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Folder Title:
Minimum Wage

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S	21	1	7	2

Mike

Bruce

Dave

Col.

90

More than five years

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October 1, 1996

MEMORANDUM TO JOSEPH STIGLITZ

FROM: RICA RODMAN

RE: RADIO INTERVIEWS

The following are radio interviews scheduled for today:

Time: anytime 4:00-4:15 p.m.
Station: WIZM - La Crosse, WI
Phone: 608-782-0650 / 608-785-7914
Interviewer: Bruce Markus
Contact: Bruce Markus
Notes: taped interview. #1 news/talk station in La Crosse

Time: 4:35 p.m.
Station: WKZO - Kalamazoo, MI
Phone: 616-382-4282 / 616-382-4280
Interviewer: Dave Jaconette
Contact: Dave Jaconette
Notes: LIVE interview. #1 news/talk station in Kalamazoo

Time: 4:40-4:50 p.m.
Station: WBT - Charlotte, NC
Phone: 704-374-3850 / 704-374-3851
Interviewer: Mike Collins
Contact: David Eads
Notes: LIVE interview. #1 news/talk station in Charlotte. Mike is a big supporter of the President



CENTER ON BUDGET AND POLICY PRIORITIES

who does it for me?

FOR IMMEDIATE RELEASE:
Monday, October 2, 1995, 9:30 a.m.

CONTACT: Michelle Bazie, (202) 408-1080
Nan Gibson (202) 775-8810

LEADING ECONOMISTS CALL FOR HIGHER MINIMUM WAGE

Three Nobel Winners Among 101 Signers of Statement Backing 90-Cent Hike Over Two Years

An eminent group of economists — including three recipients of the Nobel Prize in Economics — have endorsed an increase in the federal minimum wage in a statement released today.

Among the 101 signatories of the statement are seven past presidents of the American Economics Association and experts in disciplines ranging from labor markets and industrial relations to income distribution and poverty. Their statement was released by two Washington-based research organizations, the Center on Budget and Policy Priorities and the Economic Policy Institute.

The statement notes that "After adjusting for inflation, the value of the minimum wage is at its second-lowest annual level since 1955. The purchasing power of the minimum wage is 26 percent below its average level during the 1970s..." The purchasing power of the minimum wage reached its lowest level right before the last increase in 1990.

"We believe that the federal minimum wage can be increased by a moderate amount without significantly jeopardizing employment opportunities . . . Specifically, the proposed increase in the minimum wage of 90 cents over a two-year period falls within the range of alternatives where the overall effects on the labor market, affected workers and the economy would be positive," the economists' statement continues. (Such an increase has been proposed this year in both the Senate and the House of Representatives.)

The statement's release comes as Congress is actively considering reductions in the Earned Income Tax Credit. Workers who are affected by a stagnant minimum wage are in large part the same people who would be hurt by proposed EITC cuts.

Opponents of a higher minimum wage sometimes claim that economic opinion is settled against any increase. The statement shows that this claim is inaccurate; there is substantial support within the Economics profession for a moderate increase.

The three Nobel winners backing the minimum wage increase are Kenneth J. Arrow of Stanford, Lawrence R. Klein of the University of Pennsylvania, and James Tobin of Yale. Each has served as president of the American Economics Association. The other AEA past presidents signing the statement are Moses Abramovitz of Stanford, Robert Eisner of Northwestern, John Kenneth Galbraith of Harvard, and William Vickrey of Columbia.

Statement of Support for a Minimum Wage Increase

As economists who are concerned about the erosion in the living standards of households dependent on the earnings of low-wage workers, we believe that the federal minimum wage should be increased. The reasons underlying this conclusion include:

- After adjusting for inflation, the value of the minimum wage is at its second lowest annual level since 1955. The purchasing power of the minimum wage is 26 percent below its average level during the 1970s.
- Since the early 1970s, the benefits of economic growth have been unevenly distributed among workers. Raising the minimum wage would help ameliorate this trend. The positive effects of the minimum wage are not felt solely by low-income households, but minimum wage workers are overrepresented in poor and moderate-income households.
- In setting the value of the minimum wage, it is of course appropriate to assess potential adverse effects. On balance, however, the evidence from recent economic studies of the effects of increases in federal and state minimum wages at the end of the 1980s and in the early 1990s — as well as updates of the traditional time-series studies — suggests that the employment effects were negligible or small. Economic studies of the effects of the minimum wage on inflation suggest that a higher minimum wage would affect prices negligibly.
- Most policies to boost the incomes of low-wage workers have both positive and negative features. And excessive reliance on any one policy is likely to create distortions. The minimum wage is an important component of the set of policies to help low-wage workers. It has key advantages, including that it produces positive work incentives and is administratively simple. For these and other reasons, such as its exceptionally low value today, there should be greater reliance on the minimum wage to support the earnings of low-wage workers.

We believe that the federal minimum wage can be increased by a moderate amount without significantly jeopardizing employment opportunities. A minimum wage increase would provide a much-needed boost in the incomes of many low- and moderate-income households. Specifically, the proposed increase in the minimum wage of 90 cents over a two-year period falls within the range of alternatives where the overall effects on the labor market, affected workers, and the economy would be positive.

Signatories to Economists Statement of Support for a Minimum Wage Increase

Aaron, Henry — Brookings Institution
Abramovitz, Moses — Stanford University
Allen, Steven G. — North Carolina State University
Altonji, Joseph G. — Northwestern University
Appelbaum, Eileen — Economic Policy Institute
Arrow, Kenneth J. — Stanford University
Bartik, Timothy J. — Upjohn Institute
Bator, Francis M. — Harvard University
Bergmann, Barbara — American University
Blanchard, Olivier — Massachusetts Institute of Technology
Blanchflower, David — Dartmouth College
Blank, Rebecca — Northwestern University
Bluestone, Barry — University of Massachusetts Boston
Bosworth, Barry — Brookings Institution
Briggs, Vernon M. — Cornell University
Brown, Clair — University of California at Berkeley
Browne, Robert S. — Howard University
Burtless, Gary — Brookings Institution
Burton, John — Rutgers University
Chimerine, Lawrence — Economic Strategy Institute
Danziger, Sheldon — University of Michigan
Darity, William Jr. — University of North Carolina
DeFreitas, Gregory — Hofstra University
Diamond, Peter A. — Massachusetts Institute of Technology
Duncan, Greg J. — Northwestern University
Ehrenberg, Ronald A. — Cornell University
Eisner, Robert — Northwestern University
Ferguson, Ronald F. — Harvard University
Faux, Jeff — Economic Policy Institute
Galbraith, James K. — University of Texas at Austin
Galbraith, John Kenneth — Harvard University
Garfinkel, Irv — Columbia University
Gibbons, Robert — Stanford University
Glickman, Norman — Rutgers University
Gordon, David M. — New School for Social Research
Gordon, Robert J. — Northwestern University
Gramlich, Edward — University of Michigan
Gray, Wayne — Clark University
Harrison, Bennett — Harvard University
Hartmann, Heidi — Institute for Women's Policy Research
Haveman, Robert H. — University of Wisconsin
Heilbroner, Robert — New School for Social Research
Hirsch, Barry T. — Florida State University
Hirschman, Albert O. — Princeton University
Hollister, Robinson G. — Swarthmore College
Holzer, Harry J. — Michigan State University
Howell, David R. — New School for Social Research
Hurley, John — Jackson State University
Jacoby, Sanford M. — University of California at Los Angeles

Kahn, Alfred E. — Cornell University
Kamerman, Sheila B. — Columbia University
Katz, Harry C. — Cornell University
Katz, Lawrence — Harvard University
Klein, Lawrence R. — University of Pennsylvania
Kleiner, Morris M. — University of Minnesota
Kochan, Thomas A. — Massachusetts Institute of Technology
Lang, Kevin — Boston University
Lester, Richard A. — Princeton University
Levy, Frank — Massachusetts Institute of Technology
Lindbloom, Charles E. — Yale University
Madden, Janice F. — University of Pennsylvania
Mangum, Garth — University of Utah
Margo, Robert — Vanderbilt University
Markusen, Ann — Rutgers University
Marshall, Ray — University of Texas at Austin
Medoff, James L. — Harvard University
Meyer, Bruce — Northwestern University
Minsky, Hyman P. — Bard College
Mishel, Lawrence — Economic Policy Institute
Montgomery, Edward B. — University of Maryland
Mumane, Richard J. — Harvard University
Musgrave, Peggy B. — University of California at Santa Cruz
Musgrave, Richard A. — University of California at Santa Cruz
Nichols, Donald — University of Wisconsin
Ooms, Van Doorn — Committee for Economic Development
Osterman, Paul — Massachusetts Institute of Technology
Packer, Arnold — Johns Hopkins University
Papadimitriou, Dimitri B. — Jerome Levy Economics Institute
Perry, George L. — Brookings Institution
Peterson, Wallace C. — University of Nebraska at Lincoln
Pfeifer, Karen — Smith College
Piore, Michael — Massachusetts Institute of Technology
Polenske, Karen — Massachusetts Institute of Technology
Quinn, Joseph — Boston College
Reich, Michael — University of California at Berkeley
Reynolds, Lloyd G. — Yale University
Scherer, F.M. — Harvard University
Schor, Juliet B. — Harvard University
Shaikh, Anwar — Jerome Levy Economics Institute
Smeeding, Tim — Center for Advanced Study in the Behavioral Sciences
Smolensky, Eugene — University of California at Berkeley
Stromsdorfer, Ernst W. — Washington State University
Summers, Anita A. — University of Pennsylvania
Summers, Robert — University of Pennsylvania
Tobin, James — Yale University
Vickrey, William — Columbia University
Voos, Paula B. — University of Wisconsin
Vroman, Wayne — Urban Institute
Watts, Harold — Columbia University
Whalen, Charles J. — Jerome Levy Economics Institute
Wolff, Edward — New York University

