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Minimum Wage [2]

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# **Job Loss in a Booming Economy 2nd Edition**

**The Employment Policies Institute**

**A P R I L 1 9 9 8**

## **A Note about "Job Loss in a Booming Economy 2<sup>nd</sup> Edition"**

*The first edition of "Job Loss in a Booming Economy" (January 1998) compares average employment during the 11 months that the \$4.75 federal minimum wage was in effect (Oct. 1996 - Aug. 1997) with average employment during the same 11 months one year earlier (Oct. 1995 - Aug. 1996), when a \$4.25 minimum wage was in effect. It is important to compare the same specific months because of seasonal fluctuations in the teen employment data. (September, the omitted month, is especially volatile because teens with summer jobs leave work and return to school.)*

*One inherent problem with this comparison is that employers probably made some adjustments for the new mandate before its Oct. 1, 1996, effective date. This would bias against finding job loss associated with the wage hike mandate. To account for this possibility, EPI has updated the original January 1998 study. This update compares average employment during the 11 months that the \$4.75 federal minimum wage was in effect with average employment during the same 11 months one and two years earlier (Oct. 1994 - Aug. 1995 and Oct. 1995 - Aug. 1996). Using employment data for 22 rather than 11 months to construct the comparison period reduces the unknown impact of any employer adjustments shortly before the Oct. 1, 1996, effective date. Doubling the comparison period also increases the precision of our estimates.\**

*This second edition of "Job Loss in a Booming Economy" does, indeed, indicate that employer adjustments biased our original job-loss estimates downward. Whereas the earlier version of this study indicated that 128,000 teen job opportunities were destroyed by the 1996 wage hike, our updated analysis indicates that approximately 215,000 teen job opportunities were destroyed.*

*Rebel Cole  
Chief Economist  
Employment Policies Institute*

*\*The estimates upon which our job loss figures are based are statistically significant at better than the 1 percent level.*

## The Minimum Wage, Welfare Reform and Jobs for Low-skilled Workers

During the fourth week of August 1996, President Clinton signed into law two bills with serious implications for the ability of low-skilled workers to find jobs. On the 20th, he signed a bill that would increase the federal minimum wage from \$4.25 to \$4.75 effective October 1, 1996, and from \$4.75 to \$5.15 on September 1, 1997. On the 22nd, he signed a bill that would "end welfare as we know it," in part by requiring adult welfare recipients to find work within two years or lose their benefits. Lost in the fanfare over the signing of these two bills were the pernicious interactions that the new laws would have in the entry-level job market. Just as the welfare reform bill would be forcing hundreds of thousands of low-skilled adults into the job market, the higher minimum wage would be destroying the very jobs that could have offered these welfare recipients a first step on the ladder of economic success. Now, just as the clock is running out on those welfare recipients, organized labor and its supporters are pushing for yet another round of increases in the minimum wage.

The effect of such increases can only serve to further undermine the potential for welfare reform to succeed. Even in a booming economy, one key fact about welfare recipients cannot be ignored: most of them simply do not possess the skills needed to fill existing job vacancies. The classified ads are thick with job listings each week, but many welfare recipients lack the education and work skills required by employers. For example, two-thirds of welfare recipients scored in the bottom quartile of the Armed Forces Qualifying Test, with one-third in the bottom *decile*.<sup>1</sup> They might qualify for entry-level jobs if the wage rates reflected the skill levels of these applicants. Sadly, with each upward increment in the minimum wage, hundreds of thousands of entry-level job opportunities are destroyed.

Recently, in championing further increases in the minimum wage, Senator Ted Kennedy (D-MA) relied upon two erroneous claims: (1) "employment does not go down because the minimum wage goes up";<sup>2</sup> and (2) benefits from minimum wage increases go primarily to low-income families. In this article we outline the solid economic analysis that refutes these two claims. First, we calculate from official government employment data that the October 1, 1996, 50-cent minimum wage increase destroyed approximately 215,000 teen jobs, affecting about 3.5 percent of the 6.2 million teens that were working before the increase. In other words, employment *does* go down when the minimum wage goes up, and it went down after the 1996 increase despite strong performance in the economy as a whole.<sup>3</sup> The more recent September 1, 1997, minimum wage increase has undoubtedly destroyed even more jobs, but it is still too early to accurately measure these additional losses. Second, we calculate from the same data that the average family income for minimum wage workers is more than \$35,000, hardly what most Americans would classify as "low-income." Thus, the minimum wage increase does not target low-income families.

Rebel Cole  
Chief Economist  
Employment Policies Institute

## Did the 1996 Increase in the Minimum Wage Destroy Jobs?

Supporters of the minimum wage legislation claimed that it would benefit millions of low-wage workers without causing significant job loss. Opponents challenged this free-lunch notion, citing overwhelming evidence to the contrary from academic studies that examined the employment effects of previous increases in the federal minimum wage (see Deere, Murphy and Welch, *American Economic Review* 85:2, 1995, pp. 232-237). We add to this existing body of evidence by providing the first comprehensive study of the employment effects associated with the October 1, 1996, minimum wage increase.

Both supporters and critics of the minimum wage agree that any negative employment effects associated with minimum wage increases are most easily detected by observing data on teen-aged workers, who account for approximately one-third of all minimum wage workers. Based upon an analysis of changes in teen employment following the 1996 increase in the federal minimum wage, we estimate that 215,000 teen jobs were destroyed by that increase. These lost jobs represent about 3.5 percent of the 6.2 million teens that were working prior to the increase. To the extent that teen-aged workers are representative of all minimum wage workers, these findings imply that approximately 645,000 entry-level jobs were destroyed by the 1996 minimum wage increase.

We used employment data from the U.S. Department of Labor in a straightforward test of whether or not the 1996 increase in the federal minimum wage reduced employment from what it would have been in the absence of the increase.<sup>4</sup> As shown in Panel A of Table 1, we found that the employment rate for prime-aged workers age 25-64 increased by 0.91 percentage points, from 76.05 percent to 76.96 percent. For teen workers age 16-19, however, the employment rate *declined* by 0.62 percentage points, from 43.75 percent to 43.13 percent.<sup>5</sup> For teen males, the decline was especially severe, falling 1.40 percentage points from 44.14 percent to 42.74 percent.<sup>6</sup>

To put these teen employment changes into perspective, it is useful to translate them into job losses. In order to do this, however, we need a benchmark

to control for the effect on employment of changes in economic conditions across the two measurement periods. From October 1995 through August 1997, strong economic growth led to the creation of more than 4.5 million jobs. The most

Change in Employment-to-Population Ratios Following the 1996 Minimum Wage Increase

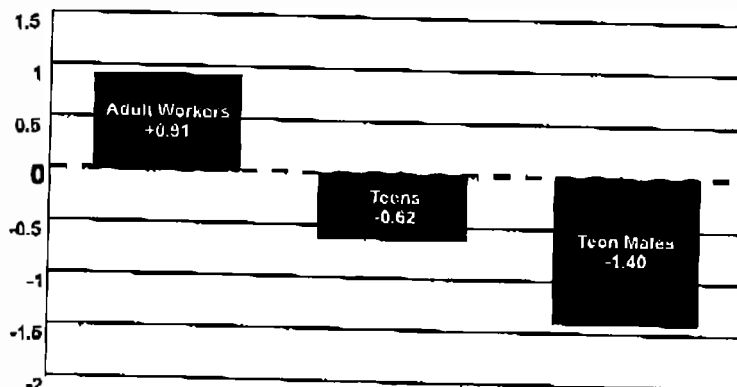


Figure 1

logical benchmark for measuring changes in teen employment is the change in the employment rate for prime-aged workers, i.e., the change in employment that would have occurred if the teen employment rate had increased by 0.91—the average employment-rate change for prime-aged workers from the period before to the period after the 1996 minimum wage increase. Previous research has shown that teen employment closely tracks aggregate employment

(again, see Deere, Murphy and Welch, 1995). Therefore, we calculate employment changes due to the minimum wage increase as the actual change in employment relative to the change in employment projected using this benchmark.

As shown in Panel B of Table 1, we calculate that teen employment would have increased by 128,073 jobs had the teen employment rate increased by 0.91 percentage points—the employment-rate change for all workers and the expected employment change for teens had there not been an increase in the minimum wage.

Actual teen employment, however, declined by 87,258 jobs. Hence, for all teens, the number of lost jobs due to the minimum wage increase is the combined projected (unrealized) increase and actual decrease, or 215,331 (128,073 and 87,258). Because

teen workers account for only one in three minimum wage workers, this analysis suggests that approximately 645,000 job opportunities were destroyed by the 1996 minimum wage increase from \$4.25 to \$4.75. Moreover, there are at least twice as many workers who were affected by the yet-unexamined September 1, 1997, minimum wage increase from \$4.75 to \$5.15. The number of jobs destroyed by that increase is likely to be large, especially coming so soon (11 months) after the prior increase.

The 1996 wage hike (50 cents) was the first mandated increase to follow several years of strong economic growth. (Prior to 1996, the minimum wage last increased in 1991.) Thus, the effects of the 1996

wage hike were, to some extent, muted by the fact that market wages had risen with the strong economy, making the initial 50-cent increase less “binding” in the work force. The second wage hike (40 cents, in 1997) may have had a larger impact because the new mandated pay floor was much closer to — if not above — the market rate of pay for entry-level employees nationwide. However, we won’t be able to accurately measure that number until the increase has been in effect long enough to trigger all adjustments. Empirical research suggests about one year of data are needed to accurately measure such employment

effects (see Deere, Murphy and Welch, 1995).

Table 1 also breaks out by gender teen job losses due to the minimum wage increase. This breakout reveals that the pain of the minimum wage increase was borne

disproportionately by teen male workers. Of the 215,331 teen jobs that were lost, teen males lost 164,934, accounting for three-fourths of the total teen job loss. This asymmetry of job loss shows how important it is to consider the effects of minimum wage legislation on demographic subgroups as well as the aggregate effects.

Table 2 breaks out teen job losses due to the minimum wage increase by race and ethnicity as well as gender.<sup>7</sup> Because of the small sample sizes in the Bureau of Labor Statistics survey database, the results for Black and Hispanic teens are less reliable (statistically) than the overall teen numbers or the results for White teens. Nonetheless, the change in employ-

Teen Job Loss Following 1996 Minimum Wage Increase

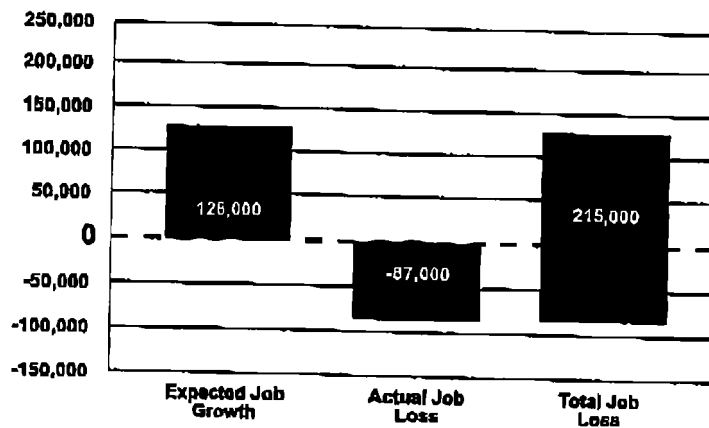


Figure 2

ment for Black and Hispanic teens is instructive. The figures in Panel A of Table 2 reveal that teen Black, non-Hispanic males suffered the most from the minimum wage increase. For this demographic group, the employment rate declined by 1.33 percentage points, from 25.54 percent to 24.21 percent at the same time the overall employment rate was increasing by 0.91 percentage points. As shown in Panel B of Table 2, this suggests that job losses among teen Black, non-Hispanic males total to 24,204, or almost 9 percent of the 275,965 workers in this demographic group. Yet these are the types of workers minimum wage advocates would have us believe are the beneficiaries of the minimum wage increases. The data in Table 2 also suggest that teen Hispanic males suffered as a result of the 1996 minimum wage increase, with job losses at 12,459 or almost 4 percent of the 328,826 workers in this demographic group.

In summary, the data are now in and the evidence is clear. The October 1996 increase in the minimum wage from \$4.25 per hour to \$4.75 per hour was not so painless as its proponents would profess, despite a strong job market. A straightforward review of government employment data demonstrates that this increase hit minimum wage workers with job losses, and hit them hard. The analysis here suggests that as many as 645,000 jobs were lost, with one-third of these losses concentrated among teenagers aged 16-19. Especially vulnerable were Black males aged 16-19, as well as teen males in general. These are the faces of the "losers" from the 1996 mini-

um wage increase. And the pain does not stop here. During 1998, as the full effects of the second step increase in the minimum wage from \$4.75 to \$5.15 come into play, hundreds of thousands of additional entry-level jobs will be at risk.

### Did the Minimum Wage Increase Go to Low-Income Families?

The most often cited justification for raising the minimum wage is that such increases benefit low-income families. To quote Sen. Kennedy, "No one who works for a living should have to live in poverty."<sup>8</sup> However,

this raises a fundamental question: Do increases in the minimum wage primarily benefit low-income families? If the answer is no, then policymakers should pursue proven, effective anti-poverty tools such as the earned income tax credit, and abandon efforts to increase the minimum wage.

Percentage Employment Losses: Teen Males

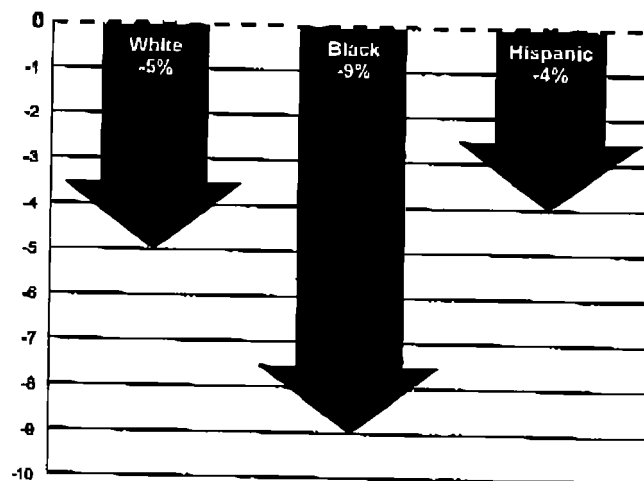


Figure 3

We used official government data from the U.S. Department of Labor to calculate who benefited from the 1996 minimum wage increase.<sup>9</sup> As shown in Table 3 (and Figure 4), more than 70 percent of the minimum wage gains went to families and individuals in the upper four income quintiles (those earning more than \$15,777 per year), and *more than half* of the minimum wage gains went to those in the upper three income quintiles (earning more than \$29,424 per year). We find that less than 18 percent of the minimum wage gains went to families and individuals living below the federally defined level

of poverty, which in 1996 was \$12,516 for a family of three.

We are not the first to show that the benefits of minimum wage increases go in large part to upper income families. In an analysis of the 1989 law that raised the minimum wage from \$3.35 to \$4.25, researchers found that the increases "yielded more income for low-wage workers living in upper income households than it did for low-wage workers who lived in poor households."<sup>10</sup>

When we restrict the analysis to traditional families (i.e., exclude single persons living alone), the trend is even more instructive. Almost 80% of the gains went to families in the upper four income quintiles, and *every family* in those quintiles has an income that far exceeds the poverty level for a family of four. From these numbers, it is clear that increases in the minimum wage *do not* go predominantly to low-income families, despite the rhetoric to the contrary. Even former Labor Secretary Robert Reich, a strong and vocal advocate for a higher minimum wage, has conceded that "most minimum wage workers are not poor."<sup>11</sup>

## Conclusion

In this article, we answer the two most important questions that should be asked about increases in the minimum wage. Do increases cause job loss? Yes, and those losses traditionally have fallen most heavily

on male Black teens. Do most of the gains from increases go to low-income families? No. Less than one dollar in five goes to low-income families living in poverty, while more than half of the gains go to families and individuals with annual incomes greater than \$29,000. Taken together, these answers imply that the minimum wage does nothing to combat poverty. Other researchers have come to a similar conclusion. For example, Neumark and Wascher ("Do Minimum Wages Fight Poverty?" NBER Working Paper No. 6127, August 1996) conclude, "On average, minimum wages appear to slightly increase the proportion of families that are poor." In other words, the number of families that fall into

Distribution of 1996 Minimum Wage Gains Across All Individuals and Families, by Income Level

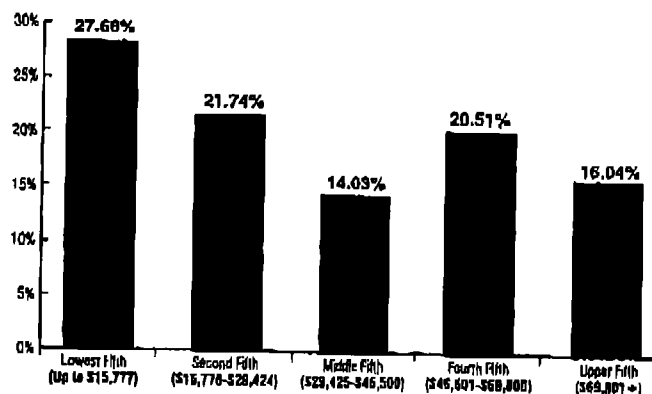


Figure 4

poverty because of job loss is greater than the number of families that rise out of poverty because of the higher minimum wage.

When 1998 draws to a close, the hundreds of thousands of low-skilled adult welfare recipients forced to seek work by the "Personal Responsibility and Work Opportunity Act of 1996" will face even fewer opportunities for work than they could have imagined. Do we really want to exacerbate this already bleak situation by increasing the minimum wage yet again, and destroying even more jobs? Or should we be looking for alternative policy prescriptions to help the working poor, such as exempting them from payroll taxes, or expanding the earned income tax credit? These are the questions we should be asking legislators as they face these important policy decisions.

