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United States Senate

COMMITTEE ON LABOR AND
HUMAN RESOURCES

WASHINGTON, DC 20510-6300

TO: Janet Heegn

FROM: Stephanie Williams

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MINIMUM WAGE FACTS - TALKING POINTS

PROFILE OF A TYPICAL MINIMUM WAGE WORKER:

- 40 hours a week - 52 weeks a year = ~~$8,840~~; $10,712
- 1996 ~~1995~~ poverty level for a family of 4 - ~~$15,570~~; 16,036
  This is a difference of ~~$6,730~~ below the current minimum wage; $5,324
- 66% ~~69%~~ of the minimum wage workers are adults age 20 and over;
- 10% ~~15%~~ are African American;
- 22% ~~14%~~ are Hispanic;
- 58% are women;
- 41% ~~47%~~ of workers ~~half full-time jobs are~~ paid ~~in~~ the minimum wage are full-time
- [33% work between 20 and 35 hours a week; not checked]
- 51% ~~44%~~ work in the retail sector.

as of Sept 1, 1997 $ to $5.15

Using 2nd Q 1997 data ($4.75 min wage)

IMPACT OF DEMOCRATIC AMENDMENT

- 10 ~~13~~ million men and women will get a pay increase as a result of the 2nd ~~an~~ increase in the minimum wage on Sept 1, 1997
- 300,000 people will be lifted out of poverty, including 100,000 children.
- Only 1/3 of those effected by an increase in the minimum wage are teenagers.
  69% of the minimum wage workers are women who on average bring home 51% of the families earnings.

IMPACT ON FAMILIES IF MINIMUM WAGE INCREASE BECOMES LAW

- The Democratic proposal to raise the minimum wage by $.90 would generate $1,800 in potential income for minimum wage workers. Based on expenditure patterns of an average family, $1,800 would by:
  - Seven months of groceries; or
  - One year of health care costs, including insurance premiums, prescription drugs, and out-of-pocket costs; or
  - Nine months worthof utility bills; or
  - More than a full-year's tuition at a 2-year college;
  - Basic housing costs for almost 4 months.

The income level for a family of four whose sole earner is a minimum wage worker is not above the poverty line.

- The current poverty line for a family of 4 is $15,600. A family of 4 with one worker earning $4.25 an hour and working full-time year round (8,500) would receive a tax credit of $3,400 under the 1996 provision of the EITC, would collect food stamps worth $3,516, and would pay $650 in payroll taxes. This family would end up $834 below the poverty line.

NUMBER OF AFRICAN AMERICANS WHO WOULD BENEFIT

How raising the minimum wage will benefit African Americans:

- Based on data from the current population survey:
  - 1.5 million African Americans are paid $4.25 - $5.14 per hour, or 17 percent all hourly-paid African American workers.
  - Most of these low wage workers are female: about 957,000 are African American women, versus 577,000 African American men.

Rasing the minimum wage would provide a modest pay raise to the poorest working African Americans, many of whom are raising children, and all of whom have not had a raise in five years.

NUMBER OF HISPANIC AMERICANS WHO WOULD BENEFIT

How raising the minimum wage will benefit Hispanic Americans:

- Based on data from the current population survey:
  - 1.6 million Hispanic Americans are paid $4.25 - $5.14 per hour, or 21 percent of all hourly-paid Hispanic workers (compared with 13 percent for whites and 17 percent for African Americans).
  - Hispanic women are especially likely to be paid very low wages: 25 percent of hourly-paid Hispanic women are paid $4.25 - $5.14 per hour, the highest of any group.

Raising the minimum wage would provide a modest raise to the poorest working Hispanic Americans, many of whom are raising children, and all of whom have not had a raise in five years.

EFFECT ON MINORITY YOUTH

A raise in the minimum wage would not create job loss that would disproportionately affect minority youth.

- Studies of minimum wage increases fail to show disproportionate impacts for minority youth.
- As the *New York Times* reported, most economists agree that raising the minimum wage increases the income of low wage workers, which more than offsets any effect on jobs.

19. NUMBER OF WOMEN WHO WOULD BENEFIT

Question: How will raising the minimum wage help women?

Answer:

- Based on data from the Current Population Survey:
  - Most minimum wage workers are women: 5.75 million women are paid wage of $4.25 - $5.14 per hour (17 percent of all hourly paid female workers), compared with 3.94 million men (11 percent of all hourly-paid male workers.
  - Most female minimum wage workers are adults: 3 million women age 25 years or older are paid $4.25 - $5.14 per hour (52 percent of women in this wage range).

Raising the minimum wage would provide a modest pay raise to the poorest working women, many of whom are raising children, and all of whom have not had a raise in five years.

16. TARGETING TEENAGERS?

Question: Wouldn't a raise in the minimum wage just help middle class teenagers?

Answer:

- Almost two-thirds of those who earn the minimum wage are adults age 20 and older.
- Almost seventy percent of those who earn from $4.25 to $5.14 are adults age 20 and older.
- The average minimum wage worker brings home about half of his or her family's earnings.

20. NUMBER OF AFRICAN AMERICANS WHO WOULD BENEFIT

Question: How will raising the minimum wage help African Americans?

Answer:

- Based on data from the Current Population Survey:
  - 1.5 million African Americans are paid $4.25 - $5.14 per hour, or 17 percent of all hourly-paid African American workers.
  - Most of these low wage workers are female: about 957,000 are African American women, versus 577,000 African American men.

Raising the minimum wage would provide a modest pay raise to the poorest working African Americans, many of whom are raising children, and all of whom have not had a raise in five years.

21. NUMBER OF LATINO AMERICANS WHO WOULD BENEFIT

Question: How will raising the minimum wage help Latino Americans?

Answer:

- Based on data from the Current Population Survey:
    - 1.6 million Latino Americans are paid $4.25 - $5.14 per hour, or 21 percent of all hourly-paid Latino workers (compared with 13 percent for whites and 17 percent for African Americans).
    - Latino Women are especially likely to be paid very low wages: 25 percent of hourly-paid Latino Women are paid $4.25 - $5.14 per hour, the highest of any group.

Raising the minimum wage would provide a modest pay raise to the poorest working Latino Americans, many of whom are raising children, and all of whom have not had a raise in five years.

Economic Policy Institute

1660 L STREET, NW • SUITE 1200 • WASHINGTON, DC 20036 • 202/775-8810 • FAX 202/775-0819

Memo to Barbara Bingham and Lisa Stewart

From Jared Bernstein

Date: August 25, 1997

Re: Minimum wage sensitivity analysis

I thought your comments last Friday raised good questions. After running the data with some of the adjustments we discussed, I recommend going with the original tables which I sent you on August 15.

In fact, there is very little difference in the overall counts when we shift the dates of the analysis. For example, the number and share of workers in the second step using the most recent two months for which we have data (June 97-July 97) are 6.8 million and 5.9%. This compares with 6.8 million and 6.0% when we use October 96-July 97. The "residual" category--those earning less than $4.75--falls slightly when we use the most recent data, from 3.7 million to 3.5 million.

The number of workers affected by the full sweep is also pretty insensitive to choice of dates. When we use April 96-Sept 96, as opposed to the 12 months preceding the increase, the affected number is 9.8 million (8.8%) as opposed the 9.9 million (8.9%).

To answer another one of your questions, of the 9.9 million workers in the full sweep in the 12 months prior to the increase, 4.1 million earned between $4.25 and $4.74.

The Poverty Reducing Effects of the Full Minimum Wage Increase.

Using the 1996 March data, we examined the numbers of families and persons that would be raised above the poverty line due to the $0.90 increase.[1] Of the 16.3 million poor families (including one-person families), 148,616 would be lifted out of poverty. These families include 314,215 persons, 115,983 of whom are children.

Let me know if you have any questions.

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[1] The gain in wages for workers in the sweep is equal to the difference between their hourly wage in March of 1996 and $5.15. Information on income, weeks and hours worked, and poverty status comes from the previous year.

13

QUESTIONS AND ANSWERS
MINIMUM WAGE INCREASE: SEPTEMBER 1, 1997

Q. How many workers will have received a pay raise when the second step of the minimum wage increase ($5.15 an hour) occurs on September 1, 1997?

A. According to the Economic Policy Institute (EPI), up to **9.9 million** American workers will have benefited from the increases in the minimum wage. This number is the sum of all workers who were earning between $4.25 and $5.14 an hour before the first increase in the minimum wage.

Q. Why is that number so much greater than the number of workers that EPI says will benefit from the second step of the minimum wage increase on September 1st (6.8 million versus 9.9 million)?

A. There are a number of technical issues involved in the time frames and data sets used and I will defer to EPI to explain the differences in their data.

Q. How will minimum wage workers benefit from the second increase in the minimum wage?

A. On September 1, 1997, the minimum wage will be raised by $0.40 an hour. For full-time minimum wage workers, this will mean an additional $800 per year in income. Full-time workers earning the minimum wage before the first increase will receive a total of $1,800 a year in additional income from the two pay raises.

Q. How many poor families will be helped by the increases in the minimum wage?

A. According to the Economic Policy Institute (EPI), up to 1.3 million poor families (i.e., below the poverty line) will have a family member receive an increase in pay due to the minimum wage increases. More than one-half of these poor families have children.

Q. How many women will be helped by the increase in the minimum wage?

A. According to EPI, by September 1, 1997, up to 5.8 million women will have received a pay raise, compared with 4.1 million men. Women represent 58.2 percent of those receiving a pay raise.

Q. How many families will have benefited from the increases in the minimum wage?

A. According to EPI, up to 5.6 million families (excluding one person families) will benefit from the increases. 1.9 million of those families are dependent on a minimum wage worker, i.e., the minimum wage worker in those families contributes at least half of the family's weekly earnings.

Q. By September 1, 1997, how many adults will have received a pay raise?

A. According to EPI, up to 7.1 million adults (workers over the age of 19) will have received a pay increase. Adults account for 71.4 percent of minimum wage workers receiving a pay increase.

Q. By September 1, 1997, how many teenage workers will have received a pay raise?

A. According to EPI, up to 2.8 million teenage workers (16-19 years of age) will have received a pay increase. Teens account for 28.6 percent of minimum wage workers receiving a pay increase.

Q. What percent of workers who will have received an increase in the minimum wage work full-time?

A. According to EPI, almost half (46 percent) of workers who will have received an increase work full-time (35 hours a week or more).

Q. What percent are minorities of all workers who will have received an increase in the minimum wage?

A. According to EPI, 16.1 percent of the minimum wage workers receiving an increase are Black and 17.5 percent are Hispanic.

QUESTIONS AND ANSWERS
MINIMUM WAGE INCREASE: SEPTEMBER 1, 1997

Q. How many workers will have received a pay raise when the second step of the minimum wage increase ($5.15 an hour) occurs on September 1, 1997?

A. According to the Bureau of Labor Statistics (BLS), 9.7 million -- or **about 10 million** American workers will have benefited from the increases in the minimum wage. This number is the sum of all workers who were earning between $4.25 and $5.14 an hour before the first increase in the minimum wage.

Q. How many workers will receive a pay increase on Monday, September 1?

A. According to the Bureau of Labor Statistics (BLS), **almost 6 and one-half million workers** (6.4 million) will receive an increase in their wages.

Q. How will minimum wage workers benefit from the second increase in the minimum wage?

A. On September 1, 1997, the minimum wage will be raised by $0.40 an hour. For full-time minimum wage workers, this will mean an additional $800 per year in income. Full-time workers earning the minimum wage before the first increase will receive a total of $1,800 a year in additional income from the two pay raises.

Q. On September 1, 1997, how many adults will receive a pay raise?

A. According to BLS, 4.4 million adults (workers over the age of 19) will receive a pay increase. Adults account for 68 percent of minimum wage workers receiving a pay increase.

Q. On September 1, 1997, how many teenage workers will have received a pay raise?

A. According to BLS, 2.1 million teenage workers (16-19 years of age) will receive a pay increase. Teens account for 32 percent of minimum wage workers receiving a pay increase.

Q. What percent of workers who will receive an increase on September 1 work full-time?

A. According to BLS, almost half (45 percent) of workers who will receive an increase work full-time (35 hours a week or more).

Q. How many women will be helped by the second increase in the minimum wage?

A. According to BLS, on September 1, 1997, 3.6 million women will receive a pay raise, compared with 2.8 million men. Women represent 57 percent of those receiving a pay raise.

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Transcript

DATE February 11, 1998
TIME 7:00-8:00 PM (ET)
NETWORK PBS
PROGRAM Newshour with Jim Lehrer

Jim Lehrer, host:

Now Elizabeth Barnsworth is in San Francisco with a 'Beyond the Speech' look at the minimum wage.

Elizabeth Barnsworth reporting:

Over the last ten years, the federal government has raised the minimum wage several times. In 1988, it stood at three dollars and thirty-five cents an hour. In 1991, it was increased to four twenty-five. And in 1996, President Clinton and Congress approved a two-part hike that brought the minimum wage to its current rate of five fifteen an hour. Now in his State of the Union speech, President Clinton has called for another increase.

President Bill Clinton (From State of the Union Address): In an economy that honors opportunity, all Americans must be able to reap the rewards of prosperity. Because these times are good, we can afford to take one simple, sensible step to help millions of workers struggling to provide for their families. We should raise the minimum wage.

Barnsworth: For more, we're joined by Harley Shaiken, a professor at the University of California at Berkeley who specializes in labor issues; and Richard Berman, a labor attorney and executive director of the Employment Policies Institute in Washington, D.C., which researches wage issues for business.

Harley Shaiken, the minimum wage has already been raised, what, twenty-one percent since October, 1966--1996? Why raise it again?

Harley Shaiken (University of California, Berkeley): Well, we have some very good economic news now. In fact, it's the best economic news in several decades. And by raising the minimum wage now, we allow those most in need to share in some of tho--that good news, those at the bottom end of the income spectrum. Forty percent of the benefits of this increase in the minimum wage would go to the bottom twenty

40

percent of families.

In the last several years, we've done real well as an economy in terms of creating jobs. We're the envy of the world in that area. We've done far less well in terms of raising the incomes. In fact, we have the most polarized income distribution of any industrial country in the world. By raising the minimum wage now, we address our worst economic problem, income polarization, by raising those at the bottom.

I think it will be good for the economy. I think it's the fair thing to do, and there's no better time to do it than right now.

Barnsworth: Mister Berman, do you think it would be good for the economy, and is it the fair thing to do? Should it be raised?

Richard Berman (Employment Policies Institute): Well, first, I'd like to reflect on something the president said. He indicated that it was the right thing to do, yet during the first campaign, in 1992, then-candidate Clinton said that raising the minimum wage was a very inefficient way to help people who are classified as the working poor. And a year later, Secretary Reich, who, despite his public statements of being in support of the minimum wage, indicated that most minimum wage workers are not poor. And that, perhaps, looks to be in juxtaposition to what Harley just said. And the reason is is that people play with definitions in a very unfair manner.

For instance, when Harley speaks about this lowest forty percent, he's talking about family income that goes as high as thirty-seven thousand dollars a year. Now people don't consider that the working poor. And if you thought that all of this was just a free lunch, perhaps it would just be a debate among economists. But the problem is is that we have, on the very same day that the minimum wage increased, October 1 of '96, we have welfare reform, where the clock started ticking and telling people who have the least amount of skills in society that they must get a job or else lose benefits, and God knows how they're going to take care of themselves. And these people who could not find a job at three thirty-five an hour are all of a sudden supposed to find a job at four and a quarter or today at five fifteen or, under the proposal of Senator Kennedy, at six sixty-five. And this is a very different situation today than we've ever had before, because when the low-skilled got shut out of jobs before, there was always welfare. And today, that safety net is disappearing rapidly.

Barnsworth: What about that Mr. Shaiken?

41

Shaiken: Well, I'm tempted to say to Mr. Berman: there you go again. We've had the minimum wage for sixty years and, over that sixty-year period, it's created a lot of jobs. Some of the issues that he's raising right now, on one level, are factually untrue.

For example, I mentioned that forty percent of the benefits go to the bottom twenty percent of the income distribution. These are families of four who earn less than twenty-two thousand dollars a year; that is the working poor. In fact, if a working mother of two earns the minimum wage, she earns less than twelve thousand dollars a year.

But I think what's really at issue here isn't the raise in the minimum wage, it's those who are opposing the raise now don't want a minimum wage. They oppose the minimum wage in the first place. And it's one of those social programs that has done the most for this economy. By giving an incentive to those at the lower end of the spectrum, it increases the efficiency of the low end of the labor market, it increases motivation, it--it reduces turnover, it expands purchasing power.

The real issue here is we have good economic times. We can afford to do this. It benefits the economy. There really isn't a major cost associated with it, so if we can't do it now, when will we do it? The real issue being debated here, I think, isn't the increase. The--the bill by Congressman Bonior and Senator Kennedy is a very appropriate one, raising the minimum wage a dollar fifty to--a dollar to a dollar fifty an hour over two to three years. I think that is something that is very appropriate. The real issue is should we have a minimum wage. Because it's so popular, its critics are afraid to come out against it.

Barnsworth: Mr. Berman, is that true that the real issue is whether we should have a minimum wage? Some people have argued that the--the government is--shouldn't be involved in setting the wage for entry-level workers. Do you think that's true?

Berman: Well, clearly, there--there's a great difficulty in setting one wage for economies that are all over the country. Rural economies are very different than urban economies, and just setting it for everyone is a--is probably a pretty foolish economic proposition. And, in fact, most economists, the great majority of economists, think that the minimum wage has failed economic policy. And the reason that it's failed is that, although Harley keeps speaking about great economic times--and truly we are in a booming economy, and lots of people are doing well--it is masking what's happening to the low-skilled work force.

After the 1996 increase, if you just look at a

42

straightforward analysis of Bureau of Labor Statistics data, we lost a hundred and twenty-eight thousand teen jobs, and teens make up about a third of the minimum-wage work force. In fact, Harley's example of a woman supporting kids at the minimum wage is really not typical. You've got sixteen percent of people at the minimum wage who are sole earners with a true family. That is, they're not themselves the family; they actually are supporting other people. And so we're talking about people who are basically not poor getting this, and forcing the people who have low skills out of the work force.

And again, a straightforward analysis of BLS data--and I'm only speaking about the first half of this increase, only the 1996 increase numbers are available--if you look at that, people are losing their jobs. Black teens, black male teens suffered the most disproportionately of any cohort in society. And that is really unfair, because these folks have no place else to go. And if you keep raising the bar, they are going to find a more difficult time getting a job from anyone.

Barnsworth: What about that? And also, what about the point that Mr. Berman made about welfare mothers, in particular, who are pouring--going to be pouring into the labor market in the next couple of years?

Shaiken: Well, I have to start by saying, if I had a dollar for each time the minimum wage--for each study that predicted the minimum wage would be--would cost jobs, I would be very wealthy. The study he referred to, in fact, is such a small number, were it correct--and there's been a lot of criticism of the study, it would be less than one-quarter of one percent of all those that work under the minimum wage. So I think that number really isn't appropriate.

What it does for people at the bottom end of the spectrum, for those on welfare entering the work force, is it helps create good jobs. And I think that's the real issue here, not simply creating jobs. We can create jobs at a dollar an hour, but are they jobs that will keep people in the labor force? Are they jobs that will allow people on welfare to make that transition?

Barnsworth: How much do you think it should be raised? The--the wires, today, are saying the president, tomorrow, may call for a one-dollar raise between now and the year 2000, that that's what he's embracing. How much do you think it should be raised?

