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Minimum Wage [3]

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

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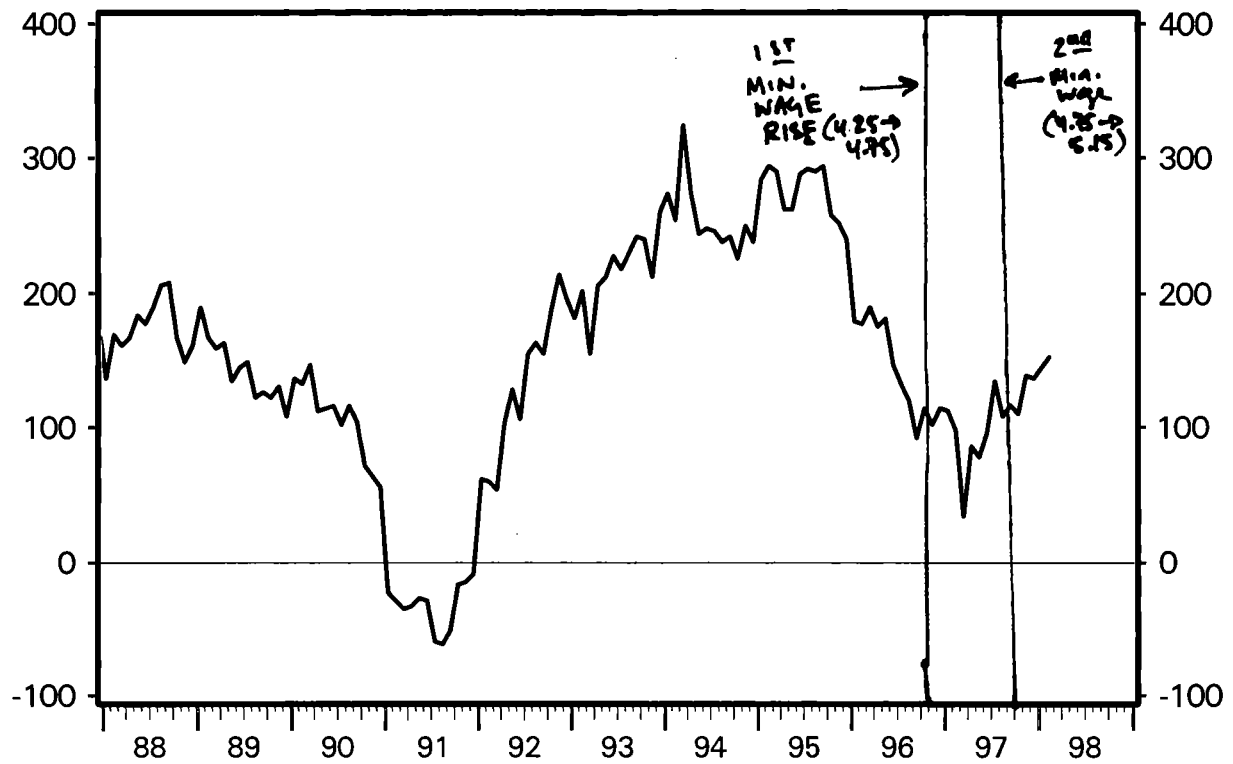
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All Employees: Eating and Drinking Places (LA5800A)

Difference - Year to Year SA, Thous



	Month			Quarter	Year
1996	179	177	189	182	144
	175	181	146	167	
	133	121	93	116	
	115	102	115	111	
1997	112	99	34	82	104
	86	79	96	87	
	134	108	117	120	
	110	139	137	129	
1998	145	153	---	---	---
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	Month			Quarter	Year
1989	6348 6384 6416 6434	6367 6377 6413 6449	6366 6397 6426 6454	6360 6386 6418 6446	6403
1990	6484 6497 6519 6507	6499 6492 6529 6513	6512 6514 6531 6509	6498 6501 6526 6510	6509
1991	6460 6464 6460 6489	6469 6465 6468 6499	6477 6484 6480 6501	6469 6471 6469 6496	6476
1992	6521 6568 6616 6676	6529 6593 6631 6713	6531 6590 6636 6696	6527 6584 6628 6695	6608
1993	6702 6773 6833 6917	6731 6805 6860 6924	6686 6817 6878 6957	6706 6798 6857 6933	6824
1994	6976 7047 7080 7142	6985 7050 7098 7175	7011 7065 7121 7196	6991 7054 7100 7171	7079
1995	7261 7310 7372 7401	7280 7312 7389 7428	7302 7353 7416 7436	7281 7325 7392 7422	7355
1996	7440 7485 7505 7516	7457 7493 7510 7530	7491 7499 7509 7551	7463 7492 7508 7532	7499
1997	7552 7571 7639 7626	7556 7572 7618 7669	7525 7595 7626 7688	7544 7579 7628 7661	7603
1998	7697 --- --- ---	7709 --- --- ---	--- --- --- ---	--- --- --- ---	---

COMMENTARY

By Aaron Bernstein

THE CASE FOR ANOTHER MINIMUM-WAGE HIKE

Whether or not Bill Clinton decides to endorse a proposed increase in the minimum wage in his State of the Union address on the evening of Jan. 27, the idea will already be on the agenda. That day, Senator Edward Kennedy (D-Mass.) plans to introduce a bill to lift the minimum wage in three increments from the current \$5.15 an hour to \$6.65 in 2000.

Many employers no doubt will think this scheme crazy. After all, we just hiked the minimum in 1996 and 1997. But today's healthy economy provides a good opportunity to help low-wage workers make up more ground. Unemployment is the lowest it has been in a generation. And welfare reform is creating more job seekers at the bottom of the labor market. Even if you still believe a minimum-wage boost means fewer jobs—which is no longer the consensus among economists—there's less reason to worry when employers everywhere are begging for help.

A FEW RISKS. True, there are risks. A higher minimum wage could hurt if the Asian mess drags down the American economy. And no matter what, some smaller employers will be hard pressed to pay more so soon after being hit with the last increase. Still, even economists who staunchly opposed the last hike concede that another one may not cost many jobs this time either. "In a very tight labor market like today, there might be less of an unemployment effect," says David Neumark, an economics professor at Michigan State University who was a staunch opponent of the 1996 and 1997 increases.

Here's why Neumark has softened his opposition. Congress lifted the minimum by 50¢ in October, 1996, to

\$4.75, and by another 40¢ last September. The double-barreled hike produced no blip in inflation. More increases would add to wage pressures, but slower growth in 1998 still should keep inflation in check, says Bruce Steinberg, chief economist at Merrill Lynch & Co. And while many considered the 1996 and 1997 increases substantial, they did

the EPI findings with a study of the fast-food industry in Pennsylvania. "There's no indication that the last increases have had an adverse impact on employment," asserts Krueger.

Other work by Card and Krueger has also challenged the decades-old assumption that higher minimums inevitably cost jobs. In 1994, the pair

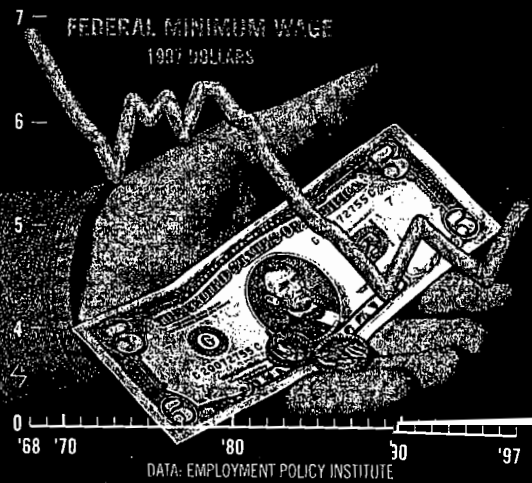
looked at the fast-food industry after New Jersey raised its state minimum in 1992 to \$5.05 an hour, up from \$4.25, while Pennsylvania kept its own at \$4.25. Result: Employment grew at about the same rate in both states. Michigan State's Neumark and a colleague challenged the study. But Card and Krueger have reconfirmed its conclusions in a new paper that draws on confidential employer data collected by the Bureau of Labor Statistics.

A MILLION MOTHERS. The basic lesson: Economic context matters. True, raising the price of labor at any time may force some employers to hire fewer workers. But the findings of Card and Krueger as well as the impressive job growth of the past year show that modest hikes aren't necessarily destructive to an already booming economy.

Welfare reform is the other relevant factor. Experts say that a million or so welfare mothers will be pushed into the workforce by 2000. This is likely to lift the jobless rate for unskilled workers or lower their wages. New minimum-wage hikes would offset the downward pressure on their pay. What's more, unless recipients earn enough to live on, society will be forced to pick up the tab one way or another. And nobody likes higher taxes.

Bernstein is BUSINESS WEEK's workplace editor.

ADJUSTED FOR INFLATION, THE MINIMUM WAGE IS DOWN



n't even bring low-end workers back to the inflation-adjusted levels they enjoyed throughout the 1960s and 1970s (chart).

Also, unemployment fell after the hikes, from 5.5% in the summer of 1996 to 4.7% today. More telling, employment rates remained the same or increased for groups with the largest share of minimum-wage workers—teenagers and 20- to 24-year-olds, including minorities—according to a mid-1997 study of the first increase by the Economic Policy Institute, a Washington think tank.

Now, Princeton University economist Alan B. Krueger and David Card, an economist at the University of California at Berkeley, bolster

Opponents said the last two increases would kill jobs and spur inflation. That didn't happen

February 2, 1998

The Honorable William J. Clinton
President
The White House
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

Dear Mr. President:

As economists who are concerned about the erosion in the living standards of households dependent on the earnings of low-wage workers, we applaud your endorsement of an increase in the Federal minimum wage.

We believe that the 1996 and 1997 increases had a beneficial effect not only on those whose earnings were increased by 90 cents an hour but also on the economy as a whole. Billions in added consumer demand helped fuel our expanding economy in those years.

We have been particularly impressed by the fact that the 1996 and 1997 increases did not have, as is often predicted during minimum wage debates, a negative effect on either prices or employment. While those increases were going into workers' pockets, total employment levels rose by 2.7 percent, teen employment levels rose 2.2 percent, and the employment of women workers rose 2.7 percent. And, at the same time, the CPI remained virtually stable.

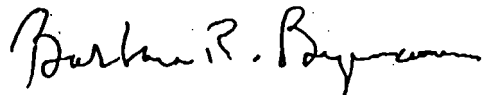
Given the nation's unemployment rate and strong economy without inflation, now is the time to deepen our public commitment to a decent minimum wage. We strongly support the Kennedy-Bonior bill. That legislation would increase the minimum wage by 50 cents in each of the next three years, bringing the minimum wage to \$6.65 per hour on September 1, 2000. Thereafter, the minimum wage would be indexed to the rate of inflation. We believe that the bill will help low-wage workers and their families without significantly jeopardizing employment opportunities or causing other harmful economic effects.

Thank you for your leadership in this important area.

Sincerely,



Eileen Appelbaum
Economic Policy Institute*



Barbara R. Bergmann
American University
University of Maryland

Peter Berg

Peter Berg
Economic Policy Institute*

Barry Bluestone

Barry Bluestone
University of Massachusetts/Boston

Robert Eisner

Robert Eisner
Northwestern University

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LBJ School of Public Affairs
University of Texas at Austin

Lawrence R. Klein

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University of Pennsylvania

James L. Medoff

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Michael Piore

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Massachusetts Institute
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Sheldon Danziger

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Jeff Faux

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Heidi Hartmann

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I have been particularly impressed by the fact that the 1996 and 1997 increases did not have, as is often predicted during minimum wage debates, a negative effect on either prices or employment. While those increases were going into workers' pockets, total employment rose by 2.7 percent, teen employment rose 2.2 percent, and the employment of women workers rose 2.7 percent. And, at the same time, the CPI remained virtually stable.

Given the nation's low unemployment rate and strong economy without inflation, now is the time to deepen our public commitment to a decent minimum wage. I strongly support the Kennedy-Bonior bill. That legislation would increase the minimum wage by 50 cents in each of the next three years, bringing the minimum wage to \$6.65 an hour on September 1, 2000. Thereafter, the minimum wage would be indexed to the rate of inflation. I believe that increases like this will help low-wage workers and their families, without significantly jeopardizing employment opportunities or causing other harmful economic effects.

Thank you for your leadership in this important area.

Sincerely,

Ray Marshall

February 2, 1998

The Honorable William J. Clinton
President
The White House
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

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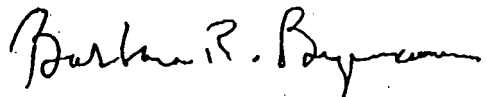
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American University
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Northwestern University

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* For Identification Purposes Only

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A: With the Economy Strong, Now Is A Good Time To Raise the Minimum Wage. The labor market is extremely tight right now -- employers are searching desperately for workers - - so the economy can absorb an increase in the minimum wage without costing jobs.

We Are Restoring the Minimum Wage To Its Historic Value. Ronald Reagan was the first elected President not to sign a minimum wage increase into law. During his eight years in office, the real value of the minimum wage *fell* more than 25 percent. President Clinton's proposal to increase the minimum wage by \$1 in two equal steps -- combined with the previous 90-cent increase -- will restore the real value of the minimum wage to that when President Reagan took office.

We Are Helping To Parents Can Raise Their Children Out of Poverty At The Turn of the Century. In 1993, President Clinton expanded the Earned Income Tax Credit (EITC), helping to lift hundreds of thousands of working families out of poverty. Today, with the previous minimum wage increase and the expanded EITC, parents who work full-time can bring up their children out in poverty. However, at the turn of the century, this will no longer be true because costs will continue to increase while the minimum wage does not. Therefore, we need to raise the minimum wage to ensure that every parent who works hard and play by the rules can bring up their children out of poverty.

Q: WHY ARE YOU PROPOSING A BIGGER INCREASE THIS TIME THAN YOU DID LAST TIME AROUND?

A: The Evidence From The Last Minimum Wage Increase Clearly Shows 10 Million People Got A Raise And Jobs Were Not Lost. Since the President signed the minimum wage increase, the unemployment rate has fallen from 5.2% to 4.7% -- its lowest level in 25 years; the economy has created more than 4 million new jobs; and the inflation rate has declined.

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In Percentage Terms, This Increase Is Actually Smaller Than The Last One. The last minimum wage increase -- from \$4.25 to \$5.15 -- was a 21-percent raise. This proposal -- raising the minimum wage from \$5.15 to \$6.15 -- is a 19-percent increase.

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Q: WON'T RAISING THE MINIMUM WAGE COST JOBS?

A: No, Raising the Minimum Wage Will Help Lift Living Standards for 12 Million Workers and Will Not Cost Jobs. In August 1996, President Clinton raised the minimum wage by 90 cents, from \$4.25 to \$5.15. Since then, the economy has performed tremendously:

- **More Jobs, Less Unemployment, And Inflation Is Down.** Since the President signed the minimum wage increase, the unemployment rate has fallen from 5.2% to 4.7% -- its lowest level in 25 years; the economy has created new jobs at an historically fast pace of 250,000 per month -- that's more than 4.2 million new jobs since August 1996; and the inflation rate has declined from 2.9 percent to 1.7 percent.
- **Teenage Unemployment Is Down.** Since the President signed the minimum wage increase, the teenage unemployment rate has fallen from 16.9% to 14.1%; over 650,000 more teenagers are working now than in August 1996; and the share of teenagers employed has increased from 42.4% to 45.6%.
- **African-American Teenage Unemployment Is Down.** Since August 1996, the African-American teenage unemployment rate has fallen from 37.6% to 30.1%; nearly 100,000 more African-American teenagers are working now than in August 1996; and the share of African Americans teenagers employed has increased from 24.7% to 28.3%.

Evidence Suggests that 1996 Minimum Wage Increase Did Not Cost Jobs. A study by two leading labor economists found "*no indication of relative employment losses*" because of the 1996 minimum-wage increase. And the Economic Policy Institute concluded that "[T]he higher minimum wage has substantially boosted the earnings of low-wage workers; the benefits of the minimum-wage increase went primarily to low-income working families; and *employment opportunities for teenagers and young adults - groups that opponents of the minimum wage singled out as particularly vulnerable - were not adversely affected by the increase.*"

- **Empirical Evidence Shows Moderate Minimum Wage Increases Do Not Cost Jobs.** *Two dozen* empirical studies have found that moderate increases in the minimum wage do not cost jobs. 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.

Q: WON'T RAISING THE MINIMUM WAGE CAUSE PRICES TO RISE?

A: There Is No Evidence To Suggest That Raising the Minimum Wage Causes Inflation. In the year before the President signed the 1996 minimum wage increase, the inflation rate was 2.9 percent. Over the past year, it has been 1.7 percent. With inflation down since the last minimum wage increase, it is difficult to argue that raising it again will cause inflation to go up.

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February 11, 1998

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG

SUBJECT: Minimum Wage

Reaction to \$1 Minimum-Wage Increase Proposal:

- **September 1998/September 1999 \$1 Minimum-Wage Increase:**
 - Alan Krueger told me that he would say “More concerned about job losses than previously. Personally, I would prefer to wait.” While he would not say this publicly (and he believes there is a *small chance* that there would be no job loss), he told me that, in his opinion, a \$1 increase could lead to up to *400,000 lost jobs*. (You should note that this falls in the range we estimated with CEA, Treasury, and Labor.)
 - Issac Shapiro of the Center on Budget and Policy Priorities said that he would say that there is “definitely room for an increase in the minimum wage, and he would support increases in this neighborhood. However, he would wait to support this proposal so that he could review the evidence from the last increases.”
- **April 1999/April 2000 \$1 Minimum-Wage Increase:**
 - Alan said that he would be less critical of a proposal that increases the minimum wage later.
 - Issac says that the more the proposal is hedged, like \$1 by April 2000, the more likely he will be comfortable with it and will support it outright.

Who Benefits From Different Sized Increases?

<u>Size of Increase</u>	<u>M.W. Raised To</u>	<u># of Hourly Workers Helped</u>
\$0.50	\$5.65	6.5 million
\$0.60	\$5.75	6.7 million
\$0.85	\$6.00	7.6 million
\$0.90	\$6.05	11.9 million
\$1.00	\$6.15	12 million

Preliminary Estimates of Employment Impacts of Different Increases:

Preliminary estimates of the disemployment effects of a minimum wage increase. The results suggest the following:

<u>New Minimum Wage Rate</u>	DISEMPLOYMENT EFFECT					
	By 1999			By 2000		
	<u>Low</u>	<u>Mid</u>	<u>High</u>	<u>Low</u>	<u>Mid</u>	<u>High</u>
5.75	No Effect			No Effect		
6.00	9,000	170,000	346,000	4,000	117,000	232,000
6.05	10,000	174,000	382,000	5,000	135,000	267,000
6.15	14,000	233,000	460,000	8,000	171,000	338,000

History of Minimum Wage Increases:

If the minimum wage were increased to \$6.15 by September 1, 1999, it would be 45 percent higher than it was three years earlier. During the 1970s, the minimum wage was increased by a similar amount:

- Between May 1974 and January 1976 -- under two years -- the minimum wage was raised from \$1.60 to \$2.30, a *44-percent increase*.
- Between January 1978 and January 1981 -- three years -- the minimum wage rose from \$2.30 to \$3.35, a *46-percent increase*.

However, inflation was running in double digits for a number of these years (1974, 1979, 1980, 1981), so the nominal value of the minimum wage needed to be adjusted more often to ensure that it kept pace with prices. Today, the inflation rate is very low; since the increase in September, inflation has eroded just 0.6 percent of the value of the minimum wage. Over the last year, overall inflation was under 2 percent.

If we were to raise the minimum wage by \$1 over the next two years, this would be the fastest four-year real minimum wage increase on record. In 1999, the real value of the minimum wage would be 31 percent higher than it was in 1995. Between 1953 and 1957, the real minimum wage was increased 27 percent. In the 1960s, the minimum wage was raised 19 percent in real terms (1960-1964). The increases in the 1970s barely beat the rate of inflation.

Bob, Ed, Ellen, {Kathy L., Karin, Sara}
fy

February 9, 1998

To: Alan
Jared

From: Isaac

Re: More fiddling with raw looks at teen employment and unemployment trends

I've continued to fiddle with this examination, and although my approach is certainly simplistic, I came up with a few thoughts that might be of interest. Please see the tables that are attached.

1. Recent months continue to look more encouraging. January 1998 continues a short but interesting trend of significant improvement in the teen employment/population ratio. This trend began November 1997. The January figure was 45.6 percent, up from 43.1 percent in January 1997 and 43.4 percent in January 1995.

- From October 1997 to January 1998, after the second step of the increase, the EPOP ratio averaged 44.2 percent. This was up from:
- October 1996 to January 1997, after the first step, when it averaged 43.3 percent.
- October 1995 to January 1996, when it averaged 43.4 percent.

Will this trend continue?

2. The long-term teen unemployment rate data do look a little better than the long-term EPOP data. As a simple way of testing the theory that EPOP has declined since the late 1980s because more teens are going to school, I thought it made sense to examine teen unemployment rates. If they do decide to look for work, are they finding jobs?

