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[Minimum Wage] [Folder 1]

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Value of The Federal Minimum Wage, 1938-2000

The table below shows the actual minimum wage (Nominal Dollars) and the relative value of the minimum wage (2000 Dollars). The bolded rows represent years in which the Fair Labor Standards Act was amended to raise the minimum wage.

Source:
Bureau of Labor Statistics

	Value of the Minimum Wage					
Year	Nominal Dollars	2000 Dollars	.5/.5/.5	Real .5/.5/.5	.75/.75	Real .75/.75
1960	1	5.82				
1961	**1.15**	**6.63**				
1962	1.15	6.56				
1963	1.25	7.04				
1964	1.25	6.95				
1965	1.25	6.84				
1966	**1.25**	**6.65**				
1967	1.4	7.22				
1968	1.6	7.92				
1969	1.6	7.51				
1970	1.6	7.11				
1971	1.6	6.81				
1972	1.6	6.60				
1973	1.6	6.21				
1974	**2**	**6.99**				
1975	2.1	6.73				
1976	2.3	6.96				
1977	2.3	6.54				
1978	**2.65**	**7.00**				
1979	2.9	6.88				
1980	3.1	6.48				
1981	3.35	6.35				
1982	3.35	5.98				
1983	3.35	5.80				
1984	3.35	5.56				
1985	3.35	5.36				
1986	3.35	5.27				
1987	3.35	5.08				
1988	3.35	4.88				
1989	**3.35**	**4.65**				
1990	3.8	5.01				
1991	4.25	5.38				
1992	4.25	5.22				
1993	4.25	5.07				
1994	4.25	4.94				
1995	4.25	4.80				
1996	**4.75**	**5.22**				
1997	5.15	5.53				
1998	5.15	5.44				
1999	5.15	5.32				
2000	5.15	5.15	5.15	5.15	5.15	5.15
2001	5.15	5.02	5.65	5.50	5.90	5.75
2002	5.15	4.89	6.15	5.84	6.65	6.32
2003	5.15	4.78	6.65	6.18	6.65	6.18

Note: projected using 2.5% annual inflation rate

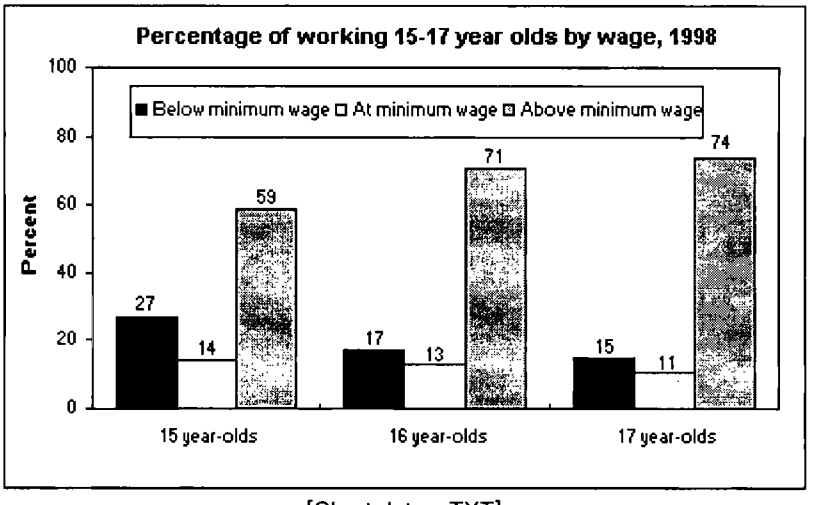
	MINW												
	Minimum Hourly Wage Rate: Nonfarm	Minimum Wage with $.50 raise yearly for three years	Minimum Wage with $.50 raise yearly for two years					Real with no increases with maxium EITC Subsidy	Real with 3 $.50 increases with maxium EITC Subsidy	Real with 2 $.50 increases with maxium EITC Subsidy	Nominal with no increases with maxium EITC Subsidy	Nominal with 3 $.50 increases with maxium EITC Subsidy	Nominal with 2 $.50 increases with maxium EITC Subsidy
	194601												
	200011			Real with	Real with	Real with	EITC						
	DOL			no change	3 $.50 increases	2 $.50 increases	Phase-in Rate	2000 Green Book, page 809					
1965	1.25	1.25	1.25	5.80									
1966	1.25	1.25	1.25	5.63									
1967	1.39	1.39	1.39	6.09									
1968	1.58	1.58	1.58	6.70									
1969	1.60	1.60	1.60	6.48									
1970	1.60	1.60	1.60	6.18									
1971	1.60	1.60	1.60	5.93									
1972	1.60	1.60	1.60	5.75									
1973	1.60	1.60	1.60	5.41									
1974	1.87	1.87	1.87	5.73									
1975	2.10	2.10	2.10	5.96			10.0%	6.56			2.31	2.31	2.31
1976	2.30	2.30	2.30	6.18			10.0%	6.79			2.53	2.53	2.53
1977	2.30	2.30	2.30	5.81			10.0%	6.39			2.53	2.53	2.53
1978	2.65	2.65	2.65	6.41			10.0%	7.05			2.915	2.915	2.915
1979	2.90	2.90	2.90	6.42			10.0%	7.06			3.19	3.19	3.19
1980	3.10	3.10	3.10	6.17			10.0%	6.79			3.41	3.41	3.41
1981	3.35	3.35	3.35	6.10			10.0%	6.71			3.685	3.685	3.685
1982	3.35	3.35	3.35	5.76			10.0%	6.34			3.685	3.685	3.685
1983	3.35	3.35	3.35	5.53			10.0%	6.08			3.685	3.685	3.685
1984	3.35	3.35	3.35	5.32			10.0%	5.85			3.685	3.685	3.685
1985	3.35	3.35	3.35	5.14			14.0%	5.86			3.819	3.819	3.819
1986	3.35	3.35	3.35	5.05			14.0%	5.76			3.819	3.819	3.819
1987	3.35	3.35	3.35	4.89			14.0%	5.57			3.819	3.819	3.819
1988	3.35	3.35	3.35	4.71			14.0%	5.37			3.819	3.819	3.819
1989	3.35	3.35	3.35	4.52			14.0%	5.15			3.819	3.819	3.819
1990	3.69	3.69	3.69	4.74			14.0%	5.40			4.20375	4.20375	4.20375
1991	4.14	4.14	4.14	5.12			17.3%	6.01			4.853288	4.853288	4.853288
1992	4.25	4.25	4.25	5.13			18.4%	6.07			5.032	5.032	5.032
1993	4.25	4.25	4.25	5.00			19.5%	5.98			5.07875	5.07875	5.07875
1994	4.25	4.25	4.25	4.89			30.0%	6.36			5.525	5.525	5.525
1995	4.25	4.25	4.25	4.77			36.0%	6.49			5.78	5.78	5.78
1996	4.38	4.38	4.38	4.78			40.0%	6.70			6.125	6.125	6.125
1997	4.88	4.88	4.88	5.23			40.0%	7.32			6.836667	6.836667	6.836667
1998	5.15	5.15	5.15	5.43			40.0%	7.61			7.21	7.21	7.21

	MINW												
	Minimum Hourly Wage Rate: Nonfarm	Minimum Wage with $.50 raise yearly for three years	Minimum Wage with $.50 raise yearly for two years				EITC	Real with no increases with maxium EITC	Real with 3 $.50 increases with maxium EITC	Real with 2 $.50 increases with maxium EITC	Nominal with no increases with maxium EITC	Nominal with 3 $.50 increases with maxium EITC	Nominal with 2 $.50 increases with maxium EITC
	194601												
	200011			Real with	Real with 3 $.50	Real with 2 $.50	Phase-in						
	DOL			no change	increases	increases	2000 Green Book, page 809						
1999	5.15	5.15	5.15	5.32			40.0%	7.45			7.21	7.21	7.21
2000	5.15	5.15	5.15	5.15	5.15	5.15	40.0%	7.21	7.21	7.21	7.21	7.21	7.21
2001	5.15	5.65	5.65	5.02	5.51	5.51	40.0%	7.03	7.72	7.72	7.21	7.91	7.91
2002	5.15	6.15	6.15	4.90	5.85	5.85	40.0%	6.86	8.20	8.20	7.21	8.61	8.61
2003	5.15	6.65	6.15	4.78	6.18	5.71	40.0%	6.70	8.65	8.00	7.21	9.31	8.61

Originally Published August 23, 2000

Majority of working 15- to 17-year olds earn above minimum wage

Of the working 15-, 16-, and 17-year olds in 1998, a majority earned in excess of the minimum wage.



[Chart data—TXT]

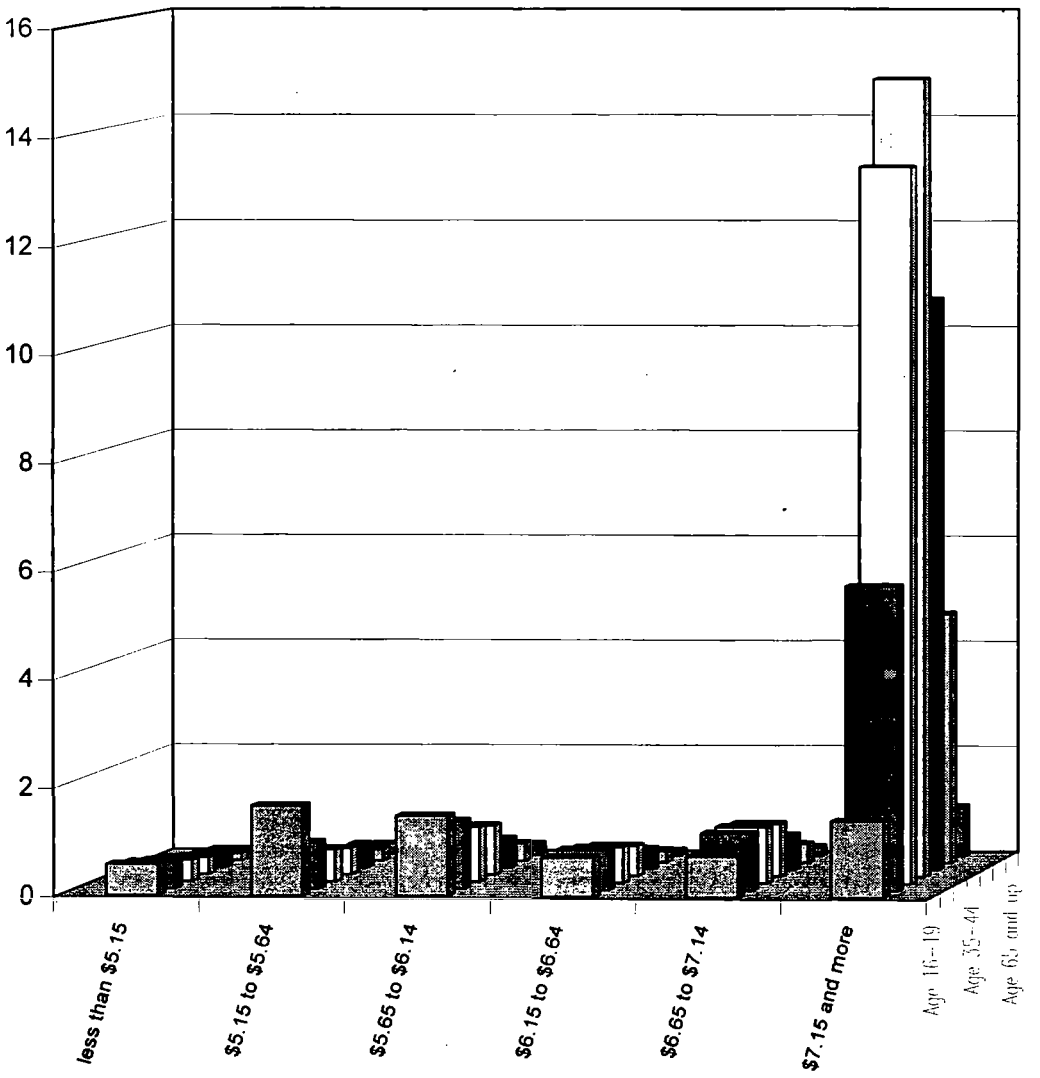
In 1998, median earnings of 15- to 17-year-olds combined were $5.57 per hour. Earnings increased with age: 15-year-olds earned a median of $5.38 per hour, 16-year-olds earned $5.52, and 17-year-olds earned $5.65 per hour.

Even among 15-year-olds, 59 percent of young workers earned more than the 1998 minimum wage of $5.15. A quarter earned less than the minimum wage, as some occupations—including many food service jobs—are exempt from the minimum wage or may pay a training wage for a specified period. The proportion of employed youths that earned more than the minimum wage increased to 71 percent of 16-year olds and to three-quarters of those aged 17.

Data on how much youth earn are a product of the Current Population Survey program. Additional information is available from Chapter 4 of the Report on the Youth Labor Force.

Wage Distribution of Hourly Workers, by Wage Rate and Age, 1999

Millions of workers



subsidy of $3880. This additional income—an increase of 40%—would be enough to lift that 3 person family just over the poverty line, and up to 28% of the median family income. (See chart 3.)

However, the EITC does not subsidize all minimum wage earners this much. In fact, only about xx% of minimum wage earners would receive this maximum subsidy. Households with one child receive a 34% subsidy of wages to a maximum of $2,312 [1999 figure, look up 2000]; households with no children receive are only eligible for a 7.65% subsidy to a maximum of $347 [1999 again]. Because the EITC is a subsidy for earnings, people who work part-time have a lower base and thus a smaller subsidy. Further, families that have two full-time minimum wage workers would receive smaller subsidies, as the EITC subsidy is reduced as incomes rise above $12,700 in household income. For these families, increases in the minimum wage will significantly increase their income.

- participation rate
- lump-sum: participation in advance earned EITC
- % / numbers eligible: -%'s claimed

UW - Scholz, John Karl
econ

A BILL

To amend the Fair Labor Standards Act of 1938 to increase the Federal minimum wage.

SECTION 1. SHORT TITLE.

This Act may be cited as the "Fair Minimum Wage Act of 2001."

SECTION 2. MINIMUM WAGE INCREASE.

(a) WAGE - Paragraph (1) of section 6(a) of the Fair Labor Standards Act of 1938 (29 U.S.C. 206(a)(1)) is amended to read as follows:

"(1) except as otherwise provided in this section, not less than --

(A) $5.65 an hour beginning on March 1, 2001; and

(B) $6.15 an hour beginning on January 1, 2002; and

(C) $6.65 an hour beginning on January 1, 2003."

(b) YOUTH WAGE - Paragraph (1) of section 6(g) of the Fair Labor Standards Act of 1938 (29 U.S.C. 206(g)(1)) is amended to read as follows:

"(1) In lieu of the rate prescribed by subsection (a)(1), any employer may pay any employee of such employer, during the first 90 consecutive calendar days after such employee is initially employed by such employer, a wage which is not less than 85 percent of the wage prescribed in subsection (a)(1)."

(c) TIP CREDIT - Paragraph (1) of section 3(m) of the Fair Labor Standards Act of 1938 (29 U.S.C. 203(m)(1)) is amended to read as follows:

"(1) The cash wage paid such employee, which for purposes of such determination shall not be less than 50 percent of the wage prescribed in section 6(a)(1); and"

(d) EFFECTIVE DATE - The amendments made by this section takes effect on March 1, 2001.

SECTION 3. APPLICABILITY OF THE MINIMUM WAGE TO THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS.

Pursuant to section 503 of the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States -

(a) Effective on March 1, 2001, the minimum wage provisions of section 6 of the Fair Labor Standards Act of 1938 (29 U.S.C. 206), as amended, shall apply to the Commonwealth of the Northern Mariana Islands except:

(1) the minimum wage rate applicable to the Commonwealth of the Northern Mariana Islands shall be $3.35 per hour; and

(2) effective January 1, 2002 and every January 1 thereafter, the minimum wage rate applicable to the Commonwealth of the Northern Mariana Islands shall be raised by thirty cents per hour or the amount necessary to raise the applicable minimum wage rate to the wage rate set forth in paragraph (1) of subsection (a) of section 6 of the Fair Labor Standards Act (29 U.S.C. 206), whichever is less; and

(b) Once the minimum wage rate applicable to the Commonwealth of the Northern Mariana Islands is equal to the wage rate set forth in paragraph (1) of subsection (a) of section 6 of the Fair Labor Standards Act as amended
(29 U.S.C. 206), the minimum wage rate applicable to the Commonwealth of the Northern Mariana Islands shall thereafter be the wage rate set forth in such paragraph.

Draft

Min Wage 3

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 CHIEF ECONOMIST, DEPARTMENT OF LABOR

EXECUTIVE SUMMARY

1. INTRODUCTION

The American economy is in the midst of the longest economic expansion in U.S. 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 1980s expansion, 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 from the bottom to 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 adequately 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 and reforming welfare in order to increase work incentives. And an additional key element was the 1996-1997 increase in the minimum wage. These policies interact in beneficial way for low-income families. For instance, a working parent with two children earning the minimum wage in 1993 made $10,559 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 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 ($2.95 in 1999 dollars) 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 18 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 1999 dollars) at $7.66 in 1968, during the economic expansion that ran from 1961 to 1969. With three increases during

the 1970s, the minimum wage held its value at approximately $6.75. The last increase of the 1970s left the inflation-adjusted value at $6.77. 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 to $4.50. The nominal level of the minimum wage was increased in nominal terms 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 approved by Congress in 1989. 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 to September 1, 1997. In his 2000 State of the Union Address, President Clinton proposed to increase the minimum wage by $1 to $6.15. If the full increase were effective in 2001, this would restore the real value of the minimum wage to its 1982 level (see Chart 2).

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 249,000 per month. In retail trade, which has a large concentration of minimum wage workers, there were 1.4 million new jobs. The overall unemployment rate has fallen from 5.2 percent to 4.1 percent.

In addition, welfare rolls have declined 44 percent since 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.[2]

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 with lower levels of education generally have relatively low wages. As Chart 3 indicates, though, quarterly unemployment rates have generally trended down for both high school graduates, and

[1] See Bernstein and Schmitt (1998).

[2] Other important factors were changes in welfare policy and the decline in unemployment.

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).[3]

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

There is little doubt that in the United States minimum wage policy has an important effect on the low end of the wage distribution. Given that enforcement is strict and that there are relatively few exceptions for low-wage workers, a minimum wage should certainly affect the wages earned. Chart 7 presents evidence on the effect of the minimum wage on the distribution of nominal wages for the last round of minimum wage increases, in October 1996 and September 1997, focusing on the lower end of the wage distribution ($3.00 to $7.99). The statistics are tabulated from the Current Population Survey (CPS), a nation-wide survey of households that allows the identification of hourly-paid workers and their hourly wage rate.[4] The upper panel shows the wage distribution for the first two quarters of 1996, when the federal minimum wage was $4.25. The lower panel shows the distribution for the first two quarters of 1998, at which time the minimum wage was $5.15.

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 reflects the 1996 and 1997 changes that brought the minimum wage up to $5.15. Thanks to the general increase in wages (average hourly wages increased by about 8 percent from 1996 to 1998), a smaller fraction of workers earned wages in the $3.00-

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[3] 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. This is important because previous researchers have argued that any disemployment effects of the minimum wage would appear most readily for this group.

[4] The analysis presented in this paper excludes salaried and other non-hourly workers. This implies that the actual number of workers with earnings at or below the prevailing minimum wage is probably understated. 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.

[5] The presence of a sizable number of workers with reported wages below the minimum 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, there are a number of exemptions to the minimum wage provisions of the law. This includes workers for which tips and commissions might serve to supplement the hourly wages received. Second, there may be a misreporting or rounding in the responses of survey responses. The relatively large number of workers with reported wages below the minimum includes about 900,000 hourly-paid workers reported as earning exactly $5.00 per hour.

$7.99 range in 1998 than in 1996. The most notable change to the distribution, though, was the very large drop in the fraction of workers earning less than $5.00. This shift was clearly due to the change in minimum wage policy, which effectively moved up the lower tail of the wage distribution. In the first two quarters of 1996, about 10 percent of all hourly wage workers earned less than $5.00. By the first two quarters of 1998, this fraction declined to 2 percent.

Comparable results appear in an analysis for families that are maintained by women and have at least one child present in the household.[6] In the first two quarters of 1996, about 9 percent of these women earned less than $5.00. The corresponding fraction in the first two quarters of 1998 was 2 percent (see Chart 8).

The effect of the minimum wage is of course even more visible for workers age 16 to 19, since a higher fraction of this group tends to be employed in low-wage jobs. In the 1996 data, 35 percent of these teenage employees earned less than $5.00 per hour, while in 1998 this proportion fell to less than 6 percent (see Chart 9).

Research by Fortin and Lemieux (1997) underscores the importance of the minimum wage in boosting wages at the low end, and reducing wage inequality. This research shows that the decline in the real value of the minimum wage from 1979 through 1988 was responsible for 24 percent of the increase in wage inequality experienced by men and 32 percent of the increase in wage inequality for women. Similarly, Card and Krueger (1995) conclude that the declining real minimum wage led to a 20 to 30 percent of the increase in wage inequality during the 1980s.

