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Minimum Wage 8/31/00 [1]

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Congress of the United States
Washington, DC 20515

President William Jefferson Clinton
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

4/1 Hack

Dear Mr. President:

Under current law, "inside" or "digital" sales employees are subject to overtime requirements of the Fair Labor Standards Act while "outside" or traditional sales employees are exempt. As you know, the bipartisan *Sales Incentive Compensation Act (H.R. 3846,)* is now part of the Minimum Wage package. This bill includes a provision that would provide a narrow exemption for "inside" sales employees who are engaged in electronic commerce. We strongly support the inclusion of this provision in the final Minimum Wage package.

We are asking for the change in the FLSA because the current wage and hour law creates a disparity between "outside" sales employees, who travel to the customer's place of business, and "inside" sales employees, who use the internet, the fax or telephone to sell directly to existing customers. Under the FLSA, an "inside" sales employee is classified as "non-exempt" and must be paid an *hourly* wage, with overtime pay for work over 40 hours per week. The traditional "outside" sales employee, however, is classified as "exempt" and enjoys both flexibility in work schedule and enhanced earnings potential as a *salaried* worker. As a result of this disparity in treatment, current "inside" employees and new hires believe they are at a competitive disadvantage because they lack the prospects of enhanced compensation, based on sales/performance and customer service objectives, and the career/professional development opportunities of the traditional outside sales employees.

As companies in this country have had to change the way they do business to compete in today's global e-business market place, they have also had to change the way they sell their products. To meet the needs of their customers today, high tech businesses employ two sales forces — "inside" sales employees, who can sell the company's entire product line directly to customers via the Internet, the telephone or the fax, and traditional outside sales employees. We need to correct the disparity between the two sales forces by enacting legislation that will modernize the federal wage and hour law to bring it in line with today's work force needs.

For these reasons, we urge you to support the "inside" sales provision and ensure that it remains in the final package.

Sincerely,

Cal Dooley — David Price

Ellen Tauscher — Tim Roemer

Jim Davis — [signature]

Lynn N. Rivers

Charlie Stenholm

Jim Moran

FROM THE OFFICE OF

CONGRESSMAN

CAL DOOLEY

1201 Longworth House Office Building • Washington, DC 20515 • (202) 225-3341 • Fax: (202) 225-9308

Date: 9-28-00

To: Chuck Brain

Fax #: 456-6220

From:

Cal Dooley	Diane Pate	Gina Mahony
Lisa Quigley	Michelle Bright	Brandon Avila
Lori Denham	Connie Lausten	Nancy Crose
Adam Kovacevich	Jim Travis	

Message:

cc: Courtney

Pages: 2 Pages To Follow

If there are any problems in transmittal, please call (202) 225-3341

Congress of the United States
Washington, DC 20515

September 26, 2000

The Honorable William J. Clinton
The White House
Washington, DC 20502

Dear Mr. President,

We applaud all of your efforts to fight for a $1 increase in the minimum wage before we adjourn this session of Congress.

Thanks to your leadership, our nation is enjoying an unprecedented period of prosperity, and we are now in the longest period of economic growth in our nation's history. But for the more than 10 million Americans struggling to get by on the minimum wage, we cannot act too soon.

We welcome Speaker Hastert's support for a $1 increase in the minimum wage which we have long advocated. Together with your staff, we have begun bipartisan discussions on this critical issue. But certain aspects of the Speaker's proposal cause us deep concern, and we wanted to share our thoughts with you.

First, it is not fair to raise the minimum wage, while at the same time taking away overtime protections for millions of hard-working Americans. Yet the Speaker's proposal would do just that. At a time when the productivity of the American work force is at an all-time high and workers are putting in more hours than at any other time in recent history, we cannot support any proposal that deprives American workers of their overtime and minimum wage protections.

Second, it is time to strengthen the federal tip credit, not weaken it. We cannot support any proposal to strip states of the power to raise their guaranteed base wage for tipped employees above the current federal level. In fact, federal tip wages have not been increased since 1991. It is time to raise the federal floor for tipped employees which is now frozen at $2.13 an hour.

Third, it is time to insure that workers in the Commonwealth of the Northern Mariana Islands are paid the full federal minimum wage. The Commonwealth has been a territory of the United States since 1986, and has had plenty of time to bring its wage laws into compliance with federal standards.

Fourth, while there is bipartisan agreement on many of the Speaker's tax proposals, we are concerned that the overall size of the tax package is nearly four times greater than the one that accompanied the 1996 minimum wage increase. We have grave policy concerns about the above-the-line health deduction, and believe it could discourage employers from providing health coverage for their workers. We support repeal of the 0.2% FUTA surtax, but only if it is coupled with unemployment insurance reform. Overall, we believe the tax package should focus on assisting small businesses which often employ minimum wage workers. We would also like a clearer understanding of how this tax proposal fits in with the Speaker's commitment to devote 90% of the surplus to paying down the debt.

Mr. President, we stand ready to work with you in accomplishing the important goal of raising the minimum wage. We look forward to continued discussions with you and with the Speaker so that we can resolve this matter as quickly as possible.

Sincerely,

Dick Gephardt
Richard Gephardt

Tom Daschle
Tom Daschle

David E. Bonior
David Bonior

Edward M Kennedy
Edward Kennedy

Bill Clay
William Clay

Harry Reid
Harry Reid

Charles B. Rangel
Charles Rangel

Daniel Patrick Moynihan

Congress of the United States
Washington, DC 20515

September 26, 2000

The Honorable J. Dennis Hastert
Speaker of the House
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker,

As long-standing advocates of an increase in the minimum wage, we applaud your recent offer to support a $1 increase before we adjourn this session of Congress.

We believe it is imperative that the more than 10 million workers who earn the minimum wage receive an increase as soon as possible. Our country is enjoying an unprecedented period of prosperity, and we are now in the longest period of economic growth in our nation's history. But for the millions of Americans struggling to get by on the minimum wage, we cannot act too soon.

We are pleased that discussions have begun, but certain aspects of your proposal cause us deep concern.

First, it is not fair to raise the minimum wage, while at the same time taking away overtime protections for millions of hard-working Americans. Your proposal would do just that. At a time when the productivity of the American work force is at an all-time high and workers are putting in more hours than at any other time in recent history, we cannot support any proposal that deprives American workers of their overtime and minimum wage protections.

Second, it is time to strengthen the federal tip credit, not weaken it. We cannot support your proposal to strip states of the power to raise their guaranteed base wage for tipped employees above the current federal level. In fact, federal tip wages have not been increased since 1991. It is time to raise the federal floor for tipped employees which is now frozen at $2.13 an hour.

MINIMUM WAGE BRIEFING PACKET

November 1, 1999

Office of the Democratic Whip
David E. Bonior

THE CASE FOR INCREASING THE MINIMUM WAGE

1) The Democratic Substitute would increase the minimum wage by $.50 an hour in January, 2000 and by another $.50 in 2001. The current minimum wage is $5.15 an hour. Eight states and the District of Columbia already pay a higher minimum wage than the federal requirement.

2) The American people overwhelmingly support an increase in the minimum wage. An October 1999 ABC News Poll found 83% support an increase in the minimum wage -- the highest percentage in recent memory.

3) You just can't raise a family on $5.15 an hour. A single mother with two children working at the current minimum wage earns just $10,700 a year – $3,200 below the poverty line. Today's minimum wage is 19% below the purchasing power it had in 1978, and below its 1968 peak of $7.49 an hour (1998 dollars).

4) Minimum wage workers play a pivotal role in today's economy -- caring for our parents and grandparents in their homes, and for our children in day care. Nearly 12 million workers would directly benefit from a $1 increase in the minimum wage; another 9.7 million more who earn up to $7.15 an hour would feel a positive impact. 70% of minimum wage workers are adults, 60% are women, and nearly half are full-time workers.

5) Now is the time to increase the minimum wage. The U.S. has experienced the longest economic expansion in its history, and unemployment and inflation are at historic lows. Since the 1996 increase, employment has actually increased in every sector -- even among the hardest to employ. The greatest challenge employers are facing today is simply finding enough trained workers to fill job openings. Meanwhile, during the 1990s, pay for CEOs has risen 481% while pay for workers has risen only 28%.

6) Increasing the minimum wage is *good* for the economy. The extra money gets spent at the grocery store, the hardware store, and throughout the local community. Small businesses get a level playing field with their competitors, increased productivity, and greater retention of their workforce. In a 1998 study, economists David Card and Alan Krueger found that employment in the fast-food industry actually went *up* by 11% in eastern Pennsylvania and by 2% in New Jersey after the 1996 increase. The Economic Policy Institute found no measurable effect on jobs or inflation in the wake of the 1996 increase.

DEMOCRATIC SUBSTITUTE

Minimum Wage Provisions

- Increases the minimum wage to $6.15 an hour in two steps, beginning with a $.50 increase in January 2000 and another $.50 increase in January 2001. In addition, the substitute requires the U.S. territory of Northern Mariana Islands to pay the federal minimum wage to its workers.

Small Business Tax Relief Provisions

- full 100% deductibility of health insurance for the self-employed in 2000

- an increase to $30,000 in small business deductions for investments in plants and equipment after the year 2000\

- permanent extension of the Work Opportunity Tax Credit (WOTC) and the Welfare to Work Credit to help businesses hire disadvantaged workers

- an increase to 65% in the deduction for meals and entertainment expenses for small businesses with annual income of less than $5 million

- Section 415 pension changes to help workers save for retirement

- exclusion from income of educational benefits provided for employees' children

- refundable tax credit for the first $20,000 of wages paid to employees working in small, independent film and television production

- deduction of travel expenses for a spouse or dependent to help promote tourism

Cost and Offsets

- The Democratic Substitute costs $8 billion over 5 years, and $20 billion over 10 years -- and is paid for. (By contrast, the Republican bill costs $30 billion over 5 years, and $95 billion over 10 years and is not paid for.)

LAZIO BILL: TAX BREAKS FOR WEALTHY SPECIAL INTERESTS MASQUERADING AS A MINIMUM WAGE BILL

- **The minimum wage increase in HR 3081 is too small, and the tax breaks are too large**. This is not a proposal with a focus on raising the minimum wage for America's workers; it's a tax relief package for wealthy special interests with a small minimum wage increase attached.

- **The tax breaks in HR 3081 threaten the Social Security Trust Fund, and will cause the deficit to explode**. HR 3081 will cost $30 billion over 5 years, and $95 billion over 10 years. Since no offsets are provided for these huge tax expenditures, the Social Security Trust Fund will be threatened.

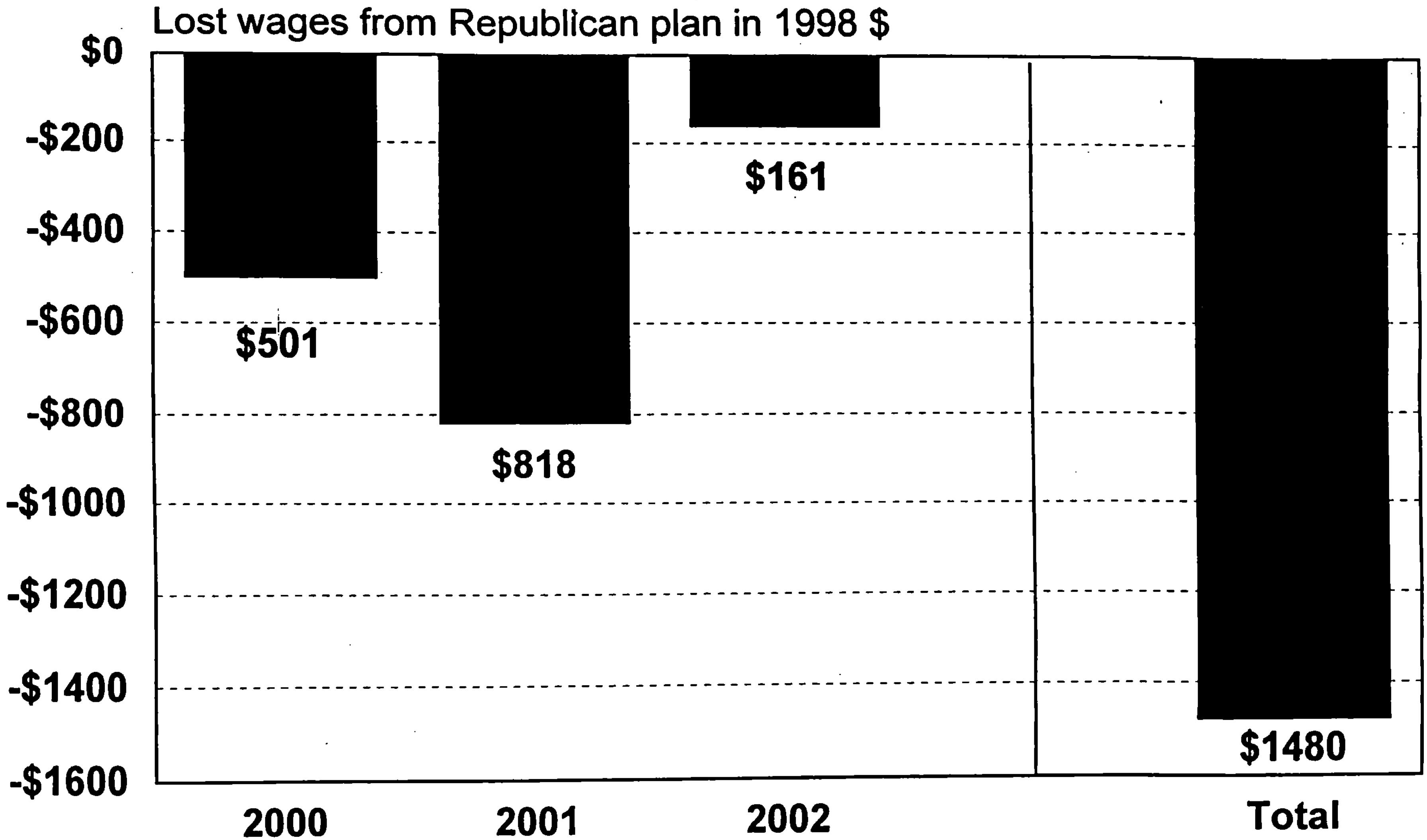
- **The tax breaks in the Lazio bill overwhelmingly benefit the wealthy.** According to Citizens for Tax Justice, 73% of the benefits go to the top 1% – those earning over $301,000! This is yet another back-door attempt by the Republican Leadership to resurrect their failed trillion-dollar tax scheme.

- **$.33 a year contained is not a raise ... it simply short-changes America's working families.** Compared to the Democratic substitute, HR 3081 provides $1,480 less over the next three years for the average minimum wage worker. The attached chart shows the year-to-year difference between the two proposals.

- **By delaying and stretching out a wage increase, HR 3081 makes it much harder to keep up with inflation and maintain the purchasing power of the minimum wage**. Under the Lazio bill, by 2001 the real value of the minimum wage would still be only about $5.30. The current minimum wage is already 19% below the value that it had in 1978.

- **In the midst of the current economic expansion, minimum wage workers deserve a real increase in their wages.** According to the Institute for Policy Studies, during the 1990s, pay for CEOs has risen 481% while pay for workers has risen only 28%. Last year, the average compensation for CEOs was $106 million compared to $10,700 for a minimum wage worker. Between 1990 and 1998, if workers' pay had risen at the same rate as CEO pay, the minimum wage would be $22.08! The Democratic Substitute provides a real increase for minimum wage workers, and includes a small business tax relief package that is targeted and paid for.

Republican Minimum Wage Shortchanges Workers



Lost income from the Republican three-year phase-in compared with the Democratic two-year phase-in of the $1.00 per hour increase in the Federal minimum wage for a full-time worker.

CTJ NEWS

Citizens for Tax Justice

1311 L Street, NW
Washington, DC
202-626-3780

FOR RELEASE ON
MONDAY, Oct. 18, 1999
CONTACT: Bob McIntyre, 202/626-3780
2 pages

Minimum Wage Plan Targets Three-Quarters of Its Tax Breaks to Top 1%

Tax breaks included in the minimum wage increase bill introduced by Rep. Rick Lazio (R-NY), John Shimkus (R-IL) and others would cut taxes by close to $100 billion over the next decade, with almost three-quarters of the tax cuts targeted to the best-off one percent of Americans.