- The teen unemployment rate of 16 percent for 1997 was above the rates from 1988 to 1990 but the jump in this rate does not appear as marked as the fall in the EPOP ratio.
- For example, the teen unemployment rate for 1997 compares favorably with its levels for 1994 and 1995. The teen EPOP ratio does not.
- Of special interest, the teen unemployment rates for both December 1997 and January 1998 were at the lowest levels for such months for the ten-year period examined. Teen EPOP for the two most recent months still

compare unfavorably to the corresponding months for 1988 and 1989. This finding is consistent with a story (at least for non-summer months, see below) that despite the higher minimum wage it is just as easy for teens to find jobs but that fewer teens are seeking employment.

3. There appears to be a divergence between the time trends for the summer (June, July, and August) and the rest of the year. The time trends for the summer are markedly worse than for the rest of the year.

- For example, the teen EPOP for the summer of 1997 was 42.8 percent, down from 48.4 percent for the summer of 1988. The average EPOP for the rest of the year also fell, from 47.2 percent in 1988 to 43.6 percent in 1997, but by a smaller degree.
- In 1997 the average teen EPOP for the non-summer months exceeded the EPOP for the summer months by the largest amount on record. The reverse was true for 1988 and 1989; EPOP for the non-summer months was well below EPOP for the summer months.
- One possible explanation for these trends is that the higher minimum wage affects youth employment for the summer much more than for the rest of the year. If there is a diminishment in demand it may occur just in the summer.

There are of course other possible explanations, which I have not investigated. For instance, I don't know if BLS has changed its seasonal adjustment (all figures on the tables are seasonally adjusted) or perhaps there's been a change in the summer youth employment program.

- The figures do suggest to me that policy mechanisms to combat any possible negative employment effects of another minimum wage increase should focus on summer months. Examples of such policies are a subminimum for summer employment or a summer youth employment program.

Civilian Employment - Population Ratio 16 to 19 yrs.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Average	summer	rest year
1988	46.7	46.4	44.9	45.7	45.9	48.4	48.1	47.9	47.4	46.7	47.1	47.0	46.85	48.1	46.4
1989	46.5	46.6	46.9	47.4	47.3	48.0	48.1	49.0	47.1	47.9	47.8	47.2	47.48	48.4	47.2
1990	46.7	46.2	47.1	46.6	46.1	45.8	45.5	44.8	44.0	44.0	43.4	43.4	45.30	45.4	45.3
1991	42.8	43.1	42.9	42.8	42.0	41.9	41.0	41.1	41.3	41.7	41.7	40.8	41.93	41.3	42.1
1992	41.7	41.0	40.3	40.6	40.6	39.8	40.6	41.6	41.1	41.1	41.1	41.6	40.93	40.7	41.0
1993	41.0	41.7	41.5	41.2	41.8	40.8	42.2	42.3	41.9	41.6	42.0	41.9	41.66	41.8	41.6
1994	43.5	43.3	43.0	43.2	43.2	43.7	43.0	44.2	42.6	43.6	43.9	44.1	43.44	43.6	43.4
1995	44.8	44.3	45.3	44.6	43.8	44.9	43.9	44.8	44.0	43.7	43.3	43.3	44.23	44.5	44.1
1996	43.4	43.7	43.3	43.6	44.1	43.6	43.5	42.4	44.3	43.9	43.0	43.4	43.52	43.2	43.6
1997	43.1	43.5	43.8	43.9	43.8	42.8	43.0	42.7	42.7	43.0	43.9	44.3	43.38	42.8	43.6

Civilian Employment - Population Ratio 20 yrs. & over

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Average
1988	63.4	63.4	63.4	63.7	63.4	63.5	63.5	63.6	63.6	63.8	64.0	63.9	63.60
1989	64.2	64.2	64.3	64.2	64.2	64.3	64.2	64.2	64.1	64.2	64.3	64.2	64.22
1990	64.6	64.6	64.5	64.3	64.5	64.4	64.2	64.2	64.1	64.0	63.8	63.8	64.25
1991	63.6	63.4	63.3	63.5	63.2	63.2	63.2	63.1	63.3	63.1	63.0	62.8	63.23
1992	63.0	62.9	63.1	63.2	63.1	63.1	63.2	63.1	63.0	62.9	63.0	62.9	63.04
1993	63.0	63.0	63.1	63.0	63.3	63.4	63.3	63.5	63.3	63.4	63.5	63.6	63.28
1994	63.7	63.7	63.6	63.8	64.1	63.8	63.8	64.0	64.2	64.4	64.5	64.5	64.01
1995	64.5	64.6	64.5	64.5	64.3	64.2	64.3	64.2	64.3	64.4	64.4	64.3	64.38
1996	64.3	64.5	64.6	64.5	64.6	64.7	64.8	64.9	64.9	65.0	65.1	65.1	64.75
1997	65.2	65.1	65.3	65.4	65.5	65.5	65.5	65.5	65.5	65.5	65.7	65.7	65.45

1-27-98

THE WHITE HOUSE
WASHINGTON

January 26, 1998

MR. RESIDENT:

Sen. Kennedy has proposed an increase in the minimum wage to \$7.25/hour by 2002 through .50¢ increases in 1998-2000, and then indexing it to inflation thereafter (about .30¢ increases in 2001-2002). In the attached memo, Gene Sperling seeks a decision from you on whether to seek an increase, and if so, to what level. *If you choose, you could include a specific proposal in the State of the Union, or, in the alternative, voice your general support for an increase and leave the specifics to be released separately.*

Gene lays out several options in the memo, which I recommend you read, and the pros and cons of each:

- Option 1:** adopt Kennedy *(no support among your advisors)*;
Option 1 variation: increase to \$6.15 through 50¢ hikes in 1998-99, then reevaluate indexing increases *(no support)*;
Option 2: maintain real value without explicit indexing -- increase to \$6.15 by 2002 through .25¢ raises in 1999-2002 or .50¢ raises in 1999 and 2002 *(supported by economic team)*;
Option 2A: increase to \$5.55 through .40¢ increase in 1999 and then revisit issue in 2000 *(supported by economic team, Rahm and Sylvia; Podesta is opposed and feels this won't attract Democratic support; he could live with 2, 2B or 3)*;
Option 2B: increase to \$5.65 through single .50¢ increase in 1999 *(supported by Bruce Reed, Paul Begala)*;
Option 3: splits difference between Kennedy and economic team -- increase to \$6 by 2000 through a .35¢ increase in 1998 and two .25¢ increases in 1999-2000; or a .45¢ raise in 1999 and a .40¢ raise in 2000.
Option 4: wait and do not endorse any proposal now.

Phil Caplan
Phil

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Sperling
Mathew
Bowles

10 Aug 2, 2014
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THE WHITE HOUSE
WASHINGTON

1-27-98

January 26, 1998

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MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: Minimum Wage

On August 20, 1996, you signed the Small Business Job Protection Act, which raised the minimum wage in two steps from \$4.25 to \$5.15 (from \$4.25 to \$4.75 on October 1, 1996, and from \$4.75 to \$5.15 on September 1, 1997). With these recent increases, the current minimum wage is, in real terms, about where it was in the mid-1980s. Senator Kennedy has therefore proposed a significant further increase in the minimum wage. His proposal is to increase the minimum wage to \$7.25 per hour by 2002, through 50-cent increases in 1998, 1999, and 2000, and then 30-cent increases in 2001 and 2002. This proposal would return the real minimum wage to approximately its level in the late 1970's by 2002.

The economics of the minimum wage involve difficult tradeoffs. On the one hand, as Senator Kennedy emphasizes, raising the minimum wage helps to increase earnings at the lower end of the income distribution -- the part of the distribution that, until recently, suffered most from real income declines. Leading academics, such as Alan Krueger of Princeton, believe that the recent increases in the minimum wage have played a significant role in stemming the downward trend in wages for the lower skilled.

On the other hand, if the minimum wage were raised too much, it could cause disemployment among some of the most vulnerable participants in the labor market -- from African American males to teenagers and former welfare recipients. The difficulty, then, is deciding at what point the potential disemployment effects become significant enough to outweigh the beneficial distributional effects.

If we decide to support an increase, there are two additional issues you will need to consider: one, when to make the increase effective; and two, how many stages to increase the minimum wage. On the former, we may want to propose to make any increase effective in 1999 or 2000, not in 1998, to ensure that we give businesses a reasonable warning. On the latter issue, the Labor Department emphasizes that changing the minimum wage entails administrative and enforcement costs on the Department and on businesses. They would prefer fewer -- but larger -- step increases; in other words, they prefer one 30-cent increase to two 15-cent increases.

Options:

We have several options, as delineated below:

Option I. Adopt Kennedy Minimum Wage Proposal: Increase minimum wage to about \$7.25 by 2002, through 50-cent increase in 1998, 1999, and 2000, and then indexing it to the rate of inflation thereafter (about 30-cent increases each year).

Pros:

- Returns minimum wage to real level of late 1970's.
- Provides substantial wage increase to low-wage workers.
- Would unify liberal-wing of the Democratic party.

Cons:

- Your entire economic team believes that this approach is too aggressive and are concerned that Senator Kennedy's proposal could prove damaging to the employment prospects of low-skilled workers, as well as to the general macroeconomic performance of the economy.
- Janet Yellen and Treasury would prefer to have more time to analyze the effects of the most recent increases before enacting increases that go well beyond the bounds of the evidence already accumulated.
- The increase in 1998 may be harshly criticized by business as not permitting enough advance warning. Moreover, important validators for your 1996/97 minimum wage increase -- such as Alan Krueger, David Card of Berkeley, and Larry Katz of Harvard -- would oppose this approach.
- Some may argue that an increase this large could lead employers to pass the higher minimum wage onto customers in the form of higher prices.

Variation of Option I: One variation of this option would be to limit Kennedy's proposal to the first two increases -- the 50-cent increases in 1998 and 1999 -- and then re-evaluate further increases based on the experience with those two increases. If we were to adopt this proposal, it is possible that Senator Kennedy would sign onto it. However, your economic team believes that even this option is too aggressive. Raising the minimum wage by \$1 over the next two years could unnecessarily increase the risk of disemployment effects.

Option II. Adopt Position to Split the Difference and Maintain Real Value of Minimum Wage, Without Explicit Indexation Proposal: Increase minimum wage to \$6.15 by 2002 (roughly halfway between the current level and Senator Kennedy's 2002 proposal, and slightly above the level that would maintain real value of minimum wage). The increases could take the form of a 25-cent increase in 1999, 2000, 2001, and 2002. Alternatively, we could propose a 50-cent raise in 1999 and another 50-cent raise in 2002.

Pros:

- Your entire economic team supports a moderate increase in the minimum wage in the range of this Option. Secretary Rubin, Secretary Herman, Gene Sperling, Janet Yellen, and Secretary Shalala agree that this Option would help millions of low-wage workers, while not creating a significant risk to the economy or the labor market prospects of low-skilled workers.
- Slightly improves real value of minimum wage over budget horizon. To keep the real value of the minimum wage at its current level, we would have to raise it to approximately \$5.90 in 2002.
- Fulfills 1992 campaign promise to have the minimum wage "keep pace with inflation."

Cons:

- Democrats may complain that the increase is too small, and that this approach takes away the issue in 2000. This proposal would not return the real value of the minimum wage to its level of the 1970s. On the other hand, business may still complain that the increases are too soon.
- The economy could reverse its impressive performance over the past several years, and the increases in the outyears would then pose potential risks to low-skilled unemployment.

Variation A of Option II: A Single 40-Cent Increase in 1999. Proposing to raise the minimum wage to \$6.15 per hour by 2002 is equivalent to increasing it by 20 cents per year. One alternative would be to propose a single 40-cent increase in 1999. This would be consistent with reaching \$6.15 per hour by 2002, but would provide flexibility for macroeconomic conditions and would allow Democrats to reopen the minimum wage issue in 2000. This variation is supported by your economic advisers.

Variation B of Option II: A Single 50-Cent Increase in 1999. John Podesta is concerned that a single 40-cent increase is not enough to attract Democrats, such as Senator Kennedy. He believes we would be "a year late and a dime short." If you adopt a single increase, John argues that we should propose a 50-cent increase because it would be more likely to gain support from Democrats. However, your economic team believes that one 50-cent increase in 1999 would be large enough to risk potential disemployment effects.

Option III. More Aggressive Minimum Wage Increase: This option splits the difference between what your economic advisers are comfortable with and Senator Kennedy's proposal. It would increase the minimum wage to \$6.00 by 2000. The increases could take the form of a 35-cent increase in 1998 and two 25-cent increases in 1999 and 2000. Alternatively, we could propose a 45-cent raise in 1999 and a 40-cent raise in 2000.

Pros:

- More likely to get support of liberal Democrats. And since it covers a different time frame than Kennedy's proposal (2000 vs. 2002), may not be viewed as competing proposal.
- Since this proposal would be more controversial, could create a more significant debate.
- Provides simple message: we believe minimum wage should be \$6 per hour by the turn of the century.

Cons:

- Since this proposed increase is slightly larger in real terms than going to \$6.15 by 2002, your economic team would be concerned that there could be disemployment effects.
- May lose support of moderate Democrats and Republicans, especially from Southern states. Moreover, important validators, such as Alan Krueger, Larry Katz, and David Card, would not support this large an increase.

Option IV. Wait and See: Do not endorse increase in minimum wage at this time. Argue that we support minimum wage, but too early to increase again because we need to learn from the facts of the recent hikes.

Pros:

- Provides more time to study effects of most recent increases.
- Could be presented as not taking a stance on Kennedy -- thus could allow Kennedy to push for his relatively large increase without an Administration proposal to distract attention.
- Allows issue to be raised during 2000 cycle if desired.

Cons:

- Allows the minimum wage to deteriorate in real terms over time.
- May be criticized by Democrats as not supporting an important objective.

Recommendations:

I discussed this issue at a meeting of the NEC principals on Thursday night. Your entire economic team could support a moderate increase in the minimum wage to maintain its real value. Therefore, your economic advisers recommend that you support an increase in the minimum wage to \$6.15 by 2002.

You should know that your advisers considered explicitly indexing the minimum wage to the rate of inflation. However, we rejected this approach for a number of reasons: (1) it would be difficult for us to argue that we should index the minimum wage, when we were willing to veto the balanced budget over the indexation of capital gains; (2) if we indexed the minimum wage this year, many Democrats would argue that we locked it in at an historically low level; (3) the Labor Department would have difficulty administering annual minimum wage increases (as noted above); and (4) since the minimum wage would automatically rise each year, it would take away a good political issue for those who believe the minimum wage is an important tool to help low-income families.

_____ **Option I:** Approve Kennedy proposal to raise minimum wage to \$6.65 in 2000 and then index it to inflation.

_____ **Option II:** Approve increase to \$6.15 by 2002, to maintain real value of minimum wage and split the difference with Kennedy's proposal.
(RECOMMENDED BY ECONOMIC TEAM)

_____ **Variation A of Option II:** Approve 40-cent increase in 1999, maintaining real value of minimum wage, while allowing flexibility for macroeconomic conditions and the issue to be revisited in 2000. (RECOMMENDED BY ECONOMIC TEAM)

_____ **Variation B of Option II:** Approve 50-cent increase in 1999, which would gain additional Democratic support, but would be outside the range that your economic team is comfortable with.

_____ **Option III:** Approve more aggressive increase to \$6.00 by 2000.

_____ **Option IV:** Wait and see, do not take position at this point

_____ Discuss further

THE WHITE HOUSE

WASHINGTON

February 1, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: Minimum Wage

On Tuesday, Erskine, John Podesta, Larry Stein, and I are meeting with Sen. Daschle, Sen. Kennedy, Rep. Gephardt, and Rep. Bonior about our minimum wage proposal. As you know, in the State of the Union, you called for a minimum wage increase, but did not announce a specific proposal.

Your economic and political advisers met on Friday to devise our strategy for Tuesday's meeting. We decided that our best strategy would be to tell them that we do not want to divide Democrats with our proposal, so we will endorse any reasonable proposal that attracts the support of all 45 Senate Democrats. The purpose of this memo is to make sure that you are comfortable with this approach.

Issue to Be Resolved:

The basic issue that needs to be resolved is how best to balance economic and political considerations. Since the minimum wage just increased on September 1, 1997, your economic team believes that at this point, annual increases should be roughly in line with inflation to allow more time to study the impact of the recent raise (although we are comfortable with some *modest* real growth in the minimum wage). As outlined in the previous minimum-wage memo, your economic team supports increasing the minimum wage by roughly 20 cents per year, which could be proposed either as a \$1 increase over five years or a single 40-cent increase in 1999. Important academic validators for your 1996/97 minimum wage increase -- such as Alan Krueger of Princeton and Larry Katz of Harvard -- would generally support raises in this range.

The basic challenge is that Kennedy, Bonior, and Gephardt want significantly more than your economic team could live with. They are calling for 50-cent increases this year and in each of the next two years (i.e., 50 cents in 1998, 50 cents in 1999, and 50 cents in 2000), which would raise the minimum wage to \$6.65 by 2000, and then indexing to inflation thereafter. Your advisers believe that they will insist on at least a \$1 increase over the next two years -- a raise that we fear will be harmful to the job prospects of low-wage workers. Even this proposal, which is less ambitious than their current proposal, would still not have much chance of actually passing this year -- partially because other Democrats, especially conservative Southerners and Senators from low-wage states, are not likely to be supportive.

Solutions:

One approach for Tuesday's meeting would be for us to put a specific proposal on the table. In the minimum wage options memo, you indicated that you supported either a \$1 increase over the next five years or a single 50-cent increase in 1999.

Although we could offer these proposals in the meeting on Tuesday, your advisers believe that they will not be well received and will likely draw the fire of Kennedy and others as too small. They will be particularly poorly received if supporters of Kennedy's proposal are more interested in scoring political points than actually passing a viable -- and therefore more modest -- increase in the minimum wage. Moreover, a 50-cent increase in 1999 is stretching the boundary of what the economic team feels comfortable with and what Larry Katz is willing to validate. If this proposal were the final agreement, we could live with it. But we should probably not open with our absolute bottom line.

Instead of offering a specific proposal, the strategy recommended by your advisers is to request that any specific minimum wage proposal receive the support of all 45 Senate Democrats. With this approach, it is very likely that Southern and moderate Democrats will put downward pressure on Kennedy's proposal. By putting the ball in the court of endorsing only an increase that enjoys the support of all 45 Senate Democrats, we allow more conservative Democrats to push Gephardt, Bonior, and Kennedy into a more reasonable position.

The only potential problem with this approach is that it leaves open a small possibility that Kennedy could rally the entire Caucus around a proposal that your economic team would find objectionable. We can address this risk by intimating that we would support anything that the Caucus could reach consensus on, as long as it did not gravely endanger the employment prospects of low-wage workers or our welfare-to-work efforts. Given the current nature of the Caucus, John Podesta and Larry Stein are not particularly concerned about this issue: they believe that is highly unlikely that the consensus will be anything your economic team would find objectionable.

_____ Request That Any Proposal Receive Support of All 45 Senate Democrats.
(RECOMMENDED)

_____ Propose Specific Number in Meeting on Tuesday -- Either \$1 Increase Over Five
Years or Single 50-Cent Increase in 1999

_____ Discuss Further

Unemployment Rate 16 to 19 yrs.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Average	June, July, Aug	rest of year
1988	16.1	15.6	16.6	16.0	15.3	14.2	14.8	15.4	15.5	15.1	13.9	14.8	15.28	14.8	15.4
1989	16.4	15.0	13.9	14.6	14.8	15.7	14.2	14.6	15.2	15.0	15.5	15.3	15.02	14.8	15.1
1990	14.8	15.0	14.3	14.7	15.0	14.3	15.0	16.3	16.4	16.5	17.1	17.4	15.57	15.2	15.7
1991	18.6	17.4	18.3	17.8	18.8	18.5	19.4	18.9	18.8	19.1	19.0	20.3	18.74	18.9	18.7
1992	19.2	20.1	20.3	18.5	20.1	23.0	20.8	19.9	21.0	18.3	20.5	19.8	20.13	21.2	19.8
1993	19.9	19.7	19.7	19.5	19.8	19.9	18.4	18.4	18.2	18.7	18.5	17.9	19.05	18.9	19.1
1994	18.3	18.0	18.1	19.1	18.0	17.5	17.4	17.3	17.5	17.7	15.6	17.1	17.63	17.4	17.7
1995	16.5	17.5	16.2	17.4	17.5	16.9	17.8	17.3	17.7	17.6	17.6	18.1	17.34	17.3	17.3
1996	17.7	16.9	17.2	16.9	16.6	15.9	16.5	16.9	15.8	16.6	17.0	16.8	16.73	16.4	16.8
1997	16.9	17.3	16.5	15.6	15.7	16.5	16.3	16.2	16.4	15.5	15.2	14.3	16.03	16.3	15.9
1997	14.1														

February 11, 1998

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG

SUBJECT: Minimum Wage

Reaction to \$1 Minimum-Wage Increase Proposal:

● **September 1998/September 1999 \$1 Minimum-Wage Increase:**

- Alan Krueger told me that he would say "More concerned about job losses than previously. Personally, I would prefer to wait." While he would not say this publicly (and he believes there is a *small chance* that there would be no job loss), he told me that, in his opinion, a \$1 increase could lead to up to *400,000 lost jobs*. (You should note that this falls in the range we estimated with CEA, Treasury, and Labor.)
- Issac Shapiro of the Center on Budget and Policy Priorities said that he would say that there is "definitely room for an increase in the minimum wage, and he would support increases in this neighborhood. However, he would wait to support this proposal so that he could review the evidence from the last increases."