**Table 1:** Employment Effects of the October 1, 1996, Increase in the Federal Minimum Wage from \$4.25 to \$4.75: Grouped by Age  
(standard errors in parentheses)

**Panel A: Average Monthly Populations and Employment-to-Population Ratios: Workers Age 16 to 64**

|              | Average Monthly Population<br>(in thousands) |                         | Average Monthly<br>Employment-to-Population Ratio |                         |                              |
|--------------|----------------------------------------------|-------------------------|---------------------------------------------------|-------------------------|------------------------------|
|              | Oct. 1994-<br>Aug. 1996 <sup>a</sup>         | Oct. 1996-<br>Aug. 1997 | Oct. 1994-<br>Aug. 1996 <sup>a</sup>              | Oct. 1996-<br>Aug. 1997 | Change in<br>Employment Rate |
| All          | 199,021                                      | 202,417                 | 62.88<br>(0.07)                                   | 63.59<br>(0.10)         | 0.71<br>(0.12)               |
| Age 25-64    | 135,178                                      | 137,840                 | 76.05<br>(0.07)                                   | 76.96<br>(0.10)         | 0.91<br>(0.12)               |
| Age 16-19    | 14,074                                       | 15,285                  | 43.75<br>(0.25)                                   | 43.13<br>(0.36)         | -0.62<br>(0.44)              |
| Male 16-19   | 7,140                                        | 7,786                   | 44.14<br>(0.36)                                   | 42.74<br>(0.51)         | -1.40<br>(0.62)              |
| Female 16-19 | 6,934                                        | 7,499                   | 43.35<br>(0.36)                                   | 43.54<br>(0.51)         | 0.19<br>(0.62)               |

<sup>a</sup> To avoid introduction of bias due to seasonal employment fluctuations, data from September 1995 is excluded.

**Panel B: Employment Changes due to the 1996 Increase in the Federal Minimum Wage: Workers Age 16 to 19**

|              | Projected<br>Employment<br>Change <sup>a</sup> | Actual<br>Employment<br>Change <sup>b</sup> | Employment Change<br>Due to Minimum<br>Wage Increase <sup>c</sup> | Difference<br>Relative to Workers<br>Age 25-64 <sup>d</sup> |
|--------------|------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------|
| All 16-19    | 128,073                                        | -87,258                                     | -215,331                                                          | -1.53 <sup>e</sup><br>(0.46)                                |
| Male 16-19   | 64,974                                         | -99,960                                     | -164,934                                                          | -2.31 <sup>e</sup><br>(0.63)                                |
| Female 16-19 | 63,099                                         | 13,174                                      | -49,924                                                           | -0.72<br>(0.64)                                             |

<sup>a</sup> Projected Employment Change is calculated as the 0.91 percentage-point change in the employment-to-population ratio for workers age 25-64 multiplied by the Oct. 94-Aug. 96 average monthly population of teen workers age 16-19.

<sup>b</sup> Actual Employment Change is calculated as the percentage point change in the employment to population ratio for workers age 16-19 multiplied by the Oct. 94-Aug. 96 average monthly population of teen workers age 16-19.

<sup>c</sup> Employment Change due to Minimum Wage Increase is the difference relative to workers age 25-64 multiplied by the Oct. 94-Aug. 96 average monthly population of teen workers age 16-19.

<sup>d</sup> Difference Relative to Workers Age 25-64 is calculated as the change in the teen employment-to-population ratio less the change in the adult employment-to-population ratio.

<sup>e</sup> Indicates that the difference is statistically significant at least at the 1% level.

**Table 2:** Employment Effects of the October 1, 1996, Increase in the Federal Minimum Wage from \$4.25 to \$4.75: Workers Age 16-19 by Race, Ethnicity and Gender  
(standard errors in parentheses)

**Panel A: Average Monthly Populations and Employment-to-Population Ratios: Workers Age 16 to 19**

|                            | Average Monthly Population<br>(in thousands) |                         | Average Monthly<br>Employment-to-Population Ratio |                         |                              |
|----------------------------|----------------------------------------------|-------------------------|---------------------------------------------------|-------------------------|------------------------------|
|                            | Oct. 1994-<br>Aug. 1996 <sup>a</sup>         | Oct. 1996-<br>Aug. 1997 | Oct. 1994-<br>Aug. 1996 <sup>a</sup>              | Oct. 1996-<br>Aug. 1997 | Change in<br>Employment Rate |
| White, Non-Hispanic        | 9,596                                        | 10,136                  | 50.72<br>(0.30)                                   | 49.95<br>(0.44)         | -0.77<br>(0.53)              |
| White, Non-Hispanic Male   | 4,893                                        | 5,176                   | 50.66<br>(0.43)                                   | 49.25<br>(0.61)         | -1.41<br>(0.75)              |
| White, Non-Hispanic Female | 4,703                                        | 4,961                   | 50.78<br>(0.43)                                   | 50.68<br>(0.62)         | -0.10<br>(0.75)              |
| Black, Non-Hispanic        | 2,184                                        | 2,349                   | 25.93<br>(0.62)                                   | 26.64<br>(0.89)         | 0.71<br>(1.08)               |
| Black, Non-Hispanic Male   | 1,081                                        | 1,157                   | 25.54<br>(0.89)                                   | 24.21<br>(1.23)         | -1.33<br>(1.52)              |
| Black, Non-Hispanic Female | 1,103                                        | 1,192                   | 26.30<br>(0.85)                                   | 29.00<br>(1.27)         | 2.70<br>(1.53)               |
| Hispanic                   | 1,754                                        | 2,074                   | 33.34<br>(0.73)                                   | 32.98<br>(1.03)         | -0.36<br>(1.26)              |
| Hispanic Male              | 890                                          | 1,084                   | 36.95<br>(1.06)                                   | 36.46<br>(1.49)         | -0.49<br>(1.83)              |
| Hispanic Female            | 864                                          | 990                     | 29.59<br>(1.00)                                   | 29.18<br>(1.40)         | -0.41<br>(1.72)              |

<sup>a</sup> To avoid introduction of bias due to seasonal employment fluctuations, data from September 1995 is excluded.

**Panel B: Employment Changes due to the 1996 Increase in the Federal Minimum Wage: Workers Age 16 to 19**

|                            | Projected<br>Employment<br>Change <sup>a</sup> | Actual<br>Employment<br>Change <sup>b</sup> | Employment Change<br>Due to Minimum<br>Wage Increase <sup>c</sup> | Difference<br>Relative to Workers<br>Age 25-64 <sup>d</sup> |
|----------------------------|------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------|
| White, Non-Hispanic        | 87,321                                         | -73,887                                     | -161,208                                                          | -1.68<br>(0.54)                                             |
| White, Non-Hispanic Male   | 44,526                                         | -68,991                                     | -113,517                                                          | -2.32<br>(0.76)                                             |
| White, Non-Hispanic Female | 42,795                                         | -4,709                                      | -47,498                                                           | -1.01<br>(0.76)                                             |
| Black, Non-Hispanic        | 19,872                                         | 15,505                                      | -4,368                                                            | -0.20<br>(1.09)                                             |
| Black, Non-Hispanic Male   | 9,833                                          | -14,371                                     | -24,204                                                           | -2.24<br>(1.52)                                             |
| Black, Non-Hispanic Female | 10,040                                         | 29,788                                      | 19,748                                                            | 1.79<br>(1.53)                                              |
| Hispanic                   | 15,957                                         | -6,313                                      | -22,270                                                           | -1.27<br>(1.27)                                             |
| Hispanic Male              | 8,098                                          | -4,361                                      | -12,459                                                           | -1.40<br>(1.83)                                             |
| Hispanic Female            | 7,859                                          | -3,541                                      | -11,400                                                           | -1.32<br>(1.73)                                             |

<sup>a</sup> Projected Employment Change is calculated as the 0.91 percentage-point change in the employment-to-population ratio for workers age 25-64 multiplied by the Oct. 94-Aug. 96 average monthly population of teen workers age 16-19.

<sup>b</sup> Actual Employment Change is calculated as the percentage point change in the employment to population ratio for workers age 16-19 multiplied by the Oct. 94-Aug. 96 average monthly population of teen workers age 16-19.

<sup>c</sup> Employment Change due to Minimum Wage Increase is the difference relative to workers age 25-64 multiplied by the Oct. 94-Aug. 96 average monthly population of teen workers age 16-19.

<sup>d</sup> Difference Relative to Workers Age 25-64 is calculated as the change in the teen employment-to-population ratio less the change in the adult employment-to-population ratio.

<sup>e</sup> Indicates that the difference is statistically significant at least at the 1% level.

**Table 3:** 1996 Minimum Wage Gains Across All Individuals and Families, by Income Level

|              | Individuals and Families |                     |                                | Families           |                     |                                |
|--------------|--------------------------|---------------------|--------------------------------|--------------------|---------------------|--------------------------------|
|              | Minimum Wage Share       | Average Family Size | Upper Income Limit of Quintile | Minimum Wage Share | Average Family Size | Upper Income Limit of Quintile |
| Lowest Fifth | 27.68%                   | 2.56                | \$15,777                       | 21.63%             | 3.51                | \$19,200                       |
| Second Fifth | 21.74%                   | 2.93                | \$29,424                       | 21.37%             | 3.43                | \$33,815                       |
| Middle Fifth | 14.03%                   | 3.24                | \$46,500                       | 17.79%             | 3.58                | \$50,000                       |
| Fourth Fifth | 20.51%                   | 3.62                | \$69,800                       | 22.46%             | 3.80                | \$73,139                       |
| Upper Fifth  | 16.04%                   | 3.84                | *                              | 16.76%             | 3.91                | *                              |

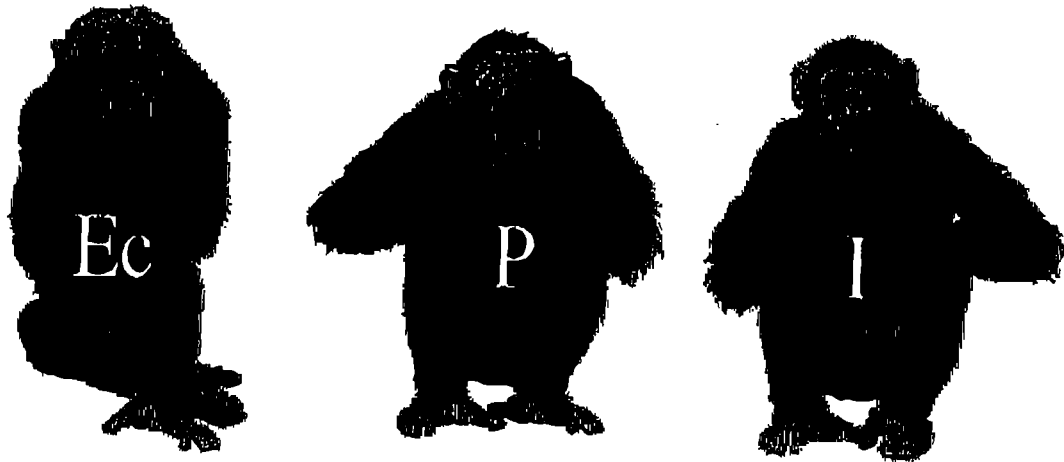
\*This quintile includes the richest American families and has no upper income limit.

Data Source: Monthly Statistics from the Bureau of Labor Statistics *Current Population Survey*.

## Endnotes

- <sup>1</sup> See Krista Olson and LaDonna Pavetti, *Personal and Family Challenges to the Successful Transition from Welfare to Work*, The Urban Institute, 1996.
- <sup>2</sup> Statement of Senator Edward M. Kennedy, *U.S. Congressional Record*, July 11, 1997, Vol. 143, No. 98 p. S7303.
- <sup>3</sup> This is generally accepted by economists. A recent survey of labor economists co-authored by Alan Krueger (who has written that higher minimum wages may increase employment) states that "the median labor economist reported that a 10 percent increase in the minimum wage would be associated with a 1 percent decrease in teenage employment." See p. 6 of Victor Fuchs, Alan Krueger and James Poterba, "Why do Economists Disagree about Policy," NBER Working Paper, August 1997.
- <sup>4</sup> Specifically, we used data from the Bureau of Labor Statistics *Current Population Survey* to compare the average monthly employment-to-population ratio ("employment rate") during the full 11 months for which the \$4.75-per-hour minimum wage was in effect (October 1, 1996-August 31, 1997) with the average monthly employment rate during the same 11 months one and two years earlier (October 1, 1994-August 31, 1996 excluding September 1995). This type of comparison avoids problems of seasonality that arise when comparing different time periods within the calendar year. As we are looking at 11-month and 22-month averages, this approach also minimizes the effects of monthly fluctuations in the data. We look at 11 months of data because the minimum wage increased from \$4.75 to \$5.15 on September 1, 1997, so that the \$4.75 minimum wage was in effect for only 11 months.
- <sup>5</sup> The -0.62 decline in teen employment is statistically different from the +0.91 increase in adult employment at the 1% level.
- <sup>6</sup> The -1.40 decline in teen male employment is statistically different from the +0.91 increase in adult employment at the 1% level.
- <sup>7</sup> Because of the small sample sizes for Black and Hispanic teens in the available data, the measured changes in their employment-to-population ratios cannot be reliably distinguished from the employment ratio change for all workers, using standard statistical techniques.
- <sup>8</sup> Senator Edward M. Kennedy, speech to the National Press Club luncheon, Washington, D.C., December 12, 1997.
- <sup>9</sup> Specifically, we used data from the Bureau of Labor Statistics March 1996 *Current Population Survey* to examine how the income gains from the minimum wage are distributed across income quintiles. We looked at workers whose hourly wages were in the range that would be affected (\$4.25-\$4.74) by the 1996 increase and then calculated their hourly increase based on the new minimum of \$4.75. This value was multiplied by their annual hours worked in 1995 to arrive at the annual gains from the minimum wage hike. Within each quintile we maintained equal numbers of persons rather than equal numbers of families to avoid the equal families-unequal persons (and hence earners) problem. The minimum wage gain shares were then easily calculated by quintile.
- <sup>10</sup> See p. 91 of Richard Burkhauser, Kenneth Couch and Andrew Glenn, 1996, "Public Policies for the Working Poor: The Earned Income Tax Credit versus Minimum Wage Legislation," *Research in Labor Economics* 15, 65-10.
- <sup>11</sup> Robert B. Reich, Memorandum to the President of the United States, July 20, 1993.

In 12 years of existence, the union-backed Economic Policy Institute (EcPI) has failed to find job losses from minimum wage hikes.



Here's Some Help:  
**215,000 Lost Jobs**

According to an analysis of US Department of Labor data, *the first half* of the 1996-97 minimum wage increase resulted in 215,000 fewer teenage jobs, despite a booming economy.

The employment rate for teenagers *declined* by .62 percentage points in the 11-month period following the October 1, 1996 wage hike. During that same period, the benchmark employment rate for all employees *increased* by .91 percentage points.\*

Had teen employment increased at the same rate as all workers, there would have been an additional 128,000 teen jobs after the increase. Actual teen employment, however, declined by 87,000 jobs following the wage hike, for a total loss of 215,000 jobs.

And because teen workers account for one in three minimum wage workers, this analysis suggests that as many as 645,000 jobs were destroyed by the first half of the 1996-97 minimum wage hike.

In early May, the Economic Policy Institute said they failed to find "systematic, significant job loss" associated with the 1996-97 minimum wage hike. But an objective review of the facts tells a different story. Two hundred thousand lost jobs is a significant number. And our estimated job-loss is statistically significant at better than the 0.1% level. In other words, there is less than one chance in a thousand that EcPI is correct in saying the last minimum wage hike "raised earnings . . . without causing job loss."

For a copy of this straightforward analysis of the 1996 minimum wage hike, contact the Employment Policies Institute at 202.463.7650, or visit [www.epionline.org](http://www.epionline.org).

\* Data from the Bureau of Labor Statistics Current Population Survey was used to compare the average monthly employment-to-population ratio ("employment rate") during the full 11 months for which the \$4.75-per-hour minimum wage was in effect (October 1, 1996-August 31, 1997) with the average monthly employment rate during the same 11 months one and two years earlier (October 1, 1994-August 31, 1995, 1996 excluding September 1995).

For the full story on the minimum wage, call us at 202.463.7650 or visit our web site, [www.epionline.org](http://www.epionline.org).