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 consumption by low-income families found that they spend on average about $300 per month on groceries and about $400 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 tabulations provided by the Bureau of Labor Statistics (BLS) based on data from the Current Population Survey (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. Selected demographic and economic characteristics for these workers are presented in Table 1.

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[6] 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.

A number of important facts about workers with wages at or below $5.15 are revealed in this Table:

- In 1999 70 percent of minimum wage workers were age 20 or older. Further analysis shows that 45 percent of minimum wage workers are over the age of 25. The average minimum wage worker is younger than the typical hourly-paid worker.
- 64 percent of all minimum wage workers are women. About 6 percent of women are paid hourly wages at or below the minimum wage, compared to about 3 ½ percent of men.
- For whites, about 4½ percent of hourly paid workers earned $5.15 or less; for African Americans the proportion was about 5 percent and for Hispanics it was about 5½ percent.
- A substantial fraction—nearly 40 percent—of workers at or below the minimum wage report working full time.
- Altogether, 36 percent of minimum wage workers are husbands, wives, women who maintain families, or men who maintain families. (Individuals in the latter two categories are in families—two or more related adults—where a spouse is not present.)
- Exactly 10 percent of all hourly paid workers are women who maintain families or men who maintain families. But these men and women also comprise slightly more than 10 percent of all minimum wage workers.

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 wage increase 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. There are approximately 10.1 million workers within this wage range—about 14 percent of all workers paid an hourly rate. About 60 percent of these workers are women, 16 percent are African American, and 20 percent are Hispanic. Of the 10.1 million workers in the $5.15-$6.14 range, 3.7 million are husbands, wives, women who maintain families, or men who maintain families.

There are other workers who would also likely benefit from a $1.00 minimum wage increase. 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 that workers who earn wages just above the new minimum can experience a wage increase because of the minimum wage increase. These spillover effects have been documented in Grossman (1983), Katz and Krueger (1992), and Card and Krueger (1994). 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.

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.

Other studies have looked at the question of who would potentially benefit from an increase in the minimum wage, but focusing on family and income characteristics. In a similar breakdown of wages using CPS data, Bernstein, Hartmann, and Schmitt (1999) suggest that a minimum wage increase "is well targeted, providing significant benefits to poor and middle-income households" (p.4). They find that parents with children under 18 years old comprise almost 33 percent of those potentially affected (those having wages between $5.15 and $6.15) by a $1.00 increase. Simlarily, they find that over 50 percent of the proposed gains would go to households with less than $25,000. Burkhauser (1999) shows that 45 percent of the gains go to families with incomes below 200 percent of the poverty level, and an additional 15 percent to families with income below 300 percent of the poverty level.

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, an increase in the minimum wage is directly beneficial to those who workers who receive it. Some have raised concerns, however, that these direct gains may be partially or fully offset if the minimum wage increase led 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 would increase the cost faced by employers, causing them to reduce employment. Recent theoretical analyses, however, have challenged this conventional wisdom, examining many of the reasons that 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 on net a moderate minimum wage can have a positive effect on employment, though of course a minimum wage set sufficiently high does reduce employment. Thus, in these more general models, an increase in the minimum wage thus has an ambiguous effect on employment.[7] 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 state

[7] 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).

variation in minimum wages found in the late 1980's and early 1990's. Their work shows that there were no negative employment effects even for teenagers, the group for whom any disemployment effects would be most apparent. Subsequent studies confirm their results.

Employment in Fast Food Restaurants. To determine the impact of minimum wages on employment, one would ideally 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 and 1997 an increase in the federal minimum wage affected Pennsylvania but not New Jersey. Card and Krueger use Bureau of Labor Statistic's 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.[8]

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. Concluding Remarks

The evidence is convincing. Moderate increases in the minimum wage provide meaningful additional earnings for many of America's most hard-pressed working families with no substantial 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 a 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.

---

[8] There is some concern that an earlier New Jersey study by Card and Krueger (1994) drew faulty inferences because it used data derived from telephone surveys rather than payroll records. This more recent work uses employment records that are free from the kinds of data quality concerns expressed by critics of this earlier work.

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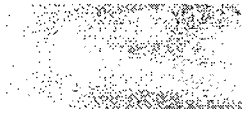

Diane M. Rogers

08/30/2000 04:20:09 PM

Record Type: Record

To: Audrey Choi/CEA/EOP@EOP

cc: See the distribution list at the bottom of this message
Subject: House Republican health expense deduction

Audrey correctly pointed out in an e-mail this morning that the Hastert letter regarding a compromise min.wage/tax package includes expanded tax deductions for health expenses. I initially thought it only accelerated an increase in the deduction for the self-employed, but the letter's attachment also indicates a "health expense above-the-line deduction," which would allow individuals who pay at least a 50% employee share of their total premiums to deduct 100% of their health expenses without itemizing. (Current law contains an itemized deduction, and only for expenses exceeding 7.5% of AGI.) The above-the-line location of the deduction means the proposal would assist lower-income families, who are less likely to itemize, a lot more than current law. But the fact that it is a deduction, and not a credit, still means that for a given amount of expenses, higher-income households would benefit more, unless the proposal includes a phase out at higher incomes (I don't know if this is the case or not). And the fact that it is not a refundable credit means that families who don't owe taxes (for example, lower-income families with children who receive the EITC) would not benefit at all.

It will be very interesting for us to learn more about this proposal. I'll let you know if I find out anything more. Len Burman indicated that he hasn't seen other documents that further detail the proposals in this letter, although he thinks that most of these features are just pieces of existing bills-- that this is just a repackaging of old stuff. The JCT may have been asked to start scoring this particular package, but my guess is that such numbers would be unofficial and not publicly available at this point. --Diane.

Message Copied To:

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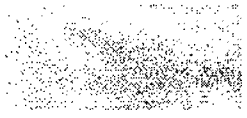

Diane M. Rogers

09/28/2000 02:30:25 PM

Record Type: Record

To: CEA Labor

cc:
Subject: letter to Hastert on minimum wage

FYI.....

Letter to Hastert on Minimum Wage Increase

In a September 26 letter to House Speaker J. Dennis Hastert, R- Ill., several congressional Democrats including House Minority Leader Richard A. Gephardt, D-Mo., and Senate Minority Leader Tom Daschle, D-S.D., asked Hastert to compromise on a minimum wage increase.

Document Type: Congressional Tax Correspondence

Tax Analysts Document Number: Doc 2000-24947 (2 original pages)

Citations: (September 27, 2000)

====== FULL TEXT ======

September 26, 2000

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

Dear Mr. Speaker,

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

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

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

[4] First, it is not fair to raise the minimum wage, while at the same time taking away overtime protections for millions of hard- working Americans. Your proposal would do just that. At a time

70.	2	95	96.655
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74.	2	95	96.655
75.	2	95	96.655
76.	2	95	96.655
77.	2	95	96.655
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79.	2	96	96.7325
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116.	3	91	89.96833
117.	3	91	89.96833
118.	3	91	89.96833
119.	3	92	90.18083
120.	3	92	90.18083

when the productivity of the American work force is at an all-time high and workers are putting in more hours than at any other time in recent history, we cannot support any proposal that deprives American workers of their overtime and minimum wage protections.

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

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

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

[8] Mr. Speaker, we sincerely appreciate your willingness to work together to accomplish this important goal. We look forward to sitting down with you as soon as possible to discuss this matter further.

Sincerely,

Richard Gephardt
David Bonior
William Clay
Charles Rangel
Tom Daschle
Edward Kennedy
Harry Reid
Daniel Patrick Moynihan

CONGRESS OF THE UNITED STATES
Washington, D.C.

cc: The Honorable Trent Lott

Code Section: Miscellaneous
Geographic Identifier: United States
Subject Area: Budgets
Individual income taxation
Legislative tax issues
Index Terms: budget, federal
income tax, individuals
legislation, tax
minimum wage

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171.	4	88	97.795

Cross Reference:
Author: Gephardt, Rep. Richard A.; Bonior, Rep. David E.; Clay, Rep. William; Rangel, Rep. Charles B.; Daschle, Sen. Tom; Kennedy, Sen. Edward M.; Reid, Sen. Harry; Moynihan, Sen. Daniel Patrick
Institutional Author: House of Representatives; Senate

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MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT

FROM: **DAVID W. WILCOX**
ASSISTANT SECRETARY
FOR ECONOMIC POLICY

SUBJECT: **Proposed Increase in Minimum Wage**

SUMMARY:

Congressional Republicans have indicated that they are prepared to agree to an increase in the minimum wage of $1.00 an hour over the next year, to $6.15. Given this, the Administration needs to decide if it should ask for an even larger increase in the minimum wage. The legislative vehicle for an increase is unclear, and any increase could include tax breaks and other provisions the Administration finds objectionable.

BACKGROUND:

- The minimum wage has been $5.15 an hour since 1997. Congressional Republicans have indicated that they are willing to accept an increase of $1.00 an hour over the near year to $6.15 (two $0.50 increases, in 2000 and 2001).

- The Administration needs to decide if it should push for an additional increase, on top of $1.00 over the next year. Possibilities include an additional increase in 2002 of $0.25 or $0.50. Representative Gephardt and Senator Daschle support a larger increase in the minimum wage.

- To insure that the real value of the minimum wage does not fall, the Administration could propose indexing it to inflation. However, if the goal is a *higher* real minimum wage, ~~and~~ indexing should not occur until right after an increase ~~that~~ establishes the appropriate level of the min wage.

- Two bills have been suggested as a vehicle for an increase in the minimum wage. The Portman-Cardin bill would expand tax benefits for high-income workers contributing to tax-deferred pension plans. This bill has strong bipartisan support, but the Administration has expressed opposition to certain components of this bill. Another suggested vehicle is the Labor/HHS appropriations bill.

- Republicans may want to attach tax cuts, particularly for small business, to any minimum wage increase. They may also want to attach additional exemptions to the current overtime provisions of the Fair Labor Standards Act. The Administration would have to carefully consider such provisions. (Estate tax reduction/repeal has been discussed previously as a component of a minimum wage increase, but Congress has already passed a separate estate tax repeal bill.)

- The Administration has cited research by Alan Krueger, Larry Katz, and David Card to support increases in the minimum wage in 1996 and 1997. Kathryn Shaw from CEA spoke with all three about a possible increase in the minimum wage. Krueger is more concerned about a $1.50 increase in the minimum wage over two years than a $1.00 increase over one; he is concerned that the bigger increase, combined with a possible future recession, could have negative employment effects. He is ~~currently~~ considering writing an opinion piece arguing for increasing the minimum wage by $1.00 over the next year, then indexing it to *wages*. Katz's instinct is that a $1.50 increase could lead to negative employment effects; Card, noting the current tight labor market, argues any effect is likely to be small. analysis is inconclusive.

- The current youth (younger than 20) subminimum of $4.25, payable for an employee's first 90 days, would remain unchanged. Increasing the minimum wage, while leaving the subminimum unchanged, could cause employers to substitute toward younger workers. However, studies (such as Katz and Krueger, 1992) have found that few employers use the youth subminimum.

undecided; may ignore and presume all are covered by increase.

- CEA analysis of two $0.50 increases in the minimum wage in 2000 and 2001 shows an increase in the GDP price index of about 0.2 percentage point in both 2001 and 2002, with very small effects afterwards. The level of payroll employment would fall by 0.2 to 0.3 percent over 2002-2004, but would be down by only 0.01 percent in 2005, relative to baseline.

8/2/2000

Jason Furman

Minimum wage — don't know

Strategic more than economic
(unless we have great ideas (on why it is such a great idea)

types of events
legislators
groups
how relates to tax issue ⇒ attached to tax cuts

Very little ⇒ some economic analysis
(most already said)

By now political-policy set

cation rates also rose with duration of unemployment. Those who had been unemployed for 27 weeks or more were 3 times more likely to have applied for benefits than those unemployed for only 1 or 2 weeks. Age also is related to the application rate for benefits: men aged 16 to 19 years seldom applied for benefits (3 percent), while nearly half (48 percent) of those aged 25 and older did. Also, men were more likely than women to apply for benefits (38 percent versus 28 percent). Vroman's analysis states that the difference probably relates to the greater incidence of job losing among unemployed men than among unemployed women.[13] (See table 2.)

Only about a quarter of the experienced unemployed reported receiving UI benefits. Even among job losers aged 25 years and older (the group most likely to be eligible for UI benefits), less than half received benefits.[14] As expected, reentrants and job leavers were among the least likely to have received benefits. Interestingly, only about three-quarters of all those who applied reported actually receiving benefits. Clearly, some of the unemployed who applied for benefits were found to be ineligible, or else they had found a job before they received any benefits.

The main purpose of the 1989–90 survey was to ascertain the major reasons that so many (66 percent) unemployed individuals do not file for benefits. First, more than half (53

Table 2. Unemployment insurance application and recipiency rates by age, sex, and reasons for and duration of unemployment, 1989–90

[In percent]

Characteristic	Application Rate	Recipiency Rate
Total unemployed	34.0	24.0
Reason for unemployment:		
Job losers	53.0	39.0
Job leavers	11.0	6.0
Reentrants	14.0	20.0
Gender and age:		
Men, 16 years and older	38.0	28.0
Men, 16 to 19 years	3.0	1.0
Men, 20 to 24 years	24.0	14.0
Men, 25 years and older	48.0	36.0
Women, 16 years and older	28.0	20.0
Women, 16 to 19 years	8.0	3.0
Women, 20 to 24 years	17.0	11.0
Women, 25 years and older	36.0	26.0
Duration of unemployment:		
1 to 2 weeks	18.0	5.0
3 to 4 weeks	29.0	16.0
5 to 10 weeks	38.0	32.0
11 to 26 weeks	43.0	37.0
27 weeks or more	53.0	42.0

SOURCE: Wayne Vroman, *The Decline in Unemployment Insurance Claims Activity in the 1980s*, Unemployment Insurance Occasional Papers 91–2 (U.S. Department of Labor, January 1991).

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William B. Boning

12/29/2000 04:44:31 PM

Record Type: Record

To: Martin N. Baily/CEA/EOP@EOP

cc: Kathryn L. Shaw/CEA/EOP@EOP
Subject: CNMI minimum wage

Since I equivocated so badly when you asked what we thought the bottom line was, I have thought out a more definitive answer. I think we should not mess with the minimum wage in the Mariana Islands.

- Their covenant affiliating with the US says they have the ability to set their own minimum wage. It seems wrong to override that covenant unilaterally.
- Their minimum wage setting process involves a committee chaired by a union member. They have the incentives to balance employment and income concerns.
- Increasing the minimum wage will hurt their competitive position in the garment and tourism industries. Raising wages will make a holiday in CNMI more expensive relative to the Asian alternatives (such as Philippines or Guam--recognizing Guam has the same min. wage as the US--so the argument might be weak) and I suspect that these are somewhat price sensitive. CNMI garment industry competes against other foreign garment makers, and they earn more than those foreign workers (the GAO report says that they send alot of their income back home).
- The tourist trade is weak now, and if garment markets open more, then that will face extra competition, so it seems a bad time to force higher wages on them.

There is my two cents worth.

DRAFT 9/15 DOL 9.20.00

Overview

The FLSA amendments in the Majority proposal are objectionable in whole because they offset a modest increase in the minimum wage for the lowest paid workers by taking away minimum wage and overtime pay protections for millions of other working Americans including, in some instances, these same lowest paid workers. This proposal pits minimum wage workers against other workers and themselves – and that's just wrong.

Losing overtime pay could mean a significant pay cut for some workers. In the manufacturing sector, production workers earned an average of $92 a week in overtime pay in August 2000 – 14.4% of these workers' average weekly earnings.

By making overtime less costly for employers, these proposals will accelerate the already increasing problem of mandatory overtime. This is an attack on working families, leaving workers with less pay and less time to spend with their families

Eliminating Bonuses from Overtime Pay

Current Law:

- Employers can compensate their employees in many ways, including several that do not impact workers' overtime pay.

- Gifts, profit-sharing plans and discretionary bonuses (i.e., bonuses that are not promised ahead of time as a *quid pro quo*) do not impact overtime:

  -- a gift of cash or goods to some or all workers
  -- a plan to share with all employees any profits realized by the company
  -- a surprise bonus to workers who have exceeded a production or efficiency quota, or performed well in other ways

- Current law also excludes from overtime calculations other benefits such as bona fide profit-sharing plans, thrift or savings plans, bona fide health and life insurance plans, and stock option plans.

- However, bonuses that are announced ahead of time and are linked to a worker's performance are, and always have been, treated as a form of regular pay – compensation for the work you do – and must be reflected in overtime pay.

- Congress established overtime pay to protect workers by requiring they receive extra overtime pay to compensate them for the burden of working excessive hours. To make sure the overtime requirement is effective in serving that goal, the law requires that all forms of compensation linked to hours worked, productivity, production or efficiency be reflected in overtime pay -- overtime pay must be based on workers' real pay. The law is designed to

prevent employers from paying a low hourly wage, used to calculate overtime pay, and giving the employee a significant portion of her pay as a "bonus," which would then not be reflected in any overtime pay.

- Congress weighed the relative merits of different kinds of bonuses and intentionally designed an approach that excludes from overtime pay the kinds of bonuses that won't undermine workers' right to overtime pay.

Proposed Change:

- The Majority proposal would amend the law so that pay in the form of incentive or performance bonuses, gainsharing or commissions would not count in calculating overtime pay.

Proponents' Arguments:

- Proponents claim that administrative burdens associated with these calculations under current law discourage employers from offering incentive or performance bonuses to their hourly workers, thereby denying these workers certain benefits enjoyed by other workers. They assert that employers find it difficult to calculate retroactively additional overtime payments due employees who receive commissions, incentives or performance bonuses for work done in prior weeks that included overtime hours.

Reasons to Oppose:

Principles worth keeping – even in the "new economy:"

- The right to overtime pay in exchange for giving up personal, family time to work more than 40 hours in a week is a core value of American society. That's the deal we struck in this country: Employers get the flexibility they need to have their workers put in as many hours as the job demands, but after 40 hours a week, they have to pay a premium for their workers' time. That's how we balance employers' need for flexibility in work hours against workers' need – and right – to have time that is their own after working a hard 40 hour week.

- This change would severely undermine overtime pay as it has existed in this country since 1938 by providing a huge loophole to avoid paying time and one-half based on an employee's true earnings. Workers who work long hours to increase the profits of their employers deserve to be paid for their hard work.

- Changes in workplace technology – e.g., switchboards to faxes to email – don't mean workers should be paid less when they work long hours.

- But if there are genuine changes in the forms of compensation or workplace benefits, we will evaluate them and determine how to treat them under the law. That's exactly what the Administration did this year with employee stock options, which have only recently

become available to rank and file workers. Usually, employers give stock options so their employees have an opportunity to own a piece of the company, and to share in the company's future. That's different from pay, and that's why genuine stock options – not pay in disguise – are now excluded from overtime calculations. The President worked with Congress to change the law to reflect this new phenomenon.

The same work for less pay:

- Pay structures could easily be manipulated, cutting workers' pay. Excluding bonuses, commissions and similar payments from the regular rate used to calculate overtime creates a strong incentive to create pay systems with lower hourly wages, while shifting more of the worker's pay to "bonuses." When the worker doesn't put in overtime hours, her pay could be the same. But if the worker does work overtime hours, her pay for those hours, and her gross earnings, would be cut because overtime pay is based only on the new, lower hourly wage *that exclude bonuses.*

- Under this proposal, it would be legal for employers to cut hourly wages to the minimum wage, and supplement this wage with bonuses, netting the employer huge savings in overtime pay costs. This would give the employer a competitive edge, putting pressure on competitors to follow suit.

- Because overtime will cost less, there would be less of a disincentive for employers to have workers put in overtime. Overtime pay is intended to impose a cost on employers who make employees work long hours, to act as a "brake" against oppressively long workweeks. This proposal severely undermines the disincentive effect of overtime pay – leaving workers with less pay and less time with their families.

For smart employers, paying bonuses is not hard to do:

- There is nothing new about cash bonuses for good work or workers. With a calculator and information they already have – how many hours an employee worked, including overtime hours, during the time covered by the bonus, and how much the employee had already been paid before the bonus – employers have been offering these kinds of bonuses, and complying with the overtime law, for decades.

- There are many ways employers can reward employees who are entitled to overtime, without affecting their overtime pay. An employer can:

  - Offer employees a stock option plan;

  - Announce a policy allowing employees to share in the company's profits through a profit sharing plan that ties the amount each worker receives to length of service or base pay (so long as the individual worker's share is not based on attendance, amount of work, production rate, or efficiency);

- Give workers a surprise cash bonus at the end of an especially profitable quarter or year;

- Make a gift to its workers' of the company's product: a company that develops computer software can decide to give some or all of its workers a free copy of their latest product;

- Give workers savings bonds as a holiday gift; or

- Mark the ten-year anniversary of a company's founding by giving each employee a check equal to 2% of his or her annual pay.

- In fact, the technology of the new economy makes it even easier for employers to give bonuses and make any needed adjustments to overtime pay, because now you can write a payroll program that does the calculations instantly.

Whom it will affect and how:

- Approximately 74 million workers are currently entitled to overtime pay; while not all work overtime hours, this change could potentially affect all of them.