An analysis of the tax provisions of the Lazio-Shimkus bill released today by Citizens for Tax Justice finds that:

- The best-off one percent of all taxpayers, those making more than $301,000 a year, would get average annual tax cuts of $5,999 each under the plan (in today's dollars). The top one-percent would enjoy 73.4% of the total tax cuts provided by the bill.
- In contrast, the bottom 60 percent of all taxpayers would get only 2.7 percent of the tax cuts. The average tax reduction for the bottom 60 percent would be $4 a year.

"It's astonishing that a minimum wage bill supposedly designed to aid low-wage workers would actually give its biggest benefits to the highest-income people in the country," said Citizens for Tax Justice director Robert S. McIntyre.

The Lazio-Shimkus bill would:

- Cut the top estate tax rate from 55% to 48%, eliminate the 5% surtax that recaptures the benefits of the lower estate tax rates, reduce other estate tax rates by 2 percentage points, and replace the credit against estate taxes with an exemption (worth more to the largest estates). The estate tax cuts amount to well over half the total tax cuts proposed in the bill.
- Provide added tax breaks for pensions and 401(k) plans.
- Increase the limits on expensing of capital outlays.
- Speed up the date for allowing 100% of self-employed health insurance to be deducted.
- Increase the write-off for business meals to 60% of cost from 50% under current law.
- Extend the work opportunity and welfare to work business tax credits.
- Expand enterprise zones.
- Provide tax breaks for timber companies.
- Expand the tax credit for investors in low-income housing.
- Augment tax breaks for private tax-exempt bonds.

MORE . . .

Official revenue estimates of the cost of the Lazio-Shimkus bill has not yet been released by the Joint Committee on Taxation, but based on earlier JCT estimates of similar provisions, the tax cuts would appear to cost approximately $97 billion from fiscal 2000 to fiscal 2009.

A table detailing the distributional effects of the bill follows.

Effects of the Lazio-Shimkus Tax Cuts in the Minimum Wage Bill

(Annual effects at 1999 levels; $-billion except averages)

Income Group	Income Range	Average Income	Estate Tax Cuts	Corporate Tax Breaks	Pensions & 401Ks	Total Tax Cuts	Average Tax Cut	% of Total Tax Cut
Lowest 20%	Less than $13,300	$ 8,400	$ –0.0	$ –0.0	$ –0.0	$ –0.0	$ –1	0.3%
Second 20%	$13,300–23,800	18,300	–0.0	–0.1	–0.0	–0.1	–3	0.8%
Middle 20%	$23,800–38,200	30,300	–0.0	–0.2	–0.0	–0.2	–7	1.6%
Fourth 20%	$38,200–62,800	49,100	–0.0	–0.3	–0.0	–0.3	–12	3.0%
Next 15%	$62,800–124,000	83,600	–0.0	–0.4	–0.1	–0.5	–28	5.1%
Next 4%	$124,000–301,000	173,000	–0.8	–0.5	–0.4	–1.6	–321	15.7%
Top 1%	$301,000 or more	837,000	–5.6	–1.3	–0.7	–7.6	–5,999	73.4%
ALL		$ 48,700	$ –6.4	$ –2.7	$ –1.2	$ –10.3	$ –81	100.0%
ADDENDUM								
Bottom 60%	Less than $38,200	$ 19,000	$ –0.0	$ –0.3	$ –0.0	$ –0.3	$ –4	2.7%
Top 10%	$89,000 or more	204,000	–6.4	–1.9	–1.1	–9.5	–748	91.7%

Figures show the annual effects of the approximately $97 billion in tax cuts over the next 10 years included in the Lazio-Shimkus minimum wage increase bill. All provisions are measured as fully effective, at 1999 income levels. Estimates are from the Institute on Taxation and Economic Policy Tax Model.

Citizens for Tax Justice, October 18, 1999

–000–

A MINIMUM WAGE INCREASE

The Democratic vs. Republican Proposals: Significant Differences

The fight to increase the minimum wage looks as if it may finally come to a Floor vote. The Republican leadership in the House has bowed to the wishes of the American people and agreed to bring a minimum wage increase bill to the House. However, they seem determined to obstruct a fair wage increase and load down any bill that passes the House with tax breaks for their wealthy supporters.

Democrats support a clean minimum wage increase from $5.15 to $6.15 over two years, and will also propose a moderate package of tax relief targeted to help the small businesses that will be most affected by the minimum wage increase. This tax package will be fully paid for so that it will not result in any use of Social Security surplus funds.

The Republican proposal, H. R. 3081, introduced by Rep. Lazio and nine co-sponsors, proposes a three-year phase in of a $1.00 per hour increase in the minimum wage. It also proposes a package of tax breaks that are not offset and would cost $35 billion over the first five years and could cost as much as $100 billion over ten years. This package is not only excessive, but would overwhelmingly benefit the richest taxpayers and, according to some analysts, could actually lead to less pension protection for some low-wage workers who work for small businesses.

A Fair Increase in the Minimum Wage

The federal minimum wage was last increased in September 1997 when the second step of legislation enacted in 1996 took effect. This increase, to the current level of $5.15 per hour, was passed by Congress at the insistence of Democrats in face of stiff opposition by the Republican leadership of both Houses.

The American public has consistently supported an increase in the minimum wage. A survey conducted by ABCNEWS between September 29 and October 3, 1999 found that 83% support an increase, with the support nearly as strong among Republican voters (67% in favor) as among Democrats.

Failure to act now would allow the purchasing power of the existing wage to continue to erode due to the effects of inflation. The results of a long period of inaction during the 1980's and early 1990's are dramatic and may have had implications for the entire wage structure of the economy. Between 1978 and 1989, the purchasing power of the minimum wage dropped by more than 30 percent. It can be argued that the failure to increase the minimum wage between 1981 and 1990 contributed to the significant worsening of income inequality during the 1980's.

By 2001 the increase to $6.15 proposed by Democrats would barely restore the purchasing power after inflation to the level of 1982. The Republican proposal would postpone this until 2002. Why should there be a delay in raising the pay of low-wage workers at a time of unparalleled prosperity, when corporate profits are higher than at any time in the last twenty years as a share of national income and when the compensation of corporate CEO's has reached new heights compared with the pay of average workers?

Look at the cost of delaying the increase, as proposed by the Republicans. While the difference between phasing-in the $1.00 per hour over three years versus two years may seem small, the cumulative impact is significant for low-wage workers and their families. A full-time worker would lose $1480 over the next three years; that amounts to a loss of 4.2 percent of his or her total earnings over the next three years.

The evidence that the increasing the minimum wage helps the people who need it most is overwhelming. Research by Jared Bernstein at the Economic Policy Institute[1] found that:

- 11.8 million workers would be directly affected by the $1.00 per hour increase.
- That is 10 percent of total employment.
- Of those 11.8 million people, 48.2 percent are full-time workers (35 hours per week or more).
- 72 percent of these people are adults and only 28 percent are teenagers.
- Three million workers affected by the increase help support children, including one million single mothers.
- Households with incomes under $25,000 will receive half of the increased wages, and the 60 percent of households with incomes under $38,200 will get 73 percent of the increase.

Finally, opponents of the minimum wage have long argued that increasing the minimum wage would harm the very low-wage workers it is designed to help because employers would either cut back on jobs or reduce hours of work. The experience of the 1990's has shown this to be unfounded. Among the groups most likely to be affected by the minimum wage, employment has increased and unemployment rates have declined since the first step of the last minimum wage increase took effect in October 1996.

[1] Jared Bernstein, "The Next Step: The New Minimum Wage Proposal and the Old Opposition" Economic Policy Institute, April 27, 1999 and Bernstein, Heidi Hartmann and John Schmitt, "The Minimum Wage Increase: A Working Woman's Issue" Economic Policy Institute and Institute for Women's Policy Research, September 16, 1999.

Table 1
Employment Indicators for Demographic Groups
Most Affected by an Increase in the Minimum Wage

	Employment (000s)		Unemployment Rate(%)	
	Sept. 1996	Sept. 1999	Sept. 1996	Sept. 1999
Total	127,470	133,550	5.2	4.2
Teenagers	6,684	7,028	15.7	15.0
African-Americans	13,558	15,154	10.6	8.3
Hispanics	11,821	13,763	8.3	6.7
High-School Dropouts	11,366	11,506	8.2	6.3

Source: Bureau of Labor Statistics

Republican Tax Breaks Do Not Help Workers

The minimum wage increase bill appears to be merely the vehicle that Republicans are using to bring up a bloated package of tax breaks that are mainly beneficial to wealthy individuals and special interests, not small businesses and their workers. The Republican plan introduced as H.R. 3081 contains tax breaks totaling $29.7 billion over five years that balloon to $94.5 billion over ten years. None of the revenue lost is offset by closing corporate tax loopholes, so that the entire cost comes out of whatever on-budget surplus there may be.

Democrats, on the other hand, are proposing a package of tax relief for small businesses that is entirely offset by closing a number of corporate loopholes, most of which were approved by Republicans in the tax bill that was vetoed by President Clinton.

The bias in the Republican tax package is immediately obvious; more than half of the total revenue cost is accounted for by an estate tax break that will benefit only the richest families in the country. This one provision accounts for $16.2 billion over five years and $58.3 billion over ten years. The provision cuts the top rate on the largest estates, those valued at more than $10,000,000 (in 1995 there were only 620 estates this large out of 31,564 taxable estates, less than 0.1 percent of all deaths that year). The bill also cuts the rate on other large estates from 55% to 48%, those valued at over $1.500,000. Both changes have nothing to do with small businesses, which are already entitled to a $1.3 million exemption from the estate tax.

According to analysis of the tax cuts by Citizens for Tax Justice, more than 73 percent of the total tax cuts would benefit the top 1 percent of families, those with incomes over $301,000, while only 2.7 percent would benefit the bottom 60 percent of families. The pension provisions of the bill are nearly as biased to the wealthy as the estate tax according to the CTJ analysis. 91.6 percent of the pension tax cuts would benefit the top 5 percent of Americans with incomes over $124,000.

Table 2
Distribution of Minimum Wage Increase and Tax Cuts

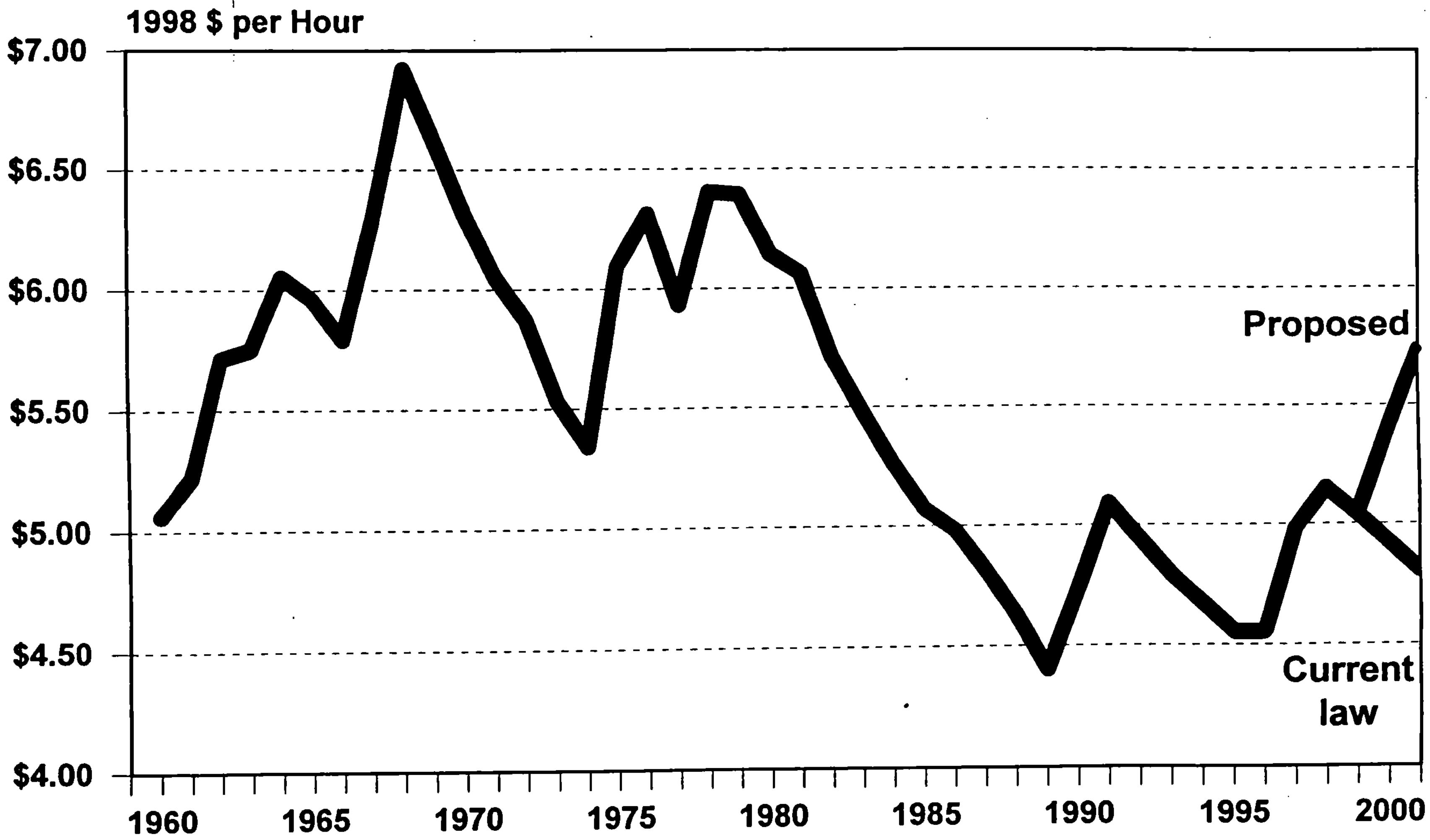
	Share of Minimum Wage Increase	Share of Republican Tax Breaks
Lowest 60%	73.3%	2.7%
Next 20 %	14.5%	3.0%
Top 20%	12.2%	94.2%

Source:
Share of Minimum Wage Increase: Economic Policy Institute analysis of 1996 and 1997 increases.
Share of Republican Tax Breaks: Citizens for Tax Justice, October 18, 1999
Lowest 60% of families have incomes less than $38,200
Next 20% of families have income between $38,200 and $62,800
Top 20% of families have incomes over $62,800

An analysis of the pension tax breaks by the Center for Budget and Policy Priorities found that they, too, are designed to benefit high-income people and are not targetted to workers at small businesses. This study concluded that some of the provisions could actually lead to reduced pension coverage for low-income workers by removing penalties for excessive pension benefits to highly-compensated managers and owners and instead providing incentives for reducing employer contributions to lower-paid workers.[2]

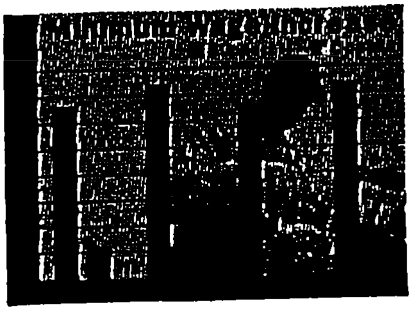
[2] Iris Lav, "Tax Cuts in Lazio Minimum Wage Bill Overwhelmingly Benefit High-Income Taxpayers" Center on Budget and Policy Priorities, October 19, 1999.

Value of the Minimum Wage adjusted for inflation



statutory minimum wage adjusted for inflation using the CPI-U-X1

Wage Hike Remains Popular



Vast Majority Back Increase in Minimum Pay Rates

An ABCNEWS.com poll finds 83 percent of Americans support an increase in the $5.15 per hour minimum wage. (ABCNEWS.com/AP Photo)

By Daniel Merkle
ABCNEWS.com

Oct. 6 — Some issues just never fail: Mom, apple pie — and raising the minimum wage.

A huge majority of Americans — 83 percent in a new ABCNEWS.com poll — say it's time to boost the $5.15 per hour minimum, last hiked (from $4.75) in September 1997. Support for a raise typically is quite high, and tends to inch up as time passes from the last increase.

Minimum Wage Increase

	Support	Oppose
10/3/99	83%	15
1/19/98	76	23
1/23/96	83	15
1/24/95	76	22

Broad Base

Some moderate Republicans in Congress have broached the idea of a modest minimum-wage hike to defuse the issue in the 2000 campaign. It may be a good idea: Support for an increase is broad-based, encompassing at least three-quarters of just about all demographic and political groups.

