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Minimum Wage Bill

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 8, 2000
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

H.R. 3833 - Minimum Wage Increase
(Shimkus (R) Illinois)

H.R. 3832 - Small Business Tax Fairness Act
(Archer (R) Texas)

If Congress presents the President with legislation that either unacceptably delays a minimum wage increase or contains fiscally irresponsible tax cuts, the President will veto the legislation.

H.R. 3833 - Minimum Wage Increase

Congress should pass a straightforward bill to raise the minimum wage by \$1 in two equal steps, as proposed by the President. H.R. 3833, which would extend a minimum wage increase over a three-year period, would unacceptably delay the American worker's much-needed pay raise, costing a full-time, year-round worker more than \$900 over two years. The Administration strongly urges Congress to enact a minimum wage bill as proposed by the President, unencumbered by measures to repeal important overtime protections for workers or regressive, fiscally irresponsible tax cuts that threaten Social Security, Medicare, and debt reduction.

A modest increase in the minimum wage of \$1 would merely restore the real value of the minimum wage to the 1982 level. Recent history has shown that those who argue that even a reasonable increase in the minimum wage would harm the economy are wrong. Since the last minimum wage increase of 90 cents over two years, enacted in 1996, the unemployment rate has fallen from 5.2 percent to 4.1 percent -- around the lowest in 30 years -- and more than 10 million new jobs have been created. That last minimum wage increase provided a significant incentive to work, contributing to the 44 percent decline in the welfare caseload, and bringing the welfare rolls down to their lowest level in three decades. It also has been a crucial factor in contributing to rising incomes for even the poorest groups, reversing their income declines of the previous decade.

Minimum wage legislation should not be used as a vehicle to repeal important overtime protections for American workers, and the Administration would oppose adding such provisions. For example, the Administration is concerned about provisions in the bill that would repeal overtime protections for 1.5 million American sales employees, funeral workers, and computer professionals.

Min. Wage

H.R. 3832 - Small Business Tax Fairness Act

By spending a substantial fraction of the non-Social Security surplus without a balanced framework, the House tax package would threaten the Federal Government's ability to extend the life of Medicare and Social Security and pay down the debt by 2013. Absent an agreement on a balanced framework, a bill composed of these provisions 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 in its present form contains tax cuts of such magnitude that they would require an unacceptably large automatic sequester of mandatory programs, including Medicare.

The bulk of the tax provisions in H.R. 3832 are directed away from working families, and, whatever their stated intent, would do little to help most small businesses or family farms. For example, the estate tax relief is expensive, provides no benefit to average working Americans, and is poorly targeted to its purported purpose of providing relief for small business owners and family farms, because its three major provisions – conversion of the unified credit to an exemption, repeal of the surtax, and reduction in top marginal rates – would provide a disproportionate benefit to the very wealthiest estates.

H.R. 3832 also contains pension provisions that would raise the maximum retirement plan contribution and considered compensation limits for business owners and executives. This provision would weaken the pension anti-discrimination and top-heavy protections for moderate- and lower-income workers. These provisions are regressive, would not significantly increase plan coverage or national savings, and could lead to cuts in retirement benefits for moderate- and lower-income workers while benefits for highly paid executives are maintained or even increased.

Conclusion

The Administration urges the Congress to refrain from passing either a minimum wage increase that would be delayed unacceptably or fiscally irresponsible tax cuts that would threaten Social Security, Medicare, and debt reduction, and are not targeted at the needs of working families. The Congress should pass clean legislation that would raise the minimum wage by \$1 over two years and that would increase the rewards for work in a manner that would be good for the country and good for working families who are struggling to make ends meet. The legislation should not be encumbered by provisions that are unrelated to this increase or that would undermine existing labor protections. And any tax bill passed by the Congress should be fiscally responsible and adhere to a framework that protects the Federal Government's ability to extend the life of Medicare and Social Security and pay down the debt by 2013, such as the Democratic alternative does.

* * * * *

THE WHITE HOUSE

WASHINGTON

March 7, 2000

The Honorable J. Dennis Hastert
Speaker of the
House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

I am writing this letter to strongly encourage Congress to pass clean, straightforward legislation to raise the minimum wage by \$1 -- from \$5.15 to \$6.15 -- in two equal steps. Working families across this country deserve an increase that simply restores the real value of the minimum wage to what it was in 1982.

Those who argue this modest pay raise would harm the economy could not be more wrong. Since 1996, when I worked with Congress to raise the minimum wage by 90 cents over 2 years, the unemployment rate has fallen from 5.2 percent to 4.1 percent -- near the lowest level in 30 years, more than 10 million new jobs have been created, and economic growth has averaged 4.3 percent.

Despite this overwhelming evidence, some in Congress are insisting on a lengthier 3-year increase in the minimum wage -- a delay that would cost a full-time, year-round worker more than \$900 over 2 years. Others have chosen to use the minimum wage increase as a vehicle to repeal important overtime protections for American workers. And finally, some are using this minimum wage increase to pass irresponsible tax cuts that would threaten our fiscal discipline and jeopardize our ability to extend the life of Medicare and Social Security and pay down the debt by 2013.

Let me be clear -- this is the wrong approach. I will veto any legislation that holds this minimum wage increase hostage to provisions that delay this overdue pay raise or jeopardize our ability to strengthen Social Security and Medicare and pay down the debt by 2013 for future generations.

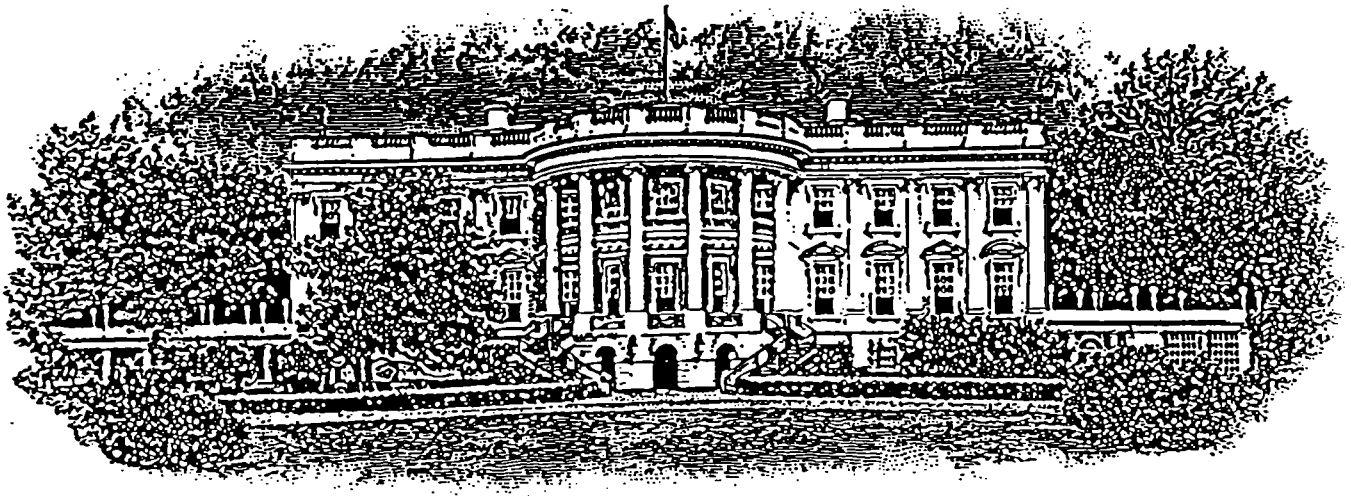
All Americans should be able to share in our current economic prosperity. For a full-time worker at the minimum wage, this increase would provide a \$2,000 annual raise -- enough for a family of four to buy groceries for 7 months or pay rent for 5 months. More than 10 million workers would benefit from this proposal, the majority of them women. Congress should do the right thing and give these workers a raise.

Sincerely,



225-0816 Emil

THE WHITE HOUSE
OFFICE OF LEGISLATIVE AFFAIRS



FAX COVER SHEET

TO: Pete Rundle

FROM: Broderick Johnson

Date: 3/6/06

No. of pages including cover: 44

Fax: 6-6279

Phone: _____

Fax: (202) 456- 6468

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MESSAGE: _____

4562505

Paul Glasier

March 8, 2000

Dear President Clinton and Members of Congress,

We religious leaders urge you, during this session of Congress, to pass legislation that will increase the minimum wage by \$1.00 over the next two years. So many of the working poor are in deep pain because of lack of sufficient income to provide for themselves and their families. We believe, as does a high percentage of the American public, that increasing the minimum wage by \$1.00 over two years would be one of the most compassionate and effective ways of responding to that pain. We believe that justice and compassion for "the least of these" demands that we act now.

This \$1.00 increase would mean an additional \$2000 per year for those working people and their families who are most in need of additional income; full-time workers who are paid the minimum wage. This \$1.00 increase would lift a family of two out of poverty. The extra \$2000 per year would buy approximately six months of groceries, or four months of rent; or seventeen months of tuition and fees at a two-year college. Surely in a time of enormous prosperity for so many, in a time when some among us have so much and some so little, we can do no less.

As estimated 18 million, five hundred thousand workers would benefit from a \$1.00 increase in the minimum wage. Ten million, one hundred thousand workers, about 7½ % of the workforce, would benefit directly from a \$1.00 increase. Of this group 69 % are adults (age twenty and older) and 60 % are women. Spillover effects of the increase would likely raise the wages of an additional eight million, four hundred thousand workers who currently earn up to \$7.15 an hour.

We are aware that there are some who believe that increasing the minimum wage will increase unemployment. However, a number of recent studies, including one by the Bureau of Labor Statistics, do not support this belief. Bureau of Labor Statistics data show that employment increased and unemployment decreased, since the last increases in the minimum wage took effect in 1996 and 1997. Further, economists at the Economic Policy Institute studied the 1996-1997 minimum wage increases and found overall there was no statistically significant effect on job opportunities. Other studies could be cited.

Please support an increase in the minimum wage by \$1.00 over the next two years so that justice may be done and compassion received.

(Eighteen signatories on separate page)

Signatories

The Rt. Rev. McKinley Young
Ecumenical Officer
African Methodist Episcopal Church

The Rev. Dr. Daniel E. Weiss
General Secretary
American Baptist Churches

The Rev. David Beckmann
President
Bread for the World

Rabbi Paul Menitoff
Executive Vice President
Central Conference of American Rabbis

The Rev. Dr. Richard L. Hamm
General Minister and President
Christian Church (Disciples of Christ)

Bishop Nathaniel Linsey
Ecumenical Officer
Christian Methodist Episcopal Church

Dr. Kathleen S. Hurty
Executive Director
Church Women United

The Most Reverend Frank T. Griswold
Presiding Bishop and Primate
The Episcopal Church

The Rev. H. George Anderson
Presiding Bishop
Evangelical Lutheran Church in America

His Grace Bishop Dimitrios of Xanthos
Ecumenical Officer
Greek Orthodox Archdiocese of America

The Rev. Dr. Robert W. Edgar
General Secretary
National Council of the Churches of Christ
in the USA

The Rev. Dr. Clifton Kirkpatrick
Stated Clerk
Presbyterian Church (USA)

Bishop Thomas Gumbleton
Auxiliary Bishop
Roman Catholic Archdiocese of Detroit

Rabbi David Saperstein
Director
Union of American Hebrew Congregations
Center of Reformed Judaism

The Rev. John H. Thomas
President
United Church of Christ

The Rev. William Boyd Grove
Ecumenical Officer
Council of Bishops
United Methodist Church

The Rev. John Buehrens
President
Unitarian Universalist Association of
Congregations

Dr. Valora Washington
Executive Director
Unitarian Universalist Service Committee

Contact

Pat Conover,
United Church of Christ Office for Church in Society,
202-543-1517, FAX 202-543-5994



**THE WHITE HOUSE
OFFICE OF LEGISLATIVE AFFAIRS**

West Wing
Office phone: 456-2230
Office fax: 456-6220

FACSIMILE TRANSMISSION

TO: Broderick, Karen, + Courtney

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PHONE: _____

FROM: CHUCK BRAIN

REBECCA HUNTER

LAUREN GILLESPIE

COMMENTS: Min Wage Letter - has not
been released yet.

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March 6, 2000

Dear Mr. Speaker,

I am writing this letter to strongly encourage Congress to pass clean, straightforward legislation to raise the minimum wage by \$1 – from \$5.15 to \$6.15 – in two equal steps. Working families across this country deserve an increase that simply restores the real value of the minimum wage to what it was in 1982.

Those who argue this modest pay raise would harm the economy could not be more wrong. Since 1996, when I worked with Congress to raise the minimum wage by 90 cents over two years, the unemployment rate has fallen from 5.2 percent to 4.1 percent – the lowest in 30 years, more than 10 million new jobs have been created, and economic growth has averaged 4.3 percent.

Despite this overwhelming evidence, some in Congress are insisting on a lengthier three-year increase in the minimum wage – a delay that would cost a full-time, year-round worker more than \$900 over two years. Others have chosen to use the minimum wage increase as a vehicle to repeal important overtime protections for American workers. And finally, some are using this minimum wage increase to pass irresponsible tax cuts that would threaten our fiscal discipline and jeopardize our ability to extend the life of Medicare and Social Security and pay down the debt by 2013.

Let me be clear – this is the wrong approach. I will veto any legislation that holds this minimum wage increase hostage to provisions that delay this overdue pay raise or jeopardize our ability to strengthen Social Security and Medicare and pay down the debt by 2013 for future generations.

All Americans should be able to share in our current economic prosperity. For a full-time worker at the minimum wage, this increase would provide a \$2,000 raise – enough for a family of four to buy groceries for 7 months or pay rent for 5 months. More than ten million workers would benefit from this proposal, the majority of them women. Congress should do the right thing and give these workers a raise.

Sincerely,

WJC

THE MINIMUM WAGE: INCREASING THE REWARD FOR WORK

March 2000

A REPORT BY THE NATIONAL ECONOMIC COUNCIL
WITH THE ASSISTANCE OF THE COUNCIL OF ECONOMIC ADVISERS
AND THE OFFICE OF THE CHIEF ECONOMIST, U.S. DEPARTMENT OF LABOR

EXECUTIVE SUMMARY

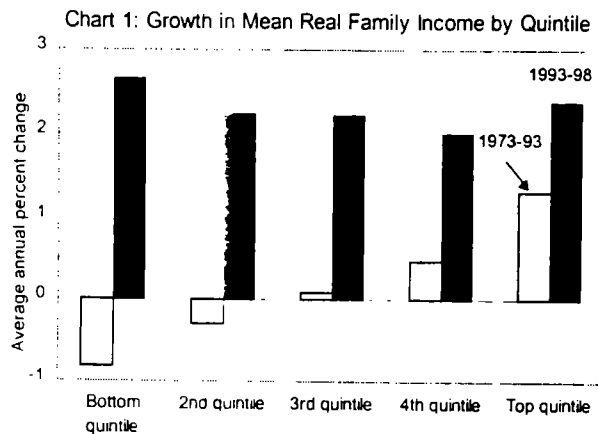
- **Raising the Minimum Wage by \$1 to \$6.15 an Hour Would Potentially Benefit More than 10 Million American Workers—Most of Whom are Adult Workers.** An analysis of labor market data shows that in 1999, 10.1 million hourly paid workers made between \$5.15 and \$6.14 an hour, and thus would potentially benefit from a \$1 increase in the minimum wage. About 69 percent of these workers are adults (age 20 or over), about 60 percent are women, about 45 percent worked full-time, and about 33 percent were parents with children under 18 years old. In 1997, the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.
- **Raising the Minimum Wage to \$6.15 an Hour Would Restore the Real Value to What It Was in 1982.** Since it was first established in 1938, the minimum wage has been increased 19 times. Between January 1981 and March 1990, the minimum wage was fixed at \$3.35 an hour, while prices rose by nearly 50 percent. The proposal to raise the minimum wage by \$1 over two years would restore the real value of the minimum wage to what it was in 1982.
- **Increasing the Minimum Wage Would Help Hard-Pressed Families Pay for Groceries, Rent, and Other Necessities.** Raising the minimum wage from \$5.15 to \$6.15 would raise the annual earnings of a full-time worker by about \$2,000 a year. A study of spending by low-income families found that they spend on average about \$300 per month on groceries and about \$400 per month on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent.
- **Recent Increases in the Minimum Wage Had No Discernable Negative Effect on Employment.** Since the minimum wage increase in 1996, the economy has created more than 10 million jobs and the unemployment rate has fallen from 5.2 percent in September 1996 to 4.1 percent in February 2000, near its lowest level in thirty years. Labor market trends for workers most affected by the minimum wage increase—including younger workers, workers with lower educational levels, and minorities—also show no negative impact of the minimum wage on employment. Numerous careful economic studies, including ones by David Card and Alan Krueger, have shown that increasing the minimum wage has no negative effect on employment. Recent research has even suggested that higher wages can increase employment, because they increase employers' ability to attract, retain, and motivate workers. And they benefit workers by increasing the reward to work.
- **The Minimum Wage Plays a Key Role in Ensuring That All Workers Share in a Growing Economy.** In the last seven years, incomes have grown nearly as strongly at the bottom as at the top of the income distribution, ending a decades long increase in inequality. In contrast, in the previous two decades inequality widened, as poorer families saw their incomes decline in real terms. Research has shown that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women.

