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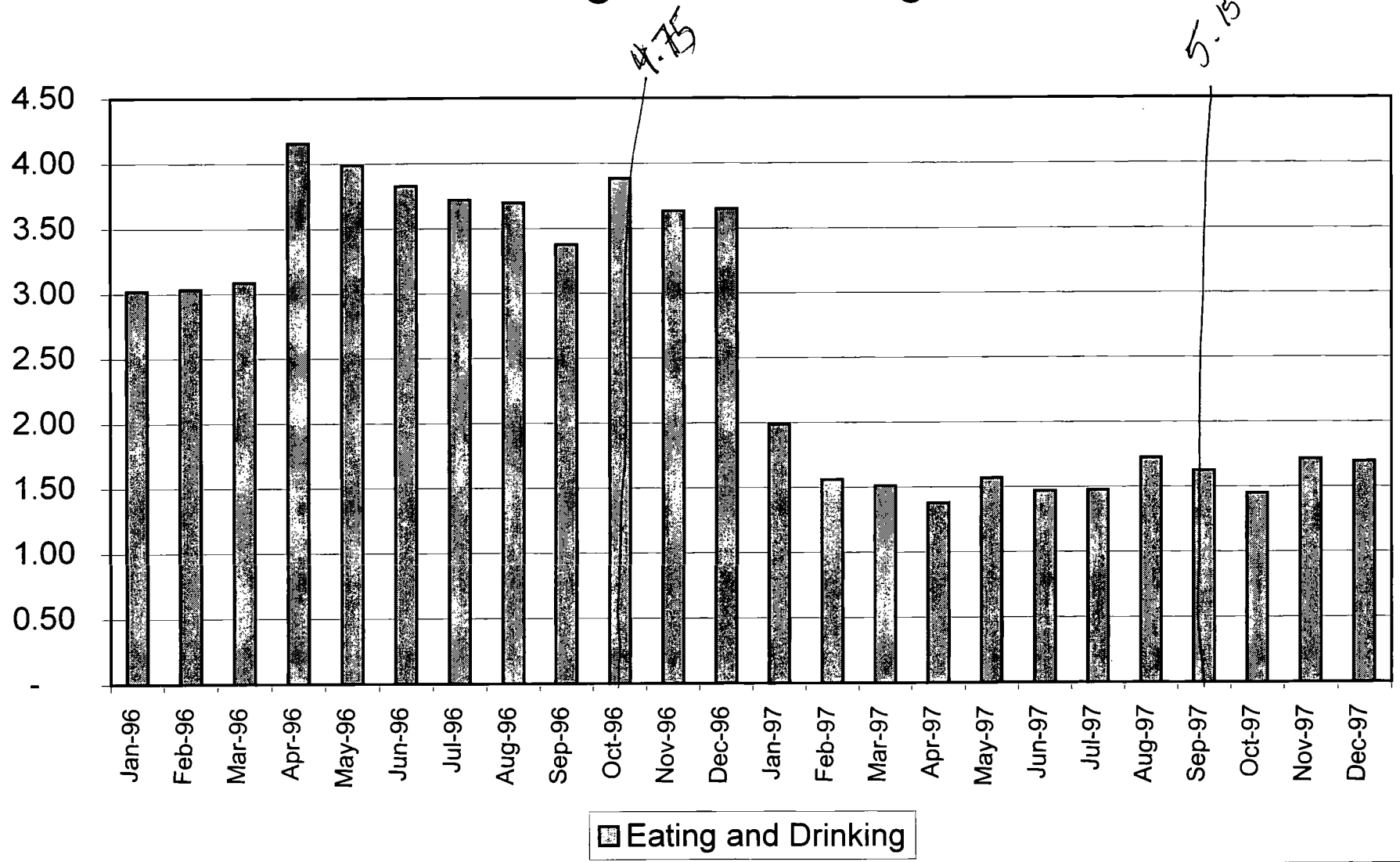
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Minimum Wage - Debate Material [3]

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Eating and Drinking



FAX TRANSMITTAL SHEET
U.S. Department of Labor
Office of the Chief Economist

Date: 3/27/98

To: Chris Owens 508 - 6967

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Page Number one of pages

Messages: Hope this helps

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Who Is Affected By Increases in the Minimum Wage?

We examine the demographic characteristics of workers likely to be affected by two different increases in the minimum wage. Under one scenario, the minimum wage is increased roughly in line with expected inflation, reaching \$6.00 per hour by 2003. The other scenario examined is Senator Kennedy's proposal, which would increase the minimum wage in 50 cent increments, reaching \$7.25 per hour by September 2002.

Real wages have been roughly constant at the bottom of the income distribution over the last 10 years. We therefore assume constant real wages at the bottom of the income distribution through 2003. Consequently, we assume that those affected by an increase in the minimum wage to \$6.00 per hour by 2003 are those who are currently earning the \$5.15 per hour minimum wage. Those affected by an increase in the minimum wage to \$7.25 per hour in 2002 are those currently earning \$6.40 per hour or less (\$7.25 in 2002 dollars deflated to 1997 dollars is \$6.40).

Table 1 presents the number of people likely to be affected by a minimum wage increase. Column 1 presents the numbers affected by an increase to \$6.00 by 2003; column 2 presents the numbers affected by an increase to \$7.25 by September 2002. Since the increase to \$6.00 by 2003 is roughly an adjustment for inflation, and we are assuming constant real wages, we do not consider any disemployment effects from this increase. However, the increase to \$7.25 by September 2002 represents a 24 percent increase in the real minimum wage. Economic studies of past increases in the minimum wage find disemployment effects ranging from zero to a 3 percent decrease in employment for teens (a group likely to suffer the largest disemployment effects) for every 10 percent increase in the minimum wage.

The last column of Table 1 presents the numbers affected by the increase to \$7.25 assuming this 3 percent decrease in employment for all groups for every 10 percent increase in the minimum wage; with disemployment effects, the increase to \$7.25 by 2002 increases wages for about 17.7 million workers and costs about 700,000 workers their jobs. Although a 3 percent disemployment effect for every 10 percent real increase in the minimum wage is an upper bound from past studies of disemployment estimates for a group (teenagers) who are likely to have relatively large disemployment effects, we consider it a reasonable approximation of potential disemployment effects from an increase to \$7.25 by September 2002 for three reasons. First, the increase to \$7.25 is larger, in real terms, than previous increases studied. Second, the increase to \$7.25 would cut higher into the distribution of wages for low-skilled men than previous increases have. And third, a group likely to be adversely affected by the increase is women moving from welfare to work; this group, like teenagers, is expected to have relatively large disemployment effects.

Absent any legislative changes, the real value of the minimum wage would erode by 2003 to \$4.50 in 1997 dollars; this decrease in the real value of the minimum wage could boost employment in the same way that an increase in the real value of the minimum wage might decrease employment. Again, using the range of disemployment effects found in past studies, we find that relative to no legislative change, increasing the minimum wage to \$6.00 by 2003 could

have an effect on employment ranging from zero to a decrease in employment of about 460,000. Increasing the minimum wage to \$7.25 could have a maximal disemployment effect of about 1.2 million.

Table 2 presents the characteristics of those affected by the two different minimum wage increases; it also presents the characteristics of all wage and salary workers for comparison. For example, if the minimum wage is raised to \$6.00 by 2003, about 38 percent of those affected by the increase would have less than a high school education; 35 percent of those affected by an increase to \$7.25 by 2002 would have less than a high school education, compared with 13 percent of all wage and salary workers have less than a high school education. Table 2 thus reveals that, under either scenario for a minimum wage increase, those affected are disproportionately low-skilled, black, hispanic, female, teenagers, not the primary earner in the family, and poor. The proportion of the affected group that has a given set of characteristics is roughly similar under the two scenarios for a minimum wage increase. For example, 16 percent of those affected by an increase to \$6.00 by 2003 are black, compared with 14 percent of those affected by an increase to \$7.25 by 2002.

About 16% of those affected by either minimum wage increase are the sole breadwinner in their family. The average affected worker contributes about half of his or her family's earnings.

Table 3 indicates what proportion of various demographic groups would be affected by a minimum wage increase. For example, if the minimum wage is raised to \$6.00 by 2003, 16 percent of all teenagers would be affected, whereas only 4 percent of the total population would be affected.

Table 1: Numbers of people affected.

	Increase to \$6.00 by 2003	Increase to \$7.25 by Sept 2002	Increase to \$7.25 by Sept 2002 with disemployment effects	Estimated disemployment effect from increasing to \$7.25 by Sept 2002
Total	8,766,000	18,450,000	17,753,000	697,000
Education				
Less than High School	3,374,000	6,399,000	6,181,000	218,000
High School	2,732,000	6,133,000	5,888,000	245,000
More than High School, no BA	2,289,000	5,075,000	4,874,000	201,000
BA or more	371,000	846,000	812,000	34,000
Race/ethnicity				
black	1,412,000	2,673,000	2,582,000	91,000
white	6,952,000	14,970,000	14,393,000	577,000
asian	280,000	582,000	561,000	22,000
hispanic	1,198,000	2,885,000	2,764,000	121,000
Gender				
female	5,340,000	11,010,000	10,602,000	408,000
male	3,426,000	7,444,000	7,155,000	289,000
Family status				
Teen	2,935,000	5,215,000	5,051,000	164,000
Adults	5,831,000	13,240,000	12,707,000	533,000
Married adult female	1,786,000	4,138,000	3,969,000	169,000
Married adult male	795,000	2,047,000	1,957,000	90,000
Single adult, no children	2,165,000	4,794,000	4,605,000	189,000
Single adult with children	1,086,000	2,260,000	2,175,000	85,000
Primary earner in family	2,383,000	5,418,000	5,199,000	219,000
Gender/race				
White male	2,790,000	6,152,000	5,910,000	242,000
White female	4,162,000	8,817,000	8,482,000	335,000

Black female	930,000	1,700,000	1,645,000	55,000
Black male	482,000	974,000	938,000	35,000
Asian male	79,000	207,000	198,000	9,000
Asian female	201,000	375,000	363,000	13,000
Hispanic male	607,000	1,509,000	1,444,000	65,000
Hispanic female	591,000	1,376,000	1,320,000	56,000
Economic indicators				
Poor	1,685,000	2,983,000	2,890,000	93,000
Below 200 percent of poverty	3,892,000	7,643,000	7,373,000	270,000
Poor adults	1,252,000	2,284,000	2,209,000	74,000
Adults below 200 percent of poverty	2,879,000	6,004,000	5,779,000	225,000
Sole breadwinner of family	1,379,000	3,049,000	2,929,000	120,000
Mean contribution to family earnings	0.46	0.48		
Median family income	31,200	31,000		

Table 2: Demographic characteristics of those affected as a percent of wage category
 Column 1 shows those earning the current minimum wage of \$5.15. Column 2 shows those currently earning less than \$6.40 (the real value of \$7.25 by September 2002). Column 3 shows all wage and salary workers for comparison.

	Increase to \$6.00 by 2003	Increase to \$7.25 by Sept 2002	All wage and salary workers
Education			
Less than High School	38	35	13
High School	31	33	33
More than High School, no BA	26	28	29
BA or more	4	5	25
Race/ethnicity			
black	16	14	12
white	79	81	84
asian	3	3	4
hispanic	14	16	10
Gender			
female	61	60	48
male	39	40	52
Family status			
Teen	33	28	7
Adults	67	72	93
Married adult female	20	22	26
Married adult male	9	11	31
Single adult, no children	25	26	27
Single adult with children	12	12	9
Primary earner in family	27	29	54
Gender/race			
White male	32	34	45
White female	48	48	40
Black female	11	9	6
Black male	6	5	5
Asian male	1	1	2

Asian female	2	2	2
Hispanic male	7	8	6
Hispanic female	7	7	4
Economic indicators			
Poor	19	16	6
Below 200 percent of poverty	44	41	21
Sole breadwinner of family	16	17	21

Table 3: Percent of demographic category affected

Each row shows the number of people in a group affected by the indicated minimum wage change, as a share of the total population in that group.

	Increase to \$6.00 by 2003	Increase to \$7.25 by September 2002
Total	4	9
Education		
Less than High School	8	15
High School	4	9
More than High School, no BA	4	10
BA or more	1	2
Race/ethnicity		
black	6	11
white	4	9
asian	4	8
hispanic	6	14
Gender		
female	5	10
male	4	8
Family status		
Teen	16	28
Adults	3	7
Married adult female	3	8
Married adult male	1	4
Single adult, no children	4	8
Single adult with children	7	14
Primary earner in family		
Gender/race		
White male	3	7
White female	5	10
Black female	7	13

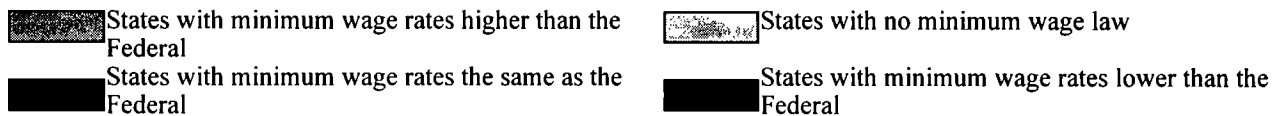
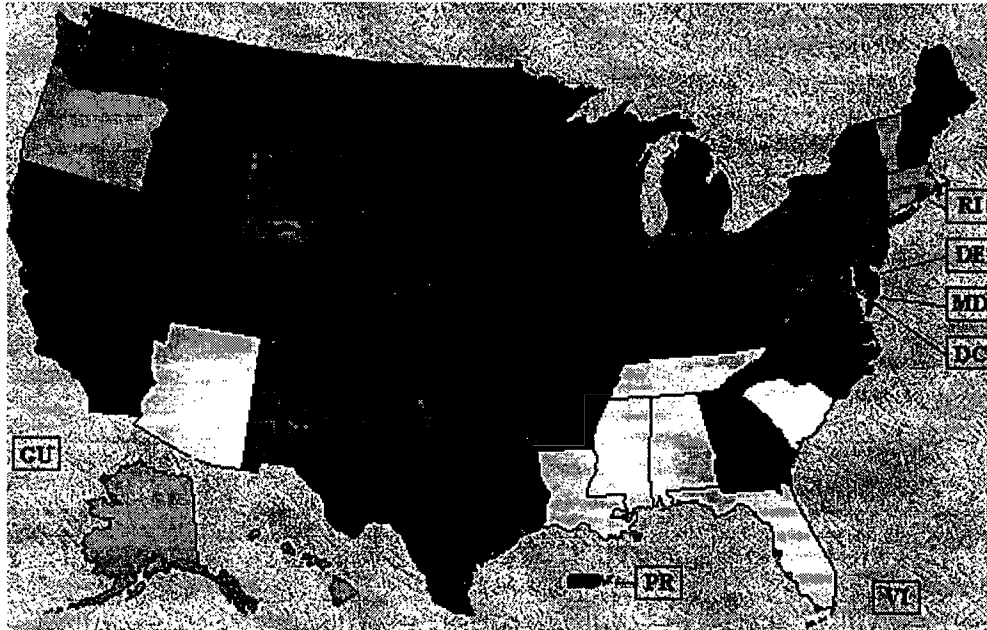
Black male	5	9
Asian male	2	6
Asian female	5	10
Hispanic male	6	15
Hispanic female	6	14
Economic indicators		
Poor adults	6	12
Adults below 200 percent of poverty	5	11



Minimum Wage Laws in the States

Click on any state or jurisdiction to find out about applicable minimum wage laws.

Note: Where state law requires a higher minimum wage, the higher standard applies.



Minimum Wage and Overtime Premium Pay Standards Applicable to Nonsupervisory NONFARM Private Sector Employment Under State and Federal Laws January 1, 1998

ALABAMA		Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
				Daily	Weekly
				N/A	N/A
<i>No state minimum wage law.</i>					
ALASKA		Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
				Daily	Weekly
				8	40

Under a voluntary flexible work hour plan, with a written, signed employee/employer agreement filed with and approved by the Alaska Department of Labor, a 10-hour day, 40-hour workweek may be instituted with premium pay after 10 hours a day instead of after 8 hours.

The premium overtime pay requirement on either a daily or weekly basis is not applicable to employers of fewer than 4

employees.

In Alaska the minimum wage rate is automatically set at 50 cents above the rate set in the Fair Labor Standards Act.

ARIZONA	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
			Daily	Weekly
			N/A	N/A

No state minimum wage law.

ARKANSAS	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
			Daily	Weekly
			5.15	40

(Applicable to employers of 4 or more employees)

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act.

CALIFORNIA	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
			Daily	Weekly
			8 Over 12 (double time)	40 7th day: First 8 hours (time and half) Over 8 hours (double time)

03/01/98 \$5.15
\$5.75 b

Effective January 1, 1998, overtime pay after 8 hours a day was eliminated for workers under wage and hour orders applicable to the manufacturing industry's professional, technical, clerical, mechanical and similar occupations; public housekeeping industry; mercantile industry; and transportation industry. Daily overtime requirements found in the other 10 orders remain unchanged.

Under very specific rules, a 10 or 12-hour day (varying by wage order) may be instituted without premium pay after 8 hours, but overtime pay at applicable premium rates is required after 40 hours a week and for hours or days in excess of scheduled hours or days. For any such alternative workweek a prior voluntary written agreement is required, ratified by a two-thirds vote of affected employees in a secret ballot election, and signed by the employer.

Premium pay required: after 56 hours a week in ski establishments; after 54 hours a week for organized camp counselors and certain other day-care provider occupations; and after 14 hours a day in motion picture industry under specified circumstances.

Premium pay on 7th day not required for employee whose total weekly work-hours do not exceed 30 and whose total hours in any one work day thereof do not exceed 6.

COLORADO	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
			Daily	Weekly
			12	40

\$5.15

State rate is applicable to businesses not covered by the Federal minimum wage law.

Workers under the age of 20 who are being supported by parents or guardians may be paid \$4.25 per hour for the first 90 days of employment.

CONNECTICUT	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
			Daily	Weekly
				40

\$5.18 z

In restaurants and hotel restaurants, for the 7th consecutive day of work, premium pay is required at time and one-half the minimum rate.

The Connecticut minimum wage rate automatically increases to 1/2 of 1 percent above the rate set in the Fair Labor Standards Act if the Federal minimum wage rate equals or becomes higher than the State minimum.

DELAWARE	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		\$5.15	Daily	Weekly

The Delaware minimum wage is automatically replaced with the Federal minimum wage rate if it is higher than the State minimum.

DISTRICT OF COLUMBIA	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		\$6.15	Daily	Weekly
				40

In the District of Columbia the rate is automatically set at \$1 above the Federal minimum wage rate.

FLORIDA	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		N/A	Daily	Weekly
				N/A

No state minimum wage law.

GEORGIA	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		\$3.25	Daily	Weekly

(Applicable to employers of 6 or more employees)

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act.

GUAM	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		\$5.15	Daily	Weekly
				40

The Guam minimum wage law does not contain current dollar minimums. Instead it adopts the Federal minimum wage rate by reference.

HAWAII	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		\$5.25	Daily	Weekly
				40

An employee earning a guaranteed monthly compensation of \$1,250 or more is exempt from the State minimum wage law.

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act unless the State wage rate is higher than the Federal.

IDAHO	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		\$5.15	Daily	Weekly
				40

ILLINOIS

Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		Daily	Weekly
	\$5.15		40

(Applicable to employers of 4 or more employees)

The Illinois state minimum wage law does not contain current dollar minimums. Instead the state adopts the Federal minimum wage rate by reference.

INDIANA

Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		Daily	Weekly
	\$3.35		

(Applicable to employers of 2 or more employees)

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act.

IOWA

Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		Daily	Weekly
	\$5.15		

The Iowa minimum wage is automatically replaced with the Federal minimum wage rate if it is higher than the State minimum.

KANSAS

Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		Daily	Weekly
	\$2.65		46

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act.

KENTUCKY

Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		Daily	Weekly
	\$4.25		40 7th day

The 7th day overtime law, which is separate from the minimum wage law, differs in coverage from that in the minimum wage law and requires premium pay to those employees who have worked 40 hours on the six previous days.

LOUISIANA

Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		Daily	Weekly
	N/A		N/A

There is no state minimum wage law.

MAINE

Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
		Daily	Weekly
	\$5.15		40

The Maine minimum wage is automatically replaced with the Federal minimum wage rate if it is higher than the State minimum.