Sept 1, 1997

IMPORTANT MINIMUM WAGE FACTS

IMPORTANT DATES:

November 1, 1989: Compromise reached on minimum wage increase
November 10, 1989: President Bush signs minimum wage increase
April 1, 1990: Minimum wage is increased 45 cents from \$3.35 to \$3.80.
April 1, 1991: Minimum wage is increased 45 cents from \$3.80 to \$4.25.
July 17, 1991: Senate votes to increase their pay.
January 1993: Congress takes cost-of-living adjustment, increases pay to \$133,600
February 3, 1995: President Clinton proposes 90-cent increase in the minimum wage.
July 1996: President proposal increases minimum wage by 45 cents to \$4.70
July 1997: President proposal increases minimum wage by 45 cents to \$5.15

IMPORTANT NUMBERS:

- ✓ • In 1995, 2.0 million hourly-paid workers earned precisely \$4.25 an hour, down from 2.1 million in 1994. (Source: Bureau of Labor Statistics)
- ✓ • In 1995, 3.7 million hourly-paid workers earned \$4.25 an hour or less, down from 4.1 million in 1994. (Source: Bureau of Labor Statistics)
- In 1995, 9.7 million hourly-paid workers would directly benefit from the President's proposal to increase the minimum wage from \$4.25 to \$5.15. (That is, 9.7 million earn between \$4.25 and \$5.14.) That's down from an estimated 10.7 million last year. (Source: Bureau of Labor Statistics)
- 59 percent of hourly workers directly affected by the President's proposal are women. (5.8 million). (Source: Bureau of Labor Statistics)
- // 69 percent of hourly workers directly affected by the President's proposal are adults age 20 and over (6.6 million). (Source: Bureau of Labor Statistics)
- // Almost two-fifths of all the workers who would benefit from the President's minimum wage (39%) are the sole wage-earners in their household. (Source: Economic Policy Institute.)
-] • The average minimum wage worker brought home half of his or her family's earnings. (Source: Economic Policy Institute.)
- Within a year, if the minimum wage is not increased, it will fall to its lowest real level in 40 years. (Labor expects the minimum wage to hit its 40-year low in January 1997.)

4.25
4.70
5.15

Day



- The real value of the minimum wage is now 29 percent lower than it was in 1979.
- The real value of the minimum wage has fallen nearly 50 cents since its last increase in April of 1991.
- Nearly half (47%) of all workers who earn the minimum wage are part of families that are in the bottom 20 percent of the wage distribution -- that's families that earn less than \$360 a week. (Source: Economic Policy Institute)
- Only one in 14 workers earning between \$4.25 and \$5.15 per hour is a teenaged student from a family with above-average earnings. (Source: Economic Policy Institute)

THE MINIMUM WAGE AND MEMBERS OF CONGRESS:

- A Member of Congress earned more during the government shutdowns than a minimum wage worker earns all year long.
- In the last 15 years, the real value of congressional pay has increased 27 percent, while the real value of the minimum wage has dropped by the same amount (27 percent).
- For someone working full-time, the real value of the minimum wage has declined \$3,000 since 1981, while the real value of congressional pay has increased by \$28,000.
- A Member of Congress earned more before January 24, 1996 than a full-time minimum wage worker will earn all year long.

NOTE: A Member of Congress earns \$133,600 per year, while a full-time, year round minimum wage worker earns \$8,500 per year.

- It takes 16 work days for a Member of Congress to earn more than a full-time minimum wage worker earns all year long.

WHAT A \$1800 WOULD MEAN TO AN AVERAGE FAMILY?

The President's proposal to increase the minimum wage would provide \$1,800 to a worker who works full-time, year round. That's enough money for the average family to pay for:

- Over seven months of groceries;
- Basic housing costs for almost four months (rent or mortgage);
- One year of health care costs, including insurance premiums, prescription drugs, and out-of-pocket costs;
- Nine months worth of utility bills;
- More than a full-year's tuition at a 2-year college; or
- Three months worth of total transportation costs, including gasoline, maintenance, and public transportation.

MINIMUM WAGE AND POVERTY:

- About 20 percent of all minimum wage workers are in poverty.
- A recent, preliminary analysis by the Economic Policy Institute and the Department of Health and Human Services suggests that 300,000 people would be lifted out of poverty if the minimum wage were raised to \$5.15 per hour. This figure includes 100,000 children who are currently living in poverty.

Al Gore

THE MINIMUM WAGE HAS TRADITIONALLY HAD BIPARTISAN SUPPORT

- Presidents Eisenhower, Nixon, and Bush all signed minimum wage increases. In fact, with the exception of Presidents Reagan and Ford, every Democratic President and every Republican President since the Great Depression has raised the minimum wage during their term in office.
- In 1989, the minimum wage increase passed the House by a vote of 382 to 37 (with 135 Republicans voting for the bill), and 89 to 8 in the Senate (with the support of 36 Republicans). For example, the following prominent Republicans voted for the bill:

Senators:

Thad Cochran -- Conference Chairman
Al D'Amato -- Chairman of Dole '96
Bob Dole -- Majority Leader
Pete Domenici
Phil Gramm
Nancy Kassebaum -- Chair of Labor Committee
Trent Lott -- Majority Whip
William Roth
Alan Simpson
Strom Thurmond -- President Pro Tempore

Representatives:

Newt Gingrich -- Speaker
John Kasich
Bill Goodling -- Chair of Labor Committee
Jim Saxton -- Biggest Opponent of Increase
Nancy Johnson
Jim Leach
Pat Roberts
Cass Ballenger

PROMINENT REPUBLICANS WHO VOTED AGAINST MINIMUM WAGE INCREASE IN 1989: Arney, Delay, Livingston, Hatch, Helms, Mack, and Nickles.

- **Senator Bob Dole**, on a minimum wage increase in 1989: "[T]his is not an issue where we ought to be standing and holding up anybody's getting a 30 to 40 cents an hour pay increase, at the same time that we're talking about capital gains. I never thought the Republican Party should stand for squeezing every last nickel from the minimum wage." [Source: *Congressional Quarterly Almanac 1989*]

DOES THE MINIMUM WAGE COST JOBS?

- Nearly a dozen empirical studies have found that moderate increases in the minimum wage do not have a significant impact on employment. These studies include state-specific research that shows that higher state increases in the minimum wage did not result in significant job impacts.
- An extension of the time-series studies that had previously been used to claim that raising the minimum wage decreases employment, no longer finds a significant impact.
- As Nobel Laureate Robert Solow stated: "[T]he evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."

MINIMUM WAGE AND INFLATION

- An independent study by WEFA concluded that the President's proposal to increase the minimum wage would raise the overall price level by less than one-tenth of one percent per year. In other words, groceries for a working family during an entire year that would have cost \$3,000 would then cost \$3,003.

Talking Points on Minimum Wage and Employment

o A dozen economic studies have concluded that a modest increase in the minimum wage has a statistically insignificant effect on employment. (See the attached list.)

o The main evidence that has been used to argue that a rise in the minimum wage reduces employment is based on time series evidence. These studies typically relate teenage employment to a measure of the minimum wage. Time series studies that were estimated in the 1970s and early 1980s tended to find that a 10 percent increase in the minimum wage leads to a 1 to 3 percent decline in teen employment. However, if these same studies are updated to include data covering the 1980s, the results show a much smaller and statistically insignificant effect of the minimum wage on employment. In other words, in the time-series literature one can not rule out that the relationship between the minimum wage and employment occurred by chance. A study by Allison Wellington of Davidson College (NC) that was published in the Journal of Human Resources in 1991 was among the first to find this result. In addition, a study by Jacob Klerman of the Rand Institute published in 1992 in (Health Benefits in the Workforce, USDOL, 1992) reached a similar conclusion.

o In one of the most compelling studies on the topic, Professor David Card of Princeton University examined the effect of the 1990 and 1991 increases in the minimum wage on employment growth for teenagers across states. The rise in the federal minimum wage had a varying effect on wages in different states. For example, in many Southern states over 50% of teenagers were paid between \$3.35 and \$3.80 prior to the increase in the minimum wage to \$3.80, while fewer than 10% of teens were in this range in New England and California. Card finds no evidence of the 1990 minimum wage increase affecting teenage employment or school enrollment across states. Card has followed this work up through 1992, and the data continue to show no relationship between the percent of workers affected by the minimum wage increase in a state and growth in teenage employment. It is important to note that his conclusions are essentially unchanged if he controls for changes in adult employment and other variables. The original paper was published in Industrial and Labor Relations Review, October 1992.

