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[Minimum Wage Folder]

Stack:	Row:	Section:	Shelf:	Position:
S	18	7	8	1

February 2, 1998

The Honorable William J. Clinton
President
The White House
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

Dear Mr. President:

As economists who are concerned about the erosion in the living standards of households dependent on the earnings of low-wage workers, we applaud your endorsement of an increase in the Federal minimum wage.

We believe that the 1996 and 1997 increases had a beneficial effect not only on those whose earnings were increased by 90 cents an hour but also on the economy as a whole. Billions in added consumer demand helped fuel our expanding economy in those years.

We have been particularly impressed by the fact that the 1996 and 1997 increases did not have, as is often predicted during minimum wage debates, a negative effect on either prices or employment. While those increases were going into workers' pockets, total employment levels rose by 2.7 percent, teen employment levels rose 2.2 percent, and the employment of women workers rose 2.7 percent. And, at the same time, the CPI remained virtually stable.

Given the nation's unemployment rate and strong economy without inflation, now is the time to deepen our public commitment to a decent minimum wage. We strongly support the Kennedy-Bonior bill. That legislation would increase the minimum wage by 50 cents in each of the next three years, bringing the minimum wage to $6.65 per hour on September 1, 2000. Thereafter, the minimum wage would be indexed to the rate of inflation. We believe that the bill will help low-wage workers and their families without significantly jeopardizing employment opportunities or causing other harmful economic effects.

Thank you for your leadership in this important area.

Sincerely,

Eileen Appelbaum

Eileen Appelbaum
Economic Policy Institute*

Barbara R. Bergmann

Barbara R. Bergmann
American University
University of Maryland

Peter Berg
Economic Policy Institute*

Jared Bernstein
Economic Policy Institute*

Barry Bluestone
University of Massachusetts/Boston

Sheldon Danziger
University of Michigan

Robert Eisner
Northwestern University

Jeff Faux
Economic Policy Institute*

James K. Galbraith
LBJ School of Public Affairs
University of Texas at Austin

Heidi Hartmann
Institute for Women's
Policy Research

Lawrence R. Klein
University of Pennsylvania

Lisa M. Lynch
Fletcher School of Law & Diplomacy
Tufts University

James L. Medoff
Harvard University

Lawrence Mishel
Economic Policy Institute*

Michael Piore
Massachusetts Institute
of Technology

Juliet B. Schor
Harvard University

* For Identification Purposes Only

February 2, 1998

The Honorable William J. Clinton
President of the United States
The White House
Washington, D.C.

Dear Mr. President:

As an economist who is concerned about the erosion in the living standards of households dependent on the earnings of low-wage workers, I applaud your endorsement of an increase in the Federal minimum wage.

I believe that the 1996 and 1997 increases had a beneficial effect, not only on those whose earnings were increased by 90 cents an hour, but also on the economy as a whole. Billions in added consumer demand helped fuel our expanding economy in those years.

I have been particularly impressed by the fact that the 1996 and 1997 increases did not have, as is often predicted during minimum wage debates, a negative effect on either prices or employment. While those increases were going into workers' pockets, total employment rose by 2.7 percent, teen employment rose 2.2 percent, and the employment of women workers rose 2.7 percent. And, at the same time, the CPI remained virtually stable.

Given the nation's low unemployment rate and strong economy without inflation, now is the time to deepen our public commitment to a decent minimum wage. I strongly support the Kennedy-Bonior bill. That legislation would increase the minimum wage by 50 cents in each of the next three years, bringing the minimum wage to $6.65 an hour on September 1, 2000. Thereafter, the minimum wage would be indexed to the rate of inflation. I believe that increases like this will help low-wage workers and their families, without significantly jeopardizing employment opportunities or causing other harmful economic effects.

Thank your for your leadership in this important area.

Sincerely,

Ray Marshall

CASE 1 -- RAISE MIN WAGE TO $5.65

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum % increase in wages	% drop in employment	**# of jobs lost**
	under	$5.00	4,623,464	$5.15	-0.2000	9.7%	-1.9%	**(89,776)**
	$5.00	$5.24	4,836,975	$5.15	-0.2000	9.7%	-1.9%	**(93,922)**
	$5.25	$5.49	1,833,703	$5.29	-0.2125	6.8%	-1.4%	**(26,518)**
	$5.50	$5.74	1,877,157	$5.53	-0.2250	2.2%	-0.5%	**(9,165)**
LOW-	$5.75	$5.99	844,115	$5.80	-0.2375	0.0%	0.0%	**0**
ELASTICITY	$6.00	$6.24	4,112,038	$6.02	-0.2500	0.0%	0.0%	**0**
ESTIMATES	$6.25	$6.49	1,145,142	$6.30	-0.2625	0.0%	0.0%	**0**
	$6.50	$6.74	2,171,791	$6.53	-0.2750	0.0%	0.0%	**0**
	$6.75	$6.99	868,770	$6.83	-0.2875	0.0%	0.0%	**0**
	$7.00	$7.24	3,860,601	$7.03	-0.3000	0.0%	0.0%	**0**
	$7.25	$7.49	934,018	$7.32	-0.3125	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			27,107,774					**(219,381)**
	under	$5.00	4,623,464	$5.15	-0.4000	9.7%	-3.9%	**(179,552)**
	$5.06	$5.24	4,836,975	$5.15	-0.4000	9.7%	-3.9%	**(187,844)**
	$5.25	$5.49	1,833,703	$5.29	-0.4125	6.8%	-2.8%	**(51,475)**
	$5.50	$5.74	1,877,157	$5.53	-0.4250	2.2%	-0.9%	**(17,312)**
HIGH-	$5.75	$5.99	844,115	$5.80	-0.4375	0.0%	0.0%	**0**
ELASTICITY	$6.00	$6.24	4,112,038	$6.02	-0.4500	0.0%	0.0%	**0**
ESTIMATES	$6.25	$6.49	1,145,142	$6.30	-0.4625	0.0%	0.0%	**0**
	$6.50	$6.74	2,171,791	$6.53	-0.4750	0.0%	0.0%	**0**
	$6.75	$6.99	868,770	$6.83	-0.4875	0.0%	0.0%	**0**
	$7.00	$7.24	3,860,601	$7.03	-0.5000	0.0%	0.0%	**0**
	$7.25	$7.49	934,018	$7.32	-0.5125	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			27,107,774					**(436,183)**