One exception is Republicans — 67 percent support the increase, somewhat lower than other groups, but still a substantial majority.

SUMMARY
As Democrats in Congress try to push through an increase in the minimum wage, a new ABCNEWS.com poll finds the plan popular with a huge majority of the public.

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House Democrats Press Wage Increase
House Bill Hikes Minimum Wage, Cuts Business Taxes

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BUSINESS AND EDITORIAL SUPPORT FOR INCREASING MINIMUM WAGE

- **Business Week Editorial: The Myth of the Minimum Wage, May 17, 1999**

  "Old myths die hard ... higher minimum wages are supposed to lead to fewer jobs. Not today. In a fast-growth, low-inflation economy, higher minimum wages raise income, not unemployment."

  "It is time to set aside old assumptions about the minimum wage ... with the real minimum wage no higher than it was under President Reagan, we can afford to take prudent risks."

- **Washington Post Editorial: The Minimum Wage Increase, September 27, 1999**

  "The congressional raise of more than $4,000 a year is equal to about 40% of the annual earnings of a person who works full-time year-round at the current minimum; such a person will not earn enough to keep a family of three or more above the federal poverty line. Congress deserved its raise; so do those at the lowest income reaches of the economy."

- **Washington Post column by Judy Mann: Backdrop to Wage Debate, a World of Inequity, July 2, 1999**

  "How do you value a person's work? Does the chief executive officer of a company deserve millions in salary even if his company files for bankruptcy? Is he more valuable to the economy than the men and women who drive trash trucks and keep our neighborhoods from being overrun by rodents?"

  "For the middle class to remain a stable force, it needs a wage that lifts it well above poverty and gives the majority of people a stake in American prosperity. CEOs are not the only ones who have families to raise."

- **Business Week column by Aaron Bernstein: A Perfect Time to Raise the Minimum Wage, May 17, 1999**

  "Opponents of a minimum wage hike are a beleaguered bunch these days ... With unemployment at near-record lows and nary a whiff of inflation in the air, even the most ardent foes have a tough time coming up with counter-arguments. And for good reason – there are none."

- **Washington Post column by Robert Kuttner: Minimum Wage: Theory and Reality, September 21, 1999**

  "Opponents of the (1996) increase made dire predictions of job losses. But of course, during that period unemployment came steadily down, and most dramatically among the very groups most affected by the minimum wage: minorities, teenagers and people without college degrees. This year the unemployment rate among black men hit its lowest level ever."

- **Letter to the President by 16 Economists, February 2, 1999**

  "We have been particularly impressed by the fact that the 1996 and 1997 increases did not have, as is often predicted during minimum wage debates, a negative effect on either prices or employment."

  "Given the nation's unemployment rate and strong economy without inflation, now is the time to deepen our public commitment to a decent minimum wage. We strongly support the Kennedy-Bonior bill."

- **Nationwide List of Small Businesses Supporting Minimum Wage Increase**

  Current total: 118

November 1, 1999

The Honorable Dennis Hastert
Speaker
U.S. House of Representatives
Washington, DC 20510

Dear Mr. Speaker:

If H.R. 3081, the "Wage and Employment Growth Act of 1999," were presented to the President in its current form, we and other senior advisers to the President would recommend that he veto it.

The President proposed a $1 increase in the minimum wage over two years, effective January 1, 2000. H.R. 3081 would provide a $1 increase over three years, effective April 1, 2000. Compared with the President's proposal, this would cost a full-time, year-round minimum wage worker approximately $1,500 over three years.

H.R. 3081 does not contain any revenue offsets for its tax initiatives. The President has stated repeatedly that, before we consider using projected surpluses to provide a tax cut or for new spending, we must put first things first and address the long-term solvency of Social Security and Medicare.

The bill also would not meet the pay-as-you-go requirements of the Budget Act, which have helped provide the discipline necessary to bring us from an era of large and growing budget deficits to the potential for substantial surpluses. The bill would therefore require an automatic sequester of mandatory programs, including Medicare.

We also have specific concerns with several tax initiatives in H.R. 3081, many of which have been expressed to you previously. For example, the estate tax relief is expensive and provides no benefit to average working Americans. Moreover, the relief is poorly targeted to its purpose of providing relief for small business owners and family farms. Rather, the three major provisions -- conversion of the unified credit to an exemption, repeal of the surtax, and reduction in top marginal rates -- would benefit only the wealthiest estates.

Also, we strongly oppose the pension provisions in the bill that raise the maximum retirement plan contribution and considered compensation limits for business owners and executives and weaken the pension anti-discrimination and top-heavy protections for moderate- and lower-income workers. The current provisions are regressive, would not significantly increase plan coverage or national savings, and could lead to reductions in retirement benefits for moderate- and lower-income workers. The Administration would like to work with Congress to develop initiatives, like those proposed in the President's FY 2000 budget, that would increase retirement savings for moderate and lower-income workers. In addition, we strongly oppose the provision in H.R. 3081 for a party in active litigation that would, in this and other cases, weaken the Secretary's ability to protect workers' pension and health benefits.

Finally, we are concerned with provisions that repeal overtime protections for three categories of workers. H.R. 3081 would repeal overtime pay protections for 1.5 million American sales employees. The multi-test exemption in the bill is complex and would be difficult and burdensome for employers, affected employees, and DOL to implement. Second, funeral homes would no longer be required to pay overtime to funeral directors or embalmers who work more than 40 hours per week. Third, we are concerned that the bill would deny overtime pay to additional workers in computer related occupations. In addition, the proposed change in rules for calculating overtime pay in H.R. 3081 is similarly misguided.

We appreciate your consideration of the Administration's concerns. We look forward to working with you and other members of Congress in the coming months to address the solvency of Social Security and Medicare, to meet critical national priorities, to provide a living wage to those at the bottom of the economic spectrum and to enact fiscally responsible tax relief targeted at the needs of working families.

Sincerely,

Lawrence H. Summers

Alexis M. Herman

THE WHITE HOUSE

WASHINGTON

November 4, 1999

The Honorable Thomas A. Daschle
Democratic Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

I am writing this letter to encourage you to pass a straightforward minimum wage bill that gives working Americans the pay raise they deserve. If we value work and family, we should raise the value of the minimum wage.

In 1996, the Congress and I worked together to raise the minimum wage by 90 cents over 2 years. Since then, the American economy has created nearly 9 million new jobs -- with more than 1 million of them in the retail sector where many minimum-wage workers are employed. The unemployment rate has fallen from the already low rate of 5.2 percent to 4.2 percent -- the lowest in 29 years. We have enjoyed larger real wage increases for more consecutive years than at any time in more than two decades, while inflation is the lowest it has been in more than three decades. The minimum wage increase has contributed to the 39 percent decline in the welfare caseload since the last minimum wage increase -- bringing the welfare rolls down to their lowest level in three decades. And the minimum wage increase has been a crucial factor in reversing the wage stagnation and declines of the previous decade, contributing to rising wages for even the lowest income groups. Our recent experience clearly demonstrates that what is good for America's working families is good for America's economy.

But as our economy continues to break records, we must do more to ensure that all Americans continue to benefit from it. It is time to build on the steps we have taken to honor the dignity of work. The expansion of the Earned Income Tax Credit in 1993 and the increase in the minimum wage have ensured that no full-time working parent with two children has to raise his or her family in poverty. It is important that we take steps to achieve this goal in the future. That is why I have proposed to raise the minimum wage by $1 an hour over the next two years -- from $5.15 to $6.15. This modest increase would simply restore the real value of the minimum wage to what it was in 1982. More than 11 million workers would benefit under this proposal. A full-time, year-round worker at the minimum wage would get a $2,000 raise -- enough for a typical family of four to buy groceries for 7 months or pay rent for 5 months.

All Americans should share in our historic prosperity. This is why Congress should not let politics get in the way of raising the minimum wage. If you send me a clean bill that increases the minimum wage by $1 over the next two years, I will sign it.

Unfortunately, some in Congress have proposed a more gradual increase in the minimum wage that would cost a full-time, year-round worker roughly $1,500 over three years compared with my proposal. They have added provisions that would repeal important overtime protections for American workers. And they have been playing politics with the minimum wage bill, using it as a vehicle for costly and unnecessary tax cuts that would threaten our fiscal discipline. As I have stated repeatedly, before we consider using projected surpluses to provide for a tax cut, we must put first things first and address the solvency of Social Security and Medicare. If Congress sends me a bill that threatens our fiscal discipline, I will veto it.

If paid-for tax cuts are attached to the minimum wage bill, they should reflect our priorities and address urgent national needs like deteriorating schools and the communities that have been left behind during this time of prosperity. In contrast, the bulk of the provisions attached to the minimum wage bill in the House are directed away from working families. Some of these provisions could even *reduce* the retirement benefits enjoyed by millions of working Americans.

America's workers show up to work every day and get the job done. Congress should do the same this year. I urge Congress to pass a minimum wage bill that does not at the same time add poison pills that bypass the priorities of working families.

Sincerely,

Bill Clinton

NEIL ABERCROMBIE
1ST DISTRICT, HAWAII
WHIP-AT-LARGE

COMMITTEE ON ARMED SERVICES
COMMITTEE ON RESOURCES

U.S. HOUSE OF REPRESENTATIVES

Congress of the United States
House of Representatives
Washington, D.C. 20515

September 8, 2000

ZW
Lisa

President William J. Clinton
The White House
Washington, D.C. 20500

Dear Mr. President:

Negotiations are underway to develop a final bill to increase the federal minimum wage by $1.00 an hour over two years, along with tax reductions benefitting businesses and industries most affected by minimum wage increases.

You will recall our conversation the evening of the 1993 Budget Agreement passage that at the first opportunity for review following success in meeting our deficit reduction goals you would support restoring the business meal/spousal travel provisions to the previously agreed upon levels we discussed. This minimum wage bill is the vehicle for keeping that promise. It has been seven years in coming but worth every minute of the wait as you have been vindicated in every respect. In the wake of that triumph I ask for your consideration and support.

The Rangel substitute minimum wage tax package contained the restoration, as does the draft of the House Democratic year-end tax reform package. Because hotel/motel, travel and tourism, restaurant and other industries are directly affected by the minimum wage, I cannot urge strongly enough the importance of the deductions to the hundreds of thousands of employees involved not only in Hawaii but nationwide.

Theses deductions are of critical importance to those of us representing areas dependent on tourism, but of equal importance is the credibility of Democrats in Congress, particularly those of us who voted for your 1993 budget. Events have proven conclusively that supporting that budget was correct. It put the nation on the road to the great economic prosperity we now enjoy. As you move toward resolving the final terms of the minimum wage/tax reduction package I trust you will stand firmly behind our understanding.

With warm aloha,

Aloha,
Neil

Neil Abercrombie
Member of Congress

ORIGINATED FROM:
☑ WASHINGTON OFFICE: 1502 LONGWORTH HOUSE OFFICE BUILDING, WASHINGTON, D.C. 20515 (202) 225-2726 / 225-4580 FAX
☐ HOME OFFICE: ROOM 4-104, 300 ALA MOANA BLVD., HONOLULU, HAWAII 96850 (808) 541-2570 / 533-0133 FAX
Homepage: http://www.house.gov/abercrombie/ E-mail: neil.abercrombie@mail.house.gov

NEIL ABERCROMBIE
1ST DISTRICT, HAWAII
WHIP-AT-LARGE

COMMITTEE ON ARMED SERVICES
COMMITTEE ON RESOURCES

Congress of the United States
House of Representatives
Washington, D.C. 20515

CC: Courtney

FAX LEAD PAGE

TOTAL NUMBER OF PAGES, INCLUDING THIS ONE: 2

DATE: September 8, 2000 TIME: 3:00 p.m.

TO FAX NUMBER: 456-6220

ATTENTION: CHUCK BRAIN

FROM: REP. NEIL ABERCROMBIE/TOM WANLEY

NOTES: The Congressman may attempt to reach the President to discuss this matter.

Thanks

If there are any problems with this transmission, please call our office at 202/225-2726. Our fax number is 202/225-4580.

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☐ HOME OFFICE: ROOM 4-104, 300 ALA MOANA BLVD., HONOLULU, HAWAII 96850 (808) 541-2570 / 533-0133 FAX
Homepage: http://www.house.gov/abercrombie/ E-mail: neil.abercrombie@mail.house.gov

THE WHITE HOUSE

WASHINGTON

October 25, 2000

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

We are well beyond the time when Congress should have finished its work, with many of our most important issues still left unresolved. It is crucial that we now take all possible steps to find common ground.

In that spirit, I would like to put forward a consensus tax offer to help resolve the impasse on taxes. This offer does not contain everything that my Administration and Congressional Democrats would prefer; nor does it contain all that Congressional Republicans hope to see. Rather, it recognizes that both sides need to give a little in order to accomplish bipartisan tax legislation this year and that we should keep the overall tax cut size to an amount that ensures we continue on our path of debt reduction and fiscal discipline.

First, we can raise the minimum wage without eroding traditional worker protections, while at the same time providing reasonable and targeted tax relief for small businesses. Accordingly, in exchange for my proposed minimum wage increase, I would accept the core elements of Speaker Hastert's offer on a small business tax package, costing approximately $30 billion over 10 years, provided that the FLSA and FUTA provisions are eliminated, the welfare-to-work tax credit is extended, and modifications are made to the meals and entertainment deduction and amortization of reforestation expenses. I discuss your health care proposal later in this letter.

Second, it is essential that the Labor/HHS bill include the Rangel/Johnson proposal to build and modernize 6000 schools through $24.8 billion in school construction financing, costing $8.5 billion over 10 years. Considering the estimated need for $125 billion to meet our nation's demand for safe and modern schools, this proposal is the least we should do for our children.

Third, the offer includes pension legislation adopted by the House and Senate, costing about $50-60 billion over 10 years, provided that certain modifications that the Treasury Department has discussed with the tax-writing committees are made to ensure that employer-provided pensions for workers are not harmed, to provide meaningful protections for workers affected by cash balance conversions, and to provide progressive savings incentives for low- and moderate-income workers.

Fourth, the package includes the tax and other incentives from the bipartisan New Markets/Community Renewal legislation, at a cost of about $25 billion over 10 years, with some changes that we have previously discussed and other associated items upon which we can agree. This will be an historic commitment to expand the promise of free enterprise and entreprenuership to our nation's poor and underserved urban and rural areas.

It is also important that we provide the bipartisan credit for vaccine research and purchases, which will save lives and advance public health, costing about $1.5 billion over 10 years.

Finally, it is essential for our commitment to economic growth to include the replacement of the Foreign Sales Corporation regime, which has passed the House and Senate with broad bipartisan support, costing about $4.5 billion over 10 years.

I believe the package I have outlined above can be the basis for bipartisan consensus on a tax package.

While Congress has failed to send me a strong, enforceable Patients' Bill of Rights and a voluntary Medicare prescription drug plan for all seniors, I believe it is possible to forge a bipartisan agreement that would expand health care coverage for uninsured working Americans. The best way to do this is through the FamilyCare plan that builds on the successful Children's Health Insurance Program and expands affordable insurance to over four million parents. A deduction for the purchase of private health insurance in the individual nongroup market is an inefficient and costly way to do coverage, is far less equitable than other options that use refundable tax credits, and could lead to private employers dropping health coverage. However, in the spirit of bipartisanship and breaking gridlock, I propose that your deduction be modified to a credit with necessary consumer protections in the individual insurance markets and that the credit be coupled with the bipartisan FamilyCare proposal.

I further believe we should find a common agreement to ease the burden of long-term care on American families. The best means to accomplish this goal is through our proposal to provide a $3,000 tax credit for people with long-term care needs or the families who care for them. This tax credit would provide immediate assistance to those burdened by these long-term care costs today. While I cannot support your proposal to turn this into a deduction, on grounds of both equity and effectiveness, if you are willing to support our $3,000 tax credit, I would be willing to agree to your proposal to provide an enhanced deduction for the purchase of private long-term care insurance provided there are appropriate consumer protections. This bipartisan, long-term care package has already been endorsed by the AARP, the Alzheimer's Association, and the Health Insurance Association of America.

In the spirit of compromise, I believe we can work together quickly to pass this balanced legislation that I can sign into law and that can benefit the American people.