o Professor Card has also done a case study of the minimum wage in California. In July 1988 California raised its minimum wage to \$4.25 per hour, 3 years before the federal minimum reached that level. Card compares teenage employment and retail employment growth in California to a group of comparison states (Arizona, Florida, Georgia, New Mexico and Texas). His results show, "Contrary to conventional predictions, however, there was no decline in teenage employment, or any relative loss of jobs in retail trade." This paper was also published in Industrial and Labor Relations Review, October 1992.

o Several studies have found that moderate changes in the minimum wage have an insignificant effect on employment in the restaurant industry. Professor Walter Wessels (Professor of economics at North Carolina State) has found that a modest rise in the minimum wage has a positive effect on employment in the restaurant industry. Professor Kevin Lang (Boston University), in a 1994 study for the Employment Policy Institute, concluded that, "In the light of the literature discussed in the introduction and the results presented above, this author can find little effect on employment levels from changes in the minimum."

o In a widely cited study, David Card and Alan Krueger (both of Princeton University at the time the article was written) examine the impact of the 1992 increase in New Jersey's minimum wage (to \$5.05 per hour) on employment in the fast food industry. They perform two types of comparisons. First, they compare the change in employment in New Jersey fast food restaurants to that in eastern Pennsylvania (along the NJ boarder). Second, they look within New Jersey, comparing restaurants that initially paid \$4.25 per hour to those that paid \$5.00 per hour or more. Both comparisons show that employment did not decline at stores that were compelled to raise their wages in response to the minimum wage increase compared to those that were unaffected by the increase. This paper was published in the American Economic Review, 1994. Some have criticized The Card/Krueger paper claiming that teenage employment between 1989 and 1993 grew more slowly in NJ than in Pennsylvania. But the recession was more severe in NJ than in Pennsylvania -- the growth in teenage employment in NJ is exactly what one would have predicted based on overall economic trends in New Jersey.

o An early study by Professor Edward Gramlich of the University of Michigan concluded, "... as long as minimum wages are kept low relative to other wages they are not terribly harmful, and in fact have slightly beneficial effects both on low-wage workers and on the overall distribution of income." Published in Brookings Papers on Economic Activity, 1976.

o Surveying the recent literature, Harvard University labor economist Richard Freeman concluded, "At the level of the minimum wage in the late 1980s, moderate legislated increases did not reduce employment and were, if anything, associated with higher employment in some locales." (Int'l Jnl. of Manpower, 1994.)

o Professor Robert Solow of MIT, Nobel Prize Winner in Economics, is quoted in the NY Times (Jan. 12, 1995) as saying, "The main thing about [minimum wage] research is that the evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

SENIOR ECONOMIST

MEMORANDUM FOR JOSEPH STIGLITZ
 MARTIN BAILY
 ALICIA MUNNELL
FROM TOM KANE
RE UPDATE ON IMPACTS OF THE MINIMUM WAGE
DATE JANUARY 19, 1996

The purpose of this memorandum is to update you on several recent developments in the ongoing debate over the impact of the minimum wage on employment and school enrollment.

1. *New Neumark-Wascher Evidence*

✓ The Neumark-Wascher research reporting negative effects of the New Jersey minimum wage hike was based upon actual payroll data for a subsample of the restaurants surveyed by Card and Krueger. The payroll data were provided to Neumark and Wascher by the Employment Policies Institute (EmpPI, not to be confused with the Economic Policy Institute). Although no direct evidence suggests that the sample supplied to Neumark and Wascher was specifically selected to yield negative employment impacts, suspicions have lingered, given EmpPI's connections to the fast-food industry.

[Because of those suspicions, Neumark and Wascher collected payroll data from a second sample of fast-food restaurants in New Jersey and Pennsylvania. The new paper also reports significant negative impacts of the New Jersey minimum wage increase on employment. Unfortunately, throughout most of the paper, they simply pool their new data with the data supplied to them by EmpPI. However, in the text of the paper they note that they would have found a negative, but *insignificant* effect, if they had used the new data alone.

Neumark and Wascher defend the decision to pool their new data with the EmpPI data by arguing that one could not reject the hypothesis that the point estimates yielded by the two data-sets were the same. However, the samples do not seem to have been drawn from the same distributions, because one could reject the hypothesis that the residual error was the same in the two data-sets. (The suspect EmpPI data showed much more variation than the new data collected by Neumark and Wascher.) Unfortunately, the new sample did not include those firms in the original EmpPI data and, therefore, may not be representative by itself.

Therefore, we have three estimates of the effect of the New Jersey minimum wage increase on employment in fast-food restaurants:

1. Card and Krueger's positive and significant estimate based upon a phone survey of firms. The Card and Krueger survey has been attacked for asking imprecise questions about employment which proved more variable than actual payroll records. However, such criticisms may be misplaced. Although it may have made inference more difficult, measurement error in a dependent variable would not necessarily lead to bias unless, for some reason, employment growth was overstated in New Jersey.
2. An insignificant negative impact based upon new payroll data collected by Neumark and Wascher.
3. A significant negative estimate based upon the EmpPI sample which has been a subject of skepticism.

[The most recent Neumark and Wascher paper suggests an elasticity of $-.24$. With a 12% percent increase in the minimum wage from \$4.25 to \$4.75 would imply only a 2 percent decline in employment in the fast-food industry, and probably smaller declines in industries less dependent upon minimum-wage workers. Therefore, even using the Neumark and Wascher results, it seems fair to say that the employment effects would be small. Furthermore, with any demand elasticity greater than -1 , an increase in the minimum wage will raise total earnings (wage times hours) of low-wage workers, since a 10 percent increase in wage results in less than 10 percent decline in employment.

2. *School Enrollment Effects*

In a recent editorial in the *Wall Street Journal* (attached), Robert Barro highlights several other papers by Neumark and Wascher arguing that increases in the minimum wage lead some youth to drop out of school. The school enrollment impacts are vital since Neumark and Wascher have shown that it is primarily when one includes their measure of school enrollment as a regressor in a state panel analysis that one finds that the effect of the minimum wage is negative and significant.

Their work on school enrollment has been criticized primarily because their measure of school enrollment, excludes those who are in school but who report their major activity as "working". If an increase in the minimum wage encourages some youth to work a few more hours, students may switch their response on the major activity question from "school" to "work", although school enrollment may not have changed.

The October CPS, in contrast, identifies school enrollment independent of labor force activity. A recent analysis by Bill Evans from the University of Maryland and Mark Turner

from the Urban Institute using October CPS data has suggested no statistically significant effect of the minimum wage on school enrollment. Further, using the alternative measure of school enrollment, the panel analysis reveals no statistically significant effect of the minimum wage on employment. Neumark and Wascher are currently formulating a response to this critique.

It seems ironic that Barro would hold up Neumark and Wascher's result as saving the conventional wisdom, since a drop in school enrollment after an increase in the minimum wage would also seem to be inconsistent with neoclassical theory. If youth were simply paid their productivity, an increase in the minimum wage would not raise anyone's earnings potential and, therefore, would not lead anyone to drop out of school to take advantage of a "higher wage." It would simply eliminate any employment prospects for those with productivity below the minimum wage. In fact, I would think that the simplest neoclassical model would lead one to expect an increase in school enrollment with a rise in the minimum wage: Those who could no longer find work because they were laid off would have their opportunity costs lowered and may find schooling a worthwhile investment. Employment would decline and school enrollment and idleness would increase.

Nevertheless, I think the jury is still out on the school enrollment effects. Although I do not have a good story, in my own work with the CPS, I have noticed declines in school enrollment in California relative to other states after the April 1988 minimum wage increase in California. The finding is the same using administrative data on community college enrollments.

As new evidence is brought to light, I will keep you posted.

IT'S TIME TO RAISE THE MINIMUM WAGE

THE SENATE REPUBLICAN LEADERSHIP SHOULD DROP THEIR POISON PILL AMENDMENT

July 3, 1996

IT'S TIME FOR SENATE REPUBLICANS TO JOIN THE MAINSTREAM AND RAISE THE MINIMUM WAGE. If we want to make work pay, we must make the minimum wage a living wage. President Clinton's minimum wage increase would ensure that -- along with his expanded Earned Income Tax Credit -- no parent who works full-time would have to raise their children in poverty. A bipartisan group in the House has done their part and voted to raise the minimum wage. The time for the Senate Republicans to do the same is long overdue.

MAIN STREET AMERICA DESERVES AN HONEST VOTE ON THE MINIMUM WAGE WITHOUT ANY POISON PILLS. The Senate should pass an increase in the minimum wage -- with no poison pills, no gimmicks, and no political games. That's the best way to help the American people make the most out of their own lives. As Republican Congressman Amo Houghton said: *"This is not a complicated issue. It should not be a partisan issue. It's timely. It's right, and I think we should do it."*

DON'T LET REPUBLICAN LEADERS FOOL YOU -- THEIR POISON PILL AMENDMENT TO A GOOD MINIMUM WAGE BILL WILL DENY A PAY RAISE TO MILLIONS OF WORKERS. The Senate Republican leadership offers the American people nothing more than a cruel shell game: claim that you are raising the minimum wage, but stick millions of first-rate workers with second-rate pay.