* Estimates based on March 1997 CPS data for hourly workers ONLY

CASE 2 -- RAISE MIN WAGE TO $6.15

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum: % increase in wages	% drop in employment	**# of jobs lost**
	under	$5.00	4,623,464	$5.15	-0.2000	19.4%	-3.9%	**(179,552)**
	$5.00	$5.24	4,836,975	$5.15	-0.2000	19.4%	-3.9%	**(187,844)**
	$5.25	$5.49	1,833,703	$5.29	-0.2125	16.3%	-3.5%	**(63,348)**
	$5.50	$5.74	1,877,157	$5.53	-0.2250	11.2%	-2.5%	**(47,353)**
LOW-	$5.75	$5.99	844,115	$5.80	-0.2375	6.0%	-1.4%	**(12,098)**
ELASTICITY	$6.00	$6.24	4,112,038	$6.02	-0.2500	2.2%	-0.5%	**(22,200)**
ESTIMATES	$6.25	$6.49	1,145,142	$6.30	-0.2625	0.0%	0.0%	**0**
	$6.50	$6.74	2,171,791	$6.53	-0.2750	0.0%	0.0%	**0**
	$6.75	$6.99	868,770	$6.83	-0.2875	0.0%	0.0%	**0**
	$7.00	$7.24	3,860,601	$7.03	-0.3000	0.0%	0.0%	**0**
	$7.25	$7.49	934,018	$7.32	-0.3125	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			27,107,774					**(512,394)**
	under	$5.00	4,623,464	$5.15	-0.4000	19.4%	-7.8%	**(359,104)**
	$5.06	$5.24	4,836,975	$5.15	-0.4000	19.4%	-7.8%	**(375,687)**
	$5.25	$5.49	1,833,703	$5.29	-0.4125	16.3%	-6.7%	**(122,969)**
	$5.50	$5.74	1,877,157	$5.53	-0.4250	11.2%	-4.8%	**(89,445)**
HIGH-	$5.75	$5.99	844,115	$5.80	-0.4375	6.0%	-2.6%	**(22,285)**
ELASTICITY	$6.00	$6.24	4,112,038	$6.02	-0.4500	2.2%	-1.0%	**(39,959)**
ESTIMATES	$6.25	$6.49	1,145,142	$6.30	-0.4625	0.0%	0.0%	**0**
	$6.50	$6.74	2,171,791	$6.53	-0.4750	0.0%	0.0%	**0**
	$6.75	$6.99	868,770	$6.83	-0.4875	0.0%	0.0%	**0**
	$7.00	$7.24	3,860,601	$7.03	-0.5000	0.0%	0.0%	**0**
	$7.25	$7.49	934,018	$7.32	-0.5125	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			27,107,774					**(1,009,450)**

* Estimates based on March 1997 CPS data for hourly workers ONLY

CASE 3 -- RAISE MIN WAGE TO $6.75

	CURRENT wage range		number in range	FUTURE average wage	cell elasticity	Effect of New Minimum: % increase in wages	% drop in employment	**# of jobs lost**
	under	$5.00	4,623,464	$5.15	-0.2000	31.1%	-6.2%	**(287,283)**
	$5.00	$5.24	4,836,975	$5.15	-0.2000	31.1%	-6.2%	**(300,550)**
	$5.25	$5.49	1,833,703	$5.29	-0.2125	27.6%	-5.9%	**(107,544)**
	$5.50	$5.74	1,877,157	$5.53	-0.2250	22.1%	-5.0%	**(93,179)**
LOW-ELASTICITY ESTIMATES	$5.75	$5.99	844,115	$5.80	-0.2375	16.4%	-3.9%	**(32,837)**
	$6.00	$6.24	4,112,038	$6.02	-0.2500	12.1%	-3.0%	**(124,659)**
	$6.25	$6.49	1,145,142	$6.30	-0.2625	7.1%	-1.9%	**(21,471)**
	$6.50	$6.74	2,171,791	$6.53	-0.2750	3.4%	-0.9%	**(20,121)**
	$6.75	$6.99	868,770	$6.83	-0.2875	0.0%	0.0%	**0**
	$7.00	$7.24	3,860,601	$7.03	-0.3000	0.0%	0.0%	**0**
	$7.25	$7.49	934,018	$7.32	-0.3125	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			27,107,774					**(987,644)**
	under	$5.00	4,623,464	$5.15	-0.4000	31.1%	-12.4%	**(574,566)**
	$5.06	$5.24	4,836,975	$5.15	-0.4000	31.1%	-12.4%	**(601,100)**
	$5.25	$5.49	1,833,703	$5.29	-0.4125	27.6%	-11.4%	**(208,761)**
	$5.50	$5.74	1,877,157	$5.53	-0.4250	22.1%	-9.4%	**(176,005)**
HIGH-ELASTICITY ESTIMATES	$5.75	$5.99	844,115	$5.80	-0.4375	16.4%	-7.2%	**(60,489)**
	$6.00	$6.24	4,112,038	$6.02	-0.4500	12.1%	-5.5%	**(224,386)**
	$6.25	$6.49	1,145,142	$6.30	-0.4625	7.1%	-3.3%	**(37,831)**
	$6.50	$6.74	2,171,791	$6.53	-0.4750	3.4%	-1.6%	**(34,755)**
	$6.75	$6.99	868,770	$6.83	-0.4875	0.0%	0.0%	**0**
	$7.00	$7.24	3,860,601	$7.03	-0.5000	0.0%	0.0%	**0**
	$7.25	$7.49	934,018	$7.32	-0.5125	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			27,107,774					**(1,917,893)**

* Estimates based on March 1997 CPS data for hourly workers ONLY

CASE 4 -- RAISE MIN WAGE TO $7.25

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum		
						% increase in wages	% drop in employment	**# of jobs lost**
	under	$5.00	4,623,464	$5.15	-0.2000	40.8%	-8.2%	**(377,059)**
	$5.00	$5.24	4,836,975	$5.15	-0.2000	40.8%	-8.2%	**(394,472)**
	$5.25	$5.49	1,833,703	$5.29	-0.2125	37.1%	-7.9%	**(144,374)**
	$5.50	$5.74	1,877,157	$5.53	-0.2250	31.1%	-7.0%	**(131,367)**
LOW-ELASTICITY ESTIMATES	$5.75	$5.99	844,115	$5.80	-0.2375	25.0%	-5.9%	**(50,119)**
	$6.00	$6.24	4,112,038	$6.02	-0.2500	20.4%	-5.1%	**(210,042)**
	$6.25	$6.49	1,145,142	$6.30	-0.2625	15.1%	-4.0%	**(45,329)**
	$6.50	$6.74	2,171,791	$6.53	-0.2750	11.0%	-3.0%	**(65,852)**
	$6.75	$6.99	868,770	$6.83	-0.2875	6.1%	-1.8%	**(15,359)**
	$7.00	$7.24	3,860,601	$7.03	-0.3000	3.1%	-0.9%	**(36,245)**
	$7.25	$7.49	934,018	$7.32	-0.3125	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			27,107,774					**(1,470,218)**
	under	$5.00	4,623,464	$5.15	-0.4000	40.8%	-16.3%	**(754,118)**
	$5.06	$5.24	4,836,975	$5.15	-0.4000	40.8%	-16.3%	**(788,944)**
	$5.25	$5.49	1,833,703	$5.29	-0.4125	37.1%	-15.3%	**(280,255)**
	$5.50	$5.74	1,877,157	$5.53	-0.4250	31.1%	-13.2%	**(248,138)**
HIGH-ELASTICITY ESTIMATES	$5.75	$5.99	844,115	$5.80	-0.4375	25.0%	-10.9%	**(92,325)**
	$6.00	$6.24	4,112,038	$6.02	-0.4500	20.4%	-9.2%	**(378,075)**
	$6.25	$6.49	1,145,142	$6.30	-0.4625	15.1%	-7.0%	**(79,865)**
	$6.50	$6.74	2,171,791	$6.53	-0.4750	11.0%	-5.2%	**(113,745)**
	$6.75	$6.99	868,770	$6.83	-0.4875	6.1%	-3.0%	**(26,044)**
	$7.00	$7.24	3,860,601	$7.03	-0.5000	3.1%	-1.6%	**(60,408)**
	$7.25	$7.49	934,018	$7.32	-0.5125	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			27,107,774					**(2,821,916)**

* Estimates based on March 1997 CPS data for hourly workers ONLY

OPTIONS FOR MINIMUM WAGE INCREASE

I. **Adopt Kennedy Minimum Wage Proposal:** Increase minimum wage to $7.25 by 2002, through 50-cent increase in 1998, 1999, and 2000, and then 30-cent increase in 2001 and 2002.