- Examples:

  - John, who today receives $6 an hour and a 5% commission on sales, is paid overtime based on the entire earnings, not just the $6 an hour. This change would allow his employer to exclude the commission from the calculation of overtime pay – reducing the overtime pay rate, the employer's overtime costs, and John's take home pay.

  - Sue assembles telecommunications equipment and earns $14.00/hour. She receives time and a half overtime after 40 hours a week, and gets an additional bonus of $100 for each week she exceeds her weekly production goal with the fewest defects. She regularly works five 10-hour days (50 hours/week). Under current law, she is due $880 with proper overtime pay each week she earns a bonus. Under the proposed amendment, she would lose ten dollars a week from her pay if the production bonus were excluded from the overtime rate. Sue could lose up to $520 a year under this proposal.

  - Sally makes $10 an hour today and is entitled to $15 an hour for each overtime hour she works. But, under the proposed amendment, her employer, enticed by competitive pressure and financial incentive, could cut her base pay down to the minimum wage and convert her additional compensation to some form of incentive bonus. Let's say her pay is cut to $6 an hour and she is provided a weekly bonus of $160 to meet production quotas. At first glance, it looks like Sally would have the same total pay, just in a different form. But when she works overtime, she would only get $9 an hour (instead of $15). In a 50-hour workweek, she would receive $490 in total pay ($240 straight time, $90 for overtime, and a $160 production bonus). Without these changes in the law, she

would have received $550 in total pay. Sally has just seen her pay cut $60 a week, which translates to $3,120 a year if all else stayed the same.

Exempting Inside Sales Workers

Current Law:

- The Fair Labor Standards Act specifically provides that the minimum wage and overtime requirements do not apply to a worker employed as an "outside salesman," someone who spends at least 80% of their time doing "outside" – e.g., door-to-door or traveling – sales work.

- "Outside sales" workers are typically outside the day-to-day control of their employers. The law recognizes that monitoring or tracking the time of sales employees who travel over 80% of the time presents a unique problem for employers.

Proposed Change:

- Under the Majority proposal, employers would not have to pay minimum wage or overtime pay to certain "inside sales" employees – employees who do sales work while on the employer's premises – who make over $25,000 in combined salary and commissions. In other words, a worker who earns that much could be forced to work unlimited hours of overtime, with no additional pay of any kind – not just overtime pay – for their work.

Proponents' Arguments:

- Proponents' claim that they are merely equalizing the treatment of "inside" and "outside" sales workers, to recognize that with changing technology workers who used to sell door-to-door are now using the Internet and other forms of technology to make those same sales.

Reasons to Oppose:

A change in technology should not mean a cut in pay:

- The proponents' argument ignores the reason for the "outside sales" exemption – the employer's inability to track the worker's hours. That problem doesn't exist for employees who sell products from – or "inside" – the employer's premises. It doesn't matter that "outside" sales people who used to sell their products door to door are now "inside" sales people who use a phone, fax or computer. What has changed is that they are at a fixed worksite. Employers are able to control and monitor how much time these employees spend at work, and often go to great lengths to do so. Employers know when inside sales employees work overtime – in fact, they may demand it – and they should give those workers overtime pay.

- For purposes of the outside sales exemption, work performed for the employer from a fixed work location has never been considered outside sales work. Sales work done from a satellite office, from a home, or from any other fixed location off the employer's main premises is not covered by the exemption.

Working for less pay:

- Denying minimum wage and overtime protections to "insides sales" employees who earn more than $25,000 is not justified; it is simply a way to cut employers' labor costs, by taking money out of workers' paychecks and undermining their basic right to the minimum wage and overtime pay for working more than 40 hours a week.

Complicating the law:

- The Majority proposal takes away overtime protection from certain "inside sales" workers who meet a complicated, subjective duties test. To distinguish an exempt employee from one still covered by the overtime law, employers will have to assess whether the employee has sufficient "specialized or technical knowledge" of products or services, "detailed understanding" of customer needs, and ability to exercise "discretion in offering a variety of products and services" to qualify for the exemption – and if they guess wrong, they'll risk owing back wages for unpaid overtime.

- This vague standard will also be very difficult for the Department of Labor to administer and enforce, which means it will be difficult to protect workers who shouldn't qualify for the exemption but whose employers deny them overtime pay.

Whom it will affect and how:

- Approximately 2.5 million workers – almost 36% of all inside sales workers – could be affected.

- Any worker who calls existing customers or who receives incoming calls could lose his or her minimum wage and overtime protections. (Telemarketers making "cold calls" would probably not be affected by this change, nor would retail counter clerks.) The types of workers potentially impacted vary widely, but examples of workers who could be affected include:

    - Sellers of mortgage banking or other financial services who simply wait for the phone to ring;

    - Sellers of Yellow Pages advertising who already have ongoing relationships with customers and make sales calls to those customers;

    - Sellers of medical or scientific equipment or pharmaceuticals to doctors, dentists, and dental and medical labs;

    - Sellers in wholesale distribution of products sold to commercial resellers, i.e., the entire "wholesale distribution industry," such as food distributors, wholesale florists, electrical and plumbing supply shops.

- Example:

  - A sales associate in a mortgage company receives calls from potential customers seeking home mortgages and other loans. Today she is paid a $350 weekly salary and a commission of $35 for each qualifying loan application processed. In a typical week, she processes five applications while working five nine-hour days (45 hours/week) and earns $554.17 with proper overtime pay. Under the proposed exemption, because her base pay ($350 x 52 = $18,200) exceeds 1 and 1/2 times the minimum wage for 2080 hours and her commissions exceed 40 percent of base pay, she would be entitled to receive only $525. She would suffer a $1,516.84 annual pay cut, if all else stayed the same – and she could be forced to work overtime hours with no extra pay.

  - Sue makes "cold" sales calls "predominantly" to previous or existing customers, so she could be exempt and denied overtime. In the next cubicle over, Thomas makes identical "cold" sales calls "predominantly" to strangers and is treated as non-exempt. In a busy week when both spend 45 hours at the office doing similar work, Thomas gets overtime pay but Sue does not.

Undermining State Tip Credit Laws

Current Law:

- Federal law allows employers to pay to tipped employees cash wages in the amount of $2.13/hour, and to credit tips earned by the employee toward the full federal minimum wage owed. If tips don't bring an employee's hourly wage to the full federal minimum, the employer must make up the difference.

- The federal rule constitutes a floor. States are free to pass laws requiring employers to pay a greater share, or all, of the full minimum wage. Seven States (Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington) require employers to pay the full minimum wage to tipped employees, with no tip credit allowed. Twenty-two other States allow a tip credit, but smaller than is provided for in federal law.

Proposed Change:

- We have not seen the specifics of this proposal, but it appears that the Majority proposal would "freeze" State laws that require employers to pay a higher cash wage than under federal law. In the future, States would be preempted from increasing the amount of cash wage employers must pay tipped employees, thus forcing States to allow employers to take a credit based on tips equal to the amount by which the federal minimum wage is increased above the "frozen" State law provision.

Proponents' Arguments:

- Proponents state that this provision would merely allow all employers to use a tip credit, without reducing the wages of tipped employees.

Reasons to Oppose:

- Workers who earn tips have not seen an increase in their guaranteed wage – which is only $2.13, less than one-half the minimum wage – since 1991.

- The Fair Labor Standards Act sets a floor, not a ceiling, on minimum wage and overtime pay.

- States should have the right to pass laws, according to the needs and preferences of their citizens, that provide employees with additional protections.

- This will reduce the wages of employees. They would, presumably, continue to receive the same amount in tips, but would eventually receive less money in cash wages from the employer.

Whom it will affect and how:

- Tipped employees are usually low paid workers, workers who have not received an increase in their minimum cash wages for many, many years. (The cash wage employers must pay tipped employees under federal law has increased only 12 cents over the past 20 years.)

- Approximately 1.4 million people work as waiters or waitresses, though all wait staff may not be tipped employees. But this figure does not reflect all of the workers who could be affected. There are other workers who may receive tips (for example, pizza and other delivery workers, and valets).

Tip credit history

The tip credit provisions were modified by the 1977, 1989, and 1996 FLSA Amendments, as reflected below:

Date	Minimum Wage	Max. Tip Credit $ / %	Cash Wage Paid by Employer
1/1/78	$2.65	$1.32 (50%)	$1.33
1/1/79	$2.90	$1.30 (45%)	$1.60
1/1/80	$3.10	$1.24 (40%)	$1.86
1/1/81	$3.35	$1.34 (40%)	$2.01
1/1/90	$3.80	$1.71 (45%)	$2.09
1/1/91	$4.25	$2.125 (50%)	$2.12½
10/1/96	$4.75	$2.62 (55%)	$2.13 (frozen at $2.13)
9/1/97	$5.15	$3.02 (59%)	$2.13

- The "tip credit" concept was first added to the minimum wage law in 1966, when employers were required to pay 50% of the minimum wage to employees who earn tips, but could credit tips earned by those employees towards the remaining 50% of the minimum wage.

- Minimum wage increases in the late 1970's included amendments to decrease the tip credit, giving tipped workers a higher guaranteed wage. By January 1981, tipped workers were entitled to a guaranteed cash wage of 60% of the minimum wage, while employers could take a tip credit of 40%.

- But tipped employees have been losing ground ever since. While the minimum wage has been going up, tipped employees' guaranteed wage has been eroding.

- When the minimum wage was finally increased in 1990-1991, after almost a decade of stagnation, tipped employees were denied the full benefit of that increase by increasing the tip credit back to 50%.

- The Congress finally agreed to increase the minimum wage again in 1996, but only at the cost – again – of tipped employees, whose guaranteed minimum wage was frozen at 50% of the old minimum wage: $2.13. Tipped employees would be locked out of future minimum wage increases.

Min Wage

Jan 2, 2000

- MB - virtue of EITC + Min Wage
- not eroded — maintain
  - ↳ range of relative increases? ⇒ KS

96/97 ⇒ unemployment rate?

5.1% MNB

- erosion forward
- time since last
- relative to avg wages

Min Wage 12/29

Ed- not present

Krueger - concern last summer > 1.00

50/50/50 ⇒ on edge of public support
01-04 02-01 03-01
yr mo ↳ faster not good

Card - 50/50 ok

economic impact

First proposed in 98?

Bonior/Meyers/Kennedy — want $T over 3 yrs, but not hard target

Meyers/Kennedy - less focused on $ amount, but upfront - catchup quickly

AFL- 75¢ to compromise down from

Meyers $1.80 → poverty for family of 3

6.95 ≈ 7
2,000
14,000

Submin

Tip Credit

FLSA ⇒ not tied to taking away overtime

⇒ absent tax?

MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT

FROM: **DAVID W. WILCOX**
ASSISTANT SECRETARY
FOR ECONOMIC POLICY

SUBJECT: **Proposed Increase in Minimum Wage**

SUMMARY:

Congressional Republicans have indicated that they are prepared to agree to an increase in the minimum wage of $1.00 an hour over the next year, to $6.15. Given this, the Administration needs to decide if it should ask for an even larger increase in the minimum wage. The legislative vehicle for an increase is unclear, and any increase could include tax breaks and other provisions the Administration finds objectionable.

BACKGROUND:

- The minimum wage has been $5.15 an hour since 1997. Congressional Republicans have indicated that they are willing to accept an increase of $1.00 an hour over the near year to $6.15 (two $0.50 increases, in 2000 and 2001).

- The Administration needs to decide if it should push for an additional increase, on top of $1.00 over the next year. Possibilities include an additional increase in 2002 of $0.25 or $0.50. Representative Gephardt and Senator Daschle support a larger increase in the minimum wage.

- To insure that the real value of the minimum wage does not fall, the Administration could propose indexing it to inflation. However, if the goal is a *higher* real minimum wage, indexing should not occur until right after an increase.

- Two bills have been suggested as a vehicle for an increase in the minimum wage. The Portman-Cardin bill would expand tax benefits for high-income workers contributing to tax-deferred pension plans. This bill has strong bipartisan support, but the Administration has expressed opposition to certain components of this bill. Another suggested vehicle is the Labor/HHS appropriations bill.

Finally, competition in the New Economy is more vibrant, more "dynamic" than ever before. Many markets have become more entrepreneurial, as new business starts and business failures have increased. The increase in global trade brought about by trade policy along with lower communication and transportation costs has led to improved perform This section outlines the effect of technology, organization, and other factors on performance. We begin by discussing changes in operations and internal organization, turning next to supplier and customer relationships, firm boundaries, and competitive strategy. S

New Developments inside Plants and Firms

Many people associate New Economy manufacturing with semiconductor plants or biotechnology research labs. Those are of course important drivers of recent performance improvements. However, IT has had significant effects on "old economy" industries as well. S

Applying Computing Power Outside the IT Industry

As computing power has gotten cheaper, and firms have made greater investments in IT, one key to performance gains is to learn to *apply* that greater power to improving the performance of the firm. Manufacturing firms have done this by investing in IT that is embedded in much of the new machinery they install, and by investing in IT in their business processes. Likewise, service firms have used IT to introduce new products and processes as well. S/A

This section illustrates how some firms are elevating their performance through IT applications. While such case studies do not give us an economy-wide measure of the impact of IT, they show clearly that IT is improving productivity in many sectors of the economy – even "old economy" industries such as steel, transportation, and banking. S

William B. Boning

12/29/2000 04:11:01 PM

Record Type: Record

To:

cc:
Subject: CNMI minimum wage

Since I equivocated so badly when you asked what we thought the bottom line was, I have thought out a more definitive answer. I think we should not mess with their minimum wage.

- Their covenant affiliating with the US says they have the ability to set their own minimum wage. It seems wrong to override that covenant unilaterally.
- Their minimum wage setting process involves a committee chaired by a union member. They have the incentives to balance employment and income concerns.
- Increasing the minimum wage will hurt their competitive position in the garment and tourism industries. Raising wages will make a holiday in CNMI more expensive relative to the Asian alternatives (such as Philippines or Guam--recognizing Guam has the same min. wage as the US--so the argument might be weak) and I suspect that these are somewhat price sensitive. CNMI garment industry competes against other foreign garment makers, and they earn more than those foreign workers (the GAO report says that they send alot of their income back home).
- The argument that these employees are taken advantage of is weak, since they seem to have no trouble recruiting guest workers. This is an attractive alternative to the opportunities that exist in their native countries.
- The tourist trade is weak now, and if garment markets open more, then that will face extra competition, so it seems a bad time to force higher wages on them.

There is my two cents worth.

Min Wage Meeting
Aug 4
NEC

Economic
- Republicans $1 over 2 years
- would like that

More? - strong hand
- (Daschle, Gephardt) ⇒ more better
- Krueger/Card/Katz ⇒ relied, to have them defend it
  ↳

would support raise + indexing
(75-25-25 ?
50-50-50)
Jobimpact? NEC
50-50 index (Dem/Org labor again)
Politically - labor Bonior, Kennedy
Index ⇒ no more debating

KS: Krueger - uneasy about going to $1.50
↳ uneasy
Katz

Ideal → highest without Job-loss

Push envelope? GS → No

Youth Subminimum (somebody else check)
- early - required formal

Karen
Tax - Small Business - cocktail
OT exemption

Krueger: response to 50-50-50 ?

Helpful
- Kathryn - Krueger

watch Portman-Cardman
Labor-HHS

vetting – Make calls

Overtime exemptions

UI surtax
UI extended benefits
} testify

↳ was used to build balance
↳ expensive $15B (Chow)
(has budget consequence)
↳ don't lose by putting surcharge

~~1. Current~~

2. FUDA repeal
coalition exists ⇒ business

1999	166.7	Nov 1999
2000	172.3	3.4
2001	176.9	2.7
2002	181.3	2.5

Methodology: take November monthly value of CPI-U — 174.2 and grow it by $(1.025)^{1/12}$ per month. Take yearly average of these monthly levels

CPI-U: All Items

SA, 1982-84=100

	Month			Quarter	Year
1991	134.8	134.9	134.9	134.9	
	135.2	135.7	136.1	135.7	
	136.3	136.7	137.1	136.7	
	137.3	137.9	138.3	137.8	136.3
1992	138.4	138.7	139.2	138.8	
	139.5	139.8	140.2	139.8	
	140.6	140.9	141.2	140.9	
	141.8	142.2	142.4	142.1	140.4
1993	142.8	143.2	143.4	143.1	
	143.9	144.3	144.4	144.2	
	144.6	144.9	145.1	144.9	
	145.7	146.0	146.4	146.0	144.6
1994	146.4	146.8	147.2	146.8	
	147.3	147.6	148.0	147.6	
	148.5	149.1	149.4	149.0	
	149.5	149.9	150.2	149.9	148.3
1995	150.6	151.0	151.3	151.0	
	151.9	152.2	152.5	152.2	
	152.7	153.0	153.2	153.0	
	153.7	153.8	154.1	153.9	152.5
1996	154.7	155.1	155.7	155.2	
	156.2	156.6	156.8	156.5	
	157.2	157.3	157.8	157.4	
	158.3	158.7	159.1	158.7	157.0
1997	159.4	159.8	160.0	159.7	
	160.1	160.1	160.4	160.2	
	160.6	160.8	161.3	160.9	
	161.6	161.7	161.8	161.7	160.6
1998	162.0	162.1	162.2	162.1	
	162.5	162.8	163.0	162.8	
	163.3	163.5	163.6	163.5	
	163.9	164.2	164.4	164.2	163.1
1999	164.7	164.8	165.1	164.9	
	166.2	166.2	166.2	166.2	
	166.7	167.2	167.8	167.2	
	168.1	168.4	168.8	168.4	166.7
2000	169.2	170.1	171.3	170.2	
	171.3	171.5	172.4	171.7	
	172.8	172.7	173.6	173.0	
	173.9	174.2	---	---	---

CPI-U: All Items

SA, 1982-84=100
% Change - Year to Year

	Month			Quarter	Year
1991	5.64	5.31	4.90	5.28	
	4.81	5.03	4.69	4.84	
	4.36	3.80	3.39	3.85	
	2.85	3.06	2.98	2.96	4.22
1992	2.67	2.82	3.19	2.89	
	3.18	3.02	3.01	3.07	
	3.15	3.07	2.99	3.07	
	3.28	3.12	2.96	3.12	3.04
1993	3.18	3.24	3.02	3.15	
	3.15	3.22	3.00	3.12	
	2.84	2.84	2.76	2.82	
	2.75	2.67	2.81	2.74	2.96
1994	2.52	2.51	2.65	2.56	
	2.36	2.29	2.49	2.38	
	2.70	2.90	2.96	2.85	
	2.61	2.67	2.60	2.62	2.61
1995	2.87	2.86	2.79	2.84	
	3.12	3.12	3.04	3.09	
	2.83	2.62	2.54	2.66	
	2.81	2.60	2.60	2.67	2.81
1996	2.72	2.72	2.91	2.78	
	2.83	2.89	2.82	2.85	
	2.95	2.81	3.00	2.92	
	2.99	3.19	3.24	3.14	2.92
1997	3.04	3.03	2.76	2.94	
	2.50	2.23	2.30	2.34	
	2.16	2.23	2.22	2.20	
	2.08	1.89	1.70	1.89	2.34
1998	1.63	1.44	1.37	1.48	
	1.50	1.69	1.62	1.60	
	1.68	1.68	1.43	1.60	
	1.42	1.55	1.61	1.53	1.55
1999	1.67	1.67	1.79	1.71	
	2.28	2.09	1.96	2.11	
	2.08	2.26	2.57	2.30	
	2.56	2.56	2.68	2.60	2.18
2000	2.73	3.22	3.76	3.23	
	3.07	3.19	3.73	3.33	
	3.66	3.29	3.46	3.47	
	3.45	3.44	---	---	---

$ 1.50

- MB: softening / Fed
- spacing out further .75 Apr 01 .50 Apr 01
  .75 Jun 02 .50 Jan 02
  .50 Jan 03 ←

- Card, Kreuger, Kate 4 options

given postponed Inflation → budget
Kate-NBER
"Chuck?"

- indexing? →

Card, Kreuger

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forecast

3.4	99Q4 → 00 Q4	5.15
2.5	00Q4 → 01 Q4	01
2.6	→ 02 Q4	

Nov

Amer History

TO: MARTIN, ROBERT, KATHRYN Jason, Kevin FROM: Diane

Hastert Letter to Clinton on Minimum Wage Increase, Tax Legislation

FYI

House Speaker J. Dennis Hastert, R-Ill., in an August 28 letter to President Clinton suggested that Congress and the White House work to find "common ground" to increase the minimum wage and alleviate any "burdens" the increase could place on small businesses.

Document Type: Congressional Tax Correspondence

Tax Analysts Document Number: Doc 2000-22450 (4 original pages)

Citations: (August 29, 2000)

====== **FULL TEXT** ======

August 28, 2000

The President
The White House
Washington D.C.

Dear Mr. President:

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

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

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

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

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

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

with you on this issue over the August recess.

Sincerely,

J. Dennis Hastert
Speaker of the House

MINIMUM WAGE INCREASE AND MODERNIZING REGULATIONS

o (HOUSE) INCREASE MINIMUM WAGE BY $1 OVER TWO YEARS -- Effective January 1, 2001, the minimum wage will increase by $.50, and will increase another $.50 on January 1, 2002.