Shaiken: I think, certainly, a dollar to a dollar fifty, even two dollars an hour is well within the parameters of what the economy could handle very well. We have the underlying productivity. We have the underlying good

43

economic news that will make this possible, so this is something that won't cost us at this point in time. It will enable us to be healthier as an economy, and it will address, particularly, those people on welfare who are entering the labor market.

If we're paying three dollars an hour, where, according to Richard's statistics, we might even create more jobs, we wouldn't be able to sustain people within the labor force. What we're doing here is we're on the way to addressing income polarization. We're on the way to a healthier society as well as a healthier en--economy.

Barnsworth: And, Mr. Berman, if it were raised an hour--a dollar between now and the year 2000, how detrimental would that be, do you think, to the economy and to the--the lower-wage workers that you are talking about?

Berman: Well, you know, President Carter had a commission that studied the minimum wage. It was the most wide-ranging commission ever pulled together of economists, and they said that for every ten percent increase in the minimum wage, there was a one to two percent decrease in employment among minimum-wage workers.

Now we just went through a twenty-one-percent increase. Senator Kennedy is looking for a thirty-percent increase. So you can do the math, and you tell me how much money you want, and I'll tell you how much unemployment you're going to get.

Shaiken: Well...

Barnsworth: OK. Just before we leave, how much pressure will labor put on government to get this passed?

Shaiken: I think this will be a pivotal issue for labor, and here, labor is speaking for all working Americans. This is enormously popular with the public as a whole. Polls show upwards of eighty percent of people support this.

And there's something else here. Those at the low end of the labor market want higher wages. If this were so bad in terms of the employment impact, they would certainly be wildly irrational to want that extra fifty cents an hour...

Barnsworth: And Mis...

Shaiken: ...for the next several years.

Barnsworth: And Mr. Berman, how hard do you think business will fight this?

Berman: I think business will fight this very much. But

44

the important part is: how much will people who are in favor of welfare reform working fight this, because this is going to be the--the seminal event that could conceivably sabotage welfare reform as people try to get jobs in the marketplace and find that the low-skilled are the first ones to lose jobs and the last ones to get them.

Barnsworth: OK. Thank you both very much for being with us.

# # #

SMALL BUSINESS HANDBOOK
Wage, Hour and Other Workplace Standards
Minimum Wage and Overtime Pay

DISCLAIMER Updated: November 1997

Fair Labor Standards Act of 1938, as Amended
(29 USC §201 et seq.; 29 CFR 510-794)

Who is Covered

The Fair Labor Standards Act (FLSA) establishes minimum wage, overtime pay, record-keeping and child labor standards that affect over 100 million full- and part-time workers in the private sector and in federal, state and local governments.

The Act applies to enterprises that have employees who are engaged in interstate commerce, producing goods for interstate commerce, or handling, selling or working on goods or materials that have been moved in or produced for interstate commerce. For most firms, an annual dollar volume of business test of $500,000 applies (i.e., those enterprises under this dollar amount are not covered). The following are covered by the Act regardless of their dollar volume of business: hospitals, institutions primarily engaged in the care of the sick, aged, mentally ill or disabled who reside on the premises; schools for children who are mentally or physically disabled or gifted; preschools, elementary and secondary schools and institutions of higher education; and federal, state and local government agencies.

Employees of firms that do not meet the $500,000 annual dollar volume test may be individually covered in any workweek in which they are individually engaged in interstate commerce, the production of goods for interstate commerce, or an activity which is closely related and directly essential to the production of such goods. Domestic service workers, such as day workers, housekeepers, chauffeurs, cooks, or full-time babysitters, are also covered if they receive at least $1,000 (1995) in cash wages from one employer in a calendar year, or if they work a total of more than 8 hours a week for one or more employers.

An enterprise that was covered by the Act on March 31, 1990, and that ceased to be covered because of the increase in the annual dollar volume test to $500,000, as required under the 1989 amendments to the Act, continues to be subject to the overtime pay, child labor and recordkeeping requirements of the Act.

Some employees are exempt from the Act's overtime pay provisions or both the minimum wage and overtime pay provisions under specific exemptions provided in the law. Because these exemptions are generally narrowly defined, employers should carefully check the exact terms and conditions for each by contacting local offices of the **Wage and Hour Division** listed in most telephone directories under U.S. Government, Department of Labor, Wage and Hour Division.

The following are examples of employees exempt from both the minimum wage and overtime pay requirements:

- **Executive, administrative and professional employees** (including teachers and academic administrative personnel in elementary and secondary schools), outside sales employees, and certain skilled computer professionals (as defined in Department of Labor regulations);
- Employees of certain seasonal amusement or recreational establishments;
- Employees of certain small newspapers and switchboard operators of small telephone companies;
- Seamen employed on foreign vessels;
- Employees engaged in fishing operations;
- Employees engaged in newspaper delivery;
- Farm workers employed on small farms (i.e., those that used less than 500 "man-days" of farm labor in any calendar quarter of the preceding calendar year);
- Casual babysitters and persons employed as companions to the elderly or infirm.

The following are examples of employees exempt from the Act's overtime pay requirements only:

- Certain commissioned employees of retail or service establishments;
- Auto, truck, trailer, farm implement, boat or aircraft salesworkers, or parts-clerks and mechanics servicing autos, trucks or farm implements, who are employed by non-manufacturing establishments primarily engaged in selling these items to ultimate purchasers;
- Railroad and air carrier employees, taxi drivers, certain employees of motor carriers, seamen on American vessels, and local delivery employees paid on approved trip rate plans;
- Announcers, news editors and chief engineers of certain non-metropolitan broadcasting stations;
- Domestic service workers who reside in their employer's residence;

- Employees of motion picture theaters;
- Farmworkers.

Certain employees may be partially exempt from the Act's overtime pay requirements. These include:

- Employees engaged in certain operations on agricultural commodities and employees of certain bulk petroleum distributors;
- Employees of hospitals and residential care establishments which have agreements with the employees to work a 14-day work period in lieu of a 7-day workweek (if the employees are paid overtime premium pay within the requirements of the Act for all hours worked over 8 in a day or 80 in the 14-day work period, whichever is the greater number of overtime hours);
- Employees who lack a high school diploma or who have not completed the eighth grade may be required by their employer to spend up to 10 hours in a workweek in remedial reading or training in other basic skills that are not job-specific, as long as they are paid their normal wages for the hours spent in such training. Such employees need not be paid overtime premium pay for their remedial training hours.

Basic Provisions/Requirements

The Act requires employers of covered employees who are not otherwise exempt to pay these employees a minimum wage of not less than $5.15 an hour beginning September 1, 1997. Youths under 20 years of age may be paid a minimum wage of not less than $4.25 an hour during the first 90 consecutive calendar days of employment with an employer. Employers may not displace any employee to hire someone at the youth minimum wage. Employers may pay employees on a piece-rate basis, as long as they receive at least the equivalent of the required minimum hourly wage rate. Employers of tipped employees, i.e., employees who customarily and regularly receive more than $30 a month in tips, may consider the tips of these employees as part of their wages, but must pay a direct wage of at least $2.13 per hour if they claim a tip credit. Certain other conditions must also be met.

The Act also permits the employment of certain individuals at wage rates below the statutory minimum wage under certificates issued by the Department:

- Student learners (vocational education students);
- Full-time students in retail or service establishments, agriculture, or institutions of higher education;
- Individuals whose earning or productive capacity is impaired by a physical or mental disability, including those related to age or injury, for the work to be performed.

The Act does not limit the number of hours in a day or days in a week an employee (at least 16 years old) may be required or scheduled to work, including overtime hours. The Act requires that covered employees, unless otherwise exempt, be paid not less than **one and one-half times their regular rates of pay** for all hours worked in excess of 40 in a workweek.

Employers are required to keep **records** on wages, hours and other items as set out in the Department of Labor's regulations. Most of this information is of the type generally maintained by employers in ordinary business practice.

Performance of certain types of **work in an employee's home** is prohibited under the Act unless the employer has obtained prior certification from the Department of Labor. Restrictions apply in the manufacture of knitted outerwear, gloves and mittens, buttons and buckles, handkerchiefs, embroideries, and jewelry (where safety and health hazards are not involved). Employers wishing to employ homeworkers in these industries are required to, among other things, provide written assurances to the Department that they will comply with the Act's wage and other requirements. The manufacture of women's apparel (and jewelry under hazardous conditions) is generally prohibited, except under special certificates that allow homework in these industries when the homeworker is unable to adjust to factory work because of age or physical or mental disability, or is caring for an invalid in the home.

Special provisions apply to **state and local government employment**.

It is a violation of the Act to fire or in any other manner discriminate against an employee for filing a complaint or for participating in a legal proceeding under the Act. The Act also prohibits the shipment of goods in interstate commerce which were produced in violation of the minimum wage, overtime pay, child labor, or special minimum wage provisions.

Assistance Available

More detailed information on the FLSA, including copies of **explanatory brochures** and regulatory and interpretative materials, may be obtained by contacting local **Wage-Hour offices** listed in most telephone directories under U.S. Government, Department of Labor, Wage and Hour Division.

Penalties

Enforcement of the Act is carried out by Wage and Hour Division investigators stationed throughout the country. A variety of remedies is available to the Department to enforce compliance with the Act's requirements..When investigators encounter violations, they recommend changes in employment practices in order to bring the employer into compliance and request the payment of any back wages due employees. Willful violations may be prosecuted criminally and the violators fined up to $10,000. A second conviction may result in imprisonment. Employers who willfully or repeatedly violate the minimum wage or overtime pay requirements are subject to **civil money penalties** of up to $1,000 per violation. When a civil money penalty is assessed, employers have the right, within 15 days of receipt of the notice of such penalty, to file an exception to the determination. When an exception is filed, it is referred to an administrative law judge for a hearing and determination as to the appropriateness of the penalty. If an exception is not filed, the penalty becomes final.

The Secretary of Labor may also bring suit for back pay and an equal amount in liquidated damages and obtain injunctions to restrain persons from violating the Act. Employees may also bring suit, where the Department has not done so, for back pay and liquidated damages, as well as attorney's fees and court costs.

Relation to State, Local and Other Federal Laws

State laws also apply to employment subject to this Act. When both this Act and a state law apply, the law setting the higher standards must be observed.

DOL Home Page	OASP Home Page	Table of Contents	Overview

U.S. Department of Labor

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QUESTIONS AND ANSWERS ON INCREASING THE MINIMUM WAGE

Q1. 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?

A1. 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 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.

In addition, the minimum wage is still low compared to its historical value -- we have yet to make up for the inflation of the 1980's that eroded the real value of the minimum wage. This erosion can also be seen when you compare the minimum wage to the average wage. The minimum wage was generally worth more than 50 percent of the national average hourly wage during the 1950's and 1960's and 46 percent in the 1970's. Yet the 1980's and 1990's have seen the value of the minimum wage decline to near 40 percent of the average wage.

Q2. What exactly is the President's proposal?

A2. The President's proposal would increase the minimum wage from $5.15 to $6.15 an hour 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 a year.

Q3. Isn't the minimum wage still very low in historical terms?

A3. Yes. Between 1966 and 1996, the minimum wage averaged $5.53 an hour (in 1996 dollars). The value of the minimum wage reached its peak in 1968 at $7.21. Today, even after the 90-cent increase that President Clinton pushed through Congress, the minimum wage is only $5.15 an hour. President Clinton's new 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 minim 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.

Q4. When the current minimum wage is combined with food stamps and the EITC, isn't it enough to lift even a family of five out of poverty?

A4. Yes, but historically the minimum wage alone has been enough to lift a family out of poverty -- without resorting to help from the government. The minimum wage no longer lifts a family of <u>two</u> out of poverty. Yet in 1968, a family of four could be supported above the poverty threshold by the earnings of one full-time minimum wage worker.

We should not be satisfied with bare subsistence incomes for the working poor. Full-time workers who are supporting families should be able to lift themselves out of poverty. To do that, we need to continue to making work pay by assuring that the minimum wage a livable wage.

Q5. Who will benefit from a minimum wage increase?

A5. 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. 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 an hour. About two-fifths of the workers who will benefit from the increase are the sole wage earner in their household. The average minimum-wage worker brings home <u>half</u> of their family's income.

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 minimum wage increase 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 bring up their children out of poverty.

Q6. Aren't most minimum wage earners women? Won't they get the greatest benefit from a raise?

A6. Yes, about 60 percent of minimum wage earners are women, so a raise could help reduce the gender gap in wages.

Q7. But won't a raise cause job losses?

A7. Evidence from the 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.

Q8. 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?

A8. Unemployment for young black men is too high, though it has fallen over the last four years by more than 5 percentage points (1992-1996). The 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. **LISA IS doing NEW NUMBERS**

Q9. 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?

A9. As people move from welfare to work, one of the most important lessons they can learn is that work pays. Raising the minimum wage is a signal that the nation should reward — and not hold back — people who try their best to work hard and play by the rules. Welfare recipients should not be excepted from that ideal.

New block grant rules and declining caseloads have resulted in many states having more flexible resources and additional funds available per welfare household this fiscal year. A report by a House Ways and Means subcommittee shows that last year the typical state received a 56% increase per recipient family over 1994 levels. In addition, states may use their state-only welfare funds to serve a variety of needs and special populations. States have substantial available resources.

The President proposed and won passage of the Welfare-to-Work Jobs Challenge which will make $3 billion available over three years to state and localities for the purpose of placing the hardest-to-serve recipients into lasting jobs. The President also proposed and won passage of a "super" Work Opportunity Tax Credit for long-term recipients. Employers could receive a credit equal to 50% of the first $10,000 in wages for each of two years, making for a maximum credit to private-sector employers of $10,000, as opposed to $2,100 under the regular WOTC.

In light of all these additional resources and incentives to employ welfare recipients, it will be difficult to argue that a moderate increase in the minimum wage will interfere with the transition from welfare to work.

> *NOTE: At current benefit levels, a number of states (see attached list) will not be able to meet minimum wage requirements for WTW recipients. In addition, some employers (public and private) will say that the skill level of many WTW recipients is so low that they cannot afford to hire them at any amount over $5.15 an hour (although they make this argument each time the minimum wage is debated). Thus, pressure may be generated for an exemption from FLSA coverage or a WTW sub-minimum wage -- as happened with tipped workers and youth in the last legislative amendment to increase the minimum wage.*

Q11. Isn't it unprecedented to raise the minimum wage so soon after another increase?

A11. Mere 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, then it is an appropriate time to raise the minimum wage . In addition, it is not 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 1 and whose first increase was 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.*

American Enterprise Institute for Public Policy Research

Conference

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The Behavioral and Redistribution Consequences of Minimum Wage Hikes: Evidence from the 1990s

Richard V. Burkhauser
Center for Policy Research, Syracuse University

Kenneth A. Couch
University of Connecticut

David C. Wittenburg
The Lewin Group

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9129

Introduction

As long ago as 1946, neo-classical economists (Stigler 1946) argued that minimum wage increases were ineffective mechanisms for helping the working poor on both behavioral and redistributional ground. By the 1980s, the clear consensus in the economics literature as summarized in Brown, Gilroy, and Kohen (1982) and Brown (1988) was that increases in the minimum wage had significant but modest impacts on the employment of fringe workers (e.g., teenagers, high school dropouts) in the range of a 1 percent to 3 percent decline in their employment per 10 percent increase in the minimum wage. At around this time Burkhauser and Finegan (1989) also showed that the vast majority of minimum wage workers were second or third workers in non-poor families and that programs like the Earned Income Tax Credit were far more effective in providing additional income to the working poor than minimum wage hikes. This consensus was shattered by a set of papers and a book by Card and Krueger (1995) in the 1990s which challenged this consensus on both theoretical and empirical grounds.

This academic challenge to the conventional wisdom that minimum wage increases decrease employment occurred at the same time that Congress enacted two major increases in the minimum wage—an increase from \$3.35 to \$4.25 between April 1990 and April 1991 and a further increase from \$4.25 to \$5.15 between October 1996 and September 1997. Today, public controversy over the consequences of minimum wage increases is heightened by President Clinton's recent proposal to increase the minimum wage to \$6.15 by the year 2000.

In this policy note, we present new evidence based on a variation of the major minimum wage specification used by Card, Katz, and Krueger (1994) and Card and Krueger (1995) with more recent data to show that the minimum wage increases in the early 1990s significantly reduced the employment of all workers, but fell most heavily on the very groups of vulnerable workers advocates of the minimum wage claim they most want to help—teenagers, young adults, and high school dropouts. We then show why our results differ from those of Card, Katz, and Krueger (1994) for the time period of their analysis and what the consequences of the most recent minimum wage increase are likely to be once the latest expansion of the current business cycle is over.

Consequences of the 1990-1991 Minimum Wage Increases

Table 1 from Burkhauser, Couch, and Wittenburg (1998a) uses monthly data from the Current Population Survey from January 1979 through December 1992 to look at the consequences of increasing the minimum wage from $3.35 per hour in April 1990 to first $3.80 and then to $4.25 in April 1991. The specification chosen to estimate this model is exactly the same as that used by Card, Katz, and Krueger (1994) and in Card and Krueger (1995, Table 7.1) with two exceptions. A more flexible model of the minimum wage variable based on Deere, Murphy, and Welch (1995) is used to capture the effect of minimum wage increases rather than the more restricted linear variable used by Card, Katz, and Krueger.[1] The second is that while we control for state, month, and AR1 effects, we do not control for year effects.

Each column of Table 1 provides an estimate of the employment effects of a minimum wage increase on a specific demographic group. (See Appendix Table 1A for a definition of each group.) In all cases, we show that minimum wage increases from $3.35 to $3.80 and from $3.35 to $4.25 significantly reduced the employment of the demographic group we tracked.[2] Importantly, the size of the effect as measured by the percentage change in the share employed in the demographic group with a percent change in the minimum wage to either $3.80 or $4.25 varies widely.

As neo-classical theory predicts, fringe workers—teenagers and young adults—are more seriously hurt by employment losses than prime age adults.[3] Teenagers are the most severely effected group with an elasticity of -0.147 for a minimum wage increase from $3.35 to $4.25. This translates into a 3.95 percent fall in the proportion of teenagers who were employed due to the 26.9 percent increase in the minimum wage from $3.35 to $4.25 between 1990 and 1991.

What Accounts For the Difference in Outcomes

Table 2 from Burkhauser, Couch, and Wittenburg (1998b) provides some insight into why our results are so different from the Card, Katz, and Krueger (1994) results. In it, we show the sensitivity of the Card, Katz, and Krueger (1994) specification to alternative assumptions about control variables, using the same monthly data from the CPS discussed in Table 1. Using these data we are able to qualitatively replicate the Card, Katz, and Krueger (1994) specification in column 5. In this specification the single linear variable capturing a minimum wage effect has a positive but insignificant sign, suggesting that minimum wage increases have no significant effect on teenagers. In the other specifications in Table 2 we show how sensitive this result is to the choice of control variables. When controls for state effects, seasonal effects (months of the year), or recession effects (month in which the country was in recession) are used, the minimum wage variable is significant and negative. Only when year effects are included does the sign change and is the coefficient insignificant from zero. Using a standard auxiliary R^2 test, we show that this sign change is consistent with problems of colinearity. No other specification in Table 2 has this colinearity problem.