● **April 1999/April 2000 \$1 Minimum-Wage Increase:**

- Alan said that he would be less critical of a proposal that increases the minimum wage later.
- Issac says that the more the proposal is hedged, like \$1 by April 2000, the more likely he will be comfortable with it and will support it outright.

Who Benefits From Different Sized Increases?

<u>Size of Increase</u>	<u>M.W. Raised To</u>	<u># of Hourly Workers Helped</u>
\$0.50	\$5.65	6.5 million
\$0.60	\$5.75	6.7 million
\$0.85	\$6.00	7.6 million
\$0.90	\$6.05	11.9 million
\$1.00	\$6.15	12 million

Preliminary Estimates of Employment Impacts of Different Increases:

Preliminary estimates of the disemployment effects of a minimum wage increase. The results suggest the following:

<u>New Minimum Wage Rate</u>	DISEMPLOYMENT EFFECT					
	By 1999			By 2000		
	<u>Low</u>	<u>Mid</u>	<u>High</u>	<u>Low</u>	<u>Mid</u>	<u>High</u>
5.75	No Effect			No Effect		
6.00	9,000	170,000	346,000	4,000	117,000	232,000
6.05	10,000	174,000	382,000	5,000	135,000	267,000
6.15	14,000	233,000	460,000	8,000	171,000	338,000

History of Minimum Wage Increases:

If the minimum wage were increased to \$6.15 by September 1, 1999, it would be 45 percent higher than it was three years earlier. During the 1970s, the minimum wage was increased by a similar amount:

- Between May 1974 and January 1976 -- under two years -- the minimum wage was raised from \$1.60 to \$2.30, a *44-percent increase*.
- Between January 1978 and January 1981 -- three years -- the minimum wage rose from \$2.30 to \$3.35, a *46-percent increase*.

However, inflation was running in double digits for a number of these years (1974, 1979, 1980, 1981), so the nominal value of the minimum wage needed to be adjusted more often to ensure that it kept pace with prices. Today, the inflation rate is very low; since the increase in September, inflation has eroded just 0.6 percent of the value of the minimum wage. Over the last year, overall inflation was under 2 percent.

If we were to raise the minimum wage by \$1 over the next two years, this would be the fastest four-year *real* minimum wage increase on record. In 1999, the real value of the minimum wage would be 31 percent higher than it was in 1995. Between 1953 and 1957, the real minimum wage was increased 27 percent. In the 1960s, the minimum wage was raised 19 percent in real terms (1960-1964). The increases in the 1970s barely beat the rate of inflation.

States With Higher Minimum Wage:

Alaska	\$5.65
California	\$5.75 (effective March 1, 1998)
Connecticut	\$5.18
District of Columbia	\$6.15
Hawaii	\$5.25
Massachusetts	\$5.25
Oregon	\$6.00 (effective January 1, 1999 state minimum wage increases to \$6.00)
Vermont	\$5.25

February 10, 1998

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG

SUBJECT: Minimum Wage

Senator Kennedy has already received the support of 40 Democratic Senators for a \$1.00 increase in the minimum wage over two years, including Senators Lieberman, Lautenberg, Reid, Byron, Tim Johnson, Moynihan. This includes Senator Breaux who has told Senator Kennedy that he would vote for the \$1 increase, but is not sure that he would be a co-sponsor. According to the Labor Department, Kennedy hasn't been able to get Sen. Hollings, Robb, Cleland, Dorgan (?), and Graham (?).

I've talked with Gruber, Blank, Minarik and Montgomery about a \$1 increase over two years. They are all concerned that a raise this large could lead to disemployment effects. While they all agree that a \$1 increase would not have a significant adverse effect on the economy, they are worried about the job prospects of low-wage teenagers and welfare recipients.

If possible, the Economic Team would want the increase to go into effect later, rather than sooner. Kennedy's proposal is for 50-cent increases in September 1998 and September 1999. If this could be pushed back to Jan. 1999/Jan. 2000 or even Apr. 1999/Apr. 2000, the Economic Team would be slightly more comfortable. Alternatively, the Economic Team would prefer a slightly smaller increase over the next two years. It may not be worth "nickel and diming" Senator Kennedy, but every cent seems to count to the Economic Team. Even a 90-cent increase -- 45 cents on January 1, 1999 and 45 cents on January 1, 2000 -- would be far more attractive to the Economic Team than a \$1 increase by Sept. 1999.

You may want to call Senator Kennedy about his proposal and where it stands. You may also want to talk with Erskine, Rubin, Summers, and Aida Alvarez about Kennedy's proposal.

Record Type: Record

To: Russell W. Horwitz/OPD/EOP, Peter A. Weissman/OPD/EOP

cc:

Subject: Minimum Wage Update

The Labor Department just provided me more detailed information on the minimum wage. They now say that Sen. Kennedy only has 37 Senators on board for a \$1 increase.

The ones they are missing are:

Wyden
Robb
Hollings
Breaux
Graham
Baucus
Bingaman
Glenn

It seems to me that Kennedy will almost certainly be able to pick up Baucus, Bingaman, Glenn, and Wyden. I am a little annoyed about Breaux -- earlier today they told me he was on board. While Labor still says that Breaux told Kennedy he would support, Kennedy's office is not counting him as an official "yes."

Joseph J. Minarik

02/10/98 01:22:42 PM

Record Type: Record

To: Jonathan Orszag/OPD/EOP

cc:

Subject: Minimum wage

My staff have ground some numbers. The most telling is probably that the current ratio of the minimum wage to average hourly earnings (41 percent) is at about the historical average; but that adding another dollar would push that ratio to 52 percent -- the level of the late 1960s. This would seem to test the statistical assertions of our friends fairly stiffly.

If the dollar is symbolic, then we should probably go for the dollar but try to stretch the phase-up period. Four years would give a rate of annual increase of about 5 percent -- surely greater than wages at large, but more within the historical range of changes. If we cannot do four years, then we should try for three, and try to shave the dollar at the same time.

I take it that indexation is off the table. If not, we could possibly do the lesser of wages and prices, and accomplish a great deal in the near term while resolving the issue for the long term.

Minimum Wage

	PREFERENCE				MAXIMUM			
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Treasury	\$5.45	\$5.60	\$5.80	\$6.00	\$5.60	\$5.80	\$6.00	\$6.20
CEA	\$5.45	\$5.60	\$5.75	\$5.90	\$5.65	\$6.00	\$6.20	\$6.40
Labor	\$5.45	\$5.60	\$5.80	\$6.00	\$5.65	\$6.00		\$6.25
Krueger	\$5.30	\$5.45	\$5.60	\$5.75	\$5.45	\$6.00		
Katz	\$5.40	\$5.65	\$5.90	\$6.15	\$5.65	\$6.00	\$6.25	\$6.50
Not likely to support any significant increase; reluctant to commit far into future					With 50 cents, would say "concerned about job loss"			
25 cents per year is about right.					50 cents in 1999 would be fine.			



HISTORY OF FEDERAL MINIMUM WAGE RATES UNDER THE FAIR LABOR STANDARDS ACT, 1938 - 1996

The table of federal minimum wage rates under the Fair Labor Standards Act, 1938 - 1996 is also available in a [PDF Version](#). In order to view and/or print PDF documents you must have a PDF viewer (e.g., [Amber](#) or [Acrobat Reader](#)) available on your workstation.

Minimum hourly wage of workers in jobs first covered by --

<i>Effective Date</i>	<i>1938 Act ¹</i>	<i>1961 Amendments ²</i>	<i>1966 and Subsequent Amendments ³</i>	
			<i>Nonfarm</i>	<i>Farm</i>
Oct 24, 1938	\$0.25			
Oct 24, 1939	\$0.30			
Oct 24, 1945	\$0.40			
Jan 25, 1950	\$0.75			
Mar 1, 1956	\$1.00			
Sep 3, 1961	\$1.15	\$1.00		
Sep 3, 1963	\$1.25			
Sep 3, 1964		\$1.15		
Sep 3, 1965		\$1.25		
Feb 1, 1967	\$1.40	\$1.40	\$1.00	\$1.00
Feb 1, 1968	\$1.60	\$1.60	\$1.15	\$1.15
Feb 1, 1969			\$1.30	\$1.30
Feb 1, 1970			\$1.45	
Feb 1, 1971			\$1.60	
May 1, 1974	\$2.00	\$2.00	\$1.90	\$1.60
Jan. 1, 1975	\$2.10	\$2.10	\$2.00	\$1.80
Jan 1, 1976	\$2.30	\$2.30	\$2.20	\$2.00
Jan 1, 1977			\$2.30	\$2.20
Jan 1, 1978		\$2.65 for all covered, nonexempt workers		

Jan 1, 1979	\$2.90 for all covered, nonexempt workers
Jan 1, 1980	\$3.10 for all covered, nonexempt workers
Jan 1, 1981	\$3.35 for all covered, nonexempt workers
Apr 1, 1990 ⁴	\$3.80 for all covered, nonexempt workers
Apr 1, 1991	\$4.25 for all covered, nonexempt workers
Oct 1, 1996 ⁵	\$4.75 for all covered, nonexempt workers
Sep 1, 1997	\$5.15 for all covered, nonexempt workers

¹ The 1938 Act was applicable generally to employees engaged in interstate commerce or in the production of goods for interstate commerce.

² The 1961 Amendments extended coverage primarily to employees in large retail and service enterprises as well as to local transit, construction, and gasoline service station employees.

³ The 1966 Amendments extended coverage to State and local government employees of hospitals, nursing homes, and schools, and to laundries, dry cleaners, and large hotels, motels, restaurants, and farms. Subsequent amendments extended coverage to the remaining Federal, State and local government employees who were not protected in 1966, to certain workers in retail and service trades previously exempted, and to certain domestic workers in private household employment.

⁴ Grandfather clause - Employees who do not meet the tests for individual coverage, and whose employers were covered by the FLSA on March 31, 1990, and fail to meet the increased annual dollar volume (ADV) test for enterprise coverage, must continue to receive at least \$3.35 an hour.

⁵ A subminimum wage -- \$4.25 an hour -- is established for employees under 20 years of age during their first 90 consecutive calendar days of employment with an employer.

[DOL Home Page](#)[ESA Home Page](#)[Top of Document](#)

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS



Date: FEBRUARY 10, 98
Please deliver to: GENE SPERLING
ASSISTANT TO THE PRESIDENT FOR
ECONOMIC POLICY
NATIONAL ECONOMIC COUNCIL

FAX number of addressee: 62878

Telephone number of addressee: 62620

From: REBECCA BLANK, MEMBER-NOMINEE
Council of Economic Advisers

FAX number of sender: 202-395-6947

Telephone number of sender: 202-395-5036

Number of pages, including cover sheet: 3

Message:

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

February 10, 1998

MEMORANDUM FOR GENE SPERLING
ASSISTANT TO THE PRESIDENT FOR
ECONOMIC POLICY

FROM: REBECCA M. BLANK *Rebecca Blank*
SUBJECT: Minimum Wage

After receiving the letter signed by Eileen Appelbaum and Barbara Bergmann last Friday, I called five of the more research-oriented economists who signed that letter supporting the Kennedy-Bonier proposal of raising the minimum wage to \$6.65 by September 1, 2000. Below is a summary of their comments:

Larry Klein (Univ of Pennsylvania):

- * First priority is having a minimum wage that gets a family above the poverty line. (When I pointed out that this would happen at a somewhat lower minimum wage than Kennedy-Bonier call for, once the EITC is considered, he responded "well, the numbers I used need refinement.")

- * Believes recent productivity gains are permanent and understated, which means we face higher potential growth rates than most forecasters. The labor market should stay strong and hence can support these increases.

Heidi Hartman (Institute for Women's Policy Research):

- * Minimum wage is still below its peak of the late 1960s and it should be raised to be at that peak.

- * Business should pay higher minimum wages or go out of business. If this causes the loss of low-wage jobs or businesses, these are jobs and employers that we want to lose in the economy.

Mike Piore (MIT):

- * "One signs what one gets. I generally support a reasonable minimum wage and saw this petition as another opportunity to make that point."

- * Sees higher minimum wages as a strategy for narrowing the income distribution. "I'm not too

unhappy if some low-wage jobs are eliminated." Believes many low-wage earners are target earners who will work fewer hours if the minimum wage is higher; this creates opportunities for hiring additional workers.

* The lack of minimum wage enforcement makes the level somewhat irrelevant. "I would happily support a smaller increase if it came along with increased enforcement."

Lisa Lynch (Tufts University):

* "The Kennedy-Bonier \$6.65 proposal is an absolute upper bound. I'm much more comfortable with \$6.20 to \$6.40." She noted that the original \$7.25 was simply not going to get any support from any economists.

* She had talked with Susan Green on Kennedy's staff and been told the Administration was dragging its feet on the minimum wage. Green told her she needed to sign the \$6.65 proposal even if she wasn't entirely comfortable with it as a way to pressure the Administration into going along with any real increase at all.

* What she really would like to see: An increase to about \$6.20-\$6.40, with indexing after that. This should be combined with lower minimum wages for new entrants and with a very generous welfare-to-work tax credit. If we only do a minimum wage increase without these other things, she'd be concerned about job issues, particularly for welfare-to-work participants.

Sheldon Danziger (Univ of Michigan):

* "I didn't think about it much. I wanted to support the President in his call for a higher minimum wage." He saw signing this primarily as an anti-Republican statement.

* Doesn't think modest increases in the minimum wage will have big effects, would need to think about it more before he could really see what "modest" meant.

Copy to:
Janet Yellen
Jon Orszag

THE WHITE HOUSE

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Solutions:

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Keeping pace
w/ inflation.

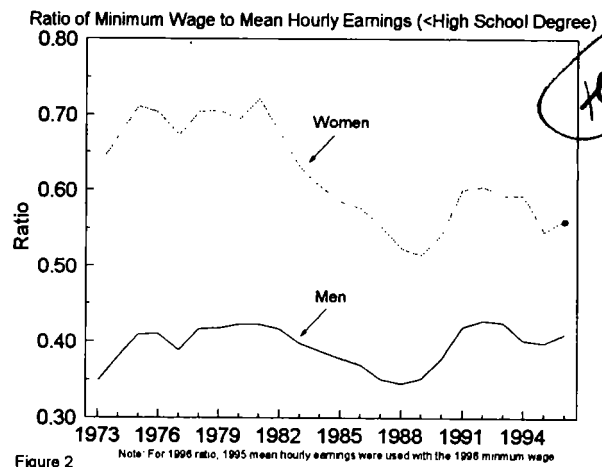
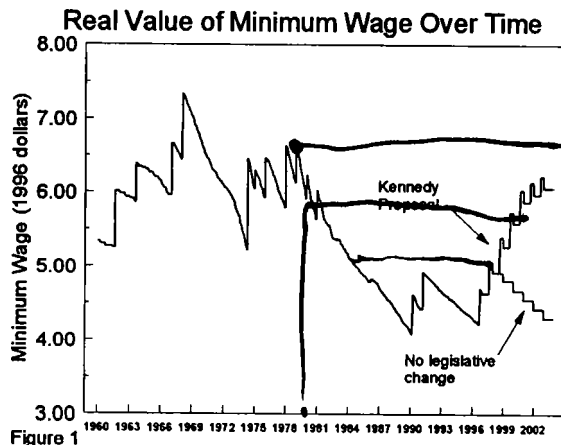
Raising m.w. —
w/ principles.

\$6.00

→ proposal
→ not as big as Kennedy

ANALYSIS OF POSSIBLE INCREASES IN THE MINIMUM WAGE

The minimum wage was raised in October 1996 from \$4.25 to \$4.75, and again in September 1997 from \$4.75 to \$5.15. Senator Kennedy has proposed further raising the minimum wage, in several stages, to \$7.25 by 2002. The current minimum wage is, in real terms, about the level it was in the mid-1980s. The Kennedy proposal would return the real minimum wage close to its high levels in the late 1970s by 2002; without any legislative changes, inflation is likely to erode a significant portion of the real minimum wage increase from the 1996 and 1997 hikes by 2002. (See Figure 1.)



teens?
60% of min. wage workers are women.

Since the effect of the minimum wage depends upon where in the wage distribution it hits, it is useful to calculate the minimum wage relative to earnings of less-skilled workers. As seen in Figure 2, the minimum wage cuts higher into the income distribution of low-skilled women than of low-skilled men, suggesting that the minimum wage has more of an effect on low-skilled women than on low-skilled men. However, because less-skilled men's earnings have fallen, the minimum wage relative to earnings of men with less than a high school degree is currently higher than it was in the mid-1980s, and almost at its 25-year peak; this suggests that the minimum wage may be having a greater effect on men than it has in the past. In contrast, the minimum wage relative to earnings of women with less than a high school degree is now substantially lower than in the mid-1980s.

GROUPS AFFECTED BY FURTHER INCREASES

A key question with minimum wage increases is which groups of workers are affected by the increase. If the minimum wage were increased to \$7.25, about one-seventh of those newly covered would be poor, about quarter would be teenagers, about two thirds would have a high school degree or less, and about one-seventh would be single adults with children. Figures 3-6 examine the characteristics of workers who are in different wage brackets above the minimum

poverty or below 20%.

All numbers are preliminary. Do not cite or circulate.

wage.¹ As the minimum wage moves above \$5.15/hour, these charts show that the group of workers affected is increasingly less poor, better educated, and less likely to be teenaged. (See attached).

ARGUMENTS FOR AND AGAINST RAISING THE MINIMUM WAGE

Arguments for an increase

- **Decreases wage inequality.** By providing a floor for wages, the minimum wage may compress wages in the lower tail of the wage distribution, offsetting declines in wages among less-skilled workers; if the beneficiaries of the minimum wage are mostly low-income families, the reduced wage inequality will also reduce family earnings inequality. Most evidence suggests that recent minimum wage increases had a substantial impact on compressing wages at the bottom decile, but less of an impact on family earnings inequality.
- **May decrease poverty.** By raising wages at the bottom, an increase in the minimum wage may help reduce the poverty gap and the poverty rate. At the current minimum wage, with the EITC, a single adult with two children working full-time year-round just clears the poverty threshold; but for two adults with two children, the minimum wage would have to be over \$6.00 per hour for one full-time year-round worker earning the minimum wage with the EITC to raise the family above the poverty line.

Empirical evidence on the effect of minimum wage increases on poverty rates is mixed. Part of the reason why the minimum wage may be an ineffective instrument for combating poverty is that many poor adults do not work. In addition, many minimum wage workers are in higher-income families; for example, the median family income of those earning around the minimum wage is over \$30,000, almost 200 percent of poverty for a two adult, two-child family (see Figure 7).

- **Firms may use labor more productively.** Raises in the minimum wage and hence the cost of labor increase incentives for employers to use their labor as productively as possible.
- **Raises income without budgetary implications.** A raise in the minimum wage provides a way of raising income without affecting government revenue or spending
- **Complements and reinforces EITC.** Increases in the minimum wage, like the large increases in the EITC, are a way to 'make work pay.' By increasing the return to work for low-skilled workers, an increase in the minimum wage is likely to encourage those on

¹Because the data are from the March 1997 CPS, they are based on labor market information before the last minimum wage increase was enacted in September 1997.

All numbers are preliminary. Do not cite or circulate.

- \$6.00 by 2000?
- \$6.00 this century?

welfare to seek work.

- **Political support.** Minimum wage increases typically receive strong support from labor groups and other progressive lobbying groups.

Arguments against an increase

- **Not well targeted.** Increases in the minimum wage are a rather blunt way of helping low-wage workers. Over half of the workers affected by any further increase will be in families with income above 200 percent of the poverty line. The larger the increase, the less targeted will be the impact of the increase on the working poor; in 1996, almost 20 percent of workers earning under \$5.15 per hour were poor, but this percentage falls to 12 percent for workers earning \$6.00-\$7.00 per hour (See Figure 6). As mentioned above, median family income of those earning around the minimum wage is around 200 percent of poverty. (See Figure 7).
- **Potential disemployment effects.** Workers working at the minimum wage benefit from an increase in the minimum wage, if they remain employed. Workers who become unemployed as a result of a minimum wage increase lose out. The employment effects of an increase in the minimum wage depend on its current level, the magnitude of the increase, where the new minimum wage falls in the income distribution, and who is covered by the new minimum wage. Research suggests that employees whose hiring is highly sensitive to wages -- particularly teenagers -- are most likely to be adversely effected. Disemployment effects are also likely to be greater among lower productivity workers; this could impede efforts to move welfare recipients into jobs.

