FOIA Number: 2016-0531-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: Council of Economic Advisers

Series/Staff Member: Brent Boning

Subseries:

OA/ID Number: 21185

FolderID:

Folder Title:
[Minimum Wage] [Folder 2] [3]

Stack:	Row:	Section:	Shelf:	Position:
S	20	3	8	2

CURRENT LABOR MARKET ISSUES

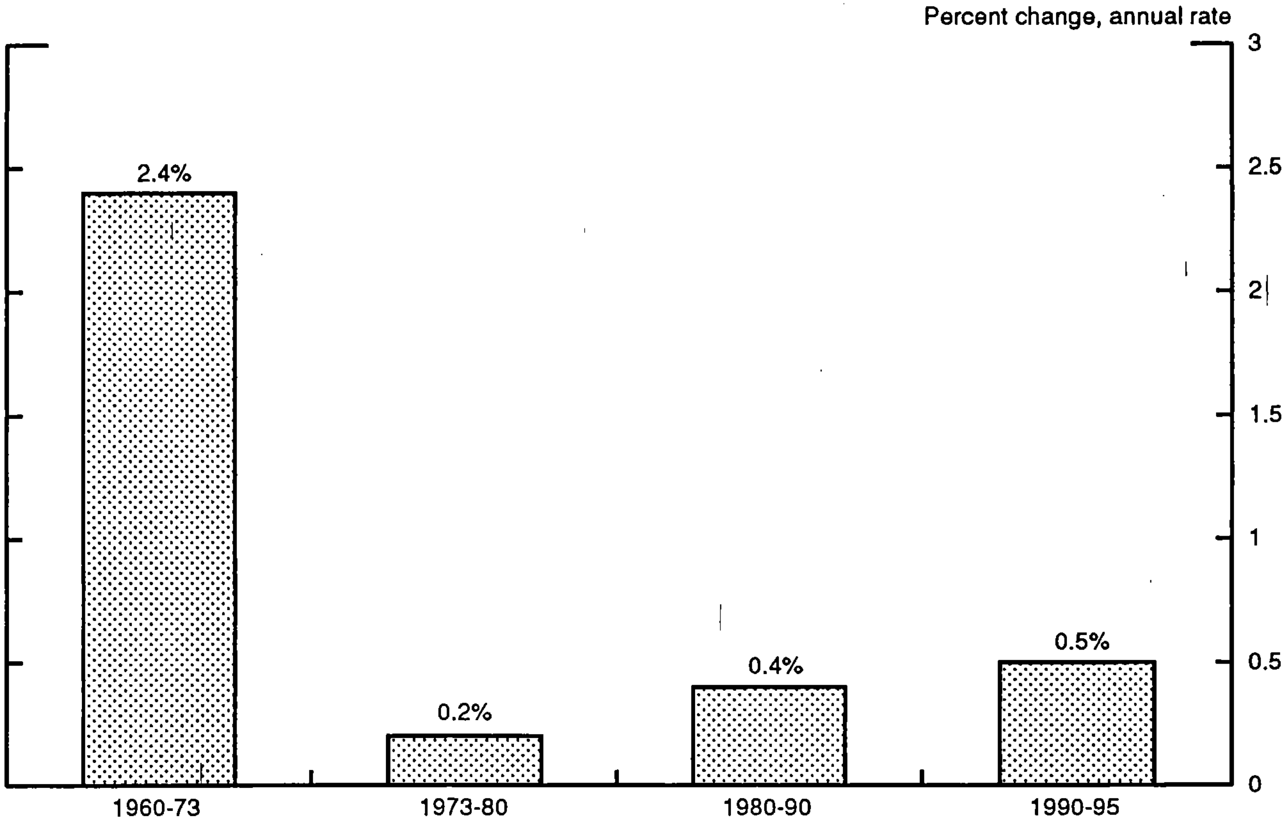
November 14, 1996

Exhibit 1

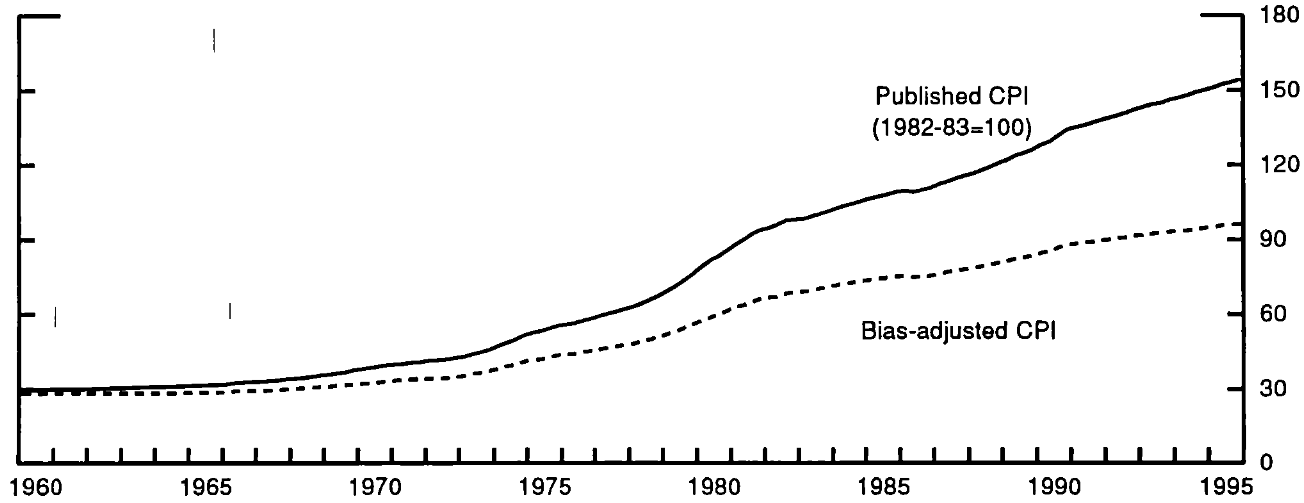
Real Wages Have Been Rising Slowly

Real Hourly Compensation

(Deflated by official CPI)



There is an upward bias in the CPI.



What happens when we correct for these problems?

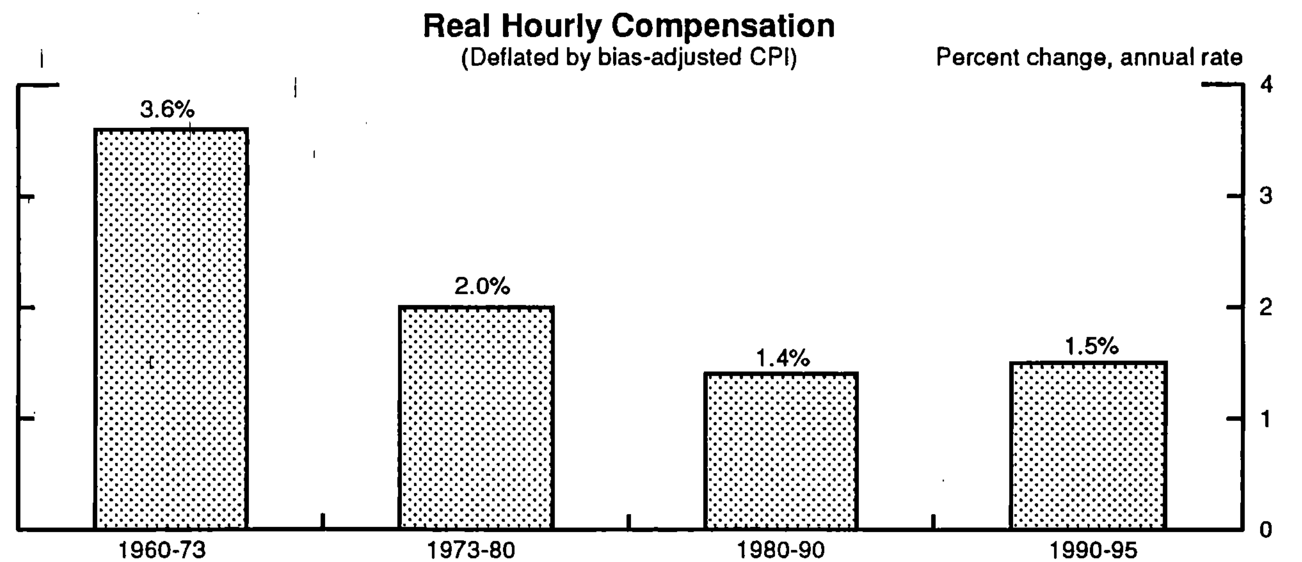
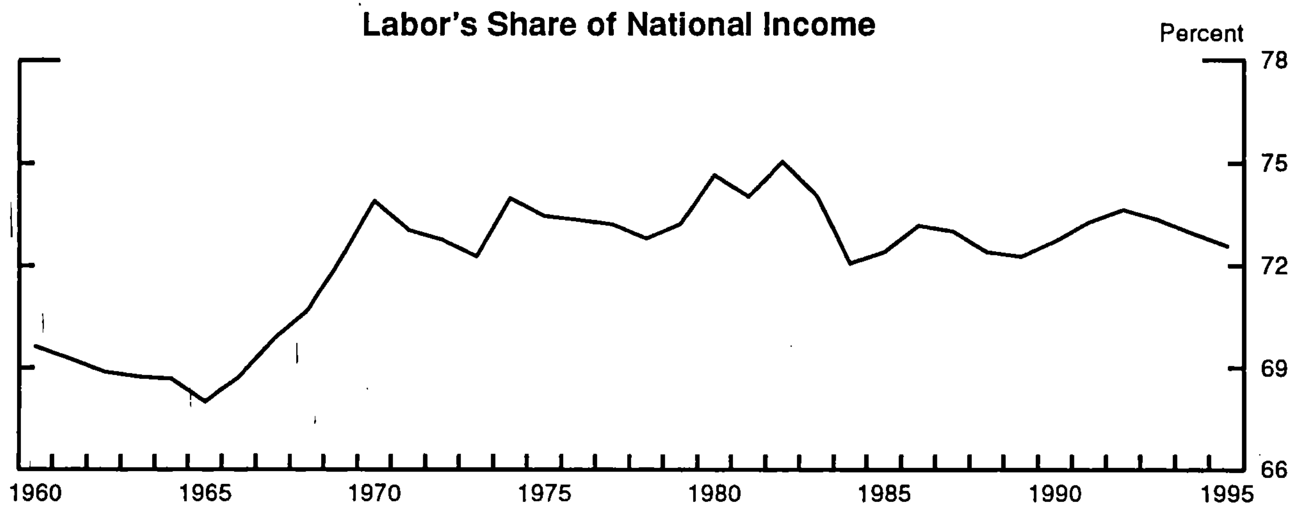


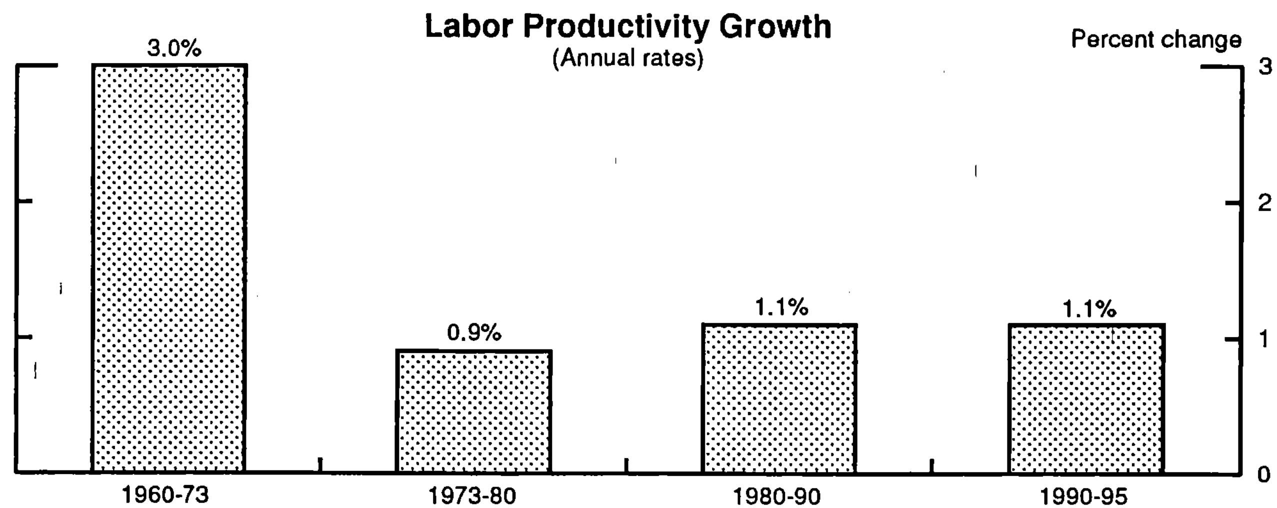
Exhibit 3

Why Has Real Wage Growth Slowed?

It is not that workers are receiving a smaller share of national income.



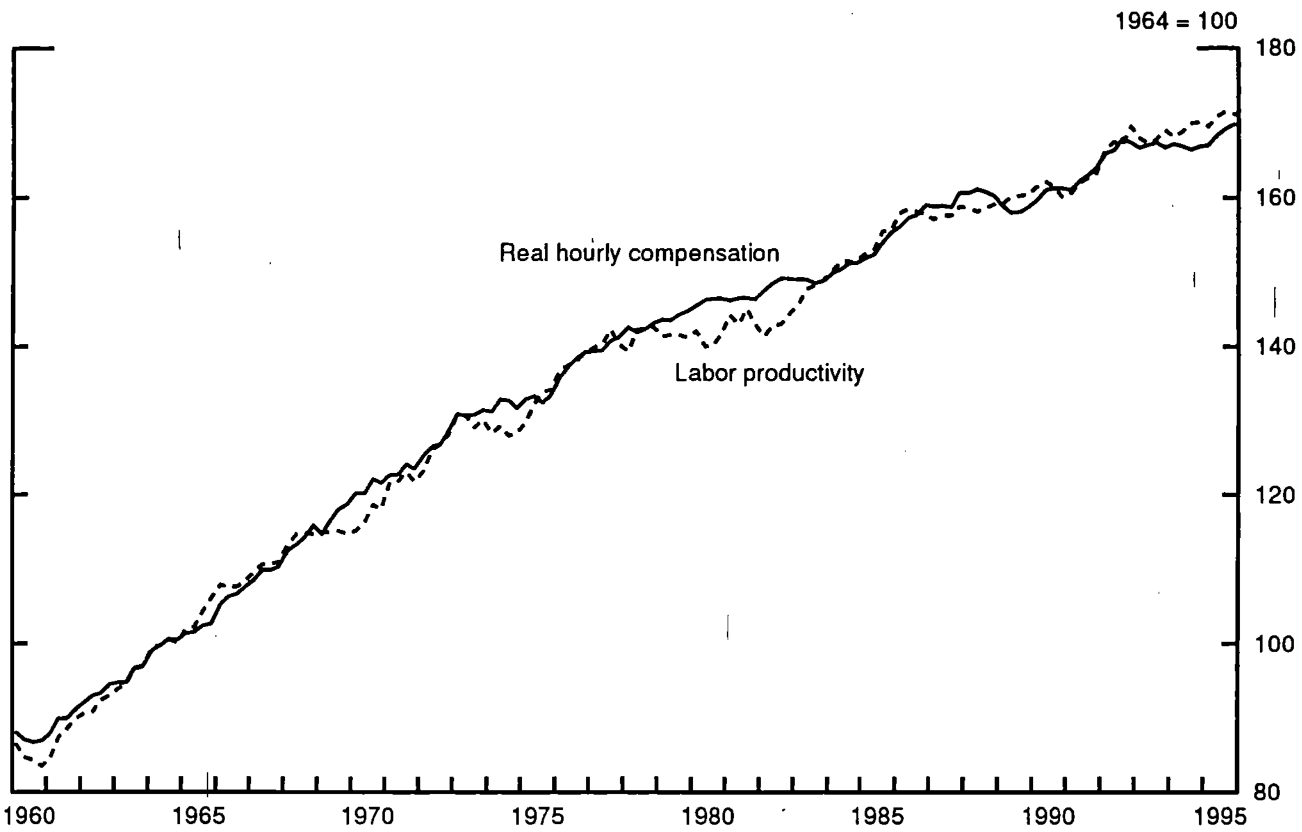
Rather, it appears to be associated with a slowdown in labor productivity growth after 1973.



,it 4

Labor Productivity and Real Wages Have Grown at About the Same Pace

Business Sector

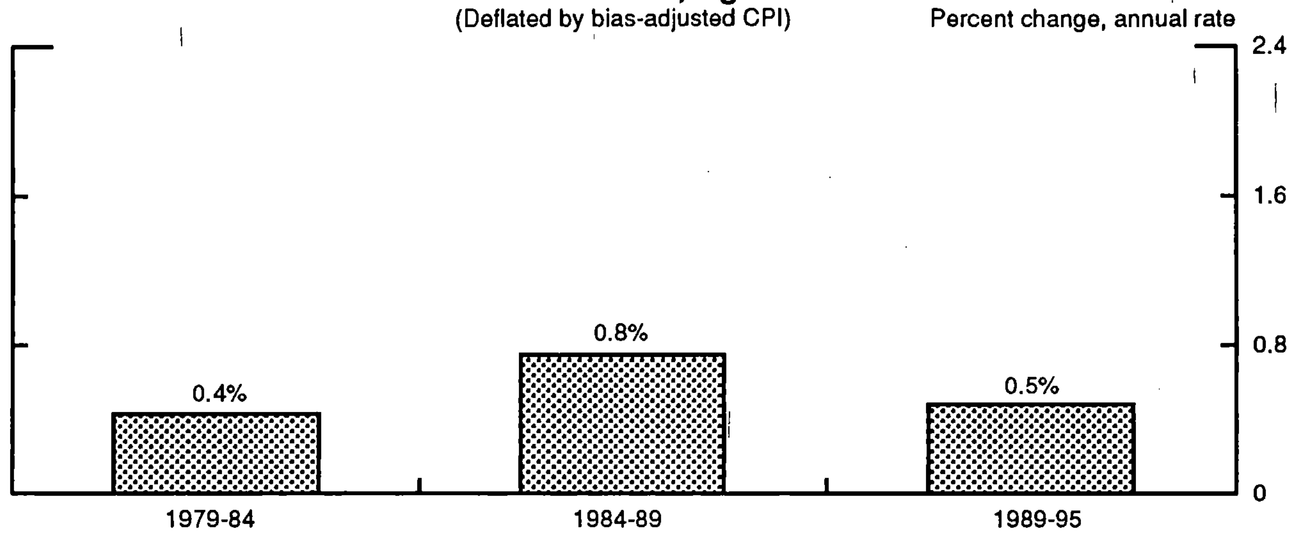


bit 5

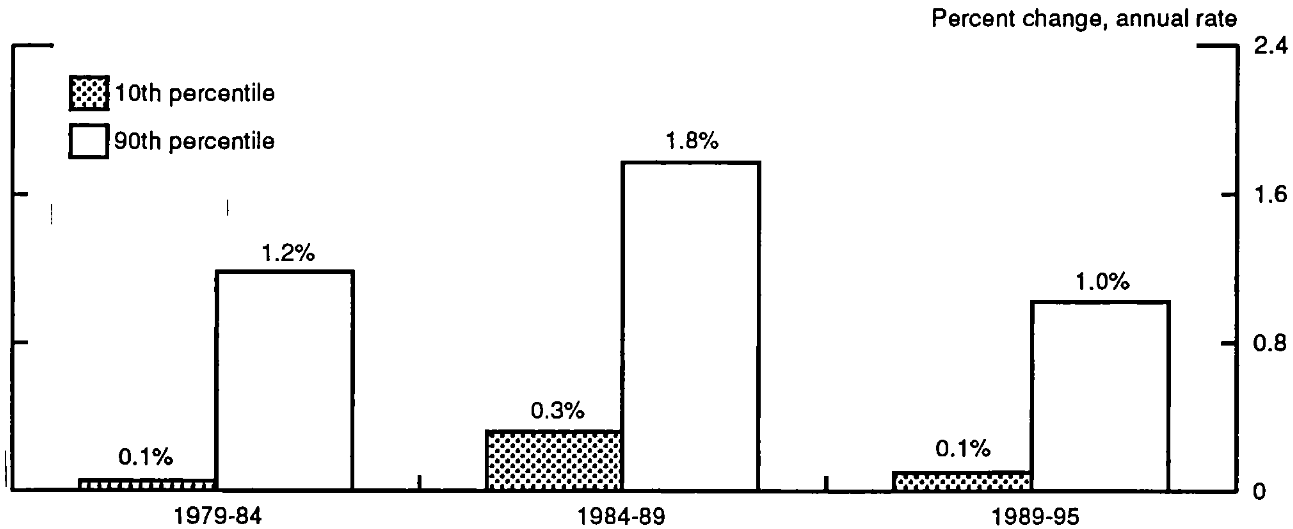
Has Earnings Inequality Increased?

While real earnings, on average, have been rising...

Real Usual Weekly Earnings
Full-time Workers, Aged 25+
(Deflated by bias-adjusted CPI)



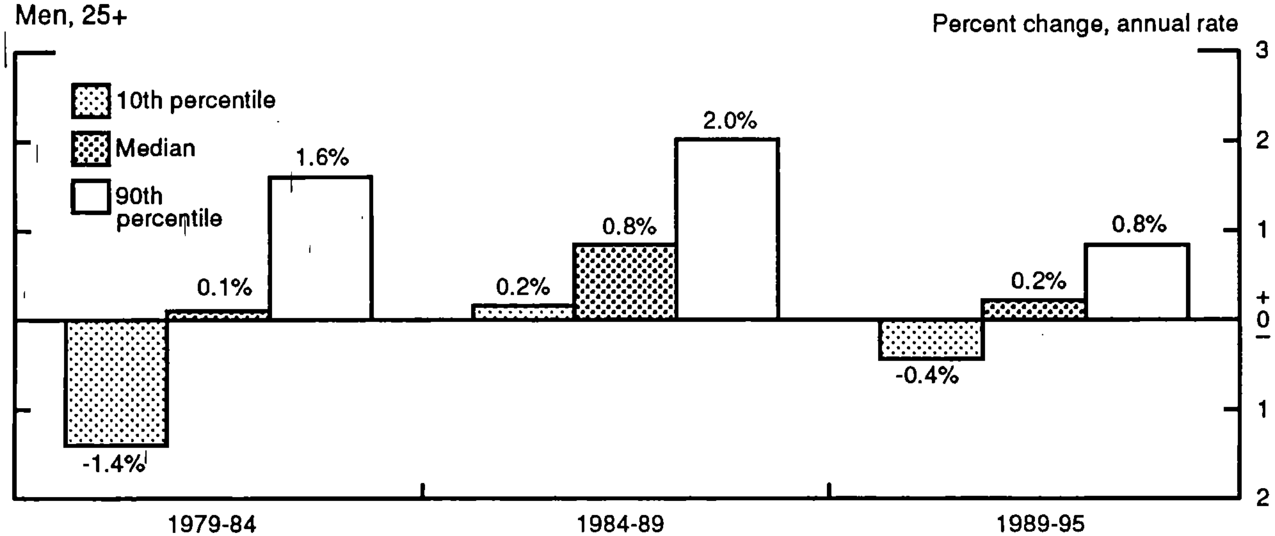
...increases for lower-paid workers have been quite modest, while those for highly paid workers have been substantial.



The Rise in Earnings Inequality Has curred Among Both Men and Women

Low-paid men have experienced declines.

Real Usual Weekly Earnings
(Deflated by bias-adjusted CPI)



Women have seen faster gains.