IF THE REPUBLICAN LEADERSHIP INSIST ON INCLUDING ANY OF THE FOLLOWING POISON PILL AMENDMENTS, THE PRESIDENT WILL VETO THE BILL:

- ▶ **Workers In Two-Thirds Of All Businesses Would Be Denied The Benefits Of A Higher Minimum Wage.** The Republican leadership would deny workers in two-thirds of all firms in the United States -- all business with revenues of less than \$500,000 annually -- an increase in the minimum wage. For these workers, this provision would lock in, for an indefinite period, a minimum wage that will be at a 40-year low in real terms. It doesn't matter the size of your employer, you can't raise a family on \$4.25 an hour.
- ▶ **Over 4 Million Hard-Working Americans Would Be Denied A Pay Raise.** The Republican's so-called "Opportunity Wage" provision would deny the opportunity of a higher minimum wage to the 4.1 million workers at or near the minimum wage who have been with their employer for less than six months. In industries with high turnover -- like retail -- this would create the opportunity for employers to drop workers after six months, so that they would never graduate from the sub-minimum wage.
- ▶ **Low-Wage Workers Would Have To Wait Until Next Year For Pay Hike.** As the real value of the minimum wage approaches a 40-year low, the Republican leadership wants to force America's lowest-paid workers to wait until next year to see any minimum wage increase. While President Clinton says now is the time to raise the minimum wage, the Republicans are telling America's workers to wait. The Republican's six-month delay will cost a full-time minimum wage worker \$878. When you're making only \$8,500 a year, \$878 makes a big difference.

EVERY DAY THE SENATE REPUBLICAN LEADERSHIP DELAYS A HONEST MINIMUM WAGE INCREASE, ITS REAL VALUE MOVES CLOSER TO A 40-YEAR LOW. The American people want the minimum wage increased. A bipartisan majority in the Senate wants the minimum wage increased. If we truly value work and family, we should raise the value of the minimum wage now.

**DON'T LET REPUBLICAN LEADERS FOOL YOU:
THEIR POISON PILL MINIMUM WAGE AMENDMENT WILL STICK MILLIONS
OF FIRST-RATE WORKERS WITH SECOND-RATE PAY**

INSTEAD OF JUST PASSING A CLEAN, SIMPLE MINIMUM WAGE INCREASE, THE SENATE REPUBLICAN LEADERSHIP WANTS A POISON PILL AMENDMENT THAT WILL DENY MILLIONS OF WORKERS A PAY RAISE. President Clinton is determined to raise the minimum wage for all workers who deserve and need it. If they send him a bill with poison pills, he will veto it:

► **Workers In Two-Thirds Of All Businesses Would Be Denied The Benefits Of A Higher Minimum Wage.**

- The Senate Republican leadership's amendment would deny workers in two-thirds of all firms in the United States -- all business with revenues of less than \$500,000 annually -- an increase in the minimum wage.
- This provision is *far more extreme* than any previous small business exemption. It is true that prior to 1989 there was an exemption for employees in small retail and service establishments. But the Republican's current proposal would not only exempt workers in small retail and service firms, but would deny a higher minimum wage to *all* workers in two-thirds of America's businesses, including many garment industry sweatshop workers, farmworkers, and janitorial workers.
- For workers in small businesses, this provision would lock in, for an indefinite period, a minimum wage that will be at a 40-year low in real terms. It doesn't matter the size of your employer, you can't raise a family on \$4.25 an hour.

► **Over 4 Million Hard-Working Americans Would Be Denied A Pay Raise:**

- The Senate Republican's so-called "Opportunity Wage" provision could deny a higher minimum wage to the 4.1 million workers at or near the minimum wage who have been with their employer for less than six months. Under this provision any new hire of any employer, regardless of prior work experience, could be paid a sub-minimum wage for the first six months of employment.
- This is a more extreme provision than the House-passed minimum wage increase. The House-passed bill -- which the Administration strongly opposes -- applied a sub-minimum wage for workers under age 20 for their first 90 days with an employer. This amendment, by contrast, would deny a higher minimum wage to all workers for the first 180 days of employment.
- In industries with high turnover -- like retail -- this would create the opportunity for employers to drop workers after six months, so that they would never graduate from the sub-minimum wage. And the anti-displacement provisions, intended to prohibit employers from dropping workers in a perpetual "churning" fashion, will prove to be extremely difficult to enforce.

► **Low-Wage Workers Would Have To Wait Until Next Year For Pay Hike.**

- The Republican leadership would put off the first stage of a minimum wage increase until January 1, 1997. As the real value of the minimum wage approaches a 40-year low, the Republican leadership wants to force our lowest-paid workers to wait until next year to see any minimum wage increase. President Clinton is determined to not let the minimum wage reach a 40-year low and will veto any bill that will let that happen.

**PRESIDENT CLINTON ALSO STRONGLY OPPOSES REPUBLICAN MEASURES TO DENY
PAY INCREASES TO OTHER WORKERS:**

► **"Tipped Employees" Such As Waiters and Waitresses Would Be Denied A Pay Raise.**

- The Republican leadership would freeze the minimum wage for "tipped employees" such as waiters, waitresses, and delivery people at \$2.13 an hour, thus denying any current or future minimum wage increase to these workers.
- The impact of this tip credit amendment hits women particularly hard; about 80 percent of tipped workers are women.
- Tipped workers would receive a 45-cents an hour pay increase with the President's proposal. To many of these workers struggling to make ends meet, this small sum can make the difference between getting by and slipping through the cracks.

**DON'T LET REPUBLICAN LEADERS FOOL YOU:
THEIR POISON PILL MINIMUM WAGE AMENDMENT WILL STICK MILLIONS
OF FIRST-RATE WORKERS WITH SECOND-RATE PAY**

INSTEAD OF JUST PASSING A CLEAN, SIMPLE MINIMUM WAGE INCREASE, THE SENATE REPUBLICAN LEADERSHIP WANTS A POISON PILL AMENDMENT THAT WILL DENY MILLIONS OF WORKERS A PAY RAISE. President Clinton is determined to raise the minimum wage for all workers who deserve and need it. If they send him a bill with poison pills, he will veto it:

► **Workers In Two-Thirds Of All Businesses Would Be Denied The Benefits Of A Higher Minimum Wage.**

- The Senate Republican leadership's amendment would deny workers in two-thirds of all firms in the United States -- all business with revenues of less than \$500,000 annually -- an increase in the minimum wage.
- This provision is *far more extreme* than any previous small business exemption. It is true that prior to 1989 there was an exemption for employees in small retail and service establishments. But the Republican's current proposal would not only exempt workers in small retail and service firms, but would deny a higher minimum wage to *all* workers in two-thirds of America's businesses, including many garment industry sweatshop workers, farmworkers, and janitorial workers.
- For workers in small businesses, this provision would lock in, for an indefinite period, a minimum wage that will be at a 40-year low in real terms. It doesn't matter the size of your employer, you can't raise a family on \$4.25 an hour.

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- The Senate Republican's so-called "Opportunity Wage" provision could deny a higher minimum wage to the 4.1 million workers at or near the minimum wage who have been with their employer for less than six months. Under this provision any new hire of any employer, regardless of prior work experience, could be paid a sub-minimum wage for the first six months of employment.
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SPECIAL ANALYSIS

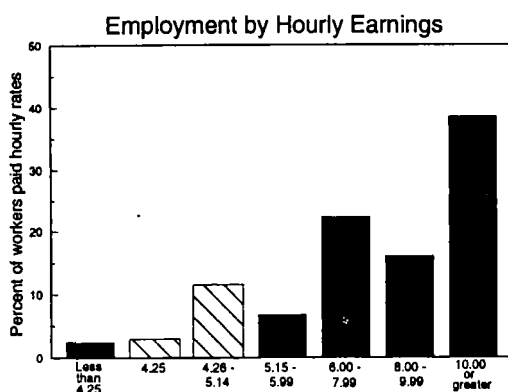
Minimum Wage Increase Should Have Small Effect on Inflation

The proposed 90-cent increase in the minimum wage would, if enacted, have a small but perceptible effect on the rate of price inflation. Economists disagree about whether a modest increase in the minimum wage would reduce employment, but they generally agree that such an increase would raise inflation a bit.

Analysis. The magnitude of the rise in inflation following an increase in the minimum wage depends on two factors:

- The size of the increase in labor costs.
- The amount of the increase in labor costs passed-through into prices rather than taken out of profits.

Effect on wages. We estimate that an increase in the minimum wage from \$4.25 to \$5.15 per hour would raise wage costs for the workforce as a whole by about 0.4 percent. The rise in wage costs occurs mainly because an increase in the



minimum wage directly affects most of the 14 percent of workers paid on an hourly basis who presently receive a wage between \$4.25 and \$5.14 (see chart). Workers exactly at the minimum would get a 90-cent raise, while workers above the current minimum would get a raise at least to \$5.15, and probably a bit more to maintain some premium. We assume these workers get half of the premium they currently earn and that this

“ripple” effect also occurs for workers making up to \$6 per hour. Workers making less than the current minimum and not covered by the law likely would get no increase.