**EMPLOYMENT  
POLICIES  
INSTITUTE**

**RAISING THE MINIMUM WAGE TO \$5.15 per HOUR**

Labor Committee  
7/28/95

# ESTIMATED GOVERNMENT SAVINGS RESULTING FROM A \$.90 MINIMUM WAGE HIKE

The increase in earnings resulting from a raised minimum wage would result in a decrease in Federal dollars spent on several needs-based social welfare programs. If the minimum wage were to increase from its current level of \$4.25 to the proposed level of \$5.15, the estimated savings would be as follows:

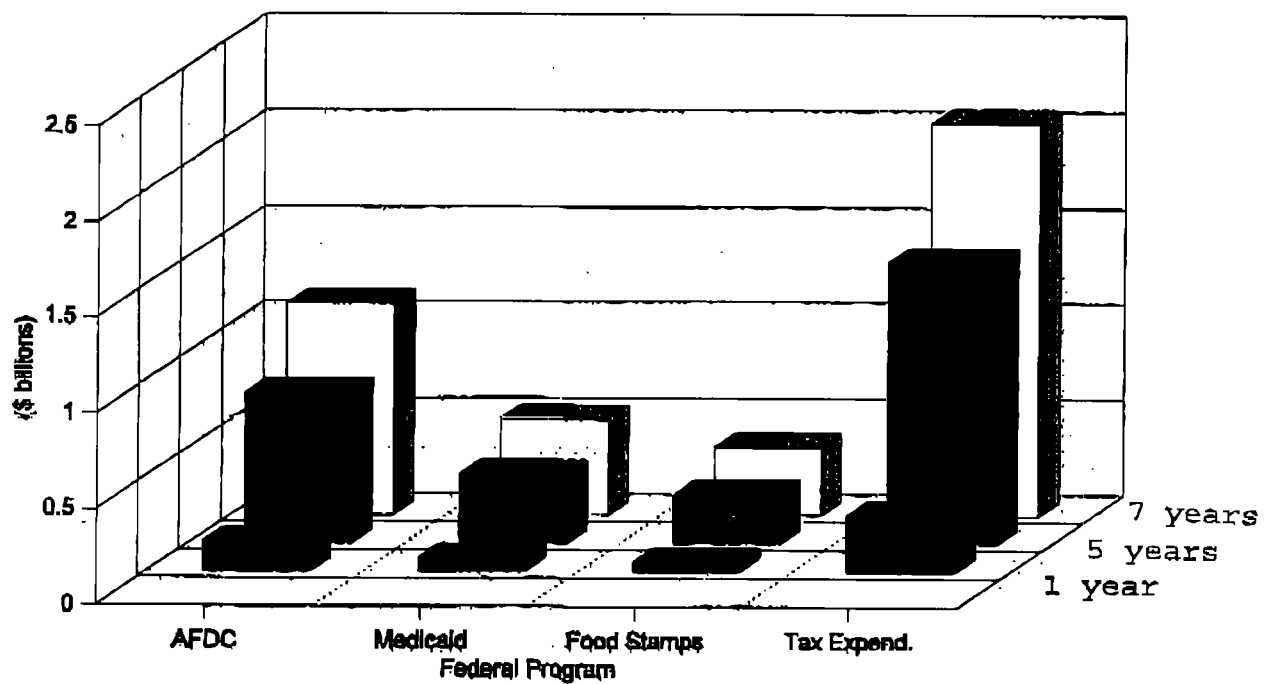
| Program(# workers affected) <sup>2</sup> | Estimated Savings <sup>1</sup> |               |               |
|------------------------------------------|--------------------------------|---------------|---------------|
|                                          | 1yr. (billions)                | 5yrs.         | 7yrs.         |
| 1. AFDC (.693 million)                   | \$.249                         | \$1.25        | \$1.75        |
| (Federal Only)                           | (.125)                         | (.624)        | (.873)        |
| 2. Medicaid (<1 mil.)                    | .143                           | .716          | 1.00          |
| (Federal Only)                           | (.072)                         | (.359)        | (.501)        |
| 3. Food Stamps (1.37 mil.)               | .056                           | .281          | .394          |
| 4. Tax Expenditures (2.7 mil.)           | +.294                          | +1.47         | +2.05         |
| <b>Government Savings (billions)</b>     | <b>\$.741</b>                  | <b>\$3.72</b> | <b>\$5.19</b> |
| <b>Federal Savings (billions)</b>        | <b>\$.547</b>                  | <b>\$2.73</b> | <b>\$3.82</b> |

The raised minimum wage would increase government expenditures on payrolls by \$530 million per year. However, only \$45 million of this yearly increase would come from the Federal government<sup>3</sup>. Adjusting for this added expenditure, the net savings would be as follows:

|                                          |               |               |               |
|------------------------------------------|---------------|---------------|---------------|
| <b>Net Government Savings (billions)</b> | <b>\$.211</b> | <b>\$1.07</b> | <b>\$1.48</b> |
| <b>Net Federal Savings (billions)</b>    | <b>\$.502</b> | <b>\$2.51</b> | <b>\$3.51</b> |

## Federal Savings By Program

With a \$.60 Increase in the Min. Wage



## ZERO DISEMPLOYMENT EFFECT

The projected government savings resulting from a minimum wage hike assume a zero disemployment effect. Traditional, conservative economic theorists assert that the disemployment effect would be substantial, and that the cost resulting from the number of jobs lost would outweigh the benefits of higher wages. However, numerous recent studies call such conservative theory into question, demonstrating a stability in employment following a moderate minimum wage increase. These studies include:

- Princeton economist David Card's 1989 survey of California retail industries<sup>4</sup>, as well as his examination of national teenage employment completed in 1990<sup>5</sup>.
- Davidson's Allison Wellington's 1991 update of a previous analysis of the employment status of youths<sup>6</sup>.
- Alan B. Krueger, Chief Economist of the Labor Department, and Card's 1992 case study of the fast food industry in New Jersey and Pennsylvania<sup>7</sup>.
- Harvard's Lawrence Katz and Krueger's 1992 study of the fast food industry in Texas<sup>8</sup>.
- Economic Policy Institute's Michael Simmons, William Spriggs, and David Winston survey in 1992 of restaurant workers in Mississippi and North Carolina<sup>9</sup>.
- Jacob Klerman of the Labor Department's 1992 case study of the employment effect of mandated health benefits<sup>10</sup>.
- Kevin Lang of Boston University's 1995 study of the distribution of employment as it relates to minimum wage laws<sup>11</sup>.

Richard Freeman of Harvard University - long considered "one of the nation's preeminent labor economists"<sup>12</sup> - commented on the significance of these studies:

"Most studies . . . reject the notion that the late 1980's/early 1990's increase had adverse employment effects, and the studies that find adverse effects prior to those increases obtain small elasticities [meaning small employment effects] which confirm the effectiveness of the minimum in redistributing wage income. . . That moderate increases in the minimum transferred income to the lower paid without any apparent adverse effect on employment . . . is no mean achievement for a policy tool in an era when the real earnings of the less skilled fell sharply."<sup>13</sup>

These studies demonstrate that a moderately increased minimum wage would not adversely affect levels of employment.

## **DECLINING VALUE OF THE MINIMUM WAGE AND THE PRESSING NEED FOR ITS INCREASE**

Millions of low-income Americans depend upon the minimum wage as the backbone of their income to provide basic necessities for their families. The belief that most minimum wage workers are middle-class teenagers is FALSE.

- 22% of minimum wage workers, or 2.67 million people, are at or below the poverty line<sup>14</sup>.
- Of the workers directly affected by a \$.90 minimum wage hike, 52% are members of the poorest fifth of American families<sup>15</sup>.
- Two thirds of all minimum wage earners are adults over the age of 21.
- Only 11.7% of the beneficiaries of a higher minimum wage are teenagers in families with above-average incomes<sup>16</sup>.
- 39% of minimum wage workers are the sole breadwinners of their families<sup>17</sup>.

Due to inflation, the real dollar value of the minimum wage has decreased 11% since its last federally mandated hike in 1991. Because the 1991 increase to \$4.25 only made up for half of the real dollar value lost to inflation during the 1980's:

- \$4.25 in 1996 will represent the lowest real dollar value of a minimum wage in 40 years.
- \$4.25 represents a real dollar value 27% below that of the 1979 minimum wage, and 26% below the average value of the minimum wage during 1970's<sup>18</sup>.

This decrease in the actual value of the minimum wage has devastated the working poor. The minimum wage is no longer a decent wage, and as a result the poor worker suffers.

- The fall in the real value of the minimum wage since 1979 accounts for 20% of the rise in the wage inequality for men, and 30% for women<sup>19</sup>.
- Full-time minimum wage earnings (\$8840/yr.) fall 27% below the estimated poverty line for a family of three, and 38% for a family of four<sup>20</sup>.
- For many it is currently more advantageous to live off government assistance than to work full-time at or near the minimum wage.
- 76% of the benefits of the proposed minimum wage hike go to working families with below-average incomes<sup>21</sup>.

## **HISTORICALLY A BI-PARTISAN EFFORT**

Historically, raising the minimum wage has received bi-partisan support. When the increase to \$4.25 was proposed in 1989, the measure overwhelmingly passed the Senate (89-8) and the House (382-37).

In the Senate, 34 current Republicans were present for the 1989 vote. 30 voted in favor of the measure, including Dole, Kassebaum, Gramm, Thurmond, and Lugar. Then Senator Pete Wilson also voted for the bill. Newt Gingrich was the notable Republican supporter on the House side<sup>22</sup>.

Such broad support for a minimum wage hike is indicative of public sentiment. A December 1994 Wall Street Journal/NBC News poll found that 75% of the American people favor increasing the minimum<sup>23</sup>.

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# United States Senate

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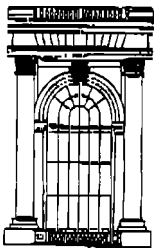
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# UNITED STATES SENATE REPUBLICAN POLICY COMMITTEE

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<http://www.senate.gov/~rpc/>

September 9, 1998

## Hiking the Minimum Wage Amounts to Bad Economics and Cynical Politics

(Democrats Trying Again to Change the Subject)

The motives behind Senator Kennedy's latest attempt to force votes on increasing the minimum wage by \$1 over the next two years could hardly escape even the most naive observer.

- It's never a good time for bad policy, but some times are worse than others. Economically, a mandatory increase in the wage base can only have deleterious effects on what is daily demonstrated as a very precarious American economy.
  - ▶ Why would anyone want to throw yet more uncertainty into an economy that is entering the most precarious moment of the current expansion?
- Politically, the shameless demagoguery to which we will be subjected can only be viewed as a transparent attempt to divert attention from President Clinton's failings.
  - ▶ Why else would Senator Kennedy feel the need to force a vote on increasing the wage base at the same time that real average hourly earnings are growing at their fastest rate since this president has been in office?

Yet, as apparent as Senator Kennedy's motives are, it is no less important that the American public understand the economic ramifications of such market manipulation.

### Artificially Increasing Prices, Including Wages, is Bad Economics

Senator Kennedy's minimum-wage-hike proposal is bad economics at every level.

**Why Now?** Real average hour wages are growing at the fastest rate — both in 1997 and again so far this year — since Clinton has been in office. Just last Saturday Clinton said, "Wages are growing at twice the rate of inflation — the strongest real wage growth in over 20 years." If the actions of the marketplace are to be overridden, doesn't it make sense to do so when wages aren't growing on their own?

- Recall that real average wages did not grow at all during the first two years of President Clinton's administration (remaining at \$7.39 in constant 1982 dollars), yet, curiously — despite Democrats having control of both Congress and the White House — the minimum wage was not then increased.

***Fewer Minimum Wage Jobs than Otherwise.*** It is axiomatic: Raising the price of a product will lower the demand for that product below the level it otherwise would have been.

- Unless Senator Kennedy has discovered a new law of economics — that labor is treated differently than every other commodity in the marketplace — then the result of raising the minimum wage will depress the demand for minimum wage workers below what it would have been without his proposed increase. Translation: some marginal workers will lose their jobs, and many will lose out on new jobs that will not be created.

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***Unless Senator Kennedy has discovered a new law of economics — that labor is treated differently than every other commodity in the marketplace — then the result of raising the minimum wage will depress the demand for minimum wage workers.***

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***Relatively Fewer Jobs for Minorities and Women.*** The general rule of price has a particular impact: Those with the least skills and least experience — those who most are in need of minimum wage jobs in order to get on the first rung of the "employment ladder" — are affected most by this relative job loss.

- Minimum wage workers are disproportionately women, minorities and the young. Based on 1997 fourth quarter data: 64.3 percent of minimum wage workers are women; 20 percent are black (blacks comprise 13 percent of the U.S. population), and 18.3 percent are Hispanic (Hispanics make up 11 percent of the population).

***Inefficient Shift of Resources Within Particular Market.*** Legislatively increasing the lowest wage rate means forcing resources into patterns they would not have otherwise assumed: An unnaturally higher rate of pay for the lowest level jobs means that resources must be shifted from more productive uses.

- For those employers who decide they cannot pay the mandatory increased wage, then some employees will lose their jobs and others will not be offered jobs (relative job loss), while employers lose the ability to maintain or expand their businesses in the most economically efficient manner. Consumers lose the service or product that would have been provided.
- If the employer pays the increased minimum wage, this money must be shifted from where it otherwise would have gone: 1) It might have gone to investment — which would have made the business more efficient and over time led to real wage growth for both the employees and employer; 2) It might have gone to paying higher-skilled employees increased wages — when more efficient employees are paid relatively less than they are worth, they will move

to other businesses over time; or 3) It might have gone to profits — and without sufficient profits, employers may go out of business or move to other businesses over time.

- If the employer does pay the increased minimum wage, the cost of the product likely also will need to be increased. This would mean that consumers will pay more than the product is actually worth, and so will purchase less of it as a result. With less purchased, less will be produced and there will be at least relatively fewer people employed in the business.

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*An increased wage means the cost of the product likely also will be increased. Consumers then will face paying more than the product is actually worth, and so will purchase less of it as a result.*

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***Inefficient Shift of Resources Within Overall Economy.*** The inefficient shift of resources within a particular business or sector of the economy has negative repercussions for the economy as a whole.

- The same shift of resources that takes place at the business (or micro) level, also takes place at the macro level. Resources are moved to accommodate the law's — rather than the market's — demands. Not the least of these costs is the diminished number of entry-level workers who otherwise would have been employed, initially at a lower wage, but placed in the position to receive training for more skilled employment opportunities in the future.

***Pressure on Monetary Policy.*** As the above demonstrates, increasing costs in one area (minimum wage jobs) inevitably produces constraints in other areas. A reallocation of resources must result, and the decisions such transitions require are not pleasant. It is therefore natural that some will seek ways to avoid making such decisions. One way to avoid the hard choices of reallocation — the worst — would be to inflate the money supply (see analysis detailed in RPC paper, "The Link Between Minimum Wage Hikes and Inflation," 5/1/98).

- Inflating the money supply solves the problem of paying increased costs in one area without reallocating resources from others — because the money supply is increased to allow it. However — as the Carter years of "stagflation" (increasing inflation combined with stagnating growth) demonstrate — this is antithetical to real economic growth and debilitates every area of the economy.
- Increasing the minimum wage also creates a problem in gauging the proper level of the money supply. In order to judge the growth of the money supply, the Federal Reserve and the markets look directly at prices to determine if undue growth there signals an undue growth in the money supply itself — i.e., inflation. Increasing the minimum wage increases the difficulty the Fed and the markets have in discerning whether price growth is due to the legal requirement, economic demand, or a growth in the money supply. Considering the current economic concerns, this would be just another unneeded element of volatility.

## **Cynical Politics: Promising What Can't Be Delivered to Divert Attention**

In light of its negative economics, the cynical politics of Senator Kennedy's minimum wage hike become patently transparent. He is willing to ask employees, employers, and consumers to take an economic risk in order to change the subject about his party's leader's political woes.

It has been only a year since the minimum wage was last raised. Over the last two years, Congress has twice (October 1, 1996 and September 1, 1997) increased the minimum wage, raising it from \$4.25 to \$5.15 per hour. Now just a year later, Senator Kennedy deems these increases to be inadequate and seeks again to raise it by another \$1 to \$6.15 per hour in two increments (January 1, 1999 and January 1, 2000). As RPC has already pointed out:

- Senator Kennedy's proposed \$1 increase would be the largest ever over a two-year period, breaking his own record of 90 cents over two years that was just set;
- Only once before, during the "stagflation-era" Carter years of 1978-81, have there been four successive hikes;
- Senator Kennedy's currently proposed hike combined with the last two years' hike would equal the largest-ever hike in percentage terms — 45 percent.

Senator Kennedy's current attempt then begs a number of questions:

- ▶ How could it be wise to do this at the most vulnerable juncture of the current economic expansion?
- ▶ Why is it necessary to increase the minimum wage when real wages are already rising at the fastest rate since President Clinton took office?
- ▶ Why — when real wages were not growing at all during the first two years of Clinton's presidency and when Democrats controlled Congress — did Congress not hike the minimum wage then?
- ▶ Why increase the minimum wage before the effects of the last two hikes in the last two years have been fully evaluated?
- ▶ Why — when nations all over the globe are devaluing their currencies and these nations' companies are cutting their prices — would we want to raise the cost of the products America makes at home?

While it may be in the best interests politically of Senator Kennedy and President Clinton to distract attention from President Clinton's problems, it clearly is not in America's economic best interests to raise the minimum wage at this time.

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Staff Contact: Dr. J.T. Young, 224-2946

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[Automatic Adjustment of  
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# Public Policy Brief

## **Automatic Adjustment of the Minimum Wage**

Linking the Minimum Wage to Productivity

*Oren M. Levin-Waldman*

**No. 42, 1998**

**SECRETARY OF LABOR  
WASHINGTON**

**SEP 11 1998**

**Honorable Edward Kennedy  
Ranking Member  
Committee on Labor and Human Resources  
United States Senate  
Washington, D.C. 20510**

**Dear Senator Kennedy:**

**I am writing in strong support of your amendment to legislation under consideration in the Senate that would increase the minimum wage to \$6.15 an hour by January 1, 2000. Earlier this year, President Clinton strongly endorsed raising the minimum wage to "help ensure that we pay people a decent wage and that parents who work hard and play by the rules can lift their children and themselves out of poverty. It's right for America and right for America's workers."**

**We now have the strongest economy in a generation: inflation and unemployment are low and steady, and family incomes are on the rise. But millions of people are still struggling to make ends meet -- the people who clean our offices, sew our clothes, serve our food, and care for our children and our infirm parents. Your amendment offers 12 million Americans a greater opportunity to share in our nation's prosperity. Seventy percent of all workers who would benefit are adults, age 20 or over, and about three out of five are women, many of whom are the sole breadwinners for their families.**

**When we last raised the minimum wage and expanded the earned-income tax credit, we took important steps to reward work and help millions of Americans raise their families with dignity. Because of our actions, families of three with a full-time wage earner do not have to live in poverty. We must ensure that this continues to be the case even as costs rise, and that we continue to make progress towards ensuring that all working families are lifted out of poverty. That is why we must increase the minimum wage.**

**As people move from welfare to work, one of the most important lessons they can learn is that work pays. A full-time worker earning the current minimum wage for 50 weeks of work receives only \$10,300. This is not enough to move families from dependency to self-sufficiency and create a long-term attachment to the workforce. The real value of the minimum wage had fallen to nearly a 40-year low by the time President Clinton signed the last increase in 1996. But even after that increase, the minimum wage's purchasing power remains below its value in the 1960's and 1970's. The minimum wage should be the first rung on the ladder of opportunity, not a dead end for the working poor.**

**A one-dollar increase in the minimum wage would make an enormous difference in the lives of these workers and their families. It would mean an additional \$2,000 a year for someone**

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working year-round, full-time at the minimum wage — enough to buy an average family of four 6.5 months of groceries or pay for almost 7.5 months rent.

Evidence from the last minimum wage increase clearly shows that we can increase the minimum wage without hurting the economy. Since President Clinton signed the last minimum wage increase into law in August 1996, the economy has created more than 6 million new jobs, and the inflation rate has been cut nearly in half. The unemployment rate is at 4.5 percent and has been below 5 percent for 14 consecutive months. Unemployment rates this low have not been seen for almost three decades. For teenagers, African Americans, and women, unemployment is trending down and employment rates are trending up. In fact, almost 330,000 more teenagers are employed than in October 1996, and employment is up by nearly 90,000 for African-American teens.