Sincerely,

Bill Clinton

J. Dennis Hastert
Fourteenth District
Illinois

(202) 225-0600

Office of the Speaker
United States House of Representatives
Washington, DC 20515

October 25, 2000

The Honorable William Jefferson Clinton
President of the United States
The White House

Dear Mr. President:

Thank you for your letter today regarding the Taxpayer's Relief Act of 2000. I agree with you that we should work together in a bipartisan fashion, and I believe that this work product is the result of a hard fought compromise. Outside of the concerns you raised in the letter, I would submit that this tax bill does not contain the Marriage Penalty tax relief and the Death Tax relief that you vetoed earlier this year. We in the Congress believe that getting rid of the taxes on death and marriage were plain common sense. You had a different view, and as a result we have not attempted to include those provisions on this tax bill.

We have included the minimum wage increase on this bill as I suggested in my letter to you in August of this year. This minimum wage increase will not include the FLSA or the FUTA provisions because of your objections.

This bill includes the Community Renewal/New Markets initiative that you and I have worked on for over a year. This provision is a remarkable bipartisan victory, which will have an immediate impact on the most distressed urban and rural communities in our nation. You should be proud of your work on this provision. This legislation will include an expansion of the Qualified Zone Academy Bond program created in the 1997 Taxpayer Relief Act, which meets many of the objectives of your school construction proposal. It does this without adding unnecessary costs to school construction, thereby making certain that more money will go to education and less money will go to waste.

We have included the Foreign Sales Corporation change we all agree is necessary. We have also included a long-term health care tax deduction, which you told me was acceptable to your Administration. To deal with the increasing problem of the uninsured, we have included the A+ Health Care deduction, which gives the same deductibility to individuals that big corporations currently enjoy. While we understand your concerns with this proposal, we believe this is an important breakthrough in helping the uninsured pay for health insurance.

Perhaps the most important provision of this bill is the 401K/IRA expansion bill that enjoyed the overwhelming support of the Congress. This bipartisan provision will give Americans of all ages more resources for their retirement security.

You should be as proud of the many accomplishments that this legislation represents for your priorities, as we in the Congress are proud of the many victories this bill represents for the American people. You may disagree with some of the details in this bill, just as some of our members disagree with other details. But all Americans will see this bill as a victory for common sense, and I urge you to support it.

Sincerely,

Dennis Hastert
Speaker of the House

not in proceedings
not apply for amnesty
no accrued 5yrs by '97

Seven yrs.
need to be able to say that INS could be
good moral character
extreme hardship - US Cit spouse a kid

Liberians - maybe add new to structure

McCollum & Mack - calling, Lott -
ABC class
Make Salv. Guate & give them NACARA

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1. Spouses & Minor kids CPR & Citz
& Age out
1 yr.
245i Parallel it
How to Cover Class of '82
Cover 75% of 245(i)

---

2. Parity for ABC class

CENTER ON BUDGET AND POLICY PRIORITIES
820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org http://www.cbpp.org

August 30, 2000

Tax Package Proposed as Accompaniment to Minimum Wage Bill Contains Troubling Proposals

On August 28, 2000, House Speaker Dennis Hastert wrote to President Clinton proposing that they work to pass a package that would include a minimum-wage increase, a series of changes in the Fair Labor Standards Act (some of which could exempt certain firms and employers from minimum wage and overtime rules), and a package of tax cuts. The minimum-wage and FSLA changes are beyond the scope of this short analysis. Its purpose is to highlight three problematic aspects of the proposed tax package.

- One of the largest tax proposals in the package would provide a costly new "above-the line" deduction for health insurance premiums paid by individuals who purchase their own insurance or whose employers subsidize less than 50 percent of the cost of health insurance premiums. This provision is likely to do little to make health insurance affordable for most of the nation's uninsured, 93 percent of whom either owe no federal income taxes or are in the 15 percent bracket and thus would at most receive a subsidy of 15 cents for every dollar spent on health insurance. Moreover, because the deduction would provide a far deeper percentage subsidy for purchasing health insurance to higher-paid business owners and executives than to lower-wage earners, it could encourage some small business owners to drop group coverage (or not to institute it in the first place) and to rely on the deduction for their own coverage. To the extent this occurs, the ranks of the uninsured and underinsured among low- and moderate-wage workers could increase. This proposal is discussed in more detail in an attached short analysis.

- The package would repeal the modest unemployment insurance surtax (equal to 0.2 percent of the first $7,000 in an employee's wages) that employers pay *without* making any needed improvements in the unemployment insurance system. Representative of business, labor, state governments, and the Department of Labor (DOL) recently reached agreement on an unemployment insurance reform package that would repeal this surtax, provide additional administrative funding and flexibility to states in operating the UI program, and make some modest but long-overdue improvements in the unemployment insurance program to improve the program's coverage rate among certain types of workers, particularly women, lower-paid workers and workers whose regular unemployment benefits are exhausted during recessions. Little more than one-third of unemployed workers receive unemployment insurance in an average month. A blue-ribbon Congressionally-chartered panel that studied the UI program in the mid-1990s and was chaired by Janet Norwood, the highly respected former Commissioner of the Bureau of Labor Statistics, recommended a more extensive set of benefit and coverage improvements.

Repealing the UI surtax without approving the other elements of the business-labor-state-DOL reform proposal would unravel the agreement and undermine prospects for passing the rest of the proposal. A strong case can be made for including the full UI reform proposal in the minimum wage package. If inclusion of the full proposal is not possible, repeal of the surtax should not be part of the minimum-wage package.

- The package does not include certain other tax items that would be a more appropriate complement to minimum-wage legislation than some of the tax cuts the Speaker has proposed. In particular, the package does not include any improvements in the Earned Income Tax Credit for low-income working families with children. Bipartisan legislation introduced in July by Senators Rockefeller, Jeffords, and Breaux, as well as separate tax legislation introduced this year by Senator Hatch, would improve the EITC in various ways and thereby better support low-income working families with children. The Administration's budget also contains a set of EITC improvements. Such proposals recognize that to support families earning low wages, a combination of a higher minimum wage and a stronger EITC is needed.

One other point bears mention. Speaker Hastert's letter describes the tax cuts in the package as reflecting "our desire to help alleviate the burdens on small businesses that would shoulder the costs of [the minimum wage] increase." However, a number of the provisions that make up the tax package (especially the health insurance deduction) bear little relationship to any possible effects of a minimum-wage increase on small business.

CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org http://www.cbpp.org

August 30, 2000

Health Insurance Deduction of Little Help to the Uninsured

One of the principal tax proposals that Speaker Hastert has recommended be part of a minimum-wage package would create a new tax deduction for the purchase of health insurance and other heath expenses by people who pay at least 50 percent of the cost of their health insurance premiums. At first glance, such a deduction may seem an attractive idea if it could help the uninsured to obtain coverage or help small businesses to cover their employees. Closer examination indicates, however, that this deduction — which would cost $11 billion a year when fully in effect — would be unsound policy.

- It would provide little help to most of those who lack insurance and do little to reduce the ranks of the uninsured.

- Because the deduction provides a far deeper percentage subsidy for the purchase of insurance to higher-income business owners and executives than to lower-income wage earners, it could encourage small business owners to drop, or fail to institute, group coverage and rely instead on this deduction to help defray the cost of their own coverage. As a result, some workers could be forced to buy more costly and less comprehensive insurance on the individual market, and the ranks of the uninsured and underinsured could increase.

Deduction Would Do Little to Help the Uninsured

The deduction would provide little subsidy to most workers who currently are uninsured and most workers for whom employers pay inadequate shares of premiums to make insurance affordable. Census data show that 93 percent of all uninsured individuals either have incomes too low to incur income tax liability or pay income tax at the 15 percent marginal rate.[1] These individuals would at most get a subsidy of 15 percent of the cost of purchasing health insurance, too little to enable most of them become insured. For low- and moderate-income families and individuals without employer-sponsored coverage, a 15 percent subsidy — which would leave

[1] These data show that 18 million uninsured individuals — 43 percent of all of the non-elderly uninsured — owe no income tax; their earnings are too low for them to incur an income tax liability. These uninsured individuals would receive no benefit from a tax deduction; a deduction would do nothing to make health insurance more affordable for them. Another 20 million uninsured individuals — 50 percent of the non-elderly people without health insurance — pay income tax at a 15 percent marginal tax rate. A deduction would provide these taxpayers with a subsidy equal to 15 percent of the cost of insurance not covered by an employer. General Accounting Office, Letter to The Honorable Daniel Patrick Moynihan, June 10, 1998, GAO/HEHS-98-190R, Enclosure II. The analysis is based on the 1996 Current Population Survey.

them with the other 85 percent of the premium cost — is too small subsidy to make insurance affordable.

Rather than helping uninsured workers who cannot afford the premiums required to obtain adequate health coverage, such a deduction would, by and large, provide its principal benefits to individuals in higher tax brackets who already purchase individual insurance. The deduction would offset a much-larger share of the cost of individually purchased insurance for individuals in the 31 percent, 36 percent, or 39.6 percent tax brackets. Yet such individuals generally can afford insurance without a deduction.

- For a family earning $35,000 whose employer does not offer insurance, the proposed deduction would reduce the cost of a typical family health insurance policy from $7,350 to $6,250, or from 21 percent of income to 18 percent of income.[2]

- Few families that have forgone health coverage because they cannot afford to spend 21 percent of income on it would find coverage affordable because a tax deduction had lowered its cost to 18 percent of income. It may be noted that the child health block grant established in 1997 set a limit on the premiums and co-payments that can be charged under programs receiving block grant funds, with the limit being *five* percent of income for families above 150 percent of the poverty line and smaller amounts for poorer families.

This provision might be of modest help to some moderate-income families whose employer pays half or nearly half of the premium costs, since the deduction would be in addition to the employer subsidy. Even families whose employers pay 50 percent of the premium, however, would receive only very modest help from the deduction. The deduction would reduce the proportion of the premium these families must pay from 50 percent of the premium to 42.5 percent. While that might help some families afford insurance, the number of such families likely would be small.

In addition, the deduction could induce some employers currently paying more than 50 percent of premium costs to scale back their contribution to 50 percent or less. Also, as noted above, some employers may drop coverage altogether.

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[2] A General Accounting Office study found that in 1998, health insurance premiums for family coverage purchased in the individual, non-group market range from $3,180 to $14,233 per year, depending on factors such as age, health status, and region of the country. The GAO identifies a "medium" premium cost for a family of four as $7,352. U.S. General Accounting Office, *Private Health Insurance: Potential Tax Benefit of a Health Insurance Deduction Proposed In H.R. 2990* (GAO/HEHS-00-104R), April 21, 2000. It should be noted that in addition to premium costs, health insurance policies typically have substantial deductibles and copayments. Families would have to come up with additional funds, over and above the family share of the premium, to cover these costs. While these costs would be deductible under the proposal, a family in the 15 percent tax bracket would still have to bear 85 percent of them.

The group that would appear to benefit most from this deduction would be higher-income taxpayers who purchase insurance as individuals. A health insurance deduction is worth more than twice as much to individuals in the top tax brackets than to moderate- and middle-income families in the 15 percent bracket.

Deduction Could Cause Some Erosion in Employer-Based Coverage

While few low- and moderate-income workers would benefit, some could be harmed by the proposal. The proposed new health insurance deduction would allow small business owners or more highly-paid employees to purchase insurance for themselves, using the more generous subsidy the deduction provides for those in higher tax brackets, without the necessity of providing coverage for lower-paid employees. As a result, the deduction could provide an incentive for some small business employers to drop group coverage, or for some owners newly launching small businesses to decline to offer such coverage. To the extent this occurs, it would adversely affect some of the same workers the minimum-wage legislation is supposed to help.

IB10039: The Minimum Wage: An Overview of Issues Before the 106th Congress

July 19, 2000

William G. Whittaker
Domestic Social Policy Division

CONTENTS

SUMMARY

The general minimum wage under the Fair Labor Standards Act (FLSA), set by the 1996 amendments to that statute, is now $5.15 per hour. By the late 1990s, about 80 million workers were subject to the wage requirements of the FLSA, though most were actually paid substantially in excess of that rate. In 1999, about 4.6 million wage and salary workers, paid on an hourly basis, earned at or below $5.15 per hour: about 1.6 million at $5.15 per hour; about 3.0 million, below $5.15 per hour.

Under the FLSA, there are a number of sub-minima which, when not in conflict with a higher standard under state and local (or other federal) law, permits payment of wages below the $5.15 per hour standard. For example, there are sub-minima for certain persons under 20 years of age, for full-time students who work no more than part-time, and for some persons with disabilities. In addition, there are other specialized pay practices allowed under the Act. And, of course, some may be paid less than the minimum in violation of law.

The $5.15 federal minimum wage is set by statute. It remains at the statutory level unless specifically altered through legislation. Some states have minimum wage standards that are higher than that of the FLSA: where coverage is overlapping, the higher standard normally prevails. In addition, the minimum wage for American Samoa is set through a commission appointed by the U.S. Secretary of Labor. In the Commonwealth of the Northern Mariana Islands (CNMI), the federal minimum wage is not applicable; the insular government exercises authority with respect to wage standards.

Consideration of minimum wage legislation by the 106th Congress could include a number of issues of long standing, among which may be the following. First. Should the minimum wage be raised, abolished, or left alone? Second. Should the minimum rate be indexed to rise (or fall) in tandem with an independent economic variable? Third. Should the practice of allowing employers to count employee tip income toward their (the employer's) minimum wage obligation (the "tip credit" provision) be retained? Should it be expanded -- or phased-out? Fourth. What should be the future of the youth "sub-minimum" ($4.25 per hour) adopted in 1996? Fifth. Has the so-called "small business exemption" under the FLSA been applied equitably? Is its threshold trigger in need of change? Is such an exemption appropriate? What impact does it have on workers employed by small firms? Sixth. Should the minimum wage provisions of the FLSA be extended to the Commonwealth of the Northern Mariana Islands? Has the specialized treatment of American Samoa outlived the reason for its existence?

Numerous bills variously dealing with the minimum wage were introduced early in the 106th Congress. On February 2, 2000, the Senate passed H.R. 833 (amended to include the text of S. 625 bankruptcy legislation) which included language raising the minimum wage and making other changes in the FLSA. On March 9, 2000, the House passed H.R. 3081, a bill combining FLSA amendments with minimum wage, tax, pension, and numerous other provisions.

MOST RECENT DEVELOPMENTS

On February 2, 2000, the Senate approved H.R. 833 (amended by substituting the text of S. 625, the Bankruptcy Reform Act of 1999), which contains language that would raise the federal minimum wage by $1.00 over a 3-year period and make certain other changes in the FLSA. No comparable language is contained in the House version of the legislation. On March 9, 2000, the House passed H.R. 3081, a bill raising the minimum wage by one dollar over a 2-year period, making other changes in the FLSA, and dealing broadly with taxes and other non-FLSA issues.

Oversight hearings were conducted on labor standards in the Commonwealth of the Northern Mariana Islands September 14 and 16, 1999, respectively, by the Senate Committee on Energy and Natural Resources and the House Committee on Resources. On February 7, the Senate passed S. 1052, dealing with immigration to the CNMI. On April 12, 2000, the Senate passed S. 2323, legislation dealing with employee stock options and their implications for overtime pay calculation; on May 3, the bill was passed by the House.

BACKGROUND AND ANALYSIS

The Fair Labor Standards Act (FLSA) of 1938 is the basic federal statute dealing with minimum wages, overtime pay, child labor, industrial homework (commercial production at home), and related issues. The Act (See Table 1) has been comprehensively amended and the minimum wage raised on eight occasions: in 1949, 1955, 1961, 1966, 1974, 1977, 1989, and 1996. Congress has dealt more narrowly with provisions of the Act at other times.