Table 3 from Burkhauser, Couch, and Wittenburg (1998b) uses the same data but substitutes a Deere, Murphy, and Welch (1995) style set of dummy variables for the linear relationship between teenage employment ratios and minimum wage changes assumed by Card, Katz, and Krueger (1994). In all five specifications, including the exact Card, Katz, and Krueger (1994) specification in column 5 which controls for year effects, we find a significant and negative relationship between employment and minimum wage increases from $3.35 to $3.80 and from $3.35 to $4.35. Note that the column 3 specification in Table 3 is the one on which we base all three of our specifications in Table 1, since we believe this is the most appropriate specification to capture minimum wage effects. The values in column 3 of Table 3 match those for teenagers in Table 1 (column 2).

Who Gained From the 1990-1991 Minimum Wage Increase?

Table 1 showed that increases in the minimum wage significantly reduce employment but disproportionately did so for teenagers and young adults. Burkhauser, Couch, and Wittenburg (1996) show that in addition to disproportionately reducing employment of such fringe workers, minimum wage hikes also do an ineffective job of increasing the earnings of the working poor who manage to keep their jobs. The reasons for the weak relationship between increases in low wage rates and increases in the income of poor working families can be seen in Table 4 which uses data from the outgoing relations group of the March 1990 Current Population Survey. In Table 4 individuals are arrayed by their family income divided by the official U.S. Census poverty line for a family of their size. Those who live in poor families have income-to-needs ratios of less than 1. Table 4 then shows the distribution of hourly wage rates earned by workers in each income-to-needs row.

Two facts are clear. First, in 1990 prior to the increase in the minimum wage from $3.35 to $4.25 the vast majority of the workers in poor families earned more than $4.25 per hour and hence, were not directly helped by this minimum wage increase. As can be seen in the first row, only 25 percent of workers who lived in a family whose income was less than the poverty line earned between $3.35 and $4.25 per hour. The main reasons why higher than minimum wage workers' families were poor were that they were either not working full-time or they had very large families.

Second, as can be seen in the next to last column, the vast majority of workers benefitted by the increase in the minimum wage from $3.35 to $4.25 did not live in poor families. Only 22 percent of workers who would have been effected by a minimum wage increase from $3.35 to $4.25 lived in poor families, while 32.5 percent lived in families with income in excess of three times the poverty line in 1990.

In the last column we report the results of a simulation we performed which assumed that the minimum wage increase from $3.35 to $4.25 had no effect on employment, an assumption which Table 1 shows understates the significant decline in employment due to this minimum wage increase. Even with this strong assumption, we show that only 19.3 percent of the increase in the wage bill caused by that minimum wage increase went to poor families. This is less than the 22 percent of workers whose wages were increased by the minimum wage increase who live in poor families. The reasons are clear, not only are minimum wage workers who live in poor families a small share of the minimum wage worker population but they tend to work fewer hours than other minimum wage workers. To the degree that they are also more likely to be teenagers, young adults, or young high school dropouts, and hence, disproportionately hurt be minimum wage induced employment drops, our results suggest they will receive even smaller minimum wage gains. Burkhauser, Couch, and Glenn (1996) show that increases in the Earned Income Tax Credit over this period were much more effective in providing additional income to low wage workers who actually lived in poor families.

How Did the Recent Increase in the Minimum Wage Effect Employment?

The evidence we present in the previous tables argues that minimum wage increases over the period 1979 through 1992 significantly reduced teenage employment, other things equal, but that teenage employment is also highly sensitive to overall business cycle forces. Hence, teenage employment increases when the economy moves up the business cycle from trough to peak years and falls as the economy moves down from peak to trough years. Figures 1 reports the share of teenagers employed in each year from 1979 through 1997. Figure 2 reports the unemployment rate of prime age men, which is an excellent proxy for business cycle effects. Clearly business cycle effects as seen in the movement of prime age male unemployment rates are highly correlated with the share of teenagers employed.

The importance of business cycles effects on the share of teenagers employed is captured in our Table 1 (column 2) specification for teenagers. We believe, based on sensitivity tests in Burkhauser, Couch, and Wittenburg (1998b), that this is the most appropriate specification for estimating the consequences of minimum wage increases on teenagers. In the tables below, we will use this specification to predict the consequences of the latest round of minimum wage hikes—from \$4.25 to \$4.75 in October 1996 and from \$4.75 to \$5.15 in September 1997—and a proposed minimum wage hike from \$5.15 to \$6.15.

Initial Employment Consequences of the Minimum Wage Increase from \$4.25 to \$4.75

The increase in the minimum wage from \$4.25 to \$4.75 occurred in October 1996. This was an increase of 11.76 percent in the minimum wage. In Table 5 below we simulate the consequences of that increase on teenagers, using our Table 1, column 2 specification. Because the consequences of a change in the minimum wage are clearest in the summer months when school responsibilities are not restricting the supply of teenagers, we perform our simulation based on average teenage employment to teenage population ratios in the summer months (June, July, August) prior to the October 1996 minimum wage increase and in those same summer months in 1997 following the minimum wage increase to \$4.75.

In the summer of 1996, 50.76 percent of teenagers were employed. A year later and prior to the second increase in the minimum wage, the share of teenagers employed fell to 50.06 percent. Table 5 demonstrates how well our model predicted this outcome. Based on our Table 1, column 2 specification, we estimate that the percentage change in the share of teenagers employed falls by 1.47 percent for every 10 percent increase in the minimum wage, an elasticity of -0.147. Using our teenage employment elasticity, we predict that an 11.76 percent increase in the minimum wage, will decrease the share of teenagers employed by 1.728 percent (11.76 * .147). That is, we would expect the share of teenagers employed to fall by 0.878 percent (50.76 * 0.1728) or to 49.88 percent (50.76 - 0.88) in 1997.

These calculations capture the consequences of a minimum wage hike, all other things equal. However, 1996-1997 was a strong growth year as reflected in the decline in prime age male unemployment rates (see Figure 2). Hence, this change in unemployment rates must be included in our prediction of 1997 summer teenage employment rates. The prime age male unemployment rate in the summer months of 1996 was 4.1 percent, by the summer of 1997 it had fallen to 3.7 percent, a decline of 0.37 percent. The effect of this improvement in the overall economy on the share of teenagers employed can be found by multiplying this value by our Table 1, column 2 coefficient for the prime age males unemployment rate. This results in a predicted increase in the share of teenager employed of 0.17 percent (0.37 * 0.46). When this is added to the predicted teenage employment rate in row 4 of Table 5, (49.88 + 0.17), we get our predicted share of teenagers employed of 50.05 percent in 1997. This compares very well with the actual teenage employment rate for the summer months of 1997—50.06 percent. Our predicted change is well within the bound of elasticities that Brown, Gilroy, and Kohen (1982) argued represented the empirical evidence on the sensitivity of teenage employment to minimum wage hikes prior to Card and Krueger (1995).

In row 6 of Table 5 we translate changes in the share of teenagers employed into actual teenage job losses. Average teenage employment (aged 16 to 19) in the summer of 1996 was approximately 15 million per month. Thus, a 1 percent fall in the share of teenagers employed translates into 150,000 lost jobs. In row 4 we estimated that the increase in the minimum wage from $4.25 to $4.75 decreased the share of teenage employment from 50.76 to 49.88, a decline of 0.88 percentage points or 132,000 lost jobs (150,000 * 0.88). Business cycle improvements offset this loss in 1997 so that actual teenage jobs lost were 106,500.[4]

Predicted Employment Consequences of the Minimum Wage Increase from $4.75 to $5.15

The most recent increase in the minimum wage from $4.75 to $5.15 occurred in September 1997. Table 6 repeats the calculations in Table 5 to simulate its effects on teenage employment. Unlike Table 5 where we were able to show that our predicted outcomes closely paralleled actual outcomes, the consequences of the most recent minimum wage hike will only come to fruition this summer. But as Table 6 shows, we predict a further decline in the share of teenagers employed. The average share of teenagers employed in the summer of 1997 was 50.06. Based on our Table 1, column 2 specification, the 8.4 percent increase in the minimum wage from $4.75 to $5.15, other things equal will lead to a drop in the share of teenage employment to 49.44 percent or a loss of 93,000 additional teenage held jobs.

Because the economy appears to be moving toward a business cycle peak, it is likely that average prime age unemployment rates will be lower in the summer of 1998 than they were in the summer of 1997. As was the case in Table 5, this will mitigate some of the minimum wage induced job losses for teenagers. But any faltering in the economy will blunt this offsetting effect.

Predicted Employment Effects of a Minimum Wage Increase from $5.15 to $6.15

Strong economic growth over the last few years has offset much of the negative employment effect of recent minimum wage hikes. But advocates of further hikes should recognize that much of the negative employment outcomes of the most recent minimum wage increases have been masked by good economic times. While it is certainly possible that we will continue for a few more years before we hit the peak of the 1990s business cycle, good times do not last forever. In Table 7 we use our Table 1, column 2 specification to look at the consequences of an increase in the minimum wage from $5.15 to $6.15 that is assumed to take place in Winter 1998, on the average employment of teenagers in the summer of 1999, if prime age unemployment ratios remain constant at their very low 1997 levels. This amounts to a 19.4 percent increase in the minimum wage. This would further reduce teenage employment rates from the 49.94 percent share we predict for summer 1998 to 48.52 percent in summer 1999. This amounts to a loss of 213,000 teenage jobs. It will require substantial increases in economic growth as reflected by even further declines in prime age employment rates to offset this substantial loss of teenage employment.

Conclusions

Minimum wage increases decrease employment other things equal. We show that the increase in the minimum wage from $3.35 to $4.25 in the early 1990s significantly reduced the employment of workers and most especially, reduced the employment of teenagers and young adults. Based on specification from Burkhauser, Couch, and Wittenburg (1998a, 1998b), we simulated the share of teenagers who would be employed in the summer of 1997 and the relative importance of the minimum wage increase from $4.25 to $4.75 on that result relative to general business cycle effects. Our simulation closely predicted the overall outcome. The negative impact of the 1996 minimum wage increase on teenage employment was masked to some degree by strong business cycle expansion. We then predicted further declines in teenage employment in 1998 unless business cycle growth continues. Finally, we predicted that an increase in the minimum wage in 1998 to $6.15 per hour would cause a further decline in teenage employment by over 200,000 jobs, unless unemployment rates of prime age men declined even further below their decades low levels.

The negative impact of minimum wage hikes can be masked in the short run by the boom years of a business cycle, but past experiences tells us that business cycle increases do not last forever. Rather than helping the working poor, further minimum wage increases are likely to disproportionately reduce their employment and only slightly reduce the number of workers who live in poor families, while the great majority of the added wage bill for an increase in the minimum wage to $6.15 will go to second and third workers in non-poor families. This makes such minimum wage hikes a very mixed blessing to the group in whose name they are proposed.

Endnotes

1. Burkhauser, Couch, and Wittenburg (1998a) show that the Card, Katz, and Krueger (1994) specification can be thought of as a restricted version of a more flexible model similar to that used by Deere, Murphy, and Welch (1995) and that the explicit restrictions in the Card, Katz, and Krueger model are rejected in the CPS data used here.

2. Burkhauser, Couch, and Wittenburg (1998a) show that the introduction of year effects into the analysis causes problems of colinearity. We believe our specification is more appropriate. However, including year effects will not dramatically alter our conclusions.

3. In Burkhauser, Couch, and Wittenburg (1998b) we also show that young adults who are high school dropouts are also disproportionately effected by minimum wage hike-induced job losses and we show mixed evidence that black young adults are so effected.

4. Our Table 1, column 2 equation also controls for changes in the share of teenagers and the loss of adult wages. These factors are not included in our simulations. Also note that our calculations do not take into account the absolute size of the teenage population. Hence, our calculations will not line up with the absolute number of teenagers employed in 1996 or 1997 since the absolute size of the teenage population changed somewhat in 1997.

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Table 1. Effects of Minimum Wage on the Employment to Population Ratio of Various Socio-Economic Groups (Current Population Survey, January 1979 to December 1992)

Explanatory Variables	Prime Age Adults Aged 25 to 61 (1)	Teenagers Aged 16 to 19 (2)	Young Adults and Teenagers Aged 16 to 24 (3)
Minimum Wage = $3.80	-0.030**	-0.031**	-0.041**
	(0.002)	(0.004)	(0.003)
Minimum Wage = $4.25	-0.065**	-0.064**	-0.071**
	(0.002)	(0.004)	(0.003)
Log of Average Teenage (Adult) Wage[a]	0.020**	0.070**	0.072**
	(0.003)	(0.012)	(0.009)
Proportion of Age Groups in the Working Age Population[b]	0.177**	-0.044	0.031
	(0.014)	(0.058)	(0.027)
Prime Age Male Unemployment Rate	-0.730**	-0.482**	-0.445**
	(0.016)	(0.042)	(0.030)
State and Month Effects	yes	yes	yes
D-W Statistic	1.770	1.890	1.850
Adjusted R^2	0.670	0.490	0.520
Elasticity, Wage = $3.80	-0.043	-0.071	-0.075
Elasticity, Wage = $4.25	-0.092	-0.147	-0.130
N	8,568	8,568	8,568
F (P-Value)	0.001	0.001	0.001

[a]Log of Average Teen Wage in column 1, Log of Average Adult Wage in all other columns.
[b]Proportionof relevant columns population to the overall working age population.
**Significant at the 5 percent level.
Source: Burkhauser, Couch, and Wittenburg (1998a).

Table 2. **Effects of the Minimum Wage on the Teenage (Aged 16 through 19) Employment to Teenage Population Ratio Current Population Survey (January 1979 to December 1992)**

Explanatory Variables	(1)	(2)	(3)	(4)	(5)
Log State Minimum	-0.205	-0.150	-0.161	-0.164	0.059
	(7.35)	(6.57)	(8.88)	(8.67)	(0.159)
Log Adult Wage	0.084	0.062	0.057	0.056	0.036
	(6.38)	(4.79)	(5.33)	(4.86)	(2.26)
Share of Teenagers	0.0061	0.014	-0.027	-0.025	-0.009
	(0.093)	(0.215)	(0.458)	(0.426)	(0.159)
Unemployment Rate	-0.565	-0.579	-0.570	-0.551	-0.387
	(11.56)	(12.58)	(14.32)	(13.67)	(8.77)
State Effects	no	yes	yes	yes	yes
Seasonal Adjustment	no	no	yes	yes	yes
Recession Dummies	no	no	no	yes	no
Year Dummies	no	no	no	no	yes
AR1	yes	yes	yes	yes	yes
R^2	0.079	0.345	0.520	0.521	0.528
Auxiliary R^2		0.017	0.020	0.158	0.913
N	8,568	8,568	8,568	8,568	8,568
Elasticity	-0.466	-0.342	-0.366	-0.374	-0.014
Durbin-Watson	1.15	1.60	1.89	1.90	1.90

Source: Burkhauser, Couch, and Wittenburg (1998b).

Table 3. Effects of the Minimum Wage on the Teenager (Aged 16 through 19)
Employment to Teenage Population Ratio
Current Population Survey
(January 1979 to December 1992)

Explanatory Variables	(1)	(2)	(3)	(4)	(5)
Minimum Wage of \$3.80[a]	-0.036	-0.031	-0.031	-0.035	-0.042
	(5.26)	(5.98)	(7.45)	(5.50)	(3.56)
Minimum wage of \$4.25[a]	-0.062	-0.061	-0.064	-0.062	-0.048
	(11.34)	(12.76)	(16.43)	(14.78)	(4.14)
Log Adult Wage	0.084	0.077	0.070	0.083	0.028
	(6.18)	(5.41)	(5.86)	(6.16)	(1.70)
Share of Teenagers	-0.029	-0.002	-0.044	-0.057	-0.010
	(0.45)	(0.032)	(.75)	(0.98)	(.173)
Unemployment Rate	-0.493	-0.509	-0.482	-0.460	-0.368
	(9.98)	(10.61)	(11.49)	(10.77)	(8.29)
State Effects	no	yes	yes	yes	yes
Seasonal Adjustment	no	no	yes	yes	yes
Recession Dummies	no	no	no	yes	no
Year Dummies	no	no	no	no	yes
AR1	yes	yes	yes	yes	yes
R^2	0.10	0.35	0.52	0.52	0.53
Durbin-Watson	1.17	1.60	1.89	1.90	1.91
Auxiliary R^2 \$3.80		0.01	0.01	0.62	0.82
Auxiliary R^2 \$4.25		0.03	0.03	0.09	0.82
N	8,568	8,568	8,568	8,568	8,568
Elasticity \$3.80[a]	-0.083	-0.071	-0.071	-0.080	-0.096
Elasticity \$4.25[a]	-0.142	-0.140	-0.147	-0.142	-0.110

[a]Relative to \$3.35. Although only the parameters associated with the levels of \$3.80 and \$4.25 are reported here, variables representing each level except \$3.35 are included in the estimates.

Source: Burkhauser, Couch, and Wittenburg (1998b).

Table 4. **Wage Distribution of Workers by the Income-to-Needs Ratio of Their Families**[a]
1990 March Current Population Survey Outgong Rotation Group

Income-to-Needs Ratio[b]	$0.01 to $2.99	$3.00 to $3.34	$3.35 to $4.24	$4.25 to $5.50	$5.51 to $9.99	$10.00 and Over	Total	Percent of All Workers	Percent of Affected Workers
Less than 1.00	4.8	1.3	25.8	29.1	28.8	'10.1	100.0	6.1	22.0
1.00 to 1.25	3.9	0.8	15.6	25.5	45.7	8.6	100.0	2.8	6.1
1.25 to 1.50	3.7	2.2	14.9	24.7	43.7	10.8	100.0	3.3	6.9
1.50 to 2.00	1.7	1.1	10.4	22.7	49.4	14.7	100.0	8.2	11.9
2.00 to 2.99	1.8	0.9	8.1	15.7	47.6	25.9	100.0	17.9	20.3
3.00 and Above	0.7	0.5	3.8	6.7	27.6	60.7	100.0	61.7	32.8
Percentage	1.4	0.7	7.1	12.1	34.1	44.5	100.0		

[a] Affected worker population is defined in exactly the same way as in Table 9.2 of Card and Krueger (1995) as individuals working at the time of the survey whose wage rate ranged from $3.35 per hour to $4.25 per hour.

[b] The Income-To-Needs Ratio is calculated by comparing total family income to the relevant family size-adjusted poverty line.

Source: Burkhauser, Couch, and Glenn (1996).

Table 5. Effects of Minimum Wage Increase from $4.25 to $4.75 In October 1996 on Teenage Employment in Summer 1997

	Elasticity[a]		
	-0.10	**-0.147**	**-0.30**
Employment Ratio in 1996[b]	0.5076	0.5076	0.5076
Percentage Decline in Employment Ratio[c]	-1.1760	-1.7290	-3.5280
Predicted Employment Ratio in 1997[d]	0.5016	0.4988	0.4897
Predicted Employed Ratio 1997 Adjusted[e]	0.5033	0.5005	0.4914
Actual Employment Ratio in 1997[f]	0.5006	0.5006	0.5006
Projected Job Loss in 1997 Based on Minimum Wage	90,000	132,000	268,500
Proejcted Job Loss in 1997 Adjusting for Business Cycle[e]	64,500	106,500	243,000

[a]Percentage change in share of teenagers employed with a 1 percent increase in minimum wage based on Table 1, column (2) specification.

[b]Average of June, July, and August 1996.

[c]Predicted marginal effect of minimum wage hike from $3.35 to $3.75 all other things constant.

[d]Predicted average for June, July, and August 1997, all other things constant.

[e]Predicted average for June, July, and August 1997, controlling for business cycle effects.

[f]Actual average for June, July, and August 1997.

Source: Authors' calculations based on Table 1, column 2 specification.

