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Minimum Wage - Debate Material [1]

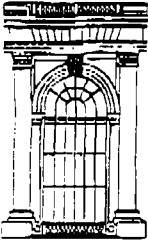
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REWARDING WORK BY RAISING THE MINIMUM WAGE

February 12, 1998

Today, President Clinton Is Proposing to Increase the Minimum Wage By \$1 in Two Steps To Help Raise Living Standards for 12 Million American Workers. In 1992, President Clinton promised to increase the minimum wage to help more families working hard but falling behind. In 1996, President Clinton signed into law a minimum wage hike, raising it from \$4.25 to \$5.15. But, there are still millions of workers trying to raise a family and struggling to make ends meet. With our economy the strongest in a generation, now is the time to help these workers make ends meet by raising the minimum wage again. The President's proposal would increase the minimum wage from \$5.15 to \$6.15 over two years, through a 50-cent increase on January 1, 1999 and a 50-cent increase on January 1, 2000. For someone who works full-time, this minimum wage increase will mean an additional \$2,000 per year.

- **A Higher Minimum Wage Will Help 12 Million Americans -- Mostly Adult Workers Trying To Support Their Families.** According to data from the Bureau of Labor Statistics, 12 million hourly paid workers earn between \$5.15 and \$6.14 and would directly benefit from this pay raise. Three-quarters (74%) of the workers who would benefit are adults, age 20 or over, and three-fifths (60%) are women, many of whom are trying to raise the family on \$5.15. About two-fifths of the workers who will benefit from the increase are the sole wage earner in their household, and the average minimum-wage worker brings home half of their family's earnings.
- **Valuing Work: Restoring the Value of the Minimum Wage.** President Clinton's proposal to increase the minimum wage by \$1 in two equal steps -- combined with the previous 90-cent increase -- simply restores the real value of the minimum wage to what it was when President Reagan took office in 1981. During President Reagan's eight years in office, the real value of the minimum wage fell more than 25 percent. This increase -- in percentage terms -- is in line with previous ones that helped low-wage workers without adversely affecting the economy: both this proposal and the last one increase the minimum wage by about 20 percent.
- **Helping Ensure Parents Can Raise Their Children Out of Poverty.** 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 do not have to bring up their children in poverty. This increase will help ensure that -- as costs continue to increase -- parents who work hard and play by the rules can bring up their children out of poverty.
- **Evidence from Last Minimum Wage Increase Is Clear: 10 Million Workers Got A Raise and No Jobs Were Lost.** The last minimum wage increase provided a pay raise to 10 million workers, and since the President signed the minimum wage increase into law in August 1996, the economy has created new jobs at an historically high pace of 250,000 per month; the inflation rate has declined from 2.9 percent to 1.7 percent; and the unemployment rate has fallen to 4.7 percent -- its lowest level in 25 years. For teenagers, African-Americans, and women, unemployment is down and employment rates are up.
- **This Is Consistent With Empirical Evidence That Shows Moderate Minimum Wage Increases Do Not Cost Jobs.** Two dozen empirical studies have found that moderate increases in the minimum wage do not have significant effects on employment. These studies include state-specific research in California, Texas, and New Jersey that shows that state minimum wage increases did not result in any job loss.



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May 6, 1998

Clinton, Kennedy Would 'Lift Families Out of Poverty' With 2-Cent-per-Hour Raise CRS Exposes Result of Back-to-Back Kennedy Minimum Wage Hikes

Using case examples from New York and California, the Congressional Research Service (CRS) found that the \$1.00 increase (over two years) in the minimum wage proposed by President Clinton and Senator Kennedy will do next to nothing to help low-income families. The study, prepared for House Majority Whip Tom DeLay, shows that rather than providing America's working poor with a "living wage" or lifting working families out of poverty, the lion's share of the \$1.00-per-hour Kennedy wage hike will end up in Uncle Sam's pockets, not in the hands of the wage-earners.

Example: A Single Mother of Two Working Full-Time at Minimum Wage —

- ▶ A low-income mother of two will receive about 2 cents more per hour from the \$1.00-per-hour increase proposed by Senator Kennedy. Of that extra dollar:
 - She will lose more than 90 cents in reduced cash welfare payments; and
 - She will lose nearly 8 cents in higher Social Security taxes.
- [CRS case example, based on Jan. 1998 welfare payment schedule in California for single-parent family w/ 2 children, see attached table]

Teenagers Working at Minimum Wage for the Summer Will Benefit the Most —

- ▶ Meanwhile, a teenager working 40 hours a week for the 12 weeks of summer would earn a total of \$2,952 under the Kennedy-proposed \$6.15-per-hour minimum wage. Yet, as a single dependent earning less than \$4,000, such a teenager would not pay federal income taxes. As a result:
 - The teenager, unlike the low-income mother, will receive 92 cents-per-hour more under the Kennedy proposal, paying just under 8 cents an hour in Social Security taxes.

Ultimately, Employers Will Foot the Bill for the Kennedy Plan

The Congressional Budget Office (CBO) estimates that raising the minimum wage by \$1.00-per-hour would cost employers more than \$31 billion in increased payroll costs over five years (1999-2003). To illustrate the burden this poses to small businesses, an employer with just 10 full-time employees earning the minimum wage will face increased payroll costs of more than \$20,000 — nearly the annual payroll cost of two full-time employees.

In short, President Clinton and Senator Kennedy are asking employers to foot a \$31 billion bill that ultimately will transfer more money to the government than into the hands of low-income families. As the CRS study shows, raising employer payroll costs by a whopping 20 percent translates into little more than a 2-cent-per-hour raise for working-poor families in California and certain areas of New York. For welfare families living in these places, as much as 98 cents of each additional dollar will be devoured by higher payroll taxes and reductions in cash assistance and other benefits available to low-income families.

While it may be an effective way to divert more money into government hands, increasing the minimum wage is not an effective way to increase the real earnings of low-income working parents. CRS estimates that nationally, these low-income parents (i.e., those working full-time at the minimum wage and receiving welfare payments, rental assistance, etc.) will receive just 35 cents more per hour under the \$6.15-per-hour Clinton-Kennedy proposal — two-thirds of the wage hike will go to local, state, and federal coffers. According to the CRS study:

"... It should be noted that in the examples shown [i.e., families with a single full-time worker at the minimum wage who qualify for food stamps and the maximum EIC benefit], the federal treasury would benefit by reduced welfare spending and increased tax revenue, as might states if families receiving TANF [cash welfare assistance] were to earn more."

Highlights of CRS Study on Increasing the Minimum Wage

In a March 27, 1998, study entitled "Case Examples of Effects of a Proposed Increase in the Minimum Wage on Family Income," CRS evaluated the impact of the proposed Clinton-Kennedy minimum wage increase on families earning the minimum wage in two states: California and New York. As of September of 1997, those two states alone accounted for nearly one-third of the nation's cash welfare recipients (California, approximately 23 percent, and New York, 10 percent).

As the study points out, families with a single full-time worker earning either the current \$5.15 per-hour minimum wage, or the \$6.15 per-hour wage (by 2000) proposed by Senator Kennedy are each entitled to a variety of cash and other welfare benefits.

- A family with a single full-time worker earning \$5.15 per hour would have annual gross earnings of \$10,712 (assuming 40 hours of work over 52 weeks).
- At the proposed increased rate of \$6.15 per hour, a family's annual gross earnings would increase by \$2,080, to \$12,792 per year.
- At these income levels, families in California and New York would remain eligible for cash welfare benefits (i.e., Temporary Assistance of Needy Families, "TANF"), Food Stamps, rental assistance, and the maximum Earned Income Credit (EIC).
- For a single-parent family with two children living in California or a single parent with one child living in Suffolk County, New York, the higher minimum wage results in lost benefits amounting to nearly 98 cents for each additional dollar earned above the current \$5.15 per hour [see attached chart and table]. A single-parent family with two children in New York City would take home a mere 13 cents more of that extra dollar.

Selected Effects of Proposed Minimum Wage Increase on Net Hourly Income for a Single Parent Family with 2 Children Living in California in 2000

	Current Minimum Wage	Proposed Minimum Wage		Amount Reduction In Increased Earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.15	\$1.15	\$0.00	0.0%
Cash income after federal income taxes	\$6.30	\$7.30	\$1.00	0.0%
Social Security taxes (FICA & HI)	(\$0.39)	(\$0.47)	(\$0.08)	-7.7%
Net income after taxes	\$5.91	\$6.83	\$0.92	-7.7%
TANF	\$0.91	\$0.00	(\$0.91)	-90.6%
Net income after taxes and TANF	\$6.82	\$6.83	\$0.01	-98.2%
Food stamps	\$0.08	\$0.12	\$0.04	3.5%
Net income after taxes, TANF and food stamps	\$6.90	\$6.95	\$0.05	-94.8%
Rent (assisted housing)	(\$1.75)	(\$1.78)	(\$0.03)	-2.8%
Net income after taxes, TANF, food stamps and rent	\$5.15	\$5.17	\$0.02	-97.6%

Source: Congressional Research Service (CRS)

NOTE: Estimates based on methods and assumptions used. See CRS text for details. Details may not sum to totals due to rounding.

Clinton-Kennedy Minimum Wage Hike Short-Changes Working Poor

Clinton-Kennedy
\$1.00
Increase

100¢

Amount
returned
to govt. in
reduced
welfare
benefits

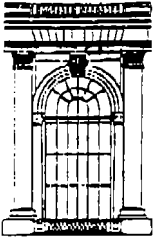
89.9¢

Amount
returned to
government
in higher
payroll
taxes

7.7¢

Amount kept by
single mother
with two
children
(California)

2.4¢



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May 1, 1998

The Link Between Minimum Wage Hikes and Inflation Will Clinton/Kennedy Wage Hikes Return U.S. Economy to Carter Years?

At President Clinton's and Senator Kennedy's insistence, Congress has raised the minimum wage by the largest amount ever in a two-year period, yet now union bosses' darlings are seeking to break this record by raising the minimum wage another \$1.00 per hour over the next two years. Only once before have four consecutive minimum wage hikes occurred in four year successive years — in January of 1978 through 1981. Those were the Carter years, an administration remembered for the combination of stagnating economic growth and rapid inflation — giving rise to the term "stagflation." The economic malaise and the attempts at market manipulation (i.e., raising the minimum wage) were not an unrelated coincidence.

The proposal of the largest-ever minimum wage increase could not come at a worse time. Inflation is always a deterrent to prosperity, and it is the most anxiously anticipated threat to the current economic expansion. The Clinton-Kennedy minimum wage hikes would have both a direct and indirect impact on inflationary pressures — just as they did during the Carter years.

- The proposed Clinton-Kennedy \$1 minimum wage hike would be the largest ever over a two-year period — breaking their own two-year record of 90 cents set over the last two years.
- Only once before have there ever been four hikes in successive years — 1978-81, during the "stagflation"-era Carter years.
- Combined with the hikes of the last two years, the Clinton-Kennedy plan would result in a 45-percent increase over a four-year period, paralleling the percentage wage-hike increases of those Carter-era "stagflation" years.

Inflation's Debilitating Economic Effects

Inflation is defined as a sustained rise in prices. Literally, it is too many dollars chasing too few goods. While a period of excessive demand can cause this to happen temporarily, it cannot be long sustained because supply and demand eventually will equalize. The only way that excess dollars can exist over a sustained period is for excessive growth in the money supply itself.

The impact of inflation is devastating to an economy. It produces spiraling prices as all parties — employers and employees, buyers and sellers, and lenders and borrowers — seek desperately not only to keep up with the rapid escalation in prices, but to predict the future increases as well. It is the ultimate uncertainty and every participant in every transaction seeks to insure themselves with an "inflation premium." The economic effect of inflation is at best debilitating and at worst devastating as saving and investment are undermined by the depreciation of money's value. The result, as we discovered in the 1970s, is a misallocation of resources across the economy as parties' first concern becomes protecting themselves against inflation, not investment and saving from which real increases in wages and wealth come.

- Interest rates reached a peak of 21.5 percent for a 30-year bond on December 19, 1980.
- The effective Federal funds rate rose to its highest level since 1954, reaching 11.19 percent in 1979 and 13.36 percent in 1980 — and would continue to 16.38 in 1981.
- The economy entered a recession during the first half of 1980.
- Real GDP increased at an annual rate of just 2 percent from 1977 through 1981 (4th quarter to 4th quarter) during the period covered by the Carter minimum wage hikes. In contrast, the following four years — 1982 thru 1985, which had no minimum wage hikes — saw real GDP increase at an annual rate of 3.5 percent. And even the preceding four years — 1973 thru 1977 — saw real GDP increase at an annual rate of 2.3 percent, despite having three minimum wage increases and the OPEC oil embargo.
- In fact, this period's (1977-81) real GDP increase was lower than the 1950 through 1977 period's 3.6 percent and 1981 through 1997's 2.8 percent.
- Output per hour during this period increased at just a 0.23 percent annual rate — compared to a 1.68 percent rate from 1973 through 1977, 1.92 from 1981 through 1985, 2.42 from 1950 through 1977, and 1.26 from 1981 through 1997.
- Workers' real (as adjusted for inflation) compensation per hour actually *shrank* at a 1.11 percent annual rate from 1977 through 1981. This compares to a 1.28 percent rate from 1973 through 1977, 1.09 from 1981 through 1985, 2.40 from 1950 through 1977, and 0.58 from 1981 through 1997.

Minimum Wage Hikes and Inflationary Pressure

During this period of abysmal economic growth, Congress raised the minimum wage. Public Law 95-151, enacted on November 1, 1977, produced the first four consecutive annual minimum wage hikes in history. It also produced the largest sustained percentage increase — 46 percent — in history.

The increase in the price of any commodity — including labor — is not in itself inflationary but it does create inflationary pressure. When an increased price in a commodity can be accommodated by purchasers simply altering their purchasing patterns — purchasing less of that commodity, reducing purchases of other commodities, or both, inflation can be avoided. Yet, the economic "constriction" caused by a minimum wage hike is clearly demonstrable.

If Congress mandates it by law, wages must go up. This can be accommodated in several ways. Prices paid by consumers can go up, with the result that they will purchase less of the product in question than otherwise would have occurred. Profit margins can decline, with the result that shareholders and owners will curtail their investments below what otherwise would have occurred. In both cases, expenditures and investment will shift to other areas relatively — and in the extreme, some purchasers and operators will cease altogether. The result will be that either fewer workers or less investment will flow into the affected industries than would otherwise have occurred and that over the long-term, wages — even for those receiving the minimum wage — will actually increase less than they would have otherwise.

The same is true for the economy as a whole: Because the shift in wages is not dictated by market forces but legislative ones, the shift of resources necessary to pay a higher minimum wage forces investment from where it would have been more productively used, and the economy as a whole suffers from the misallocation of resources.

Businesses, workers, and consumers are all affected by the constriction caused by a dramatic rise in prices of a common commodity, such as labor. The rise in price cannot be accommodated without a dislocation elsewhere. It, therefore, should not come as a surprise that the market would seek to find a way around this constriction, and the simplest way is an increase in the supply of money in order to make up the difference: i.e., inflation by definition.

Through this increase in the money supply, the hard choices of reprioritizing resources can seemingly be avoided: higher minimum wages can be paid, higher prices can be passed on, consumers can pay them, and investment does not have to suffer. Yet, it is illusory, as the Carter years dramatically demonstrated: inflation is no panacea, and the minimum wage hikes were a culprit.

The Link Between Minimum Wage Hikes and Inflation

The 1978-81 minimum wage hikes coincide with America's highest post-WWII inflation.

- During 1978-81 (4th quarter 1977 through 4th quarter 1981), inflation grew at an annual rate of 10.9 percent. From 1950 through 1997, inflation grew at only a 4.1 percent annual rate. Prior to 1978-81, inflation's average annual rate of growth was 3.5 percent from 1950-77; and it was 3.5 percent from 1982-97.
- The 1978-81 period was even worse than the previous four years of seemingly high inflation from 1974 through 1977. Even though the minimum wage was increased three

times and despite the fact the fact that oil prices had begun to climb following the 1973 oil embargo, inflation still only grew at an annual rate of 7.8 percent during 1974-1977.

- From 1982-85, the minimum wage was not increased and inflation's annual rate of growth fell to 3.8 percent.

Some will argue that minimum wage increases are a response to, not the cause of, rising inflation. Interestingly however, inflation is almost twice as likely to be higher in the year following a minimum wage hike than in the year preceding one.

- Since its enactment, the minimum wage has been increased 15 times. On nine occasions, the inflation rate was higher in the year following the mandated wage hike than in the year preceding it. On just five occasions was the reverse true (and on one occasion, 1963, there was no change).

As the Joint Economic Committee points out, minimum wage increases have been associated with less robust economic performances in general:

- From 1971 to 1996, the number of jobs grew twice as quickly — 2.8 percent versus 1.4 percent — when a minimum wage had not occurred within the previous three years as when one had occurred.
- From 1971 to 1996, the economy grew at a 3.5 percent annual rate when the minimum wage had not been raised within the prior three years versus a 2.1 percent rate when it had.

The Current Threat of Inflation

The threat of inflation is constant: simply because the U.S. economy is in good shape is not a reason to discount its threat. Rather, the economy is good *because* of the absence of inflation. As Federal Reserve Board Chairman Alan Greenspan stated earlier this year:

"The key question going forward . . . is whether the restraint building from turmoil in Asia will be sufficient to check inflationary tendencies that might otherwise result from the strength of domestic spending and tightening labor markets."
[2/25/98 testimony before the Senate Banking Committee]

Since inflation was brought under control beginning in the early 1980s, the United States has enjoyed an unprecedented peacetime economic expansion. Both the longest (the period from 12/82 through 8/90) and the currently-running second-longest (3/91 and extending to present) such expansions have occurred with only a brief eight-month hiatus (from 8/90 through 3/91) during this low-inflation period. This success is not coincidental.