Table 1. Federal Minimum Wage Rates, 1938-2000

Public Law

Effective date

Rate

P.L. 75-718 (Enacted, 6/25/38)

October 1938 October 1939 October 1945

$.25

.30

.40
P.L. 81-393 (Enacted, 10/26/49)
January 1950

.75
P.L. 84-381 (Enacted, 8/12/55)
March 1956

1.00
P.L. 87-30 (Enacted, 5/5/61)
September 1961 September 1963

1.15

1.25
P.L. 89-601 (Enacted, 9/23/66)
February 1967 February 1968

1.40

1.60
P.L. 93-259 (Enacted, 4/8/74)
May 1974
January 1975 January 1976

2.00

2.10

2.30
P.L. 95-151 (Enacted, 11/1/77)
January 1978 January 1979 January 1980
January 1981

2.65 2.90 3.10 3.35
P.L. 101-157 (Enacted, 11/17/89)
April 1990
April 1991

3.80 4.25
P.L. 104-188 (Enacted, 8/20/96)
October 1996 September 1997

4.75

5.15

Introduction to the Fair Labor Standards Act

The general minimum wage under the FLSA, set by the 1996 FLSA amendments, is now $5.15 per hour. By the late 1990s, about 80 million workers were subject to the wage requirements of the FLSA, though most were actually paid substantially in excess of that rate. In 1998, about 4.4 million wage and salary workers, paid on an hourly basis, earned at or below $5.15 per hour: about 1.6 million at $5.15 per hour; about 2.8 million, below $5.15 per hour. Under the FLSA, there are a number of sub-minima which, when not in conflict with a higher standard under state and local (or other federal) law, permit payment of wages below the $5.15 per hour standard -- as well as specialized exemptions from the Act's wage requirements. And, some may be paid less than the minimum in violation of law.

The $5.15 federal minimum wage is set by statute. It remains at the statutory level unless altered through legislation. Some states have minimum wage standards higher than that of the FLSA: where coverage overlaps, the higher standard normally prevails. In addition, the minimum wage for American Samoa is set through a commission appointed by the U.S. Secretary of Labor. In the Commonwealth of the Northern Mariana Islands (CNMI), the insular government currently exercises authority with respect to wage standards.

Scope of the Fair Labor Standards Act

Early in the century, both Congress and the states experimented with worker protection measures, frequently oriented toward children and women: child labor regulation, minimum wage, overtime pay, and restraints upon industrial home production. Most often the states acted first and Congress followed.

Following a year of debate and negotiation, P.L. 75-718 (1938) set the minimum wage at 25 cents an hour: a determination more nearly reflective of legislative compromise than of economic theory. Critics viewed the initiative as intruding upon the prerogatives of business, and potentially of negative economic impact. Proponents viewed it as a device through which to stimulate the economy to the benefit both of employers and of labor. But, some of the most impoverished workers remained beyond its scope. Coverage was generally limited to interstate commerce, defined narrowly. Workers in service and retail trades, state and local government, and agriculture, inter alia, were exempt. Further, the Act contained a body of carefully focused exemptions.

Through the years, there has been a constant tug-of-war between those who have sought to expand coverage and those who have sought further exemptions. Amendment of the FLSA has varied, depending upon changing Congressional perspectives; but, almost without exception, each change has made the Act more complex and, some might argue, more difficult to administer. In response, the Department of Labor (DOL) has crafted voluminous implementing regulations, supplemented by a body of "opinion letters" focusing upon specific workplace circumstances. The result, some have asserted, has been a measure of uncertainty for all but the most sophisticated labor standards specialists.

The states entered the wage/hour field alongside the federal government with labor standards of their own. The result has been separate (and not necessarily parallel) regulation of wages and hours. As might be expected, state and local minimum wage laws often differ from each other and from the federal statute. Where coverage overlaps, the higher standard normally applies. However, some workers may be covered neither by state nor federal minimum wage law. Specific coverage can be conditioned by such elements as the type of work performed, the dollar volume of business done by an employer, the age and/or student status of the worker, the duration of his employment with a particular firm (when coupled with a worker's age), any physical or mental incapacitation, or other factors. Thus, defining coverage may not always be a simple matter nor immediately clear.

Policy Issues Concerning the Minimum Wage

From a review of hearings, congressional floor debates, and the general minimum wage literature (which is extensive), some questions seem frequently to reoccur. For example:

Socio-Economic Questions with Respect to the Minimum Wage

Some see the minimum wage as an effort to assist the working poor: usually non-union workers with few skills and little bargaining power. Some early advocates of a minimum wage viewed it not only as socially useful but, also, as economically useful: promoting socio-economic equity, providing a floor under wages, stimulating demand for goods and services, expanding employment and, with other measures, bolstering the general economy.

Some critics of the minimum wage, conversely, view it as an inefficient approach to income redistribution -- and, an unjustified intrusion into operation of the free market. They contend that minimum wage increases have an inflationary impact, imposing an unnecessary burden upon employers and consumers. Such critics often view the wage floor as economically harmful, especially for the unskilled and new workforce entrants who, they say, may be priced out of the job market.

Economists and policy analysts continue to disagree about the impact of changes in the minimum wage and about what the effects of the minimum wage have been. The issues are both socio-economic and ideological and have changed little since the debates of 1937-1938.

What Do We Mean by "Minimum Wage?"

When people speak of a minimum wage, they often speak in terms of "a livable wage" or "a decent wage" or "a fair wage" or suggest that the working poor ought to be able to live "in reasonable comfort" and enjoy economic "dignity." Early in the century, it was common to speak of a "living, family, saving wage." But, when individuals use such terms, is there any reasonable assurance of a consistent meaning?

In statute, the minimum wage is clearly defined: $5.15 per hour for most (but not all) covered workers. The FLSA does not translate that dollar amount into social or human terms. Is $5.15 an hour actually a "livable wage" -- and, livable by what standards? Does "reasonable comfort," for example, mean safe and adequate shelter with modest amenities? How are "safe" and "adequate" and "modest" defined?

Some may view "minimum" as the lowest wage an individual will accept (a "reservation wage") or the highest amount an employer is willing to pay. Some urge repeal of a legislated wage floor altogether -- and define the "minimum" as whatever rates are set by supply and demand in a free market economy: i.e., a "market wage."

How "Minimal" is Minimum?

Minimum wage debates contain frequent references to the "poverty level" for a family of two or three or more. If Congress intends the minimum wage to be set at a level high enough to move a family out of poverty (as some suggest), then some measurement of family size and of total household income is necessary in assessing the adequacy of the FLSA minima. If, instead, the minimum wage is productivity-based (i.e., resting upon the contribution of the worker), then family size and non-wage income would seem irrelevant.

Under current law, a minimum wage worker, employed full-time and full-year (40 hours per week for 52 weeks at $5.15) would earn $10,712. A full-time worker, under age 20, could earn the equivalent of $8,840: after 90 consecutive days with an individual employer, however, his/her sub-minimum rate ($4.25 per hour) would increase to $5.15 an hour. These amounts are prior to any deductions and exclusive of any fringe benefits. Table 2 sets forth the level of earnings regarded as a poverty threshold, at various family sizes, for eligibility for certain federal assistance programs. (The extent to which the poverty guidelines are realistic is a separate issue.)

Table 2. Poverty Guidelines, All States and the District of Columbia (2000)

Size of family unit	Poverty guideline States and District of Columbia	Alaska	Hawaii
1	$8,350	$10,430	$9,590
2	11,250	14,060	12,930
3	14,150	17,690	

16,270
4
17,050

21,320

19,610
5
19,950

24,950

22,950
6
22,850

28,580

26,290
7
25,750

32,210

29,630
8
28,650

35,840

32,970

Source: U.S. Department of Health and Human Services. Federal Register, February 15, 2000. p. 7555-7557.

Note: For family units with more than eight members, add $2,900 for each additional member. For Alaska, add $3,630, and for Hawaii, add $3,340.

Since much minimum wage work is also part-time and/or part-year, estimating actual annual income for minimum wage workers may be problematic. Similarly, choosing a wage rate that will comport to the work patterns of minimum wage earners and still provide "a living wage" may prove daunting. As well, those earning more than the statutory minimum typically receive fringe benefits in addition to cash wages: e.g., health insurance, a pension, etc. Under present law, the concept of a minimum wage is limited to a cash wage.

To Whom Should "Not Less Than" the Minimum Wage Be Paid?

FLSA minimum wage requirements have always been subject to exceptions, sometimes excluding from coverage those likely to be the most poorly paid workers. Upon what basis has Congress included or excluded workers from minimum wage protection under the FLSA? Does Congress view the "minimum wage worker" as a single individual? A parent? The solitary support for a family? Is the FLSA minimum intended to be a wage floor for all workers, urban and rural? For employees only of large firms, or for those employed by small businesses as well? Should any non-work or non-productivity factors be taken into account when setting the wage floor -- for example, age, student status, family size, etc.?

Various social and demographic distinctions have been cited to justify minimum wage rate differentials. For example, the FLSA, under certain conditions, allows a full-time student "employed in a retail or service establishment, agriculture, or the institution of higher education that such student attends" to be paid a lower minimum wage than that required for a non-student (even for equal work) -- so long as the student works only "part-time." The wage level, here, is conditioned less upon productivity than upon how the worker spends his off-duty hours: i.e., student status. Were the worker to cease being a full-time student or work more than part-time, his employer would be required to pay him at least the applicable full minimum rate. What is the rationale for paying a part-time worker less, on a per-hour basis (here, a sub-minimum rate), than a full-time worker -- for the same work?

Should the minimum wage be related to economic need? If a worker has an affluent spouse (or parents), should he (or she) be payable at a sub-minimum rate because his (or her) combined family income is relatively high -- and, thus, may be less economically needy? Should one who spends his wages for luxury items (tennis shoes, CD's, etc.) be paid at a lower rate than one who spends for tuition, baby formula, or elder care? Are such distinctions useful or workable?

Some may argue that younger persons, by definition, are less experienced and, therefore, less productive than "prime age" adults. This conclusion, however, may not be valid for minimum wage type work and, indeed, an argument can be made that for low-skilled entry-level positions, young persons may be more productive: i.e., more vigorous, more nearly satisfied with such routine activity.

Who Should Pay the Minimum Wage?

Is the minimum wage intended to be sufficient to sustain a worker (however defined by Congress): i.e., a single person, a breadwinner for a family? If so, should an employer be obligated to pay a wage of at least that amount -- an amount that could, presumably, be affected by the assumptions built into the definition of a worker? If the minimum wage is not sufficient to sustain a worker (and his or her dependents, if any), then by whom should the deficiency be paid? Should it be paid by the employer who directly benefits through utilizing low-wage employment -- and, indirectly, the consumer of goods and services such workers provide? Or, should the differences be subsidized by the taxpayer?

In 1975, Congress established the Earned Income Tax Credit (EITC). Modified through the years, the EITC provides a tax credit to certain low-wage workers. Some laud the EITC for helping "to lift more working families above the poverty threshold and to provide a greater work incentive to low-income workers." (Daily Labor Report (DLR), August 3, 1993: A10.) But, the EITC can also be viewed as a subsidy, not only to workers but also to low-wage employers who may continue to pay low wages and retain any profits from their business -- while tax revenues (through the credit mechanism, or through other public subsidies) assist their workers in meeting basic living costs. Thus, arguably, the routine cost of doing business is shifted from the individual employer to the taxpayer. Similarly, the EITC can be viewed as a subsidy to consumers of goods and services produced by low-wage workers. Conversely, some argue, the EITC affords firms that operate on a slim margin an opportunity to remain in business and to provide employment, even if at low wages. However, the EITC is conditioned upon the low earnings of a worker, not the marginal profitability of an employer, and makes no distinction between businesses (employers) that are struggling, economically, and those that are profitable. Some view the EITC as a supplement to the minimum wage, predicated upon the needs of workers; others, as a substitute for future minimum wage increases the cost of which would otherwise need to be paid by employers.

Similar arguments might be made about other poverty-related programs such as food stamps that allow workers to survive while working for low-wage firms. Some have questioned whether a minimum wage requirement may complicate the internal earnings/work requirements of the Temporary Assistance for Needy Families (TANF) program. Concerning the EITC, see: CRS Report 95-542, The Earned Income Tax Credit: A Growing Form of Aid to Low-Income Workers. With respect to the minimum wage and TANF, see: CRS Report 97-1038 (pdf), Welfare Recipients and Workforce Laws.

A related issue flows from the Act's exemptions. For example, under the FLSA, certain qualifying small employers may be exempt from the Act's minimum wage requirements. Speaking generally, this would include firms "whose annual gross volume of business done" is less than $500,000, though individual employees of such firms, engaged in interstate commerce, may be covered under the wage/hour provisions of the Act. (In addition, the Act contains numerous specific more focused exemptions.) There has been pressure from the small business community to expand that exemption. Proponents have argued that small firms may be adversely impacted (by having to pay their workers the minimum wage) or even driven out of business. However, no test of profitability has been proposed with respect to firms benefitting from the small business exemption: it is enjoyed by prosperous and struggling businesses alike. Where small business is free from a minimum wage obligation, the question remains: How will workers, employed by small businesses, sustain themselves and, where applicable, their families? The costs of living (food, housing, transportation, health care, etc.) are not dependent upon whether a worker (as consumer) is employed by a small business or by a large firm. Further, what are the implications of a "small business exemption" with respect to competition between small firms and mid-sized firms?

General Demographics of the Minimum Wage Workforce

In 1999, about 4.6 million wage and salary workers, paid hourly rates, earned at and below the federal minimum wage of $5.15 per hour: about 1.6 million at the minimum rate and 3.0 million below the minimum. Over time, as the value (purchasing power) of the minimum wage has been eroded by inflation, fewer workers are found employed at and below the minimum rate. But, this numerical decline in the number of minimum wage workers is a reflection of a declining value of the wage floor, not necessarily of an improved economic status for low-wage workers.

In absolute numbers, according to data provided by the Bureau of Labor Statistics, persons working at or below the minimum are more likely adults than youths, women than men, white than minority group members (although a larger proportion of minority than non-minority workers are paid the minimum wage). They are also more likely to be working part-time than full-time.

Critics of minimum wage policy often point to the minimum wage worker who is a young person, working for "pin money" and being supported by a suburban middle-class family. For example, one The New York Times article (February 18, 1993: D2), suggested that "much of the gain from a higher minimum would go into surfboards and stereos" and that "patrons of Taco Bell would end up paying an extra dime for their chicken fajitas so that the nice college kids behind the counter could spend spring break in Fort Lauderdale." Conversely, proponents of a higher minimum wage often discuss the minimum wage workforce as largely adult and, therefore, suggestive of a more serious problem.

Statistics can be used to support either interpretation. If, for example, using 1999 data, one defines a youth as between 16 and 19 years of age, then about 30.1% of workers, paid hourly at or below the minimum wage, are youths and 69.9% are adults. If one's definition is more expansive, defining youth as between 16 and 24 years of age, then about 50.8% of persons earning at or below the minimum wage are youths and only 49.2% are adults. For minimum wage type work, however, the two demographic groups may well be in competition, with youth workers readily substitutable for older workers and with younger workers having an employment advantage: they can often be hired at a sub-minimum wage.

Among those hourly paid workers, at or below the general minimum rate, about 63.7% were women with about 36.3% men. Similarly, although the data are imprecise because of definitional questions with respect to race and ethnicity, about 80% of such workers may be classified as white.

In 1999, about 60.2% of those at and below the minimum wage were engaged on a part-time basis; about 39.8% as full-time workers. (Some statistical variation may result from a small number of multiple jobholders.) But, full-time employment is not synonymous with full-year employment. Low-wage employment may tend to be less stable than more highly compensated employment, with workers suffering involuntary joblessness or moving in and out of the labor force from discouragement or for other reasons.

Similarly, there is a problem with projecting the income of minimum wage workers to an annual figure, since many full-time minimum wage workers may not be employed on a full-year basis. There may be blocks of time when they are not working (or are not working at the minimum wage), their annual income being altered accordingly. Beyond uncertainties about combinations of part-time or full-time, part-year or full-year employment, one must recall that the minimum wage is a cash wage. Fringe benefits earned by a minimum wage worker are likely to be less than those of more highly paid persons, widening the gap between the actual economic well-being of the minimum wage worker and others. On the other hand, minimum wage workers may have other sources of income. (An analysis, Characteristics of Minimum Wage Workers: 1999, prepared by the Bureau of Labor Statistics, is available upon request.)

Minimum Wage-Related Issues of the 106th Congress

In prior Congresses, a number of minimum wage-related policy issues have evolved as recurring themes. Some of those that may re-emerge and receive consideration by the 106th Congress include (but, certainly, are not limited to) those discussed below.

The minimum wage was last raised by the 104th Congress. Though hearings were held on the issue, no legislation was reported. Various efforts to bring legislation directly to the floor, circumventing the committee process, culminated in a floor amendment to H.R. 3448 (the Small Business Job Protection Act of 1996). A tax bill, the measure was approved by the House; the Senate accepted the House language with respect to the FLSA/minimum wage issue. The bill was signed by the President on August 20, 1996 (P.L. 104-188). Inter alia, it raised the minimum wage in two steps to $5.15 per hour after September 1, 1997, established a "tip credit" at $2.13 per hour, and instituted a general sub-minimum wage of $4.25 for certain persons under 20 years of age. Thus, the stage was set for future debates.