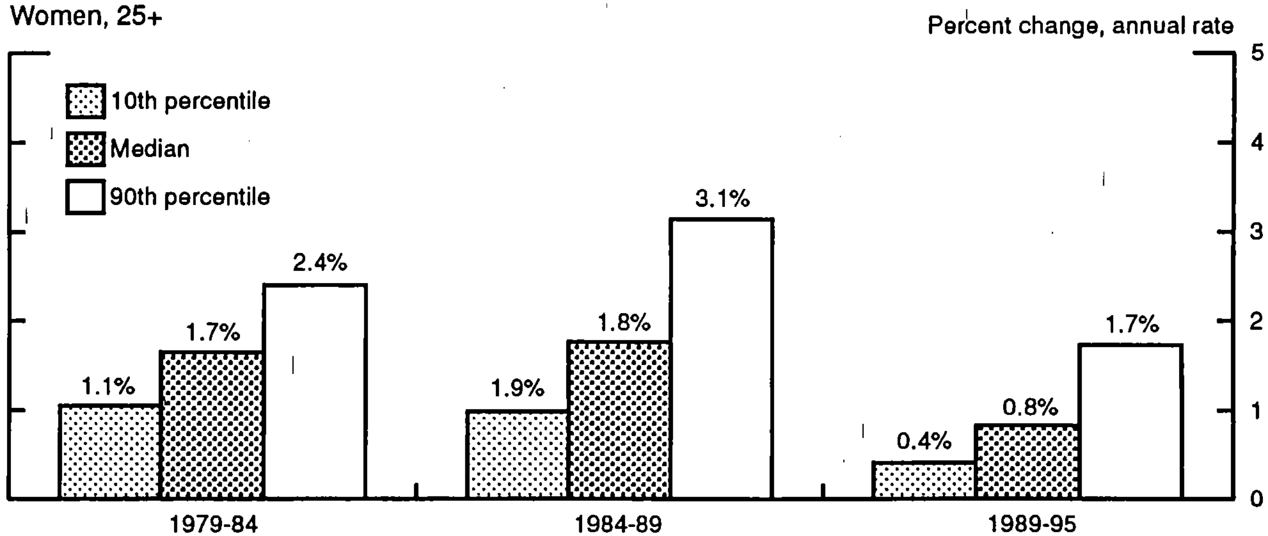
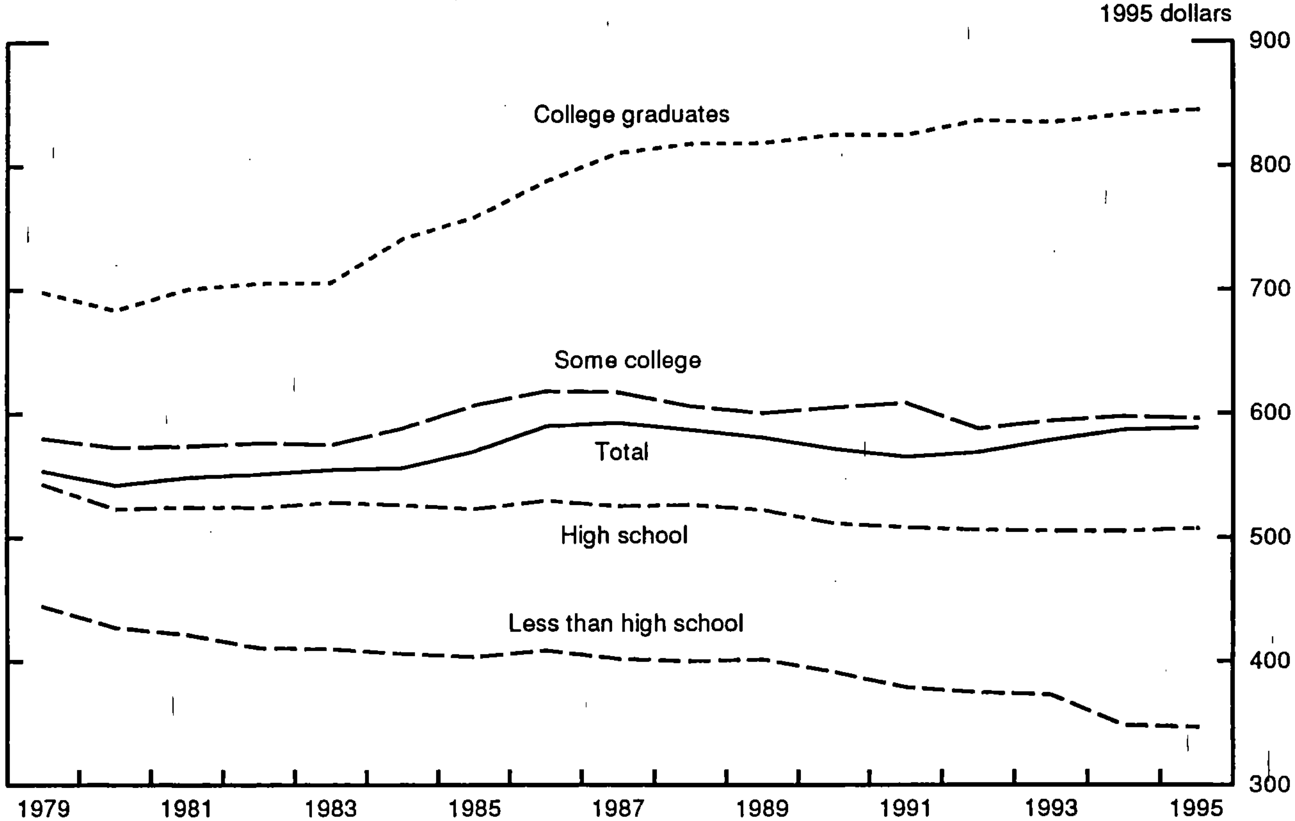


Exhibit 7

The Steady Divergence in Earnings Trends by Education Has Played a Significant Role in the Rise in Earnings Inequality Among Men

Real Usual Weekly Earnings of Men 25+

(Deflated by bias-adjusted CPI)



The Gap Between High Earners and Low Earners Has Also Grown for Men with the Same Level of Education

Ratio of Usual Weekly Earnings at the 90th Percentile to Earnings at the 10th Percentile, Men 25+

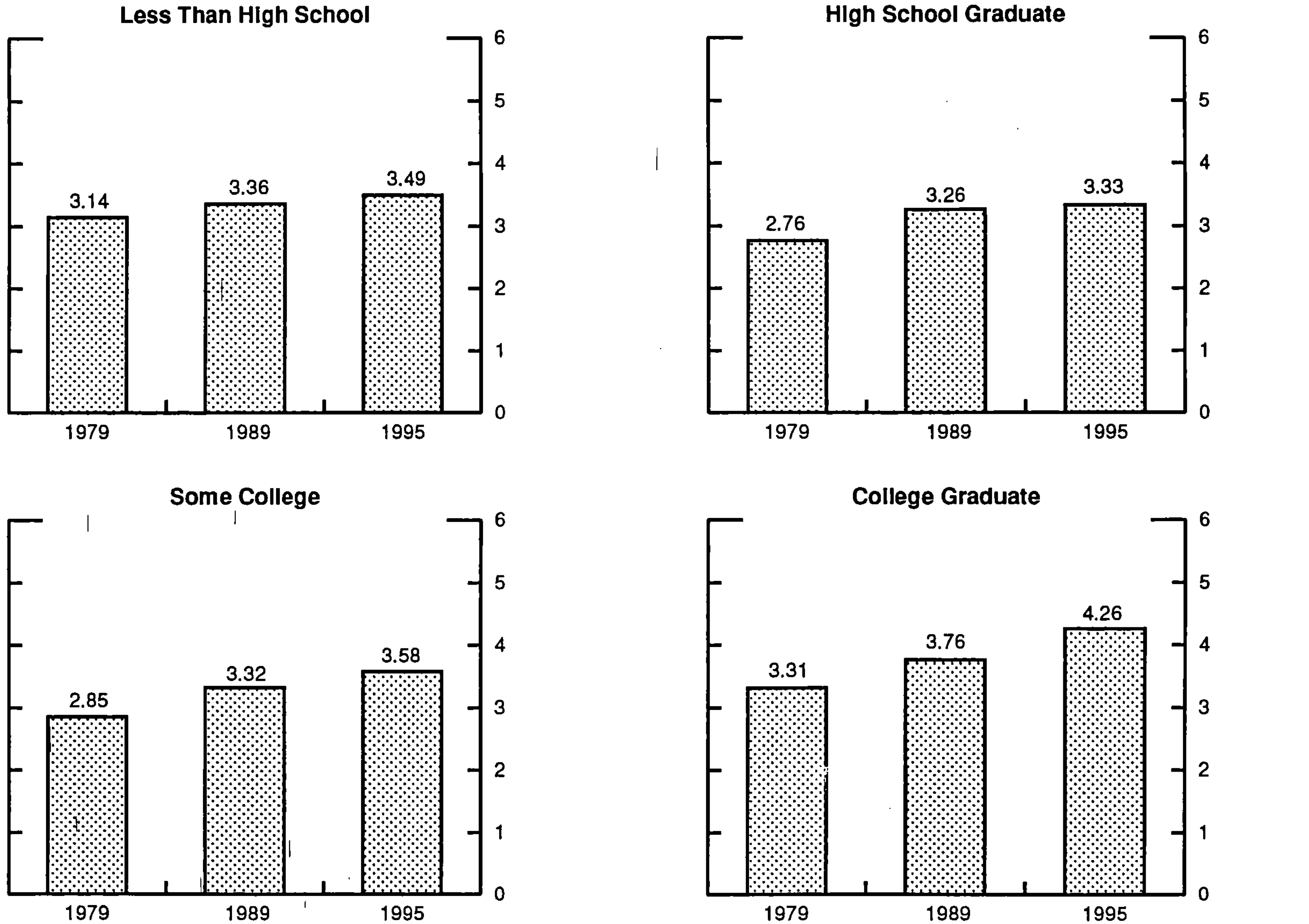
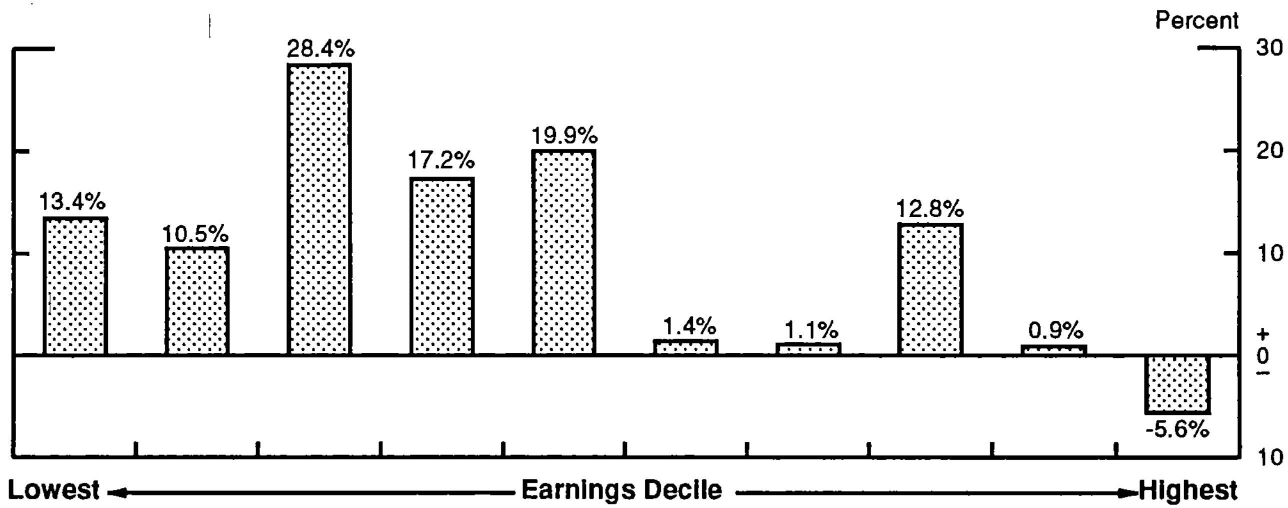


Exhibit 9

Are New Jobs Good Jobs or Bad Jobs?

By industry they look like bad jobs.

Distribution of Employment Change By Industry
(1988-93)



But by occupation they look like good jobs.

Distribution of Employment Change By Occupation
(1988-93)

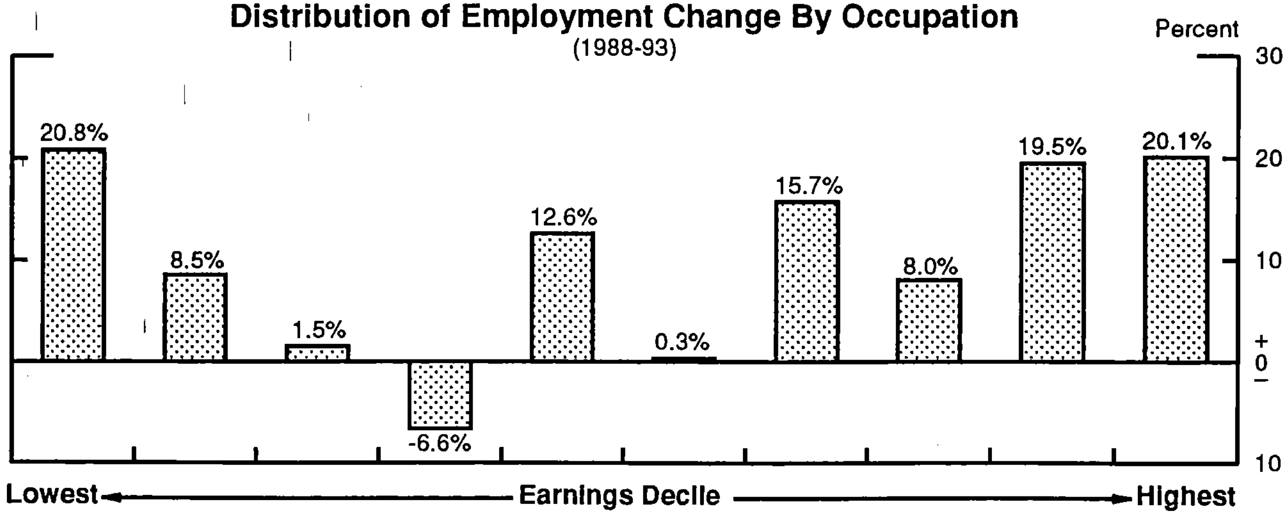
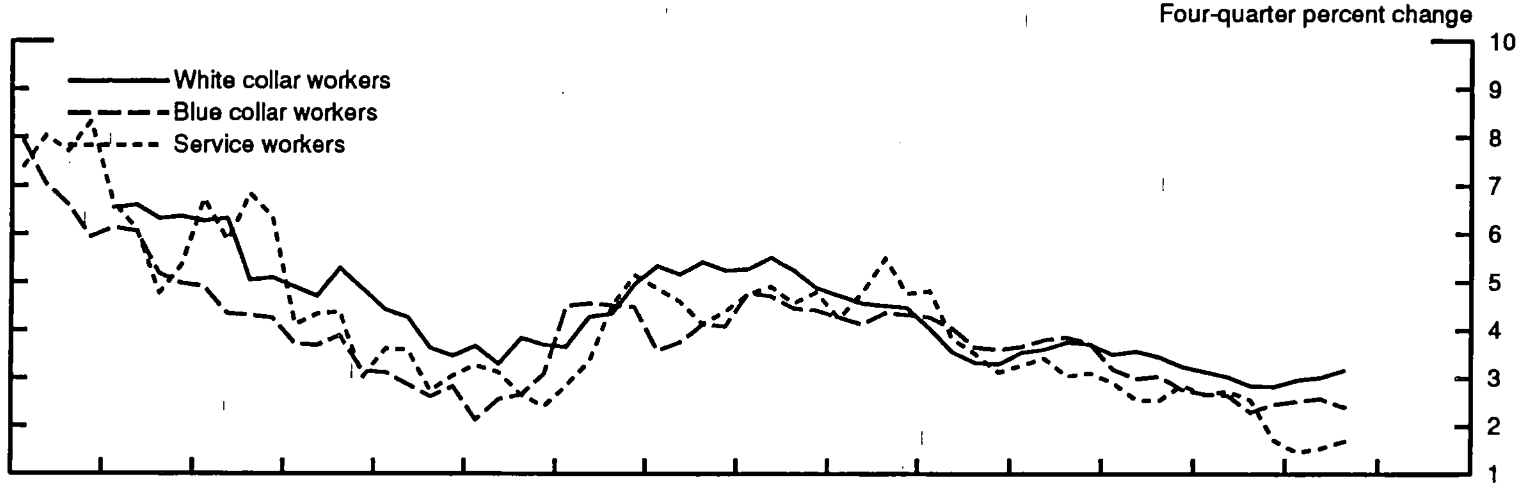


Exhibit 10

- **Overall patterns of wage change for the broad occupational groups have been similar...**

ECI Compensation Per Hour



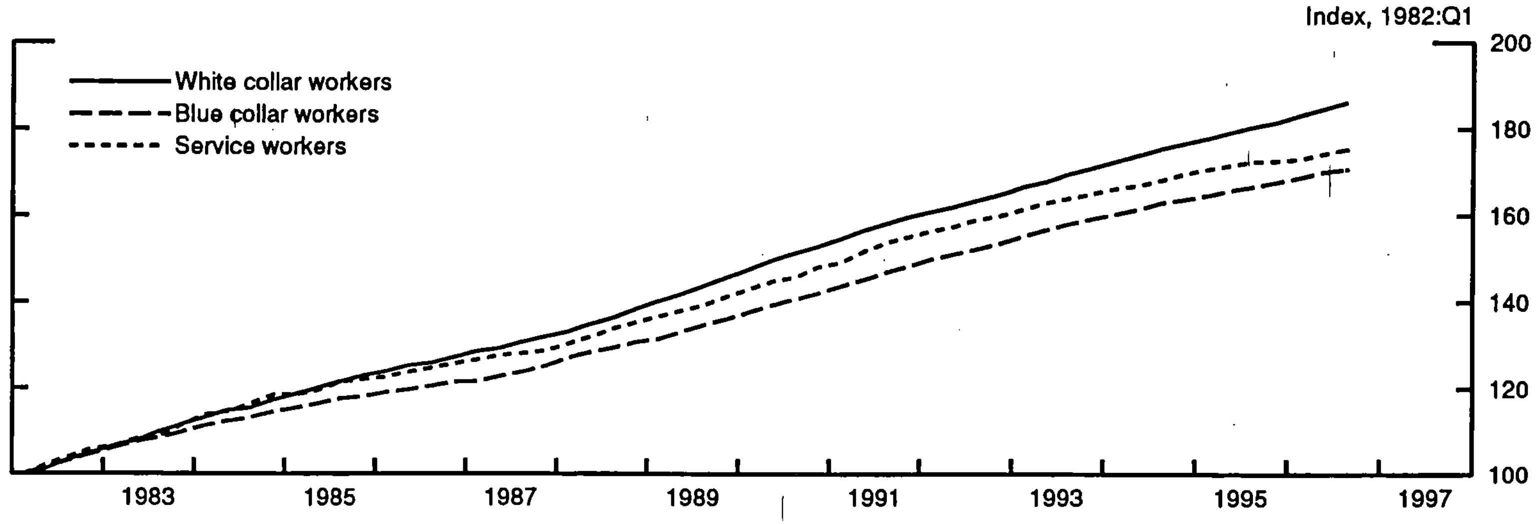


Exhibit 11

- **But wage changes have varied more significantly among different groups of white–collar workers.**

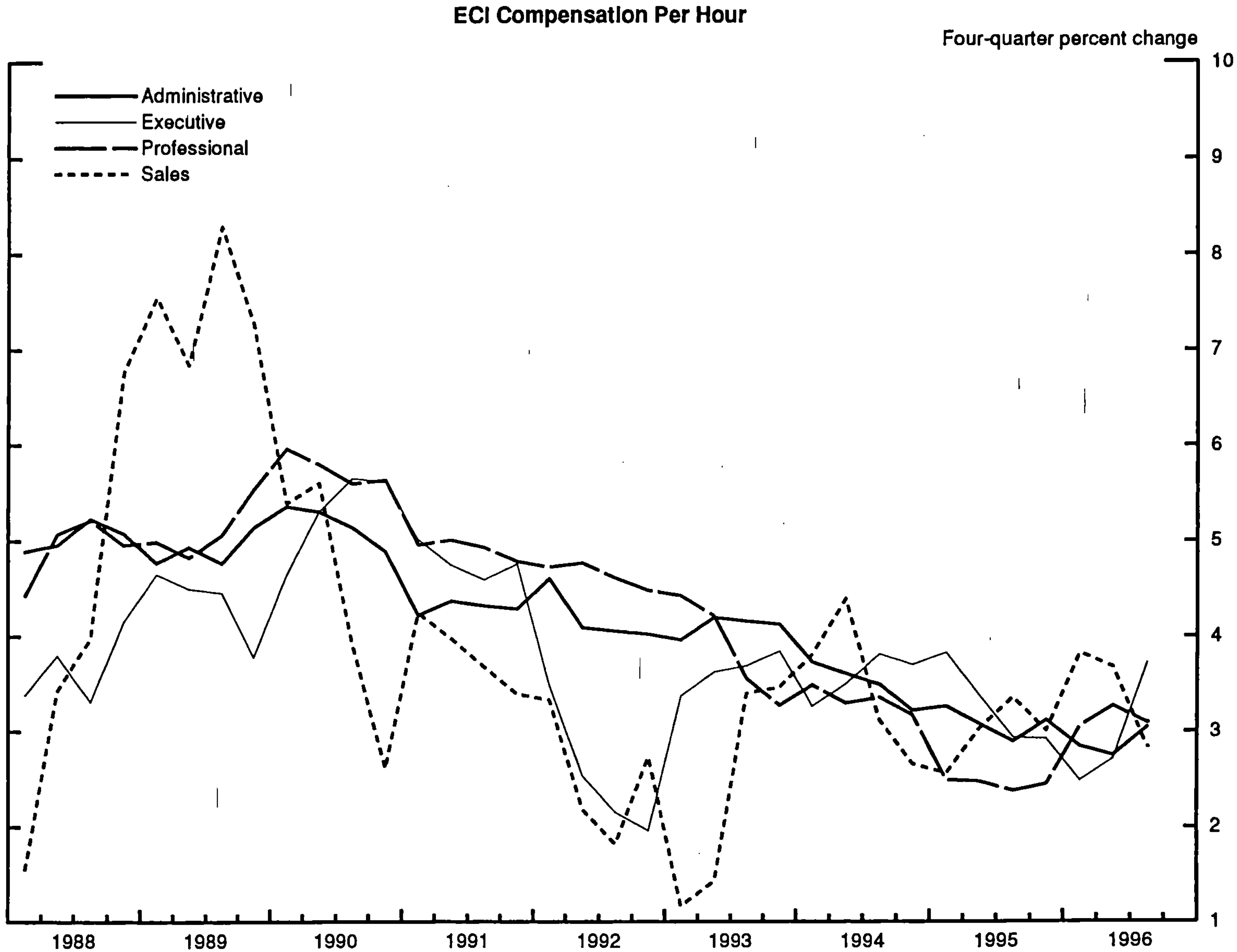
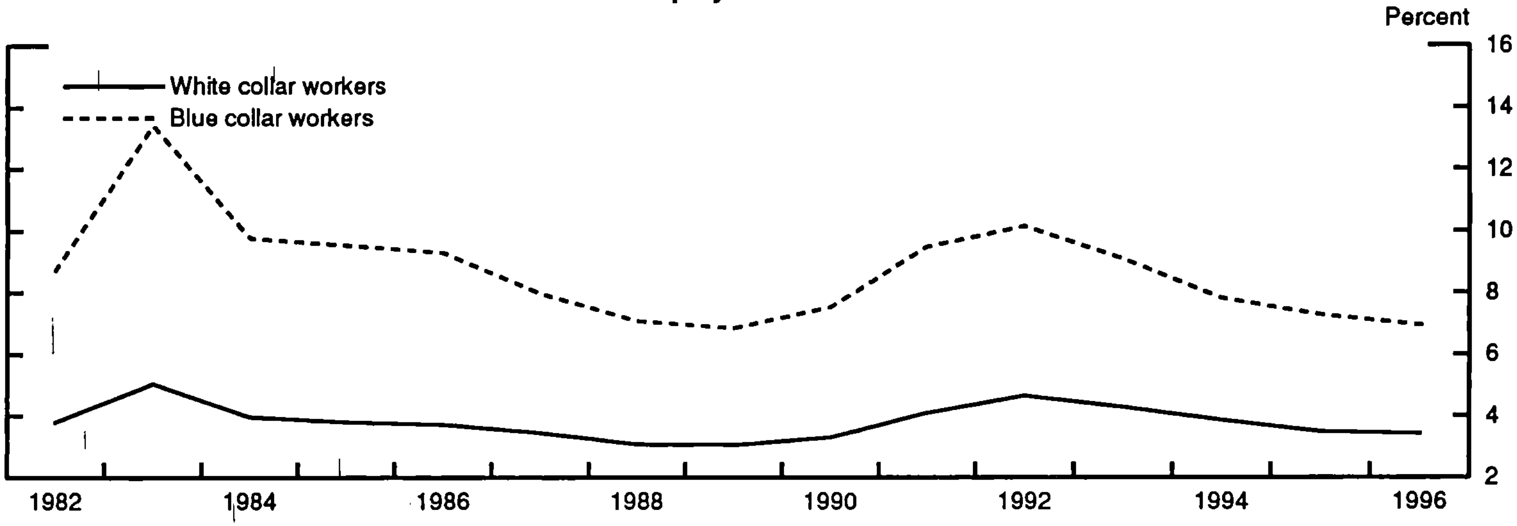


Exhibit 12

- **The gap between the unemployment rates of white–collar and blue–collar workers has narrowed somewhat.**