- **The Minimum Wage Has Helped Reduce the Welfare Caseload.** By increasing the reward to work, a higher minimum wage attracts new workers into the workforce. An analysis by the Council of Economic Advisers showed that higher federal and state minimum wages were responsible for 10 to 16 percent of the decline in welfare caseloads between 1996 and 1998.
- **The Minimum Wage and the Earned Income Tax Credit Are Complementary.** A working parent with two children earning the minimum wage in 1993 made \$10,563 with the EITC (in 1998 inflation-adjusted dollars)—well below the poverty line. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty line—making \$13,268—a 26 percent inflation-adjusted increase in its standard of living.

1. INTRODUCTION

The American economy is in the midst of the longest economic expansion in history. Since January 1993, the economy has created nearly 21 million new jobs. The unemployment rate in February 2000 was 4.1 percent, near its lowest level in three decades. The overall performance of the economy has only grown stronger over time. In the last four years, labor productivity has grown at a 2.9 percent annual rate and GDP has grown at a 4.4 percent annual rate. At the same time, the underlying core inflation rate in 1999 was 1.9 percent—the lowest rate since 1965.

In contrast to the previous twenty years, the strong economy of the last seven years has contributed to shared growth across all income groups and substantial poverty reduction. As indicated in Chart 1, incomes have grown nearly as strongly at the bottom as at the top of the



income distribution, ending a decades long increase in inequality. The poverty rate has fallen to 12.7 percent, the lowest level since 1979. The strong labor market has been beneficial to people across the economic and demographic spectrum. In 1999, the unemployment rates for African Americans and Hispanics fell to the lowest levels ever recorded.

Strong growth is necessary but not sufficient to produce sustained income gains and poverty reduction. Also important are policies that insure that all workers are

rewarded for their work. The Clinton Administration has consistently sought to make work pay through a range of policies, including expanding the Earned Income Tax Credit in 1993, reforming welfare in order to increase work incentives, and increasing investments in child care for working parents. And an additional key element was the 1996-97 increase in the minimum wage. These policies interact in a beneficial way for low-income families. For instance, a working parent with two children earning the minimum wage in 1993 made \$10,563 with the EITC (in 1998 inflation-adjusted dollars), well below the poverty threshold. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty level—making \$13,268—a 26 percent inflation-adjusted increase in their standard of living.

This report examines the role that the minimum wage plays in increasing the reward to work and boosting incomes for workers at the bottom of the earnings distribution. The report also examines the recent evidence about the effect of the minimum wage on employment.

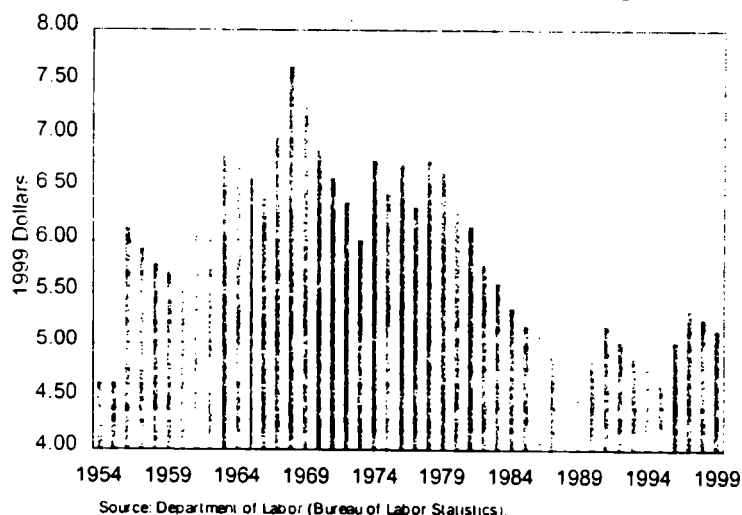
2. BACKGROUND ON THE MINIMUM WAGE

A federal minimum wage of 25 cents was first established as a part of the Fair Labor Standards Act of 1938 (FLSA). Since its inception, the federal minimum wage has been increased 19 times, and the FLSA has been amended numerous times to expand the workers covered by the minimum wage provision. In recent years, about two thirds of wage and salary workers have been covered by the FLSA minimum wage. (Workers who are exempt most often are in executive, administrative, and professional occupations.)

The federal minimum wage reached its highest value in real terms in 1968, at \$7.67 in 1999 dollars (see Chart 2). With five increases during the 1970s, the minimum wage held its value at approximately \$6.60. The last increase of the 1970s left the inflation-adjusted value at \$6.66. From January 1981 through March 1990, the minimum wage was unchanged, while at the same time prices rose by nearly 50 percent. This eroded the real value of the minimum wage at the end of the 1980s to \$4.50. The dollar level of the minimum wage was increased from \$3.35 to \$3.80 in 1990 and to \$4.25 in 1991. In real terms the value of the minimum wage was still well below the 1968 peak.

Even with the modest inflation of the 1990s, the minimum wage lost value, falling to \$4.65 in 1995. By 1996, the minimum wage adjusted for inflation was approaching a 40-year low. Inflation had largely wiped out the last increase in the minimum wage in 1990. In August 1996, Congress passed and President Clinton signed into law a two-step increase, lifting the minimum wage from \$4.25 to \$5.15. The first step of that increase went into effect October 1, 1996 and the second step on September 1, 1997. More recently, President Clinton proposed to increase the minimum wage by \$1 over two years, raising it to \$6.15. If the full increase were implemented in 2001, this would restore the real value of the minimum wage to its 1982 level, about 75 percent of the 1968 peak value.

Chart 2: Real Level of the Minimum Wage



3. THE 1996-97 MINIMUM WAGE INCREASE

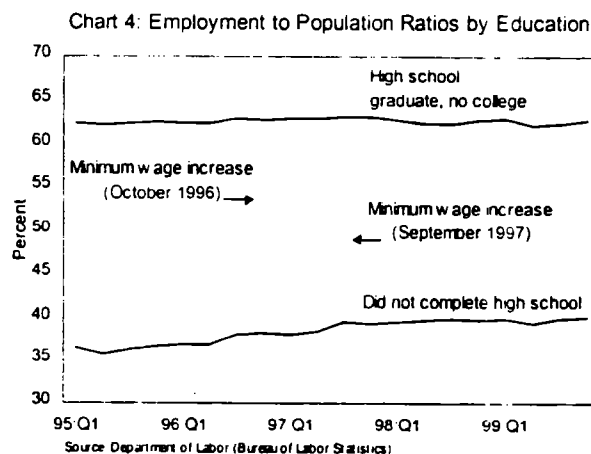
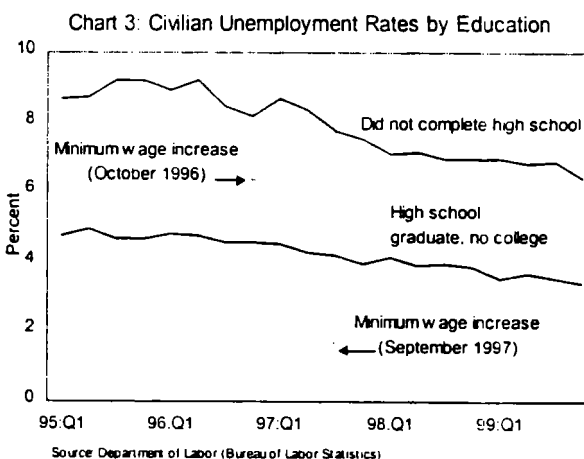
The \$0.90 increase in the minimum wage in 1996 and 1997 is estimated to have benefited almost 10 million American workers.¹ This section examines the impact of this increase on employment and the distribution of wages.

Effect on Employment

Since the 1996-97 increase in the minimum wage, the American economy—and labor markets in particular—have continued to perform very strongly. Between September 1996 and February 2000, 10.2 million jobs were created—an average of 248,000 per month, even stronger job growth than in the previous 2 years. In retail trade, which has a large concentration of minimum wage workers, there were 1.4 million new jobs. Over this same period the overall unemployment rate fell from 5.2 percent to 4.1 percent.

In addition, welfare rolls have declined 44 percent since welfare reform was enacted in August 1996. A report by the Council of Economic Advisers (1999) suggests that 10 to 16 percent of the welfare caseload decline from 1996 to 1998 was attributable to the increases in federal and state minimum wages. Other important factors were changes in welfare policy and the decline in unemployment.

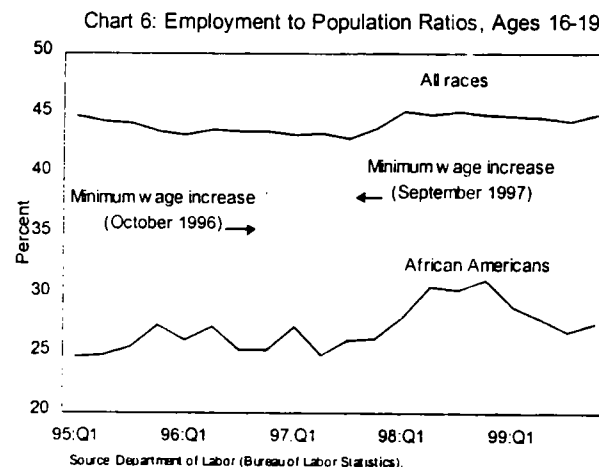
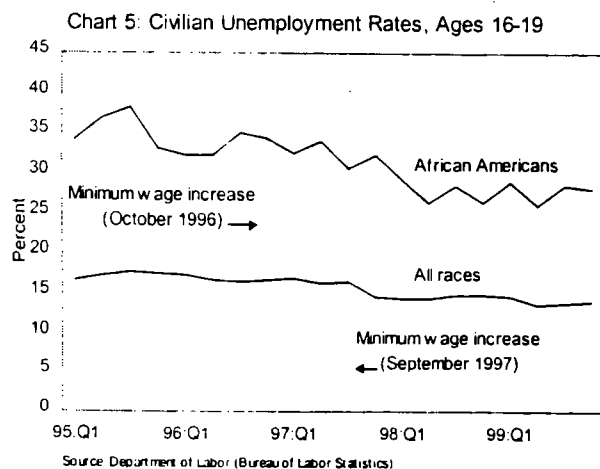
The strong labor market of the last four years, however, is not definitive proof that the minimum wage has no adverse effects on employment. Numerous other factors affect the job market, and workers paid at or near the minimum wage are a relatively small fraction of the overall workforce. A better test of the impact of minimum wage increases is the experience of workers most likely to be affected by the increases. An examination of data for these workers also shows no discernable negative effect of the last minimum wage increase. For example, adults (age 25 and above) with lower levels of education generally have relatively low wages. As Chart 3 indicates, though, quarterly unemployment rates have generally declined for both high school graduates with no college and those with less than a high school education. Chart 4 shows, similarly, that over the past five years the employment to population ratio generally held steady or increased for both groups of adults. No visible disruptions to these trends are apparent following either the 1996 or 1997 minimum wage increases. Comparable



¹ See Bernstein and Schmitt (1998).

observations pertain for teenage workers in general, and for African American teens specifically (Charts 5 and 6).²

These data provide evidence that the minimum wage increase did not have a major negative effect on employment. Still, as suggestive as this evidence is, it does not provide rigorous statistical tests that control for the myriad of factors that affect employment. Section 5 reviews the evidence from recent economic studies.



Effect on Wages for Low-income Workers

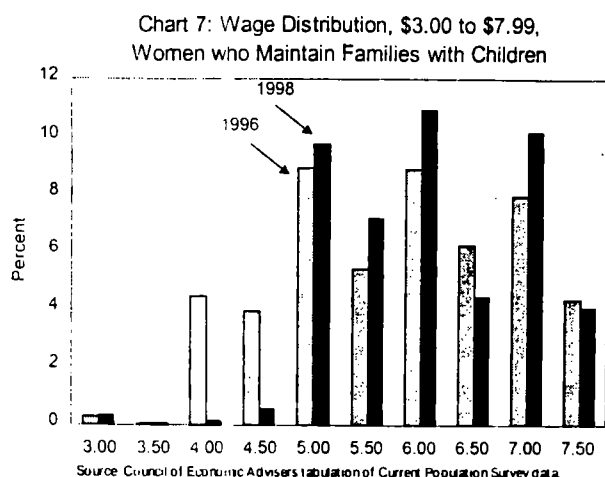
Recent increases in the minimum wage in the U.S. have improved the distribution of wages at the low end of the distribution. Fortin and Lemieux (1997) demonstrate the importance of the minimum wage in boosting wages at the low end, and reducing wage inequality. They show that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women. Card and Krueger (1995) conclude that the 1990-91 minimum wage increase reversed about 30 percent of the increase in wage inequality that occurred during the previous decade.

The effect of the recent minimum wage increase—in October 1996 and September 1997—on the wage distribution is clearly evident in wage data. Statistics tabulated from the Current Population Survey (CPS), show that in the first two quarters of 1996, when the federal minimum wage was \$4.25, about 10 percent of all hourly wage workers earned less than \$5.00.³ The minimum wage increase (to \$5.15) clearly increased wages in the low end of the distribution; by the first two quarters of 1998, the fraction of workers earning less than \$5.00 declined to 2 percent.

² One careful statistical analysis (Neumark, 1999) shows that the 1996-97 minimum wage increases had no effect on the general employment of 16-19 year olds.

³ The analysis presented in this paper excludes salaried and other non-hourly workers. Research has shown, however, that a relatively smaller number and share of salaried workers and others not paid by the hour have earnings that, when translated into hourly rates, are at or below the minimum wage. BLS does not routinely estimate hourly earnings for nonhourly workers because of data concerns that arise in producing these estimates. See Haughen and Mellor (1990) for further information.

Chart 7 illustrates the effect of the 1996-97 minimum wage increases on the low end of the wage distribution (\$3.00 to \$7.99) for just one demographic group of interest, women who maintain



families and have at least one child present in the household.⁴ For 1996, the distribution of wages shows that a relatively small share of workers with hourly wages earn between \$3.00 and \$3.99.⁵ In contrast, a substantial fraction earned between \$4.00 and \$4.49. (The chart shows the distribution by 50-cent increments.) This jump, of course, reflects the clustering of workers whose wages were at or near the minimum wage. The comparable distribution for 1998 indicates a shift that was clearly due to the change in minimum wage policy. In the first two quarters of 1996, about 9 percent of these women earned less

than \$5.00. By the first two quarters of 1998, this fraction declined to 2 percent.

At the same time, an increasing share of workers earned wages above \$6 and \$7, suggesting that the increase in the minimum wage had spillover benefits for workers above the minimum wage. Such spillover effects have been documented more formally in research by Grossman (1983), Katz and Krueger (1992), and Card and Krueger (1994).

4. RAISING THE MINIMUM WAGE TO \$6.15: WHO IS DIRECTLY AFFECTED?

Raising the minimum wage from \$5.15 to \$6.15 would raise the annual earnings of a full-time worker by about \$2,000 a year. A study of spending by low-income families found that they spend on average about \$300 per month on groceries and about \$400 per month on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent. This section provides a detailed examination of the workers that would benefit from a further increase in the minimum wage.

Characteristics of Minimum Wage Workers in 1999

Evidence about workers who currently earn the minimum wage is available from unpublished tabulations provided by the Bureau of Labor Statistics (BLS) based on data from the CPS. In 1999, 72.3 million workers were paid at hourly rates, representing about 61 percent of wage and salary workers. It is estimated that 3.3 million workers—4.6 percent of all workers who are paid an hourly rate—earn a wage at or below the current \$5.15 Federal minimum. Of these 3.3 million workers, about 1.1 million reported a wage at exactly \$5.15, while the remainder, 2.2

⁴ A family maintained by a woman is one in which the householder (person in whose name the housing unit is rented or owned) is female, and no spouse is present. Here we examine such households when a child under 18 is present.

⁵ The presence of workers with reported wages below the minimum wage does not necessarily indicate violations of the Fair Labor Standards Act. There are several reasons why the reported wage for a worker may be below the Federal minimum. First, certain workers are exempt from the minimum wage provisions of the law, including workers for whom tips might serve to supplement the hourly wages received. Second, there may be a misreporting or rounding in the survey responses. When the minimum wage is \$5.15, for example, a large number of workers report a wage of exactly \$5.00.

million, earned a wage less than \$5.15. A study by Bernstein and Schmitt (1998) indicated that in 1997 the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.

Selected demographic and economic characteristics for these workers are presented in Table 1. The statistics indicate that about 70 percent of workers earning \$5.15 or less were age 20 or older. 64 percent of these workers are women.

How Many Workers would be Affected by an Increase in the Minimum Wage?

Using the CPS data described above, it is possible to examine the number and characteristics of workers who would potentially receive a pay raise from a \$1.00 increase in the federal minimum wage. Table 2 presents the number of individuals who currently have an hourly wage between \$5.15 and \$6.14. This table indicates that:

- There are approximately 10.1 million workers within this wage range—about 14 percent of all workers paid an hourly rate.
- 69 percent of the affected workers are adults age 20 or older.
- About 60 percent of these workers are women.
- 16 percent are African American and 20 percent are Hispanic.
- 37 percent are the household head or a spouse who contributes to family income.

Other respected studies have looked at the question of who would potentially benefit from an increase in the minimum wage, focusing on family and income characteristics. Some highlights from these studies are:

- Parents with children under 18 years old comprise almost 33 percent of those potentially affected. (Bernstein, Hartmann, and Schmitt, 1999).
- Over 50 percent of the proposed gains would go to households with incomes less than \$25,000 per year. (Bernstein, Hartmann, and Schmitt, 1999).
- 45 percent of the gains go to families with incomes below 200 percent of the poverty level, and an additional 19 percent to families with income below 300 percent of the poverty level. (Burkhauser, 1999).