Effect on prices. The increase in labor costs of 0.4 percent likely would exceed the increase in prices because labor costs represent roughly two-thirds of total production costs. Thus, a 90-cent increase in the minimum wage would raise prices by about 0.25 percent. If, as likely, the increase occurs in two installments, 50 cents this year and 40 cents next year, the increase in inflation each year would be about half of the full effect, roughly 0.125 percentage point. To the extent that firms do not raise prices as much—either because they accept a reduction in their profits or because productivity of their workers increases—the inflation increase would be smaller. Most importantly, the effect of a minimum-wage increase on inflation is only temporary since it is a one-time increase in wage costs.



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

April 22, 1996

SENIOR ECONOMIST

MEMORANDUM FOR JOSEPH STIGLITZ

MARTIN BAILY
ALICIA MUNNELL
PETER ORSZAG
LOUISE SHEINER

FROM

TOM KANE

SUBJECT

MINIMUM WAGE AND RELATED ISSUES

Senator Dole has mentioned two possible ways to make the minimum wage hike more palatable for the business community: a youth subminimum wage and some flexibility on the overtime provisions of the Fair Labor Standards Act. Below, I provide some background on each of these options.

1. Between 1990 and 1993, employers were allowed to pay a "subminimum wage" to youth aged 19 or under for up to 180 days. Little paperwork was required of employers seeking to take advantage of the subminimum for the first three months (90 days). To use the second 90 days of "subminimum wage" eligibility, an employer would be required to file a "training plan" with the Department of Labor. The "subminimum wage" provision expired in 1993 with little fanfare.

Very few employers have chosen to take advantage of the youth subminimum wage when it has been available in the past. For instance, Katz and Krueger found that only 4.8 percent of fast-food restaurants in Texas used the subminimum wage in 1991. Moreover, Katz and Krueger have also found that the introduction of the youth subminimum in 1990 had no discernible effect on the wages of youth.

Therefore, particularly if passed as a time-limited measure, a youth subminimum wage would not seriously weaken the effect of a minimum wage increase.

2. The Fair Labor Standards Act requires that employers pay overtime wages (1.5 times regular hourly pay) to covered workers working more than 40 hours in a given week. The largest exemptions are listed below:

- o Executive, administrative and professional employees.
- o Employees of seasonal amusement or recreational establishments.
- o Agricultural workers on small farms.
- o Persons employed as companions to the elderly or infirm.
- o Most employees of air carriers, trucking companies, taxi services and shipping companies.

The May 1985 CPS contained a supplemental question to identify workers receiving overtime pay. Roughly 10 percent of all employees received overtime pay during the survey week

in May 1985. Nearly half of those receiving overtime pay were in construction, manufacturing and mining (even though only about a quarter of all wage and salary workers worked in those industries).

The purpose of the original overtime-pay provision in the Fair Labor Standards Act of 1938 was to encourage employers to hire additional workers rather than make use of overtime. Indeed, the *Economic Report of the President* in 1964 advocated raising the overtime pay requirement from "time and one-half" to "double-time" to raise employment.

However, the expected impact of overtime pay restrictions on wages and hours is not clear. If employers and employees bargain over a *package* of compensation for an expected number of hours, it is unclear that such restrictions *would* have any effect on "effective" wages or employment. Employers and employees could simply agree on a straight-time wage and overtime pay that yielded a desired average wage-- and the right incentives for employers to smooth out the work. A recent paper by Trejo (attached) reported that straight-time wages were lower for covered workers working overtime than for workers with similar characteristics and similar hours who were not covered. Only those workers with a straight-time wage equal to the minimum wage would be constrained in making such a bargain with their employers. Trejo also found that covered workers with a straight-time wage equal to the minimum wage were less likely to be paid overtime when they worked more than 40 hours.

Therefore, in industries and occupations that are known to have fluctuating hours, we might expect the overtime pay provisions to have little effect since straight-time wages could adjust downward. However, such restrictions may have a larger impact when an employer has an atypical "spike" in demand, requiring employers to bear the cost of unanticipated inconveniences for workers. This may explain the fact that Trejo finds that only about half of the additional cost of overtime pay is offset by lowered straight-time wages.

A proposal has been floated to loosen the straight-time limit from 40 hours in a single week to 160 hours in 4 weeks. My initial reaction is that I do not believe that such a change would have a dramatic effect on overtime pay or employment for the following reasons.

First, given the Trejo results, the 40 hour limit may not be binding for many employer-employee bargains.

Second, a vast majority of those who ever work *more than* 40 hours in a week, *usually* work 40 hours per week, not less than 40. (In the 1993 CPS, 92 percent of those who reported working more than 40 hours in the previous week *usually* worked 40 hours or more.) In other words, an employer who wanted to avoid paying overtime would have to reduce an employee's work hours in subsequent weeks.

However, the politics of the proposal are likely to be complicated. Representatives of organized labor-- whose members probably benefit little from the minimum wage hike itself-- would probably resist any loosening of the overtime pay requirements. Such a proposal could drive a wedge into the coalition supporting the minimum wage.

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The Effects of Overtime Pay Regulation on Worker Compensation

By STEPHEN J. TREJO*

Proponents claim that a statutory overtime premium, by raising the relative cost of overtime, may encourage firms to substitute employment for overtime hours. I argue that there will be no real effects if firms reduce straight-time wages so as to offer the same package of weekly compensation and hours of work that was acceptable initially. Empirical analysis suggests that wage differentials do arise to mitigate the purely demand-driven effects predicted by previous models, but these differentials are not large enough to neutralize overtime pay regulation completely. (JEL J33, J38).

The Fair Labor Standards Act of 1938 (FLSA) introduced two forms of federal wage regulation into the U.S. labor market: a minimum wage and a requirement that an overtime wage of at least one and one-half times the straight-time hourly wage be paid for weekly hours worked in excess of 40. In contrast to the flood of research examining minimum wages, very little academic attention has been paid to the overtime pay provisions of the FLSA.¹ Such neglect is surprising because the overtime pay provisions potentially affect many more workers than the minimum-wage provisions: about a quarter of all employees work overtime during a typical week (Daniel E. Taylor and Edward S. Sekscenski, 1982), whereas only 11 percent of hourly paid workers earn the minimum wage or below (Earl F. Mellor and Steven E. Haugen, 1986). This paper

investigates the economic consequences of overtime pay regulation.

This project acquires added urgency and policy significance from periodic proposals before Congress to increase the required overtime wage to twice the straight-time hourly wage.² Proponents argue that such a measure would induce firms to cut back on overtime hours assigned and instead hire more workers to take up the slack; thus, a kind of economy-wide work-sharing would ensue to reduce unemployment. Neoclassical labor-demand theory, appropriately adapted to treat this problem, lends some support to such a claim. If straight-time wages rates are taken as fixed, increasing the overtime premium reduces the cost of expanding output by hiring another worker relative to the cost of expanding output by employing the current work force for an additional hour, so firms are encouraged to substitute employment for overtime hours. Of course, increases in the overtime premium also raise the marginal cost of production, thereby generating an opposing scale effect, which leaves the net effect on employment theoretically indeterminate. Within this framework, the social cost of overtime pay regulation is the usual distortion introduced by any tax on a factor of production.

*Department of Economics, University of California, Santa Barbara, CA 93106. For advice and comments, I am grateful to Gary Becker, George Borjas, Steve Bronars, Donald Deere, Ron Ehrenberg, Ted Frech, Dan Hamermesh, Robert Hart, Ed Lazear, Tom Mroz, Kevin Murphy, Sherwin Rosen, Perry Shapiro, Bob Topel, two referees, and participants in various seminars.

¹For an introduction to the vast literature on the effects of minimum wages, see the survey by Charles Brown et al. (1982). Previous inquiries into the effects of overtime pay regulation have been conducted by Ronald G. Ehrenberg (1971), Joyce E. Nussbaum and Donald E. Wise (1977), and Ehrenberg and Paul L. Schumann (1982b).

²An example of such a proposal is HR 2933 introduced in 1985 by Representative John Conyers of Michigan.

An alternative view of the labor market predicts that the overtime pay provisions of the FLSA will have little effect on real economic behavior. Following the ideas of H. Gregg Lewis (1969), a job is simply a tied package of compensation and working conditions. A job that usually requires a fixed number of hours of work per week must provide workers with enough compensation to make them at least as well off as any other job package they could obtain. According to this view, increasing the statutory overtime premium will have no real effects since, by reducing the straight-time hourly wage rate, the firm can offer the same package of total weekly compensation and hours of work that was acceptable to the worker initially. For example, suppose that in the absence of overtime pay regulation a job pays \$550 per week and requires 50 hours of work, so the average wage is \$11 per hour. An employer may satisfy the FLSA by reducing the straight-time wage to \$10 per hour and paying time and a half for the 10 overtime hours. The employee works 50 hours and receives \$550 per week in either case; consequently, the law has no real effect. Moreover, overtime pay regulation leaves total employment unaffected and imposes no social costs. In this alternative view of the labor market, overtime pay regulation only affects those workers with straight-time wage rates that cannot be fully adjusted, such as those of workers earning the legal minimum wage.