Unemployment Rates



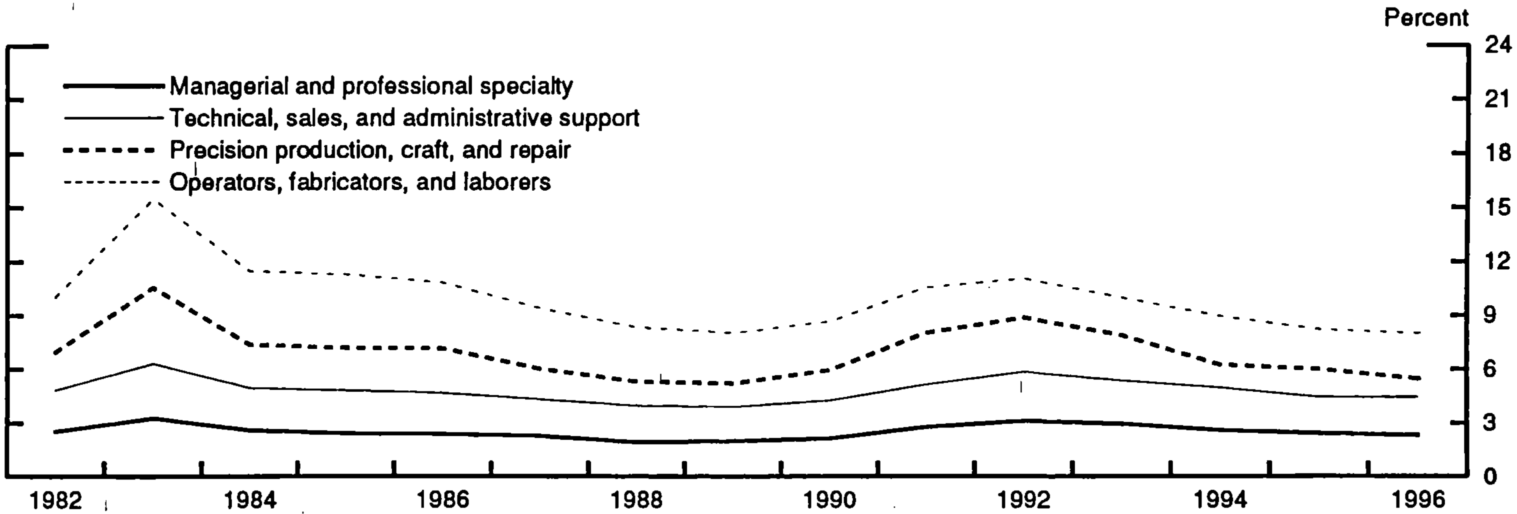
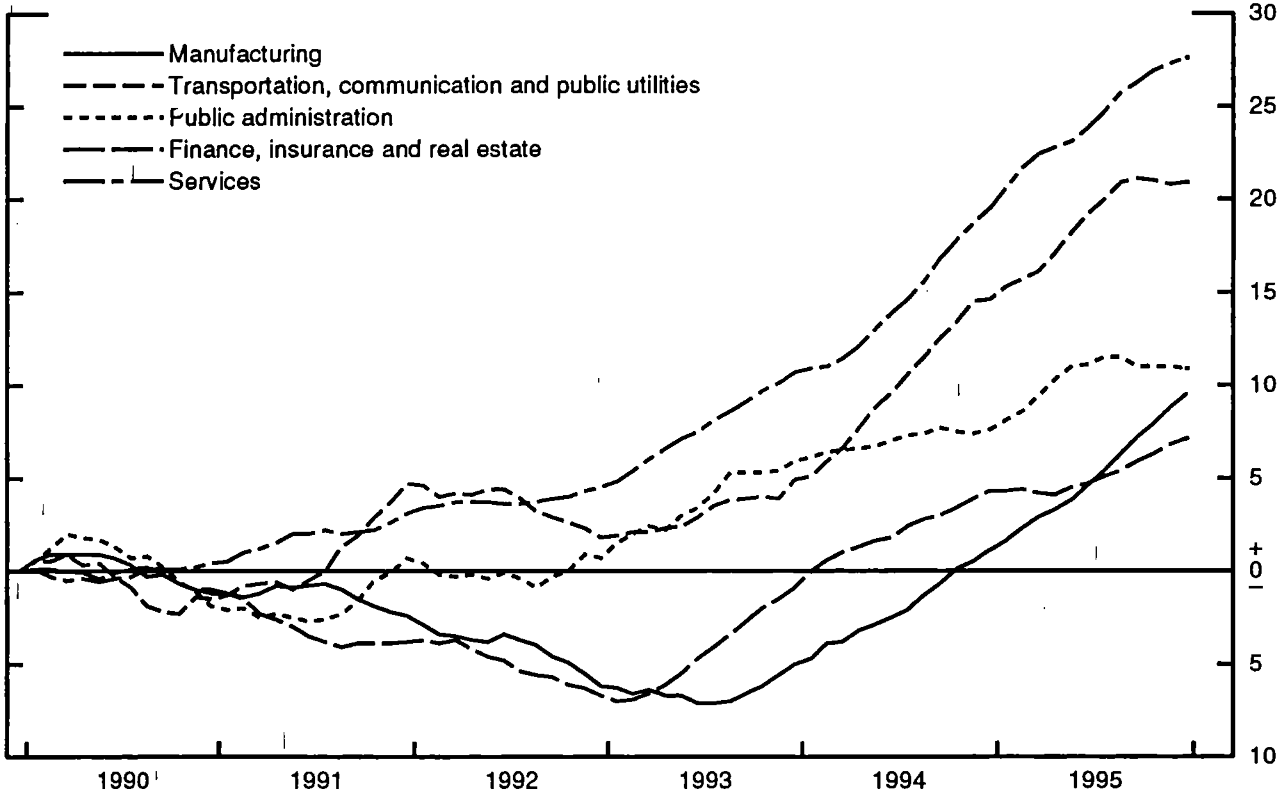


Exhibit 13

Employment trends for highly paid managers varied significantly by industry.

Employment Growth for High-Earnings Managers, 1989-1995[1]

(cumulative percent change from 1989)



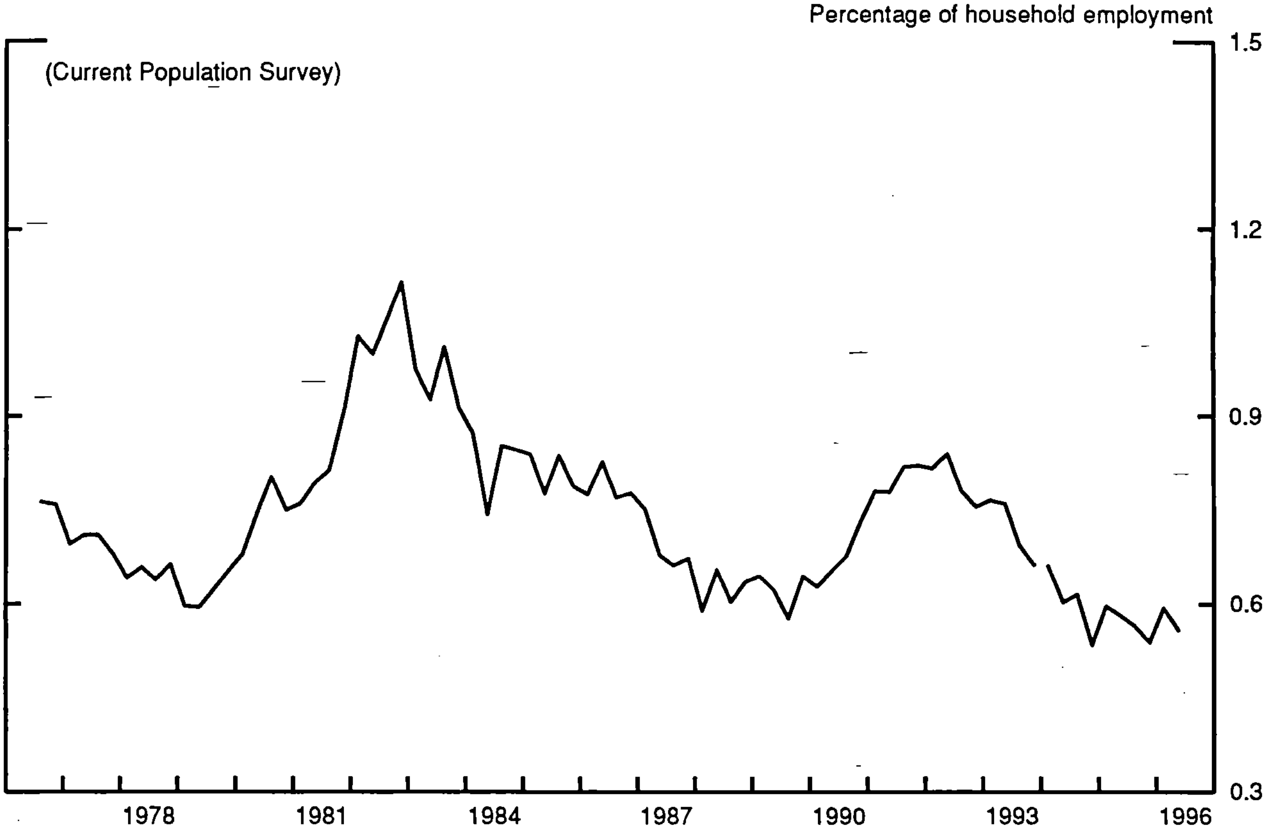
1. Managers and professional specialists whose median weekly earnings in 1993 were in the top one-third of all wage and salary workers.

Source: U.S. Bureau of Labor Statistics

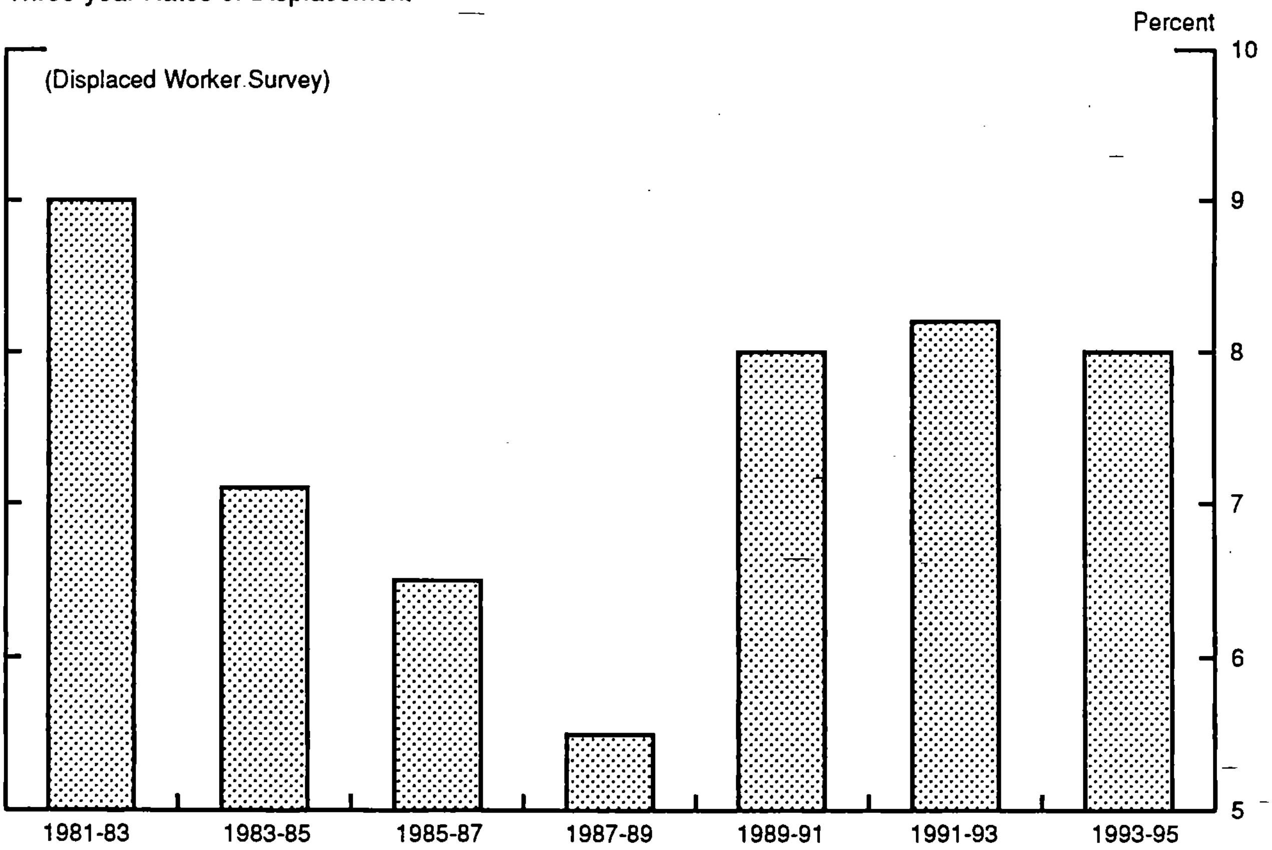
Exhibit 14

There Has Been No Clear Increase in Rates of Permanent Job Loss . . .

Permanent Job Losers Unemployed Less than 5 Weeks



Three-year Rates of Displacement

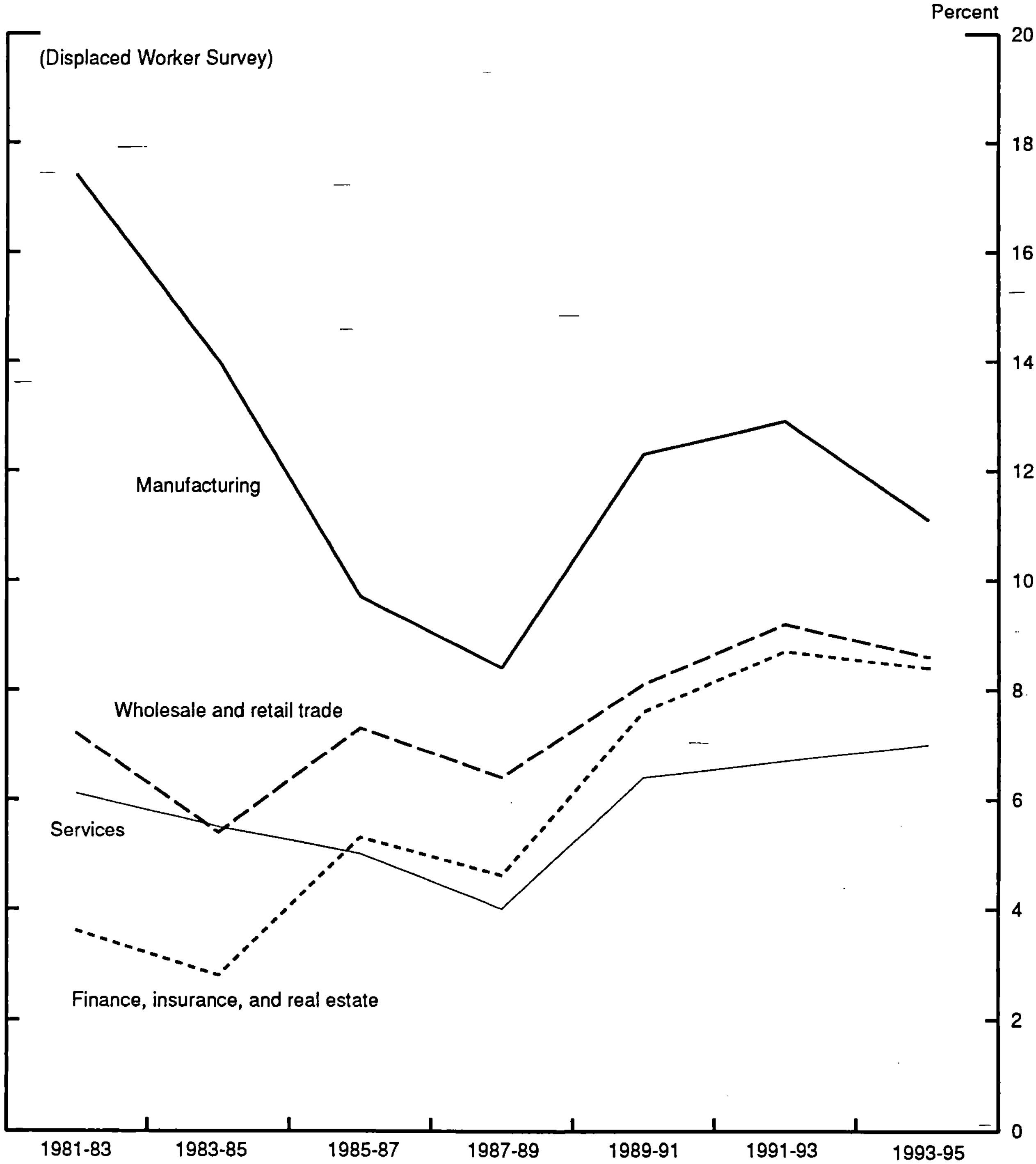


Source: Bureau of Labor Statistics

Exhibit 15

But Displacement Is Up in the Service-producing Sector . . .

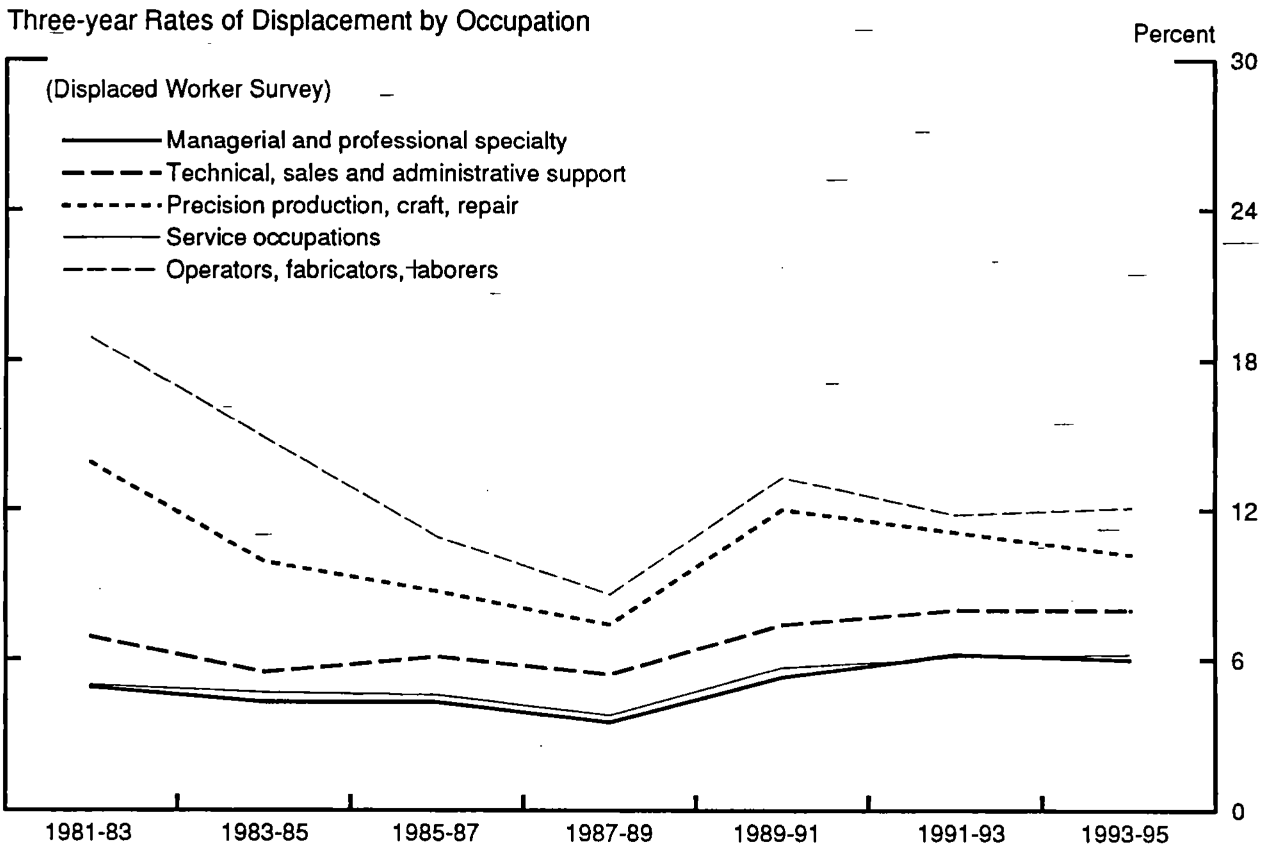
Three-year Rates of Displacement by Industry



Source: Bureau of Labor Statistics

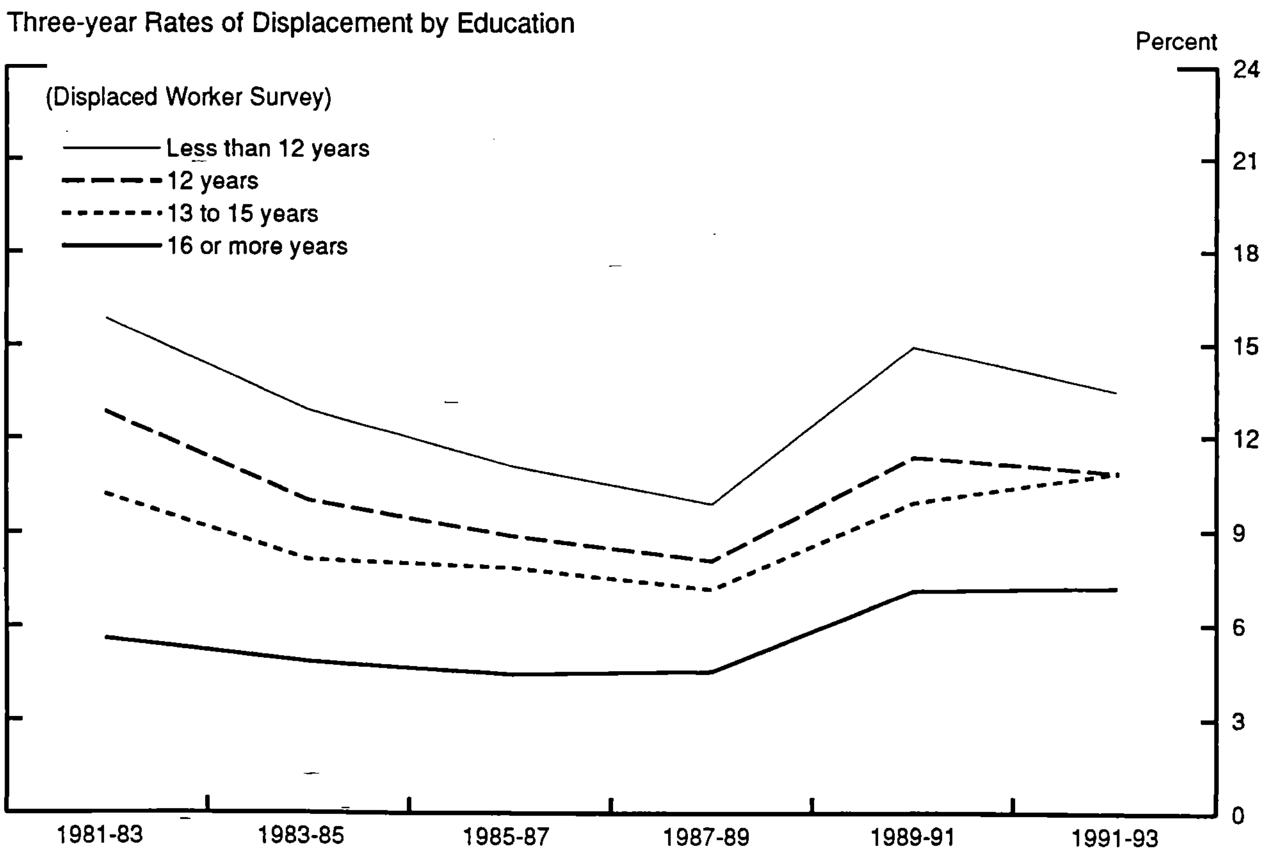
Exhibit 16

Among White-collar . . .



Source: Bureau of Labor Statistics

and More Educated Workers . . .

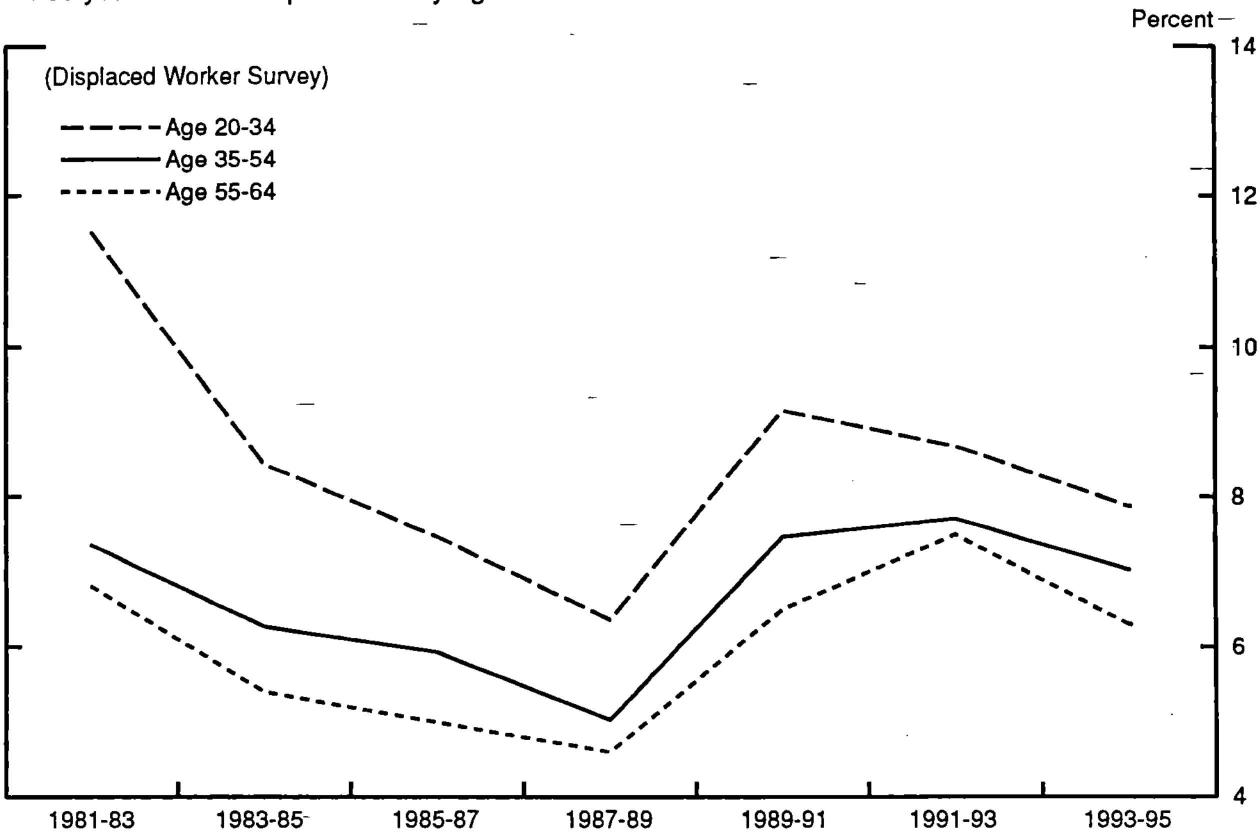


Source: Farber, 1996

Exhibit 17

and Among Older . . .