There remains a controversy over the magnitude of the disemployment effects caused by increases in the minimum wage. A number of credible studies of minimum wage increases in 1990 and 1991 show little adverse effect on employment. However the increases studied were small, and occurred at an historic low point in the real value of the minimum wage. There are other studies that show larger effects, and all economists agree that the disemployment effects will increase at higher levels of the minimum wage.

opens up welfare min. wage argument w/ contractors.

Lack of current information. There is little information available to judge whether the minimum wage is currently at a level where further increases are likely to produce large adverse employment effects. Indeed, one important caution against further increases is that we have recently had two major increases in the minimum wage and do not yet have any analysis of the employment effects of these changes. If the recent increase was large enough to adversely affect employment, further increases now are likely to produce even greater adverse effects. The effects of the recent increases should be studied before enacting further increases.

- **Potential inflationary impact.** There is some evidence that increases in the minimum

All numbers are preliminary. Do not cite or circulate.

wage result in higher prices and may raise inflation; indeed, prices may initially rise by about the amount needed to cover the higher cost of labor associated with the rise in the minimum wage. This price increase is felt by all consumers, while the benefit of a higher minimum wage accrues almost entirely to workers who were working below the new minimum.

- **Effect on non-wage benefits.** One way for employers to raise wages without reducing employment is by reducing non-wage benefits like health insurance or worker training. However, there is not much evidence that employers reduce such non-wage benefits to offset a minimum wage increase. (Indeed, few minimum wage workers receive large amounts of non-wage compensation, so it is hard to adjust along this dimension.)
- **Political opposition.** Minimum wage increases are opposed by small businesses, low-wage industries, and low-wage states. Given the recent increases, further significant rises in the minimum wage may face intense opposition from these groups.

ALTERNATIVE POLICY OPTIONS

Alternatives to enacting further minimum wage increases in the near future include:

- Leave the minimum wage unchanged and wait until we have information about the effects of the 1996 and 1997 increases.
- Consider indexing the minimum wage to inflation, so that it maintains its real value over time. This would avoid the steady erosion in the minimum wage which has occurred in the past when no new minimum wage legislation is enacted.
- We have at times in the past enacted different minimum wages for teenagers and adults. If particularly concerned about the disemployment effects of higher minimum wages on teenagers, one could consider differential increases in the minimum wage for teens versus adults. However, this does create incentives for firms to utilize more teenage labor than they would otherwise, leaving fewer low-wage jobs for adults.

All numbers are preliminary. Do not cite or circulate.

Education by wage category

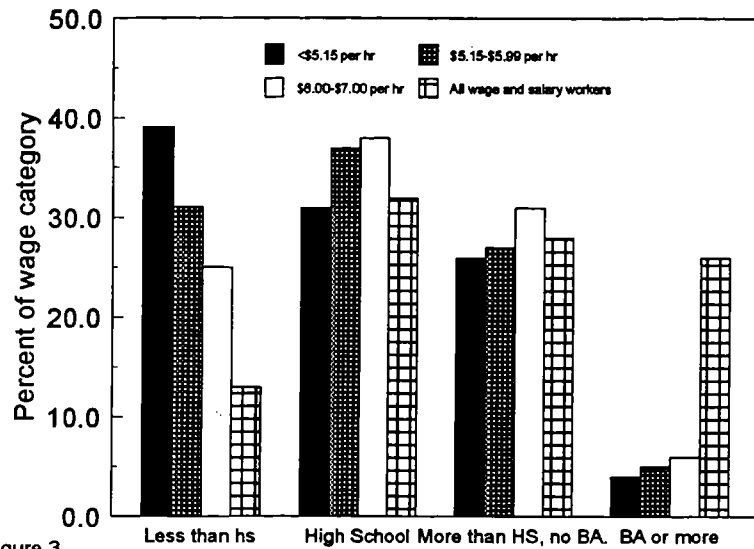


Figure 3

Family Status by wage category

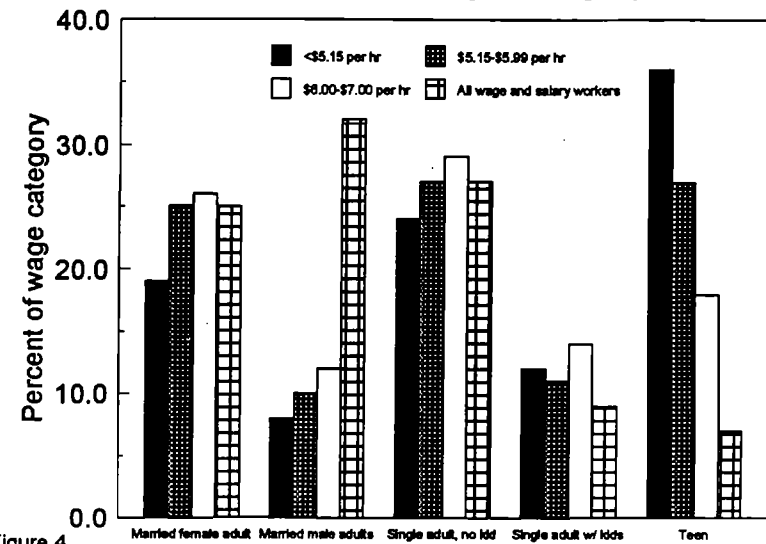


Figure 4

Race and Ethnicity by wage category

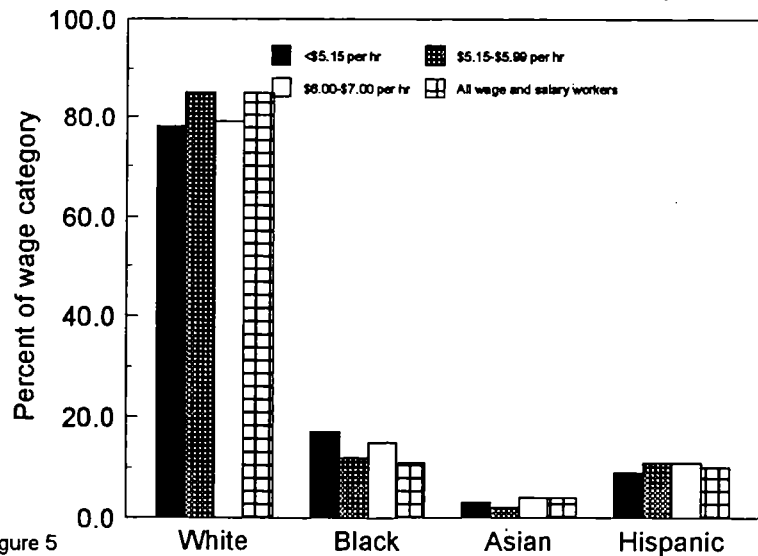


Figure 5

Poverty by wage category

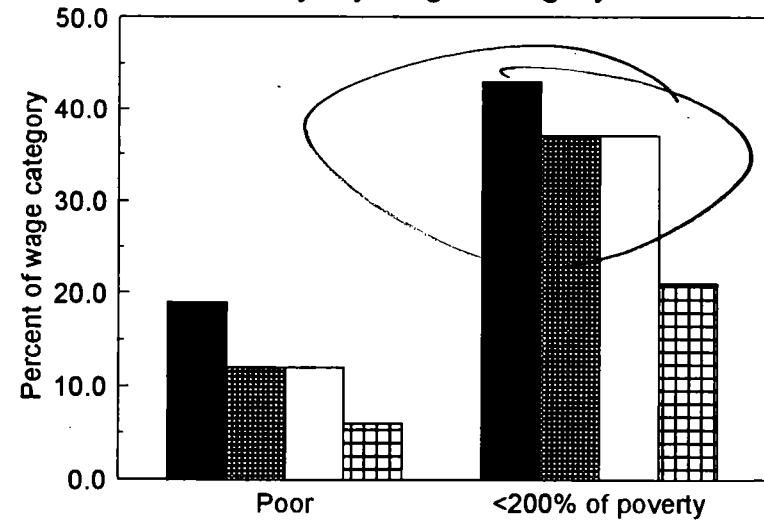
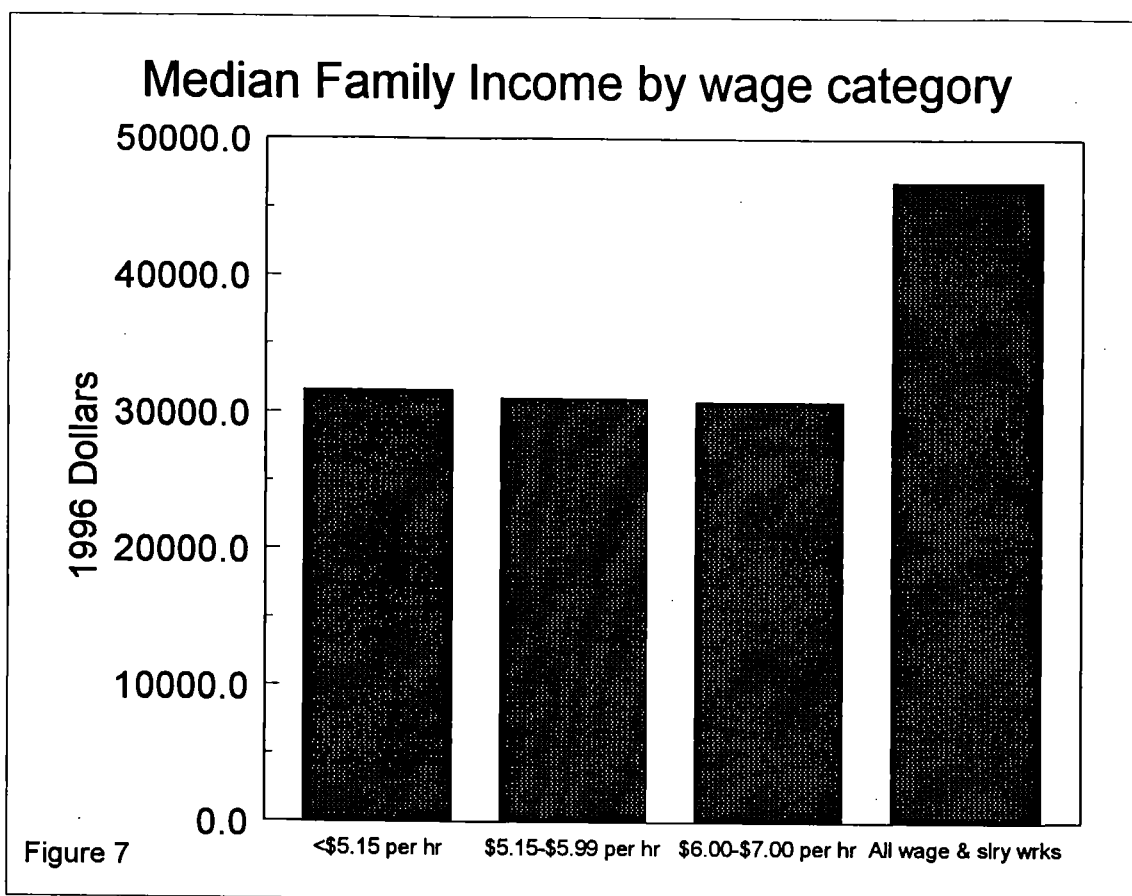


Figure 6



MINIMUM WAGE

9/11/97, DFP

Kennedy, Bonior offer a lift to low-wage workers

BY JARED BERNSTEIN

Low-wage workers don't have a lobbying group in Washington; their participation level in national elections is below average. Many of them may feel the political process is irrelevant to their lives and that nobody is looking out for them. And to some extent they are correct. Amid the crush of special-interest groups, low-wage workers always seem to get the short end of the stick.

It is promising, then, that Sen. Edward Kennedy, D-Mass., and U.S. Rep. David Bonior, D-Mt. Clemens, are acting to ensure that low-wage workers benefit from the growth in the economy by raising the value of the minimum wage. They have introduced a bill to raise the minimum wage to \$7.25 by 2002 in five annual steps — three increases of 50 cents and two of 30 cents. Their idea deserves serious consideration.

Last summer, Congress passed legislation to raise the minimum wage 90 cents in two stages, the second of which took effect Sept. 1. Even before full implementation, the increase raised the earnings of low-wage workers and improved the living standards of their families. The dire predictions of those who opposed the increase — job losses, price increases, even a recession — are nowhere to be seen. Objections to the Kennedy-Bonior plan should be similarly disregarded.

When you look at the level of the minimum wage — currently \$5.15 an hour — it's easy to see why the negative predictions of the opposition failed to materialize. After all, only about 9 percent of the workforce falls within the affected wage range. The median worker, right in the middle of the wage scale, earns more than twice the minimum. And even after the latest increase, the inflation-adjusted value of the minimum wage is 20 percent less



TIM BRINTON/Special to the Free Press

than its 1979 level and 30 percent below its late-1960s peak.

So if the minimum wage is such small potatoes, why bother with it at all? Because although it has only a small impact on the overall economy, it's very important to the 10 million workers who ultimately benefit from the increase.

Contrary to phony claims that beneficiaries of the increase are mostly teenagers from wealthy and middle-income families, 70 percent of minimum-wage workers are adults, and the great majority are female. In fact, more than half of the benefits from the first step of

the increase went to working families in the bottom 40 percent of the income scale. These workers and their families have taken it on the chin for the past two decades, in large part because of the sharp decline in the real value of the minimum wage.

For these workers who have the least bargaining power in our society, the minimum wage makes work pay. Since these employees too often are powerless to push for their fair slice of the growing economic pie — even in a tight labor market — a minimum-wage floor can be viewed as a sorely needed dollop of financial bargaining clout.

The Kennedy-Bonior proposal is a straightforward plan to restore the real value of the minimum wage to its 1979 level of purchasing power. It's no accident that the inequality problems currently distorting our economy took off just as we began to ignore low-income workers — whose purchasing power tumbled 31 percent in the 1980s. And by setting the course of the minimum wage for the next five years, the plan will help forestall the political wrangling that inevitably produces costly delays in pay increases. Finally, the plan also will reduce uncertainty among low-wage employers about their future labor costs.

These facts should inform us as we begin to debate the Kennedy-Bonior plan. Unlike the last go-round, we must not focus solely on job-loss effects at the expense of discussing the benefits to working families. Low-wage workers deserve nothing less than a debate that incorporates our full knowledge of the impact of the minimum-wage increases — a debate that will generate more light and less heat.

Jared Bernstein is an economist at the Economic Policy Institute, a Washington-based research institution.

To respond to today's columnists, write to the Free Press or:

Jared Bernstein
c/o Detroit Free Press
Editorial Page, Room 511

William F. Buckley Jr.
Universal Press Syndicate
1620 Main St.

Armstrong Williams
Los Angeles Times Syndicate

December 17, 1997

MEMORANDUM FOR GENE SPERLING

FROM: ALAN KRUEGER

SUBJECT: Minimum Wage

Jon asked me to write a brief memo outlining my thoughts on another minimum wage increase. I have been asked this question a few times by reporters, and my response has typically been the following: "Not much time has elapsed since the last increases, and I'd like some more time to evaluate the effects of the last two increases before considering another one." Let me elaborate:

If it is raised too high or too quickly, I'm confident a minimum wage increase will have more negative consequences than positive consequences. It is not clear at what wage the tipping point occurs, and general economic conditions are probably also important. The circumstances surrounding the minimum wage increase in 1996 and 1997 were similar in some important respects to the circumstances surrounding the 1990 and 1991 increases. In both these cases, the minimum wage had not increased for several years, and the real value of the minimum wage was quite low by historical standards. This time circumstances are different -- which could lead to greater adverse consequences of another minimum wage increase this soon after the last one.

Much of the lost value of the minimum wage has been restored. In addition, inflation has been extraordinarily low since the 1996 minimum wage increase, so the value of the minimum wage has not been eroded. Inflation is also likely to remain low in the future. This means that another increase will bite further into the wage distribution and be more difficult for employers to absorb without reducing employment. Moreover, one way employers cope with a minimum wage increase is by eliminating slack; but with two increases in the last 14 months, there's probably not much slack left to eliminate. In sum, I suspect we are closer to the threshold minimum level where further increases in the minimum result in lower employment than we were in 1995.

Having said this, I see little evidence that the minimum wage increases in 1996 and 1997 have had negative consequences. Certainly, aggregate employment has continued to grow faster than anyone expected. I also don't see much evidence of an employment impact in low-wage sectors, such as teenage workers or the eating and drinking industry -- but we have only 3 months of data since the last increase.

On the wage front, I think the last four increases in the minimum wage have shored up the bottom of the wage distribution. The bottom 10 percent of wage earners finally stopped falling in real terms since 1989. Part of the explanation for this positive development probably involves the four minimum wage increases since then. One can also detect wage blips in the sectors most affected by the minimum wage around the time of the last two increases (e.g., eating and drinking or sales jobs). There is no evidence that the minimum wage increases have affected average wages or the general wage level, however.

Feel free to call me if you would like to discuss this further.

Copied
Sperling
Bowles

FOR PRESIDENT
2-2-98

THE WHITE HOUSE
WASHINGTON

February 2, 1998

MR. PRESIDENT:

In the attached memo, Gene seeks your approval of a minimum wage increase strategy. *You should decide today*, because tomorrow, Erskine, Gene, John Podesta and Larry Stein are meeting with Sens. Daschle and Kennedy and Reps. Gephardt and Bonior to discuss the issue.

Gene proposes, with the concurrence of Erskine, John, Larry and Rahm, to not put a specific proposal on the table, but rather to indicate you will endorse a proposal that first receives the support of all 45 Senate Democrats. The thinking here is that any proposal the Administration offers will draw the fire of Kennedy and others as being too small. With this "45 Senate Democrats" approach, Southern and moderate Democrats will likely put downward pressure on Kennedy/Gephardt/Bonior and push their proposal into a more reasonable position.

The only risk here, and Podesta and Stein discount it as a small one, is that Kennedy could rally the entire Senate Caucus around a proposal your economic team would find unacceptable. Gene notes that we can address this risk by intimating that we will support the Caucus proposal, as long as it does not gravely endanger low-wage workers or our welfare-to-work efforts.

☒ Approve 45 Senate Democrats Strategy

☐ Propose specific number: \$1 over 5 years or .50¢ in 1999

☐ Discuss

Phil Caplan *Phil*

*Max
Worff
Gephardt*

THE WHITE HOUSE
WASHINGTON

February 1, 1998

THE PRESIDENT HAS SEEN
2-2-98

'98 FEB 2 AM.

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: Minimum Wage

On Tuesday, Erskine, John Podesta, Larry Stein, and I are meeting with Sen. Daschle, Sen. Kennedy, Rep. Gephardt, and Rep. Bonior about our minimum wage proposal. As you know, in the State of the Union, you called for a minimum wage increase, but did not announce a specific proposal.

Your economic and political advisers met on Friday to devise our strategy for Tuesday's meeting. We decided that our best strategy would be to tell them that we do not want to divide Democrats with our proposal, so we will endorse any reasonable proposal that attracts the support of all 45 Senate Democrats. The purpose of this memo is to make sure that you are comfortable with this approach.

Issue to Be Resolved:

The basic issue that needs to be resolved is how best to balance economic and political considerations. Since the minimum wage just increased on September 1, 1997, your economic team believes that at this point, annual increases should be roughly in line with inflation to allow more time to study the impact of the recent raise (although we are comfortable with some *modest* real growth in the minimum wage). As outlined in the previous minimum-wage memo, your economic team supports increasing the minimum wage by roughly 20 cents per year, which could be proposed either as a \$1 increase over five years or a single 40-cent increase in 1999. Important academic validators for your 1996/97 minimum wage increase -- such as Alan Krueger of Princeton and Larry Katz of Harvard -- would generally support raises in this range.

The basic challenge is that Kennedy, Bonior, and Gephardt want significantly more than your economic team could live with. They are calling for 50-cent increases this year and in each of the next two years (i.e., 50 cents in 1998, 50 cents in 1999, and 50 cents in 2000), which would raise the minimum wage to \$6.65 by 2000, and then indexing to inflation thereafter. Your advisers believe that they will insist on at least a \$1 increase over the next two years -- a raise that we fear will be harmful to the job prospects of low-wage workers. Even this proposal, which is less ambitious than their current proposal, would still not have much chance of actually passing this year -- partially because other Democrats, especially conservative Southerners and Senators from low-wage states, are not likely to be supportive.

Solutions:

One approach for Tuesday's meeting would be for us not to put a specific proposal on the table. In the minimum wage options memo, you indicated that you supported either a \$1 increase over the next five years or a single 50-cent increase in 1999.

Although we could offer these proposals in the meeting on Tuesday, your advisers believe that they will not be well received and will likely draw the fire of Kennedy and others as too small. They will be particularly poorly received if supporters of Kennedy's proposal are more interested in scoring political points than actually passing a viable -- and therefore more modest -- increase in the minimum wage. Moreover, a 50-cent increase in 1999 is stretching the boundary of what the economic team feels comfortable with and what Larry Katz is willing to validate. If this proposal were the final agreement, we could live with it. But we should probably not open with our absolute bottom line.