Table 6. **Effects of Minimum Wage Increase from $4.75 to $5.15 In September 1997 on Teenage Employment in 1998**

	Elasticity[a]		
	-0.10	**-0.147**	**-0.30**
Employment Ratio in 1997[b]	0.5006	0.5006	0.5006
Percentage Decline in Employment Ratio[c]	-0.8420	-1.2370	-2.5260
Predicted Employment Rate in 1997[d]	0.4964	0.4944	0.4880
Projected Job Loss in 1998 Based on Minimum Wage Increases[d]	63,000	93,000	189,000

[a]Percentage change in share of teenagers employed with a 1 percent increase in minimum wage based on Table 1, column (2) specification.

[b]Average of June, July, and August 1996.

[c]Predicted marginal effect of minimum wage hike from $3.35 to $3.75 all other things constant.

[d]Predicted average for June, July, and August 1998, all other things constant.

Source: Authors' calculations based on Table 1, column 2 specification.

Table 7. **Effects of Minimum Wage Increase from $5.15 to $6.15 in 1998 on Teenage Employment in 1999**

	Elasticity[a]		
	-0.10	**-0.147**	**-0.30**
Employment Ratio in 1998[b]	0.4994	0.4994	0.4994
Percentage Decline in Employment Ratio[c]	1.9400	2.8510	5.8200
Predicted Employment Rate in 1998[d]	0.4897	0.4852	0.4703
Projected Job Loss in 1999 Based on Minimum Wage	145,500	213,000	436,500

[a]Percentage change in share of teenagers employed with a 1 percent increase in minimum wage based on Table 1, column (2) specification.

[b]Average of June, July, and August 1996.

[c]Predicted marginal effect of minimum wage hike from $3.35 to $3.75 all other things constant.

[d]Predicted average for June, July, and August 1997, all other things constant.

Source: Authors' calculations based on Table 1, column 2 specification.

Table 1A. **Definition of Variables Used in the Analysis**

Variables	
Dependent Variable	Ratio of employment to population in a given state
Minimum Wage	A dummy variable that takes on the value of the state-year minimum wage when that value is not $3.35; otherwise, zero.
Log Adult Wage	The natural log of the average wage rate of adults in a given state
Share of Teenagers	The share of teenagers in the overall state population
Unemployment Rate	The prime age male unemployment rate in the state
State Effects[a]	A dummy variable with a value of one for each state
Seasonal Adjustments	A dummy variable with a value of one for each month of the year

[a]Includes the District of Columbia, 51 states in CPS, 42 states in SIPP data.

Source: Based on data from the January 1979 to December 1992 Current Population Survey.

Figure 1

Teenage Employment to Teenage Population Ratio
Seasonally Adjusted CPS Data 1979-1998

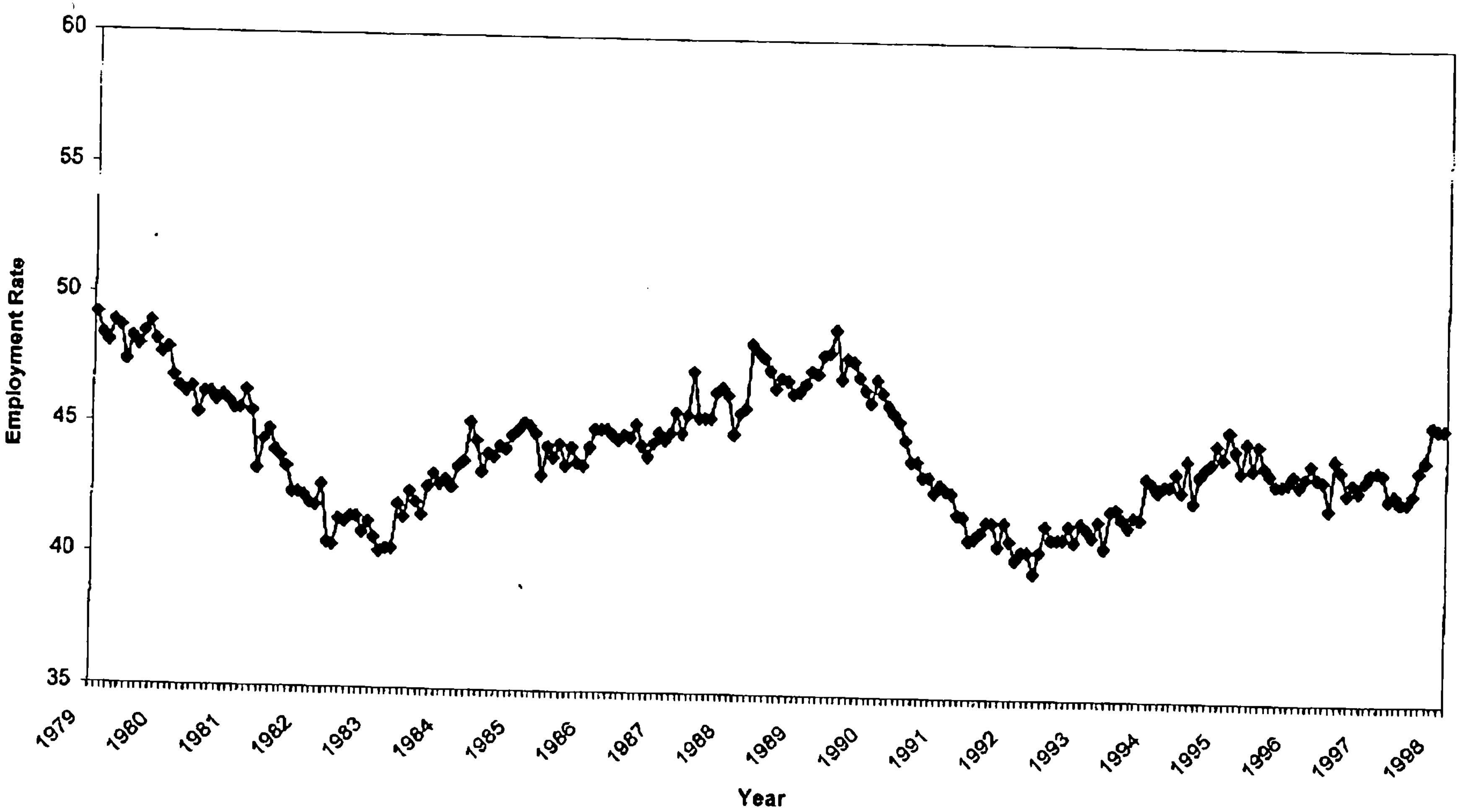
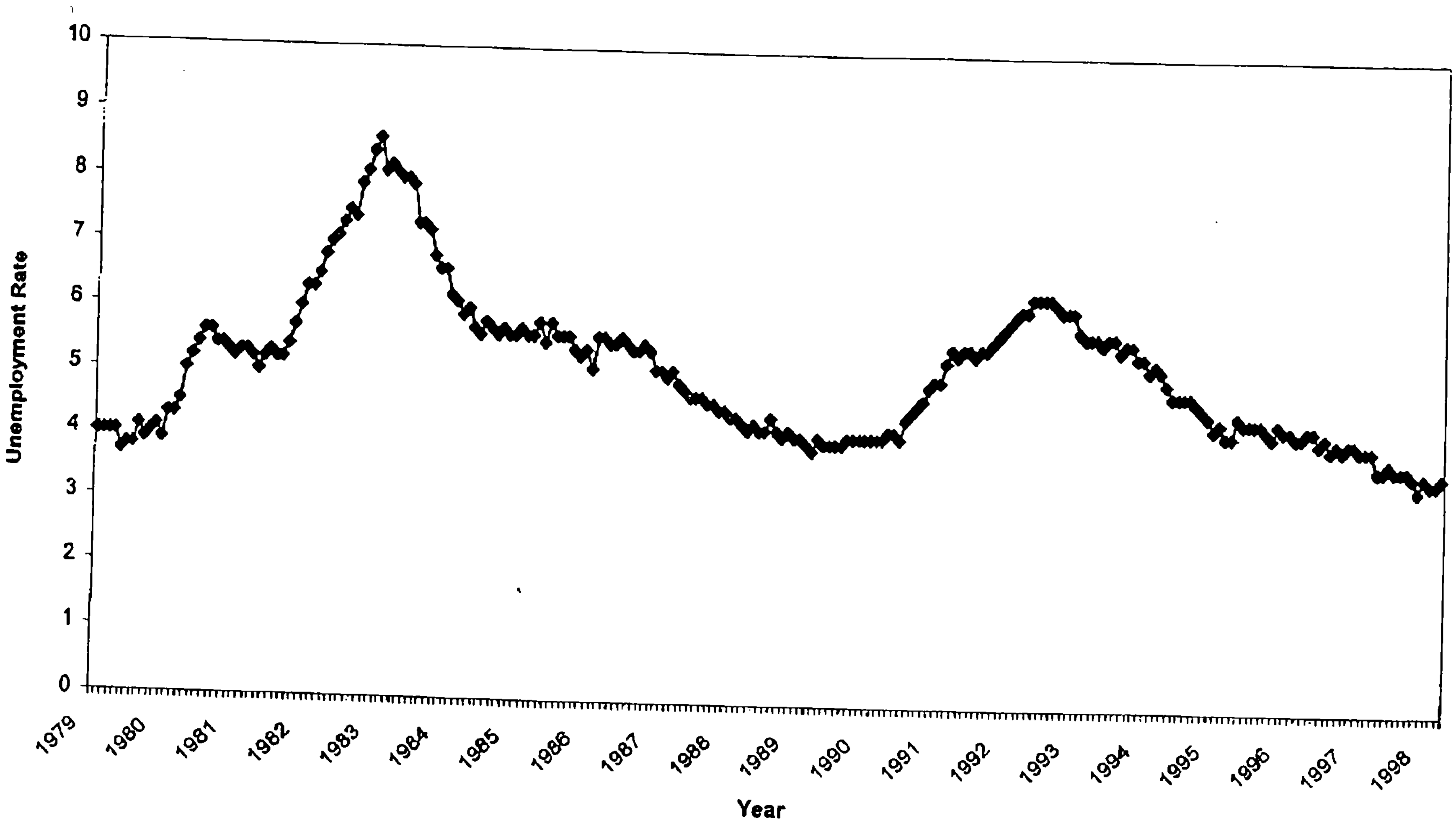


Figure 2

Unemployment Rate Among Males Aged 25 and Older
Seasonally Adjusted CPS Data 1979-1998



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/

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

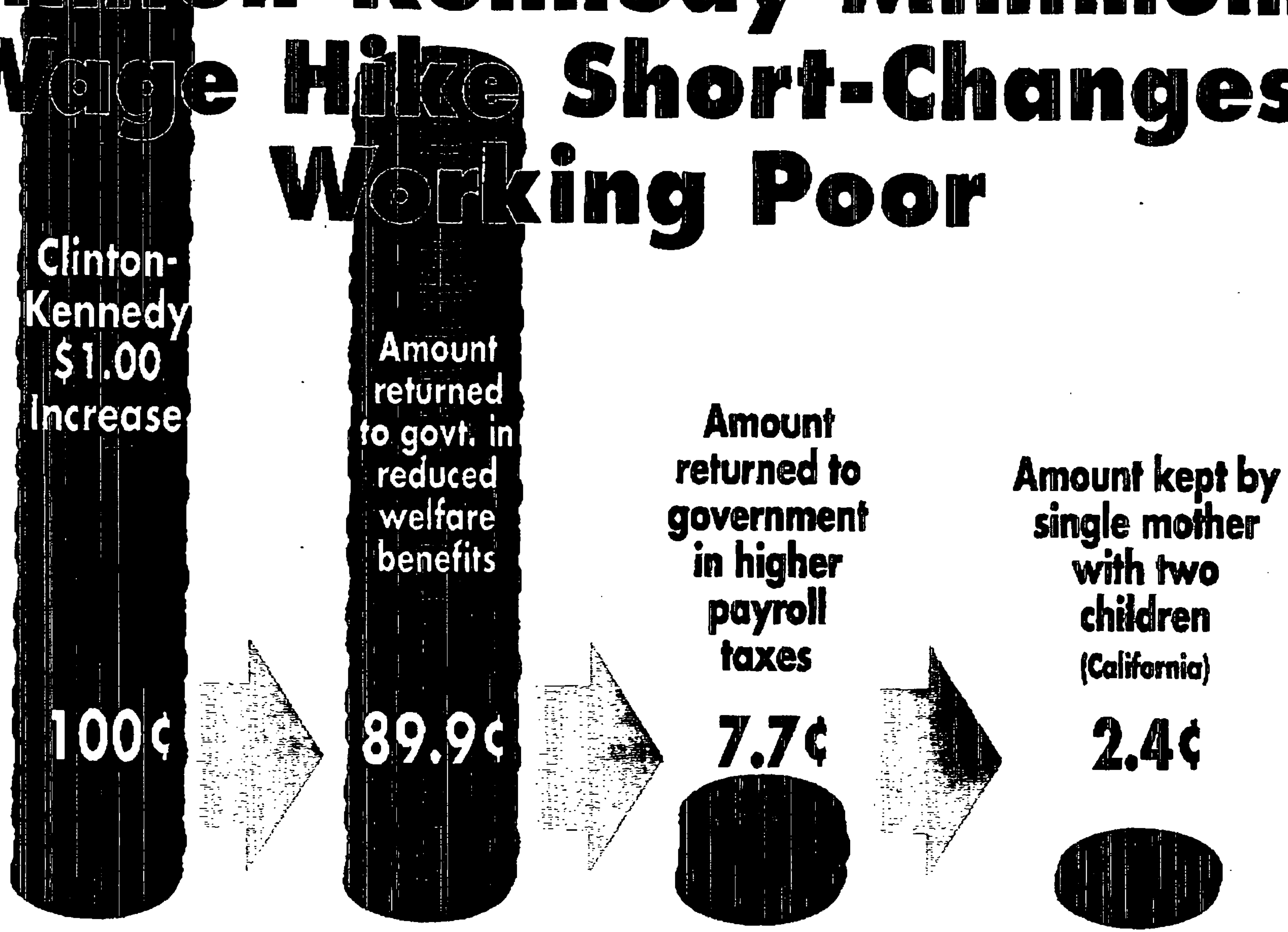
In a March 27, 1998, study entitled "Case Examples of Effects of a Proposed Increase in the Minimum Wage on Family Income," CRS evaluated the impact of the proposed Clinton-Kennedy minimum wage increase on families earning the minimum wage in two states: California and New York. As of September of 1997, 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.

Staff Contact: Jack Clark, 224-2946

Clinton-Kennedy Minimum Wage Hike Short-Changes Working Poor



For additional information, contact Jack Clark, Senate Republican Policy Committee, 224-2946

Source: CRS

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 $5.15 per hour	Proposed Minimum Wage $6.15 per hour	Difference	Amount Reduction In Increased Earnings
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.

BRIEFING FOR THE SECRETARY

THROUGH: GERI PALAST

FROM: David M. Luna

DATE: May 5, 1998

SUBJECT: Congressional Press Conference on the Minimum Wage and Release of a Report by the Economic Policy Institute (EPI)
430 Dirksen Senate Office Building
Wednesday, May 6, 1998
11:30 a.m. - 12 p.m.
Contact: Jim Manley
Phone#: 224-2633

SECRETARY'S EVENT:

You will participate in a press conference to announce a new EPI report that finds that recent minimum-wage increases did not have the negative effect on employment that opponents predicted.

REASON FOR PARTICIPATION:

Senator Kennedy and Democratic Whip David Bonior invited you to represent the Administration at the announcement of the EPI study, which helps make the case for another minimum-wage increase.

Opponents of the minimum wage argue that increases have major negative effects, with job loss the most important. The EPI report finds there is no systematic, significant evidence that the two recent minimum wage increases caused job loss. The EPI study indicates that the positive economic effects of the increase outweigh any potential negative effects.

MESSAGE:

- The economy is strong.
- We have added jobs at a significant pace since the minimum-wage increases of 1996 and 1997. Teens in particular have gained new jobs and new skills.
- Welfare mothers and working families entering the workforce need the added income from the current minimum wage to provide for a decent living wage.
- This is a good time to raise the minimum wage again.

FORMAT:

Between 11:15 and 11:25 a.m., principals will huddle in Dirksen 438, the minority staff conference room, just off the committee hearing room, which will serve as the hold. Your fellow participants will include (in speaking order):

- EPI President Jeff Faux, who will serve as moderator, will provide opening remarks.
- Senator Kennedy.
- You.
- Democratic Whip Bonior.
- Sen. Paul Wellstone.
- Economist Jared Bernstein author of the EPI study.

Minority Leader Daschle and Democratic Leader Gephardt also were invited; Daschle may make a brief appearance. It is likely that Gephardt will not attend.

PRESS:

Open.

AUDIENCE:

Open to the public; supporters of the EPI report; and citizen supporters of an increase in the federal minimum wage.

ACKNOWLEDGMENTS:

Your acknowledgments are in your remarks.

CONTEXT FOR EVENT:

Despite a strong U.S. economy and low unemployment, many working Americans still fall below the poverty line.

Senator Kennedy and Democratic Whip Bonior have introduced legislation that would increase the minimum wage by $1.00 over the next two years. The President supports the raise in the minimum wage to help more working families make ends meet. It is an issue of fairness, decency and honoring the value of hard work.

The EPI will present, explain and defend its report, which finds that any disemployment effects of the increase are negligible, that 60% of the benefits go to the families in the bottom two income quintiles, and that the benefits far outweigh the costs -- even if we take the upper end estimates of how many new jobs weren't created that otherwise might have been.

The press conference is intended to educate the public on the economic impact of a minimum wage; increase awareness of the minimum wage; and to build support for the Kennedy/ Bonior legislation.

STAFF:

Ed Montgomery, Geri Palast and David Saltz

ATTACHED:

1) Remarks by the Secretary at the EPI event.
2) CHECO Summary of EPI Report.
3) Senator Kennedy Statement on EPI Report/ Kennedy's Qs-and-As
4) Qs-and-As on Minimum Wage Increase.
5) EPI Press Release and Executive Summary of the EPI report.

Minimum Wage Event
May 5, 1998
DRAFT

Thank you Senator Kennedy for your kind words and your decades of leadership on behalf of America's working families.

Once again, the evidence is clear--the verdict is in. Raising the minimum wage doesn't hurt workers, it helps workers.

Raising the minimum wage doesn't slow the economy, it boosts family incomes.

Raising the minimum wage is the right thing to do and now is the right time to do it.

As President Clinton said last week we are in the midst of an "American economic renaissance". We have created 15 million jobs since the President took office. Unemployment is at a 25-year low. Inflation is at a 30-year low. Corporate profits are soaring.

Quite simply, our economy today doesn't just hum...it sings.

But the last time we took up the minimum wage fight, the loudest singing came from that chorus of Cassandras who claimed it would kill the economy.

Well, they were wrong. The sky didn't fall, unemployment did.

They told us that young people would lose out on opportunity. They were wrong. Employment for teens has actually risen faster than job growth for all workers.

They told us that this wouldn't help families. They were wrong. Almost half of all minimum wage workers are sole breadwinners.

They told us that it would bring on a recession. They were wrong. Thanks to the President's strategy--of fiscal discipline and investing in people--our economy is the strongest in a generation.

But we know that not everyone is sharing in that prosperity. We know people are being left behind--those who care for our children...sweep our buildings...clean our clothes...serve our food.

Some say raising the minimum wage won't mean much. But to a family of four it would pay for groceries for 6 months...it would cover rent for 5 months...it would take care of tuition at a community college for a year and a half. (VERIFYING)

A rising minimum wage won't just lift their boats--it will lift and honor the values of our country. Because the bottom line is that raising the minimum wage isn't just good economics--it is good values. It is just plain fair. It is the right thing to do.