To Raise the Minimum Wage?

Proposals to raise the minimum wage have, by tradition, been controversial. They have sparked appeals on behalf of economic equity for the working poor and, on the other hand, evoked dire predictions of adverse impact should the free market be disturbed by legislating wage rate increases not justified by demand or enhanced productivity. Each time such increases have been considered since 1937-1938, economists have been arrayed on each side of the issue. Then, after an increase has been enacted, there has followed a period in which interest in low wage workers has seemed to diminish, slowly to rebuild for the next round.

Legislation: Early in the 106th Congress, the President called for an increase of $1.00 per hour in the minimum (from $5.15 to $6.15) to be implemented through a 2-year period. New wage/hour legislation has been introduced both in the House and in the Senate. H.R. 325 (Bonior), S. 192 (Kennedy) and S. 8 (Daschle) provide for a series of step increases in the minimum wage: to $5.65 after September 1, 1999, and to $6.15 after September 1, 2,000. Each also extends minimum wage coverage to the Commonwealth of the Northern Mariana Islands (discussed below). The Daschle bill is an umbrella proposal that deals with a variety of other topics. On October 29, 1999, Senator Kennedy introduced an updated version of S. 192 (now S. 1832), changing the effective dates of the minimum wage increases. On March 27, 2000, Senator Daschle introduced another bill (S. 2284), again changing the effective dates of the projected minimum wage increases. H.R. 627 (Sanders) would increase the minimum wage to $6.50 after December 30, 1999. H.R. 964 (Quinn) would similarly raise the minimum wage, but in three steps: to $5.55 after September 1, 1999, to $5.85 after September 1, 2000, and to $6.15 after September 1, 2001. See also H.R. 3833 (Shimkus) and H.R. 4177 (Traficant) which would increase the minimum wage in three steps and two steps, respectively. H.R. 3833 contains other amendments to the FLSA as well. Floor action has occurred with respect to H.R. 3081 (Lazio) and S. 625. See discussion below.

On March 25, 1999, Senator Kennedy proposed an amendment to the Concurrent Resolution on the Budget (S.Con.Res. 20, S.Amdt. 195) to declare it to be the sense of the Senate that the minimum wage should be raised by 50 cents in 1999 and by 50 cents in 2000, and that the federal minimum wage be made to apply to the Commonwealth of the Northern Mariana Islands. On a point of order, the proposal was rejected by 45 yeas to 53 nays. (Congressional Record (CR), March 25, 1999: S3396.) On April 27 and on October 7, 1999, the Committee on Education and the Workforce, chaired by Representative Goodling, conducted hearings on the potential impact of changes in the minimum wage. No particular legislation was under consideration.

Note: On several occasions, language dealing with the minimum wage and related issues has been proposed as an amendment to non-minimum wage legislation. For example, see: (a) Kennedy amendment to S. 96, the "Y2K Act" (CR, S4327-S4330); (b) Kennedy amendment to S. 1429, the "Taxpayer Refund Act of 1999" (CR, S9896-S9897); and (c) Kennedy amendment to S. 625, the "Bankruptcy Reform Act of 1999" (CR, S11081-S11097). None of the proposed amendments were adopted. (d) On November 9, 1999, a further Kennedy amendment was proposed to S. 625 -- and tabled; a Domenici minimum wage/FLSA amendment was approved. However, S. 625 remains under consideration in the Senate. (See discussion below.)

Representative Bonior has filed a "discharge petition." If the petition secures enough signatures, it would require that H.R. 325 (the Bonior minimum wage proposal) be called up for floor debate. See H.Res. 301. (DLR, October 6, 1999: A5-A6.)

Indexation?

The minimum wage is statutory: fixed at a specified rate until Congress alters it. The result has been interim periods during which the real value of the minimum wage has been allowed to erode. As Table 1 shows, Congress had periodically legislated increases in the minimum wage, bringing it to $3.35 per hour on January 1, 1981. Then, it was not raised again for 9 years. In 1989, Congress mandated two further increases: to $3.80 after April 1, 1990, and to $4.25 after April 1, 1991. Thereafter, it was unchanged until the 1996 FLSA amendments mandated further increases to $4.75 after October 1, 1996, and to $5.15 after September 1, 1997. Even with the increases provided in the 1989 and 1996 amendments, the purchasing power of the minimum wage is about $2.35 below its 1968 peak value. To equal that value, it would have had to have been about $7.50 per hour early in 1999.

Some suggest that, in order to preserve a consistent purchasing power, the minimum wage ought to be indexed. Under such a system, the wage floor would be adjusted automatically in relation to changes, over time, in an independent economic measure or variable. The Consumer Price Index or the average hourly earnings of production workers in manufacturing have been mentioned as possible indexation standards. There are other options; none, perhaps, without deficiencies.

It is argued that indexation would bring stability to the process, providing workers with an assurance of increases and allowing employers to anticipate regular change in the wage floor, rather than being confronted with periodic higher legislated increases. Others fear that indexation would add to inflationary pressures: basing the rate upon experience rather than current economic conditions. It is also argued that continuing direct congressional oversight and involvement in the wage setting process may be important.

It is not clear, however, that indexation would remove Congress from the process. With indexation in place, minimum wage advocates may seek, periodically, to alter the indexation formula: to enhance economic parity for the working poor and to reduce the gap between the federal minimum and other wage structures. Or, since the minimum wage is a straight cash wage, some might argue for addition of a fringe benefit component -- and for adjustment of that component from time to time. Further, worker and employer interests might be expected to seek indexation of the employer tip credit, the so-called small business exemption, and the various sub-minima -- all of which are set, in varying ways, in statute.

Legislation: Bills providing for indexation were introduced early in the 106th Congress. After an initial increase in the minimum wage (to $6.50 after December 30, 1999), H.R. 627 (Sanders) would "adjust" (index) the wage floor "by the percentage increase which is applicable to the primary insurance amount under Section 215(i) of the Social Security Act." Under H.R. 964 (Quinn), the minimum wage be increased to $6.15 by September 1, 2001, and, thereafter, be indexed annually, "in proportion to increases in the Consumer Price Index for all urban consumers." The bill also provides that the indexed increase "shall not exceed 4% in any one calendar year" and that the minimum wage "will never fall below the previous year's level." A third bill, H.R. 314 (Vento), would require that federal executive agency contracts and subcontracts provide for payment of not less than the poverty level for a family of four in the area in which the contract or subcontract is to be executed. The Vento bill defines wage to include fringe benefits such as health insurance.

The Employer "Tip Credit"

In 1966, when FLSA minimum wage and overtime pay requirements were extended to workers in the hospitality industry, Congress added "some softening provisions" -- among them, a tip credit. (CR, August 26, 1966: 20793.) "To ease the impact" for employers, "the Congress permitted a tip credit system under which employers in the affected industries would pay 50% of the minimum wage to those employees who customarily and regularly received $20 [now $30] per month in tips." (H.Rept. 95-521, 95th Cong., 1st Sess., 1977. p. 31.) A worker had to receive at least the minimum wage in employer-paid cash wages and tips; but, if he qualified as "tipped," his employer could count the tips he received toward up to 50% of his (the employer's) minimum wage obligation.

At large, organized labor held that wages ought to be paid directly by an employer and that tips be regarded as a voluntary and irregular gratuity: i.e., a zero tip credit. Speaking generally, industry would have preferred a 100% tip credit, arguing that tips are essentially job-related: i.e., received only within the context of one's employment. Two considerations complicate the issue. First. Since tips are income, Social Security and other taxes are required to be charged against them. Second. Several state wage/hour laws preclude a tip credit. Thus, the FLSA tip credit option is void in those states.

With the 1996 FLSA amendments, Congress moved from a percentage tip credit (then 50%) to a fixed dollar amount: $2.13 per hour. Then, having set the floor upon which the credit rests, Congress raised the minimum wage. Thus, however much the minimum wage may rise hereafter (unless Congress alters the tip credit formula), employers will be allowed to pay their regularly tipped employees as little as $2.13 per hour so long as the total of tips and cash wage equals not less than the federal minimum. If there is a shortfall, the employer is obligated to make up the difference. To alter the existing $2.13 floor for tip credit purposes would require specific language in addition to legislation effecting an increase in the general minimum wage.

Legislation: In the 106th Congress, treatment of tips for wage, tax and other purposes is raised in H.R. 1329 (Hunter), introduced on March 25, 1999, and referred to the Committee on Wages and Means. (See Representative Hunter's explanation of the measure, CR, March 25, 1999: E590-E591.) On May 25, 1999, Representative Bilbray introduced H.R. 1921, providing that the FLSA tip credit option may not be preempted by state law, and modifying income and employment tax treatment of tip income. The bill was referred to the Committee on Education and the Workforce and to the Committee on Ways and Means.

The Youth "Sub-Minimum" Wage

In the 1960s, the retail and hospitality industries (with a high concentration of minimum wage workers, often youth workers) were brought under the FLSA. At the same time, Congress cushioned the impact of this extension of coverage for employers by permitting payment of a sub-minimum wage to certain full-time students who worked part-time.

Employers, however, continued to seek a more comprehensive reduced wage option. Through 3 decades, they pressed the case for a general sub-minimum wage: a youth opportunity wage or, later, a training wage for youth. They argued that a reduced wage option would make youth workers less expensive to employ and would result in more youth persons finding employment -- though at lower wages. Critics questioned what training would be given for minimum wage type work that would not routinely be given to any new hire. But, how might one document that such training, if of value and extraordinary, had actually been given? In 1989, at the urging of President Bush, Congress enacted an experimental training wage to sunset in 1993: an option, in practice, that was little used.

The 1996 FLSA amendments were called up as a floor amendment to tax legislation. Although the minimum wage, per se, was the subject of debate, little notice appears to have been paid to the "opportunity wage" provision. No hearings were held on the issue. As passed, it allowed employers to pay persons under 20 years of age $4.25 per hour "during the first 90 consecutive calendar days after such employee is initially employed by such employer." No specific training was required. The option might be useful in seasonal employment in the hospitality industry and in food services where the turnover rate for low-wage workers is traditional high. The senate accepted the House language without debate and the measure was signed by President Clinton, August 20, 1996 (P.L. 104-188).

The "opportunity wage" is set at a specific dollar amount: $4.25 per hour. To change the youth sub-minimum/opportunity wage would require specific legislative language in addition to legislation effecting an increase in the general minimum wage.

State Flexibility/State's Option

During the 1937-1938 debates on the original FLSA legislation, it was argued by some employers, especially from low-wage areas of the country, that a system of regional or other differentials should be built into the Act. Congress rejected the concept, opting instead for a national wage floor in covered work. Some, however, have continued to urge creation of regional/state sub-minima. The states, of course, are free to adopt standards higher than those set by Congress and many have.

In the 106th Congress, Representative DeMint introduced legislation (H.R. 2928) that would allow individual states to preempt the federal minimum wage under the FLSA so long as the state rate did not fall below $5.15 per hour (without regard for a higher federal rate). The total number of minimum wage workers, under H.R. 2928, could not be diminished but they could be paid at a lower rate than future federal minimum wage rates. Further, the Governor of a state would have the option of suspending "for a period of up to one year" wage rates within that state which exceed $5.15 per hour if: (a) "the State is unable to achieve work participation rates or other responsibilities" in connection with the welfare-to-work legislation, (b) "all or part of the State has experienced an increased rate of unemployment," or (c) "the State experienced an economic slowdown as measured by the gross State product." H.R. 2928 was introduced on September 23, 1999, and referred to the Committee on Education and the Workforce. See also S. 1887 (Enzi) which provides state flexibility (in a manner somewhat different from H.R. 2928) and applies the minimum wage under Section 6 of the FLSA "to the territories and possessions of the United States (including the Commonwealth of the Northern Mariana Islands) in the same manner as such provisions apply to the States." S. 1887 was referred to the Committee on Health, Education, Labor, and Pensions. (The substance of the DeMint proposal had been, initially, added to H.R. 3081, but was dropped before that measure reached the House floor for a vote.)

Commonwealth of the Northern Mariana Islands (CNMI)

In the mid-1970s, the CNMI entered into a quasi-autonomous relationship with the United States. By the Commonwealth agreement, regulation of overtime pay, under the FLSA, is enforced by the U.S. DOL. CNMI law governs the minimum wage. In addition, although within the U.S. customs area, the CNMI controls its own immigration policy. The result has been development of industry based upon low wages and alien contract labor, the product of which carries a "Made in America" label and competes with other American-made goods. (See CRS Report RL30235 (pdf), Minimum Wage in the Territories and Possessions of the United States: Application of the Fair Labor Standards Act.)

Through the past decade, human rights issues and labor standards in the CNMI have been the subject of DOL investigation, congressional hearings, and proposed legislation. In the 105th Congress, the Committee on Energy and Natural Resources, following hearings, voted (16 yeas; 3 nays) to report legislation co-sponsored by Senators Akaka and Murkowski that, inter alia, would have created a US controlled insular minimum wage structure. (See S.Rept. 105-201.) The legislation died at the close of the 105th Congress.

Legislation: In the 106th Congress, the minimum wage for the CNMI remains an issue. H.R. 325 (Bonior), S. 8 (Daschle), S. 192 (Kennedy), S. 1832 (Kennedy), and S. 2284 (Daschle) would extend the general minimum wage under the FLSA to the CNMI. Further, Representative Miller of California has introduced H.R. 730, the "United States-Commonwealth of the Northern Marianas Human Dignity Act." It would: (a) restrain the use of the "Made in USA" label in the CNMI unless sweatshop conditions were ended; (b) require that not less than the applicable FLSA minimum wage be paid in the CNMI; (c) restructure the duty-free/quota-free treatment of the CNMI in its relationship with the customs territory of the United States; (d) subject to certain specified qualifications, apply U.S. immigration law to the CNMI; (e) mandate that the Department of the Interior conduct a study of the extent of human rights and labor rights violations in the CNMI and report to the Congress; and (f) adjust certain other aspects of law. H.R. 1621 (Franks of New Jersey) and S. 922 (Abraham) would address the CNMI issue by prohibiting use of a "Made in the USA" label for insular products and limiting their duty-free entry into the United States.

S. 1052 (Murkowski) would restructure United States immigration policy as it applies to the CNMI under the Covenant establishing Commonwealth status. On February 7, the bill was considered by the Senate and passed under unanimous consent. (CR, February 7, 2000: S355-S367, S369-S373.)

On September 14, 1999, the Senate committee on Energy and Natural Resources conducted an oversight hearing on political and economic conditions in the CNMI. On September 16, 1999, an oversight hearing focusing upon labor conditions in the CNMI was conducted by the House Committee on Resources.

Note: Early in the 106th Congress, Representative Clay introduced H.R. 90, a bill that deals more broadly with American sweatshops. The proposal was referred to the Committee on Education and the Workforce.

Equal Pay and Related Issues

A related aspect of the FLSA wage structure is Section 6(d): the equal pay provision. Covered employers may not discriminate in payment of wages within an establishment "for equal work on jobs the performance of which requires equal skill, effort, and responsibility, and which are performed under similar working conditions, except where such payment is made pursuant to: (i) a seniority system; (ii) a merit system; (iii) a system which measures earnings by quantity or quality of production; or (iv) a differential based on any other factor other than sex ...." Somewhat broader (and more contentious) is the concept of comparable worth: a proposal to extend the mandate of equal pay, within a firm, from work that is substantially the same to work that may be different but equivalent and of comparable value. (See CRS Report 98-278, The Gender Wage Gap and Pay Equity: Is Comparable Worth the Next Step?; and CRS Report 95-661, The Male-Female Wage Gap: A Fact Sheet.)

Issues dealing with equal pay (and related concepts) have been intermittently before the Congress at least since the 1960s. In the 105th Congress, several bills were proposed that would have expanded and/or strengthened the equal pay provisions of the FLSA. While they were not adopted, the matter of equal pay (and of comparable worth) remains a subject of discussion in public policy circles and a focus of current legislative interest.

