 17.5  | 115,517    |
| Connecticut      | 5.9   | 88,802    | North Carolina | 10.4  | 345,218    |
| New York         | 8.6   | 643,126   | South Carolina | 12.6  | 215,842    |
| New Jersey       | 6.9   | 249,444   | Georgia        | 10.3  | 355,116    |
| Pennsylvania     | 10.6  | 530,925   | Florida        | 11.7  | 708,154    |
| <b>Midwest</b>   | 9.7%  | 2,741,742 | Kentucky       | 12.8  | 213,839    |
| Ohio             | 11.3  | 550,651   | Tennessee      | 10.3  | 238,262    |
| Indiana          | 8.2   | 215,394   | Alabama        | 13.9  | 255,586    |
| Illinois         | 9.5   | 504,141   | Mississippi    | 16.3  | 175,451    |
| Michigan         | 9.0   | 393,636   | Arkansas       | 16.6  | 164,335    |
| Wisconsin        | 8.2   | 205,749   | Louisiana      | 15.7  | 269,441    |
| Minnesota        | 7.6   | 170,040   | Oklahoma       | 15.3  | 205,156    |
| Iowa             | 11.2  | 149,195   | Texas          | 13.3  | 1,137,406  |
| Missouri         | 10.2  | 249,254   | <b>West</b>    | 9.2%  | 2,307,006  |
| North Dakota     | 15.1  | 42,307    | Montana        | 16.5  | 57,310     |
| South Dakota     | 14.3  | 44,857    | Idaho          | 12.3  | 65,941     |
| Nebraska         | 12.4  | 92,870    | Wyoming        | 15.1  | 30,558     |
| Kansas           | 10.6  | 123,649   | Colorado       | 6.7   | 125,152    |
|                  |       |           | New Mexico     | 14.1  | 94,650     |
|                  |       |           | Arizona        | 13.1  | 246,978    |
|                  |       |           | Utah           | 10.5  | 95,332     |
|                  |       |           | Nevada         | 7.9   | 61,931     |
|                  |       |           | Washington     | 8.5   | 214,818    |
|                  |       |           | Oregon         | 6.2   | 88,086     |
|                  |       |           | California     | 8.8   | 1,171,587  |
|                  |       |           | Alaska         | 2.9   | 7,219      |
|                  |       |           | Hawaii         | 9.7   | 47,443     |
|                  |       |           | <b>U.S.</b>    | 10.1% | 11,776,770 |

Source: EPI analysis of 1998 CPS ORG data.

## Will the proposed increase cause job losses among low-wage workers?

Opponents of minimum wage increases frequently argue that the policy is misguided, since it prices low-wage workers out of the labor market, forcing employers to lay them off after the increase takes effect. This claim has been carefully studied by labor economists interested in testing the actual impact of increases in the minimum wage among low-wage workers. This research, summarized in Bernstein and Schmitt (1998), has generally found the job-loss effect to be either small or nonexistent. The estimates

from this literature unequivocally show that the benefits of minimum wage increases to low-wage workers and their families far outweigh the costs.

The most recent increase in the minimum wage — the \$0.90 increase phased in over the 1996-97 period — is a case in point. The study noted above examined the short-term effects of the increase and found that the policy had its intended effect: it raised the wages of low-wage workers from low-income families without leading to job losses.

However, many critics of the last increase argued that the negative effects take a few years to materialize.<sup>4</sup> If so, the current low-wage labor market should certainly be providing this evidence. Yet, month after month, low-wage and minority workers post historic gains. In recent months, the unemployment rates of African Americans, Hispanics, and 16 to 24 year olds (who are likely to be low-wage earners) all hit 30-year lows. Similarly, the employment rate of young (16-25 year old) African American women with a high school degree increased by 6.6 percentage points in 1995-98, and their unemployment rate fell by 4.2 percentage points. These gains are much larger than the average changes in these labor market indicators.

This last group (young minority females with high school degrees) is especially relevant in light of welfare reform, which has required many of these women to move from the welfare rolls and into the job market. Due to welfare reform and the growing economy, welfare caseloads have fallen precipitously since 1996, a trend that coincided with the most recent minimum wage increase. The relevant question is whether the increase has made it more difficult for these women to find work. If this were the case, we would expect the growth in their employment rates to have been dampened by the wage increase. However, the data show that, even with the 1996-97 minimum wage increase, the employment rates of single moms, after stagnating for many years, rose steeply from 62% in 1995 to 69% by 1998. Of course, not all single moms were on welfare, but among those who were, employment rates grew from 40% in 1995 to 49% in 1997, by far the highest level on record.<sup>5</sup> Finally, Lazere (1998) presents direct evidence that in Oregon, the increase in the minimum wage was associated with higher wages for former welfare recipients.

Obviously, these dramatic improvements in the labor market conditions of historically disadvantaged groups stem largely from the tight labor market. But it is equally obvious that the last increase in the minimum wage did not prevent these gains from occurring. To the contrary, the last increase made sure that once they got to the labor market, low-wage workers would reap some of the benefits of the growing economy. Since then, the economy has continued to grow, but inflation has eroded the real value of the minimum wage. The proposed increase to \$6.15 in 2000 would help ensure that those at the low end of the wage scale and those moving from welfare to work will continue to experience their fair share of the growth.

## Endnotes

1. Using the data in Table 1 and the national wage bill of \$4.2 trillion (SCB, January 1999), we calculate that the increase amounts to 0.2% of national earnings.
2. See, for example, Spriggs and Klein (1994).
3. The affected range is not the same for each state because some states currently have minimum wage levels above the federal level of \$5.15. For example, in Massachusetts, the minimum wage in 1998 was \$5.25. Thus, the affected range in this state ranged from \$5.25-\$6.15. Legislation in the state of Oregon will raise the minimum to \$6.50 in 1999, so no workers will be affected by the federal increase. The number in Table 2 for Oregon refers to those earning between the 1998 minimum wage of \$6.00 and the proposed increase of \$6.15.
4. Bernstein and Schmitt (1998, 36-7) offer a critique of this argument.
5. See Blank, et al. (1998).

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## **Minimum Wages and Poverty**

**Testimony by Dr. Jared Bernstein  
Economic Policy Institute**

**April 27, 1999**

**Rayburn House Office Building  
Washington, D.C.**

## Minimum Wages and Poverty: Testimony by Dr. Jared Bernstein, Economic Policy Institute.

Today's hearing questions whether increases in the minimum wage are a useful anti-poverty tool. In particular, the question is whether raising the minimum wage to \$6.15 by September of 2000 will help those workers whose family incomes place them at or near the poverty line. As I will argue, the evidence unequivocally supports the view that increases in the minimum wage, by increasing the earnings of low-income workers without diminishing their employment opportunities, have historically helped to lower poverty rates. What's more, this evidence is stronger in the 1990s, with large numbers of poor persons moving into the labor market. The facts clearly support the contention that if Congress wants to "make work pay," the current proposal to increase the minimum wage makes sense.

The following testimony elaborates these four points:

- The historical record is quite clear on this point: increases in the minimum wage have consistently been shown to have their intended effect: they raise the wages of the lowest wage workers, many of whom reside in low-income families, and they do so without lowering their employment opportunities. In this regard, the policy solidly reinforces the "make work pay" platform that Congress and the administration have recently emphasized;
- Economists have evaluated the impact of minimum wage increases practically since the inception of the wage floor in the 1930's. At this point, I think it is fair to say that the debate over the purported job-loss effect is a debate over whether this effect is slightly below zero, or at zero. While this debate may be an important one among econometricians, from the perspective of policy makers who are looking for ways to help the working poor, it is a distinction without a difference. Even if you were to accept the most negative findings from this research, you simply could not avoid the conclusion that the benefits of the increase far outweigh the costs.
- There is no better example of these points than the most recent increase, which took place in 1996-97. Despite the same dire predictions we hear today, we have solid evidence that the last minimum wage increase lifted the earnings of low-wage workers without diminishing their employment prospects. This last point is key: the employment rates of low-wage workers have rarely been higher than they are today and their unemployment rates have rarely been lower.
- Finally, from the perspective of the working poor, the minimum wage is a useful anti-poverty tool. It cannot and should not, however, be viewed as a sole solution against poverty. This is primarily due to the fact that many employable poor persons have only marginal attachments to the labor market. As the literature evaluating minimum wages and poverty reveals (as well as some new findings I will present regarding the last increase), raising the minimum wage is associated with small decreases in the poverty rate, but the poor need other income supports, such as the EITC and food stamps.

**Figure 1** shows the inflation-adjusted minimum wage, from 1955-2000 (projected). The figure shows the sharp decline in the minimum wage over the 1980s, when Congress failed to adjust the wage floor for nine years. Even with the recent increases in the 1990s, the inflation-adjusted minimum is 19% lower today than in 1979.

The dotted line at the end of the figure shows the impact of the new proposal. Using inflation projections by the Congressional Budget Office, in the absence of the proposed increase, the minimum wage would fall to \$4.90 (1998 dollars) by the year 2000. The proposed increase would restore the wage floor to slightly above its 1983 level; it would remain 13% below its 1979 peak.

### Who Benefits When the Minimum Wage is Raised?

Since increases in the minimum wage have been shown to generate wage gains, an obvious question is: for whom? The data in this section reveal that the current proposal will primarily benefit low-wage workers who are disproportionately adult, female, and minority. Most of the workers reside in low-income families.

**Table 1**, panel 1, shows that 11.8 million workers (10.1% of the workforce) would receive an increase in their hourly wage rate if the minimum wage were raised to \$6.15. Since these workers earn, on average, \$5.65 per hour, the average hourly increase would be \$0.50.<sup>1</sup>

The rest of the table examines the demographic characteristics of workers by wage levels. The first column looks at those directly affected by the increase in the minimum wage, i.e., workers whose earnings are between their state's current minimum and \$6.15. Most of these workers, 59.2%, are female, and about 72% are adults (age 20 or older). Close to half (48.2%) work full-time, and another third work between 20 and 34 hours.

Comparing the first column to the last—"All Workers"—shows the extent to which different types of workers are over- or under-represented in the affected range. Note, for example, that the minimum-wage workforce is disproportionately minority. While 11.6% of the overall workforce is African-American, 15.1% in the affected range are in this minority; similarly, 10.6% of the total workforce is Hispanic, compared to 17.4% of the minimum wage workforce. Minimum wage workers are concentrated in the retail trade industry and underrepresented in the manufacturing sector. They are also the least likely group of workers to be represented by unions.

Various studies have found that, due to so-called "spillover effects," the group earning above the minimum (perhaps as much a dollar above) also benefits from the increase.<sup>2</sup> Workers in this group, shown in the second column, are more likely to be older

<sup>1</sup> Using the data in Table 1 and the national wage bill of \$4.2 trillion (*Survey of Current Business*, January, 1999), the proposed increase amounts to 0.2% of national earnings.

<sup>2</sup> See, for example, Spriggs and Klein, 1994.

(87% are adults) and to work more hours (69% full-time) than those in the directly affected range.

The benefits of the increase flow mostly to workers with family incomes well below the average.<sup>3</sup> Data from the first stage of the last increase reveal that 35% of the increase in wages went to working families in the bottom 20% of the income distribution (average income: \$15,728). Note that the share of national income held by these families in 1997 was only 5%. Combining the first two income fifths (average income, \$24,137), we find that 58% of the benefits went to these low-income working families, as compared to 16.4% of national income. Of course, these data imply that some of the benefits from the increase flow to families with above-average incomes (26.7% of the gains go to families in the top 40%). Thus, the policy is well, but not perfectly, targeted.

### What About Job Losses?

Despite the compelling evidence of the benefits to poor and near-poor workers, opponents of increases in the minimum continue to raise the same objection: the increase will lead to job loss. This claim is based on the simple textbook notion that is the price of a good is competitively set by the free market, any diversion from that price will lead to lead to an inefficient outcome. In this case, the prediction from the simple model is that the increase will price low-wage workers out of a job.

There are a priori reasons to be skeptical of this simplistic view. Low-wage workers are not "goods," and the low-wage labor market is far from the competitive laboratory that exists in Econ 101 textbooks. But even if this were not the case, when we construct economic policy, we need to empirically test economic theories.

The theory that "small" increases in the minimum wage lead to job losses has been repeatedly tested and repeatedly found lacking ("small" in this case refers to increases which simply serve to replace some portion of the real value of the minimum wage which was eroded by inflation; see Figure 1). The estimates of the so-called "negative employment elasticity" have essentially hovered about zero, leading objective observers, including many economists, to be skeptical of the simple model's predictions. The state of economists' understanding of the issue was recently summarized by Nobel laureate Robert Solow, who noted that "the main thing about this research is that the evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."<sup>4</sup>

Further proof of this contention comes from a recent survey of labor economists from leading research institutions in the U.S.<sup>5</sup> The median estimate of the disemployment effect among these economists was -0.1%, meaning a 10% increase in the minimum wage would be associated with a 1% decline in the employment rates of teenagers, a group disproportionately employed at or near the minimum. Research that has looked for

<sup>3</sup> The data in this paragraph are from Bernstein and Schmitt (1998).

<sup>4</sup> Quoted in Louis Uchitelle, "Minimum Wage and Jobs," *The New York Times*, January 12, 1995, p. D1.

<sup>5</sup> See Fuchs et al, 1998.

disemployment effects among older workers has generally come up empty handed. If we were to apply this parameter to the current proposal, the conclusion would be that over 99% of the affected workforce would benefit from a wage increase.

But this practice, while it is sometimes followed in the literature, is an example of what economist John Schmitt calls "applied prejudice." It simply assigns a negative elasticity, which, by definition, yields a negative result. The accepted practice among empirical economists is to investigate the actual impact of minimum wage increases.

Bernstein and Schmitt (1998) investigate the employment effects of the 1996-97 increase. They ran four separate tests of the employment impact of the increase and found:

- None of the tests show systematic job loss;
- The effect on employment is generally economically small and statistically insignificant; any impact is almost as likely to be positive as negative;
- Our update of the traditional method for estimating the minimum wage's employment effects (time-series models) reveals a statistically *insignificant* result that is less than half the magnitude of even the lowest of earlier estimates.

Since that research was completed in early 1998, the labor market conditions facing low-wage labor market have continued to improve, contrary to the predictions of those who opposed the increase. Month after month in the current labor market, low-wage and minority workers post historic gains. In recent months, unemployment rates of African-Americans, Hispanics, and 16-24 year olds (who are likely to be low-earners) all hit 30-year lows. Figure 2 shows the changes in unemployment rates for various groups of disadvantaged workers from the month before the last increase to the most recent month for which data are available (March, 1999; these data are seasonally adjusted). In every case, unemployment rates have declined.