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

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

o (HOUSE) FSLA EXEMPTION FOR FUNERAL DIRECTORS -- This provision would amend the Fair Labor Standards Act to exempt licensed funeral directors and licensed embalmers from minimum wage and overtime. This issue has been the subject of several court cases and this provision would clarify the treatment of such employees under the statute.

o (SENATE) BONUS GAINSHARING -- Current law dictates that employers have to recalculate an hourly employee's overtime pay if the employee receives certain types of commissions, incentives or performance bonuses. This acts as a disincentive for employers to provide these rewards because of the burdens associated with recalculating the employees' overtime pay. The

provision included in the minimum wage package would allow employers to reward hourly employees in the same manner as professional employees, allowing all workers to share financially when their efforts produce gains in productivity or sales, fewer injuries or other important benefits to a company.

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

TAX ITEMS IN THE MINIMUM WAGE PACKAGE

o (SENATE) WOTC -- Compromise to extend Work Opportunity Tax Credit through 2004 to assist businesses in hiring disadvantaged workers. [House included no provision. Senate and Rangel substitute made permanent.]

o (HOUSE) REFORESTATION -- Provide tax relief for reforestation expenses to create and maintain jobs [House bill increases maximum reforestation expenses qualifying for amortization and credit from 10k to 25k; removes cap on amortization cost in 2001 and 2003. Rangel substitute increases from 10k to 20k; increases credit rate from 10% to 20%; and reduces amortization from 84 months to 36 months].

o (SENATE/HOUSE) SECTION 179 -- Allow small businesses to expense qualifying property costs up to $35,000 [House, Senate and Rangel previously agreed to increase section 179 expensing to 30k].

o (SENATE/HOUSE) MEALS/ENTERTAINMENT -- Speed up phase-in for 80% deduction of meals and entertainment expenses [Senate increased meal/entertainment deduction to 80%. House increased meals to 60%, and 80% for those subject to DOT hour limitations. Rangel substitute increased meal/entertainment to 65% for business with sales below $5m.].

o (SENATE/HOUSE) INSTALLMENT METHOD -- Repeal installment method

accounting requirement.

o (SENATE) FUTA SURTAX -- Repeal outdated .2% FUTA surtax [Though the net FUTA tax rate is .8%, the permanent tax rate is only .6%. The .2% surtax was adopted in 1976 to repay loans to the fund during '74 recession -- that debt was paid in '87, but Congress extended it to offset costs of spending for unrelated programs. FUTA trust fund has nearly $20 billion surplus].

o (SENATE/HOUSE) HEALTH DEDUCTIBILITY 100% FOR SELF-EMPLOYED -- Accelerate and extend deductibility to those who choose not participate in employer-subsidized health plans [House, Senate and Rangel substitute all make 100% deductibility immediate].

o (SENATE) HEALTH EXPENSE ABOVE-THE-LINE DEDUCTION -- Phase-in for individuals to deduct 100% of health expenses without itemizing [Individuals currently cannot deduct for health expenses unless they itemize and that is only 7.5%. This would free individuals of itemizing and allow them to deduct more for health insurance expenses, but not if they are covered by Medicare, government, and those whose plans are more than 50% covered by employers.].

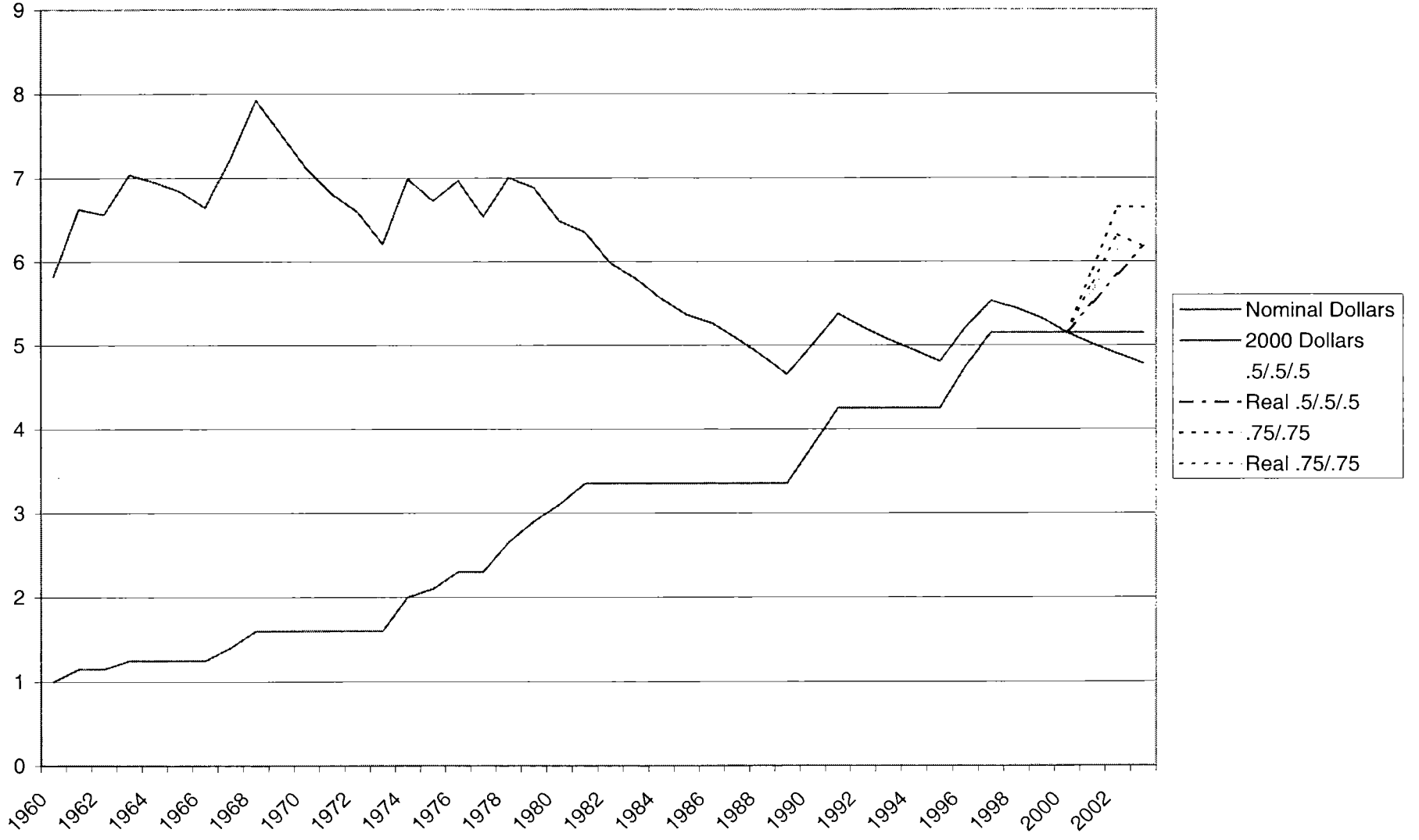
o (HOUSE) SPECIAL OCCUPATIONS TAXES -- Repeal excise taxes imposed on producers and marketers of distilled spirits, wine, and beer [Rep. John Lewis and Rep. Bob Matsui support bill by Rep. Dave Camp to eliminate these onerous taxes.].

o (HOUSE) COMMERCIAL FISHERMAN INCOME AVERAGING -- Extend income-averaging benefits for farmers to include commercial fisherman.

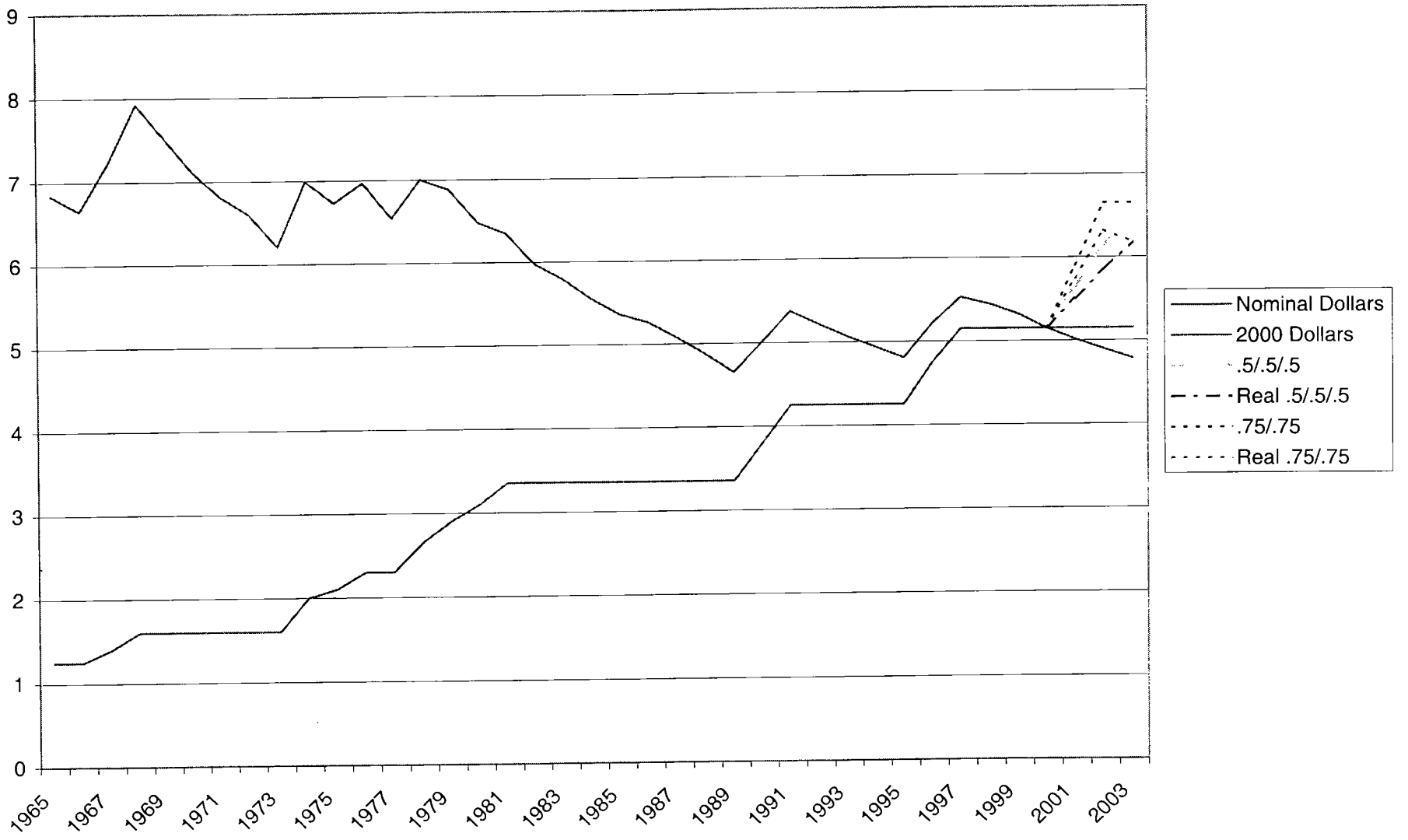
ESTIMATED COST: $23 billion over 5 years. $76 billion over 10 years.

Code Section: Miscellaneous
Geographic Identifier: United States
Subject Area: Budgets
Individual income taxation
Legislative tax issues
Tax policy issues
Index Terms: legislation, tax
budget, federal
tax policy
minimum wage
income tax, individuals
Cross Reference:
Author: Hastert, Rep. J. Dennis
Institutional Author: House of Representatives

Minimum Wage Alternatives



Minimum Wage Alternatives



Supplier Relationships

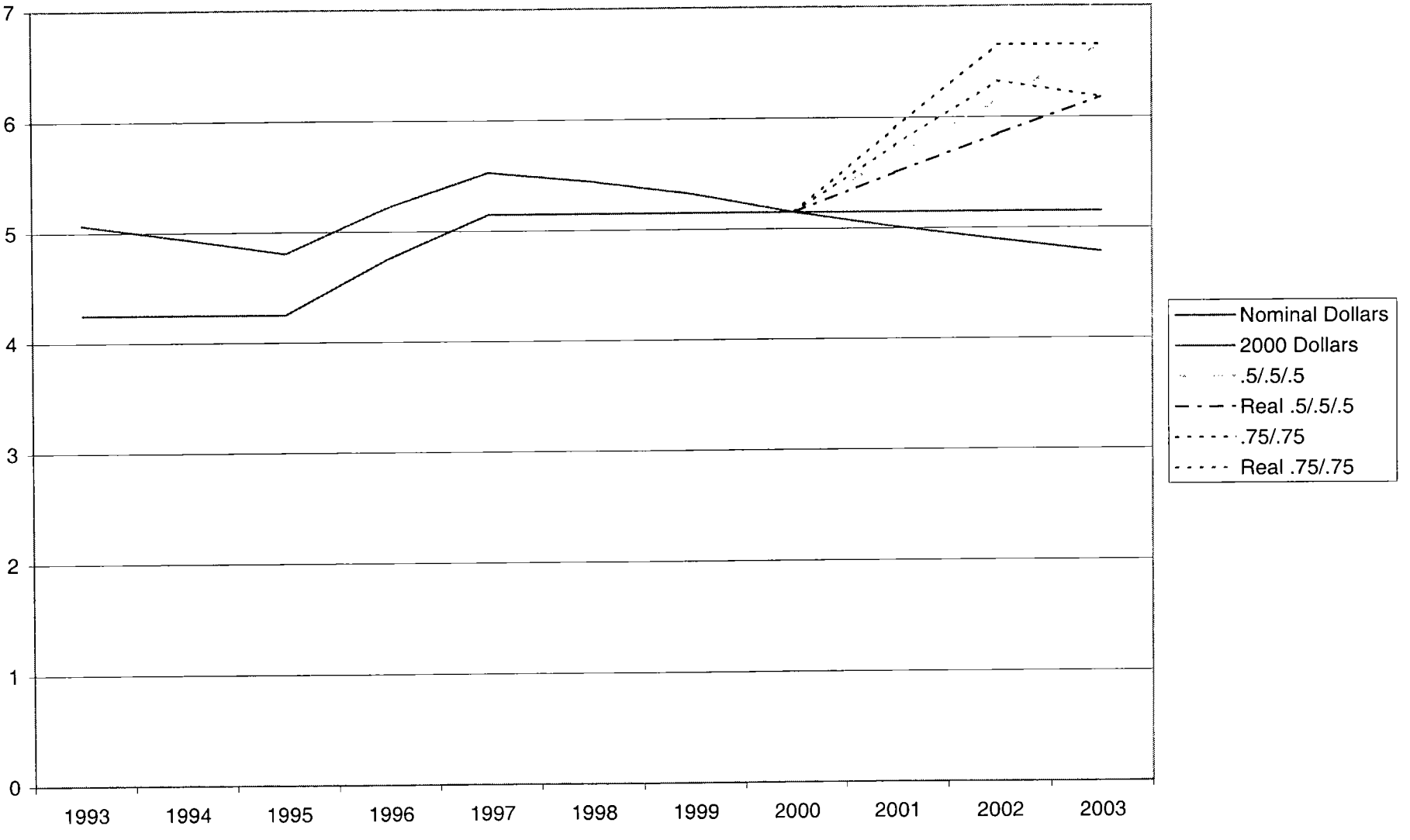
~~Today's consumer goods pass through complex supply chains that can be made more efficient through the application of information technology. In many industries, today's supply chains involves a number of different firms that perform a variety of distinct functions, all of which are necessary to bring a product to market. These firms may create or extract primary materials, design and assemble these materials into more complex components, provide transportation for intermediate and finished products, or offer them for sale to consumer. The efficiency of this system depends on the speed with which it delivers products to consumers, the amount of inventory that is "locked-up" in the supply chain, and, of course, the efficiency or costs of each of the firms in the chain.~~ S/A

~~Information technology, combined with changes in business practices, has enabled firms to reduce costs and increase flexibility in their supply chains. In many industries these changes have redefined, or promise to redefine, the relationship between a firm and its suppliers.~~ S

[In the retail sector sharing point-of-sale data between a firm and its suppliers, a practice popularized by Wal-Mart in the 1980s,] [has become increasingly widespread, improving the efficiency of distribution systems and lowering costs for consumers.] [In the retail food sector, for example, over 97% of grocery stores now collect point of sale data using scanners.] [Efficient Customer Response (ECR) systems that share this point of sale data with suppliers to improve the efficiency of the supply chain were introduced into the industry in 1992.] [These ECR systems take into account customer demand in an individual store as well as the complete economics of the supply chain.] [One recent study showed that ECR adoption was associated with higher productivity. Firms with that had gone far in their ECR adoption efforts had higher sales per labor hour, higher

243 243A 244 245 246 247

Minimum Wage Alternatives



survey found that 63% of respondent firms used some form of variable pay for non-executives.[78] Between 1987 and 1999, the use of profit- or gain-sharing at Fortune 1000 firms increased from 26% to over 50%.[79] ~~These incentives perform two functions.~~ First, they provide employees the motivation to improve firm performance, since the employees receive a monetary reward for better firm performance. Second, they provide a screening function, as higher skilled and more motivated employees are more likely to be willing to work in firms where pay is based on performance. One study of finishing lines in the steel industry found that lines with a set of supporting innovative work organization and incentive practices raised productivity, measured by the amount of time the mill was producing, by about 7% above traditional practices.[80]

~~Stock option grants are a particularly important form of incentive pay.~~ Stock option grants have been a part of executive compensation for years, but grants for non-executive personnel constitute a relatively new phenomenon. While only 5.0% of all non-executive employees in publicly held firms received stock options grants, the proportion rises to 26.8% for those earning more than $75,000.[81] ~~Moreover, the use of this compensation vehicle appears to be diffusing rapidly.~~ A 1998 Federal Reserve Board survey of 415 firms found that 34 percent of the surveyed firms had some type of stock option plan.[82] Although this is not a representative sample of firms, this proportion appears to agree with other studies.[83] Of the 88.4 percent of firms that reported the use of any type of variable pay, 17.7 percent indicated that they had introduced the

[78] lebow, et al p 11
[79] Freeman proposal citing Employment Policy foundation 1998, for 1987 data; EPF chart for 1999 data
[80] Ichniowski, Shaw and Pren, AER, Jun 1997, p 300
[81] BLS, 2000, "Pilot survey on the incidence of stock optins in private industry in 1999," News, October 11, Table 2.
[82] Table 1 of Lebow, David, Louise Sheiner, Larry Slifman, Martha Starr-McCluer, 1999, "Recent Trends in Compensation Practices," mimeo, Federal Reserve Board (July 15).
[83] Number cited by Rodgers (following Murphy and Hall) report 95% of 735 surveyed firms offer officers and managers stock option plans, 10% offer hourly workers plans, thus bracketing the 34% figure.

MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT

FROM: DAVID W. WILCOX
ASSISTANT SECRETARY
FOR ECONOMIC POLICY

SUBJECT: **Proposed Increase in Minimum Wage**

SUMMARY:

Congressional Republicans have indicated that they are prepared to agree to an increase in the minimum wage of $1.00 an hour over the next year, to $6.15. Given this, the Administration needs to decide if it should ask for an even larger increase in the minimum wage. The legislative vehicle for an increase is unclear, and any increase could include tax breaks and other provisions the Administration finds objectionable.

BACKGROUND:

- The minimum wage has been $5.15 an hour since 1997. Congressional Republicans have indicated that they are willing to accept an increase of $1.00 an hour over the near year to $6.15 (two $0.50 increases, in 2000 and 2001).

- The Administration needs to decide if it should push for an additional increase, on top of $1.00 over the next year. Possibilities include an additional increase in 2002 of $0.25 or $0.50. Representative Gephardt and Senator Daschle support a larger increase in the minimum wage.

- To insure that the real value of the minimum wage does not fall, the Administration could propose indexing it to inflation. However, if the goal is a *higher* real minimum wage, indexing should not occur until right after an increase.

- Two bills have been suggested as a vehicle for an increase in the minimum wage. The Portman-Cardin bill would expand tax benefits for high-income workers contributing to tax-deferred pension plans. This bill has strong bipartisan support, but the Administration has expressed opposition to certain components of this bill. Another suggested vehicle is the Labor/HHS appropriations bill.

changed from a process of several operators who would "walk the line," setting the controls for every motor and pump, to a single operator who uses an automatic control system that synchronizes and sets the equipment. The rolling process now incorporates sensors that constantly inspect for deviations from the desired shape, allowing the operators to make corrections before steel is wasted. Operators can control the speed and clearance of the rolls remotely using computer controlled motors to correct any problems that are developing.

~~The result of this integration of computers into steelmaking has been to significantly improve performance.~~ While other technological changes, such as larger furnaces and improvements in casting practices, and the closing of older, inefficient plants have also contributed to improved productivity, steelmaking today uses less than 4 man-hours to produce a ton, down from about 6 in 1990, with the best in the industry at under 1 man-hour per ton.