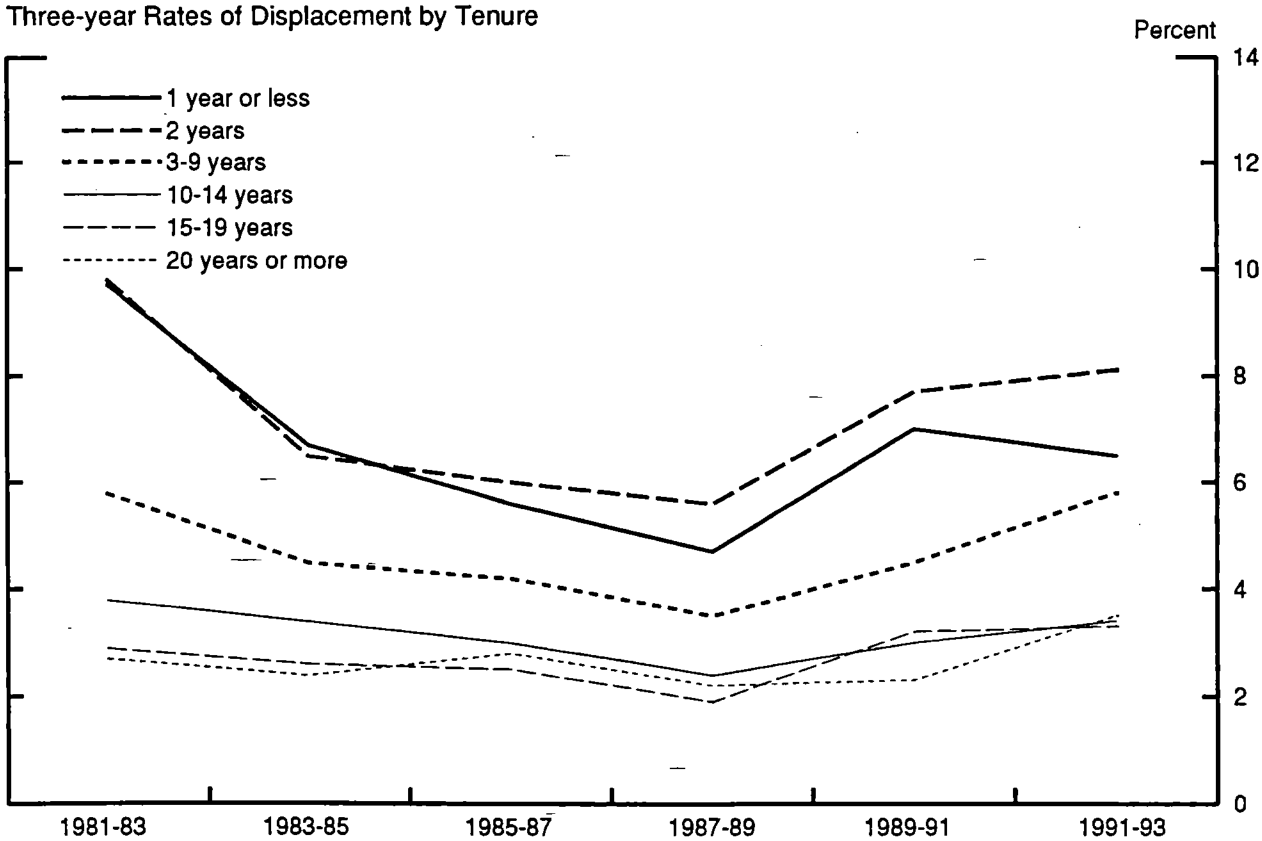
Three-year Rates of Displacement by Age



Source: Bureau of Labor Statistics

or More Senior Workers.

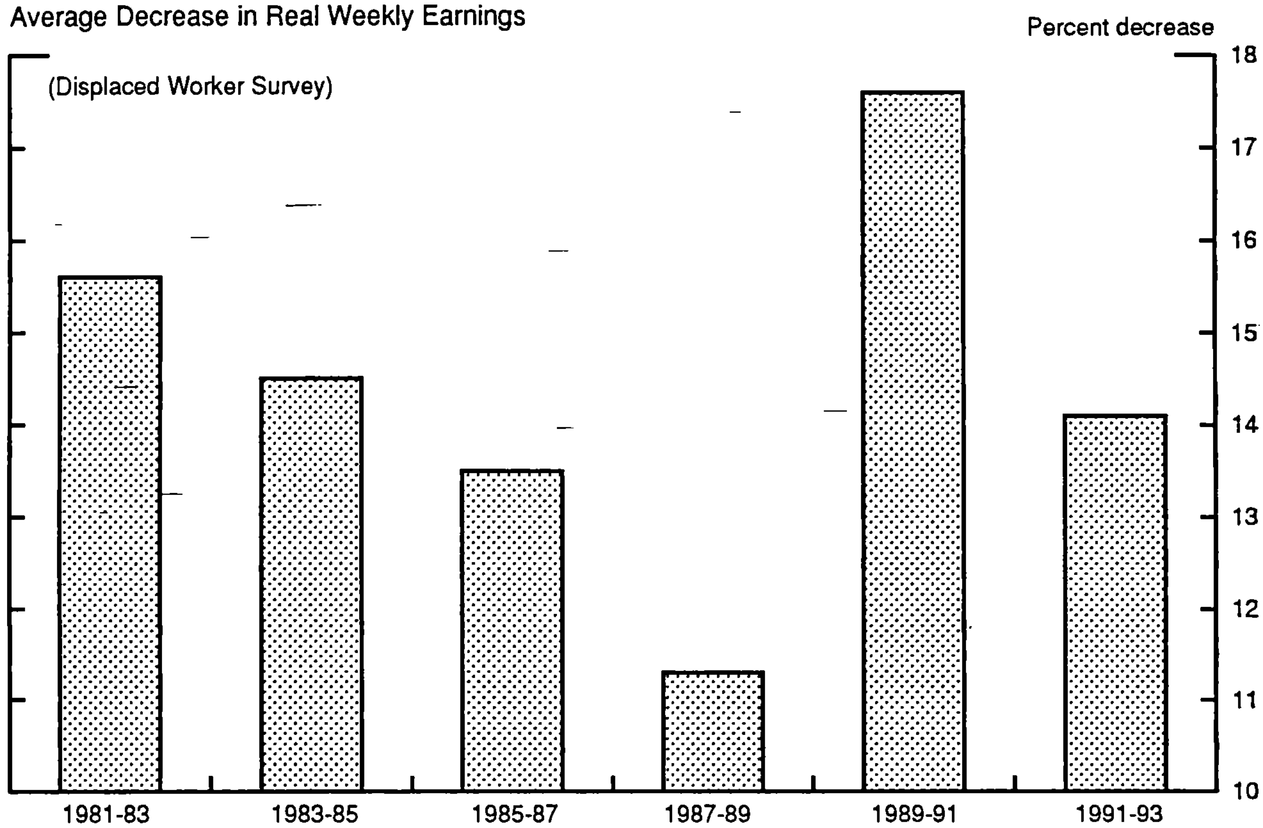
Three-year Rates of Displacement by Tenure



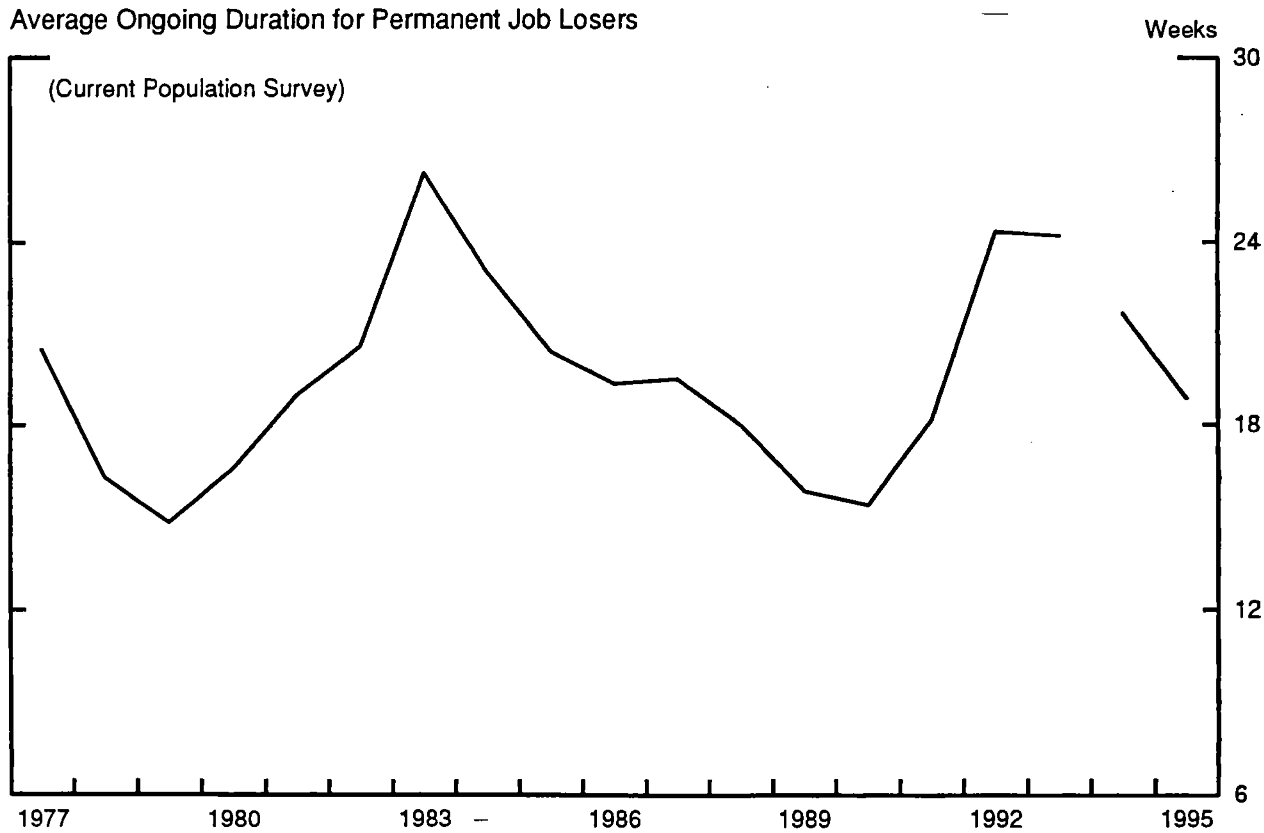
Source: Farber, 1996

Exhibit 18

Following Job Loss, It Is Not Clear That Earnings Losses . . .



or the Length of Unemployment Spells Have Deteriorated.



Amy N. Finkelstein
01/16/98 04:50:37 PM

Record Type: Record

To: Janet L. Yellen/CEA/EOP

cc: Rebecca M. Blank/CEA/EOP
Subject: Minimum wage update

Janet --

Just to clarify, here is the current plan:

We will examine all the demographic characteristics that we decided in our meeting yesterday (with Treasury, Labor, and NEC).

For all estimates we will present:

1. the number of people affected (e.g. how many blacks affected)
2. the category as a percentage of the wage group (e.g. what percent of the affected people are black)
3. the percentage of the category affected (e.g. the percentage of blacks affected).

We will estimate the total number of people affected with and without disemployment effects (Jon Gruber will be supplying an estimated elasticity to calculate disemployment effects). We will not adjust the numbers affected in different demographic subgroups for disemployment effects.

We will do three wage cuts for all of this:

5.15-5.40 (assumes constant real wage distribution)
5.40-6.00 (assumes constant nominal wage distribution)
5.40-Jeremy's estimate. (assumes nominal wage growth at the bottom of the distribution does not keep up with inflation.)

for out yrs

We will also present the above analysis for Kennedy's proposal. For this we will do two wage cuts:

less than or equal to $7.25 (this assumes no change in nominal wage distribution)
less than or equal to some number less than $7.25 based on Jeremy's estimate.

We are meeting with Peter Orszag Monday afternoon to show him what we have done and discuss what information should be presented (and how!).

We are not doing poverty simulations at this point (i.e. predicted change in poverty rates for a given minimum wage increase) because this would be relatively complex and require more data manipulation than seems feasible this weekend.

Let me know if there's anything you think is missing.

--Amy

	≤5.15	5.15-5.40	5.40-5.55	5.55-5.70	5.70-5.85	5.86-6:00	6-7.25	all workers
Educ								
<HS								
HS								
>HS <Coll								
College +								
Race & Ethn/Gend								
WM								
WF								
BM								
BF								
HF								
AAM								
AAF								

1. #

2. % of wage category (col % category)

3. % of pop. (row %)

Fam Status	≤5.15	5:15-5.40	5:40-6.00	6-7.25	all wkrs
Teen					
Adults					
MfA					
MmA					
S a no kid					
S a w/ kids					
Primary Earner					

Pov.

200xPov.

med Inc HH

ANALYSIS OF POSSIBLE INCREASES IN THE MINIMUM WAGE

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

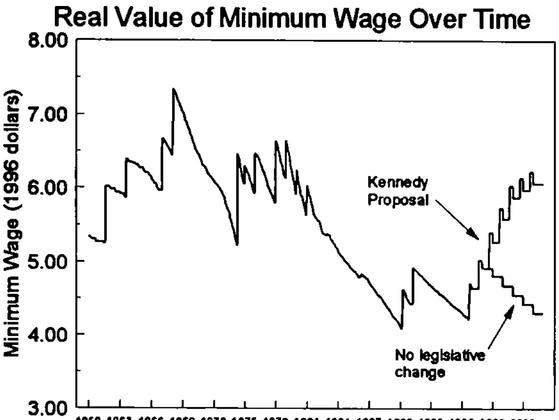


Figure 1

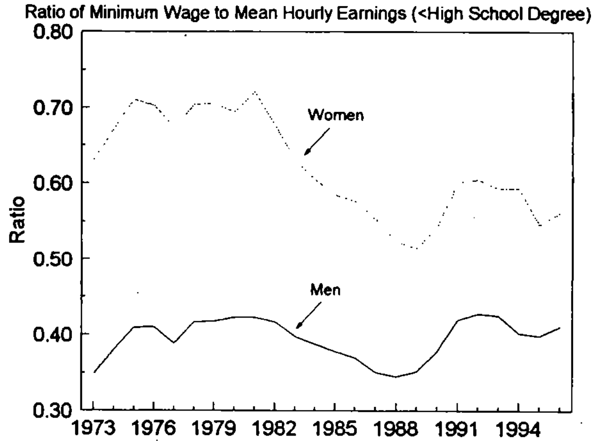


Figure 2

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

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

GROUPS AFFECTED BY FURTHER INCREASES

A key question with minimum wage increases is which groups of workers are affected by the increase. If the minimum wage were increased to $7.25, about one-seventh of those newly covered would be poor, about quarter would be teenagers, about two thirds would have a high school degree or less, and about one-seventh would be single adults with children. Figures 3-6 examine the characteristics of workers who are in different wage brackets above the minimum wage.[1] As the minimum wage moves above $5.15/hour, these charts show that the group of workers affected is increasingly less poor, better educated, and less likely to be teenaged. (See attached).

ARGUMENTS FOR AND AGAINST RAISING THE MINIMUM WAGE

Arguments for an increase

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

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

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

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

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

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

---

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

welfare to seek work.

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

Arguments against an increase

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

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

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

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

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

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

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

ALTERNATIVE POLICY OPTIONS

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

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

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

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

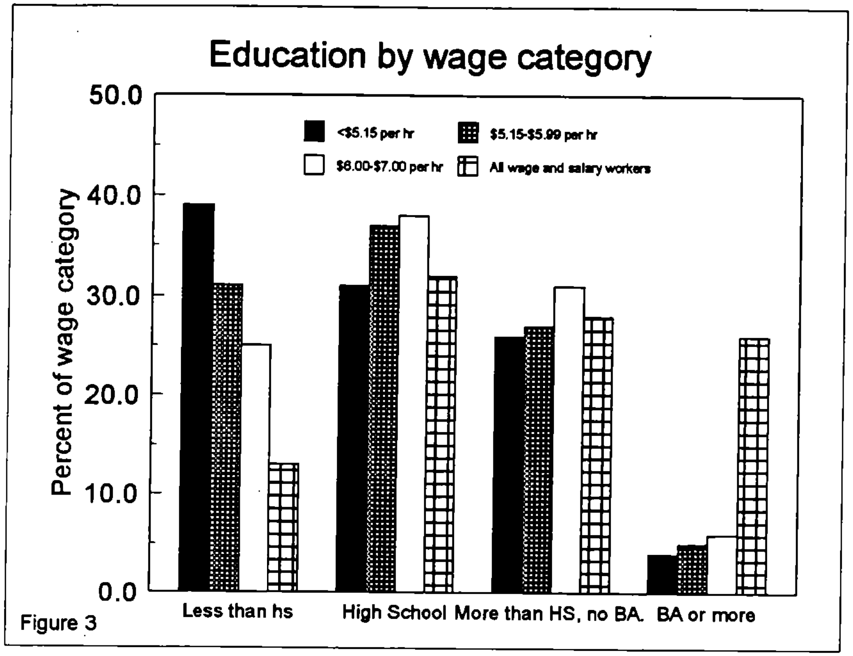


Figure 3

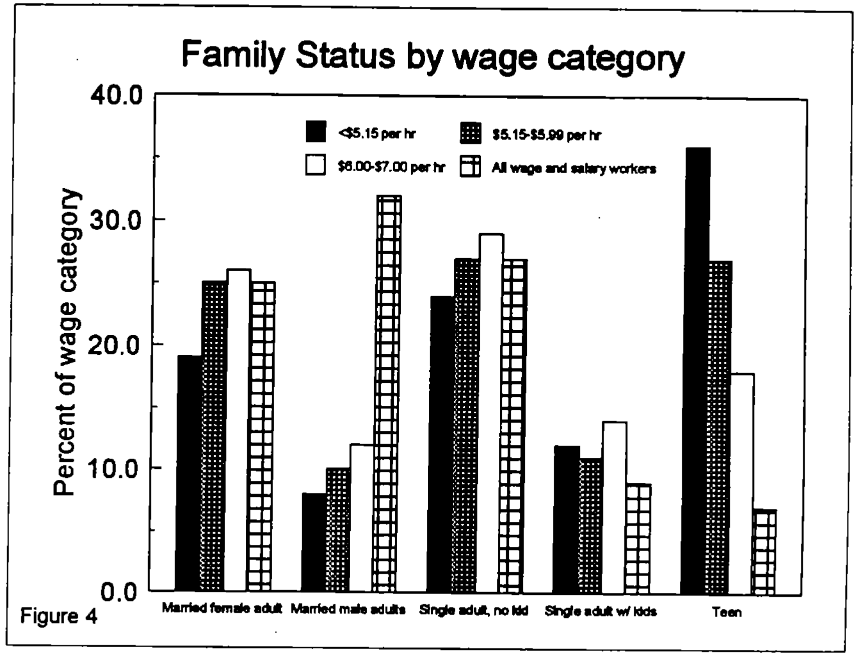


Figure 4

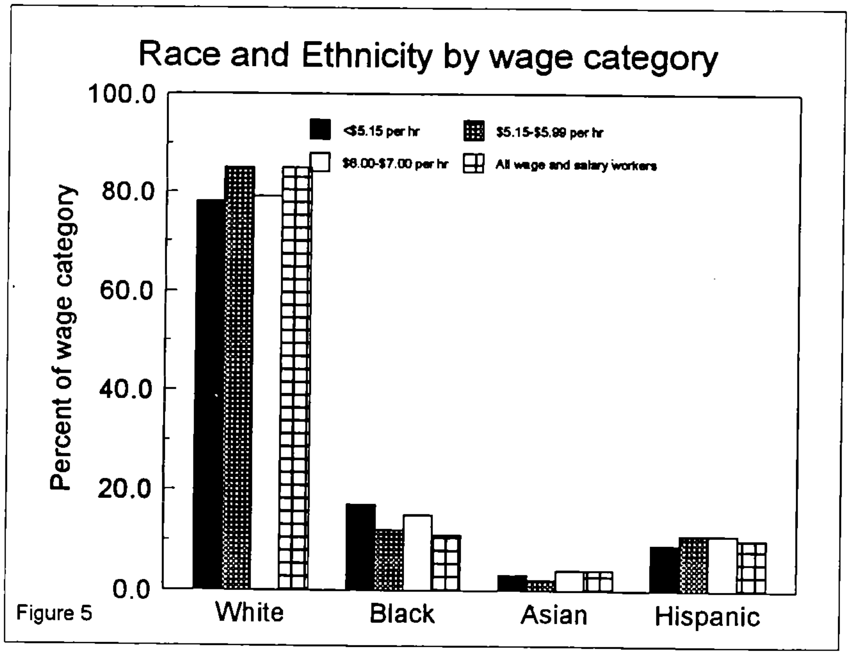


Figure 5

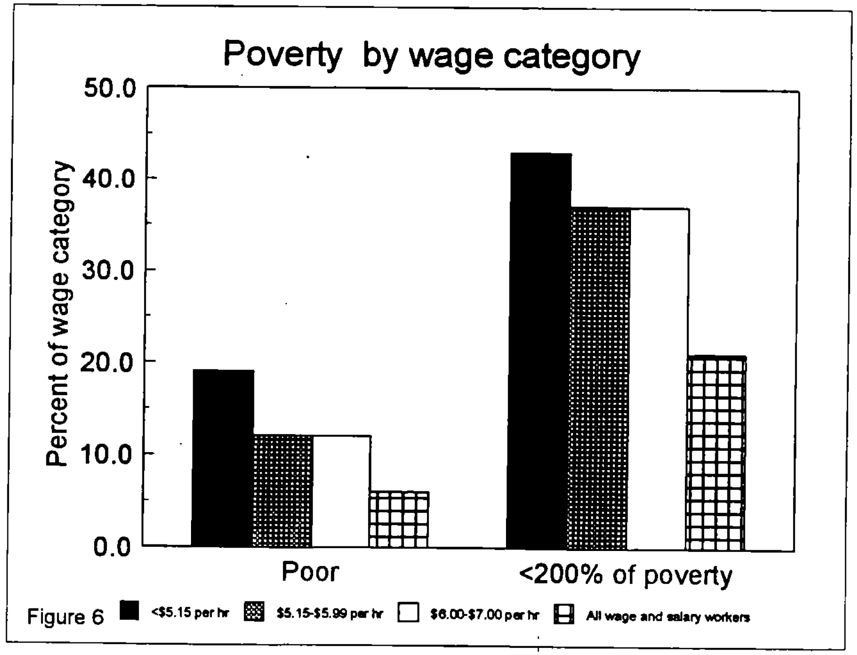


Figure 6

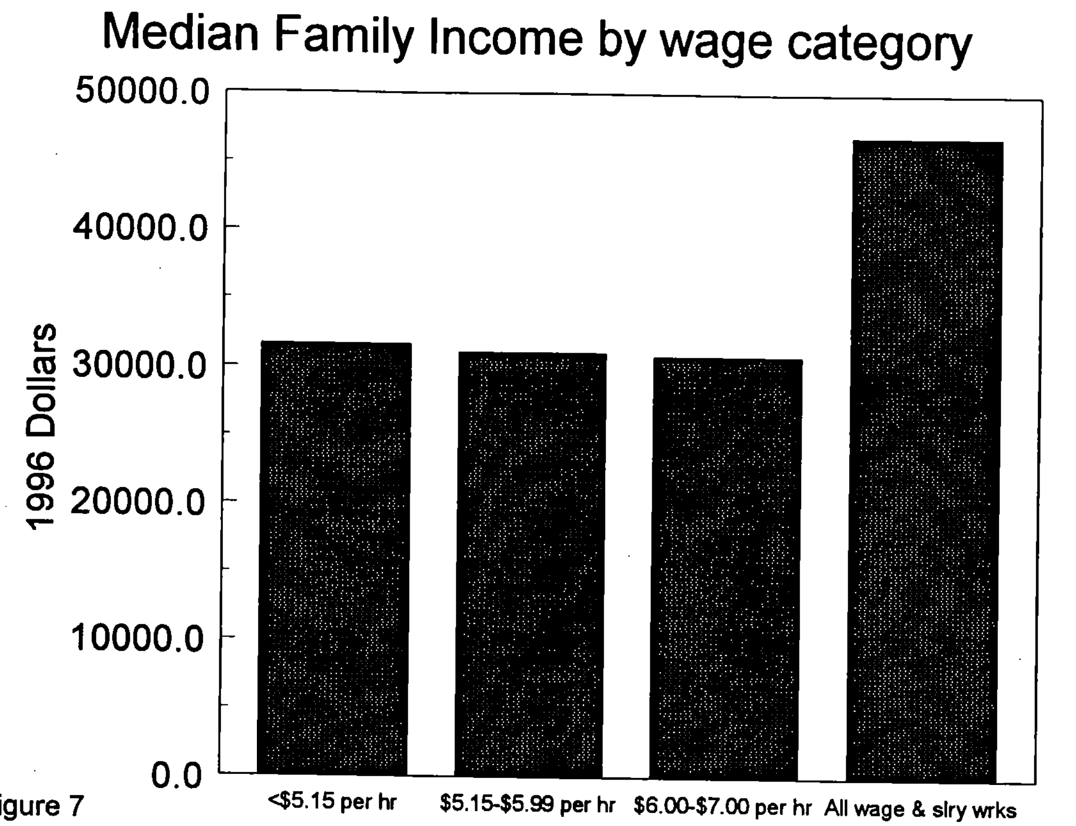

Median Family Income by wage category
50000.0
40000.0
30000.0
20000.0
10000.0
0.0
1996 Dollars
<$5.15 per hr
$5.15-$5.99 per hr
$6.00-$7.00 per hr
All wage & slry wrks