The next two sections present these alternative approaches to modeling the consequences of overtime pay regulation. The approach taken by previous studies, which I will call the "fixed-wage" approach to overtime pay regulation, attributes real economic effects to the overtime law and in particular predicts that raising the statutory overtime premium should reduce the use of overtime hours and increase the prevalence of a 40-hour work week. An alternative approach is developed, a "fixed-job" model, which suggests that hourly wage flexibility may be sufficient to rob overtime pay regulation of any substantive impact. The fixed-wage and fixed-job models are theories of overtime pay *regulation*, rather than

of overtime pay *provision*, in that these models attempt to describe the labor-market effects which would result from the exogenous imposition of an overtime premium. Without further assumptions about worker preferences, they have nothing to say about why firms would voluntarily pay an overtime premium in the absence of regulation, or why in the presence of regulation firms would adopt an overtime pay schedule more generous than that required by law.³

The remainder of the paper attempts to determine whether the fixed-job model is of any empirical importance. My strategy is to compare workers covered by the overtime law with noncovered workers using microdata from the 1974, 1976, and 1978 May Current Population Surveys. Section III describes the data and discusses the classification of workers according to coverage status under the minimum-wage and overtime pay provisions of the FLSA. Section IV examines compliance with the overtime law, under the presumption that incentives to disregard the law should be greatest for those employers most adversely affected by the law. Section V searches for differences in distributions of weekly hours of work that are attributable to overtime pay coverage. Section VI compares the hourly wages and weekly earnings of covered and noncovered workers to investigate the extent to which adjustments occur to offset the statutory overtime premium. I test not only for the existence of straight-time wage differentials between the covered and noncovered sectors, but also whether these differentials are sufficiently large to neutralize overtime pay regulation completely. A final section summarizes and concludes.

I. The Fixed-Wage Model of Overtime Pay Regulation

Ehrenberg (1971) adapts the framework found in Rosen (1968) to illustrate the sub-

³Worker preferences may require that jobs with different hours schedules offer different wage schedules, as set out in the compensating-differential models of Lewis (1969), Sherwin Rosen (1974), and John M. Abowd and Orley Ashenfelter (1981).

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stitution of employment for overtime hours induced by an increase in the statutory overtime premium. Capital is assumed to be fixed, and the firm faces an exogenous output requirement to be met by choosing the number of employees and weekly hours worked by each employee. The production technology allows the marginal product of an additional man-hour of work to differ depending on whether it is obtained by expanding employment or through increased utilization of the existing force. With the straight-time hourly wage rate taken as fixed, an increase in the overtime premium raises the marginal cost of overtime hours relative to the marginal cost of hiring an additional worker. Cost-minimizing firms respond by expanding employment and cutting back on overtime hours.⁴

One other potential consequence of overtime pay regulation is readily apparent. If the straight-time wage is exogenous, then the overtime pay structure imposed by the FLSA creates a kink in the firm's cost function at the statutory work week standard of 40 hours. It is easy to show that this kink induces some firms that would assign overtime in the absence of overtime pay regulation to choose instead the corner solution in which they avoid paying the overtime premium by limiting weekly hours of work to 40. Thus, the fixed-wage model of overtime pay regulation provides one possible explanation for the well-known fact that the hours-of-work distribution has a spike at 40 hours. This issue is investigated in the empirical work reported below.

Existing tests of the fixed-wage model have focused on the prediction that an overtime premium should discourage the use of overtime hours. Ehrenberg and Schumann

(1982b) provide the most recent estimates and also review previous work. All studies use establishment-level data from various years of the Employer Expenditure for Employee Compensation surveys. The basic empirical methodology is to regress annual overtime hours per employee on control variables and the ratio of quasi-fixed labor costs to the overtime wage. Typical findings indicate a statistically significant positive association across establishments between this ratio and the use of overtime. However, Ehrenberg and Schumann (1982b) show that this result is driven by the strong correlation between quasi-fixed labor costs and overtime hours: when quasi-fixed labor costs and the overtime wage enter the regressions separately rather than in ratio form, the coefficients on the overtime wage often have the wrong sign and tend to be statistically insignificant. Moreover, virtually all firms are covered by the FLSA within most of the industries on which these regressions are run, so there is very little variation in the overtime premium with which to estimate directly the impact of overtime pay regulation. For these reasons, existing empirical analyses of the overtime-hours response generated by a statutory overtime premium are inconclusive.

II. A Fixed-Job Model

The fixed-wage model described above lends theoretical support to the idea that raising the overtime premium required by the FLSA would reduce overtime hours and possibly stimulate employment. However, this model assumes that the supply of hours is infinitely elastic at the given market wage rate and that this market wage is unaffected by overtime pay regulation. As suggested by Lewis (1969), the length of the work week can be viewed as a job aspect over which both firms and workers have preferences, with compensating wage differentials arising in equilibrium for jobs with differing hours of work. Under this alternative characterization of the labor market, differentials in straight-time hourly wages could arise to render overtime pay regulation almost completely inconsequential.

⁴This analysis ignores scale effects. With output endogenous, raising the overtime premium will reduce overtime hours so long as the scale effect is non-perverse, but the net impact on employment is indeterminate because of conflicting substitution and scale effects (Nussbaum and Wise, 1977). Similar remarks apply when capital is variable, because increasing the overtime premium encourages substitution out of labor inputs and into capital.

The basic idea is simple. A job consists of a given package of weekly hours of work and weekly earnings. The FLSA requires that weekly hours worked in excess of 40 be compensated at a rate of at least one and one-half times the straight-time hourly wage, but the act does not regulate the straight-time hourly wage except to require that it not fall below the legal minimum wage. So long as *hourly* wage rates are flexible, the overtime law does not in any way restrict the ability of workers and firms to contract over packages of *weekly* hours and earnings. Changes in the overtime premium or work-week standard set by law would produce perfectly offsetting changes in straight-time hourly wage rates so as to leave weekly hours and earnings unchanged.⁵

To see this point, consider the situation in which overtime pay regulation is in place and overtime hours are being worked. In this case, a worker's weekly earnings Y can be expressed as

$$(1) \quad Y = w[\bar{H} + b(H - \bar{H})]$$

where H represents weekly hours of work, w is the straight-time hourly wage rate, b denotes the overtime premium required by law, and $\bar{H}$ is the weekly-hours standard at which the overtime premium must go into effect (the FLSA currently requires $b \geq 1.5$ and $\bar{H} \leq 40$). Holding hours of work constant, the firm is indifferent between any combinations of straight-time and overtime wage rates that produce the same level of weekly earnings. Exactly the same kind of indifference will hold for standard formulations of worker preferences, in which an individual's utility is a function of income

for consumption and hours of work. That is, workers care only about how much weekly compensation they receive for a given amount of effort, and it does not matter to them how this compensation is split between straight-time pay and overtime pay. Suppose that in the absence of the FLSA a given employee works $H_0 > 40$ hours and is paid w_0 for each hour. When the FLSA is introduced, a straight-time wage of $w' = w_0 H_0 / (1.5 H_0 - 20)$ leaves the worker at precisely the same level of welfare as he was initially.

Under these circumstances, the firm and its workers may be expected to come to an agreement regarding the quantities that they jointly care about: weekly earnings and weekly hours. Regardless of exactly how this earnings-hours package is determined, equation (1) reveals that flexibility of the straight-time hourly wage is sufficient to neutralize overtime pay regulation. Whatever levels initially chosen for Y and H , w can adjust to legislative changes in b and $\bar{H}$ so as to maintain these initial levels. This extra degree of freedom allows weekly hours, weekly earnings, and employment to be unaffected by overtime pay regulation. Because in this model it is the job package of weekly hours and earnings (rather than the straight-time wage) that remains fixed, I refer to this as the fixed-job model of overtime pay regulation.

The preceding analysis has been entirely of a static nature, focusing on the determination of regularly scheduled overtime. It might well be objected that much of overtime is due to stochastic events such as unexpected demand, machine breakdowns, and absenteeism and that a dynamic model is necessary to capture these factors adequately. The simple fixed-job model developed above requires perfect wage flexibility to justify its strong conclusion that overtime pay regulation fails to have any real economic impact. This result will obviously be robust to dynamic specifications, provided that the straight-time hourly wage rate is flexible *in each period*. However, to the extent that variability in hours of work is not always accompanied by changes in the straight-time wage, the adjustment mecha-

⁵The seeds of this idea can be traced back as far as Paul H. Douglas and Joseph Hackman (1939 pp. 34-5). In addition, Ehrenberg and Schumann (1982b pp. 36-8) recognize that straight-time wage differentials could arise to offset the statutory overtime premium, but they do not argue that these wage differentials would necessarily be perfectly offsetting. They also suggest that compensating adjustments in fringe benefits could occur, which would accentuate the effects of the overtime premium.

nism specified in the simple fixed-job model must be at best incomplete.

These issues led me to consider an extended version of the fixed-job model in which firms are allowed to vary the work week after observing the state of demand but in which employment and the straight-time wage must be chosen *ex ante*. Within the context of this extended model, increases in the statutory overtime premium can produce nonzero effects on hours and employment, but the direction of these effects is theoretically indeterminate. Moreover, if workers can borrow and save to transfer earnings across states of nature, the neutrality result of the simple static fixed-job model will tend to hold even in this more complicated setting. Intuitively, the ability to borrow and save means that workers do not care about the variance in weekly earnings so long as the discounted value of their total pay equals the correct level over a longer time period, such as the year.