~~Service industries have also harnessed information and communications technology to change the way they do business. The trucking industry has harnessed information and communications technology to better serve its customers logistics needs.~~ To be efficient, trucking firms must satisfy customers with prompt pickup and delivery of loads while simultaneously minimizing unused capacity (from both idle equipment and empty and incompletely loaded trips). By coordinating information from many shippers and consignees in a geographical area, firms can reduce wasted movement by increasing the volume carried by each truck to and from a particular location. To track and dispatch trucks efficiently, firms use sophisticated locating technology, such as Global Positioning System satellites, real-time traffic, weather, and construction information, on-board computers, complex software and algorithms, and supporting hardware to organize customers and loads. The ability to effectively use information to manage trucking

- Republicans may want to attach tax cuts, particularly for small business, to any minimum wage increase. They may also want to attach additional exemptions to the current overtime provisions of the Fair Labor Standards Act. The Administration would have to carefully consider such provisions. (Estate tax reduction/repeal has been discussed previously as a component of a minimum wage increase, but Congress has already passed a separate estate tax repeal bill.)

- The Administration has cited research by Alan Krueger, Larry Katz, and David Card to support increases in the minimum wage in 1996 and 1997. Kathryn Shaw from CEA spoke with all three about a possible increase in the minimum wage. Krueger is more concerned about a $1.50 increase in the minimum wage over two years than a $1.00 increase over one; he is concerned that the bigger increase, combined with a possible future recession, could have negative employment effects. He is currently writing an opinion piece arguing for increasing the minimum wage by $1.00 over the next year, then indexing it to *wages*. Katz's instinct is that a $1.50 increase could lead to negative employment effects. Card, noting the current tight labor market, argues any effect is likely to be small.

- The current youth (younger than 20) subminimum of $4.25, payable for an employee's first 90 days, would remain unchanged. Increasing the minimum wage, while leaving the subminimum unchanged, could cause employers to substitute toward younger workers. However, studies (such as Katz and Krueger, 1992) have found that few employers use the youth subminimum.

- CEA analysis of two $0.50 increases in the minimum wage in 2000 and 2001 shows an increase in the GDP price index of about 0.2 percentage point in both 2001 and 2002, with very small effects afterwards. The level of payroll employment would fall by 0.2 to 0.3 percent over 2002-2004, but would be down by only 0.01 percent in 2005, relative to baseline.

shipments not only contributes to trucking company efficiency, but also enables other innovative processes such as EDI.[75]

~~Banks also have used new technologies to improve their processes.~~ In the mid-1990s, retail banks introduced imaging technology to improve their efficiency in processing checks. This technology involves storing digital images of checks on a central computer, which are scanned by software that captures the amounts on the images. The balancing of the checks with deposit slips is then performed automatically. Introducing this technology freed people from performing the tasks of recording check amounts, lowered the transaction cost of moving checks, and allowed banks to reorganize workflow around a more extensive division of labor.[76]

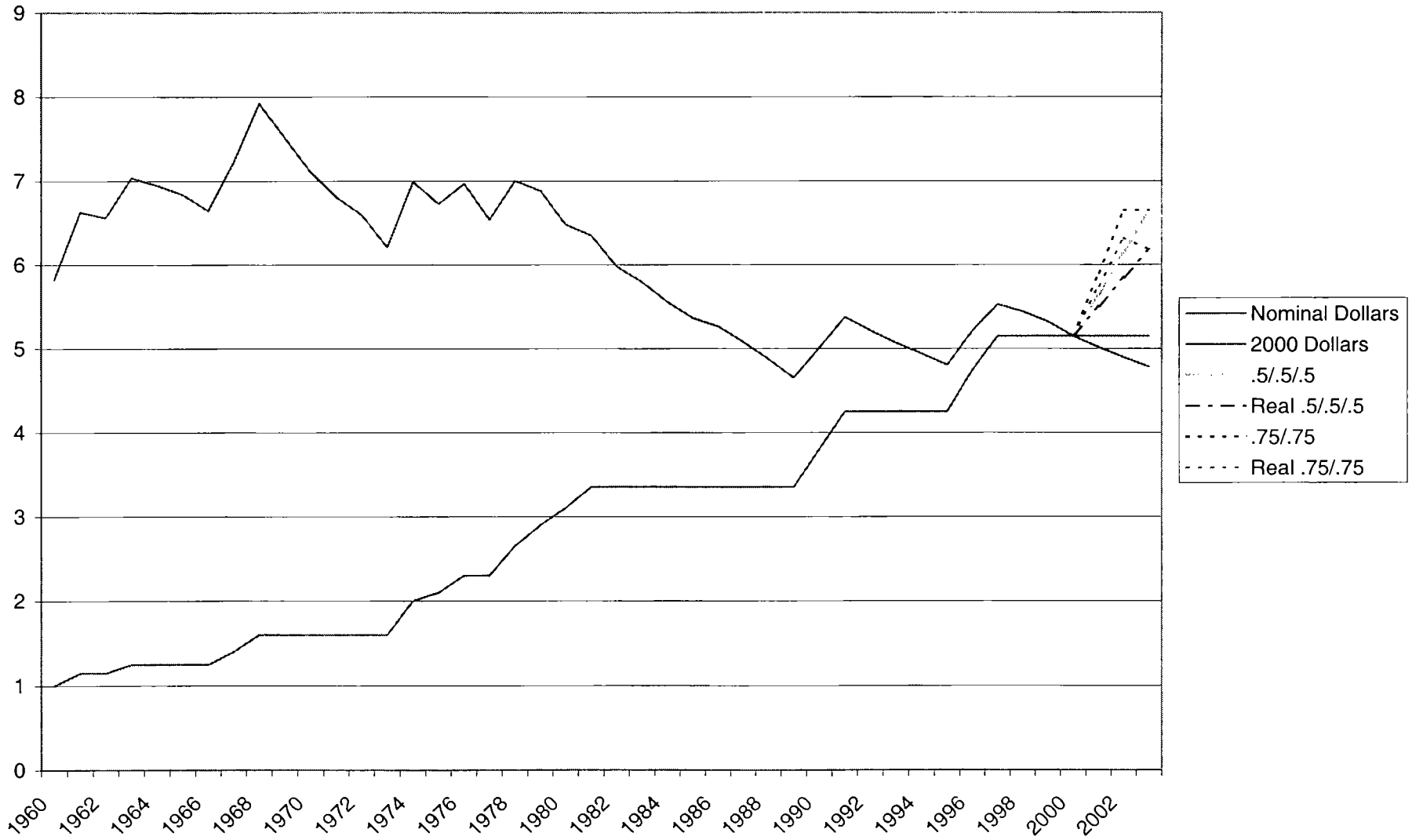
Complementary Changes in Organizational Practices

~~To fully realize the performance gains from applied IT use, firms often must make complementary changes in organizational practices. For example, as information technology puts more information in the hands of production line operators, this information is only valuable if the operators have the authority to use it by making decisions about altering the operation of the line. The move to place greater decision-making authority in the hands of operators is one key example of an organizational change that complements IT adoption and enhances the value of the IT. Another complementary change is changes in the incentives that operators—or all employees—have to use that information and make better decisions.~~

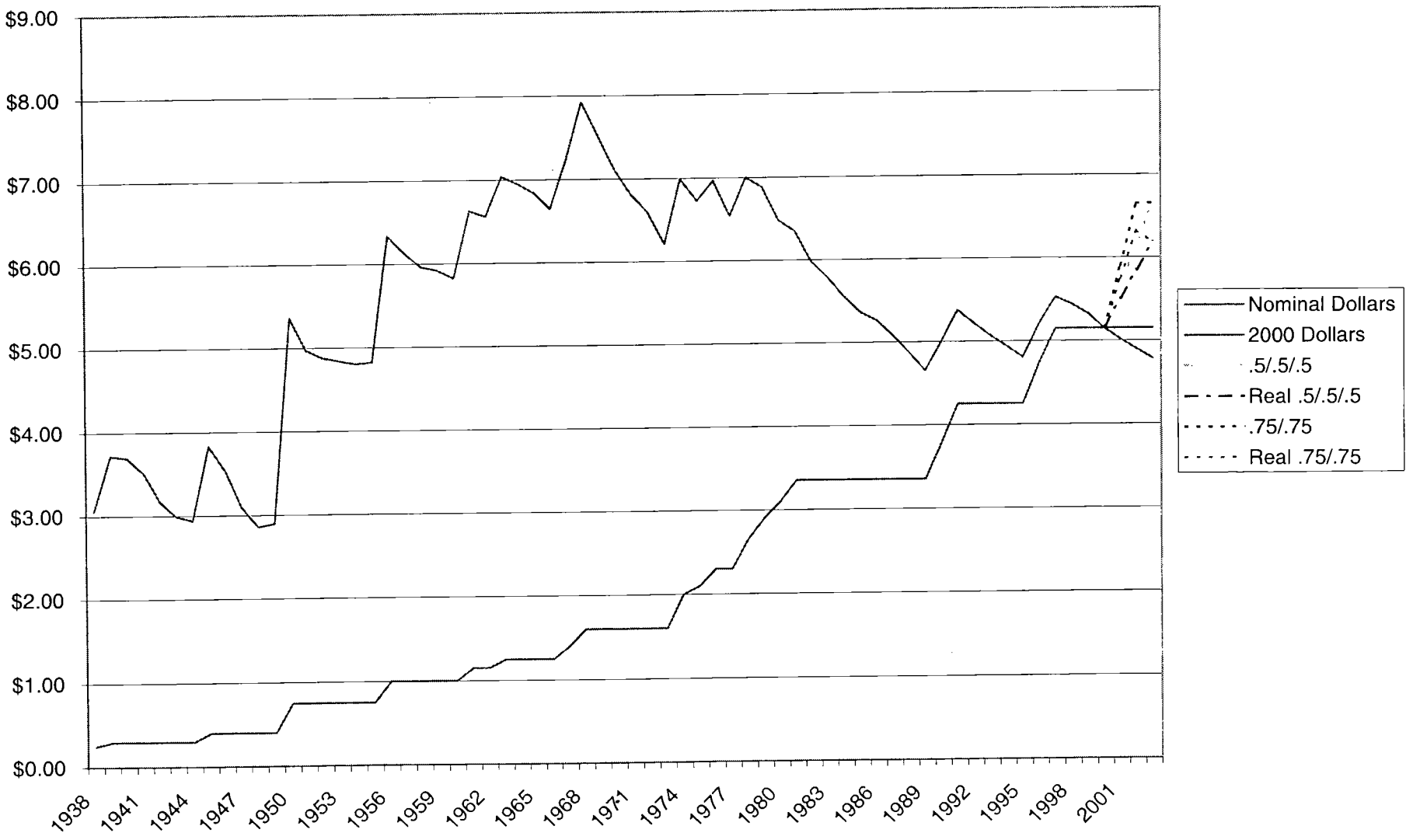
~~There is evidence that in the last ten years more firms have placed decision making authority in the hands of the average employee.~~ The growth of employee involvement processes

[75] US Industry in 2000, Mowery, editor, pp138-143
[76] Autor, Levy, and Murnane, "upstairs, downstairs" 2000, p8

Minimum Wage Alternatives



Minimum Wage Alternatives



prices have been rising, and hence the value of stock options increasing. The effect of employee stock option plans could be substantially different under alternative asset price trends.

Overall, significant changes in human-resource practices have been documented in several industries, including steel, automobile manufacturing, apparel, and customer call centers. These changes have allowed firms to make better use of the IT that has become newly available.

Changes in Firm Boundaries

IT, along with the complementary human-resource practices described above, has also had important effects on firm boundaries in many industries. The firm's "boundary" is simply the set of activities it performs. Vertical boundaries describe the firm's relationships with its suppliers and its customers: "vertically integrated" firms manage their own supply lines and have their own marketing and distribution networks, while other firms prefer to purchase supplies from independent dealers and contract out their marketing and distribution to retailers. Horizontal boundaries describe the firm's relationships with its rivals: some markets are dominated by a few large, horizontally integrated firms, while others have many smaller firms competing for the same customers.

This section shows how IT has frequently led to tighter, more closely integrated relationships between firms and their suppliers and between firms and their customers, without necessarily leading to full vertical integration. Indeed, the declining cost of exchanging information have led many firms to outsource functions previously performed in-house. We also show how IT, along with changes in the regulatory and competitive environments, has led to substantial consolidation in industries such as telecommunications, energy, and financial services.

Table A-33. Distribution of wage and salary workers paid hourly rates, by major occupation group, annual averages 1999

(Numbers in thousands)

Occupation	Total paid hourly rates	Less than $4.25	$4.25	$4.26 to $5.14	$4.75	$5.00	$5.15	$5.16 to $5.64	$5.65 to $6.14	$6.15 to $6.64	$6.65 to $7.14	$7.15 or more
Total, 16 years and over	72,306	1,047	57	1,090	25	921	1,146	3,205	5,742	3,879	4,991	51,849
Managerial and professional specialty	10,078	26	6	59	1	47	37	150	271	174	308	9,047
Executive, administrative, and managerial	4,260	8	2	22	1	14	17	37	108	77	143	3,845
Professional specialty	5,818	18	3	37	–	33	21	113	163	97	165	5,202
Technical, sales, and administrative support	22,783	69	7	257	6	226	361	1,042	1,699	1,243	1,761	16,123
Technicians and related support	2,750	9	–	8	–	7	10	19	58	42	69	2,520
Sales occupations	7,445	28	5	153	1	134	231	752	1,228	752	864	3,432
Administrative support, including clerical	12,588	32	2	96	4	84	120	271	618	448	809	10,171
Service occupations	13,438	881	26	518	14	434	470	1,275	1,928	994	1,407	5,940
Private household	425	58	2	85	–	78	11	14	48	17	34	155
Protective service	1,574	2	1	16	–	11	14	49	96	70	103	1,223
Service, except private household and protective	11,440	821	23	416	14	345	445	1,212	1,784	908	1,270	4,581
Precision production, craft, and repair	9,761	18	2	30	3	25	14	74	190	142	304	9,007
Mechanics and repairers	3,361	6	1	9	1	5	2	24	46	43	82	3,148
Construction trades	3,600	10	1	13	1	11	6	18	67	48	129	3,308
Other precision production, craft, and repair	2,820	2	1	8	–	8	5	32	77	51	93	2,551
Operators, fabricators, and laborers	14,882	45	12	189	3	154	198	565	1,187	725	1,043	10,918
Machine operators, assemblers, and inspectors	6,577	15	2	58	2	46	57	153	488	286	414	5,105
Transportation and material moving occupations	3,567	14	6	24	1	20	27	86	164	99	197	2,950
Handlers, equipment cleaners, helpers, and laborers	4,737	16	4	106	>0	87	115	326	536	340	431	2,863
Farming, forestry, and fishing	1,364	8	4	37	–	35	65	99	266	101	168	615

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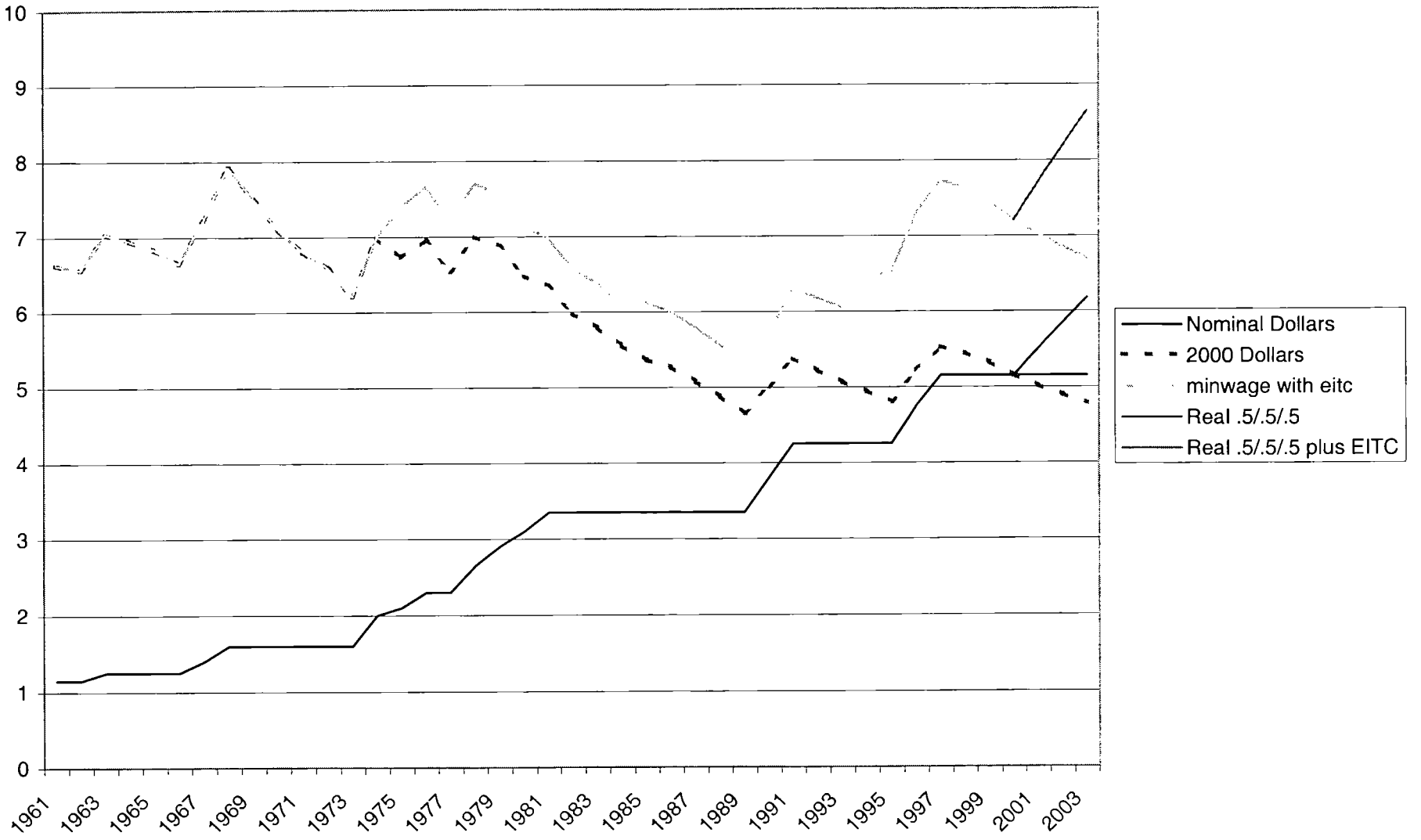
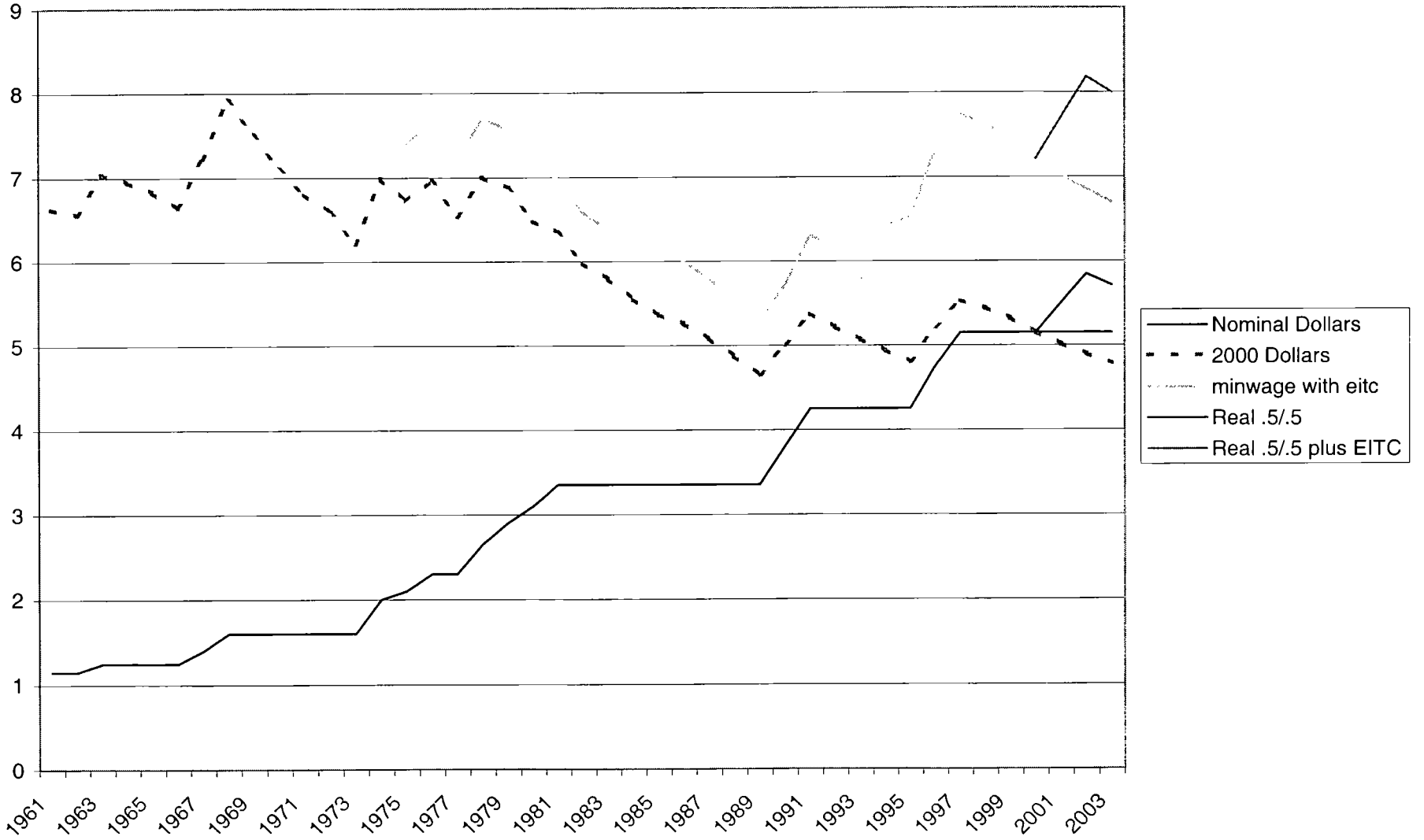
NOTE: Data exclude the incorporated self employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- 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.