Figure 7

Group	Poor	Below 200	Median Family Income	Married fem	Married mal	Single adult	Single adult	Teen	white	black	asian	hispanic	Less than h	High Schoo	>hs,<co	College or more
All wage and salary worker	6	21	46800	25	32	27	9	7	85	11	4	10	13	32	28	26
<5.15	19	43	31600	19	8	24	12	36	78	17	3	9	39	31	26	4
5.15-5.99	12	37	31032	25	10	27	11	27	85	12	2	11	31	37	27	5
6.00-7.00	12	37	30800	26	12	29	14	18	79	15	4	11	25	38	31	6
<=7.25	14	40	31177	23	11	28	13	25	80	15	4	10	30	37	28	5

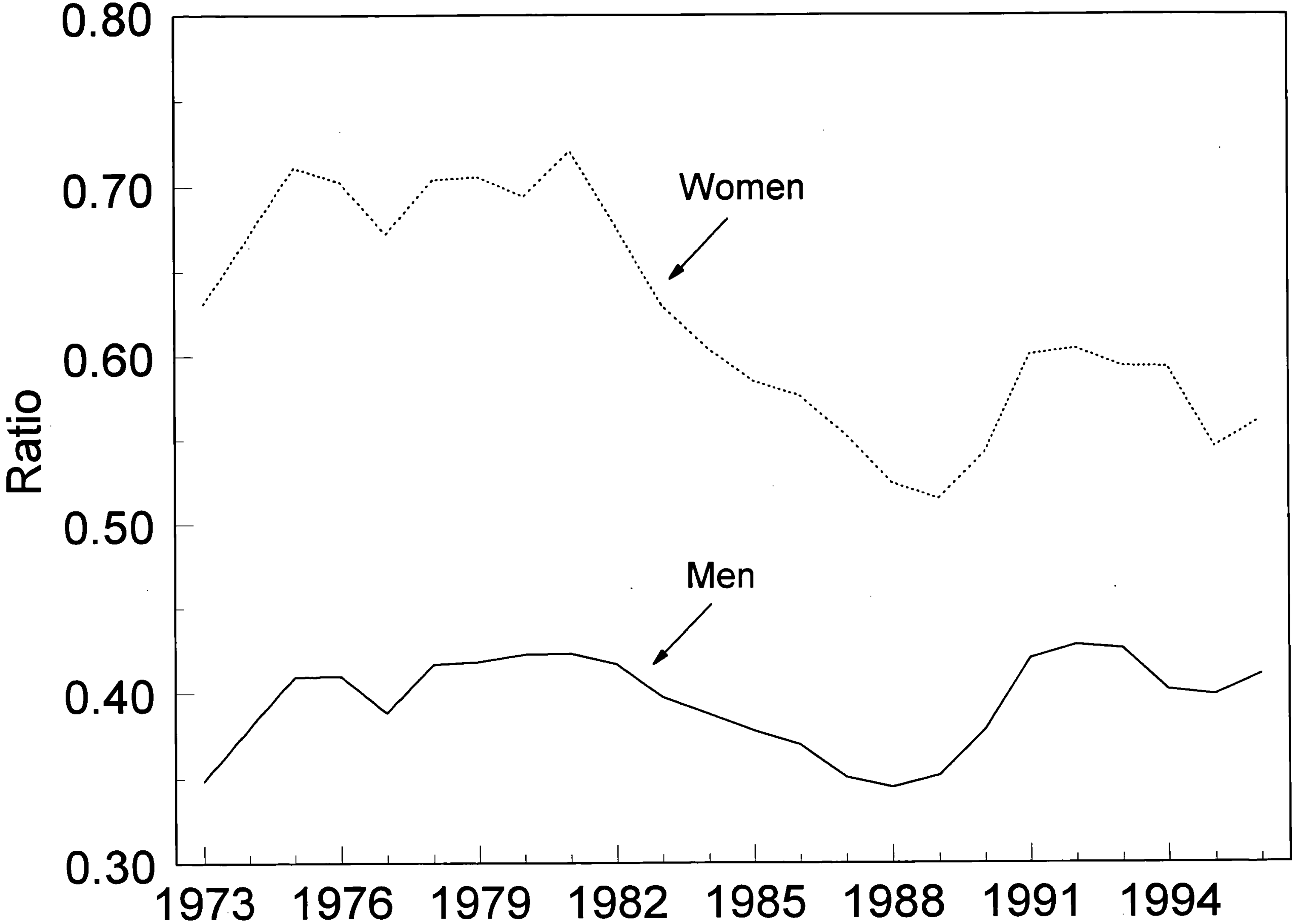
	poor adults	% of total
total	2.0E+09	1
working	6.7E+08	0.336535
adults <5.15	30444288	0.015187
adults 5.15-5.	10312622	0.005144
adults 6.00-7.	19171589	0.009564
adults <=7.25	67843084	0.033844

need to do out of those "eligible" i.e. in Zoutgons notation groups.

Group	Poor	Below 200	Med. Fam Income
All wage and salary worker	6	21	46800
<5.15	19	43	31600
5.15-5.99	12	37	31032
6.00-7.00	12	37	30800

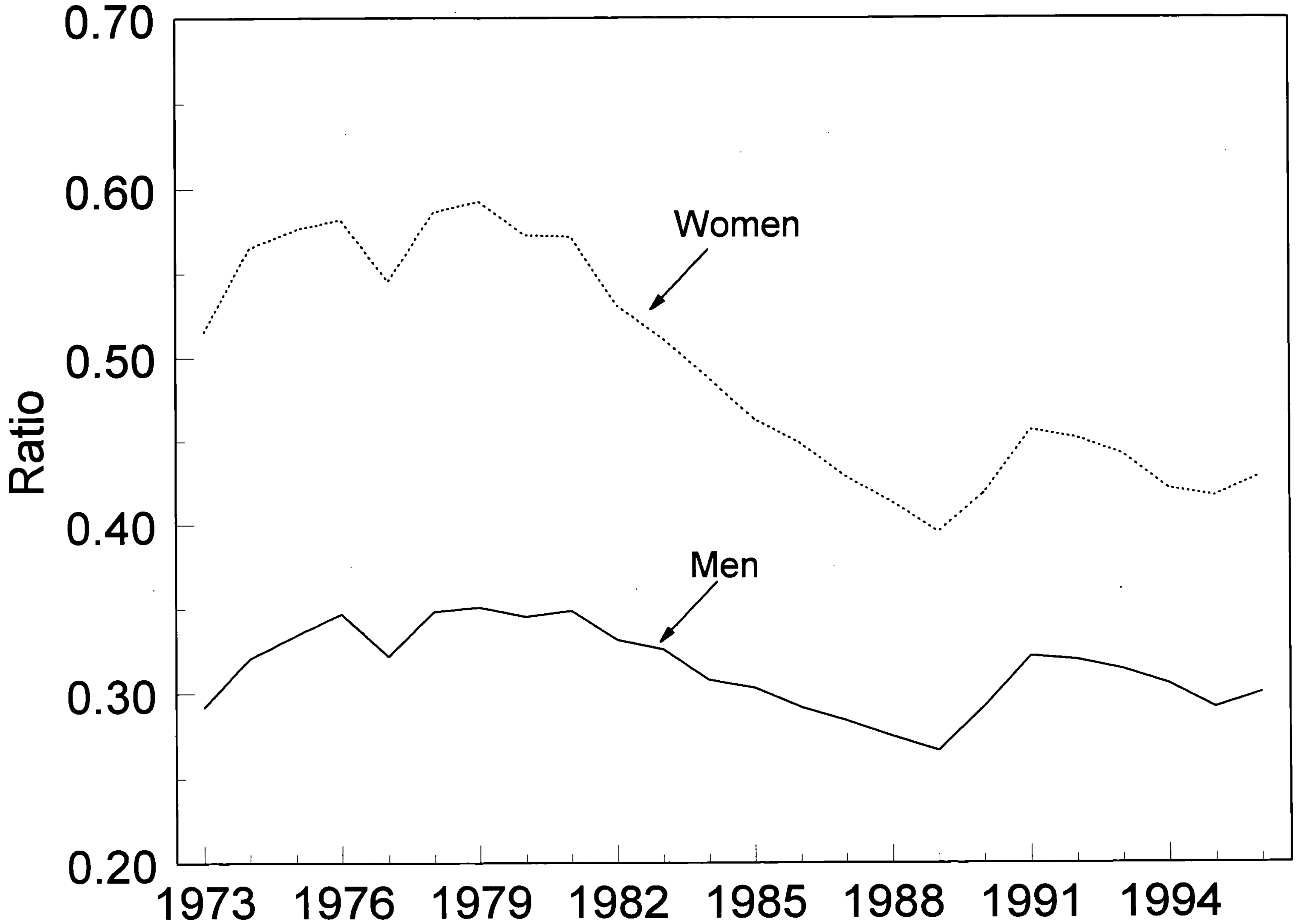
Group	All wage an	<5.15	5.15-5.99	6.00-7.00
Poor	6	19	12	12
Below 200% of	21	43	37	37
Med. Fam Income	46800	31600	31032	30800

Ratio of Minimum Wage to Mean Hourly Earnings (<High School Degree)



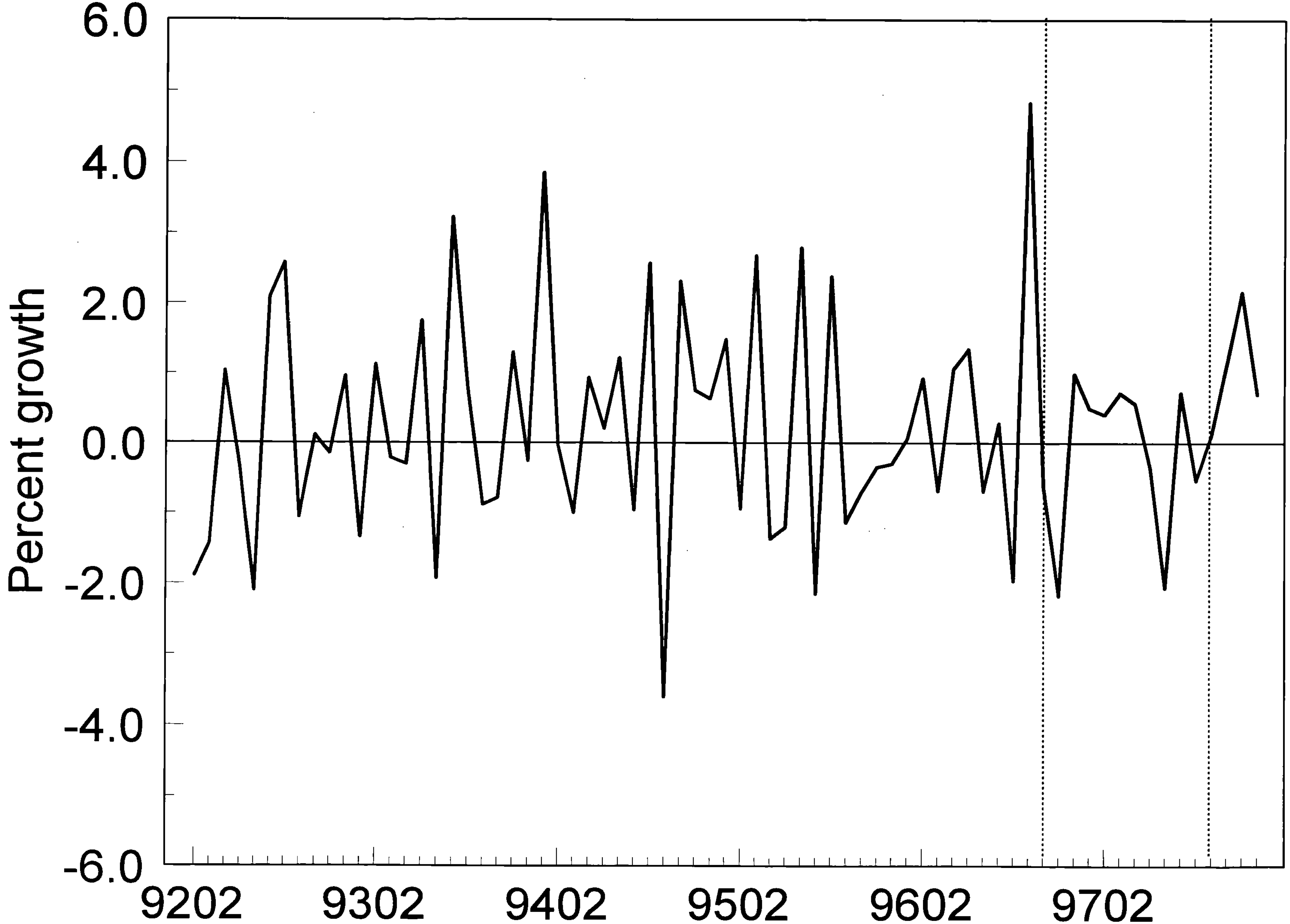
Note: For 1996 ratio, 1995 mean hourly earnings were used with the 1996 minmum wage.

Ratio of Minimum Wage to Mean Hourly Earnings (High School Degree)

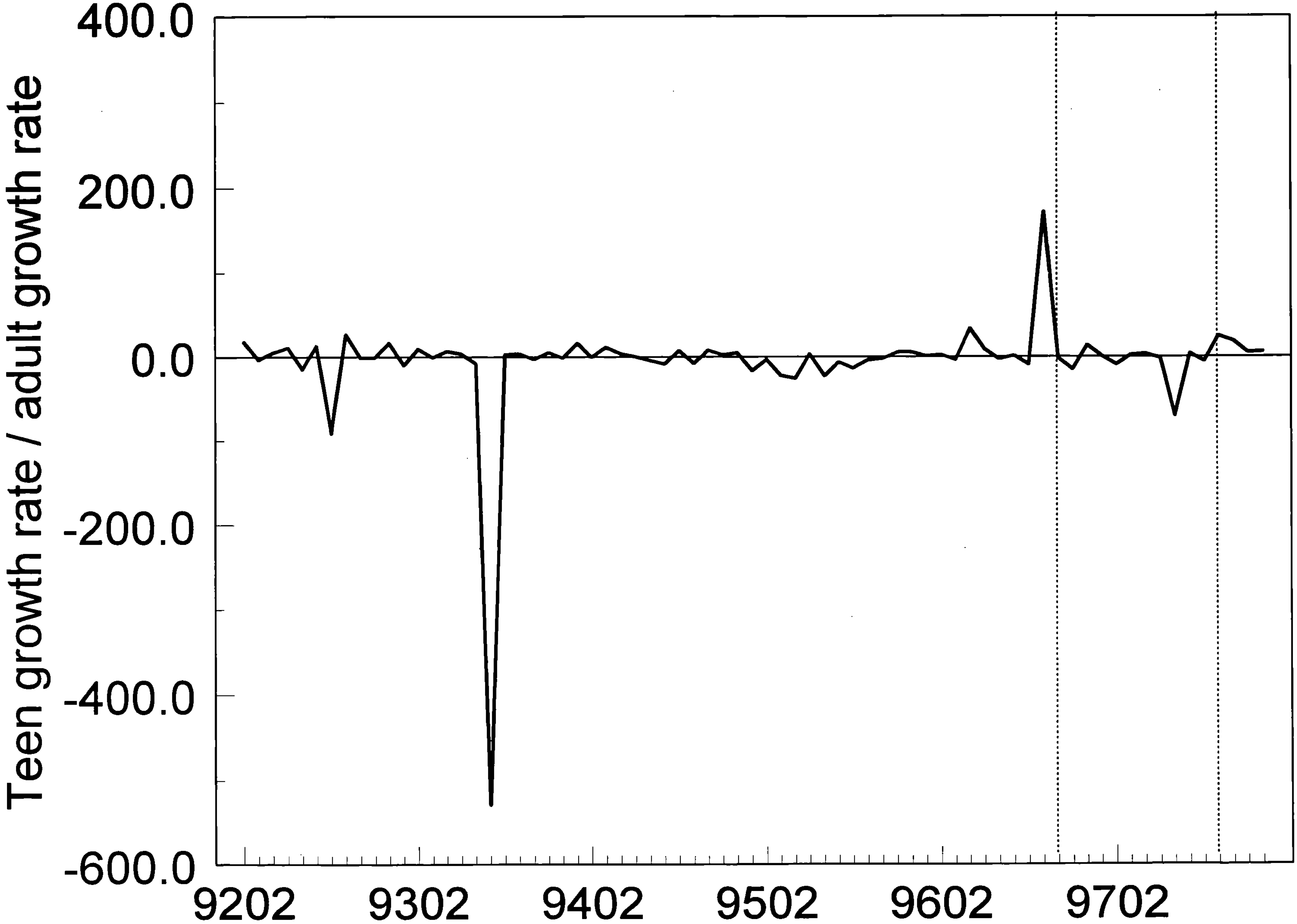


Note: For 1996 ratio, 1995 mean hourly earnings were used with the 1996 minmum wage.

Percentage change in Teen Employment



Relative growth of teen and adult employment



Kruger

in relative wages are also related to the slowdown in average real wage growth. Over the long run, however, the slow growth in productivity is key to real wage growth. But this just begs the question because the slowdown in productivity growth that began in the 1970s still remains largely a mystery. In the short run, several factors could cause wage growth to diverge from productivity growth. Moreover, it should be emphasized that real (as opposed to nominal) wages have never been especially pro-cyclical; therefore, the slow growth in real wages in this period of prosperity should perhaps be less of a puzzle than it often appears. Below are several factors that might help explain the recent period of unusually slow real wage growth:

- Although the industry still remains relatively small, temporary work has accounted for more than 10% of employment growth in this recovery. The blossoming of the temporary work industry could help companies to fill bottlenecks when they arise, without resorting to raising the entire wage schedule. Moreover, at least anecdotal evidence suggests that temporary workers are treated differently from permanent workers by the permanent staff. Permanent workers do not seem to resent the fact that temporary help agencies are often paid 50%-100% more per hour than the permanent workers are paid to supply an employee to the firm. This institutional change in the matching function between workers and firms <u>may</u> help explain why nominal wage inflation has been moderate in spite of low unemployment.

- Related to the above explanation, wages across groups of workers seem much less linked than they were in the past. For example, a secretary's wage is no longer so tightly tied to the boss's pay. The "delinking" of wages across jobs may be partly a result of broader changes in societal views toward income inequality, or it may simply be a consequence of the economic forces that have generated shifts in relative wages. But it is possible that the delinking of wages has led to fewer across-the-board wage increases in this recovery than in previous ones.

- From time to time, Chairman Greenspan and others have argued that workers have been (irrationally?) afraid to press for wage gains because of downsizing and other concerns, which have led them to moderate their wage demands. This argument is usually followed with the admonition that workers may soon gain the backbone required to press for higher wages, so the Fed needs to be ever vigilant. While this view has some support (downsizing for middle managers has been unusually high at this stage of the recovery, the recession of the early 1990s touched white-collar workers to a greater extent than did previous recessions, the media highlight job destruction more than job creation, workers are worried about international competition, etc.), I am skeptical that it has all that much force. For one thing, if this view is correct, workers' misplaced fear has existed for some time. Moreover, surveys of workers turn up relatively little evidence that workers are more concerned about the job market now than in the past. And even if workers do eventually gain the backbone required to negotiate for higher wage increases, 90% of the private workforce is not unionized; therefore, it is unclear whether workers are organized to take advantage of their bargaining power. Last, it is hard for a labor economist not to comment that if it is the case that workers have irrationally misperceived their bargaining power, then the Fed could serve the purpose of economic efficiency by encouraging workers to press for wage increases!

- Under some circumstances, the demand shifters that were discussed above—technological change and trade—could also cause a shift in national output from labor to capital. Although evidence of a large shift in labor's share is scant, some recent evidence suggests that labor's share has declined somewhat in the latest NIPA data. Moreover, the fact that the NIPA labor compensation series have grown more strongly than other wage and compensation series (and the fact that the NIPA data include fringes such as health and pension benefits for currently retired workers in the current compensation figures) suggest that the shift in labor's share could be somewhat greater than the official data indicate.

- Last, there has been a dramatic and persistent decline in the fraction of the private sector that is represented by a union. Union membership declined to just 10% of the private-sector workforce in 1996 from more than 35% in the 1960s. Although unions are still strong in some sectors (*e.g.*, witness the UPS strike), unions as a whole exert much less influence on the aggregate economy today than was the case 20 years ago. Historically, unions tended to organize workers in the lower middle class and raise them into the middle class (see Card, 1996). Furthermore, the decline in unions and the withering of pattern bargaining may have contributed to the delinking of wages and may partially explain the weak performance of pay in the middle of the wage distribution.

V. Short-Term Data to Watch

The economic news to be announced in the coming months will be unusually informative because some of the recent reports have been difficult to interpret. For example, the BLS's employment releases for August and September were clouded by the UPS strike as well as by possible changes in the school calendar. The October report, released on November 7, helped sort some of this out by confirming that the hiring trend remains quite strong, averaging more than 200,000 new nonfarm jobs per month, and that labor market tightness might be causing wage growth to pick up, especially at the low end. Moreover, the commissioner of the BLS announced that preliminary estimates indicated a 475,000 upward revision to the level of nonfarm payrolls for March 1997. (This adjustment, which will be finalized early this summer, is an annual revision to the employment data that anchors the establishment survey to the actual count of payroll employment based on the universe of employer-reported unemployment insurance tax records and other data.) The benchmark revisions are closely watched by economic policy makers, even though the markets seem to pay little attention to them. In addition, Chairman Greenspan's comments in early October about the "unsustainability" of labor force growth, coupled with recent indications of some real wage growth, mean that the various wage measures discussed at the outset should be closely monitored by financial markets.

VI. Minimum Wage

Many observers have focused on the likely impact of the minimum wage on the latest data. The minimum wage increased from $4.25 per hour to $4.75 per hour on October 1, 1996, and then again to $5.15 per hour September 1, 1997. What effect should these minimum wage increases be expected to have on employment and wages? What has been their effect so far?

As many of you may know, some of my colleagues and I caused quite a controversy in the economics profession by arguing that modest increases in the minimum wage may have little or no effect on employment. This conclusion was based on several studies that are described in my book with David Card entitled *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton University Press, 1995). In brief, we found that the older time-series literature predicted a very small and statistically insignificant disemployment effect of the minimum wage when the time period was extended through the early 1990s. Moreover, cross-state comparisons before and after a minimum wage increase did not indicate that states that were most constrained by the minimum wage (*e.g.*, Mississippi) had slower employment growth for teenage workers and low-skilled workers, other things being held constant. Last, looking at specific sectors, such as the fast-food industry, we did not find that minimum wage increases adversely impacted employment.

Although it is premature to reach a firm conclusion, so far, I think that it is fair to say that our prediction has held up rather well. The strong job growth since September 1996 certainly suggests that the minimum wage increase has not adversely affected aggregate employment. Moreover, a look at particular sectors most likely to be affected by the minimum wage, such as the eating and drinking industry or teenage workers, does not reveal any obvious break in trend employment growth.

I have little doubt that a really large increase in the minimum wage will reduce employment. But employers seem to be able to cope with increases on the order of 90¢ every five years or so without having to reduce the workforce. Although most employers do not like having to pay higher wages because of the minimum wage, many of them find offsetting benefits that help them to maintain their level of employment. For example, turnover and job vacancies appear to decline in response to wage hikes.

While there is controversy among economists about the employment effects of a moderate minimum wage increase, there is widespread consensus that minimum wage increases do affect wages. Whenever the minimum wage increases, there is a clear movement in the spike of workers who earn exactly the old minimum wage to the higher minimum. Increases in the minimum wage also have a noticeable effect on average wages in some sectors, such as the eating and drinking industry. But this affect is unlikely to be very large in the aggregate. There simply are not enough minimum workers who are paid between $4.75 and $5.15, for example, to enable the September 1997 increase in the minimum to have much impact on the aggregate wage rate. Moreover, in earlier work, I have found that there is relatively little spillover from a minimum wage increase for those who earn more than the new minimum. The spillover effect seems to die out at about 50¢ above the minimum and tends to be smaller on the second round of a two-step increase in the minimum wage. A back-of-the envelope calculation suggests that the minimum wage hike will cause total payroll to rise 0.2%-0.3%, and we have probably already experienced about half of that increase.