MARYLAND**Future
Effective
Date****Basic
Minimum Rate
(per hour)****Premium Pay After
Designated Hours ¹
Daily Weekly**

State Law

\$5.15

40

\$5.15

40

*Baltimore City Ordinance
(Applicable to employers of 2 or more)*

Under the state minimum wage law, premium pay is required after 48 hours in bowling alleys and for residential employees of institutions (other than a hospital) primarily engaged in the care of the sick, aged, or mentally ill.

The Maryland state minimum wage law does not contain current dollar minimums. Instead the state adopts the Federal minimum wage rate by reference.

MASSACHUSETTS**Future
Effective
Date****Basic
Minimum Rate
(per hour)****Premium Pay After
Designated Hours ¹
Daily Weekly**

\$5.25

40

MICHIGAN**Future
Effective
Date****Basic
Minimum Rate
(per hour)****Premium Pay After
Designated Hours ¹
Daily Weekly**

5.15

40

(Applicable to employers of 2 or more employees)

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act unless the State wage rate is higher than the Federal.

MINNESOTA**Future
Effective
Date****Basic
Minimum
Rate
(per hour)****Premium Pay
After
Designated Hours ¹
Daily Weekly***Large employer (enterprise with annual receipts of \$500,000
or more)*

\$5.15

48

*Small employer (enterprise with annual receipts of less than
\$500,000)*

\$4.90

MISSISSIPPI**Future
Effective
Date****Basic
Minimum Rate
(per hour)****Premium Pay After
Designated Hours ¹
Daily Weekly**

N/A

N/A

*No state minimum wage law.***MISSOURI****Future
Effective
Date****Basic
Minimum Rate
(per hour)****Premium Pay After
Designated Hours ¹
Daily Weekly**

\$5.15

40

In addition to the exemption for federally-covered employment, the law exempts, among others, employees of a retail or

service business with gross annual sales or business done of less than \$500,000.

Premium pay required after 52 hours in seasonal amusement or recreation businesses.

The Missouri state minimum wage law does not contain current dollar minimums. Instead the state adopts the Federal minimum wage rate by reference.

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act.

MONTANA		Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
	State Law			Daily	Weekly
			\$5.15		40
	<i>Except businesses with gross annual sales of \$110,000 or less</i>		\$4.00		

The Montana state minimum wage law does not contain current dollar minimums. Instead the state adopts the Federal minimum wage rate by reference via administrative action.

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act unless the State wage rate is higher than the Federal.

NEBRASKA		Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
				Daily	Weekly
			\$5.15		
	<i>(Applicable to employers of 4 or more employees)</i>				

NEVADA		Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
				Daily	Weekly
			\$5.15	8	40

By mutual employer/employee agreement, a scheduled 10-hour day for 4 days a week may be worked without premium pay after 8 hours.

The premium overtime pay requirement on either a daily or weekly basis is not applicable to employees who are compensated at not less than one and one-half times the minimum rate or to employees or enterprises having a gross annual sales volume of less than \$250,000.

The Nevada state minimum wage law does not contain current dollar minimums. Instead the state adopts the Federal minimum wage rate by reference via administrative action.

NEW HAMPSHIRE		Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
				Daily	Weekly
			\$5.15		40

The New Hampshire minimum wage is automatically replaced with the Federal minimum wage rate if it is higher than the State minimum.

NEW JERSEY		Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹	
				Daily	Weekly
			\$5.05		40
NEW MEXICO		Future	Basic	Premium Pay After	

NEW MEXICO

	Effective Date	Minimum Rate (per hour)	Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		\$4.25		40

NEW YORK

	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		\$4.25		40

NORTH CAROLINA

	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		\$5.15		40

Premium pay is required after 45 hours a week in seasonal amusements or recreational establishments.

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act unless the State wage rate is higher than the Federal.

NORTH DAKOTA

	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		\$5.15		40

OHIO

	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
State Law			\$4.25	40
<i>Except, employers with gross annual sales from \$150,000 to \$500,000 and</i>			\$3.35	
<i>Except for employers with gross annual sales under \$150,000</i>			\$2.80	

OKLAHOMA

	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
<i>Employers of ten or more full-time employees at any one location and employers with annual gross sales over \$100,000 irrespective of number of full-time employees.</i>		\$5.15		
<i>All other employers.</i>		\$2.00		

The Oklahoma state minimum wage law does not contain current dollar minimums. Instead the state adopts the Federal minimum wage rate by reference.

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act.

OREGON

	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly

01/01/99 \$6.00 40
 \$6.50 7

Premium pay required after 10 hours a day in nonfarm canneries, driers, or packing plants and in mills, factories or manufacturing establishments (excluding sawmills, planing mills, shingle mills, and logging camps).

PENNSYLVANIA	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		\$5.15		40

The Pennsylvania state minimum wage law does not contain current dollar minimums. Instead the state adopts the Federal minimum wage rate by reference.

PUERTO RICO	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		\$1.20 to \$5.15	8	40
			<i>And on statutory rest day (double time) (double time)</i>	

Separate minimum rates are in effect for almost 350 nonfarm occupations by industry Mandatory Decrees. A few rates above the listed rate include a \$6.50 minimum rate in effect for cigarette manufacturing employees.

RHODE ISLAND	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		\$5.15		40

Time and one-half premium pay for work on Sundays and holidays in retail and certain other businesses is required under two laws that are separate from the minimum wage law. These laws require a license or permit for Sunday/holiday operation that would otherwise be unlawful.

SOUTH CAROLINA	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		N/A		N/A

No state minimum wage law.

SOUTH DAKOTA	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		\$5.15		

TENNESSEE	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		N/A		N/A

No state minimum wage law.

TEXAS	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours $\frac{1}{2}$	
			Daily	Weekly
		\$3.35		

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act.

UTAH**Future
Effective
Date****Basic
Minimum Rate
(per hour)**

\$5.15

**Premium Pay After
Designated Hours ¹
Daily Weekly**

The Utah state minimum wage law does not contain current dollar minimums. Instead the state law authorizes the adoption of the Federal minimum wage rate via administrative action.

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act.

VERMONT**Future
Effective
Date****Basic
Minimum Rate
(per hour)**

\$5.25

**Premium Pay After
Designated Hours ¹
Daily Weekly**

40

(Applicable to employers of two or more employees)

The State overtime pay provision has very limited application because it exempts numerous types of establishments, such as retail and service; seasonal amusement/recreation; hotels, motels, restaurants; and transportation employees to whom the Federal (FLSA) overtime provision does not apply.

The Vermont minimum wage is automatically replaced with the Federal minimum wage rate if it is higher than the State minimum.

VIRGINIA**Future
Effective
Date****Basic
Minimum Rate
(per hour)**

\$5.15

**Premium Pay After
Designated Hours ¹
Daily Weekly**

(Applicable to employers of 4 or more employees)

The Virginia state minimum wage law does not contain current dollar minimums. Instead the state adopts the Federal minimum wage rate by reference.

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act.

VIRGIN ISLANDS**Future
Effective
Date****Basic
Minimum
Rate
(per hour)**

\$4.65

**Premium Pay After
Designated Hours ¹
Daily Weekly**

8

40

State law

Except businesses with gross annual receipts of less than \$150,000.

\$4.30

On 6th and 7th consecutive days.

Implementation of an indexed rate, which was to have started January 1, 1991, has been delayed. (The law provides that on January 1, 1991, and each January 1 thereafter, the minimum rate is to equal 50 percent of the average private, nonsupervisory, nonagricultural hourly wage as determined by the Virgin Islands Wage Board for the previous November, rounded to the nearest multiple of 5 cents.)

WASHINGTON**Future
Effective
Date****Basic
Minimum Rate
(per hour)**

\$4.90

**Premium Pay After
Designated Hours ¹
Daily Weekly**

40

Premium pay not applicable to employees who request compensating time off in lieu of premium pay.

WEST VIRGINIA**Future
Effective
Date****Basic
Minimum
Rate
(per hour)****Premium Pay
After
Designated Hours ¹
Daily Weekly**

(Applicable to employers of 6 or more employees at one location)

\$4.75

40

\$5.15

9/01/98

The State law excludes from coverage any employment that is subject to the Federal Fair Labor Standards Act.

WISCONSIN	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹
		\$5.15	Daily Weekly 40
WYOMING	Future Effective Date	Basic Minimum Rate (per hour)	Premium Pay After Designated Hours ¹
		\$1.60	Daily Weekly

¹ The overtime premium rate is one and one-half times the employee's regular rate, unless otherwise specified.


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Congress of the United States
Washington, DC 20515

January 8, 1998

Dear Friends:

We are writing to invite you to a meeting on January 16 at 10 a.m. in Dirksen 628 to discuss the minimum wage. As you know, the last increase took effect on September 1, 1997 and no further increases are currently scheduled on the statute books.

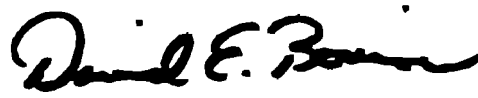
On January 27, we will introduce the American Family Fair Minimum Wage Act of 1998, to increase the minimum wage by 50 cents a year over the next three years, to bring the level to \$6.65 an hour on September 1 in the year 2000. We will also propose that, after the third year, the minimum wage will be indexed, so that it will rise automatically as the cost of living increases. We intend to do all that we can to see that this legislation is enacted and we welcome your support in this effort.

The battle for a fair minimum wage will be just as difficult in this Congress as it was in the last Congress. But we believe that a strong and winning case can be made that the current minimum wage is not adequate, and is in fact unacceptably low. To have the purchasing power that it had in 1968, the minimum wage would have to be \$7.33 an hour today, instead of the current level of \$5.15.

If we join forces and work together, we believe that Congress will do the right thing and raise the minimum wage in 1998. If you have additional questions, please call Stephanie Williams (Sen. Kennedy) at 224-5441 or Jerry Hartz (Cong. Bonior) at 225-3130. We look forward to seeing you on January 16.

Sincerely,

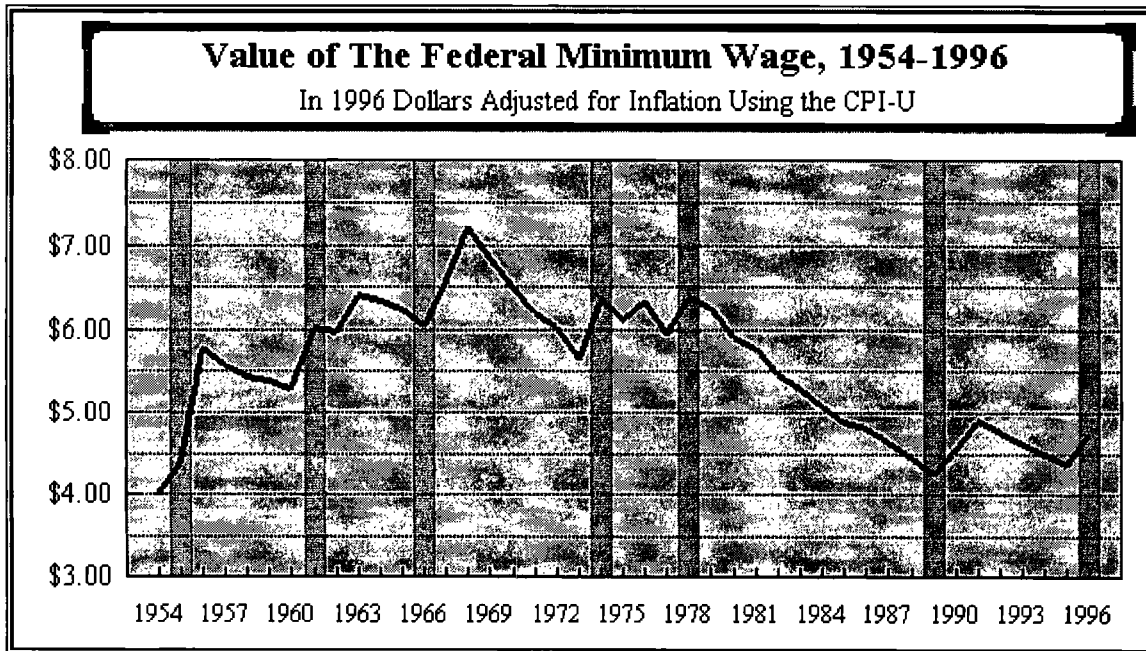

Edward M. Kennedy


David E. Bonior



Value of The Federal Minimum Wage, 1954-1996

The chart and table below are a representation of the minimum wage over the last 43 years in 1996 dollars adjusted for inflation using the CPI-U. The shaded blocks on the chart below represent years in which the Fair Labor Standards Act was amended to raise the minimum wage.



The table below shows the actual minimum wage (Nominal Dollars) and the relative value of the minimum wage (1996 Dollars). The bolded rows represent years in which the Fair Labor Standards Act was amended to raise the minimum wage. This [table](#) is also available in PDF format. In order to view and/or print PDF documents you must have a PDF viewer (e.g., [Amber](#) or [Acrobat Reader](#)) available on your workstation.

Year	Value of the Minimum Wage	
	Nominal Dollars	1996 Dollars
1954	\$0.75	\$4.37
1955	0.75	4.39
1956	1.00	5.77
1957	1.00	5.58
1958	1.00	5.43
1959	1.00	5.39
1960	1.00	5.30
1961	1.15	6.03
1962	1.15	5.97
1963	1.25	6.41
1964	1.25	6.33
1965	1.25	6.23
1966	1.25	6.05
1967	1.40	6.58
1968	1.60	7.21
1969	1.60	6.84
1970	1.60	6.47
1971	1.60	6.20
1972	1.60	6.01
1973	1.60	5.65

1974	2.00	6.37
1975	2.10	6.12
1976	2.30	6.34
1977	2.30	5.95
1978	2.65	6.38
1979	2.90	6.27
1980	3.10	5.90
1981	3.35	5.78
1982	3.35	5.45
1983	3.35	5.28
1984	3.35	5.06
1985	3.35	4.88
1986	3.35	4.80
1987	3.35	4.63
1988	3.35	4.44
1989	3.35	4.24
1990	3.80	4.56
1991	4.25	4.90
1992	4.25	4.75
1993	4.25	4.61
1994	4.25	4.50
1995	4.25	4.38
1996	4.75	4.75

Source: Bureau of Labor Statistics



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

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

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

Effective Date	1938 Act ¹	1961 Amendments ²	1966 and Subsequent Amendments ³	
			Nonfarm	Farm
Oct 24, 1938	\$0.25			
Oct 24, 1939	\$0.30			
Oct 24, 1945	\$0.40			
Jan 25, 1950	\$0.75			
Mar 1, 1956	\$1.00			
Sep 3, 1961	\$1.15	\$1.00		
Sep 3, 1963	\$1.25			
Sep 3, 1964		\$1.15		
Sep 3, 1965		\$1.25		
Feb 1, 1967	\$1.40	\$1.40	\$1.00	\$1.00
Feb 1, 1968	\$1.60	\$1.60	\$1.15	\$1.15
Feb 1, 1969			\$1.30	\$1.30
Feb 1, 1970			\$1.45	
Feb 1, 1971			\$1.60	
May 1, 1974	\$2.00	\$2.00	\$1.90	\$1.60
Jan. 1, 1975	\$2.10	\$2.10	\$2.00	\$1.80
Jan 1, 1976	\$2.30	\$2.30	\$2.20	\$2.00
Jan 1, 1977			\$2.30	\$2.20
Jan 1, 1978		\$2.65 for all covered, nonexempt workers		
Jan 1, 1979		\$2.90 for all covered, nonexempt workers		
Jan 1, 1980		\$3.10 for all covered, nonexempt workers		
Jan 1, 1981		\$3.35 for all covered, nonexempt workers		
Apr 1, 1990 ⁴		\$3.80 for all covered, nonexempt workers		
Apr 1, 1991		\$4.25 for all covered, nonexempt workers		
Oct 1, 1996 ⁵		\$4.75 for all covered, nonexempt workers		
Sep 1, 1997		\$5.15 for all covered, nonexempt workers		

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

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

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

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

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

Value of the minimum wage 1938 - 1997

Year	Nominal	Deflator	Real	weekly (*40)
1938	0.25	0.08785	\$2.85	\$113.83
1939	0.3	0.086604	\$3.46	\$138.56
1940	0.3	0.087227	\$3.44	\$137.57
1941	0.3	0.091589	\$3.28	\$131.02
1942	0.3	0.101558	\$2.95	\$118.16
1943	0.3	0.107788	\$2.78	\$111.33
1944	0.3	0.109657	\$2.74	\$109.43
1945	0.4	0.11215	\$3.57	\$142.67
1946	0.4	0.121495	\$3.29	\$131.69
1947	0.4	0.138941	\$2.88	\$115.16
1948	0.4	0.150156	\$2.66	\$106.56
1949	0.4	0.148287	\$2.70	\$107.90
1950	0.75	0.150156	\$4.99	\$199.79
1951	0.75	0.161994	\$4.63	\$185.19
1952	0.75	0.165109	\$4.54	\$181.70
1953	0.75	0.166355	\$4.51	\$180.34
1954	0.75	0.167601	\$4.47	\$179.00
1955	0.75	0.166978	\$4.49	\$179.66
1956	1	0.16947	\$5.90	\$236.03
1957	1	0.175078	\$5.71	\$228.47
1958	1	0.180062	\$5.55	\$222.15
1959	1	0.181308	\$5.52	\$220.62
1960	1	0.184424	\$5.42	\$216.89
1961	1.15	0.186293	\$6.17	\$246.92
1962	1.15	0.188162	\$6.11	\$244.47
1963	1.25	0.190654	\$6.56	\$262.25
1964	1.25	0.193146	\$6.47	\$258.87
1965	1.25	0.196262	\$6.37	\$254.76
1966	1.25	0.201869	\$6.19	\$247.69
1967	1.4	0.2081	\$6.73	\$269.10

Year	Nominal	Deflator	Real	
1968	1.6	0.216822	\$7.38	\$295.17
1969	1.6	0.22866	\$7.00	\$279.89
1970	1.6	0.241745	\$6.62	\$264.74
1971	1.6	0.252336	\$6.34	\$253.63
1972	1.6	0.260436	\$6.14	\$245.74
1973	1.6	0.276636	\$5.78	\$231.35
1974	2	0.307165	\$6.51	\$260.45
1975	2.1	0.335202	\$6.26	\$250.59
1976	2.3	0.354517	\$6.49	\$259.51
1977	2.3	0.37757	\$6.09	\$243.66
1978	2.65	0.406231	\$6.52	\$260.94
1979	2.9	0.452336	\$6.41	\$256.45
1980	3.1	0.513396	\$6.04	\$241.53
1981	3.35	0.566355	\$5.92	\$236.60
1982	3.35	0.601246	\$5.57	\$222.87
1983	3.35	0.620561	\$5.40	\$215.93
1984	3.35	0.647352	\$5.17	\$207.00
1985	3.35	0.670405	\$5.00	\$199.88
1986	3.35	0.682866	\$4.91	\$196.23
1987	3.35	0.707788	\$4.73	\$189.32
1988	3.35	0.737072	\$4.55	\$181.80
1989	3.35	0.772586	\$4.34	\$173.44
1990	3.8	0.81433	\$4.67	\$186.66
1991	4.25	0.848598	\$5.01	\$200.33
1992	4.25	0.874143	\$4.86	\$194.48
1993	4.25	0.900312	\$4.72	\$188.82
1994	4.25	0.923364	\$4.60	\$184.11
1995	4.25	0.949533	\$4.48	\$179.04
1996	4.75	0.97757	\$4.86	\$194.36
1997	5.15	1	\$5.15	\$206.00

Where multiple minimum wages exist, the highest value was used.

minwage .wk4
deflator

Haacke Carl

From: Letourneau Darla
Sent: Thursday, January 29, 1998 11:33 AM
To: OCIA-ALL GROUP; Montgomery Edward; Harris Seth; Fraser John,ESA; King Susan
Cc: OCIA-SEC-REPS GROUP
Subject: FW: Minimum Wage Facts

fyi...Dauster is Kennedy's Staff Director

From: Bill Dauster[SMTP:dauster@erols.com]
Sent: Wednesday, January 28, 1998 10:04 PM
To: bill_dauster@labor.senate.gov
Subject: Minimum Wage Facts

- * The President said he supported raising the minimum wage in the State of the Union speech.
- * The country supports it.
- * The January 21st Washington Post-ABC poll found that 76% of Americans support an increase in the minimum wage.
- * Peter Hart Research polled earlier this month, and found that 77% of Americans support our three-year, \$1.50 increase.
- * These numbers are actually higher than they were in 1994 and 1995, when we began the last campaign.
- * The bill is good policy -- it allows Americans at the bottom of the economic ladder to share in the extraordinary prosperity we've experienced under President Clinton.
- * Low-wage workers need a raise. Nationwide, soup kitchens, food pantries and homeless shelter are increasingly serving the working poor -- not just the unemployed. According to U.S. Conference of Mayors study --
- * In 1996, 38% of those seeking emergency food aid held jobs -- up from 23% in 1994.
- * Low-paying jobs are the most-frequently cited cause of hunger -- officials in 67% of cities cited this factor.
- * A full-time minimum wage earner earns \$10,712 a year -- \$2,600 below the poverty level for a family of three.
- * If we do nothing, by the year 2000 the real value of the minimum wage will be only \$4.66 -- almost as low as it was when we enacted the 1996 bill.
- * It's a women's issue, a labor issue, a children's issue, a civil rights issue.
- * Of the 12 million workers who'll benefit from this increase
 - * 60% are women
 - * 74% are adults
 - * 40% are the sole breadwinners in their families
 - * 50% work full-time
 - * 82% work at least 20 hours a week
 - * 15% are African-American
 - * 14% are Latino.
- * Modest increases in the minimum wage do not cause job loss for

teenagers, adults, men, women, African-Americans, Latinos or anyone else.