Similarly, the employment rate of young (16-25 year old) African-American women with a high-school degree increased by 6.6 percentage points, 1995-98, and their unemployment rate fell by 4.2 percentage points. These gains are much larger than the average, economy-wide changes in these labor market indicators.

This last group (young, minority females, with high-school degrees) is particularly relevant to the issue of the minimum wage and poverty. Due to welfare reform, many single mothers are required to leave the welfare rolls for the job market. Has the minimum wage increase been a complement or an impediment to their progress?

Due to both the change in welfare policy and the growing economy, welfare caseloads have fallen precipitously since 1996, when the minimum wage was increased. But, in the context of the job loss critique, the relevant question is whether the 1996-97 increase made it tougher for the women to enter the labor market. In fact, the employment rates of single mothers, after stagnating for many years, rose steeply from 62% in 1995 to 69% by 1998, directly over the period when the minimum was increased. Of course, not all single mothers are on welfare, but among those receiving welfare,

employment rates grew from 40% in 1995 to 49% in 1997, by far the highest level on record.<sup>6</sup>

Of course, one could always argue that these gains would have been larger in the absence of the minimum wage increase. Such claims are unknowable, and in this context should be discounted. Note, for example, that the seven and nine percentage-point increases in the employment rates of single mothers just cited were six and nine times, respectively, greater than the increase in the overall rate of employment growth over this period. The fact that these low-wage labor market indicators have far outpaced the overall changes in the labor market should convince objective observers that the 1996-97 increase has not hurt the employment prospects of low-wage workers.

### **Will the Increase Lower Poverty?**

In this final section, I address the evidence regarding minimum wage increases and the poverty rate. The key points here are:

- In reviewing literature for this hearing, I found that the vast majority of analyses found small poverty-reducing effects, i.e., increases in the minimum wage were associated with small declines in the poverty rate. In fact, a review of articles on this topic published over the last 10 years in peer reviewed journals revealed no case in which the increase was associated with significant increases in the poverty rate.
- The channel through which this occurs is by delivering more earnings to the working poor. All of the above research finds this to be the case.
- Neumark et al's recent work on this topic has been raised to cast doubt on this widely held conclusion. In fact, their findings also support the general literature. As these authors note in a recent paper, "one might reasonably interpret our results as indicating that minimum wages have little effect on poverty rates." As regards the impact of minimum wage increases on the incomes of poor families, these authors write: "we also find that the minimum wages tend to boost the incomes of poor families that remain below the poverty line." Finally, they note that, as regards the question of whether minimum wages lead to an increase in the family poverty rate, they write: "this estimated net effect is insignificant."<sup>7</sup>
- The reason the anti-poverty effects of the minimum wage have historically been found to be small is due to the marginal labor market participation of many poor persons. However, as the above employment rate trends reveal, we should expect these effects to grow as more poor and near-poor persons increase their hours of work. This fact also underscores the importance of complementary income policies targeted at low-income workers such as the Earned Income Tax Credit and food stamps.
- When considering the impact of minimum wage increases, it is a mistake to focus solely on those below the poverty line. Many families move in and out of poverty, and near-poor families should also be considered as potential beneficiaries of the policy. Also, minimum wage increases have been found to increase the incomes of

<sup>6</sup> See Blank et al, 1998.

<sup>7</sup> These quotes are from pages 21, 30, and 31 of their NBER paper #6127.

poor families without necessarily lifting them above the poverty line (thus, lowering the poverty gap).

- Finally, there has been only one paper of which I am aware that includes the impact of the most recent increase on poverty rates. This newly published study finds a small poverty-reducing effect of minimum wage increases. My tabulations of the impact of the most recent increase on poverty show 1) a net increase in the share of persons moving out of poverty, 1996-97, and, among those persons who remained in poor families in both 1996 and 1997, an nominal increase in annual earnings of 13% (over this period, the federal nominal minimum wage was raised by 12%).<sup>8</sup>

An objective reading of the literature on minimum wages and poverty leaves one with two salient impressions. First, the minimum wage is a useful, though limited, anti-poverty tool, and second, from the perspective of economic policy analysis, it is a big mistake to limit this analysis solely to the poor, i.e., to ignore the near-poor.

As noted above, the empirical economics literature is widely agreed on the contention that minimum wage increases have small anti-poverty effects. In a 1989 paper, Burkhauser and Finegan find that an increase in the minimum wage would reduce the poverty rate of low-wage workers by 21%. Mincy (1990) also finds an anti-poverty effect of a similar magnitude. However, both of these studies point to the fact that many of the benefits from the increase flow to families above the poverty line, a point I return too shortly. Card and Krueger (1995) also examine this issue, finding some evidence that between 1989 and 1991, states where the minimum wage increase had a greater impact had slightly larger declines in their poverty rates. Their results, however, like most in the literature are statistically fragile. These authors, both of whom are renowned empirical economists, argue that the small magnitude of these effects "points to a modest poverty-reducing effect of the minimum wage," (p. 307).

The most recently published evidence of the minimum wage as an anti-poverty tool comes from the work of Addison and Blackburn (1999). Their work is particularly germane to the question of a new increase because it contains data through 1996. The authors write that their "results provide evidence that increases in minimum wages in the 1990s *have served to reduce poverty*," (p. 407, italics in original). One particularly interesting finding from this paper is that in their analysis, minimum wage increases go from having no statistically identifiable effect on poverty in the 1980s to having an anti-poverty effect (specifically for teenagers and high-school dropouts) in the 1990s. These effects are driven by increases in both earnings and weeks worked. This finding has two implications: first, it supports the speculation, noted above, that as welfare reform pushes poor persons into the labor market, minimum wage increases will be increasing useful as a poverty reduction tool. Second, it lends support to the policy currently under consideration. Raising the minimum wage should help to make work pay for poor and near poor persons entering the labor market.

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<sup>8</sup> The 1996-97 increase of \$0.90 occurred in two steps. Weighting the minimum wage in each year by the number of months the increases were in place yields nominal values of \$4.38 and \$4.88.

## Conclusion

The evidence strongly supports the contention that minimum wage increases reduce poverty. The effect, however, is small. Why is this the case?

There are two related reasons. First, while the benefits of the increase go disproportionately to low-income families, not all of these families have incomes below the poverty line. It is important to recall that our poverty definition is a fixed income line; thus, a family whose income puts them one dollar above this line is not considered poor in our national accounting system. However, few would deny that these families also need to be supported by a national wage floor. In this regard, the poverty criterion is a somewhat artificial one in this aspect of the debate.

Second, many poor families are only marginally attached to the labor market. In 1997, the most recent year for which we have data on poor families, the average hours of work for poor families (pooled across the family, and excluding one-person families) was 1,042; for families with at least one worker, the average was 1,503. Even with the proposed increase currently under consideration, a single-parent family of three that depended wholly on the minimum would be poor.

As noted throughout this testimony, the work effort of poor families has been growing quite swiftly in recent years, in part due to welfare reform (for all poor families, the increase in average annual hours, 1996-97, was 6.3%). For this reason, it is reasonable to expect the minimum wage will play an increasingly important anti-poverty role as time progresses (the findings in Addison and Blackburn (1999) support this). Nevertheless, if our intention is to help working poor families reach, if not surpass, the poverty line, then these families clearly need other income supports. Three obvious candidates are the EITC, food stamps, and subsidized child care.

Figure 3 shows two stacked bars representing the income of a single mother with two children, with earnings from the minimum wage before and after the increase (minus payroll taxes), the EITC and food stamps.<sup>9</sup> In both cases, I assign the average hours of work, pooled across the family, for poor single mothers with children: 1,164 in 1997. In neither case, does the family reach the poverty line of about \$13,000. However, the EITC and food stamps just about double the after-tax earnings of this poor, single parent.

Note also that some of the extra earnings from the increase are lost due to the reduction in food stamps, which are phased out as earnings increase.<sup>10</sup> This has the disadvantage that low-income families on food stamps do not receive the full benefit of the increase in the minimum wage. From the perspective of public spending however, the minimum wage increase clearly reduces public expenditures for the poor. Thus, the composition of family income shifts such that the share of income from earnings

<sup>9</sup> Ed Lazear of the Center for Budget and Policy Priorities provided the spreadsheet for these calculations.

<sup>10</sup> The EITC also has a phase out range, but in this example, the family is on the "up slope," both before and after the increase. Twenty percent of earnings, a standard deduction, a shelter allowance are deducted from income for the determination of food stamp benefits.

increases relative to the share from unearned sources. Given that this Congress has continuously stressed the importance of reducing dependence on unearned income, the minimum wage increase should be viewed favorable in this regard.

By itself, the increase in the minimum wage will not end working poverty. But the evidence presented in this testimony strongly points to the conclusion that the increase will help lift the living standards of working poor families, thus helping to reconnect their economic fortunes to those of the rest of America's workforce.

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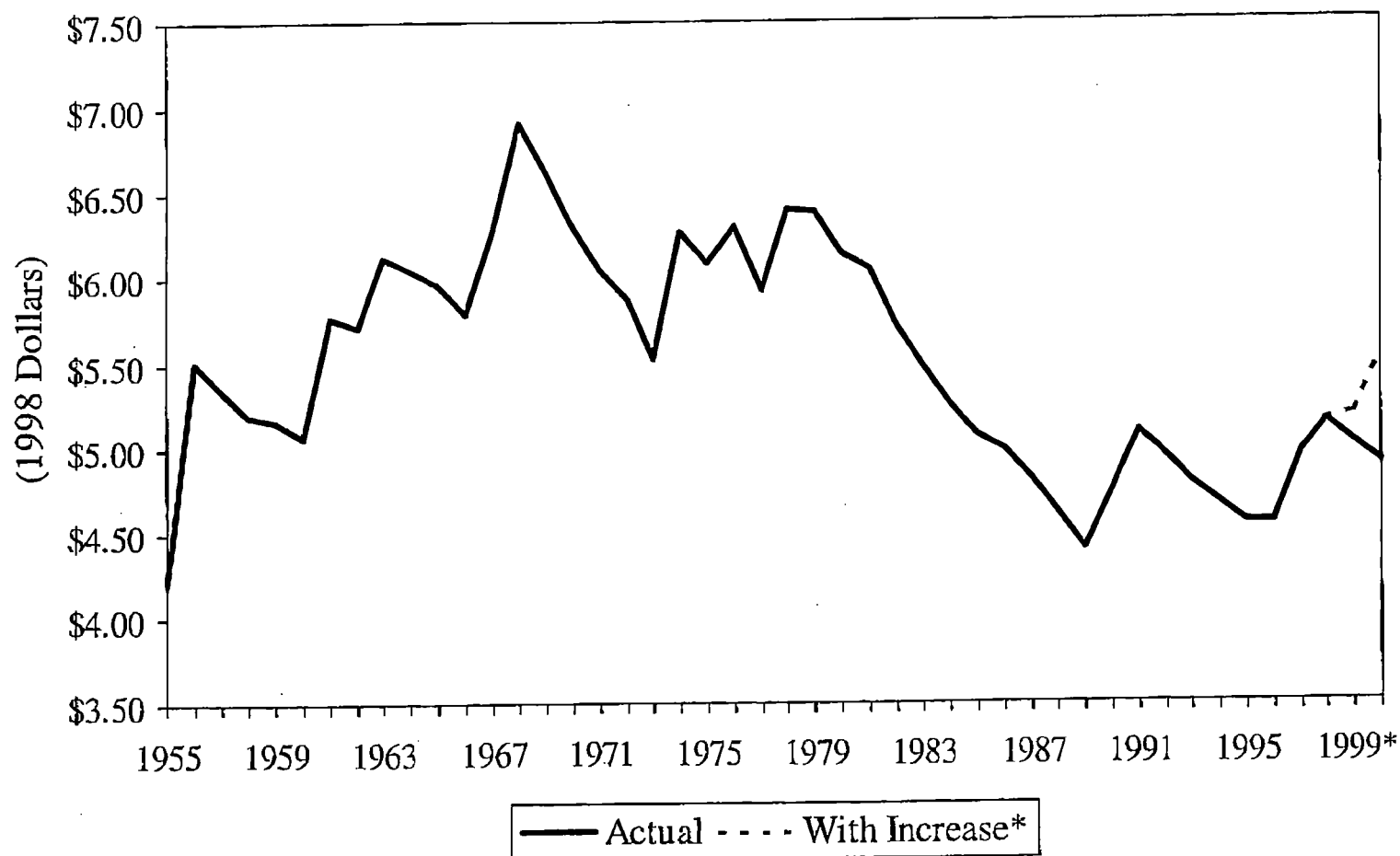
**Table 1**  
**Characteristics of Workers by Wage Range, 1998**

| <b>Characteristic</b> | <b>Affected Directly<br/>by Increase</b> | <b>Other<br/>Low-Wage<br/>Workers<br/>(Minimum+\$1)</b> | <b>\$7.15 and Above</b> | <b>All</b>  |
|-----------------------|------------------------------------------|---------------------------------------------------------|-------------------------|-------------|
| Average Wage          | \$5.65                                   | \$6.72                                                  | \$16.13                 | \$13.79     |
| Employment            | 11,776,770                               | 9,750,642                                               | 89,962,641              | 116,259,651 |
| Share of Total        | 10.1%                                    | 8.4%                                                    | 77.4%                   | 100.0%      |
| <b>Demographics</b>   |                                          |                                                         |                         |             |
| Male                  | 40.8%                                    | 41.9%                                                   | 55.4%                   | 52.3%       |
| 16-19                 | 13.4%                                    | 6.4%                                                    | 0.9%                    | 3.0%        |
| 20+                   | 27.4%                                    | 35.5%                                                   | 54.6%                   | 49.3%       |
| Female                | 59.2%                                    | 58.1%                                                   | 44.6%                   | 47.7%       |
| 16-19                 | 14.7%                                    | 6.4%                                                    | 0.6%                    | 3.0%        |
| 20+                   | 44.6%                                    | 51.7%                                                   | 43.9%                   | 44.8%       |
| White                 | 63.3%                                    | 64.2%                                                   | 76.4%                   | 73.4%       |
| Male                  | 24.6%                                    | 24.9%                                                   | 42.2%                   | 38.3%       |
| Female                | 38.8%                                    | 39.2%                                                   | 34.1%                   | 35.1%       |
| Black                 | 15.1%                                    | 15.3%                                                   | 10.6%                   | 11.6%       |
| Male                  | 5.5%                                     | 5.8%                                                    | 5.3%                    | 5.4%        |
| Female                | 9.6%                                     | 9.4%                                                    | 5.3%                    | 6.2%        |
| Hispanic              | 17.4%                                    | 16.4%                                                   | 8.7%                    | 10.6%       |
| Male                  | 8.8%                                     | 9.2%                                                    | 5.5%                    | 6.3%        |
| Female                | 8.5%                                     | 7.1%                                                    | 3.2%                    | 4.3%        |
| Teens(16-19)          | 28.1%                                    | 12.8%                                                   | 1.5%                    | 5.9%        |
| <b>Work Hours</b>     |                                          |                                                         |                         |             |
| Full-Time (35+)       | 48.2%                                    | 69.2%                                                   | 89.0%                   | 81.8%       |
| Part-Time             |                                          |                                                         |                         |             |
| 20-34 hours           | 32.9%                                    | 21.7%                                                   | 8.1%                    | 12.6%       |
| 1-19 hours            | 18.9%                                    | 9.1%                                                    | 2.8%                    | 5.6%        |
| <b>Industry</b>       |                                          |                                                         |                         |             |
| Manufacturing         | 9.0%                                     | 12.7%                                                   | 19.0%                   | 17.0%       |
| Retail Trade          | 43.7%                                    | 30.3%                                                   | 11.4%                   | 17.1%       |
| <b>Union</b>          |                                          |                                                         |                         |             |
| Union                 | 4.4%                                     | 6.7%                                                    | 18.3%                   | 15.4%       |
| Non-union             | 95.6%                                    | 93.3%                                                   | 81.7%                   | 84.6%       |

Note: "Affected workers" are those who earn between the minimum wage level in their state and the proposed new level (\$6.15).