The disastrous consequences of government manipulation of the economy through such actions as minimum wage hikes and inflationary monetary policy were clearly demonstrated

during the late 1970s. Without the pressure for an inflationary monetary policy arising from successive minimum wage hikes, the Federal Reserve has been able to pursue the low inflation policy that has produced the current economic expansions.

More government intervention directly and indirectly risks resurgent inflationary pressure. Even if the Fed were not immediately to succumb to increasing the money supply in order to accommodate further minimum wage hikes, its job of safeguarding against inflation is made indirectly more difficult. The Fed must constantly scour economic indicators to detect inflation as soon as it occurs, and such oversight is made more difficult if wages are artificially increased with a minimum wage hike. As prices rise, how is the Fed to discern whether these increases are due to the artificial wage hike or real inflation? How then does the Fed react? If the Fed restricts the growth of the money supply because it incorrectly perceives inflation, it pushes a healthy economy into a deflationary straightjacket. If the Fed allows the money supply to continue to grow and inflation is present, it exacerbates an already overheating economy.

We have *not* entered a new recession-proof economic era, but we have entered a new economic mind-set, one of expectations of low inflation. Last year's increase was just 2.3 percent and 1998's annualized first quarter core rate (minus volatile food and energy prices) was just 2.4 percent. As a result, indications of what was formerly seen as mild inflation — 3 percent — or higher would seem a dangerous acceleration now and would likely prompt equally serious reactions in today's markets. Recall for example, the reaction to the recent report that the Federal Reserve has determined that it is now more biased toward tightening the money supply than loosening it: immediately thereafter, stocks momentarily plunged and interest rates climbed.

More Minimum Wage Hikes: Bad Policy, Bad Timing . . .

Minimum wage hikes are inherently bad policy: elementary economics dictate that increasing the price of a commodity means less of it will be used than otherwise would have been. And, in the case of labor, those most likely to be hurt are those least able to compete — minorities, the young, and the less-skilled. Such workers are most likely to be replaced or locked out of the job market in the first place. Finally, having the government allocate resources rather than the market means that they will not go to where they would be most productively used, and that overall, productivity — the only real engine for higher living standards — will be less than it should be.

There is never a good time for bad policy; however, one would be hard pressed to find a worse time for a minimum wage increase than present because of the inflationary pressure such increases would generate on the heels of the two recent increases. Inflation is the primary perceived threat to the current economic expansion, and to the low-inflation climate that has prevailed since 1982. Dislocating the prevailing low-inflation expectations would be particularly disruptive to our economy. This, combined with the inherent danger arising from Asia's economic problems and Europe's slow growth, could have global as well as national implications.

The risk from further minimum wage increases at this time are not just to those seeking to join the workforce and those only marginally in it, but to the American economy as a whole. While the economic gains from a minimum wage hike are illusory, the danger of inflation is real.

. . . And Bad Politics

A minimum wage hike is antithetical to economics and is not primarily concerned with increasing wages — as has been pointed out [See, RPC paper, "It's Not the Minimum Wage, It's the Maximum Taxes," 2/13/98]. An honest way to increase real pay is to reduce taxes, the growth of which has outpaced wage growth in every year of Clinton's presidency. Or, reduce federal regulations — which cost the private sector hundreds of billions of dollars that would otherwise be available for investment and wages.

The exercise of increasing the minimum wage is solely political. Why, if the wage rate should be raised, should it be raised just \$1 over the next two years — why not set it at \$25 per hour? Because everyone, including proponents, know that this wouldn't work. Yet the principle behind what proponents dare not propose and what they are proposing is no different, that government can set prices more efficiently than can the private sector, and that somehow, this will result in greater prosperity.

There remains just one way to truly raise wages — to raise productivity in the economy. Raising the minimum wage fails to accomplish this.

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in the Assistant Majority Leader's Office assisted in the calculations.



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September 9, 1998

Hiking the Minimum Wage Amounts to Bad Economics and Cynical Politics (Democrats Trying Again to Change the Subject)

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

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

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

Artificially Increasing Prices, Including Wages, is Bad Economics

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Note: I have not seen the Senate minimum wage bill – does it change the 90 day teen wage \$4.25 provision? If not, then the second bullet in the Republican Policy paper is wrong.

Points:

1. This is not a minimum wage increase for welfare recipients – Lots of low wage workers would benefit (12 million?) – low wage workers are not the same as welfare recipients.

First and foremost the Policy paper equates low income families with welfare families – this could not be further from the truth –

There are 12 million low wage workers who would benefit by the increase in the minimum wage (check with DOL). Only a small portion (fewer than 5%) of such workers are recipients of TANF benefits and fewer than xx percent receive Food Stamp benefits (need TRIM output available either Friday p.m. or Monday).

Many minimum wage workers are second earners in a two parent family whose combined income from both parents help bring that family's income above subsistence levels.

2. Welfare caseloads are down dramatically and many of those who would have otherwise been receiving TANF assistance are working in low wage jobs. They would benefit from the proposed increase and quite possibly reduce the likelihood of their returning to welfare.

Welfare caseloads have experienced a dramatic decline – from 4.963 million families in January 1993 to 3.031 million families in June 1998 – a decline of 39%

In June 1998, there were just over 3 million families receiving TANF assistance and nearly one-third live in either California or New York – both considered high benefit states. Of these 3 million families about 2.4 million contained an adult recipient in the family – those without an adult in the assistance unit are commonly called 'child only' units.

Nationally, in the average month in 1997 about 13% of all AFDC recipient families reported earnings and about half of these families reported a full time worker – that is, about 6.5% of AFDC recipient families reported working full time.

Many of those who have left welfare have left with low wage jobs – for a woman with 2 children who left welfare for a full time minimum wage job who continued receiving Food Stamps the impact of a \$1 per hour increase would be a about .69 per hour increase in her net income.

3. In many states (28) a full time worker (parent and 2 children) at the current minimum wage would be ineligible for TANF benefits. In another 9 states they would be eligible for minimal benefits (i.e., less than \$1,000 per year). If the family had only two persons (parent and one child) they would be eligible for benefits in only ten states.

In about half the states (28) a mother and her two children would not be eligible for TANF assistance under the current minimum wage of \$5.15 if she was working full time. Clearly such families would be aided by an increase in the minimum wage – receiving 92 cents for every additional 1 dollar earned for those receiving food stamps or other benefits.

The ‘typical family’ receiving TANF assistance is a mother with two children also receiving Food Stamps and not working. If she was working full time at \$5.15 per hour she would not be eligible for TANF benefits if she lived any one of 28 states or the District of Columbia. This would include such states as Colorado, Florida, and Montana. In an additional 9 states this typical family would be eligible for less than \$1000 per year in TANF benefits. This includes Pennsylvania which would provide an annual benefit of \$228 or \$19 per month. (See attached chart)

In Pennsylvania, a moderate TANF benefit state a family of three with a full time minimum wage worker would be eligible for \$228 in TANF benefits per year (or \$19 per month). A one dollar increase in hourly wage from \$5.15 per hour to \$6.15 per hour would result in a .81 return for such a family with a full time worker. If this family of 3 was receiving Food Stamps the return would be offset by a benefit reduction resulting in a .21 reduction but the family would still be better off by .60 per hour. (See attached chart)

A family living in a low benefit state such as Florida would clearly be better off -- such a family would not be eligible for TANF even at the current \$5.15 per hour at full time work. A one dollar increase in hourly wage from \$5.15 to \$6.15 would be reduced only .08 for FICA and result in a .92 return for the family with a full time worker if they were not participating in any welfare programs. If the family of 3 was receiving Food Stamps the return would be offset by a benefit reduction resulting in a net .69 return to work. (See attached chart)

4. What ever happened to a dollar of earned income is better than a dollar of welfare income – now they are the same?

5. Welfare dollars are time limited – earned dollars are not. There is a 60 month time limit on TANF assistance to needy families. Many states have chosen to impose shorter time limits.

Republican Policy Committee is highly selective in drawing from a CRS analysis of the impact of the minimum wage on recipients of TANF and other income supports. The examples given in the Republican Policy Committee paper are clearly atypical and ignore the many important caveats contained in the CRS memo. For example, including housing assistance in the analysis

is very misleading -- As correctly pointed out in the CRS memo only about 20% of TANF recipients also receive a housing subsidy. In California, one state used in the Republican Policy paper, only about 15% of TANF recipients are reported to receive a housing subsidy.

It is true that means tested benefits such as TANF and Food Stamps would be reduced as earnings increase -- that is the way the programs are designed. In fact, if a family participates in multiple programs (e.g., TANF, Food Stamps, housing) the marginal tax rates (the reduction in benefits for an increase in income) can be quite high -- sometimes exceeding 100%. Still, increasing earnings -- increasing the return from work -- helps to move folks from dependence on government assistance to reliance on the labor market. As noted earlier, however, very few families participate in TANF and other programs and also work simultaneously.

Table 3A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income
for a Single Parent Family with 2 Children Living in Florida in 2000

	Proposed minimum wage \$5.15 per hour	Proposed minimum wage \$6.15 per hour	Difference	Implicit marginal tax rate on increased earnings
Earnings	\$10,712	\$12,792	\$2,080	--
EITC	3,964	3,964	0	0.0%
Cash income after federal income taxes	\$14,676	\$16,756	\$2,080	0.0%
Social security taxes (FICA and HI)	-819	-979	-159	-7.7%
Net income after taxes	\$13,857	\$15,777	\$1,921	-7.6%
TANF	0	0	0	0.0%
Net income after taxes and TANF	\$13,857	\$15,777	\$1,921	-7.6%
Food Stamps	1,944	1,452	-492	-23.7%
Net income after taxes, TANF, and food stamps	\$15,801	\$17,229	\$1,429	-31.3%
Rent (assisted housing)	-2,926	-3,550	-624	-30.0%
Net income after taxes, TANF, food stamps, and rent	\$12,875	\$13,680	\$805	-61.3%

Table 3B. Selected Effects of a 25 Cent Per Hour Wage Increase on Annual Family Income
for a Worker Earning the Proposed Minimum Wage Who is
A Single Parent Family with 2 Children Living in Florida in 2000

	Proposed minimum wage \$6.15 per hour	Proposed minimum wage \$6.40 per hour	Difference	Implicit marginal tax rate on increased earnings
Earnings	\$12,792	\$13,312	\$520	--
EITC	3,964	3,885	-79	-15.2%
Cash income after federal income taxes	\$16,756	\$17,197	\$441	-15.2%
Social security taxes (FICA and HI)	-979	-1,018	-40	-7.6%
Net income after taxes	\$15,777	\$16,179	\$401	-22.8%
TANF	0	0	0	0.0%
Net income after taxes and TANF	\$15,777	\$16,179	\$401	-22.8%
Food Stamps	1,452	1,320	-132	-25.4%
Net income after taxes, TANF, and food stamps	\$17,229	\$17,499	\$269	-48.2%
Rent (assisted housing)	-3,550	-3,706	-156	-30.0%
Net income after taxes, TANF, food stamps, and rent	\$13,680	\$13,793	\$113	-78.2%

Table 2A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income
for a Single Parent Family with 2 Children Living in Pennsylvania in 2000

	Proposed minimum wage \$5.15 per hour	Proposed minimum wage \$6.15 per hour	Difference	Implicit marginal tax rate on increased earnings
Earnings	\$10,712	\$12,792	\$2,080	--
EITC	3,964	3,964	0	0.0%
Cash income after federal income taxes	\$14,676	\$16,756	\$2,080	0.0%
Social security taxes (FICA and HI)	-819	-979	-159	-7.7%
Net income after taxes	\$13,857	\$15,777	\$1,921	-7.6%
TANF	228	0	-228	-11.0%
Net income after taxes and TANF	\$14,085	\$15,777	\$1,693	-18.6%
Food Stamps	1,884	1,452	-432	-20.8%
Net income after taxes, TANF, and food stamps	\$15,969	\$17,229	\$1,261	-39.4%
Rent (assisted housing)	-2,994	-3,550	-556	-26.7%
Net income after taxes, TANF, food stamps, and rent	\$12,975	\$13,680	\$705	-66.1%

Table 2B. Selected Effects of a 25 Cent Per Hour Wage Increase on Annual Family Income
for a Worker Earning the Proposed Minimum Wage Who is
A Single Parent Family with 2 Children Living in Pennsylvania in 2000

	Proposed minimum wage \$6.15 per hour	Proposed minimum wage \$6.40 per hour	Difference	Implicit marginal tax rate on increased earnings
Earnings	\$12,792	\$13,312	\$520	--
EITC	3,964	3,885	-79	-15.2%
Cash income after federal income taxes	\$16,756	\$17,197	\$441	-15.2%
Social security taxes (FICA and HI)	-979	-1,018	-40	-7.6%
Net income after taxes	\$15,777	\$16,179	\$401	-22.8%
TANF	0	0	0	0.0%
Net income after taxes and TANF	\$15,777	\$16,179	\$401	-22.8%
Food Stamps	1,452	1,320	-132	-25.4%
Net income after taxes, TANF, and food stamps	\$17,229	\$17,499	\$269	-48.2%
Rent (assisted housing)	-3,550	-3,706	-156	-30.0%
Net income after taxes, TANF, food stamps, and rent	\$13,680	\$13,793	\$113	-78.2%

EARNINGS, EITC, AFDC, FOOD STAMPS & DISPOSABLE INCOME**FOR A ONE-PARENT FAMILY OF THREE PERSONS, FY 2000****[Without Child Care or Work Expenses]**

States	Annual Earnings from 40 Hours Work/Week (\$5.15/Hr)	FICA (\$5.15/Hr)	EITC (\$5.15/Hr)	AFDC (\$5.15/Hr)	Food Stamps (\$5.15/Hr)	Disposable Income (\$5.15/Hr)	Disposable Income (\$5.15/Hr)	Marginal Tax & Benefit Reduction Rate	Disposable Income (\$5.40/Hr)	Marginal Tax & Benefit Reduction Rate
Alabama	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Alaska	10,712	819	3,964	5,460	1,784	21,081	21,549	77.5	21,590	92.1
Arizona	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Arkansas	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
California	10,712	819	3,964	2,772	1,116	17,745	18,429	67.1	18,530	80.6
Colorado	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Connecticut	10,712	819	3,964	5,568	276	19,701	21,345	20.9	21,746	22.9
Delaware	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
District of Columbia	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Florida	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Georgia	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Hawaii	10,712	819	3,964	2,616	4,008	20,461	20,665	81.5	20,882	96.8
Idaho	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Illinois	10,712	819	3,964	948	1,728	18,533	17,489	55.0	17,498	94.5
Indiana	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Iowa	10,712	819	3,964	816	1,704	18,377	17,229	59.0	17,498	48.3
Kansas	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Kentucky	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Louisiana	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Maine	10,712	819	3,964	2,172	1,296	17,325	17,229	104.6	17,498	48.3
Maryland	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Massachusetts	10,712	819	3,964	2,304	1,260	17,421	18,105	67.1	17,498	216.8
Michigan (Washtenaw Co.)	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Michigan (Wayne Co.)	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Minnesota	10,712	819	3,964	216	1,884	15,957	17,229	38.8	17,498	48.3
Mississippi	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Missouri	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Montana	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Nebraska	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Nevada	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
New Hampshire	10,712	819	3,964	1,236	1,572	16,665	17,373	65.9	17,498	76.0
New Jersey	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
New Mexico	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
New York (N.Y.C.)	10,712	819	3,964	1,884	1,572	17,313	17,229	104.0	17,498	48.3
New York (Suffolk Co.)	10,712	819	3,964	3,408	1,116	18,381	19,041	68.2	17,498	396.8
North Carolina	10,712	819	3,964	168	1,896	15,921	17,229	37.1	17,498	48.3
North Dakota	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Ohio	10,712	819	3,964	480	1,800	16,137	17,229	47.5	17,498	48.3
Oklahoma	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Oregon	10,712	819	3,964	696	1,944	16,497	17,229	64.8	17,498	48.3
Pennsylvania	10,712	819	3,964	228	1,884	15,969	17,229	39.4	17,498	48.3
Rhode Island	10,712	819	3,964	2,304	1,716	17,877	18,489	70.5	18,506	96.8
South Carolina	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
South Dakota	10,712	819	3,964	888	1,680	16,425	17,229	61.3	17,498	48.3
Tennessee	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Texas	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Utah	10,712	819	3,964	348	1,848	16,053	17,229	43.4	17,498	48.3
Vermont	10,712	819	3,964	1,188	1,596	16,641	17,229	71.7	17,498	48.3
Virginia	10,712	819	3,964	4,248	672	18,777	20,183	31.9	20,474	46.0
Washington	10,712	819	3,964	1,728	1,740	17,325	17,813	71.7	17,930	96.8
West Virginia	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Wisconsin	10,712	819	3,964	7,536	0	21,393	23,313	7.6	23,714	22.9
Wyoming	10,712	819	3,964	0	1,944	15,801	17,229	31.3	17,498	48.3
Guam	10,712	819	3,964	0	4,356	18,213	19,641	31.3	19,910	48.3
Puerto Rico	10,712	819	3,964	0	0	13,857	15,777	7.6	16,178	22.9
Virgin Islands	10,712	819	3,964	0	3,036	16,893	18,309	31.9	18,590	46.0
Average	10,712	819	3,964	898	1,791	16,545	17,730	43.1	17,957	56.4
Weighted Average	10,712	819	3,964	1,027	1,887	16,570	17,694	46.0	17,909	58.7