I strongly support your amendment. Our efforts to overhaul the education and job training system and expand the earned income tax credit have significantly advanced our common goal of assuring every worker a good job at a fair wage. Working together, we can make work pay for America's minimum wage workers.

The Office of Management and Budget advises that there is no objection to presentation of this report from the standpoint of the Administration's program.

Sincerely,

  
Alexis M. Herman

**SECRETARY OF LABOR  
WASHINGTON**

SEP 11 1998

Honorable James Jeffords  
Chairman  
Committee on Labor and Human Resources  
United States Senate  
Washington, D.C. 20510

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When we last raised the minimum wage and expanded the earned-income tax credit, we took important steps to reward work and help millions of Americans raise their families with dignity. Because of our actions, families of three with a full-time wage earner do not have to live in poverty. We must ensure that this continues to be the case even as costs rise, and that we continue to make progress towards ensuring that all working families are lifted out of poverty. That is why we must increase the minimum wage.

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**WORKING TO IMPROVE THE LIVES OF AMERICA'S WORKING FAMILIES**

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I urge you to support Senator Kennedy's amendment. Our efforts to overhaul the education and job training system and expand the earned income tax credit have significantly advanced our common goal of assuring every worker a good job at a fair wage. Working together, we can make work pay for America's minimum wage workers.

The Office of Management and Budget advises that there is no objection to presentation of this report from the standpoint of the Administration's program.

Sincerely,

  
Alexis M. Herman

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# EPI Issue Brief

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Issue Brief #127

Economic Policy Institute

July 17, 1998

## Finally, real wage gains

### Lower unemployment, higher minimum wage spur recent wage growth

*by Lawrence Mishel, Jared Bernstein, and John Schmitt*

By many important indicators, the American economy is soaring. Unemployment in early 1998 fell to its lowest point in 30 years, real wages for most workers are finally on the rise, and even productivity — a broad measure of the efficiency of the labor force — is speeding up. Yet even with these recent gains, the pay of the typical worker in mid-1998 is still not as high as it was in 1989, the year of the last business cycle peak. Moreover, these recent wage gains, dependent upon current tight labor markets, low inflation, and one-time increases in the minimum wage, are unlikely to withstand the inevitable shift in the business cycle.

In other words, recent trends provide little basis for optimism that America has permanently turned the corner on wages.

#### The good news of 1996-98

Wage growth on an inflation-adjusted basis from 1996 through the first half of 1998 has been both strong and equalizing (see the table on the following page) and far better than in the earlier portion of this business cycle from 1989 to 1996. For example:

- Real wages grew 2.6% per year for the typical (50th percentile) worker, reversing declines of 0.8% per year from 1989 to 1996.
- Real wages grew 4.1% per year for low-wage (20th percentile) male workers and 2.0% per year for the median male workers, indicating a narrowing of the wage gap between middle- and low-wage men. By contrast, male wages at the 20th and 50th percentiles fell about 1% per year in the 1989-96 period.
- While wages fell for low- and middle-wage female workers at an annual rate of 0.2% from 1989 to 1996, they reversed course and grew at annual rates of 2.7% and 2.6% respectively over the last year and a half.
- Wages for high-wage male and female workers also grew relatively quickly in the 1996-98 period, but in both cases wage growth at the 90th percentile was slower than that at the 20th.

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*Data in this issue brief are drawn from the forthcoming State of Working America 1998-99 (Cornell University Press 1999), to be released to the press on Labor Day 1998.*

## Wage growth in the 1990s

|                                          | 1989    | 1996    | 1998**  | Annual change |           |           |
|------------------------------------------|---------|---------|---------|---------------|-----------|-----------|
|                                          |         |         |         | 1989-96       | 1996-98** | 1989-98** |
| <b>Hourly wages* (1998 dollars)</b>      |         |         |         |               |           |           |
| <i>All</i>                               |         |         |         |               |           |           |
| 90th percentile                          | \$23.72 | \$23.81 | \$24.63 | 0.0           | 2.3       | 0.4       |
| 50th percentile                          | 11.30   | 10.71   | 11.13   | -0.8          | 2.6       | -0.2      |
| 20th percentile                          | 6.79    | 6.63    | 6.99    | -0.3          | 3.6       | 0.3       |
| <i>Male</i>                              |         |         |         |               |           |           |
| 90th percentile                          | \$26.41 | \$26.14 | \$27.20 | -0.1          | 2.7       | 0.3       |
| 50th percentile                          | 13.22   | 12.26   | 12.63   | -1.1          | 2.0       | -0.5      |
| 20th percentile                          | 7.82    | 7.32    | 7.77    | -0.9          | 4.1       | -0.1      |
| <i>Female</i>                            |         |         |         |               |           |           |
| 90th percentile                          | \$19.55 | \$20.59 | \$21.14 | 0.7           | 1.8       | 0.9       |
| 50th percentile                          | 9.66    | 9.51    | 9.88    | -0.2          | 2.6       | 0.3       |
| 20th percentile                          | 6.25    | 6.15    | 6.40    | -0.2          | 2.7       | 0.3       |
| <b>Unemployment rates***</b>             |         |         |         |               |           |           |
| All                                      | 5.3     | 5.4     | 4.5     | 0.1           | -0.9      | -0.8      |
| White                                    | 4.5     | 4.7     | 3.9     | 0.2           | -0.8      | -0.6      |
| Black                                    | 11.4    | 10.5    | 9.0     | -0.9          | -1.5      | -2.4      |
| Hispanic                                 | 8.0     | 8.9     | 6.9     | 0.9           | -2.0      | -1.1      |
| Young (18-35), minority, HS educated     |         |         |         |               |           |           |
| Black                                    | 15.9    | 16.3    | 12.8    | 0.4           | -3.5      | -3.1      |
| Hispanic                                 | 8.3     | 9.9     | 7.9     | 1.6           | -2.0      | -0.4      |
| <b>Real minimum wage* (1998 dollars)</b> | \$4.39  | \$4.53  | \$5.15  | 0.5           | 9.0       | 1.9       |
| <b>Consumer price index*</b>             | 124.0   | 156.9   | 162.4   | 3.4           | 2.3       | 3.2       |

\* Annualized percent changes.

\*\* These columns reflect seasonally adjusted data for the first six months of 1998.

\*\*\* Percentage-point changes.

Source: *State of Working America 1998-99* (forthcoming).

This pattern of growth indicates a narrowing of the wage gap between the top and the bottom of the wage scale, an uncharacteristic pattern given inequality's persistent increase over the past two decades. The gap between the top and the middle, however, continues to expand for men.

The other panels in the table show the primary factors responsible for the recent growth spurt of real wages: falling unemployment, the increase in the inflation-adjusted value of the minimum wage, and an unexpected decline in the growth of inflation.

### ***The role of low unemployment***

The overall unemployment rate was 4.5% in the first half of 1998, down almost a full percentage point since 1996. Moreover, this 0.9-point decline overall was accompanied by larger declines among groups of workers who are traditionally further down the hiring queue. For example, the unemployment rate for African Americans and Hispanics fell by 1.5 and 2.0 points over this recent period. Looking at a particularly disadvantaged group — young (18-35), minority high school graduates — reveals an even larger decline of 3.5 percentage points for young blacks. Of course, even with these large declines, unemployment rates for young minority workers are still many times higher than the overall rate (e.g., the unemployment rate for young African Americans with a high school degree was more than three times that of whites in each of the years shown). Nevertheless, these recent improvements provide clear evidence that persistently tight labor markets have greatly increased the employment opportunities of the least well-off.

### ***The role of a higher minimum wage***

The Congress mandated two \$0.90 increases in the federal minimum wage in the 1990s, the first of which was implemented in 1990/91, the second in 1996/97. By 1996 inflation had eroded much of the value of the first increase, but the second increase, which raised the real value of the minimum wage 9% per year over the 1996-98 period, clearly helped to lift wages at the lower end of the wage scale.

### ***The role of lower inflation***

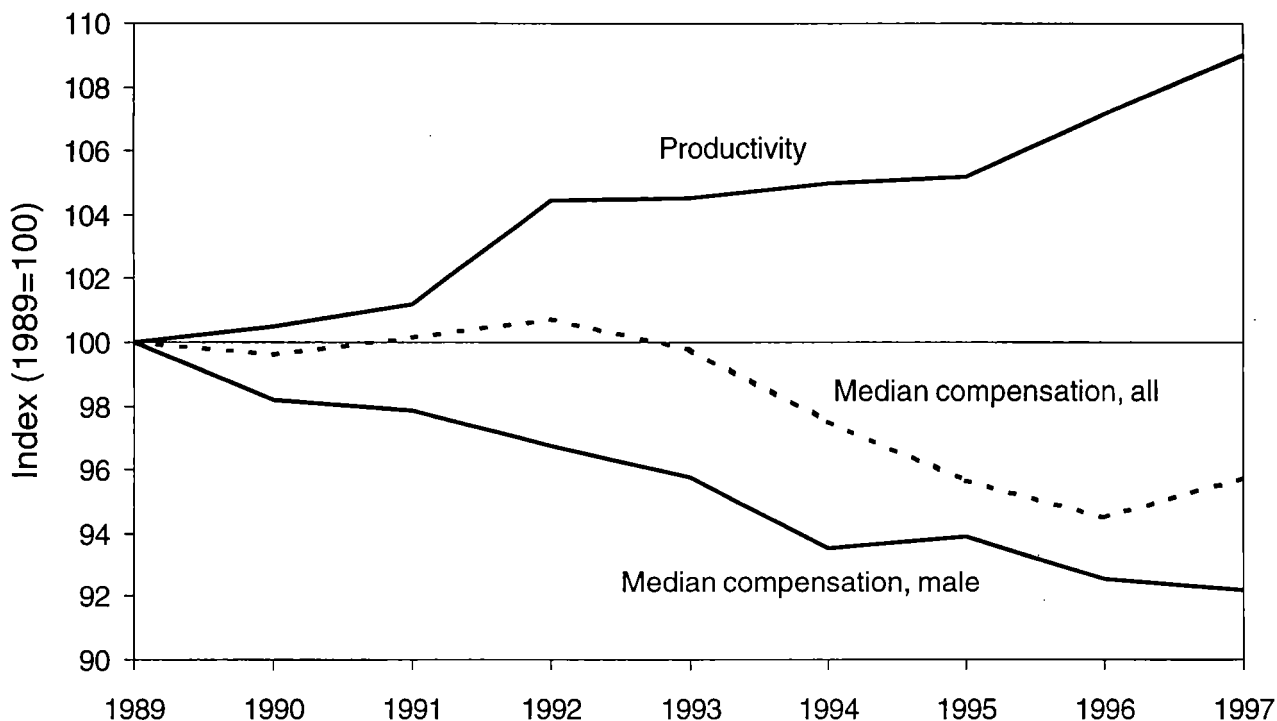
Inflation, as measured by the annualized growth rate of the consumer price index, grew by 3.4% per year in the 1989-96 period but slowed to 2.3% in 1996-98. This unexpected deceleration in inflation means that wage increases given by employers simply to offset anticipated higher inflation have translated into real wage increases. Thus, some of the wage growth over the past year and a half is a result of inflation temporarily growing more slowly than expected. As inflationary expectations begin to conform more closely to the actual path of price growth, real wage growth is likely to slow down.

These recent wage and employment trends are a welcome reversal of the long-term trend toward rising inequality despite overall economic growth. This long-term problem has led numerous analysts to view low unemployment levels as well as increases in the minimum wage as desirable policies that could be implemented without adversely affecting the economy or hurting the workers they are meant to help. As the data in the table show, low unemployment has not led to runaway inflation, nor has the increase in the minimum wage hurt the job prospects of low-wage workers.

But will these positive trends continue? Unfortunately, the fundamental problems that have kept working families from realizing their share of the benefits of economic growth and that have led to widespread wage erosion for most of the past two decades have not been corrected. They have simply been temporarily suppressed by low unemployment and, for low-wage workers, a federally mandated wage increase.

Because of the long-term erosion of the institutions that have historically protected workers from the vicissitudes of market forces, along with the increased adversity of such forces, the typical American worker has less bargaining power than ever before. At the moment, tight labor market are substituting for these eroded protections, but business cycles inevitably come to an end. When unemployment begins to rise, the gains documented above will almost certainly prove to be short lived.

## Hourly productivity and compensation growth in the 1990s



Source: *State of Working America 1998-99* (forthcoming).

### The bigger picture of the 1989-98 business cycle

Our examination of the past few years provides important insights into the short-term condition of the economy and underscores the importance of low unemployment. But to accurately assess the economy, it is best to examine an entire business cycle (in this case 1989-98) and compare it to trends in other cycles.

From this perspective, the typical worker has lost ground since 1989, the last business cycle peak, and the typical male worker is still well behind his pre-recession wage level. The final column in the table shows the annualized percent change in wages over the 1989-98 period. Despite the growth since 1996, the wage of the median male has fallen 0.5% per year since 1989, representing a decline of \$0.59 per hour. Clearly, most of the damage was done in the 1989-96 period, when the median male wage fell 1.1% annually. Strong growth in the recent period has helped low-wage male workers regain much of the ground lost over the 1989-96 period; their wage in the first half of 1998 was only slightly below that of 1989.

The wage of the median female worker, which rose consistently over the 1980s, fell 0.2% per year from 1989 to 1996. The increase over the last 18 months, however, led to a 0.3% annual growth rate over the full period. A similar pattern prevailed for low-wage female workers.

At the top of the wage scale, the wage of the 90th percentile worker grew more quickly for both men and women over the full 1989-98 period than it did for other groups. Thus, despite the equalizing pattern of wage growth in the very recent past, wage inequality has continued to grow for both men and women, as workers at the top of the wage scale have pulled away from both those in the middle and at the bottom.

Adding fringe benefits to these wage data does not brighten the picture. Although the compensation (wages plus benefits) of the median worker is not directly available, assigning the *average* benefit package to the *median* worker in proportional terms (which certainly overstates the typical worker's benefits) reveals that the typical worker actually lost more in terms of compensation than in terms of wages. For example, the inflation-adjusted decline in the median wage for all workers was 3.2% from 1989 to 1997; the fall in median compensation was 4.2% (the most recent data of this type are for 1997).

It is also important to put recent wage gains into the context of the overall growth of the economy. As the accompanying figure shows, productivity grew 9% from 1989 to 1997, while the compensation of the typical worker, and particularly that of the median male worker, actually fell (these data are available only through 1997). Thus, the pay of the typical worker has lagged far behind the capacity of the economy to pay more.

## Conclusion

The wage trends of the 1990s, despite dramatic improvements in recent months, have still left many workers behind their pre-recession levels. In this regard, getting back to the level of 1989 serves as a minimal benchmark, but even this measure of success sets a low standard given the higher productivity of the 1990s economy. Certainly the median worker has played a nontrivial role in the 9% increase in productivity over the 1990s, and one might expect his or her compensation to reflect that growth. By this measure, the economy's performance falls short.

*Danielle Gao provided research assistance for this paper.*

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## Small Business and the Minimum Wage

Oren M. Levin-Waldman and George W. McCarthy

***Do small businesses change their hiring and employment practices in response to an increase in the minimum wage? The Levy Institute conducts a national survey of small firms in many industries to find out.***

It has long been the conventional wisdom that an increase in the minimum wage results in lower employment. This wisdom stems from both theoretical precepts taught in most economic textbooks and statements from employers regarding their anticipated reaction to an increase. It is also suggested that much of the opposition to the minimum wage comes from the small business community. Arguments against raising the minimum wage presume that an increase reduces profits for small businesses and forces them to lay workers off. There is little empirical evidence measuring the actual responses of small businesses to changes in the minimum wage. What is available is anecdotal evidence, the results of a few studies by academics on the effects of the minimum wage on the teen labor market, and the predictions of the minimum wage study commission that a 10 percent increase in the minimum wage might result in a 1 percent reduction in teen employment (Kosters and Welch 1972; Welch 1974, 1978; Meyer and Wise 1983; Neumark and Wascher 1992).

Most of the studies on the teen labor market were conducted during the 1970s and early 1980s. What has been done recently, most notably the work of Card and Krueger (summarized in Card and Krueger 1995), has been controversial, not simply because critics argue that the conclusions are wrong, but because the findings represent an affront to the orthodoxy of the economics profession and a threat to those with a vested interest in resisting minimum wage increases. According to Card and Krueger (1995), when California and New Jersey both increased their minimum wages, there were no adverse effects on employment. These findings were confirmed for New Jersey and Pennsylvania (Card and Krueger 1998).