Source: EPI analysis of 1998 CPS ORG data.

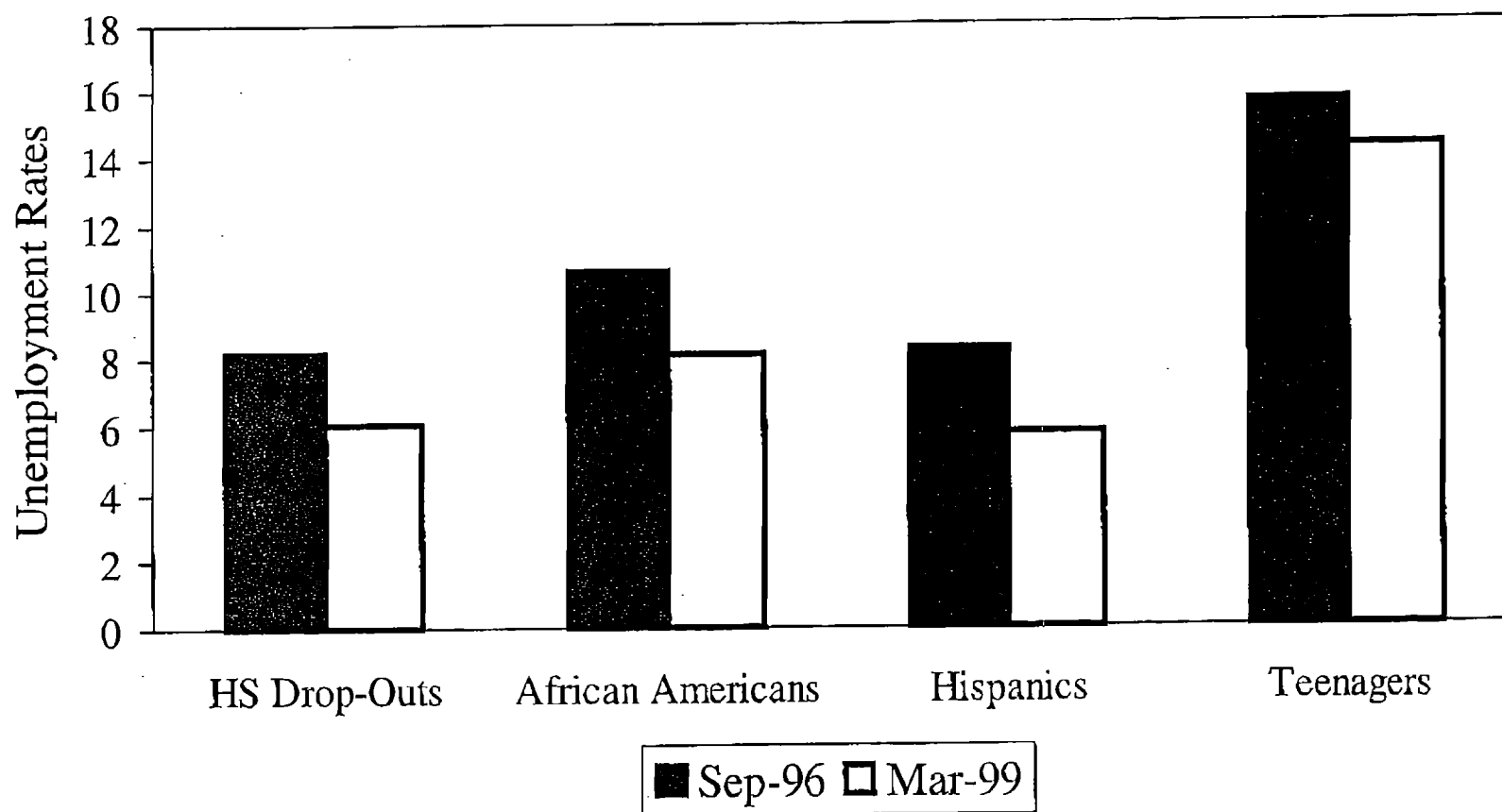
Figure 1  
The Real Value of the Federal Minimum Wage,  
1955-2000  
(1998 Dollars)



Source: Economic Policy Institute

\*See text.

Figure 2  
Changes in Unemployment Rates\* of Low-wage  
Workers Since Last Minimum Wage Increase

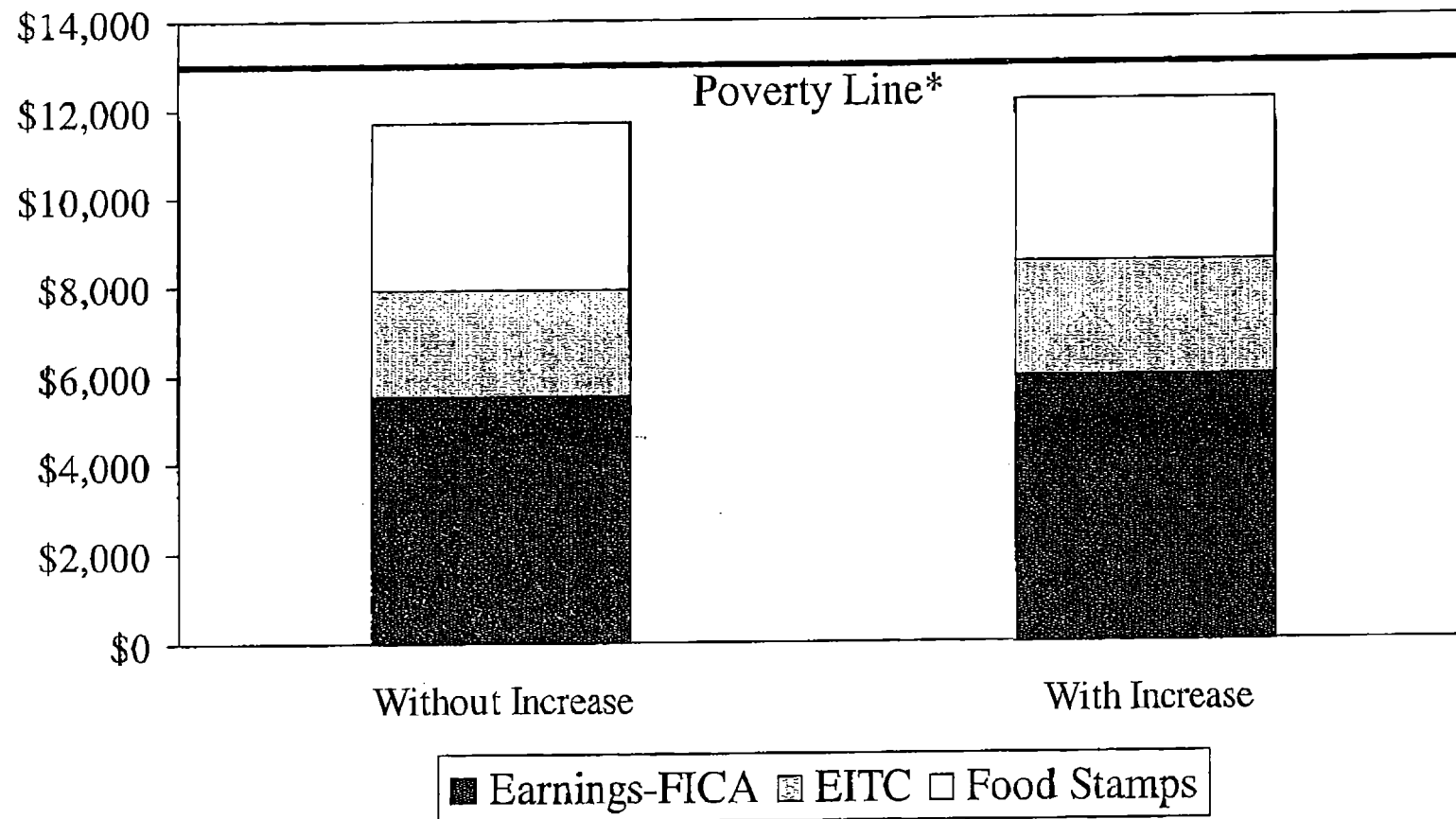


\*Seasonally Adjusted

Source: Bureau of Labor Statistics.

# Figure 3

## Income Components, Low-Wage Parent with Two Children, 1998



\*Poverty Line, \$13,132.

Note: Earnings represent old and new minimum wage (in 1998 dollars) times 1,164 hours, the average annual hours of work by a single mother with children from the March 1998 CPS. FICA taxes of 7.65% are deducted from earnings.

## **Will Increasing the Minimum Wage Help the Poor?**

Statement before the House Committee on Education and the Workforce  
David Neumark

April 27, 1999

### Introduction

The Fair Minimum Wage Act of 1999, if enacted, would raise the minimum by an additional dollar over the next two years to \$6.15. According to its proponents, the primary rationale for increasing the minimum wage is to raise the incomes of poor or near-poor families with members in the work force.

It is natural to assume that raising the minimum wage will help poor families with working members. Indeed, this was my belief prior to conducting the research I will describe in this statement. After all, economists' estimates of the disemployment effects of minimum wages are usually characterized as small, suggesting that the main effect of minimum wages is to raise earnings of low-wage workers in low-income families. However, as it turns out, the link from the relatively small disemployment effects of minimum wages, to their average effect on low-wage workers, is not as straightforward as it may seem. Even more tenuous is the link to incomes of poor or low-income families. In my statement I will briefly discuss these linkages, and describe some new research bearing on the effects of minimum wages on poverty. My statement is based on research conducted jointly with William Wascher of the Federal Reserve Board and Mark Schweitzer of the Federal Reserve Bank of Cleveland.

### Employment Effects of Minimum Wages

The prediction that minimum wages will reduce employment of younger, less-skilled workers is well-known, and has been the topic of numerous hearings held in this building. Earlier studies led to a consensus view that a 10 percent increase in the minimum wage reduces the employment of these workers by between 1 and 2 percent, while recent studies have produced a more diverse set of results, spurring some controversy regarding whether or not minimum wages actually reduce employment of low-skilled workers. Nonetheless, much of the recent evidence supports the "textbook" prediction that minimum wages reduce employment of low-skilled workers. Indeed, a leading economics journal recently published a survey of economists' views of the best estimates of various economic parameters, of which one of the co-authors was a leading advocate of the view that minimum wages do *not* reduce employment.<sup>1</sup> According to this survey, the best estimates of the minimum wage effect for young workers are that ten-percent increases in the minimum reduce employment by 1 to 2 percent. Thus, although there may be some outlying perspectives, economists' views of the disemployment effects of the minimum wage generally have not shifted.

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<sup>1</sup>Fuchs, Victor R., Alan B. Krueger, and James M. Poterba. 1998. "Economists' Views About Parameters, Values, and Policies: Survey Results in Labor and Public Economics." Journal of Economic Literature, Vol. 36, pp. 1387-1425.

## Minimum Wages and Poverty

Far less is known about the role of minimum wages in reducing poverty, *despite* the fact that this is the main policy goal of raising the minimum. The prevailing view of minimum wages is probably that they reduce poverty, but—as emphasized in research by my co-panelist Richard Burkhauser and others—minimum wages do this in a relatively ineffective and inefficient manner.

Two things must occur if minimum wages are likely to reduce poverty. First, minimum wages should, on average, raise earnings of low-wage workers. Whether they do this is an open question. Given that there are some disemployment effects stemming from minimum wage increases, it will generally be the case that some workers will be helped by an increase in the minimum wage, while others are hurt by it. The relatively small estimated disemployment effects of minimum wages might lead one to conclude that, on average, low-wage workers gain. But if the employment losses are concentrated among the lowest-wage workers, as seems likely, then it is entirely possible that low-wage workers instead lose on average.<sup>2</sup>

The second requirement for minimum wages to reduce poverty is that the low-wage *workers* benefiting from a minimum wage increase are concentrated in low-income *families*. For example, if the job loss from a minimum wage increase is concentrated among teenagers in relatively affluent families, while, conversely, the wage *gains* are concentrated among poor single-parent heads of households, then a minimum wage increase is likely to help poor or low-income families. But this rosy scenario is only hypothetical. If job losses are instead concentrated among low-wage workers in low-income families, poor families could be especially hurt by minimum wage increases.

Which families actually gain from minimum wages, and do minimum wages reduce poverty or otherwise help low-income families? To answer these questions, my co-authors and I have looked directly at the effects of minimum wages on family incomes, using data drawn from the Current Population Survey for the period 1986-1995.<sup>3</sup> We classify each family in terms of its income-to-needs ratio (the ratio of total family income relative to the poverty line), in each year. For example, a family with income-to-needs equal to one is just at the poverty line; families below this line are classified as “poor,” and families with income-to-needs of between one and 1.5 as “near poor.” Figure 1 reports the empirical distribution of family income relative to needs—that is, the observed proportion of families at each value of income-to-needs.<sup>4</sup> It exhibits some well-known features. The right-hand tail becomes quite thin at high levels of income-to-needs, reflecting the relatively small numbers of families with very high income. On the other hand, there is a concentration of families between the poverty line and about twice the poverty line.