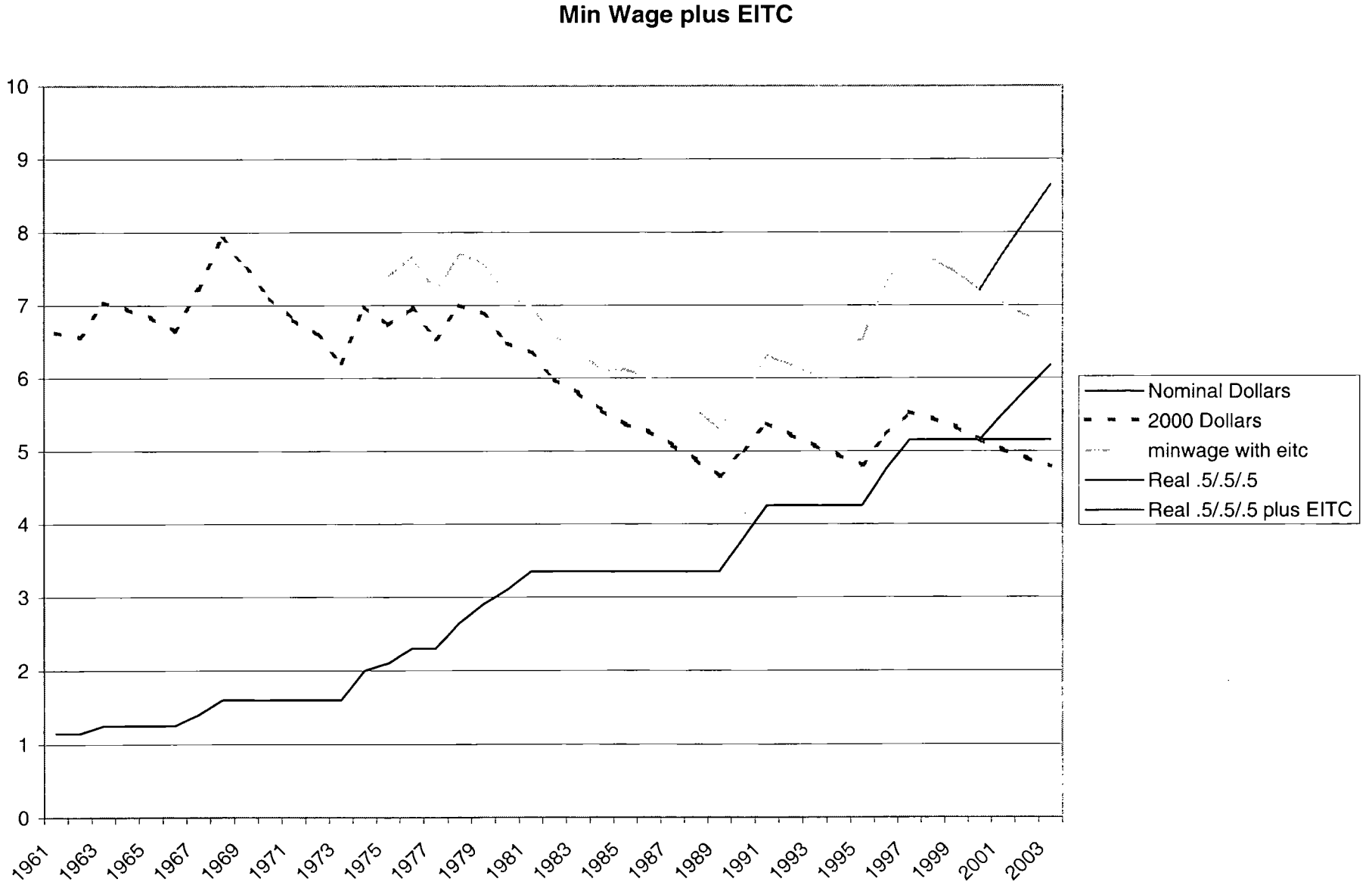
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, unpublished tabulations from the Current Population Survey, 1999.

Min Wage plus EITC



Min Wage plus EITC




Min Wage plus EITC
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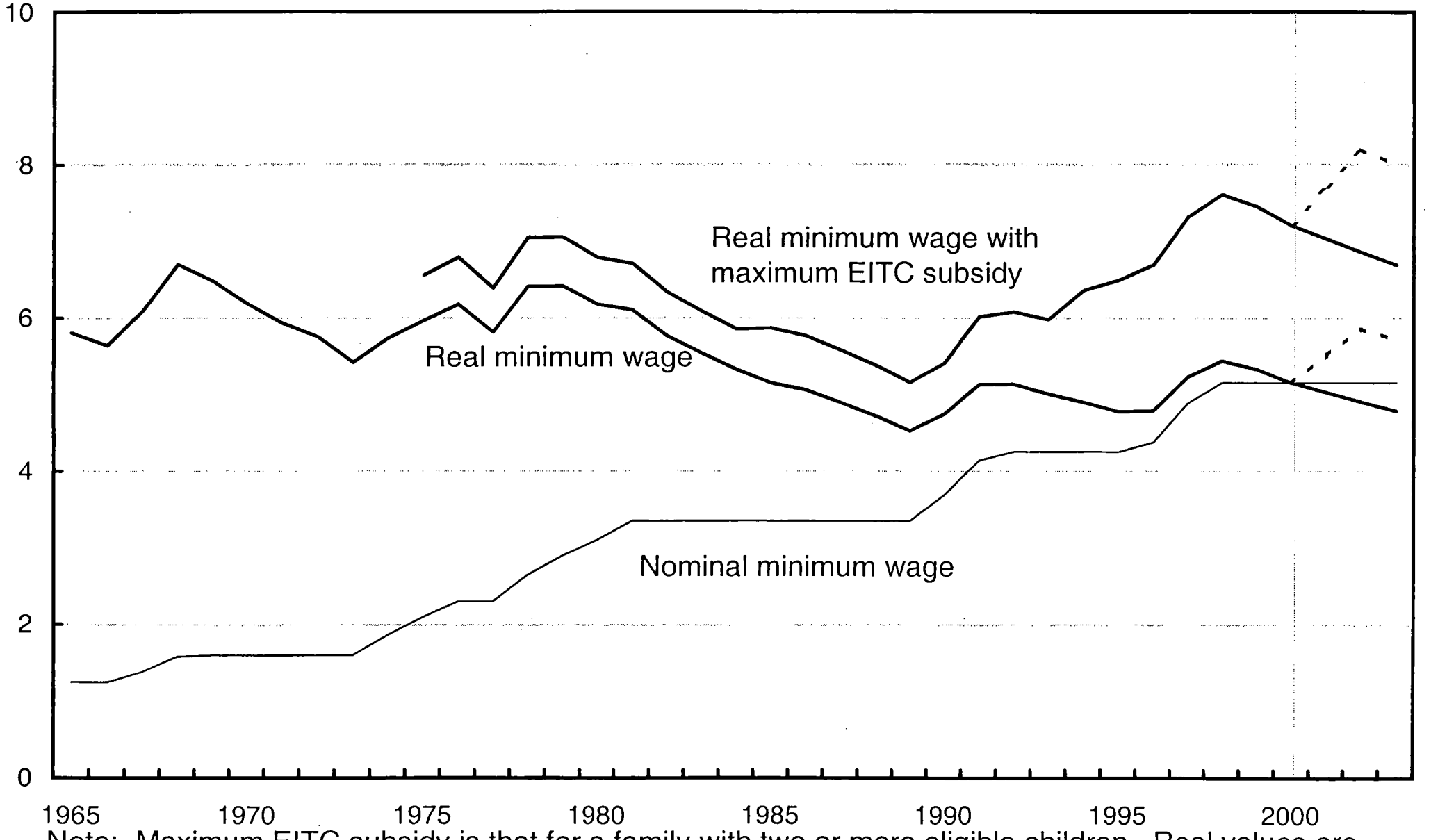
Real .5/.5/.5 plus EITC

Real Minimum Wage Combined with the Real Maximum EITC Subsidy--Dotted lines indicate Two $0.50 increases in the Nominal Minimum Wage

Constant 2000 dollars



Note: Maximum EITC subsidy is that for a family with two or more eligible children. Real values are computed using the CPI-U-RS, and assuming 2.5 percent inflation after November 2000..

Sources: Department of Labor (Bureau of Labor Statistics) and U.S. Congress (Joint Committee on Taxation)

Table A-32. Distribution of wage and salary workers paid hourly rates, by selected characteristics, annual averages 1999

(Numbers in thousands)

Characteristic	Total paid hourly rates	Less than $4.25	$4.25	$4.26 to $5.14	$4.75	$5.00	$5.15	$5.16 to $5.64	$5.65 to $6.14	$6.15 to $6.64	$6.65 to $7.14	$7.15 or more
SEX AND AGE												
Total, 16 years and over	72,806	1,047	57	1,090	25	921	1,146	3,205	5,742	3,379	4,991	51,849
16 to 24 years	16,636	460	34	569	15	487	692	1,880	2,727	1,473	1,808	7,045
16 to 19 years	6,800	198	25	354	8	305	429	1,280	1,474	727	755	1,408
20 to 24 years	10,036	262	10	215	7	182	263	659	1,253	746	1,051	5,636
25 years and over	55,870	587	22	520	11	434	514	1,316	3,015	1,906	3,185	44,805
25 to 64 years	48,070	507	19	388	8	325	415	1,015	2,477	1,607	2,665	38,978
25 to 34 years	17,051	240	12	145	4	120	180	415	1,015	682	1,041	13,341
35 to 44 years	18,172	176	3	137	1	120	140	351	917	563	979	14,906
45 to 54 years	12,846	91	3	104	4	85	96	248	545	382	645	10,731
55 years and over	7,600	80	4	134	2	109	99	901	537	298	520	5,627
55 to 64 years	5,932	58	3	71	1	60	45	166	330	210	354	4,695
65 years and over	1,669	22	1	63	1	49	54	135	206	89	166	932
Men, 16 years and over	36,073	288	28	453	11	369	446	1,226	2,404	1,288	2,119	27,625
16 to 24 years	8,556	138	16	257	7	211	289	826	1,333	707	908	4,083
16 to 19 years	3,346	60	11	162	4	136	195	565	740	368	391	654
20 to 24 years	5,210	78	4	95	4	74	93	261	593	339	517	3,229
25 years and over	27,517	150	12	196	4	158	157	400	1,071	579	1,211	23,742
Women, 16 years and over	36,233	760	29	637	14	552	700	1,980	3,338	2,093	2,872	23,824
16 to 24 years	8,080	322	19	312	7	276	343	1,054	1,394	766	898	2,962
16 to 19 years	3,254	139	14	192	4	169	233	685	734	359	364	554
20 to 24 years	4,826	184	5	120	3	107	110	398	660	407	534	2,408
25 years and over	28,153	437	10	324	7	276	357	916	1,944	1,327	1,974	20,863
RACE AND HISPANIC ORIGIN												
White												
Total, 16 years and over	58,999	915	41	846	17	730	895	2,548	4,584	2,736	3,932	42,500
Men	29,906	232	22	348	6	291	356	963	1,978	1,080	1,707	23,199
Women	29,093	683	19	498	11	439	539	1,585	2,606	1,656	2,225	19,301
Black												
Total, 16 years and over	10,126	91	19	195	7	146	217	546	839	489	847	6,889
Men	4,632	42	4	80	5	55	74	203	303	153	921	3,453
Women	5,494	49	9	115	2	90	144	343	536	336	526	3,437
Hispanic origin												
Total, 16 years and over	9,402	87	3	165	4	166	238	446	1,305	591	856	5,691
Men	5,490	87	3	86	1	80	105	184	683	279	471	3,640
Women	3,913	50	>0	99	3	86	133	261	622	311	385	2,051

See footnotes at end of table.

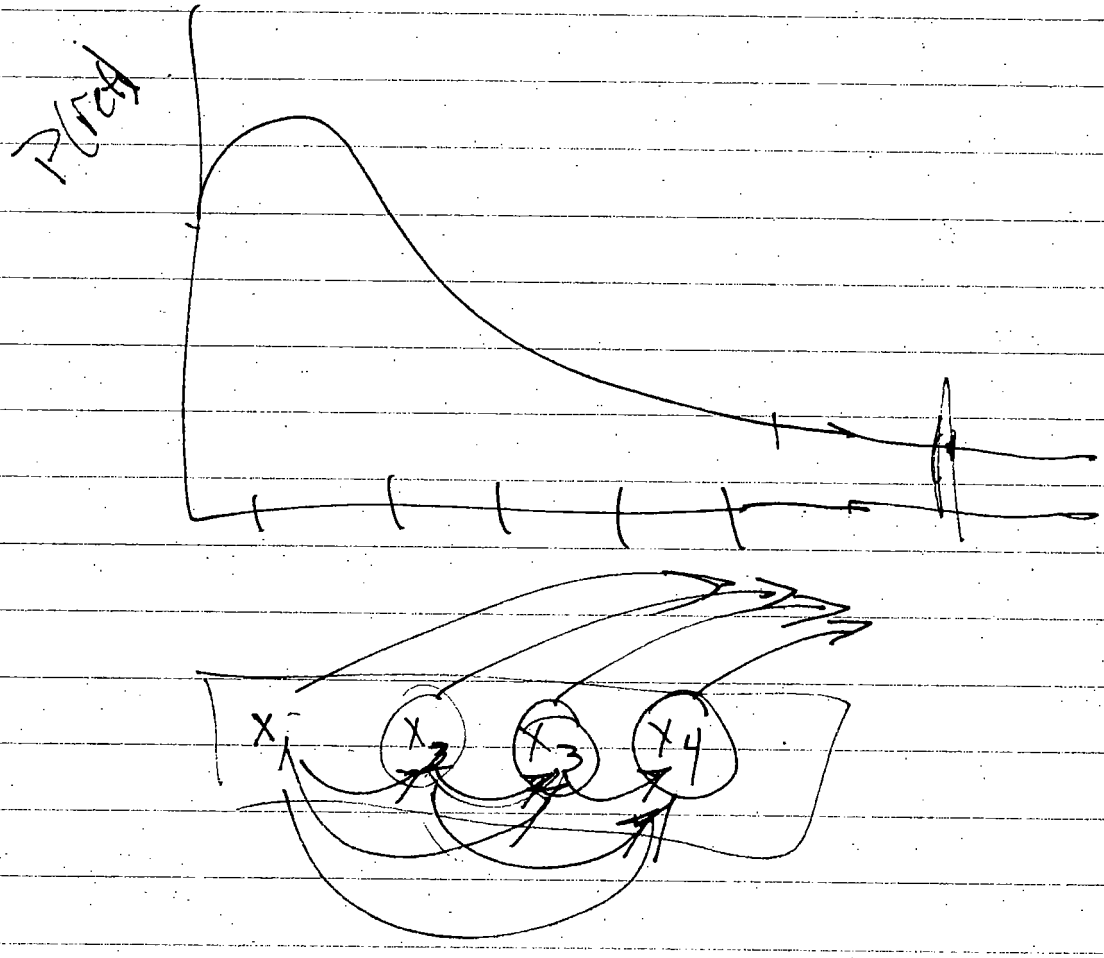
Card - out of loop, but CA $5.75

Krueger - .50-.50-.50 "some concerns - more concerned about $1, vs $1.50"
.5-.5 index to wages

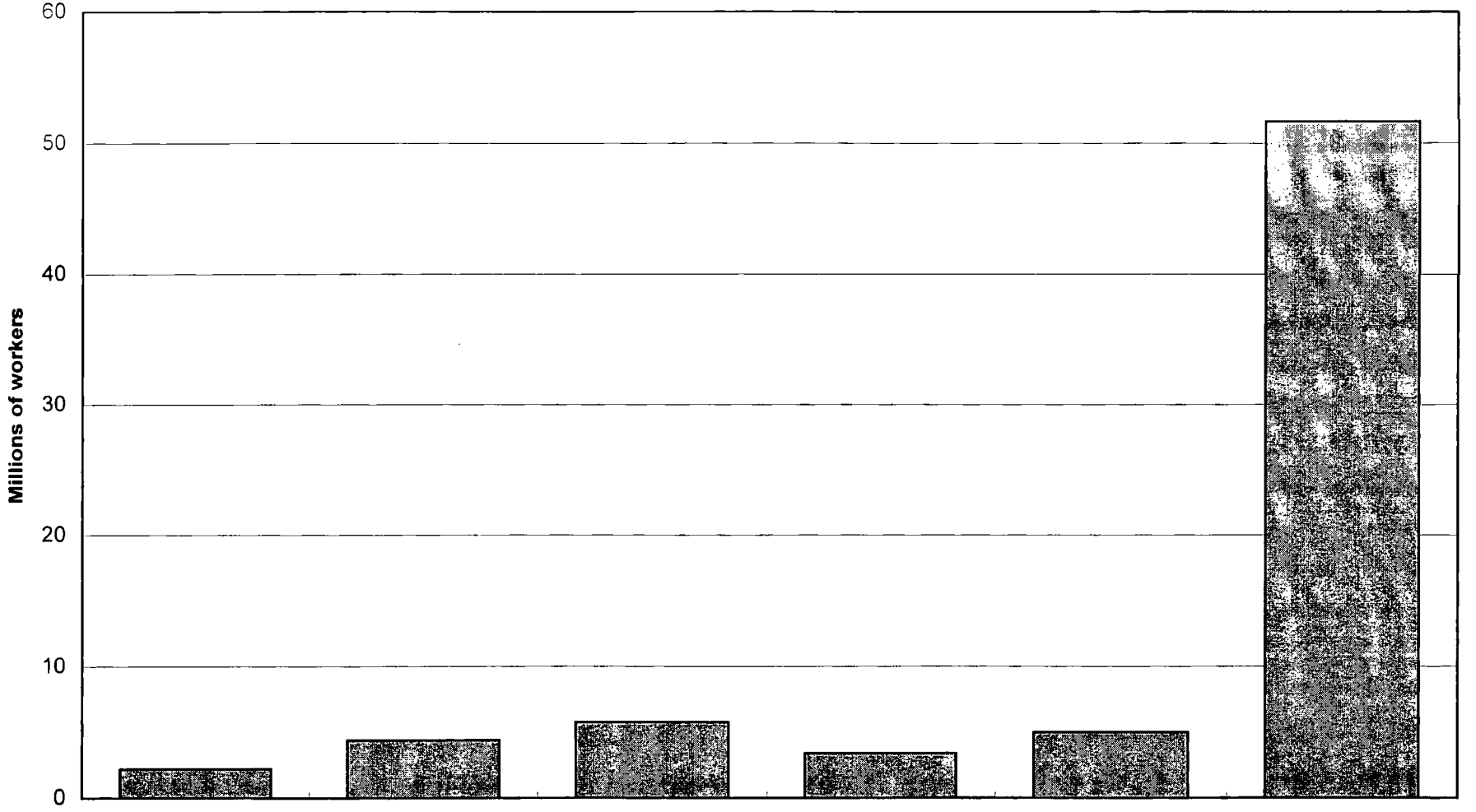
Katz - not much problem

Tight labor - not too big a deal
small slightly neg, dist.

EITC



US Hourly Rate Workers by Wage Level, 1999



Value of The Federal Minimum Wage, 1938-2000

The table below shows the actual minimum wage (Nominal Dollars) and the relative value of the minimum wage (2000 Dollars). The bolded rows represent years in which the Fair Labor Standards Act was amended to raise the minimum wage.