There are other workers who would also likely benefit from a \$1.00 minimum wage increase in addition to those workers that report hourly wages between \$5.15 and \$6.14. As noted above, a number of the over 900,000 workers who report a \$5.00 per hour wage are also likely to be workers currently at the minimum wage, but mis-reporting their earnings. There is also evidence, as discussed earlier, that workers who earn wages just above the new minimum can see their pay rise as a result of the minimum wage increase. To help gauge the size of this group in the event of a minimum wage increase to \$6.15, Table 2 also presents the number of workers with hourly wages between \$6.15 and \$7.14. In 1999 there were approximately 8.4 million such workers, many of whom could indirectly benefit from a minimum wage increase.

Appendix A presents a breakdown of the number of workers that would benefit by state. While the most populous states would have the greatest number of workers in these wage categories (California, for example, has almost 1.5 million workers with wages between \$5.15 and \$6.14) the evidence suggests that thousands of workers in every state would potentially benefit from a \$1.00 increase in the minimum wage.

Table 1. Employed Wage and Salary Workers Paid Hourly Rates with Earnings At or Below Minimum Wage, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demographic group who earn \$5.15 or less
	Total paid hourly rates	Paid \$5.15 or less	Total paid hourly rates	Paid \$5.15 or less	
Total, 16 years and over	72,306	3,340	100.0	100.0	4.6
AGE					
16 to 19 years	6,600	1,006	9.1	30.1	15.2
20 and over	65,706	2,334	90.9	69.9	3.6
SEX					
Men, 16 years and over	36,073	1,214	49.9	36.3	3.4
Women, 16 years and over	36,233	2,126	50.1	63.7	5.9
RACE AND HISPANIC ORIGIN					
White	58,999	2,698	81.6	80.8	4.6
African American	10,126	515	14.0	15.4	5.1
Hispanic	9,402	513	13.0	15.4	5.5
FULL- AND PART-TIME STATUS					
Full-time workers	54,931	1,320	76.0	39.5	2.4
Part-time workers	17,227	2,010	23.8	60.2	11.7
FAMILY RELATIONSHIP					
Husbands	17,609	242	24.4	7.2	1.4
Wives	16,996	622	23.5	18.6	3.7
Women who maintain families	5,395	288	7.5	8.6	5.3
Men who maintain families	1,815	50	2.5	1.5	2.8
Other persons	30,491	2,082	42	62	28

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

Table 2. Distribution of Wage and Salary Workers Paid Hourly Rates, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demographic group who fall in wage category	
	\$5.15 - \$6.14	\$6.15 - \$7.14	\$5.15 - \$6.14	\$6.15 - \$7.14	\$5.15 - \$6.14	\$6.15 - \$7.14
Total, 16 years and over	10,093	8,370	100.0	100.0	14.0	11.6
AGE						
16 to 19 years	3,133	1,482	31.0	17.7	47.5	22.5
20 and over	6,960	6,888	69.0	82.3	10.6	10.5
SEX						
Men, 16 years and over	4,076	3,405	40.4	40.7	11.3	9.4
Women, 16 years and over	6,018	4,965	59.6	59.3	16.6	13.7
RACE AND HISPANIC ORIGIN						
White	8,027	6,668	79.5	79.7	13.6	11.3
African American	1,602	1,336	15.9	16.0	15.8	13.2
Hispanic	1,989	1,447	19.7	17.3	21.2	15.4
FULL- AND PART-TIME STATUS						
Full-time workers	4,563	5,301	45.2	63.3	8.3	9.7
Part-time workers	5,512	3,048	54.6	36.4	32.0	17.7
FAMILY RELATIONSHIP						
Husbands	851	990	8.4	11.8	4.8	5.6
Wives	1,821	1,962	18.0	23.4	10.7	11.5
Women who maintain families	855	807	8.5	9.6	15.8	15.0
Men who maintain families	171	167	1.7	2.0	9.4	9.2
Other persons	6,396	4,445	63	53	84	58

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

5. ECONOMIC RESEARCH ON THE EFFECT OF THE MINIMUM WAGE ON EMPLOYMENT

The impact of a moderate increase in the minimum wage on employment is a key question for policymakers. Clearly, while an increase in the minimum wage benefits those workers who receive it, some have raised concerns that these direct gains may be partially or fully offset if the minimum wage increase leads to greater unemployment among lower income workers. Section 3 discussed some of the aggregate evidence from the 1996-97 experience. This section discusses the economic theory and empirical evidence behind the effects of the minimum wage on employment.

Recent Economic Theory on the Impact of the Minimum Wage on Employment

The traditional economic theory of supply and demand predicts that an increase in the minimum wage above the market rate would increase the cost faced by employers, causing them to reduce employment. Recent theoretical analyses, however, have challenged this conventional wisdom, examining reasons why some employers may respond to a moderately higher minimum wage by expanding employment. Specifically, higher wages can help firms attract better workers, motivate them to work harder, and retain them for longer periods. (While firms always have the option of increasing their pay rate, some managers leave wages unchanged because of reluctance to increase average labor costs.) At least five papers—recently published in peer-reviewed economics journals—rigorously study this logic.⁶ These papers show that a moderate minimum wage can have a positive effect on employment. In general, then, an increase in the minimum wage has an ambiguous effect on employment. The only way to determine the effect in practice is to look at the empirical evidence.

Recent Empirical Evidence on Employment Effects

In an important book, economists David Card and Alan Krueger (1995) provide a critical analysis of previous research, and present their own extensive exploration of the wide variation in minimum wages across states found in the late 1980s and early 1990s. Their work shows that there were no negative employment effects even for teenagers, the group for whom any disemployment effects should be most apparent. Similarly, their detailed analysis fails to find disemployment effects of a minimum wage in the retail trade or in employment of fast food restaurants. More recent studies confirm these results.

Employment in Fast Food Restaurants. To determine the impact of minimum wages on employment, one would like to gather data from firms prior to a minimum wage increase and see how firms adjust employment relative to other similar firms for which the minimum wage does not increase. New work by Card and Krueger (forthcoming) comes closest to doing this. In 1992, New Jersey imposed a higher minimum wage, and yet the neighboring state of Pennsylvania did not. And then in 1996 an increase in the federal minimum wage affected Pennsylvania but not New Jersey. These two episodes provide an experiment that can be used to infer the effects of a minimum wage increase on employment. Card and Krueger use the BLS's employer-reported payroll files from 1991 through 1997 to evaluate employment growth of fast

⁶ See Bhaskar and To (1999), Dickens, Machin, and Manning (1999), Lang and Kahn (1998), Manning (1995), and Rebitzer and Taylor (1995). Additional discussion of these models are found in Chapter 11 of Card and Krueger (1995).

food restaurants in New Jersey and nearby counties in Pennsylvania. They conclude that the minimum wage changes had very little (and possibly slightly positive) effect on employment.⁷

The British Experience. Dickens, Machin, and Manning (1999) studied the British experience with minimum wages. They found "...strong evidence that [minimum wages] compressed the distribution of earnings and no evidence that they have reduced employment."

6. CONCLUSION

The evidence is convincing that moderate increases in the minimum wage have provided meaningful additional earnings for many of America's most hard-pressed working families with no discernible negative employment effects. Increasing the minimum wage is one of the ways that government can help ensure that everyone continues to share in the benefits of growth. When the minimum wage was fixed from 1981 to 1990, the wages and incomes of poorer workers fell in real terms. Thanks to the 1996-97 minimum wage increase, today the minimum wage is helping to ensure that a single parent with two children does not have to raise his or her children in poverty.

The minimum wage is just one component of an overall strategy for insuring that all families benefit from the nation's economic growth. The President's proposed expansion in the Earned Income Tax Credit—to increase benefits for families with three or more children, reduce the marriage penalty, and reduce the phaseout rate—would enhance the value of a higher minimum wage, especially for families with more children and thus greater needs. At the same time, the President is committed to continuing to make important investments in people. Since 1993, the budget for education and training programs has nearly doubled and the President is proposing record increases for a number of key education programs, including Head Start, in his FY 2001 budget. Together, these policies are an investment in continued strong and shared economic growth.

⁷ While some critics of Card and Krueger expressed concern about their data collection, the most recent research uses BLS employment records and finds basically the same results.

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Appendix: Distribution of Wage and Salary Workers Paid Hourly Rates by State, 1999

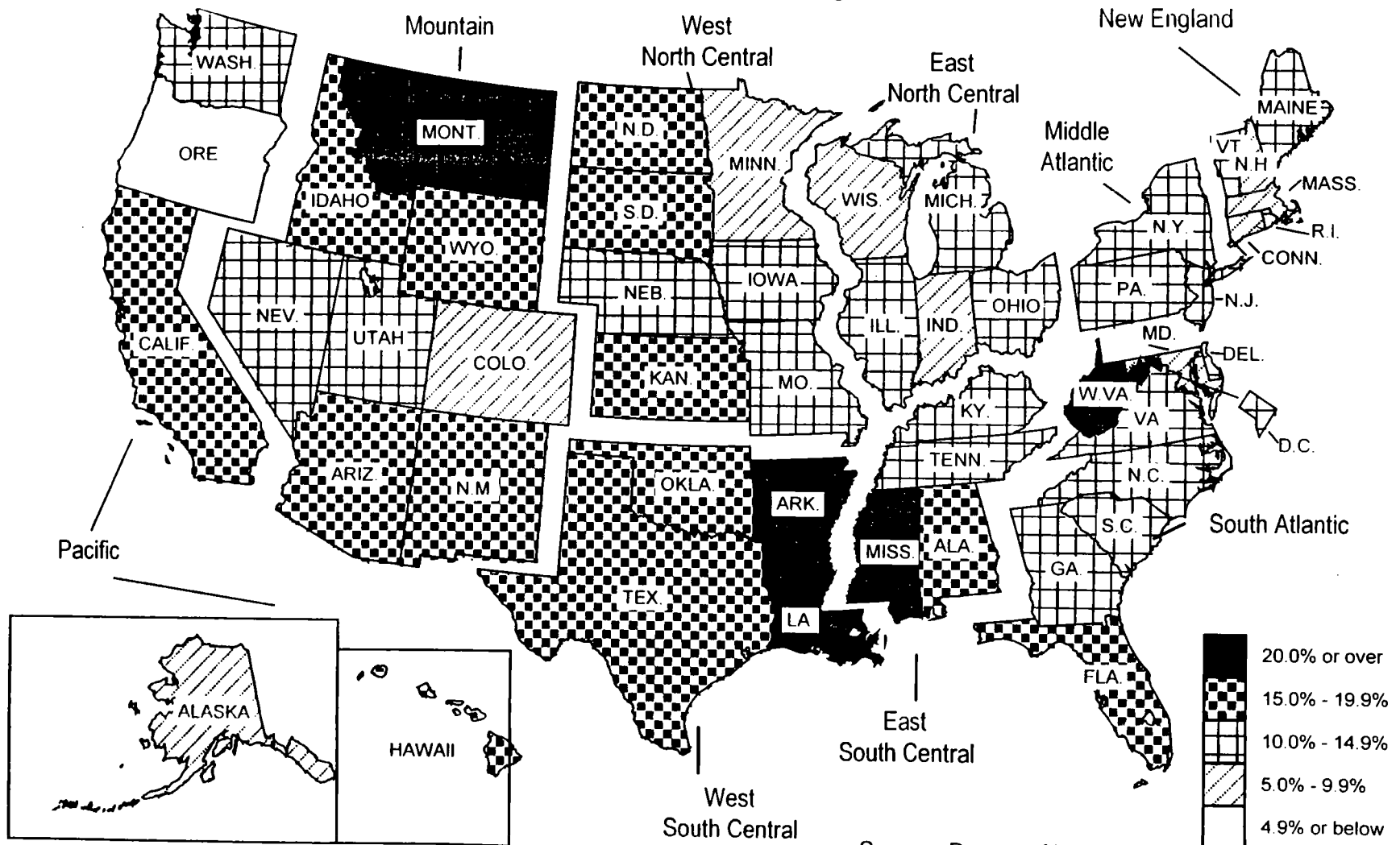
	Number (in thousands)		Percent of All Wage and Salary Workers	
	\$5.15 to \$6.14	\$6.15 to \$7.14	\$5.15 to \$6.14	\$6.15 to \$7.14
Total	10,093	8,370	13.9	11.6
Alabama	202	146	18.1	13.1
Alaska	9	13	5.5	7.6
Arizona	200	157	15.2	11.9
Arkansas	130	101	20.9	16.2
California	1,463	1,023	17.4	12.1
Colorado	79	92	7.3	8.4
Connecticut	62	70	7.5	8.6
Delaware	22	21	10.8	10.0
DC	12	12	10.0	10.7
Florida	597	530	15.5	13.8
Georgia	267	248	13.1	12.3
Hawaii	47	29	15.0	9.4
Idaho	58	45	15.6	12.3
Illinois	428	354	13.2	10.8
Indiana	180	209	9.8	11.4
Iowa	103	91	11.2	9.9
Kansas	123	96	15.6	12.3
Kentucky	157	161	14.2	14.7
Louisiana	297	123	25.9	10.7
Maine	45	39	11.8	10.4
Maryland	125	137	9.5	10.5
Massachusetts	161	162	9.6	9.7
Michigan	341	312	11.3	10.3
Minnesota	115	121	8.0	8.4
Mississippi	146	74	22.7	11.5
Missouri	172	169	11.9	11.8
Montana	54	32	21.5	12.7
Nebraska	67	68	13.2	13.6
Nevada	60	60	11.2	11.3
New Hampshire	29	31	8.2	8.5
New Jersey	205	187	10.6	9.8
New Mexico	75	39	18.0	9.1
New York	566	395	14.8	10.3
North Carolina	247	223	12.4	11.2
North Dakota	34	29	18.3	15.9
Ohio	427	356	12.7	10.6
Oklahoma	170	126	19.6	14.5
Oregon	35	184	3.7	19.7
Pennsylvania	454	338	13.8	10.3
Rhode Island	37	25	13.4	9.3
South Carolina	153	116	14.9	11.3
South Dakota	33	29	15.2	13.7
Tennessee	208	216	13.6	14.2
Texas	929	653	18.5	13.1
Utah	61	84	10.1	14.0
Vermont	21	20	12.4	11.5
Virginia	218	207	13.6	12.8
Washington	180	158	10.9	9.6
West Virginia	106	60	22.2	12.8
Wisconsin	157	177	8.9	10.0
Wyoming	25	19	17.8	13.8

Note: Workers in the \$5.15 to \$6.14 category would be directly affected by a \$1.00 increase in the minimum wage. Those in the \$6.15 to \$7.14 category could be affected by spillovers.

Source: U.S. Department of Labor, Bureau of Labor Statistics, unpublished tabulations from the Current Population Survey, 1999.

Percentage of workers paid hourly rates earning between \$5.15 and \$6.14 per hour, by State (U.S. percentage = 14.0 percent)

1999 annual averages



Source: Bureau of Labor Statistics

THE WHITE HOUSE

WASHINGTON

November 4, 1999

The Honorable Richard A. Gephardt
Democratic Leader
House of Representatives
Washington, D.C. 20515

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,

A handwritten signature in black ink, reading "Bill Clinton". The signature is written in a cursive, flowing style with a long horizontal line extending from the end.

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS



815 SIXTEENTH STREET, N.W.
WASHINGTON, D.C. 20006

JOHN J. SWEENEY
PRESIDENT

RICHARD L. TRUMKA
SECRETARY-TREASURER

LINDA CHAVEZ-THOMPSON
EXECUTIVE VICE-PRESIDENT

LEGISLATIVE ALERT!

(202) 637-5090

October 12, 1999

Dear Representative:

The AFL-CIO urges you not to cosponsor the Shimkus/Lazio minimum wage and tax cut bill that may be introduced this week. As pleased as we are that the Republican leadership has acknowledged that the House should be allowed to consider a minimum wage increase, we believe that the wage increase should be meaningful and the bill should not be an excuse to resuscitate regressive provisions of the vetoed \$798 billion tax bill.

Inflation quickly makes huge inroads into the value of a wage as small as the minimum wage. In 1998 even the \$5.15 minimum wage was worth 19 percent less than the minimum wage of 1978. By taking three years to increase the minimum wage to \$6.15, the real 1999 value of that wage by 2002 is only \$5.57 (using CBO's 2.5% annual inflation projections). Over half the purchasing power of the \$1.00 increase will have been eaten away from the value of the wage by inflation in three years! We do not believe that this is a meaningful increase.

Last week the tax package was described as \$35 billion of taxes cuts, only \$13 billion of which was targeted directly to small businesses. Almost half the value of the tax cut package was attributable to reducing the estate tax – a particularly regressive measure. None of the tax package has been described as being offset. To say that this five year tax package does not come out of the Social Security surplus is to ignore the fact that most of the projected non-Social Security surplus over the next ten years is based on an assumption that the current spending caps will be adhered to. It is no secret that the spending caps already have been shattered, which means that tax cuts that are not offset are a threat to the Social Security surplus.

We believe that minimum wage workers need a meaningful raise. We do not believe that this cause will be advanced by cosponsoring the Shimkus/Lazio proposal and, therefore, ask that you not lend it your support.

Sincerely,

Peggy Taylor, Director
DEPARTMENT OF LEGISLATION

Ath.
Scurry

UFCW

October 20, 1999

TO ALL MEMBERS OF THE U.S. HOUSE OF REPRESENTATIVES

Dear Representative:

On behalf of the 1.4 million members of the United Food and Commercial Workers International Union (UFCW), I am writing to urge you not to cosponsor the Shimkus/Lazio minimum wage and tax cut bill which was proposed last week.