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<sup>2</sup>Table 1 presents some descriptive statistics on the workers likely affected by the 1996-1997 minimum wage increases. This table is discussed in more detail in: David Neumark, Mark Schweitzer, and William Wascher. 1999. “Will Increasing the Minimum Wage Help the Poor?” Economic Commentary: Federal Reserve Bank of Cleveland, Feb. 1.

<sup>3</sup>See: Neumark, David, Mark Schweitzer, and William Wascher. 1998. “The Effects of Minimum Wages on the Distribution of Family Incomes: A Non-Parametric Analysis.” NBER Working Paper No. 6536.

<sup>4</sup>This distribution, and all distributions reported in this commentary, are estimated by non-parametric methods described in Neumark, et al. (1998).

Having classified families this way, we then use the data to estimate the effects of recent changes in minimum wages, at either the state or the federal level, on the proportions of families at different points in the family income distribution. This requires an experimental design with a control group of states in years in which minimum wages did not rise. We use this control group to provide a baseline for how the income-to-needs distribution changed over the sample period for reasons *unrelated* to minimum wage increases. We can then estimate the effects of minimum wages on the income-to-needs distribution as the difference between changes in the distribution for states and years with minimum wage increases, and changes in the distribution for states and years without them.

Figure 2 displays the estimated effects of minimum wage increases on the income-to-needs distribution. To better understand this figure, suppose that minimum wages had no effect on the income-to-needs distribution. In this case, the figure would display a horizontal line at zero because the change in the proportion of families at any level of income-to-needs would be the same in states and years with and without minimum wage increases. Values of the income-to-needs ratio for which the graphed line in Figure 2 is above the horizontal line at zero indicate that the minimum wage increases the proportion of families at this income-to-needs level, and vice versa.

What does Figure 2 show? Contrary to its intended effect, the estimated impact of an increase in the minimum wage is to raise the proportion of families at the lower end of the income-to-needs distribution—both below the poverty line and between 1 and 1.5 times the poverty line. Conversely, the minimum wage reduces the proportion of families with incomes between 1.5 and 3 times the poverty line—families that might be characterized as “lower-middle-class.”

These results are summarized in Table 2, which shows the effects of minimum wages on the proportions of families in various income-to-needs categories. The estimated changes in the proportions translate into a 4.5 percent increase in the number of families below the poverty line, a 4.1 percent increase in the number of poor *or* near-poor families, and a decline of 3.4 percent in the number of families with incomes between 1.5 and 3 times the poverty line.<sup>5</sup>

## Conclusion

To conclude, legislators who support increasing the minimum wage typically state that they believe that this policy will help poor families. However, our research indicates that past experience with minimum wage increases in the U.S. is at odds with this view. Minimum wages no doubt do help *some* families escape poverty. However, the employment losses associated with a higher minimum, coupled with the position in the income distribution of the families in which these losses occur, combine to cause some families to fall into poverty. On balance, our estimates suggest that the latter effect outweighs the former, and therefore that the net effect of minimum wages is to increase the proportion of families that are poor.

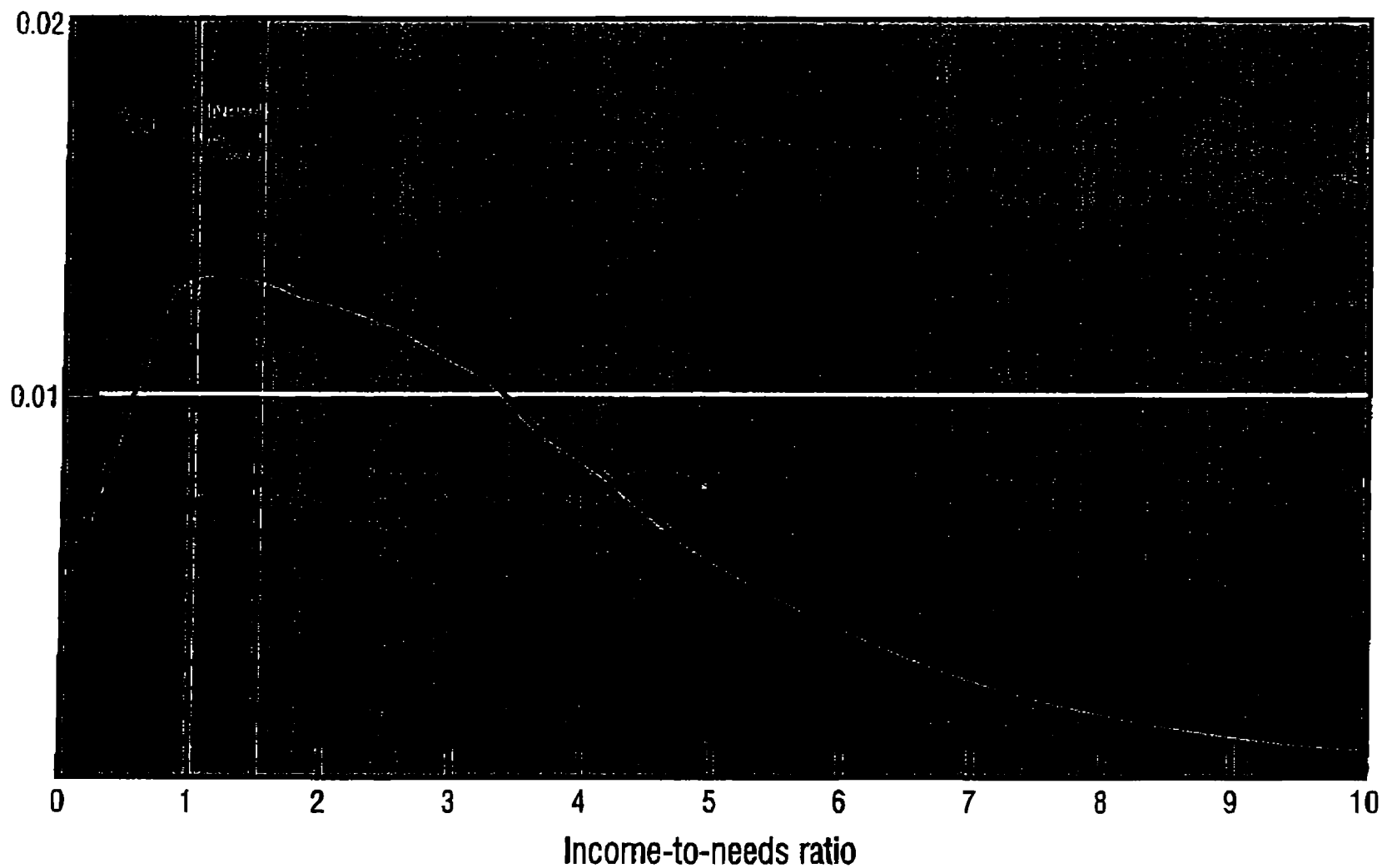
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<sup>5</sup>Each of these results is statistically significant. See Neumark, et al. (1998) for statistical tests and other related analyses.

Figure 1

## INCOME-TO-NEEDS DENSITY

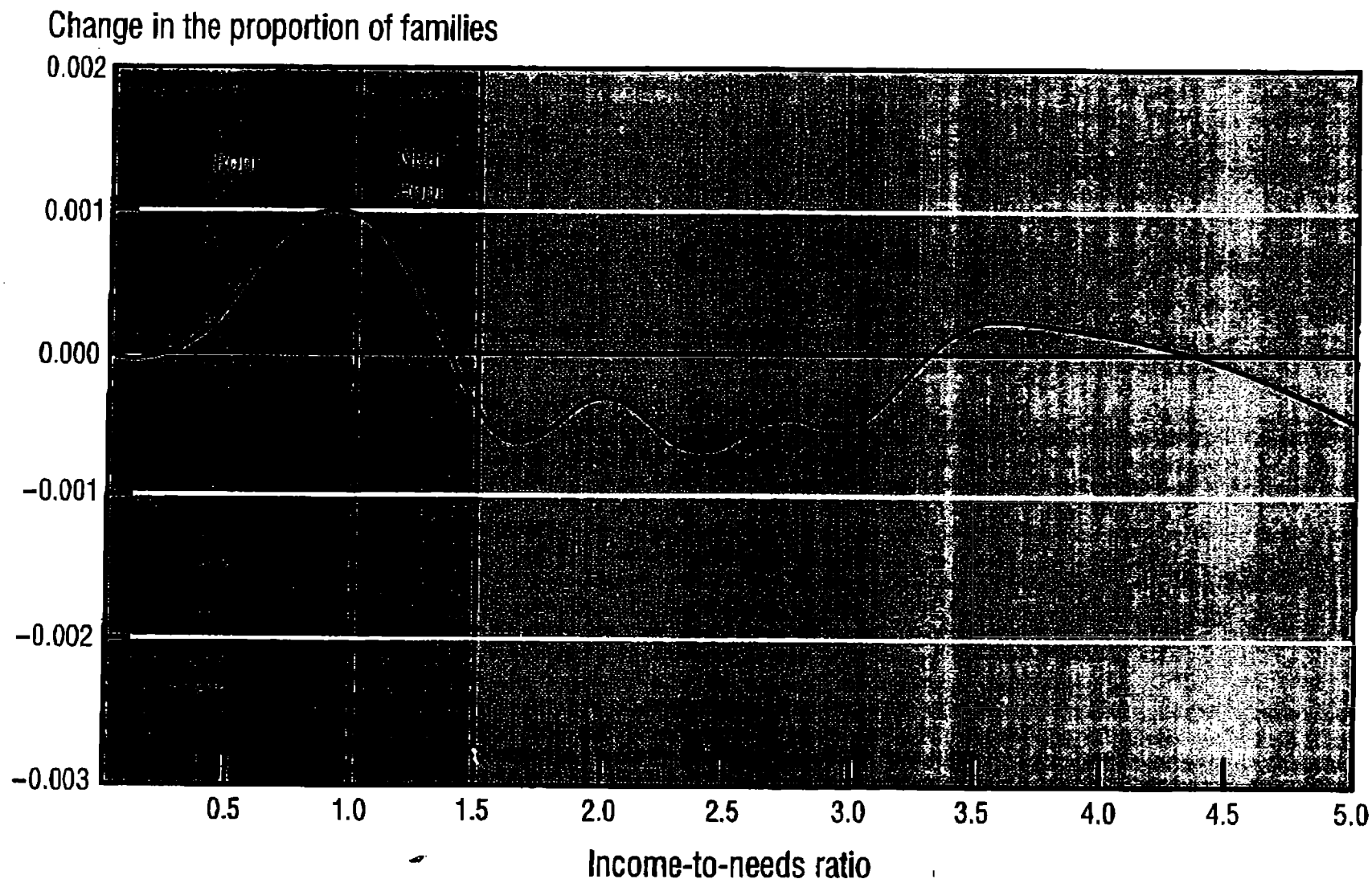
Proportion of families



SOURCE: U.S. Department of Commerce, Bureau of the Census, *Current Population Survey*; and authors' calculations.

Figure 2

## SUMMARY EFFECTS ON INCOME-TO-NEEDS RATIO



SOURCE: U.S. Department of Commerce, Bureau of the Census, *Current Population Survey*; and authors' calculations.

Table I

# Wages of 16-24-Year-Olds, 1995

| Wage             | Number of Workers<br>(thousands) | Percent of<br>workforce | Average percent<br>wage change |
|------------------|----------------------------------|-------------------------|--------------------------------|
| Less than \$4.25 | 817                              | 4.3                     | 0                              |
| \$4.25           | 1,161                            | 6.2                     | 21.2                           |
| \$4.26-\$5.14    | 2,850                            | 15.1                    | 6.6                            |
| \$5.15 or more   | 14,034                           | 74.4                    | 0                              |
| Total            | 18,862                           | 100.0                   | 2.3                            |
| Affected workers | 4,011                            | 21.3                    | 10.8                           |

NOTE: Estimates are based on Outgoing Rotation Group files of 1995 CPS. The figures in the fourth column are based on the assumption that all workers between the old and the new minimum are topped off to the new minimum.

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Current Population Survey*; and authors' calculations.

Table 2

# Estimated Effects of Minimum Wage Increases on Proportions in Income-to-Need Ranges

|                                           | Income-to-Needs Ratio |         |        |         |        |         |         |         |
|-------------------------------------------|-----------------------|---------|--------|---------|--------|---------|---------|---------|
|                                           | 0-0.5                 | 0.5-1.0 | 0-1.0  | 1.0-1.5 | 0-1.5  | 1.5-2.0 | 2.0-3.0 | 1.5-3.0 |
| Absolute change in proportion of families | 0.0005                | 0.0078  | 0.0083 | 0.0046  | 0.0130 | -0.0049 | -0.0071 | -0.0120 |
| Percent change                            | 0.7                   | 6.6     | 4.5    | 3.6     | 4.1    | -3.9    | -3.0    | -3.4    |

NOTE: The top panel reports the change in the absolute proportion in the income-to-needs category implied by the density estimates, and the bottom panel reports the implied percent change in the proportion, relative to the sample mean over all observations.

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Current Population Survey*; and authors' calculations.

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February 1999

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Neumark, David, and Wendy Stock. "How Has the Abolition of Mandatory Retirement Affected Employment of Older Workers?"

Neumark, David. "Biases in Matched CPS Data."

Bayard, Kimberly, Judith Hellerstein, David Neumark, and Kenneth Troske. "Sex Segregation and Sex Differences in Wages Within and Across Plants: Evidence from Matched Employer-Employee Data."

Neumark, David, and William Wascher. "International Evidence on the Effects of Minimum Wages on Youth Labor Markets."

**David Neumark**

**WORK IN PROGRESS (continued):**

Neumark, David, Mark Schweitzer, and William Wascher. "The Effect of Minimum Wages on the Wage Distribution: Non-Parametric Evidence."

Cappelli, Peter, and David Neumark. "Work Practices and Firm Performance."

**RESEARCH GRANTS:**

University of Pennsylvania Research Foundation - "The Impact of Corporate Takeovers on Older Workers."

University of Pennsylvania Center for the Study of Aging - "The Impact of Corporate Takeovers on Older Workers."

Department of Health, Commonwealth of Pennsylvania - "Occupational Disease and Injury in the Commonwealth of Pennsylvania."

U.S. Department of Education - "Educational Quality of the Workforce."

University of Pennsylvania Public Policy Initiatives Fund - "The Effects of State Minimum Wage Laws on Youth Employment and Unemployment."

University of Pennsylvania Research Foundation - "The Effects of State Minimum Wage Laws on Youth Employment and Unemployment."

National Science Foundation - "Research on Age-Earnings Profiles and Age Discrimination."

U.S. Department of Education - "Job Turnover in the U.S. Economy."