* A recent study by the Economic Policy Institute documents that "the sky hasn't fallen" as a result of the last increase.

* And Princeton economists David Card and Alan Krueger recently re-analyzed their data on New Jersey's minimum wage increase in 1992. The new analysis confirms their earlier findings -- employment in fast-food restaurants grew at least as quickly in New Jersey as in neighboring Pennsylvania, where the minimum wage stayed level during the same period. They also found that the higher wages benefited employers, too: turnover expenses were reduced and employers could get higher productivity out of the higher-paid, better-motivated and more stable workers.

***** Bill Dauster *****
e-mail me at: dauster@erols.com or bill_dauster@labor.senate.gov
see speeches at: <http://robles.callutheran.edu/~mlewis/kidspk.html>



JANUARY 13, 1998

MEMORANDUM FOR: THE SECRETARY

FROM: SETH HARRIS 

SUBJECT: MINIMUM WAGE

Attached are a set of questions and answers regarding the minimum wage that were prepared by staff from OASP, Wage & Hour, CHECO, and OCIA. These Qs & As provide the arguments we would use should the Administration lend support to the Kennedy-Gephardt proposal to seek another increase in the minimum wage.

At present, the Administration has not taken a position on the Kennedy-Gephardt proposal. Mike McCurry's response to the minimum wage question at yesterday's briefing is attached. You should continue to use the following Question & Answer for the time being:

What is the Administration's position on increasing the minimum wage?

The second step of the 90-cent increase in the minimum wage that President Clinton persuaded Congress to enact went into effect on September 1, 1997. The preliminary evidence indicates that the President's increase in the minimum wage has done exactly what we hoped it would do -- raise family incomes and make work pay for minimum wage families without putting people out of work. We must look carefully at the proposal to seek another increase in the minimum wage.

Please let us know if you need any additional information.

Attachment

cc: Kitty Higgins
Lee Satterfield
Susan King
Geri Palast
John Fraser
Marvin Krislov
Ed Montgomery
Rick McGahey

weapons of mass destruction --

MR. MCCURRY: Absolutely.

Q So how is it -- has anything changed since late October until today in terms of our ability to find out what he's doing in chemical or biological weapons?

MR. MCCURRY: In a sense, yes, because -- I don't know the exact number, but at the time in October he had expelled certain U.N. inspectors from Iraq that had led the United Nations to withdraw the entire inspection team. We were in the middle of a significant problem at that point; inevitably Saddam backed down, the teams went back in, they've done hundreds of inspections since. But they are continuing to work on a problem that has not produced all the answers that they want or that they find sufficient. And there is going to continue to be that effort and they're going to continue to be pressed. And no doubt when Chairman Butler reports on his meetings, at that point we're going to have to make some assessments about what other steps need to be taken.

Q If the American team is pulled out, if the American team is kicked out, is it the position of the United States that all the teams should leave again?

MR. MCCURRY: The position of the United States is at that point supportive of the United Nations. When that's happened in the past, the response of the United Nations and of the Chairman of the U.N. Special Commission has been quite swift and quite appropriate in our view.

Q Mike, the Iraqis allege that Scott Ritter is a spy.

MR. MCCURRY: He has said that is ridiculous and so have many others. And the United Nations has made clear that he is hired because of his technical background. He is someone who is indisputably and expert. And he works for the United Nations. He's not -- he is a U.S. national, but he works under the direction and the supervision of the United Nations at this point.

Q And does not work for U.N. intelligence at any level?

MR. MCCURRY: He's very clear that he does not. He has said so himself and others have said so as well.

Q Mike, to what degree was the White House aware of complaints from gay rights group about a legal loophole in the '86 Privacy Communications Act where a sailor was essentially outed from the don't ask, don't tell policy and AOL apparently violated its own privacy standard by giving information to naval investigators which led to --

MR. MCCURRY: Chip, I saw that story this morning and I have to confess to you I failed to make an inquiries at the Pentagon about what their reaction is. I can -- we can see if we can take that and see if the Pentagon has said anything on that today.

Q On a totally unrelated matter, what is the White House position on Senator Kennedy's proposal to raise the minimum wage?

MR. MCCURRY: The Senator has made a number of interesting and important proposals and a number of them are being

looked at at this point. You know, historically, this President's commitment to seeing that the minimum wage is a meaningful wage for people who are working. Very often -- people are working hard and very often doing so and staying off forms of public assistance, and we have had an interest -- we've successfully achieved an increase in the minimum wage, but at this point that's an idea that we have to be looking at carefully and have to be thinking about as we think of other things that we are pursuing with respect to macroeconomic policy.

Q If I could just follow up, do you anticipate that that would be something that's possibly going to be included in the President's State of the Union?

MR. MCCURRY: I'm only anticipating at this point that it will remain under review.

Q Mike, the Northern Ireland peace talks resume today in Belfast. Do you think they have any chance of success given the recent violence there? And secondly, do you foresee any direct U.S. involvement in the talks in the weeks and months ahead?

MR. MCCURRY: Well, do I see any prospect for success? Yes, because the peoples of Ireland are so manifestly committed to peace and are so upset about the tragic return to violence that they've seen. At the same time that there has been violence and there's been a return to the kind of troubles that people in both families lament, there has also been very determined work by the government of the U.K. and the Republic of Ireland to advance common thinking about how progress can be made at Stormont. And the United States government applauds the work that both governments are doing to table a proposal. We think that that demonstrates the seriousness of purpose with which they take the talks, and we encourage the parties themselves to make best use of this inclusive process to address the issues that members in all sects face.

Q Mike, The Washington Post had a story this morning that it's being said that Mack McLarty is going to leave the administration after the Summit of the Americas. Is there anything to that?

MR. MCCURRY: Well, you know, Mack has extended his stay here at the President's request and done an extraordinarily good job as an ambassador and envoy in that region. The President knew that 1997 would be a very significant year for our policy in Latin America and I think, using his powers of persuasion, encouraged Mr. McLarty to remain here so that he could help lead the agenda that we pursued last year. Now, that was all about preparing -- doing the work that we did in the President's travels through a lot of our other diplomacy last year to prepare us for the second Summit of the Americas in Santiago coming up in a few months.

What Mr. McLarty's plans will be beyond that will be up to him. But I know that he probably yearns for the life that he thought he was going to get after the end of the first term and as the President managed to subvert by getting him to stay.

Q In other words, he's leaving. (Laughter.)

MR. MCCURRY: I think I said that very elegantly. (Laughter.) You'd have to check with him.

Q Speaking of the President's powers of persuasion, has he had any luck convincing Senator Feinstein to run for governor

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. The recent 90-cent increase in the minimum wage President Clinton pushed through Congress was an important first step to helping our lowest paid working families. But with our economy booming, profits soaring, and Wall Street regularly reaching records, minimum wage workers and their families are still having a difficult time making ends meet. When you have only \$206 a week to pay the rent, child care, transportation, food, and clothing, there's not much left at the end of the paycheck. Further, there is a widening gap between the incomes of the rich and the working poor. A boost to our lowest wage workers will help, particularly to the benefit of low-income working families. These families deserve a fair opportunity to share in our nation's prosperity.

This would be an excellent time to raise the minimum wage. Since the economy is strong, and both inflation and unemployment are very low, any potential negative impact on employment would be minimized. In fact, inflation is at its lowest level since January 1987, unemployment is the lowest in 24 years (even after the recent increase in the minimum wage), and almost 14 million new jobs have been created since January 1993. The percentage of the population employed is at an all-time high -- 64%.

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

A2. 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.

Q3. When the minimum wage is combined with food stamps and the EITC, isn't it enough to lift even a family of four out of poverty?

A3. 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 two 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 make work pay by assuring that the minimum wage is a livable wage.

Q4. Who will benefit from a minimum wage increase?

A4. An increase in the minimum wage will directly benefit those most in need of higher incomes. Non-college educated men and the poorest 40 percent of families will see the greatest benefit. They need the help: the average real family income of the bottom two quintiles has fallen by 10 percent and 2 percent, respectively, since 1979.¹ But in a larger sense, everyone benefits. This increase will create more buying power for working people which in turn will help keep our already booming economy growing. Each 50-cent increase provides approximately \$1,000 in additional annual income.

Q5. Aren't most minimum wage earners women? Won't they get the greatest benefit from a raise?

A5. Yes, about 58 percent of minimum wage earners are women, so a raise could help reduce the gender gap in wages.

Q6. But won't a raise cause job losses?

A6. No, a moderate increase will not cause significant job losses. As we saw with the first step of President Clinton's two-step increase --- the 50-cent raise that took effect in October 1996 --- when the economy is growing and the demand for workers is high, an increase in the minimum wage does **not** have serious disemployment effects, even on most young minimum wage workers.

¹ Note: New demographic data on minimum wage workers, post-September 1 increase, are not available until January.

Q7. 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?

A7. 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.

Q8. 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?

A8. 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. In fact, most states will have "generous" funds available per welfare household next fiscal year. A report by the Ways and Means Committee shows that 49 states have seen their per-family budgets increase and that 24 have doubled their per-family amount.

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.

Q10. Isn't it unprecedented to raise the minimum wage so soon after another increase?

A10. 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.

For illustrative purposes only

States with Effective Hourly Wage Rates Below the Current and Future Minimum Wage

I. For a Family of Three: The Difference between the Minimum Wage and the July 1996 Monthly Maximum Benefits

Effective Hourly Wage Rate of Combined Benefits *		
20 hrs/wk/mo		
Current mw: \$5.15	Increased mw: \$5.65	Increased mw: \$6.15
Mississippi \$5.03	Alabama \$5.55	Tennessee \$5.79
		Texas \$5.83
		Louisiana \$5.85
		South Carolina \$5.97
		Arkansas \$6.01

* Combined benefits are maximum AFDC plus maximum food stamps for family of 3

II. For a Family of Four: The Difference between the Minimum Wage and the July 1996 Monthly Maximum Benefits

Effective Hourly Wage Rate of Combined Benefits *		
20 hrs/wk/mo		
Current mw: \$5.15	Increased mw: \$5.65	Increased mw: \$6.15
none	none	none

* Combined benefits are maximum AFDC plus maximum food stamps for family of 4

States with Effective Hourly Wage Rates Below the Current and Future Minimum Wage		
III. For a Family of Two: The Difference between the Minimum Wage and the July 1996 Monthly Maximum Benefits		
Effective Hourly Wage Rate of Combined Benefits *		
20 hrs/wk/mo		
Current mw: \$5.15	Increased mw: \$5.65	Increased mw: \$6.15
Mississippi \$3.65	Kentucky \$5.15	Delaware \$5.67
Alabama \$4.13	Indiana \$5.20	Arizona \$5.73
Louisiana \$4.14	Missouri \$5.26	Illinois \$5.77
Tennessee \$4.19	Georgia \$5.27	Ohio \$5.78
South Carolina \$4.38	North Carolina \$5.28	Colorado \$5.79
Arkansas \$4.42	Oklahoma \$5.30	Nevada \$5.90
Texas \$4.43	Florida \$5.34	Maryland \$5.93
West Virginia \$4.87	Virgin Islands \$5.36	Nebraska \$5.94
	Idaho \$5.45	Virginia \$5.95
		New Mexico \$6.14
* Combined benefits are maximum AFDC plus maximum food stamps for family of 2		



JANUARY 13, 1998

MEMORANDUM FOR: THE SECRETARY

FROM:

SETH HARRIS

A handwritten signature in dark ink, appearing to be "SH" or "S.H.", enclosed within a hand-drawn oval.

SUBJECT:

MINIMUM WAGE

Attached are a set of questions and answers regarding the minimum wage that were prepared by staff from OASP, Wage & Hour, CHECO, and OCIA. These Qs & As provide the arguments we would use should the Administration lend support to the Kennedy-Gephardt proposal to seek another increase in the minimum wage.

At present, the Administration has not taken a position on the Kennedy-Gephardt proposal. Mike McCurry's response to the minimum wage question at yesterday's briefing is attached. You should continue to use the following Question & Answer for the time being:

What is the Administration's position on increasing the minimum wage?

The second step of the 90-cent increase in the minimum wage that President Clinton persuaded Congress to enact went into effect on September 1, 1997. The preliminary evidence indicates that the President's increase in the minimum wage has done exactly what we hoped it would do -- raise family incomes and make work pay for minimum wage families without putting people out of work. We must look carefully at the proposal to seek another increase in the minimum wage.

Please let us know if you need any additional information.

Attachment

cc: Kitty Higgins
Lee Satterfield
Susan King
Geri Palast
John Fraser
Marvin Krislov
Ed Montgomery
Rick McGahey

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. The recent 90-cent increase in the minimum wage President Clinton pushed through Congress was an important first step to helping our lowest paid working families. But with our economy booming, profits soaring, and Wall Street regularly reaching records, minimum wage workers and their families are still having a difficult time making ends meet. When you have only \$206 a week to pay the rent, child care, transportation, food, and clothing, there's not much left at the end of the paycheck. Further, there is a widening gap between the incomes of the rich and the working poor. A boost to our lowest wage workers will help, particularly to the benefit of low-income working families. These families deserve a fair opportunity to share in our nation's prosperity.

This would be an excellent time to raise the minimum wage. Since the economy is strong, and both inflation and unemployment are very low, any potential negative impact on employment would be minimized. In fact, inflation is at its lowest level since January 1987, unemployment is the lowest in 24 years (even after the recent increase in the minimum wage), and almost 14 million new jobs have been created since January 1993. The percentage of the population employed is at an all-time high -- 64%.

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

A2. 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.

Q3. When the minimum wage is combined with food stamps and the EITC, isn't it enough to lift even a family of four out of poverty?

A3. 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 two 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 make work pay by assuring that the minimum wage is a livable wage.

Q4. Who will benefit from a minimum wage increase?

A4. An increase in the minimum wage will directly benefit those most in need of higher incomes. Non-college educated men and the poorest 40 percent of families will see the greatest benefit. They need the help: the average real family income of the bottom two quintiles has fallen by 10 percent and 2 percent, respectively, since 1979.¹ But in a larger sense, everyone benefits. This increase will create more buying power for working people which in turn will help keep our already booming economy growing. Each 50-cent increase provides approximately \$1,000 in additional annual income.

Q5. Aren't most minimum wage earners women? Won't they get the greatest benefit from a raise?

A5. Yes, about 58 percent of minimum wage earners are women, so a raise could help reduce the gender gap in wages.

Q6. But won't a raise cause job losses?

A6. No, a moderate increase will not cause significant job losses. As we saw with the first step of President Clinton's two-step increase --- the 50-cent raise that took effect in October 1996 --- when the economy is growing and the demand for workers is high, an increase in the minimum wage does not have serious disemployment effects, even on most young minimum wage workers.

¹ Note: New demographic data on minimum wage workers, post-September 1 increase, are not available until January.

Q7. 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?

A7. 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.

Q8. 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?

A8. 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. In fact, most states will have "generous" funds available per welfare household next fiscal year. A report by the Ways and Means Committee shows that 49 states have seen their per-family budgets increase and that 24 have doubled their per-family amount.

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.

Q10. Isn't it unprecedented to raise the minimum wage so soon after another increase?

A10. 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.

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		New Mexico \$6.14
* Combined benefits are maximum AFDC plus maximum food stamps for family of 2		

weapons of mass destruction --

MR. MCCURRY: Absolutely.

Q So how is it -- has anything changed since late October until today in terms of our ability to find out what he's doing in chemical or biological weapons?

MR. MCCURRY: In a sense, yes, because -- I don't know the exact number, but at the time in October he had expelled certain U.N. inspectors from Iraq that had led the United Nations to withdraw the entire inspection team. We were in the middle of a significant problem at that point; inevitably Saddam backed down, the teams went back in, they've done hundreds of inspections since. But they are continuing to work on a problem that has not produced all the answers that they want or that they find sufficient. And there is going to continue to be that effort and they're going to continue to be pressed. And no doubt when Chairman Butler reports on his meetings, at that point we're going to have to make some assessments about what other steps need to be taken.

Q If the American team is pulled out, if the American team is kicked out, is it the position of the United States that all the teams should leave again?

MR. MCCURRY: The position of the United States is at that point supportive of the United Nations. When that's happened in the past, the response of the United Nations and of the Chairman of the U.N. Special Commission has been quite swift and quite appropriate in our view.

Q Mike, the Iraqis allege that Scott Ritter is a spy.

MR. MCCURRY: He has said that is ridiculous and so have many others. And the United Nations has made clear that he is hired because of his technical background. He is someone who is indisputably and expert. And he works for the United Nations. He's not -- he is a U.S. national, but he works under the direction and the supervision of the United Nations at this point.

Q And does not work for U.N. intelligence at any level?

MR. MCCURRY: He's very clear that he does not. He has said so himself and others have said so as well.

Q Mike, to what degree was the White House aware of complaints from gay rights group about a legal loophole in the '86 Privacy Communications Act where a sailor was essentially outed from the don't ask, don't tell policy and AOL apparently violated its own privacy standard by giving information to naval investigators which led to --

MR. MCCURRY: Chip, I saw that story this morning and I have to confess to you I failed to make an inquiries at the Pentagon about what their reaction is. I can -- we can see if we can take that and see if the Pentagon has said anything on that today.

Q On a totally unrelated matter, what is the White House position on Senator Kennedy's proposal to raise the minimum wage?

MR. MCCURRY: The Senator has made a number of interesting and important proposals and a number of them are being

looked at at this point. You know, historically, this President's commitment to seeing that the minimum wage is a meaningful wage for people who are working. Very often -- people are working hard and very often doing so and staying off forms of public assistance, and we have had an interest -- we've successfully achieved an increase in the minimum wage, but at this point that's an idea that we have to be looking at carefully and have to be thinking about as we think of other things that we are pursuing with respect to macroeconomic policy.

Q If I could just follow up, do you anticipate that that would be something that's possibly going to be included in the President's State of the Union?

MR. MCCURRY: I'm only anticipating at this point that it will remain under review.

Q Mike, the Northern Ireland peace talks resume today in Belfast. Do you think they have any chance of success given the recent violence there? And secondly, do you foresee any direct U.S. involvement in the talks in the weeks and months ahead?

MR. MCCURRY: Well, do I see any prospect for success? Yes, because the peoples of Ireland are so manifestly committed to peace and are so upset about the tragic return to violence that they've seen. At the same time that there has been violence and there's been a return to the kind of troubles that people in both families lament, there has also been very determined work by the government of the U.K. and the Republic of Ireland to advance common thinking about how progress can be made at Stormont. And the United States government applauds the work that both governments are doing to table a proposal. We think that that demonstrates the seriousness of purpose with which they take the talks, and we encourage the parties themselves to make best use of this inclusive process to address the issues that members in all sects face.

Q Mike, The Washington Post had a story this morning that it's being said that Mack McLarty is going to leave the administration after the Summit of the Americas. Is there anything to that?

MR. MCCURRY: Well, you know, Mack has extended his stay here at the President's request and done an extraordinarily good job as an ambassador and envoy in that region. The President knew that 1997 would be a very significant year for our policy in Latin America and I think, using his powers of persuasion, encouraged Mr. McLarty to remain here so that he could help lead the agenda that we pursued last year. Now, that was all about preparing -- doing the work that we did in the President's travels through a lot of our other diplomacy last year to prepare us for the second Summit of the Americas in Santiago coming up in a few months.