II. **Adopt Position to Split the Difference and Maintain Real Value of Minimum Wage, Without Explicit Indexation Proposal:** Increase minimum wage to $6.20 by 2002, through three 35-cent increases or go to a slightly lower level, $6, by 2002 through a 45-cent increase in 1999 and a 40-cent increase in 2002.

III. **Adopt Position that With Full-time Minimum Wage and EITC, Family of Four Should Be Able to Live Out of Poverty:** Increase minimum wage to $6.75 by 2002, through 40-cent increases in 1999, 2000, 2001, and 2002.

IV. **Adopt Position of $6 by Turn of Century:** Increase minimum wage to $6 by 2000, through 35-cent increase in 1998 and 25-cent increases in 1999 and 2000.

V. **Wait and See:** Do not endorse increase in minimum wage at this time. Argue that we support minimum wage, but too early to increase again because we need to learn from the facts of the recent hikes.

~~CONFIDENTIAL~~ ~~CONFIDENTIAL~~

January 22, 1998

DETERMINED TO BE AN ADMINISTRATIVE MARKING
INITIALS: JAM DATE: 11/9/17
2016-0531-F

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG
PETER ORSZAG

SUBJECT: Minimum Wage Increase

We have worked with CEA, Treasury, and Labor to develop credi~~ta~~ble evidence on the employment effects of a minimum wage increase. The results suggest the following:

DISEMPLOYMENT EFFECT

New Minimum Wage Rate	**By 2000**			**By 2002**		
	Low	**Mid**	**High**	**Low**	**Mid**	**High**
5.75		No Effect			No Effect	
6.00	1,000	61,000	121,000		No Effect	
6.25	12,000	211,000	417,000	1,000	61,000	121,000
6.75	48,000	438,000	851,000	12,000	211,000	417,000
7.25		Big		48,000	438,000	851,000

OPTIONS FOR MINIMUM WAGE INCREASE

I. **Adopt Kennedy Minimum Wage Proposal:** Increase minimum wage to $7.25 by 2002, through 50-cent increase in 1998, 1999, and 2000, and then 30-cent increase in 2001 and 2002.

II. **Adopt Position to Split the Difference and Maintain Real Value of Minimum Wage, Without Explicit Indexation Proposal:** Increase minimum wage to $6.20 by 2002, through three 35-cent increases or go to a slightly lower level, $6, by 2002 through a 45-cent increase in 1999 and a 40-cent increase in 2002.

Pros:

- Moderate increase, which allows us to be responsive on issue but avoid irresponsible increases.
- Maintains or slightly improves real value of minimum wage over budget horizon.

Cons:

- The economy could reverse its impressive performance over the past several years, and the increases would then pose potential risks to low-skilled unemployment.
- Democrats may complain that the increase is too small.
- Takes away the issue in 2000.
- Business may complain that the increases are too soon.
- It becomes administratively difficult to have increases in successive years.

With annual votes

Pros:

- Allows you to address issue, while maintaining flexibility to respond to macroeconomic and other conditions.
- Keeps issue on the front burner throughout the next 5 years.

Cons:

- Complicated.
- Does not guarantee increases.

III. **Adopt Position that With Full-time Minimum Wage and EITC, Family of Four Should Be Able to Live Out of Poverty:** Increase minimum wage to $6.75 by 2002, through 40-cent increases in 1999, 2000, 2001, and 2002.

IV. **Adopt Position of $6 by Turn of Century:** Increase minimum wage to $6 by 2000, through 35-cent increase in 1998 and 25-cent increases in 1999 and 2000.

Pros:

- Could attract Democrat support
- Simple message

Cons:

- Could raise minimum wage "too high" and cause concerns over unemployment
- Could be seen by moderate business groups as pushing this issue too hard

V. **Wait and See:** Do not endorse increase in minimum wage at this time. Argue that we support minimum wage, but too early to increase again because we need to learn from the facts of the recent hikes.

CASE 1 -- RAISE MIN WAGE TO $6.25 IN 2002
(= $5.40 IN 1997)
= 6.00 in 2000

	wage range		number in range	average wage	cell elasticity	% increase in wages	% drop in employment	# of jobs lost
						Effect of New Minimum		
	$4.25	$4.99	737,000	$5.15	0.0000	4.9%	0.0%	**0**
	$5.00	$5.24	4,534,000	$5.15	0.0000	4.9%	0.0%	**0**
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	2.1%	-0.1%	**(1,141)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	0.0%	0.0%	**0**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	**0**
	$11.00	$11.24			-0.6000			
			16,379,000					**(1,141)**
	$4.25	$4.99	737,000	$5.15	-0.2000	4.9%	-1.0%	**(7,155)**
	$5.00	$5.24	4,534,000	$5.15	-0.2000	4.9%	-1.0%	**(44,019)**
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	2.1%	-0.4%	**(9,699)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	0.0%	0.0%	**0**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			16,379,000					**(60,874)**
	under	$5.00	737,000	$5.15	-0.4000	4.9%	-1.9%	**(14,311)**
	$5.06	$5.24	4,534,000	$5.15	-0.4000	4.9%	-1.9%	**(88,039)**
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	2.1%	-0.9%	**(18,828)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	0.0%	0.0%	**0**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			16,379,000					**(121,177)**

CASE 2 -- RAISE MIN WAGE TO $6.75 IN 2002 (= $5.82 IN 1997)

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum % increase in wages	% drop in employment	# of jobs lost
	$4.25	$4.99	737,000	$5.15	0.0000	13.0%	0.0%	**0**
	$5.00	$5.24	4,534,000	$5.15	0.0000	13.0%	0.0%	**0**
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	10.0%	-0.3%	**(5,498)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	5.2%	-0.3%	**(5,960)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	0.3%	-0.0%	**(252)**
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	**0**
	$11.00	$11.24			-0.6000			
			16,379,000					**(11,710)**
	$4.25	$4.99	737,000	$5.15	-0.2000	13.0%	-2.6%	**(19,176)**
	$5.00	$5.24	4,534,000	$5.15	-0.2000	13.0%	-2.6%	**(117,972)**
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	10.0%	-2.1%	**(46,732)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	5.2%	-1.2%	**(26,820)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	0.3%	-0.1%	**(798)**
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			16,379,000					**(211,499)**
	under	$5.00	737,000	$5.15	-0.4000	13.0%	-5.2%	**(38,353)**
	$5.06	$5.24	4,534,000	$5.15	-0.4000	13.0%	-5.2%	**(235,944)**
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	10.0%	-4.1%	**(90,715)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	5.2%	-2.2%	**(50,660)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	0.3%	-0.2%	**(1,471)**
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			16,379,000					**(417,142)**