Implicit in all the theoretical or empirical work regarding the minimum wage is the assumption that the minimum wage is set above the competitive market clearing level; that is, the wage is high enough so that labor demand dictates the number of people hired. Little is known about the relative sensitivity of firms' labor demand to changes in wages, a concept known as "wage elasticity of demand." In the minimum wage commission study mentioned above, a 10 percent increase in the

**Table 20. Employed wage and salary workers paid hourly rates with earnings at and around the prevailing Federal minimum wage, by State, fourth quarter 1997 averages, not seasonally adjusted**

Number of workers (in thousands)

|                                | Total employed | Total paid hourly rates |         | Less than \$4.25 |         | \$4.25 |         | \$4.26 to \$5.14 |         | \$4.75 |         | \$5.00 |         |
|--------------------------------|----------------|-------------------------|---------|------------------|---------|--------|---------|------------------|---------|--------|---------|--------|---------|
|                                |                | Number                  | Percent | Number           | Percent | Number | Percent | Number           | Percent | Number | Percent | Number | Percent |
| Total, 16 years and over ..... | 71,081         | 71,081                  | 100.0   | 1,072            | 1.5     | 145    | .2      | 2,905            | 4.1     | 233    | .3      | 2,251  | 3.2     |
| Alabama .....                  | 1,258          | 1,258                   | 100.0   | 14               | 1.1     | -      | -       | 66               | 5.3     | 9      | .7      | 39     | 3.1     |
| Alaska .....                   | 180            | 180                     | 100.0   | 1                | .7      | -      | -       | 1                | .8      | >0     | .2      | 1      | .3      |
| Arizona .....                  | 1,198          | 1,198                   | 100.0   | 16               | 1.4     | -      | -       | 67               | 5.6     | 9      | .8      | 44     | 3.7     |
| Arkansas .....                 | 627            | 627                     | 100.0   | 12               | 1.9     | 2      | .3      | 29               | 4.6     | 2      | .3      | 19     | 3.1     |
| California .....               | 7,999          | 7,999                   | 100.0   | 40               | .5      | 22     | .3      | 337              | 4.2     | 44     | .5      | 272    | 3.4     |
| Colorado .....                 | 1,149          | 1,149                   | 100.0   | 25               | 2.2     | 3      | .3      | 17               | 1.5     | -      | -       | 17     | 1.5     |
| Connecticut .....              | 949            | 949                     | 100.0   | 10               | 1.1     | -      | -       | 54               | 5.7     | 4      | .5      | 38     | 4.1     |
| Delaware .....                 | 192            | 192                     | 100.0   | 4                | 2.1     | -      | -       | 10               | 5.1     | 1      | .3      | 8      | 4.4     |
| District of Columbia .....     | 112            | 112                     | 100.0   | 2                | 1.7     | -      | -       | 5                | 4.1     | -      | -       | 5      | 4.1     |
| Florida .....                  | 3,736          | 3,736                   | 100.0   | 79               | 2.1     | 12     | .3      | 147              | 3.9     | 14     | .4      | 117    | 3.1     |
| Georgia .....                  | 1,856          | 1,856                   | 100.0   | 40               | 2.1     | 7      | .4      | 76               | 4.1     | -      | -       | 62     | 3.3     |
| Hawaii .....                   | 292            | 292                     | 100.0   | 3                | .9      | -      | -       | 5                | 1.7     | -      | -       | 4      | 1.3     |
| Idaho .....                    | 380            | 380                     | 100.0   | 3                | .7      | -      | -       | 15               | 4.1     | 4      | 1.0     | 11     | 2.9     |
| Illinois .....                 | 3,000          | 3,000                   | 100.0   | 60               | 2.0     | 3      | .1      | 124              | 4.1     | 8      | .3      | 108    | 3.6     |
| Indiana .....                  | 1,873          | 1,873                   | 100.0   | 19               | 1.0     | 5      | .3      | 62               | 3.3     | 4      | .2      | 54     | 2.9     |
| Iowa .....                     | 849            | 849                     | 100.0   | 7                | .8      | -      | -       | 27               | 3.2     | -      | -       | 24     | 2.8     |
| Kansas .....                   | 690            | 690                     | 100.0   | 4                | .5      | -      | -       | 22               | 3.2     | 4      | .6      | 16     | 2.3     |
| Kentucky .....                 | 1,023          | 1,023                   | 100.0   | 11               | 1.1     | 6      | .6      | 46               | 4.5     | 3      | .3      | 40     | 3.9     |
| Louisiana .....                | 1,093          | 1,093                   | 100.0   | 13               | 1.2     | -      | -       | 49               | 4.4     | 11     | 1.0     | 26     | 2.4     |
| Maine .....                    | 362            | 362                     | 100.0   | 6                | 1.7     | -      | -       | 9                | 2.4     | -      | -       | 6      | 1.8     |
| Maryland .....                 | 1,360          | 1,360                   | 100.0   | 22               | 1.6     | 12     | .9      | 44               | 3.2     | -      | -       | 39     | 2.9     |
| Massachusetts .....            | 1,627          | 1,627                   | 100.0   | 18               | 1.1     | 3      | .2      | 45               | 2.8     | 6      | .4      | 33     | 2.0     |
| Michigan .....                 | 3,003          | 3,003                   | 100.0   | 44               | 1.5     | 7      | .2      | 123              | 4.1     | 17     | .6      | 83     | 2.8     |
| Minnesota .....                | 1,468          | 1,468                   | 100.0   | 15               | 1.0     | -      | -       | 52               | 3.6     | 3      | .2      | 38     | 2.6     |
| Mississippi .....              | 701            | 701                     | 100.0   | 15               | 2.1     | -      | -       | 57               | 8.1     | 12     | 1.7     | 34     | 4.8     |
| Missouri .....                 | 1,613          | 1,613                   | 100.0   | 32               | 2.0     | 6      | .4      | 27               | 1.7     | -      | -       | 27     | 1.7     |
| Montana .....                  | 218            | 218                     | 100.0   | 1                | .4      | -      | -       | 5                | 2.4     | 1      | .5      | 3      | 1.5     |
| Nebraska .....                 | 498            | 498                     | 100.0   | 14               | 2.8     | -      | -       | 16               | 3.2     | -      | -       | 16     | 3.2     |
| Nevada .....                   | 519            | 519                     | 100.0   | 9                | 1.7     | 2      | .3      | 26               | 5.0     | 1      | .2      | 25     | 4.8     |
| New Hampshire .....            | 336            | 336                     | 100.0   | 9                | 2.7     | -      | -       | 6                | 1.9     | -      | -       | 6      | 1.9     |
| New Jersey .....               | 1,973          | 1,973                   | 100.0   | 39               | 2.0     | -      | -       | 86               | 4.4     | -      | -       | 63     | 3.2     |
| New Mexico .....               | 445            | 445                     | 100.0   | 5                | 1.2     | 2      | .5      | 18               | 4.1     | 1      | .3      | 12     | 2.7     |
| New York .....                 | 3,874          | 3,874                   | 100.0   | 68               | 1.7     | 10     | .2      | 227              | 5.9     | 9      | .2      | 185    | 4.8     |
| North Carolina .....           | 1,998          | 1,998                   | 100.0   | 9                | .4      | 6      | .3      | 97               | 4.9     | 4      | .2      | 87     | 4.4     |
| North Dakota .....             | 171            | 171                     | 100.0   | 5                | 2.8     | 2      | 1.0     | 5                | 3.0     | >0     | .3      | 4      | 2.3     |

See footnotes at end of table.

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April 28, 1998

Ms. Bertha Lewis  
ACORN  
845 Flatbush Avenue  
Brooklyn, NY 11226

Dear Bertha:

I enjoyed meeting yesterday with you, Leslie Davis, Cassandra Andrews, and Laurice Phillip.

As I indicated to you at our meeting, I intend to support an increase in the minimum wage this year, just as I did in 1996.

I strongly believe that as we strive so hard to move people from welfare to work, we must make sure that quality jobs at decent wages are available to all. We in Congress must continue to promote efforts that will allow working men and women to climb the ladder of success.

Sincerely,

Alfonse M. D'Amato  
United States Senator

## **1960 Kennedy Campaign Ad: Increase the Minimum Wage**

In the 1960 presidential campaign against Richard Nixon, John F. Kennedy ran an ad in which he called for an increase in the minimum wage. In the ad, Kennedy sat in front of the camera and said:

*“Mr. Nixon has said that a \$1.25 minimum wage is extreme. That’s \$50 a week. What’s extreme about that? I believe the next Congress and the President should pass a minimum wage for a \$1.25 an hour. Americans must be paid enough to live.”*

[C-SPAN, “Road to the White House,” 4/28/96]

## 1961: JACK KENNEDY VS. BOB DOLE ON THE MINIMUM WAGE

*In 1961, President John F. Kennedy fought for an increase in the minimum wage from \$1.00 to \$1.25. Representative Bob Dole opposed it, and voted against it; the bill passed. In 1996, Bob Dole continues to oppose increases in the minimum wage. Here is a chronology of events leading up to the 1961 minimum wage increase.*

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- 1960:**      **Kennedy campaign ad calls for an increase in the Minimum Wage**  
In the 1960 presidential campaign against Richard Nixon, John F. Kennedy ran an ad in which he called for an increase in the minimum wage. In the ad, Kennedy said: "Mr. Nixon has said that a \$1.25 minimum wage is extreme. That's \$50 a week. What's extreme about that? I believe the next Congress and the President should pass a minimum wage for a \$1.25 an hour. Americans must be paid enough to live." [C-SPAN, "Road to the White House," 4/28/96]
- 2/1/61**      **Special Message to the Congress: Program for Economic Recovery and Growth.** President John F. Kennedy: "I urge the Congress to raise the minimum wage immediately to \$1.15 and to \$1.25 within two years. This will improve the incomes, level of living, morale, and efficiency of many of our lowest-paid workers, and provide incentives for their more productive utilization. . . Together, these two principal changes in the Fair Labor Standards Act will go far to protect our lowest paid workers." [Public Papers of the Presidents, John F. Kennedy, 1961, p. 49.]
- 2/7/61**      **Kennedy transmits letter to Congress for Minimum Wage Bill.** In his "Letter to the President of the Senate and to the Speaker of the House Transmitting a Minimum Wage Bill," President Kennedy wrote: "Our Nation can ill afford to tolerate the growth of an under-privileged and under-paid class. Substandard wages lead necessarily to substandard living conditions, hardship and distress. Since the last increase in the minimum wage both living costs and productivity have increased to such an extent that the proposed bill merely reflects an adjustment to keep pace with these factors." [Public Papers of the Presidents, John F. Kennedy, 1961, p. 66.]
- 3/23/61**      **President Kennedy holds a news onference supporting the minimum wage hike.** In the news conference, Kennedy said: "I find it difficult to know why anyone would oppose seeing somebody, by 1963, paid \$1.25 . . . And I find it difficult to understand how anybody could object to paying somebody who works in a business which makes over \$1 million a year, by 1963, \$50 a week. I think that anyone who is paid less than that must find it extremely difficult to maintain themselves and their family." [Public Papers of the Presidents, John F. Kennedy, 1961, p. 216.]

5/3/61

**Dole Votes Against Passage of the Minimum Wage Increase**

On May 3, 1961, Dole voted against adoption of the conference report on H.R. 3935, the Fair Labor Standards Amendments of 1961. The conference report raised the minimum wage for 23.9 million workers already covered by the Fair Labor Standards Act to \$1.25 an hour, reached in two steps over two years, and extended minimum-wage coverage (at \$1.25 an hour, reached after four years) and overtime coverage (with some exceptions) to about 3,624,000 additional workers, mainly in the retail trades. Agreed to 230-196 [CQ Almanac, 1961, Vt. # 32, p. 572]

5/5/61

**President Kennedy makes remarks upon signing the Minimum Wage Bill.**

Upon signing the bill into law, Kennedy said: *"I want to express my great satisfaction in signing the bill to increase the minimum wage to \$1.25 an hour, and to extend the coverage to three million, six hundred thousand people today who are not covered by this most important piece of national legislation. . .*

*I don't believe that there's any American who believes that any man or woman should have to work in interstate commerce, in companies of substantial size, for less than a \$1.25 an hour, or \$50 a week. That itself is a very minimum wage, and I therefore want to commend the Members of the Congress in the House and the Senate, the Chairmen of the Subcommittees who were particularly involved, under the leadership of the House and Senate, for their untiring efforts."* [Public Papers of the Presidents, John F. Kennedy, 1961, p. 353.]

9/3/61

**Kennedy makes remarks the Day the Minimum Wage Took Effect**

*"Today the legal minimum wage for millions of American workers increases. Some will receive higher minimum protection than before, and others will be protected for the first time.*

*"This advance in one of our great pieces of social legislation is one of the most important domestic accomplishments so far of this Administration. It represents the most significant advance in the Federal Wage and Hour Law since it was first passed 23 years ago.*

*"While the new minimums of \$1.15 per hour for workers presently covered by the law and of \$1.00 per hour for those newly covered are admittedly inadequate to provide the full material well-being that this great nation is capable of giving to each of its citizens, they still provide for millions of workers a chance to enjoy a greater share of our nation's general economic progress."* [Public Papers of the Presidents, John F. Kennedy, 1961, p. 587.]

## PRESIDENT CLINTON SIGNS THE MINIMUM WAGE LEGISLATION

August 20, 1996

The President today will sign legislation to increase the minimum wage to help ten million Americans who work hard and play by the rules. The bill, formally titled H.R. 3448 - "Small Business Job Protection Act", also provides for pension reform, tax breaks for small businesses, and a newly created adoption tax credit.

The President has supported increasing the minimum wage, which is now approaching its lowest real value in 40 years, since he was Governor of Arkansas. In his remarks, the President will highlight the importance of providing hard working Americans with a living wage. He will also emphasize the benefits of the new pension reforms and the newly created tax credit to make adoption easier and more affordable for working families.

Participants in today's event include minimum wage workers and their families, representatives from supportive organizations, members of congress, adoption advocates and their families, and administration officials.

*The following is the program for the event:*

- The Vice President makes remarks
- Kathy Wilkinson, lab assistant and minimum wage employee from Wheeling, West Virginia makes remarks.
- The President makes remarks.

## MAKING WORK PAY BY INCREASING THE MINIMUM WAGE

*In Putting People First, Bill Clinton and Al Gore promised to "increase the minimum wage to keep pace with inflation." In February 1995 -- 18 months ago -- President Clinton specifically proposed increasing the minimum wage from \$4.25 to \$5.15 over two years. For a full-time minimum wage worker, a 90-cent increase would raise their yearly income by \$1,800 -- as much as the average family spends on groceries in over 7 months.*

**YOU CAN'T RAISE A FAMILY ON \$4.25 AN HOUR.** The minimum wage is approaching its lowest real value in 40 years. The minimum wage has lost nearly all of its real value since its last increase in April 1991. This minimum wage increase will help restore the real value of the minimum wage back to its level when it was last raised.

- **Ensuring No Parent Has To Bring Up Their Kids In Poverty.** The dramatic extension of the Earned Income Tax Credit (EITC) helped lift hundreds of thousands of working families out of poverty. A 90-cent minimum wage increase and the expanded EITC will ensure that no parent who works full-time would have to bring up their children in poverty.
- **Helping Adult Workers Trying To Support Their Families.** According to the Bureau of Labor Statistics:
  - ▶ 69% of those workers who would benefit from an increase are adults, age 20 or over;
  - ▶ Three-fifths (59%) are women, many of whom are trying to raise the family on \$4.25;
  - ▶ Nearly two-fifths (38%) are the sole wage earner in their household; and
  - ▶ The average minimum wage worker brings home half of their family's earnings.
- **Giving A Pay Raise To 10 Million Workers At or Near The Minimum Wage.** An estimated 10 million hourly workers earn between \$4.25 and \$5.14 and would directly benefit from this pay raise. An increase in the minimum wage could also have a "ripple" effect on the over 3 million workers who earn within 60 cents of the new minimum wage.

**EMPIRICAL EVIDENCE SHOWS THAT RAISING THE MINIMUM WAGE WILL NOT COST JOBS.** Nearly two dozen empirical studies have found that moderate increases in the minimum wage do not have a significant impact on employment. These studies include state-specific research in California, Texas, and New Jersey that shows that state minimum wage increases did not result in any job loss.

- **101 Economists Including 3 Nobel Prize Winners Agree That A Minimum Wage Increase Won't Cost Jobs.** In the fall of 1995, 101 economists -- including 3 Nobel Prize-winners Kenneth Arrow, Lawrence Klein, and James Tobin -- signed a letter supporting the President's proposal to raise the minimum wage, affirming that it would not have a significant effect on employment, and concluding that *"overall effects [of an increase] on the labor market, affected workers, and the economy would be positive."*

**THE LAST MINIMUM WAGE INCREASE -- ALSO 90 CENTS -- GARNERED STRONG BIPARTISAN SUPPORT.** In 1989, the minimum wage was passed by votes of 382 to 37 (135 Republicans) in the House, and 89 to 8 in the Senate (36 Republicans) and was supported by Senator Dole, Senator Lott, and Rep. Gingrich.

## PENSION PROVISIONS IN THE MINIMUM WAGE BILL TO EXPAND COVERAGE, INCREASE PORTABILITY, AND ENHANCE SECURITY

The minimum wage bill includes many of the President's pension proposals, contained in his Retirement Savings and Security Act, which will empower more Americans to save for their retirement by expanding pension coverage, portability, and protections and significantly simplifying pension rules.

- **Expands Pensions** to help millions of working Americans not currently covered by an employer-provided plan save for their retirement.
- **Increases Portability** by reducing the obstacles facing many workers when they change or lose their job and want to keep their retirement savings and continue saving.
- **Enhances Protections** so hard-working Americans do not have to worry whether their retirement savings will be there when they need them.
- **Simplifies Pensions** to encourage and make it easier for employers to offer pensions.

### THE MINIMUM WAGE BILL'S PENSION PROVISIONS MEET THESE CHALLENGES:

1. **NEW SMALL BUSINESS 401(k) PLAN -- To Expand Pension Coverage:** While 76% of workers in large businesses have employer-provided pensions, only 24% of workers in small businesses do. In June 1995, the President first proposed a simple small business "401(k) plan" to expand pension coverage to up to *10 million workers* in small businesses not currently covered by a plan. Republicans followed with their own proposal. The minimum wage bill's small business plan, while providing a smaller share of benefits to lower and middle wage workers, includes many elements of the President's plan and provides for:
  - **\$6,000 Tax-Free Contributions.** Workers could save up to \$6,000 a year tax-free through automatic payroll deductions.
  - **Employers Contribute 2% of Salary or Match Contributions Up To 3% of Salary.**
  - **One-Page Form.** Cuts through the red tape with a simple, one-page form without complicated employer filing, calculations, or testing.
  - **100% Portable.** All contributions would be immediately vested and fully portable.

#### The bill also expands coverage by:

- Simplifying 401(k) plans for *all* businesses;
- Making the 9 million employees of non-profit organizations, as well as employees of Indian tribes, eligible for 401(k) plans;
- Enabling relatives who work in a family business to earn their own retirement benefits;
- Repealing unreasonable limits on benefits for certain disabled and low- and middle-income state and local government employees; and
- Enabling millions of spouses who do not work outside the home to contribute up to \$2,000 to an individual retirement account.