Legislation: In the 106th Congress, questions of pay equity are addressed in the "Paycheck Fairness" bills: S. 8 and S. 74 (Daschle) and H.R. 541 (DeLauro). This legislation is described as amending the FLSA "to provide more effective remedies to victims of discrimination in the payment of wages on the basis of sex, and for other purposes." S. 121 (Feingold), "seeking to prevent the involuntary application of arbitration to claims that arise from unlawful employment discrimination based on race, color, religion, sex, age, or disability," deals not only with the FLSA but with certain civil rights and other statutes. Equal pay is also dealt with in H.R. 872 (Markey). See H.R. 1271 (Norton) and S. 702 (Harkin), similar but not identical bills each titled the "Fair Pay Act of 1999."

Other Related Proposals

Other bills have been proposed in the 106th Congress that deal with minimum wage and related issues under the FLSA. H.R. 793 (Graham) would exempt from minimum wage and overtime pay coverage licensed funeral directors and embalmers. H.R. 1302 (Boehner) would exempt from the minimum wage requirements "any employee employed in a sales position" who meets certain specified qualifying conditions. H.R. 1227 (Evans) and S. 1339 (Durbin) would permit debarment or suspension from federal procurement activities of employers who violate certain labor-related statutes including the FLSA. H.R. 3038

(Andrews) and H.R. 3081 (Lazio) would modify minimum wage and overtime compensation requirements for certain computer professionals. H.R. 2558 (McCollum) and H.R. 2551 (Hoekstra) deal with prison inmate production and compensation. H.R. 3409 (Sessions) would deny a minimum wage increase to employees whose employers provide a contribution to employee health insurance coverage of comparable value. S. 1241 (Ashcroft) would, inter alia, clarify minimum wage coverage for certain professional workers. H.R. 3540 (Isakson) and S. 2031 (Dodd) would redefine Section 14(c) treatment of handicapped persons under the FLSA to exclude "individuals with impaired vision or blindness" from the Section's sub-minimum wage option.

Combined Minimum Wage/Tax Modification Proposals

Though most of its history, amendments to the FLSA have been vetted through the hearings process. In 1996, that procedure was side-stepped: the 1996 minimum wage amendments came directly to the floor attached to an extensive body of tax legislation. The 1996 pattern may reoccur in the 106th Congress.

Action in the House: H.R. 3081

On October 14, 1999, Representative Lazio introduced H.R. 3081, a bill to increase the minimum wage, make certain other changes in the FLSA, and amend the Internal Revenue Code "to provide tax benefits for small businesses" -- though it is somewhat broader than this might suggest. The bill was referred, jointly, to the Committee on Ways and Means and to the Committee on Education and the Workforce. The Ways and Means Committee filed H.Rept., Part 1, Wage and Employment Growth Act of 1999, on November 11, 1999; the Committee on Education and the Workforce did not report the bill, being discharged from further responsibility on January 28, 2000. On March 9, the legislation was considered, amended to phase-in the minimum wage through a 2-year period, and passed. It was then combined with previously separate legislation dealing with taxes and other non-FLSA matters and dispatched to the Senate as a package -- a single bill. On final passage, the vote was 282 yeas to 143 nays, with 9 not voting. (CR, March 9, 2000: H773-H902.)

In its labor standards component, H.R. 3081 provides for an increase in the minimum wage of $1 an hour phased-in over a 2-year period: to $5.65 an hour on April 1, 2000, and to $6.15 an hour on April 1, 2001. The legislation would also: (a) expand the current minimum wage and overtime pay exemption with respect to certain computer service workers; (b) add new language dealing with exemption of certain sales personnel from minimum wage and overtime pay coverage; and (c) exempt from minimum wage and overtime pay protection "any employee employed as a licensed funeral director or a licensed embalmer." The FLSA provisions cover pages 205-209 of the GPO-PDF version of the bill. (See: CRS Report RL30003 (pdf), Modifying Minimum Wage and Overtime Pay Coverage for Certain Sales Employees Under the Fair Labor Standards Act; and CRS Report RL30537 (pdf), Computer Services Personnel: Overtime Pay Under the Fair Labor Standards Act.)

Action in the Senate: S. 625

On November 9, 1999, as the Senate resumed consideration of S. 625, the Bankruptcy Reform Act of 1999, it took up FLSA-related amendments by Senator Kennedy and by Senator Domenici.

The Kennedy amendment called for an increase in the federal minimum wage spread over 2 years: to $5.65 on January 1, 2000, and to $6.15 after January 1, 2001. In addition, it extended full federal minimum wage coverage to the Commonwealth of the Northern Mariana Islands. (Senate Amendment No. 2751) Following debate, the Senate voted to table the Kennedy amendment: 50 yeas to 48 nays.

The Domenici amendment would in increase the minimum wage over a 3-year period to $5.50 after March 1, 2000, to $5.85 after March 1, 2001, and to $6.15 after March 1, 2002. However, the Domenici amendment included a second provision: altering the definition of "regular" when calculating a worker's overtime pay (i.e., 11/2 times one's regular rate of pay) to exclude various incentive payments (i.e., bonuses, commissions, productivity or quality awards). The latter change has been urged by employers and opposed by workers. The issue of the Northern Marianas was not addressed in the Domenici package.

On November 9, the Senate approved the Domenici amendment by 54 yeas to 44 nays. (CR, November 9, 1999: S14340-S14353.) On February 2, 2000, the Senate approved H.R. 833 (after substituting the text of S. 625) by a vote of 83 yeas to 14 nays. There is no comparable wage/hour language in the House version of the legislation. (Washington Post, February 3, 2000, p. A1.) On various occasions, the Senate has attempted to reach an agreement that would bring minimum wage legislation to the floor.

Continuing Action

On March 27, 2000, Senator Daschle (with Senator Kennedy, and others) introduced S. 2284, a bill to raise the minimum wage over 2 years (to $5.65 after April 1, 2000, and to $6.15 after April 1, 2001), and to extend FLSA minimum wage coverage to the Mariana Islands. The bill was read twice and placed on the Senate Legislative Calendar under General Orders: Calendar No. 472. Were the Congress to take further action on the minimum wage issue, it could (among other options) proceed with either S. 625 or H.R. 3081 -- bills that contain language dealing with the minimum wage but which also contain a range of other provisions -- or it could call up S. 2284, a more narrowly focused measure. But, it could also move in another direction altogether -- or take no further action on the minimum wage issue during the 106th Congress.

During consideration of H.Con.Res. 290 (April 7, 2000), the Senate again took up the minimum wage issue. First, Senator Kennedy proposed, as the sense of the Senate, that the minimum wage should be increased by $1 an hour over a 2-year period. Second, Senator Nickles proposed, as the sense of the Senate, that the Domenici amendment to S. 625 (discussed above) be reaffirmed. On the Nickles amendment, the vote was 51 yeas to 49 nays. Senator Kennedy then moved to amend the Nickles amendment by changing the 3-year phase-in period for minimum wage increases to a 2-year period. On the Kennedy amendment, the vote was 51 yeas to 48 nays. (CR, April 7, 2000: S2406-S2408.) As the resolution was reported from conference, the language had reverted to a simple affirmation that "any increase in the minimum wage should be accompanied by tax relief for small businesses." (CR, April 12, 2000: H2235-H2236.)

Stock Options and Overtime Pay

Under the FLSA, covered workers employed more than 40 hours per week are required to be paid at a rate of 11/2 times their regular rate of pay. But, are benefits such as "stock options" to be calculated as part of that regular rate for overtime pay purposes? On April 12, 2000, the Senate approved a bill (S. 2323, McConnell and Dodd) to amend the FLSA to make clear that stock options are not to be counted as part of a worker's regular rate and to clarify the conditions under which that exemption obtains. Further, Senator McConnell said, the bill "includes a broad 'safe harbor' that specifies that employers have no liability because of any stock options or similar programs that they have given to employees in the past." The bill passed with 95 yeas and 5 not voting. (CR, April 12, 2000: S. 2575-S2586.) Companion legislation (H.R. 4109, Ballenger; and H.R. 4182, Cunningham) has been introduced in the House. On May 3, S. 2323 was called up in the House under suspension and was passed: yeas, 421; nays, 0; not voting, 13. (CR, May 3, 2000: H2437-2449, H2467.

See also CRS Report RL30542 (pdf), Stock Options and Overtime Pay Calculation under the Fair Labor Standards Act.)

Order Code RS20040
Updated March 3, 2000

CRS Report for Congress

Received through the CRS Web

Inflation and the Real Minimum Wage: Fact Sheet

Brian W. Cashell
Specialist in Quantitative Economics
Government and Finance Division

Summary

The Fair Labor Standards Act of 1938 established the hourly minimum wage rate at 25 cents for covered workers. Since then it has been raised 19 separate times, in part to keep up with rising prices. Most recently, in September 1997, it was increased to $5.15. Because there have been some extended periods between these adjustments, there has been substantial variation in the real value of the minimum wage. This report will be updated periodically. For more information on the minimum wage, see CRS Issue Brief 97058.

The Real Minimum Wage

Because the minimum wage is not indexed to the price level, it has been legislatively increased from time to time to make up for the loss in its real value due to inflation. In nominal terms, the minimum wage has risen steadily since 1938 from 25 cents an hour to $5.15 where it now stands. But the legislated adjustments to the minimum wage have occurred at irregular intervals. As a result, because of inflation, there has been significant variation in the purchasing power of the minimum wage.

Table 1 presents the effective dates and levels of the statutory minimum wage. The table shows, for each time the minimum wage was changed, its nominal value ($), as well as the equivalent amount in terms of the purchasing power of the January 2000 dollar. Selected data for average hourly earnings are also shown for purposes of comparison. The inflation adjustment is made using the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W), published by the Bureau of Labor Statistics of the Department of Labor. Real values are expressed in terms of January 2000 dollars.

The peak level of the minimum wage, in real terms as well as relative to average hourly wages, was reached in 1968. In January 2000, it would have to have been increased to $7.72 to equal the purchasing power of the statutory minimum wage in February 1968. Since 1968, despite a number of legislated adjustments, the minimum wage has not risen as fast as have overall prices.

TABLE 1. The Statutory Minimum Wage, Hourly Earnings and Inflation

	Statutory Minimum Wage		Average Hourly Earnings of Production Workers: Total Private		Manufacturing		
Effective date	$	January 2000$	$	January 2000$	$	January 2000$	CPI-W (82-84=100)
October 1938	0.25	2.93			0.62	7.28	14.1
October 1939	0.30	3.52			0.63	7.39	14.1
October 1945	0.40	3.64			0.97	8.82	18.2
January 1950	0.75	5.24			1.39	9.73	23.7
March 1956	1.00	6.13			1.92	11.77	27.0
September 1961	1.15	6.30			2.32	12.71	30.2
September 1963	1.25	6.69			2.47	13.23	30.9
February 1967	1.40	7.00	2.63	13.15	2.78	13.90	33.1
February 1968	1.60	7.72	2.78	13.41	2.94	14.19	34.3
May 1974	2.00	6.78	4.19	14.21	4.36	14.79	48.8
January 1975	2.10	6.63	4.41	13.93	4.68	14.78	52.4
January 1976	2.30	6.80	4.71	13.92	5.04	14.90	56.0
January 1978	2.65	6.98	5.48	14.44	5.97	15.73	62.8
January 1979	2.90	6.99	5.97	14.38	6.50	15.66	68.7
January 1980	3.10	6.55	6.42	13.57	6.97	14.73	78.3
January 1981	3.35	6.34	7.03	13.30	7.73	14.62	87.5
April 1990	3.80	4.94	9.96	12.95	10.74	13.96	127.3
April 1991	4.25	5.28	10.28	12.76	11.11	13.79	133.3
October 1996	4.75	5.06	11.96	12.73	12.83	13.66	155.5
September 1997	5.15	5.38	12.40	12.96	13.23	13.83	158.3
January 2000	5.15	5.15	13.58	13.58	14.19	14.19	165.5

Source: Department of Labor.

98-960 E
Updated August 10, 2000

CRS Report for Congress

Received through the CRS Web

The Federal Minimum Wage and Average Hourly Earnings of Manufacturing Production Workers

William G. Whittaker
Specialist in Labor Economics
Domestic Social Policy Division

Summary

The federal minimum wage, under the Fair Labor Standards Act (FLSA) of 1938 as amended, is fixed in statute and remains at the statutory level until the Congress, through new legislation, alters it. Each successive round of minimum wage increases (in 1949, 1955, 1961, 1966, 1974, 1977, 1989, and 1996) has been debated extensively and, very often, intensely. In each Congress, legislation to raise the federal wage floor is normally introduced.

In part because of divergent views about the minimum wage, both as to the appropriateness of having a legislated wage floor and, secondarily, about the level at which it ought to be set, long periods have sometimes elapsed between minimum wage enactments. As a result, the market value of the minimum wage has fluctuated widely and, with it, the protection afforded workers.

Questions are often asked: How does the minimum wage compare with the average hourly earnings of production workers in manufacturing industries (AHE-M)? Has there been a consistent relationship between the two through the years? Should that relationship be fixed by indexing or pegging the federal minimum wage to a percentage of the AHE-M?

This report may be updated if the need arises. See also CRS Report RS20040, *Inflation and the Real Minimum Wage: A Fact Sheet*.

An Orderly Approach to the Minimum Wage?

Some have suggested that a more consistent (systematic) approach should be found for effecting increases in the minimum wage. One option, sometimes discussed, would be to index (or peg) the minimum wage to an independent economic variable. Such an arrangement could allow for regular changes in the wage floor in tandem with the general economy.

With respect to indexation (as with the minimum wage *per se*), there is widely varying opinion. Some have argued that Congress shouldn't be involved with the minimum wage at all, regardless of the method: that a legislated minimum has adverse economic effects and that the *free market* ought to be relied upon for establishment of the wage floor. Others, while supporting the concept of a minimum wage, have held that indexation is unwise: that it would result in wage rate increases at inappropriate times, variously defined, and could prove to be an uncontrolled engine of inflation. Still others have suggested that the perceived need to raise the minimum wage provides a context for broader congressional review of the Act's non-wage provisions such as its overtime pay requirements, restrictions on child labor, control of industrial homework, etc. If change in the minimum wage became automatic through indexation, they contend, oversight of the other aspects of wage/hour regulation would likely be neglected.

Proponents of indexation see a number of advantages to the arrangement. It would insure, they suggest, that the income of the minimum wage worker (normally not represented by a trade union nor working under a collectively bargained agreement) is not allowed to decline to what proponents view as "intolerable" levels due to legislative inaction. Further, they have argued that systematic updating of the wage floor would provide industry with a surer foundation upon which to rest individual wage structures. Firms would be able to plan ahead, knowing that at fixed intervals the base wage rate for covered workers would be changed in keeping with trends in the economy at large. Thus, long periods of wage erosion followed by legislated efforts to *catch up* could be avoided.

Even among proponents of indexation, however, there appears to be some disagreement as to an appropriate independent economic variable to which changes in the wage floor should be anchored. Some have suggested use of the Consumer Price Index (CPI). Others have pointed to the Employment Cost Index (ECI). Still others have urged that the minimum wage be pegged to a percentage of the average hourly earnings of production workers in manufacturing. The utility of each of these options would be stoutly argued, pro and con, were it actually to emerge in legislation.

Congress last actively considered indexation of the federal minimum wage in the context of the 1977 FLSA amendments.[1] While it did not approve the concept at that time, it created a federal Minimum Wage Study Commission and instructed that body to explore the implications of indexation of the wage floor.

After 3 years of research and analysis, the Commission concluded that "the present system has not maintained the purchasing power of the minimum wage," that "indexation is not necessarily inflationary" if properly calculated, and that indexation "would have a small beneficial effect on the economy in the long run." Its immediate impact, the Commission suggested, though small, could be either beneficial or harmful "depending upon underlying economic conditions." The Commission recommended that the minimum wage "be indexed on the basis of average hourly earnings in the private economy." It further recommended that Congress

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[1]CRS Report 78-171, *The Fair Labor Standards Act Amendments of 1977 (P.L. 95-151): Discussion with Historical Background*, by Charles V. Ciccone and William G. Whittaker.

confer with the Bureau of Labor Statistics (BLS) "to devise a suitable index that incorporates both average hourly earnings in the private nonfarm business sector and in the farm sector."[2]

A dissenting judgment by Commissioner S. Warne Robinson, Chairman of the Board of the G. C. Murphy Company, declared indexation to be "A Prescription for Disaster" and termed the Commission's indexation proposal its "most far-reaching and least supportable" recommendation. Robinson argued that indexation "is by nature inflationary." He was critical of the minimum wage, *per se*, branding it "an extremely poor and even counter-productive device for redistributing income." He stated that indexation would have a "devastating impact ... on particular industries such as retail and service trades."[3]

When the Commission's report was issued in 1981, no further increase in the minimum wage was on the agenda; and, indeed, no further increases in the federal wage floor were legislated until 1989.[4]

One Instrument of Indexation — Among Many

Among those who favor indexation of the minimum wage, one device often proposed is the pegging of the wage floor to a percentage of the average hourly earnings of production workers in manufacturing industries.[5] In 1997, manufacturing workers made up about 15% of

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[2]U.S. Minimum Wage Study Commission. *Report of the Minimum Wage Study Commission.* Washington, U.S. Govt. Print. Off., 1981. vol. I, p. 83-84 (Hereafter cited as *Report of the Minimum Wage Study Commission*).