A look at wage changes around the time of recent increases in the minimum wage provides some support for the view that a minimum wage hike only has a very small effect on average wages. The previous two increases in the minimum wage were in April 1990 and April 1991. We

Table 2: Nominal Changes in Selected Seasonally Unadjusted Wage Series
(percentage change from previous month or quarter)

		790 Series (Production/Nonsupervisory)			
		Average hourly earnings		ECI, Wage and Salary	
Year	Month	All private	Eat/drink	All private	Sales
1989	Jan	0.85	-0.21		
	Feb	0.10	0.21		
	Mar	0.10	0.00	1.0	1.8
	Apr	0.63	0.00		
	May	-0.31	0.43		
	Jun	0.00	0.42	1.0	1.4
	Jul	0.52	-0.21		
	Aug	-0.21	0.42		
	Sep	1.66	1.27	1.2	2.1
	Oct	0.41	0.21		
	Nov	0.00	0.21		
	Dec	0.20	1.24	0.8	1.6
1990	Jan	0.31	-0.20		
	Feb	0.41	0.00		
	Mar	0.20	0.21	1.2	-0.4
	Apr	**0.40**	**1.02**		
	May	0.00	0.61		
	Jun	0.10	0.00	**1.3**	**1.9**
	Jul	0.20	0.00		
	Aug	-0.10	0.40		
	Sep	1.60	1.00	0.9	0.1
	Oct	0.00	0.40		
	Nov	0.10	0.20		
	Dec	0.20	0.59	0.7	-0.2
1991	Jan	0.49	0.00		
	Feb	-0.10	-0.20		
	Mar	0.20	0.00	1.1	1.5
	Apr	**0.49**	**1.57**		
	May	0.10	0.39		
	Jun	0.00	-0.19	**1.0**	**1.6**
	Jul	-0.10	0.19		
	Aug	0.10	0.39		
	Sep	1.46	0.77	0.8	-0.3
	Oct	-0.19	0.00		
	Nov	0.19	0.00		
	Dec	0.29	0.95	0.6	-0.3
1995	Jan	0.71	-1.25		
	Feb	0.00	0.00		
	Mar	-0.09	0.18	0.8	0.2
	Apr	0.35	0.00		
	May	-0.26	0.72		
	Jun	-0.18	-0.18	0.7	2.1
	Jul	0.53	0.18		
	Aug	-0.26	0.54		
	Sep	1.58	0.71	0.7	1.0
	Oct	0.43	0.18		
	Nov	-0.09	0.18		
	Dec	0.17	0.71	0.6	-0.1
1996	Jan	0.86	-0.18		
	Feb	-0.17	0.00		
	Mar	0.00	0.00	1.1	1.3
	Apr	0.51	0.18		
	May	-0.17	0.35		
	Jun	0.26	0.70	1.0	2.0
	Jul	-0.17	0.00		
	Aug	0.26	0.35		
	Sep	1.62	0.69	0.7	-0.4
	Oct	**0.00**	**1.55**		
	Nov	0.42	0.17		
	Dec	0.50	0.84	**0.6**	**1.6**
1997	Jan	0.41	-0.34		
	Feb	0.25	-0.34		
	Mar	0.25	0.34	1.0	1.5
	Apr	0.00	0.17		
	May	0.00	0.50		
	Jun	0.00	-0.17	0.9	0.4
	Jul	-0.16	0.00		
	Aug	0.49	1.00		
	Sep	**1.47**	**1.66**	**1.0**	**1.2**
	Oct	0.32	NA		

*Note: Figures highlighted in bold correspond to the month or quarter in which the minimum wage increase took effect.
Source: Bureau of Labor Statistics.

can also examine the October 1996 increase. First, consider the monthly wage data for production/nonsupervisory workers.[2] Average wages in the eating and drinking industry increased faster than wages in all private-sector jobs in the months when the minimum wage increased, but the increase in pay for all private-sector jobs was not unusually high.[3] A similar pattern is found for the ECI in the quarter when the minimum wage increases. These data are summarized in Table 2.

Because labor's share of GDP is about 65%, to a first-order approximation, any change in wages that is not accompanied by a change in productivity (or a reduction in profit's share) will be translated to inflation with a multiple of 0.65. Thus, because I would expect a small increase in the economy-wide average wage from a minimum wage increase, I would also expect a very small increase in the CPI—perhaps about a one-time 0.10- to 0.20-percentage-point increase.

Business Week magazine recently started a column called *The End of Conventional Wisdom.* In the very first column, it declared the minimum wage a puzzle. So far, there is no sign that the minimum wage increase has caused wage inflation or depressed employment. Although I think that it is premature to declare this conclusion a fact, perhaps it will some day become part of the conventional wisdom.

Alan B. Krueger
November 13, 1997

[2] The hourly wage and ECI data are only available on a seasonally unadjusted basis at an industry level. Consequently, all the data in Table 2 are seasonally unadjusted.

[3] Because these data are not seasonally adjusted, one should bear in mind that some of the larger wage changes reflect ordinary seasonal effects (*e.g.*, September 1997's 1.47% increase).

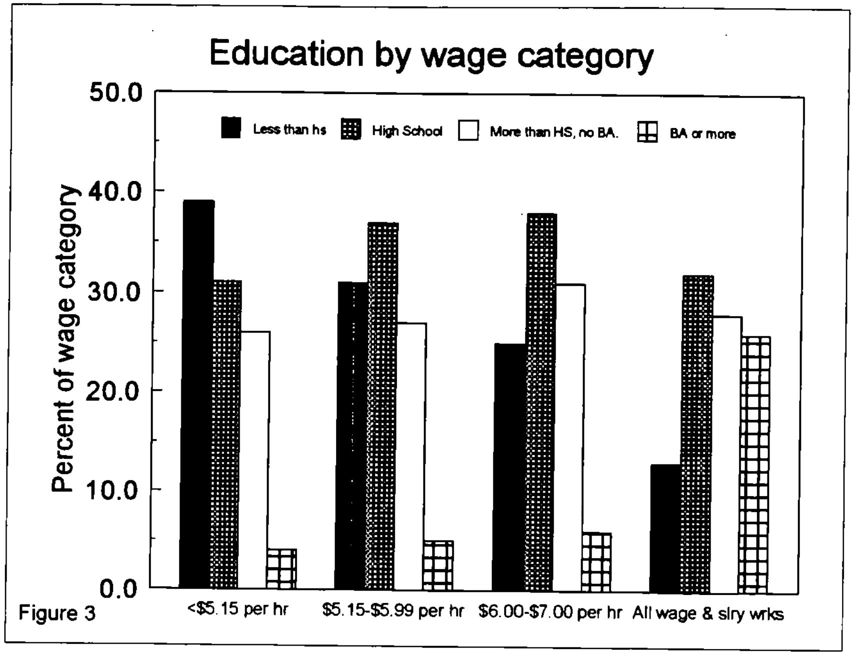


Figure 3

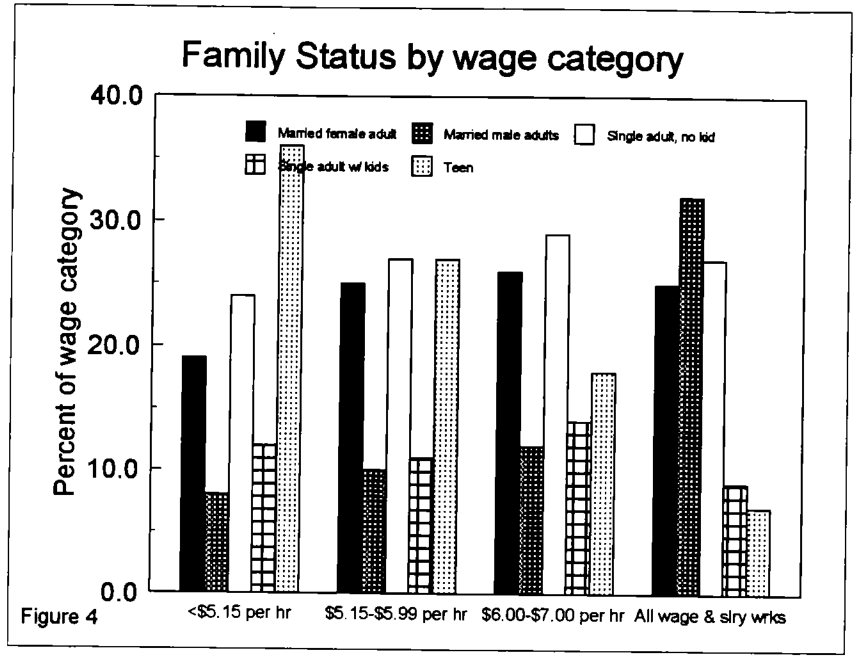


Figure 4

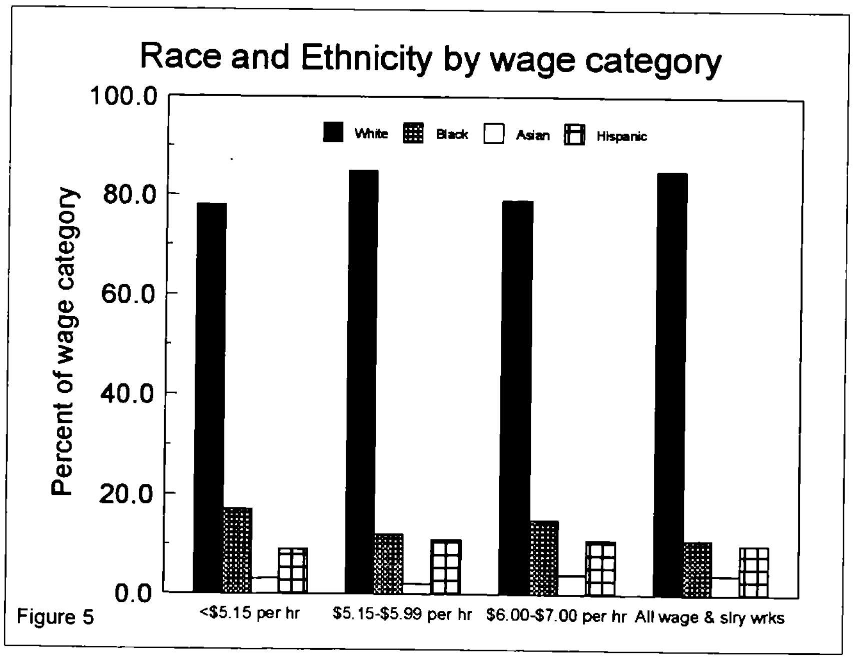


Figure 5

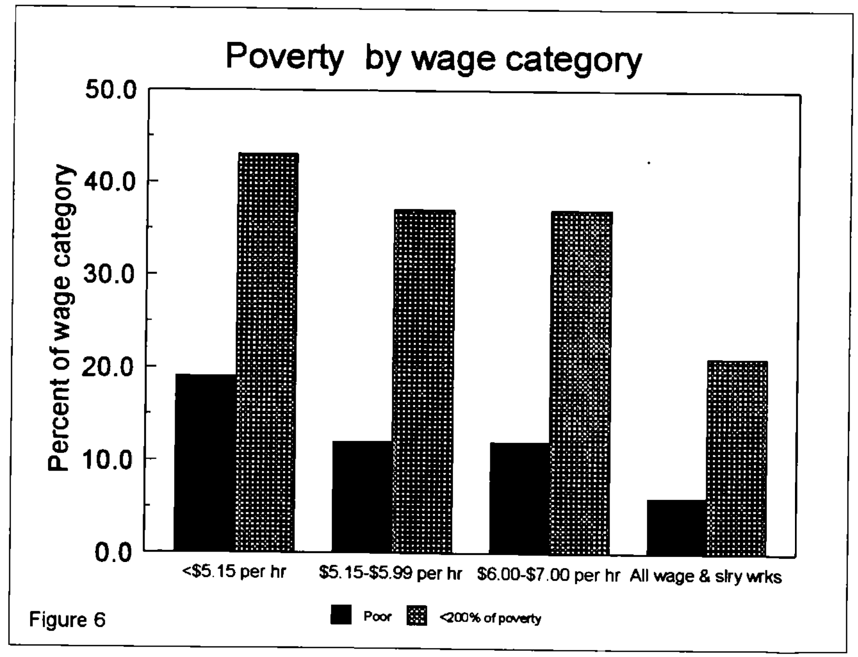
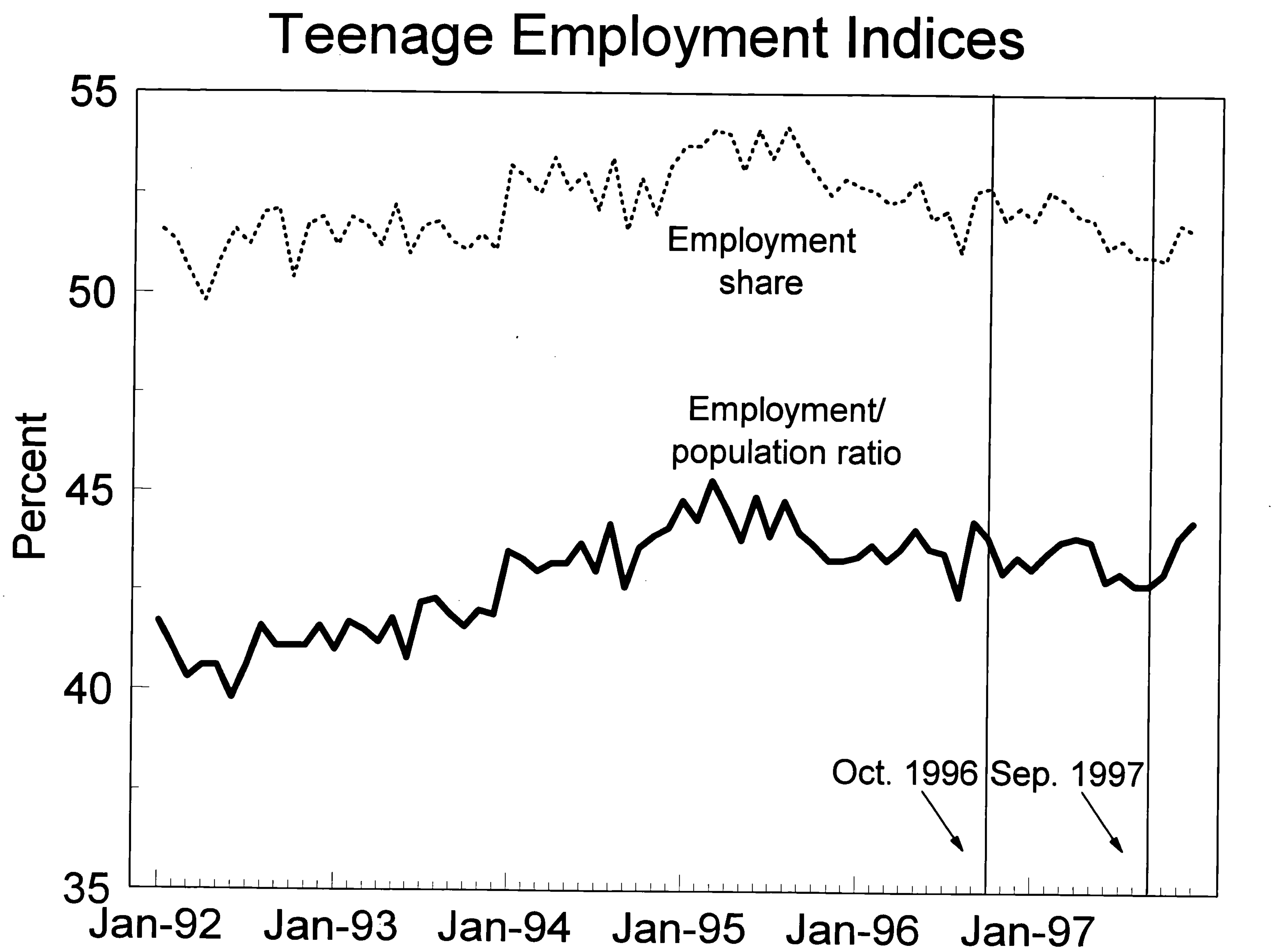


Figure 6



Teenage Employment Indices
55
50
45
40
35
Percent
Employment share
Employment/ population ratio
Oct. 1996
Sep. 1997
Jan-92
Jan-93
Jan-94
Jan-95
Jan-96
Jan-97

minimum wage

not disturb before Thurs?

- talk to Becky

(1) ratio

relative to trend rather than level

not a lot of people in tail

♀ - closer in center

(2) stylistic - info in charts = fantastic = what people want to know

but diff to read

colors Σ to 100%

5th bar = % of 5.15 that are <4.5

reorg: group as <5.15 bars <4.5

do it both ways (?)

do other way

other: <5.15

very hard to read

group of bars don't sum to 100

potential impact on prices

fed - will it be passed thru to prices if ≤ NAIRU, any one shot ↑ in prices raises infl rate + passthroughs ⇒ perm incr infl pot disemp effects

↑ min wage makes
it diff to move
welf rec → work
(but makes WOTC
more attractive...)

consider pot interaction
w/ welfare reforms

ANALYSIS OF POSSIBLE INCREASES IN THE MINIMUM WAGE

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

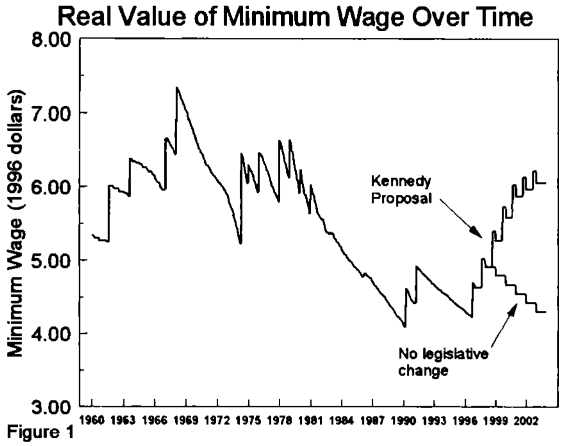


Figure 1

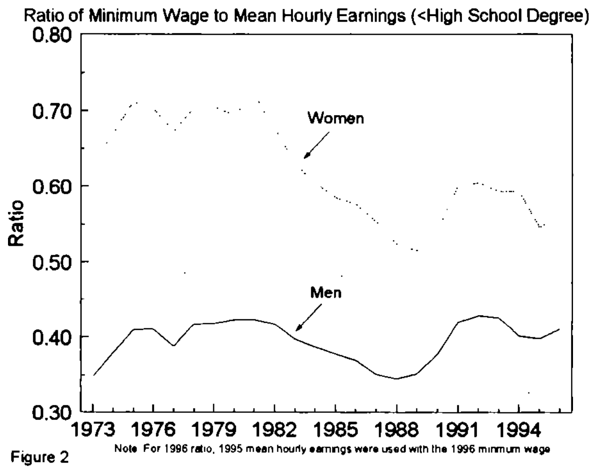


Figure 2

(1)

Since the effect of the minimum wage depends upon where in the wage distribution it hits, it is useful to calculate the minimum wage relative to earnings of less-skilled workers. Because less-skilled men's earnings have fallen, the minimum wage relative to earnings of men with less than a high school degree is currently higher than it was in the mid-1980s, and almost at its 25-year peak. In contrast, the minimum wage relative to earnings of women with less than a high school degree is now substantially lower than in the mid-1980s. (See Figure 2.)

+ will be affected, & increasingly

GROUPS AFFECTED BY FURTHER INCREASES

A key question with minimum wage increases is which groups of workers are affected by the increase. If the minimum wage were increased to $7.25, about one-seventh of those newly covered would be poor, about quarter would be teenagers, about two thirds would have a high school degree or less, and about one-seventh would be single adults with children. Figures 3-6 examine the characteristics of workers who are in different wage brackets above the minimum wage.[1] As the minimum wage moves above $5.15/hour, these charts show that the group of workers affected is increasingly less poor, better educated, and less likely to be teenaged. (See attached).

---

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

All numbers are preliminary. Do not cite or circulate.

ARGUMENTS FOR AND AGAINST RAISING THE MINIMUM WAGE

Arguments for an increase

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

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

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

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

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

- **Complements and reinforces EITC**. Increases in the minimum wage, like the large increases in the EITC, are a way to 'make work pay.' encourages lo skilled f → work

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

Arguments against an increase

- **Not well targeted**. Increases in the minimum wage are a rather blunt way of helping low-

All numbers are preliminary. Do not cite or circulate.

wage workers. Over half of the workers affected by any further increase will be in families with income above 200 percent of the poverty line. The larger the increase, the less targeted will be the impact of the increase on the working poor; in 1996, almost 20 percent of ~~the~~ workers earning under \$5.15 per hour were poor, but this percentage falls to 12 percent for workers earning \$6.00-\$7.00 per hour (See Figure 6). As mentioned above, median family income of those earning around the minimum wage is around 200 percent of poverty. (See Figure 7).

×

see bullet implications for welfare impact on welfare reform

- **Potential disemployment effects**. Workers working at the minimum wage benefit from an increase in the minimum wage, if they remain employed. Workers who become unemployed as a result of a minimum wage increase lose out. The employment effects of an increase in the minimum wage depend on its current level, the magnitude of the increase, where the new minimum wage falls in the income distribution, and who is covered by the new minimum wage. Research suggests that employees whose hiring is highly sensitive to wages -- particularly teenagers -- are most likely to be adversely effected. ~~Am~~ Disemp effects greater among lower prod workers; see welf to work

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

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

  [DC type model]

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

  talk to Steve

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

All numbers are preliminary. Do not cite or circulate.

amounts of non-wage compensation, so it is hard to adjust along this dimension.)