2. **INCREASES PENSION PORTABILITY:** Workers who change jobs and want to take their retirement savings with them and keep saving currently face a multi-faceted obstacle course. The President's portability proposals in the minimum wage bill could help *over 5 million workers each year* who have an employer-sponsored pension plan and who change jobs:
  - **Takes Away 1-Year Wait To Save At a New Job:** Millions of workers are forced to wait 1 year before they can enter their new employer's pension plan. The minimum wage bill changes a law to encourage private employers to stop imposing this 1-year wait.
  - **Guarantees Benefits for Workers on the Move:** Reduces the vesting period from 10 to 5 years for multiemployer plans -- which cover union workers such as construction workers who frequently change jobs -- to ensure they don't lose their benefits if they've worked for 5 years.
  - **Secures Portability for Veterans:** Changes tax rules to ensure that veterans who serve their nation are not penalized and can continue their pension coverage when they return from service.
3. **ENHANCES PENSION PROTECTION AND SECURITY:** The Retirement Protection Act, enacted in 1994 at the President's request, has reduced pension underfunding for the first time in a decade, protecting the benefits of 40 million workers and retirees in traditional pension plans. In 1995, the Labor Department launched an initiative to protect savings in 401(k) plans from misuse, recovering to date nearly \$10 million for thousands of workers. Recently the Labor Department issued new rules to ensure that worker contributions to 401(k) plans start earning money for workers sooner. Now the minimum wage bill:
  - **Protects Government Employees' Savings from Orange County-Style Fiascos:** Requires state and local government retirement savings plans to be held in trust so that employees do not lose their savings if the government declares bankruptcy, as Orange County recently did.
  - **Increases Penalties for Self-Dealing:** Penalties for self-dealing pension funds (such as loans to the company owner) are generally doubled, from 5 percent to 10 percent.
  - **Improves Spousal Protections:** Helps protect spousal benefits in the choice of an annuity and during divorce proceedings.
4. **EASES PENSION ADMINISTRATION:** Many employers are discouraged from establishing or maintaining plans because rules governing their administration are complicated and expensive. The minimum wage bill:
  - **Eliminates Complex Limitations:** As proposed by President Clinton, the bill eliminates the complex limitations on contributions and benefits for workers in a defined benefit and defined contribution plan with the same employer.
  - **Simplifies Corrective Action Rules:** The bill makes it easier for employers to take corrective action if they make excess tax-free contributions, and makes the corrective action rules fairer.
  - **Simplifies Computations:** The bill simplifies rules for computing pay for pension purposes, allowing lower-paid workers to receive more benefits.

## ADOPTION PROVISIONS IN THE SMALL BUSINESS JOB PROTECTION ACT

August 20, 1996

The Clinton Administration is committed to breaking down barriers to adoption. The Small Business Job Protection Act includes two adoption provisions that President Clinton has strongly supported. It provides an adoption tax credit and prohibits adoption agencies that receive Federal funds from denying or delaying placement of a child based on race, color or national origin. These provisions will help give more children what every child in America deserves -- loving parents and a healthy, stable home.

**America's Waiting Children.** More than 450,000 children in this country live in foster care. Eight out of ten of these children have special needs -- they are disabled, older, have siblings who also need to be adopted, or are minorities. The average child may wait as long as two years to be placed in an adoptive home even after they are legally free to be adopted. Minority children may wait twice as long.

**Clinton Administration's Commitment to Encouraging and Easing Adoption.** The President and the First Lady have worked hard to promote adoption, especially for children with special needs. The Administration's efforts include:

- Increased by 60% the number of children with special needs who have been adopted with Federal adoption assistance.
- Strongly supported the Multi-Ethnic Placement Act that sought to end discrimination and delays in adoption because of race or ethnicity.
- Championed the Family and Medical Leave Act -- which enables parents to take time off to adopt a child without losing their jobs or their health insurance.
- Created an honor roll of private companies who have pledged to make adoption easier for workers and their families by paying adoption benefits, offering leave time after adoption or other programs.
- Launched a public education campaign to highlight waiting children and the importance of adoption.

**Helping Families Afford Adoption.** This legislation will allow families, many of whom find adoption too expensive, to adopt children to love and nurture. It provides:

- A \$5,000 tax credit for costs related to adopting a child. If an employer agrees to pay for adoption expenses, their employee can claim an income deduction of up to \$5,000.
- A \$6,000 tax credit or income deduction for costs related to adopting a child with special needs.

The full credit and income deductions are available to adoptive parents with annual incomes of up to \$75,000 and gradually phase out as income reaches \$115,000.

**Breaking Down Racial Barriers to Adoption.** The legislation builds on the Multi-Ethnic Placement Act, signed by the President in 1994, by strengthening the prohibition against denying or delaying placement on the basis of race, color or national origin. The bill also provides for stronger enforcement against states that fail to comply within 6 months.

## **ADDITIONAL TAX PROVISIONS IN H.R. 3448 THAT THE ADMINISTRATION SUPPORTS**

In addition to the provisions that simplify pensions and expand coverage, H.R. 3448 contains a number of tax provisions that the Administration has long supported, including:

- **Small-business Expensing** -- The bill increases the amount of tangible depreciable property that small businesses can expense from \$17,500 to \$25,000 by the year 2003. In 1993, the President pushed for such an increase to \$25,000. His 1993 Economic Plan successfully increased the limit from \$10,000 to \$17,500, and his FY 1997 budget contained this proposal to increase it to \$25,000, except that the tax relief would have been phased in more quickly. The bill provides an important incentive for small businesses to increase their capital investment, and will simplify reporting for small businesses.
- **Adoption Credit** -- The bill provides a nonrefundable \$5000 adoption credit (increased to \$6000 for domestic adoptions of children with special needs), phased out for AGI between \$75,000 and \$115,000. In addition, the bill provides a maximum \$5,000 exclusion for amounts paid by the employer in connection with an adoption. The Administration believes that helping families adopt is one of the most important things we can do to strengthen families and give children a healthy home. The Administration has strongly supported such measures as a means to help alleviate economic barriers to adoption and enable many middle-class families, for whom adoption might otherwise be too expensive, to adopt children who need homes.
- **Temporary Extension of Employer-Provided Educational Assistance** -- The \$5,250 exclusion for employer-provided educational assistance, which expired after December 31, 1994, is reinstated retroactively and extended until May 31, 1997. It would apply to post-graduate education, but only for courses that began before July 1, 1996. The Administration strongly supports this incentive for employer-provided educational assistance, which is important for U.S. competitiveness because it encourages better-educated employees and boosts the productivity of the American workforce. The Administration is disappointed, however, that Congress has eliminated the incentive for post-graduate education. The Administration will continue to work to improve this provision, as well as to provide small businesses with a ten percent tax credit for educational assistance.
- **Work Opportunity Tax Credit** -- The bill replaces the targeted jobs tax credit (TJTC) with a new Work Opportunity Tax Credit. The new credit will provide incentives to employers to hire individuals from targeted groups most in need of jobs and with the least skills, and it will promote longer, more meaningful work experiences for individuals hired under the credit. Targeted groups include welfare recipients, food stamp recipients, former felons and young adults in empowerment zones and enterprise communities.

- **State Prepaid Tuition Plans** -- The Administration worked with Congress to develop and strongly supports these provisions, which clarify the tax treatment of investments in State prepaid tuition plans, including a provision that investors in such programs generally will not be taxed on the increase in value of their investment until the time of withdrawal. These changes will help parents save for their children's education.
- **Temporary Extension of R&E Credit** -- The credit, which expired June 30, 1995, is reinstated prospectively only, for the period July 1, 1996, through May 31, 1997, and is modified in certain respects. The Administration strongly supports the research tax credit and is disappointed that the research tax credit was not fully reinstated back to July 1, 1995, and made permanent.
- **Temporary Extension of "Orphan Drug" Credit** -- The credit, which expired December 31, 1994, is reinstated prospectively, for the period July 1, 1996, through May 31, 1997. The Administration strongly supports this credit, which provides an incentive for the testing of drugs for rare diseases and conditions.
- **Subchapter "S" Simplification Proposals** -- The Administration has supported Subchapter S simplification, which is important to helping small businesses. The provisions include increasing the number of eligible shareholders from 35 to 75, and allowing S corporations to hold subsidiaries.
- **Reform Foreign Trust Rules** -- The bill contains a series of provisions designed to prevent sophisticated tax avoidance techniques using foreign trusts. The provision is similar to one contained in the Administration's budget.
- **Contributions of Appreciated Stock to Private Foundations** -- This provision, which expired December 31, 1994, would be reinstated for the period July 1, 1996, through May 31, 1997.

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515**

May 21, 1996

**Support the Goodling Amendment**  
**Minimize Job Loss Resulting From Minimum Wage Increase**

Dear Colleague:

We writing to urge you to support the Goodling en bloc amendment to H.R. 1227, the Employee Commuting Flexibility Act. Should an amendment increasing the minimum wage be attached to H.R. 1227, the Goodling amendment is necessary to minimize the job loss, particularly in small businesses, that would result from such an increase. The Congressional Budget Office has indicated that at least 100,000, and perhaps as many as 500,000 jobs are endangered by the proposed increase in the minimum wage.

The Goodling amendment has four parts, each designed to blunt the costs to small business in terms of both the administrative burden and the disemployment effect.

- Tip Credit

The Fair Labor Standards Act (FLSA) currently contains a tip credit system whereby employers of tipped employees may count tips received by the worker toward up to 50 percent of the employer's minimum wage obligation. In the event that an employee's cash wages and tips do not meet the statutory minimum wage, the employer must contribute the amount of wages necessary for the employee to make at least the minimum wage.

Instead of relying on a percentage of the minimum wage, the Goodling provision would keep the mandatory cash wage paid by employers to tipped employees at \$2.13. Thus, an automatic adjustment of the tip credit would not be required each time the minimum wage is raised. Of course, every employer would still be required to make up the difference in wages and tips to ensure that each employee makes at least the minimum wage. The Goodling provision merely removes from employers, primarily small business men and women in the restaurant industry, the burden of further subsidizing the wages of employees who already receive average wages of \$7 to \$8 per hour.

- Small Business Exemption

When the FLSA was amended in 1989, an attempt was made to craft a workable small business exemption to the law. However, as a practical matter, the exemption--which removed small businesses with less than \$500,000 in annual gross sales from minimum wage and overtime requirements--is largely unusable because these same businesses often find that

**These small business employers, who are otherwise exempt from the Act, are now forced to evaluate each week the work duties performed by individual employees to determine whether those duties relate to interstate commerce. If so, for that week, the employee is covered by minimum wage/overtime. Depending on their specific duties, one employee working side-by-side with another employee may be covered while the other is not, and each employee's status may change from week to week.**

**The Goodling provision would effectuate the intent of the 1989 amendments to have a uniform \$500,000 small business exemption and will be based on legislation introduced by former Representative Mike Espy and co-sponsored by numerous Democrats (H.R. 1237 --**

102nd Congress). The provision contains several new protections, however. First, it guarantees that all employees currently covered by the minimum wage and overtime requirements will retain their right to overtime compensation and will continue to be paid at a wage not less than the current minimum wage. Second, the provision prohibits employers from displacing currently employed workers in order hire new employees and avoid the requirements of the FLSA.

- Computer Professionals Exemption

The regulations under the FLSA contain an exemption from overtime for computer professionals who are paid at least six and one-half times the minimum wage, which would be \$27.63 per hour (or over \$55,000 annually), based on the current minimum of \$4.25. Increasing the minimum wage will lead to a substantial increase in the wage rate required under the computer professional exemption. For example, if the minimum wage were increased by \$1.00 per hour, computer professionals would have to be paid \$6.50 more per hour (or an annualized increase of \$13,520) in order to retain the overtime exemption.

The proposal would specify in the statute that computer professionals have to be paid at least \$27.63 per hour (maintaining current law) in order to qualify for the overtime exemption. This also would keep the threshold for the exemption from increasing automatically each time the minimum wage is increased.

- Opportunity Wage

The Goodling provision would allow employers to pay new hires under 20 years of age not less than \$4.25 per hour for the first 90 days (calendar days - not days of work) after the employee is hired. This will encourage employers to hire new workers, and in turn, help low-skilled and entry-level workers maintain a foothold in the job market. The Goodling provision contains important protections for current workers by prohibiting employers from taking any action to displace any employee--either by an outright dismissal or a reduction in hours--in order to hire a worker at the opportunity wage.

Although modeled on the now expired "training wage" provision in the 1989 amendments to the FLSA, the Goodling opportunity wage obviates the burdensome paperwork requirements associated with that earlier wage. Offering employers an easy to comply with opportunity wage option ensures that small business owners will continue to be the engines of job creation fueling economic growth for our nation.

Sincerely,



BILL GOODLING  
Member of Congress



CHARLES W. STENHOLM  
Member of Congress

May 22, 1996 7:35 am

**Possible Proposed FLSA Changes**

These changes would all have the effect of denying minimum wage/overtime protection to certain classes of employees currently protected.

1. **Portal Act (Travel Time) Amendment:** Eliminates pay for home to work travel by employees in an employer-provided vehicle, and activities performed by an employee which are "incidental to the use of such vehicle for commuting," if the travel is within the "normal commuting area of the employer's business" and use of the vehicle is "subject to an agreement" between the employer and employee or employee's representative. The proposal would apply retroactively to pending actions. This will exclude more than just ordinary travel time from home to work. It is not clear which activities are "incidental to the use of such vehicle for commuting." The proposal lacks sufficient safeguards to ensure that use of the employer's vehicle is strictly voluntary by employees. This may disrupt some ongoing practices where the travel time is paid for, lowering compensation for some workers. We have already clarified "home-to-work" travel in company vehicles through our April 3, 1995, interpretation. Codification of the DOL interpretation as provided in the Andrews substitute would be acceptable.

2. **Youth "Opportunity" Wage:** Establish a permanent (no sunset), fixed sub-minimum wage -- at the flat rate of \$4.25, not 85 percent of the minimum wage -- for youth under 20 years of age in their first 90 days of employment with any employer (not just the first employer). Includes no employer training requirements.

3. **Tip Credit:** Eliminate the existing provision which requires employers of tipped employees (e.g., waiters and waitresses) to pay at least 50% of the statutory minimum wage in cash and replace it with a provision which locks the cash wage at the current standard -- \$2.13 -- even after the statutory minimum wage goes up. This proposal denies tipped employees any benefit from this minimum wage increase and, because it replaces an "index" formula with a fixed rate, it denies any automatic future increases in the minimum wage.

4. **Computer Exemption:** Eliminate the existing provision exempting certain "computer professionals" from requirements that they receive overtime pay if they earn more than 6.5 times the minimum wage and replace it with a provision exempting these workers from overtime if they earn more than \$27.63 per hour. Here again, this replaces an index formula with a fixed rate. This proposal means that no additional computer professionals will be protected by the FLSA's "time and one-half" overtime requirement and, over time, fewer and fewer computer professionals will be subject to this protection.

5. **Small Business Coverage Threshold:** Current law covers any worker engaged in interstate commerce, the production of goods for interstate commerce, or in any activity closely related or directly essential to producing goods for interstate commerce, as well as

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5. **Small Business Coverage Threshold:** Current law covers any worker engaged in interstate commerce, the production of goods for interstate commerce, or in any activity closely related or directly essential to producing goods for interstate commerce, as well as

employees of covered "enterprises". Employees would be covered by the FLSA (minimum wage, overtime, etc.) under this proposal only if they worked for a firm with annual gross revenues of more than \$500,000, and eliminates "individual coverage" of employees who work in interstate commerce for firms with gross revenues less than \$500,000. It goes beyond the pre-1989 exemption which exempted only employees of small retail/service establishments, and only for minimum wage and overtime. This would remove a substantial number of previously-protected low-wage workers from FLSA coverage (garment industry sweatshops, industrial homework, sheltered workshops, farmworkers, etc.), and would remove child labor protection in many industries in the future. The proposal would sanction the return of exploitative labor conditions (low wages, no overtime pay, long work hours, child labor abuses) as smaller companies in all industries seek a competitive edge over businesses regulated by FLSA. The proposed grandfather provision for currently-covered workers would create a two-tier wage system and, therefore, leave these employees outside the scope of future minimum wage increases.

## H.R. 1227. Fawell Bill to Amend the Portal-to-Portal Act

### **Differences with Current Law**

Under existing law, travel from home before the regular work day begins, and return travel to home after the work day ends, is ordinary "home-to-work" travel, which is not compensable. But all time spent in travel as part of an employee's principal activity, such as travel from job site to job site during the work day, is compensable work time. Where an employee is required to report at a meeting place to receive instructions, to pick up tools, or to perform other work, the travel time from the meeting place to the work place is also compensable work time.

Until August 1994, DOL held that if an employee received instructions or work assignments at home and then drove the employer's vehicle from home to the first job site, the travel time was compensable hours of work. Investigations of employers in the home heating oil industry in the New York metropolitan area revealed that certain employer practices had evolved contrary to FLSA's requirements, and the industry had overlooked long-settled interpretations of compensable travel time. Enforcement actions generated a groundswell of resistance from various firms and intense Congressional interest and pressure, prompting DOL to issue a letter ruling in April 1995 holding that violations would no longer be asserted for travel between home and the worksite ("home-to-work" travel) in an employer-provided vehicle if: (1) the driving is strictly voluntary and not a condition of employment; (2) the vehicle is a type that would normally be used for commuting; (3) the employee incurs no cost for driving or parking the vehicle at home or elsewhere; and (4) the worksites are within the normal commuting area of the employer's establishment.

H.R. 1227 was introduced three weeks before DOL issued its April 3, 1995, interpretative statement of policy.

- ▶ There are situations where employees perform work while traveling by conducting business for the employer or the employer's customers – for example, making telephone contacts to clients. This would be a compensable activity under current law but would be excluded under the bill.
- ▶ The bill would exclude travel time from home to work, as well as "activities performed by an employee which are incidental to the use of such vehicle for commuting." It is not entirely clear what is intended to be excluded from compensable work time, so there is potential that litigation could construe the exception quite broadly.
- ▶ The exception would apply under this bill if the travel is within the "normal commuting area of the employer's business" and use of the vehicle is "subject to an agreement" between the employer and employee or employee's representative. Under DOL's April 1995 ruling, additional limitations apply:

### Youth "Opportunity" Wage

**Proposal:** To establish a 90 day youth sub-minimum wage, with no training requirements.

**Background:** The 1989 FLSA Amendments temporarily authorized a sub-minimum "training wage" ( in effect from April 1990 through March 1993). The provision allowed employers to pay eligible employees under age 20 a training wage of 85% of the minimum wage (\$3.61 per hour from 4/91 through 3/93) for up to 90 days.