National Institute of Aging Supplemental Grant - "Age-Earnings Profiles and Age Discrimination."

Boettner Institute of Financial Gerontology - "Age-Earnings Profiles and Age Discrimination."

Maurice Falk Institute for Economic Research in Israel - "Estimating Marginal Productivity Differentials to Test Theories of Wage Differentials."

**David Neumark**

**RESEARCH GRANTS (continued):**

Office of Technology Assessment - "Careers of Youths and Young Adults in the Labor Market."

National Institute of Aging - Special Emphasis Research Career Award "Research on the Economics of Aging and Age Discrimination," current, 1995-2000.

National Science Foundation - "Wages, Productivity, and Worker Characteristics," current, 1995-1998.

All University Research Initiation Grant - "Do Minimum Wages Redistribute Income Towards Low-Income Families?" current, 1997-1998.

Russell Sage Foundation - "Changes in Job Stability and Job Security," current, 1997-1999.

**STATEMENT OF DANIEL N. SHAVIRO**  
**Hearing on the Minimum Wage: Reviewing Recent Evidence**  
**of its Impact on Poverty**  
**Before the Committee on Education and the Workforce,**  
**U.S. House of Representatives**  
**April 27, 1999**

**BRIEF SUMMARY:** Low-income families with children typically keep less of an extra dollar earned than any other families in our society, due to the phaseout of income-conditioned benefits such as Temporary Aid to Needy Families, Food Stamps, federal housing subsidies, and the earned income tax credit. Information about the true marginal tax rates that these families face is relevant to the distributional impact of an increase in the federally mandated minimum wage.

**STATEMENT:**

I am a Professor of Law at NYU Law School. My specialty is tax policy, which I would like to think is not an oxymoron. A number of my publications have examined interactions between the income tax, where the more you earn the more you pay, and safety net programs such as Temporary Aid to Needy Families (TANF) and Food Stamps, where the more you earn the less you get. I also write about combined tax and transfer systems, such as Social Security. So I could probably better define my field as tax-transfer policy.

This background causes me to approach the minimum wage from a rather different perspective than most people on either side of the debate. I ask: how does it compare to aid to the working poor through the explicit tax and transfer systems? And I ask: how do those systems interact with the minimum wage to affect who benefits from it?

I find that, even if the minimum wage has no effect on hours of employment, and even if it mainly goes to people in poor households rather than the proverbial middle-class teenager, it has disappointing distributional effects because poor households face such high effective tax rates given the various income-conditioned benefits that are phased out as their earnings rise. In some plausible scenarios, a single parent with two or more children might find close to her entire financial gain from increasing the minimum wage wiped out, and might be worse off earning \$25,000 a year than if she had earned \$10,000 a year.

Let me start by noting the minimum wage's targeting mechanism to direct the aid that it provides. Any program that aims to benefit a particular group of people who are considered needy and deserving has to define them somehow. Nearly every poverty-related government program defines need by using a measure such as total earnings or income over some period of a time such as a year. In addition, most such programs make some inquiry into household or family resources, perhaps limited to marriage but possibly going further. This broader focus is why, for example, Mrs. Bill Gates could never get Food Stamps.

The minimum wage, however, defines the group that is to be benefited purely in terms of hourly pay. It therefore is not confined to people who are below, at, or near the poverty line. This causes its distributional impact to depend not only on who is a minimum wage worker, but also on how much of a given minimum wage dollar earned workers who face different circumstances get to keep.

Most people believe that we have progressive marginal tax rates in this country, as indeed is true under the federal income tax. If this were true overall, then people who are

poor or near-poor would get to keep as much or more of each minimum wage or other dollar that they earned as anyone else. In fact, however, if you define the marginal tax rate as the percentage of an extra dollar earned that you actually end up keeping after considering all of the effects that earning it has on what you pay to or get from the government, it turns out that no-one in our society faces tax rates nearly as high as those on poor and near-poor families with children.

Just like everyone else, workers in these households may face federal and state income taxes, payroll taxes, and a variety of state and local taxes. In addition, there is a range where they may be aided by the earned income tax credit. However, there also is a range where they face an increased tax rate from phaseout of the earned income tax credit. And as their incomes rise, they may face either phaseout or sudden loss of TANF benefits, Food Stamps, housing subsidies, and (after a grace period) Medicaid benefits.

Determining what marginal tax rates low-income workers actually face is quite difficult. Many of the income-conditioned benefit programs have rules that vary by state and use a distinctive income measure. In addition, Social Security has very complicated effects on how you should make marginal tax rate computations. Nonetheless, I have made very rough estimates of the approximate marginal tax rates faced by a single parent with two children as her income increases from zero to \$25,000 under four different circumstances: living in a typical high-TANF states either with or without a housing subsidy, and living in a typical low-TANF state either with and without a housing subsidy.

My estimates are meant to give policymakers an approximate sense of what is happening in the field, with no pretense of absolute precision. All are fully explained in my paper, "Effective Marginal Tax Rates on Low-Income Households," published by the Employment Policies Institute in February 1999. I should note up front that several of my assumptions in constructing them are legitimately debatable, and that one could argue for showing either higher or lower marginal tax rates than I do. The main ground for arguing that marginal tax rates are actually higher than I show them is that the accrual of future Social Security benefits by working should be ignored, rather than treated as lowering the effective payroll tax rate by more than a third. The main grounds for arguing that marginal tax rates are actually lower than I show them are that Social Security benefits should be given greater value than I assume, and that the loss of Medicaid due to excess earnings should be discounted to reflect that it does not take place immediately (although there is some information suggesting that many recipients are unaware of the grace period). I would be happy to discuss further the issues posed by these measurement choices and how they would affect the bottom line.

For shock value, let's start with what is admittedly the worst case: a single parent with two children living in a state with high TANF benefits and receiving a federal housing subsidy. Ironically, what makes this the worst case from a marginal tax rate standpoint is the relative generosity of her benefits before they start to be phased out. I have very roughly estimated that such a worker faces the following marginal tax rates as her income increases from 0 to \$25,000:

**TABLE 1: ESTIMATED MARGINAL TAX RATES  
FOR A ONE-PARENT, TWO-CHILD HOUSEHOLD  
RESIDING IN A HIGH-TANF BENEFIT STATE  
AND RECEIVING A FEDERAL HOUSING SUBSIDY**

| <u>INCOME RANGE (\$)</u> | <u>MARGINAL RATE (%)</u> |
|--------------------------|--------------------------|
| 0 - 1,550                | - 6.7                    |
| 1,550 - 1,650            | 21.2                     |
| 1,650 - 9,800            | 52.4                     |
| 9,800 - 12,850           | 89.6                     |
| 12,850 - 14,350          | 109.2                    |
| At 14,350                | "Notch" loss of \$1,800  |
| 14,350 - 14,700          | 78                       |
| At 14,700                | "Notch" loss of \$2,250  |
| 14,700 - 15,050          | 61.3                     |
| 15,050 - 19,550          | 78.5                     |
| At 19,550                | "Notch" loss of \$1,000  |
| 19,550 - 25,000          | 78.5                     |

"Notch" losses, by the way, are instances where the effect of earning one extra dollar is to trigger a sudden and disproportionate loss of benefits. The programs that impose the "notch" losses I show are Food Stamps and Medicaid.

My marginal tax rate estimates for the other three groups are lower, but still disturbingly high due to the combined effects of multiple taxes and benefit phaseouts. They are as follows:

**TABLE 2: ESTIMATED MARGINAL TAX RATES  
FOR A ONE-PARENT, TWO-CHILD HOUSEHOLD  
RESIDING IN A HIGH-TANF BENEFIT STATE  
AND NOT RECEIVING A FEDERAL HOUSING SUBSIDY**

| <u>INCOME RANGE (\$)</u> | <u>MARGINAL RATE (%)</u> |
|--------------------------|--------------------------|
| 0 - 1,650                | - 6.7                    |
| 1,650 - 9,800            | 24.5                     |
| 9,800 - 12,850           | 61.7                     |
| 12,850 - 14,350          | 81.3                     |
| At 14,350                | "Notch" loss of \$1,800  |
| 14,350 - 14,700          | 50.1                     |
| At 14,700                | "Notch" loss of \$2,250  |
| 14,700 - 15,050          | 33.4                     |
| 15,050 - 19,550          | 50.6                     |
| At 19,550                | "Notch" loss of \$1,000  |
| 19,550 - 25,000          | 50.6                     |

**TABLE 3: ESTIMATED MARGINAL TAX RATES  
FOR A ONE-PARENT, TWO-CHILD HOUSEHOLD  
RESIDING IN A LOW-TANF BENEFIT STATE  
AND RECEIVING A FEDERAL HOUSING SUBSIDY**

| <u>INCOME RANGE (\$)</u> | <u>MARGINAL RATE (%)</u> |
|--------------------------|--------------------------|
| 0 - 1,550                | - 6.7                    |
| 1,550 - 1,800            | 21.2                     |
| 1,800 - 7,550            | 56.7                     |
| At 7,550                 | "Notch" loss of \$1,800  |
| 7,550 - 9,800            | 21.2                     |
| 9,800 - 12,850           | 58.4                     |
| 12,850 - 14,700          | 78                       |
| At 14,700                | "Notch" loss of \$2,250  |
| 14,700 - 15,050          | 61.3                     |
| 15,050 - 19,550          | 78.5                     |
| At 19,550                | "Notch" loss of \$1,000  |
| 19,550 - 25,000          | 78.5                     |

**TABLE 4: ESTIMATED MARGINAL TAX RATES  
FOR A ONE-PARENT, TWO-CHILD HOUSEHOLD  
RESIDING IN A LOW-TANF BENEFIT STATE  
AND NOT RECEIVING A FEDERAL HOUSING SUBSIDY**

| <u>INCOME RANGE (\$)</u> | <u>MARGINAL RATE (%)</u> |
|--------------------------|--------------------------|
| 0 - 1,800                | - 6.7                    |
| 1,800 - 7,550            | 28.8                     |
| At 7,550                 | "Notch" loss of \$1,800  |
| 7,550 - 9,800            | - 6.7                    |
| 9,800 - 12,850           | 30.5                     |
| 12,850 - 14,700          | 50.1                     |
| At 14,700                | "Notch" loss of \$2,250  |
| 14,700 - 15,050          | 33.4                     |
| 15,050 - 19,550          | 50.6                     |
| At 19,550                | "Notch" loss of \$1,000  |
| 19,550 - 25,000          | 50.6                     |

These are not marginal tax rates that most Americans are accustomed to facing. The concerns they raise obviously go well beyond the minimum wage issue that motivates today's hearing. For example, the fact that under Table 1 it turns out that you are better off earning \$10,000 a year than \$25,000 is of very broad interest. Nonetheless, the information that these tables attempt to convey is relevant to the distributional consequences of raising the minimum wage.

As an example, suppose the minimum wage increases from \$5.15 to \$6.15 per hour. I have estimated that an individual described by Table 1 who worked 40 hours a week all year under the newly increased minimum wage would gain only about a dollar a week after considering the effect on all her taxes and transfers. Even in the best marginal tax rate case among my four estimates (Table 4), where she lives in a low-TANF state and

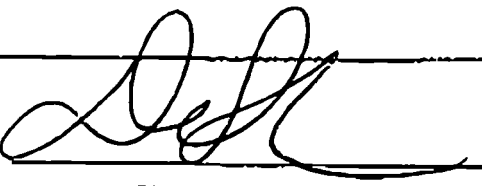
does not get a federal housing subsidy, she would gain only about \$26 a week. By contrast, my analysis suggests that a middle-class college student who worked 40 hours a week for 12 weeks at a minimum wage job would gain about \$37 per week after tax from the minimum wage increase. That individual does so much better at the margin as a result of bearing almost no tax or transfer consequences except under the federal payroll tax and state sales and excise taxes.

I do not have time in my prepared remarks to address why we have these surely unintended marginal tax rates, what we could try to do about them, or to discuss further the logic underlying my specific computations. However, all those points are discussed in my recent article, "Effective Marginal Tax Rates on Low-Income Households," which is available on-line at <http://www.epionline.org/research.htm>

I also would be happy to discuss any of these matters in response to any questions.

Committee on Education and the Workforce  
Witness Disclosure Requirement - "Truth in Testimony"  
Required by House Rule XI, Clause 2(g)

|                                                                                                                                                                                                                                                                                       |     |                                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-------------------------------------|
| Your Name: <u>Daniel N. Shavira</u>                                                                                                                                                                                                                                                   |     |                                     |
| 1. Are you testifying on behalf of a Federal, State, or Local Governmental entity?                                                                                                                                                                                                    | Yes | <input checked="" type="radio"/> No |
| 2. Are you testifying on behalf of an entity other than a Government entity?                                                                                                                                                                                                          | Yes | <input checked="" type="radio"/> No |
| 3. Please list any federal grants or contracts (including subgrants or subcontracts) which <u>you</u> have received since October 1, 1996:<br><br><u>None</u>                                                                                                                         |     |                                     |
| 4. Other than yourself, please list what entity or entities you are representing:<br><br><u>None</u>                                                                                                                                                                                  |     |                                     |
| 5. If your answer to question number 2 is yes, please list any offices or elected positions held or briefly describe your representational capacity with the entities disclosed in question number 4:<br><br>                                                                         |     |                                     |
| 6. If your answer to question number 2 is yes, do any of the entities disclosed in question number 4 have parent organizations, subsidiaries, or partnerships to the entities for whom you are not representing?                                                                      | Yes | No                                  |
| 7. If the answer to question number 2 is yes, please list any federal grants or contracts (including subgrants or subcontracts) which were received by the entities listed under question 4 since October 1, 1996, including the source and amount of each grant or contract:<br><br> |     |                                     |

Signature: 

Date: April 19, 1999

Please attach this sheet to your written statement.

## PERSONAL INFORMATION - Daniel N. Shaviro

a. Please list any employment, occupation, or work related experiences, and education or training which relate to your qualifications to testify or knowledge of the subject matter of the hearing:

Professor of Law at NYU Law School since 1995, and at the University of Chicago Law School from 1987-1995. Legislation Attorney at the Joint Committee of Taxation from 1984-1987, and in private law practice from 1981-1984 at Caplin & Drysdale, Chartered, in Washington, D.C. Received J.D. from Yale Law School in 1981 and A.B. from Princeton University in 1978.

Publications relevant to today's testimony include (1) "Effective Marginal Tax Rates on Low-Income Households" (February 1999, Employment Policies Institute); (2) "The Economics of Vouchers" (co-authored with David F. Bradford, and forthcoming in 2000 in a conference volume to be published by the Brookings Institution Press); and (3) "The Minimum Wage, the Earned Income Tax Credit, and Optimal Subsidy Policy," 64 University of Chicago Law Review 405 (1997).