From a policy perspective, it may be desirable to focus on regularly scheduled overtime, since these are the hours of overtime that are easiest to convert into new jobs. In addition, static versions of the fixed-wage and fixed-job models yield sharper empirical implications. Therefore, the empirical tests conducted below concentrate on the "usual" work week and assume that a large fraction of overtime persists from week to week. The U.S. Department of Labor (1985) publishes hours data that can shed some light on the appropriateness of this assumption. Average weekly overtime hours of production workers are available on a monthly basis for manufacturing industries. For the period 1974-1978, which includes the years to be analyzed, overtime per worker averaged 3.2 hours per week for all of manufacturing. Over these 60 monthly observations, average weekly overtime ranged from a low of 2.2 hours to a high of 3.9 hours, with a standard deviation of 0.4 hours. Overtime variability is similar within more disaggregated manufacturing industries with two-, three-, and four-digit SIC codes. Thus, these numbers are consistent with the notion that a large part of overtime is regularly scheduled, but it must be cautioned that they are

averages which mask variation across workers within a firm and across firms within an industry.

III. Data

The data analyzed below come from the 1974, 1976, and 1978 May Current Population Surveys (CPS).⁶ These May versions of the CPS are especially useful for the present study because they contain information on whether or not individuals receive an overtime premium for weekly hours of work in excess of 40, in addition to data on straight-time hourly wages, weekly earnings and hours, and demographic characteristics. This section describes general features of these data, especially with regard to the classification of workers according to coverage status under the minimum-wage and overtime pay provisions of the FLSA.

The empirical analysis requires knowledge of whether or not a given worker falls under the jurisdiction of the overtime pay provisions of the FLSA. I first exclude unemployed or self-employed individuals and multiple jobholders and then classify remaining individuals into three groups: those believed to be subject to the overtime pay provisions of the FLSA (covered workers), those believed not to be subject (non-covered workers), and those workers whose coverage status could not be ascertained from the information available in the May CPS. This final group is excluded from the analysis. The detailed industry and occupation classifications provided in the CPS were coded to determine the coverage status of each individual.⁷ This method of assigning

⁶These years were chosen for study because hourly-wage questions were not asked in the CPS until 1973, and beginning in 1979 these questions were only asked of a quarter of the sample. Also, the CPS sampling scheme is such that May surveys in adjacent years have about half of their households in common.

⁷Details of the coding algorithm used to assign coverage status to each individual are available from the author. The algorithm does not consider independent state regulations that supplement the FLSA, but little is lost by this omission. Very few states regulate overtime, and state minimum wages seldom exceed the

coverage under the FLSA has been used previously by Ashenfelter and Robert S. Smith (1979 p. 341) and Brigitte H. Sellekaerts and Stephen W. Welch (1981 tables 3 and 4) for the minimum-wage provisions, and by Ehrenberg and Schumann (1982b appendix C) for the overtime pay provisions. Other sources found helpful in interpreting the FLSA and its many exemptions were U.S. Congress (1974) and Conrad. F. Fritsch (1981).

The largest group of exempt employees comprises executive, administrative, and professional workers. To qualify for this exemption the employee must be paid on a salary basis. Since the covered sector does not include a comparable group of workers, individuals employed in these types of occupations are excluded from the analysis. As a further safeguard against misclassifying these exempt supervisory employees, I restrict the sample to those individuals who report being paid by the hour. Outside sales-workers and employees paid on a commission basis are also exempt under the law, necessitating the exclusion of virtually all sales-workers because the coverage status of these individuals could not be determined. Most employees in retail trade and many in service industries have their coverage status determined by the size of their employer. Because this information is not available for the years of the CPS I analyze, these individuals are also excluded unless they are exempt for other reasons.

Workers classified as definitely *not* subject to the overtime pay provisions of the FLSA include essentially all nonsupervisory agricultural workers, as well as employees in the transportation sector who fall under the jurisdiction of other federal statutes such as the Motor Carriers Act of 1935, the Interstate Commerce Act, and the Railway Labor Act.⁸ Remaining noncovered workers in

federal minimum and generally only apply to those workers already excluded from the current sample because their coverage status could not be determined. See Aline O. Quester (1981) for a discussion of state minimum-wage laws.

⁸None of these other federal statutes requires payment of an overtime premium, although they do some-

my data come from miscellaneous exemptions that apply to certain workers in retail trade, services, and state and local government. Virtually all nonsupervisory employees in mining, construction, and manufacturing are subject to the overtime pay provisions of the FLSA, as are federal government workers not exempt for other reasons.

The 1974 and 1977 amendments to the FLSA require that the rules used for assigning coverage status be slightly different in each of the three years studied. The most important differences concern the coverage status of state and local government employees. The 1974 amendments attempted to bring all public employees under the jurisdiction of the act, but the constitutionality of this extension was quickly challenged, and in June 1976 the Supreme Court ruled unenforceable all minimum-wage and overtime pay provisions of the FLSA as they apply to state and local public employees engaged in traditional governmental functions.⁹ Therefore, most state and local government employees are classified as covered in 1974 and 1976 but noncovered in 1978.¹⁰ Employees in police and fire protection constitute an exception to this statement, since these workers never were subject to the overtime pay provisions of the FLSA.

The empirical analysis also requires identifications of those individuals covered by

times restrict hours of work. For example, certain truck drivers are prohibited from working more than 70 hours in any period of eight consecutive days.

⁹This ruling was made in *National League of Cities v. Usery*, 426 U.S. 833. With its decision in *Garcia v. San Antonio Metropolitan Transit Authority et al.*, 105 S.Ct. 1005 (February 1985), the Supreme Court recently overruled its earlier decision and upheld the constitutionality of applying the FLSA to state and local government employees, but this ruling occurred well after the time period being studied.

¹⁰Except for the analysis of hours-of-work distributions to be discussed in Section V, none of the empirical results reported here is sensitive to the coverage status of state and local government employees. Similar results are obtained when these workers are excluded from the sample or if it is assumed that, because of the confusion surrounding the ensuing litigation, state and local governments never acted as if they were subject to the FLSA during the time period under study.

TABLE 1—VARIABLE DEFINITIONS

Variable	Definition
OTPAY	1 if received premium pay for weekly hours worked over 40; 0 otherwise
HOURS40	1 if worked exactly 40 hours during survey week; 0 otherwise
WAGE	straight-time hourly wage rate in dollars
EARNINGS	usual weekly earnings in dollars
HOURS	usual weekly hours of work
OTCOVER	1 if subject to the overtime pay provisions of the FLSA; 0 otherwise
MINWAGE	1 if subject to and earning the legal minimum wage; 0 otherwise
OTCOVG40	1 if OTCOVER = 1 and HOURS > 40; 0 otherwise
UNION	1 if member of labor union or employee association; 0 otherwise
AGE	years of age
EDUC	completed years of schooling
MARRIED	1 if married, spouse present; 0 otherwise
FEMALE	1 if female; 0 otherwise
BLACK	1 if black; 0 otherwise
NONWHITE	1 if nonwhite other than black; 0 otherwise
CITY	1 if reside in central city of SMSA; 0 otherwise
SUBURB	1 if reside in SMSA, but not in central city; 0 otherwise
GOVTEMP	1 if government employee; 0 otherwise

and earning the legal minimum wage. Since exemptions to the minimum-wage law constitute a subset of the overtime exemptions, it turns out that coverage under the minimum-wage law includes all those covered by the overtime law and some additional workers as well. In 1978, a single minimum wage of \$2.65 per hour applied to all covered workers, so in this year determining which are minimum-wage workers is straightforward. In 1974 and 1976, however, separate minimum wages applied to agricultural workers, workers covered prior to the 1966 amendments, and workers newly covered by the 1966 and 1974 amendments. Workers in these years are first assigned to the proper minimum-wage category,¹¹ and then minimum-wage status is determined by comparing the individual's actual wage with the appropriate minimum wage. Minimum-wage rates in 1974 were \$1.60 per hour for agricultural workers, \$1.90 per hour for newly covered workers, and \$2.00 per hour for

workers covered prior to 1966. These same minimum-wage rates in 1976 were \$2.00, \$2.20, and \$2.30 per hour, respectively.

Table 1 defines the main variables used in the empirical analysis. To give an idea how the covered and noncovered sectors differ, Table 2 presents means and standard deviations by status of overtime pay coverage for the May 1978 CPS sample employed in the earnings regressions reported below.¹² The data for 1974 and 1976 are similar except that, because of the change in coverage status for state and local government employees, overall coverage rates rise to just over 90 percent of the sample, and the

¹¹ Once again, by using the industry and occupation classifications provided in the CPS.

¹² Not all workers in the 1970 Census major occupation classifications "professional, technical, and kindred workers" and "managers and administrators, except farm" qualify for the FLSA exemption, which applies to executive, administrative, and professional employees (Sellekaerts and Welch, 1981 table 3). This is why the major occupation categories "professional" and "administrative" have nonzero means in Table 2. Examples of professional and administrative occupations that do not qualify for this exemption include computer programmers, technicians, surveyors, and railroad conductors.