What Mr. McLarty's plans will be beyond that will be up to him. But I know that he probably yearns for the life that he thought he was going to get after the end of the first term and as the President managed to subvert by getting him to stay.

Q In other words, he's leaving. (Laughter.)

MR. MCCURRY: I think I said that very elegantly. (Laughter.) You'd have to check with him.

Q Speaking of the President's powers of persuasion, has he had any luck convincing Senator Feinstein to run for governor

Stuart Lisa

From: Stuart Lisa
Sent: Thursday, February 26, 1998 6:39 PM
To: Jenkins-Pultz Kelly
Subject: RE: Pay Gap Article

Here are the minimum wage numbers and the checks on the weekly earnings. I've yet to do the checks on the article.

1997 Annual Averages, Usual Median Weekly Earnings

level	women exec/mgr	ALL exec/mgr	46.5%	
earnings	women exec/mgr	MEN exec/mgr	69.7%	
16 and over				
earnings	men:women	women:men	134.3%	74.4% take care to order the ratio correctly
earnings	blk women	white men	63.0%	
	hispanic women	white men	53.4%	

Detail for the above race and hispanic-origin group will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

4th qtr 1997, wage and salary workers paid HOURLY rates

Minimum Wage	Total		
Percent of all minimum wage workers who are women	1359	2115	64.3%
Percent of all minimum wage workers who are people of color (i.e. Black + Hispanic; does not include Asians, American Indians, etc)	811	2115	38.3%

Does not include workers who report earnings weekly but may earn the minimum wage. Nor does this attempt to rectify a potential reporting problem of clumping at \$5.00/hr.

From: Jenkins-Pultz Kelly
Sent: Wednesday, February 25, 1998 10:45 AM
To: Stuart Lisa
Subject: FW: Pay Gap Article

Lisa, thank you for taking a look at this article and letting us know if we are "getting the numbers right." -- Kelly

From: Mendel Grier
Sent: Wednesday, February 25, 1998 10:19 AM
To: Castro Ida
Cc: Jenkins-Pultz Kelly; Candelaria Alma; Adams Angela
Subject: Pay Gap Article

<<File: NEWSUSA.PAY>>
<WP Attachment Enclosed>

Attached please find background points for the News USA article. I am bringing in a hard copy for you to review as well.

NewsUSA needs these points by tomorrow if they are to draft an article for release on March 17.

Kelly is running all the numbers by CHECO.

Please let me know if the current version (with any recommended CHECO edits) is ok to pass on.

We will have an opportunity to review the article once it is written. Thanks!

consistent with the findings here. However, there is little evidence to suggest that older, more experienced workers are more sensitive to firm-specific demand shocks, except to the extent that such workers tend to have higher job tenure. Experience per se has little to do with one's vulnerability to firm-level displacement.²²

B. Changing Industries

Column (5) of Table 7 presents a specification that allows the effect of work history on wage losses to depend on the subsequent employment choices of the workers. In particular, I include two dummy variables for whether or not the worker changed one-digit industry and occupation (changers = 1). I also fully interact these dummies with the work history measures. This specification means that the estimated direct effects of tenure and experience are for workers who do not change industries or occupations. A comparison of (5) with (2) shows that work history effects are much smaller for this group than they are for the industry and occupation switchers. For example, among workers that find reemployment in the same one-digit industry and occupation, displaced workers with ten years of tenure are estimated to have wage losses that are only 4.5 percent larger than displaced workers that had little or no job tenure. Of course the implication is also that, among displaced workers that *don't* find employment in the same industry and occupation, wage losses must be even more strongly ordered by predisplacement job tenure than they are in the sample as a whole.

The implication of Column (5) of Table 7 is that high tenure workers don't lose much in wages as long as they find work in their predisplacement line of business. This is somewhat puzzling because workers surely have some discretion over whether or not they switch industries and occupations. Why would workers switch industries and occupations if it is so costly? A natural hypothesis is that although industrial and occupational switchers move to sectors where their wages fall, things probably would have been worse had they remained. In this view, the industrial and occupational switch dummies are merely proxies for the omitted, underlying condition of the industry and occupation from which the worker was displaced.

In an attempt to test this hypothesis, Column (6) adds the industrial and occupational switch dummies to the specification of Column (4) that included a wide range of local labor market indicators. As in Column (5), the reported direct effects of tenure and experience should be interpreted as the differences in wage losses associated with work histories among workers that don't change industries or occupations. Again, the direct effect of job tenure is greatly attenuated with the addition of the occupational and industrial switch controls. This means that the tenure-induced wage losses documented in Column (4) are a mixture of large wage losses for industrial and occupational switchers and modest wage losses for those that remain in their old line of business. It is somewhat puzzling that this

is true after we introduce a large number of controls for the condition of the local labor market from which workers were displaced.²³ However, we should recognize that the local measures used here are still rather crude. Therefore, industry and occupational switching may merely be correlated with sectoral downturns that are unobservable in the present analysis.

Table 8 presents further results on the industry switching puzzle. The table presents mean wage losses for the entire sample and for four subsamples that are grouped by workers' predisplacement tenure level. For each of these five samples, the table further breaks out four subsamples in which workers are grouped by their position in the distribution of log employment growth in the predisplacement state and two-digit industry.²⁴ Workers in the lower quartiles of this distribution were displaced from state by two-digit industry cells that generally were shrinking, while the higher quartiles were often in state by two-digit industry cells that were growing robustly. Within each of these quartiles I compute the mean wage loss for the entire group, and separately for those who do and do not switch two-digit industries.²⁵

Table 8 confirms some of the inferences drawn from earlier tables. For example, the means for the "whole sample" panel show that wage losses are strongly ordered by the condition of the local industry from which the worker was displaced. Even within employment growth quartiles, however, wage losses were much greater for industry switchers than for industry stayers. Within the lowest quartile of industry employment growth, where the worker's predisplacement two-digit industry was always shrinking, industry movers lost 26.8 percent while industry stayers lost only 8.2 percent. Even more striking is the fact that people switching out of industries in the highest quartile of employment growth (where employment growth was 12.5 percent at a minimum) lost more in wages than workers staying in industries in the 25-50 quartile (where employment growth was 1 percent at a maximum). It is apparent from these tabulations that the greater wage losses of industry switchers is not easily explained with a claim that industry switchers were simply displaced from two-digit industries in more severe declines. The rest of Table 8 shows that this relationship holds within relatively homogenous tenure groups. For example, consider the sample of workers that lost jobs with predisplacement tenure of eleven to fifteen years. The industry switchers in the highest quartile (where state two-digit employment growth was 8.4 percent at a minimum) had average wage losses of 20.9 percent. Compare this with the 5.1 percent wage losses for industry stayers in the lowest quartile (where state two-digit employment growth was -14.7 percent at a maximum).

23. It should be noted that the greater losses of industry and occupational switchers are not easily attributed to systematic movements from low-amenity/high wage jobs to high-amenity/low wage jobs. All specifications in Table 7, except the first, include dummies for pre- and postdisplacement one-digit occupation and industry. These 40 controls should pick up most of the wage losses induced by inherent differences in the jobs themselves.

24. The growth is computed as the difference in log employment between the survey year and the year prior to the displacement.

25. The previous regressions used one-digit switches, but there is little difference since almost everyone who switched two-digit industries (69 percent of the sample) also switched one-digit industries (57 percent of the sample).

22. Topel also found that highly educated workers were less susceptible to local labor market shocks. These results do not extend to industrial and occupational shocks. Highly educated workers seem to be every bit as specialized to their industries, firms, and occupations as are their less educated counterparts.

Table 8
Mean Wage Losses, by Local Market Conditions and Industry Change Status

		Quartile of State Two-digit Industry Log Employment Growth Distribution				
		0-25	25-50	50-75	75-100	Total
<i>Whole sample</i>						
Range of log employment change within quartile		-6.65 : -.125	-.125 : .010	.010 : .125	.125 : 11.36	
Mean wage loss	Total	-.216	-.102	-.104	-.034	-.115
Changed two-digit industry?	Yes	-.268	-.136	-.124	-.043	-.148
	No	-.082	-.026	-.068	-.017	-.047
<i>Tenure ≤ 5</i>						
Range of log employment change within quartile		-6.65 : -.113	-.113 : .021	.021 : .140	.140 : 11.36	
Mean wage loss	Total	-.159	-.057	-.056	-.007	-.071
Changed two-digit industry?	Yes	-.198	-.085	-.072	-.007	-.094
	No	-.062	-.016	-.021	-.006	-.018
<i>6 ≤ Tenure ≤ 10</i>						
Range of log employment change within quartile		-3.86 : -.161	-.161 : -.006	-.006 : .108	.108 : 7.86	
Mean wage loss	Total	-.354	-.172	-.136	-.080	-.185
Changed two-digit industry?	Yes	-.438	-.221	-.169	-.075	-.235
	No	-.101	-.084	-.074	-.089	-.086
<i>11 ≤ Tenure ≤ 15</i>						
Range of log employment change within quartile		-3.73 : -.136	-.136 : -.008	-.008 : .084	.084 : 1.88	
Mean wage loss	Total	-.297	-.265	-.295	-.149	-.248
Changed two-digit industry?	Yes	-.386	-.316	-.372	-.209	-.324
	No	-.051	-.158	-.191	-.078	-.108
<i>Tenure > 15</i>						
Range of log employment change within quartile		-3.11 : -1.47	-1.47 : -.025	-.025 : .061	.061 : 1.92	
Mean wage loss	Total	-.435	-.277	-.263	-.271	-.311
Changed two-digit industry?	Yes	-.499	-.328	-.338	-.415	-.401
	No	-.231	-.185	-.168	-.119	-.166

Notes: Workers are grouped by the change in log state employment for the two-digit industry from which the worker was displaced. The change is computed as the difference in log employment on the survey date and log employment in the year prior to the displacement. Standard errors are suppressed to avoid clutter. The representative standard error for the whole sample is on the order of .02, while the standard errors for the cells within the tenure group subsamples are generally on the order of .06. Data are drawn from the 1984, 1986, and 1988 DWS surveys, as well as from the ancillary data sets described in the text.

There are several possible explanations for these findings. The first explanation is that industry switchers are fleeing from industries that are in serious decline and, therefore, that their wage reductions reflect the loss of industry-specific earnings power. One problem with this explanation is that the switch/no switch differences remain when we confine attention to workers displaced from two-digit industries with similar growth rates. State by two-digit industry controls are rather crude, however, and it is possible that more narrowly defined industry and occupation conditions are worse for industry and occupation switchers. A second explanation is that industry switchers are more likely to be moving from a union job to a nonunion job. This hypothesis has some appeal because displaced workers tend to come from highly unionized industries. Unfortunately, one can not test this hypothesis in the DWS because the survey does not ask a question about past or present union status. However, Topel's (1990) work with the PSID (which does record union status) suggests that this is not a complete explanation because industry switchers lose substantially more in that data even when one controls for the loss of union status.²⁶ Unfortunately, I am unable to effectively distinguish between these and other potential explanations with the data currently at hand.

C. Industry Heterogeneity

It is likely that industries differ in the extent to which their workers suffer in the event of a job displacement. The construction industry is notoriously volatile, with workers changing jobs often and having frequent unemployment spells. Moreover, much construction work is run through union halls so that worker-firm relationships are not particularly meaningful. In this environment, it would be surprising if a job displacement was costly for a worker if the local construction industry was generally doing well. Other industries exhibit very stable relationships between workers and firms. In these industries, displacements seem much more likely to impose real costs on workers, even if the general industry is doing well.

Table 9 begins the job of measuring differences between industries in the effects of displacement. I have broken the sample into ten industries. Manufacturing, construction, and mining are overrepresented relative to their employment shares in the general population because displacements are much more likely to occur in these volatile industries. Finance, insurance, and real estate, and professional services are exceptionally underrepresented, reflecting the fact that employment relationships in these businesses tend to be very stable, and that these industries have been growing relative to other industries. The table begins by reporting the mean time in unemployment since the displacement and the mean wage loss for each industry. Miners are the big losers, but construction, manufacturing, and transport/public utility workers also experience substantial wage losses and unemployment spells.

Table 9 also breaks out each industry sample into groups based on the individ-

26. It is possible that controlling for both the local conditions described here and the loss of union status would totally account for the greater losses of industry switchers. To my knowledge, this exercise has not been done.

Table 9
Effects of Displacement, by Industry

Industry	N	Mean Time in Unemployment	Mean Log Wage Loss	Quantile of Distribution of State Log Employment Change in Two-digit Industry				
				0-25	25-50	50-75	75-100	
Agriculture	158	19.1	-.029	Mean log wage loss	-.139	-.141	-.114	-.010
Mining	468	30.4	-.364	Mean employment change	-.039	.109	.206	.455
				Mean log wage loss	-.406	-.396	-.368	-.277
Construction	1,379	21.4	-.119	Mean employment change	-.806	-.395	-.231	-.039
				Mean log wage loss	-.231	-.114	-.113	-.036
Manufacturing	3,552	30.4	-.128	Mean employment change	-.282	-.043	.108	.277
				Mean log wage loss	-.203	-.117	-.121	-.068
Transport and public utilities	719	23.8	-.161	Mean employment change	-.344	-.109	-.011	.161
				Mean log wage loss	-.173	-.139	-.179	-.152
Wholesale trade	510	17.7	-.074	Mean employment change	-.165	-.009	.063	.227
				Mean log wage loss	-.131	-.139	-.058	-.003
Retail trade	804	21.2	-.047	Mean employment change	-.075	.016	.075	.186
				Mean log wage loss	-.072	-.107	-.055	-.024
Finance, insurance, and real estate	159	16.9	-.098	Mean employment change	-.060	.057	.108	.276
				Mean log wage loss	-.226	-.125	.002	-.067
Service	678	18.5	-.007	Mean employment change	-.141	.055	.154	.327
				Mean log wage loss	-.042	-.062	.023	.040
Professional	249	20.7	-.024	Mean employment change	-.328	.095	.189	.379
				Mean log wage loss	.018	-.117	-.121	.091
				Mean employment change	-1.620	-.010	.146	.480

Minimum-Wage Effects on School and Work Transitions of Teenagers

By DAVID NEUMARK AND WILLIAM WASCHER*

A number of recent studies have challenged the conventional view that minimum wages reduce employment among teenagers (e.g., David Card, 1992; Lawrence Katz and Alan Krueger, 1992). These studies have led some economists to question the standard competitive model of low-wage labor markets and have been used to bolster proposals to increase the minimum wage.¹

In previous research, we offered evidence and explanations as to why negative minimum-wage effects on teenage employment may be difficult to detect, even when such effects are present for a subset of teens. Using state-level data, we found that, although minimum-wage increases had only small negative net effects on overall teen employment, such increases reduced the proportion of teenagers enrolled in school and increased the proportion of teenagers neither enrolled nor employed (Neumark and Wascher, 1995). One explanation of this finding is that minimum-wage increases induce substitution toward enrolled, higher-quality teenagers, leading these teenagers to leave school for employment, and reduce the demand for teenagers not in school and employed at or near the old minimum.² Alternatively, minimum wages may reduce enrollments as teens leave school and queue for jobs at the higher minimum. The substitution hypothesis sug-

gests that the disemployment effect of minimum wages is stronger for lower-wage teenagers than for teenagers as a whole. As evidence of this, in a structural model of the low-wage labor market we found that minimum wages have relatively strong disemployment effects when they are binding (Neumark and Wascher, 1994).

In this paper, we explore these issues using individual-level panel data on school and work transitions of teenagers. These data allow us to (i) test the alternative explanations of the school/work transitions caused by minimum wages, and (ii) examine the effects of binding minimum wages in a less structural framework, by distinguishing between teenagers above or below a new minimum wage.³

I. The Empirical Approach

We assume that teenagers choose among four activities: in school/not employed (SNE), in school/employed (SE), not in school/employed (NSE), and not in school/not employed (NSNE). We assume that this choice is influenced by a set of state-level variables X , individual-level variables Z_k , and a person-specific random component ϵ_k . State (S) and year (Y) dummy variables are generally included to account for unobserved, fixed influences common to all individuals within states or within years. Finally, we include dummy variables (J) for the individual's school/work activity in the previous year, to account partially for individual heterogeneity, and to allow minimum-wage effects on

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¹See, for example, comments attributed to Secretary of Labor Robert Reich in the *Wall Street Journal* (13 October 1993, p. A2).

²This may lead to wages for higher-wage workers rising in response to minimum-wage increases. Edward Gramlich (1976) provides some evidence of such an effect.

³For earlier related work, see Ronald Ehrenberg and Alan Marcus (1982) and Janet Currie and Bruce Fallick (1993).

Transitions

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employment effect of minimum wage for lower-wage teenagers as a whole. As a structural model of the effect we found that minimum wage has a relatively strong disemployment effect when they are binding (Neumark, 1994).

We explore these issues using panel data on school transitions of teenagers. These data test the alternative explanations for school/work transitions: (i) examine minimum wages, and (ii) examine minimum wages in a state-by-state work, by distinguishing between those above or below a new

Empirical Approach

Teenagers choose among being in school/not employed (SE), not in school/not employed (NSE), and not in school/employed (NSNE). We assume that the probability of being in each state is influenced by a set of variables: (i) individual-level variables, (ii) person-specific random effects (S) and year (Y), (iii) state-specific fixed effects, (iv) fixed influences from other states within states or regions, and (v) we include dummy variables for individual's school/work transition in the previous year, to account for individual heterogeneity, and minimum-wage effects on

school/work transitions to depend on the lagged activity. The utility from each activity (indexed by j) for individual k in state i and period t is

$$(1) \quad U_{kjit} = X_{it}\beta_j + Z_{kit}\gamma_j + J_{kit-1}\pi_j + S_i\delta_j + Y_t\theta_j + \varepsilon_{kit}.$$

Assuming that ε_k has an extreme-value distribution, this leads to a multinomial logit model.⁴ X includes the state-specific unemployment rate for males aged 25–64, and the higher of the state or federal minimum-wage level divided by the mean wage in the state.⁵ It is common to multiply this minimum-wage variable by the coverage rate as well. However, because it is difficult to estimate coverage of teenagers by state and federal minimum-wage laws (see Neumark and Wascher, 1992), we did not make this adjustment for the estimates reported here. (However, the results were very similar with the coverage adjustment.) Finally, given evidence that minimum-wage effects occur with a lag (Neumark and Wascher, 1992; Michael Baker et al., 1994), some specifications substitute the lagged for the current minimum-wage variable. Z_k includes dummy variables for age, race, and sex. We estimate two other versions of the model. First, we include interactions between the lagged-activity dummy variables and the minimum-wage variable. Second, we estimate the model allowing differential effects for individuals initially paid below a new minimum wage.

II. The Data

The data are taken from the May Current Population Surveys (CPS's) for the period

1979–1992.⁶ The sample design of the CPS permits a match of some individuals for the same months across two consecutive years. We performed the match for all rotation groups, using the household number, age, sex, and race to identify individuals within the household. The sample is limited to individuals 16–19 years old in the first year of the matched records. The match rate for teenagers is relatively low, with roughly 65 percent of the eligible sample in each year matched to a record in the following year. The resulting data set contains 36,021 matched records, with observations in each state for the periods 1979–1980 through 1991–1992.⁷ The records also include employment, taken from the employment status recode, and enrollment status, taken from the major activity in the survey week. The matched records were merged with state-year data on minimum-wage levels and state economic characteristics.

III. Results

In Table 1, we report estimates of minimum-wage effects on the probability of each school/work activity, transforming the coefficients of equation (1) into derivatives of the probability of each activity with respect to the minimum-wage variable. The specification in column (i) includes the minimum-wage variable, lagged school/work activities, and the state unemployment rate for men aged 25–64. The estimated coefficients of the lagged activity variables were strongly significant. Consistent with our state-level estimates, minimum wages significantly reduce the probability of enrollment, whether employed or not (SNE + SE), have a small negative net effect on the probability of employment (SE + NSE) and have a significant positive effect on the probability of being NSNE.

⁴With this specification, in contrast to the fixed-effects multinomial logit model (Gary Chamberlain, 1980), we can estimate separate minimum-wage effects for each school/work transition with only two years of data on each person and can estimate marginal effects of the minimum wage on each activity.

⁵The proportion of teenagers in the population did not enter significantly, and its exclusion did not affect the results.

⁶We used the May CPS's to increase comparability with our earlier research. In the future, we plan to use data from all months.

⁷We exclude 1985–1986, because the household identifier changed.