CASE 3 -- RAISE MIN WAGE TO $7.25 IN 2002 (= $6.25 IN 1997)

	wage range		number in range	average wage	cell elasticity	% increase in wages (Effect of New Minimum)	% drop in employment (Effect of New Minimum)	# of jobs lost (Effect of New Minimum)
	$4.25	$4.99	737,000	$5.15	0.0000	21.4%	0.0%	**0**
	$5.00	$5.24	4,534,000	$5.15	0.0000	21.4%	0.0%	**0**
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	18.1%	-0.5%	**(9,958)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	13.0%	-0.7%	**(14,797)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	7.8%	-0.6%	**(5,673)**
	$6.00	$6.24	4,519,000	$6.02	-0.1000	3.8%	-0.4%	**(17,265)**
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	**0**
	$11.00	$11.24			-0.6000			
			16,379,000					**(47,694)**
	$4.25	$4.99	737,000	$5.15	-0.2000	21.4%	-4.3%	**(31,483)**
	$5.00	$5.24	4,534,000	$5.15	-0.2000	21.4%	-4.3%	**(193,685)**
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	18.1%	-3.9%	**(84,647)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	13.0%	-2.9%	**(66,587)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	7.8%	-1.8%	**(17,966)**
	$6.00	$6.24	4,519,000	$6.02	-0.2500	3.8%	-1.0%	**(43,163)**
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			16,379,000					**(437,532)**
	under	$5.00	737,000	$5.15	-0.4000	21.4%	-8.5%	**(62,967)**
	$5.06	$5.24	4,534,000	$5.15	-0.4000	21.4%	-8.5%	**(387,371)**
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	18.1%	-7.5%	**(164,314)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	13.0%	-5.5%	**(125,775)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	7.8%	-3.4%	**(33,095)**
	$6.00	$6.24	4,519,000	$6.02	-0.4500	3.8%	-1.7%	**(77,694)**
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			16,379,000					**(851,216)**

January 6, 1998

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG

SUBJECT: Minimum Wage

A couple of weeks ago, I spoke extensively with Alan, Larry, and Ceci about another increase in the minimum wage. All three agree that it is too soon for another hike in the minimum wage. Alan's memo (see attached) provides a good overview of the issue and addresses each of the concerns voiced by Larry and Ceci.

You should know that Alan and David Card have a new paper on the minimum wage. Like their earlier studies, they find that "moderate" increases in the minimum wage have little or no effect on employment growth. This new study reanalyzes evidence from the New Jersey minimum wage increase in 1992. As you know, their original study created a good amount of controversy and was strongly criticized by opponents of the minimum wage. This new study uses very reliable unemployment insurance data from fast-food restaurants in New Jersey and Pennsylvania. Moreover, they reanalyze the data of Neumark and Wascher — the authors of the paper that contradicted their original results — and find that Neumark and Wascher's results were driven by a small set of restaurants owned by a single frranchisee.

December 17, 1997

MEMORANDUM FOR GENE SPERLING

FROM: ALAN KRUEGER

SUBJECT: Minimum Wage

Jon asked me to write a brief memo outlining my thoughts on another minimum wage increase. I have been asked this question a few times by reporters, and my response has typically been the following: "Not much time has elapsed since the last increases, and I'd like some more time to evaluate the effects of the last two increases before considering another one." Let me elaborate:

If it is raised too high or too quickly, I'm confident a minimum wage increase will have more negative consequences than positive consequences. It is not clear at what wage the tipping point occurs, and general economic conditions are probably also important. The circumstances surrounding the minimum wage increase in 1996 and 1997 were similar in some important respects to the circumstances surrounding the 1990 and 1991 increases. In both these cases, the minimum wage had not increased for several years, and the real value of the minimum wage was quite low by historical standards. This time circumstances are different -- which could lead to greater adverse consequences of another minimum wage increase this soon after the last one.

Much of the lost value of the minimum wage has been restored. In addition, inflation has been extraordinarily low since the 1996 minimum wage increase, so the value of the minimum wage has not been eroded. Inflation is also likely to remain low in the future. This means that another increase will bite further into the wage distribution and be more difficult for employers to absorb without reducing employment. Moreover, one way employers cope with a minimum wage increase is by eliminating slack; but with two increases in the last 14 months, there's probably not much slack left to eliminate. In sum, I suspect we are closer to the threshold minimum level where further increases in the minimum result in lower employment than we were in 1995.

Having said this, I see little evidence that the minimum wage increases in 1996 and 1997 have had negative consequences. Certainly, aggregate employment has continued to grow faster than anyone expected. I also don't see much evidence of an employment impact in low-wage sectors, such as teenage workers or the eating and drinking industry -- but we have only 3 months of data since the last increase.

On the wage front, I think the last four increases in the minimum wage have shored up the bottom of the wage distribution. The bottom 10 percent of wage earners finally stopped falling in real terms since 1989. Part of the explanation for this positive development probably involves the four minimum wage increases since then. One can also detect wage blips in the sectors most affected by the minimum wage around the time of the last two increases (e.g., eating and drinking or sales jobs). There is no evidence that the minimum wage increases have affected average wages or the general wage level, however.

Feel free to call me if you would like to discuss this further.

OPTIONS FOR MINIMUM WAGE INCREASE

I. **Adopt Kennedy Minimum Wage Proposal:** Increase minimum wage to $7.25 by 2002, through 50-cent increase in 1998, 1999, and 2000, and then 30-cent increase in 2001 and 2002.

II. **Adopt Position to Split the Difference and Maintain Real Value of Minimum Wage, Without Explicit Indexation Proposal:** Increase minimum wage to $6.20 by 2002, through three 35-cent increases or go to a slightly lower level, $6, by 2002 through a 45-cent increase in 1999 and a 40-cent increase in 2002.

III. **Adopt Position that With Full-time Minimum Wage and EITC, Family of Four Should Be Able to Live Out of Poverty:** Increase minimum wage to $6.75 by 2002, through 40-cent increases in 1999, 2000, 2001, and 2002.

IV. **Adopt Position of $6 by Turn of Century:** Increase minimum wage to $6 by 2000, through 35-cent increase in 1998 and 25-cent increases in 1999 and 2000.

V. **Wait and See:** Do not endorse increase in minimum wage at this time. Argue that we support minimum wage, but too early to increase again because we need to learn from the facts of the recent hikes.

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How to convert

Suppose empirical results show the following: A 10% increase in the minimum wage reduces teen employment by 3%.

We assume this quasi-elasticity applies to all demographic groups. I.e. a 10% increase in the minimum wage reduces employment by 3%.

We want the *percent reduction in employment for the affected group* i.e. those that experience a real increase in their wage. (Assume no ripple effects).

Two transformations are needed:

1. What is the employment share of the affected group. I.e. what fraction of total employment are those earning less than the new minimum? Call this X.
2. What is the *average* percent increase in wages experienced? I.e. if the minimum wage is raised from $5.00 to $5.50, those who are earning $5.00 experience a 10 percent increase in their wage while those earning 5.49 experience a .1% increase in their wage. The simplest way to calculate this is to take the average wage among those affected and the percent increase experienced by someone earning this average. (Additional wage cuts can be made if the increase is large and there is a concern that the numbers of people affected is much larger at larger wages). Call the average percent increase in wages experienced Y.

Then: the disemployment elasticity to apply is: -.3/X

Therefore to calculate the percent reduction in employment the relevant formula is:

(-.3/X)*Y

This percent is then applied to the number of people earning less than the new minimum to calculate the number of disemployed

$$\frac{dL/L}{dw/w} = .3 \qquad L = \text{all teens}$$

They did: Assume elasticity applies to whole population, even though

1. 7.25 - Kennedy (2002)
2. 6 by 2000 - poverty for family of 4 (6.65 in 2000)
3. 6 to 6.20 in 2002
4. ~~Gore's option - keep up with inflation~~
5. Wait & see

MINIMUM WAGE
January 19, 1998

18.5 mill

2

37 mill

200,000

$10,000

$7 bill

18.5 mill

I. Indexing

(A) To inflation

Under this approach, the minimum wage would be indexed to some measure of consumer prices -- presumably the CPI-U.