There is something deeply embedded in the American sense of justice that says: if you work full-time, you shouldn't live in poverty. Work ought to bring reward. Everyone should have a fair shot and a fair share in our nation's prosperity.

Whether it's young people on their first job...welfare recipients trying to make it on their own...or families struggling to make ends meet...raising the minimum wage is good for workers and good for our country.

Those who work hard to provide for their families have kept their end of the bargain. We ought to keep ours.

Now is the time to raise the minimum wage.

May 5, 1998

MEMORANDUM FOR THE SECRETARY

FROM: **CARL HAACKE**
Special Assistant to the Chief Economist

SUBJECT: Minimum Wage Report by Economic Policies Institute

CC: Kitty Higgins, Lee Satterfield, Michael Grant

The Economic Policies Institute (EPI) study provides demographic profiles of minimum wage earners and evaluates the employment impact of the last two minimum wage increases using four economic models. This study is a follow up to the first EPI report which covered only the first minimum wage increase in October 1996 and found no statistically significant negative employment impact except for black male teenagers.

This recent positive report follows a critical report by the Employment Policies Institute in January which claimed that there were 128,000 teen jobs and a total of 380,000 entry-level jobs lost due to the first minimum wage increase.

The principal positive findings of the Economic Policy Institute report for tomorrow's release are as follows:

- The 1996 and 1997 minimum wage increases raised the wages of almost 10 million workers.
- Contrary to critic's claims that minimum wage earners are middle class teen agers, the study found that about 71% of these workers were adults and the average minimum wage worker contributes more than half (54%) of his or her family income.
- The report also finds that the two minimum wage increases disproportionately benefitted low-income working families in the bottom 20% of the income distribution. (These families received 35% of the benefits, the largest share of any income quintile). More than 50% of the benefits went to families in the bottom 40% of the income distribution.
- The report does not find any systematic, significant job loss associated with the 1996-97 increases. "The estimated employment effects are generally economically small and statistically insignificant and are almost as likely to be positive as negative." It is worth noting that based on some models the report did find some negative employment effects for teen males.

Some facts to keep in mind regarding the strength of recent employment growth are:

- Since President Clinton took office in 1993, this booming economy has created about 15 million new jobs. Since the first minimum wage increase in October 1996, there are 4.2 million jobs more jobs and almost 1.7 million more in the last eight months alone since second increase in September 1997.

- For teen agers - who critics claim would be so devastated by the minimum wage increase - employment not only rose, but rose faster than employment growth for all workers. This is true since the 1st minimum wage increase and since the second minimum wage increase.

  There are 475,000 more teens working now than when the second minimum wage increase went into effect only 8 months ago in September 1997.

- The employment rates for teens have also improved dramatically. Since the first minimum wage increase, the percentage of teens who were employed has grown from 43.9 percent to 45.5 percent. This improvement in the percentage of our teen-agers who are employed is better than the improvement for workers of all ages.

- Employment in Eating and Drinking Establishments, where many minimum wage workers are employed, has grown by 150,000 since October 1996.

Economic Policy Institute

1660 L STREET, NW • SUITE 1200 • WASHINGTON, DC 20036 • 202/775-8810 • FAX 202/775-0819

MEDIA ADVISORY
For May 6, 1998

Contact: Marcus Tonti, 202-331-5536
Brian Lustig, 202-331-5530

EPI RELEASES REPORT ANALYZING 1996-97 MINIMUM WAGE HIKE
Authors to be joined by Congressional leaders, Labor Secretary at Hill Briefing

Washington, D.C. -- On **Wednesday, May 6**, at 11:30 a.m., the Economic Policy Institute (EPI) **will brief** reporters on a new study examining the effects of the 1996-97 minimum wage increase on the wages, incomes, and employment opportunities of low-wage workers. The authors will be joined by Congressional leaders and the Secretary of Labor.

Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase, by EPI economists Jared Bernstein and John Schmitt, finds that the latest minimum wage increase raised earnings among low-wage workers without causing job loss. The participants will discuss the implications of the findings for future increases in the minimum wage.

Wednesday, May 6, 1998

Time:	11:30 a.m.
Location:	Dirksen Building, Room 430 Senate Labor Committee Room
Moderator:	**Jeff Faux**, President, EPI
Authors:	**Jared Bernstein**, Economist, EPI **John Schmitt**, Economist, EPI
Speakers:	Senator **Edward Kennedy** (D-Mass) Congressman **David Bonior** (D-Mich.) **Hon. Alexis Herman**, Secretary of Labor

For more information, please contact Marcus Tonti at 202-331-5536 or Brian Lustig at 202-331-5530.

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Economic Policy Institute

1660 L STREET, NW • SUITE 1200 • WASHINGTON, DC 20036 • 202/775-8810 • FAX 202/775-0819

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Contact: Nan Gibson 202-331-5546
Marcus Tonti 202-331-5536
Brian Lustig 202-331-5530

'96-97 MINIMUM WAGE HIKE BOOSTS EARNINGS WITHOUT JOB LOSS

Low-income families reap benefits as intended, EPI finds

Washington, D.C. -- The most comprehensive analysis to date of the 1996-97 minimum-wage increase demonstrates conclusively that the wage hike has raised earnings among low-wage workers without causing job loss, the Economic Policy Institute finds in a study released today.

In ***Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase***, economists Jared Bernstein and John Schmitt use data from the U.S. government's monthly Current Population Survey to evaluate the impact of the increase on the wages, incomes and job opportunities of low-wage workers and their families.

The results of the study underscore that the increase in the minimum wage disproportionately benefited low-wage workers, as intended. It also shows that the primary beneficiaries are indeed workers from low-income households – not teenagers from middle- and high-income families, as some critics charge. Four tests further confirm that job opportunities have not been lost as a result of the wage hike.

In brief, the authors show that

- The 1996-97 minimum-wage increase of $0.90 raised the wages of almost 10 million workers, about 71 percent of whom were adults and 58 percent of whom were women. About half worked full-time and another third worked between 20 and 34 hours per week.

- The average minimum-wage worker provides more than half of his or her household's weekly earnings.

- The two-stage increase disproportionately benefited low-income working families. Households in the bottom 20 percent of the income distribution (*average income: $15,728*) receive only 5 percent of total family income in the U.S., but received 35 percent of the benefits of the minimum-wage increase.

- Four different tests of the combined increase's impact on employment – applied to a large number of demographic groups whose wages are sensitive to the minimum wage – failed to find job loss associated with the 1996-97 increase.

The authors examine the low-wage labor market between October 1996 and February 1998, the most recent date for which data are available. This period begins with the initial increase of the federal minimum wage by $0.50 to $4.75 per hour, and encompasses an additional increase of $0.40 that went into effect on September 1, 1997, raising the minimum wage to its present value of $5.15. At its current level, the minimum wage remains at only 82 percent of its 1979 value (adjusted for inflation).

According to Bernstein and Schmitt, the study's empirical demonstration that strong wage gains occurred without a negative impact on employment conflicts with traditional economic theory that a minimum-wage hike costs jobs. They find, however, that models incorporating a variety of factors, such as the costs of recruiting, training and motivating low-wage workers, more accurately reflect the character of the low-wage labor market. These models, designed over the last decade, better explain the dynamics of the low-wage labor market, they write.

"Our evaluation shows that moderate increases in the minimum wage serve to reconnect the economic fortunes of low-wage workers to the growing U.S. economy," Bernstein said.

Jared Bernstein is a labor economist with the Economic Policy Institute. He specializes in the analysis of trends in employment and compensation, and tracks developments in family income inequality and poverty with an emphasis on low-wage labor markets. Bernstein received a doctorate in social welfare from Columbia University.

John Schmitt is a labor economist with the Economic Policy Institute. He has written for general and academic publications on wage inequality, the minimum wage, unemployment and economic development. Schmitt's doctorate in economics is from the London School of Economics.

Along with Lawrence Mishel, Bernstein and Schmitt are authors of the forthcoming *The State of Working America 1998-99* (Cornell University Press).

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 ***Making Work Pay,*** contact EPI at 1-800-EPI-4844. The report's introduction is available on-line at EPI's web site: www.epinet.org.

EXECUTIVE SUMMARY

Federal legislation increased the minimum wage from $4.25 to $4.75 on October 1, 1996 and to $5.15 on September 1, 1997. This study examines the impact of these increases on the employment opportunities, wages, and incomes of low-wage workers and their households.

The principal findings are that:

- The 1996 and 1997 minimum wage increases raised the wages of almost 10 million workers. About 71% of these workers were adults and 58% were women. Just under half (46%) worked full time and another third worked 20 to 34 hours per week.

- The average minimum wage worker is responsible for providing more than half (54%) of his or her family's weekly earnings.

- The two-stage increase disproportionately benefited low-income working households. Although households in the bottom 20% of the income distribution (whose average income is $15,728) receive only 5% of total family income, they received 35% of the benefits from the minimum wage increase.

- Four different tests of the two increases' employment impact — applied to a large number of demographic groups whose wages are sensitive to the minimum wage — fail to find any systematic, significant job loss associated with the 1996-97 increases. Not only are the estimated employment effects generally economically small and statistically insignificant, they are also almost as likely to be positive as negative.

These empirical results, particularly those showing strong wage gains and no negative impact on job opportunities, are at odds with traditional economic theory, which argues that a raise in the minimum wage must cost jobs. Over the last decade, however, new economic models designed to reconsider low-wage labor markets may help explain the increasingly weak link between the minimum wage and low-wage employment opportunities. These more recent models, often referred to as "dynamic monopsony" models, incorporate the costs of recruiting, training, and motivating low-wage workers, variables neglected by more traditional models. Not only do these new models more realistically reflect the character of the low-wage labor market, but they also offer a better explanation of our central finding: the 1996-97 increase in the minimum wage has proven to be an effective tool for raising the earnings of low-wage workers without lowering their employment opportunities.

Q. You say there have been no job losses, but the Restaurant industry's study, which they released early this week, found that 147,000 jobs have been lost because of the minimum wage increases in the last two years. Why do you think the EPI study is right and they're wrong?

A. First, let me point out that the number of jobs in the restaurant industry is ***higher*** than it was before the first of the two recent minimum wage increases, not lower. Since September 1996, eating and drinking establishments have created 157,000 new jobs. And second, I have seen a lot of news stories about how hard it is for restaurants and other retail establishments to find new employees right now because the job market is so tight. Finally, you ought to be a little skeptical about how objective the study was; it was a phone survey of restaurant owners and managers who just might have a little bias.

Q. Unlike the last time Congress considered the minimum wage, no Republicans seem to support this new effort. Can you get it passed without Republican support?

A. I don't believe that all Republicans are opposed to this increase and I don't think they will all vote in lock step against it. Eventually, the public will make its wishes known, and a certain number of Republican Senators and Congressman will be responsive to them.

DAVID LUNA

REMARKS OF SENATOR EDWARD M. KENNEDY ON RELEASE OF ECONOMIC POLICY INSTITUTE REPORT "MAKING WORK PAY: THE IMPACT OF THE 1996-97 MINIMUM WAGE INCREASE"

For Immediate Release:
May 6, 1998

Contact: Jim Manley
(202) 224-2633

Under the leadership of President Clinton, this country is in the middle of an extraordinary period of prosperity. Some experts are calling it "the best economy ever." The stock market is soaring. Unemployment is at its lowest level in 25 years, and inflation is at its lowest level in 40 years.

But for most Americans, it's someone else's boom. The fact is especially true for those at the bottom of the pay scale. Minimum wage workers have not received their fair share of this remarkable growth. Working 40 hours a week, 52 weeks a year, they earn just $10,700 -- $2,900 below the poverty level for a family of three.

That's why David Bonior and I, with the strong support of President Clinton and Democrats in the House and Senate, say now is the time to raise the minimum wage. The legislation we have introduced will raise it by 50 cents on January 1 next year and another 50 cents on January 1, 2000. As we begin the next century, the minimum wage will be $6.15 an hour.

Republican nay-sayers parrot the same arguments they have always used against a fair minimum wage. They claim an increase will damage the economy, cut jobs, and hurt the very people it's intended to help. The more they make those false claims, the longer their noses get.

The study released today by the Economic Policy Institute proves our point. Two recent increases in the minimum wage did not cause the sky to fall. There was no measurable effect on jobs, and no measurable effect on inflation. The only measurable effect on low-income workers was positive -- they received the pay increase they deserved.

(More)

Paul Luna

Q&As FOR MINIMUM WAGE PRESS CONFERENCE
May 6, 1998

Q: The study found some job loss among teens. But isn't this exactly the kind of negative effect you predicted wouldn't happen?

A: These charts show the incredible growth in employment among teens since the last increase. Teenage employment rates have increased faster than the overall population. Black teenage unemployment has gone down, as has total teen unemployment. So I'm not concerned about a few small negative numbers.

Q: The EPI study shows that over half the benefit of the last increase went to workers in the bottom two income quintiles. But this means that almost 40% of those benefiting from the minimum wage earn $48,000 and up. How can you call this an anti-poverty tool?

A: The study found that 60% of the benefit of those increases went to families in the bottom two income quintiles. Over one-third of the benefit went to the poorest families. Those are needy families, many of them moving off welfare into work, and they deserve the benefit. The last increases gave these families a raise of $1,900. That helps pay the rent, buy clothes and food for the kids, pay the utility bills and meet other important needs. Given the difficulty of supporting a family on the minimum wage, I'm not troubled that some higher-income families also benefited.

Q: The National Restaurant Assocation says more than 146,000 jobs were eliminated in the restaurant industry due to the 1996-97 increases. How do you respond?

A: The National Restaurant Association should stick to cooking meals, not statistics. That figure came from a telephone survey of restaurant managers -- not the kind of scientific research conducted by EPI and the Labor Department. In fact, according to the Bureau of Labor Statistics, there are 157,000 more restaurant jobs in March 1998 than in September 1996, before the first step of the last increase took effect. The Restaurant Association talks out of both sides of its mouth. In March, the Association's Metropolitan Washington affiliate told the Washington Post that "It's an incredibly tight labor market for restaurant workers, and there's only so much you can do with money." So, according to the National Restaurant Association, "restaurants are increasingly offering health and pension benefits, disability insurance, day care, prescription benefits and even relocation perks." It's clear that the Association's claims of job loss are motivated by politics, not by actual experience. (See attached article from the Post.)

Q: The Economic Policies Institute says the recent increases cost 128,000 teen jobs and 380,000 overall jobs. How can you support another increase so soon?

A: The Economic Policies Institute is an employer-funded think tank. It has an incentive to cry wolf. But you don't have to take my word for it -- look at the Labor Department statistics. Over 400,000 teen jobs have been added since the first step of the increase took effect. Teen employment is growing faster than total employment. And black teen unemployment has dropped dramatically -- by 4.5 percentage points -- over the same period.

60% of the benefit of the 1996 and 1997 increases went to families in the bottom 40% of income groups. One-third of the benefit went to the poorest families -- those in the bottom 20%. Nearly three-quarters of those who benefited were adults over the age of 20. The average minimum wage worker contributed over half of his or her family's weekly earnings.

We know who minimum wage workers are. They are disproportionately women -- 60%. They are single women heading up households -- 20%. They are teachers' aides and child care providers. They are home health workers, helping the sick and the elderly. They are people who clean office buildings like this one in countless communities across the country. They work hard and they deserve to be treated with dignity. They deserve a fair increase in the minimum wage, and it's time for Congress to enact it.

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Serving Up a Wider Sele

Restaurant Chains, Faced With a Tight Labor Market, A

For diners at Chesapeake Bay Seafood House restaurants in the Washington area, the menu is familiar: crabs, shrimp, lobster, fish. But for employees, the catch of the day is a 401(k) plan.

This is an unfamiliar dish for restaurant workers, who typically make low wages, rely on tips and don't think of what they do as a long-term career. But a tight labor market and new trends in the industry are cooking up changes.

WORKPLACE

Steven Ginsberg

"People asked for [the benefits], and we were able to do it," said Jolene Korr, benefits administrator for the Vienna-based Chesapeake Bay Seafood House Association, which also owns 16 area Chili's restaurants and two On the Border outlets. All of the company's approximately 2,500 employees are eligible for the benefits packages.

The company has offered health-care benefits to its rank-and-file workers for a number of years but has recently expanded benefits to meet the demands of its workers. Managers can sign up for a health plan after 30 days on the job, while hourly workers must wait six months and log in about 30 hours per week to qualify.

The 401(k) plan is open to any employee 21 or older who has been with the company for a year and has worked 1,000 hours (just under 20 hours per week) during the year, but the chain doesn't match employee contributions the way many employers do. The company also has added a profit-sharing plan and short- and long-term disability coverage.

"We've heard that not a lot of restaurants offer 401(k) plans to hourly servers," Korr said. "We're very competitive, so people do seek us out and want to work for us."

Traditionally, restaurants have had little trouble luring workers. Most employees are in it for the tips, a little ready cash to pay the bills. But with jobless rates at postwar lows, that is no longer the reality; people who would normally look for a job waiting tables are able to land much-better-paying part-time or full-time positions in other fields, workplace experts say.

"Why restaurants are offering benefits is pretty simple," said Bill Lecos, president of the Restaurant Association of Metro Washington. "It's an incredibly tight labor market for restaurant workers, and there's only so much you can do with money. When you have to compete, you create new products."

So restaurants are serving up benefits packages, which often are on par with corporate plans, as one way to improve their chances of finding and keeping workers.

In addition to health and pension benefits, restaurants are increasingly offering

:ction for the Server

're Expanding Benefits to Lure, Keep Hourly and Full-Time Workers

disability insurance, day care, prescription benefits and even relocation perks, according to the National Restaurant Association. But benefits vary by job title, Lecos said. Generally managers and other salaried employees can get benefits fairly quickly, while hourly workers usually must wait about six months.

A key component of many packages is that they're offered a la carte, allowing employees to pick and choose which benefits they want and can afford, Lecos said. For example, workers are able to buy health care for their families before themselves if they choose, Lecos said. This is especially important for low-level workers, he added.

It also helps, from a worker standpoint, that the restaurant business is becoming less the province of small entrepreneurs and more the realm of large corporate chains.

"Three out of four new restaurants are multiple-unit chain operations," Lecos said. "It's far easier for a large corporation to offer benefits."

It's not only easier, it's expected. While traditional restaurants offered few career opportunities to anyone other than the owner, the chains have other career routes, in sales and administration. Now employees stick with outfits longer and increasingly try to work up the ladder, workplace experts say, toward the kinds of jobs that have always been accompanied by benefits.

Take away the demand for good workers, though, and the rush to offer benefits might not be so acute, some industry observers say.

At D.C.-based Bedrock Management Co., for example, the company offers limited benefits in part because it doesn't have a problem getting qualified workers, said co-owner Jeffrey Dawson.

"We don't have much trouble attracting a good staff," said Dawson, whose company runs a number of upscale pool halls and restaurants in the area, including Buffalo Billiards and the new Velocity Grill at MCI Center. "People work for us because it's a good place and they know they'll make good tips."

Companies such as Bedrock increasingly are in the minority, though. Take BD's Mongolian Barbecue, for instance. The Detroit-based chain will make its area debut in Bethesda next month with the opening of its seventh restaurant.

Along with its unique cuisine, the company will also offer health care plans to all workers with at least six months on the job. The five-year-old company plans to provide retirement and stock option plans as soon as it can afford to, said its president and founder, Billy Downs.