Instead of offering a specific proposal, the strategy recommended by your advisers is to request that any specific minimum wage proposal receive the support of all 45 Senate Democrats. With this approach, it is very likely that Southern and moderate Democrats will put downward pressure on Kennedy's proposal. By putting the ball in the court of endorsing only an increase that enjoys the support of all 45 Senate Democrats, we allow more conservative Democrats to push Gephardt, Bonior, and Kennedy into a more reasonable position.

The only potential problem with this approach is that it leaves open a small possibility that Kennedy could rally the entire Caucus around a proposal that your economic team would find objectionable. We can address this risk by intimating that we would support anything that the Caucus could reach consensus on, as long as it did not gravely endanger the employment prospects of low-wage workers or our welfare-to-work efforts. Given the current nature of the Caucus, John Podesta and Larry Stein are not particularly concerned about this issue: they believe that is highly unlikely that the consensus will be anything your economic team would find objectionable.

_____ Request That Any Proposal Receive Support of All 45 Senate Democrats.
(RECOMMENDED)

_____ Propose Specific Number in Meeting on Tuesday -- Either \$1 Increase Over Five
Years or Single 50-Cent Increase in 1999

_____ Discuss Further

Copied
Sperling
Bowles

2-2-98

THE WHITE HOUSE
WASHINGTON

February 2, 1998

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In the attached memo, Gene seeks your approval of a minimum wage increase strategy. *You should decide today*, because tomorrow, Erskine, Gene, John Podesta and Larry Stein are meeting with Sens. Daschle and Kennedy and Reps. Gephardt and Bonior to discuss the issue.

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Phil Caplan *Phil*

*Max
Ward
Haggen*

THE WHITE HOUSE
WASHINGTON

February 1, 1998

THE PRESIDENT HAS SEEN
2-2-98

'98 FEB 2 AM.

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

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Solutions:

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copied
Sperling
Bowles

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2-2-98

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WASHINGTON

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Phil Caplan
Phil

*Max
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happy*

THE WHITE HOUSE
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February 1, 1998

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2-2-98

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(RECOMMENDED)

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Years or Single 50-Cent Increase in 1999

_____ Discuss Further

January 6, 1998

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG

SUBJECT: Minimum Wage

A couple of weeks ago, I spoke extensively with Alan, Larry, and Ceci about another increase in the minimum wage. All three agree that it is too soon for another hike in the minimum wage. Alan's memo (see attached) provides a good overview of the issue and addresses each of the concerns voiced by Larry and Ceci.

You should know that Alan and David Card have a new paper on the minimum wage. Like their earlier studies, they find that "moderate" increases in the minimum wage have little or no effect on employment growth. This new study reanalyzes evidence from the New Jersey minimum wage increase in 1992. As you know, their original study created a good amount of controversy and was strongly criticized by opponents of the minimum wage. This new study uses very reliable unemployment insurance data from fast-food restaurants in New Jersey and Pennsylvania. Moreover, they reanalyze the data of Neumark and Wascher — the authors of the paper that contradicted their original results — and find that Neumark and Wascher's results were driven by a small set of restaurants owned by a single franchisee.

MINIMUM WAGE

January 19, 1998

I. Indexing

(A) To inflation

Under this approach, the minimum wage would be indexed to some measure of consumer prices -- presumably the CPI-U.

Pros:

- Prevents declines in real value of minimum wage, as has occurred over the past several decades.
- Many other government programs -- from Social Security benefits to tax brackets -- are indexed to consumer price inflation.
- Provides certainty to both business and workers over the real value of the minimum wage.
- Fulfills promise to index minimum wage.

Cons:

- Indexing to any CPI measure highlights the "CPI bias" debate.
- Indexing off of current level will leave real value of minimum wage relatively low by historical norms, and thus do little to raise people out of poverty.
- Indexing removes popular issue for Democrats.
- Indexing can exacerbate concerns over inflationary impact of minimum wage increases, by creating a feedback mechanism from wage increases to inflation and back to wage increases.
- Doesn't allow our policy to respond to new knowledge about the effects of recent increases in the minimum wage
- Does not permit other factors (e.g., macroeconomic conditions, etc.) to be taken into account in evaluating minimum wage increases.

(B) To median wages

Under this approach, the minimum wage would be indexed to some measure of median wages -- presumably from the Current Population Survey.

Pros:

- To the extent that the real median wage increases over time, this approach implies increases in the real minimum wage.
- Avoids CPI bias debate.

Cons:

- Other programs are price indexed, not wage indexed.
- Could put upward pressure on low-skilled unemployment rate, if return to skill between median and lower end of the distribution continues to widen.
- More difficult to explain than inflation indexation.
- Not clear what wage measure is optimal: median vs. mean, different wage series, etc.

(C) Indexed, with regular vote

Under this approach, the minimum wage would be indexed to either prices or wages -- but the increases would have to be approved through a Congressional vote every year. The votes could also raise the minimum wage by more or less than the indexed increase.

One alternative to constructing indexation as a norm is to require the vote to override indexation require a super-majority (either way).

Pros:

- Changes norm from no nominal increase, to indexed increase.
- Still allows larger or smaller adjustments, as appropriate given other factors.
- Does not remove political fight -- vote held every year.

Cons:

- Difficult to explain system.

- Does not guarantee that the real value of minimum wage will be maintained.
- Could make it more difficult to achieve increases above rate of inflation or wage increases.

II. Gene's option: Raise minimum wage by 25 cents in 1999, then 15 cents per year thereafter.

(A) With one-time vote

Pros:

- Moderate increase, which allows us to be responsive on issue but avoid irresponsible increases.
- Maintains or slightly improves real value of minimum wage over budget horizon.

Cons:

- Democrats may complain that the increase is too small.
- Takes away the issue in 2000.
- Business may complain that the increases are too soon.
- The economy could reverse its impressive performance over the past several years, and the increases would then pose potential risks to low-skilled unemployment.

(B) With annual votes

Pros:

- Allows you to address issue, while maintaining flexibility to respond to macroeconomic and other conditions as well as state of knowledge on minimum wage effects.
- Keeps issue on the front burner throughout the next 5 years.

Cons:

- Complicated.
- Does not guarantee increases.

III. Option 3: \$6 per 2000.

Under this option, the minimum wage would rise by 35 cents on Sept. 1, 1998, 25 cents on Sept. 1, 1999, and 25 cents on Sept. 1, 2000 -- reaching \$6 by Sept. 2000.

Pros:

- Could attract Democrat support
- Simple message

Cons:

- Could raise minimum wage “too high” and cause concerns over unemployment
- Could be seen by moderate business groups as pushing this issue too hard
- First increase too soon after most recent increase (Sept. 1, 1997).

Copied
Reed
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COS

12-15-97

ROBERT B. REICH

4 MERCER CIRCLE, CAMBRIDGE, MASS. 02138
617-661-2523

1. OK.
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Memorandum to the President

From: Robert B. Reich

Date: December 4, 1997

I've been trying to come up with initiatives that fulfill four criteria: they're good for the country, they won't cost much, they're sufficiently bold and simple to catch the public's attention and support, and they'll put Republicans on the defensive through 1998 and perhaps beyond.

1. **A minimum health-care wage.** Rather than raise the minimum wage again (which some Democrats want to do, and which may very well be justifiable), the suggestion here would be to require employers to provide a minimum one-dollar an hour contribution to a defined-contribution health-care plan (about \$2,000 a year). Most higher-wage workers already receive at least this much; thus, the benefit would go to low-wage workers.

2. **Proportionate pension benefits.** Companies have been dramatically increasing tax-deferred compensation for executives, while shifting most employees away from defined-contribution pension plans toward 401(k)s or toward no pension coverage at all. This would require that all pension benefits (and tax benefits that go with them) be at least proportionate to wages. The anticipated result would be more and better pension benefits for lower-wage workers.

3. **Life-long learning card.** Electronic data storage technology would allow all federal education benefits (Pell, IRA's, educational tax credits and deductions, as well as eligible job-training) to be consolidated on one card, like a bank card, against which educational expenses could be credited. The potential accumulation of human capital would thereby be treated no less conveniently than the accumulation of financial capital.

There's more detail behind each of these, should you find any to be promising.

Best to you and Hillary. Clare sends her love.

Bob

The Employment Policies Institute is a research organization dedicated to studying entry-level employment issues.

Who Earns the Minimum Wage?

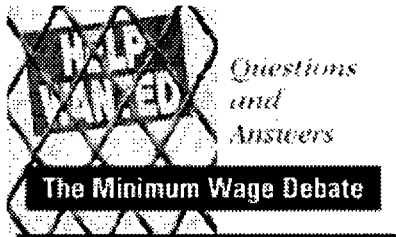
Question A1 from "The Minimum Wage Debate, Questions and Answers"

Because the minimum wage is traditionally paid to people just entering the work force, the overwhelming majority of minimum wage employees are young, single and childless.

According to U.S. Census Bureau data, young people living with their parents account for 37.6% of those who benefited from the 1996 minimum wage hike, making this group the largest segment of minimum wage employees. The same data show that 85.1% either live with their parents (37.6%), are single and live alone (17.1%), have a working spouse (21.5%), or are extended family members and non-relatives (8.9%).[1]

- ☐ There are more than 550,000 teens working at the minimum wage who live in households where family income exceeds \$30,000.[2]
- ☐ Only 44% of minimum wage employees work full time.[3] The majority of minimum wage employees could increase their income simply by working more hours.
- ☐ Single parents with three or more children account for only 1% of the minimum wage work force, and only 57% of these single parents work full time.[4]

Endnotes

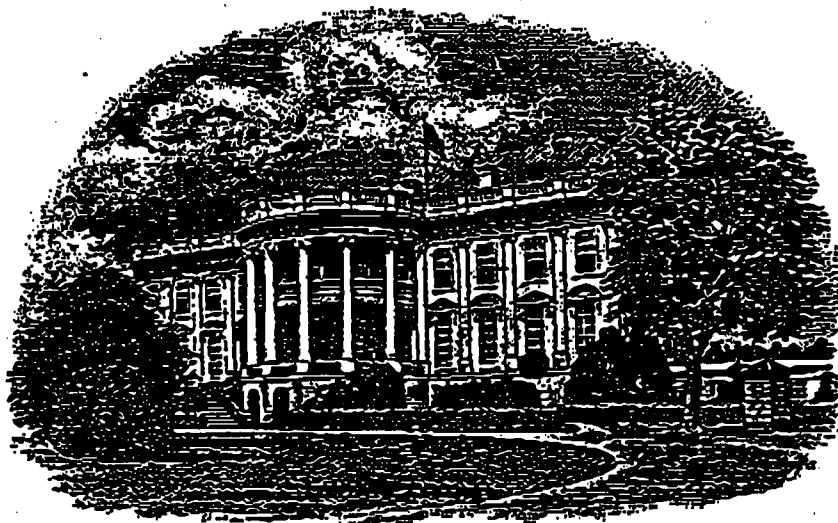


The full 24 page study is available for \$9.50, call or e-mail the EPI to order your copy.

A Portable Document File [PDF] of the entire study is also available to download at [minimum.pdf \[756k\]](#). *Because of its large file size, downloading should be avoided if your modem speed is 14.4 BPS or less.*

[Home](#) [E-mail](#) [Question Index](#)

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EXECUTIVE OFFICE OF THE PRESIDENT**Office of Management and Budget****FAX TRANSMITTAL COVER SHEET**Number of pages (including cover sheet) 2Date: June 9, 1995To: Gene Sperling

Fax No. _____

Voice No. _____

Comments: Minimum wage• FYIFrom: Ken Appel

Fax No.: 202-395-5730

Voice No. 202-395-4844

To Gene
FYI

-K.A.

Budgetary Effects of an Increase in the Minimum Wage

There are several channels through which an increase in the minimum wage might affect the budget. These effects are small, however, and hard to measure. Many of them are offsetting. Changes are likely in four areas: the EITC, means-tested entitlements, Federal receipts, and discretionary spending. Our best guess is that the combined effect of all these changes is about zero, and CBO would not be willing to count them in any case.

EITC: The EITC adds to workers wages according to a formula. There are two thresholds. For workers whose earnings fall below the lower threshold, the EITC is equal to a fixed percentage of their wages. In this range, an increase in the minimum wage would raise benefits. For workers whose earnings exceed the higher threshold (or who would be pushed over this threshold by an increase in the minimum wage), the EITC is phased out. In this range, an increase in the minimum wage would lower EITC benefits. These two effects are offsetting and their combined effect is small.

AFDC and Food Stamps: Most of the beneficiaries in these programs are not working when they are drawing benefits. The usual pattern is to participate in the programs when out of a job and to leave the program when a job has been found. While many beneficiaries have worked within the past year, they are not usually working while drawing benefits, and some of those who do work earn more than the minimum wage. Few existing beneficiaries are likely to see their incomes rise enough to push them over the limit of eligibility. Therefore, the net effect of an increase in the minimum wage on participation in AFDC or Food Stamps is likely to be very small.

Receipts: Raising the minimum wage does not lift real GDP. All that changes is that the same income that was produced before is redistributed. The net effect on receipts depends on the relative tax rates paid by the groups affected by the change. If minimum-wage workers pay higher tax rates than those whose incomes fall, the net effect on receipts would be positive. But if, as seems likely, most of the income losses are from corporate profits or proprietors income that go mainly to higher-income families and individuals, the net effect of the shift in income is likely, if anything, to be a small loss of receipts.

Discretionary Spending: Several Federal programs and contracts employ minimum wage workers. Spending for these programs is limited by the discretionary caps, and so would not be affected by changes in the minimum wage. To maintain the discretionary programs at their 1996 service levels, would cost an additional \$270 million (or \$1.9 billion over 7 years) or the number of participants would have to be reduced by 200,000. We can expect pressure to maintain these program levels if the minimum wage is increased.

BEA Scoring: Finally, neither OMB nor CBO would score these effects for pay-as-you-go purposes under the Budget Enforcement Act. The changes in receipts and program participation described above are considered to be indirect, and such effects would not counted. The changes in discretionary spending would be subsumed under the caps and would not affect total outlays.

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The 1992 New Jersey Minimum Wage Increase: How Much Did It Affect Family Income?

By David A. Macpherson, Florida State University, May 1996.

The vast majority of economists agree that minimum wage hikes create a tradeoff: lost jobs for some, but increased benefits for others. Recent research has investigated the losers in this tradeoff by examining the composition of job loss. After an increase, minority teens, welfare mothers, and other low-skilled adults are displaced from the workforce by middle-class teenagers who are lured to jobs by the higher wage.

In this paper, Florida State University economist David Macpherson identifies the beneficiaries of an increase. His findings on the 1992 New Jersey increase from \$4.25 per hour to \$5.05 per hour indicate that minimum wage increases do very little to help poor families. Rather, those helped by an increase tend to be young, single, and part of middle and upper income families.

Macpherson's thesis -- examined by means of the federal government's 1991 and 1992 Current Population Survey (CPS) Outgoing Rotation Group (ORG) files -- is that New Jersey's minimum wage increase provided little benefit to those it was most intended to help. He finds that the annual family income of minimum wage workers increased by an average of just one percent following the increase. Moreover, fewer than 10% of those who benefited from the raise were in families making less than \$10,000 a year. A full 70% were in families making more than \$20,000 a year.

By documenting New Jersey's failure to help the poor through raising its minimum wage, Macpherson demonstrates the wage's inadequacy as a tool of income redistribution (a point stressed by Bill Clinton in his 1992 presidential campaign). Increased minimum wages dissolve work opportunities for the poor and least-skilled while infusing small, almost insignificant, sums into wealthier families -- in New Jersey's case, the average beneficiary of an increase lived in a family with an annual income of \$38,873. Even the 10% of beneficiaries whose family incomes were below \$10,000 saw their total family income increase by only 6.9% on average, or \$337.

The majority of those on the positive side of the minimum wage tradeoff were young, single, and well above any government poverty threshold. Almost half the beneficiaries in New Jersey were younger than 25; 23.6% were between the ages of 16 and 19, and 20.6% were between 20 and 24. A full 55.9% had never been married. The average family with a minimum wage worker who benefited from the increase had an annual income of almost \$40,000. Even the age group which the increase benefited most -- those aged 25-34 -- only saw a \$482, or 1.6%, increase in family income.

Economic research has long shown that the poor and least skilled are often forced out of the workforce by a minimum wage increase. The new evidence presented on the following pages demonstrates that even those who benefit from an increase see very limited income growth.

Richard B. Berman
Executive Director, EPI

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EPI Issue Brief

Issue Brief #118

Economic Policy Institute

September 2, 1997

America's Well-Targeted Raise

Data Show Benefits of Minimum Wage Increase
Going to Workers Who Need It Most

by Jared Bernstein

After intense debate, legislation was passed in the summer of 1996 to increase the federal minimum wage by \$0.90, from \$4.25 to \$5.15. The increase was implemented in two phases: \$0.50 on October 1, 1996 and the remaining \$0.40 on September 1, 1997.

The debate over whether to raise the minimum wage focused almost exclusively on whether the increase would lead to layoffs by low-wage employers. The debate's narrow focus, however, often failed to take into account the important benefits of the increase for low-wage workers. Research earlier this year on the "disemployment effects" found that the first phase of the increase resulted in no significant job losses for these workers (Bernstein and Schmitt 1997). This analysis looks at national- and state-level data to determine which workers benefitted from the minimum wage increase.

An analysis of this data reveals that:

- Close to 10 million workers will benefit from the full \$0.90 increase;
- These workers are mostly female (58%) and adult (71%);
- Nearly half of the affected workers (46%) work full time, while another 33% work between 20 and 34 hours per week;
- The minimum wage primarily benefits low-income families; 57% of the gains from the increase will go to working families in the bottom 40% of the income scale;
- In 18 states, more than 10% of the workforce is affected by the increase;
- The increase will raise the earnings of workers in the affected range (\$4.25-\$5.14 an hour) by over \$0.40 per hour on average.

Workers by State

Table 1 shows the percentage and number of workers affected by the increase by region, division within region, and state. Nationally, close to 10 million workers, or 8.9% of the workforce, will receive a pay raise due to the \$0.90 increase in the minimum wage. Except in the Northeast, a number of states will see more than 10% of their workforce affected by the full increase.

In terms of share of the workforce affected, the increase has the largest impact in the South, where hourly wages tend to be lower than in other parts of the nation. In Mississippi, for example, 16.5% of the workforce is affected by the full increase. States in the Western region also have relatively high shares of workers in the affected range: Wyoming and New Mexico both have shares above 12%. While the minimum wage affects fewer workers in the Northeast (due to the higher wage rates in that part of the country), the increase will still boost the wages of close to 1.5 million of that region's workers.

National Characteristics of Minimum Wage Workers

Opponents of the increase in the minimum wage claimed that the policy was “poorly targeted,” arguing that gains would go mostly to teenagers in high-income families. In reality, most minimum wage workers are adults, and most of the wage gains from the increase are going to low-income working families.

Table 2 shows that over 70% of the workers in the affected range are adults. The table also reveals that females account for 58% of the minimum wage workforce. Almost half of minimum wage workers (46%) work full time, while another 33% work between 20 and 34 hours per week. Their average wage was \$4.73 an hour in the 12 months prior to the increase, suggesting that, with the boost to \$5.15, affected workers will on average reap a \$0.42 hourly wage gain. These gains will prove especially important to workers in retail trade, the industry with the largest share of minimum wage workers. While 17.3% of the overall workforce is in retail, 42.6% of minimum wage workers are in this industry.

Figure 1 reveals how the gains from the increase are distributed by family income. Families in the lowest fifth, who have only 5.1% of total income, will benefit the most from the increase, reaping 39.5% of the gains. Well over half of the gains (57.4%) go to families in the bottom 40%. Workers from the highest fifth benefit the least (12.6%), suggesting that the increase is well targeted to lower-income families.

Conclusion

The minimum wage has historically played an important role in raising the earnings of low-wage workers. Unfortunately, the policy debate over the issue has focused almost exclusively on the risk of job loss, despite the fact that recent literature demonstrates that such “disemployment effects” are either nonexistent or negligible. Given these findings, too little attention has been paid to the question of who benefits from the increase in the minimum. This analysis reveals that the benefits of the minimum wage increase go overwhelmingly to those who need it most—full- and part-time adult workers in lower-income families.