Source:
Bureau of Labor Statistics

Year	Value of the Minimum Wage					
	Nominal Dollars	2000 Dollars	.5/.5/.5	Real .5/.5/.5	.75/.75	Real .75/.75
1960	1	5.82				
1961	**1.15**	**6.63**				
1962	1.15	6.56				
1963	1.25	7.04				
1964	1.25	6.95				
1965	1.25	6.84				
1966	**1.25**	**6.65**				
1967	1.4	7.22				
1968	1.6	7.92				
1969	1.6	7.51				
1970	1.6	7.11				
1971	1.6	6.81				
1972	1.6	6.60				
1973	1.6	6.21				
1974	**2**	**6.99**				
1975	2.1	6.73				
1976	2.3	6.96				
1977	2.3	6.54				
1978	**2.65**	**7.00**				
1979	2.9	6.88				
1980	3.1	6.48				
1981	3.35	6.35				
1982	3.35	5.98				
1983	3.35	5.80				
1984	3.35	5.56				
1985	3.35	5.36				
1986	3.35	5.27				
1987	3.35	5.08				
1988	3.35	4.88				
1989	**3.35**	**4.65**				
1990	3.8	5.01				
1991	4.25	5.38				
1992	4.25	5.22				
1993	4.25	5.07				
1994	4.25	4.94				
1995	4.25	4.80				
1996	**4.75**	**5.22**				
1997	5.15	5.53				
1998	5.15	5.44				
1999	5.15	5.32	.5/.5/.5	Real .5/.5/.5	.75/.75	Real .75/.75
2000	5.15	5.15	5.15	5.15	5.15	5.15
2001	5.15	5.02	5.65	5.50	5.90	5.75
2002	5.15	4.89	6.15	5.84	6.65	6.32
2003	5.15	4.78	6.65	6.18	6.65	6.18

Note: projected using 2.5% annual inflation rate

Table A-34. Distribution of wage and salary workers paid hourly rates, by major industry group, annual averages 1999

(Numbers in thousands)

Industry	Total paid hourly rates	Less than $4.25	$4.25	$4.26 to $5.14	$4.75	$5.00	$5.15	$5.16 to $5.64	$5.65 to $6.14	$6.15 to $6.64	$6.65 to $7.14	$7.15 or more
Total, 16 years and over	72,306	1,047	57	1,090	25	921	1,146	3,205	5,742	3,379	4,991	51,649
Private sector	63,557	1,010	56	1,015	24	860	1,028	2,961	5,333	3,117	4,592	44,444
Goods producing	19,165	38	8	139	4	116	129	291	981	558	949	16,077
Agriculture	1,156	5	4	27	–	26	54	75	227	89	127	546
Mining	322	1	–	2	–	2	2	>0	4	8	7	296
Construction	4,687	11	1	30	1	27	10	38	148	81	226	4,144
Manufacturing	13,000	20	3	74	2	61	63	177	604	380	589	11,089
Durable goods	8,023	11	3	28	1	19	21	72	277	195	319	7,097
Nondurable goods	4,976	9	–	47	1	42	42	106	326	185	270	3,992
Service producing	44,392	972	48	881	20	744	899	2,670	4,352	2,559	3,643	28,967
Transp. and public utilities	4,122	10	1	19	1	14	22	49	99	93	188	3,640
Wholesale trade	2,396	8	–	21	>0	19	15	53	132	93	175	1,898
Retail trade	15,463	746	30	471	12	393	525	1,632	2,463	1,387	1,597	6,612
Eating and drinking	5,209	709	20	279	10	234	268	735	1,019	419	509	1,251
Finance, ins., & real estate	3,001	12	2	24	–	19	8	52	128	93	173	2,509
Services	19,410	196	14	346	7	299	328	883	1,530	693	1,510	13,708
Private households	467	59	3	90	–	82	11	17	55	19	44	188
Other services	18,922	137	12	256	7	217	317	866	1,475	674	1,466	13,521
Business and repair	4,188	15	1	37	2	30	66	117	346	179	348	3,079
Personal services	1,860	38	3	65	3	53	47	143	247	151	218	948
Entertainment and recr.	1,310	23	5	39	1	29	55	151	181	108	127	624
Professional and related	11,547	61	2	114	–	105	148	454	700	438	769	8,862
Forestry and fisheries	17	–	–	1	–	1	1	1	1	–	5	7
Government	8,749	37	1	75	1	61	117	244	409	261	399	7,205
Federal	1,629	7	–	8	>0	2	9	14	34	26	44	1,589
State	2,124	10	–	16	–	15	50	78	136	83	110	1,642
Local	4,796	21	1	53	1	44	58	152	239	153	245	3,874

>0 Value too small to display.
– Data not available.

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.

Table A-22. Hourly earnings of employed wage and salary workers paid hourly rates by educational attainment, age, sex, race, and Hispanic origin, 1999 annual averages — Continued

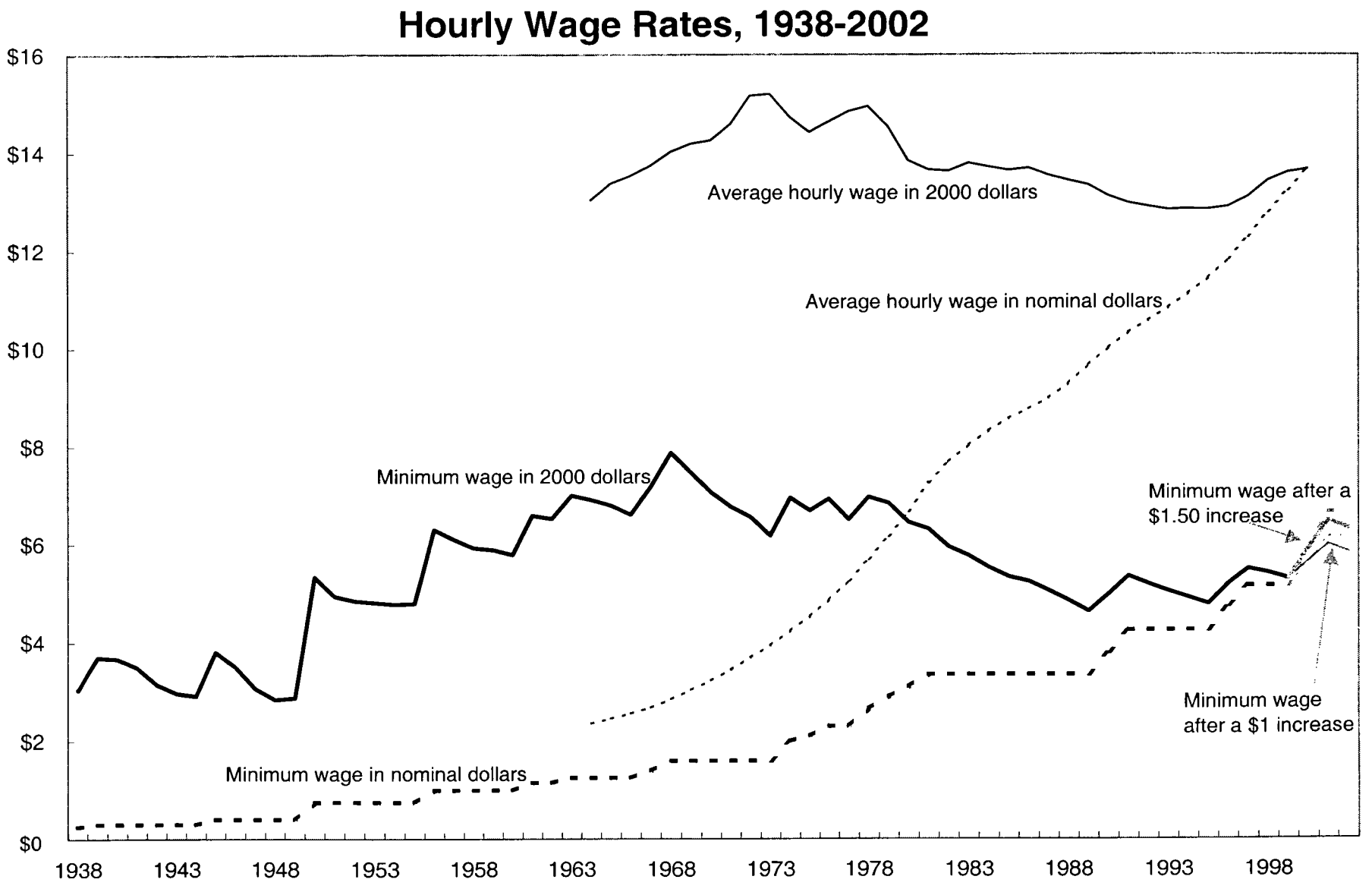
Total, 16 years and over, Total both sexes

Sex, race, Hispanic origin, and educational attainment	$15.00 to $19.99	$20.00 or more	Under prevailing minimum wage	At prevailing minimum wage	Median	Standard error	Mean	Standard error
Total	8,500	6,406	2,184	1,146	$9.53	$.06	$11.16	$.02
Less than a high school diploma	502	194	797	548	6.88	.04	7.95	.03
Less than one year of high school	126	40	151	124	7.17	.08	8.17	.05
1-3 years of high school	314	127	590	397	6.70	.06	7.77	.04
4 years of high school, no diploma	61	27	56	27	7.46	.29	8.66	.10
High school graduate or more	7,998	6,212	1,397	598	10.09	.03	11.87	.03
High school graduates no college	3,259	1,649	663	340	9.65	.07	10.71	.03
Some college, no degree	1,933	1,214	517	213	9.53	.14	10.88	.04
Associate degree	1,197	806	108	28	11.88	.13	13.15	.07
Occupational program	689	517	56	16	12.08	.17	13.32	.10
Academic program	509	389	52	12	11.54	.36	12.94	.11
College graduates	1,609	2,443	119	17	13.99	.18	16.57	.11
Bachelor's degree	1,331	1,788	100	12	13.23	.27	15.68	.11
Master's degree	239	530	17	4	16.99	.60	19.48	.32
Professional degree	28	97	2	1	18.08	.93	22.05	1.07
Doctoral degree	17	77	–	–	23.13	6.38	26.44	1.54

Table A-22. Hourly earnings of employed wage and salary workers paid hourly rates by educational attainment, age, sex, race, and Hispanic origin, 1999 annual averages

Total, 16 years and over, Total both sexes

Sex, race, Hispanic origin, and educational attainment	Total employed	Under $3.00	$3.00 to $3.49	$3.50 to $3.99	$4.00 to $4.49	$4.50 to $4.99	$5.00 to $5.49	$5.50 to $5.99	$6.00 to $6.99	$7.00 to $7.99	$8.00 to $8.99	$9.00 to $9.99	$10.00 to $11.99	$12.00 to $14.99
Total	72,306	726	175	53	176	119	3,626	3,228	8,362	7,888	7,356	5,690	10,345	9,453
Less than a high school diploma	13,101	153	36	16	76	53	1,818	1,375	2,869	1,806	1,281	820	1,166	897
Less than one year of high school	3,178	16	7	4	11	12	337	318	650	465	392	224	339	235
1-3 years of high school	8,775	128	26	13	60	34	1,375	979	2,002	1,175	784	516	718	550
4 years of high school, no diploma	1,148	9	3	–	5	6	106	84	236	165	125	80	129	112
High school graduate or more	59,205	573	139	37	100	67	2,010	1,853	5,473	6,082	6,075	4,870	9,159	8,555
High school graduates no college	27,819	255	66	17	49	28	1,086	1,039	2,953	3,244	3,146	2,496	4,545	3,988
Some college, no degree	16,472	222	53	13	40	26	702	594	1,801	1,903	1,808	1,382	2,505	2,270
Associate degree	6,296	48	15	5	8	5	101	110	354	481	535	479	979	1,077
Occupational program	3,472	24	7	3	1	2	53	55	175	271	284	258	512	609
Academic program	2,824	24	8	2	2	3	48	54	178	210	241	221	467	468
College graduates	8,619	48	5	2	8	7	121	110	365	449	586	513	1,131	1,220
Bachelor's degree	6,984	39	5	2	8	7	103	88	321	382	502	442	985	1,030
Master's degree	1,286	8	1	–	–	>0	14	20	37	52	65	61	122	153
Professional degree	207	2	–	–	–	>0	3	3	4	7	10	8	16	28
Doctoral degree	132	–	–	–	–	–	–	–	3	7	9	1	8	9


Hourly Wage Rates, 1938-2002
$16
$14
$12
$10
$8
$6
$4
$2
$0
1938
1943
1948
1953
1958
1963
1968
1973
1978
1983
1988
1993
1998
Average hourly wage in 2000 dollars
Average hourly wage in nominal dollars
Minimum wage in 2000 dollars
Minimum wage after a $1.50 increase
Minimum wage after a $1 increase
Minimum wage in nominal dollars

Final Forecast for FY2001 Mid-Session Review

06/19/00 04:25 PM

Forecast Comparison

MSR00T1B.XLS

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000-05 Avg	2000-10 Avg
Real GDP (Fisher Chain, % chg)														
MSR (Yr/Yr)	Apr-00	4.8	3.2	3.1	3.0	2.9	2.9	2.9	2.9	2.8	2.8	2.8	**3.31**	**3.10**
FY2001 Budget (Yr/Yr)	Nov-99	3.3	2.7	2.5	2.5	2.8	3.0	2.9	2.8	2.7	2.6	2.6	**2.81**	**2.77**
CBO (Yr/Yr)	Jan-00	3.3	3.1	2.8	2.6	2.6	2.7	2.7	2.7	2.7	2.9	2.9	**2.85**	**2.82**
Blue Chip (Yr/Yr)	Jun-00/Mar-00	4.8	3.3	2.8	2.8	3.3	3.3	3.2	3.1	3.1	3.1	3.1	**3.38**	**3.26**
MSR (Q4/Q4)	Apr-00	3.9	3.2	3.1	2.9	2.9	2.8	2.9	2.9	2.8	2.8	2.8	**3.13**	**3.00**
FY2001 Budget (Q4/Q4)	Nov-99	2.9	2.6	2.5	2.5	3.0	3.0	2.9	2.8	2.6	2.6	2.6	**2.74**	**2.72**
CBO (Q4/Q4)	Jan-00	2.9	3.0	2.7	2.6	2.6	2.7	2.7	2.7	2.8	2.9	2.9	**2.75**	**2.77**
Blue Chip (Q4/Q4)	Jun-00	4.0	3.2											
GDP Price Index (chain price index, % chg)														
MSR (Yr/Yr)	Apr-00	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	**1.98**	**1.99**
FY2001 Budget (Yr/Yr)	Nov-99	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	**1.95**	**1.98**
CBO (Yr/Yr)	Jan-00	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	**1.67**	**1.68**
Blue Chip (Yr/Yr)	Jun-00/Mar-00	2.1	2.1	2.0	2.1	2.1	2.0	2.0	2.1	2.1	2.1	2.1	**2.07**	**2.07**
MSR (Q4/Q4)	Apr-00	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	**2.01**	**2.00**
FY2001 Budget (Q4/Q4)	Nov-99	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	**1.99**	**2.00**
CBO (Q4/Q4)	Jan-00	1.7	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	**1.68**	**1.69**
Blue Chip (Q4/Q4)	Jun-00	2.3	2.1											
Nominal GDP % change														
MSR (Yr/Yr)	Apr-00	6.8	5.3	5.2	5.0	5.0	4.9	4.9	5.0	4.9	4.9	4.9	**5.36**	**5.15**
FY2001 Budget (Yr/Yr)	Nov-99	4.9	4.9	4.6	4.6	4.9	5.1	5.0	4.9	4.8	4.7	4.7	**4.81**	**4.81**
CBO (Yr/Yr)	Jan-00	5.0	4.8	4.5	4.3	4.3	4.4	4.4	4.4	4.5	4.6	4.6	**4.55**	**4.53**
Blue Chip (Yr/Yr)	Jun-00/Mar-00	7.0	5.4	4.9	4.9	5.4	5.3	5.3	5.2	5.2	5.2	5.2	**5.48**	**5.36**
MSR (Q4/Q4)	Apr-00	6.0	5.3	5.1	4.9	5.0	4.9	5.0	5.0	4.9	4.9	4.8	**5.19**	**5.06**
FY2001 Budget (Q4/Q4)	Nov-99	4.8	4.6	4.6	4.5	5.0	5.1	4.9	4.9	4.7	4.7	4.7	**4.79**	**4.78**
CBO (Q4/Q4)	Jan-00	4.6	4.7	4.4	4.3	4.3	4.4	4.4	4.4	4.5	4.6	4.6	**4.45**	**4.47**
Blue Chip (Q4/Q4)	Jun-00	6.4	5.4											

06/19/00

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000-05 Avg	2000-10 Avg
CPI-U, % change														
MSR (Yr/Yr)	Apr-00	3.3	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	**2.70**	**2.65**
FY2001 Budget (Yr/Yr)	Nov-99	2.6	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	**2.57**	**2.59**
CBO (Yr/Yr)	Jan-00	2.5	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	**2.48**	**2.49**
Blue Chip (Yr/Yr)	Jun-00/Mar-00	3.1	2.6	2.6	2.6	2.5	2.4	2.4	2.5	2.5	2.5	2.5	**2.63**	**2.56**
MSR (Q4/Q4)	Apr-00	3.2	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	**2.68**	**2.64**
FY2001 Budget (Q4/Q4)	Nov-99	2.3	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	**2.54**	**2.57**
CBO (Q4/Q4)	Jan-00	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	**2.47**	**2.48**
Blue Chip (Q4/Q4)	Jun-00	3.1	2.6											
Wedge (CPI - PGDP)														
MSR (Yr/Yr)	Apr-00	1.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	**0.70**	**0.65**
FY2001 Budget (Yr/Yr)	Nov-99	1.0	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	**0.61**	**0.60**
CBO (Yr/Yr)	Jan-00	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	**0.82**	**0.81**
Blue Chip (Yr/Yr)	Jun-00/Mar-00	1.0	0.5	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	**0.57**	**0.49**
MSR (Q4/Q4)	Apr-00	1.2	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	**0.66**	**0.63**
FY2001 Budget (Q4/Q4)	Nov-99	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	**0.54**	**0.56**
CBO (Q4/Q4)	Jan-00	0.6	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	**0.78**	**0.79**
Blue Chip (Q4/Q4)	Jun-00	0.8	0.5											
Unemployment Rate (%)														
MSR	Apr-00	4.1	4.1	4.3	4.5	4.7	4.8	5.0	5.1	5.1	5.1	5.1	**4.43**	**4.74**
FY2001 Budget	Nov-99	4.2	4.5	5.0	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	**4.87**	**5.02**
CBO	Jan-00	4.1	4.2	4.4	4.7	4.8	5.0	5.0	5.1	5.2	5.2	5.2	**4.53**	**4.81**
Blue Chip	Jun-00/Mar-00	4.0	4.1	4.5	4.7	4.7	4.7	4.6	4.7	4.7	4.7	4.7	**4.45**	**4.55**
90-day Treasury Bill Interest Rate (%)														
MSR	Apr-00	5.8	6.3	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	**5.90**	**5.85**
FY2001 Budget	Nov-99	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	**5.19**	**5.19**
CBO	Jan-00	5.4	5.6	5.3	4.9	4.8	4.8	4.8	4.8	4.8	4.8	4.8	**5.13**	**4.98**
Blue Chip	Jun-00/Mar-00	6.1	6.3	5.5	5.4	5.4	5.2	5.2	5.2	5.2	5.2	5.2	**5.65**	**5.45**
10-year Treasury Note Interest Rate (%)														
MSR	Apr-00	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	**6.30**	**6.30**
FY2001 Budget	Nov-99	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	**6.10**	**6.10**
CBO	Jan-00	6.3	6.4	6.1	5.8	5.7	5.7	5.7	5.7	5.7	5.7	5.7	**6.00**	**5.86**
Blue Chip	Jun-00/Mar-00	6.4	6.4	6.2	6.1	6.1	5.9	6.0	5.9	5.9	5.9	5.9	**6.18**	**6.06**

06/19/00

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000-05 Avg	2000-10 Avg
Corporate profit Share (w/IVA & CCAdj)														
MSR	Apr-00	9.4	8.7	8.7	8.5	8.3	8.2	8.2	8.1	7.9	7.8	7.6	**8.64**	**8.32**
FY2001 Budget	Nov-99	9.2	8.8	8.5	8.2	8.3	8.3	8.2	8.1	8.0	7.8	7.6	**8.56**	**8.29**
CBO	Jan-00	9.3	9.2	9.0	8.8	8.6	8.5	8.4	8.3	8.2	8.1	8.0	**8.90**	**8.58**
Blue Chip	Jun-00/Mar-00	9.8	9.6	9.5	9.4	9.6	9.6	9.7	9.7	9.7	9.8	9.8	**9.60**	**9.66**
Book profits before tax														
MSR	Apr-00	8.9	8.2	8.2	8.1	7.9	7.9	7.8	7.7	7.5	7.4	7.2	**8.21**	**7.89**
FY2001 Budget	Nov-99	8.7	8.2	7.8	7.4	7.3	7.3	7.3	7.2	7.1	7.0	6.9	**7.78**	**7.46**
CBO	Jan-00	8.6	8.2	7.8	7.6	7.4	7.3	7.3	7.3	7.2	7.2	7.1	**7.82**	**7.55**
Wage & Salary Disbursement Share														
MSR	Apr-00	48.2	48.4	48.2	48.1	48.0	47.9	47.8	47.8	47.8	47.8	47.7	**48.12**	**47.96**
FY2001 Budget	Nov-99	48.6	48.7	48.6	48.5	48.3	48.1	48.1	47.9	47.8	47.6	47.5	**48.48**	**48.16**
CBO	Jan-00	48.8	48.8	48.9	48.9	48.9	48.9	48.9	48.8	48.8	48.8	48.8	**48.87**	**48.85**
Non-Wage Personal Income														
MSR	Apr-00	22.5	21.9	21.3	21.0	20.6	20.3	20.0	19.8	19.5	19.3	19.0	**21.25**	**20.46**
FY2001 Budget	Nov-99	22.3	22.0	21.6	21.2	20.9	20.6	20.3	20.1	19.8	19.7	19.5	**21.42**	**20.72**
CBO	Jan-00	22.6	22.3	21.9	21.5	21.2	20.9	20.6	20.4	20.1	19.8	19.6	**21.73**	**20.99**
Taxable Income Share														
MSR	Apr-00	79.4	78.5	77.8	77.2	76.5	76.0	75.7	75.2	74.8	74.4	73.9	**77.57**	**76.31**
FY2001 Budget	Nov-99	79.6	78.8	78.0	77.2	76.5	76.0	75.6	75.2	74.7	74.3	73.8	**77.69**	**76.34**
CBO	Jan-00	80.0	79.3	78.6	78.0	77.5	77.1	76.8	76.5	76.1	75.8	75.5	**78.42**	**77.38**