"We would like to provide much better benefit plans," Downs said. "People have needs, and those change based on what's around them. We have to take care of our people."

THE NEW YORK TIMES

MONDAY, APRIL 6, 1998

EMPLOYERS HUSTLE TO FILL JOB ROLLS, WITHOUT PAY RISES

AGGRESSIVE RECRUITMENT

As Labor Market Gets Tighter, Companies Are Forced to Go Where Workers Are

By LOUIS UCHITELLE

Unable to recruit enough workers, Otto Engineering Inc. near Chicago lowered its standards. Assemblers of its electronic switches no longer need to score at a sixth-grade level on a math test. Fifth grade is now enough. The Walt Disney Company, trying to hire for its theme parks in Florida, is recruiting for the first time in Puerto Rico, where unemployment is three times that in the United States. And Rubbermaid Inc., chronically short staffed at a toy factory in Ohio, hired a temporary help agency to run a recruiting center at the plant.

Not since the early 1970's, when the unemployment rate was last below 5 percent, have America's employers scrambled as much as they have in recent months to find workers. A quarter-century ago, they relied chiefly on higher wages. Wages are beginning to rise now, even for people with only high school educations, but not by so much as in the past. For more than in the 1970's,

In previous periods of economic growth, the wages of most workers rose early in the upturn. This time the opposite happened; the median weekly wage, adjusted for inflation, fell in each of the first five years of the recovery, rising modestly for the first time in 1997, according to Labor Department figures. All the while, the unemployment rate has been falling, getting as low as 4.6 percent last November. Since then, it has ticked back and forth between 4.6 percent and 4.7 percent, edging up last month to 4.7 percent.

"New and aggressive hiring tactics postponed wage growth, and they continue to suppress it," said Jared Bernstein, a labor economist at the Economic Policy Institute. Corporations say they have no choice — they cannot raise prices as easily as in the past, and they must sustain profits. But Mr. Bernstein, echoing a view widely held among labor economists, said, "A lot of employers have grown accustomed to a culture in which they don't need to give real wage increases to hire and hold workers."

What no economist or policy maker can know is how long companies can fill hundreds of thousands of new jobs and also resist bigger wage increases, which could squeeze profits. Perhaps a slowing economy will bail them out, easing the demand for

Continued on Page A18

Employers Seek to Fill Jobs Without Raises

Continued From Page A1

workers and raising the unemployment rate from its remarkably low level. That does not seem likely to happen soon, despite the occasional months, like March, when the work force shrinks instead of expanding.

Still, there are big pockets of potential workers that have yet to be reached. Despite the low unemployment rate nationally, joblessness is just beginning to decline significantly for those without high school diplomas and for black and Hispanic people. And there are regions where unemployment is still relatively high, prompting companies to go where the people are.

Many companies enlist their own workers as recruiters, awarding bonuses or prizes for each new employee they bring in. Some, like XL Connect near Philadelphia, which employs 1,500 people skilled in computer networks, pay as much as $1,000 to an employee who recruits someone who stays six months. "Even then we hired and trained 900 people last year to retain 500," Tim Wallace, XL's president, said. "But we can't pay more than our billing rate, and when others offer higher salaries, we have to let them go."

The General Electric Company finds itself moving more quickly than in the past to hire experienced candidates, often offering a job within two weeks of meeting a promising applicant. "These are valuable mid-career people seeking new jobs," said Robert Corcoran, a human resources manager, "and if we delay a decision, others have time to grab them, perhaps at a higher wage."

The Maytag Corporation, adopting a growing corporate practice, now lists job openings on the Internet — appealing nationwide for applicants. It is also recruiting, for the first time, among minority organizations, including an association of black men and women who have master's degrees in business. "We would probably have done this anyway," said Kim Miller, Maytag's manager of employment, "but we are certainly doing it in a tight labor market."

Piet van Lier for The New York Times

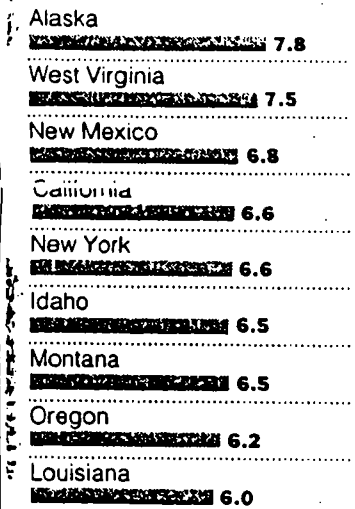
Lawrence Brooks was recruited by Olsten, a temporary agency, to work in a Rubbermaid toy factory.

Like numerous companies forced to choose between raising wages and lowering standards, Otto Engineering decided to accept less math proficiency but hold to a $6 hourly wage for assemblers. Maytag has also lowered standards. Community college graduates with two-year degrees now get jobs in sales and marketing that once went only to those with four-year degrees. And Maytag for the first time is beginning to train computer programmers instead of hiring fully trained ones.

"It could be production folks, nurses, clerical staff," Ms. Miller said, "anyone already on staff who shows an aptitude for programming might come into the training program we are now setting up."

Where Jobs Are Scarcest

These states had the highest jobless rates in February, the latest month for which state figures are available.



Source: Bureau of Labor Statistics

The New York Times

Rubbermaid, which makes plastic kitchenware and toys, gave ground on wages, but only as part of a broader recruiting tactic. Unable to hire enough people for its Little Tykes toy factory in Hudson, a suburb of Cleveland, it raised the starting wage last August by $1, to $8.07 an hour, roughly the going rate for entry-level factory workers in northern Ohio.

"We had been drawing applicants who were unemployed or on welfare, and when the wage went up, we started getting people who had jobs and wore clean shirts and ties," said Scott Silver, vice president for human resources.

But with the factory's employment rising to 1,000 from 700 in 1996, the higher wage was not enough, and like many companies across America, Rubbermaid turned to the temporary help industry, which acts increasingly as a clearing house, bringing workers and companies together. Rubbermaid asked the Olsten Corporation to open a recruiting office inside the factory. And Olsten for the first time sent recruiters deep into the surrounding communities, tapping church groups, bowling leagues and immigrant organizations for people willing to work for $8 an hour — initially as Olsten employees but shifting in two or three months to Rubbermaid's payroll.

"People often see us as a vehicle to gain access to first-line companies that they don't think they can get into on their own," Dan Brunell, Olsten's regional director in the Cleveland area, said.

Other companies are going even further. With a fourth theme park opening next month in Florida, Disney has set up recruiting offices in five Puerto Rican cities, mostly to recruit low-wage workers. And Burrelle's Information Services, a newspaper and television clipping service based in Livingston, N.J., is hiring and expanding in Presque Isle in northern Maine.

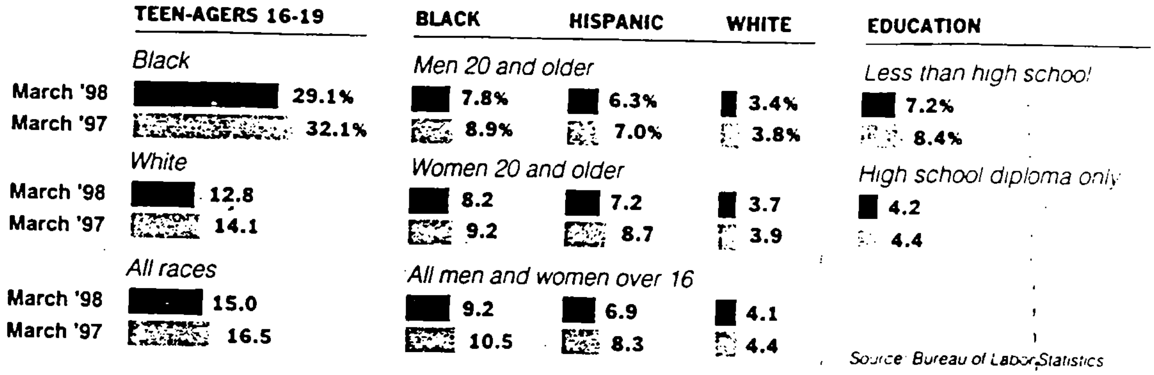
Burrelle's employs 1,000 people at its main sites in Livingston and in Provo, Utah, but has trouble finding workers in these cities for $7 an hour. Rather than raise the wage, it is expanding employment at a newer office in Presque Isle, where the unemployment rate is still above 6 percent. The office now has 700 workers earning $7 an hour, including some with college degrees.

"You have to be flexible this way, and move where you can get the people," Robert Waggonner, the chief executive of Burrelle's, said. He rents quarters in Presque Isle, reluctant to build and then face rising wages as other companies tap into northern Maine's labor pool, just as they once did in Provo.

Ohio is demonstrating a newfound flexibility as well. The Department of Economic Development, like other state agencies everywhere, has spent years trying to persuade companies to come to Ohio and hire its residents. But workers are suddenly

The Slack in a Tight Labor Market

Unemployment rates are beginning to decline for teen-agers, blacks, Hispanic people and people with less than a high school education, but are still far above the March national average of 4.7 percent.



Source: Bureau of Labor Statistics

The New York Times

in short supply. Last month, the department started placing television ads, even on the "Larry King Live" show, to encourage people to move to Ohio and take jobs.

"You cannot bring a company in, even with tax breaks, unless you can show you have an available work force," John Damschroder, the department's director of special projects, said. Ohio's unemployment rate is less than 5 percent.

In pursuit of that work force, the ads offer a toll-free number. The operators direct callers to a new site on the World Wide Web that lists hundreds of unfilled jobs in the state, or they mail out a promotional booklet. "We have gotten 500 calls, mostly from people who hold jobs elsewhere but have family here or once lived here and want to come back," Mr. Damschroder said.

Kenneth Vaughn of Torrance, Calif., an aircraft inspector for American Airlines, saw the commercial and dialed the number. He grew up near Cincinnati and is trying to persuade his wife — also an Ohio native — that northern winters are not so bad after all. He may return in July, when he can take an early retirement agreement that will give him $31,000 a year.

The tight job market in states like Ohio, Mr. Vaughn said, convinces him that at age 52, he will not have trouble landing another job that pays enough to bring his income up to $75,000 a year. That would match his current earnings at American, including overtime. "My children say, 'We will be poor,'" he said, "but I don't think so. I'm ready to try something new."

Oklahoma also worries about having enough workers for the industrial companies already there or thinking about coming. The state Commerce Department plans to circulate a directory of M.B.A. graduates of Oklahoma State University and the University of Oklahoma — each with a photo and biographical sketch — to local businesses.

"It will look like a football program," said Ronald Rosenfeld, the Secretary of Commerce. "Many of our companies don't recruit on our college campuses, so we will bring the candidates to them."

The Boeing Company, which employs 1,600 people at two aircraft operations in Oklahoma, is also concerned. At a recent dinner at the governor's mansion, Boeing executives said they wanted to bring in more bright young engineers and technicians, Mr. Rosenfeld said.

"They were saying that in order to get people to leave places like Seattle to settle in places like Tulsa," Mr. Rosenfeld said, "they would probably have to provide the additional inducement of subsidized vacations" to ski in Colorado, go sailing off Seattle, where Boeing is based, or attend the theater in New York.

THE WASHINGTON POST

SATURDAY, APRIL 18, 1998

For Retail Employers, Hiring Is A Hard Sell

By MARGARET WEBB PRESSLER
Washington Post Staff Writer

BY BILL O'LEARY—THE WASHINGTON POST

Tove Egeland was lured from her previous job to work at Fresh Fields.

To find concrete evidence of the nation's worker shortage, one need venture no farther than the neighborhood grocery store. Or the convenience store. Or the closest mall.

There's hardly a retail outlet in the Washington area that doesn't have a help-wanted sign hanging in the window, advertising a problem only too evident to shoppers whenever they need sales help or encounter an employee confounded by the cash register.

The booming economy and historically low unemployment rates have created recruitment woes for all kinds of businesses, but the hiring headache is especially acute for the retail industry, where the void can be painfully visible to customers. Though the shortage exists nationwide, Washington area retailers are feeling an especially painful pinch.

Not only does the retail industry have huge staffing requirements, it's near the bottom of the worker food chain, offering some of the most mundane and lowest-paying jobs. The result is that retailing is losing many potential employees to technology companies and other businesses, which are experiencing their own employee shortages and can lure workers with more money, better benefits and more interesting work.

"The tech companies are being more creative in who they're willing to hire, taking people and training them in technical skills. Before, these people might not have been able to find work anywhere else besides retailing," said Bruce Van Kleeck, vice president of member services for the National Retail Federation.

See SHORTAGE, A11, Col. 1

1/3

Retailers Adopt New Strategies To Better Shop for Employees

SHORTAGE, From A1

"The next logical step is . . . employers are scrambling to hire whoever walks in the door."

In fact, the biggest problem retailers face is that no one's walking through that door.

Virtually no segment of the retail industry is immune to the hiring dilemma. In this area, supermarkets, drugstores, convenience stores, high-end department stores, discounters and small neighborhood shops all are struggling to staff their stores.

Though some retailers have responded by raising wages, that alone won't cut it. Stores have found they must be creative and flexible to attract workers.

They're advertising more, putting on job fairs, offering workers shorter shifts—in some cases as little as two-hour workdays—targeting labor pools such as senior citizens and, taking a cue from tech companies, paying current employees a bounty for referrals.

The push for workers—any workers—is highlighted by the declining unemployment rate for the least-educated segment of the population, a group that typically has been available to retailers.

Nationwide, unemployment dropped to 4.7 percent in March from 5.2 percent a year earlier, yet among those 25 and older with no high school diploma, the rate declined even more steeply, to 8.2 percent from 9.5 percent.

Retailers' desperation has created a new kind of corporate raiding.

For example, Ken Meyer, manager of the Fresh Fields store in Georgetown, for months had no one to manage his nutrition department.

He finally decided he had to raid the competition and asked his suppliers for help. When they gave him the name of Tove Egeland, an employee at the Village Market in Baltimore, Meyer wasted no time in hiring her.

"I have to go out and *get* good people," said Meyer, who has no misgivings about his covert tactics. "If I hear about someone good, it just so happens that I'm in their store the following week."

Yet for all that effort, experts such as Van Kleeck say the worker shortage clearly is contributing to poorer service, as the industry has relied less on workers with experience and more on those who will simply show up and smile. Technology can do a lot of the work if the employees have the right attitude, he said.

"Those basic fundamental courtesies go a long way," he said.

The magnitude of the industry's labor needs is evident at Limited Inc., the specialty chain that owns the Limited, Lane Bryant and Lerner, among other stores. The Limited had 176,000 employees during the peak Christmas season last year, company officials said, but sent out 340,000 W-2 forms last year because of turnover.

In the face of a particularly tough struggle to find workers, Washington area retailers have to do a lot of digging, said Rosanna Durruthy, vice president of recruiting and relocation for the giant Blockbuster Video chain.

"You really do have to be very aggressive about it," she said. "It's one of the markets where we have some very strong outreach efforts with local community organizations, as well as with schools."

Economists don't expect the scales to tip any time soon. They say the sustained economic expansion, coupled with an increase in the number of tech jobs being created, will keep retail chains scrambling for the foreseeable future.

"In terms of going back to the way it was three or four years ago, where it was more of a buyer's market for companies, that's not particularly likely unless we have a recession for some reason," said Michael Montgomery, a senior associate with Standard & Poor's DRI, an economic forecasting firm.

The easiest way for retailers to sell themselves to prospective workers is through advertising. Van Kleeck said he has been struck by the large number of recruitment ads retailers are placing in newspapers so long after the holidays. "For years, after Christmas they let everyone go," he said.

Safeway Inc. has rolled out an aggressive radio recruiting campaign in this market "because we've had a large need for additional employees," said Gregory A. TenEyck, a spokesman for the grocery chain here.

Blockbuster has begun advertising intensively on the Internet, Durruthy said, and has more than 30 openings posted nationwide for store managers.

In addition to the occasional lack of sales help, shoppers may also notice a constantly changing cast of characters at stores they frequent. Retailers are finding they must be flexible in scheduling and arrange

2/3

BY BILL O'LEARY—THE WASHINGTON POST

Tove Egeland, right, nutrition team leader at the Fresh Fields store in Georgetown, helps customer Julie Stratton decide what to buy. Store manager Ken Meyer got Egeland's name from his suppliers after her position had been vacant for months.

shorter shifts.

Sears, Roebuck stores, for instance, have started scheduling part-timers for stretches as short as two hours, said company spokeswoman Paula Davis.

"They have become much more accommodating to people's schedules, whether they're in school, have children or other jobs," Davis said.

Sometimes, though, workers simply cannot be found. So some retailers are figuring out ways to conduct business with fewer employees.

Among the changes Filene's Basement Corp. has made, for instance, is delivering clothes to its stores already tagged and put on hangers—which used to be done by store employees.

"You've got to be able to run your store more efficiently," said company Chairman Samuel J. Gerson.

Some of the hardest-hit retailers are lesser-known independent retailers and small chains, which may not offer the package of benefits and store discounts that larger retailers can.

"We definitely feel it," said Lee Hindin, president of Chicken Out, a Gaithersburg-based chain of 15 gourmet chicken restaurants.

Beyond paying competitive salaries, offering profit-sharing and benefits packages for management and promotion opportunities, Hindin said his main answer to the worker shortage has been to hire less-qualified people. He then puts them through an intensive training program to bolster their skills.

"We have a belief that there are a lot of people who are winners described as losers—given the right training, they can really succeed," Hindin said.

And when a store discovers a good hire, it pounces. Hecht's wastes no time getting employees onto the selling floor—if only to protect its human treasure. Company Chairman Thomas Fingleton said in addition to focusing much more on recruiting and hiring, the company has shortened the time between hiring and training.

"That creates fewer days in which they could find another job," Fingleton said.

"It gets them on the payroll quicker and it gets them onto the selling floor quicker."

UNITED STATES SENATE
REPUBLICAN
POLICY COMMITTEE

Larry E. Craig, Chairman
Jade West, Staff Director

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 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 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.