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

ALTERNATIVE POLICY OPTIONS

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

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

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

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

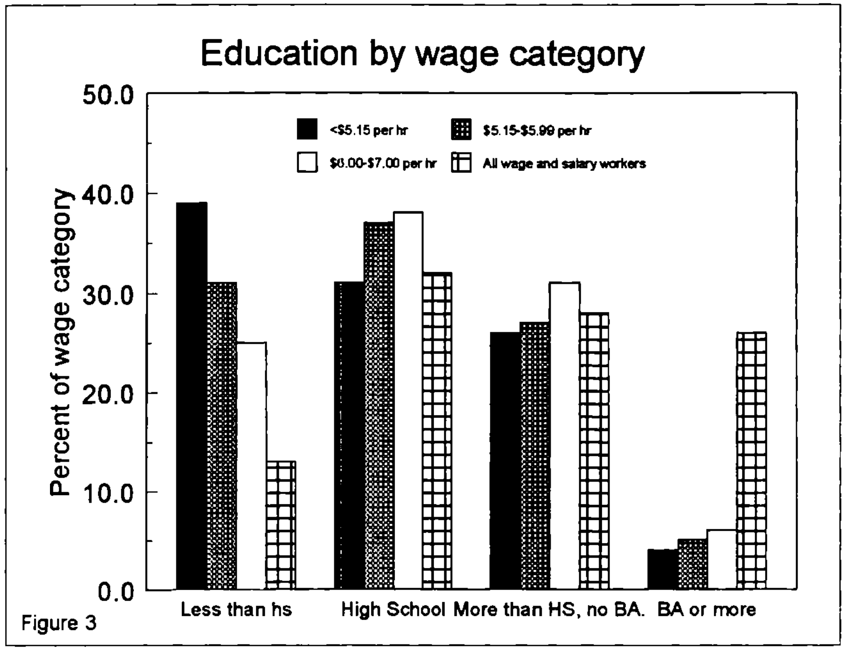


Figure 3

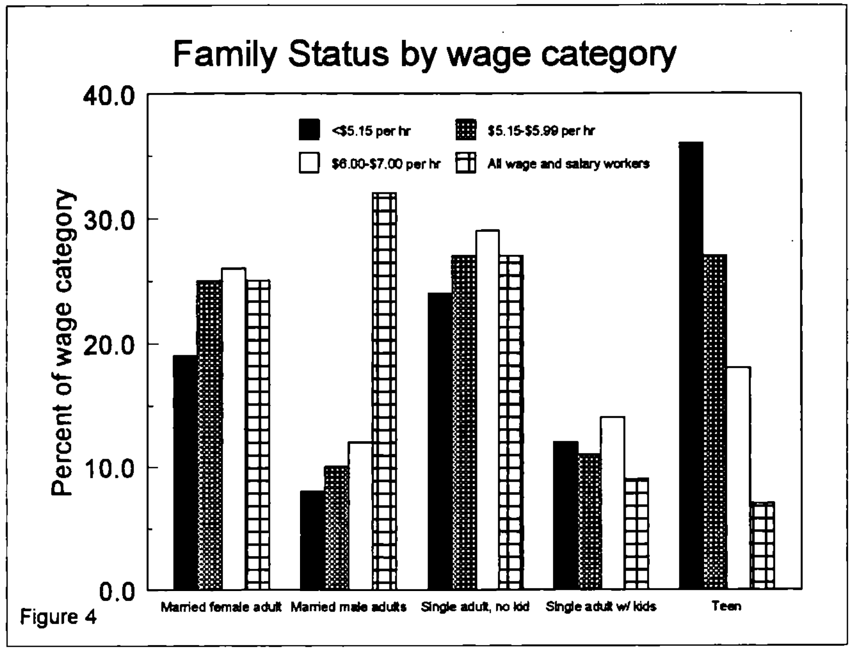


Figure 4

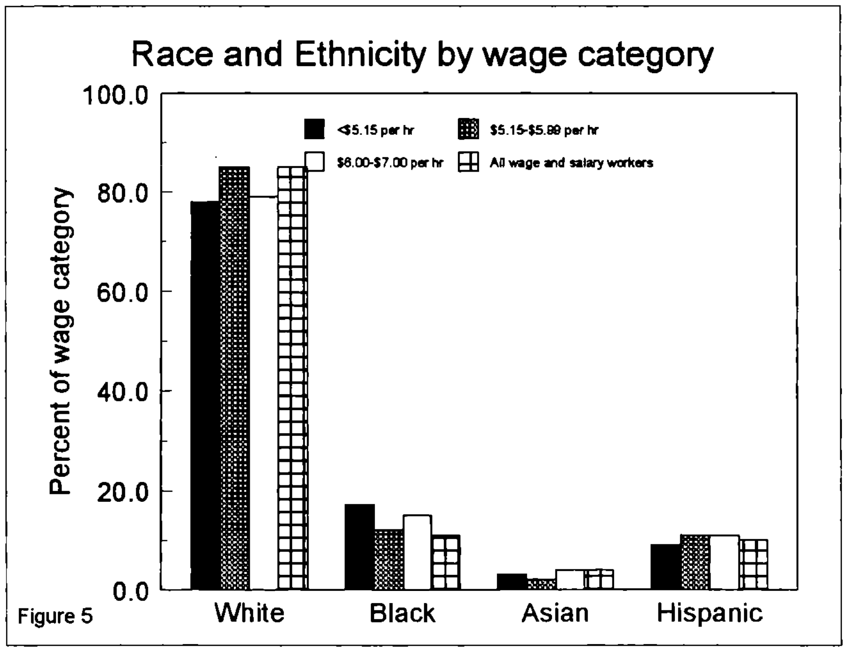


Figure 5

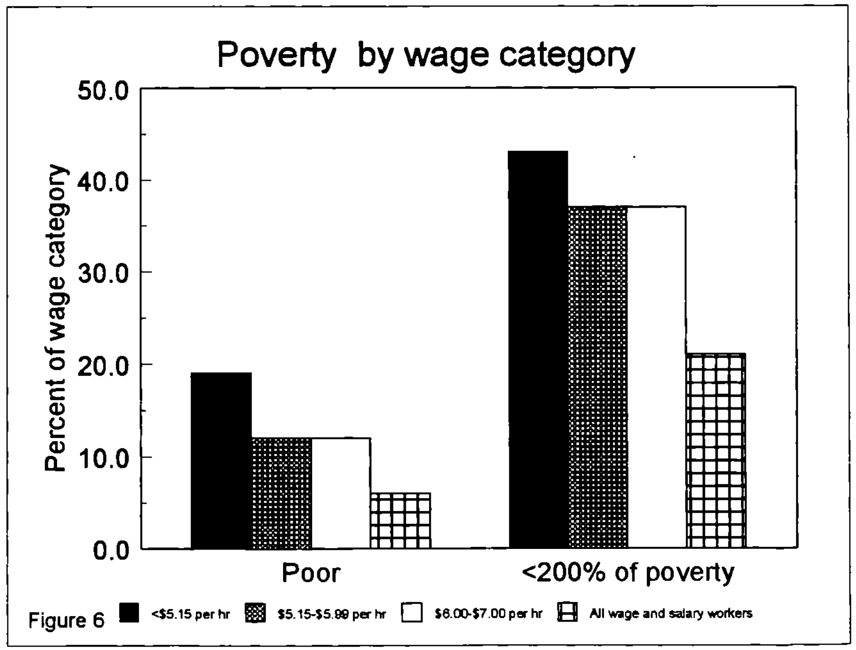


Figure 6

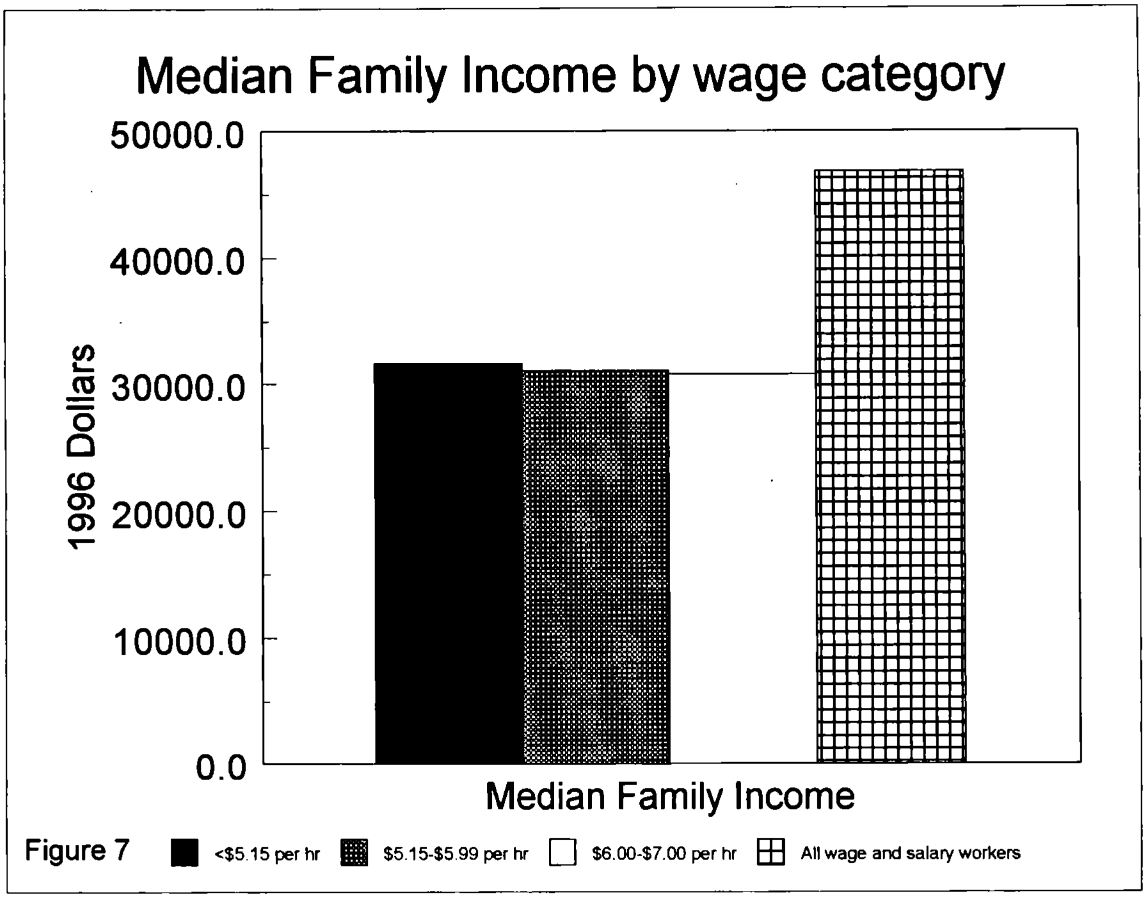

Median Family Income by wage category
50000.0
40000.0
30000.0
20000.0
10000.0
0.0
1996 Dollars
Median Family Income
<$5.15 per hr
$5.15-$5.99 per hr
$6.00-$7.00 per hr
All wage and salary workers

Figure 7

not w/ further increase:
have recently had a major ↑ + don't have any analysis of emp effects educ

¶1 – K's proposal → also project
¶2 – Here's where min wage is. real – med ; rel – < hs ①

Minimum Wage Talking Points:

1. Current real level of min wage compared to historic levels.
2. Current ratio of min wage to median hourly earnings (also to < hs) compared to historic levels.
3. How several different increments (including Kennedy proposal) would affect 1. And 2.

Main group affected would be...characteristi adultscs. / median $$ inc in group
Pop: b y poverty status ~% poor ; what is avg
By age teens vs
By spf/tpf

PROS:
1) Impact on Poverty RATE/GAP (assuming no disemployment). Combine w/eitc, etc. Sandy
2) Impact on wage inequality.
3) Nati~~onal standard / discourage 'race to the bo~~ttom'
4) raise income without raising taxes + spending → forces employers to use labor productively (Piore?)
5) labor supports

Mathis + Mears + Neumark Wascher

rare

CONS:
1) not well targetted?
2) potential disemployment effects → Card + Krueger
research maninly on earlier increase. Impact may differ as increase further
specific groups teent/single mothers
3) potential impact on consumers through increase in prices
4) offset by decrease training/other benefits
5) opposition by small business/low wage industries/ low-wage states

= reason to hesitant

[likely effects of recent]

teen ↑

① ¶3 what ~~know~~ effects of min wage ↑

Magn ↑
rel size – where falls in income dist
who covered – diff youth/ emp

– well expressed
– chart table
– TG △

¶4 – who affected

end

range of policy choices

- differentiate across age groups
- indexing min wage

December 11, 1997

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG

SUBJECT: Minimum Wage

Today, as you already know, Senator Kennedy gave a speech on the Democratic agenda. In that speech, he advocated raising the minimum wage again. Last July, he submitted his proposal to raise the minimum wage to $7.25 by 2002.

His proposal would increase the minimum wage by 50 cents per year until 2000, and then it would increase by 30 cents in 2001 and 2002. Specifically, the proposal would increase from $5.15 to $5.65 on September 1, 1998, to $6.15 on September 1, 1999, to $6.65 on September 1, 2000, to $6.95 on September 1, 2001, and to $7.25 on September 1, 2002.

Since Senator Kennedy and Rep. Gephardt are supportive of another minimum wage increase, we may be forced to answer questions about the Administration's position. Do we need to start a process about where is our position?

To do

- real minimum wage over time and projected; with Kennedy's proposal
- ratio of minimum wage to median, <hs etc.
- For 50 cent increments (note: = nominal so not quite the same as proposed):
  what percent affected are poor?
  What percent affected are below 200 percent of poverty
  what is median (or average) hh income
  what percentage are less than or equal to 20 yrs old?
  For adults (> 20): what percentage are married women
  What percentage are married men
  Single, no kids
  Single, kids
  race: percent affected that are black, white, hispanic, asian american
  educ: less than hs; hs; gr than hs and less than four year college; four year college degree or more
  what percent of the poor are affected
- growth rate of teenage employment 1992 - present
- growth rate of teenage emp rel to adult emplyoment 1992 - present
- what is minimum wage break even (poverty) point if working full time, 40 hours with EITC, adult with two kids. note EITC not incl in poverty calc
- literature: see Card and Krueger. Also for effect on poverty see NBER working paper. For effect on wage inequality see jeremy's paper.

December 11, 1997

MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG

SUBJECT: Minimum Wage

Today, as you already know, Senator Kennedy gave a speech on the Democratic agenda. In that speech, he advocated raising the minimum wage again. Last July, he submitted his proposal to raise the minimum wage to $7.25 by 2002.

His proposal would increase the minimum wage by 50 cents per year until 2000, and then it would increase by 30 cents in 2001 and 2002. Specifically, the proposal would increase from $5.15 to $5.65 on September 1, 1998, to $6.15 on September 1, 1999, to $6.65 on September 1, 2000, to $6.95 on September 1, 2001, and to $7.25 on September 1, 2002.

Since Senator Kennedy and Rep. Gephardt are supportive of another minimum wage increase, we may be forced to answer questions about the Administration's position. Do we need to start a process about where is our position?

from the office of
Senator Edward M. Kennedy
of Massachusetts

ADDRESS OF SENATOR EDWARD M. KENNEDY
AMERICA SHOULD WORK FOR ALL AMERICANS
NATIONAL PRESS CLUB
WASHINGTON, DC

For Immediate Release
Contact: Kathleen McKiernan
202-224-2633
December 11, 1997

We meet today in a nation at peace, in a remarkable period of sustained prosperity. Under the leadership of President Clinton, the economy continues to grow, with a combination of low inflation and low unemployment -- a combination that most economists regarded as all but impossible. Business productivity has reached historic highs. Enterprise and entrepreneurship are flourishing -- generating the longest expansion in our history, with unparalleled efficiencies and unprecedented job creation. The investment market is providing capital for new technology and future growth. New business is soaring at a pace not seen for two decades.

Many factors have contributed to this success, including the end of the Cold War after half a century of the American people and American Presidents leading in the cause of freedom. But that gave us only the opportunity, not the assurance of progress or prosperity.

The other indispensable element has been a President who has made steady, strong and even politically risky decisions on the toughest economic issues. In 1993, over fierce partisan opposition, he presented and passed a plan that put us on track for a balanced budget. He did it without a single Republican vote. And then, when the Republican Party took control of Congress, he worked with them as well. He held to his course, and finished the job that many doubted could ever be done.

Under President Clinton, we have met and mastered the challenge of eliminating the deficit and restoring the strength and vitality of an America economy that is once again unquestionably the most successful economy in the world.

This was a fundamental test, an historic achievement -- and a proud legacy. And now it is also the foundation on which the President and Congress can and must build a second great legacy -- to make America work for all Americans -- to make the benefits of a prosperous economy flow more fairly to all our people.

These are good times, but we can and must do better. We must honestly face certain facts about our country today -- facts which do not detract from what we have achieved, but which surely challenge us to do better.

For a generation after World War II, all income groups advanced together, sharing equally -- even progressively -- in the benefits of economic growth. But in the past two decades, America has been growing apart. A disproportionate share of the gains of our continuing prosperity has flowed to those at the top.

The squeeze on many families is all too real. They worry about the worth of their wages -- about their retirement security and their health care -- about their children's schools and the affordability of college -- about the safety of their communities and the security of their jobs -- and about demands of work devouring needed family time.

They worry about the basic values which give meaning to the American dream and give America its distinctive humanity. They worry that values such as opportunity for all, sharing with others, and caring for one another are being lost -- replaced by an ominous new ethic that challenges each of us to ask only what we can do for ourselves.

If this country can't fulfill the hopes and answer the needs of average families in a time of peace and prosperity, when will we ever do so? If as Democrats, we are true to our principles, we will seize this opportunity to shape a common agenda that unites us across any differences, around the values that are the very ground of our party's being.

The American people don't care about New Democrat or Old Democrat. They care about the quality of their lives. We ran and won on key issues in 1996 -- on health care and Medicare, on education and the environment. We took on one of the most powerful of all industries - the tobacco companies.

There is room in the Democratic Party for different points of view. The differences we have as Democrats pale beside our differences with Republicans.

The American people know that by heritage and history, the Democratic Party is the party of hope, not despair -- of reconciliation, not division -- of progress, not reaction. The people will stand with us now, if we stand up for them -- if we fight on their issues -- if we fight on their side.

They know that throwing money at problems doesn't work. But they also know that nothing substantial can happen on the cheap, and they understand the urgency of investing in the future.

The budget for the coming year may well contain a sizable surplus to finance such investments. Barely eleven months ago, in January of this year, the economists at the Congressional Budget Office were projecting a deficit of 124 billion dollars for the fiscal year that ended September 30. Last month, they said "OOPS" -- their estimate had turned out to be off by 101 billion dollars; the actual deficit for the year was 23 billion dollars.

We may see a series of surpluses in the years to come. There will be a battle royal in Congress over how to allocate them, and I will fight to use the lion's share to widen opportunity and strengthen families. The basic issue is not more spending versus more tax cuts. The issue will be where the money goes -- to those who don't need it, or to the hardworking majority of our people.

But it would be foolish to spend the surplus without being certain of our fiscal stability. Each of the initiatives that I will propose today and press next year in Congress is budget neutral. But they are not neutral about our values. I agree that we can and should lead this nation into a new progressive era. And that can and should be the second great legacy of the Clinton years.

First, we should and must raise the minimum wage. After a hard-fought battle in the Republican Congress, we did so in 1996, and the economy continued to grow -- because the scare tactics about lost jobs proved to be as false as they were self-serving. We should raise the minimum wage again in 1998. I'm optimistic that we will succeed, because Republicans have learned that it is dangerous to resist a Democratic increase in the minimum wage in an election year.

Ronald Reagan could get away with stonewalling a fair increase for eight straight years. But George Bush couldn't -- and Bob Dole couldn't -- and neither can Newt Gingrich and Trent Lott.

The long Republican stagnation of the minimum wage means that even after the increases of this decade, its worth still lags far behind inflation.

To have the purchasing power it had in 1968, the minimum wage today would have to be $7.33 an hour instead of the current level of $5.15. That fact is a measure of how far we have not just fallen short, but actually fallen back, in giving low income workers their fair share of our extraordinary economic growth. Think about this. In the past 30 years, the stock market, adjusted for inflation, has gone up by 115 percent, while the purchasing power of the minimum wage has gone down by 30 percent. Lavish bonuses are being distributed on Wall Street -- but not to the working families on Main Street who actually created the wealth in the first place.

We know who the minimum wage workers are. They are disproportionately women. They are single heads of households with children. They are teacher's aides, and child care providers. They are people who clean office buildings like this one in countless communities across the country. Working 40 hours a week, 52 weeks a year, they earn $10,712 a year -- $2,600 below the poverty level for a family of three.

No one who works for a living should have to live in poverty. In good conscience, we cannot continue to proclaim and celebrate prosperity, while consigning millions who have jobs to continuing poverty.

I intend to propose three annual increases of 50 cents in the minimum wage in each of the next three years -- to bring the level to $6.65 an hour on September 1 in the year 2000 -- still well short of where it should be, but significantly better than where we are today.

I will also propose that after the third year, the minimum wage be indexed, so that it will rise annually and automatically as the cost of living increases. Working Americans should not have to depend on the whim of Congress each election year to determine whether they are paid barely enough to get by.

The past two times when Congress raised the minimum wage, it did so in laws authorizing the increases in two annual steps, and a two-step increase instead of a three-step increase would be a satisfactory compromise next year. But somehow, I feel that our Republican friends will prefer not to go through the minimum wage debate again in the year 2000.

Second, we should enact comprehensive tobacco legislation, including an increase of $1.50 in the price of a pack of cigarettes. We should dedicate the resulting revenues to medical research and children. The primary purpose of a cigarette price increase is to reduce teenage smoking. Each day, three thousand more adolescents light up for the first time. A thousand of them will die prematurely from tobacco-related diseases. We know that if young Americans don't start smoking before the age of 18, the odds are nine out of ten they will never start smoking for the rest of their lives.

The most effective way to reduce teen smoking is to raise the cost of cigarettes. Enacting tobacco legislation is a once-in-a-lifetime opportunity to improve the health of the nation's children. An increase of $1.50 a pack is the minimum which experts believe will enable us to achieve the national youth smoking reduction targets. The June 20 agreement between the tobacco industry and the state attorneys general broke the ice, but it does not go far enough. It will only increase the price of cigarettes by 65 cents a pack. This is simply not enough to produce the dramatic reduction in teenage smoking which we are seeking -- and the companies know it.

Big Tobacco will resist a significantly larger increase. But this is a battle I welcome, that Democrats welcome, and that the country welcomes. It is a battle that needs to be fought, to protect children from future incarnations of Joe Camel, the Marlboro Man, and all the other thinly veiled tactics of Big Tobacco to hook the nation's children. America must win that battle. We can win it, and we will win it.

Increasing the price of cigarettes by $1.50 a pack could aise $20 billion a year for medical research and child development initiatives. I propose that half of that amount, $10 billion a year, be used to increase the budget of the National Institutes of Health for biomedical research. That increase must include both basic and clinical research. A major bipartisan move is already under way in Congress to double the NIH budget, which is currently $13 billion a year. A tobacco tax increase can provide most of the resources needed to reach that goal.

We stand on the threshold of dramatic breakthroughs -- against breast cancer and colon cancer, against heart disease and stroke, against Alzheimer's Disease and Parkinson's Disease, against AIDS and diabetes, against spinal cord injury and birth defects, and against an array of other debilitating conditions.

The tobacco price increase is just what the doctor ordered to make these breakthroughs possible. The bipartisan reforms signed into law last month by President Clinton to streamline the Food and Drug Administration will guarantee that discoveries in the laboratory reach the bedside of the patient as quickly as possible.

The one-two punch of reforming the FDA and doubling NIH research will have a major impact on the health of all Americans, and especially the elderly, who will benefit the most from these medical advances. And if we make senior citizens healthier, we will also reap an additional dividend -- crucial savings in Medicare -- which in turn will make Medicare healthier -- without cutting benefits or increasing taxes.

I propose that the second $10 billion a year in new revenues from the cigarette tax be committed to early childhood development and child care.

We have recently discovered, thanks in part to the First Lady's White House Conference on the Brain, that much of a child's future is determined by what happens before the age of three -- and even before birth. As the Carnegie Foundation's David Hamburg has said, "Education does not begin with kindergarten -- it begins with pre-natal care." Modern research proves the overriding importance of the first three years in a child's development, and now we have an opportunity to act on that research.

We must expand Head Start until it reaches all eligible children. And we must respond to what we now know about the youngest children, by expanding the Early Head Start Program for those between birth and the age of three.

We must do three things for child care -- raise its quality, make it safe, and make it more affordable for all families, including families with disabled children. That means earmarking part of the funds to expand incentives for more businesses to become more involved in child care. It means developing effective standards. It means better facilities. It means better training and better pay for child care professionals.

In all these areas, we can achieve maximum results by allocating federal resources in innovative ways that leverage state, local, and private funds. Too many working parents, rich and poor alike, live with the constant daily fear of inadequate child care. Our families and our future deserve better. We can no longer ignore the overwhelming need.

Next, on health care, I intend to propose a simple plan to make good care available to all working Americans. The number of the uninsured is soaring every year -- an additional million in the last year alone. By 2005, if we do nothing, the number will grow to 47 million -- one in every five Americans under 65. A recent study by the Kaiser Foundation shows that the vast majority of the uninsured are members of working families, and their lack of insurance forces millions of them to go without needed care. All their hard work cannot buy the care they need -- because they cannot afford it and their employer refuses to provide it.

I believe that a job should come with health benefits, and that the employee and the employer should have a shared responsibility. The plan I intend to introduce in January will be straight-forward -- no more than ten pages in length. It will require no large bureaucracy -- but it will require every employer in America to contribute to the cost of insurance for workers and their families.

Every business is expected to pay a minimum wage, and to obey the child labor laws. Every business is expected to provide safe and healthy working conditions, and to protect against injury on the job through worker's compensation. Every business is expected to contribute to retirement through Social Security, and to the health needs of the elderly through Medicare. It is long past time for every business to contribute to the cost of basic health insurance for its workers.

Many -- even most -- businesses already do. But many others don't, and in more and more cases, unfair competitive pressure from these bottom-feeders is compelling even good firms to cut health benefits or drop them altogether.

Comprehensive health insurance for all Americans does not have to mean complicated health insurance or excessive government intervention. Patients and doctors alike will benefit from a streamlined comprehensive system that will actually be far simpler than the maze of existing plans and the worsening nightmare of managed care abuses.

Critical to this reform is a Health Care Bill of Rights for Patients and Physicians. Insurance company accountants should not be allowed to practice medicine. No woman should be denied the right to see a gynecologist. No breast cancer patient should be forced by a health insurance plan to undergo a drive-by mastectomy. No patient with a rare or dangerous disease should be denied the right to be treated by a specialist. No child's health or very life should be at risk because a parent feels forced to drive past the nearest emergency room, in order to reach a more distant hospital that is the only hospital covered by their insurance plan. No doctors should be subjected to gag rules, or bribed with financial incentives, or threatened with financial penalties that prohibit or discourage them from giving patients the best medical care and advice. Simple, reasonable, quick review procedures should be available to anyone denied coverage or treatment by their insurance plan. We can make our health care system fair as well as excellent.

This aspect of health reform -- the Bill of Rights for Patients and Physicians -- is likely to receive strong bipartisan support in 1998. President Clinton supports it. Republican Congressman Charlie Norwood, a former dentist in Georgia, has introduced the leading bill in the House of Representatives, and it now has 212 sponsors.

Newt Gingrich, Dick Armey, and Trent Lott apparently feel the issue is getting away from them, and they are mounting a furious effort with the insurance industry to stuff the genie of reform back in the GOP leadership bottle.

Dick Armey described the problem this way: "This new offensive on health plan quality follows a Clinton pattern: first he identifies a crisis, usually in the Fall before an election year. Then he highlights it in his January State of the Union Address. And then he calls on Congress to send him, by election day, some Kennedy-Fill-in-the-Blank Republican bill to solve the crisis. His actions on health plan quality follow this pattern to a T."

On that, Mr. Armey may be right -- instead of far right. I hope so.

Fourth, as Senator Dodd has proposed, we should expand family and medical leave to cover more working families. The Family and Medical Leave Act was one of the first bills signed by President Clinton after his Inauguration in 1993, and it is one of his landmark achievements. It gives employees up to 12 weeks of unpaid leave a year to care for a newborn child or a family member who is seriously ill.

But we left the job half done in 1993. The principle was sound, but the scope was not. The current law covers only firms with 50 or more employees within a 75-mile radius. Americans who work for smaller businesses have the same needs, and there is no reason they should not have the same protection.

I believe we should expand family and medical leave to include all employees in firms with ten or more workers. This step will raise the coverage of the private workforce from 57 percent today to 85 percent. Another 26 million workers will have the advantage of family and medical leave.

Extending this benefit will not unduly burden business. A survey by the Family Leave Commission reported that worksites with eleven to 49 employees actually found it easier to comply with the law than did larger employers. Employees of smaller firms also need the benefits of this important law, and they and their families deserve it.

We should also expand family leave, as President Clinton has proposed, to cover up to 24 hours of time off from the job each year for parent-teacher conferences or other school-related occasions. Hard workers can be good parents too. A modest step like this will have a minimal impact on business, but it will have a major payoff on adapting the world of work to the needs of modern working families. The benefit for parents is large, and it is equally large for children, teachers, schools, and communities.

Fifth, on taxes, we know that reform of the Internal Revenue Code will be one of the top items on the Republican agenda next year. But their specific proposals are wonderfully Republican -- massive windfalls for the wealthy. In their zeal to make the tax laws simple, they forgot the need to make them fair.

Democrats must stand and fight for real reform. We must do all we can to ensure that any changes in the tax code benefit the middle class and working families, and not primarily the wealthiest individuals and corporations.

Republicans are clearly overplaying their hand. They've sent their leaders around the country touting the snake oil of a flat tax and a national sales tax. Both schemes are transparent GOP fig leafs over large new tax breaks for the wealthy. There is no question we need IRS reform. But for the large majority of Americans, the Republican cure would be worse than the IRS disease.

Democrats can and must seek genuine tax simplification. We can and must support a post-card IRS form. But the tax rate on the post-card cannot and must not be the same flat rate for all Americans.

Instead, we must propose a post-card tax return with progressive tax rates -- say 10%, 20%, and 30%, with the exact rates set so that the reform pays for itself by closing existing tax loopholes for individuals and businesses.