It was our hope to urge support for a reasonable, bipartisan minimum wage proposal this year, but Shimkus/Lazio is not that proposal. Minimum wage workers earning \$5.15 in 1998 found that their earnings bought almost 20 percent less than what a person earning minimum wage in 1978 was able to buy. By stretching the minimum wage increase of \$1 over a three-year period (not including 1999, for which the new wage would not take effect), Shimkus/Lazio's 33-cent-a-year increase will pale in the face of inflation and the historic value of the minimum wage.

It was our belief that an increase in the minimum wage would raise the incomes of America's lowest wage workers, not create new loopholes in the minimum wage law. Shimkus/Lazio gives with one hand and takes away with the other by removing minimum wage protections from thousands of workers in the computer programming, funeral home, and sales industries. While some workers would get a minimum wage increase—albeit a meager one—other workers would find themselves exempted from the wage protections of the Fair Labor Standards Act altogether, and their incomes could be reduced.

It was our expectation that a targeted, reasonable tax package would be added to the minimum wage increase in an effort to offer balance to the overall package. However, the Shimkus/Lazio proposal harkens back to the failed, regressive \$798 billion tax bill that was vetoed earlier this year. Nearly 50 percent of the value of the tax cut comes from reducing the estate tax. The extension of the Work Opportunity Tax Credit (WOTC) must be balanced with stronger reporting requirements which detail the beneficiaries of the credit. None of the package has been described as offset, meaning that these tax cuts are also a threat to the Social Security surplus.

In summary, Shimkus/Lazio, as currently described, fails to offer a meaningful raise to minimum wage workers, removes minimum wage protections from some workers, and includes a risky and imbalanced tax package that threatens the Social Security surplus. We urge you not to cosponsor this effort, but instead to work to raise the wages and the hopes of minimum wage workers throughout the nation.

Thank you for your consideration of these views.

Sincerely,



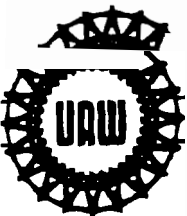
International President

Douglas H. Dority
International
President

Joseph T. Hansen
International
Secretary-Treasurer

United Food & Commercial Workers
International Union, AFL-CIO & CLC
1775 K Street, NW
Washington DC 20006-1598
(202) 223-3111 Fax (202) 466-1562





INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA

STEPHEN P. YOKICH, President

RUBEN BURKS, Secretary-Treasurer

VICE PRESIDENTS

ELIZABETH BUNN • RON GETTELFINGER • BOB KING • JACK LASKOWSKI • RICHARD SHOEMAKER

IN REPLY REFER TO

**1757 N STREET, N.W.
WASHINGTON, D.C. 20036
TELEPHONE: (202) 828-9500
FAX (202) 293-3457**

November 2, 1999

Dear Representative:

This week the House is scheduled to take up a minimum wage/tax package. The UAW strongly urges you to vote for the Bonior-Rangel package and against the package that is expected to be offered by the GOP leadership.

There are three significant differences between the two minimum wage/tax packages that are expected to be considered by the House.

Size of Minimum Wage Increase

The Bonior-Rangel bill would increase the minimum wage by \$1 over two years. In contrast, the GOP leadership package only calls for a \$1 increase over three years. The UAW believes a \$1 increase over three years does not do enough to restore the minimum wage to its historic value. A full-time minimum wage earner would receive \$1,513 more under the Bonior-Rangel bill than the GOP leadership proposal. CEO pay has increased by 481 percent and corporate profits are up 141 percent. Surely it is not too much to ask that Congress now vote to give the lowest paid workers in this country a meaningful wage increase by approving the Bonior-Rangel bill.

Overtime Exemptions

The GOP leadership package exempts various categories of workers from the minimum wage and overtime requirements of the Fair Labor Standards Act (FLSA). These exemptions include computer professionals, inside sales persons and workers in funeral homes. The Bonior-Rangel bill does not contain any of these exemptions. The UAW strongly opposes any provisions that exclude workers from the protections of the FLSA. In addition to hurting these workers, we are concerned that this would establish a dangerous precedent for proposals to weaken the 40 hour work week and overtime requirements for all workers.

Tax Provisions

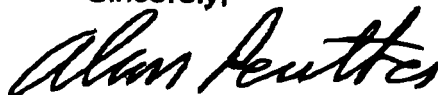
The tax provisions in the Bonior-Rangel bill are narrowly targeted to assist small businesses and working families. In particular, this bill includes the provisions of the Levin-English bill (H.R. 2265) that would encourage employers to provide tuition benefits to help the children of their workers attend college, by making these benefits exempt from taxation just like tuition benefits provided to workers themselves. In contrast, the GOP leadership bill contains various tax provisions, such as partial repeal of the estate tax, that primarily benefit upper income individuals. In addition, we understand that Chairman Archer is insisting that the Levin-English kids' tuition provisions be dropped from the package that is put forward by the GOP leadership. If this occurs, this could increase taxes on working families who are struggling to send their children to college by \$300 per year or more.

It is also important to note that the tax provisions in the Bonior-Rangel bill are fully offset. In contrast, the tax package put forward by the GOP leadership is not paid for. Under existing budget rules, this means the GOP leadership bill would trigger a sequester in mandatory spending programs, including Medicare. It is also likely that the GOP leadership bill would wind up using the Social Security surplus to pay for tax cuts that primarily benefit the rich.

For all of the foregoing reasons, the UAW strongly supports the Bonior-Rangel minimum wage/tax package and opposes the alternative package that will be put forward by the GOP leadership. We attach the highest priority to the passage of the Bonior-Rangel bill and the defeat of the GOP leadership package.

Thank you for considering our views on this critically important issue.

Sincerely,



Alan Reuther
Legislative Director

AR:car
opeiu494
C4276



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Edward J. Keller
Hartford, Pa.

Josephine LeBeau
New York, NY

Robert L. Loefer
Chicago, Ill.

Glenard S. Macdonald Sr.
Baltimore, Md.

Michael D. Murphy
Madison, Wis.

Barry Nicholas
Philadelphia, Pa.

Ronald E. Olson
Honolulu, Hawaii

George J. Poyneke
Orlando, Fla.

Joseph P. Ragan
Columbus, Ohio

Kathy J. Richmond
Provo, Utah

Mary E. Sullivan
Albany, N.Y.

Steve Walker
Lynchburg, Va.

William W. Webb
Tampa, Fla.

James W. White
Cincinnati, Ohio

William W. White
Cincinnati, Ohio

1625 L Street, N.W., Washington, D.C. 20036-5687

Telephone: (202) 429-1000

Fax: (202) 429-1293

TDD: (202) 659-0446

Website: <http://www.afscme.org>

November 1, 1999

Attn:
Serrin
2 pages

Dear Representative:

On behalf of the 1.3 million members of the American Federation of State, County and Municipal Employees (AFSCME), I strongly urge you to support H.R. 325, The Minimum Wage Act of 1999, sponsored by Representative David Bonior which would increase the minimum wage from the current \$5.15 an hour to \$6.15 in two annual fifty cent increases.

I also strongly urge you to oppose H.R. 3081, the Wage and Employment Growth Act of 1999, sponsored by Representatives Rick Lazio and John Shimkus which would also increase the minimum wage, but would stretch out the identical dollar increase over a three year span and take effect at a later date.

There are 1,513 reasons to support a two year one dollar increase in the minimum wage beginning on January 1, 2000 as is proposed in H.R. 325, instead of a three-year one-dollar increase beginning on April 1, 2000 as proposed in H.R. 3081. Those 1,513 reasons equal \$1,513 dollars. A worker earning minimum wage working full-time for the entire year would earn \$1,513 more over the three year period if the Bonior bill became law than that same worker would earn if the Lazio-Shimkus bill became law. That is the actual monetary difference between the two bills over the three-year period with calculations in 1999 dollars and using the most recent Congressional Budget Office (CBO) inflation projections.

Almost 12 million minimum wage workers continue to lose ground. Today, minimum wage workers earn 19 percent less, adjusted for inflation, than a minimum wage worker did 20 years ago. Under the Lazio-Shimkus bill, the real value of the minimum wage in 2002 would be only about \$5.30.

-2-

The vast majority of minimum wage workers are not teenagers earning pin money. Seventy-two percent are adults (age 20 and older); 59.2 percent are women; 48.2 percent are working more than 35 hours a week; and 81 percent are working at least 20 hours. In 1998, the poverty level for a family of three was \$13,132. A full-time worker supporting two kids and earning minimum wage makes \$10,712 or \$2,420 below the poverty level. Even earning \$6.15 an hour, one-dollar above the current minimum, or \$12,792, still keeps that worker below the poverty line but the income gap has narrowed from \$2,420 to \$340.

While the wage increase in the Lazio-Shimkus bill is too small the package of tax breaks is too large. The tax package in the Bonior bill is targeted, modest-- about \$8 billion over five years--and paid for. On the other hand, H. R. 3081 would grant \$30 billion in tax breaks over the next five years with more than 73 percent of the tax cut going to the top one percent. And, there are no offsets so that the tax cuts would come from the projected surplus, competing with funding for education, cops on the street, Medicare and other vital domestic programs.

At a minimum, no one who works full time in America should have to live in poverty. We urge you to support H.R. 325 and oppose H.R. 3081.

Thank you.

Sincerely,



Charles M. Loveless
Director of Legislation

CML:may



AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

80 F Street, N.W., Washington, DC 20001 • (202) 737-8700
FAX (202) 639-6490 • <http://www.afge.org>

8b/87419

Bobby L. Harnage
National President

Rita R. Mason
National Secretary-Treasurer

Kitty A. Peddicord
Director, Women's/
Fair Practices Departments



October 18, 1999

Att'n.

Jerry

The Honorable David Bonior
2207 Rayburn Office Building
U.S. House of Representatives
Washington, DC 20515

Dear Representative Bonior:

On behalf of the American Federation of Government Employees, AFL-CIO, and the 600,000 workers we represent, I urge you **NOT** to co-sponsor the **Lazio-Shimkus tax and wage bill (H.R. 3081)**.

An increase in the minimum wage should be meaningful. The Lazio-Shimkus bill raises the minimum wage by \$1.00 but does so over three years. By the time a federal employee who works for minimum wage at the Department of Defense exchanges or at the Department of Veterans Affairs canteens receives \$6.15 an hour in 2002 the real 1999 value of that wage will be \$5.47 due to inflation (using CBO's 2.5% annual inflation projections). Because the Lazio-Shimkus bill takes three years, nearly 60 percent of the increase will be eaten away by inflation. Federal workers who earn the minimum wage or have their hourly pay affected by local wage rates will be even less likely to afford to pay their skyrocketing health care premiums.

Increasing the minimum wage should not be a pretext for reviving regressive tax breaks from a vetoed tax bill. The Lazio-Shimkus tax bill is extremely regressive. According to the Citizens for Tax Justice, seventy-three percent of the tax breaks in the bill will benefit the wealthiest one-percent, whose average income is \$837,000. Moreover, this bill will harm working families because such tax breaks will presage cuts in important federal programs as there are no offsets in H.R. 3081 and the projected non-Social Security surplus has already been exhausted.

Furthermore, increasing the minimum wage should not be an excuse to strip workers of their rights under the Fair Labor Standards Act. The Lazio-Shimkus bill exempts additional groups of workers (sales employees and computer employees) from overtime protections.

AFGE supports boosting the minimum wage but not through a bill that dilutes the value of an increase over time, hurts working families through regressive tax provisions and erodes federal wage and hour protections. We ask that you do not lend your support to the Lazio-Shimkus bill, H.R. 3081.

Sincerely,

Bobby L. Harnage

Bobby L. Harnage, Sr.
National President

To Do For All That Which None Can Do For Oneself

THE WHITE HOUSE

WASHINGTON

November 4, 1999

The Honorable Trent Lott
Majority 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,



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THE WHITE HOUSE

Office of the Press Secretary
(Newark, New Jersey)

For Immediate Release

November 4, 1999

TEXT OF A LETTER FROM THE PRESIDENT
TO THE SPEAKER AND DEMOCRATIC LEADER
OF THE HOUSE OF REPRESENTATIVES
AND THE MAJORITY AND DEMOCRATIC
LEADERS OF THE SENATE

November 4, 1999

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Sincerely,

WILLIAM J. CLINTON

#

THE WHITE HOUSE

WASHINGTON

November 4, 1999

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

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WASHINGTON

Min
Wage

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Buried
Caelin
Hall - OH
Hinjos
McIntyre
Strickland
Weygan
Bishop
Cindit
Shaw
Siskiski
Thompson CA
Maloney - CO
Wu
Boswell
Baucher
Boyer
Cramer
Dunne
Doherty
Fthunder
Fora

5681 Good
6157 Gordon
- Lopez
Lucas - Frank - OK
Ken - KY
5758 McCarty NY
Moran - James VA
Jerry KS
Petersen - Collin - MN
John - PA
6748 Poeme
Taylor - Gene - MS
Charles - NC
5955 Turner
5-6583 Andrus
5-2943 Baldace
5-7568 Bentzen
Berkley
Blacovich
Brown PL
Capps
Hill, Bacon
5699 Hoodby
5739 Kind
5077 McNulty
226-0836 Miniere

~~Burci~~
~~Caclin~~
~~Hall - OH~~
~~Hinjose~~
~~McIntyre~~
~~Strickland~~
~~Weygan~~
~~Bishop~~ 5-2203
~~Credit~~ 5-0819
~~Shaw~~ 5-5845
~~Stiskis~~ 6-1170
~~Thompson~~ CA 5-8778
~~Maloney~~ - CO 5-5746
~~Wu~~ 5-0855
~~Boswell~~ 5-5608
~~Baucher~~ 5-0442
~~Boyer~~ 5-5615
~~Cramer~~ 5-4392
~~Dunne~~ 5-8221
~~Dookey~~ 5-9308
~~Hardy~~ 5-5662
~~Fora~~ 5-5663

Good
Gordon
Lo Reyes
Lucas
McCarty NY
Moran
Petersen
Roeme
Taylor
Turner
Andrew
Bulldace
Bentzen
Berkley
Blacovich
Brown PL
Capps
Hill, Bauer
Hodney
Kind
McNulty
Mineye

Muntha
Sandlin
Stabenow

Broderick Johnson
Thursday, November 4, 1999

9:00am Whip member mtg.
9:30am Al's Confirmation hearing SR-222
Russell Bldg.
11:30am Meet w/ Gov. Caperton,
Rayburn Room
4:30pm Conf Call on Child Labor
Convention Post Ratification
757-2104, code #3939

*5:30 - Willard Hotel

→ 304-846-2514.

5:00

ish

or after

11:30

① Foreign ops. — per OMB...



② Objectional bills
needs list approved today...

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.

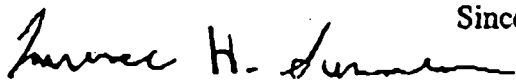
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Also, we strongly oppose the pension provisions in the bill that raise the maximum retirement plan contribution and considered compensation limits for business owners and executives and weaken the pension anti-discrimination and top-heavy protections 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

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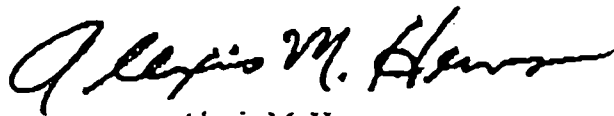
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We appreciate your consideration of the Administration's concerns. We look forward to working with you and other members of Congress in the coming months to address the solvency of Social Security and Medicare, to meet critical national priorities, 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.



Lawrence H. Summers

Sincerely,



Alexis M. Herman

THE WHITE HOUSE

WASHINGTON

November 4, 1999

The Honorable J. Dennis Hastert
Speaker of the
House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

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

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.

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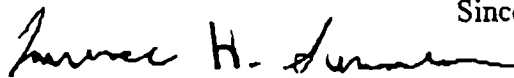
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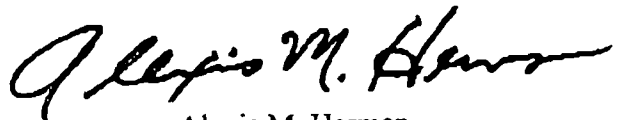
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We appreciate your consideration of the Administration's concerns. We look forward to working with you and other members of Congress in the coming months to address the solvency of Social Security and Medicare, to meet critical national priorities, 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

November 1, 1999

The Honorable Bill Archer
Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20510

Dear Mr. Chairman:

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.

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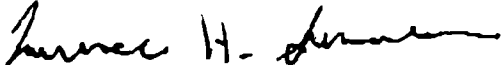
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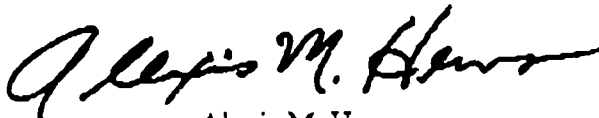
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We appreciate your consideration of the Administration's concerns. We look forward to working with you and other members of Congress in the coming months to address the solvency of Social Security and Medicare, to meet critical national priorities, 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

November 1, 1999

The Honorable William Goodling
Chairman
Committee on Education and the Workforce
U.S. House of Representatives
Washington, DC 20510

Dear Mr. Chairman:

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.

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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.