Table 1A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income
for a Single Parent Family with 1 Child Living in Pennsylvania in 2000

	Proposed minimum wage \$5.15 per hour	Proposed minimum wage \$6.15 per hour	Difference	Implicit marginal tax rate on increased earnings
Earnings	\$10,712	\$12,792	\$2,080	--
EITC	2,400	2,400	0	0.0%
Cash income after federal income taxes	\$13,112	\$15,192	\$2,080	0.0%
Social security taxes (FICA and HI)	-819	-979	-159	-7.7%
Net income after taxes	\$12,293	\$14,213	\$1,921	-7.6%
TANF	0	0	0	0.0%
Net income after taxes and TANF	\$12,293	\$14,213	\$1,921	-7.6%
Food Stamps	732	240	-492	-23.7%
Net income after taxes, TANF, and food stamps	\$13,025	\$14,453	\$1,429	-31.3%
Rent (assisted housing)	-3,070	-3,694	-624	-30.0%
Net income after taxes, TANF, food stamps, and rent	\$9,955	\$10,760	\$805	-61.3%

Table 1B. Selected Effects of a 25 Cent Per Hour Wage Increase on Annual Family Income
for a Worker Earning the Proposed Minimum Wage Who is
A Single Parent Family with 1 Child Living in Pennsylvania in 2000

	Proposed minimum wage \$6.15 per hour	Proposed minimum wage \$6.40 per hour	Difference	Implicit marginal tax rate on increased earnings
Earnings	\$12,792	\$13,312	\$520	--
EITC	2,400	2,343	-57	-11.0%
Cash income after federal income taxes	\$15,192	\$15,655	\$463	-11.0%
Social security taxes (FICA and HI)	-979	-1,018	-40	-7.6%
Net income after taxes	\$14,213	\$14,637	\$423	-18.6%
TANF	0	0	0	0.0%
Net income after taxes and TANF	\$14,213	\$14,637	\$423	-18.6%
Food Stamps	240	108	-132	-25.4%
Net income after taxes, TANF, and food stamps	\$14,453	\$14,745	\$291	-44.0%
Rent (assisted housing)	-3,694	-3,850	-156	-30.0%
Net income after taxes, TANF, food stamps, and rent	\$10,760	\$10,895	\$135	-74.0%

EARNINGS, EITC, AFDC, FOOD STAMPS & DISPOSABLE INCOME
FOR A ONE-PARENT FAMILY OF TWO PERSONS, FY 2000
[Without Child Care or Work Expense]

States	Annual Earnings from 40 Hours Work/Week (\$5.15/Hr)	FICA (\$5.15/Hr)	EITC (\$5.15/Hr)	A F D C (\$5.15/Hr)	Food Stamps (\$5.15/Hr)	Disposable Income (\$5.15/Hr)	Disposable Income (\$5.15/Hr)	Marginal Tax & Benefit Reduction Rate	Disposable Income (\$6.40/Hr)	Marginal Tax & Benefit Reduction Rate
Alabama	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Alaska	10,712	819	2,400	4,008	660	16,961	17,429	77.5	17,493	87.8
Arizona	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Arkansas	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
California	10,712	819	2,400	1,464	300	14,057	14,741	67.1	14,853	78.6
Colorado	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Connecticut	10,712	819	2,400	6,156	0	18,449	14,453	292.1	14,745	44.0
Delaware	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
District of Columbia	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Florida	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Georgia	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Hawaii	10,712	819	2,400	852	2,520	15,665	16,483	60.1	16,797	41.7
Idaho	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Illinois	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Indiana	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Iowa	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Kansas	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Kentucky	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Louisiana	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Maine	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Maryland	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Massachusetts	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Michigan (Washtenaw Co.)	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Michigan (Wayne Co.)	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Minnesota	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Mississippi	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Missouri	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Montana	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Nebraska	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Nevada	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
New Hampshire	10,712	819	2,400	408	612	13,313	14,453	45.1	14,745	44.0
New Jersey	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
New Mexico	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
New York (N.Y.C.)	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
New York (Suffolk Co.)	10,712	819	2,400	1,898	312	14,501	15,161	68.2	14,745	180.1
North Carolina	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
North Dakota	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Ohio	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Oklahoma	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Oregon	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Pennsylvania	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Rhode Island	10,712	819	2,400	1,044	732	14,069	14,453	81.5	14,745	44.0
South Carolina	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
South Dakota	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Tennessee	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Texas	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Utah	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Vermont	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Virginia	10,712	819	2,400	3,528	0	15,821	14,453	165.7	14,745	44.0
Washington	10,712	819	2,400	456	732	13,481	14,453	53.2	14,745	44.0
West Virginia	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Wisconsin	10,712	819	2,400	5,280	0	17,573	19,493	7.6	19,917	18.6
Wyoming	10,712	819	2,400	0	732	13,025	14,453	31.3	14,745	44.0
Guam	10,712	819	2,400	0	2,580	14,673	16,289	31.9	16,593	41.7
Puerto Rico	10,712	819	2,400	0	0	12,293	14,213	7.6	14,837	18.6
Virgin Islands	10,712	819	2,400	0	1,478	13,769	15,197	31.3	15,489	44.0
Average	10,712	819	2,400	455	712	13,459	14,858	42.4	14,942	45.0
Weighted Average	10,712	819	2,400	471	646	13,409	14,608	42.4	14,879	47.8

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION



FAX: (202) 690-6562

Date _____

From Don OellerichTo Ross Eisenbrey

Division: _____

Agency: _____

Phone Number: 690-6805Phone Number: 219-6141

Fax Number: _____

Fax Number: 219-5736Number of Pages + Cover 11

REMARKS

Call if you have questionsDon
690 6805

43533

**Illustrations Supporting Mr. Shaw's Statement on the Wellstone Amendment
September 15, 1998**

Income from Work

For 40 hours of work at \$6 per hour for a mother with 2 children:
 (40 hours per week) x (52 weeks) x (\$6 per hour) = \$12,480 earned income

+ \$12,480 earned income
 + \$ 1,330 food stamps
 + \$ 3,600 earned income credit
 - \$ 950 social security taxes
 \$16,460 net income after taxes and benefits

State Work Requirements (average state in 1999)

- | | |
|---|-------------|
| ▶ Percentage work requirement | 35 percent |
| ▶ Caseload reduction adjustment factor | 33 percent |
| ▶ Percentage work requirement after caseload reduction factor | 2 percent |
| ▶ Allowable education percentage
(i.e. percentage of work requirement that may be satisfied through education) | 30 percent |
| ▶ Total net work requirement | 1.4 percent |

Extra Federal and State Funds Per Family on Welfare

- | | <u>1995</u> | <u>1999</u> |
|---|----------------|----------------|
| ▶ Combined Federal and State AFDC/TANF, child care, and associated grants | \$32.4 billion | \$30.9 billion |
| ▶ Number of AFDC/TANF families | 4.9 million | 3.3 million |
| ▶ Average available funds per family | \$6,650 | \$9,480 |
| ▶ Increase in funds available per family | -- | + \$2,830 |

September 10, 1998

Rick and Ed:

Attached is Jim's and my best effort to pull together some minimum wage Qs and As that may be needed tomorrow. If you think they're ok, we can send them on to OCIA. However, you should know both Jim and I are out tomorrow. If you have questions or comments after 4:30 today, please call Lynn.

Also attached is our "cheat sheet" that we used to collect all the data on the minimum wage that have been floating around the few days.

A handwritten signature in cursive script, appearing to read "Barbara".

cc: Lynn, Seth and Carl ✓

Since August 1996 (as of 9/8/98):

economy has created more than 6 million jobs **(Parks)**

250,000 jobs created a month (**calculated: 6 million / 24 months = 250,000**)

inflation dropped from 2.9 percent to 1.7 percent -- nearly in half (**CPI-U for 8/96 and 7/98**)

unemployment rate fell to 4.5 percent -- has been below 5 percent for more than 13 months; unemployment rates this low have not been seen for almost 3 decades **(Parks)**
[lowest level in 28 years **(Carl)**]

for teen, blacks and women, unemployment is trending down and employment rates trending up **(Parks)**

Since October 1996:

almost 330,000 more teens employed **(Parks)**

employment up nearly 90,000 for black teens **(Parks)**

Teen employment is growing faster than total employment **(Carl)**

Teen unemployment dropped from 16.6 percent to 13.8 percent. **(Carl)**

Black teen employment increased from 25.9 percent to 29.7 percent. **(Carl)**

Black teen unemployment dropped from 35.1 percent to 28.6 percent. **(Carl)**

Over 800,000 new retail jobs have been added **(Carl)**

225,000 eating and drinking jobs have been added **(Carl)**

2.7 million new service industry jobs have been added **(Carl)**

Misc:

50 weeks X 40 hrs. X \$5.15 = \$10,300

52 weeks X 40 hrs. X \$5.15 = \$10,712

A2. IS THIS A GOOD TIME FOR A RAISE IN THE MINIMUM WAGE? (5/4/98)

Question:

Congress raised the minimum wage by 50 cents in 1996 and by 40 cents on September 1, 1997. Is this a good time to be raising the minimum wage again?

Answer:

In 1996, President Clinton signed into law a minimum wage hike, raising it from \$4.25 to \$5.15 an hour. But there are still millions of workers trying to raise a family and struggling to make ends meet. With our economy the strongest in a generation, now is the time to help these workers make ends meet by raising the minimum wage again.

A 4. UNPRECEDENTED INCREASE IN MINIMUM WAGE (5/4/98)

Question:

Isn't this proposal just a political ploy?

Answer:

No. Opponents of the minimum wage raised the same question two years ago. And the American people understood that the minimum wage is a floor under the wages of our poorest workers and their families. That floor has to be raised, particularly as we move families from welfare to work. People need hope that there is a way out of poverty by working hard.

A5. UNPRECEDENTED INCREASE (5/4/98)

Question:

Isn't it unprecedented to raise the minimum wage so soon after another increase?

Answer:

Questions of timing should not determine whether the lowest paid workers in our society receive a well-deserved raise. If there is a need for an increase, and economic and labor market conditions can support giving an increase (like today), then it is an appropriate time to raise the minimum wage. In addition, it has not been uncommon for Congress to legislate multi-year increases to restore the minimum wage to its proper level. For example, Congress legislated increases three years in a row in 1974-1976 and four years in a row in 1978-1981.

NOTE: The April 8, 1974 amendments resulted in three generally applicable increases in May 1974, January 1975, and January 1976. This was followed by the 1977 amendments which were enacted on November 1st with first increase effective January 1978. Thus there were two years between the two increases -- the shortest span to date between two increases mandated by two different legislated amendments.

A6. IMPACT ON EMPLOYMENT AND INFLATION (9/9/98)

Question:

What was the impact of the recent increase in the minimum wage on inflation and employment?

Answer:

The most important impact of the last minimum wage increase was that 10 million workers got a pay raise. In addition, evidence points to almost no impact on employment or inflation:

- Unemployment levels are the lowest in almost 3 decades;
- Unemployment remains at 4.5 % and has been below 5% for more than 13 months;
- Inflation is at its lowest point in three decades.

Employment impact since August 1996 when the legislation was signed:

- The economy has created jobs at an historically high pace of 250,000 a month;
- Over 6 million new jobs have been created;
- For teens, African Americans and women, unemployment is trending down and employment rates are trending up. Since October 1996:
 - Almost 330,000 more teens now have jobs;
 - Employment is up nearly 90,000 for African Americans.

Inflation impact since August 1996:

- The inflation rate has declined from 2.9 percent to 1.7 percent.

C1. WHO BENEFITS FROM A MINIMUM WAGE INCREASE (9/3/98)

Question:

Who will benefit from a minimum wage increase?

Answer:

A higher minimum wage will help 12 million Americans -- mostly adult workers trying to support their families. According to data from the Bureau of Labor Statistics, 12 million hourly paid workers earn between \$5.15 and \$6.14 an hour and would directly benefit from this raise. Seventy percent of the workers who would benefit are adults, age 20 or over, and 60% are women, many of whom are trying to raise their family on \$5.15 an hour.

A higher minimum wage will help ensure parents can raise their children out of poverty. 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 1996-97 minimum wage increases and the expanded EITC, parents who work full-time do not have to bring up their children in poverty. This new increase will help ensure that -- as costs continue to increase -- parents who work hard and play by the rules can raise their children out of poverty.

C2. NUMBER OF MINIMUM WAGE WORKERS (9/3/98)

Question:

How many workers in the U.S. are paid the minimum wage?

Answer:

- 1.6 million workers paid by the hour had hourly wages of \$5.15 (the minimum wage) in the second quarter of 1998.
- 1.4 million workers were reported by BLS as being paid \$5.00 an hour in the second quarter of 1998. It is believed that some of these workers may actually have higher hourly wages -- BLS finds some degree of "rounding" errors in the household survey, particularly following an increase in the minimum wage (such as the September 1, 1997 increase).
- An additional three million workers paid by the hour had earnings below \$5.00 an hour in the second quarter of 1998. (Some workers paid below the minimum wage are being paid the sub-minimum wage during their first 90 days of employment; some are working in jobs that are not subject to the federal minimum wage; and some are being paid illegally.)

(NOTE: There were **1.7** million hourly paid workers receiving less than \$4.25 an hour in 1995.)

C4. NUMBER OF WOMEN AND MINORITIES WHO WOULD BENEFIT (9/9/98)

Question:

How will raising the minimum wage help women and minorities?

Answer:

- Women will be helped by an increase in the minimum wage. Based on 2nd quarter 1998 data from BLS:
 - Most minimum wage workers are **women**: over 1 million women are paid \$5.15 per hour and an additional 5.9 million are paid wages between \$5.16 and \$6.14, compared with 0.6 and 4.2 million men, respectively;
 - 60 percent of all who would benefit from the increase are women;
 - 20 percent of all hourly paid women would benefit from the increase;
 - 73 percent of female low wage workers are adults -- 5.1 million women aged 20 years or older are paid \$5.15 - \$6.14 per hour.

Raising the minimum wage would provide a modest pay raise to the poorest working women, many of whom are raising children.

- Minorities would also benefit greatly from an increase in the minimum wage. Based on 2nd quarter 1998 data from BLS:
 - Over 15 percent of those who would benefit from an increase are **African American** and over 18 percent are **Hispanic**; together they number almost 4 million workers;
 - 24 percent of all Hispanic workers are low-wage workers making \$5.15 to \$6.14 an hour; for African American workers, the percentage who are low-wage workers is 19.

C5. IMPACT ON YOUTH EMPLOYMENT (9/8/98)

Question:

According to recent reports by the Employment Policies Institute and the Heritage Foundation, the minimum wage increase of 50 cents on October 1, 1996 cost 128,000 teen jobs. Won't further increases cost even more teen jobs?

Answer:

This report is wrong. The decline in teenage employment rates occurred prior to the raise in the minimum wage.

Here are the facts:

- The decline in employment rates for teens occurred between October 1995 and August 1996, prior to the first increase in the minimum wage.
- Contrary to the dire predictions made before the minimum wage was raised, teenage employment has skyrocketed since the minimum wage was first raised in October 1996. Almost 330,000 more teens have jobs now than in October 1996.
- In fact, teenage unemployment has fallen significantly since the minimum wage was first raised in October 1996 -- from 16.6 percent to 13.8 percent.

E. 6a IMPACT ON AFRICAN-AMERICAN TEENAGERS (9/8/98)

Question:

Won't another increase worsen the employment picture for African-American teenagers?

Answer:

Unemployment for African-American teenagers is too high, but it has fallen since the first minimum wage increase went into effect in October 1996 -- from 35.1 percent to 28.6 percent. The employment of black teens rose from 25.9 percent to 29.7 over the same period. Almost 90,000 more African-American teens are employed today than in October 1996.

The employment problems faced by young African-Americans in our economy are complicated, but they are certainly not caused by the minimum wage. Keeping wages low will not solve these problems. The solution will come from a growing economy, enhanced education and training opportunities, and full enforcement of civil rights laws.

E8a. JOB LOSS (9/9/98)

Question:

Why raise the minimum wage when this only hurts young people looking for jobs (especially African American teenagers)?

Answer:

Opponents of the minimum wage are wrong that it hurts teenagers or minority teenagers. Since the first of the two minimum wage increases went into effect last time in October of 1996:

Teenage unemployment has dropped from 16.6 percent to 13.8 percent.

Among African-American teenagers, the numbers are still very disappointing. But their unemployment has dropped from 35.1 percent to 28.6 percent.

Overall, since August 1996, teenage unemployment is trending down and employment is trending up.

It is not the minimum wage that is hurting opportunities for our young people.

E8b. JOB LOSS (9/9/98)

Question:

Why raise the minimum wage when this only hurts businesses (especially retail, restaurants and service businesses)?

Answer:

The opponents of the minimum wage are wrong that it hurts businesses. And we proved they were wrong the last time. The first of the two increases in the minimum wage last time was in October of 1996. Since then:

Unemployment level is at a 28 year low (4.5 percent).

2.7 million new service jobs have been added.

800,000 new retail jobs have been added.

225,000 restaurant ("eating and drinking") jobs have been added.

In fact, since August 1996, over 6 million new jobs have been created.

F1a. MINIMUM WAGE AND WELFARE-TO-WORK (9/3/98)

Question:

Many States that are putting welfare recipients to work find that they can barely afford to pay the current minimum wage. If we raise the minimum wage any higher, won't we undermine the states' welfare-to-work efforts? Won't private-sector employers be more reluctant to hire welfare recipients?

Answer:

As people move from welfare to work, one of the most important lessons they can learn is that work pays. Raising the minimum wage signals that the nation rewards people who try their best to work hard and play by the rules. Welfare recipients should not be excepted from that ideal.