Books that I have written include (1) Do Deficits Matter? (1997); (2) When Rules Change: An Economic and Political Analysis of Transition Relief and Retroactivity (forthcoming in 2000); and (3) Making Sense of Social Security Reform (forthcoming in 2000); all with the University of Chicago Press.

b. Please provide any other information you wish to convey to the Committee which might aid the members of the Committee to understand better the context of your testimony:

As a nonpartisan expert in the distributional and efficiency issues raised by taxation and related transfer policy, I have participated in projects sponsored by public policy organizations that are often regarded as having diverse ideological orientations, such as the American Enterprise Institute, Brookings Institution, Committee for Economic Development, Employment Policies Institute, and Urban Institute.

**Minimum Wage: Reviewing Recent  
Evidence of its Impact on Poverty  
Testimony Prepared for:  
Committee on Education and the Workforce  
U.S. House of Representatives  
Rayburn House Office Building, Room B-346A  
Washington, DC**

**April 27, 1999**

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*"The trouble with the world is not that people know too little, but that they know so many things that ain't so."*

*Mark Twain*

As a fellow upstate New Yorker, I can't resist opening my remarks with a quote from Mark Twain. I can think of no better example of a government regulation to which this aphorism applies than minimum wage legislation. Increases in the minimum wage are routinely supported by overwhelming majorities in public opinion polls (Burtless, 1995). Most Americans believe government should make sure that full-time workers do not live in poverty. I certainly agree with that social goal. But to echo Twain "it just ain't so" that minimum wage increases have or will achieve this goal, as a review of who gained from the most recent increase in the minimum wage shows.

In Table 1 uses data from the March 1996 Current Population Survey to show the distribution of hourly wages earned by workers living in families at various levels of economic well-being just prior to the Federal increase in the minimum wage to \$5.15. Those living below the official poverty line in 1996 had income-to-needs ratios of less than 1.0. To put this in context, the poverty line for a family of four was \$16,036 in 1996. A worker living in a family of four with a total income of \$48,108 would have an income-to-needs ratio of 3.0.

Two facts are clear. First, in 1996 most of the working poor earned more that \$5.15 per hour and hence were not helped by a minimum wage increase to \$5.15. Second, most workers who did receive an increase in their wages due to the minimum wage increase lived in families whose income was far above the poverty line – 38.1 percent of affected workers lived in a family whose income was three times poverty or more. Despite the prevailing stereotypes, most minimum wage workers are not the heads of poor families struggling to earn a living wage, they are single persons or second or third earners in non-poor families.

Table 1a focuses on teenagers, a demographic group whose wages were heavily impacted by the increase in the minimum wage to \$5.15. In March 1996, 44.4 percent of teenagers earned between \$4.25 and \$5.15 per hour. However, over 50 percent of these impacted teenagers lived in families whose income was more than three times the poverty line. Only 17.7 percent lived in poor families.

Table 2 simulates the distribution of wage gains from the minimum wage increase from \$4.25 to \$5.15. The simulation assumes all workers continue to be employed at the same yearly hours of work. That is, there are no adverse effects of a minimum wage increase on employment. Elsewhere I argue that, in fact, the increase in the minimum wage from \$4.25 to \$5.15 decreased the employment of teenagers and other vulnerable workers. (See Burkhauser, Couch, and Wittenburg, 1999.)

Table 2 shows that the vast majority of the \$3.39 billion in wage gains associated with an

increase in the minimum wage went to workers living in families well above the poverty line. Only 16.8 percent of the benefits went to families of the working poor. That is, the 20.9 percent of minimum wage workers who lived in poor families (see Table 1) only received 16.8 percent of the benefits of the minimum wage increase.

Advocates of further minimum wage hikes must recognize that such increases were never very target-efficient and are even less so today. Moreover, the role of government and the number of policy options available to reduce poverty have changed considerably since the late nineteenth and early twentieth centuries. Today, the appropriate question to ask is: Are there better alternatives to minimum wage hikes available to help insure a living wage for the working poor?

### **The EITC Versus the Minimum Wage**

The answer to this question is unequivocally yes. The Earned Income Tax Credit (EITC) is a far better mechanism for rewarding low wage workers who live in poor families. In evaluating the impact of the EITC on the working poor, it is useful to consider the EITC in terms normally reserved for the minimum wage. Minimum wage earners currently received \$5.15 per hour. But once EITC credits are considered, those minimum wage workers with children who actually live in low income families effectively receive a much higher hourly return for work. Because of the dramatic improvements in the EITC program passed by a bipartisan majority of Congress in 1993, workers with one child now have an effective minimum wage of \$6.90 (the \$5.15 per hour minimum wage plus a 34 percent credit of \$1.75). Workers with two or more children have an effective minimum wage of \$7.21 per hour (\$5.15 minimum wage plus the 40 percent credit of \$2.06).

Elsewhere we have shown that, unlike the minimum wage increases in the 1990s, the increases in the EITC passed in 1993 and fully implemented in 1996 have primarily gone to workers in low income families (the poor and near poor). (See Burkhauser, Couch, and Glenn 1996). The reason is that all the working poor in Table 1 were helped by improvements in the EITC because it is based on family income not on a wage rate. Hence a worker earning more than \$5.15 per hour but who lived in a low income family is eligible for the credit. Such a worker gained nothing from the minimum wage increase to \$5.15. Likewise, the vast majority of minimum wage workers who do not live in low income families do not received EITC benefits. Thus the EITC is target efficient. Furthermore, because the employer does not directly pay for the EITC, unlike a minimum wage increase, there will be no reduction in employer demand for vulnerable workers.

### **The Future of Minimum Wage Legislation**

In contrast to many European countries, America has rejected the use of government-mandated "industrial partners" to establish wage-setting patterns in the economy. This vision of the labor market, which was much in the spirit of the turn-of-the-century socialists who were

among those advocating minimum wage laws as a mechanism to that end, failed to take root in the United States. In fact, the minimum wage has increasingly become an anachronism with respect to either redistributing income or protecting workers against poverty in the United States.

The federal income tax has, for the most part, been the principal tool of redistribution in the United States. The negative income tax and more recently the EITC have each been seen as alternative methods of targeting wage subsidies to the working poor. Aside from nostalgia, it is hard to explain continued support for increasing the minimum wage by those interested in helping the working poor. It is time to relegate the minimum wage to the museum of antiquated policies and use the EITC as a method of making work pay.

**Table 1. Wage Distribution of Workers  
by Income-To-Needs Ratio of Their Family  
March 1996**

| Income-to-Needs Ratio   | Hourly Wage Categories |                        |                        |                        |                         |                     | Total     | Percent of<br>All<br>Workers | Percent of Workers<br>Earning More than<br>\$3.99 and Less than<br>\$5.15 |
|-------------------------|------------------------|------------------------|------------------------|------------------------|-------------------------|---------------------|-----------|------------------------------|---------------------------------------------------------------------------|
|                         | \$0.01<br>to<br>\$3.99 | \$4.00<br>to<br>\$4.24 | \$4.25<br>to<br>\$5.14 | \$5.15<br>to<br>\$5.99 | \$6.00<br>to<br>\$10.00 | \$10.00<br>and over |           |                              |                                                                           |
| Less than 1.00          | 5.2                    | 1.1                    | 28.6                   | 13.8                   | 39.5                    | 11.8                | 100.<br>0 | 6.7                          | 20.9                                                                      |
| 1.00 to 1.24            | 3.9                    | 0.4                    | 22.1                   | 11.5                   | 44.9                    | 17.2                | 100.<br>0 | 2.9                          | 6.9                                                                       |
| 1.25 to 1.49            | 4.0                    | 1.5                    | 16.6                   | 6.6                    | 52.4                    | 18.9                | 100.<br>0 | 3.5                          | 6.7                                                                       |
| 1.50 to 1.99            | 3.1                    | 0.4                    | 11.8                   | 8.7                    | 50.0                    | 25.9                | 100.<br>0 | 8.5                          | 10.9                                                                      |
| 2.00 to 2.99            | 2.4                    | 0.4                    | 8.2                    | 5.1                    | 41.6                    | 42.2                | 100.<br>0 | 18.1                         | 16.4                                                                      |
| 3.00 or greater         | 1.4                    | 0.3                    | 5.7                    | 3.4                    | 22.2                    | 67.0                | 100.<br>0 | 60.3                         | 38.1                                                                      |
| Whole Category<br>Share | 2.1                    | 0.4                    | 9.1                    | 5.2                    | 31.0                    | 52.2                | 100.<br>0 | 100.0                        | 100.0                                                                     |

Source: March 1996 CPS out-going rotation group

Sample of workers includes all non-military, non-self employed workers ages 16 and older in March 1996. Calculations based on wage reported for currently held job and income reported for 1995.

**Table 1a. Wage Distribution of Teenage Workers (ages 16-19)  
by Income-To-Needs Ratio of Their Household  
March 1996**

| Income-to-Needs Ratio | Hourly Wage Categories |                        |                        |                        |                         |                        | Total | Percent<br>of all<br>Workers | Percent of Workers<br>earning more than<br>\$3.99 and Less than<br>\$5.15 |
|-----------------------|------------------------|------------------------|------------------------|------------------------|-------------------------|------------------------|-------|------------------------------|---------------------------------------------------------------------------|
|                       | \$0.01<br>to<br>\$3.99 | \$4.00<br>to<br>\$4.24 | \$4.25<br>to<br>\$5.14 | \$5.15<br>to<br>\$5.99 | \$6.00<br>to<br>\$10.00 | \$10.00<br>and<br>over |       |                              |                                                                           |
| Less than 1.00        | 5.3                    | 1.0                    | 51.0                   | 14.0                   | 26.9                    | 1.8                    | 100.0 | 15.8                         | 17.7                                                                      |
| 1.00 to 1.24          | 3.3                    | 0.0                    | 51.7                   | 12.7                   | 22.9                    | 9.4                    | 100.0 | 5.1                          | 5.7                                                                       |
| 1.25 to 1.49          | 6.3                    | 13.3                   | 38.1                   | 17.4                   | 19.5                    | 5.3                    | 100.0 | 5.3                          | 5.9                                                                       |
| 1.50 to 1.99          | 2.4                    | 0.0                    | 31.3                   | 21.1                   | 45.1                    | 0.0                    | 100.0 | 6.8                          | 4.6                                                                       |
| 2.00 to 2.99          | 4.2                    | 0.4                    | 45.2                   | 11.5                   | 31.7                    | 7.0                    | 100.0 | 15.4                         | 15.2                                                                      |
| 3.00 or greater       | 7.6                    | 1.9                    | 43.8                   | 17.7                   | 26.2                    | 2.8                    | 100.0 | 51.7                         | 51.0                                                                      |
| Whole Category share  | 6.1                    | 1.9                    | 44.4                   | 16.1                   | 27.9                    | 3.6                    | 100.0 | 100.0                        | 100.0                                                                     |

Source: March 1996 CPS out-going rotation group

Sample of workers includes all non-military, non-self employed workers ages 16-19. Calculations based on wage reported for currently held job and income reported for 1995.

**Table 2. Simulated Distribution of Wage Income Increases due to an Increase in the Minimum Wage from \$4.25 to \$5.15 using March 1996 Wage Levels**

| Income-to-Needs<br>Ratio | Total<br>Benefit<br>(billions of<br>dollars) | Mean<br>Benefit per<br>Household<br>(dollars) | Percent of<br>Total |
|--------------------------|----------------------------------------------|-----------------------------------------------|---------------------|
| Less than 1.00           | \$.57                                        | \$620                                         | 16.8                |
| 1.00 to 1.24             | \$.27                                        | \$753                                         | 8.0                 |
| 1.25 to 1.49             | \$.22                                        | \$532                                         | 6.4                 |
| 1.50 to 1.99             | \$.46                                        | \$689                                         | 13.5                |
| 2.00 to 2.99             | \$.64                                        | \$603                                         | 18.8                |
| 3.00 or greater          | \$1.24                                       | \$568                                         | 36.5                |
| All Households           | \$3.39                                       | \$606                                         | 100.0               |

March 1996 CPS out-going rotation group

Sample of workers includes all non-military workers ages 16 and older in March 1996 who are not self-employed, not part of families with self-employment income, and who did not move, change industries or occupations. Calculations based on wage reported for currently held job and income reported for 1995.

**Table 2. Simulated Distribution of Wage Income Increases due to an Increase in the Minimum Wage from \$4.25 to \$5.15 using March 1996 Wage Levels**

| Income-to-Needs Ratio | Total Benefit<br>(billions of<br>dollars) | Mean Benefit per<br>Household<br>(dollars) | Percent of<br>Total |
|-----------------------|-------------------------------------------|--------------------------------------------|---------------------|
| Less than 1.00        | \$57                                      | \$620                                      | 16.8                |
| 1.00 to 1.24          | \$27                                      | \$753                                      | 8.0                 |
| 1.25 to 1.49          | \$22                                      | \$532                                      | 6.4                 |
| 1.50 to 1.99          | \$46                                      | \$689                                      | 13.5                |
| 2.00 to 2.99          | \$64                                      | \$603                                      | 18.8                |
| 3.00 or greater       | \$1.24                                    | \$568                                      | 36.5                |
| All Households        | \$3.39                                    | \$606                                      | 100.0               |

March 1996 CPS out-going rotation group

Sample of workers includes all non-military workers ages 16 and older in March 1996 who are not self-employed, not part of families with self-employment income, and who did not move, change industries or occupations. Calculations based on wage reported for currently held job and income reported for 1995.