Pros:

- Prevents declines in real value of minimum wage, as has occurred over the past several decades.
- Many other government programs -- from Social Security benefits to tax brackets -- are indexed to consumer price inflation.
- Provides certainty to both business and workers over the real value of the minimum wage.
- Fulfills promise to index minimum wage.

Cons:

- Indexing to any CPI measure highlights the "CPI bias" debate.
- Indexing off of current level will leave real value of minimum wage relatively low by historical norms, and thus do little to raise people out of poverty.
- Indexing removes popular issue for Democrats.
- Indexing can exacerbate concerns over inflationary impact of minimum wage increases, by creating a feedback mechanism from wage increases to inflation and back to wage increases.
- Doesn't allow our policy to respond to new knowledge about the effects of recent increases in the minimum wage
- Does not permit other factors (e.g., macroeconomic conditions, etc.) to be taken into account in evaluating minimum wage increases.

(B) To median wages

Under this approach, the minimum wage would be indexed to some measure of median wages -- presumably from the Current Population Survey.

Pros:

- To the extent that the real median wage increases over time, this approach implies increases in the real minimum wage.
- Avoids CPI bias debate.

Cons:

- Other programs are price indexed, not wage indexed.
- Could put upward pressure on low-skilled unemployment rate, if return to skill between median and lower end of the distribution continues to widen.
- More difficult to explain than inflation indexation.
- Not clear what wage measure is optimal: median vs. mean, different wage series, etc.

(C) Indexed, with regular vote

Under this approach, the minimum wage would be indexed to either prices or wages -- but the increases would have to be approved through a Congressional vote every year. The votes could also raise the minimum wage by more or less than the indexed increase.

One alternative to constructing indexation as a norm is to require the vote to override indexation require a super-majority (either way).

Pros:

- Changes norm from no nominal increase, to indexed increase.
- Still allows larger or smaller adjustments, as appropriate given other factors.
- Does not remove political fight -- vote held every year.

Cons:

- Difficult to explain system.

- Does not guarantee that the real value of minimum wage will be maintained.

- Could make it more difficult to achieve increases above rate of inflation or wage increases.

II. Gene's option: Raise minimum wage by 25 cents in 1999, then 15 cents per year thereafter.

(A) With one-time vote

Pros:

- Moderate increase, which allows us to be responsive on issue but avoid irresponsible increases.

- Maintains or slightly improves real value of minimum wage over budget horizon.

Cons:

- Democrats may complain that the increase is too small.

- Takes away the issue in 2000.

- Business may complain that the increases are too soon.

- The economy could reverse its impressive performance over the past several years, and the increases would then pose potential risks to low-skilled unemployment.

(B) With annual votes

Pros:

- Allows you to address issue, while maintaining flexibility to respond to macroeconomic and other conditions as well as state of knowledge on minimum wage effects.

- Keeps issue on the front burner throughout the next 5 years.

Cons:

- Complicated.

- Does not guarantee increases.

III. Option 3: $6 per 2000.

Under this option, the minimum wage would rise by 35 cents on Sept. 1, 1998, 25 cents on Sept. 1, 1999, and 25 cents on Sept. 1, 2000 -- reaching $6 by Sept. 2000.

Pros:

- Could attract Democrat support
- Simple message

Cons:

- Could raise minimum wage "too high" and cause concerns over unemployment
- Could be seen by moderate business groups as pushing this issue too hard
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MINIMUM WAGE
January 19, 1998

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Distribution of wage and salary workers paid hourly rates
Fourth Quarter 1997 Averages, not seasonally adjusted
Numbers in thousands
By selected characteristics

DRAFT

Characteristic	Total Paid Hourly Rates	$5.15*	$5.15 to $5.39	$5.15 to $5.65	$5.40 to 5.54	$5.55 to $5.69	$5.70 to $5.84	$5.85 to $6.00	$6.00 to $7.24
TOTAL	71,061	2,115	4,022	6,621	2,374	291	768	4,433	12,736

Characteristic	Total Paid Hourly Rates	$5.15*	$5.16 to $5.65	$5.66 to $6.15	$6.16 to $6.66	$6.67 to $6.99	$7.00 or more
TOTAL (16 and over)	71,061	2,115	4,506	5,445	3,372	861	50,661
GENDER AND AGE							
'Men (16 and over)	35,326	755	1,693	2,286	1,345	321	27,291
'Women (16 and over)	35,755	1,359	2,812	3,159	2,027	541	23,370
Adult (25 and over)	55,287	970	2,051	3,160	2,273	649	44,141
'Men	27,219	235	610	1,173	812	206	23,478
'Women	28,068	735	1,441	1,987	1,460	443	20,664
Teenage (16 to 19)	5,973	654	1,418	1,039	434	66	1,177
'Men	3,021	334	658	485	216	41	724
'Women	2,952	320	760	554	218	25	452
Young Adult (20 to 24)	9,821	970	2,051	3,160	2,273	649	44,141
'Men	5,086	187	425	627	316	73	3,089
'Women	4,735	304	611	618	348	73	2,254
RACE AND HISPANIC ORIGIN							5343
White							
Total, 16 years and over	58,395	1,632	3,652	4,366	2,742	680	42,093
'Men	29,425	631	1,384	1,864	1,088	255	22,943
'Women	28,971	1,001	2,268	2,506	1,654	454	19,149
Black							
Total, 16 years and over	9,562	423	643	847	492	128	6,335
'Men	4,357	106	225	336	204	57	3,174
'Women	5,205	318	418	511	288	72	3,161
Hispanic							
Total, 16 years and over	8,765	388	758	1,035	591	149	5,247
'Men	5,262	158	361	553	352	77	3,478
'Women	3,503	231	397	482	239	73	1,769
FAMILY RELATIONSHIP							
Husbands	17,570	147	284	559	507	141	15,607
Wives	17,173	364	855	1,137	933	264	12,903
Women who maintain families	5,210	240	341	471	325	111	3,347
Men who maintain families	1,800	16	103	106	61	26	1,437
Other persons in families:							
'Men	8,226	444	1,038	1,055	468	79	4,263
'Women	6,786	508	1,156	1,000	421	58	2,682
All other men**	7,730	149	269	566	310	75	5,984
All other women**	6,586	247	460	551	348	108	4,438

Notes:
* Data show 2,251,000 workers earning $5.00. This is probably consistent with responding rounding their earnings and/or lag in compliance with minimum wage laws.
** The majority of these persons are living alone or with a non-relative.
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 grous. 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 form the CPS, 1997.

ANALYSIS OF POSSIBLE INCREASES IN THE MINIMUM WAGE

The minimum wage was raised in October 1996 from $4.25 to $4.75, and again in September 1997 from $4.75 to $5.15. Senator Kennedy has proposed further raising the minimum wage, in several stages, to $7.25 by 2002. The current minimum wage is, in real terms, about the level it was in the mid-1980s. The Kennedy proposal would return the real minimum wage close to its high levels in the late 1970s by 2002; without any legislative changes, inflation is likely to erode a significant portion of the real minimum wage increase from the 1996 and 1997 hikes by 2002. (See Figure 1.)