TABLE 1
Workers Affected by the Minimum Wage Increase, by State/Region

State/Region	Share	Number	State/Region	Share	Number
NORTHEAST	6.8%	1,451,104	SOUTH (cont.)		
<i>New England</i>	5.4%	314,970	<i>East-South Central</i>	11.8%	779,788
Maine	7.9%	40,631	Kentucky	10.4%	160,092
New Hampshire	5.1%	26,369	Tennessee	8.7%	196,412
Vermont	7.0%	17,854	Alabama	14.0%	246,162
Massachusetts	5.0%	133,840	Mississippi	16.5%	177,123
Rhode Island	7.3%	30,747	<i>West-South Central</i>	13.0%	1,547,643
Connecticut	4.6%	65,527	Arkansas	14.8%	155,325
<i>Mid-Atlantic</i>	7.3%	1,136,135	Louisiana	15.3%	250,269
New York	7.6%	542,091	Oklahoma	14.6%	189,111
New Jersey	4.6%	156,725	Texas	12.0%	952,938
Pennsylvania	8.9%	437,319			
MIDWEST	7.9%	2,171,201	WEST	8.8%	2,072,682
<i>East-North Central</i>	7.7%	1,474,021	<i>Mountain</i>	8.8%	594,236
Ohio	8.7%	419,729	Montana	11.9%	38,865
Indiana	9.3%	247,721	Idaho	10.7%	51,078
Illinois	6.8%	354,033	Wyoming	12.5%	25,555
Michigan	7.2%	289,417	Colorado	6.1%	106,209
Wisconsin	6.6%	163,120	New Mexico	12.3%	76,434
<i>West-North Central</i>	8.5%	697,180	Arizona	9.9%	180,343
Minnesota	6.0%	127,595	Utah	8.6%	71,857
Iowa	9.0%	117,129	Nevada	6.2%	43,894
Missouri	8.1%	194,198	<i>Pacific</i>	8.8%	1,478,446
North Dakota	13.6%	36,307	Washington	5.4%	126,229
South Dakota	10.2%	31,095	Oregon	7.3%	98,980
Nebraska	8.8%	63,554	California	10.0%	1,230,381
Kansas	11.8%	127,303	Alaska	3.6%	8,590
			Hawaii	3.0%	14,266
SOUTH	10.8%	4,191,171	TOTAL U.S.	8.9%	9,886,158
<i>South Atlantic</i>	9.2%	1,863,740			
Delaware	6.2%	20,189			
Maryland	5.7%	134,276			
District of Columbia	5.5%	12,601			
Virginia	8.4%	250,109			
West Virginia	14.8%	99,772			
North Carolina	9.2%	297,471			
South Carolina	11.3%	176,471			
Georgia	9.4%	294,580			
Florida	10.1%	578,272			

Note: Workers affected by the increase are those who earned between \$4.25 and \$5.14 in the year prior to the minimum wage increase.

Source: EPI analysis of CPS ORG data.

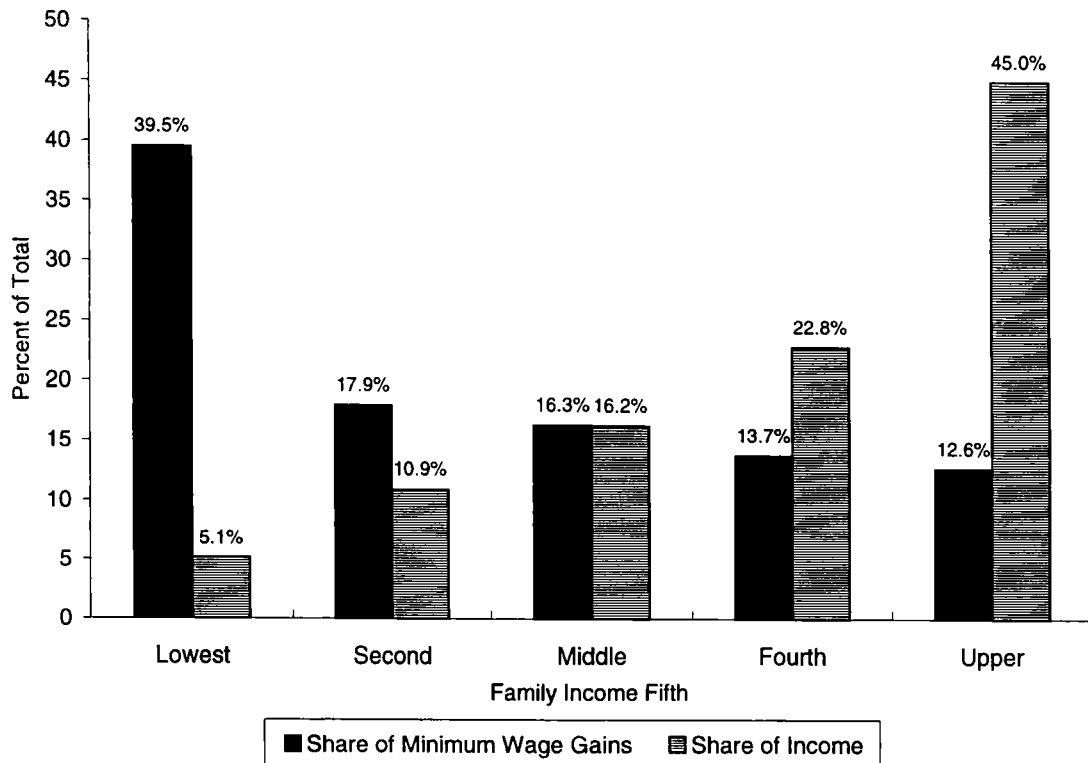
TABLE 2
Characteristics of Minimum Wage and Other Wage Earners,
Full Increase (\$4.25-\$5.15), October 1995-September 1996

Characteristic	Workers Directly Affected by New Minimum (\$4.25-\$5.14)	Other Low-Wage Workers (\$5.15-\$6.14)	Workers Above Minimum Wage (\$6.15+)	All Workers
Average Wage	\$4.73	\$5.72	\$14.62	\$12.73
Employment	9,886,158	9,610,926	89,065,561	110,931,743
Share of Total	8.9%	8.7%	80.3%	100.0%
Demographics				
Male	41.8%	41.9%	54.9%	52.3%
Female	58.2%	58.1%	45.1%	47.7%
White	62.8%	67.7%	77.9%	75.4%
Male	24.6%	26.2%	42.8%	39.4%
Female	38.2%	41.5%	35.1%	36.0%
Black	16.1%	13.8%	10.4%	11.3%
Male	6.4%	5.5%	5.1%	5.3%
Female	9.8%	8.3%	5.3%	6.0%
Hispanic	17.5%	14.8%	7.9%	9.5%
Male	9.3%	8.6%	4.9%	5.7%
Female	8.2%	6.2%	3.0%	3.8%
Teens (16-19)	28.6%	16.0%	1.7%	5.6%
Work Hours				
Full-Time (35+)	46.0%	62.7%	87.7%	81.1%
Part-Time				
20-34 hours	33.3%	25.4%	9.0%	13.0%
1-19 hours	20.7%	11.9%	3.3%	5.9%
Industry				
Manufacturing	8.8%	12.7%	19.7%	17.8%
Retail Trade	42.6%	35.8%	12.2%	17.3%

Source: EPI analysis of BLS data.

FIGURE 1

**Distribution of Minimum Wage Gains and Income Shares by Fifth, 1996
All Working Families**



Source: EPI analysis of 1996 March CPS data.

Further Readings

Bernstein, Jared and John Schmitt. 1997. *The Sky Hasn't Fallen: An Evaluation of the Minimum-Wage Increase*. Briefing Paper. Washington, D.C.: Economic Policy Institute.

The Economic Policy Institute wishes to thank Carnegie Corporation of New York, Charles Stewart Mott Foundation, The John D. and Catherine T. MacArthur Foundation, and the Rockefeller Foundation for their support of this publication.

FAX TRANSMITTAL SHEET



TO: Gene Sperling
NFC

FROM: LISA LYNCIT

DATE: 2-2-96 TIME: 11:30

PAGE NUMBER ONE OF 3 PAGES

ADDITIONAL COMMENTS:

Here are the numbers from HHS on the number of people lifted out of poverty with an increase in the minimum wage (600,000) and children (300,000). Cheers!

TRANSMITTER TELECOPIER: (202) 219-4902
IF YOU HAVE QUESTIONS REGARDING THIS FAX CALL
202-219-5108.

Fin

THE IMPACT OF AN ADMINISTRATION MINIMUM WAGE INCREASE ON POVERTY

Simulates effects of full implementation in 1993 dollars

	Prior Law	Current Law	Current Law, Including Increase in the Minimum Wage	Impact of the Increasing the Minimum Wage	Impact of the Increasing the Minimum Wage and Enacted Clinton Policies
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Analysis Based upon a Definition of Poverty Including Food, Housing, and Federal Tax Policy Changes:

Children Under 18

Number in poverty (in millions)	10.8	10.0	9.7	-0.3	-1.1
Poverty rate (in percent)	15.5	14.4	13.9	-0.4	-1.6

300,000 fewer children in poverty

Families with Children

Number in poverty (in millions)	18.3	17.0	16.5	-0.5	-1.8
Poverty rate (in percent)	12.6	11.7	11.4	-0.4	-1.3
Poverty gap (in billions)	17.6	16.2	16.0	-0.2	-1.6

All Persons

Number in poverty (in millions)	29.5	28.1	27.5	-0.6	-2.0
Poverty rate (in percent)	11.3	10.8	10.6	-0.2	-0.8
Poverty gap (in billions)	48.8	46.8	46.4	-0.5	-2.2

600,000 fewer people in poverty

Notes: In determining poverty status the model counts all cash income, plus the value of food stamps, school lunches, housing programs and the EITC, less federal income taxes to compare to the poverty thresholds.

Source: HHS microsimulation model, based on data from the March 1994 Current Population Survey.

February 2, 1996

THE IMPACT OF AN ADMINISTRATION MINIMUM WAGE INCREASE ON FAMILY INCOME
For All Families and Families with Children by Income Quintiles
Simulates effects of full implementation in a single year (1996 dollars)

	<u>Under Current Law</u>	<u>Under Administration Proposal to Raise Minimum Wage to \$5.15 Per Hour</u>		
	Average Income Per Family	Total Change in Income (in billions)	Average Income Change Per Family	Percent Income Change Per Family
All Families				
Lowest	9,859	2.1	90	0.9
Second	19,217	1.3	60	0.3
Third	29,170	1.0	45	0.2
Fourth	42,339	0.8	36	0.1
Highest	75,429	0.6	28	0.0
Total	34,886	5.8	52	0.2
Families with Children				
Lowest	14,327	1.3	178	1.2
Second	23,723	0.8	99	0.4
Third	34,832	0.5	66	0.2
Fourth	49,476	0.3	44	0.1
Highest	82,989	0.3	34	0.0
Total	41,394	3.2	84	0.2

Source: NHS microsimulation model, based on data from the March 1994 Current Population Survey.

02-Feb-96

DEPUTY SECRETARY OF LABOR
WASHINGTON, D.C.
20210

December 19, 1997

NOTE TO: **JOHN PODESTA**
 ASSISTANT TO THE PRESIDENT
 AND DEPUTY CHIEF OF STAFF

COPIES TO: **GENE SPERLING**
 JANET YELLEN
 RAHM EMANUEL
 RON KLAIN
 CRAIG SMITH

FROM: **KITTY HIGGINS** KH

I thought you might be interested in the attached analysis of the Kennedy and Gephardt speeches prepared by Ed Montgomery, our chief economist.

Attachment

DECEMBER 16, 1997
MEMORANDUM FOR SECRETARY HERMAN

FROM: EDWARD MONTGOMERY
Chief Economist

SUBJECT: GEPHARDT AND KENNEDY SPEECHES

Senator Kennedy and Representative Gephardt emphasized several key points in their recent speeches. Attached are charts with data illustrating these points and the performance of these indicators under President Clinton.

I. "The economy is unequal with widening inequalities of income." (Gephardt, 12/2/97)
"For a generation after World War II, all income groups advanced together, sharing equally—even progressively—in the benefits of economic growth. But in the past two decades, America has been growing apart. A disproportionate share of the gains of our continuing prosperity has flowed to those at the top." (Kennedy, 12/11/97)

- ◆ Charts 1 and 2 show that while inequality declined from 1950-78, it increased from 1979-92. However, for families (and to a lesser degree individual workers) this trend has stopped and perhaps even reversed itself in recent years.

II. "Most families are barely earning more than their counterparts in 1973." (Gephardt, 12/2/97)

- ◆ Chart 3 shows that real median total money income for families increased by only 5.6 percent from 1973 to 1996 but that income has grown each year since 1993.

III. "American workers are maintaining their living standards only by working longer hours—in many cases 140 more hours per year than Americans did two decades ago." (Gephardt, 12/2/97)

- ◆ Chart 4 shows that average weekly hours have changed only very slightly (by about 36 minutes each week) since 1976. Much of this rise is due to a higher incidence of long work weeks (49 hours or more)—most likely among managers and professionals (Chart 5).
- ◆ For production and nonsupervisory workers average weekly hours actually declined by 3.1 percent over the last two decades.

IV. "There are more jobs, but average income languishes." (Gephardt, 12/2/97)
"[Families] worry about the worth of their wages—about their retirement security and their health care..." (Kennedy, 12/11/97)
"Steady decline in benefits (health coverage to retirement security)." (Gephardt, 12/2/97)

- ◆ Chart 6 shows that real average total money income for families increased by 18.5 percent from 1973 to 1996, and it has increased every year since 1993.
- ◆ Chart 7 shows that the incidence of employer provided medical coverage has declined slightly since 1987 and that the fraction of workers who are uninsured has grown. **Since 1993 the fraction of workers with employer coverage has increased slightly.** Employees are, however, increasingly required to contribute to the cost of their medical coverage. For those with family coverage, the percent of employees required to contribute increased from 46 percent in 1980 to 76 percent in 1993.

V. **"Stagnancy in wages (across all but the top of the economy)." (Gephardt, 12/2/97)**

- ◆ Chart 8 shows that earnings for men have stabilized after years of decline. For women, earnings have been increasing although in recent years there was a slight decline.
- ◆ Chart 9 shows that earnings for whites and blacks, while still lower than 10 years ago, increased in the past year. Earnings for Hispanics are still declining.

VI. **"Living standards are stagnant, even with men with four-year college degrees." (Gephardt, 12/2/97)**

- ◆ Chart 10 shows that average annual earnings for male and female college graduates have been rising. Earnings for women with less than college degrees have either risen slightly or been stagnant. For men with less than a college degree earnings have declined. **Since 1993 male earnings have been rising at every education level.**

VII. **"Unprecedented rise in the use of contract employees." (Gephardt, 12/2/97)**

- ◆ While employment growth in the help supply services industry (temp workers) has been rapid (40 percent between 1993 and 1996), 1997 BLS data show that the percentage of workers in alternative work arrangement has not grown in recent years.

VIII. **"Minimum wage still buys less than it did in 1968." (Gephardt, 12/2/97)**

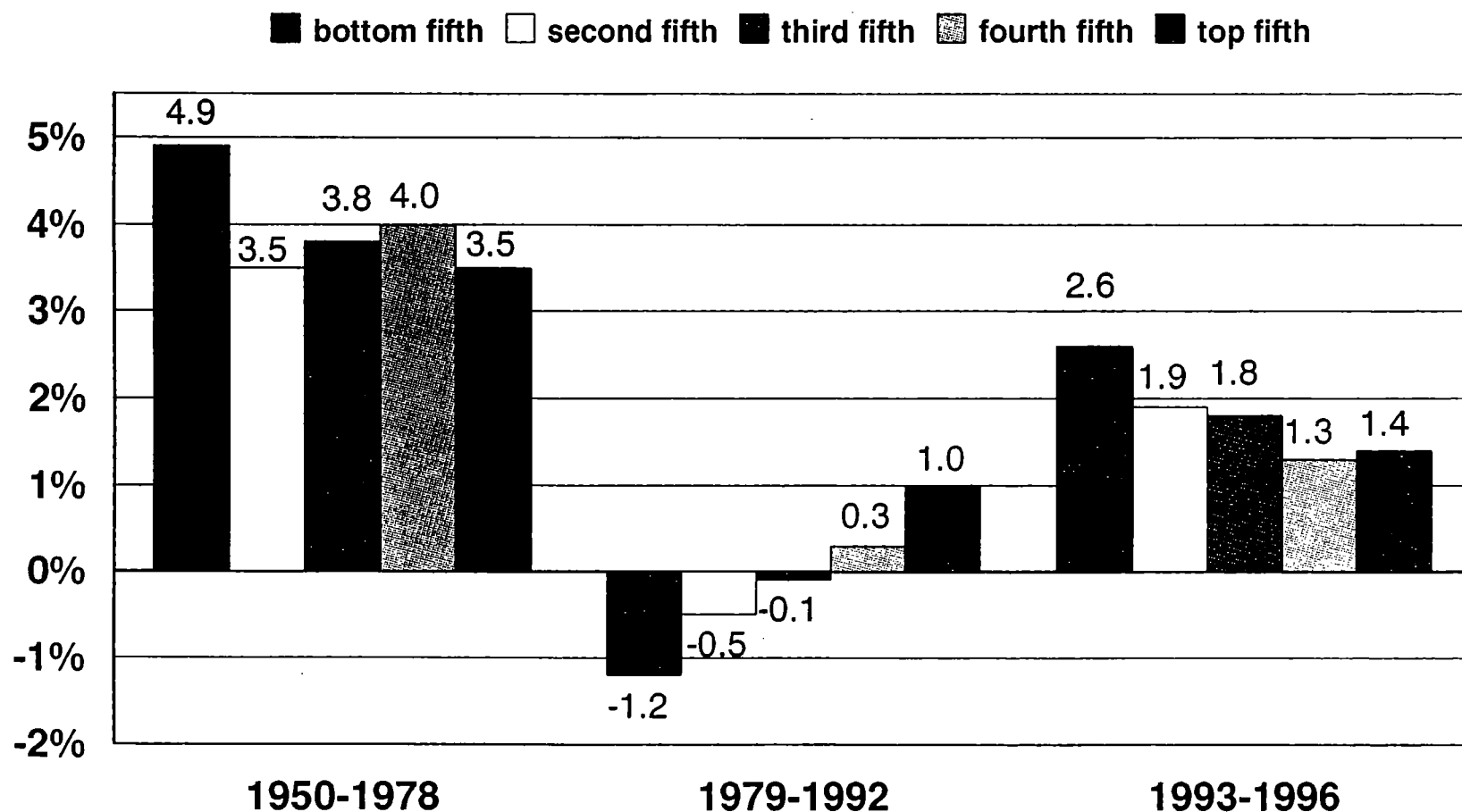
"First, we should and must raise the minimum wage...To have the purchasing power it had in 1968, the minimum wage today would have to be \$7.33 an hour instead of the current level of \$5.15...Working 40 hours a week, 52 weeks a year, they earn \$10,712 a year--\$2,600 below the poverty level for a family of three." (Kennedy, 12/11/97)

- ◆ Chart 11 shows that while the real value of the minimum wage is lower than its peak in 1978, it has risen with the recently enacted increases.
- ◆ Chart 12 shows that a full-time minimum wage job is not enough to lift a family of 2 or more from poverty. **However, a minimum wage job and the EITC does lift a family of 2 or even 3 out of poverty. The addition of food stamps would lift families of 4 and in some instance even 5 out of poverty.**

Chart 1.

Growth of Average Family Income

Average Annual Growth Rates of Family Income by Quintile

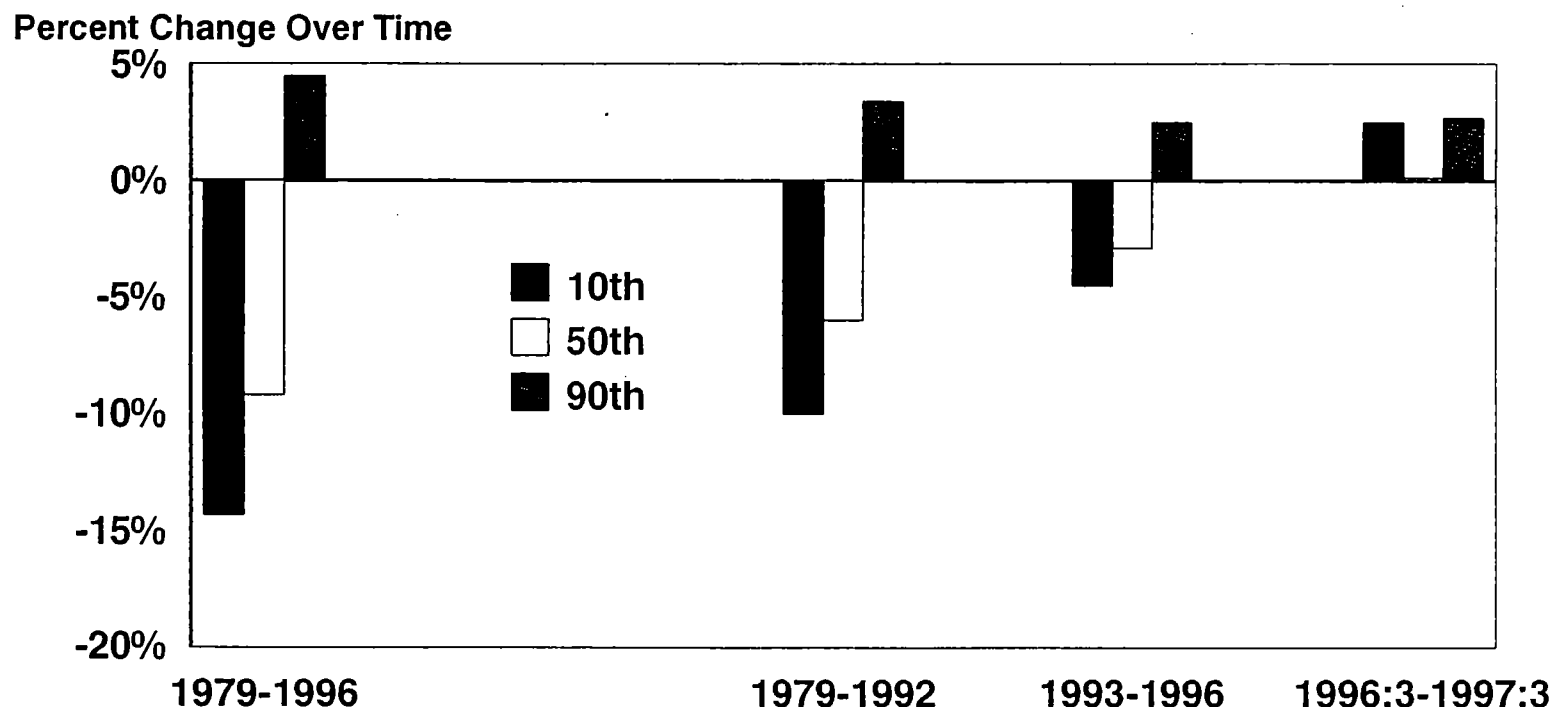


Source: Current Population Survey, Bureau of the Census.