J1. HOW MANY WORKERS BENEFITED FROM THE LAST INCREASES (6/2/98)

Question:

How many workers received pay increases as result of the minimum wage increases in the 1996 Amendments to the FLSA?

Answer:

- In all, about 9.9 million workers received a pay increase (as measured from before the October 1996 increase).
- Approximately 6.4 million received a pay increase on September 1, 1997.

COALITION FOR JOB OPPORTUNITIES

OPPOSE THE KENNEDY AMENDMENT

VOTE NO ON A 20 PERCENT HIKE IN THE STARTING WAGE

- *It is too soon to enact another increase in the starting wage*

The last Congress enacted a 22 percent increase in the entry-level wage which was fully phased-in only a year ago. Employers -- particularly in labor-intensive industries -- should have a reasonable amount of time to adjust to the last hike.

- *Hiking the starting wage by over 44 percent over four years is too much*

The last increase when combined with the proposed increase would increase the entry-level wage by over 44 percent over four years -- in an economy with an annual inflation rate of approximately 1.7 percent. In fact, the minimum wage has outpaced the general inflation rate over the last ten years.

- *Despite a booming economy, the last starting wage increase slowed job growth*

The economy grew at a substantially faster pace in 1996-97 than in 1994-95. However, job growth slowed dramatically in 1996-97 among labor-intensive industries which were impacted the greatest by the recent increase in the starting wage.

	1994-95 JOBS CREATED	1996-97 JOBS CREATED	% DECLINE IN NUMBER OF NEW JOBS
Eating & Drinking Places	532,800	281,600	- 47%
Child Day Care Services	89,200	6,900	- 92%
Sanitary Services	18,200	8,100	- 56%
Grocery Stores	103,800	85,800	- 17%

Source: Bureau of Labor Statistics

- *Hikes in the starting wage benefit more young people than poor families*

According to the U.S. Census Bureau, 54 percent of minimum wage earners either live with their parents or are single and live alone. Only 13 percent are either single parents or in married, single-earner families.

Memo to Susan Green

From Jared Bernstein

RE: Response to anti-minimum wage memo

Date: September 2, 1998

- 1) The first bullet point is just rhetorical, and anyway, it's 21, not 22%.
- 2) They get 44% by adding the proposed dollar to the current minimum and comparing it to the level prior to the last increase, i.e., 4.25 and 6.15. From any perspective, particularly employers in the labor market, this is a totally irrelevant comparison. In real terms, using CBO inflation projections, the proposal will lift the minimum to \$5.74 in the year 2000 (in 1997 dollars). This leaves the inflation-adjusted minimum 9% *below* its peak level in 1979.
- 3) This is their most potentially damaging attack, but not to worry. First, this is the wrong metric by which to measure the employment impact of the min wg. Virtually every economist who looks at this uses employment rates of low-wage workers. Remember, to make their case, the opposition has to show that the increase hurt the very persons targeted by the policy: low-wage workers. These industries have low, high, and mid-wage workers—you can't tell from these numbers who is affected. The accepted way of doing this research (and here you can cite economists on record as opposing the policy) is to look at employment rates (epops) of low-wage workers.

The enclosed graphs looks at the quarterly epops of teenagers and other young workers (20-24 year olds). There is no evidence of the 96-97 increase lowering the employment rates of young workers—au contraire. Thus, low-wage workers may be getting jobs in different industries than those chosen by this "coalition," implying they "cherry-picked."

I would counter this table by showing that low-wage workers are clearly finding jobs—even more so now (as shown in the graphs) than before the increase. Also, their earnings are up—as we show in Table A in the introduction to our book. These industries are clearly not representative of low-wage workers experience in this labor market. Everyone knows the labor market is tighter than it's been in decades, and most know (we should tell them if they don't) that the beneficiaries of this tightening include low-wage workers. Showing slower job growth in a few industries does not contradict the fact that unemployment is down, epops are up, and wages are rising more quickly for low-wage workers—in part, thanks to the increase in the minimum—than they have in decades.

- 4) Use some of the demographic numbers from our report.

Economic Policy Institute

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HOLD FOR RELEASE

Until Friday, July 17, 1998
A.M. newspapers

Contact: Nan Gibson 202-331-5546
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REAL WAGES OF TYPICAL WORKER GREW 2.6 PERCENT PER YEAR SINCE '96 *Wages still lag behind '89 peak; low unemployment, minimum-wage hike fuel growth*

Washington, D.C. - The economic recovery finally is starting to translate into larger paychecks for middle- and low-wage workers. Although unemployment has been falling for six years, it is only in the last 18 months that real wages have risen for most workers. The wage gap has begun to narrow, primarily fueled by recent growth at the bottom of the wage scale due to tight labor markets and two recent increases in the minimum wage. The wages of typical workers, however, still have not been restored to their 1989 level.

In *Finally, Real Wage Gains*, EPI economists Lawrence Mishel, Jared Bernstein and John Schmitt find that from 1996 through the first half of 1998,

- Real wages grew 2.6 percent per year for the typical (50th percentile) worker, reversing declines of 0.8 percent per year from 1989 to 1996;
- Real wages grew 4.1 percent per year for low-wage (20th percentile) male workers and 2 percent per year for the median male worker, indicating a narrowing of the wage gap between middle- and low-wage men. In contrast, male wages at the 20th and 50th percentile fell about 1 percent per year from 1989 to 1996;
- Wages grew at annual rates of 2.7 percent and 2.6 percent respectively for low- and middle-wage female workers, reversing a decline of 0.2 percent annually from 1989 to 1996; and
- Wages for high-wage male and female workers grew relatively quickly, but in both cases wage growth at the 90th percentile was slower than at the 20th.

The primary factors responsible for the recent growth spurt of wages include falling unemployment, the increase in the real value of the minimum wage, and unexpected deceleration of inflation. Despite this good news, recent increases in wages have not been sufficient to restore the median worker's wages to their inflation-adjusted value in 1989.

- more -

Page 2

"Low unemployment and the increased minimum wage helped to reconnect the growing economy to the wage levels of the typical worker over the last year and a half," said Bernstein. "Only by keeping unemployment low can working families hope to regain lost ground."

The data contained in *Finally, Real Wage Gains* are taken from Mishel, Bernstein and Schmitt's forthcoming book, *The State of Working America 1998-99* (Cornell University Press, 1999), to be released to the press on Labor Day 1998.

The **Economic Policy Institute** is a nonprofit, non-partisan economic think tank based in Washington, D.C. Founded in 1986, EPI seeks to widen the debate about policies to achieve healthy economic growth, prosperity and opportunity in the United States.

To order copies of *Finally, Real Wage Gains*, or for more information about *The State of Working America 1998-99*, contact EPI at 1-800-EPI-4844. The report also will be available on-line at EPI's web site: www.epinet.org.

- 30 -

EPI Issue Brief

Issue Brief #127

Economic Policy Institute

July 17, 1998

Finally, real wage gains

Lower unemployment, higher minimum wage spur recent wage growth

by Lawrence Mishel, Jared Bernstein, and John Schmitt

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

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

The good news of 1996-98

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

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

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

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Wage growth in the 1990s

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

* Annualized percent changes.

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

*** Percentage-point changes.

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

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

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

The role of low unemployment

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

The role of a higher minimum wage

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

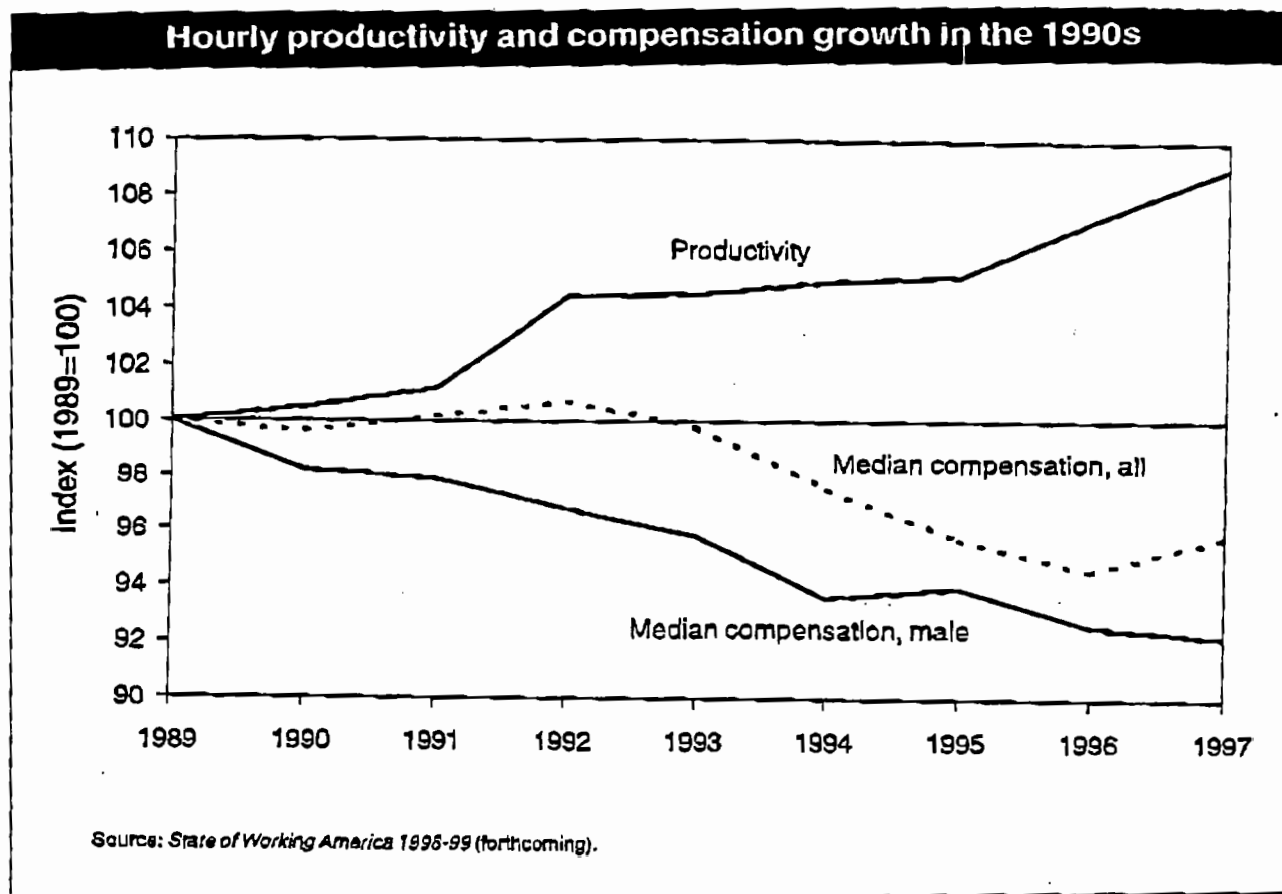
The role of lower inflation

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

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

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

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



The bigger picture of the 1989-98 business cycle

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

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

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

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

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

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

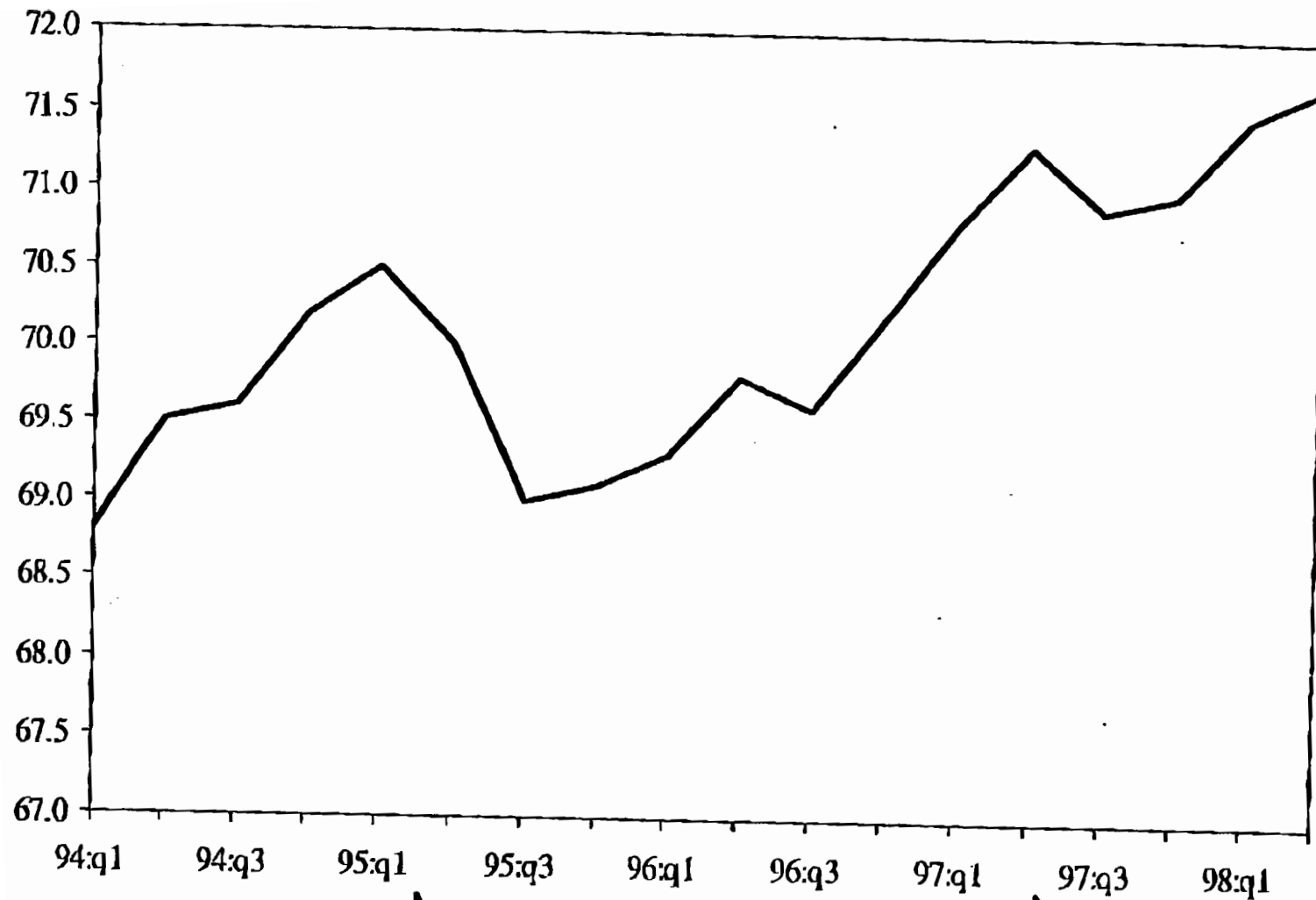
Conclusion

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

Danielle Gao provided research assistance for this paper.

EPI wishes to thank the Charles Stewart Mott Foundation and The John D. and Catherine T. MacArthur Foundation for their support of this publication.

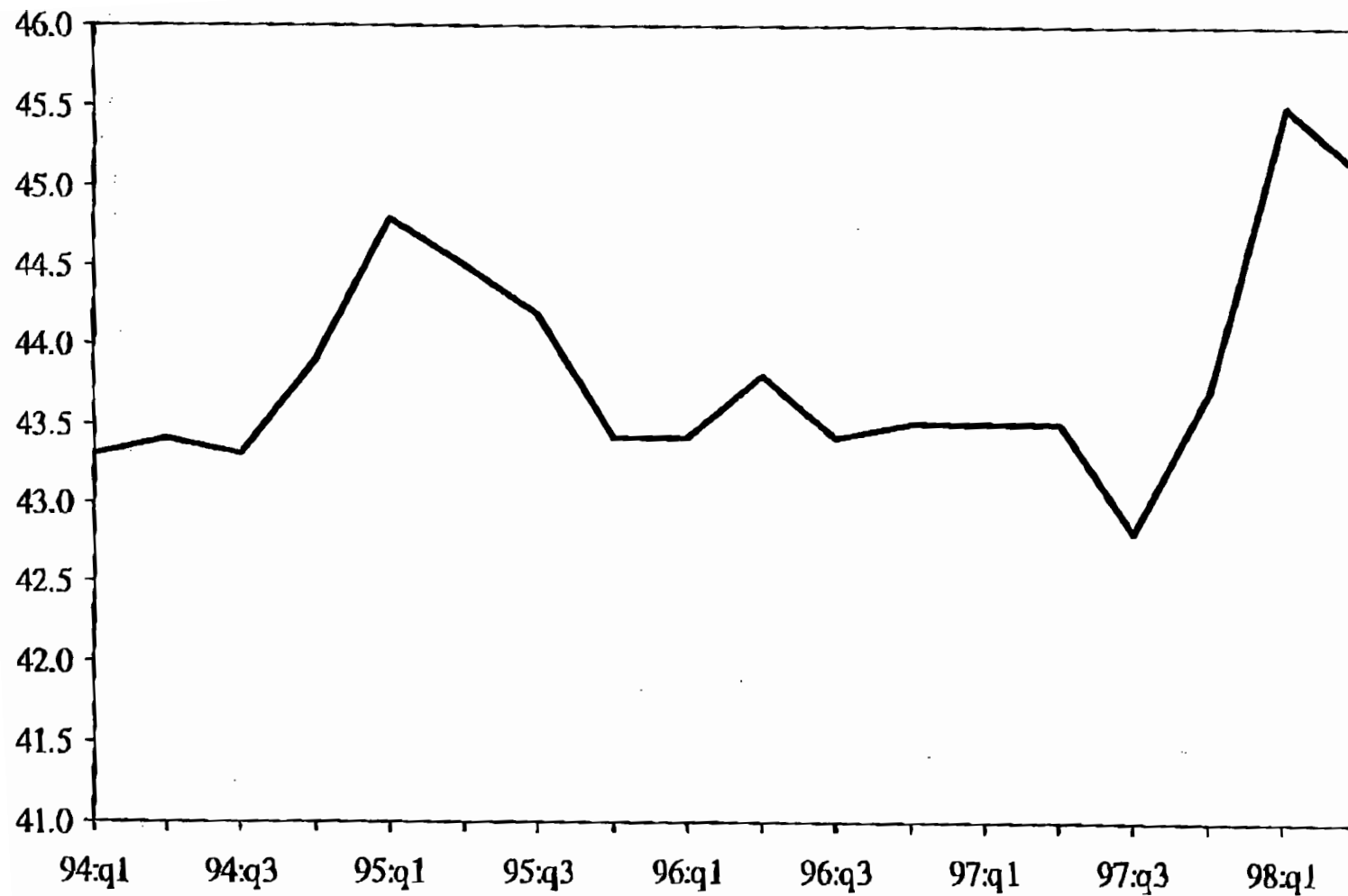
Employment-Population Ratio, 20-24 Yrs. 1994Q1-98Q2



Source: BLS

Note: Rates are seasonally adjusted

Teenage Employment-Population Ratio, 1994Q1-98Q2



Source: BLS

Note: Rates are seasonally adjusted

Representing, Educating and Promoting the Restaurant/Hospitality Industry

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



KEY VOTE

MINIMUM WAGE INCREASE PROPOSAL

September 2, 1998

The Honorable Edward Kennedy
United States Senate
Washington, D.C. 20510

Dear Senator Kennedy:

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The starting wage increase proposed by Senator Kennedy is a dramatic increase in the entry-level wage rate just a year after the recent 22 percent hike was completed. We have attached two graphs that show the magnitude of the proposed increase when compared to the general inflation rate. The first graph shows that if the Kennedy proposal were enacted, the starting wage would be increased by **45 percent** over four years. This dramatically outpaces inflation, which is expected to increase by only 10 percent over the same time period. Furthermore, the second graph underscores the fact that the minimum wage has outpaced general inflation over the past ten years.