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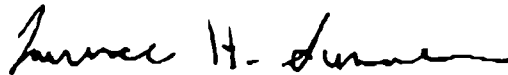
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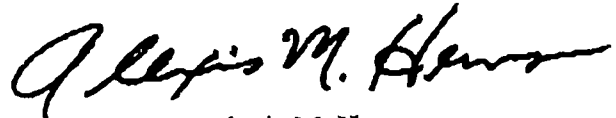
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We appreciate your consideration of the Administration's concerns. We look forward to working with you and other members of Congress in the coming months to address the solvency of Social Security and Medicare, to meet critical national priorities, 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

November 1, 1999

The Honorable William Clay
U.S. House of Representatives
Washington, DC 20510

Dear Mr. Clay:

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.

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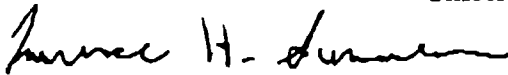
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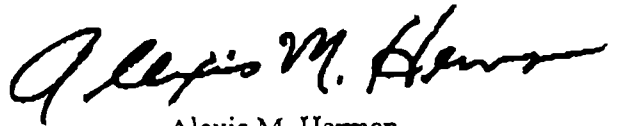
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Sincerely,



Lawrence H. Summers



Alexis M. Herman

November 1, 1999

The Honorable Rick Lazio
U.S. House of Representatives
Washington, DC 20510

Dear Mr. Lazio:

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.

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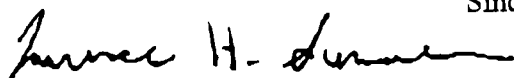
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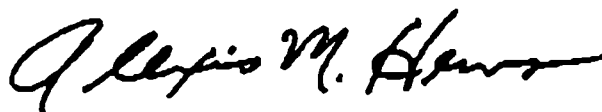
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Sincerely,



Lawrence H. Summers



Alexis M. Herman

November 1, 1999

The Honorable Charles Rangel
U.S. House of Representatives
Washington, DC 20510

Dear Mr. Rangel:

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.

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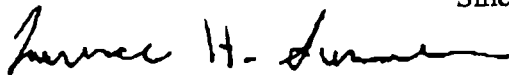
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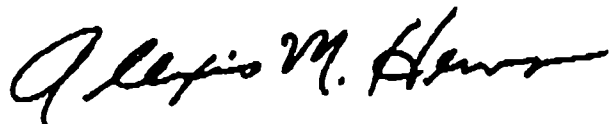
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Sincerely,



Lawrence H. Summers



Alexis M. Herman

51—No Response

[illegible]

Question Number 2

119 —Yes

13 —Leaning Yes

24 —Undecided

2 —Leaning No

2 —No

Whip Office: 53130

11/2/99 5:53 PM

51 —No Response

Rodriguez	51640
Sawyer	55231
Spratt	55501
Stark	55065
Strickland	55705
Taylor	55772
Thompson (CA)	53311
Traficant	55261
Udall (CO)	52161
Udall (NM)	56190
Watt	51510
Weygand	52735
Wu	50855

Subs.

172 —Yes

6 —Leaning Yes		11 —Undecided		0 —Leaning No		6 —No		16 —No Response	
Bentsen	57508	Bishop	53631			Cramer	54801	Blagojevich	54061
Davis (FL)	53376	Boyd	55235			Goode	54711	Boucher	53861
Hill	55315	Doggett	54865			Hall (TX)	56673	Cardin	54016
Kind	55506	Etheridge	54531			Pickett	54215	Coyne	52301
Meek	54506	Lucas	53465			Stenholm	56605	Danner	57041
Udall (CO)	52161	Reyes	54831			Tanner	54714	Dooley	53341
		Sisisky	56365					Doyle	52135
		Thompson (CA)	53311					Filner	58045
		Thurman	51002					Hinojosa	52531
		Turner	52401					Johnson	58885
		Watt	51510					Lantos	53531
								Lofgren	53072
								McIntyre	52731
								Mollohan	54172
								Stark	55065
								Taylor	55772

Do. p. n. many more days

6255

6-22-99

1002

go. to a mail-house for

2002.

Question Number 1

Whip Office: 53130

11/2/99 11:52 AM

140 — Yes

10 — Leaning Yes		12 — Undecided		1 — Leaning No		5 — No		43 — No Response	
Bentsen	57508	Boyd	55235	Stenholm	56605	Cramer	54801	Barcia	58171
Berkley	55965	Doggett	54865			Goode	54711	Bishop	53631
Berry	54076	Etheridge	54531			Hall (TX)	56673	Blagojevich	54061
Davis (FL)	53376	Hill	55315			Pickett	54215	Boswell	53806
OK Edwards	56105	Lucas	53465			Tanner	54714	Boucher	53861
Kind	55506	Price	51784					Brown (FL)	50123
McCarthy (MO)	54535	Reyes	54831					Cardin	54016
Meek	54506	Smith	58901					Clayton	53101
Peterson	52165	Thompson (CA)	53311					Clement	54311
Udall (CO)	52161	Turner	52401					Costello	55661
		Visclosky	52461					Coyne	52301
		Watt	51510					Danner	57041
								OK Davis (IL)	55006
								Deutsch	57931
								Dooley	53341
								Doyle	52135
								Evans	55905
								Filner	58045
								Gutierrez	58203
								Hinojosa	52531
								Jackson	50773
								Johnson	58885
								Jones	57032
								Kennedy	54911
								Kleczka	54572
								Lantos	53531
								Lipinski	55701
								Lofgren	53072
								Martinez	55464
								McDermott	53106
								McIntyre	52731
								McKinney	51605
								Minge	52331
								Mollohan	54172
								Murtha	52065
								Rodriguez	51640
								Sherman	55911
								Sisisky	56365

Will you support Subs.
Will you support Lazio

Will you support Soc. Sec. in year 2000

Question Number 1

Whip Office: 53130

11/2/99 11:52 AM

140 —Yes

10 —Leaning Yes

12 —Undecided

1 —Leaning No

5 —No

43 —No Response

6K Snyder	52506
Stark	55065
Taylor	55772
Thurman	51002
Velázquez	52361

Description of Tax Proposal in Possible Democratic Substitute for Minimum Wage Bill

The Democratic substitute would provide approximately \$8 billion over the 5 year budget window in tax relief targeted to small businesses. The cost of that tax relief would be fully offset. Following is a description of the tax benefits and offsets which could be included in the Democratic substitute.

Tax Benefits

1. The substitute contains a permanent extension of the Work Opportunity Tax Credit and the Welfare to Work credit. Both of those credits are designed to encourage employment of disadvantaged workers. They terminated on June 30, 1999. The extension in the substitute would relate back to June 30, 1999, so that there would be no gap period.
2. Under current law, there is a phase-in of 100 percent deductibility of health insurance premiums paid by the self-employed. For year 2000, the percent deductible is 60 percent and it will reach 100 percent in 2003. The substitute would accelerate 100 percent deductibility to years after 2000.
3. Section 415 of the Code imposes limitations on contributions and benefits under qualified employer retirement plans. The substitute contains modifications to those limitations for multiemployer plans and plans maintained by tax-exempt organizations.
4. Under current law, small businesses are permitted to deduct currently i.e. (expense) a portion of their business investments in plant and equipment. The amount that they may expense is \$20,000 in 2000 and is scheduled to be increased to \$25,000 in 2003. The substitute would provide a \$30,000 limit on expensing for small businesses effective for years after 2000.

5. Currently, 50% of business meal and entertainment expenses are deductible. The substitute would increase the deduction to 58% for small businesses. For this purpose, small businesses would be defined as businesses with annual gross receipts of less than \$5 million. [We could consider an additional revenue offset that could increase this deduction to 65%.]
6. The substitute would repeal a provision that disallows the business deduction for travel expenses incurred with respect to a spouse, dependent, or other individual accompanying the taxpayer on business travel.
7. Under current law sec.127, there is an exclusion for amounts paid by an employer for the education or training of an employee. The substitute would provide an exclusion for educational benefits provided for the employees' children. There would be a \$2,000 per-child limit on the exclusion.
8. The substitute includes a provision that would provide a refundable tax credit of 20% of the first \$20,000 in wages paid to an employee providing services in connection with an independent film and television production in the United States.

Revenue Offsets

The revenue offsets described in the numbered paragraphs below would raise approximately \$4 billion over the 5-year budget window. All of those offsets were included in the conference report for the tax bill recently vetoed by the President. The substitute also includes provisions addressing aggressive corporate tax shelters and addressing tax avoidance through swap funds. Those two provisions would raise approximately \$4 billion over the 5-year budget window.

Following are the offsets that were included in the vetoed tax bill.

1. Information reporting on cancellation of indebtedness by non-bank financial institutions. [\$28 million]
2. Extension of IRS user fees (through 9-30-09). [\$50 million]
3. Increase to 15% (from 10%) optional withholding rate for nonperiodic payments from deferred compensation plans. [\$55 million]
4. Modify estimated tax rules for closely-held REIT dividends [\$45 million]
5. Modify treatment of closely-held REITs with incubator REIT exception. [\$23 million]
6. Prevent the conversion of ordinary income or short-term capital gains into income eligible for long-term capital gain rates. [\$207 million]
7. Allow employers to transfer excess defined benefit plan assets to a special account for health benefits or retirees (through 9/30/09). [\$136 million]
8. Repeal installment method for most accrual basis taxpayers; adjust pledge rules. [\$1.889 billion]
9. Limit use of non-accrual experience method of accounting to amounts to be received for the performance of qualified professional services. [\$208 million]
10. Prevention of duplication through assumption of liabilities giving rise to a deduction [\$36 million]

11. Deny deduction for charitable split-dollar insurance arrangements. [negligible]
12. Require consistent treatment for certain transfers of intangibles. [\$138 million]
13. Treatment of certain distributions of such by partnership to corporate partner. [\$42 million]
14. Provisions modernizing the tax rules applicable to real estate investment trusts. [\$300 million]
15. Impose limitation on prefunding of certain employee benefits. [\$700 million]
16. Real estate investment trust modernization provisions.

The corporate tax shelter provisions included in the substitute are based on recommendations made by the American Bar Association and by the Treasury Department. They are an attempt to address the problem of aggressive corporate tax shelters that have little or no economic substance.

Under current law, there is a court-developed doctrine that requires transactions to have economic substance in order to be respected for tax purposes. The proposal would codify and modify this court-developed doctrine. That provision would require that the transaction have a potential for profit (and risk of loss) and that potential profit must be significant in relationship to the claimed tax benefits.

Under current law, there is a substantial understatement penalty equal to 20 percent of the understatement. There are exceptions to that penalty where the taxpayer shows reasonable

cause or where the taxpayer has a legal opinion justifying the transaction. The proposal would modify the substantial understatement penalty in two ways. First, it would increase the penalty from 20 to 40 percent unless the transaction was disclosed to the Internal Revenue Service. Secondly, it would provide that the current law exceptions from the penalty are not available where the tax benefits are denied because of lack of economic substance.

Talking Points on Corporate Tax Shelters

- The corporate tax shelter provisions in the Democratic substitute merely require that transactions have some reasonable potential for economic gain before corporations can claim large tax benefits. In addition, the provisions in the substitute impose penalties on corporations with tax shelters that fail to have economic substance.
- The proposal is structured to apply to transactions with little or no economic substance or profit potential and thus will not impact legitimate business transactions.
- The provisions in the substitute are based on recommendations made by the American Bar Association and the approach in the substitute is supported by the Treasury Department. The Tax Section of the American Bar Association sent a letter to Congressman Doggett on September 22 commending him for his leadership in introducing the bill that is the basis of the provisions contained in the substitute.
- The American Bar Association and the New York State Bar Association have both noted the growing problem with corporate tax shelters and urged a congressional response.
 - A. It is fairly unusual and perhaps unprecedented for Bar Associations to criticize Congress for its failure to close down loopholes. Normally, they are on the other side of the issue.
 - B. In a letter to Chairman Archer, the New York State Bar Association expressed its disappointment that the tax conference report contained no provision dealing with the problem of corporate tax shelters. "Once again, we express our concern as to the negative and corrosive effect that corporate tax shelters have on our system of

taxation and again call for Congressional action on this subject.”

- C. The Tax Section of the American Bar Association has testified on several occasions expressing its concern with the aggressive marketing of tax shelter products that have little or no purpose other than the reduction of Federal income taxes.
- D. In testimony before the Senate Finance Committee on April 27, 1999, the New York State Bar Association made the following comment on the revenue loss from corporate tax shelters. “While we are unable to estimate the amount of this revenue loss, anecdotal evidence and personal experience lead us to believe that it is likely to be quite significant.”
- For the first time, there is statistical evidence indicating that corporate tax shelters may be having a substantial impact on corporate tax receipts.
 - A. Corporate tax receipts for fiscal year 1999 were approximately \$4 billion less than the corporate tax receipts for fiscal year 1998 even though corporate profits for 1999 were approximately \$20 billion higher than in 1998.
 - B. The decline in corporate tax receipts in fiscal year 1999 was the first decline in recent history that was not caused by explicit congressional reductions in corporate tax or declines in the overall economy.
 - C. Corporate tax receipts as a percentage of corporate profits have steadily declined in recent years from approximately 26.6% in 1994 to 21.8% in 1999. This

decline has occurred despite the corporate rate increase in the 1993 budget act and despite net corporate tax increases enacted since 1994.

- D. If corporate receipts had remained constant as a percentage of corporate profits since 1994, corporate tax receipts in fiscal year 1999 would have been at least \$40 billion higher.
- E. High among the list of suspected causes for the decline in corporate tax receipts is the increased use of aggressive corporate tax shelter transactions.

9/99

(Millions of Dollars)

Provision	Effective	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000-05	2000-10
I. Amendments to the Fair Labor Standards Act of 1938		<i>No Revenue Effect</i>												
II. Small Business Provisions														
1. Accelerate 100% self-employed health insurance deduction and extend eligibility to those who choose not to participate in employer-subsidized health plans	tyba 12/31/00	---	-287	-1,093	-697	---	---	---	---	---	---	---	-2,077	-2,077
2. Increase section 179 expensing to \$30,000	tyba 12/31/00	---	-359	-616	-350	-187	-176	-160	-167	-188	-197	-202	-1,688	-2,605
3. Increase business meals deduction (excluding entertainment expenses) to 55% in 2001 and 60% in 2002 and thereafter	tyba 12/31/00	---	-259	-794	-1,090	-1,137	-1,186	-1,239	-1,294	-1,351	-1,412	-1,477	-4,466	-11,239
4. 80% business meals deduction for workers subject to DOT hours of service limitation	tyba 12/31/00	---	-39	-70	-64	-55	-47	-37	-26	-13	---	---	-276	-351
5. Provide that Federal farm production payments are taxable in the year of receipt (ignore election to take the payments in an earlier year unless exercised)	---	<i>Previously Enacted</i>												
6. Coordinate farmer income averaging and the AMT and provide the same income averaging relief to commercial fishermen	tyba 12/31/00	---	-1	-2	-2	-2	-3	-3	-4	-5	-6	-7	-9	-33
7. Repeal the occupational taxes relating to distilled spirits, wine, and beer	7/1/01	---	-64	-75	-75	-75	-75	-75	-75	-75	-75	-75	-364	-739
Total of Small Business Provisions		---	-1,009	-2,650	-2,278	-1,456	-1,487	-1,514	-1,566	-1,632	-1,690	-1,761	-8,880	-17,044
III. Pension Provisions														
A. Provisions for Expanding Coverage														
1. Increase contribution and benefit limits:														
a. Increase limitation on exclusion for elective deferrals to \$11,000 in 2001, \$12,000 in 2002, \$13,000 in 2003, \$14,000 in 2004; index in \$500 increments thereafter [1]	yba 12/31/00	---	-131	-317	-468	-578	-640	-687	-735	-783	-832	-879	-2,135	-6,052
b. Increase limitation on SIMPLE elective contributions to \$7,000 in 2001, \$8,000 in 2002, \$9,000 in 2003, \$10,000 in 2004; index in \$500 increments thereafter [1]	yba 12/31/00	---	-5	-14	-22	-27	-29	-29	-30	-32	-33	-35	-96	-251
c. Increase defined benefit dollar limit to \$160,000	yba 12/31/00	---	-18	-31	-40	-45	-48	-50	-53	-55	-57	-59	-182	-451
d. Lower early retirement age to 62; lower normal retirement age to 65	yba 12/31/00	---	-3	-4	-4	-4	-5	-5	-5	-5	-5	-5	-21	-41