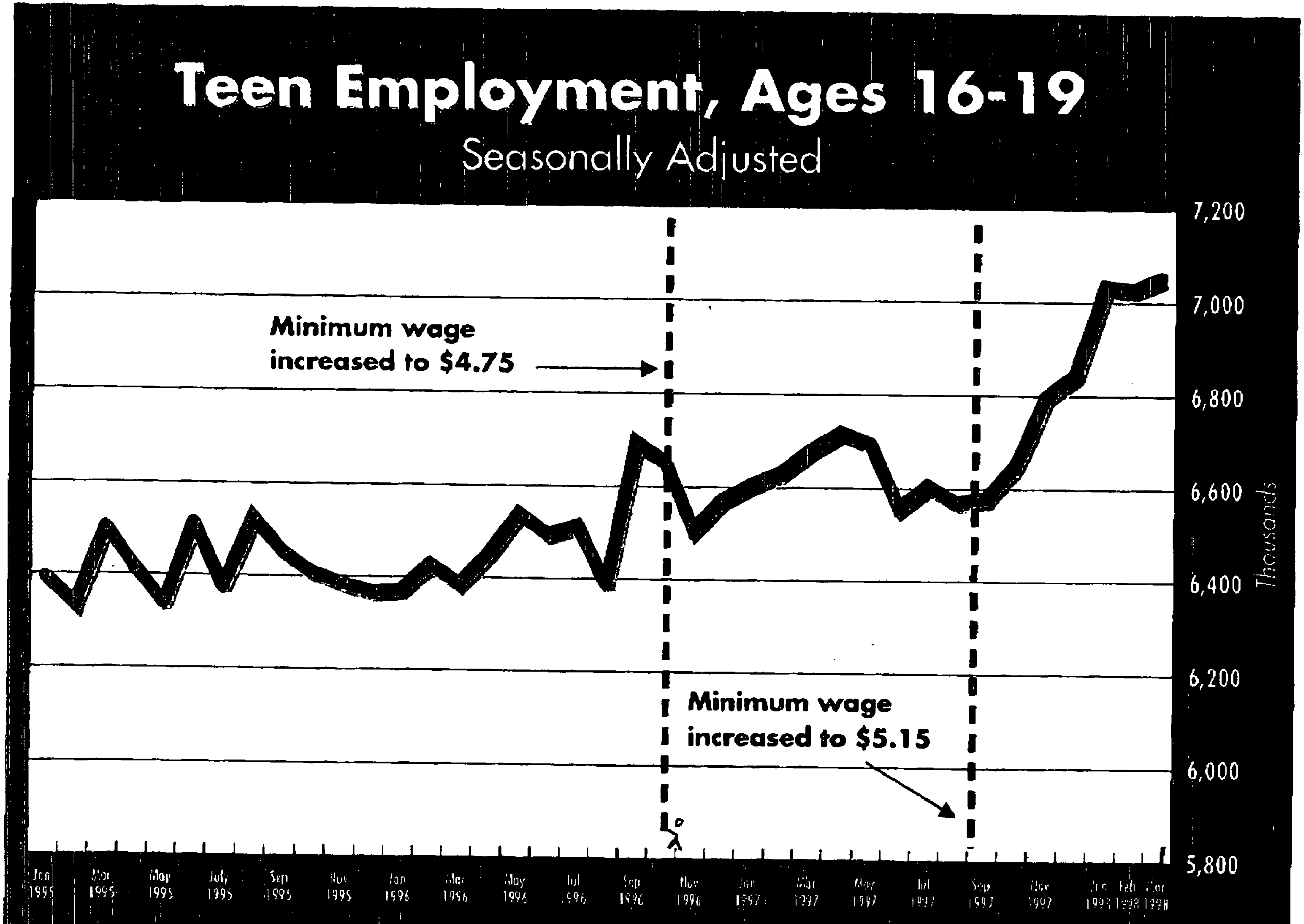
The risk from further minimum wage increases at this time are not just to those seeking to join the workforce and those only marginally in it, but to the American economy as a whole. While the economic gains from a minimum wage hike are illusory, the danger of inflation is real.

. . . And Bad Politics

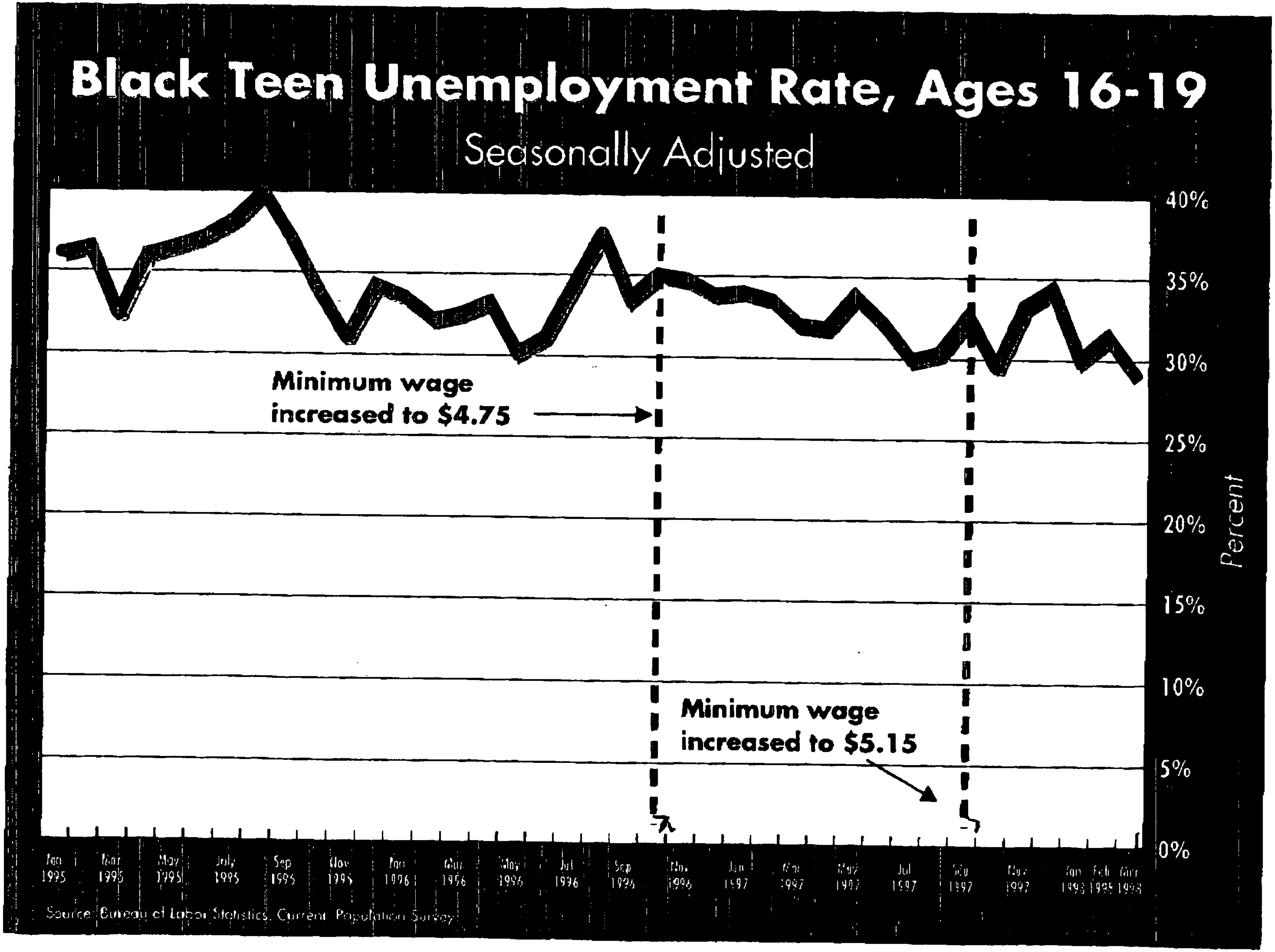
A minimum wage hike is antithetical to economics and is not primarily concerned with increasing wages--as has been pointed out [See RPC paper "It's Not the Minimum Wage, It's the Maximum Taxes"]. An honest way to increase real pay is to reduce taxes, the growth of which has outpaced wage growth in every 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.



Source: Bureau of Labor Statistics, Current Population Survey


Black Teen Unemployment Rate, Ages 16-19
Seasonally Adjusted
Minimum wage increased to $4.75
Minimum wage increased to $5.15
40%
35%
30%
25%
20%
15%
10%
5%
0%
Percent
Source: Bureau of Labor Statistics, Current Population Survey

5th Fl. Hart
DPC
Ted Ziegos
28432-32

NEW YORK TIMES

From Welfare Roll to Child Care Worker

NYT 4-29-98 A14

By TAMAR LEWIN

Many day care centers, especially for-profit chains, are hiring welfare recipients to care for young children.

In a survey of 158 centers in five cities, the Center for the Child Care Work Force, a nonprofit research and advocacy group in Washington, found that 35 percent of the centers employed welfare recipients.

But 80 percent of the for-profit chains, the fastest-growing segment of the day care industry, employed welfare recipients as against 40 percent of the independent, nonprofit centers, 30 percent of the church-sponsored centers and 20 percent of the independent, for-profit centers.

"For-profit child care has a history of going after low-wage workers," said Deborah Phillips, an author of the study. "They used to go after grandparents, and now they're going to welfare recipients. They are hired primarily as the lowest-paid assistants at centers with the lowest wages. Absent training and anything like a decent wage, this solution to welfare reform and need for child care is unlikely to provide women a route to self-sufficiency."

The Federal welfare overhaul law requires recipients with young children to find work, and that has increased the demand for both child care services and jobs for many women with little education or job training. Many states have responded to those dual needs by putting those women to work in child care centers, raising concerns both for the women hired and the children they care for.

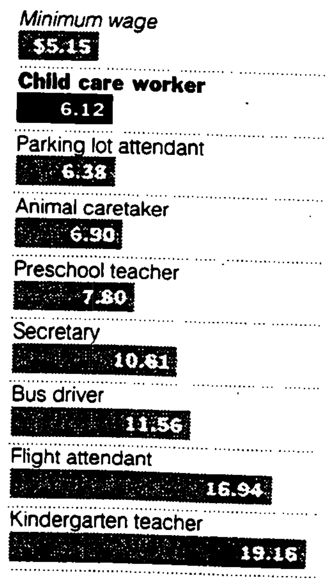
The centers that pay the lowest wages are the ones most likely to employ welfare recipients. Fewer than half the centers that hire welfare recipients offer on-site training, and only 1 in 5 offers the kind of college-credit training required for the better-paying child care jobs.

"These women are just thrust into classrooms," said Ms. Phillips, who is also director of the National Academy of Science's Board on Children, Youth and Families. "If this was first-grade teachers we were talking about, I don't think we'd consider doing this."

BY THE NUMBERS

Near the Bottom

The median hourly wage of child care workers falls short compared with other workers.



Source: Bureau of Labor Statistics

The New York Times

The new study is based on a sample of child care centers in Atlanta, Boston, Detroit, Phoenix and Seattle. In 1988, the center did an in-depth study of staffing and quality at 227 centers in those cities, finding that the best child care was in nonprofit centers, and those with the highest wages, lowest turnover, best training and fewest children assigned to each teacher.

The centers in the new study represent those from the original sample that were still operating and willing to participate in the follow-up. The 70 percent that survived and were included in the new study, the center said, tended to be the better ones.

Low wages and little training for aid recipients who care for children.

But even among these centers, wages and turnover remain problems. The average turnover rate was 31 percent, with one-fifth of the centers reported losing half or more of their teaching staff in the past year. Turnover in the for-profit chains was 45 percent, compared with 20 percent in the centers accredited by the National Association for the Education of Young Children.

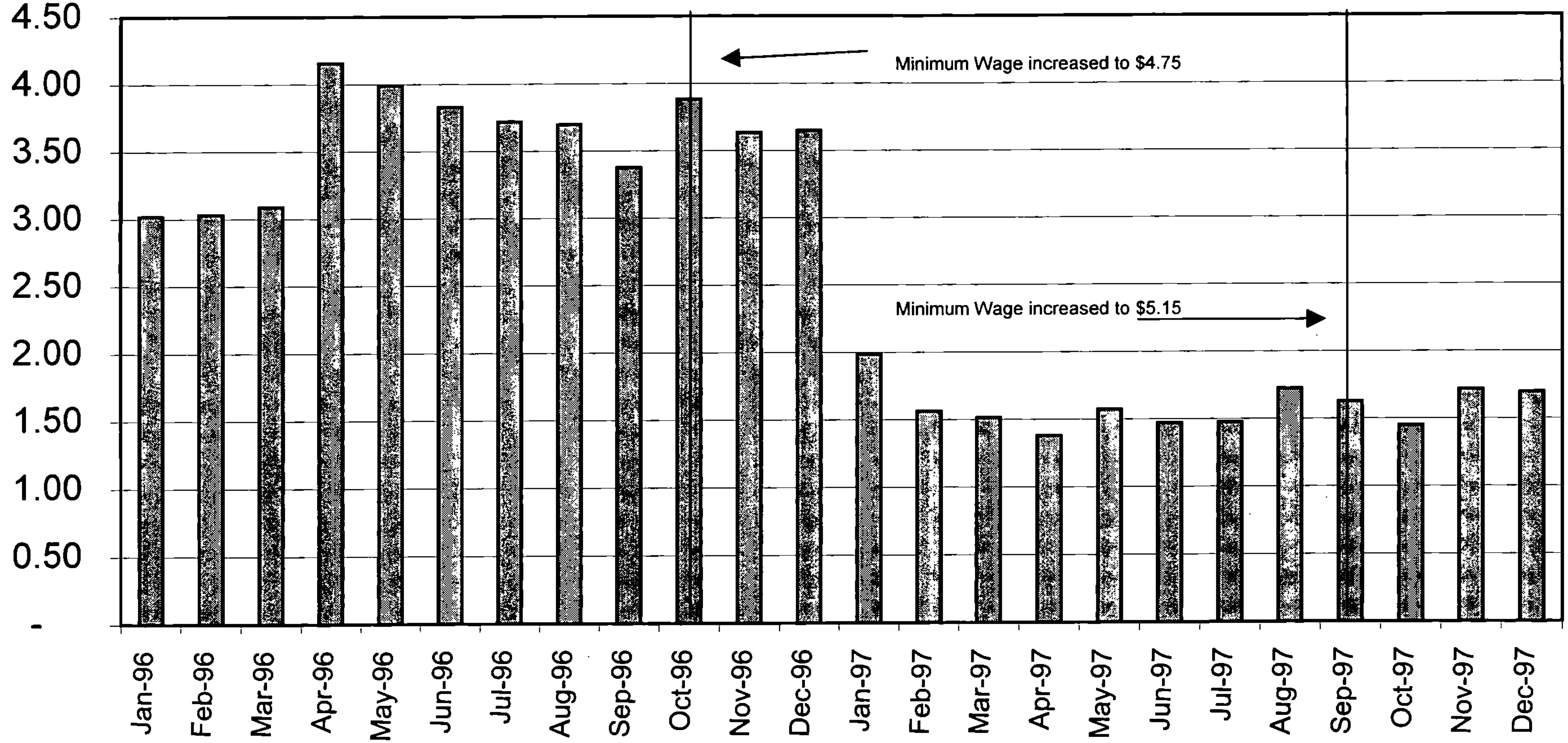
Centers that pay higher wages have less turnover. But the average child care worker earns less than a parking lot attendant. Entry-level child care jobs pay $6 an hour, or $10,500 a year, a rate that, adjusted for inflation, has increased just a penny an hour over the last decade, and one that keeps many child care workers below the Federal poverty line, $12,830 for a family of three. Even child care teachers in the highest-paid category — mostly people with college degrees and early childhood training — earn $10.85 an hour, or $18,988 a year, less than the $19,656 average salary of working women with a high-school diploma.

The decade between the two studies was a time of increased public funding for low-income families' child care, through the Child Care and Development Block Grant. For-profit chains tripled their revenues from public subsidies over the last decade, the study found, while independent nonprofit centers experienced a 4 percent decrease in revenue from public subsidies.

The center would not say which for-profit chains were included in the study.

Year-Over-Year Employment Growth in the Eating and Drinking Industry

Percent



Bonior described Han Young as a test case. "The outcome of the Han Young case will send a signal to workers on both sides of the border about each government's commitment to labor rights—that trade agreements such as NAFTA can raise everybody's standards and working conditions," Bonior said in an April 29 statement.

Family Leave

Employee Fired in Part for Absences Has Claim Against College, Court Says

A former college admissions officer who was ostensibly fired for absence from work and a negative attitude can proceed with her Family and Medical Leave Act claim that she was retaliated against for taking medical leave, a federal court in New York ruled.

Judge Rosemary S. Pooler of the U.S. District Court for the Northern District of New York found that plaintiff Mary Hillman established a prima facie case of an FMLA violation by Hamilton College and has raised a genuine issue of material fact as to whether Hamilton's stated reason for not renewing Hillman's contract was a pretext for unlawful retaliation (*Hillman v. Hamilton College*, DC NNY, No. 95-CV-1442(RSP/GJD), 4/9/98).

Hillman suffered a back injury while working as assistant dean of admissions for Hamilton in 1992, causing her to take periodic sick days. Hillman had lingering physical problems, and in January 1994, rheumatologist Dr. Lawrence P. Zyskowski, her treating physician, advised her to take medical leave. The acting dean of admissions refused that request and another one made in February. Dr. Zyskowski then wrote the college requesting leave for Hillman.

Without speaking to Dr. Zyskowski, Director of Personnel Sarah Steele determined that Hillman could comply with her doctor's directives without taking leave, and denied the request. After receiving a letter from Hillman's attorney maintaining that the FMLA required her to grant the request, however, Steele reversed her initial decision. Hillman left work on March 11 and returned on March 28, 1994.

On April 14, the acting dean of admissions recommended that Hillman's employment not be renewed for another year. After Hillman's contract was terminated, she sued under the FMLA, alleging adverse action in violation of her statutory right to take unpaid leave for a serious health condition.

Possible to Infer Pretext. The college claimed that Hillman failed to establish an essential element of her prima facie case, specifically that its decision not to renew her contract was causally connected to her medical leave. However, Judge Pooler said that a reasonable fact-finder could infer a connection because the recommendation not to renew Hillman's employment was made on April 14, less than one month after Hillman returned from medical leave.

The court also found evidence of retaliatory animus against Hillman. The plaintiff alleged that on learning that the college would grant Hillman's leave in March 1994, the acting dean's response was to "slam her door and say in an elevated and agitated tone 'just because [Hillman's] got an attorney means we have to let her go?' " Hillman also presented a document in the acting dean's handwriting with references both to Hillman's medical leave request and the decision not to renew her employment on the same page. This evidence is sufficient to establish a prima facie case of an FMLA violation, the court said.

Although the college claimed that Hillman was not renewed because of a bad attitude, inconsistent work, and a propensity to take sick leave, the court said that a fact-finder could believe that Hamilton's asserted reasons were a pretext for prohibited discrimination.

The court cited the acting dean's affidavit in which she said that her recommendation was partly based on Hillman missing "at least 37 days of scheduled work on campus" from November 1992 to March 1994. This time period included Hillman's medical leave, the court pointed out. Therefore, if the acting dean actually relied on those absences in deciding not to renew Hillman, "she acted based on Hillman's protected activity under the FMLA," Pooler wrote.

After-Acquired Evidence. The college also sought summary judgment on Hillman's claim for back wages on the grounds that Hillman would have been fired in an any event because she took and copied certain college documents without authorization.

After Hillman was told her employment would not be renewed, she copied her personnel file from a drawer in the acting dean's office as well as other employees' performance evaluations lying in the open without permission. The college claimed that Hillman would have been fired on the spot if this conduct had been discovered at the time.

"After-acquired evidence of wrongdoing by the plaintiff can limit a damages award," the court acknowledged. However, Pooler found that open questions of fact exist as to whether Hillman's conduct was inappropriate and whether she really would have been fired immediately if the college had discovered her actions.

The court also noted that, although the originals remained in the acting dean's possession, the college failed to produce many of these documents during discovery.

Sexual Harassment

Occasional Exposure to Crude Behavior Is Not Hostile Environment, Court Rules

A female insurance agent's occasional exposure to offensive or crude behavior was not severe or pervasive enough to create a sexually hostile work environment in violation of Title VII of the 1964 Civil Rights Act, the U.S. Court of Appeals for the Seventh Circuit has ruled.

Plaintiff Bernice Cowan claimed that she was exposed to a sexually hostile work environment during her two years of working at Prudential Insurance Co. of America. The alleged hostility included use of "a provocatively dressed cheerleader" in company promotional material, a cartoon of two bank safes having "safe sex," and a comment by Cowan's district manager Larry Clark that he could "do like [Cowan] and 'abstain from sex.' "

In an affidavit, Cowan added that she was snubbed by her supervisor Michael Pierce, and that on Saturday mornings at work, "male agents and managers loudly called each other crude names (which were derogatory to women)," and discussed their trips to a nearby strip club. Clark also asked Cowan "why she did not 'just get married and let some man take care' of her," according to the plaintiff.