A youth paid the sub-minimum training wage for an initial 90 day period could be employed by a different employer at the same sub-minimum wage for an additional 90 day period if the employer met certain on-the- job training requirements.

The Department found very little use of the training wage by employers. The most common reason cited by employers for their nonuse was the inability to attract workers at that wage; administrative burden, government regulations and the undesirability of paying workers doing the same job at different rates were also cited as significant reasons for nonuse. There was no discernable use of the second 90 day provision.

**Effect:** A proposal to permanently reestablish the 90 day youth sub-minimum wage would permanently resurrect a failed experiment (allowed to sunset in 1993) embodied in the 1989 FLSA Amendments.

The proposal would add to the existing FLSA youth sub-minimum wage provisions (full time students, learners and apprentices) and parallel State-level programs (employers were able to fully utilize the "sunsetted" FLSA training wage in only 27 States, due to various restrictions imposed by State labor laws). The confusing interaction of these various programs with different thresholds, criteria, etc. is one reason employers cited for not utilizing the federal training sub-minimum wage when it was previously available.

This new youth sub-minimum wage would provide employers an incentive to hire youth rather than older workers.

### Tip Credit

**Proposal:** To change the current minimum cash wage for tipped employees from 50 percent of the minimum wage to its current dollar equivalent -- \$2.13 per hour -- so an increase in the minimum wage will not increase their wage or costs to employers of tipped employees, now or in the future.

**Background:** The original tip credit provisions were added by the 1966 FLSA Amendments, at 50% of the applicable minimum wage. This allows employers to take credit for 1/2 of their minimum wage obligation through the tips received by their employees. Only employees who customarily and regularly received more than \$20 (raised to \$30 on 1/1/78) in tips a month were covered by the tip credit.

Tip credit provisions were then modified by the 1977 and 1989 FLSA Amendments:

| <u>Date</u> | <u>Minimum Wage</u> | <u>Max Tip Credit</u> | <u>Cash Wage Required</u> |
|-------------|---------------------|-----------------------|---------------------------|
| 1/1/78      | \$2.65              | \$1.32 (50%)          | \$1.33                    |
| 1/1/79      | \$2.90              | \$1.30 (45%)          | \$1.60                    |
| 1/1/80      | \$3.10              | \$1.24 (40%)          | \$1.86                    |
| 1/1/81      | \$3.35              | \$1.34 (40%)          | \$2.01                    |
| 1/1/90      | \$3.80              | \$1.71 (45%)          | \$2.09                    |
| 1/1/91      | \$4.25              | \$2.12½ (50%)         | \$2.12½                   |

**Effect:** A proposal to change the cash minimum wage for tipped employees -- by locking it at the current \$2.13 an hour rather than 50% of the statutory minimum wage -- would deny the benefit of any statutory minimum wage increases, now or in the future, to all tipped employees.

The proposal would deny minimum wage increases to vast numbers of employees most in need of a "living wage" to make work pay and escape the cycle of poverty, i.e., delivery personnel, waitpersons, servers and buspersons.

Tipped employees have seen their required cash wages being eroded by inflation over the years, even as the minimum wage has been increased. In the last 15 years, since 1981, they have seen their legally-required cash wage increase by only 11.5 cents per hour -- while the full minimum wage increased by 90 cents per hour.

### Computer Exemption

**Proposal:** To change the current FLSA minimum wage/overtime exemption for certain computer "professionals" from being based on earning at least 6.5 times the minimum wage to its current dollar equivalent — \$27.63 per hour — so an increase in the minimum wage will not reduce the current population of such exempt employees and, thereby, not increase costs to employers of these computer personnel, now or in the future.

**Background:** Public Law 101-583, enacted 11/15/90, directed that regulations be promulgated to alter the minimum wage and overtime exemption for "professionals" to permit certain computer-related occupations to qualify for the exemption if such computer employees were paid an hourly rate at least 6½ times greater than the FLSA minimum wage. This enactment was a significant departure for two reasons: (1) the "professional" exemption traditionally encompassed only the "learned" and "artistic" professions, meaning doctors, lawyers, engineers, architects, etc., where an advanced academic degree was generally required for entry into the field, or artists, painters, sculptors, etc., and the named computer-related occupations would be the first not subject to an advanced academic degree requirement; and, (2) employees paid on an hourly basis could not previously qualify as "salaried" exempt professionals, but now they could if employed in the named occupations and paid at (or above) the specified rate.

**Effect:** "Locking in" the compensation level for exempting computer-related "professionals" will mean that the basis for qualifying for exemption will not keep pace with other general changes in the economy. As a result, what Congress originally intended as a narrow, targeted exemption will grow larger and larger as more employees become exempt as wages rise generally. There would be no minimum wage related incentive to increase the wage levels for these exempt workers, now or in the future.

This industry already enjoys special accommodation under the "professional" exemption, and this proposal will eliminate one of the principal built-in trade-offs that made up the basis for the exemption. Freezing the minimum wage level for the exemption will mean that, over time as wage levels rise, more and more computer workers will qualify for the exemption and, therefore, will only have to be paid "straight-time" wages no matter how many hours they work in a week. This also eliminates one incentive to create more employment in these fields.

### Small Business Coverage Threshold

**Proposal:** To eliminate "individual coverage" based on a worker being involved in interstate commerce and cover only workers in "enterprises" meeting the current \$500,000 ADV (annual dollar volume) coverage test.

**Background:** The FLSA never really contained a "small business exemption" per se. Starting in 1938, the FLSA covered any worker engaged in interstate commerce, the production of goods for interstate commerce, or in any activity closely related and directly essential to producing goods for interstate commerce — i.e., workers were subject to "individual coverage." In 1961, a second way that employees could be subject to FLSA's protections was added by providing that all employees in an enterprise with an annual dollar volume of \$1 million or more would be covered, even if they were not individually engaged in commerce. This "enterprise coverage" threshold was changed over the years by later amendments, and is currently \$500,000 based on the 1989 FLSA Amendments.<sup>1</sup>

Employees of all retail and service establishments were initially exempt from minimum wage and overtime. In 1961, this exemption was narrowed to exempt only small retail and service firms. Before the 1989 FLSA Amendments, the exemption applied only to employees of small retail or service establishments that were not part of a covered "enterprise" (i.e., "enterprises" comprised exclusively of retail or service establishments whose combined ADV was less than \$362,500).

The 1989 Amendments eliminated the exemption from "individual coverage" for employees of these retail and service firms to accompany the increase to \$500,000 in the ADV test for enterprise coverage. As a result, some employees in small retail and service firms became individually-covered by FLSA's minimum wage and overtime for the very first time (while other employees — of firms with an ADV below \$500,000 — were no longer covered).

**Effect:** Eliminating all individual coverage would go well beyond restoring how the law applied before the 1989 Amendments. In 1989, only smaller retail and service establishments qualified for the exemption from individual coverage for purposes of minimum wage and overtime only (not child labor), which was eliminated by the 1989 Amendments. The proposed "preservation of coverage" (grandfather) provision will only preserve the existing \$4.25 per hour minimum wage and overtime for those

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<sup>1</sup> Also, under current law, all employees of hospitals, schools and institutions of higher education, and Federal, State and local governments are covered irrespective of the annual dollar volume of business done.

specific employees individually covered as of May 1, 1996, but will not protect any employees hired after that date. For employees in American Samoa, former individually-covered workers – those in most businesses in American Samoa – will lose all protections and they are not protected by the preservation of coverage rule. (A three tier wage system will result: some employees not covered by any wage requirement, some frozen at \$4.25, and some subject to the new and future increases.)

This proposal will eliminate from FLSA protections a substantial number of previously-protected workers in enterprises below the \$500,000 coverage threshold in the future, including many low-wage workers in industries that have always been covered by the law. These include low-wage and often exploited workers in garment industry sweatshops, farmworkers, workers in sheltered workshops, and many more. In addition, for new businesses starting after May 1, 1996; this provision would remove child labor protections for many of our Nation's working youth, placing them in unregulated work environments detrimental to their health, safety and general well-being. We could see a return to the exploitative conditions which FLSA was designed to eradicate – low wages, long work hours, and child labor abuses – by smaller companies in all industries seeking a competitive edge.

File: Alternatives

Minimum

Wage Proposals



Chris Jones, Communications Director  
(202) 225-3021

For Immediate Release  
May 14, 1996  
112-6

## **McINTOSH: BEST WAY TO HELP LOW-WAGE WORKERS IS TO CUT THEIR TAXES**

*Freshman's "Minimum Wage Tax Cut" to be on House floor next week*

WASHINGTON — Freshman Rep. David McIntosh, R-Ind., said he and Rep. Tim Hutchinson, R-Ark., will bring their "Minimum Wage Tax Cut" proposal to the House floor next week as an alternative to raising the minimum wage.

McIntosh said the House GOP leadership pledged support last week for McIntosh-Hutchinson as the principal alternative to increasing the minimum wage. McIntosh made the comments Tuesday during a Capitol Hill news conference with House Majority Leader Dick Armey.

McIntosh-Hutchinson would increase the take-home pay of minimum wage earners by allowing them to keep the payroll taxes — FICA, or Social Security and Medicare taxes — that are currently withheld from their paychecks. It would represent a tax cut for workers earning between \$4.25 and \$5.15 an hour, and it would raise workers' take-home pay to \$4.57 an hour, compared to the current \$3.92 when federal withholdings are deducted.

Another provision of McIntosh-Hutchinson would restructure the Earned Income Tax Credit program to increase the credit for working couples with children and working single parents with children.

"There's no question that increasing the take-home pay for low-wage workers is critically important because it's getting harder and harder for working families to make ends meet," McIntosh said. "The best way to achieve that goal is to cut the taxes on minimum wage earners and allow them to keep more of the money they earn. McIntosh-Hutchinson has the benefit of increasing salaries without causing the job loss that raising the minimum wage would.

"It's a common-sense approach that represents a win-win for workers and small businesses. It also has the added benefit of making work more attractive than welfare, which everyone should support."

McIntosh also said Rep. Sam Johnson, R-Texas, has played a critical role in developing the tax cut initiative.

A Government Reform and Oversight subcommittee — on which McIntosh serves as chairman — held a hearing Tuesday morning on the impact of raising the minimum wage. Testifying at the hearing was Don Baisch, who started working the drive-thru window at a Burger King in Eureka, Calif., three years ago earning minimum wage. He said he took the job despite the advice of social service workers who warned him that he could make more money if he stayed on welfare. Self sufficient and no longer on welfare, the 25-year-old Baisch today is a manager at the fast food restaurant, supporting his wife and young child.

Baisch's boss, Melody Rane, who owns the Burger King, also testified that if the federally mandated minimum wage is increased, she couldn't afford to offer the next Don Baisch the opportunity to pull himself up from welfare or offer teenagers their first job. In fact, Rane says, she would be forced to lay-off as many as five of her employees and increase the price of hamburgers because the cost of raising the minimum wage is nearly equal to her profit margin.

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ONE HUNDRED FOURTH CONGRESS

# Congress of the United States

## House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

### WITNESS LIST

**Hearing on the Effects of a Minimum Wage Increase**  
**2167 Rayburn House Office Building**  
**9:00 a.m. Tuesday, May 14, 1996**

CARDIS COLLINS, ILLINOIS  
RANKING MEMBER  
HENRY A. WAXMAN, CALIFORNIA  
TOM LANTOS, CALIFORNIA  
ROBERT E. WISE, JR., WEST VIRGINIA  
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LOUISE MCINTOSH SLAUGHTER, NEW YORK  
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GARY A. CONORT, CALIFORNIA  
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CAROLYN B. MALONEY, NEW YORK  
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FRANK MASCARA, PENNSYLVANIA  
CHAKA FATTAH, PENNSYLVANIA

BERNARD SANDERS, VERMONT  
INDEPENDENT

MAJORITY—(221) 225-6074  
MINORITY—(222) 225-6061

### PANEL I

David Neumark, Professor of Economics, Michigan State University

David Card, Professor of Economics, Princeton University (Invited)

### PANEL II

Melody Rane, Franchisee, Burger King

Don Baisch, Burger King Employee

James G. Militello, co-owner, Source Team

Bernie Hellgeth, Founder, Bernie's Mail Bag

Taalib-Din Abdul Uqdah, co-owner of Cornrows & Co., and President of the  
American Hairbraiders & Natural Haircare Association

Gail Robbins, Franchisee, Pizza Inn

### PANEL III

Finis Welch, Distinguished Professor of Economics and  
Abell Professor of Liberal Arts, Texas A & M University

Kevin M. Murphy, George Pratt Shultz Professor of Business Economics  
and Industrial Relations, University of Chicago

Dr. William A. Niskanen, former Economic Adviser to President Reagan,  
and Chairman, Cato Institute

Edward Montgomery, Professor of Economics, University of Maryland

*Leading the Foodservice/Hospitality Industry*

1200 SEVENTEENTH STREET, N.W., WASHINGTON, DC 20036-3097 202/331-5900 FAX: 202/331-2429

**News Release****NATIONAL  
RESTAURANT  
ASSOCIATION**

**CONTACT: Wendy Webster  
Manager, Media Relations  
202/331-5938**

**Jeffrey Prince  
Senior Director  
202/331-5935**

**FOR IMMEDIATE RELEASE****CURRENT STARTING WAGE LEVEL ESSENTIAL TO MAINTAINING  
OPPORTUNITIES FOR UNSKILLED WORKERS, TESTIFIES RESTAURATEUR**

Washington, D.C. — May 14, 1996 — As battle lines are drawn in the U.S. Congress regarding the minimum wage and whether it should be raised, the debate is being framed, more often than not, in strictly political terms: Clinton vs. Dole, unions vs. business, Democrats vs. Republicans. In the process, testified a South Carolina restaurant owner today, there are some real economic questions that are being ignored.

"If the starting wage goes up, I know that a lot of people around this country who could be learning work skills will be on the street instead," said Gail Robbins, owner of a Pizza Inn restaurant franchise in Greenville, S.C., to the members of the House Government Reform and Oversight Committee's Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs.

"I pay all my employees more than the starting wage. If the starting wage goes up, I won't lay anyone off," she told them. "But because I only have a profit margin of about 4% I'll make changes that might not show up on the government's economic reports the next day or the next month. I'll wait until someone moves on to another job, and then I won't hire

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someone to take her place. I'll schedule servers for fewer hours. And I'll see if I can save money on labor some other way -- like buying broccoli and cauliflower pre-cut instead of having one of my kitchen workers cut it up herself.

"When you terminate one of these positions," Robbins added, "you terminate an opportunity."

Many economists and policy makers believe that entry-level employment is critical to moving unskilled Americans from welfare dependency to economic self-sufficiency. Thanks to the starting wage, restaurateurs and other small businesses can hire large numbers of inexperienced workers and teach them the basic skills they need for success in the workplace: things like knowing the importance of showing up for work on time, how to dress and how to work with others.

Of course, the starting wage and restaurant work experience benefit more than the disadvantaged. Thirty percent of all Americans under age 35 say that they acquired their first work experience in entry-level foodservice jobs, where they learned time- and money-management skills, as well as interpersonal skills. Many of the 30 percent later used these basic but essential skills to succeed in whatever line of work they chose.

But for many, these starting-wage jobs were the first rung on the foodservice career ladder. People who came into the foodservice industry with little or no experience were trained and rose through the ranks to become managers, chefs and even owners.

A full 60 percent of today's restaurant managers and owners started at entry-level, hourly positions in the industry. For these people, the starting wage meant opportunity. Gail Robbins is a perfect example of this phenomenon: as a teenager, she ran away from

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home to escape a life she describes as "intolerable." She ended up in New Jersey and got a job as a waitress at a Howard Johnson's restaurant when she was 19.

"The people at this Howard Johnson's took me under their wing and became my new family when I needed one desperately," Robbins explained. "They were my employers, my friends, my family and my mentors. They told me that if I had a good attitude and worked hard, I'd turn things around. Now, as the owner of my own successful restaurant, I'm trying to turn things around for a lot of people who need an opportunity to improve *their* lives."

Indeed, as our economy moves away from heavy industry, the service sector has become the great mechanism for guiding inexperienced workers into the workplace and training them for successful careers. Over the last decade, the foodservice industry alone created 4 million new jobs.

In Greenville, S.C., Robbins has been able to offer employment to a single mother of three who receives food stamps and Medicaid from the government, a young man at risk of becoming homeless and many others on the fringes of the welfare system.

"What all these people have in common is that they're receiving the best kind of job training," Robbins pointed out, "on-the-job training. It's the same kind of training I received at Howard Johnson's, training in life. And raising the starting wage isn't going to help me provide this type of opportunity."

Restaurant industry employers like Robbins agree: until the nation's opinion-makers -- including those in government and in the media -- start looking more at the numbers involved

- OVER -

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in a minimum-wage increase and listening less to the political rhetoric surrounding it,  
America's most successful on-the-job training and education program is in jeopardy.

- ### -

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515**

**May 21, 1996**

**Support the Goodling Amendment**  
**Minimize Job Loss Resulting From Minimum Wage Increase**

**Dear Colleague:**

We writing to urge you to support the Goodling en bloc amendment to H.R. 1227, the Employee Commuting Flexibility Act. Should an amendment increasing the minimum wage be attached to H.R. 1227, the Goodling amendment is necessary to minimize the job loss, particularly in small businesses, that would result from such an increase. The Congressional Budget Office has indicated that at least 100,000, and perhaps as many as 500,000 jobs are endangered by the proposed increase in the minimum wage.

The Goodling amendment has four parts, each designed to blunt the costs to small business in terms of both the administrative burden and the disemployment effect.

- **Tip Credit**

The Fair Labor Standards Act (FLSA) currently contains a tip credit system whereby employers of tipped employees may count tips received by the worker toward up to 50 percent of the employer's minimum wage obligation. In the event that an employee's cash wages and tips do not meet the statutory minimum wage, the employer must contribute the amount of wages necessary for the employee to make at least the minimum wage.