Provision	Effective	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000-05	2000-10
e. Increase annual addition limitation for defined contribution plans to \$40,000 [1]	yba 12/31/00	---	-6	-12	-14	-15	-16	-17	-19	-20	-21	-23	-63	-163
f. Increase qualified plan compensation limit to \$200,000 [1]	yba 12/31/00	---	-43	-74	-84	-91	-99	-107	-115	-122	-131	-139	-391	-1,004
g. Increase limits on deferrals under deferred compensation plans of State and local governments and tax-exempt organizations to \$11,000 in 2001, \$12,000 in 2002, \$13,000 in 2003, and \$14,000 in 2004 [1]	yba 12/31/00	---	-53	-93	-108	-119	-128	-136	-145	-153	-162	-170	-500	-1,266
2. Plan loans for subchapter S owners, partners, and sole proprietors	lma 12/31/00	---	-18	-30	-33	-35	-37	-39	-42	-44	-47	-49	-153	-374
3. Modification of top-heavy rules	pyba 12/31/00	---	-4	-9	-11	-12	-14	-16	-17	-19	-21	-23	-50	-146
4. Elective deferrals not taken into account for purposes of deduction limits	yba 12/31/00	---	-40	-75	-87	-94	-101	-108	-115	-122	-129	-135	-396	-1,004
5. Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations	yba 12/31/00	---	-16	-22	-22	-22	-22	-23	-24	-25	-26	-27	-104	-228
6. Elimination of user fee for certain requests regarding employer pension plans; waiver applies only for request made during first 5 plan years [2]	rma 12/31/00	---	-9	-5	-5	---	---	---	---	---	---	---	-19	-19
7. Definition of compensation for purposes of deduction limits [1]	yba 12/31/00	---	-1	-2	-3	-3	-3	-3	-3	-3	-3	-3	-12	-28
8. Option to treat elective deferrals as after-tax contributions	tyba 12/31/00	---	50	100	131	144	89	-2	-104	-218	-345	-485	514	-640
9. Reduce PBGC premium for new plans of small employers [2]	pea 12/31/00	---	---	[3]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	-2	-4
10. Phase-in of additional PBGC premium for new plans; include additional variable premium relief for small employers [2]	pea 12/31/00 & pyba 12/31/00	---	---	[3]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	[3]	-12	-27
Subtotal of Provisions for Expanding Coverage		---	-297	-591	-773	-904	-1,056	-1,225	-1,410	-1,604	-1,815	-2,035	-3,622	-11,709
B. Provisions for Enhancing Fairness for Women														
1. Additional catch-up contributions for individuals age 50 and above - increase in maximum contribution limits for pension plans by 10% annually beginning in 2001, not to exceed 40%	yba 12/31/00	---	-74	-152	-131	-99	-95	-97	-100	-101	-103	-103	-550	-1,054
2. Equitable treatment for contributions of employees to defined contribution plans [1]	yba 12/31/00	---	-51	-78	-84	-91	-97	-104	-111	-118	-124	-131	-401	-989
3. Faster vesting of certain employer matching contributions	pyba 12/31/00	----- Negligible Revenue Effect -----												
4. Simplify and update the minimum distribution rules by modifying post-death distribution rules, reducing (to 10%) the excise tax on failures to make minimum distributions, and directing the Treasury to simplify and finalize regulations relating to the minimum distribution rules	yba 12/31/00	---	-118	-212	-239	-268	-297	-330	-366	-402	-441	-484	-1,135	-3,157
5. Clarification of tax treatment of division of section 457 plan benefits upon divorce	tdapma 12/31/00	----- Negligible Revenue Effect -----												
6. Modification of safe harbor relief for hardship withdrawals from 401(k) plans	yba 12/31/00	----- Negligible Revenue Effect -----												
Subtotal of Provisions for Enhancing Fairness for Women		---	-243	-442	-454	-458	-489	-531	-577	-621	-668	-718	-2,086	-5,200

Provision	Effective	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000-05	2000-10
12. Extension to international organization of moratorium on application of certain nondiscrimination rules applicable to State and local government plans	yba 12/31/00													
13. Notice and consent period regarding distributions	yba 12/31/00													
14. Annual report dissemination	rf yba 12/31/98													
15. Excess benefit plans	yba 12/31/99													
16. Benefit suspension notice	pyba 12/31/99													
17. Clarification of church welfare plan status under State insurance law	DOE													
Subtotal of Provisions for Reducing Regulatory Burdens		---	-27	-57	-72	-78	-81	-84	-89	-91	-94	-97	-314	-769
F. Provisions Relating to Plan Amendments	DOE													
Total of Pension Provisions		---	-548	-1,116	-1,331	-1,488	-1,674	-1,890	-2,127	-2,369	-2,632	-2,906	-6,158	-18,078
IV. Extension of Expiring Provisions														
1. Work opportunity tax credit; credit cannot be claimed until after 9/30/00 (through 12/31/01)	---													
2. Welfare-to-work tax credit; credit cannot be claimed until after 9/30/00 (through 12/31/01)	---													
Total of Extension of Expiring Provisions		---	---	---	---	---	---	---	---	---	---	---	---	---
V. Estate and Gift Tax Relief Provisions														
1. Reduction in estate, gift, and generation-skipping transfer taxes: beginning in 2001, convert the unified credit into a true exemption, repeal the 5% "bubble" (which phases out the lower rates); repeal rates in excess of 53%; in 2002, repeal rates in excess of 50%; in 2003 through 2004, reduce all rates by 1 percentage point a year; proportionately reduce State tax credit rates	dda & gma 12/31/00	---	---	-4,738	-6,358	-7,247	-8,465	-9,134	-9,674	-10,173	-10,916	-11,635	-26,808	-78,340
2. Provide deemed allocation of GST exemption	ta 12/31/99	---	-1	-3	-4	-4	-4	-4	-4	-4	-4	-4	-16	-36
3. Provide retroactive allocation of GST for unnatural orders of death	generally ea 12/31/99	---	-4	-5	-6	-6	-6	-6	-6	-6	-6	-6	-27	-57
4. Allow severances of trusts holding property having an inclusion ratio of greater than zero	---													
5. Modify certain valuation rates	---													
6. Provide relief from late elections	---													
7. Provide rule of substantial compliance	---													
8. Expand estate tax rule for conservation easements - increase the 25 mile limit to 50 miles; increase 10-mile limit to 25 miles, and clarify that the date for determining easement compliance	dda 12/31/99 & dda 12/31/97	---	-11	-15	-21	-22	-23	-24	-25	-26	-29	-31	-92	-227
Total of Estate and Gift Tax Relief Provisions		---	-16	-4,761	-6,389	-7,279	-8,498	-9,168	-9,709	-10,209	-10,955	-11,676	-26,943	-78,660

Provision	Effective	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000-05	2000-10
VI. Distressed Communities and Industries Provisions														
A. "American Community Renewal Act of 1999"														
1. Designate 15 renewal communities within 36 months; provide various incentives (zero capital gains tax on certain 5-year investments; special deduction for real estate revitalization expenditures; special expensing for certain business property; work opportunity tax credit; environmental remediation expenses; family development accounts) beginning 1/1/01 and ending 12/31/07	DOE	---	-102	-197	-202	-201	-220	-247	-325	-141	-35	-76	-922	-1,745
B. Timber Incentives														
1. Increase maximum reforestation expenses qualifying for amortization and credit from \$10,000 to \$25,000; remove cap on amortization of reforestation costs in 2001 through 2003	tyba 12/31/00	---	-5	-15	-22	-27	-29	-32	-34	-33	-29	-25	-98	-250
Total of Distressed Communities and Industries Provisions		---	-107	-212	-224	-228	-249	-279	-359	-174	-64	-101	-1,020	-1,995
VII. Real Estate Provisions														
A. Improvements in the Low-Income Housing Credit - increase per capita credit by \$0.10 per year through 2004; thereafter COLA; \$2 million small State minimum beginning in 2001; COLA beginning in 2005; modify stacking rules and credit allocation rules; certain Native American housing assistance disregarded in determining whether building is Federally subsidized for purposes of the low-income housing credit														
	tyba 12/31/00	---	-4	-24	-68	-140	-234	-345	-467	-601	-750	-913	-470	-3,545
B. Real Estate Investment Trust (REIT) Provisions														
1. Impose 10% vote or value test	---	Previously Enacted												
2. Treatment of income and services provided by taxable REIT subsidiaries	---	Previously Enacted												
3. Personal property treatment for determining rents from real property for REITs	---	Previously Enacted												
4. Special foreclosure rule for health care REITs	---	Previously Enacted												
5. Conformity with RIC 90% distribution rules	---	Previously Enacted												
6. Clarification of definition of independent operators for REITs	---	Previously Enacted												
7. Modification of earnings and profits rules	---	Previously Enacted												
C. Accelerate 5-Year Phasein of Private Activity Bond Volume Cap	cyba 12/31/00	---	-10 ¹	-41	-83	-127	-163	-179	-179	-174	-167	-159	-425	-1,284
D. Exclusion from Gross Income for Certain Forgiven Mortgage Obligations	doia 12/31/00	---	-2	-6	-6	-6	-7	-7	-7	-7	-8	-8	-27	-64
Total of Real Estate Provisions		---	-16	-71	-157	-273	-404	-531	-653	-782	-925	-1,080	-922	-4,893
NET TOTAL		---	-1,696	-8,810	-10,379	-10,724	-12,312	-13,382	-14,414	-15,166	-16,266	-17,524	-43,923	-120,670

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

[Legend and Footnotes for Table #00-1 034 appear on the following page]

Legend and Footnotes for Table #00-1 034:
Legend for "Effective" column:

aaocpo/a = any action or claim pending on or after
 aiii TRA'97 = as it included in the Taxpayer Relief Act of 1997
 cyba = calendar years beginning after
 da = distributions after
 doia = discharges of indebtedness after
 dda = decedents dying after
 dma = distributions made after
 DOE = date of enactment
 ea = events after
 gma = gifts made after
 lma = loans made after

pateo/a = plan amendments taking effect on or after
 pea = plans established after
 pyba = plan years beginning after
 rf = reports for
 rma = requests made after
 ta = transfers after
 tdapma = transfers, distributions, and payments made after
 tyba = taxable years beginning after
 voo/a = violations occurring on or after
 yba = years beginning after

- [1] Provision includes interaction with other provisions in Provisions for Expanding Coverage.
- [2] Estimate provided by the Congressional Budget Office.
- [3] Loss of less than \$5 million.
- [4] Effective for distributions from terminating plans that occur after the PBGC has adopted final regulations implementing provision.
- [5] Department of Labor penalties.
- [6] Directs the Secretary of the Treasury to modify rules through regulations.

March 6, 2000

Dear Mr. Speaker,

I am writing this letter to strongly encourage Congress to pass clean, straightforward legislation to raise the minimum wage by \$1 – from \$5.15 to \$6.15 – in two equal steps. Working families across this country deserve an increase that simply restores the real value of the minimum wage to what it was in 1982.

Those who argue this modest pay raise would harm the economy could not be more wrong. Since 1996, when I worked with Congress to raise the minimum wage by 90 cents over two years, the unemployment rate has fallen from 5.2 percent to 4.1 percent – near the lowest in 30 years, more than 10 million new jobs have been created, and economic growth has averaged 4.3 percent.

Despite this overwhelming evidence, some in Congress are insisting on a lengthier three-year increase in the minimum wage – a delay that would cost a full-time, year-round worker more than \$900 over two years. Others have chosen to use the minimum wage increase as a vehicle to repeal important overtime protections for American workers. And finally, some are using this minimum wage increase to pass irresponsible tax that would threaten our fiscal discipline and jeopardize our ability to extend the life of Medicare and Social Security and pay down the debt by 2013.

Let me be clear – this is the wrong approach. I will veto any legislation that holds this minimum wage increase hostage to provisions that delay this overdue pay raise or jeopardize our ability to strengthen Social Security and Medicare and pay down the debt by 2013 for future generations.

All Americans should be able to share in our current economic prosperity. For a full-time worker at the minimum wage, this increase would provide a \$2,000 raise – enough for a family of four to buy groceries for 7 months or pay rent for 5 months. More than ten million workers would benefit from this proposal, the majority of them women. Congress should do the right thing and give these workers a raise.

Sincerely,

WJC

THE WHITE HOUSE

WASHINGTON

March 7, 2000

The Honorable Richard A. Gephardt
Democratic Leader
House of Representatives
Washington, D.C. 20515

Dear Mr. Leader:

I am writing this letter to strongly encourage Congress to pass clean, straightforward legislation to raise the minimum wage by \$1 -- from \$5.15 to \$6.15 -- in two equal steps. Working families across this country deserve an increase that simply restores the real value of the minimum wage to what it was in 1982.

Those who argue this modest pay raise would harm the economy could not be more wrong. Since 1996, when I worked with Congress to raise the minimum wage by 90 cents over 2 years, the unemployment rate has fallen from 5.2 percent to 4.1 percent -- near the lowest level in 30 years, more than 10 million new jobs have been created, and economic growth has averaged 4.3 percent.

Despite this overwhelming evidence, some in Congress are insisting on a lengthier 3-year increase in the minimum wage -- a delay that would cost a full-time, year-round worker more than \$900 over 2 years. Others have chosen to use the minimum wage increase as a vehicle to repeal important overtime protections for American workers. And finally, some are using this minimum wage increase to pass irresponsible tax cuts that would threaten our fiscal discipline and jeopardize our ability to extend the life of Medicare and Social Security and pay down the debt by 2013.

Let me be clear -- this is the wrong approach. I will veto any legislation that holds this minimum wage increase hostage to provisions that delay this overdue pay raise or jeopardize our ability to strengthen Social Security and Medicare and pay down the debt by 2013 for future generations.

All Americans should be able to share in our current economic prosperity. For a full-time worker at the minimum wage, this increase would provide a \$2,000 annual raise -- enough for a family of four to buy groceries for 7 months or pay rent for 5 months. More than 10 million workers would benefit from this proposal, the majority of them women. Congress should do the right thing and give these workers a raise.

Sincerely,



DeMint Amendment

Summary of the Provisions

Delays the effective date of any increase in the Federal minimum wage until the first day of the first calendar quarter beginning after the first legislative session of the State legislature.

Allows States to preempt the Federal minimum wage if the State adopts legislation that –

- (1) sets its minimum wage no lower than \$5.15 an hour, and
- (2) applies its rate to as many workers in the State as would otherwise be covered by the Federal minimum wage.

Allows a Governor to suspend for up to one year any federal minimum wage in excess of \$5.15 an hour for all or part of a State because –

- (1) the State is unable to achieve work participation rates or other responsibilities under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996;
- (2) all or part of the State has experienced an increase of unemployment; or
- (3) the State experienced an economic slowdown as measured by the gross State product.

Problems With the DeMint Provisions

Workers cannot survive on a minimum wage of \$5.15 an hour, \$10,700 a year. The DeMint provisions permit the States to effectively freeze the minimum wage at this inadequate rate.

The DeMint provisions undermine the principle purpose of the Federal minimum wage law, to set a national floor below which most wages cannot fall. In permitting States to establish their own minimum wages below the Federal floor, the DeMint provisions invite States to engage in a competition as to who can attract business by providing a lower minimum wage. This is a sure receipt for undermining the standard of living of workers.

The DeMint provisions provide that a Governor may act unilaterally to reduce the minimum wage below the Federal rate in all or part of a State. The provisions do not preclude a Governor from effectively permanently reducing the minimum wage by renewing his or suspension of the minimum wage on an annual basis. The provisions provide no limitation on the ability of the Governor to reduce the minimum wage, but only specify the basis the Governor must cite as his or reason for acting. (The legislative language provides that Governor may reduce the minimum wage because the State has not met all welfare-to-work requirements, because unemployment has increased in all or part of a State, because the State has experienced an economic slowdown as measured by the States gross product. First, these criteria permit any Governor to suspend the

minimum wage at virtually anytime. Even in boom times, there is likely to be some area in State in which unemployment increases — the fact that the State gross product, an imperfect measure, did not increase as much as expected appears to be a permissible basis for suspending the federal minimum wage. However, the language of the bill does not restrict the Governor from suspending the federal minimum wage even if none of those conditions exist. So long as the Governor states that he or she is suspending the minimum wage for one of the three enumerated reasons, the legislation does not otherwise restrict the Governor's ability to do so.)

The DeMint provisions are justified on the basis of affording States flexibility. States already have flexibility under the Fair Labor Standards Act. The Federal law just sets a floor, States may and do establish minimum wages in excess of the Federal rate. (Nine States; Alaska, California, Connecticut, Delaware, Hawaii, Massachusetts, Oregon, Rhode Island, and Vermont; and the District of Columbia currently have minimum wages above the federal level. States also establish their own minimum wages for workers who are not covered by the Federal minimum wage. (Seven States — Alabama, Arizona, Florida, Louisiana, Mississippi, South Carolina, and Tennessee — have no minimum wage; and six States have minimum wages below the Federal level — Georgia (\$3.25), Kansas (\$2.65), New Mexico (\$4.25), Ohio (\$4.25), Texas (\$3.35), and Wyoming (\$1.60).)

The DeMint provision is clearly unconstitutional in that it seeks to bind future acts of Congress by limiting the effective dates of future minimum wage increases.

Inside Sales Provisions

Summary of the Legislation

The inside sales provisions exempt any employee in a sales position from the overtime provisions provided that the sales person:

1. has a specialized knowledge of the products or services being sold, the customers needs and discretion in offering a variety of products or services;
2. sells primarily to repeat customers or customers referred to them by others or does not initiate sales;
3. has a salary of 1.5 times the minimum wage (\$19,188 assuming the minimum wage is \$6.15, currently \$16,078.40); and
4. earns commissions equal to at least 40% of their annual salary (\$7,675.20 assuming the minimum wage is \$6.15, \$6,431.36 assuming the current minimum wage.)

For employees meeting this definition, an employer need not pay overtime or any additional wages for overtime work except such commissions the employee earned while working overtime. If the employee earned no commission for the overtime work, the employee would receive no additional compensation for that work. The inside sales provisions do not limit the ability of employer to require an employee to work overtime even if that employee has no possibility of earning commissions during the overtime period. Based on BLS statistics, it is estimated that 1.5 million workers would lose overtime protection if the inside sales provisions are enacted.