Writing for the Seventh Circuit, Judge Daniel A. Manion noted that in order to find a hostile work environment under Title VII, the conduct at issue must be objectively offensive as well as offensive to the particular plaintiff. The alleged incidents at Prudential were "not severe enough or pervasive enough to create an objectively hostile work environment," the court decided (*Cowan v. Prudential Insurance Co. of America*, CA 7, No. 97-1871, 4/10/98).

The crude name-calling was not directed at Cowan and only happened on Saturdays, the stories about the strip club were told just once a month, and the plaintiff's other allegations involve a few "unrelated incidents (two of which were followed by apologies) which occurred over the two years of Cowan's employment," the court said.

Manion emphasized that most of the alleged comments were not directed specifically at Cowan, that she was not physically assaulted, and that the conduct was not frequent or severe enough to raise a hostile working environment.

No Sex Bias in Discharge. On a separate issue, the court also affirmed that Cowan's discharge was not the result of sex discrimination. During Cowan's employment, Prudential instituted a nationwide sales policy. If an employee's sales were in the bottom 20 percent of the district, they could be placed on probation.

When Cowan finished the year second to last in sales in her office, Regional Vice President John Greene put her on probation, along with 14 men and six other women. The agent who ranked next to last in her office, who was not put on probation, had sales 40 percent higher than Cowan's. As a term of probation, Cowan would be automatically discharged if her sales for the second quarter of 1991 did not meet or exceed 733,464 sales credits, which was one fourth the sales earned by the average agent in her office. "At the end of the quarter, Cowan's sales credit totaled only 15,890 not even close," the court said.

In her Title VII suit, Cowan claimed that the company was motivated by sex discrimination both in placing her on probation and in firing her. As evidence of sex discrimination, Cowan again cited the alleged harassment, which she claimed demonstrated an animus against women on the part of both Pierce, her immediate supervisor, and Clark, the district manager.

Even assuming that such animus existed, the court found that Greene relied only on the sales numbers in deciding to place Cowan on probation, not on any suggestions made by her supervisors. "Her claims of sexual animus do not obscure the objective fact that her sales performance was far below par," Manion wrote in affirming summary judgment for Prudential.

Retaliation Claim Fails. After her termination, Cowan participated in a nationwide union grievance over the probation policy. An arbitrator found that Prudential had not given sufficient notice of the change in policy and ordered all the terminated agents reinstated. However, Cowan claimed that upon her reinstatement, Prudential retaliated against her for the grievance.

The alleged retaliation included assigning her to a different office, cancelling her National Association of Securities Dealers registration, making errors in her payroll records, and "treating her with coldness and indifference upon her return." The court found that Cowan "failed to present any evidence tying the claimed adverse actions" to her participation in the grievance.

Only two positions were open in the area when Cowan was ordered reinstated, the court pointed out. She received one of them and the other agent terminated from her office received the other. The NASD registration was cancelled as required when an agent is terminated, and was reinstated upon Cowan's return to work. Cowan failed to show that the payroll irregularities were anything other than the occasional problems found in large organizations, Manion wrote. The court found that Cowan presented no evidence to "link the staff's alleged indifferent behavior" to her participation in the grievance or to her earlier sexual harassment complaints. Even viewing the record in the light most favorable to Cowan, the court could discern no relationship between her grievance and the claimed adverse action by Prudential.

Judges Richard A. Posner and Judge Walter J. Cummings joined in the opinion.

Minimum Wage

Restaurant Industry Says 146,000 Jobs Lost Due to Minimum Wage Hikes in 1996, 1997

More than 146,000 jobs were eliminated in the restaurant industry as a result of the minimum wage increases in 1996 and 1997, according to research by the National Restaurant Association.

Restaurant operators also postponed hiring 106,000 employees as a result of the increase in the minimum wage from $4.25 to $5.15 an hour, the association said. Employees most affected by the job losses were cooks.

"One can only imagine what would happen if there was another 20 percent hike, like Sen. Ted Kennedy (D-Mass) is pushing, on the heels of the last increase," said NRA President Herman Cain. Kennedy has introduced legislation (S. 1573) to raise the minimum wage by $1 in two annual installments of 50 cents each. The bill is supported by President Clinton.

The findings are based on interviews with 1,001 restaurant owners and managers nationwide between Feb. 26 and March 19, 1998. The survey was conducted for the NRA by International Communications Research, Media, Pa.

Ergonomics

NIOSH Official Says Behavioral Factors Should Be Considered in Training Workers

LAS VEGAS—A number of factors that influence human behavior should be considered when conducting workplace safety training, a research psychologist told an ergonomics conference April 30.

Analysis&Perspective

Minimum Wage

Debate Persists Over Possible Job Loss If Wage Is Increased; Other Effects Projected

Democrats and Republicans and their supporters again are airing out their traditional arguments in debating the merits of President Clinton's plan to raise the minimum wage $1 by the year 2000. Democrats say a wage increase is necessary to help millions of poor working Americans raise their living standards while GOP members say a hike will force employers to cut thousands of jobs, hurting the very people targeted for the increase.

But many economists interviewed by BNA say the issue cannot be portrayed in black-and-white terms, and it is likely that some workers would be hurt while others would be helped by raising the minimum wage from $5.15 to $6.15 an hour over the next two years.

In fact, the two sides disagree on who will benefit most from a wage hike or if employers will react to a wage hike differently than expected, possibly by reducing benefits or other workplace intangibles rather than cutting jobs.

Congressional Democrats are lining up behind President Clinton's plan to raise the minimum wage in two, 50-cent increments. The increase would raise the average annual salary of a full-time worker paid the minimum wage—about 12 million workers—by about $2,080, according to the White House. Congress last raised the minimum wage in 1996 and 1997 in two steps of 50 cents and 40 cents, respectively.

Restoring Wage to Real Value. At a congressional rally in February, Clinton said a wage hike would help restore the minimum wage to its real 1981 value, making up for nearly two decades of growing income inequality.

Clinton said the current robust economy would allow another wage hike to be phased in without forcing employers to cut jobs or rethink their hiring plans, an argument rejected by congressional Republicans, their supporters, and employers.

The White House said there is no evidence that a moderate increase in the minimum wage would cost jobs and pointed out that the economy has created on average 250,000 new jobs a month since the 1996 and 1997 increases took effect.

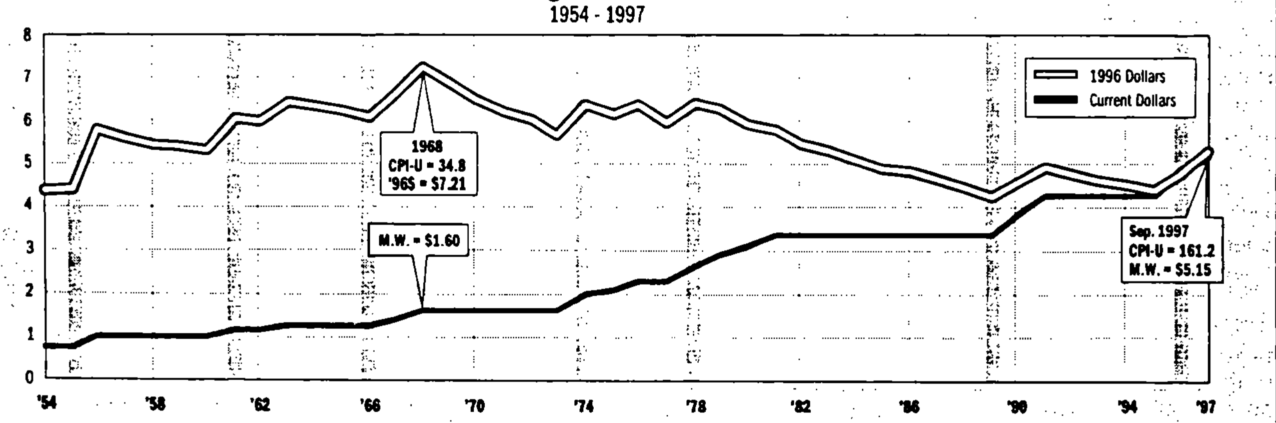
Workers Frozen Out of Jobs. But GOP and business leaders say a wage hike would cost jobs and arbitrarily freeze many workers—particularly minority teenagers—out of a first job. At a March 26 Capitol Hill briefing, Senate Majority Leader Trent Lott (R-Miss) and officials from the National Association of Manufacturers, the National Restaurant Association, and the National Federation of Independent Business said that Clinton is out of touch with American business and that a minimum wage hike would cause job losses.

Congressional aides and those involved on both sides of the issue say that Democrats have a winning political issue in seeking to raise the minimum wage, and it may become law unless Republicans propose alternatives to help the working poor, such as expanding the Earned Income Tax Credit and offering other tax breaks.

Those on both sides of the minimum wage debate say they want to help the working poor, but they differ strikingly on how best to accomplish that goal. Those opposing a wage hike say any increase would mostly help teenagers living in middle income families, and they say a better way to help the poor would be to expand the EITC, along with other steps.

The two biggest debates over whether to increase the minimum wage revolve around whether a wage hike would raise the living standards of those most needing it—the heads of poor families—and whether an increase would cause employers to cut jobs or reduce hiring.

Value of Minimum Wage in Current and 1996 Dollars
1954 - 1997



Source: Bureau of Labor Statistics

A BNA Graphic

Note: Shaded areas represent years that the Fair Labor Standards Act was amended to raise the minimum wage. Calculations are based on annual average CPI-U, except 1997.

Who would be helped by a minimum wage increase is a subject of much debate among economists and others. Employment Policy Foundation chief economist Kenneth L. Deavers said his research indicates that of the 12.6 million workers who earned the minimum wage or less in 1996, only about 3 million were family heads. EPF is an educational foundation that examines employment policy.

Few Are Sole Breadwinners. The Heritage Foundation says only 11.7 percent of minimum wage workers were the sole breadwinners in their families in 1996. In contrast, the Clinton administration says about 40 percent of minimum wage workers are family heads, but Heritage claims that figure includes those voluntarily working part-time.

About 19.3 percent of those being paid the minimum wage are single, while 69.1 percent belong to families with two or more wage earners, according to Heritage.

"The popular belief that minimum wage workers are poor adults working full-time and trying to raise a family is largely untrue," Heritage said in a policy paper released March 5. "Indeed, most minimum wage workers live in families with incomes well above the poverty level."

Deavers says the primary financial issue facing minimum wage family heads is not the failure of the minimum wage to support them, but their lack of education and fewer working hours. About 32 percent of minimum wage family heads have less than a high school education, and 16 percent work less than 20 hours a week, he said.

But the Department of Labor says that 74 percent of workers who would benefit from an increase in the minimum wage are adults over age 20, and 60 percent are women, many of whom are single heads of households with children. The average minimum wage worker brings home half of family earnings, according to the department.

Substantial Positive Effect. One of the few studies conducted on the 1996 minimum wage increase found that the majority of minimum wage workers were over age 20 and that the increase implemented that year "had a substantial positive effect" on their earnings.

The study, released in July 1997 by the Economic Policy Institute, found that the wage increase benefited low-wage workers most. Examining working families, including those with only one member, 55.6 percent of wage gains went to families in the bottom 40 percent of income, and 71.2 percent went to families in the bottom 60 percent, according to the study by EPI economists Jared Bernstein and John Schmitt. EPI is a nonprofit economic research organization.

Families in the top fifth of income received the smallest share of gains from the wage increase (13.5 percent), it said. "In the end, most of the added earnings generated by the minimum wage increase went to low-income families who needed it the most," the study concluded.

Economists interviewed by BNA said it is apparent that a wage increase would mostly help low income families, but that some teens from middle class families and others also would benefit, leaving society to decide whether it wants to support a program that for the most part is well targeted but also may help those who do not need it.

"The bucket has some leaks, and some of the benefits go to families that don't necessarily need the increase," Bernstein told BNA.

"It all boils down to people's values," Princeton economist Alan B. Krueger told BNA. "Some may think it's worth it to raise the minimum wage for teens as a byproduct of raising it" for the working poor, he added.

North Carolina State economist Walter Wessels, who opposes raising the minimum wage, told BNA that most minimum wage earners are teens and those re-entering the workforce. If the goal is to help the poor, Wessels said, programs such as the EITC should be expanded and society as a whole—not just employers—should bear the extra costs.

Jobs Losses Traditionally Predicted. Even more contested than whether the minimum wage adequately targets the working poor is whether a wage increase would result in job losses because employers would not be able to absorb the cost.

Economists traditionally have postulated that increases in the minimum wage produce job losses. Starting with Princeton economists David Card and Krueger,

Minimum Wage Rates
Under the Fair Labor Standards Act

Listed below are the minimum wage rates in effect since the 25-cent per hour minimum wage was enacted under the Fair Labor Standards Act of 1938.

Effective Date	1938 Act	Amount Needed For Equivalent Purchasing Power In 1996 Dollars
Oct. 24,1938	$0.25	$2.78
Oct. 24.1939	0.30	3.39
Oct. 24, 1945	0.40	3.49
Jan. 25, 1950	0.75	4.88
Mar. 01, 1956	1.00	5.77
Sep. 03, 1961	1.15	6.03
Sep. 03, 1963	1.25	6.41
Sep. 03, 1964	1.25	6.33
Sep. 03, 1965	1.25	6.23
Feb. 01, 1967	1.40	6.58
Feb. 01, 1968	1.60	7.21
Feb. 01, 1969	1.60	6.84
Feb. 01, 1970	1.60	6.47
Feb. 01, 1971	1.60	6.20
May 01, 1974	2.00	6.37
Jan. 01, 1975	2.10	6.12
Jan. 01, 1976	2.30	6.34
Jan. 01, 1977	2.30	5.95
Jan. 01, 1978	2.65*	6.38*
Jan. 01, 1979	2.90*	6.27*
Jan. 01, 1980	3.10*	5.90*
Jan. 01, 1981	3.35*	5.78*
Apr. 01, 1990	3.80*	4.56*
Apr. 01, 1991	4.25*	4.90*
Oct. 01, 1996	4.75*	4.75*
Sep. 01, 1997	5.15*	5.28*

*For all covered, nonexempt workers

Source: U.S. Department of Labor A BNA Graphic however, some economists began reporting that minimum wage increases had little or no effect on the economy's ability to create jobs. Some now believe that the pendulum may be swinging back in the other direction, and that increases in the minimum wage can hurt the employment chances of workers—particularly teens, minorities, and those without a high school education.

Even Krueger has moderated his stance somewhat. In an interview with BNA, he said the economy may be close to a "tipping point" in which jobs would be lost if the minimum wage is raised again so close to the 1996 and 1997 increases.

"There comes a point that a wage increase could have adverse consequences, and we're probably closer to that point than two years ago" when the last wage increase was implemented, Krueger said. Employers profits also may be "squeezed" if another wage hike takes effect, he added.

Estimates of the number of jobs lost from increasing the minimum wage range from zero to hundreds of thousands, depending on who is making the estimate. There is little available research on the effect of the 1996 and 1997 wage hikes on job loss, however, and past studies have found only small displacement results from wage hikes. Both sides of the debate accuse the other of skewing the data to produce the results that most closely reflect their position.

Pointing to the strong job growth that has taken place since the 1996 and 1997 increases, the Clinton administration says another hike would have little impact on job creation.

Since the 1996 increase, the economy has created an average of 250,000 new jobs per month while unemployment has fallen to 4.6 percent—its lowest level in nearly a quarter of a century, according to DOL. Unemployment rates are down, in particular for at-risk groups such as blacks, women, and teenagers, groups most often cited at risk by those opposing a wage hike.

Complicated Problems Facing Blacks. The administration believes that the employment problems facing young black men, for example, are more closely tied to a lack of education and job training opportunities, and lack of enforcement of civil rights jobs.

"The problems faced by young African-American men in our country are complicated, and are certainly not caused solely by the minimum wage," Bernard E. Anderson, DOL assistant secretary for employment standards, said at a March 19 minimum wage forum sponsored by the Democratic Forum.

While the unemployment rate for young black men has fallen 5.5 percentage points in the last five years, it stood at 36.5 percent in 1997, according to DOL.

No Job Losses for Teens. In one of the few studies on the effect of the most recent wage increases, Bernstein of EPI found that the 50-cent increase on Oct. 1, 1996, did not cause job loss for teenagers or young adults. Preliminary research including the 40-cent increase on Sept. 1, 1997, appears to mirror those findings.

"Moderate increases in the minimum wage have not been found to lead to substantial, or in many cases, identifiable, job loss among low-wage workers," the study said. "Most of the estimates hover about zero; some above, some below. In this regard, moderate increases—those within the historical range of the real value of the wage, should be judged by other criteria."

Bernstein said the disemployment effects of raising the minimum wage "have been falling over time."

Masked Effects. But in an upcoming research paper to be released May 4 at a forum sponsored by the American Enterprise Institute for Public Policy Research, Syracuse University economics professor Richard V. Burkhauser and University of Connecticut economic professor Kenneth A. Couch are expected to argue that the recent strong economy masked the effect of the 1996 wage increase.

"If you strip away the business cycle, the effects of the minimum wage would have been even larger," Burkhauser told BNA. When the inevitable downturn in the economy begins, minimum wage workers will lose their jobs in greater numbers than if the wage were not increased as proposed by Clinton, he added.

"The state of the economy is very important" to consider when contemplating raising the minimum wage, "but what will the economy be like in the year 2000?," Krueger said, referring to the possibility of an economic slowdown in two years.

Another wage increase is likely to reduce jobs for at-risk groups by 3 percent for each 10 percent increase in the minimum wage, Burkhauser told BNA. "Hundreds of thousands" of additional workers would have found jobs had the 1996 and 1997 increases not taken effect, he added.

The Heritage Foundation says 128,000 more entry-level jobs would have been created for teenagers alone if the 1996 and 1997 wage increases were not implemented, and another $1 hike would cause employers to create an average of 345,000 fewer jobs in 2000.

Benefits Slashed. To cope with a wage hike, some economists also are arguing that if employers may react in other ways besides cutting jobs, although others such as Bernstein say there is little or no research to support this hypothesis.

University of California-Irvine economist Richard McKenzie told BNA that another wage hike could prompt employers to offset their higher labor costs by cutting the meager benefits received by minimum wage workers.

Employers may reduce workers' vacation time, increase work demands, no longer allow flexible scheduling, take away lunch discounts, and cut back on other amenities to absorb the costs associated with a wage hike, McKenzie said.

"You have the appearance of a minimum wage increase having no effects, but you're actually hurting workers," McKenzie said, citing what he claims is the rise in voluntary quit rates of low-income workers following an increase in the minimum wage. As benefits are scaled back, minimum wage workers are likely to become dissatisfied with their jobs and leave for other employment, he said.

Wessels of North Carolina State agreed, telling BNA that the value of the benefits lost may exceed that of a minimum wage increase. "This will make workers worse off," he said.

McKenzie said the debate in the nation's capital means little because employers will do whatever is necessary to absorb the cost of a wage hike. "The market will ultimately rule on this one," he said.

But Bernstein said several mitigating factors may prevent employers from cutting jobs or reducing benefits, including the fact that all employers will be faced with the increase. Many low-wage employers also say they can cope with a wage increase through efficiency gains because it lowers turnover and vacancy rates, cutting costs associated with hiring and training, he added.

As with the argument over whether the minimum wage adequately targets low-income workers, some economists interviewed by BNA said the nation will have to decide whether the overall benefit to millions of low-wage workers that would be realized from raising the minimum wage is enough to risk the possibility that some jobs may be lost.

By Steve Teske

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