We believe Congress should refrain from imposing an additional 20 percent hike in the entry-level wage. Small employers and labor-intensive businesses are most impacted by mandated entry-level wage increases, and they deserve an appropriate amount of time to adjust to the recent increases.

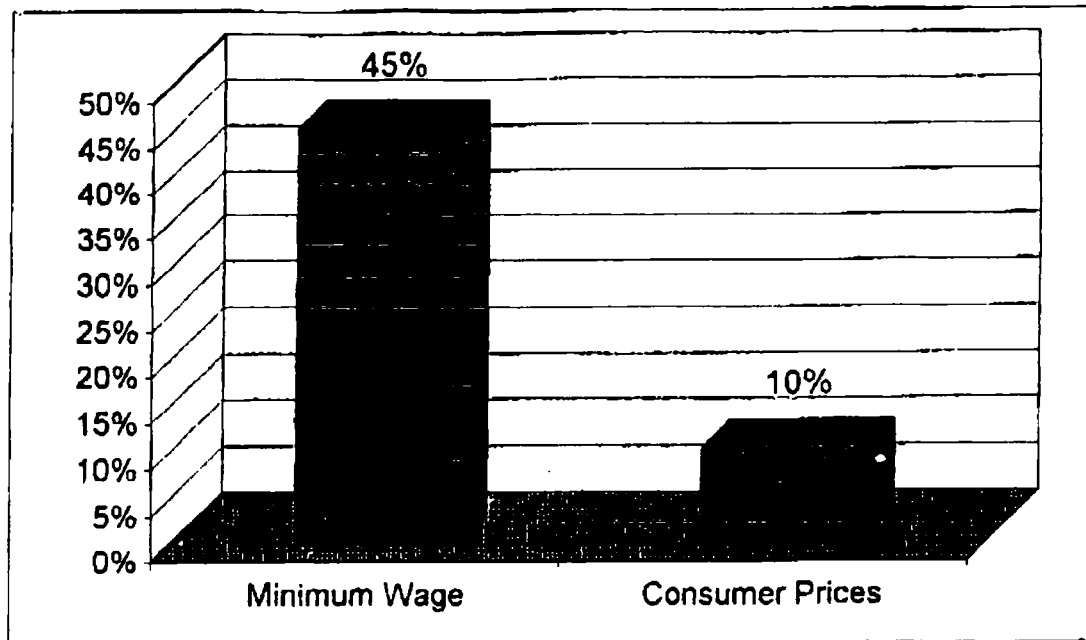
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Elaine Z. Graham
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Government Affairs and Membership

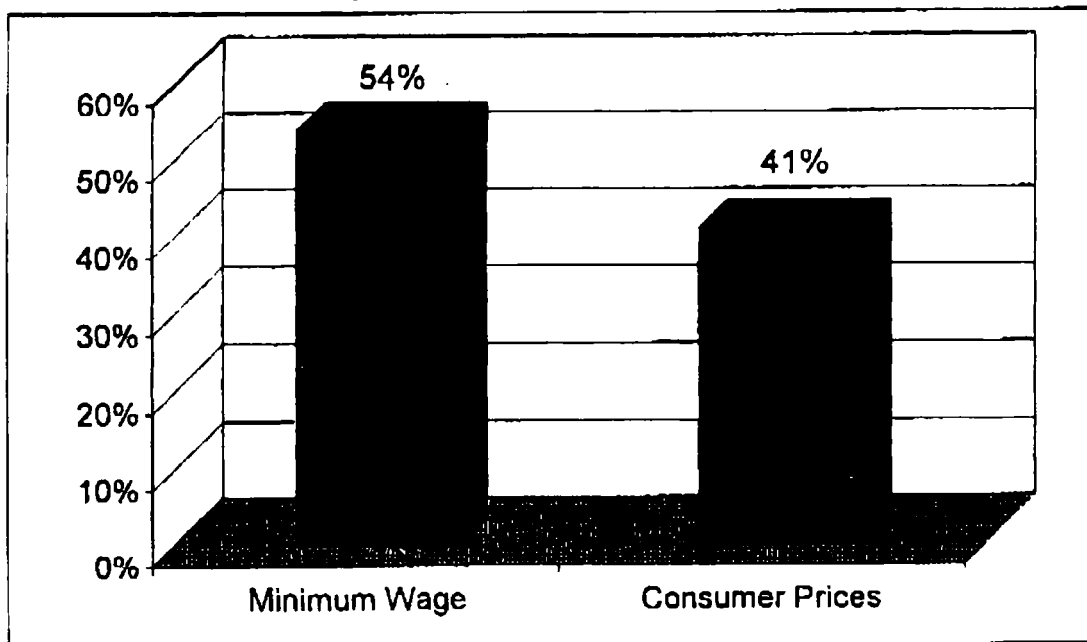
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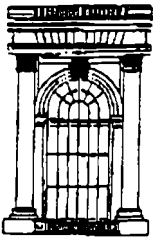


Sources: Bureau of Labor Statistics, National Restaurant Association, Blue Chip Economic Indicators

Growth in Federal Minimum Wage Outpaced Inflation over last 10 Years
Minimum Wage and Consumer Price Index Growth: 1987 to 1997



Sources: Bureau of Labor Statistics, National Restaurant Association



UNITED STATES SENATE
**REPUBLICAN
POLICY COMMITTEE**

Larry E. Craig, Chairman
Jade West, Staff Director
347 Russell Senate Office Building
Washington, DC 20510
(202) 224-2946
<http://www.senate.gov/~rpc/>

September 9, 1998

Hiking the Minimum Wage Amounts to Bad Economics and Cynical Politics

(Democrats Trying Again to Change the Subject)

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

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

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

Artificially Increasing Prices, Including Wages, is Bad Economics

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**KEY VOTE****MINIMUM WAGE INCREASE PROPOSAL**

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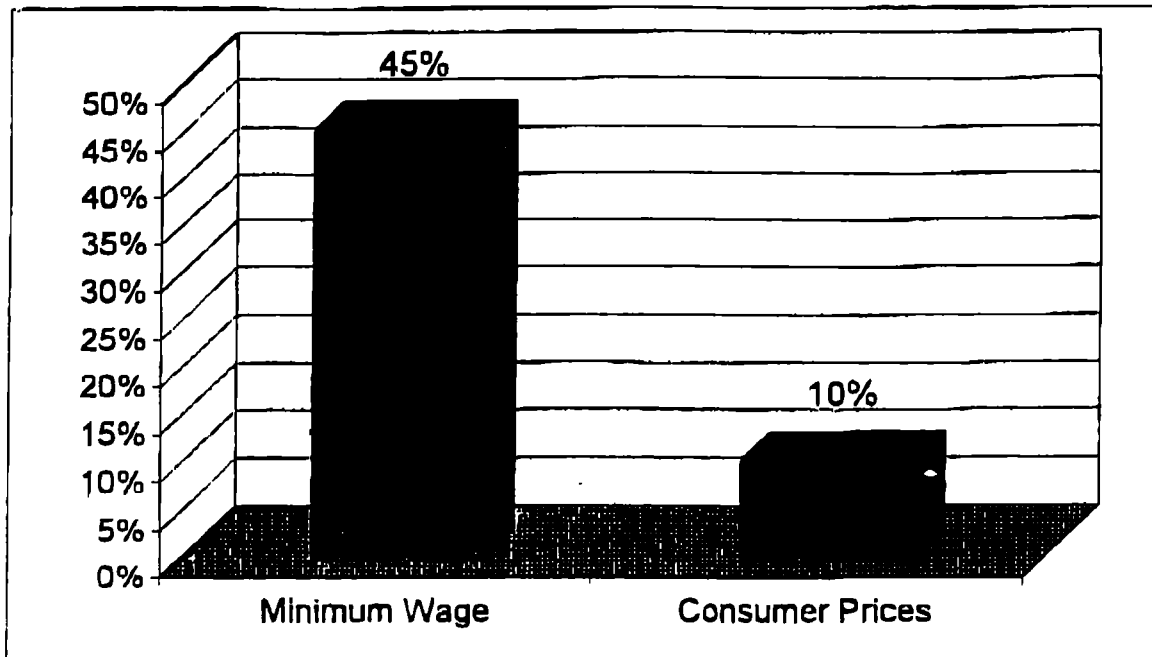
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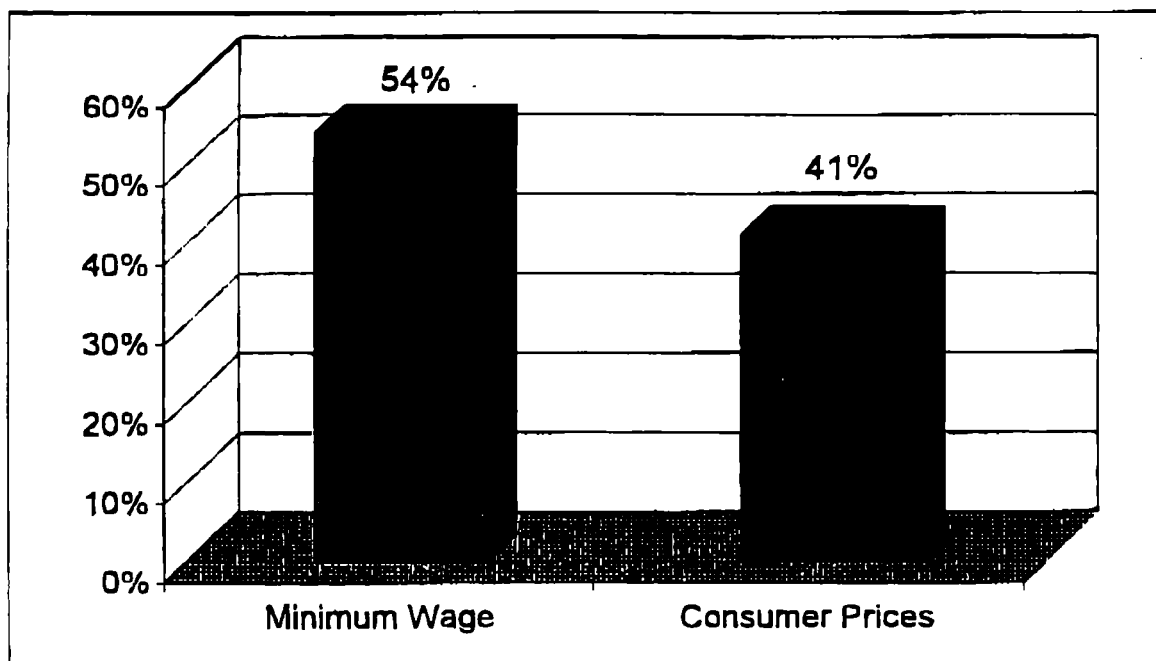
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LEVY INSTITUTE

Policy Notes

1998/3

Susan Green

Small Business and the Minimum Wage

Oren M. Levin-Waldman and George W. McCarthy

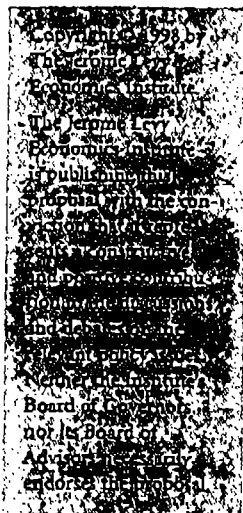
Do small businesses change their hiring and employment practices in response to an increase in the minimum wage? The Levy Institute conducts a national survey of small firms in many industries to find out.

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

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

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

Oren M. Levin-Waldman and George W. McCarthy are both resident scholars at The Jerome Levy Economics Institute.



minimum wage resulted in a 1 percent reduction in employment (a wage elasticity of 0.1). In the work that follows, we suggest that in a range of wages around the current minimum wage this estimate of wage elasticity is too high. In other words, small business employers are extremely insensitive to changes in the minimum wage.

Most empirical research on the minimum wage focuses on a specific group of employees (teenage workers) or a specific industry (the fast-food industry). In this policy note, we present some early findings from more comprehensive data obtained through a survey of small businesses conducted at the Levy Institute. The data provide useful information on the hiring and employment practices of small businesses. Our analysis suggests that a large majority of small businesses were not affected by the recent minimum wage hike. Further, there is strong evidence that were the minimum wage to be increased from its current \$5.15 per hour to \$6.00 per hour, the hiring practices of most small businesses still would not be affected. These findings add to the considerable body of empirical research on the minimum wage that contradicts the theoretical presuppositions that have driven minimum wage policy thus far.

The Survey

The purpose of the survey was to obtain information about the hiring practices of small businesses as they relate to questions concerning the recent reform of the welfare system and increases in the minimum wage.¹ Over the course of three weeks during the winter of 1998, a nationally representative, stratified random sample of 568 small businesses (businesses with no more than 1,000 employees) across industry types were contacted by telephone and asked a series of questions. Three basic questions were related to minimum wage issues: (1) Would an increase in the minimum wage alter your decision to hire former welfare recipients? (2) Did the recent increase in the minimum wage affect your hiring or employment decisions? (3) If the minimum wage were raised to \$6.00 per hour, would it affect your overall hiring or employment decisions? Table 1 shows the responses to the three questions.

Table 1 Responses to Basic Survey Questions about the Minimum Wage (Percentages)

Question	Yes	No	Don't Know
1. Would an increase in the minimum wage alter your decision to hire former welfare recipients?	9.9	84.8	5.3
2. Did the recent increase in the minimum wage affect your hiring or employment decisions?	6.2	89.4	4.4
3. If the minimum wage were raised to \$6.00 per hour, would it affect your overall hiring or employment decisions?	20.7	75.6	3.7

Few businesses (9.9 percent) felt that changing the minimum wage would affect their willingness to hire former welfare recipients. This is good news for those looking to the small business sector to absorb former welfare recipients and suggests that small businesses may not align against proponents of a so-called living wage for former welfare recipients.

An even smaller proportion of small businesses (6.2 percent) felt that the recent hike in the minimum wage had affected their overall hiring and employment practices. Although the percentage of businesses that expected that their decisions would be affected by an

increase to a \$6.00 minimum is quite a bit larger (20.7 percent), as we will see, few of them thought they would reduce employment. Common economic wisdom suggests that increases in the minimum wage will force employers to lay workers off. However, there is a fundamental difference between laying off current employees and hiring fewer additional workers. If the latter effect dominates, job creation might be hindered, but jobs will not necessarily decrease (see Brown, Hamilton, and Medoff 1990).

We asked employers who said they were affected by the recent hike in the minimum wage to specify the effects. Most of these firms hired fewer additional workers. Of the 6.2 percent of employers who said their decisions were affected by the recent increase, 17.1 percent indicated that they hired fewer workers and 5.7 percent indicated that they laid workers off. The fact that about one-third of 1 percent of small businesses reduced their employment suggests that small businesses' demand for labor is extremely inelastic, at least at a wage around \$5.15 per hour. Similarly, of the 20.7 percent of employers who said that they would be affected by an increase in the minimum wage to \$6.00 per hour, 29.3 percent said they would hire fewer workers and 11.2 percent said they would lay workers off. The remainder thought that they would reduce benefits, show smaller profits, or pay the higher wage. In other words, fewer than 3 percent of small businesses would reduce employment if the minimum rose to \$6.00 per hour, which again suggests that small businesses have an inelastic demand for labor in this wage range.

To illustrate the degree of inelasticity, consider the 0.1 elasticity of labor demand estimated in the commission study cited above. For this wage elasticity to hold, the affected businesses would have to lay off about two-thirds of their minimum-wage employees following an increase in the minimum wage to \$6.00 per hour. There is no evidence in our survey or other studies that small businesses have done so following past minimum wage increases. Such high figures appear so implausible that they call into question the credibility of such elasticity estimates, at least as they apply to small businesses.