Chart 2.

Trend Towards Increasing Inequality Stops

Real Weekly Earnings

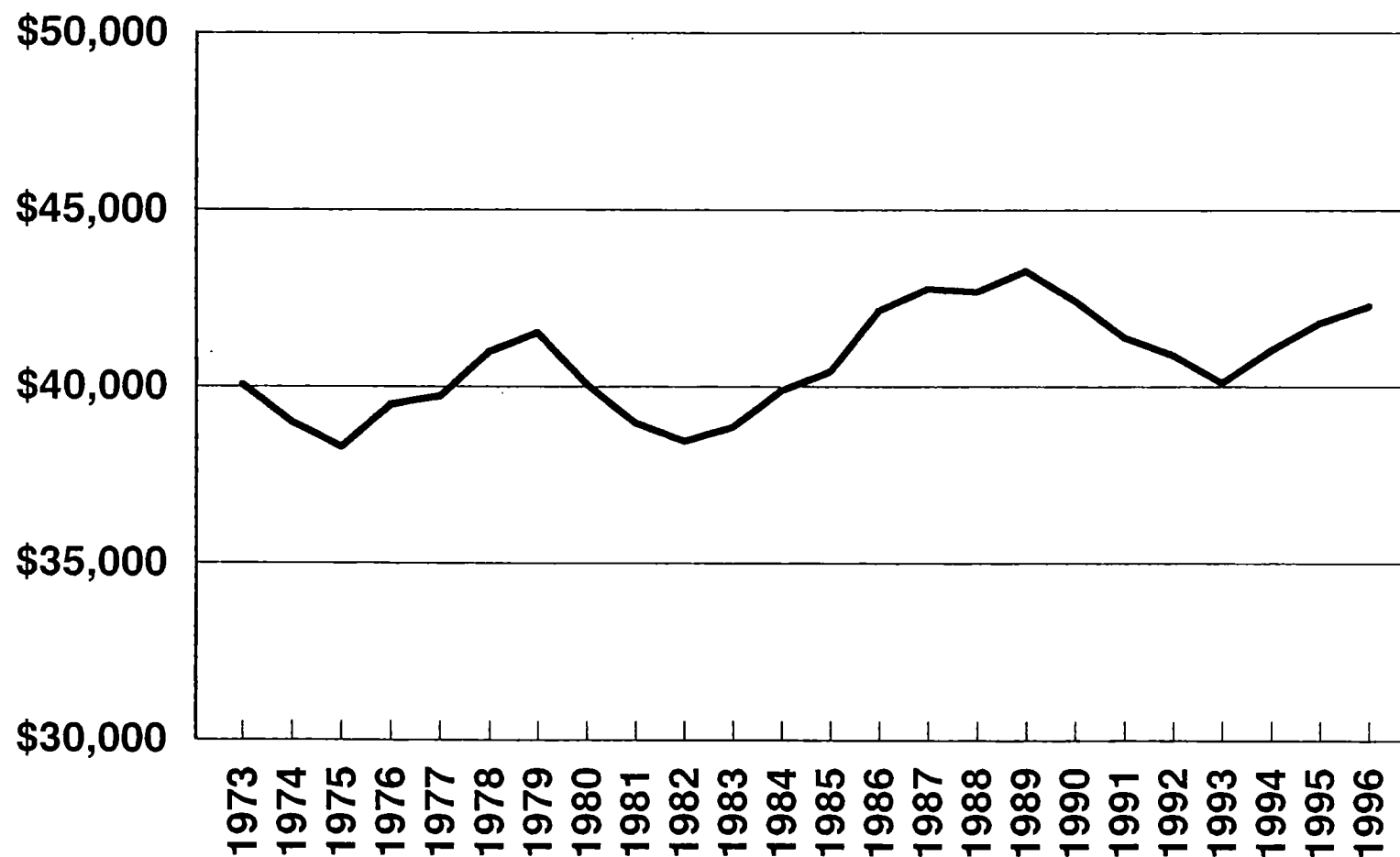


Source: Bureau of Labor Statistics, Usual Weekly Earnings for Full-Time Wage and Salary Workers 25 years and over in 1996 constant dollars. Due to a redesign of the Current Population Survey in 1994, data subsequent to 1994 are not directly comparable to earlier years.

Chart 3.

Families by Median Total Money Income

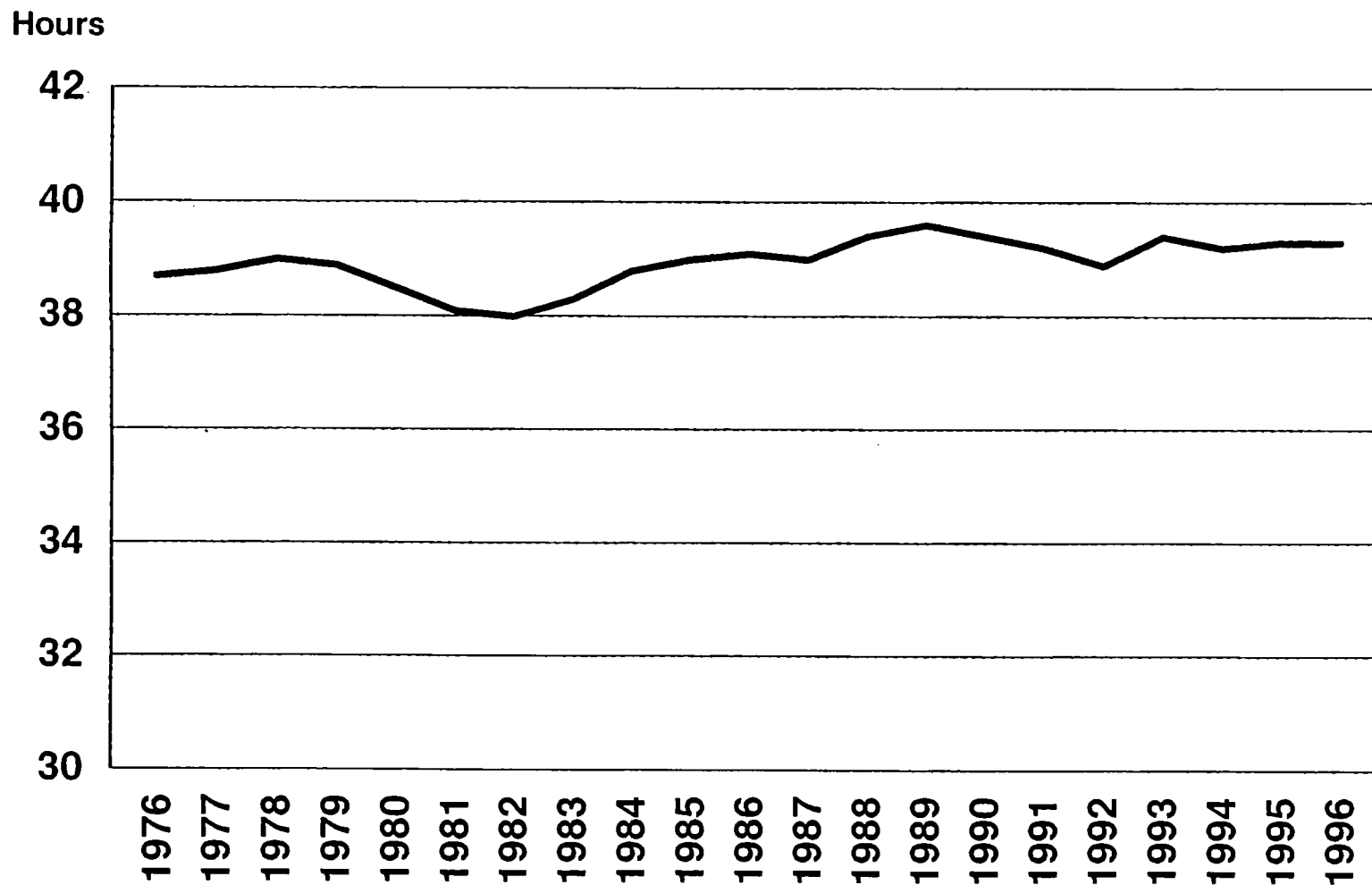
1973 - 1996



Source: Data in 1996 CPI-U-X1 dollars, Census Bureau.

Chart 4.

Average Weekly Hours 1976 - 1996

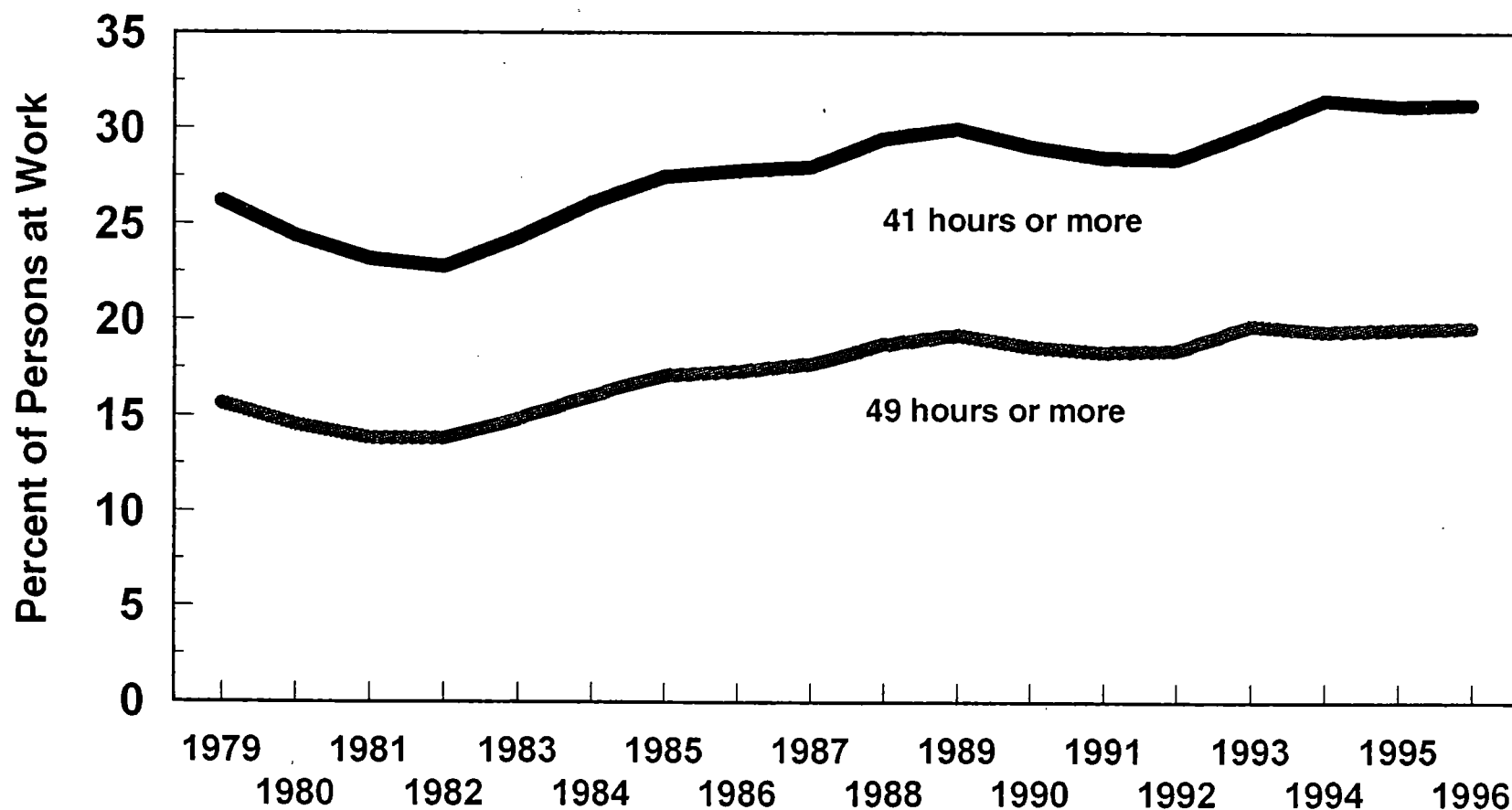


Source: Current Population Survey, Bureau of Labor Statistics, Annual Averages.

Chart 5.

Hours on the Job

1979 - 1996

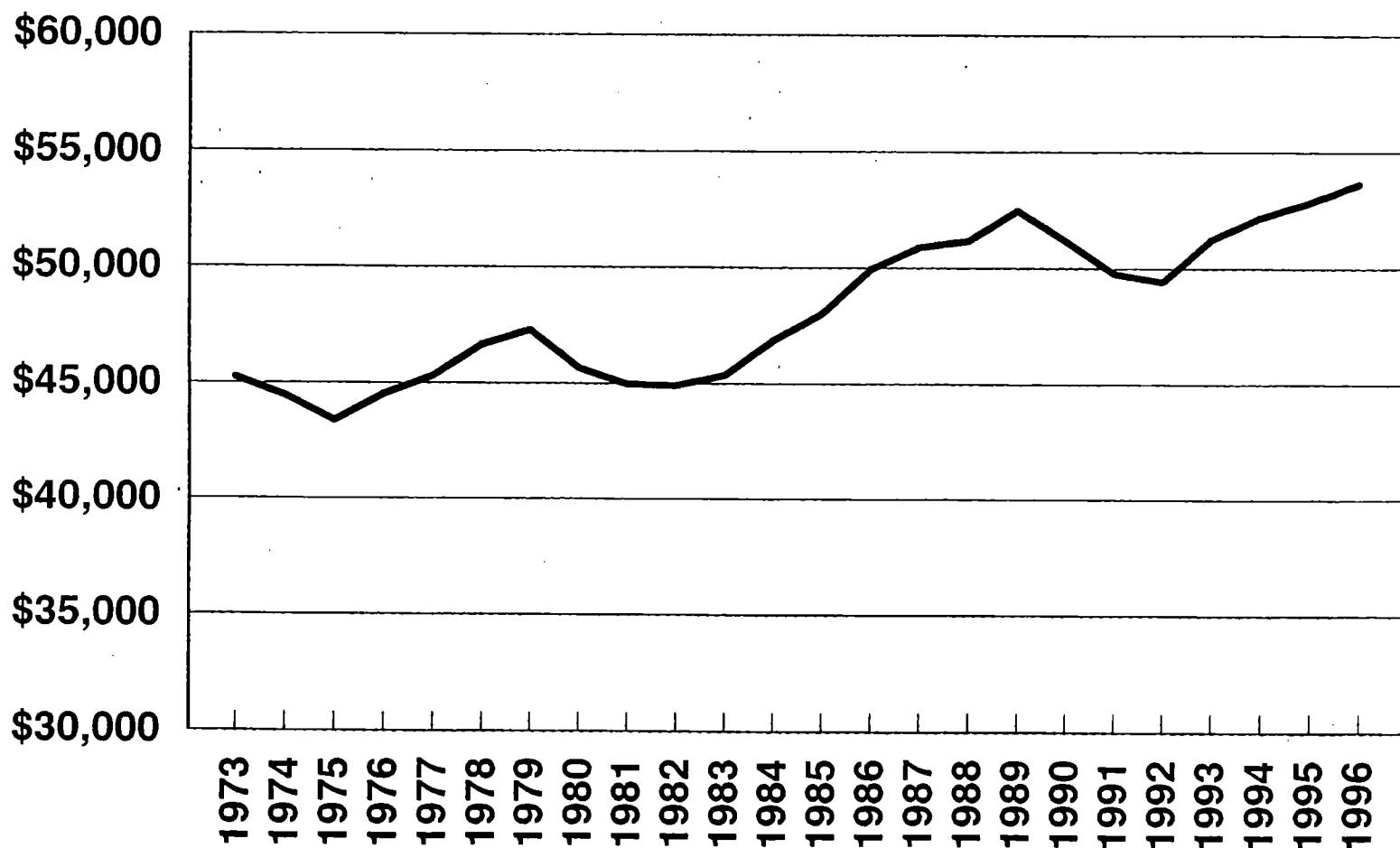


Source: Bureau of Labor Statistics, Current Population Survey. Annual Average Data. Due to a major redesign of the survey, data prior to 1994 are not directly comparable with data for subsequent years.

Chart 6.

Families by Average Total Money Income

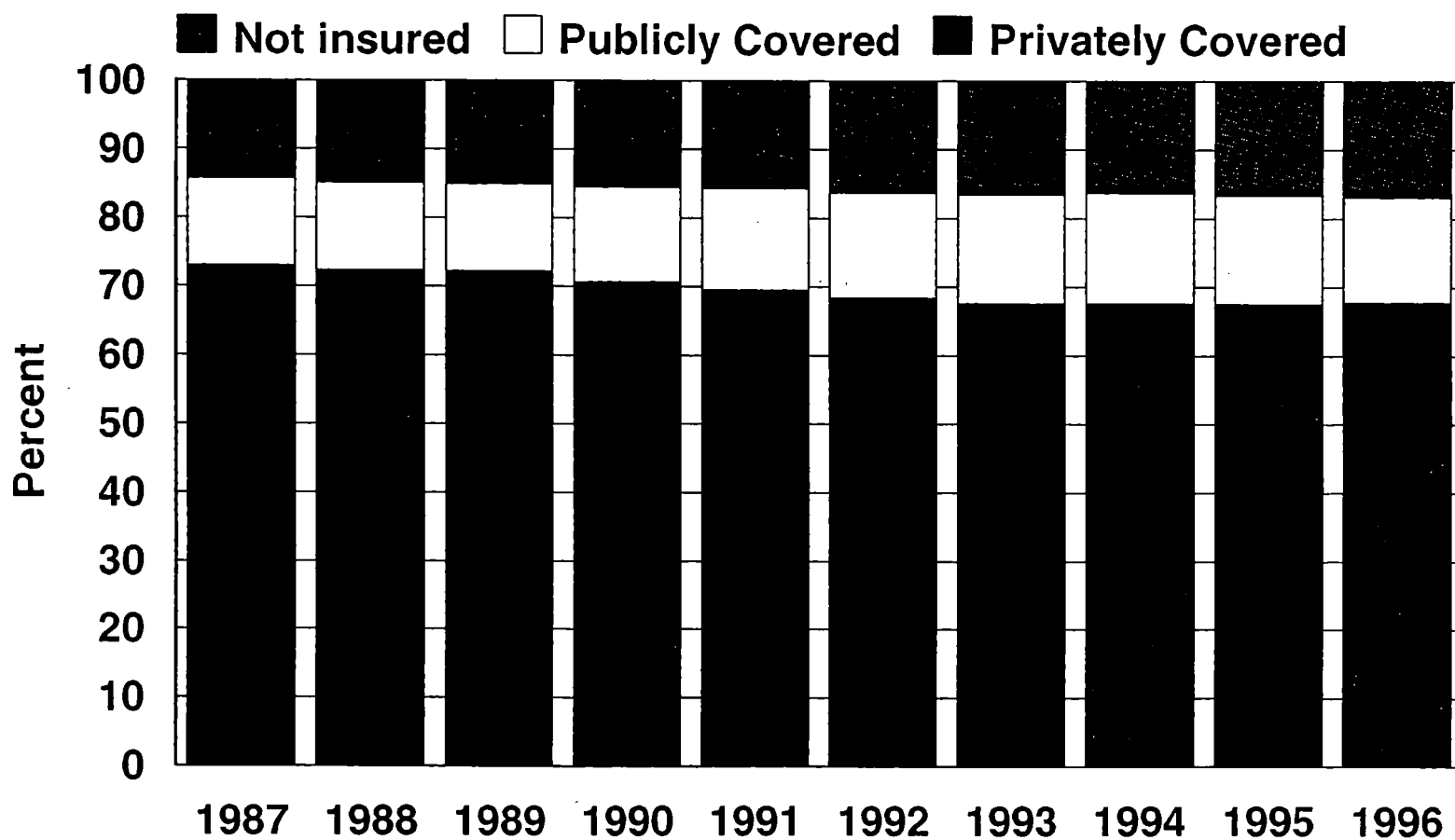
1973 - 1996



Source: Data in 1996 CPI-U-X1 dollars, Census Bureau.