~~Section Heads~~

3:30 what we have

Min wage

Democrats suggest $1.50 increase

Krueger ⇒ employment effects

($1 ok)

At 11:00 meeting ⇒ chart on where we stand

[real min wage over time]

→ bring out Chart

⇒ [What proportion in ~~Min w~~ binding range]

below $5.15

5.15-5.64

5.65-6.14

Diane

Min wage

Lisa Stewart

Bill Rogers 693-6004

(MLR)

Lisa Stuart

Fax - chart

dist centered on $6.15 ✓ demographic

and then

hourly rates ✓

industry

occupation

→ [hourly rate] ✓

↳ year average

tight last year too

↳ relatively current

low wages

↓

hourly average over last

6 mos .3-.4% / mos increase

3.6% for 6 mos to Jun

3 month moving up a little

so .4 .3

Table A-32. Distribution of wage and salary workers paid hourly rates, by selected characteristics, annual averages 1999

(Numbers in thousands) — Continued

Characteristic	Total paid hourly rates	Less than $4.25	$4.25	$4.26 to $5.14	$4.75	$5.00	$5.15	$5.16 to $5.64	$5.65 to $6.14	$6.15 to $6.64	$6.65 to $7.14	$7.15 or more
FULL- AND PART-TIME STATUS AND SEX												
Full-time workers												
Total, 16 years and over	54,931	494	22	432	13	354	872	1,185	2,090	1,942	3,359	44,120
Men	30,582	168	12	202	5	161	169	468	1,352	828	1,535	25,847
Women	24,349	325	10	230	8	193	203	727	1,644	1,113	1,824	18,273
Part-time workers												
Total, 16 years and over	17,227	550	34	854	12	563	772	2,006	2,735	1,431	1,617	7,429
Men	5,410	119	15	249	6	207	276	757	1,045	454	579	1,921
Women	11,817	431	19	405	6	356	496	1,248	1,690	976	1,044	5,508
FAMILY RELATIONSHIP												
Husbands	17,609	74	6	89	1	71	79	190	562	317	673	15,598
Wives	16,896	233	4	191	6	165	198	522	1,101	775	1,187	12,785
Women who maintain families	5,395	116	4	77	3	68	93	261	501	357	450	3,535
Men who maintain families	1,815	6	1	24	1	21	20	43	108	56	111	1,446
Other persons in families:												
Men	8,642	117	14	247	6	205	250	783	1,254	651	858	4,469
Women	7,204	222	17	275	5	246	288	896	1,180	635	770	2,921
All other men [1]	8,007	91	6	93	3	71	97	209	460	262	477	6,811
All other women [1]	6,638	186	4	94	>0	78	122	800	557	326	466	4,584

[1] The majority of these persons are living alone or with a non-relative.
>0 Value too small to display.

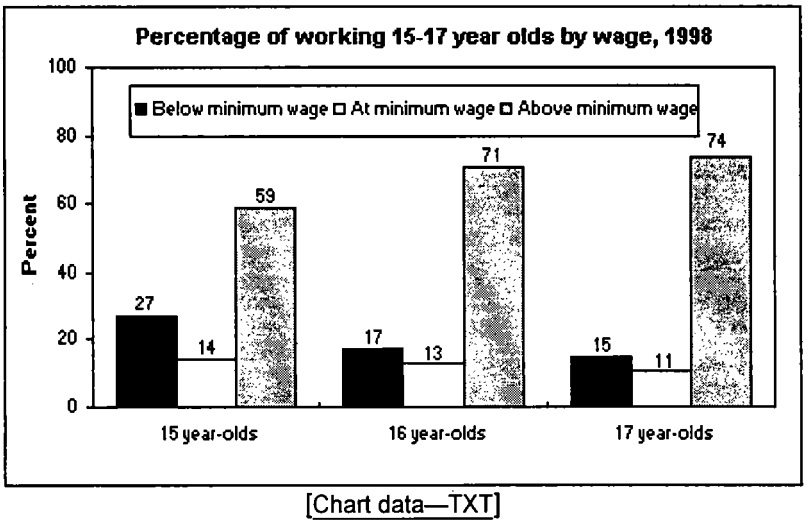
NOTE: Data exclude the incorporated self employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- 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.

Originally Published August 23, 2000

Majority of working 15- to 17-year olds earn above minimum wage

Of the working 15-, 16-, and 17-year olds in 1998, a majority earned in excess of the minimum wage.



[Chart data—TXT]

In 1998, median earnings of 15- to 17-year-olds combined were $5.57 per hour. Earnings increased with age: 15-year-olds earned a median of $5.38 per hour, 16-year-olds earned $5.52, and 17-year-olds earned $5.65 per hour.

Even among 15-year-olds, 59 percent of young workers earned more than the 1998 minimum wage of $5.15. A quarter earned less than the minimum wage, as some occupations—including many food service jobs—are exempt from the minimum wage or may pay a training wage for a specified period. The proportion of employed youths that earned more than the minimum wage increased to 71 percent of 16-year olds and to three-quarters of those aged 17.

Data on how much youth earn are a product of the Current Population Survey program. Additional information is available from Chapter 4 of the Report on the Youth Labor Force.

The Bureau of Labor Statistics is an agency within the U.S. Department of Labor.

Minimum Wage Alternatives

and the delegation of decision-making to the shop floor, such as off-line problem-solving teams or self-directed work teams, indicates how line employees are performing functions that used to be retained as management prerogative.] [A survey of manufacturing establishments found that the percent of establishments having at least one employee involvement practice (defined as quality circles, job rotation, teams or TQM) rose from 65% in 1992 to 85% in 1997, and the use of multiple practices rose from 37% to 71%.][77] [As employees take on more responsibility, and are involved in more complex production processes, a premium is placed on skills and cognitive ability.] [Thus, firms are involved in more extensive screening of prospective employees and continuing education and training of employees.] [Another means of improving the employees' understanding of the process, and thus how to solve problems and improve productivity, is the implementation of job rotation.]

[Much of this shift in decision-making authority to production workers began in the 1980s.] ~~prior to the surge of investment in IT~~. [In the 1980s, the high performance of Japanese manufacturing, and the import threat to the US, caused many firms to experiment with or adopt "Japanese-like" practices.] ~~However, these practices have become especially valuable as firms have made large investments in IT that complement the HR investments~~.

~~The second major complementary practice is the changes compensation practices to introduce much greater levels of performance based pay.~~ [There are numerous forms of these incentive pay schemes—from production-based pay, profit-sharing, or stock option plans—that are being implemented to improve the motivation of the employees. A 1998-1999 compensation

[77] Osterman, ILRR Jan 2000, pp186-7

Table 6. ECONOMIC ASSUMPTIONS [1]

(Calendar years; dollar amounts in billions)

	Actual 1999	Projections										
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross Domestic Product (GDP):												
Levels, dollar amounts in billions:												
Current dollars	9,256	9,886	10,407	10,946	11,494	12,065	12,660	13,283	13,942	14,624	15,335	16,079
Real, chained (1996) dollars	8,848	9,272	9,573	9,873	10,166	10,461	10,760	11,068	11,389	11,712	12,040	12,377
Chained price index (1996 = 100), annual average	104.6	106.6	108.7	110.8	113.0	115.3	117.6	120.0	122.4	124.8	127.3	129.9
Percent change, fourth quarter over fourth quarter:												
Current dollars	6.3	6.0	5.3	5.1	4.9	5.0	4.9	5.0	5.0	4.9	4.9	4.8
Real, chained (1996) dollars	4.6	3.9	3.2	3.1	2.9	2.9	2.8	2.9	2.9	2.8	2.8	2.8
Chained price index (1996 = 100)	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Percent change, year over year:												
Current dollars	5.7	6.8	5.3	5.2	5.0	5.0	4.9	4.9	5.0	4.9	4.9	4.9
Real, chained (1996) dollars	4.2	4.8	3.2	3.1	3.0	2.9	2.9	2.9	2.9	2.8	2.8	2.8
Chained price index (1996 = 100)	1.4	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Incomes, billions of current dollars:												
Corporate profits before tax	848	880	858	903	932	957	995	1,036	1,068	1,096	1,128	1,160
Wages and salaries	4,472	4,761	5,034	5,277	5,529	5,791	6,060	6,353	6,663	6,990	7,326	7,669
Other taxable income [2]	2,100	2,222	2,274	2,337	2,409	2,485	2,569	2,662	2,756	2,852	2,952	3,055
Consumer Price Index (all urban): [3]												
Level (1982–84 = 100), annual average	166.7	172.1	176.5	181.0	185.7	190.6	195.5	200.6	205.8	211.2	216.7	222.3
Percent change, fourth quarter over fourth quarter	2.6	3.2	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Percent change, year over year	2.2	3.3	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Unemployment rate, civilian, percent:												
Fourth quarter level	4.1	4.1	4.2	4.4	4.6	4.8	4.9	5.1	5.1	5.1	5.1	5.1
Annual average	4.2	4.1	4.1	4.3	4.5	4.7	4.8	5.0	5.1	5.1	5.1	5.1
Federal pay raises, January, percent:												
Military [4]	3.6	4.8	3.7	3.7	3.2	3.2	3.2	NA	NA	NA	NA	NA
Civilian [5]	3.6	4.8	3.7	3.7	3.2	3.2	3.2	NA	NA	NA	NA	NA
Interest rates, percent:												
91-day Treasury bills [6]	4.7	5.8	6.2	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
10-year Treasury notes	5.6	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3

[1] Based on information available as of late April 2000.
[2] Rent, interest, dividend and proprietor's components of personal income.
[3] Seasonally adjusted CPI for all urban consumers.
[4] Percentages apply to basic pay only; adjustments for housing and subsistence allowances will be determined by the Secretary of Defense.
[5] Overall average increase, including locality pay adjustments.
[6] Average rate (bank discount basis) on new issues within period.

Source: page 13 of *Budget of the United States Government: Mid-Session Review, Fiscal Year 2000,*
Office of Management and Budget
Washington, DC 20503

Available on the Web at:
www.access.gpo.gov/usbudget/fy2001/pdf/msr.pdf

The Effects of Minimum Wages Throughout the Wage Distribution
David Neumark, Mark Schweitzer, and William Wascher
NBER Working Paper No. 7519
February 2000
JEL No. J18, I3, J23, D31

ABSTRACT

This paper provides evidence on a wide set of margins along which labor markets can adjust in response to increases in the minimum wage, including wages, hours, employment, and ultimately labor income, representing the central margins of adjustment that impact the economic well-being of workers potentially affected by minimum wage increases. The evidence indicates that workers initially earning near the minimum wage are adversely affected by minimum wage increases, while, not surprisingly, higher-wage workers are little affected. Although wages of low-wage workers increase , their hours and employment decline, and the combined effect of these changes is a decline in earned income.

We also delve into the political economy of minimum wages, attempting to understand the vigorous support of labor unions for minimum wage increases. Using the same empirical framework, we find that relatively low-wage union members gain at the expense of the lowest-wage nonunion workers when minimum wages increase.

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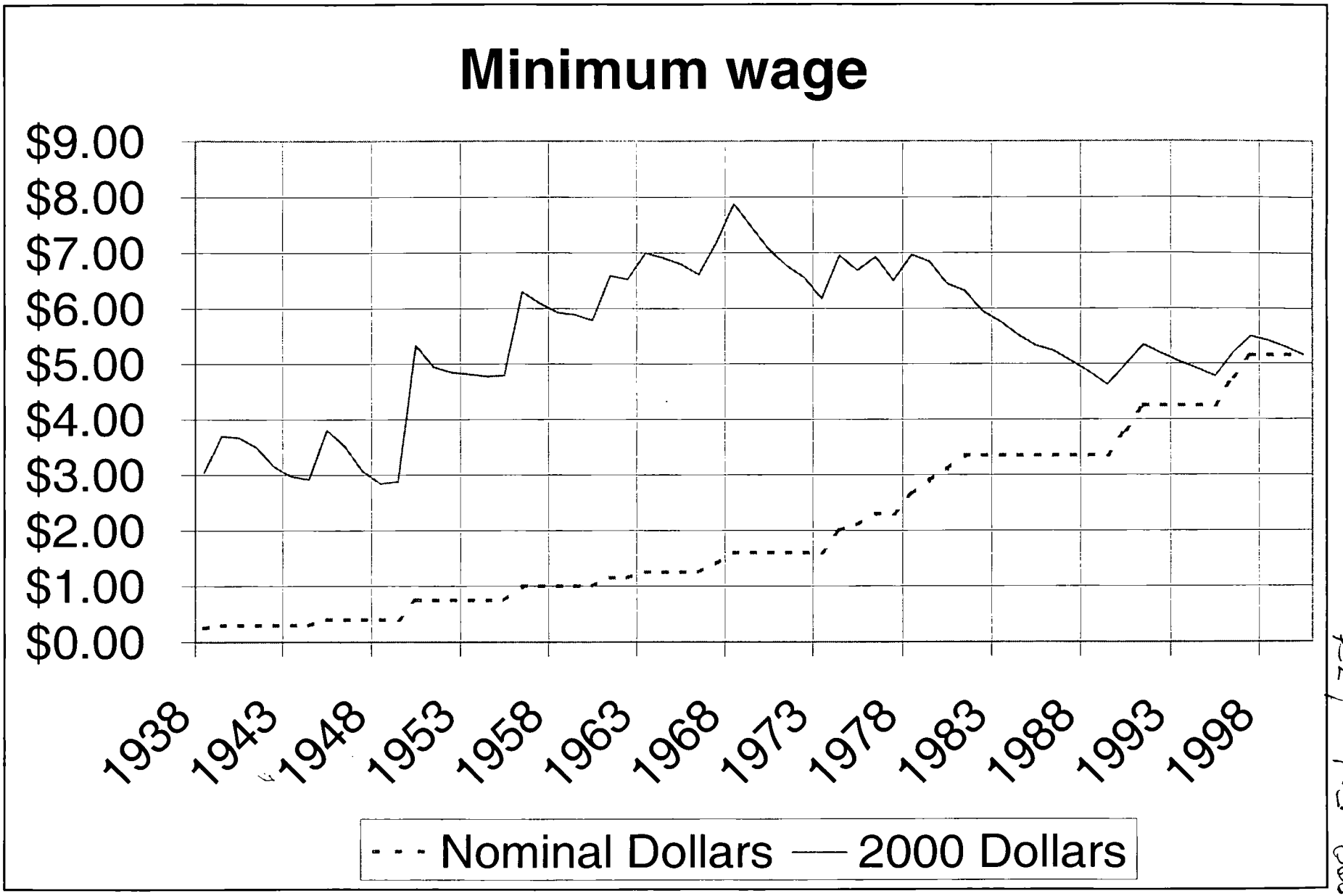

2000 50¢ 75¢
2001 50¢ 75¢

Value of The Federal Minimum Wage, 1938-2000

The table belowis a representation of the minimum wage over the last 43 years in 1997 dollars adjusted for inflation using the CPI-U

The shaded blocks on the chart below represent years in which the Fair Labor Standards Act was amended to raise the minimum wage.

The table below shows the actual minimum wage (Nominal Dollars) and the relative value of the minimum wage (1998 Dollars). The bolded rows represent years in which the Fair Labor Standards Act was amended to raise the minimum wage.

	Value of the Minimum Wage		Value of the Average Hourly		Minimum Projection 1		Minimum Projection 2	
Year	Minimum Wage, Nominal Dollars	Minimum Wage, 2000 Dollars	Average Hourly Wage, Nominal Dollars	Average Hourly Wage, 2000 Dollars	$1 increase, Nominal Dollars	$1 increase, 2000 Dollars	$1.50 increase, Nominal Dollars	$1.50 increase, 2000 Dollars
1964	1.25	6.91	2.36	13.04				
1965	1.25	6.80	2.46	13.38				
1966	**1.25**	**6.61**	2.56	13.53				
1967	1.40	7.18	2.68	13.75				
1968	1.60	7.88	2.85	14.03				
1969	1.60	7.47	3.04	14.19				
1970	1.60	7.06	3.23	14.26				
1971	1.60	6.77	3.45	14.59				
1972	1.60	6.56	3.70	15.16				
1973	1.60	6.17	3.94	15.20				
1974	**2.00**	**6.95**	4.24	14.73				
1975	2.10	6.69	4.53	14.42				
1976	2.30	6.92	4.86	14.63				
1977	2.30	6.50	5.25	14.84				
1978	**2.65**	**6.96**	5.69	14.95				
1979	2.90	6.84	6.16	14.53				
1980	3.10	6.44	6.66	13.85				
1981	3.35	6.31	7.25	13.66				
1982	3.35	5.95	7.68	13.63				
1983	3.35	5.76	8.02	13.79				
1984	3.35	5.52	8.32	13.72				
1985	3.35	5.33	8.57	13.64				
1986	3.35	5.24	8.76	13.69				
1987	3.35	5.05	8.98	13.54				
1988	3.35	4.85	9.28	13.44				
1989	**3.35**	**4.63**	9.66	13.34				
1990	3.80	4.98	10.01	13.12				
1991	4.25	5.35	10.32	12.98				
1992	4.25	5.19	10.57	12.91				
1993	4.25	5.04	10.83	12.84				
1994	4.25	4.91	11.12	12.85				
1995	4.25	4.78	11.43	12.85				
1996	**4.75**	**5.19**	11.82	12.90				
1997	5.15	5.50	12.28	13.11				
1998	5.15	5.41	12.78	13.43				
1999	5.15	5.30	13.24	13.61	5.15	5.30	5.15	5.30
2000			13.68	13.68	5.65	5.65	5.90	5.90
2001					6.15	5.99	6.65	6.48
2002					6.15	5.84	6.65	6.32

Source:
Bureau of Labor Statistics

Rates of return to medical expenses

- depression - mental health
  - ↳ Drugs
  - Proc ↳ Surgery

Minimum wage - alternative youth stuff / history experience
value

CEA estimate of impact of 1-time change of min wage

The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence from Matched CPS Surveys

DAVID NEUMARK
Michigan State University; National Bureau of Economic Research (NBER)
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April 1995
NBER Working Paper No. W5092

Abstract:

The recent debate over minimum wages raises two questions. First, should policy makers no longer believe that minimum wages entail negative consequences for teenagers? Second, should economists discard the competitive labor market model? Our evidence for teenagers, using matched CPS surveys, suggests that the answer to both of these questions is no. We find that although increases in minimum wages have small net effects on overall teen employment rates, such increases raise the probability that more-skilled teenagers leave school and displace lower-skilled workers from their jobs. These findings are consistent with the predictions of a competitive labor market model that recognizes skill differences among workers. In addition, we find that the displaced lower-skilled workers are more likely to end up non-enrolled and non-employed. Thus, despite the small net disemployment effects for teenagers as a group, there are significant enrollment and employment shifts associated with minimum wage changes that should be of concern to policy makers.

JEL Classification: J3,J1

Working Paper Series

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H.R.3174

Employment Security Financing Act of 1999 (Introduced in the House)

SEC. 101. REPEAL OF SURTAX.

Section 3301 of the Internal Revenue Code of 1986 is amended to read as follows:

'SEC. 3301. RATE OF TAX.

'There is hereby imposed on every employer (as defined in section 3306(a)) for each calendar year an excise tax, with respect to having individuals in his employ, equal to--

'(1) 6.2 percent in the case of calendar years 1988 through 1999; or

'(2) 6.0 percent in the case of calendar year 2000 and each calendar year thereafter;

of the total wages (as defined in section 3306(b)) paid by him during the calendar year with respect to employment (as defined in section 3306(c)).

SEC. 102. CONFORMING AMENDMENTS TO SECTION 3304(a).

(a) LIMITATION ON USE OF FUNDS- Paragraph (4) of section 3304(a) of the Internal Revenue Code of 1986 is amended to read as follows:

'(4) all money withdrawn from the unemployment compensation benefit account of the unemployment fund of the State shall be used solely in the payment of unemployment compensation, exclusive of expenses of administration, and for refunds of sums erroneously paid into such fund and refunds paid in accordance with the provisions of section 3305(b); except that--

'(A) an amount equal to the amount of employee payments into the unemployment compensation benefit account of a State may be used in the payment of cash benefits to individuals with respect to their disability, exclusive of expenses of administration;

'(B) the amounts specified by section 903(c)(2) of the Social Security Act may, subject to the conditions prescribed in such section, be used for expenses incurred by the State for administration of its unemployment compensation law and public employment offices;