Instead of relying on a percentage of the minimum wage, the Goodling provision would keep the mandatory cash wage paid by employers to tipped employees at \$2.13. Thus, an automatic adjustment of the tip credit would not be required each time the minimum wage is raised. Of course, every employer would still be required to make up the difference in wages and tips to ensure that each employee makes at least the minimum wage. The Goodling provision merely removes from employers, primarily small business men and women in the restaurant industry, the burden of further subsidizing the wages of employees who already receive average wages of \$7 to \$8 per hour.

- **Small Business Exemption**

When the FLSA was amended in 1989, an attempt was made to craft a workable small business exemption to the law. However, as a practical matter, the exemption--which removed small businesses with less than \$500,000 in annual gross sales from minimum wage and overtime requirements--is largely unusable because these same businesses often find that

These small business employers, who are otherwise exempt from the Act, are now forced to evaluate each week the work duties performed by individual employees to determine whether those duties relate to interstate commerce. If so, for that week, the employee is covered by minimum wage/overtime. Depending on their specific duties, one employee working side-by-side with another employee may be covered while the other is not, and each employee's status may change from week to week.

The Goodling provision would effectuate the intent of the 1989 amendments to have a uniform \$500,000 small business exemption and will be based on legislation introduced by former Representative Mike Espy and co-sponsored by numerous Democrats (H.R. 1237 --

102nd Congress). The provision contains several new protections, however. First, it guarantees that all employees currently covered by the minimum wage and overtime requirements will retain their right to overtime compensation and will continue to be paid at a wage not less than the current minimum wage. Second, the provision prohibits employers from displacing currently employed workers in order hire new employees and avoid the requirements of the FLSA.

- Computer Professionals Exemption

The regulations under the FLSA contain an exemption from overtime for computer professionals who are paid at least six and one-half times the minimum wage, which would be \$27.63 per hour (or over \$55,000 annually), based on the current minimum of \$4.25. Increasing the minimum wage will lead to a substantial increase in the wage rate required under the computer professional exemption. For example, if the minimum wage were increased by \$1.00 per hour, computer professionals would have to be paid \$6.50 more per hour (or an annualized increase of \$13,520) in order to retain the overtime exemption.

The proposal would specify in the statute that computer professionals have to be paid at least \$27.63 per hour (maintaining current law) in order to qualify for the overtime exemption. This also would keep the threshold for the exemption from increasing automatically each time the minimum wage is increased.

- Opportunity Wage

The Goodling provision would allow employers to pay new hires under 20 years of age not less than \$4.25 per hour for the first 90 days (calendar days - not days of work) after the employee is hired. This will encourage employers to hire new workers, and in turn, help low-skilled and entry-level workers maintain a foothold in the job market. The Goodling provision contains important protections for current workers by prohibiting employers from taking any action to displace any employee--either by an outright dismissal or a reduction in hours--in order to hire a worker at the opportunity wage.

Although modeled on the now expired "training wage" provision in the 1989 amendments to the FLSA, the Goodling opportunity wage obviates the burdensome paperwork requirements associated with that earlier wage. Offering employers an easy to comply with opportunity wage option ensures that small business owners will continue to be the engines of job creation fueling economic growth for our nation.

Sincerely,



BILL GOODLING  
Member of Congress



CHARLES W. STENHOLM  
Member of Congress

May 22, 1996 7:35 am

**Possible Proposed FLSA Changes**

These changes would all have the effect of denying minimum wage/overtime protection to certain classes of employees currently protected.

1. **Portal Act (Travel Time) Amendment:** Eliminates pay for home to work travel by employees in an employer-provided vehicle, and activities performed by an employee which are "incidental to the use of such vehicle for commuting," if the travel is within the "normal commuting area of the employer's business" and use of the vehicle is "subject to an agreement" between the employer and employee or employee's representative. The proposal would apply retroactively to pending actions. This will exclude more than just ordinary travel time from home to work. It is not clear which activities are "incidental to the use of such vehicle for commuting." The proposal lacks sufficient safeguards to ensure that use of the employer's vehicle is strictly voluntary by employees. This may disrupt some ongoing practices where the travel time is paid for, lowering compensation for some workers. We have already clarified "home-to-work" travel in company vehicles through our April 3, 1995, interpretation. Codification of the DOL interpretation as provided in the Andrews substitute would be acceptable.

2. **Youth "Opportunity" Wage:** Establish a permanent (no sunset), fixed sub-minimum wage -- at the flat rate of \$4.25, not 85 percent of the minimum wage -- for youth under 20 years of age in their first 90 days of employment with any employer (not just the first employer). Includes no employer training requirements.

3. **Tip Credit:** Eliminate the existing provision which requires employers of tipped employees (e.g., waiters and waitresses) to pay at least 50% of the statutory minimum wage in cash and replace it with a provision which locks the cash wage at the current standard -- \$2.13 -- even after the statutory minimum wage goes up. This proposal denies tipped employees any benefit from this minimum wage increase and, because it replaces an "index" formula with a fixed rate, it denies any automatic future increases in the minimum wage.

4. **Computer Exemption:** Eliminate the existing provision exempting certain "computer professionals" from requirements that they receive overtime pay if they earn more than 6.5 times the minimum wage and replace it with a provision exempting these workers from overtime if they earn more than \$27.63 per hour. Here again, this replaces an index formula with a fixed rate. This proposal means that no additional computer professionals will be protected by the FLSA's "time and one-half" overtime requirement and, over time, fewer and fewer computer professionals will be subject to this protection.

5. **Small Business Coverage Threshold:** Current law covers any worker engaged in interstate commerce, the production of goods for interstate commerce, or in any activity closely related or directly essential to producing goods for interstate commerce, as well as

May 22, 1996 7:35 am

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5. **Small Business Coverage Threshold:** Current law covers any worker engaged in interstate commerce, the production of goods for interstate commerce, or in any activity closely related or directly essential to producing goods for interstate commerce, as well as

employees of covered "enterprises". Employees would be covered by the FLSA (minimum wage, overtime, etc.) under this proposal only if they worked for a firm with annual gross revenues of more than \$500,000, and eliminates "individual coverage" of employees who work in interstate commerce for firms with gross revenues less than \$500,000. It goes beyond the pre-1989 exemption which exempted only employees of small retail/service establishments, and only for minimum wage and overtime. This would remove a substantial number of previously-protected low-wage workers from FLSA coverage (garment industry sweatshops, industrial homework, sheltered workshops, farmworkers, etc.), and would remove child labor protection in many industries in the future. The proposal would sanction the return of exploitative labor conditions (low wages, no overtime pay, long work hours, child labor abuses) as smaller companies in all industries seek a competitive edge over businesses regulated by FLSA. The proposed grandfather provision for currently-covered workers would create a two-tier wage system and, therefore, leave these employees outside the scope of future minimum wage increases.

## **H.R. 1227, Fawell Bill to Amend the Portal-to-Portal Act**

### **Differences with Current Law**

Under existing law, travel from home before the regular work day begins, and return travel to home after the work day ends, is ordinary "home-to-work" travel, which is not compensable. But all time spent in travel as part of an employee's principal activity, such as travel from job site to job site during the work day, is compensable work time. Where an employee is required to report at a meeting place to receive instructions, to pick up tools, or to perform other work, the travel time from the meeting place to the work place is also compensable work time.

Until August 1994, DOL held that if an employee received instructions or work assignments at home and then drove the employer's vehicle from home to the first job site, the travel time was compensable hours of work. Investigations of employers in the home heating oil industry in the New York metropolitan area revealed that certain employer practices had evolved contrary to FLSA's requirements, and the industry had overlooked long-settled interpretations of compensable travel time. Enforcement actions generated a groundswell of resistance from various firms and intense Congressional interest and pressure, prompting DOL to issue a letter ruling in April 1995 holding that violations would no longer be asserted for travel between home and the worksite ("home-to-work" travel) in an employer-provided vehicle if: (1) the driving is strictly voluntary and not a condition of employment; (2) the vehicle is a type that would normally be used for commuting; (3) the employee incurs no cost for driving or parking the vehicle at home or elsewhere; and (4) the worksites are within the normal commuting area of the employer's establishment.

H.R. 1227 was introduced three weeks before DOL issued its April 3, 1995, interpretative statement of policy.

- ▶ There are situations where employees perform work while traveling by conducting business for the employer or the employer's customers – for example, making telephone contacts to clients. This would be a compensable activity under current law but would be excluded under the bill.
- ▶ The bill would exclude travel time from home to work, as well as "activities performed by an employee which are incidental to the use of such vehicle for commuting." It is not entirely clear what is intended to be excluded from compensable work time, so there is potential that litigation could construe the exception quite broadly.
- ▶ The exception would apply under this bill if the travel is within the "normal commuting area of the employer's business" and use of the vehicle is "subject to an agreement" between the employer and employee or employee's representative. Under DOL's April 1995 ruling, additional limitations apply:

Youth "Opportunity" Wage

**Proposal:** To establish a 90 day youth sub-minimum wage, with no training requirements.

**Background:** The 1989 FLSA Amendments temporarily authorized a sub-minimum "training wage" ( in effect from April 1990 through March 1993). The provision allowed employers to pay eligible employees under age 20 a training wage of 85% of the minimum wage (\$3.61 per hour from 4/91 through 3/93) for up to 90 days.

A youth paid the sub-minimum training wage for an initial 90 day period could be employed by a different employer at the same sub-minimum wage for an additional 90 day period if the employer met certain on-the- job training requirements.

The Department found very little use of the training wage by employers. The most common reason cited by employers for their nonuse was the inability to attract workers at that wage; administrative burden, government regulations and the undesirability of paying workers doing the same job at different rates were also cited as significant reasons for nonuse. There was no discernable use of the second 90 day provision.

**Effect:** A proposal to permanently reestablish the 90 day youth sub-minimum wage would permanently resurrect a failed experiment (allowed to sunset in 1993) embodied in the 1989 FLSA Amendments.

The proposal would add to the existing FLSA youth sub-minimum wage provisions (full time students, learners and apprentices) and parallel State-level programs (employers were able to fully utilize the "sunsetted" FLSA training wage in only 27 States, due to various restrictions imposed by State labor laws). The confusing interaction of these various programs with different thresholds, criteria, etc. is one reason employers cited for not utilizing the federal training sub-minimum wage when it was previously available.

This new youth sub-minimum wage would provide employers an incentive to hire youth rather than older workers.

### Tip Credit

**Proposal:** To change the current minimum cash wage for tipped employees from 50 percent of the minimum wage to its current dollar equivalent -- \$2.13 per hour -- so an increase in the minimum wage will not increase their wage or costs to employers of tipped employees, now or in the future.

**Background:** The original tip credit provisions were added by the 1966 FLSA Amendments, at 50% of the applicable minimum wage. This allows employers to take credit for 1/2 of their minimum wage obligation through the tips received by their employees. Only employees who customarily and regularly received more than \$20 (raised to \$30 on 1/1/78) in tips a month were covered by the tip credit.

Tip credit provisions were then modified by the 1977 and 1989 FLSA Amendments:

| <u>Date</u> | <u>Minimum Wage</u> | <u>Max Tip Credit</u> | <u>Cash Wage Required</u> |
|-------------|---------------------|-----------------------|---------------------------|
| 1/1/78      | \$2.65              | \$1.32 (50%)          | \$1.33                    |
| 1/1/79      | \$2.90              | \$1.30 (45%)          | \$1.60                    |
| 1/1/80      | \$3.10              | \$1.24 (40%)          | \$1.86                    |
| 1/1/81      | \$3.35              | \$1.34 (40%)          | \$2.01                    |
| 1/1/90      | \$3.80              | \$1.71 (45%)          | \$2.09                    |
| 1/1/91      | \$4.25              | \$2.12½ (50%)         | \$2.12½                   |

**Effect:** A proposal to change the cash minimum wage for tipped employees -- by locking it at the current \$2.13 an hour rather than 50% of the statutory minimum wage -- would deny the benefit of any statutory minimum wage increases, now or in the future, to all tipped employees.

The proposal would deny minimum wage increases to vast numbers of employees most in need of a "living wage" to make work pay and escape the cycle of poverty, i.e., delivery personnel, waitpersons, servers and buspersons.

Tipped employees have seen their required cash wages being eroded by inflation over the years, even as the minimum wage has been increased. In the last 15 years, since 1981, they have seen their legally-required cash wage increase by only 11.5 cents per hour -- while the full minimum wage increased by 90 cents per hour.

### Computer Exemption

**Proposal:** To change the current FLSA minimum wage/overtime exemption for certain computer "professionals" from being based on earning at least 6.5 times the minimum wage to its current dollar equivalent -- \$27.63 per hour -- so an increase in the minimum wage will not reduce the current population of such exempt employees and, thereby, not increase costs to employers of these computer personnel, now or in the future.

**Background:** Public Law 101-583, enacted 11/15/90, directed that regulations be promulgated to alter the minimum wage and overtime exemption for "professionals" to permit certain computer-related occupations to qualify for the exemption if such computer employees were paid an hourly rate at least 6½ times greater than the FLSA minimum wage. This enactment was a significant departure for two reasons: (1) the "professional" exemption traditionally encompassed only the "learned" and "artistic" professions, meaning doctors, lawyers, engineers, architects, etc., where an advanced academic degree was generally required for entry into the field, or artists, painters, sculptors, etc., and the named computer-related occupations would be the first not subject to an advanced academic degree requirement; and, (2) employees paid on an hourly basis could not previously qualify as "salaried" exempt professionals, but now they could if employed in the named occupations and paid at (or above) the specified rate.

**Effect:** "Locking in" the compensation level for exempting computer-related "professionals" will mean that the basis for qualifying for exemption will not keep pace with other general changes in the economy. As a result, what Congress originally intended as a narrow, targeted exemption will grow larger and larger as more employees become exempt as wages rise generally. There would be no minimum wage related incentive to increase the wage levels for these exempt workers, now or in the future.

This industry already enjoys special accommodation under the "professional" exemption, and this proposal will eliminate one of the principal built-in trade-offs that made up the basis for the exemption. Freezing the minimum wage level for the exemption will mean that, over time as wage levels rise, more and more computer workers will qualify for the exemption and, therefore, will only have to be paid "straight-time" wages no matter how many hours they work in a week. This also eliminates one incentive to create more employment in these fields.

### **Small Business Coverage Threshold**

**Proposal:** To eliminate "individual coverage" based on a worker being involved in interstate commerce and cover only workers in "enterprises" meeting the current \$500,000 ADV (annual dollar volume) coverage test.

**Background:** The FLSA never really contained a "small business exemption" per se. Starting in 1938, the FLSA covered any worker engaged in interstate commerce, the production of goods for interstate commerce, or in any activity closely related and directly essential to producing goods for interstate commerce — i.e., workers were subject to "individual coverage." In 1961, a second way that employees could be subject to FLSA's protections was added by providing that all employees in an enterprise with an annual dollar volume of \$1 million or more would be covered, even if they were not individually engaged in commerce. This "enterprise coverage" threshold was changed over the years by later amendments, and is currently \$500,000 based on the 1989 FLSA Amendments.<sup>1</sup>

Employees of all retail and service establishments were initially exempt from minimum wage and overtime. In 1961, this exemption was narrowed to exempt only small retail and service firms. Before the 1989 FLSA Amendments, the exemption applied only to employees of small retail or service establishments that were not part of a covered "enterprise" (i.e., "enterprises" comprised exclusively of retail or service establishments whose combined ADV was less than \$362,500).

The 1989 Amendments eliminated the exemption from "individual coverage" for employees of these retail and service firms to accompany the increase to \$500,000 in the ADV test for enterprise coverage. As a result, some employees in small retail and service firms became individually-covered by FLSA's minimum wage and overtime for the very first time (while other employees — of firms with an ADV below \$500,000 — were no longer covered).

**Effect:** Eliminating all individual coverage would go well beyond restoring how the law applied before the 1989 Amendments. In 1989, only smaller retail and service establishments qualified for the exemption from individual coverage for purposes of minimum wage and overtime only (not child labor), which was eliminated by the 1989 Amendments. The proposed "preservation of coverage" (grandfather) provision will only preserve the existing \$4.25 per hour minimum wage and overtime for those

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<sup>1</sup> Also, under current law, all employees of hospitals, schools and institutions of higher education, and Federal, State and local governments are covered irrespective of the annual dollar volume of business done.

specific employees individually covered as of May 1, 1996, but will not protect any employees hired after that date. For employees in American Samoa, former individually-covered workers — those in most businesses in American Samoa — will lose all protections and they are not protected by the preservation of coverage rule. (A three tier wage system will result: some employees not covered by any wage requirement, some frozen at \$4.25, and some subject to the new and future increases.)

This proposal will eliminate from FLSA protections a substantial number of previously-protected workers in enterprises below the \$500,000 coverage threshold in the future, including many low-wage workers in industries that have always been covered by the law. These include low-wage and often exploited workers in garment industry sweatshops, farmworkers, workers in sheltered workshops, and many more. In addition, for new businesses starting after May 1, 1996; this provision would remove child labor protections for many of our Nation's working youth, placing them in unregulated work environments detrimental to their health, safety and general well-being. We could see a return to the exploitative conditions which FLSA was designed to eradicate — low wages, long work hours, and child labor abuses — by smaller companies in all industries seeking a competitive edge.

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## **35TH ANNIVERSARY OF DOLE'S OPPOSITION TO KENNEDY'S MINIMUM WAGE INCREASE**

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Friday, May 3rd was the 35 anniversary of Bob Dole's vote against President Kennedy's legislation raising the minimum wage from \$1.00 to \$1.25.

"Bob Dole and Richard Nixon were wrong to oppose President Kennedy's minimum wage hike 35 years ago -- and Bob Dole and Richard Arney are wrong to oppose President Clinton's minimum wage hike today."

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## 1960 Kennedy Campaign Ad: Increase the Minimum Wage

In the 1960 presidential campaign against Richard Nixon, John F. Kennedy ran an ad in which he called for an increase in the minimum wage. In the ad, Kennedy sat in front of the camera and said:

*"Mr. Nixon has said that a \$1.25 minimum wage is extreme. That's \$50 a week. What's extreme about that? I believe the next Congress and the President should pass a minimum wage for a \$1.25 an hour. Americans must be paid enough to live."*

[C-SPAN, "Road to the White House," 4/28/96]