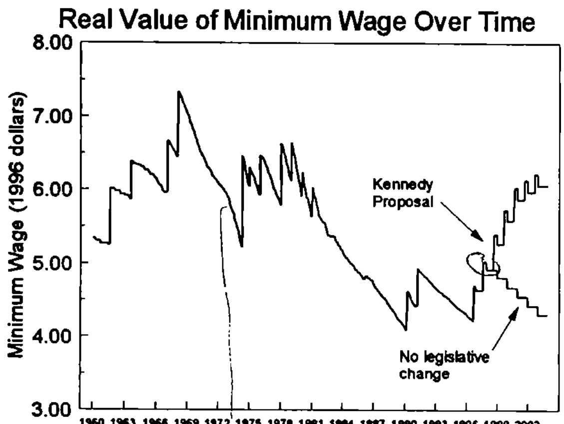

Figure 1

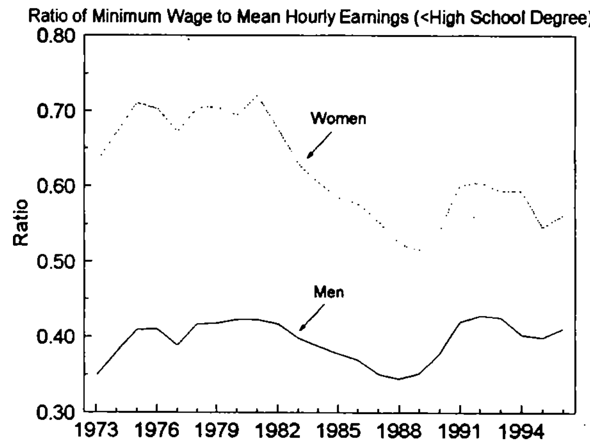

Figure 2 Note: For 1996 ratio, 1995 mean hourly earnings were used with the 1996 minimum wage

Since the effect of the minimum wage depends upon where in the wage distribution it hits, it is useful to calculate the minimum wage relative to earnings of less-skilled workers. As seen in Figure 2, the minimum wage cuts higher into the income distribution of low-skilled women than of low-skilled men, suggesting that the minimum wage has more of an effect on low-skilled women than on low-skilled men. However, because less-skilled men's earnings have fallen, the minimum wage relative to earnings of men with less than a high school degree is currently higher than it was in the mid-1980s, and almost at its 25-year peak; this suggests that the minimum wage may be having a greater effect on men than it has in the past. In contrast, the minimum wage relative to earnings of women with less than a high school degree is now substantially lower than in the mid-1980s.

GROUPS AFFECTED BY FURTHER INCREASES

A key question with minimum wage increases is which groups of workers are affected by the increase. If the minimum wage were increased to $7.25, about one-seventh of those newly covered would be poor, about quarter would be teenagers, about two thirds would have a high school degree or less, and about one-seventh would be single adults with children. Figures 3-6 examine the characteristics of workers who are in different wage brackets above the minimum

All numbers are preliminary. Do not cite or circulate.

wage.[1] As the minimum wage moves above $5.15/hour, these charts show that the group of workers affected is increasingly less poor, better educated, and less likely to be teenaged. (See attached).

ARGUMENTS FOR AND AGAINST RAISING THE MINIMUM WAGE

Arguments for an increase

- **Decreases wage inequality**. By providing a floor for wages, the minimum wage may compress wages in the lower tail of the wage distribution, offsetting declines in wages among less-skilled workers; if the beneficiaries of the minimum wage are mostly low-income families, the reduced wage inequality will also reduce family earnings inequality. Most evidence suggests that recent minimum wage increases had a substantial impact on compressing wages at the bottom decile, but less of an impact on family earnings inequality.

- **May decrease poverty**. By raising wages at the bottom, an increase in the minimum wage may help reduce the poverty gap and the poverty rate. At the current minimum wage, with the EITC, a single adult with two children working full-time year-round just clears the poverty threshold; but for two adults with two children, the minimum wage would have to be over $6.00 per hour for one full-time year-round worker earning the minimum wage with the EITC to raise the family above the poverty line.

  Empirical evidence on the effect of minimum wage increases on poverty rates is mixed. Part of the reason why the minimum wage may be an ineffective instrument for combating poverty is that many poor adults do not work. In addition, many minimum wage workers are in higher-income families; for example, the median family income of those earning around the minimum wage is over $30,000, almost 200 percent of poverty for a two adult, two-child family (see Figure 7).

- **Firms may use labor more productively**. Raises in the minimum wage and hence the cost of labor increase incentives for employers to use their labor as productively as possible.

- **Raises income without budgetary implications**. A raise in the minimum wage provides a way of raising income without affecting government revenue or spending

- **Complements and reinforces EITC**. Increases in the minimum wage, like the large increases in the EITC, are a way to 'make work pay.' By increasing the return to work for low-skilled workers, an increase in the minimum wage is likely to encourage those on

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[1]Because the data are from the March 1997 CPS, they are based on labor market information before the last minimum wage increase was enacted in September 1997.

welfare to seek work.

- **Political support**. Minimum wage increases typically receive strong support from labor groups and other progressive lobbying groups.

Arguments against an increase

- **Not well targeted**. Increases in the minimum wage are a rather blunt way of helping low-wage workers. Over half of the workers affected by any further increase will be in families with income above 200 percent of the poverty line. The larger the increase, the less targeted will be the impact of the increase on the working poor; in 1996, almost 20 percent of workers earning under \$5.15 per hour were poor, but this percentage falls to 12 percent for workers earning \$6.00-\$7.00 per hour (See Figure 6). As mentioned above, median family income of those earning around the minimum wage is around 200 percent of poverty. (See Figure 7).

- **Potential disemployment effects**. Workers working at the minimum wage benefit from an increase in the minimum wage, if they remain employed. Workers who become unemployed as a result of a minimum wage increase lose out. The employment effects of an increase in the minimum wage depend on its current level, the magnitude of the increase, where the new minimum wage falls in the income distribution, and who is covered by the new minimum wage. Research suggests that employees whose hiring is highly sensitive to wages -- particularly teenagers -- are most likely to be adversely effected. Disemployment effects are also likely to be greater among lower productivity workers; this could impede efforts to move welfare recipients into jobs.

  There remains a controversy over the magnitude of the disemployment effects caused by increases in the minimum wage. A number of credible studies of minimum wage increases in 1990 and 1991 show little adverse effect on employment. However the increases studied were small, and occurred at an historic low point in the real value of the minimum wage. There are other studies that show larger effects, and all economists agree that the disemployment effects will increase at higher levels of the minimum wage.

- **Lack of current information**. There is little information available to judge whether the minimum wage is currently at a level where further increases are likely to produce large adverse employment effects. Indeed, one important caution against further increases is that we have recently had two major increases in the minimum wage and do not yet have any analysis of the employment effects of these changes. If the recent increase was large enough to adversely affect employment, further increases now are likely to produce even greater adverse effects. The effects of the recent increases should be studied before enacting further increases.

- **Potential inflationary impact.** There is some evidence that increases in the minimum wage result in higher prices and may raise inflation; indeed, prices may initially rise by about the amount needed to cover the higher cost of labor associated with the rise in the minimum wage. This price increase is felt by all consumers, while the benefit of a higher minimum wage accrues almost entirely to workers who were working below the new minimum.

- **Effect on non-wage benefits**. One way for employers to raise wages without reducing employment is by reducing non-wage benefits like health insurance or worker training. However, there is not much evidence that employers reduce such non-wage benefits to offset a minimum wage increase. (Indeed, few minimum wage workers receive large amounts of non-wage compensation, so it is hard to adjust along this dimension.)

- **Political opposition**. Minimum wage increases are opposed by small businesses, low-wage industries, and low-wage states. Given the recent increases, further significant rises in the minimum wage may face intense opposition from these groups.