[3]*Report of the Minimum Wage Study Commission*, vol. 1, p. 202-205.

[4]The *Report of the Minimum Wage Study Commission*, in seven volumes, is available from the general collection of the Library of Congress. Indexation is discussed in volume I, pages 71-84 and 202-206, and in volume VI, pages 145-169.

[5]In 1975 (the 94th Congress), Representative John Dent (D-Pa.) proposed indexation of the minimum wage to the Consumer Price Index. Hearings on the issue were conducted but no new legislation was adopted. In 1977, Mr. Dent introduced legislation to index the minimum wage to 55% and, after 1 year, to 60% of average hourly earnings of production workers in manufacturing. For an analysis of the various indexation options, see *Indexing the Minimum Wage under the Fair Labor Standards Act*, an unnumbered CRS Report by Peter Henle (1977).

Other similar proposals have followed. In the 104th Congress, Senator Wellstone proposed indexation of the minimum wage at 45% of average hourly earnings of nonfarm, nonsupervisory private sector workers for the preceding 12 months. The Wellstone bill also provided that the minimum rate, once indexed, would be not less than the rate "for the preceding year." See *Congressional Record*, May 2, 1996, p. S4619-S4622. In the 105th Congress, new indexation proposals were introduced by Senator Kennedy and by Representatives Bonior and Sanders. No action was taken on these proposals. In the 106th Congress, at least two indexation proposals have been introduced: H.R. 627 (Sanders), to "adjust" the wage floor in accord with Section 215(i) of the Social Security Act; and H.R. 964 (Quinn), to index the minimum wage to increases in the CPI for all urban consumers.

all workers on nonfarm payrolls.[6] Data on the AHE-M (average hourly earnings of production workers in manufacturing) are available since 1941, about 2 years after enactment of the federal minimum wage law.

Table 1 examines the relationship between the federal minimum wage and the average hourly earnings variable. The minimum wage as a percentage of AHE-M reached its lowest level in 1949 (29.9%). When the newly legislated increase took place in January 1950, the percentage jumped to 54% of the AHE-M. Through the next 3 decades, it never fell below 40%. In 1968, following an increase mandated by the 1966 FLSA amendments, it reached its highest level at 55.6%. From 1983 until 1997, the minimum wage remained at less than 40% of the AHE-M, reaching a new low for the period at 33.4% in 1989. The 1989 amendments restored the comparative ratio to the upper 30% level but, by 1995, it had dropped to 36.2%. Congress again raised the minimum wage: to $4.75 per hour in 1996 (39.2% of the AHE-M) and to $5.15 per hour in 1997 (41.4% of the AHE-M). With no further legislated increases in the minimum wage, the ratio had dropped to 39.1% by 1999.

Increases in the minimum wage have taken effect at irregular times within calendar years. Here, the minimum wage has been counted at its highest level at any time during each year. For example, in October 1939, the federal minimum wage was raised from 25 cents per hour to 30 cents per hour. Thus, we used 25 cents per hour for 1938; 30 cents, for 1939, with a similar practice for other years during which changes occurred. (**Table 2** shows the mandated step increases in the federal minimum wage.)

Some states adopted minimum wage statutes prior to enactment of the federal FLSA. Many states continue to have minimum wage standards with some of them higher than the rate under the FLSA. Where state and federal standards overlap, creating dual coverage, the higher standard normally prevails.

Table 1. The Relationship of the Federal Minimum Wage to Average Hourly Earnings of Production Workers in Manufacturing Industries, 1941• 1999

Year	Minimum wage[a]	Avg. hourly mfg. earnings[b]	Min. wage as a % of avg. hourly mfg. earnings
1938	0.25	n/a	—
1939	0.30	n/a	—
1940	0.30	n/a	—
1941	0.30	0.69	43.5
1942	0.30	0.79	38.0
1943	0.30	0.88	34.1
1944	0.30	0.93	32.3
1945	0.40	0.95	42.1

[6]U.S. Department of Labor. Bureau of Labor Statistics. *Employment and Earnings*. May 1996. p. 39.

The proportion of the non-agricultural workforce engaged in manufacturing employment has declined through the years. In 1941, it was about 36%. This contraction would likely be weighed in any debate on the AHE-M variable as an instrument for minimum wage indexation.

Year	Minimum wage[a]	Avg. hourly mfg. earnings[b]	Min. wage as a % of avg. hourly mfg. earnings
1946	0.40	1.03	38.8
1947	0.40	1.18	33.9
1948	0.40	1.29	31.0
1949	0.40	1.34	29.9
1950	0.75	1.39	54.0
1951	0.75	1.51	49.7
1952	0.75	1.59	47.2
1953	0.75	1.68	44.6
1954	0.75	1.73	43.4
1955	0.75	1.79	41.9
1956	1.00	1.89	52.9
1957	1.00	1.98	50.5
1958	1.00	2.05	48.8
1959	1.00	2.12	47.2
1960	1.00	2.19	45.7
1961	1.15	2.25	51.1
1962	1.15	2.31	49.8
1963	1.25	2.37	52.7
1964	1.25	2.43	51.4
1965	1.25	2.50	50.0
1966	1.25	2.59	48.3
1967	1.40	2.71	51.7
1968	1.60	2.88	55.6
1969	1.60	3.05	52.5
1970	1.60	3.23	49.5
1971	1.60	3.45	46.4
1972	1.60	3.66	43.7
1973	1.60	3.91	40.9
1974	2.00	4.25	47.1
1975	2.10	4.67	45.0
1976	2.30	5.02	45.8
1977	2.30	5.44	42.3
1978	2.65	5.91	44.8
1979	2.90	6.43	45.1
1980	3.10	7.02	44.2
1981	3.35	7.72	43.4
1982	3.35	8.25	40.6
1983	3.35	8.52	39.3
1984	3.35	8.82	38.0
1985	3.35	9.16	36.6
1986	3.35	9.34	35.9
1987	3.35	9.48	35.3
1988	3.35	9.73	34.4
1989	3.35	10.02	33.4

Year	Minimum wage[a]	Avg. hourly mfg. earnings[b]	Min. wage as a % of avg. hourly mfg. earnings
1990	3.80	10.37	36.6
1991	4.25	10.71	39.7
1992	4.25	10.95	38.8
1993	4.25	11.18	38.0
1994	4.25	11.43	37.2
1995	4.25	11.74	36.2
1996	4.75	12.12	39.2
1997	5.15	12.45	41.5
1998	5.15	12.79	40.3
1999	5.15	13.18	39.1

Source: Calculated by CRS based upon earnings data of the U.S. Bureau of Labor Statistics.

[a]The federal minimum wage under the Fair Labor Standards Act of 1938, as amended. It is counted at its highest level at any time during each calendar year.
[b]Average hourly earnings cover production workers in manufacturing industries. The series excludes overtime pay.

n/a = not available.

Table 2. Federal Legislation Setting Minimum Wage Rates, 1938• 2000

Public law	Effective date	Rate
P.L. 75• 718 (Enacted, 6/25/38)	October 1938 October 1939 October 1945	$0.25 0.30 0.40
P.L. 81• 393 (Enacted, 10/26/49)	January 1950	0.75
P.L. 84• 381 (Enacted, 8/12/55)	March 1956	1.00
P.L. 87• 30 (Enacted 5/5/61)	September 1961 September 1963	1.15 1.25
P.L. 89• 601 (Enacted, 9/23/66)	February 1967 February 1968	1.40 1.60
P.L. 93• 259 (Enacted, 4/8/74)	May 1974 January 1975 January 1976	2.00 2.10 2.30
P.L. 95• 151 (Enacted, 11/1/77)	January 1978 January 1979 January 1980 January 1981	2.65 2.90 3.10 3.35
P.L. 101• 157 (Enacted, 11/17/89)	April 1990 April 1991	3.80 4.25
P.L.104-188 (Enacted 8/20/96)	October 1996 September 1997	4.75 5.15

Source: Created by CRS.

SPEAKER'S PRESS OFFICE

DATE: 8/28/00

TO: White House Congressional Affairs Office

FAX: 456-2604

NUMBER OF PAGES (INCLUDING THE COVER SHEET) 4

FROM:

- ☐ JOHN FEEHERY
  PRESS SECRETARY
- ☐ AMY ALTHOFF
  SPEECH WRITER
- ☐ ABBY MOON
  PRESS ASSISTANT
- ☐ PETE JEFFRIES
  COMMUNICATIONS DIRECTOR
- ☐ PAIGE RALSTON
  DEPUTY PRESS SECRETARY
- ☐ OTHER:

Comments:

If you have any problems receiving this fax, please call 202/225-2800
Speaker's Press Office
H-326, The Capitol
Washington, DC 20515

J. Dennis Hastert
Fourteenth District
Illinois

(202) 225-0600

Office of the Speaker
United States House of Representatives
Washington, DC 20515

August 28, 2000

The President
The White House
Washington D.C.

Dear Mr. President:

I have enjoyed working with you on several issues where we have found common ground. We have been quite successful this year in working together on repealing the Social Security Earnings Limit, fighting the war on drugs in Columbia, opening new markets in our poorest communities in America, and opening new markets oversees in China, Africa, and the Caribbean.

I would like to propose that we work over the next month to find common ground on your desire to increase the minimum wage by $1 and our desire to help alleviate the burdens on small businesses that would shoulder the costs of such an increase.

It is very clear that a vast majority of Congressional Democrats and Republicans would like to see a balanced approach achieved before we adjourn. While the House and the Senate have passed legislation that attempts to strike this balance, a variety of procedural hurdles have prevented us from getting that legislation to your desk for signature.

Our proposal is to increase the minimum wage by $1 in 50 cent increments that begin January 1st of next year and the remaining 50 cents on January 1st of 2002. We are also offering to drop the death tax and pension provisions in the bill that you regrettably find objectionable.

The remaining provisions are designed to assist small business with the costs of this wage increase and have a revenue impact of $24 billion over 5 years and roughly $76 billion over the next 10 years. We find this to be a reasonable and balanced offer that deserves your consideration.

I believe that we can work together to pass this legislation when we return in September with strong bipartisan majorities in the House and Senate. I have spoken with Senate Majority Leader Trent Lott and I believe he wants to achieve such a balanced approach as well. We would like your input and your assistance in getting this legislation to your desk before we adjourn this year. We will certainly need your help in removing the procedural roadblocks constructed to block such an effort. I look forward to working with you on this issue over the August recess.

Sincerely,

J. Dennis Hastert
Speaker of the House

Minimum Wage Increase and Modernizing Regulations

1. **(House) Increase Minimum Wage by $1 over two years** – Effective January 1, 2001, the minimum wage will increase by $.50, and will increase another $.50 on January 1, 2002.

2. **(House) Inside-Sales FLSA Exemption** – The Fair Labor Standards Act of 1938 is outdated in its treatment of differing factions of the sales force. For example, it treats door-to-door sales employees (who are FLSA exempt) differently than those that sell using the Internet and other modern technology (who are not FLSA exempt). This provision changes the law to recognize changes in sales occupations in the workforce over the past 62 years so that inside and outside sales employees are treated the same under the law (with the exception of telemarketers). This will act to equalize their compensation and overtime rules.

3. **(House) FLSA Clarification for Computer professionals** – This provision would clarify and update the current exemption for computer professionals. Many workers have been treated as exempt professionals under the current law since 1990, when the exemption for computer professionals was enacted with bipartisan support. In the past 10 years, many new jobs which were not even contemplated have been created causing confusion as to the classification of these workers. This provision would clarify existing law, specifying the new duties that are performed by workers who are "similarly skilled" to those in the current exemption.

4. **(House) FSLA Exemption for funeral directors** -- This provision would amend the Fair Labor Standards Act to exempt licensed funeral directors and licensed embalmers from minimum wage and overtime. This issue has been the subject of several court cases and this provision would clarify the treatment of such employees under the statute.

5. **(Senate) Bonus Gainsharing** – Current law dictates that employers have to recalculate an hourly employee's overtime pay if the employee receives certain types of commissions, incentives or performance bonuses. This acts as a disincentive for employers to provide these rewards because of the burdens associated with recalculating the employees' overtime pay. The provision included in the minimum wage package would allow employers to reward hourly employees in the same manner as professional employees, allowing all workers to share financially when their efforts produce gains in productivity or sales, fewer injuries or other important benefits to a company.

6. **(Senate) Tip Credit** – The Fair Labor Standards Act provides that tips received by tipped employees may be counted by the employer as "wages" for the purposes of meeting the minimum wage requirements. The employer may not pay less than $2.13 an hour in cash wages. If an employee's tips and the cash wage paid by the employer of at least $2.13 per hour do not equal the minimum wage, then the employer must increase the employee's cash wage to make up the difference. There are varying requirements in state laws regarding the cash wage for tipped employees. This provision would prospectively allow all employers to utilize a tip credit without reducing the wages of any tipped employees. The cash wage for tipped employees in effect on the date of enactment would be preserved in each state.

Tax Items in the Minimum Wage Package

1. **(Senate) WOTC** – Compromise to extend Work Opportunity Tax Credit through 2004 to assist businesses in hiring disadvantaged workers. [*House included no provision. Senate and Rangel substitute made permanent.*]
2. **(House) Reforestation** – Provide tax relief for reforestation expenses to create and maintain jobs [*House bill increases maximum reforestation expenses qualifying for amortization and credit from 10k to 25k; removes cap on amortization cost in 2001 and 2003. Rangel substitute increases from 10k to 20k; increases credit rate from 10% to 20%; and reduces amortization from 84 months to 36 months*].
3. **(Senate/House) Section 179** – Allow small businesses to expense qualifying property costs up to $35,000 [*House, Senate and Rangel previously agreed to increase section 179 expensing to 30k*].
4. **(Senate/House) Meals/Entertainment** – Speed up phase-in for 80% deduction of meals and entertainment expenses [*Senate increased meal/entertainment deduction to 80%. House increased meals to 60%, and 80% for those subject to DOT hour limitations. Rangel substitute increased meal/entertainment to 65% for business with sales below $5m.*].
5. **(Senate/House) Installment method** – Repeal installment method accounting requirement.
6. **(Senate) FUTA surtax** – Repeal outdated .2% FUTA surtax [*Though the net FUTA tax rate is .8%, the permanent tax rate is only .6%. The .2% surtax was adopted in 1976 to repay loans to the fund during '74 recession – that debt was paid in '87, but Congress extended it to offset costs of spending for unrelated programs. FUTA trust fund has nearly $20 billion surplus*].
7. **(Senate/House) Health deductibility 100% for self-employed** – Accelerate and extend deductibility to those who choose not participate in employer-subsidized health plans [*House, Senate and Rangel substitute all make 100% deductibility immediate*].
8. **(Senate) Health expense above-the-line deduction** – Phase-in for individuals to deduct 100% of health expenses without itemizing [*Individuals currently cannot deduct for health expenses unless they itemize and that is only 7.5%. This would free individuals of itemizing and allow them to deduct more for health insurance expenses, but not if they are covered by Medicare, government, and those whose plans are more than 50% covered by employers.*].
9. **(House) Special Occupations Taxes** – Repeal excise taxes imposed on producers and marketers of distilled spirits, wine, and beer [*Rep. John Lewis and Rep. Bob Matsui support bill by Rep. Dave Camp to eliminate these onerous taxes.*].
10. **(House) Commercial Fisherman income averaging** – Extend income-averaging benefits for farmers to include commercial fisherman.

ESTIMATED COST: $23 billion over 5 years. $76 billion over 10 years.