Few people realize the massive cost of the current loophole-ridden tax laws. The Internal Revenue Code is now rife with tax breaks skewed heavily in favor of the richest individuals and largest corporations. It contains 120 tax subsidies costing $500 billion a year -- more than Social Security, Medicare, or any other federal entitlement. Some of these subsidies are justified, but many are not. They are Robin Hood in reverse, robbing low and middle income families to give extra benefits to high income groups.

In recent years, Democrats have begun to insist -- successfully -- that new tax subsidies must be in the form of tax credits, not tax deductions, so that the benefits are distributed with greater fairness. The earned income tax break for low-income working families and President Clinton's recently enacted tax breaks for college education are in the form of tax credits, and they should be preserved. Democrats should use the coming tax reform debate to secure family tax credits that will enable disabled and elderly relatives to remain at home with their families.

Sixth, we should give a specific tax cut to working Americans and the middle class, by easing the tax burden that weighs most heavily on most employees and most small businesses -- the payroll tax.

The payroll tax is our most regressive tax. It is a flat rate tax with a right-wing tilt. The rate is 6.2% on every employee, matched by the employer -- but only on wages up to $65,000 a year. And then it is capped. An employee making $65,000 a year pays 6.2% of his income -- but an executive making $600,000 a year pays less than 1% of his income, and an executive making 6 million dollars a year pays less than one-tenth of one percent of his income.

We cannot pretend any longer that we do not see the gross injustice of this high-earner exemption. To end it, we should repeal the cap on the payroll tax and use the revenues gained to reduce the rate for everyone.

Under this proposal, the payroll tax rate would be reduced by nearly a full percentage point -- to 5.3%. Everyone earning less than $80,000 a year would receive a tax break. For employees earning $30,000 a year, the annual tax break would be $276. For those earning $60,000 a year, the tax break would be $552.

Comparable benefits will be available to small businesses, and the benefits will be especially great for the self-employed. This change will do nothing to increase the deficit, but it will do wonders to increase the equity of the payroll tax.

Next, we must give education the high priority it deserves. Clearly, Democrats now have to work harder here, because Republicans have stopped shooting themselves in both feet on the issue. They have stopped trying to slash federal aid to education and abolish the Department of Education.

Their new strategy is to talk positively about education. But they still can't resist riding their pet ideological hobby horses. They now support some federal aid. So far, so good. But they earmark the aid for private schools at the expense of public schools. That's so far right, it's bad.

The GOP plans for federally subsidized vouchers and IRAs for private schools are a dagger aimed at the heart of public education. Democrats should never be part of any plan to damage public schools. America invented public schools -- and we don't have to destroy them in order to save them. It is time to reaffirm the right of every child in America to a free public school education.

The GOP also opposes President Clinton's effort to demand high standards and conduct voluntary tests to hold schools accountable for performance. What are our Republican friends afraid of? Parents deserve to know how well their children are being taught, and these tests will give them that information.

While Republicans talk about education and pretend to be less negative, President Clinton and Democrats in Congress have been seeking the far-reaching reforms urgently needed by our schools. So I would like to pose a specific challenge now as my seventh initiative. We all know that good schools need good teachers to produce good students. In fact, the country will need two million new teachers in the next decade to meet increasing enrollments, replace teachers who retire, and ease the burden of over-crowded classes. Our goal at the federal level should be to fund and train half of these needed teachers.

I propose, therefore, that Congress act to bring 100,000 new well-trained teachers into our public schools each year for the next ten years.

We passed a comparable plan for police officers in 1994, when we established a federal trust fund to put 100,000 new police officers on the streets. That effort has been a resounding success in reducing crime. A similar principle can be used to improve education. Few, if any, investments in our schools will be more important.

The new teachers can be young men and women straight out of college, or men and women now in the workforce willing to retrain themselves for a new career.

The most effective way of encouraging new teachers would be to forgive student loan debt for college graduates who enter the teaching profession and stay there for five years. We can pay for this proposal by the same tax change that Republicans had hoped to use to fund their misguided aid to private schools.

Without a major national effort to make teaching an attractive and financially rewarding career for college graduates, we will fall short of all our other goals for public education in the coming years.

Eighth, I propose a new G.I. Bill of Rights -- for four years of public higher education for every qualified high school graduate. We know that after World War II, the G.I. Bill transformed the country by bringing college within reach for vast numbers of Americans. We need a new G.I. Bill today to make college affordable for all.

More than ever, what you earn depends on what you learn. The doors of higher education must be open to every American. No one should be turned away because their family can't afford to pay tuition. The way to do so is to make the cost of a full four-year public college education as accessible to every American as high school is today.

Every academically qualified American should be awarded aid of $3,000 a year, fairly balanced between Pell grants and HOPE credits, to cover the cost of average public college tuition. To extend this benefit will cost approximately 10 billion dollars a year. The Progressive Policy Institute of the Democratic Leadership Council has already identified $30 billion a year in misguided and unjustified corporate subsidies -- federal spending programs that subsidize particular industries and firms, while serving no broader economic or social purpose. I propose to take back a third of these funds, and use them for a genuine priority investment in America's future -- to make four years of college affordable for every qualified student.

Better teachers and greater access to college are the twin pillars of a realistic education reform strategy in 1998. The sooner we achieve these goals, the closer the American dream will be for every student, and the greater our country will be.

Ninth, we must do more to open the American Dream to all. Civil rights is still the great unfinished business of our society and our history. No American should be denied a job or a fair wage for their work because they are a woman, or because of race, religion, age, disability, ethnic background, or sexual orientation.

The Republican Senate should end its disgraceful opposition -- and confirm Bill Lee as Assistant Attorney General of the United States for Civil Rights. Congress should pass the Hate Crimes Act, to enhance the federal government's power to prosecute vicious crimes of bigotry that can victimize entire communities. We should pass the Employment Non-Discrimination Act, to outlaw job discrimination against gays and lesbians. And we should also pass new legislation to encourage and support every disabled person's dream to work, to live independently and to be a contributing member of their community.

President Clinton's national dialogue on race is a compelling summons to all of us to start thinking, talking and acting more effectively about this fundamental challenge to our very character as a nation. People must stop pretending the challenge has been met, because it hasn't. Above all, people must stop polarizing the issue for partisan advantage.

Surely, members of the Party of Abraham Lincoln can at least agree that discrimination and bigotry in the workplace are wrong. I challenge Republicans who are so busy attacking affirmative action to at least join us in a strong new genuine commitment to the full enforcement of existing laws against job discrimination.

I propose that we double the current $240 million enforcement budget of the Equal Employment Opportunity Commission over the next five years, and pay for it by reallocating funds from the overall federal budget for law enforcement. That budget currently totals $20 billion a year -- and one percent more of it committed in this area would be a powerful weapon against bias in employment and prejudice in promotion.

The massive backlog of current enforcement actions against bigotry in the workplace is a national disgrace. More and more employers are thumbing their nose at current laws. We need to do much more to prohibit job bias, and guarantee pay equity for women. Illegal job discrimination has to end. I say, give the Commission the tools it needs, and let it do its job.

In my view, this is a fundamental test of the sincerity of those who oppose affirmative action. They plead mightily that they also oppose discrimination. But do they really mean it? Let them prove it -- by providing the resources to root out discrimination in the workplace, once and for all.

Tenth, on crime, we should enact a new nationwide initiative for the prevention of juvenile crime. The Republican Congress has already set aside the sum of $500 million a year to combat such crime. But their strategy will fall short, because they scorn prevention.

Some juveniles should be prosecuted as adults. Some should receive longer sentences. We do need more prisons. But a wholesale lock-up of juvenile offenders alongside hardened adult criminals will be counter-productive. It will produce more criminals, not prevent more crime.

We need a fair balance between punishment and prevention. I propose that we earmark $250 million a year -- half of the funds already appropriated by Congress -- for matching grants to states and local communities for after-school programs. I call this proposal "America After School." The goal is to provide federal seed money to help every neighborhood in America develop an after-school program for latch-key children.

This program is modeled on the innovative and successful experience of Boston. It addresses the concern of working parents and police officers alike, to keep children off the street, out of gangs, away from drugs, and out of trouble after school. It is working in Boston, and it can work in other communities too.

Fifty percent of violent juvenile crimes are committed between the hours of three and eight p.m. By concentrating on this uniquely effective type of crime prevention, we will achieve dramatic reductions in violent crime -- and we will also engage the minds, inspire the hopes, and save the lives of vast numbers of the nation's youth. Prevention works, and every police chief in America will tell you so.

Eleventh and last -- but far from least -- is campaign finance reform. Next March, the Senate will begin what may well be the most telling battle of the entire year -- over whether special interests will retain their power to defeat or dilute major initiatives essential to the public interest.

The abuses of the 1996 campaign demonstrate that the current system of financing is more loophole than law. Both parties are exploiting the loopholes -- and both parties have an obligation to support reform. The McCain-Feingold bill is a clear test of whether the public good can prevail over self-seeking and the endless implicit exchange of favors for campaign cash. The greatest gift that Congress can give the American public in 1998 would be clean elections, because the integrity of our elections is essential to the integrity of our democracy.

Often, the great advances in America have come as a result of crisis. We, in this new time, now have the blessing and the burden of achieving progress when our capacity to act has never been greater. We need to resist the temptation to complacency or self-congratulation. The deficit has ended, but injustice has not. This is a moment of prosperity, but also anxiety. All seems calm and the path upward seems clear, but crisis will come again -- if we do not deal with critical issues.

We have been given an extraordinary moment in history. Let's not waste it. Let's refuse to coast or drift or merely comfort the comfortable. Let's be true to our mission -- to be a powerful force for progress. As we enter the new century, let's enter a new progressive era as well. Let's direct the tide, and not just ride it.

-30-

14

	Wage Increases: Looking for Minimum-Wage Effects in the ECI				Compensation (12-month percent changes)			
	Wage increase: 12 months ending Sept 96	Wage increase: last 12 months	ECEC wage levels (3/96)	ECEC compensation level (3/96)	Sept-94	Sept-95	Sept-96	Sept-97
Total			$17.49	$17.49	3.4	2.8	2.9	2.9
Occupational groups:								
White collar			15.44	21.10	3.6	3.0	3.0	3.2
Prof specialty & tech				29.19	3.3	2.5	3.3	2.5
Exec., Admin., & managerial				33.12	3.5	3.4	2.7	4.0
Sales				14.34	4.4	3.0	3.7	3.0
Administrative support, including clerical				14.93	3.6	3.1	2.7	3.0
Blue collar			11.61	17.04	3.0	2.6	2.6	2.5
Precision production, craft & repair				22.12	3.1	2.6	2.7	2.5
Machine operators, assemblers, and inspectors				15.48	2.7	2.1	2.6	2.4
Transportation & material moving				16.96	3.4	2.8	1.9	1.7
Handlers, eq. cleaners, helpers, and laborers				12.07	3.2	3.2	3.2	3.2
Service			6.53	8.61	2.5	2.5	2.0	3.5
Industries:								
Construction			14.86	21.59	3.6	1.5	2.7	2.7
Dur good mfg			14.92	22.50	3.2	3.2	2.7	2.2
N.D. mfg			13.03	18.88	3.2	2.1	2.8	3.2
Trans & pub.util.			16.51	24.22	3.3	4.1	3.0	2.6
Wholesale			13.98	19.04	2.8	4.3	3.6	3.5
Retail			7.50	9.54	3.1	2.2	2.5	3.9
Fire			16.12	22.59	4.1	3.5	3.7	2.5
Service			12.76	17.18	3.3	2.6	2.7	3.0

Wage Increases: Looking for Minimum-Wage Effects in the ECI

Compensation (12-month percent changes)

	Sept 95	Sept 96	June 97	Wage increase: 12 months ending Sept 96	Wage increase: last 9 months (AR)	ECEC wage levels (3/96)	ECEC compensation level (3/96)	June-94	june-95	june-96	june-97
Total						$17.49	$17.49	3.4	2.8	2.9	2.9
Occupational groups:											
White collar	123.5	127.9	131.3	3.6	3.6	15.44	21.10	3.6	3.0	3.0	3.2
Prof specialty & tech							29.19	3.3	2.5	3.3	2.5
Exec., Admin., & managerial							33.12	3.5	3.4	2.7	4.0
Sales							14.34	4.4	3.0	3.7	3.0
Administrative support, including clerical							14.93	3.6	3.1	2.7	3.0
Blue collar	120.8	124.3	127.3	2.9	3.2	11.61	17.04	3.0	2.6	2.6	2.5
Precision production, craft & repair							22.12	3.1	2.6	2.7	2.5
Machine operators, assemblers, and inspectors							15.48	2.7	2.1	2.6	2.4
Transportation & material moving							16.96	3.4	2.8	1.9	1.7
Handlers, eq. cleaners, helpers, and laborers							12.07	3.2	3.2	3.2	3.2
Service	120.8	124.2	127.6	2.8	3.7	6.53	8.61	2.5	2.5	2.0	3.5
Industries:											
Construction	116.5	120.1	123.6	3.1	3.9	14.86	21.59	3.6	1.5	2.7	2.7
Dur good mfg	123.6	127.7	130.1	3.3	2.5	14.92	22.50	3.2	3.2	2.7	2.2
N.D. mfg	123.4	127.7	130.6	3.5	3.0	13.03	18.88	3.2	2.1	2.8	3.2
Trans & pub.util.	123.0	126.0	128.8	2.4	3.0	16.51	24.22	3.3	4.1	3.0	2.6
Wholesale	124.0	128.6	132.2	3.7	3.7	13.98	19.04	2.8	4.3	3.6	3.5
Retail	120.3	124.2	128.5	3.2	4.6	7.50	9.54	3.1	2.2	2.5	3.9
Fire	118.0	122.2	125.3	3.6	3.4	16.12	22.59	4.1	3.5	3.7	2.5
Service	125.3	129.7	133.0	3.5	3.4	12.76	17.18	3.3	2.6	2.7	3.0

ECONOMIC POLICY INSTITUTE

1660 L. St. NW • Suite 1200 • Washington DC 20036 • Phone: 202.775.8810 • Fax: 202.775.0819
E-Mail: epi@epinet.org • Home Page: www.epinet.org

FAX

To: Amy Finkelstein

Org:

Fax: 395-6853

Pho:

From: Brian Lustig

Pho: 202-331-5530

Date:

Code: Pages(incl cvr.):

Comments:

If you did not receive all the pages in this transmission, please call 202.775.8810.

EPI Issue Brief

Issue Brief #118 Economic Policy Institute September 2, 1997

America's Well-Targeted Raise

Data Show Benefits of Minimum Wage Increase Going to Workers Who Need It Most

by Jared Bernstein

After intense debate, legislation was passed in the summer of 1996 to increase the federal minimum wage by $0.90, from $4.25 to $5.15. The increase was implemented in two phases: $0.50 on October 1, 1996 and the remaining $0.40 on September 1, 1997.

The debate over whether to raise the minimum wage focused almost exclusively on whether the increase would lead to layoffs by low-wage employers. The debate's narrow focus, however, often failed to take into account the important benefits of the increase for low-wage workers. Research earlier this year on the "disemployment effects" found that the first phase of the increase resulted in no significant job losses for these workers (Bernstein and Schmitt 1997). This analysis looks at national- and state-level data to determine which workers benefitted from the minimum wage increase.

An analysis of this data reveals that:

- Close to 10 million workers will benefit from the full $0.90 increase;
- These workers are mostly female (58%) and adult (71%);
- Nearly half of the affected workers (46%) work full time, while another 33% work between 20 and 34 hours per week;
- The minimum wage primarily benefits low-income families; 57% of the gains from the increase will go to working families in the bottom 40% of the income scale;
- In 18 states, more than 10% of the workforce is affected by the increase;
- The increase will raise the earnings of workers in the affected range ($4.25-$5.14 an hour) by over $0.40 per hour on average.

Workers by State

Table 1 shows the percentage and number of workers affected by the increase by region, division within region, and state. Nationally, close to 10 million workers, or 8.9% of the workforce, will receive a pay raise due to the $0.90 increase in the minimum wage. Except in the Northeast, a number of states will see more than 10% of their workforce affected by the full increase.

In terms of share of the workforce affected, the increase has the largest impact in the South, where hourly wages tend to be lower than in other parts of the nation. In Mississippi, for example, 16.5% of the workforce is affected by the full increase. States in the Western region also have relatively high shares of workers in the affected range: Wyoming and New Mexico both have shares above 12%. While the minimum wage affects fewer workers in the Northeast (due to the higher wage rates in that part of the country), the increase will still boost the wages of close to 1.5 million of that region's workers.

National Characteristics of Minimum Wage Workers

Opponents of the increase in the minimum wage claimed that the policy was "poorly targeted," arguing that gains would go mostly to teenagers in high-income families. In reality, most minimum wage workers are adults, and most of the wage gains from the increase are going to low-income working families.

Table 2 shows that over 70% of the workers in the affected range are adults. The table also reveals that females account for 58% of the minimum wage workforce. Almost half of minimum wage workers (46%) work full time, while another 33% work between 20 and 34 hours per week. Their average wage was $4.73 an hour in the 12 months prior to the increase, suggesting that, with the boost to $5.15, affected workers will on average reap a $0.42 hourly wage gain. These gains will prove especially important to workers in retail trade, the industry with the largest share of minimum wage workers. While 17.3% of the overall workforce is in retail, 42.6% of minimum wage workers are in this industry.

Figure 1 reveals how the gains from the increase are distributed by family income. Families in the lowest fifth, who have only 5.1% of total income, will benefit the most from the increase, reaping 39.5% of the gains. Well over half of the gains (57.4%) go to families in the bottom 40%. Workers from the highest fifth benefit the least (12.6%), suggesting that the increase is well targeted to lower-income families.

Conclusion

The minimum wage has historically played an important role in raising the earnings of low-wage workers. Unfortunately, the policy debate over the issue has focused almost exclusively on the risk of job loss, despite the fact that recent literature demonstrates that such "disemployment effects" are either nonexistent or negligible. Given these findings, too little attention has been paid to the question of who benefits from the increase in the minimum. This analysis reveals that the benefits of the minimum wage increase go overwhelmingly to those who need it most—full- and part-time adult workers in lower-income families.

TABLE 1
Workers Affected by the Minimum Wage Increase, by State/Region

State/Region	Share	Number
NORTHEAST	6.8%	1,451,104
New England	5.4%	314,970
Maine	7.9%	40,631
New Hampshire	5.1%	26,369
Vermont	7.0%	17,854
Massachusetts	5.0%	133,840
Rhode Island	7.3%	30,747
Connecticut	4.6%	65,527
Mid-Atlantic	7.3%	1,136,135
New York	7.6%	542,091
New Jersey	4.6%	156,725
Pennsylvania	8.9%	437,319
MIDWEST	7.9%	2,171,201
East-North Central	7.7%	1,474,021
Ohio	8.7%	419,729
Indiana	9.3%	247,721
Illinois	6.8%	354,033
Michigan	7.2%	289,417
Wisconsin	6.6%	163,120
West-North Central	8.5%	697,180
Minnesota	6.0%	127,595
Iowa	9.0%	117,129
Missouri	8.1%	194,198
North Dakota	13.6%	36,307
South Dakota	10.2%	31,095
Nebraska	8.8%	63,554
Kansas	11.8%	127,303
SOUTH	10.8%	4,191,171
South Atlantic	9.2%	1,863,740
Delaware	6.2%	20,189
Maryland	5.7%	134,276
District of Columbia	5.5%	12,601
Virgina	8.4%	250,109
West Virginia	14.8%	99,772
North Carolina	9.2%	297,471
South Carolina	11.3%	176,471
Georgia	9.4%	294,580
Florida	10.1%	578,272
SOUTH *(cont.)*		
East-South Central	11.8%	779,788
Kentucky	10.4%	160,092
Tennessee	8.7%	196,412
Alabama	14.0%	246,162
Mississippi	16.5%	177,123
West-South Central	13.0%	1,547,643
Arkansas	14.8%	155,325
Louisiana	15.3%	250,269
Oklahoma	14.6%	189,111
Texas	12.0%	952,938
WEST	8.8%	2,072,682
Mountain	8.8%	594,236
Montana	11.9%	38,865
Idaho	10.7%	51,078
Wyoming	12.5%	25,555
Colorado	6.1%	106,209
New Mexico	12.3%	76,434
Arizona	9.9%	180,343
Utah	8.6%	71,857
Nevada	6.2%	43,894
Pacific	8.8%	1,478,446
Washington	5.4%	126,229
Oregon	7.3%	98,980
California	10.0%	1,230,381
Alaska	3.6%	8,590
Hawaii	3.0%	14,266
TOTAL U.S.	8.9%	9,886,158

Note: Workers affected by the increase are those who earned between $4.25 and $5.14 in the year prior to the minimum wage increase.

Source: EPI analysis of CPS ORG data.

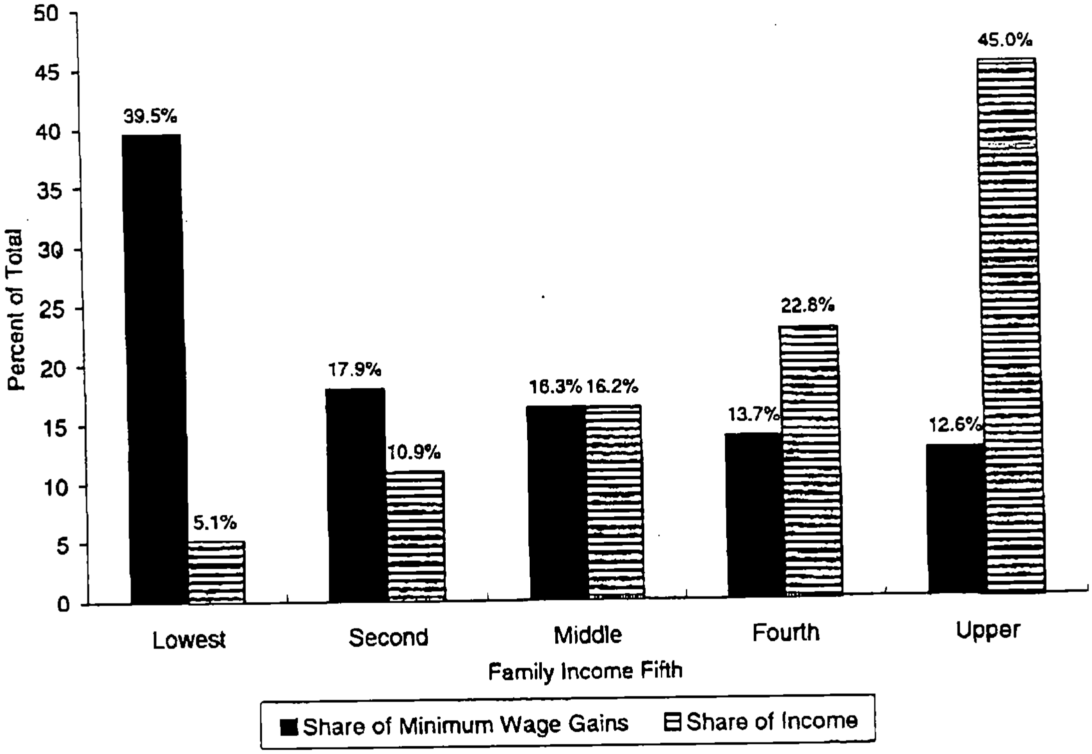
TABLE 2
Characteristics of Minimum Wage and Other Wage Earners, Full Increase ($4.25-$5.15), October 1995-September 1996

Characteristic	Workers Directly Affected by New Minimum ($4.25-$5.14)	Other Low-Wage Workers ($5.15-$6.14)	Workers Above Minimum Wage ($6.15+)	All Workers
Average Wage	$4.73	$5.72	$14.62	$12.73
Employment	9,886,158	9,610,926	89,065,561	110,931,743
Share of Total	8.9%	8.7%	80.3%	100.0%
Demographics				
Male	41.8%	41.9%	54.9%	52.3%
Female	58.2%	58.1%	45.1%	47.7%
White	62.8%	67.7%	77.9%	75.4%
Male	24.6%	26.2%	42.8%	39.4%
Female	38.2%	41.5%	35.1%	36.0%
Black	16.1%	13.8%	10.4%	11.3%
Male	6.4%	5.5%	5.1%	5.3%
Female	9.8%	8.3%	5.3%	6.0%
Hispanic	17.5%	14.8%	7.9%	9.5%
Male	9.3%	8.6%	4.9%	5.7%
Female	8.2%	6.2%	3.0%	3.8%
Teens (16-19)	28.6%	16.0%	1.7%	5.6%
Work Hours				
Full-Time (35+)	46.0%	62.7%	87.7%	81.1%
Part-Time				
20-34 hours	33.3%	25.4%	9.0%	13.0%
1-19 hours	20.7%	11.9%	3.3%	5.9%
Industry				
Manufacturing	8.8%	12.7%	19.7%	17.8%
Retail Trade	42.6%	35.8%	12.2%	17.3%

Source: EPI analysis of BLS data.

FIGURE 1

Distribution of Minimum Wage Gains and Income Shares by Fifth, 1996
All Working Families



Source: EPI analysis of 1996 March CPS data.

Further Readings

Bernstein, Jared and John Schmitt. 1997. *The Sky Hasn't Fallen: An Evaluation of the Minimum-Wage Increase*. Briefing Paper. Washington, D.C.: Economic Policy Institute.

The Economic Policy Institute wishes to thank Carnegie Corporation of New York, Charles Stewart Mott Foundation, The John D. and Catherine T. MacArthur Foundation, and the Rockefeller Foundation for their support of this publication.