ALTERNATIVE POLICY OPTIONS

Alternatives to enacting further minimum wage increases in the near future include:

- Leave the minimum wage unchanged and wait until we have information about the effects of the 1996 and 1997 increases.

- Consider indexing the minimum wage to inflation, so that it maintains its real value over time. This would avoid the steady erosion in the minimum wage which has occurred in the past when no new minimum wage legislation is enacted.

- We have at times in the past enacted different minimum wages for teenagers and adults. If particularly concerned about the disemployment effects of higher minimum wages on teenagers, one could consider differential increases in the minimum wage for teens versus adults. However, this does create incentives for firms to utilize more teenage labor than they would otherwise, leaving fewer low-wage jobs for adults.

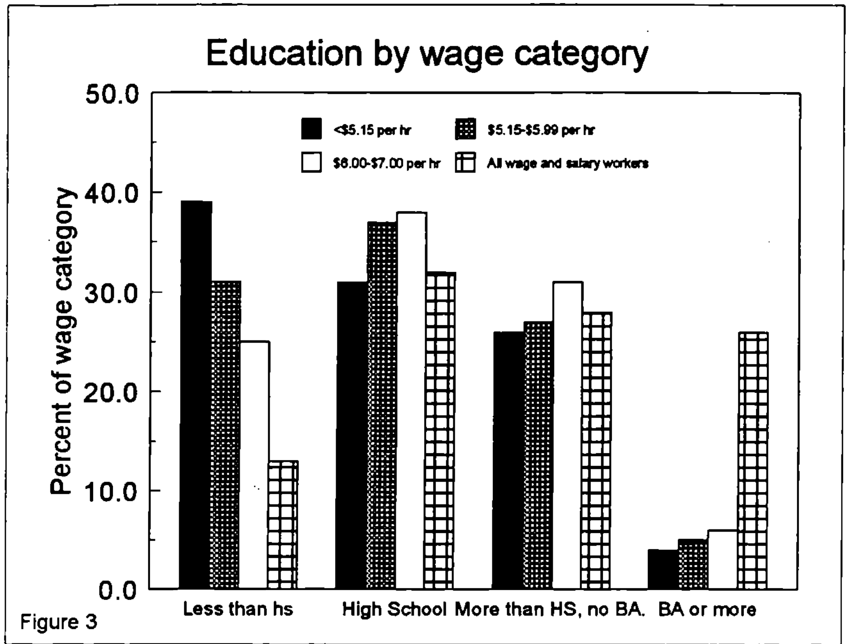


Figure 3

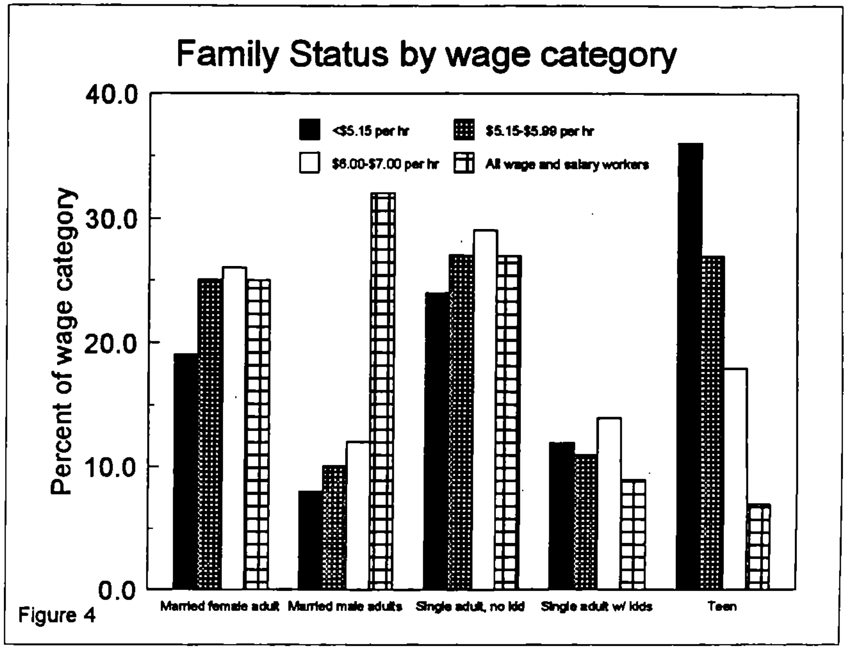


Figure 4

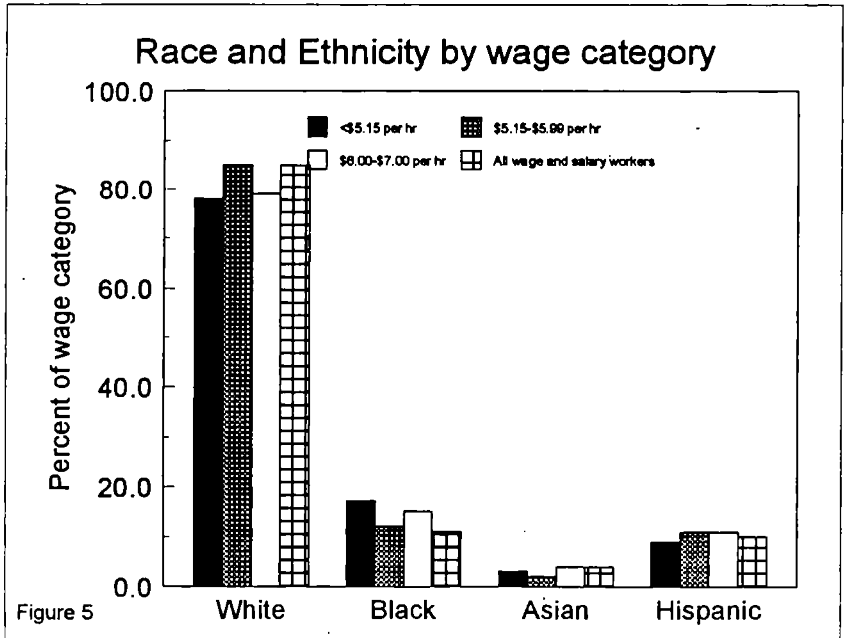


Figure 5

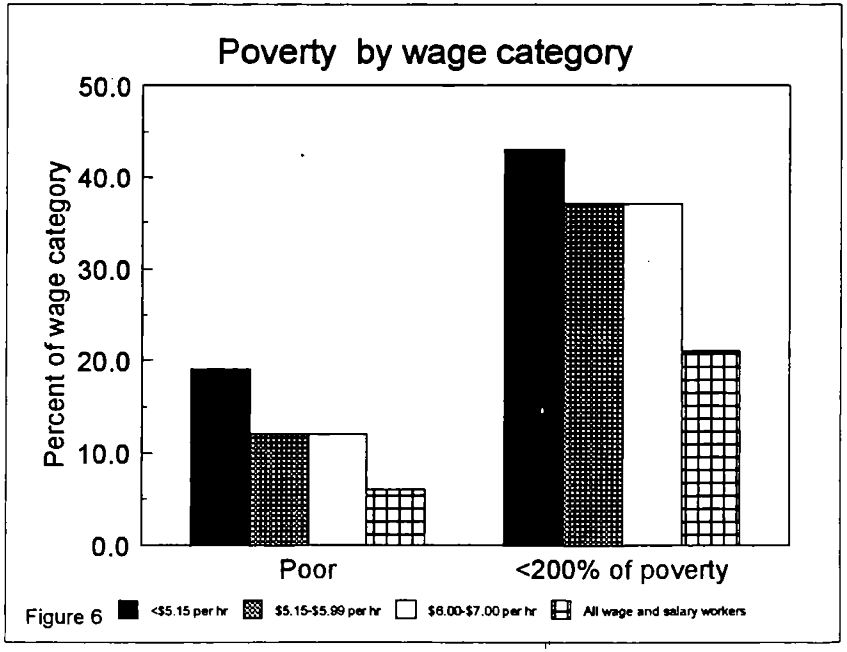
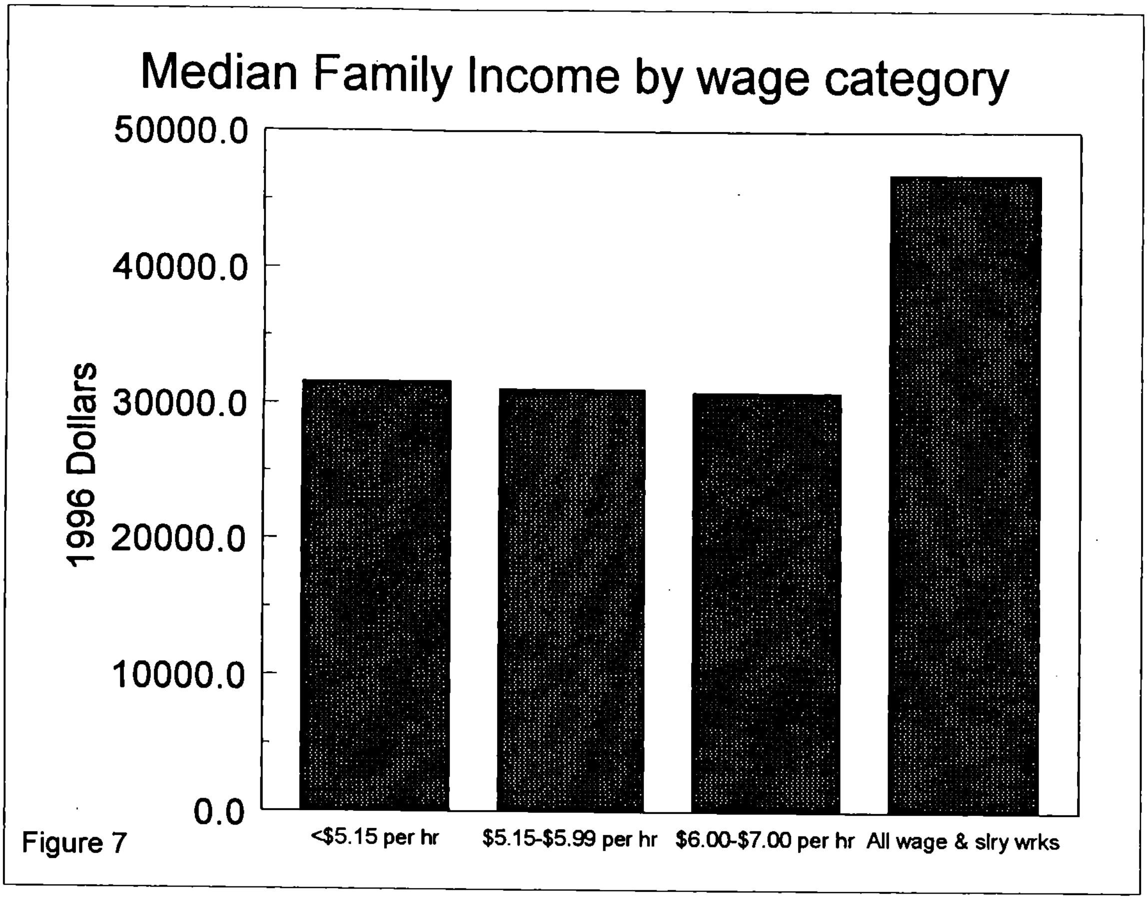


Figure 6


Median Family Income by wage category
1996 Dollars
50000.0
40000.0
30000.0
20000.0
10000.0
0.0
<$5.15 per hr
$5.15-$5.99 per hr
$6.00-$7.00 per hr
All wage & slry wrks
Figure 7

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WAGE

MINIMUM WAGE
January 19, 1998

I. Indexing

(A) To inflation

Under this approach, the minimum wage would be indexed to some measure of consumer prices -- presumably the CPI-U.

Pros:

- Prevents declines in real value of minimum wage, as has occurred over the past several decades.
- Many other government programs -- from Social Security benefits to tax brackets -- are indexed to consumer price inflation.
- Provides certainty to both business and workers over the real value of the minimum wage.
- Fulfills promise to index minimum wage.

Cons:

- Indexing to any CPI measure highlights the "CPI bias" debate.
- Indexing off of current level will leave real value of minimum wage relatively low by historical norms, and thus do little to raise people out of poverty.
- Indexing removes popular issue for Democrats.
- Indexing can exacerbate concerns over inflationary impact of minimum wage increases, by creating a feedback mechanism from wage increases to inflation and back to wage increases.
- Does not permit other factors (e.g., macroeconomic conditions, etc.) to be taken into account in evaluating minimum wage increases.

(B) To median wages