Problems With the Inside Sales Provisions

- The bill exempts low wage workers from overtime. Assuming the minimum wage is increased to \$6.15, the bill exempts workers making as little as \$26,864 a year from overtime compensation, (\$22,500 a year based on the current minimum wage).
 - In 1996, full-time, year-round workers had a median income of \$28,000. To the extent that the exemption from overtime is set at a level below what most employees currently earn, employees will inevitably have to work longer hours for less money.
 - The Congress established a wage floor for those in the computer industry to be exempted from overtime at \$57,000.
 - Setting the level at \$26,864 will have the effect of requiring many workers to work in excess of 40 hours a week in order to support their families.
- Assuming an employee will earn a base salary at a rate equal to \$19,188 a year (assuming the minimum wage is increased to \$6.15), and will earn commissions at a rate equal to 40% of their base salary, an employer's only obligation to pay an

employee for hours worked in excess of 40 hours a week is to pay an employee such commissions as the employee may have earned during that period. If the employee earns no commissions, the employer is not required to pay the employee anything.

- An minimum wage worker who is required to work sixty hours a week and who also earns \$7,676 a year in commissions is not entitled to any overtime pay under this legislation.
- Proponents justify the legislation on the basis that employees who earn commissions should be allowed to work extra hours in order to increase their income. However, under the inside sales provisions, it is the employer, not the employee, who controls how many hours an employee may work. An employer may require an employee to work extra hours, at no cost to the employer, during periods when there is no opportunity to earn additional commissions. In effect, the inside sales provisions transfer entrepreneurial risk from employers to employees.
- Provisions of the legislation are, at best, imprecise and invite extensive litigation to determine, for example, what constitutes sufficient "specialized or technical knowledge" of a product to exempt an employee from overtime or what constitutes "predominantly" for the purpose of determining whether an employee is "making sales predominantly to persons or entities to whom the employee's position has made previous sales."
- The inside sales provisions have been justified as establishing parity between inside sales persons and outside or travelling sales persons who are already exempt from overtime. However, outside sales persons were exempted on the basis that much of time would be spent beyond the direct supervision of their employer in non-productive activity – primarily travelling. Neither condition applies to inside sales persons who are under direct supervision and who are constantly engaged while at work in productive activity.

Funeral Directors and Embalmers

Summary of the Legislation

The provision exempts any employee employed as a licensed funeral director or a licensed embalmer from the minimum wage and overtime provisions of the Fair Labor Standards Act by adding a new paragraph (18) to section 13(a) of that Act.

This provision would exempt an estimated 25,000 funeral directors and 5,000 embalmers from the minimum wage and overtime. In 1996, the mean wage for licensed funeral directors was \$17.70 an hour and the mean wage for licensed embalmers was \$14.40 an hour.

Problems With the Funeral Director Provisions

The only provision in law that regulates the number of hours an employer may require an employee to work are the provisions of the Fair Labor Standards Act requiring employers to pay time-and-a-half for hours worked in excess of 40 hours a week. By eliminating this requirement, this provision encourages employers to require funeral directors and embalmers to work longer hours for less money and spend more time away from their families.

Proponents contend that because funeral homes must operate 24 hours a day, 365 days a year, funeral directors must work erratic and unpredictable hours and that requiring overtime pay is an undue burden on small funeral homes. However, --

1. Small, independent funeral homes grossing less than \$500,000 annually are already exempt from the FLSA.
2. On call time is not required to be compensated if an employee is not required to remain on an employee's premises. If the employee resides at the premises, sleeping periods and other time not spent at work for the employer are generally not compensable.
3. If a funeral director is paid a guaranteed salary, as opposed to an hourly wage, and his or her primary duties are management of the funeral home and he or she regularly supervises at least two other employees, the funeral director is already exempt from overtime under the exemption applicable to all executive employees. (Sec. 13(a)(1))
4. Funeral homes are considered to be retail or service establishments. Employees in retail or service establishments who are paid at least 1.5 times the minimum wage and who earn more than half their compensation in commissions may be exempted from overtime. (Sec. 7(i)).

Computer Professionals

Background

In 1990, Congress enacted Section 13(a)(17) of the Fair Labor Standards which exempted computer system analysts, computer programmers, software engineers, or similarly skilled workers from the requirement that they receive overtime pay provided they are paid not less than 6.5 times the minimum wage.

In 1996, Section 13(a)(17) was amended to provide the same class of employees were exempted from overtime provided they are paid at not less than \$27.63 an hour (6.5 times the minimum wage prior to the increases enacted in 1996.)

Summary of the Amendment

H.R. 3038 expands that definition of the class of employees who would be exempted from overtime to include network analysts, database analysts, designers, developers, and those who manage or train employees exempted pursuant to paragraph (17). In addition, the amendment expressly provides that the term "network" includes Internet, intranet, and the world wide web.

Analysis of the Amendment

The stated purpose of the amendment is to clarify that paragraph (17) is intended to encompass those who do internet or intranet work as well as other computer analysts or programmers. However, I am unaware of any ruling that holds that those doing internet or intranet work and who are similarly skilled to computer analysts or programmers are outside the purview of paragraph (17). The inclusion of designers and developers also seems to be a redundant clarification as these individuals would clearly fall within the existing exemption assuming their skills were similar to other computer analysts and programmers. Further, the amendment reaches beyond the current exemption to cover managers and trainers. Managers are already exempt from overtime, but must be paid a salary rather than an hourly wage. However, the annual salary may be less than the hourly equivalent of \$27.63.

Who is a Database Analyst

The amendment also exempts database analysts, providing they make \$27.63 an hour. Database analysts whose skills are similar to other computer analysts or programmers would seem to clearly fall within the current exemption. However, there is no definition of what a database analyst is. The exemption could be read as exempting anyone analyzing data that goes into or comes out of a computer, regardless of whether that work requires any familiarity with computers or computer programming. Such a reading would significantly expand the scope of the exemption.

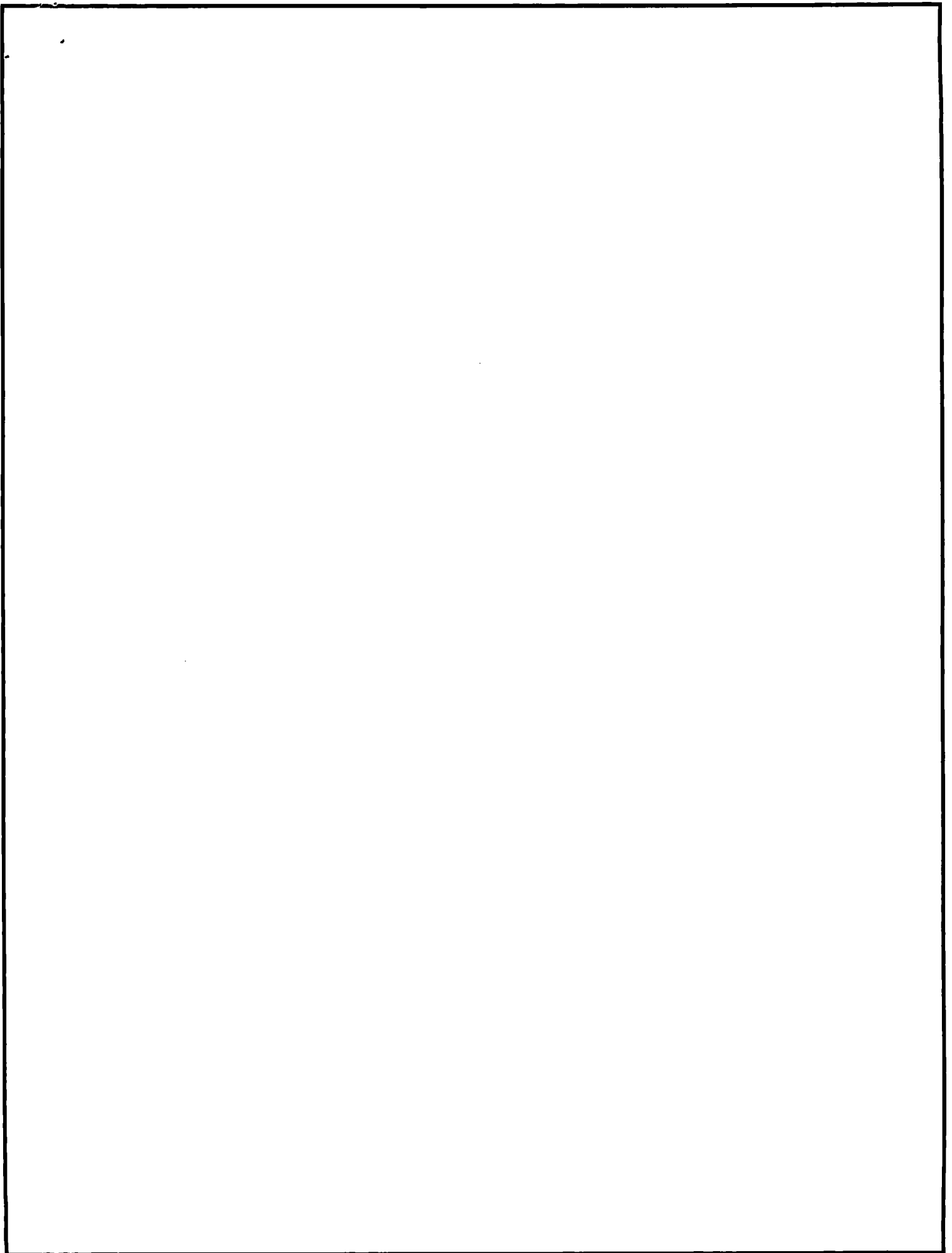
Failure to Index the Exemption

Finally, H.R. 3038 fails to correct the problem created by the 1996 amendment. When initially enacted, paragraph (17) was intended to be indexed to the minimum wage. As the minimum wage rose, so would the hourly wage an employee must be paid to be exempted from overtime. The 1996 amendment de-indexed the computer overtime exemption. As a consequence as inflation increases, more and more workers loss the protection afforded by overtime. (6.5 times the current minimum wage (\$5.15) is \$33.47.) H.R. 3038 not only fails to index the minimum wage to overtime but intentionally makes it significantly more difficult for workers to know what their rights are by substituting "is compensated at the rate set by the amendment enacting this paragraph made by section 2105(a) of the Employee Commuting Flexibility Act of 1996" for the language of current law which provides that the employee "is compensated at a rate of not less than \$27.63 an hour."

The Minimum Wage: Increasing the Reward for Work

March 2000

A Report by the National Economic Council
with the Assistance of the Council of Economic Advisers
and the Office of the Chief Economist, U.S. Department of Labor



EXECUTIVE SUMMARY

- **Raising the Minimum Wage by \$1 to \$6.15 an Hour Would Potentially Benefit More than 10 Million American Workers—Most of Whom are Adult Workers.** An analysis of labor market data shows that in 1999, 10.1 million hourly paid workers made between \$5.15 and \$6.14 an hour, and thus would potentially benefit from a \$1 increase in the minimum wage. About 69 percent of these workers are adults (age 20 or over), about 60 percent are women, about 45 percent worked full-time, and about 33 percent were parents with children under 18 years old. In 1997, the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.
- **Raising the Minimum Wage to \$6.15 an Hour Would Restore the Real Value to What It Was in 1982.** Since it was first established in 1938, the minimum wage has been increased 19 times. Between January 1981 and March 1990, the minimum wage was fixed at \$3.35 an hour, while prices rose by nearly 50 percent. The proposal to raise the minimum wage by \$1 over two years would restore the real value of the minimum wage to what it was in 1982.
- **Increasing the Minimum Wage Would Help Hard-Pressed Families Pay for Groceries, Rent, and Other Necessities.** Raising the minimum wage from \$5.15 to \$6.15 would raise the annual earnings of a full-time worker by about \$2,000 a year. A study of spending by low-income families found that they spend on average about \$300 per month on groceries and about \$400 per month on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent.
- **Recent Increases in the Minimum Wage Had No Discernable Negative Effect on Employment.** Since the minimum wage increase in 1996, the economy has created more than 10 million jobs and the unemployment rate has fallen from 5.2 percent in September 1996 to 4.1 percent in February 2000, near its lowest level in thirty years. Labor market trends for workers most affected by the minimum wage increase—including younger workers, workers with lower educational levels, and minorities—also show no negative impact of the minimum wage on employment. Numerous careful economic studies, including ones by David Card and Alan Krueger, have shown that increasing the minimum wage has no negative effect on employment. Recent research has even suggested that higher wages can increase employment, because they increase employers' ability to attract, retain, and motivate workers. And they benefit workers by increasing the reward to work.
- **The Minimum Wage Plays a Key Role in Ensuring That All Workers Share in a Growing Economy.** In the last seven years, incomes have grown nearly as strongly at the bottom as at the top of the income distribution, ending a decades long increase in inequality. In contrast, in the previous two decades inequality widened, as poorer families saw their incomes decline in real terms. Research has shown that the decline in the real value of the minimum wage from 1979 to 1988

was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women.

- **The Minimum Wage Has Helped Reduce the Welfare Caseload.** By increasing the reward to work, a higher minimum wage attracts new workers into the workforce. An analysis by the Council of Economic Advisers showed that higher federal and state minimum wages were responsible for 10 to 16 percent of the decline in welfare caseloads between 1996 and 1998.
- **The Minimum Wage and the Earned Income Tax Credit Are Complementary.** A working parent with two children earning the minimum wage in 1993 made \$10,563 with the EITC (in 1998 inflation-adjusted dollars)—well below the poverty line. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty line—making \$13,268—a 26 percent inflation-adjusted increase in its standard of living.

1. Introduction

The American economy is in the midst of the longest economic expansion in history. Since January 1993, the economy has created nearly 21 million new jobs. The unemployment rate in February 2000 was 4.1 percent, near its lowest level in three decades. The overall performance of the economy has only grown stronger over time. In the last four years, labor productivity has grown at a 2.9 percent annual rate and GDP has grown at a 4.4 percent annual rate. At the same time, the underlying core inflation rate in 1999 was 1.9 percent—the lowest rate since 1965.

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In contrast to the previous twenty years, the strong economy of the last seven years has contributed to shared growth across all income groups and substantial poverty reduction. As indicated in Chart 1, incomes have grown nearly as strongly at the bottom as at the top of the income distribution, ending a decades long increase in inequality. The poverty rate has fallen to 12.7 percent, the lowest level since 1979. The strong labor market has been beneficial to people across the economic and demographic spectrum. In 1999, the unemployment rates for African

Americans and Hispanics fell to the lowest levels ever recorded.

Strong growth is necessary but not sufficient to produce sustained income gains and poverty reduction. Also important are policies that insure that all workers are rewarded for their work. The Clinton Administration has consistently sought to make work pay through a range of policies, including expanding the Earned Income Tax Credit in 1993, reforming welfare in order to increase work incentives, and increasing investments in child care for working parents. And an additional key element was the 1996-97 increase in the minimum wage. These policies interact in a beneficial way for low-income families. For instance, a working parent with two children earning the minimum wage in 1993 made \$10,563 with the EITC (in 1998 inflation-adjusted dollars), well below the poverty threshold. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty level—making \$13,268—a 26 percent inflation-adjusted increase in their standard of living.

This report examines the role that the minimum wage plays in increasing the reward to work and boosting incomes for workers at the bottom of the earnings distribution. The report also examines the recent evidence about the effect of the minimum wage on employment.

2. Background on the Minimum Wage

A federal minimum wage of 25 cents was first established as a part of the Fair Labor Standards Act of 1938 (FLSA). Since its inception, the federal minimum wage has been increased 19 times, and the FLSA has been amended numerous times to expand the workers covered by the minimum wage provision. In recent years, about two thirds of wage and salary workers have been covered by the FLSA minimum wage. (Workers who are exempt most often are in executive, administrative, and professional occupations.)

The federal minimum wage reached its highest value in real terms in 1968, at \$7.67 in 1999 dollars (see Chart 2). With five increases during the 1970s, the minimum wage held its value at approximately \$6.60. The last increase of the 1970s left the inflation-adjusted value at \$6.66. From January 1981 through March 1990, the minimum wage was unchanged, while at the same time prices rose by nearly 50 percent. This eroded the real value of the minimum wage at the end of the 1980s to \$4.50. The dollar level of the minimum wage was increased from \$3.35 to \$3.80 in 1990 and to \$4.25 in 1991. In real terms the value of the minimum wage was still well below the 1968 peak.

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Even with the modest inflation of the 1990s, the minimum wage lost value, falling to \$4.65 in 1995. By 1996, the minimum wage adjusted for inflation was approaching a 40-year low. Inflation had largely wiped out the last increase in the minimum wage in 1990. In August 1996, Congress passed and President Clinton signed into law a two-step increase, lifting the minimum wage from \$4.25 to \$5.15. The first step of that increase went into effect October 1, 1996 and the second step on September 1, 1997. More recently, President Clinton proposed to increase the minimum wage by \$1 over two years, raising it to \$6.15. If the full increase were implemented in 2001, this would restore the real value of the minimum wage to its 1982 level, about 75 percent of the 1968 peak value.

3. The 1996-97 Minimum Wage Increase

The \$0.90 increase in the minimum wage in 1996 and 1997 is estimated to have benefited almost 10 million American workers. This section examines the impact of this increase on employment and the distribution of wages.

Effect on Employment

Since the 1996-97 increase in the minimum wage, the American economy—and labor markets in particular—have continued to perform very strongly. Between September 1996 and February 2000, 10.2 million jobs were created—an average of 248,000 per month, even stronger job growth than in the previous 2 years. In retail trade, which has a large concentration of minimum wage workers, there were 1.4 million new jobs. Over this same period the overall unemployment rate fell from 5.2 percent to 4.1 percent.

In addition, welfare rolls have declined 44 percent since welfare reform was enacted in August 1996. A report by the Council of Economic Advisers (1999) suggests that 10 to 16 percent of the welfare caseload decline from 1996 to 1998 was attributable to the increases in federal and state minimum wages. Other important factors were changes in welfare policy and the decline in unemployment.