# Committee on Education and the Workforce

## Witness Disclosure Requirement – “Truth in Testimony”

Required by House Rule XI, Clause 2(g)

|                                                                                                                                                                                                                                                                               |     |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----------|
| Your Name: Richard V. Burkhauser                                                                                                                                                                                                                                              |     |           |
| 1. Are you testifying on behalf of a Federal, State, or Local Governmental entity?                                                                                                                                                                                            | Yes | <u>No</u> |
| 2. Are you testifying on behalf of an entity other than a Government entity?                                                                                                                                                                                                  | Yes | <u>No</u> |
| 3. Please list any federal grants or contracts (including subgrants or subcontracts) which <u>you have received</u> since October 1, 1996:                                                                                                                                    |     |           |
| 1998-2003 Co-Principal Investigator, ACenter for Economic Research on Employment Policy for Persons with Disabilities,@ National Institute on Disability and Rehabilitation Research (\$3,500,000).                                                                           |     |           |
| 1997-1998 Principal Investigator, ACross-National Conference on Health and Retirement Data,@ National Institute on Aging (\$40,000).                                                                                                                                          |     |           |
| 1996-1999 Principal Investigator, AThe Well-Being of the Elderly in a Comparative Context,@ Continuation, National Institute on Aging (\$1,636,292).                                                                                                                          |     |           |
| 1994-1999 Senior Research Associate, ACenter for Demography and Economics of Aging,@ National Institute on Aging.                                                                                                                                                             |     |           |
| 1993-1998 Principal Investigator, AEconomics and Demography of Aging Post-Doctoral Program,@ National Institute on Aging (\$289,866).                                                                                                                                         |     |           |
| 4. Other than yourself, please list what entity or entities you are representing:<br>No one                                                                                                                                                                                   |     |           |
| 5. If your answer to question number 2 is yes, please list any offices or elected positions held or briefly describe your representational capacity with the entities disclosed in question number 4:                                                                         |     |           |
| 6. If your answer to question number 2 is yes, do any of the entities disclosed in question number 4 have parent organizations, subsidiaries, or partnerships to the entities for whom you are not representing?                                                              |     |           |
|                                                                                                                                                                                                                                                                               |     | Yes No    |
| 7. If the answer to question number 2 is yes, please list any federal grants or contracts (including subgrants or subcontracts) which were received by the entities listed under question 4 since October 1, 1996, including the source and amount of each grant or contract: |     |           |

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**PERSONAL INFORMATION:** Please provide the committee with a copy of your resume (or a curriculum vitae) or just answer the following questions:

a. Please list any employment, occupation, or work related experiences, and education or training which relate to your qualifications to testify on or knowledge of the subject matter of the hearing:

I received my Ph.D. in Economics from the University of Chicago in 1976. I am now the Sarah Gibson Blanding Professor of Policy Analysis and Chair of the Department of Policy Analysis and Management, Cornell University, Ithaca, New York. Prior to that I have held tenured professorships at Vanderbilt University and Syracuse University. I have also worked as an economic researcher at the Institute for Research on Poverty, University of Wisconsin, and at ASPE, Department of Health and Human Services. I have long been interested in the behavioral and distributional effects of minimum wage legislation as both a teacher and researcher.

b. Please provide any other information you wish to convey to the Committee which might aid the members of the Committee to understand better the context of your testimony:

In 1989 I co-authored an article "The Minimum Wage and the Poor: The End of a Relationship," with T. Aldrich Finegan that appeared in the *Journal of Policy Analysis and Management*. That article won the 1989 Vernon Prize, awarded by the Association for Public Policy Analysis and Management for the best public policy article in that journal in 1989. The article showed that minimum wage increases are a very ineffective method of helping the working poor. Since then I have written several other pieces which document the shortcomings of minimum wage hikes as a mechanism for helping low income workers and advocate alternative policies that are much more effective. My testimony today focuses on the most recent increase in the minimum wage from \$4.25 to \$5.15 per hour and shows the gain mostly went to non-poor workers.

**PROVIDING A LIVING WAGE: WHY INCREASES IN  
THE MINIMUM WAGE ARE NO LONGER THE  
ANSWER FOR HELPING THE WORKING POOR**

**Richard V. Burkhauser  
Martha Harrison  
Cornell University  
April 1999**

This paper is based on remarks originally prepared for the Alex G. McKenna Economics Education Lecture at St. Vincent College, Latrobe Pennsylvania.

# **PROVIDING A LIVING WAGE: WHY INCREASES IN THE MINIMUM WAGE ARE NO LONGER THE ANSWER FOR HELPING THE WORKING POOR**

## **A Historical View of Minimum Wage Policy**

In the introduction of his seminal 1946 *American Economic Review* article which established how the debate on the minimum wage would be waged over the next half century, George Stigler, a Nobel Prize winning economist and one of my teachers at the University of Chicago, said:

The minimum wage provisions of the Fair Labor Standards Act of 1938 have been repealed by inflation. Many voices are now taking up the cry for a higher minimum....Economists have not been very outspoken on this type of legislation. It is my fundamental thesis that they can and should be outspoken, and singularly agreed. The popular objective of minimum wage legislation—the elimination of extreme poverty—is not seriously debatable. The important questions are rather (1) Does such legislation diminish poverty? (2) Are there efficient alternatives? The answers are, if I am not mistaken, unusually definite for questions of economic policy. If this is so, these answers should be given. Some readers will probably know my answers already (“no” and “yes,” respectively); it is distressing how often one can guess the answer given to an economic question merely by knowing who asks it. But my personal answers are [not as] important [as] the arguments on which they rest (Stigler 1946, 358).

In 1946, and for many people even today, no program provided a stronger litmus test of loyalty to traditional New Deal principles than the minimum wage. Stigler’s arguments against it were carefully chosen to criticize the minimum wage both on what are now familiar efficiency grounds and more surprising, at least in 1946, on its ability to effectively reduce poverty.

Since 1946, critics of minimum wage increases have stressed their labor market inefficiencies, and most of the empirical literature on minimum wage policy has concentrated on the perceived negative employment effects of increases in the minimum wage. But I am convinced that it is with respect to the second issue raised in the Stigler article—how one should evaluate “who gets what” from an increase in the minimum wage—that most Americans are concerned, and it is here that the minimum wage now is seen as hopelessly out-of-date.

In his 1946 article, Stigler argued that:

The connection between hourly wages and the standard of living of a family is remote and fuzzy. Unless the minimum wage varies with the amount of employment, number of earners, non-wage income, family size, and many other

factors, it will be an inept device for combating poverty even for those who succeed in retaining employment (Stigler 1946, 363).

It is not an accident that Stigler emphasized the concept of poverty elimination in his article. He was influenced by nearly half a century of debate surrounding the creation of a living wage which was intended by its proponents to insure a minimum standard of living for workers and their families in the United States.

One of the earliest and most comprehensive proposals for a government-enforced minimum wage was made in 1906 in the book *A Living Wage* by Father John A. Ryan, a Roman Catholic priest, who argued that "Whole classes of laborers, for example those employed in sweat shops, are underpaid, underfed and undersupplied with everything which contributes to civilized life" (Ryan 1906, 18). This important book, whose introduction was penned by the founder of the University of Wisconsin economics department and the first president of the American Economic Association, Richard Ely, helped popularize a living wage as a social goal. The concept of a living wage was based on the ideas of a broad spectrum of social reformers of the day, from Pope Leo XIII, who argued in *Rerum Novarum* (1891) that "There is a dictate of nature more imperious and more ancient than any bargain between man and man, that the remuneration must be enough to support the wage earner in *reasonable and frugal comfort*" [Ryan emphasizes](as quoted in Ryan 1906, 33), to Sidney and Beatrice Webb, who in *Industrial Democracy* (1897) called for state-enforced national minimum wages that would provide laborers "with the food, clothing and shelter physiologically necessary, according to national habit and custom, to prevent bodily deterioration" (as quoted in Ryan 1906, 82).

Proponents envisioned that the minimum wage would be "determined and secured through a commission, empowered to adjust it to different industries and different centers of population" (Ryan 1906, 315). They saw this type of governmental regulation as the best possible antidote to "that perverse individualism which prefers irrational liberty and industrial anarchy to a legal regime of order and justice" (Ryan 1906, 313). The minimum wage was only one of a set of social goals articulated in Ryan's book—which included the eight-hour day, the end of child labor, and social security—that social reformers sought to obtain through direct government intervention in the marketplace.<sup>1</sup>

The crusade for the establishment of a living wage through legislation spans the entire twentieth century. Continued support for the minimum wage today is based in part on important legal and political precedents its establishment created for further government intervention in the marketplace in the name of social justice.

Resistance to the minimum wage first centered over its constitutionality. The nineteenth century view that the right to contract was part of the liberty protected by the 14th Amendment to the Constitution and that the right to purchase or sell labor could only be abrogated by legislatures on very narrow grounds received perhaps its strongest judicial endorsement in *Lochner v. New York* (198 U.S. 45, 1905). In that case the United States Supreme Court

nullified by a five-to-four vote a New York State law establishing maximum hours of work. In his solitary minority opinion, which first urged a "reasonable man" test on restrictions of liberty,

Justice Oliver Wendell Holmes stated:

A constitution is not intended to embody a particular economic theory, whether of paternalism and the organic relation of a citizen to the state or of laissez-faire. It is made for people of fundamentally different views, and the accident of our finding certain opinions natural and familiar or novel and even shocking ought not to conclude our judgement upon the question whether statutes embodying them conflict with the Constitution of the United States....I think the word liberty in the 14th Amendment is perverted when it is held to prevent the natural outcome of a dominant opinion, unless it can be said that a rational and fair man necessarily would admit the statute proposed would infringe fundamental principles as they have been understood by the tradition of our people and our law (*Lochner v. New York*, p.76).

In 1908 a unanimous United States Supreme Court held in *Muller v. State of Oregon* (208 U.S. 412) that state maximum hour legislation was constitutional, but only for women.<sup>2</sup> In 1912, Massachusetts was the first state to establish a minimum wage law (unenforceable except by publicizing the offending employer's name) and by 1923, 14 other states, the District of Columbia, and Puerto Rico had established such laws. In 1923, the United States Supreme Court, in *Adkins v. Children's Hospital* (261 U.S. 525), ruled that the minimum wage law of the District of Columbia was unconstitutional. However, in time, the view espoused by the dissenting justices, including Holmes—that legislatures could regulate such contracts as long as the regulations were reasonable—prevailed.

In 1937 in *West Coast Hotel Co. v. Parrish* (300 U.S. 379), the United States Supreme Court upheld a state minimum wage law (Washington State) that applied only to women. In both the District of Columbia and the State of Washington, commissions had been established to set "standards of wages and conditions of labor for women and minors [which shall]...be reasonable and not detrimental to health and morals, and which shall be sufficient for the decent maintenance of women" (*West Coast Hotel Co. v. Parrish*, p. 387). In that five-to-four decision, the United States Supreme Court held that "The legislature was entitled to adopt measures to reduce the evils of the 'sweating system,' the exploiting of workers at wages so low as to be insufficient to meet the bare cost of living..." (*West Coast Hotel Co. v. Parrish*, pp. 398-399). Thus, by 1938, popular support for the minimum wage was based not only on its potential to provide a living wage for the working poor but also on appellate court decisions which established that legislatures could actively intervene in the marketplace to correct perceived social injustice.

Franklin D. Roosevelt's impassioned speech calling on Congress to help the one-third of Americans who were "ill-housed, ill-clad, and ill-nourished" (Roosevelt 1937) heralded the Fair

Labor Standard Act of 1938, and with it a national minimum wage for women and men. This marked the culmination of a long struggle by social reformers to establish the constitutional right of state legislatures to set a minimum wage, and to garner the political support to pass minimum wage legislation at the national level. The debate then moved to who should be covered and at what rate.

Significantly, the power to establish coverage and to increase the minimum wage was not given to a commission of the type envisioned by social reformers like Ryan or like those established by earlier state laws. Rather, coverage and the level of the minimum wage were to be changed only by an act of Congress. World War II and its attendant inflation substantially reduced the effective minimum wage, and social reformers called for Congress to increase it. It is in the context of this social history that Stigler (1946) wrote.

### **The Minimum Wage and the Working Poor**

Supporters of increases in the minimum wage over the last half of the twentieth century have been as concerned with maintaining a living wage for workers as reformers in the first half. For example, Senator Edward Kennedy, in criticizing the meagerness of the increase in the minimum wage to \$4.25 in 1991 declared that:

The minimum wage was, as it should be, a living wage, for working men and women...who are attempting to provide for their families, feed and clothe their children, heat their homes,[and] pay their mortgages. The cost-of-living inflation adjustments since 1981 would put the minimum wage at \$4.79 today, instead of the \$4.25 it will reach on April 1, 1991. That is a measure of how far we have failed the test of fairness to the poor (*Congressional Record*, November 6, 1989, S14707).

Similarly, President Clinton emphasized the importance of a living wage when he declared in his 1995 State of the Union Address that started off the debate over the most recent increase in the minimum wage to \$5.15 in 1997:

I've studied the arguments and the evidence for and against a minimum wage increase. I believe that the weight of the evidence is that a modest increase does not cost jobs, and may even lure people into the job market. But the most important thing is, you can't make a living on \$4.25 an hour (The White House, 1995).

These modern-day advocates of the minimum wage are repeating the historical justification of a minimum wage on grounds of social justice and reflect the views of the majority of its supporters. The belief of policymakers and the public that minimum wage legislation helps the working poor explains their continued support. Their support, or the lack of it, has little to do with predictions from the economics profession with respect to employment loss.<sup>3</sup> In evaluating the success of the minimum wage in the context of current social policy, the appropriate

questions to ask are still those originally framed by Stigler (1946)—how does an increase in the minimum wage affect the working poor, and are there efficient alternatives to it?

Elsewhere (Burkhauser and Finegan 1989, 1993; Burkhauser, Couch, and Glenn 1995), I have used data from the U.S. Census for the years 1940 through 1980 and various years of the *Current Population Survey (CPS)* to evaluate the link between the average hourly earnings of workers (aged 17 to 64) in the lower half of the earnings distribution and the economic well-being of their families as measured by an income-to-needs ratio (family income relative to the poverty level for a family of their size).

In 1939, the first year of the minimum wage, the correlation between wages of workers and their family's income-to-needs ratio was 0.207. By 1989 it had dropped to about one-fourth of that level—0.053. Family income, as Stigler (1946) pointed out, is dependent not only on the wage rate, but also on the number of hours worked, labor earnings of other family members, non-labor income, and family size. The growth of multi-worker families and the introduction of government programs designed to provide lower income families with resources have dramatically weakened the relationship between the wage rates of workers and family well-being. This weaker relationship has reduced the ability of new minimum wage increases to target additional income to the working poor.

The weakness of the minimum wage as a mechanism for targeting income of the working poor is best seen by looking at how the last increase in the minimum wage, which increased hourly wage from \$4.25 per hour to \$5.15 per hour, affected workers across the income distribution.

### **“Who Gets What” from the Minimum Wage**

Table 1 contains a sample of workers aged 16 and over taken from the March 1996 Current Population Survey and arrayed by the income-to-needs ratio of their families. The income-to-needs ratio is the ratio of total family income divided by the official poverty line for a given family. In 1996 the poverty line for a family of four was \$16,036. Therefore, a worker living in a family with four members and a total income of \$48,108 would have an income-to-needs ratio of 3.0.

The hourly wages of all workers in the population aged 16 and over are shown across several income-to-needs categories. A little over nine percent of all workers earned wages between \$4.25 and \$5.14 per hour in 1996. While a small percentage earned less than \$4.25 (2.5 percent), the vast majority of workers earned more than the proposed minimum wage of \$5.15 per hour (88.4 percent).