TABLE 1—MINIMUM-WAGE EFFECTS ON PROBABILITIES OF SCHOOL/WORK ACTIVITIES

Activity	(i)	(ii)	(iii)	(iv)	(v)
SNE	-0.12*	-0.11	-0.19	-0.11	-0.08
SE	-0.18*	-0.31*	-0.23 [†]	-0.39*	-0.31*
NSE	0.13*	0.21*	0.23	0.26	0.20
NSNE	0.17*	0.21*	0.18*	0.23*	0.20*
Current minimum	yes	yes	yes	no	no
Lagged minimum	no	no	no	yes	yes
Lagged minimum × lagged activity	no	no	no	no	yes
State dummies	no	yes	yes	yes	yes
Year, age, race, and sex dummies	no	no	yes	yes	yes
Log-likelihood:	-40,738	-40,379	-38,479	-38,476	-38,473
Number of parameters	18	168	216	216	225

Notes: All specifications also include the state unemployment rate for men aged 25-64 and lagged school/work activity. In column (v) minimum-wage effects are for the omitted lagged activity (SNE). Derivatives are evaluated at the sample means (treated as fixed). Standard errors are based on linear approximations.

[†]Statistically significant at the 10-percent level.

*Statistically significant at the 5-percent level.

In column (ii) state dummy variables are added. Because we already control for individuals' lagged school/work activities, these dummy variables should introduce little additional information on the distribution of ϵ across states and hence should not have much influence on the estimated coefficients. The standard errors ought to rise, however, as correlations among errors of individuals in the same state are eliminated. Both of these expectations are confirmed. The estimated effects of minimum wages on the probabilities of the alternative school/work activities are little different from those in column (i), but because of larger standard errors, the estimated effect on the SNE probability is no longer significant. Column (iii) adds year dummy variables and individual demographic controls. Although the point estimates are little changed, this addition results in less precise estimates, in part because the year dummy variables eliminate much of the influence of changes in the federal minimum wage. Only the estimated effects on the SE and NSNE probabilities remain significant. Column (iv) substitutes the lagged minimum-wage variable for the current one. The estimated effects on the probabilities of three of the four activities are larger. This specification seems preferable because the log-likelihood

is higher, and because when the current and lagged values were included, only the coefficients of the lagged values were significant. Finally, column (v) adds interactions between lagged activities and the minimum-wage variable. The estimates are little changed, and the more restrictive specification in column (iv) cannot be rejected.

It is useful to interpret the magnitudes in Table 1 in terms of elasticities. For example, in column (iv) the estimated partial derivative of the probability of being NSNE with respect to the minimum-wage variable is 0.23. Since the mean of the minimum-wage variable is 0.43, and the mean proportion NSNE is 0.085, the elasticity is 1.16 ($[0.23/0.085]/[1/0.43]$). Thus, the effect of a 10 percent increase in the minimum wage is to increase the proportion NSNE by 11.6 percent. A similar calculation implies the following elasticities for the probability of the other school/work activities: SNE (-0.10), SE (-0.70), and NSE (0.57). Finally, the elasticity of net employment (SE + NSE) is -0.13.

We next calculate the implied partial derivative of the probability of each school/work transition with respect to the minimum-wage variable, using the estimates from column (iv) of Table 1.⁸ As column (i) of Table 2 reports, for those originally SNE, minimum wages significantly reduce the probability of becoming SE and significantly increase the probability of becoming NSNE. The former effect suggests that those who are originally SNE do not displace lower-wage workers by combining school with employment (switching to SE). The latter effect is consistent with individuals leaving school to queue for minimum-wage jobs. The positive (although insignificant) effect on the

⁸Lagged activity influences minimum-wage effects in this calculation because it alters the point of the distribution at which the probability of each activity is evaluated. The model in column (v) of Table 1 allows a more explicit dependence of minimum-wage effects on the lagged activity. That model, however, did not fit the data any better, and estimates like those in Table 2, but based on the model in column (v) of Table 1, led to very similar results.

TABLE 2—MINIMUM-WAGE EFFECTS ON TRANSITION PROBABILITIES

Final activity	Initial employment-enrollment activity			
	SNE (i)	SE (ii)	NSE (iii)	NSNE (iv)
SNE	-0.09	0.05	-0.12	-0.28*
SE	-0.29*	-0.56*	-0.33*	-0.19*
NSE	0.17	0.39**	0.25	-0.02
NSNE	0.21*	0.13*	0.19*	0.49*
N:	17,233	8,658	7,079	3,051

Notes: Estimates are based on the specification in column (iv) of Table 1. In evaluating the derivatives, we set the appropriate dummy variable for the lagged activity to 1, and the others to 0.

*Statistically significant at the 10-percent level.

**Statistically significant at the 5-percent level.

probability of becoming NSE suggests that some of them find jobs, consistent with substitution. Finally, the estimates imply that a higher minimum wage reduces the overall probability of enrollment for this group.

For those originally SE, column (ii) of Table 2 shows that the probability of remaining in this activity is significantly reduced by the minimum wage. There is a large and significant positive effect of the minimum on the probability of becoming NSE. Thus, individuals originally SE may displace minimum-wage or lower-wage workers, if their hours increase when they leave school. This is the case. In our sample, average weekly hours of individuals who switched from SE to NSE increased from 19.0 to 30.8, whereas average weekly hours of those who did not switch increased only from 16.3 to 17.6. There is a significant positive effect on the probability of becoming NSNE. This result is consistent with queuing for full-time minimum-wage jobs, although the increased probability of becoming NSNE for those originally SE (or SNE) may reflect individuals leaving school to take such a job, and subsequently becoming unemployed.

For those originally NSE, there is a positive and significant effect of the minimum wage on the probability of becoming NSNE. This effect is consistent with substitution away from previously employed workers in

response to a minimum-wage increase. In addition, the minimum wage makes these individuals less likely to return to school, significantly so in the case of the SE activity.

Finally, for those originally NSNE, the minimum wage has a significant positive effect on the probability of remaining in this activity, and a significant negative effect on the probability of returning to school. The first effect again suggests substitution away from lower-wage workers, although in this case the substitution leads to a decline in their job opportunities rather than job loss.

Again, it is useful to compute elasticities. For example, the estimated effect on the probability of going from NSE to NSNE is 0.19. The mean proportion making this transition is 0.12. Thus, the elasticity is 0.68. A similar calculation yields an elasticity of the probability of the transition from SE to NSE of 0.58.

Because age may be a proxy for quality, we also calculated separate estimates for 16-17-year-olds and 18-19-year-olds. For 16-17-year-olds, we found smaller effects of minimum wages on the probability of transitions from SNE or SE to NSE, and, for those originally NSE, larger effects on the probability of becoming NSNE. For 18-19 year-olds, we found much larger effects on the probability of going from SE to NSE, and smaller effects on the probability of going from NSE to NSNE. These results are consistent with substitution toward older, higher-quality workers.

Our final set of estimates distinguishes the effects of minimum wages for individuals originally above or below a new minimum wage. Because the substitution suggested by the results in Table 2 should be concentrated among low-wage workers who are effectively priced out of the market by minimum-wage increases, distinguishing the effects for workers above and below a new minimum wage should give us more reliable estimates of such effects. It also provides a separate test of whether the earlier results reflect minimum-wage effects.

Owing to data constraints, we alter the specification slightly, using the current minimum wage and comparing it to the individual's lagged wage. (The estimated contem-

use when the current and included, only the coefficient values were significant. v) adds interactions between activities and the minimum-wage variable. The estimates are little more restrictive specifications cannot be rejected.

Interpret the magnitudes in terms of elasticities. For example, v) the estimated partial probability of being NSNE is 0.19. The minimum-wage variable has a mean of the minimum-wage variable of 0.43, and the mean proportion of the minimum-wage variable is 0.85, the elasticity is 1.16 (1.43)). Thus, the effect of a 1 percent increase in the minimum wage on the probability of being NSNE is 11.6 percent. This calculation implies the elasticity for the probability of going from SE to NSE is 0.70, and NSE (0.57). The elasticity of net employment is 0.13.

Calculate the implied partial probability of each school/work activity with respect to the minimum wage, using the estimates of Table 1.⁸ As column (i) of Table 1 shows, for those originally SNE, the minimum wage significantly reduce the probability of becoming SE and significantly increase the probability of becoming NSNE. This suggests that those who do not displace lower-wage workers (switching from SE to SE). The latter effect on the probability of individuals leaving school to take such a job. The positive (significant) effect on the

estimates minimum-wage effects in the model, it alters the point of the distribution of each activity in column (v) of Table 1 allows a separate test of minimum-wage effects on the probability of each activity. The model, however, did not fit the estimates like those in Table 2, in column (v) of Table 1, led to

TABLE 3—MINIMUM-WAGE EFFECTS ON TRANSITION PROBABILITIES, BY INITIAL WAGE

Final activity	Initial employment-enrollment activity			
	Wage below new minimum		Wage at or above new minimum	
	SE (i)	NSE (ii)	SE (iii)	NSE (iv)
SNE	-0.67	-0.38	-0.81 [†]	-0.51
SE	0.58	0.18	0.31	0.02
NSE	-0.13	-0.29	0.44	0.43
NSNE	0.22 [*]	0.50 [†]	0.06	0.07
N:	928	475	1,291	1,487

Notes: Estimates are based on the specification in column (iii) of Table 1 (see text).

[†]Statistically significant at the 10-percent level.

^{*}Statistically significant at the 5-percent level.

poraneous minimum-wage effects were little different from the lagged results in Table 2.) The sample is restricted to individuals working for a wage in their first year (either SE or NSE), and for whom wages are reported (outgoing rotation groups). This reduces the sample to one-ninth of its original size. In Table 3, we estimate the model including a dummy variable for a wage below the minimum and also including an interaction of this variable with the minimum-wage variable. Columns (i) and (ii) report results for individuals with a period $t-1$ wage that is below the minimum-wage level in period t , while columns (iii) and (iv) report results for those at or above the new minimum.

For workers below the new minimum, minimum wages increase the probability of becoming NSNE for workers initially either SE or NSE.⁹ The large (0.50) increase in the probability that an NSE individual becomes NSNE is consistent with the substitution hypothesis. A similar but smaller (0.22) effect for those originally SE is more difficult to explain as substitution, since it is not obvious why these individuals leave school when they lose their jobs. One possibility is

that they leave school to queue for full-time minimum-wage jobs, assuming that the switch to full time raises their productivity and makes them employable at the new minimum wage. Another is that they would have left school in any case, but because of the minimum-wage increase they are less likely to find jobs.

In contrast, for those earning at or above the new minimum wage, there are no significant effects of minimum wages on the probability of becoming NSNE. This is as expected; these workers should not be displaced by minimum-wage increases, nor should they leave school to queue for minimum-wage jobs, since they already earn more than the minimum. However, the substitution hypothesis predicts that some of these workers leave school (SE) to become full-time workers. The estimated effect for this transition is positive (0.44), but not significant.

IV. Conclusions

The recent debate over minimum wages raises two questions. First, should policymakers no longer believe that minimum wages entail negative consequences for teenagers? Second, should economists discard the competitive-labor-market model? Our evidence suggests that the answer to both of these questions is no.

Minimum wages increase the probability that teenagers leave school to become employed or work more hours, and they increase the probability that teenagers leave school and become nonenrolled and nonemployed. Minimum wages also increase the probability that lower-wage employed teenagers become nonenrolled and nonemployed.

This evidence suggests that, although minimum wages may lead to small net disemployment effects for teenagers as a whole, there are significant enrollment and employment shifts associated with minimum-wage changes that should be of concern to policymakers. The evidence also suggests that the competitive model of minimum-wage effects is largely correct. The typical textbook model refers to homogeneous

⁹The results were similar when we excluded those below the old minimum, who may not be covered by minimum-wage laws.

3—MINIMUM-WAGE EFFECTS ON TRANSITION PROBABILITIES, BY INITIAL WAGE

	Initial employment-enrollment activity			
	Wage below new minimum		Wage at or above new minimum	
Activity	SE (i)	NSE (ii)	SE (iii)	NSE (iv)
	-0.67	-0.38	-0.81 [†]	-0.51
	0.58	0.18	0.31	0.02
	-0.13	-0.29	0.44	0.43
	0.22*	0.50 [†]	0.06	0.07
	928	475	1,291	1,487

Estimates are based on the specification in (iii) of Table 1 (see text).

*Statistically significant at the 10-percent level.

†Statistically significant at the 5-percent level.

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For workers below the new minimum, minimum wages increase the probability of becoming NSNE for workers initially either SE or NSE.⁹ The large (0.50) increase in the probability that an NSE individual becomes NSNE is consistent with the substitution hypothesis. A similar but smaller (0.22) effect for those originally SE is more difficult to explain as substitution, since it is not clear why these individuals leave school when they lose their jobs. One possibility is

that they leave school to queue for full-time minimum-wage jobs, assuming that the switch to full time raises their productivity and makes them employable at the new minimum wage. Another is that they would have left school in any case, but because of the minimum-wage increase they are less likely to find jobs.

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IV. Conclusions

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This evidence suggests that, although minimum wages may lead to small net disemployment effects for teenagers as a whole, there are significant enrollment and employment shifts associated with minimum-wage changes that should be of concern to policymakers. The evidence also suggests that the competitive model of minimum-wage effects is largely correct. The typical textbook model refers to homogeneous

workers initially earning less than the minimum wage. But in a model with heterogeneous workers, only those with a market wage at or near the minimum should be disemployed by a higher minimum wage, and the net disemployment effect for all teenagers may be small if there is substitution toward higher-wage teenage workers. Our evidence is consistent with this model.

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⁹These results were similar when we excluded those above the old minimum, who may not be covered by minimum-wage laws.

MATTHEW MILLER

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We interrupt this week's episode of "The President in Crisis" to bring you "The Working Poor in Crisis," a national melodrama with slightly lower ratings. Yet Monica Lewinsky says her passion for helping such luckless Americans is what led her to public service in the first place (that's a lie, of course, but I thought it might draw you in).

New studies show that 12 million Americans dwell in poverty despite living in households headed by a full-time worker, a 50 percent increase since 1975. Despite the booming economy, in other words, the bottom is falling out.

What to do? The usual catalog of remedies is well-meaning. Improve education and job training.

Strengthen labor unions. Shift the mix of legal immigrants toward better-skilled workers who don't compete with our working poor. And increase the minimum wage, as President Clinton just urged we do again. (Even with recent increases, it's worth less in real spending power than it was in the 1960s.)

The trouble, if we're honest, is that most of these steps could take years, even decades, to make a dent. Raising the minimum wage, meanwhile, could price many unskilled workers out of a job. Isn't there anything more we can do now?

Enter Edmund Phelps, a 64-year-old economist at Columbia University. His plan, laid out in a new book, "Rewarding Work," has drawn rave notices from both conservatives and liberals, making it the most interesting idea in years.

Mr. Phelps wants government to guarantee \$7 to \$8 an hour for full-time work via a sliding-scale tax credit to employers. Businesses should love it, because they would be allowed to pay workers as little as \$4 an hour, with government putting up \$3 to match it. As Mr. Phelps explains, since the social benefits of work (in terms of less crime, welfare dependency, etc.) exceed less-skilled workers' productivity (which limits what employers can offer in wages), it makes sense for society to subsidize the difference.

The breakthrough in Mr. Phelps' plan is to lower the minimum wage

Missing option: Make work pay

facing employers by 20 percent while raising the effective minimum received by workers. The result is to create millions of new entry-level decent-paying jobs through which

untrained folks could get a start, plus a taste for the values work promotes.

Analysts across the political spectrum say that, while Mr. Phelps seems to have hit on the answer, there's a problem: We can't afford it.

At first blush they seem right. Mr. Phelps figures his employer subsidies will cost \$120 billion a year. That sounds impossibly ambitious in an age when a Democratic president will leave office after eight years without having shaken loose a few extra billion to fully fund Head Start.

But the truth is we'll be spending this money anyway. Federal spending, even under the new Clinton budget that lowers outlays from 22 percent to 19 percent of gross domestic product, will still rise in absolute dollars by \$250 billion over the next five years. Most of that increase will go to Medicare, Medicaid, Social Security and other pensions — including \$65 billion by 2002 alone in overstated cost-of-living increases, many slated for well-off retirees who don't need them.

The better question thus becomes: If the richest nation on Earth plans to spend this much new money anyway, why not shift what amounts to less than 2 cents on the national dollar to pay for Mr. Phelps' promising idea?

Here's how to do it. Take \$30 billion now devoted to the earned income tax credit, \$15 billion squandered on lousy federal training programs, and modestly scale back tax subsidies (like those for mortgage interest) for the wealthiest 10 percent of Americans. Toss in a sliver of the savings from an accurate consumer price index, and you're done. As a matter of

For all the talk of "partisan warfare," policy fights in Washington actually take place between both teams' 45-yard lines.

\$30b EITC
\$15b training
? tax subsidies (mortgage)

16.5 (\$65/yr 2002) CPI
\$61.25b per year
\$58.75b needed.

Continued

Missing Caption

WASHINGTON TIMES

FEB 4 1998



Illustration by Kevin Krenneck/LA Times Syndicate

math and common sense, it's not heavy lifting. Why, then, is it politically?

The answer to that question leads inexorably to the timid boundaries of public debate. For all the talk of "partisan warfare," policy fights in Washington actually take place

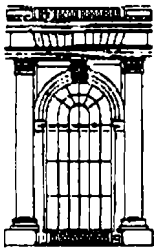
between both teams' 45-yard lines.

Mr. Phelps' plan, to the contrary, suggests what it takes if we're serious. And not being serious here could cost us much more before long. Something like Mr. Phelps' idea — a kind of wage insurance for the less skilled — may be the only

way to achieve a lasting political consensus for the open markets and technical advances that, in the long run, benefit us all.

Matthew Miller is a nationally syndicated columnist.

LAH



UNITED STATES SENATE
**REPUBLICAN
 POLICY COMMITTEE**

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 347 Russell Senate Office Building
 Washington, DC 20510
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May 6, 1998

Clinton, Kennedy Would 'Lift Families Out of Poverty' With 2-Cent-per-Hour Raise

CRS Exposes Result of Back-to-Back Kennedy Minimum Wage Hikes

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

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

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

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

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

Ultimately, Employers Will Foot the Bill for the Kennedy Plan

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

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

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

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

Highlights of CRS Study on Increasing the Minimum Wage

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

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

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

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

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

Source: Congressional Research Service (CRS)

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

Clinton-Kennedy Minimum Wage Hike Short-Changes Working Poor

Clinton-Kennedy
\$1.00
Increase

100¢

Amount
returned
to govt. in
reduced
welfare
benefits

89.9¢

Amount
returned to
government
in higher
payroll
taxes

7.7¢

Amount kept by
single mother
with two
children
(California)

2.4¢



Congressional Research Service • Library of Congress • Washington, D.C. 20540

March 27, 1998

TO : Office of the House Majority Whip
Attention: Tony Rudy

FROM : Thomas Gabe
Specialist in Social Legislation
Education and Public Welfare Division

SUBJECT : **Case Examples of Effects of a Proposed Increase in the Minimum Wage on Family Income**

This memorandum responds to your March 13, 1998 letter requesting additional analysis of the effects of President Clinton's proposed increase to the minimum wage on family disposable income. In particular, you wished to see the effects on family disposable income that might result for families earning the current minimum wage of \$5.15 per hour, as compared to families earning \$6.15 per hour under the President's minimum wage proposal. My earlier, March 11, analysis did not include cash welfare benefits under the new Temporary Assistance for Needy Families (TANF) program. This memorandum includes estimates of TANF benefits in two states: California and New York (New York City and Suffolk county). Like the earlier memorandum, this analysis looks at the effects of increased earnings on the Earned Income Tax Credit (EITC), social security taxes (FICA and HI), food stamps, and rent in publicly assisted housing. Whereas the earlier memorandum provided estimates as if the minimum wage increase occurred in 1998, this analysis examines the effects of the President's proposed minimum wage increase when it is scheduled to be fully phased in, in January 2000). In addition, you wished to see the marginal effects of an additional 25 cent per hour increase in earnings for a worker earning \$6.15 per hour.