Under this approach, the minimum wage would be indexed to some measure of median wages -- presumably from the Current Population Survey.

Pros:

- To the extent that the real median wage increases over time, this approach implies increases in the real minimum wage.
- Avoids CPI bias debate.

Cons:

- Other programs are price indexed, not wage indexed.
- Could put upward pressure on low-skilled unemployment rate, if return to skill between median and lower end of the distribution continues to widen.
- More difficult to explain than inflation indexation.
- Not clear what wage measure is optimal: median vs. mean, different wage series, etc.

(C) Indexed, with regular vote

Under this approach, the minimum wage would be indexed to either prices or wages -- but the increases would have to be approved through a Congressional vote every year.

Pros:

- Changes norm from no nominal increase, to indexed increase.
- Still allows larger or smaller adjustments, as appropriate given other factors.
- Does not remove political fight -- vote held every year.

Cons:

- Difficult to explain system.
- Does not guarantee that the real value of minimum wage will be maintained.
- Could make it more difficult to achieve increases above rate of inflation or wage

increases.

II. Gene's option: Raise minimum wage by 25 cents in 1999, then 15 cents per year thereafter.

(A) With one-time vote

Pros:

- Moderate increase, which allows us to be responsive on issue but avoid irresponsible increases.
- Maintains or slightly improves real value of minimum wage over budget horizon.

Cons:

- Democrats may complain that the increase is too small.
- Takes away the issue in 2000.
- Business may complain that the increases are too soon.
- The economy could reverse its impressive performance over the past several years, and the increases would then pose potential risks to low-skilled unemployment.

(B) With annual votes

Pros:

- Allows you to address issue, while maintaining flexibility to respond to macroeconomic and other conditions.
- Keeps issue on the front burner throughout the next 5 years.

Cons:

- Complicated.
- Does not guarantee increases.

III. Option 3: $6 per 2000.

Under this option, the minimum wage would rise by 35 cents on Sept. 1, 1998, 25 cents on Sept. 1, 1999, and 25 cents on Sept. 1, 2000 -- reaching $6 by Sept. 2000.

Pros:

- Could attract Democrat support
- Simple message

Cons:

- Could raise minimum wage "too high" and cause concerns over unemployment
- Could be seen by moderate business groups as pushing this issue too hard