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The strong labor market of the last four years, however, is not definitive proof that the minimum wage has no adverse effects on employment. Numerous other factors affect the job market, and workers paid at or near the minimum wage are a relatively small fraction of the overall workforce. A better test of the impact of minimum wage increases is the experience of workers most likely to be affected by the increases. An examination of data for these workers also shows no discernable negative effect of the last minimum wage increase. For example, adults (age 25 and above) with lower levels of education generally have relatively low wages. As Chart 3 indicates, though, quarterly unemployment rates have generally declined for both high school graduates with no college and those with less than a high school education. Chart 4 shows, similarly, that over the past five years the employment to population ratio generally held steady or increased for both groups of adults. No visible disruptions to these trends are apparent following either the 1996 or 1997 minimum wage increases. Comparable observations pertain for teenage workers in general, and for African American teens specifically (Charts 5 and 6).

These data provide evidence that the minimum wage increase did not have a major negative

One careful statistical analysis (Neumark, 1999) shows that the 1996-97 minimum wage increases had no effect on the general employment of 16-19 year olds.

effect on employment. Still, as suggestive as this evidence is, it does not provide rigorous statistical tests that control for the myriad of factors that affect employment. Section 5 reviews the evidence from recent economic studies.

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Effect on Wages for Low-income Workers

Recent increases in the minimum wage in the U.S. have improved the distribution of wages at the low end of the distribution. Fortin and Lemieux (1997) demonstrate the importance of the minimum wage in boosting wages at the low end, and reducing wage inequality. They show that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women. Card and Krueger (1995) conclude that the 1990-91 minimum wage increase reversed about 30 percent of the increase in wage inequality that occurred during the previous decade.

The effect of the recent minimum wage increase—in October 1996 and September 1997—on the wage distribution is clearly evident in wage data. Statistics tabulated from the Current Population Survey (CPS), show that in the first two quarters of 1996, when the federal minimum wage was \$4.25, about 10 percent of all hourly wage workers earned less than \$5.00. The

The analysis presented in this paper excludes salaried and other non-hourly workers. Research has shown, however, that a relatively smaller number and share of salaried workers and others not paid by the hour have earnings that, when translated into hourly rates, are at or below the minimum wage. BLS does not routinely

minimum wage increase (to \$5.15) clearly increased wages in the low end of the distribution; by the first two quarters of 1998, the fraction of workers earning less than \$5.00 declined to 2 percent.

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Chart 7 illustrates the effect of the 1996-97 minimum wage increases on the low end of the wage distribution (\$3.00 to \$7.99) for just one demographic group of interest, women who maintain families and have at least one child present in the household. For 1996, the distribution of wages shows that a relatively small share of workers with hourly wages earn between \$3.00 and \$3.99.

estimate hourly earnings for nonhourly workers because of data concerns that arise in producing these estimates. See Haughen and Mellor (1990) for further information.

A family maintained by a woman is one in which the householder (person in whose name the housing unit is rented or owned) is female, and no spouse is present. Here we examine such households when a child under 18 is present. The presence of workers with reported wages below the minimum wage does not necessarily indicate violations of the Fair Labor Standards Act. There are several reasons why the reported wage for a worker may be below the Federal minimum. First, certain workers are exempt from the minimum wage provisions of the law, including workers for whom tips might serve to supplement the hourly wages received. Second, there may be a misreporting or rounding in the survey responses. When the minimum wage is \$5.15, for example, a large number of workers report a wage of exactly \$5.00.

In contrast, a substantial fraction earned between \$4.00 and \$4.49. (The chart shows the distribution by 50-cent increments.) This jump, of course, reflects the clustering of workers whose wages were at or near the minimum wage. The comparable distribution for 1998 indicates a shift that was clearly due to the change in minimum wage policy. In the first two quarters of 1996, about 9 percent of these women earned less than \$5.00. By the first two quarters of 1998, this fraction declined to 2 percent.

At the same time, an increasing share of workers earned wages above \$6 and \$7, suggesting that the increase in the minimum wage had spillover benefits for workers above the minimum wage. Such spillover effects have been documented more formally in research by Grossman (1983), Katz and Krueger (1992), and Card and Krueger (1994).

4. Raising the Minimum Wage to \$6.15: Who Is Directly Affected?

Raising the minimum wage from \$5.15 to \$6.15 would raise the annual earnings of a full-time worker by about \$2,000 a year. A study of spending by low-income families found that they spend on average about \$300 per month on groceries and about \$400 per month on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent. This section provides a detailed examination of the workers that would benefit from a further increase in the minimum wage.

Characteristics of Minimum Wage Workers in 1999

Evidence about workers who currently earn the minimum wage is available from unpublished tabulations provided by the Bureau of Labor Statistics (BLS) based on data from the CPS. In 1999, 72.3 million workers were paid at hourly rates, representing about 61 percent of wage and salary workers. It is estimated that 3.3 million workers—4.6 percent of all workers who are paid an hourly rate—earn a wage at or below the current \$5.15 Federal minimum. Of these 3.3 million workers, about 1.1 million reported a wage at exactly \$5.15, while the remainder, 2.2 million, earned a wage less than \$5.15. A study by Bernstein and Schmitt (1998) indicated that in 1997 the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.

Selected demographic and economic characteristics for these workers are presented in Table 1. The statistics indicate that about 70 percent of workers earning \$5.15 or less were age 20 or older. 64 percent of these workers are women.

How Many Workers would be Affected by an Increase in the Minimum Wage?

Using the CPS data described above, it is possible to examine the number and characteristics of workers who would potentially receive a pay raise from a \$1.00 increase in the federal minimum wage. Table 2 presents the number of individuals who currently have an hourly wage between \$5.15 and \$6.14. This table indicates that:

- There are approximately 10.1 million workers within this wage range—about 14 percent of all workers paid an hourly rate.
- 69 percent of the affected workers are adults age 20 or older.

- About 60 percent of these workers are women.
- 16 percent are African American and 20 percent are Hispanic.
- 37 percent are the household head or a spouse who contributes to family income.

Other respected studies have looked at the question of who would potentially benefit from an increase in the minimum wage, focusing on family and income characteristics. Some highlights from these studies are:

- Parents with children under 18 years old comprise almost 33 percent of those potentially affected. (Bernstein, Hartmann, and Schmitt, 1999).
- Over 50 percent of the proposed gains would go to households with incomes less than \$25,000 per year. (Bernstein, Hartmann, and Schmitt, 1999).
- 45 percent of the gains go to families with incomes below 200 percent of the poverty level, and an additional 19 percent to families with income below 300 percent of the poverty level. (Burkhauser, 1999).

There are other workers who would also likely benefit from a \$1.00 minimum wage increase in addition to those workers that report hourly wages between \$5.15 and \$6.14. As noted above, a number of the over 900,000 workers who report a \$5.00 per hour wage are also likely to be workers currently at the minimum wage, but mis-reporting their earnings. There is also evidence, as discussed earlier, that workers who earn wages just above the new minimum can see their pay rise as a result of the minimum wage increase. To help gauge the size of this group in the event of a minimum wage increase to \$6.15, Table 2 also presents the number of workers with hourly wages between \$6.15 and \$7.14. In 1999 there were approximately 8.4 million such workers, many of whom could indirectly benefit from a minimum wage increase.

Appendix A presents a breakdown of the number of workers that would benefit by state. While the most populous states would have the greatest number of workers in these wage categories (California, for example, has almost 1.5 million workers with wages between \$5.15 and \$6.14) the evidence suggests that thousands of workers in every state would potentially benefit from a \$1.00 increase in the minimum wage.

Table 1. Employed Wage and Salary Workers Paid Hourly Rates with Earnings At or Below Minimum Wage, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demogra phic group who earn \$5.15 or less
	Total paid hourly rates	Paid \$5.15 or less	Total paid hourly rates	Paid \$5.15 or less	
Total, 16 years and over	72,306	3,340	100.0	100.0	4.6
AGE					
16 to 19 years	6,600	1,006	9.1	30.1	15.2
20 and over	65,706	2,334	90.9	69.9	3.6
SEX					
Men, 16 years and over	36,073	1,214	49.9	36.3	3.4
Women, 16 years and over	36,233	2,126	50.1	63.7	5.9
RACE AND HISPANIC ORIGIN					
White	58,999	2,698	81.6	80.8	4.6
African American	10,126	515	14.0	15.4	5.1
Hispanic	9,402	513	13.0	15.4	5.5
FULL- AND PART-TIME STATUS					
Full-time workers	54,931	1,320	76.0	39.5	2.4
Part-time workers	17,227	2,010	23.8	60.2	11.7
FAMILY RELATIONSHIP					
Husbands	17,609	242	24.4	7.2	1.4
Wives	16,996	622	23.5	18.6	3.7
Women who maintain families	5,395	288	7.5	8.6	5.3
Men who maintain families	1,815	50	2.5	1.5	2.8
Other persons	30,491	2,082	42	62	28

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

Table 2. Distribution of Wage and Salary Workers Paid Hourly Rates, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demographic group who fall in wage category	
	\$5.15 - \$6.14	\$6.15 - \$7.14	\$5.15 - \$6.14	\$6.15 - \$7.14	\$5.15 - \$6.14	\$6.15 - \$7.14
Total, 16 years and over	10,093	8,370	100.0	100.0	14.0	11.6
AGE						
16 to 19 years	3,133	1,482	31.0	17.7	47.5	22.5
20 and over	6,960	6,888	69.0	82.3	10.6	10.5
SEX						
Men, 16 years and over	4,076	3,405	40.4	40.7	11.3	9.4
Women, 16 years and over	6,018	4,965	59.6	59.3	16.6	13.7
RACE AND HISPANIC ORIGIN						
White	8,027	6,668	79.5	79.7	13.6	11.3
African American	1,602	1,336	15.9	16.0	15.8	13.2
Hispanic	1,989	1,447	19.7	17.3	21.2	15.4
FULL- AND PART-TIME STATUS						
Full-time workers	4,563	5,301	45.2	63.3	8.3	9.7
Part-time workers	5,512	3,048	54.6	36.4	32.0	17.7
FAMILY RELATIONSHIP						
Husbands	851	990	8.4	11.8	4.8	5.6
Wives	1,821	1,962	18.0	23.4	10.7	11.5
Women who maintain families	855	807	8.5	9.6	15.8	15.0
Men who maintain families	171	167	1.7	2.0	9.4	9.2
Other persons	6,396	4,445	63	53	84	58

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

5. Economic Research on the Effect of the Minimum Wage On Employment

The impact of a moderate increase in the minimum wage on employment is a key question for policymakers. Clearly, while an increase in the minimum wage benefits those workers who receive it, some have raised concerns that these direct gains may be partially or fully offset if the minimum wage increase leads to greater unemployment among lower income workers. Section 3 discussed some of the aggregate evidence from the 1996-97 experience. This section discusses the economic theory and empirical evidence behind the effects of the minimum wage on employment.

Recent Economic Theory on the Impact of the Minimum Wage on Employment

The traditional economic theory of supply and demand predicts that an increase in the minimum wage above the market rate would increase the cost faced by employers, causing them to reduce employment. Recent theoretical analyses, however, have challenged this conventional wisdom, examining reasons why some employers may respond to a moderately higher minimum wage by expanding employment. Specifically, higher wages can help firms attract better workers, motivate them to work harder, and retain them for longer periods. (While firms always have the option of increasing their pay rate, some managers leave wages unchanged because of reluctance to increase average labor costs.) At least five papers—recently published in peer-reviewed economics journals—rigorously study this logic. These papers show that a moderate minimum wage can have a positive effect on employment. In general, then, an increase in the minimum wage has an ambiguous effect on employment. The only way to determine the effect in practice is to look at the empirical evidence.

Recent Empirical Evidence on Employment Effects

In an important book, economists David Card and Alan Krueger (1995) provide a critical analysis of previous research, and present their own extensive exploration of the wide variation in minimum wages across states found in the late 1980s and early 1990s. Their work shows that there were no negative employment effects even for teenagers, the group for whom any disemployment effects should be most apparent. Similarly, their detailed analysis fails to find disemployment effects of a minimum wage in the retail trade or in employment of fast food restaurants. More recent studies confirm these results.

Employment in Fast Food Restaurants. To determine the impact of minimum wages on employment, one would like to gather data from firms prior to a minimum wage increase and see how firms adjust employment relative to other similar firms for which the minimum wage does not increase. New work by Card and Krueger (forthcoming) comes closest to doing this. In 1992, New Jersey imposed a higher minimum wage, and yet the neighboring state of Pennsylvania did not. And then in 1996 an increase in the federal minimum wage affected Pennsylvania but not New Jersey. These two episodes provide an experiment that can be used to infer the effects of a minimum wage increase on employment. Card and Krueger use the BLS's

See Bhaskar and To (1999), Dickens, Machin, and Manning (1999), Lang and Kahn (1998), Manning (1995), and Rebitzer and Taylor (1995). Additional discussion of these models are found in Chapter 11 of Card and Krueger (1995).

employer-reported payroll files from 1991 through 1997 to evaluate employment growth of fast food restaurants in New Jersey and nearby counties in Pennsylvania. They conclude that the minimum wage changes had very little (and possibly slightly positive) effect on employment.

The British Experience. Dickens, Machin, and Manning (1999) studied the British experience with minimum wages. They found "...strong evidence that [minimum wages] compressed the distribution of earnings and no evidence that they have reduced employment."

6. CONCLUSION

The evidence is convincing that moderate increases in the minimum wage have provided meaningful additional earnings for many of America's most hard-pressed working families with no discernible negative employment effects. Increasing the minimum wage is one of the ways that government can help ensure that everyone continues to share in the benefits of growth. When the minimum wage was fixed from 1981 to 1990, the wages and incomes of poorer workers fell in real terms. Thanks to the 1996-97 minimum wage increase, today the minimum wage is helping to ensure that a single parent with two children does not have to raise his or her children in poverty.

The minimum wage is just one component of an overall strategy for insuring that all families benefit from the nation's economic growth. The President's proposed expansion in the Earned Income Tax Credit—to increase benefits for families with three or more children, reduce the marriage penalty, and reduce the phaseout rate—would enhance the value of a higher minimum wage, especially for families with more children and thus greater needs. At the same time, the President is committed to continuing to make important investments in people. Since 1993, the budget for education and training programs has nearly doubled and the President is proposing record increases for a number of key education programs, including Head Start, in his FY 2001 budget. Together, these policies are an investment in continued strong and shared economic growth.

While some critics of Card and Krueger expressed concern about their data collection, the most recent research uses BLS employment records and finds basically the same results.

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Appendix: Distribution of Wage and Salary Workers Paid Hourly Rates by State, 1999

	Number (in thousands)		Percent of All Wage and Salary Workers	
	\$5.15 to \$6.14	\$6.15 to \$7.14	\$5.15 to \$6.14	\$6.15 to \$7.14
Total	10,093	8,370	13.9	11.6
Alabama	202	146	18.1	13.1
Alaska	9	13	5.5	7.6
Arizona	200	157	15.2	11.9
Arkansas	130	101	20.9	16.2
California	1,463	1,023	17.4	12.1
Colorado	79	92	7.3	8.4
Connecticut	62	70	7.5	8.6
Delaware	22	21	10.8	10.0
DC	12	12	10.0	10.7
Florida	597	530	15.5	13.8
Georgia	267	248	13.1	12.3
Hawaii	47	29	15.0	9.4
Idaho	58	45	15.6	12.3
Illinois	428	354	13.2	10.8
Indiana	180	209	9.8	11.4
Iowa	103	91	11.2	9.9
Kansas	123	96	15.6	12.3
Kentucky	157	161	14.2	14.7
Louisiana	297	123	25.9	10.7
Maine	45	39	11.8	10.4
Maryland	125	137	9.5	10.5
Massachusetts	161	162	9.6	9.7
Michigan	341	312	11.3	10.3
Minnesota	115	121	8.0	8.4
Mississippi	146	74	22.7	11.5
Missouri	172	169	11.9	11.8
Montana	54	32	21.5	12.7
Nebraska	67	68	13.2	13.6
Nevada	60	60	11.2	11.3
New Hampshire	29	31	8.2	8.5
New Jersey	205	187	10.6	9.8
New Mexico	75	39	18.0	9.1
New York	566	395	14.8	10.3
North Carolina	247	223	12.4	11.2
North Dakota	34	29	18.3	15.9
Ohio	427	356	12.7	10.6
Oklahoma	170	126	19.6	14.5
Oregon	35	184	3.7	19.7
Pennsylvania	454	338	13.8	10.3
Rhode Island	37	25	13.4	9.3
South Carolina	153	116	14.9	11.3
South Dakota	33	29	15.2	13.7
Tennessee	208	216	13.6	14.2
Texas	929	653	18.5	13.1
Utah	61	84	10.1	14.0
Vermont	21	20	12.4	11.5
Virginia	218	207	13.6	12.8
Washington	180	158	10.9	9.6
West Virginia	106	60	22.2	12.8
Wisconsin	157	177	8.9	10.0
Wyoming	25	19	17.8	13.8

Note: Workers in the \$5.15 to \$6.14 category would be directly affected by a \$1.00 increase in the minimum wage. Those in the \$6.15 to \$7.14 category could be affected by spillovers.

Source: U.S. Department of Labor, Bureau of Labor Statistics, unpublished tabulations from the Current Population Survey, 1999.

Percentage of workers paid hourly rates earning between \$5.15 and \$6.14 per hour, by State

(U.S. percentage = 14.0 percent)

1999 annual averages