Chart 7.

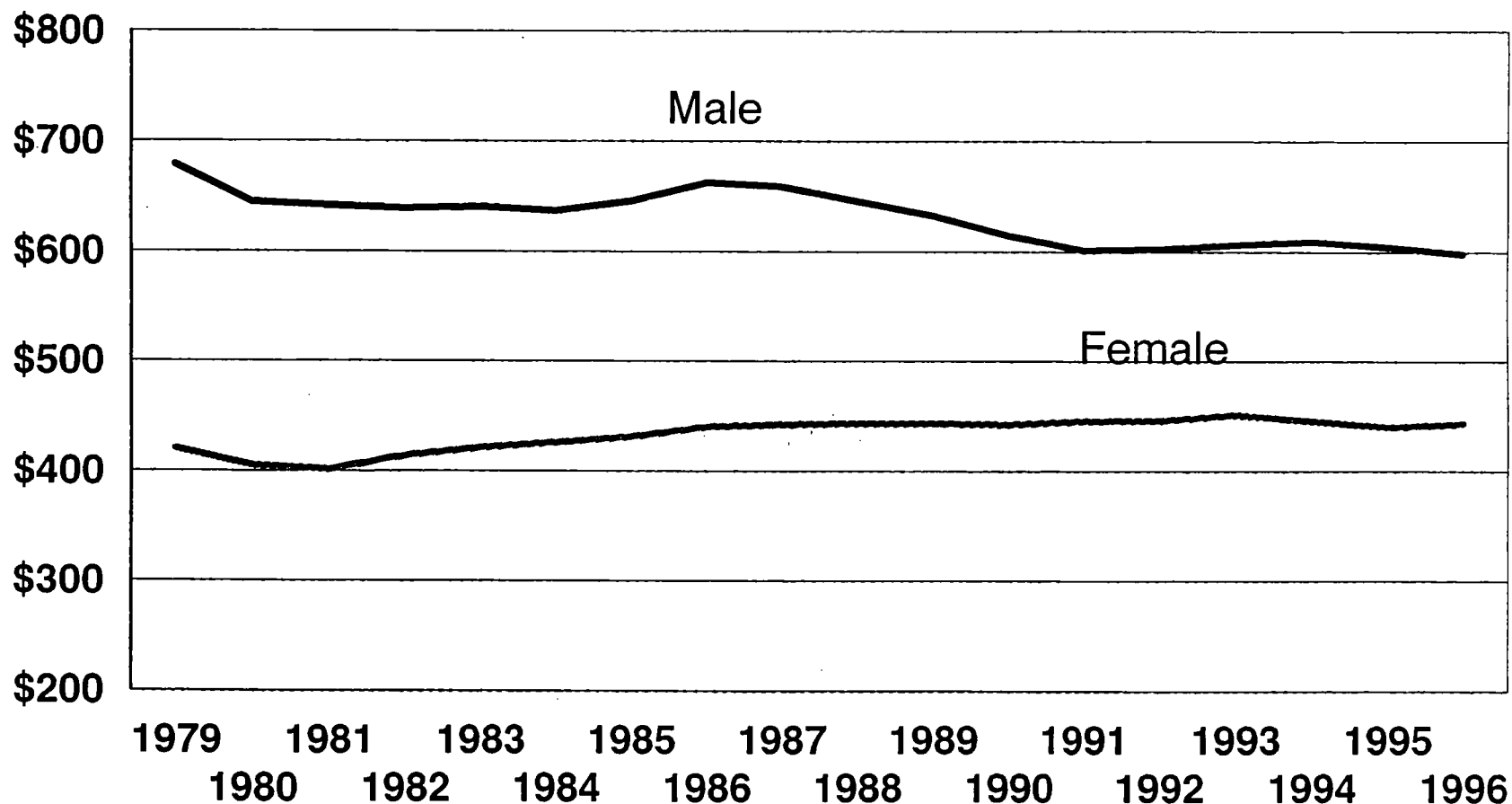
Medical Care Benefits 1987 -1996



Source: Employee Benefit Research Institute estimates of the March 1988-1997 CPS.

Chart 8.

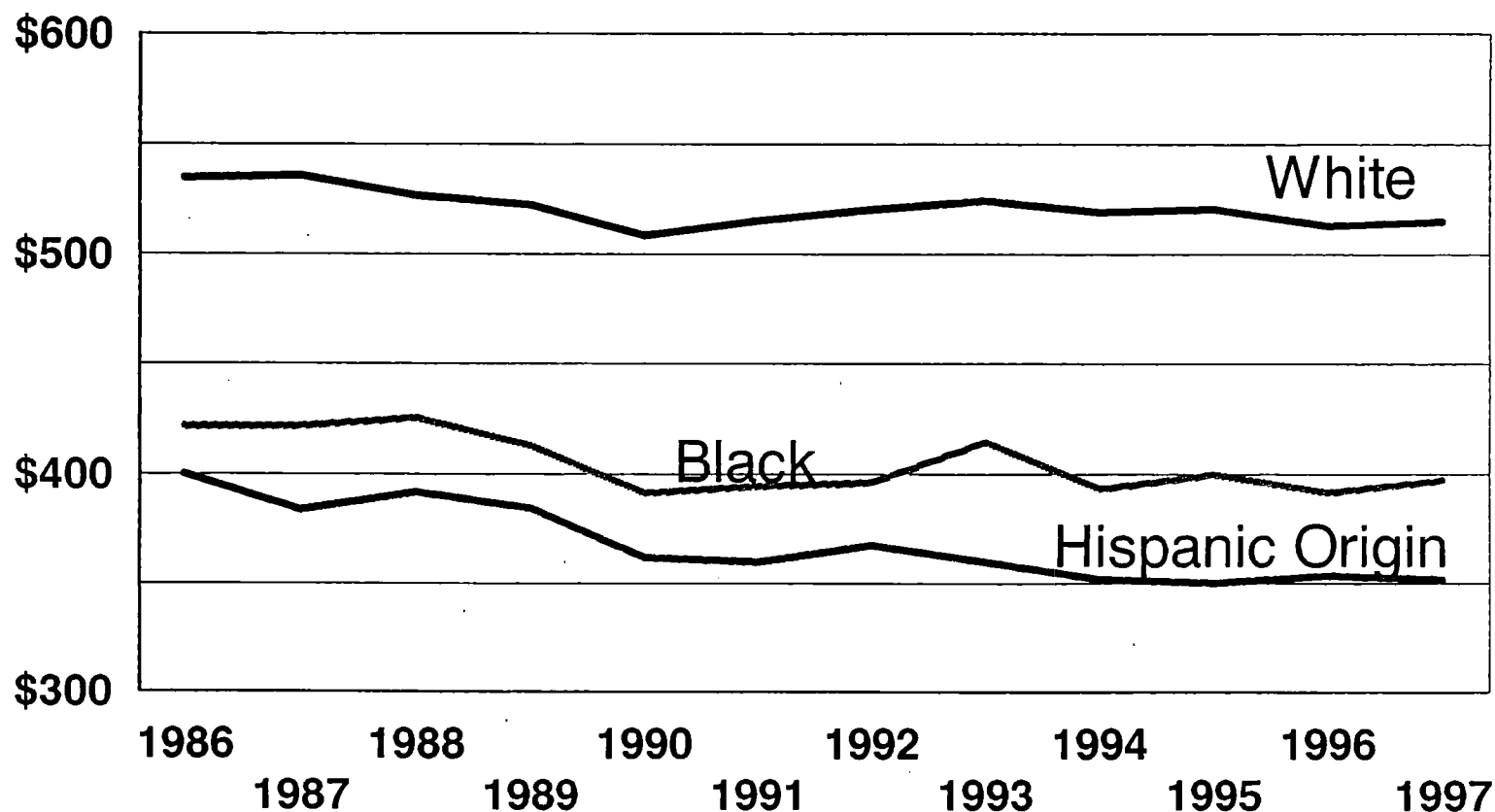
Real Median Weekly Earnings by Gender (1979 - 1996)



Source: Bureau of Labor Statistics, Real Median Weekly Earnings for Male and Female Full-Time Wage and Salary Workers, ages 25 and over, annual averages. Due to a redesign of the Current Population Survey in 1994, data subsequent to 1994 are not directly comparable to earlier years.

Chart 9.

Median Full-Time Weekly Earnings 1986 - 1997

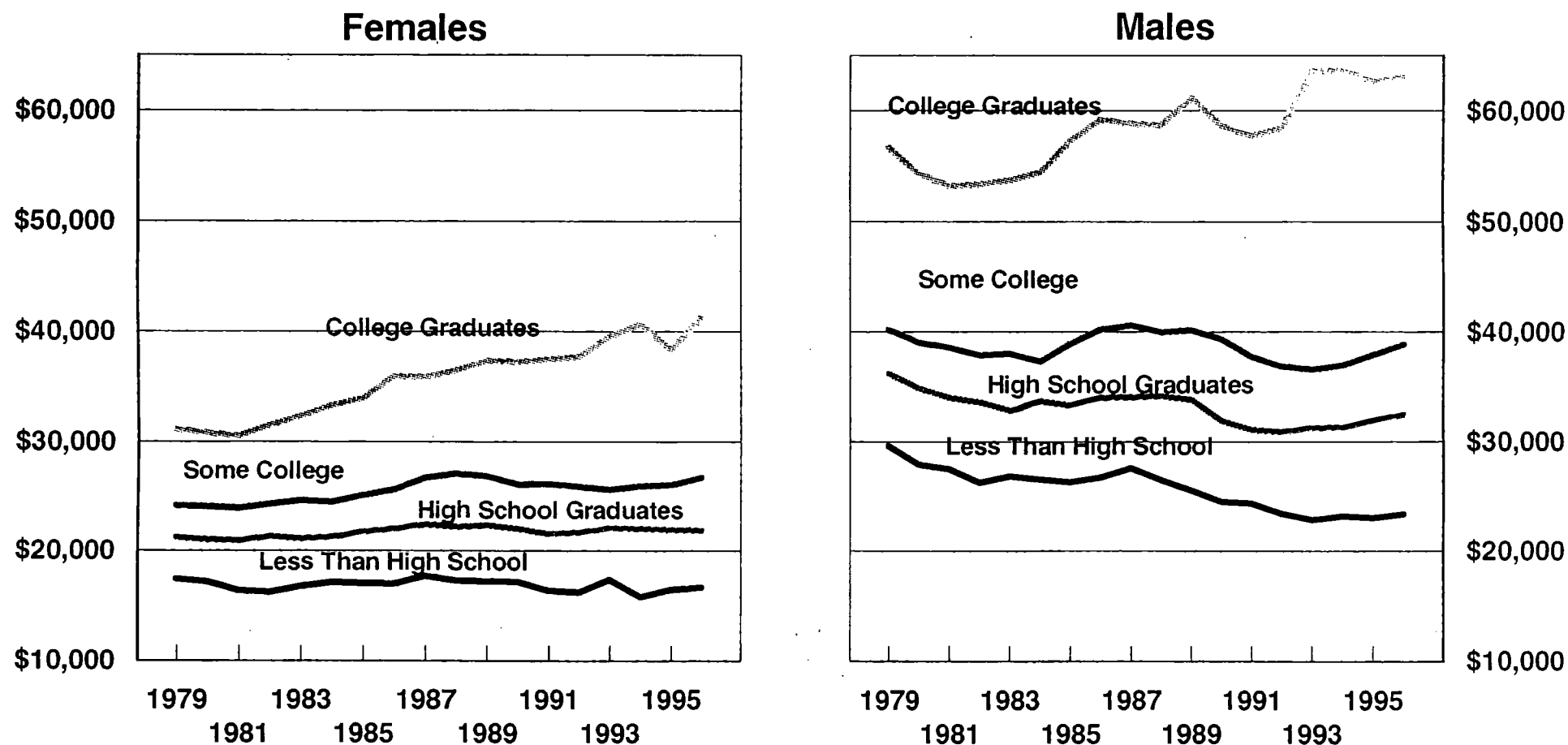


Source: Bureau of Labor Statistics, Current Population Survey. Notes: Third quarter figures. Real earnings calculated using the CPI-U, base 1997:Q3=1. Data for full time wage and salary workers ages 16+. Data from 1994 on are not directly comparable with data for 1993 and earlier because of a major redesign of the Current Population Survey questionnaire and collection methodology and the 1990 Census-based population controls, adjusted for the estimated undercount.

Chart 10.

Education Matters More

Real Average Annual Earnings by Educational Attainment
1979 - 1996

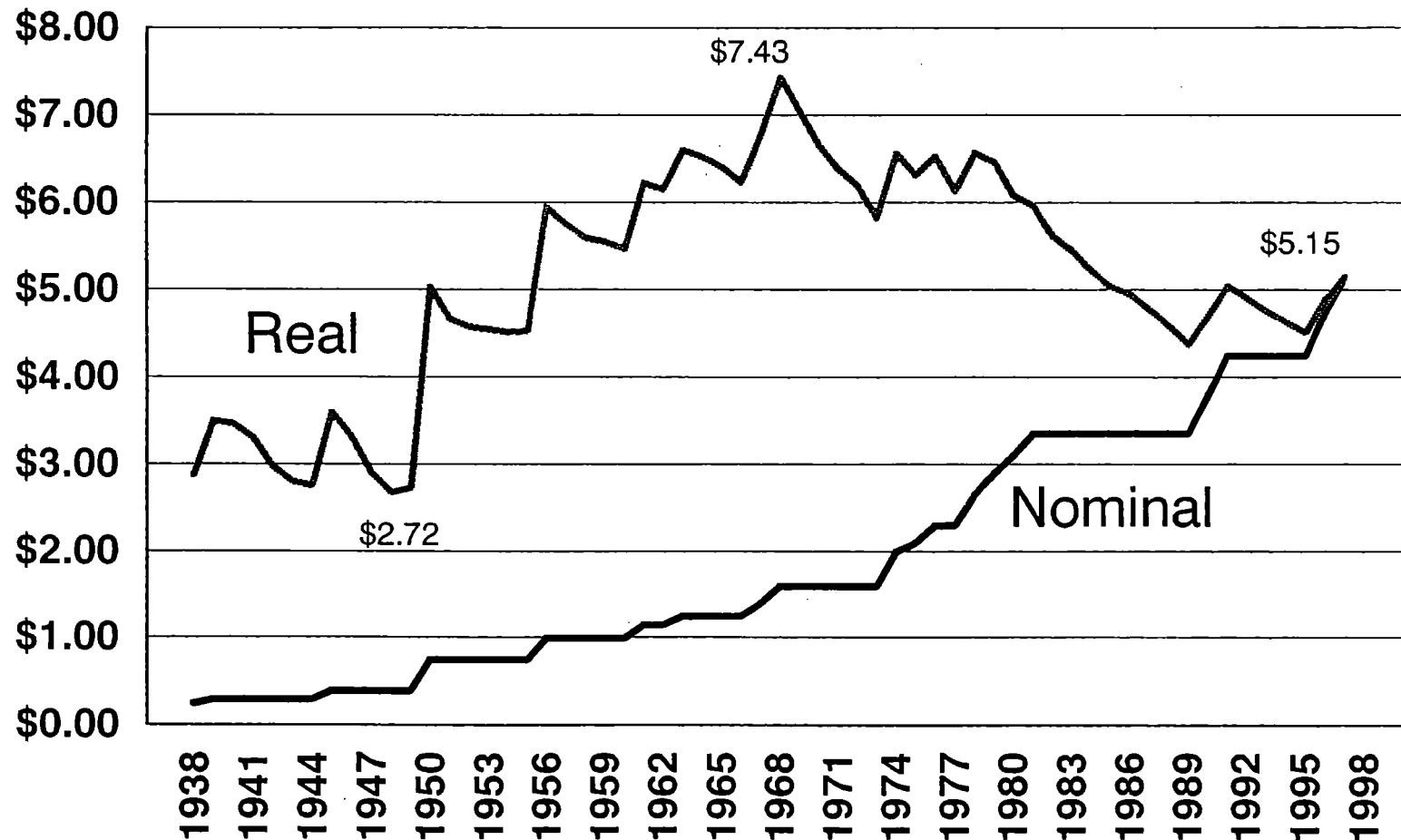


Source: Bureau of the Census, Current Population Survey. Persons 18 years of age and older working year round, full time. Data prior to 1991 are not directly comparable because of changes in the survey.

Chart 11.

The Minimum Wage

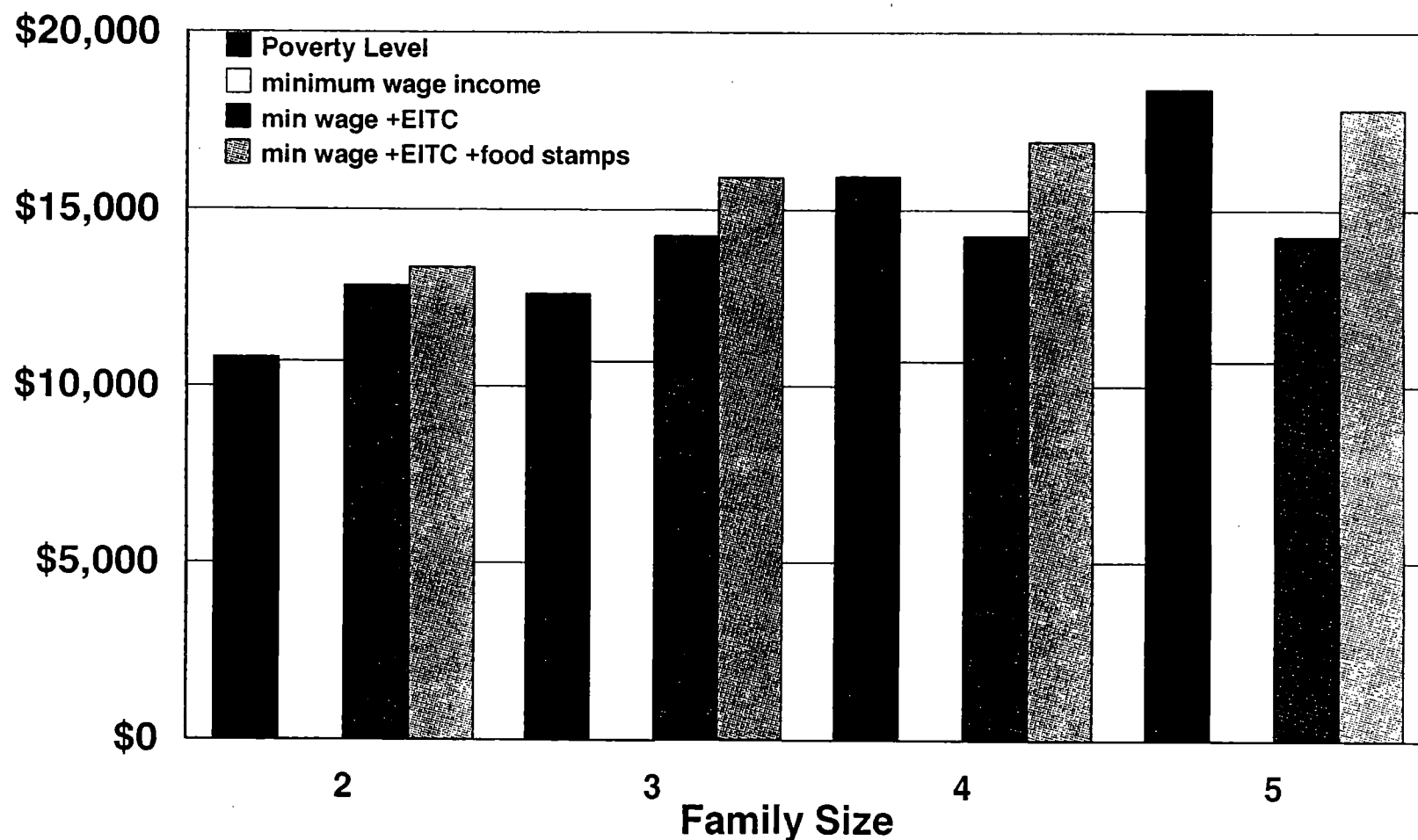
1938-1997



Note: The value of the minimum wage is adjusted for inflation using the CPI-U in October 1997 dollars. 1997 uses October 1997 in lieu of an annual figure.

Chart 12.

Poverty and Low Wage Workers



Source: All data are for 1996. Poverty rates from the Census Bureau while EITC and Food Stamp levels are from the 1996 Green Book. Assumes lowest possible Food Stamp benefit levels given family size and income. Poverty rates are for families with one adult under 65 years. Assumes one full-time, year-round minimum wage worker.