The wage elasticity of demand for labor can increase with the wage, so that even if recent minimum wage increases did not have the expected textbook disemployment effects, a larger increase could induce such effects. Is there a point at which the minimum wage begins to "bite" into employment? This is an extremely important policy question because it allows one to weigh the employment costs of different minimum wage increases against the benefits of raising the wage. We begin to address this question by looking more carefully at the types of small businesses most affected by the recent minimum wage increase and our hypothetical increase.

The industries most affected by minimum wage increases are unsurprising (see Table 2). For example, the retail sales and trade and the food service industries have the highest proportion of firms whose hiring and employment practices were affected by the recent increase (question 2). In response to our hypothetical increase from \$5.15 to \$6.00 per hour (question 3), the retail sales and trade, services, and food service industries dominate the statistics, with the proportion of firms that would be affected more than doubling in these industries. This suggests that in these industries disemployment effects might become evident with another increase in the minimum wage.

The low percentages of affected firms in the blue-collar and public sector industries might be explained by the fact that those firms pay an entry-level wage above the minimum. Respondents were polled on their typical entry wage. As shown in Table 3, 87.1 percent of those firms with an entry-level wage at or near the minimum (between \$5.15 and \$6.00 per hour) were not affected in their hiring or

Table 2 Businesses Affected by Minimum Wage Increases by Industry (Percentages)

Industry ^a	Question 1	Question 2	Question 3
Blue-collar service ^b	9.3	3.4	17.8
Blue-collar manufacturing ^c	8.0	2.0	16.0
Retail sales and trade	8.3	10.4	33.3
Professional specialty	9.3	2.0	9.9
Services (other than blue-collar service and food service)	20.0	8.9	28.9
Food service	15.7	21.6	47.1
Public sector	5.3	2.6	5.3

^aThe results are tabulated with no overlap of industry categories.

^bBlue-collar service includes such businesses as automotive repair, craft, repair, and storage.

^cBlue-collar manufacturing includes manufacturing, construction, etc.

employment practices by the last increase in the minimum wage (question 2). More than half of these small businesses thought they would still not be affected by an increase to \$6.00 per hour (question 3), although the proportion of those that would be affected more than triples from 10.0 percent to 37.6 percent.

Table 3 Businesses Paying Entry-Level Wage at or near Minimum Wage (Percentages)

	Question 1	Question 2	Question 3
Affected	11.4	10.0	37.6
Not affected	84.3	87.1	59.5

Of the sample, 37.1 percent paid minimum entry wages. Of those that were affected by increasing the minimum wage to \$5.15 per hour (question 2), 60 percent paid a minimum entry wage. A much smaller proportion of businesses that paid entry wages above the

minimum, 31.4 percent (or about half the proportion of those that paid the minimum entry wage), were affected by the last increase in the minimum wage. For the hypothetical increase to \$6.00 per hour (question 3), the proportion of affected businesses increases slightly, to 68.1 percent, for those paying a minimum entry wage while it declines slightly for those paying above the minimum.

Although there is some relationship between entry wages and sensitivity to minimum wage changes, the relationship is weak. One in ten businesses paying minimum entry wages was affected by the latest increase. Only about one in three thinks it will be affected by a further increase. Yet the majority of businesses that were affected by minimum wage increases paid minimum entry wages. Identifying those who bear the cost of minimum wage increases is another important concern for policymakers.

Conclusions

A principal problem in the debate about the minimum wage has been the absence of good data and adequate measures. The findings of this survey serve to put the conventional wisdom of the economic mainstream into context. Doubt is cast on the notion that minimum wage increases lead to significant adverse employment effects. As we have noted, if the predicted 1 percent decrease in employment were to accompany a 10 percent minimum wage increase, affected businesses would have to lay off two-thirds of their minimum-wage employees. To the contrary, the hiring practices of most small businesses would not be affected at all.

The proportion of small businesses that said their decisions would not be affected diminished somewhat when they were asked about a hypothetical further increase to \$6.00 per hour. This suggests that there might be limits to how high the minimum wage could be increased before larger effects on the demand for labor occur. Our findings suggest that the minimum wage can be raised to \$6.00 per hour before significant disemployment effects from small business become evident.

Finally, we looked more carefully at which small businesses would be affected by minimum wage increases. Not surprisingly, the retail sales and trade, service, and food service industries were the most sensitive to wage increases. Perhaps more surprising, a small proportion of businesses that paid minimum entry wages were affected by the recent minimum wage hike. A larger, but still small proportion of those paying minimum entry wages expected to be affected by the hypothetical increase to \$6.00 per hour.

Public Policy

These findings have several implications for public policy regarding the trade-off between the negative employment effects of raising the minimum wage and the benefits of raising the wage. There are also implications regarding the mechanism by which changes in the wage should be made.

The findings of our survey suggest that the minimum wage could be raised somewhat without producing the predicted adverse unemployment effects. We can identify those who would likely bear a disproportionate cost of a hike in the minimum wage (as noted above, the retail sales and trade, services, and food service industries are most sensitive to wage increases); public policy might aim to relieve some of this burden, if possible.

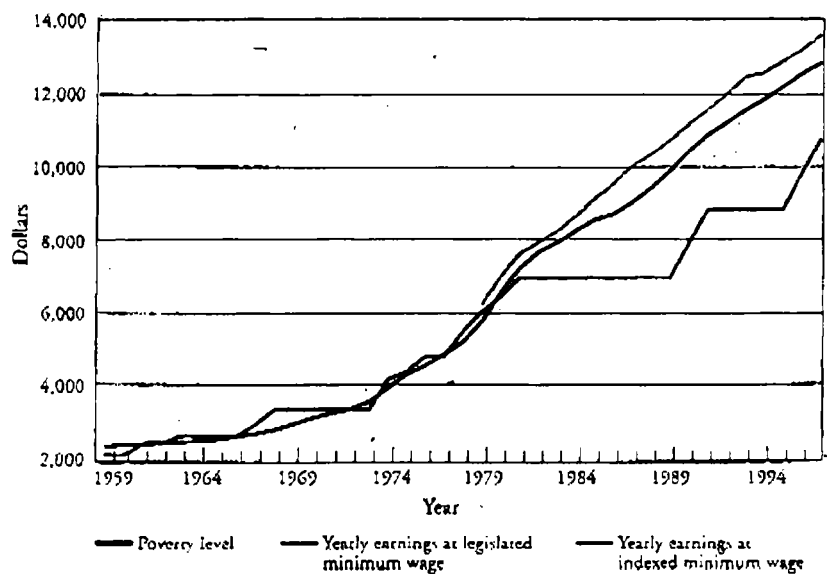
The justification for raising the minimum wage until it "bites" is that the benefits that accrue to society through wage increases—most notably, the benefits of raising the income of the working poor and of making work more viable for those who will be forced by the 1996 welfare reform to go from welfare to work—would likely outweigh the costs. In our opinion, to create jobs that do not enable families to live above the poverty level simply for the sake of creating jobs has no public policy value. If most of the affected businesses are going to respond to a hike by not hiring additional workers rather than by laying off their present workers, then the minimum should be increased because the jobs that might have been created in the absence of the increase are not jobs we as a society would like to see created.

Chart 1 shows the relationship between the poverty level for a family of three with at least one child and the yearly earnings of a full-time worker earning the minimum wage for the years 1959 through 1997.

The annual income associated with a full-time job at the legislated minimum wage tracked the poverty level fairly closely from 1959 until the early 1980s. The inflations of the late 1970s and 1980s pushed the poverty level up, but the legislated minimum wage income remained constant until the 1990s. Currently, a minimum-wage worker earns considerably less than the poverty level for a family of three with at least one child (the minimum level for a household to qualify for public assistance benefits). This is the well-documented erosion of the value of minimum wage earnings which, as the chart shows, was barely addressed by legislated increases during the 1990s.

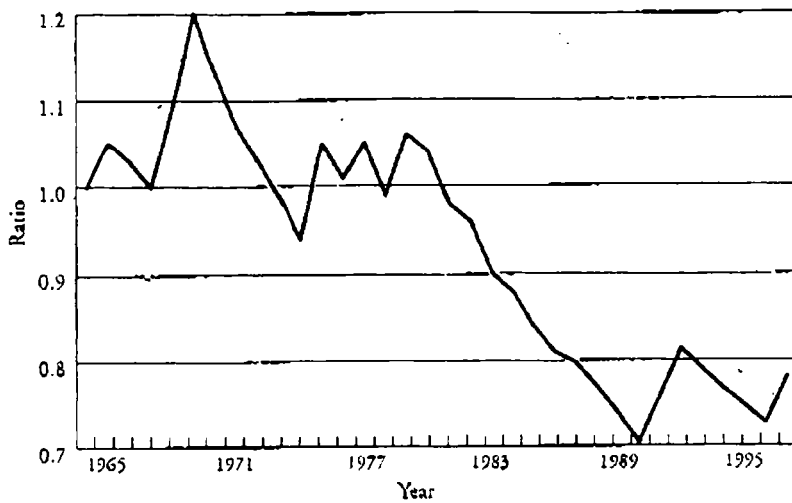
The ratio of yearly earnings at a minimum wage to the poverty level is shown in Chart 2. The ratio reaches its nadir in 1989, when the yearly income for a full-time minimum-wage worker was 70 percent of the poverty level. In 1997 the income of this worker was around 83 percent of the poverty level. Considering that people leaving the welfare rolls have children and are likely to have few skills, a minimum-wage job is a fairly dim prospect for them. In order to elevate the annual income of a full-time worker earning the minimum wage to the poverty level,

Chart 1 Minimum Wage Earnings and Poverty Level for a Family of Three



Source: U.S. Bureau of the Census.

Chart 2 Ratio of Yearly Minimum Wage Earnings to Poverty Level for a Family of Three



Source: U.S. Bureau of the Census.

the minimum wage would need to be raised to \$6.15 per hour. We showed above that employers' sensitivity to minimum wage increases in the \$6.00 per hour range is low, so we can assume that few disemployment effects (at least among small businesses) will be associated with an increase to \$6.00 per hour.

Another policy consideration is the mechanism by which changes in the minimum wage should be made. Should the wage continue to be legislated on an ad hoc basis? As one can see from the charts, the minimum wage income tracked the poverty level quite poorly in the 1980s and 1990s. We need to ask ourselves why we have a minimum wage in the first place. If it is designed to provide a minimum living wage, then a way should be found to keep the income it provides at such a level. In order to do this, minimum wage

policy must be depoliticized, that is, it must be removed from the political arena of recurring debate, delay, and compromise each time an increase is contemplated. A way to do this is to adopt a policy of indexation.

Although indexation of transfer payments, like Social Security, has been hotly debated recently, the debate has centered on the appropriate index to use, not on the appropriateness of indexation itself. The logic of indexation is sound. People supporting themselves on fixed incomes need protection from market vagaries. As a society, we do not countenance driving the aged or infirm from their homes because of a general price increase. However, at the same time we have allowed the purchasing power of the minimum wage to erode considerably for long periods between revisions. Indexing the minimum wage, as we do transfer payments, is a simple and desirable solution to this problem.

The annual income from an example of an indexed minimum wage is presented in Chart 1. We calculated a minimum wage that increases proportionally with the median hourly wage starting in 1979 (the year in which the legislated minimum wage departed from the poverty level). The median wage was chosen as the appropriate index because it represents market-induced changes in wages reflecting changes in both productivity and prices. As one can see, the indexed wage tracks the poverty level quite closely, slightly exceeding it. If the minimum wage had been indexed in this fashion starting in 1979, the 1997 wage would have been \$6.50 per hour.

When we raise the minimum wage 10 or 20 percent at once in a legislated change, disemployment effects become pronounced because employers have no time to adjust to the sizable wage change. Large jumps in the minimum wage are likely to inflict greater difficulties on small businesses than small, incremental changes. An indexed minimum wage would keep changes relatively small, eliminating large dislocations and minimizing the negative effect of increases on employers. Once the minimum wage is set at an adequate level, indexation would ensure that increases thereafter will be automatic and incremental and that the minimum wage will retain its purchasing power.

Note

1. The relevance of responses to issues of welfare reform will be discussed in detail in a separate policy note.

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Related Publications

For additional Levy Institute research on this subject, see:

- Barry Bluestone and Teresa Ghilarducci, *Making Work Pay*, Public Policy Brief No. 28, 1996
- Oren M. Levin-Waldman, *Automatic Adjustment of the Minimum Wage*, Public Policy Brief No. 42, 1998
- Oren M. Levin-Waldman, "Exploring the Politics of the Minimum Wage," Working Paper No. 176
- Oren M. Levin-Waldman, "Minimum Wage and Justice?" Working Paper No. 197
- Oren M. Levin-Waldman, "State Type and Congressional Voting on the Minimum Wage," Working Paper No. 243

A2. IS THIS A GOOD TIME FOR A RAISE IN THE MINIMUM WAGE? (5/4/98)

Question:

Congress raised the minimum wage by 50 cents in 1996 and by 40 cents on September 1, 1997. Is this a good time to be raising the minimum wage again?

Answer:

In 1996, President Clinton signed into law a minimum wage hike, raising it from \$4.25 to \$5.15 an hour. But there are still millions of workers trying to raise a family and struggling to make ends meet. With our economy the strongest in a generation, now is the time to help these workers make ends meet by raising the minimum wage again.

table also includes a category for the number of hourly workers who did not work during 1996. Employer size is defined as the number of employees at all locations.

A 4. UNPRECEDENTED INCREASE IN MINIMUM WAGE (5/4/98)

Question:

Isn't this proposal just a political ploy?

Answer:

No. Opponents of the minimum wage raised the same question two years ago. And the American people understood that the minimum wage is a floor under the wages of our poorest workers and their families. That floor has to be raised, particularly as we move families from welfare to work. People need hope that there is a way out of poverty by working hard.

A5. UNPRECEDENTED INCREASE (5/4/98)

Question:

Isn't it unprecedented to raise the minimum wage so soon after another increase?

Answer:

Questions of timing should not determine whether the lowest paid workers in our society receive a well-deserved raise. If there is a need for an increase, and economic and labor market conditions can support giving an increase (like today), then it is an appropriate time to raise the minimum wage. In addition, it has not been uncommon for Congress to legislate multi-year increases to restore the minimum wage to its proper level. For example, Congress legislated increases three years in a row in 1974-1976 and four years in a row in 1978-1981.

NOTE: The April 8, 1974 amendments resulted in three generally applicable increases in May 1974, January 1975, and January 1976. This was followed by the 1977 amendments which were enacted on November 1st with first increase effective January 1978. Thus there were two years between the two increases -- the shortest span to date between two increases mandated by two different legislated amendments.

C1. WHO BENEFITS FROM A MINIMUM WAGE INCREASE (9/3/98)

Question:

Who will benefit from a minimum wage increase?

Answer:

A higher minimum wage will help 12 million Americans -- mostly adult workers trying to support their families. According to data from the Bureau of Labor Statistics, 12 million hourly paid workers earn between \$5.15 and \$6.14 an hour and would directly benefit from this raise. Seventy percent of the workers who would benefit are adults, age 20 or over, and three-fifths (60%) are women, many of whom are trying to raise their family on \$5.15 an hour.

A higher minimum wage will help ensure parents can raise their children out of poverty. 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 1996-97 minimum wage increases and the expanded EITC, parents who work full-time do not have to bring up their children in poverty. This new increase will help ensure that -- as costs continue to increase -- parents who work hard and play by the rules can raise their children out of poverty.

C2. NUMBER OF MINIMUM WAGE WORKERS (9/3/98)

Question:

How many workers in the U.S. are paid the minimum wage?

Answer:

- 1.6 million workers paid by the hour had hourly wages of \$5.15 (the minimum wage) in the second quarter of 1998.
- 1.4 million workers were reported by BLS as being paid \$5.00 an hour in the second quarter of 1998. It is believed that some of these workers may actually have higher hourly wages -- BLS finds some degree of "rounding" errors in the household survey, particularly following an increase in the minimum wage (such as the September 1, 1997 increase).
- An additional three million workers paid by the hour had earnings below \$5.00 an hour in the second quarter of 1998. (Some workers paid below the minimum wage are being paid the sub-minimum wage during their first 90 days of employment; some are working in jobs that are not subject to the federal minimum wage; and some are being paid illegally.)

(NOTE: There were 1.7 million hourly paid workers receiving less than \$4.25 an hour in 1995.)

C5. IMPACT ON YOUTH EMPLOYMENT (9/3/98)

Question:

According to recent reports by the Employment Policies Institute and the Heritage Foundation, the minimum wage increase of 50 cents on October 1, 1996 cost 128,000 teen jobs. Won't further increases cost even more teen jobs?

Answer:

This report is wrong. The decline in teenage employment rates occurred prior to the raise in the minimum wage. And their claim that it is too early to measure the impact of the September 1997 increase is also not true.

Here are the facts:

- The decline in employment rates for teens occurred between October 1995 and August 1996, prior to the first increase in the minimum wage.
- Contrary to the dire predictions made before the minimum wage was raised, teenage employment has skyrocketed since the minimum wage went to \$5.15. 483,000 more teens have jobs now than in August 1997.
- In fact, teenage unemployment has fallen significantly since the minimum wage went to \$5.15 -- from 16.2 percent (August 1997) to 13.8 percent.

D4. INFLATION IMPACT (9/3/98)

Question:

Won't an increase in the minimum wage just hurt families by increasing the prices of goods and services?