The following tables provide estimates of annual family income for various types of families with a full-time worker earning \$5.15 per hour (the current minimum wage), compared to families with a full-time worker earning \$6.15 per hour (the President's proposed minimum wage in 2000. In addition to earnings, the tables show the EITC, social security (FICA and HI) taxes, TANF, food stamp benefits. None of the families in the examples shown has income sufficient to incur a federal income tax liability before counting the EITC. In addition, the tables estimate families' rent if they were to live in assisted (e.g., public) housing. Tables 1A through 6A provide estimates of families' annual income, benefits, and taxes, and assisted-housing rent, in 2000, for single-parent with one and two children, living in California or New York (New York City or Suffolk county). As you requested, a second set of tables is provided (Tables 1B through 6B) which show income and benefits on an hourly basis. A third set of tables (Tables 1C

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through 6C) are included, which shows the marginal effects on net income for a worker earning \$6.15 per hour, compared to one who receives a 25 cent per hour raise, to \$6.40 per hour. The following discussion focuses primarily on the annual income estimates that correspond to the series-A tables.

GROSS EARNINGS

Tables 1A through 6A show families with a single full-time worker earning \$5.15 per hour would have annual gross earnings of \$10,712 per year (assuming 40 hours of work over 52 weeks). At the \$6.15 per hour wage rate, families' gross annual earnings would increase by \$2,080, to \$12,792 per year.

EARNED INCOME TAX CREDIT

In all of the examples shown in this memorandum, families would be eligible for the EITC at their specified earnings level. The EITC provides tax relief to low-income working families with children. In addition to reducing the tax liability of low-income families, the EITC provides a *refundable* federal tax credit that is payable to tax filers with no tax liability. Unlike traditional "welfare" benefits, which are largest for families with no outside income, and are reduced as earnings or other income increases, the EITC provides a "bonus" for work.

The EITC can provide a work bonus of as much as 34% of creditable earnings for a family with one child, and as much as 40% of creditable earnings for families with two or more children. EITC amounts shown in the tables are estimated in 2000 based on Congressional Budget Office (CBO) projected increases in the Consumer Price Index for all urban consumers (CPI-U). Based on CBO's price assumptions, and the federal income tax code rounding rules, in 2000 the maximum creditable earnings to which the EITC applies is estimated to be \$7,660 for families with one child and \$9,910 for families with two or more children, resulting in a maximum EITC of \$2,400 for families with one child ($.34 \times \$7,680$), and \$3,964 for families with two or more children ($.40 \times \$9,910$). Families are eligible to receive the maximum credit if their earnings range between \$6,680 and \$12,940, for a family with one child, or between \$9,390 and \$12,940, for families with two or more children. The EITC begins to phase out for families with children who have earnings above \$12,940. For families with incomes above this level, the EITC phases out at a rate of 15.98 cents per additional dollar in earnings for families with one child, and at a rate of 21.06 cents for families with two or more children.

In all of the examples shown in these tables, families earning the current \$5.15 per hour minimum wage or the proposed \$6.15 per hour minimum wage would receive the maximum EITC (\$2,400 for families with one child, and \$3,964 for families with two or more children).

SOCIAL SECURITY TAXES

The estimates shown in the tables include the effects of the employee share of social security taxes. The social security tax rate on workers in these examples is 7.65% of

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wages (FICA and HI taxes). Full-time workers would owe an additional \$159 per year at the higher \$6.15 per hour wage rate.

CASH ASSISTANCE UNDER TANF

The 1996 welfare reform law (P.L. 104-193) grants states broad flexibility in the manner in which they structure their assistance programs for needy families. As discussed in my March 11 memorandum, the Congressional Research Service (CRS) is undertaking a major effort to determine how states are providing assistance under the new welfare law. As discussed in the earlier memorandum, based on a cursory review of the information we have at hand, a single parent with one child working full time at the current minimum wage would be ineligible for cash assistance under TANF in most states. In some states, especially those with comparatively high TANF benefits levels, and/or states with high earned income disregards, which allow families to keep a greater share of benefits as their earnings increase, some families would continue to be eligible for TANF benefits if the parent began working at the current minimum wage, and perhaps at the proposed higher, \$6.15 per hour, minimum wage.

This memorandum provides case examples of estimated TANF cash assistance to families in two states: California and New York. Under the Aid to Families with Dependent Children (AFDC) program, the program replaced by TANF, California and New York had benefit levels above those of the average state. Due to their large populations, and higher benefit levels, California and New York have historically ranked number one and two in the nation, respectively, in the size of their assistance caseloads. In September 1997, these two states accounted for nearly one third of the nation's TANF recipients (California, about 23% and New York, about 10%).

States may treat applicants for TANF differently than recipients. The examples shown in this memorandum are for families who initially were eligible to receive TANF assistance. States are required to limit receipt of TANF cash assistance to families to no more than 5 years. States may impose stricter time limits than those mandated by federal law. Consequently, some families who would otherwise be eligible for TANF based on their incomes may become ineligible once they have reached the time limit. Both California and New York have a 5-year time limit. Consequently, no families in these two states would be approaching the 5-year time limit in 2000.

California

Based on January 1998 payment schedules, California provides a maximum cash welfare payment under TANF of \$456 per month (\$5,472 annually) for a single parent with one child and \$565 per month (\$6,780) for a single parent with two children. Families exempt from California's work requirement are eligible for higher payments. In calculating payments to families, California disregards \$225 of monthly earnings, and 50% of the remainder from countable income. Counted income is then subtracted from the maximum TANF benefit to determine the family's grant. Although California applies a gross income limit (185% of its *need standard*) to TANF applicants, none is applied to TANF recipients. As according to its past practice under the AFDC program, it is assumed that California

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will not adjust its payment schedules for inflation. Consequently, the nominal amounts are assumed to apply in 2000.

In the examples shown, families would retain TANF eligibility in California at the increased minimum wage level, although their TANF benefits would be reduced from what they received when they were working at the lower wage rate. Tables 1A and 4A show that these families lose 50 cents in TANF benefits for each additional dollar earned. When social security taxes are added in, the implicit marginal tax on their increase earnings rises to about 58 cents on the dollar.

New York

In New York, TANF payment schedules differ from county to county. Examples for two New York counties are shown in this memorandum: New York City, the area with the most TANF recipients, and Suffolk county, the area with the highest TANF payment amounts. In January 1998, maximum monthly TANF payments for a single parent with one child were \$468 in New York City (\$5,616 annually) and \$577 in Suffolk county (\$6,924 annually); for a single parent with two children, \$576 in New York City (\$6,912 annually) and \$703 in Suffolk county (\$8,436 annually). Beginning in June 1998, New York will disregard \$90 per month in earnings and 45% of the remainder (up from 42% in January 1998) from countable income in computing the TANF grant. Each June after 1998 New York will adjust its percentage earnings disregard in a manner such that a household of three living in New York City without unearned income would become ineligible for assistance with gross earnings equal to the federal poverty income guideline. In these examples, the earnings disregard percentage has been indexed to June 2000, at which time, based on assumed changes in the CPI, it will be 47.9%.

New York also applies a gross income limit, which is the lower of 185% of the *need standard* (which is the same as the payment standard), or in June 1998, the 1998 federal poverty income guidelines. As with past practice, it is assumed that New York will not index its payment schedule for inflation. However, New York will use the annual updates to the federal poverty income guidelines in determining the gross income limit and will adjust its percentage earnings disregard in the manner described above. In the examples shown in this memorandum, the poverty income guidelines have been indexed to 2000 using CBO's CPI-U assumptions. The guidelines are estimates of those that would be used in June 2000. Consequently, the following annual gross income limits apply for a single parent with one child: \$10,389 in New York City (185% of need standard) and \$11,421 in Suffolk county (indexed federal poverty income guidelines); for a single parent with two children: \$12,809 in New York City (185% of need standard) and \$14,369 in Suffolk county (indexed federal poverty income guidelines).

In the examples shown, a single parent with one child earning the current minimum wage of \$5.15 per hour would be ineligible for TANF in New York City, because her annual earnings (\$10,712) are above the TANF gross income limit (\$10,389) (Table 2A). In contrast, if she lived in Suffolk county, she would be eligible for \$1,884 in annual TANF benefits at the current minimum wage (Table 3A). However, if her earnings increased to \$6.15 per hour, she would lose TANF assistance, as her annual earnings (\$12,792) are above the gross income limit (\$11,421). In the case of the Suffolk county family, the

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increased earnings at the higher wage rate would result in a \$1,884 decrease in annual TANF benefits, an implicit tax of 90.6% on her earnings gain. Coupled with increased social security taxes, the implicit tax rate on her earnings would rise to 98.2%.

A single parent with two children would retain TANF eligibility in both New York City and Suffolk county at the increased minimum wage level. However, TANF benefits would be reduced at the rate of nearly 52 cents on each additional dollar earned. Combined with social security taxes, the implicit marginal tax rate on net family income associated with the earnings increase is nearly 60%.

FOOD STAMPS

All of the families shown in this memorandum would be eligible for federal food stamp benefits. Food stamp benefits are estimated for FY2000. The annualized food stamp benefits shown in the tables do not reflect benefit increases scheduled for October 2000.

Food stamp benefits vary by household size. Food stamp benefits are calculated by first subtracting certain deductions from a household's gross monthly income to determine "countable income." In these examples, households' incomes consist solely of earnings. Food Stamp program rules provide a \$134 per month standard deduction, plus a 20% earnings disregard. Families with child care expenses, or high shelter expenses may claim additional deductions. As you requested, the examples shown here are for families with no child care expenses. Also, none of the families has excess shelter expenses. Food stamp benefits are calculated by subtracting 30% of countable income (earnings less deductions) from the maximum food stamp benefit for a household of the specified size. According to law, maximum food stamp benefits are indexed for price inflation, however the standard deduction is not. In the examples shown, food stamp maximum benefits were indexed to FY2000 by CBO's projections of the CPI-U.

The Food Stamp program counts TANF as income when computing food stamp allotments. Consequently, food stamp benefits shown in the examples will differ among states for families of identical size and with identical earnings because of differences in the amount of TANF families receive. For a family with no income other than earnings, food stamp benefits are reduced 24 cents on each additional dollar earned, after taking the standard deduction.¹ However, the food stamp reduction rate associated with increased earnings is generally less than 24 cents on the dollar for families receiving TANF. This is because families' TANF benefits are generally reduced as earnings increase. Food stamps offsets somewhat the loss of TANF associated with increased earnings.

The food stamp benefit reduction rate varies among the families shown in the examples. The differences in the food stamp reduction rate are the result of interactions between food stamps and TANF. The single parent family with one child living in New

¹ After the standard deduction, a 20% earnings deduction is applied, of which 30% of the remainder is counted as income and subtracted from the maximum food stamp payment. Consequently, the reduction rate after applying the standard deduction is 24% (i.e., $(\$1 - \$0.20) \times .3 = .24$).

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York City is ineligible for TANF at the current minimum wage level (Table 2A). Consequently, food stamp benefits are reduced by the full 24% marginal rate that applies to earnings.² For a single parent with one child living in Suffolk county (Table 3A) food stamp benefits are actually *slightly higher* (\$72 per year) at the higher earnings level. This family abruptly lost TANF once earnings exceeded the gross income limit (\$11,421). Above this earnings level, food stamps compensates somewhat for the loss in TANF. In other examples the food stamp benefit reduction rate ranges from 8% to 9%.

NET INCOME AFTER TAXES, TANF AND FOOD STAMPS

The tables show the effect on net income after taxes, TANF, and food stamps at the increased wage level. The examples show that lost benefits (TANF and food stamps) and increased social security taxes offset some of the earnings gains of families earning \$6.15 per hour, compared to families earning \$5.15 per hour. For example, the gross annual earnings gain of \$2,080 results in a net annual income gain of as much as \$1,429 for a single parent with one child living in New York City (Table 2A), an implicit tax rate of 31.3% on the earnings gain, to as little as \$104 for a single parent with one child living in Suffolk county New York (Table 3A), an implicit tax rate of 94.8% on the earnings gain.

ASSISTED HOUSING

In addition to the above mentioned benefits and taxes, you were interested in seeing the effects increased earnings might have on the rent families who live in federally assisted housing pay. *Note that less than one-fifth of poor persons live in federally assisted housing; consequently, the examples that follow are not what most families with a single minimum wage worker would typically face.*

Households in subsidized housing generally pay rent equal to 30% of their income, after deductions. The federal government pays the remainder. Consequently, under federally assisted housing, rent increases as household income increases.

The estimates shown in the tables assume a household with one child rents a two-bedroom apartment, and that a household with two children rents a three-bedroom apartment. The examples shown in this memorandum assume a standard deduction of \$480 per year for each household member, other than the head or spouse, who is under the age of 18. Households would also be able to deduct child care expenses from their countable income, but none are assumed here. After deductions, families in assisted housing pay 30% of their counted income towards rent, the federal government pays the remainder. In FY1998, annual Fair Market Rents in Los Angeles were \$8,844 for a two-bedroom apartment and \$11,940 for a three-bedroom apartment. In New York, annual Fair Market Rent is \$10,344 in New York City, and \$12,840 in Suffolk county, for a two bedroom apartment, and \$12,936 and \$17,856 for a three bedroom apartment, in the respective areas.

² Slightly less than 24% because food stamp benefits are rounded down to the whole dollar.

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The tables show that at the increased earnings levels, families' rent payments increase by as much as \$624 per year, for a single parent with one child, if she lives in New York City (Table 2A) to as little as \$59 per year if she lives in Suffolk county (Table 2B). For the family living in New York City, rent increases by 30% of increased earnings. For the family living in Suffolk county, rent increases by only 3% of increased earnings. The rent increase is less for the family living in Suffolk county than for the one living in New York City because the Suffolk county family had been paying higher rent at the \$5.15 per hour earnings level as a result of the TANF benefits it received. Loss of TANF benefits resulting from the earnings increase causes the Suffolk county family's rent to be the same as that of the New York City family, but because of the higher rent the family had been paying, the rent *increase* is less.

NET DISPOSABLE INCOME AFTER TAXES, TANF, FOOD STAMPS AND RENT

The examples show that although gross earnings would increase by \$2,080 dollars under the proposed minimum wage increase, net annual disposable income (after taxes, TANF, food stamps and rent) of families with one child would increase by as little as \$50 for a family with one child living in Suffolk county New York, and by as much as \$805 if the family lived in New York City. The increased social security taxes, reduced food stamps, and increased rent of the New York City family result in an implicit marginal tax of 61.3% on the family's gained earnings. For the Suffolk county family, who also loses TANF benefits at the higher earnings level, the implicit marginal tax rate rises to 97.6%.

MARGINAL EFFECTS OF A 25 CENT PER HOUR WAGE INCREASE FOR A WORKER EARNING THE PROPOSED \$6.15 PER HOUR MINIMUM WAGE

In addition to the comparisons of families with a worker earning the current and proposed minimum wage, you were interested in seeing the marginal effect on family income of a 25 cent per hour increase in wages for someone earning the proposed \$6.15 per hour minimum wage. Tables 1C through 6C are similar to Tables 1A through 6A but compare workers with full-time earnings at \$6.40 per hour with workers earning \$6.15 per hour. The tables show that marginal tax rates are higher over this narrower income range (\$520 annual difference) than in the series-A tables (\$2,080 annual difference).

As noted earlier, in 2000 the EITC is estimated to begin to phase out once family earnings reach \$12,940. Reductions in the EITC above this income range contribute to the higher marginal tax rates than those shown in the earlier tables. For example, families with one child lose \$59 in EITC over this earnings range (11.4% implicit marginal tax), and families with two children lose \$78 (15.1% implicit marginal tax).

Some families abruptly lose TANF benefits at the higher earnings level, which contributes to high implicit marginal tax rates. For example, the single parent with two children living in New York City (Table 5C) abruptly loses TANF benefits as a result of earnings exceeding the TANF gross income limit. The family loses \$ in TANF benefits, which exceeds the family's \$520 earnings gain. This results in a net implicit tax rate of over 100%. The family experiences a net income *loss* of \$414 after counting reductions in EITC, TANF, and increased social security taxes -- an implicit marginal tax rate of

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179.6% on the earnings gain. The family's food stamp benefits increase somewhat at the higher earnings level (\$120 per year) and rent declines slightly (\$89 per year). In the end, this family's net income, after rent, is \$204 *less* at the higher earnings level than what it was at the lower earnings level -- an implicit marginal tax of nearly 140%.

The sort of "income notches" shown above result from an abrupt loss in benefits that result from a small marginal increase in income. In this case, the "notch" is the result of the families' earnings exceeding the TANF gross income limit. Note that the relative size of the marginal tax rate is a function of both the magnitude in the change in income, and the income range over which the marginal change is being evaluated. Over narrow income ranges, marginal rates may change abruptly and appear large. For example, application of a gross income limit that results in an abrupt \$100 loss represents a 10000% marginal tax rate on the first dollar earned above the limit, a 100% marginal tax rate on the first \$100 and 10% marginal tax rate on the first \$1,000 above the limit. Consequently, marginal analysis is useful for identifying policy interactions, and incentives, but may be deceiving if applied over a narrow income range.

DISCUSSION

In your request you asked "have we created such an overlapping wage and benefit system that there are perverse disincentives to climb the wage ladder?" The answer to your question is not straightforward. Almost 80 federal programs provide cash or noncash aid to persons with limited income.³ These programs generally condition benefits on individual, family, or household income. Some programs, such as TANF, are state programs, funded in part by the federal government. Others, such as food stamps, are designed and funded by the federal government, but state administered. The various programs are designed to provide different types of aid, often to different groups: cash aid for low-income families with dependent children (e.g., TANF), cash aid to the disabled (e.g., Supplemental Security Income (SSI), tax relief and refundable tax credits to low-income working families (e.g., EITC), food assistance (e.g., food stamps), housing assistance, medical assistance (e.g., Medicaid), educational assistance, job training assistance, energy assistance, and other services, such as child care assistance, or legal assistance. Each program has its own history as well as its own constituencies.

Although most of these programs were created independently, most are only loosely integrated. Some programs are more tightly integrated than others. For example, Medicaid offers transitional coverage to adults for a period of 6 months, and at state option up to one year, for adults who lose cash assistance under TANF because of increased earnings. Viewed in isolation, a single program may appear to promote particular objectives, but those objectives may be diluted due to interactions with other programs and the market economy. At least three objectives are always in competition in the design of any income transfer program: promoting minimal levels of income adequacy, promoting financial work incentives, and controlling program costs. Pursuit of one of these goals

³ See CRS Report 98-226, *Cash and Noncash Benefits for Persons With Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY1994-FY1996*, by Vee Burke. Washington, 1997.

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necessarily entails sacrificing one or both of the others. Costs may be controlled by either lowering the basic guarantee (sacrificing adequacy) or by designing the benefit to phase out at a faster rate (sacrificing work incentives).

Under TANF, states are beginning to use a variety of administrative mechanisms in the attempt to promote personal responsibility and to promote work. Changes in welfare office culture, the use of work requirements, sanctions for noncompliance, and limits on the amount of time families may receive aid are being used in the effort to move persons receiving cash welfare assistance to work. Many states have liberalized their earnings disregards to encourage work. The effectiveness of combined use of financial "carrots" and administrative "sticks" to achieve competing program goals has yet to be assessed. States are indicating that greater shares of their caseload are engaged in work activity. Anecdotal accounts indicate that in some states, particularly those with low TANF benefit levels, some families may be leaving TANF to "bank" their time with the view that they have greater need for it in the future. In states with comparatively high benefit levels and generous earnings disregards, some families may be working full time at the minimum wage, yet remain on welfare. Without subsequent earnings increases, these families will eventually lose their welfare benefits when they reach the time limit.

The effectiveness of moving people off welfare and into work depends not only on the design and administration of welfare programs, but also on the state of the economy, as well as the structure of jobs in the economy. Gaps may exist between what the welfare system provides and what the market economy provides in the way of income and fringe benefits. For example, many among those without health insurance are working, but at jobs that provide no health insurance, or where the employer provides insurance, but the employee deems his share of the health insurance premium to be too high relative to his perceived risk of needing insurance. Extensions of Medicaid coverage to poor children, and transitional medicaid coverage for adults who lose TANF cash assistance due to increased earnings, may help promote the transition of families from welfare to work. At the same time, some analysts speculate that expansions of medicaid coverage have the potential for displacing private insurance, by lessening the need of lower wage paying employers to offer affordable health insurance.

These examples illustrate that some of the complexities associated with the current welfare system and the market economy. Policy reflects tradeoffs among a variety of goals: income adequacy, targeting benefits to those most in need (target efficiency), controlling cost, administrative efficiency, work incentives, equity according to income and across groups, government (federal and state) versus private (i.e., employer) roles, to name a few. Experts and lay persons disagree as to the optimal mix of these goals, or the precise effects that pursuit of one goal may have on another.