The \$4.25 to \$5.14 column in Table 1 shows the percentage of workers in each income-to-needs category who would have been affected by the increase in the minimum wage to \$4.75 in October, 1996 and to \$5.15 in October 1997. Workers who live in poor families are 3.1 times

more likely to be helped by the minimum wage hike than the average worker (28.6 divided by 9.1). But Table 1 also shows that, as is the case with workers not living in poverty, the great majority of the working poor would not be helped by a minimum wage hike to \$5.15 since they already earned more than \$5.15 per hour in March, 1996.

The reason workers earning more than \$5.15 per hour lived in poor families was not because they had a low wage rate. Rather, they either worked less than full-time or, even working full-time, had a family that was too large to be lifted above poverty despite their higher wage rate. (See Burkhauser, Couch, and Glenn 1996 for a more detailed discussion.)

While it is certainly true that workers living in poor families are more likely to earn a minimum wage, Table 1 also shows that the vast majority of minimum wage workers do not live in poor or even in near-poor families. The reason is obvious—only 6.7 percent of **all** workers live in poor families and only about 13.1 percent of **all** workers live in near-poor (income-to-needs ratio between 1.0 and 1.5) or poor families. More minimum wage workers live in families with incomes three times the poverty line or more (38.1 percent) than in near-poor and poor families combined (34.5 percent). For this reason, minimum wage increases are extremely ineffective as a mechanism for reducing poverty.

Table 1a repeats this analysis for teenagers aged 16 through 19. A much greater percentage of teenagers were helped by the minimum wage increase from \$4.25 to \$5.15 – 44.4 percent – than was the case for workers in general. However, only a minority of teenagers holding these minimum wage jobs lived in poor families (17.1 percent) or in near poor families (11.4 percent). The majority (51.0 percent) lived in families whose income was three or more times the poverty line.

Simply showing the distribution of workers affected by a minimum wage increase overstates the share of benefits going to the families of the working poor if, on average, the marginal gain going to a worker in a poor family is lower than that going to a worker in a non-poor family. This occurs either because the average wage of poor workers is relatively closer to the new \$5.15 per hour minimum than that of non-poor workers or because the affected poor workers are working fewer hours. Further, the affected working poor may be more likely to suffer reduced hours or the loss of a job if there are negative employment consequences of a minimum wage hike.

Table 2 simulates the distribution of wage gains from a minimum wage increase from \$4.25 to \$5.15 using the same data discussed in Table 1. We assume all workers continue to be employed at the same yearly hours of work. That is, we assume no adverse effects of a minimum wage increase on employment. Elsewhere we argue that in fact the increase in the minimum wage from \$4.25 to \$5.15 decreased the employment of teenagers and other vulnerable workers. (See Burkhauser, Couch, and Wittenburg, 1999.)

Table 2 shows that the vast majority of the \$3.39 billion in wage gains associated with an increase in the minimum wage went to workers living in families well above the poverty line. Only 16.8 percent of the benefits went to families of the working poor. That is, the 20.9 percent of minimum wage workers who live in poor families (see Table 1) only received 16.8 percent of the benefits of the minimum wage increase.

These findings are consistent with Stigler's view that there is only a fuzzy relationship between a person's wage rate and the economic well-being of the family in which the person lives. Advocates of the minimum wage must recognize that such increases were never not target-efficient and are even less so now than they were in the first half of the Twentieth Century. Moreover, the role of government and the number of policy options available to reduce poverty have changed considerably since the late nineteenth and early twentieth centuries. Today, the appropriate question to ask is: Are there alternatives to minimum wage hikes available to help insure a living wage for the working poor.

### **The EITC Versus the Minimum Wage**

The answer to this question is unequivocally yes. The Earned Income Tax Credit (EITC) is a far better mechanism for rewarding low wage workers who live in poor families. In evaluating the impact of the EITC on the working poor, it is useful to consider the EITC in terms normally reserved for the minimum wage. Minimum wage earners currently received \$5.15 per hour. But once EITC credits are considered, those minimum wage workers with children who actually live in low-income families effectively receive a much higher hourly return for work. Because of the dramatic improvements in the EITC program passed by a bipartisan majority of Congress in 1993, workers with one child now have an effective minimum wage of \$6.90 (the \$5.15 per hour minimum wage plus a 34 percent credit of \$1.75). Workers with two or more children have an effective minimum wage of \$7.21 per hour (\$5.15 minimum wage plus the 40 percent credit of \$2.06).

Elsewhere we have shown that, unlike the minimum wage increases in the 1990s, the increases in the EITC passed in 1993 and fully implemented in 1996 have primarily gone to workers in low income families (the poor and near poor). (See Burkhauser, Couch, and Glenn 1996). The reason is that all the working poor in Table 1 were helped by improvements in the EITC because it is family income based. Hence a worker earning more than \$5.15 per hour but who lived in a low income family is eligible for the credit. Such a worker gained nothing from the minimum wage increase to \$5.15. Furthermore, because the employer does not directly pay for the EITC, unlike a minimum wage increase, there will be no reduction in employer demand for vulnerable workers.

## **The Future of Minimum Wage Legislation**

Enactment of the minimum wage established a milestone in the institutional relationship within which binding market contracts are made in the United States. I doubt if the majority of those now opposed to further increases in the minimum wage are anxious to end the federal government's power to limit freedom of contract as it has been accepted over the last half century, although some may. Likewise, I doubt if the majority of those in favor of increasing the minimum wage would argue that Ryan's turn-of-the-century picture of the American labor market as dominated by a "perverse individualism which prefers irrational liberty and industrial anarchy to a legal regime of order and justice" is still accurate and would seek additional industrial policy set by government commission, although some might.

Rather, America over the last century, in contrast to many European countries, has rejected the use of government-mandated "industrial partners" to establish wage-setting patterns in the economy. This vision of the labor market, which was much in the spirit of the turn-of-the-century socialists who were among those advocating minimum wage laws as a mechanism to that end, failed to take root in the United States. In fact, the minimum wage has increasingly become an anachronism with respect to either redistributing income or protecting workers against poverty in the United States. The federal income tax has, for the most part, been the principal tool of redistribution in the United States. The negative income tax and more recently the EITC have each been seen as alternative methods of targeting wage subsidies to the working poor. Aside from nostalgia, it is hard to explain continued support for increasing the minimum wage by those interested in helping the working poor. It is time to relegate the minimum wage to the museum of antiquated policies and use the EITC as a method of making work pay

## Endnotes

1. For an excellent source on the role of Ely, Commons, and other members of the "Wisconsin School" on social issues of the day, see Lampman (1993).
2. This case is significant for two reasons. First, it expanded the power of legislatures to intervene in labor markets, although only for women, based on the view that "even though all restrictions on political, personal, and contractual rights were taken away, and she [women] stood, so far as statutes are concerned, upon an absolutely equal plane with him [men], it would still be true that she is so constituted that she will rest upon and look to him for protection; that her physical structure and a proper discharge of her maternal functions—having in view not merely her own health, but the well-being of the race—justify legislation to protect her from the greed as well as the passion of man" (*Muller v. State of Oregon*, p. 327).

Second, for the first time social science evidence was permitted to be introduced before the United States Supreme Court. The social science evidence is summarized in a footnote as "over ninety reports of committees, bureaus of statistics, commissioners of hygiene, inspectors of factories, both in this country and in Europe, to the effect that long hours of labor are dangerous for women, primarily because of their special physical organization" (*Muller v. State of Oregon*, p. 324). This evidence was introduced by Louis Brandeis, then attorney for the State of Oregon, who was appointed to the Supreme Court in 1916.

3. As evidence that the public at large considered the last increase in the minimum wage to be a socially just exercise of government regulatory power, the Catholic bishops' pastoral letter, written under the leadership of the Right Reverend Rembert G. Weakland, O.S.B., Coadjutor Archabbot and former Abbot of St. Vincent Monastery (National Conference of Catholic Bishops 1986) strongly endorsed an increase in the minimum wage in 1986. Even a poll of corporate executives, at that time, whose taste for spiritual rewards may be a bit more limited, voiced some support for increasing the minimum wage. "More than a third...felt it was a corporate responsibility to meet the minimum poverty requirements as determined by the government" (Magnus 1987). In his testimony before the Joint Economic Committee in 1995, Gary Burtless cites opinion polls that register overwhelming popular support for increasing the minimum wage (Burtless 1995).
4. These numerical examples are, of course, only for workers still in the credit range of the EITC. Past that range, effective hourly wages would fall. The example is meant only to translate the concept of an EITC into minimum wage terms. The point is that the EITC effectively answers Stigler's criticism of the minimum wage in that it more closely links wages to need.

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Table 1. Wage Distribution of Workers  
by Income-To-Needs Ratio of Their Household  
March 1996

| Income-to-Needs Ratio | Hourly Wage Categories |                        |                        |                        |                         |                        | Total | Percent of<br>All<br>Workers | Percent of Workers<br>Earning More than<br>\$3.99 and Less than<br>\$5.15 |
|-----------------------|------------------------|------------------------|------------------------|------------------------|-------------------------|------------------------|-------|------------------------------|---------------------------------------------------------------------------|
|                       | \$0.01<br>to<br>\$3.99 | \$4.00<br>to<br>\$4.24 | \$4.25<br>to<br>\$5.14 | \$5.15<br>to<br>\$5.99 | \$6.00<br>to<br>\$10.00 | \$10.00<br>and<br>over |       |                              |                                                                           |
| Less than 1.00        | 5.2                    | 1.1                    | 28.6                   | 13.8                   | 39.5                    | 11.8                   | 100.0 | 6.7                          | 20.9                                                                      |
| 1.00 to 1.24          | 3.9                    | 0.4                    | 22.1                   | 11.5                   | 44.9                    | 17.2                   | 100.0 | 2.9                          | 6.9                                                                       |
| 1.25 to 1.49          | 4.0                    | 1.5                    | 16.6                   | 6.6                    | 52.4                    | 18.9                   | 100.0 | 3.5                          | 6.7                                                                       |
| 1.50 to 1.99          | 3.1                    | 0.4                    | 11.8                   | 8.7                    | 50.0                    | 25.9                   | 100.0 | 8.5                          | 10.9                                                                      |
| 2.00 to 2.99          | 2.4                    | 0.4                    | 8.2                    | 5.1                    | 41.6                    | 42.2                   | 100.0 | 18.1                         | 16.4                                                                      |
| 3.00 or greater       | 1.4                    | 0.3                    | 5.7                    | 3.4                    | 22.2                    | 67.0                   | 100.0 | 60.3                         | 38.1                                                                      |
| Whole Category Share  | 2.1                    | 0.4                    | 9.1                    | 5.2                    | 31.0                    | 52.2                   | 100.0 | 100.0                        | 100.0                                                                     |

Source: March 1996 CPS out-going rotation group

Sample of workers includes all non-military, non-self employed workers ages 16 and older in March 1996. Calculations based on wage reported for currently held job and income reported for 1995.

Table 1a. Wage Distribution of Teenage Workers (ages 16-19)  
by Income-To-Needs Ratio of Their Household  
March 1996

| Income-to-Needs Ratio | Hourly Wage Categories |                        |                        |                        |                         |                        | Total | Percent<br>of all<br>Workers | Percent of Workers<br>earning more than<br>\$3.99 and Less than<br>\$5.15 |
|-----------------------|------------------------|------------------------|------------------------|------------------------|-------------------------|------------------------|-------|------------------------------|---------------------------------------------------------------------------|
|                       | \$ .01<br>to<br>\$3.99 | \$4.00<br>to<br>\$4.24 | \$4.25<br>to<br>\$5.14 | \$5.15<br>to<br>\$5.99 | \$6.00<br>to<br>\$10.00 | \$10.00<br>and<br>over |       |                              |                                                                           |
| Less than 1.00        | 5.3                    | 1.0                    | 51.0                   | 14.0                   | 26.9                    | 1.8                    | 100.0 | 15.8                         | 17.7                                                                      |
| 1.00 to 1.24          | 3.3                    | 0.0                    | 51.7                   | 12.7                   | 22.9                    | 9.4                    | 100.0 | 5.1                          | 5.7                                                                       |
| 1.25 to 1.49          | 6.3                    | 13.3                   | 38.1                   | 17.4                   | 19.5                    | 5.3                    | 100.0 | 5.3                          | 5.9                                                                       |
| 1.50 to 1.99          | 2.4                    | 0.0                    | 31.3                   | 21.1                   | 45.1                    | 0.0                    | 100.0 | 6.8                          | 4.6                                                                       |
| 2.00 to 2.99          | 4.2                    | 0.4                    | 45.2                   | 11.5                   | 31.7                    | 7.0                    | 100.0 | 15.4                         | 15.2                                                                      |
| 3.00 or greater       | 7.6                    | 1.9                    | 43.8                   | 17.7                   | 26.2                    | 2.8                    | 100.0 | 51.7                         | 51.0                                                                      |
| Whole Category share  | 6.1                    | 1.9                    | 44.4                   | 16.1                   | 27.9                    | 3.6                    | 100.0 | 100.0                        | 100.0                                                                     |

Source: March 1996 CPS out-going rotation group

Sample of workers includes all non-military, non-self employed workers ages 16-19. Calculations based on wage reported for currently held job and income reported for 1995.

**Table 2. Simulated Distribution of Wage Income Increases due to an Increase in the Minimum Wage from \$4.25 to \$5.15 using March 1996 Wage Levels**

| Income-to-Needs Ratio | Total Benefit<br>(billions of<br>dollars) | Mean Benefit per<br>Household<br>(dollars) | Percent of<br>Total |
|-----------------------|-------------------------------------------|--------------------------------------------|---------------------|
| Less than 1.00        | \$.57                                     | \$620                                      | 16.8                |
| 1.00 to 1.24          | \$.27                                     | \$753                                      | 8.0                 |
| 1.25 to 1.49          | \$.22                                     | \$532                                      | 6.4                 |
| 1.50 to 1.99          | \$.46                                     | \$689                                      | 13.5                |
| 2.00 to 2.99          | \$.64                                     | \$603                                      | 18.8                |
| 3.00 or greater       | \$1.24                                    | \$568                                      | 36.5                |
| All Households        | \$3.39                                    | \$606                                      | 100.0               |

March 1996 CPS out-going rotation group

Sample of workers includes all non-military workers ages 16 and older in March 1996 who are not self-employed, not part of families with self-employment income, and who did not move, change industries or occupations. Calculations based on wage reported for currently held job and income reported for 1995.