Answer:

- In part because minimum wage workers (i.e., those who would benefit from the proposed increase) make up only about 9 percent of the labor force, there is little evidence that minimum wage increases lead to inflation.
- The last two increases in the minimum wage were in 1996 and 1997. Over that time period, inflation increased at a very modest yearly rate -- 3.0 percent in 1996 and 2.3 percent in 1997. In fact, 2.3 percent is the lowest inflation rate since 1986 and, prior to that year, one has to go back to 1965 to find a rate as low.

E. 6a IMPACT ON YOUNG BLACK MEN (9/3/98)

Question:

The 50-cent increase in 1996 had a statistically significant negative effect on the employment of young black men. Won't another increase worsen their situation?

Answer:

Unemployment for African-American teenagers is too high, but it has fallen since the first minimum wage increase in October 1996 -- from 35.1 percent to 28.6 percent. The employment of black teens rose from 25.9 percent to 29.7 over the same period.

The employment problems faced by young African-American men in our economy are complicated, but they are certainly not caused by the minimum wage. Keeping wages low will not solve these problems. The solution will come from a growing economy, enhanced education and training opportunities, and full enforcement of civil rights laws.

F1a. MINIMUM WAGE AND WELFARE-TO-WORK (9/3/98)

Question:

Many States that are putting welfare recipients to work find that they can barely afford to pay the current minimum wage. If we raise the minimum wage any higher, won't we undermine the states' welfare-to-work efforts? Won't private-sector employers be more reluctant to hire welfare recipients?

Answer:

As people move from welfare to work, one of the most important lessons they can learn is that work pays. Raising the minimum wage signals that the nation rewards people who try their best to work hard and play by the rules. Welfare recipients should not be excepted from that ideal.

ADMINISTRATION'S PROPOSAL (9/3/98)

Question:

Why raise the minimum wage when this only hurts businesses (especially retail, restaurants and service businesses) and young people looking for jobs (especially African American teenagers)?

Answer:

The opponents of the minimum wage are wrong that it hurts businesses. And we proved they were wrong the last time. The first of the two increases in the minimum wage last time was in October of 1996. Since then:

Over 5 million new jobs have been created.

Unemployment is at a 28 year low (4.5 percent).

2.7 million new service jobs have been added.

800,000 new retail jobs have been added.

225,000 restaurant ("eating and drinking") jobs have been added.

Opponents of the minimum wage are wrong that it hurts teenagers or minority teenagers. Since the first of the two minimum wage increases went into effect last time in October of 1996:

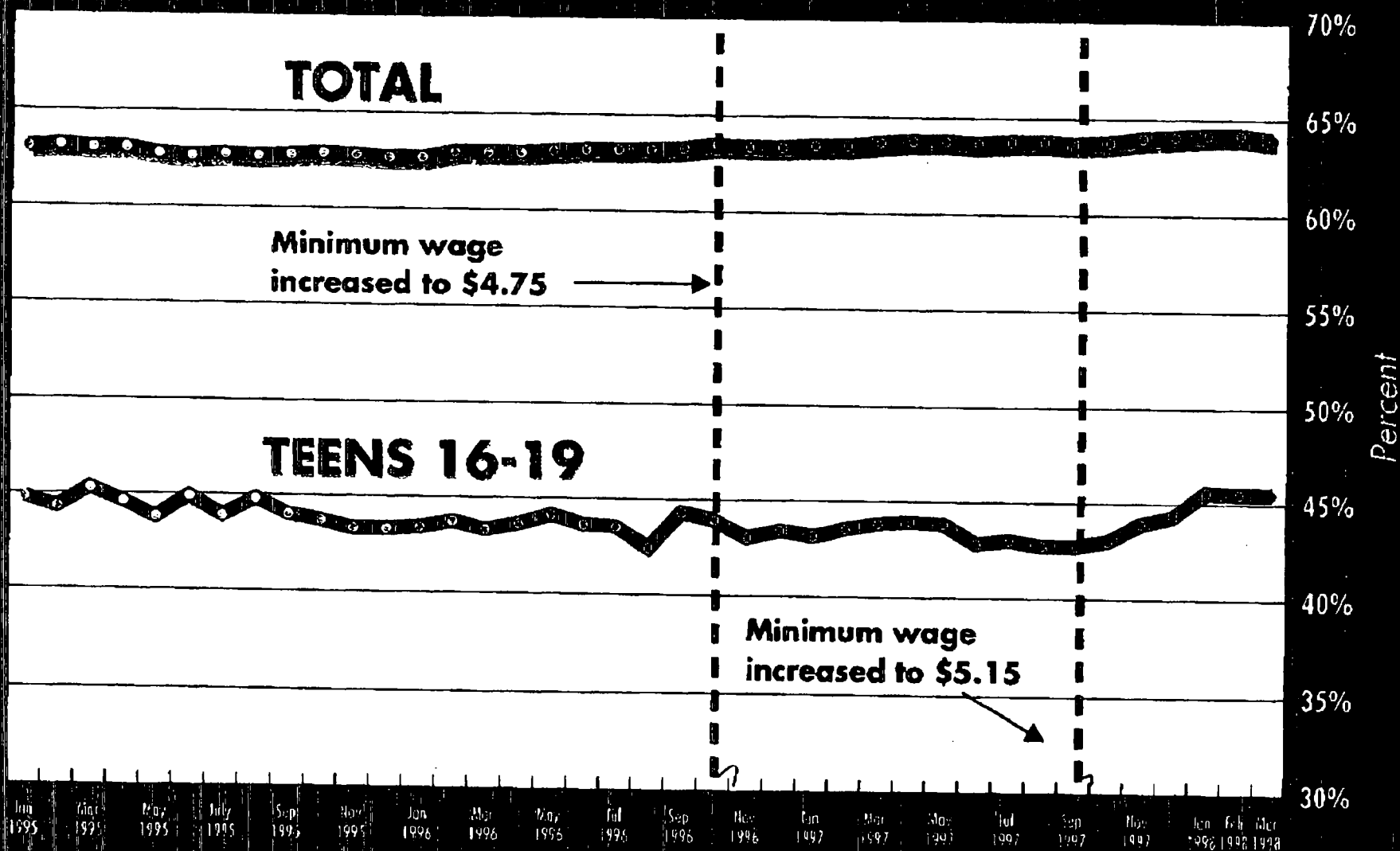
Teenage unemployment has dropped from 16.6 percent to 13.8 percent.

Among African American teenagers, the numbers are still very disappointing. But their unemployment has dropped from 35.1 percent to 28.6 percent.

It is not the minimum wage that is hurting opportunities for our young people.

Employment Rates

Comparing Total and Teens, 16-19



Source: Bureau of Labor Statistics, Current Population Survey, Seasonally Adjusted

EMBARGOED FOR RELEASE:
12:01 a.m., Friday, May 29, 1998

CONTACT: Ed Lazere, Michelle Bazie,
Herbert Schaffner (202) 408-1080

NEW FINDINGS FROM OREGON SUGGEST MINIMUM WAGE INCREASES CAN HELP WELFARE-TO-WORK EFFORTS

The earnings of Oregon welfare recipients who found jobs rose substantially when the state's minimum wage increased in 1997 and again in 1998, according to a new study released by the Center on Budget and Policy Priorities.

Between late 1996 and early 1998, the Oregon minimum wage went from \$4.75 an hour to \$6 an hour as a result of a successful ballot initiative. During that period, the analysis shows, the average wage of newly employed welfare recipients rose 76 cents an hour — a nine percent increase after adjusting for inflation. The minimum wage increase appears to have helped not only welfare recipients who earn the minimum wage but also those earning slightly above the new minimum wage, reflecting a "ripple effect" that often accompanies minimum wage hikes.

The study shows that the recent wage increases are unique. They are much more significant than the wage growth nationally among a similar group of low-wage working women. And they contrast with *declining* real wages among Oregon welfare recipients in the years just prior to the increase.

Oregon's minimum wage is now the highest in the nation. It also is close to the level proposed in federal legislation to raise the national minimum wage. As a result, the Oregon findings provide evidence useful for assessing the potential national impact of a federal minimum wage hike on parents leaving welfare and on other low-wage workers.

Wage Trends Turn Positive Immediately After the Minimum Wage Increase

The wage data from Oregon's welfare agency highlighted in the study are striking.

- The average starting wage of Oregon parents leaving welfare fell five percent, adjusting for inflation, during the three years *prior* to 1997, when the state's minimum wage remained at \$4.75 an hour.
- This trend reversed itself immediately following the January 1997 increase to \$5.50 an hour in the state's minimum wage. Between the last quarter of 1996 and the last quarter of 1997, the average starting wage rose from \$6.15 an hour to \$6.65 an hour, or more than five percent adjusting for inflation.

Oregon Minimum Wage Findings

Page 2

12:01 a.m. Friday, May 29, 1998

- In the first quarter of 1998, after a further increase in the Oregon minimum wage to \$6 an hour, welfare recipients who found work earned an average of \$6.91 an hour.

"Debates over raising the minimum wage often focus on the issue of who will benefit," said Ed Lazere, the author of the Center study. "These findings confirm that minimum wage increases can help low-income parents who are trying to support their families by working." The study notes that any minimum wage workers are in low-income families, that the large majority are adults, and that many are their family's primary breadwinner.

The Oregon minimum wage increase has helped not only welfare recipients who earn the minimum wage but also those who find jobs paying slightly above the minimum wage. The report found that among welfare recipients obtaining full-time jobs, the proportion earning more than \$6 an hour rose from roughly half in 1996 to two-thirds in 1997. The state's 1997 minimum wage stood at \$5.50 an hour.

The Center's study concludes from the Oregon experience that an increase in the federal minimum wage above \$5.15 an hour would likely have positive effects across the nation on the wages of welfare recipients who move into jobs. Just as in Oregon, adults who leave welfare for work nationwide typically have very low earnings, often at the minimum wage or just slightly above it.

Other Factors Do Not Explain the Results

In assessing the wage data, the Center's study concluded that other factors — particularly the state's strong economic growth — could *not* explain the recent sharp rise in earnings among welfare recipients. For example, economic growth in Oregon was solid prior to the state's minimum wage increase in 1997, while real wages for welfare recipients were falling.

The study also found that the five percent inflation-adjusted increase in earnings of Oregon welfare recipients in 1997, following the minimum wage increase, was much greater than wage growth nationally among low-wage women, which equaled one percent after adjusting for inflation. In the three years prior to 1997, the trend in wages among Oregon welfare recipients lagged behind the nationwide trend among low-wage women.

No Adverse Effect on Employment Evident

The study also attempted to discern whether the Oregon minimum wage increases had a negative effect on employment opportunities. While no systematic study of this issue has been conducted, the available measures examined in the Center's report did not suggest

Oregon Minimum Wage Findings

Page 3

12:01 a.m. Friday, May 29, 1998

evidence of significant job losses.

- Data from Oregon's welfare agency indicate that the share of welfare recipients finding work rose modestly in 1997 following the increase in the minimum wage.
- Employment growth in retail trade, the industry most likely to be affected by a minimum wage increase, was positive in 1997 and followed the same pattern as overall employment growth in Oregon. Employment rose in 1997 both in retail and overall, although at a somewhat slower rate than in 1996. Both figures appear to reflect a modest slowdown in the state's overall rate of economic growth, not the increase in the minimum wage.

"The strong U.S. economy has done little to lift the earnings of workers at the bottom of the income scale, and wage inequalities remain at record-wide levels," Lazere observed. "The Oregon findings suggest that raising the federal minimum would help make work pay for parents seeking to leave welfare and support their families."

The Center on Budget and Policy Priorities is a nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs, and specializes in issues related to fiscal policy, labor standards, social welfare and nutrition policy. It is supported primarily by foundation grants.

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CENTER ON BUDGET AND POLICY PRIORITIES

May 28, 1998

NEW FINDINGS FROM OREGON SUGGEST MINIMUM WAGE INCREASES CAN BOOST WAGES FOR WELFARE RECIPIENTS MOVING TO WORK

By Ed Lazere

Introduction and Summary

Debates over raising the minimum wage often focus on the issue of who will benefit from lifting the wage floor. Some claim that increasing the minimum wage does little for low-income families, because minimum wage earners frequently are teenagers or secondary workers in middle-class families. While the benefits of minimum wage increases are not targeted solely on low-income families, many of the workers whose earnings rise as a result of such increases are in low-income families. In addition, the large majority of minimum wage workers are adults, and many are the primary breadwinner in their family.

New evidence from Oregon suggests that minimum wage increases can have a significant effect on parents who leave welfare for work. As a result of a successful state ballot initiative, the Oregon minimum wage rose from \$4.75 an hour to \$5.50 an hour in January 1997 and then to \$6.00 an hour in January 1998.¹ Data from Oregon's welfare agency show that the earnings of parents who moved from welfare to work were boosted as a result of these increases.

- The average starting wage of Oregon parents leaving welfare fell five percent, adjusting for inflation, during the three years *prior* to the January 1997 increase in the state minimum wage.
- This trend reversed itself immediately after the increase. The average starting wage jumped from \$6.15 an hour in the last quarter before the 1997 minimum wage increase took effect to \$6.43 an hour in the first quarter following the increase. By the fourth quarter of 1997, the average starting wage had reached \$6.65 an hour, an increase of more than five percent, adjusting for inflation, over the same quarter of the prior year.

¹ The ballot initiative called for a three-step increase in the state's minimum wage. The third step will be an increase to \$6.50 an hour in January 1999.

These wage increases are unlikely to have occurred simply as a result of the state's strong economy. Economic growth in Oregon was solid prior to the state's minimum wage increase in 1997, but real wages for welfare recipients still declined during that period.

- The average starting wage for welfare recipients rose again following the second increase in the minimum wage. In the first quarter of 1998, welfare recipients who found work earned an average of \$6.91 an hour, up substantially from the end of 1997. Overall, the average wage for these workers is now 76 cents an hour higher than before the state minimum wage increase took effect.

The minimum wage increase in Oregon boosted the earnings both of welfare recipients who found jobs at the minimum wage and of many who found jobs paying slightly above the minimum wage. For example, among welfare recipients who found full-time jobs, the proportion earning more than \$6 an hour rose from roughly half in 1996 to two-thirds in 1997.

This analysis also examines whether the increase in Oregon's minimum wage had a negative overall effect on employment opportunities of welfare recipients. While no systematic study of this issue has been conducted, the available evidence does not suggest a negative change in employment opportunities. The share of welfare recipients finding work rose modestly in 1997 following the increase in the minimum wage. In addition, employment growth in retail trade, the industry most likely to be affected by a minimum wage increase, was positive in 1997 and followed the same pattern as overall employment growth in Oregon. Both overall employment and retail employment rose in 1997, although at a somewhat slower rate than in 1996. The change in employment growth between 1996 and 1997 reflects a modest general slowdown in the state's rate of economic growth, not the increase in the minimum wage. If the minimum wage increase had reduced job growth significantly, it is likely that the trend in retail trade employment would have been significantly worse than the trend in overall employment.

The Oregon findings have implications for the debate over raising the federal minimum wage. The Oregon minimum wage hikes have raised the state's minimum wage from a level equal to the federal minimum wage to a level somewhat above the current federal minimum wage. (In late 1996, the federal minimum wage rose to \$4.75 an hour, which made it equal to the 1996 Oregon minimum wage. The federal minimum wage then rose to \$5.15 an hour in September 1997, below the 1997 Oregon minimum wage of \$5.50 an hour at that time.)

In addition, academic studies and recent findings from state welfare-to-work efforts indicate that adults who leave welfare for work typically have very low

earnings, often at the minimum wage or just slightly above it. As a result of these low earnings, many families in which parents leave welfare for work continue to live in poverty. Thus, the Oregon experience suggests that an increase in the national minimum wage to a level modestly above \$5.15 an hour would be likely to have positive effects nationwide on the wages of adults leaving welfare for work. For the same reasons, the Oregon findings also suggest that increases in state minimum wages could boost the earnings of welfare recipients when they find work.

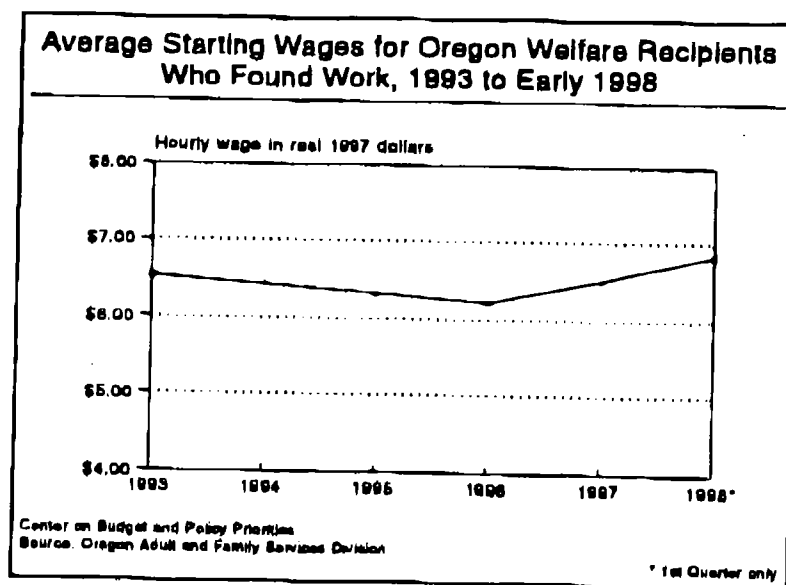
The Wages of Oregon Welfare Recipients Who Found Work Before and After the State's Minimum Wage Increase

The Adult and Family Services Division of the Oregon Department of Human Resources is the agency responsible for the state's welfare to work programs. The agency regularly collects information on the earnings of welfare recipients who move into the labor force.² The Oregon data show a distinct change in the wage trend among welfare recipients who found work in 1997, following the increase in the state's minimum wage. Between 1993 and 1996 the state's minimum wage remained at \$4.75 an hour. During that period:

- The average hourly starting wage of welfare recipients who found jobs — including both part-time and full-time jobs — went from just under six dollars an hour in 1993 to just above that level in 1996.
- When adjusted for inflation, the average starting wage of welfare recipients who found work was five percent *lower* in 1996 than the average in 1993. (See figure and table.)