LIMITATIONS

I reiterate that the examples shown in this memorandum are "case examples." The families depicted in this memorandum may not reflect "typical" families that might be affected by an increase in the minimum wage. The estimates are "static" estimates, reflecting the assumptions specified, and do not account for any behavior changes, either on the part of individuals or employers.

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The examples shown in this memorandum indicate that for some families the direct net economic effects of a minimum wage increase on family income may be reduced significantly as a result of reduced welfare benefits and increased taxes which accompany increased family earnings. At the current and proposed minimum wage, families with a single full-time worker qualify for food stamp benefits and the maximum EITC. A portion of the wage increase would go to social security taxes. For these families, approximately 31% of the earnings increase would be offset by lost benefits and increased taxes. If the family is eligible for TANF benefits at the current minimum wage, the reduction or elimination of TANF assistance, in combination with reduced food stamps and increased social security taxes at the higher minimum wage results in an implicit marginal tax of about 67% for a single parent with two children living in California, to as much as 95% for a single parent with one child living in Suffolk county New York. For the minority of families likely to be living in public housing, increased rent payments associated with the earnings increase, in addition to other benefit reductions and increased taxes, can result in an implicit marginal tax of about 61% if the family did not receive TANF at the current minimum wage (e.g., single parent with one child in New York City (Table 2A)), to as much as 97% if they received TANF at the current minimum wage (e.g., single parent with one child living in Suffolk county New York (Table 3A)).

Note that although the net effect on family income is less than that indicated by the increased gross earnings resulting from the minimum wage increase, the families depicted at the increased minimum wage rate have higher net incomes and are less reliant on welfare than families at the current minimum wage rate. With the increased cash income, families would have greater discretion over their spending. However, for families living in publicly assisted housing, the effect of a minimum wage increase on net discretionary income would be less, as these families would be required to pay more in rent for no tangible return. Lastly, it should be noted that in the examples shown, the federal treasury would benefit by reduced welfare spending and increased tax revenue, as might states if families receiving TANF were to earn more.

It is not clear how an increase in the minimum wage might ultimately affect welfare dependency, employment, or the distribution of income in the economy. Moreover, it cannot be said with any confidence how a statutory change in the minimum wage rate might affect federal or state budgets. Initial effects of such a change might increase the earnings of workers holding minimum wage jobs and make minimum wage jobs more attractive to the jobless and/or persons on welfare. However, it is uncertain how employers might respond to increased labor costs. Some of the costs might be passed on to consumers in the form of higher prices of goods and services, having potential inflationary effects. In turn, some employers might substitute capital (i.e., machines, equipment) for labor, causing them to layoff some workers or hire fewer workers than they would have otherwise. Less costly foreign produced goods might also gain a stronger foothold in the U.S. market, and increased wages might attract low-wage foreign workers. Increased wages at the bottom of the wage distribution, without compensating increases in labor productivity, might also exert pressure for increased wages up the wage scale, as labor markets adjust to preserve (perceived) wage parity.

I hope you find this information useful. Please call me at 7-7357 if you have any further questions.

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

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$10,712	\$12,792	\$2,080	
EITC	\$2,400	\$2,400	\$0	0.0%
Cash income after federal income taxes	\$13,112	\$15,192	\$2,080	0.0%
Social security taxes (FICA and HI)	-\$819	-\$979	-\$159	-7.7%
Net income after taxes	\$12,293	\$14,214	\$1,921	-7.7%
TANF	\$1,466	\$426	-\$1,040	-50.0%
Net income after taxes and TANF	\$13,759	\$14,640	\$881	-57.7%
Food stamps	\$300	\$108	-\$192	-9.2%
Net income after taxes, TANF and food stamps	\$14,059	\$14,748	\$689	-66.9%
Rent (assisted housing)	-\$3,509	-\$3,821	-\$312	-15.0%
Net income after taxes, TANF, food stamps and rent	\$10,550	\$10,926	\$377	-81.9%

Source: Table prepared by the Congressional Research Service (CRS).

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

Table 2A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income for a Single Parent Family with 1 Child Living in New York City in 2000

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$10,712	\$12,792	\$2,080	
EITC	\$2,400	\$2,400	\$0	0.0%
Cash income after federal income taxes	\$13,112	\$15,192	\$2,080	0.0%
Social security taxes (FICA and HI)	-\$819	-\$979	-\$159	-7.7%
Net income after taxes	\$12,293	\$14,214	\$1,921	-7.7%
TANF	\$0	\$0	\$0	0.0%
Net income after taxes and TANF	\$12,293	\$14,214	\$1,921	-7.7%
Food stamps	\$732	\$240	-\$492	-23.7%
Net income after taxes, TANF and food stamps	\$13,025	\$14,454	\$1,429	-31.3%
Rent (assisted housing)	-\$3,070	-\$3,694	-\$624	-30.0%
Net income after taxes, TANF, food stamps and rent	\$9,955	\$10,760	\$805	-61.3%

Source: Table prepared by the Congressional Research Service (CRS).

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

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Table 3A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income for a Single Parent Family with 1 Child Living in Suffolk County New York in 2000

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$10,712	\$12,792	\$2,080	
EITC	\$2,400	\$2,400	\$0	0.0%
Cash income after federal income taxes	\$13,112	\$15,192	\$2,080	0.0%
Social security taxes (FICA and HI)	-\$819	-\$979	-\$159	-7.7%
Net income after taxes	\$12,293	\$14,214	\$1,921	-7.7%
TANF	\$1,884	\$0	-\$1,884	-90.6%
Net income after taxes and TANF	\$14,177	\$14,214	\$37	-98.2%
Food stamps	\$168	\$240	\$72	3.5%
Net income after taxes, TANF and food stamps	\$14,345	\$14,454	\$109	-94.8%
Rent (assisted housing)	-\$3,635	-\$3,694	-\$59	-2.8%
Net income after taxes, TANF, food stamps and rent	\$10,710	\$10,760	\$50	-97.6%

Source: Table prepared by the Congressional Research Service (CRS).

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

Table 3A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income for a Single Parent Family with 1 Child Living in Suffolk County New York in 2000

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$10,712	\$12,792	\$2,080	
EITC	\$2,400	\$2,400	\$0	0.0%
Cash income after federal income taxes	\$13,112	\$15,192	\$2,080	0.0%
Social security taxes (FICA and HI)	-\$819	-\$979	-\$159	-7.7%
Net income after taxes	\$12,293	\$14,214	\$1,921	-7.7%
TANF	\$1,884	\$0	-\$1,884	-90.6%
Net income after taxes and TANF	\$14,177	\$14,214	\$37	-98.2%
Food stamps	\$168	\$240	\$72	3.5%
Net income after taxes, TANF and food stamps	\$14,345	\$14,454	\$109	-94.8%
Rent (assisted housing)	-\$3,635	-\$3,694	-\$59	-2.8%
Net income after taxes, TANF, food stamps and rent	\$10,710	\$10,760	\$50	-97.6%

Source: Table prepared by the Congressional Research Service (CRS).

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

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Table 5A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income for a Single Parent Family with 2 Children Living in New York City in 2000

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$10,712	\$12,792	\$2,080	
EITC	\$3,964	\$3,964	\$0	0.0%
Cash income after federal income taxes	\$14,676	\$16,756	\$2,080	0.0%
Social security taxes (FICA and HI)	-\$819	-\$979	-\$159	-7.7%
Net income after taxes	\$13,857	\$15,777	\$1,921	-7.7%
TANF	\$1,896	\$816	-\$1,080	-51.9%
Net income after taxes and TANF	\$15,753	\$16,593	\$841	-59.6%
Food stamps	\$1,392	\$1,212	-\$180	-8.7%
Net income after taxes, TANF and food stamps	\$17,145	\$17,805	\$661	-68.2%
Rent (assisted housing)	-\$3,494	-\$3,794	-\$300	-14.4%
Net income after taxes, TANF, food stamps and rent	\$13,650	\$14,011	\$361	-82.7%

Source: Table prepared by the Congressional Research Service (CRS).

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

Table 6A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income for a Single Parent Family with 2 Children Living in Suffolk County New York in 2000

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$10,712	\$12,792	\$2,080	
EITC	\$3,964	\$3,964	\$0	0.0%
Cash income after federal income taxes	\$14,676	\$16,756	\$2,080	0.0%
Social security taxes (FICA and HI)	-\$819	-\$979	-\$159	-7.7%
Net income after taxes	\$13,857	\$15,777	\$1,921	-7.7%
TANF	\$3,408	\$2,328	-\$1,080	-51.9%
Net income after taxes and TANF	\$17,265	\$18,105	\$841	-59.6%
Food stamps	\$936	\$768	-\$168	-8.1%
Net income after taxes, TANF and food stamps	\$18,201	\$18,873	\$673	-67.6%
Rent (assisted housing)	-\$3,948	-\$4,248	-\$300	-14.4%
Net income after taxes, TANF, food stamps and rent	\$14,253	\$14,625	\$373	-82.1%

Source: Table prepared by the Congressional Research Service (CRS).

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

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**Table 1B. Selected Effects of Proposed Minimum Wage Increase on Net Hourly Income
for a Single Parent Family with 1 Child Living in California in 2000**

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.15	\$1.15	\$0.00	0.0%
Cash income after federal income taxes	\$6.30	\$7.30	\$1.00	0.0%
Social security taxes (FICA and HI)	-\$0.39	-\$0.47	-\$0.08	-7.7%
Net income after taxes	\$5.91	\$6.83	\$0.92	-7.7%
TANF	\$0.70	\$0.20	-\$0.50	-30.0%
Net income after taxes and TANF	\$6.61	\$7.04	\$0.42	-57.7%
Food stamps	\$0.14	\$0.05	-\$0.09	-9.2%
Net income after taxes, TANF and food stamps	\$6.76	\$7.09	\$0.33	-66.9%
Rent (assisted housing)	-\$1.69	-\$1.84	-\$0.15	-15.0%
Net income after taxes, TANF, food stamps and rent	\$5.07	\$5.25	\$0.18	-81.9%

Source: Table prepared by the Congressional Research Service (CRS).

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

**Table 2B. Selected Effects of Proposed Minimum Wage Increase on Net Hourly Income
for a Single Parent Family with 1 Child Living in New York City in 2000**

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.15	\$1.15	\$0.00	0.0%
Cash income after federal income taxes	\$6.30	\$7.30	\$1.00	0.0%
Social security taxes (FICA and HI)	-\$0.39	-\$0.47	-\$0.08	-7.7%
Net income after taxes	\$5.91	\$6.83	\$0.92	-7.7%
TANF	\$0.00	\$0.00	\$0.00	0.0%
Net income after taxes and TANF	\$5.91	\$6.83	\$0.92	-7.7%
Food stamps	\$0.35	\$0.12	-\$0.24	-23.7%
Net income after taxes, TANF and food stamps	\$6.26	\$6.95	\$0.69	-31.3%
Rent (assisted housing)	-\$1.48	-\$1.78	-\$0.30	-30.0%
Net income after taxes, TANF, food stamps and rent	\$4.79	\$5.17	\$0.39	-61.3%

Source: Table prepared by the Congressional Research Service (CRS).

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

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Table 3B. Selected Effects of Proposed Minimum Wage Increase on Net Hourly Income for a Single Parent Family with 1 Child Living in Suffolk County New York in 2000

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.15	\$1.15	\$0.00	0.0%
Cash income after federal income taxes	\$6.30	\$7.30	\$1.00	0.0%
Social security taxes (FICA and 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	\$0.02	-98.2%
Food stamps	\$0.08	\$0.12	\$0.03	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: Table prepared by the Congressional Research Service (CRS).

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

Table 4B. Selected Effects of Proposed Minimum Wage Increase on Net Hourly Income for a Single Parent Family with 2 Children Living in California in 2000

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.15	\$1.15	\$0.00	0.0%
Cash income after federal income taxes	\$6.30	\$7.30	\$1.00	0.0%
Social security taxes (FICA and 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	\$0.02	-98.2%
Food stamps	\$0.08	\$0.12	\$0.03	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: Table prepared by the Congressional Research Service (CRS).

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

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Table 5B. Selected Effects of Proposed Minimum Wage Increase on Net Hourly Income for a Single Parent Family with 2 Children Living in New York City in 2000

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.91	\$1.91	\$0.00	0.0%
Cash income after federal income taxes	\$7.06	\$8.06	\$1.00	0.0%
Social security taxes (FICA and HI)	-\$0.39	-\$0.47	-\$0.08	-7.7%
Net income after taxes	\$6.66	\$7.59	\$0.92	-7.7%
TANF	\$0.91	\$0.39	-\$0.52	-51.9%
Net income after taxes and TANF	\$7.57	\$7.98	\$0.40	-59.6%
Food stamps	\$0.67	\$0.58	-\$0.09	-8.7%
Net income after taxes, TANF and food stamps	\$8.24	\$8.56	\$0.32	-68.2%
Rent (assisted housing)	-\$1.68	-\$1.82	-\$0.14	-14.4%
Net income after taxes, TANF, food stamps and rent	\$6.56	\$6.74	\$0.17	-82.7%

Source: Table prepared by the Congressional Research Service (CRS).

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

Table 6B. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income for a Single Parent Family with 2 Children Living in Suffolk County New York in 2000

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.91	\$1.91	\$0.00	0.0%
Cash income after federal income taxes	\$7.06	\$8.06	\$1.00	0.0%
Social security taxes (FICA and HI)	-\$0.39	-\$0.47	-\$0.08	-7.7%
Net income after taxes	\$6.66	\$7.59	\$0.92	-7.7%
TANF	\$1.64	\$1.12	-\$0.52	-51.9%
Net income after taxes and TANF	\$8.30	\$8.70	\$0.40	-59.6%
Food stamps	\$0.45	\$0.37	-\$0.08	-8.1%
Net income after taxes, TANF and food stamps	\$8.75	\$9.07	\$0.32	-67.6%
Rent (assisted housing)	-\$1.90	-\$2.04	-\$0.14	-14.4%
Net income after taxes, TANF, food stamps and rent	\$6.85	\$7.03	\$0.18	-82.1%

Source: Table prepared by the Congressional Research Service (CRS).

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

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**Table 1C. Selected Effects of a 25 Cent Per Hour Wage Increase on Annual Family Income
for a Worker Earning the Proposed Minimum Wage
Single Parent Family with 1 Child Living in California in 2000**

	Proposed minimum wage		Difference (\$6.40 per hour compared to	Implicit marginal tax rate on increased earnings
	\$6.15 per hour	Wage of \$6.40 per hour		
Earnings	\$12,792	\$13,312	\$520	
EITC	\$2,400	\$2,341	-\$59	-11.4%
Cash income after federal income taxes	\$15,192	\$15,653	\$461	-11.4%
Social security taxes (FICA and HI)	-\$979	-\$1,018	-\$40	-7.6%
Net income after taxes	\$14,214	\$14,635	\$421	-19.1%
TANF	\$426	\$166	-\$260	-50.0%
Net income after taxes and TANF	\$14,640	\$14,801	\$161	-69.1%
Food stamps	\$108	\$60	-\$48	-9.2%
Net income after taxes, TANF and food stamps	\$14,748	\$14,861	\$113	-78.3%
Rent (assisted housing)	-\$3,821	-\$3,899	-\$78	-15.0%
Net income after taxes, TANF, food stamps and rent	\$10,926	\$10,961	\$35	-93.3%

Source: Table prepared by the Congressional Research Service (CRS).

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

**Table 2C. Selected Effects of a 25 Cent Per Hour Wage Increase on Annual Family Income
for a Worker Earning the Proposed Minimum Wage
Single Parent Family with 1 Child Living in New York City in 2000**

	Proposed minimum wage		Difference (\$6.40 per hour compared to	Implicit marginal tax rate on increased earnings
	\$6.15 per hour	Wage of \$6.40 per hour		
Earnings	\$12,792	\$13,312	\$520	
EITC	\$2,400	\$2,341	-\$59	-11.4%
Cash income after federal income taxes	\$15,192	\$15,653	\$461	-11.4%
Social security taxes (FICA and HI)	-\$979	-\$1,018	-\$40	-7.6%
Net income after taxes	\$14,214	\$14,635	\$421	-19.1%
TANF	\$0	\$0	\$0	0.0%
Net income after taxes and TANF	\$14,214	\$14,635	\$421	-19.1%
Food stamps	\$240	\$108	-\$132	-25.4%
Net income after taxes, TANF and food stamps	\$14,454	\$14,743	\$289	-44.5%
Rent (assisted housing)	-\$3,694	-\$3,850	-\$156	-30.0%
Net income after taxes, TANF, food stamps and rent	\$10,760	\$10,893	\$133	-74.5%

Source: Table prepared by the Congressional Research Service (CRS).

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

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**Table 3C. Selected Effects of a 25 Cent Per Hour Wage Increase on Annual Family Income
for a Worker Earning the Proposed Minimum Wage
Single Parent Family with 1 Child Living in Suffolk County New York in 2000**

	Proposed minimum wage		Difference (\$6.40 per hour compared to	Implicit marginal tax rate on increased earnings
	\$6.15 per hour	Wage of \$6.40 per hour		
Earnings	\$12,792	\$13,312	\$520	
EITC	\$2,400	\$2,341	-\$59	-11.4%
Cash income after federal income taxes	\$15,192	\$15,653	\$461	-11.4%
Social security taxes (FICA and HI)	-\$979	-\$1,018	-\$40	-7.6%
Net income after taxes	\$14,214	\$14,635	\$421	-19.1%
TANF	\$0	\$0	\$0	0.0%
Net income after taxes and TANF	\$14,214	\$14,635	\$421	-19.1%
Food stamps	\$240	\$108	-\$132	-25.4%
Net income after taxes, TANF and food stamps	\$14,454	\$14,743	\$289	-44.5%
Rent (assisted housing)	-\$3,694	-\$3,850	-\$156	-30.0%
Net income after taxes, TANF, food stamps and rent	\$10,760	\$10,893	\$133	-74.5%

Source: Table prepared by the Congressional Research Service (CRS).

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

**Table 4C. Selected Effects of a 25 Cent Per Hour Wage Increase on Annual Family Income
for a Worker Earning the Proposed Minimum Wage
Single Parent Family with 2 Children Living in California in 2000**

	Proposed minimum wage		Difference (\$6.40 per hour compared to	Implicit marginal tax rate on increased earnings
	\$6.15 per hour	Wage of \$6.40 per hour		
Earnings	\$12,792	\$13,312	\$520	
EITC	\$3,964	\$3,886	-\$78	-15.1%
Cash income after federal income taxes	\$16,756	\$17,198	\$442	-15.1%
Social security taxes (FICA and HI)	-\$979	-\$1,018	-\$40	-7.6%
Net income after taxes	\$15,777	\$16,179	\$402	-22.7%
TANF	\$1,734	\$1,474	-\$260	-50.0%
Net income after taxes and TANF	\$17,511	\$17,653	\$142	-72.7%
Food stamps	\$948	\$900	-\$48	-9.2%
Net income after taxes, TANF and food stamps	\$18,459	\$18,553	\$94	-81.9%
Rent (assisted housing)	-\$4,070	-\$4,148	-\$78	-15.0%
Net income after taxes, TANF, food stamps and rent	\$14,390	\$14,405	\$16	-96.9%

Source: Table prepared by the Congressional Research Service (CRS).

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

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**Table 5C. Selected Effects of a 25 Cent Per Hour Wage Increase on Annual Family Income
for a Worker Earning the Proposed Minimum Wage
Single Parent Family with 2 Children Living in New York City in 2000**

	Proposed minimum wage	Wage of \$6.40 per hour	Difference (\$6.40 per hour compared to	Implicit marginal tax rate on increased earnings
	\$6.15 per hour			
Earnings	\$12,792	\$13,312	\$520	
ETC	\$3,964	\$3,886	-\$78	-15.1%
Cash income after federal income taxes	\$16,756	\$17,198	\$442	-15.1%
Social security taxes (FICA and HI)	-\$979	-\$1,018	-\$40	-7.6%
Net income after taxes	\$15,777	\$16,179	\$402	-22.7%
TANF	\$816	\$0	-\$816	-156.9%
Net income after taxes and TANF	\$16,593	\$16,179	-\$414	-179.6%
Food stamps	\$1,212	\$1,332	\$120	23.1%
Net income after taxes, TANF and food stamps	\$17,805	\$17,511	-\$294	-156.6%
Rent (assisted housing)	-\$3,794	-\$3,706	\$89	17.1%
Net income after taxes, TANF, food stamps and rent	\$14,011	\$13,806	-\$205	-139.5%

Source: Table prepared by the Congressional Research Service (CRS).

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

**Table 6C. Selected Effects of a 25 Cent Per Hour Wage Increase on Annual Family Income
for a Worker Earning the Proposed Minimum Wage
Single Parent Family with 2 Children Living in Suffolk County New York in 2000**

	Proposed minimum wage	Wage of \$6.40 per hour	Difference (\$6.40 per hour compared to	Implicit marginal tax rate on increased earnings
	\$6.15 per hour			
Earnings	\$12,792	\$13,312	\$520	
ETC	\$3,964	\$3,886	-\$78	-15.1%
Cash income after federal income taxes	\$16,756	\$17,198	\$442	-15.1%
Social security taxes (FICA and HI)	-\$979	-\$1,018	-\$40	-7.6%
Net income after taxes	\$15,777	\$16,179	\$402	-22.7%
TANF	\$2,328	\$2,052	-\$276	-53.1%
Net income after taxes and TANF	\$18,105	\$18,231	\$126	-75.8%
Food stamps	\$768	\$720	-\$48	-9.2%
Net income after taxes, TANF and food stamps	\$18,873	\$18,951	\$78	-85.0%
Rent (assisted housing)	-\$4,248	-\$4,321	-\$73	-14.1%
Net income after taxes, TANF, food stamps and rent	\$14,625	\$14,630	\$5	-99.1%

Source: Table prepared by the Congressional Research Service (CRS).

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



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March 11, 1998

TO : Office of the House Majority Whip
Attention: Tony Rudy

FROM : Thomas Gabe
Specialist in Social Legislation
Education and Public Welfare Division

SUBJECT : Case Examples of Effects of a Proposed Increase in the Minimum Wage on Family Income

This memorandum responds to your March 2, 1998 letter to the Director of the Congressional Research Service (CRS), Mr. Daniel Mulhollan, requesting an analysis of the effects of President Clinton's proposed increase to the minimum wage on family disposable income. You wished to see the effect on family disposable income that might result for families earning the current minimum wage of \$5.15 per hour, as compared to families earning \$6.15 per hour under the President's minimum wage proposal. Further, you wished to see the effects of increased family earnings on: federal income taxes, including the Earned Income Tax Credit (EITC), Social Security (FICA and HI) taxes, food stamps, and publically assisted housing. You were also interested in seeing any effects increased earnings might have on families' state income tax liability. In addition, you were interested in the effects increased earnings might have on families cash welfare benefits under the new Temporary Assistance for Needy Families (TANF) program, which replaced state's Aid to Families with Dependent Children (AFDC) programs under the 1996 welfare law, the Personal Responsibility and Work Reconciliation Act of 1996 (P.L. 104-193).

As we discussed over the telephone, we are unable at this time to provide an analysis of the effects of a minimum wage increase on families' state income tax liability. Additionally, as discussed, we are unable at this time to provide an analysis of the effects cash welfare benefits families might receive under TANF. States have made major changes to their cash welfare programs under TANF. Included among these changes are the imposition of time limits on the duration in which families may receive cash assistance, and, in many states, changes in the ways in which cash welfare benefits are computed (e.g., changes in earned income disregards). States began implementing these and other changes to their cash welfare programs at various times during FY1997. We have completed a review of state's TANF plans. We are in the process of surveying states, and reviewing state documents in addition to their TANF plans (e.g., state laws, state regulations, state public assistance manuals) to determine the content and structure of state's welfare programs under the new law. At this time, we are not yet able to calculate states' TANF benefits. From a cursory review of the information we have at hand, it appears that in the

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majority of states, a single parent with one child working full-time at the current minimum wage of \$5.15 per hour would be ineligible for cash assistance under TANF.

The following tables provide estimates of annual family income for various types of families with a full-time worker earning \$5.15 per hour (the current minimum wage), compared to families with a full-time worker earning \$6.15 per hour (the President's proposed minimum wage). In addition to earnings, the tables show the EITC, food stamp benefits, and social security (FICA) taxes. None of the families in the examples shown have income sufficient to incur a federal income tax liability. In addition, the tables estimate families' rent if they were to live in assisted (e.g., public) housing. Tables 1A through 4A provide estimates of families' annual income, benefits, and taxes, and assisted-housing rent, in 1998, for single-parent and married-couple families with one and two children. As you requested, an additional set of tables is provided (Tables 1B through 4B) which show income and benefits on an hourly basis. The following discussion focuses primarily on the annual income estimates that correspond to the series-A tables.

Gross Earnings

Tables 1A through 4A show families with a single full-time worker earning \$5.15 per hour would have annual gross earnings of \$10,712 per year (assuming 40 hours of work over 52 weeks). At the \$6.15 per hour wage rate, families' gross annual earnings would increase by \$2,080, to \$12,792 per year. As a point of reference, in 1997 the official income poverty thresholds for the various family types shown in the tables are: \$11,021 for a single parent with one child, \$12,931 for a single parent with two children, \$12,919 for a married couple with one child, and \$16,276 for a married couple with four children.

Earned Income Tax Credit

In all of the examples shown in this memorandum, families would be eligible for the EITC at their specified earnings level. The EITC provides tax relief to low-income working families with children. In addition to reducing the tax liability of low-income families, the EITC provides a *refundable* federal tax credit that is payable to tax filers with no tax liability. Unlike traditional "welfare" benefits, which are largest for families with no outside income, and are reduced as earnings or other income increases, the EITC provides a "bonus" for work.

The EITC can provide a work bonus of as much as 34% of creditable earnings for a family with one child, and as much as 40% of creditable earnings for families with two or more children. In 1998, the maximum creditable earnings to which the EITC applies is \$6,680 for families with one child and \$9,390 for families with two or more children, resulting in a maximum EITC of \$2,271 for families with one child ($.34 \times \$6,680$), and \$3,756 for families with two or more children ($.40 \times \$9,390$). Families are eligible to receive the maximum credit if their earnings range between \$6,680 and \$12,260, for a family with one child, or between \$9,390 and \$12,260, for families with two or more children. The EITC begins to phase out for families with children who have earnings above \$12,260. For families with incomes above this level, the EITC phases out at a rate of

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15.98 cents per additional dollar in earnings for families with one child, and at a rate of 21.06 cents for families with two or more children.

In all of the examples shown in these tables, families earning the current \$5.15 per hour minimum wage would receive the maximum EITC (\$2,271 for families with one child, and \$3,756 for families with two or more children). Families earning the proposed \$6.15 per hour minimum wage have annual earnings of \$12,792, which places them in the EITC phase out range. Families with one child would lose \$85 in EITC, or 4.1% of the earnings gain resulting from the minimum wage increase; families with two or more children would lose \$112, or 5.4% of the earnings gain.

Food Stamps

All of the families shown in this memorandum would be eligible for federal food stamp benefits. Food stamp benefits are those that would apply in FY98. The annualized food stamp benefits shown in the tables do not reflect benefit increases scheduled for this October that will reflect food-price and general inflation in the economy. The food stamp amounts shown here are for the 48 contiguous states and the District of Columbia. Food stamp amounts for Alaska and Hawaii would be higher.

Food stamp benefits vary by household size. Food stamp benefits are calculated by first subtracting certain deductions from a household's gross monthly income to determine "countable income." In these examples, households' incomes consist solely of earnings. Food stamp program rules allow a \$134 per month standard deduction, plus a 20% earnings disregard. Families with child care expenses, or high shelter expenses may claim additional deductions. As you requested, the examples shown here are for families with no child care expenses. Also, none of the families have excess shelter expenses. Food stamp benefits are calculated by subtracting 30% of countable income (earnings less deductions) from the maximum food stamp benefit for a household of the specified size.

The tables show that annual food stamp benefits for families with a full-time worker earning \$5.15 per hour range from \$588, for a single parent family with one child (Table 1A), to \$2,796 for a married couple with two children (Table 4A). For a single parent family with one child, annual food stamp benefits would be reduced from \$588 per year, under current minimum wage earnings of \$5.15 per hour, to just \$96 per year, at the higher \$6.15 per hour earnings level -- a loss of \$492 in annual food stamp benefits (Table 1A). The table shows that 23.7% of the earnings gain attributable to the increase in the minimum wage is offset by the loss in food stamp benefits.

Social Security Taxes

The estimates shown in the tables include the effects of the employee share of social security taxes. The social security tax rate on workers in these examples is 7.65% of wages (FICA and HI taxes). Full-time workers would owe an additional \$159 per year at the higher \$6.15 per hour wage rate.

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Net Income After Taxes and Food Stamps

The tables show the net effect of after-tax income and food stamp benefits at the increased wage level. The examples show that lost benefits (EITC and food stamps) and increased social security taxes offset some of the earnings gains of families earning \$6.15 per hour, compared to families earning \$5.15 per hour. Table 1A shows, for example, that for a single parent with one child, the gross annual earnings gain of \$2,080 results in a net annual income gain of \$1,344. The reductions in benefits and increased social security taxes amount to an implicit tax rate of 35.4% on the earnings gain resulting from the wage rate increase.

Assisted Housing

In addition to the above mentioned benefits and taxes, you were interested in seeing the effects increased earnings might have on the rent families who live in federally assisted housing pay. *Note that less than one-fifth of poor persons live in federally assisted housing; consequently, the examples that follow are not what most families with a single minimum wage worker would typically face.*

Households in subsidized housing generally pay rent equal to 30% of their income, after deductions. The federal government pays the remainder. Consequently, under federally assisted housing, rent increases as household income increases.

The estimates shown in this memorandum are based on CRS estimates of median Fair Market Rent (FMR) for the nation, in FY1998. The estimates shown in the tables assume a household with one child rents a 2-bedroom apartment, and that a household with two children rents a 3-bedroom apartment. CRS estimates the annual median Fair Market Rent in FY1998 to be \$7,044 for a 2-bedroom apartment, and \$9,276 for a 3-bedroom apartment. Based on these median annual Fair Market Rents and assumed deductions,¹ families with one child with a full-time worker earning the current minimum wage of \$5.15 per hour, would pay \$2,926 in rent annually, and the federal government would pay \$4,118; families with two children would pay \$3,550 in rent, and the federal government would pay \$5,726. Families with a full-time worker whose wage increased from \$5.15 per hour to \$6.15 per hour would see their annual rent increase by \$624 -- 30% of annual earnings increase

Net Disposable Income After Taxes, Food Stamps, and Rent

The examples show that although gross earnings would increase by \$2,080 dollars under the proposed minimum wage increase, net annual disposable income (after taxes, food stamps and rent) of families with one child would increase by \$720, and by only \$693 for families with two children. Benefit reductions and increased social security taxes result in an implicit tax of 65.4% for families with 1 child, and 66.7% for families with two

¹ The examples shown in this memorandum assume a standard deduction of \$480 per year for each household member, other than the head or spouse, who is under the age of 18. Households would also be able to deduct child care expenses from their countable income, but none are assumed here.

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children, on the increased earnings that would result from the proposed minimum wage increase.

Limitations

I reiterate that the examples shown in this memorandum are "case examples." The families depicted in this memorandum may not reflect "typical" families that might be affected by an increase in the minimum wage. The estimates are "static" estimates, reflecting the assumptions specified, and do not account for any behavior changes, either on the part of individuals or employers.

The examples shown in this memorandum indicate that for some families the direct net economic effects of a minimum wage increase on family income may be reduced significantly as a result of reduced welfare benefits and increased taxes which accompany increased family earnings. At the current minimum wage, families with a single full-time worker qualify for food stamp benefits and the EITC. In the examples shown, these families would continue to be eligible for these benefits at the higher minimum wage rate, but the benefits they would receive would be less. In addition, a portion of the wage increase would go to social security taxes. For these families, approximately 35% to 37% of the earnings increase would be offset by lost benefits or increased taxes. For the minority of families likely to be living in public housing, approximately 65% to 67% of the earnings increase would be offset by lost benefits (including increased rent) and increased taxes. Note that although the net effect on family income is less than that indicated by the increased gross earnings resulting from the minimum wage increase, the families depicted at the increased wage rate have higher net incomes and are less reliant on welfare than families at the current minimum wage rate. With the increased cash income, families would have greater discretion over their spending. However, for families living in publically assisted housing, the effect of a minimum wage increase on net discretionary income would be less, as these families would be required to pay more in rent for no tangible return. Lastly, it should be noted that in the examples shown, the federal treasury would benefit by reduced welfare spending and increased tax revenue.

It is not clear how an increase in the minimum wage might ultimately affect welfare dependency, employment, or the distribution of income in the economy. Moreover, it cannot be said with any confidence how a statutory change in the minimum wage rate might affect federal or state budgets. Initial effects of such a change might increase the earnings of workers holding minimum wage jobs and make minimum wage jobs more attractive to the jobless and/or persons on welfare. However, it is uncertain how employers might respond to increased labor costs. Some of the costs might be passed on to consumers in the form of higher prices of goods and services, having potential inflationary effects. In turn, some employers might substitute capital (i.e., machines, equipment) for labor, causing them to layoff some workers or hire fewer workers than they would have otherwise. Less costly foreign produced goods might also gain a stronger foothold in the U.S. market, and increased wages might attract low-wage foreign workers. Increased wages at the bottom of the wage distribution, without compensating increases in labor productivity, might also exert pressure for increased wages up the wage scale, as labor markets adjust to preserve (perceived) wage parity.

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I hope you find this information useful. Please call me at 7-7357 if you have any further questions.

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Table 1A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income for a Single Parent Family with 1 Child: 1998

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$10,712	\$12,792	\$2,080	
ETC	\$2,271	\$2,186	-\$85	-4.1%
Cash income after federal income taxes	\$12,983	\$14,978	\$1,995	-4.1%
Food stamps	\$588	\$96	-\$492	-23.7%
Total income including food stamps	\$13,571	\$15,074	\$1,503	-27.7%
Social security taxes (FICA and HI)	-\$819	-\$979	-\$159	-7.7%
Net income after taxes and food stamps	\$12,752	\$14,096	\$1,344	-35.4%
Rent (assisted housing)	-\$3,070	-\$3,694	-\$624	-30.0%
Net income after taxes, food stamps and rent	\$9,682	\$10,402	\$720	-65.4%

Source: Table prepared by the Congressional Research Service (CRS).

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

Table 2A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income for a Single Parent Family with 2 Children: 1998

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$10,712	\$12,792	\$2,080	
ETC	\$3,756	\$3,644	-\$112	-5.4%
Cash income after federal income taxes	\$14,468	\$16,436	\$1,968	-5.4%
Food stamps	\$1,752	\$1,260	-\$492	-23.7%
Total income including food stamps	\$16,220	\$17,696	\$1,476	-29.0%
Social security taxes (FICA and HI)	-\$819	-\$979	-\$159	-7.7%
Net income after taxes and food stamps	\$15,401	\$16,717	\$1,317	-36.7%
Rent (assisted housing)	-\$2,926	-\$3,550	-\$624	-30.0%
Net income after taxes, food stamps and rent	\$12,475	\$13,168	\$693	-66.7%

Source: Table prepared by the Congressional Research Service (CRS).

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

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Table 3A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income for a Married Couple Family with 1 Child: 1998

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$10,712	\$12,792	\$2,080	
EITC	\$2,271	\$2,186	-\$85	-4.1%
Cash income after federal income taxes	\$12,983	\$14,978	\$1,995	-4.1%
Food stamps	\$1,752	\$1,260	-\$492	-23.7%
Total income including food stamps	\$14,735	\$16,238	\$1,503	-27.7%
Social security taxes (FICA and HI)	-\$819	-\$979	-\$159	-7.7%
Net income after taxes and food stamps	\$13,916	\$15,260	\$1,344	-35.4%
Rent (assisted housing)	-\$3,070	-\$3,694	-\$624	-30.0%
Net income after taxes, food stamps and rent	\$10,846	\$11,566	\$720	-65.4%

Source: Table prepared by the Congressional Research Service (CRS).

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

Table 4A. Selected Effects of Proposed Minimum Wage Increase on Annual Family Income for a Married-Couple Family with 2 Children: 1998

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$10,712	\$12,792	\$2,080	
EITC	\$3,756	\$3,644	-\$112	-5.4%
Cash income after federal income taxes	\$14,468	\$16,436	\$1,968	-5.4%
Food stamps	\$2,796	\$2,304	-\$492	-23.7%
Total income including food stamps	\$17,264	\$18,740	\$1,476	-29.0%
Social security taxes (FICA and HI)	-\$819	-\$979	-\$159	-7.7%
Net income after taxes and food stamps	\$16,445	\$17,761	\$1,317	-36.7%
Rent (assisted housing)	-\$2,926	-\$3,550	-\$624	-30.0%
Net income after taxes, food stamps and rent	\$13,519	\$14,212	\$693	-66.7%

Source: Table prepared by the Congressional Research Service (CRS).

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

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**Table 1B. Selected Effects of Proposed Minimum Wage Increase on Net Hourly Income
for a Single Parent Family with 1 Child: 1998**

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.09	\$1.05	-\$0.04	-4.1%
Cash income after federal income taxes	\$6.24	\$7.20	\$0.96	-4.1%
Food stamps	\$0.28	\$0.05	-\$0.24	-23.7%
Total income including food stamps	\$6.52	\$7.25	\$0.72	-27.7%
Social security taxes (FICA and HI)	-\$0.39	-\$0.47	-\$0.08	-7.7%
Net income after taxes and food stamps	\$6.13	\$6.78	\$0.65	-35.4%
Rent (assisted housing)	-\$1.48	-\$1.78	-\$0.30	-30.0%
Net income after taxes, food stamps and rent	\$4.65	\$5.00	\$0.35	-65.4%

Source: Table prepared by the Congressional Research Service (CRS).

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

**Table 2B. Selected Effects of Proposed Minimum Wage Increase on Net Hourly Income
for a Single Parent Family with 2 Children: 1998**

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.81	\$1.75	-\$0.05	-5.4%
Cash income after federal income taxes	\$6.96	\$7.90	\$0.95	-5.4%
Food stamps	\$0.84	\$0.61	-\$0.24	-23.7%
Total income including food stamps	\$7.80	\$8.51	\$0.71	-29.0%
Social security taxes (FICA and HI)	-\$0.39	-\$0.47	-\$0.08	-7.7%
Net income after taxes and food stamps	\$7.40	\$8.04	\$0.63	-36.7%
Rent (assisted housing)	-\$1.41	-\$1.71	-\$0.30	-30.0%
Net income after taxes, food stamps and rent	\$6.00	\$6.33	\$0.33	-66.7%

Source: Table prepared by the Congressional Research Service (CRS).

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

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**Table 3B. Selected Effects of Proposed Minimum Wage Increase on Net Hourly Income
for a Married Couple Family with 1 Child: 1998**

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.09	\$1.05	-\$0.04	-4.1%
Cash income after federal income taxes	\$6.24	\$7.20	\$0.96	-4.1%
Food stamps	\$0.84	\$0.61	-\$0.24	-23.7%
Total income including food stamps	\$7.08	\$7.81	\$0.72	-27.7%
Social security taxes (FICA and HI)	-\$0.39	-\$0.47	-\$0.08	-7.7%
Net income after taxes and food stamps	\$6.69	\$7.34	\$0.65	-35.4%
Rent (assisted housing)	-\$1.48	-\$1.78	-\$0.30	-30.0%
Net income after taxes, food stamps and rent	\$5.21	\$5.56	\$0.35	-65.4%

Source: Table prepared by the Congressional Research Service (CRS).

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

**Table 4B. Selected Effects of Proposed Minimum Wage Increase on Net Hourly Income
for a Married-Couple Family with 2 Children: 1998**

	Current minimum wage	Proposed minimum wage		Implicit marginal tax rate on increased earnings
	\$5.15 per hour	\$6.15 per hour	Difference	
Earnings	\$5.15	\$6.15	\$1.00	
EITC	\$1.81	\$1.75	-\$0.05	-5.4%
Cash income after federal income taxes	\$6.96	\$7.90	\$0.95	-5.4%
Food stamps	\$1.34	\$1.11	-\$0.24	-23.7%
Total income including food stamps	\$8.30	\$9.01	\$0.71	-29.0%
Social security taxes (FICA and HI)	-\$0.39	-\$0.47	-\$0.08	-7.7%
Net income after taxes and food stamps	\$7.91	\$8.54	\$0.63	-36.7%
Rent (assisted housing)	-\$1.41	-\$1.71	-\$0.30	-30.0%
Net income after taxes, food stamps and rent	\$6.50	\$6.83	\$0.33	-66.7%

Source: Table prepared by the Congressional Research Service (CRS).

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