These trends changed markedly immediately following the increase in Oregon's minimum wage on January 1, 1997. The average wage of Oregon's welfare recipients moving to work began to rise noticeably after the first boost in the state's minimum wage, and again after the second boost.

² The wage data reflect hourly wage information provided by welfare recipients to the welfare department. The large majority of recipients reporting wage information are participants in the state's welfare-to-work program. The remainder are recipients who find work outside of the state's JOBS program and report their wage information to caseworkers for benefit re-determination purposes. It is likely that the state data do not include all recipients who find work; for example, some recipients may choose to leave the welfare program when they find a job and thus would not need to report other wage information. Nevertheless, these data were collected in a consistent manner throughout the period covered in this report and thus are likely to accurately reflect changes over time. In addition, these data are used by the state as a performance measure for its welfare reform efforts.



- Between the last quarter of 1996 and the first quarter of 1997, the average wage for this group rose 28 cents an hour. This was the largest quarter-to-quarter change in the entire period from 1993 through 1997.
- By the last quarter of 1997, the average wage stood at \$6.65 an hour, or 50 cents higher than in the similar period of 1996. Adjusting for inflation, this represented a one-year wage increase of 5.4 percent.
- The Oregon minimum wage rose to \$6.00 an hour in January 1, 1998. Early data following this increase suggest that it also has had a significant positive impact on the wages of welfare recipients who find work. The average wage for newly employed welfare recipients reached \$6.91 in the first quarter of 1998.

The minimum wage increase appears to have affected a substantial proportion of Oregon's welfare recipients who found work in 1997. In the last quarter of 1997, for example, nearly one-third of the welfare recipients who found work — including half of those who found part-time work — earned the state's new minimum wage of \$5.50 an hour. This substantial clustering of wages at the new minimum wage level strongly

suggests that many of these workers would have earned less than \$5.50 without the increase in the state's wage floor.³

In addition to raising the earnings of minimum wage workers directly, the Oregon minimum wage increase also appears to have raised the wages of workers with earnings modestly above the new minimum wage level. During Oregon's 1996 fiscal year (from July 1995 to June 1996), roughly half — 48 percent — of the welfare recipients who found full-time work earned more than six dollars an hour. By the last quarter of calendar year 1997, more than two-thirds — 68 percent — of welfare recipients who found full-time work had earnings this high. Most of this increase occurred in the share of workers earning between six dollars and eight dollars an hour, or somewhat above the new minimum wage level of \$5.50 an hour. Minimum wage increases typically have such a "ripple effect," which may reflect attempts by employers to maintain pay differences between minimum wage workers and those with slightly higher earnings when minimum wages rise.

Table I
Average Starting Wages for Oregon Welfare Recipients who Found Work, 1993 to Early 1998

Before Minimum Wage Hike*	Average Starting Wage	
	In Nominal Dollars	In 1997 Dollars
1993	\$5.89	\$6.54
1994	5.95	6.44
1995	6.01	6.33
1996	6.08	6.22
4th Quarter, 1996	6.15	6.27
After 1997 Minimum Wage Hike		
Average	6.52	6.52
1st Quarter	6.43	6.47
2nd Quarter	6.47	6.48
3rd Quarter	6.55	6.54
4th Quarter	6.65	6.61
After 1998 Minimum Wage Hike		
1st Quarter	6.91	6.85
* Annual figures reflect averages of quarterly figures for the relevant year.		
Source: Oregon Adult and Family Services Division, Department of Human Resources		

³ Data from Oregon's Adult and Family Services division on the distribution of wages prior to the minimum wage increase are limited. They reflect only those welfare recipients who found full-time work, and the only figures on welfare recipients with earnings below the new minimum are for those earning less than \$5.00 an hour. The available figures show that 17 percent of welfare recipients who found full-time work in the 1996 fiscal year earned less than \$5.00 an hour. Since the vast majority of workers are covered by minimum wage laws, most of the workers earning less than five dollars an hour would have benefited from the state's minimum wage increase.

higher than in 1996 before the state's minimum wage was increased. In 1996, an average of 6.4 percent of welfare recipients found work in an average quarter. At the same time, the *number* of welfare recipients who found jobs declined during this period, from an average of 5,850 a quarter in 1996 to an average of 4,875 per quarter in 1997. Because the state's total welfare caseload fell by a greater magnitude during this period, the *percentage* of all recipients who found work rose modestly.

These findings support an interpretation that job opportunities for Oregon welfare recipients did not worsen in 1997. It is reasonable to expect that as the total number of welfare recipients declines, the number finding jobs would also decline, simply because the number of welfare recipients who potentially could find work would be smaller. If job opportunities for welfare recipients had worsened significantly, both the number and proportion of welfare recipients finding work would likely drop, as more welfare recipients stayed on the rolls without a job.

At the same time, welfare caseloads may fall for a variety of reasons, including welfare policy changes. If caseloads decline significantly among groups of families that would not have been likely to find work had they remained on welfare, the number of welfare recipients finding jobs would not necessarily drop significantly. This could occur, for example, if changes in welfare programs made assistance less attractive or more difficult to obtain or if some families chose to leave welfare or not to begin receiving welfare to avoid using up time-limited assistance. (Such families may be able to get support from friends or relatives.) It is important to note that welfare caseloads have declined faster in Oregon in recent years than in almost every other state. While the state's caseload decline is partly the result of a strong economy, it clearly reflects policy changes as well.

Because welfare caseloads in Oregon have declined dramatically, and because the characteristics of the state's welfare recipients may have changed significantly, it is difficult to use the data on the proportion of welfare recipients finding work to assess with certainty whether job opportunities for welfare recipients have changed significantly. Nevertheless, the data do not indicate that finding a job became harder for welfare recipients in 1997.

Retail Trade Employment

Retail trade is the industry with the largest proportion of employees earning at or near the minimum wage. It is likely that employment growth in retail trade would be weaker than employment trends in other industries if an increase in the minimum wage had led businesses to reduce the number of employees. This did not happen in Oregon in 1997 following the increase in the state's minimum wage.

The Oregon minimum wage increase thus affected both welfare recipients who found work at the minimum wage and those who found jobs paying slightly above the minimum wage, which together represent a sizable share of Oregon welfare recipients who move into jobs. As a result of the broad effect, the average increase in the wages of all welfare recipients who moved into the workforce — 50 cents an hour from the end of 1996 to the end of 1997 — equaled a substantial fraction of the 75 cent increase in the state's hourly minimum wage.

It should be noted that the wage increases revealed by the Oregon data could reflect in part the state's growing economy and its impact on wages. For three reasons, however, the economy appears unlikely to be the primary cause. First, Oregon experienced solid economic growth prior to the 1997 minimum wage hike. Per capita income of Oregon residents rose seven percent between 1993 and 1996, adjusting for inflation. This was greater than the five percent growth in inflation-adjusted per capita income for the nation as a whole during this period. Yet despite this strong growth, the starting wages of Oregon welfare recipients who found work *fell* in inflation-adjusted terms during this period.

Second, while the state's continued economic expansion could have resulted in a growing shortage of available workers, which would have placed upward pressure on wages, this does not appear to be the case. The state's unemployment rate fell from 7.3 percent in 1993 to 4.8 percent in 1995, but then rose to 5.9 percent in 1996. The rate then remained steady at 5.8 percent in 1997. If the state were experiencing a significant shortage of workers, it would be reflected in a declining unemployment rate in recent years.

Third, the 1997 wage increases among Oregon welfare recipients stand out when compared with wage data for the nation as a whole. While national-level data on the wages of adults who move from welfare to work are not available, the Oregon findings can be compared with the wage trend nationally for a similar group of low-wage working women.⁴ The comparison shows that prior to the Oregon minimum wage increase, the wage trend was worse among Oregon welfare recipients who found work than among low-wage working women nationally. Following the 1997 state minimum wage increase, however, wage growth for Oregon welfare recipients was greater than among low-wage women nationwide.

⁴ The national comparison group was selected to match as closely as possible the profile of Oregon welfare recipients who moved into work. The comparison group was limited to working women because most adult welfare recipients are women. The *low-wage* level is the 20th percentile wage level among all female workers, as calculated by the Economic Policy Institute. Some 80 percent of women earned more than this level and 20 percent earned less. Between 1993 and 1996, the 20th percentile wage level among women was slightly more than \$6 an hour, or roughly equal to the average wage of Oregon welfare recipients who moved into jobs in that period.

- Between 1993 and 1996, the average wage among welfare recipients in Oregon fell nearly five percent, adjusting for inflation, compared with a one percent decline in the real wages of the typical low-wage female worker nationally.
- In 1997, the average hourly wage for Oregon welfare recipients moving into jobs rose 5.4 percent, also adjusting for inflation, while the typical low-wage female worker experienced a one percent increase in real wages.⁵

Assessing the Employment Effects

One of the major concerns raised about raising the minimum wage is that it can reduce employment prospects for low-skilled workers, under the assumption that some employers reduce the number of employees or the hours they work to offset the increase in wage costs per employee. In recent years, some have argued that the employment prospects of welfare recipients in particular would be adversely affected by an increase in the minimum wage. At the state level, some also argue that an increase in the state minimum wage would result in the migration of jobs to neighboring states.

While these concerns are important and must be considered, the weight of recent research findings on the minimum wage suggests that moderate increases from current minimum wage levels would not have adverse employment effects. No systematic studies of the employment impact of the Oregon minimum wage increase have been conducted to date. Two available measures, however — the proportion of welfare recipients moving to work and employment growth in retail trade, the industry most affected by the minimum wage — do not suggest that the state's minimum wage increase had a significant adverse effect on employment opportunities.

Employment Trends Among Welfare Recipients

The Oregon Adult and Family Services Division reports that the share of welfare recipients who found work in 1997 — 7.3 percent in an average quarter — was slightly

⁵ The hourly wage for the typical low-wage female nationwide — i.e., the 20th percentile wage among women — equaled \$6.13 an hour in 1993, \$6.08 an hour in 1996, and \$6.15 an hour in 1997, with all figures measured in 1997 dollars. It is worth noting that the increase between 1996 and 1997 may in part reflect the increase in the federal minimum wage from \$4.75 an hour to \$5.15 an hour in September 1997. In other words, the wage growth at this level may have been less than one percent if the federal minimum wage had not been increased.

Table II shows the growth rate in retail trade employment and in all other industries in Oregon since 1995. There are two things to note about this table. First, each year during this period, retail trade employment rose at a slower pace than the rest of the labor force. Because employment in retail trade was growing more slowly than employment in other industries before the state's minimum wage was raised, the lower growth rate of retail employment in 1997 reflects a continuation of a trend and does not appear, at first blush, to be related to the minimum wage increase.

Second, the table shows that the overall growth rate in Oregon employment was lower in 1997 than in 1996, a reflection that the state's strong economic growth had slowed somewhat. The data also show that the slowdown in the rate of retail trade employment growth — from 3.1 percent in 1996 to 2.8 percent in 1997 — was actually smaller than the decline in the growth rate for employment in all other industries — from 4.2 percent to 3.5 percent.⁶ If the

minimum wage increase had adversely affected employment opportunities for low-wage workers, it is likely that the growth rate in retail trade employment would have fallen by a greater margin than the fall in the overall employment growth rate. Because the slowdown in job growth was more modest in retail trade than in other industries these data also suggest that the minimum wage increase was not a leading factor behind the modest slowdown in the state's economic growth rate in 1997.

Table II
Oregon Employment Growth Rates, 1995-1997

	1995	1996	1997
Total non-farm	4.1%	4.0%	3.4%
Retail Trade	3.4	3.1	2.8
Total less retail trade	4.2	4.2	3.5

Source: U.S. Bureau of Labor Statistics

The Oregon Employment Department did expect some reduced growth in retail trade employment as a result of the minimum wage increase. After factoring in the impact of the state's 1997 minimum wage increase, the department estimated that there would be 282,200 retail jobs in Oregon in 1997. That is one percent lower than the department's estimate of 285,100 retail trade jobs in the absence of the minimum wage increase.⁷ Actual figures for 1997 — which show that Oregon had 284,400 retail jobs, or

⁶ When the change is measured in percentage terms, the 1997 growth rate in retail trade employment was 10 percent lower than the 1996 growth rate. The 1997 employment growth rate for all other industries was 15 percent lower than the 1996 growth rate.

⁷ Oregon Employment Department, unpublished data, March 1997. The simulation also estimated that when the minimum wage increase enacted in 1996 was fully implemented, i.e., when the state's minimum wage reaches \$6.50 an hour in 1999, retail employment will be about three percent lower than it would have been if the minimum wage had not been increased. The simulation also estimated that the number of
(continued...)

slightly more than the number projected for the year — support the Employment Department's forecast of modest job losses following the minimum wage increase.⁸

Research on the Minimum Wage's Effect on Employment

These indicators from Oregon are consistent with recent academic research showing that at the current level, moderate increases in the minimum wage would not have adverse employment effects. This includes studies of increases in the federal minimum wage in the early 1990s and in 1996, as well as increases at the state level.

Among the research on state minimum wages are studies of an increase in the California minimum wage in 1988 and in the New Jersey minimum wage in 1992. The New Jersey minimum wage was raised to \$5.05 an hour in 1992. Adjusting for inflation, that equals \$5.90 in 1998 dollars, or roughly the same as the 1998 Oregon minimum wage level. The study of the New Jersey minimum wage increase compared employment growth in fast-food restaurants in the state with employment growth in nearby eastern Pennsylvania, where the minimum wage was not raised. The study found that employment trends were as favorable in New Jersey as in Pennsylvania.⁹ In response to questions about this study's methods, the authors prepared a 1998 re-analysis using new data from the Bureau of Labor Statistics. The new research confirms the initial findings.

Studies of recent increases in the federal minimum wage also have found no adverse effect on employment nationally. A May 1998 study by the Economic Policy Institute used four different tests to measure the employment effects of the 1996-97 increase in the federal minimum wage to \$5.15 an hour. The tests typically showed small changes in employment for most groups — in some cases positive and in other cases negative — with virtually all of the changes being statistically insignificant. The one test that showed fairly substantial and statistically significant employment effects found that the minimum wage increase boosted the employment of low-wage workers.

⁷ (...continued)

non-health service jobs will be about one percent lower in 1999 than it otherwise would have been as a result of the minimum wage increases. Overall, the department estimated that there would be 12,600 fewer jobs in the state in 1999 as a result of the minimum wage increase, a reduction of less than one percent.

⁸ As part of its standard measurement of employment, the Oregon Employment Department will revise all 1997 employment figures early in 1999. The revised figure for the number of retail trade jobs thus may differ slightly from the figure noted in this report.

⁹ David Card and Alan Krueger, "Minimum Wages and Employment: a Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *American Economic Review*, September 1984, and "A Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry with Representative Payroll Data," Princeton University, January 1998.

The authors concluded that the tests "fail to find any systematic, significant job loss associated with the 1996-97 increases."¹⁰

Implications for a Federal Minimum Wage

The Oregon findings have significant implications for the federal minimum wage debate. Just as in Oregon, parents who leave welfare for work throughout the nation tend to earn at or near the minimum wage. Nationwide, half of the single mothers who received welfare assistance for at least part of the year but also worked at least part of the year earned less than \$5.15 an hour in 1996 — the most recent year for which data are available — while 63 percent earned less than \$6.15 an hour. (The federal minimum wage, which stood at \$4.25 an hour at the beginning of 1996 was raised to \$4.75 an hour in October 1996 and to \$5.15 an hour in September 1997. The leading proposal to raise the federal minimum wage would lift the wage floor to \$6.15 an hour by 2000.)

In addition, the Oregon data are consistent with research showing that the recent increase in the federal minimum wage boosted the earnings of low-income families generally. A study by the Economic Policy Institute on the two-step increase in the minimum wage from \$4.25 an hour in 1996 to \$5.15 an hour in 1997 found that minimum-wage workers frequently reside in low-income working families and that low-income families benefited the most from the increase. The EPI study found that among working families with a working adult, those in the bottom fifth of the income distribution received five percent of total family income nationally, but they received 35 percent of the benefit from the minimum wage increase. The study also found that 58 percent of the earnings gains from the minimum wage increase went to the bottom two-fifths of families in terms of income. The EPI study also looked at the impact on wages for adults with less than a high school education and for teenagers; it found that there were substantial wage increases among these groups, particularly among minorities.¹¹

¹⁰ Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*, Economic Policy Institute, Washington, D.C., May 1998, page 1.

¹¹ Bernstein and Schmitt, *op cit*. The study shows, for example, that 30 percent of working women aged 20 to 54 with less than a high school degree earned \$5.15 an hour or less in the six months prior to the first step of the recent federal minimum wage increase in October 1996. During the six months following the second step of the increase, to \$5.15 an hour, the share of teens with earnings below this level dropped to 13 percent. (According to EPI, some workers continued to earn below \$5.15 despite the increase in the federal minimum wage because not all workers are covered by the minimum wage law, because some employers may not have been complying with the law, and because some workers may have inaccurately reported their earnings in the Census Bureau survey from which these data were drawn.)

Together, these findings suggest that the recent increases in the federal minimum wage are likely to have raised the incomes of a substantial share of the parents who left welfare for work. It further suggests that additional increases in the federal minimum wage would lift the earnings of these families even more, helping families make a successful transition to work and remain off welfare.