TABLE 2—DESCRIPTIVE STATISTICS, 1978 EARNINGS SAMPLE

Variable	All		Covered		Noncovered	
	Mean	SD	Mean	SD	Mean	SD
EARNINGS	263.372	109.941	267.439	108.354	239.869	115.985
WAGE	6.209	2.348	6.294	2.321	5.710	2.443
OTCOVER	0.853	0.355	1.000	0.000	0.000	0.000
OTCOVG40	0.198	0.398	0.232	0.422	0.000	0.000
HOURS	41.888	6.291	41.947	5.984	41.552	7.828
AGE	35.276	12.693	35.274	12.594	35.290	13.258
EDUC	11.300	2.407	11.298	2.372	11.311	2.602
UNION	0.494	0.500	0.499	0.500	0.462	0.499
MARRIED	0.732	0.443	0.741	0.438	0.677	0.468
CITY	0.185	0.388	0.183	0.386	0.197	0.398
SURBURB	0.356	0.479	0.359	0.480	0.334	0.472
GOVTEMP	0.094	0.292	0.043	0.202	0.388	0.488
Major industry:						
Agriculture	0.022	0.146	0.006	0.075	0.114	0.318
Mining	0.034	0.182	0.040	0.196	0.000	0.000
Construction	0.178	0.382	0.208	0.406	0.001	0.030
Durable manufacturing	0.310	0.463	0.363	0.481	0.002	0.042
Nondurable manufacturing	0.146	0.353	0.171	0.376	0.000	0.000
Transportation and utilities	0.125	0.331	0.071	0.256	0.440	0.497
Wholesale trade	0.039	0.194	0.046	0.209	0.000	0.000
Retail trade	0.013	0.115	0.000	0.000	0.090	0.287
Finance, insurance, and real estate	0.009	0.097	0.11	0.105	0.000	0.000
Services	0.124	0.329	0.084	0.278	0.353	0.478
Major occupation:						
Professional	0.035	0.185	0.036	0.187	0.029	0.169
Administrative	0.001	0.034	0.000	0.000	0.008	0.089
Sales	0.001	0.030	0.000	0.000	0.006	0.079
Clerical	0.072	0.259	0.070	0.254	0.088	0.284
Crafts	0.386	0.487	0.410	0.492	0.251	0.434
Operatives	0.321	0.467	0.342	0.475	0.197	0.398
Laborers	0.110	0.313	0.106	0.308	0.131	0.338
Service workers	0.059	0.235	0.035	0.185	0.194	0.395
Farm workers	0.014	0.117	0.000	0.000	0.095	0.293
Sample size:	7,594		6,474		1,120	

Notes: The sample consists of white males aged 18–64 who usually work at least 20 hours per week and for whom coverage status could be determined. Because of missing values, the sample sizes for the WAGE variables are as follows: 7,222 for the full sample, with 6,166 in the covered sector and 1,056 in the noncovered sector.

fraction of noncovered workers who are government employees falls substantially.

IV. Overtime Pay Compliance

If the FLSA imposes real costs upon firms, some employers may choose to disregard the law. Incentives for noncompliance should vary directly with the cost of conforming to the law, so that investigating

compliance with the FLSA can provide some information on whether the act imposes binding constraints upon firms. Actual monetary sanctions against first-time offenders of the FLSA are almost invariably substantially less than the amount of underpayment, and due to a limited enforcement budget the probability of detection is probably quite low, so it is not surprising that previous studies have uncovered significant

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amounts of noncompliance with both the minimum-wage and overtime pay provisions of the FLSA.¹³ This section reexamines compliance with the overtime law in order to test a prediction of the fixed-job model.

The fixed-job model implies that overtime pay compliance should be lower for minimum-wage workers than for other workers. Incentives for noncompliance should be strongest in those sectors where the law has real economic effects, and the fixed-job model suggests that overtime pay regulation only affects those workers with straight-time hourly wage rates that cannot be fully adjusted to offset the law. This type of wage rigidity exists among workers covered by and earning the legal minimum wage. If this is the sole source of wage rigidity, then the fixed-job model implies that noncompliance should occur only with minimum-wage workers. For all other workers, adjustment of straight-time hourly wages provides a virtually costless means of complying with the overtime law, so employers of these workers would never risk having to pay a penalty for noncompliance. As a practical matter, however, ignorance and misinterpretation of coverage status under the law provide reasons for less than perfect compliance among workers earning more than the minimum wage. Furthermore, in the empirical work, it is inevitable that some workers have been mistakenly classified as being covered by overtime pay regulation, and there may also exist reporting error by CPS respondents as to their receipt of premium pay for overtime. For these reasons, the hypothesis to be tested is whether the overtime pay compliance rate among minimum-wage workers is significantly lower than that among other workers. Note that the fixed-wage model provides no justification for such a disconti-

nuity in the relationship between overtime pay compliance and hourly wage rates.

The May CPS data described above provide the necessary information for examining the correlation between minimum-wage status and compliance with the overtime pay provisions of the FLSA. These surveys ask those individuals who worked more than 40 hours during the survey week for a single employer whether or not they received a higher rate of pay for weekly hours of work above 40. Table 3 reports, for covered workers who put in overtime during the survey week, the percentage of these workers in various wage intervals who received premium pay for overtime in compliance with the FLSA.¹⁴

¹⁴The minimum wage is assumed to be binding for those workers covered by the minimum-wage law who earn exactly the minimum wage. If the legal minimum wage coincidentally happens to be the equilibrium wage for some workers, so that the minimum wage is not binding for these minimum-wage workers, then the results reported in Table 3 are biased against the prediction of the fixed-job model. Note also that the numbers in Table 3 imply that some employers choose to comply with the minimum-wage provisions of the FLSA while at the same time violating the overtime pay provisions. Because the Wage and Hour Division of the Employment Standards Administration in the Department of Labor enforces both sets of provisions and therefore any inspection by enforcement agents is likely to uncover all violations of the FLSA, it might seem that rational employer behavior would dictate a package decision either to comply fully with the FLSA or else violate both sets of provisions simultaneously. However, most inspections are precipitated by employee complaints to the Wage and Hour Division (Ashenfelter and Smith, 1979), so employers might find it optimal to comply with one set of provisions and not the other if the provisions differ in the likelihood that noncompliance would induce an employee complaint. The overtime pay provisions are much less publicized and contain more numerous and complicated exemptions than the minimum-wage provisions, and these factors could result in employees being less likely to recognize and report employer noncompliance with overtime pay regulation.

Table 3 excludes the fewer than 15 workers in each year who earn less than the minimum wage. Although minimum-wage noncompliance is much larger than this (Ashenfelter and Smith, 1979), the subsample considered here misses many subminimum-wage workers because overtime pay data is only available for those who worked overtime during the survey week and also because subminimum-wage workers are often employed in industries that could not be classified as definitely subject to the overtime pay provisions of the FLSA.

¹³See Ashenfelter and Smith (1979) and Sellekaerts and Welch (1983, 1984) for evidence on noncompliance with the minimum wage and for discussions of the penalty and enforcement mechanisms that have been established to discourage noncompliance. Ehrenberg and Schumann (1982a) and Sellekaerts and Welch (1983) provide similar information concerning the overtime pay provisions.

TABLE 3—RATES OF OVERTIME PAY COMPLIANCE FOR COVERED WORKERS

Hourly wage	1974		1976		1978	
	Percentage compliance	Sample size	Percentage compliance	Sample size	Percentage compliance	Sample size
Minimum wage	67.2	58	77.4	53	66.0	53
Minimum wage—\$3.00	82.3	541	81.4	338	85.0	180
\$3.01–\$4.00	93.4	683	88.7	558	87.5	528
\$4.01–\$5.00	94.5	598	90.4	510	92.1	520
\$5.01–\$6.00	95.2	395	93.7	396	92.0	427
\$6.01–\$7.00	93.1	131	94.5	290	93.4	422
\$7.01 and above	91.7	84	89.1	221	92.8	755
All covered workers	90.8	2,490	89.3	2,366	91.0	2,885

Notes: The samples consist of covered employees who worked more than 40 hours during the survey week. The basic minimum hourly wages in the three years were \$2.00 in 1974, \$2.30 in 1976, and \$2.65 in 1978.

The overall compliance rates of around 90 percent are very similar to what Ehrenberg and Schumann (1982a) report for the May 1978 CPS data. In all three years, rates of overtime pay compliance plunge for minimum-wage workers, even relative to the compliance rates of those workers earning just above the minimum wage, although the decline in 1976 is not as drastic as in the other years. In all three years, chi-square homogeneity tests performed on the cell frequencies overwhelmingly reject the hypothesis of identical compliance rates for minimum-wage and nonminimum-wage workers. Therefore, these compliance statistics provide strong support for the fixed-job model. However, the simple proportions presented in Table 3 do not control for other factors that might affect compliance with overtime pay regulation, and Ehrenberg and Schumann (1982a) have shown some of these other factors to be significantly correlated with compliance. Furthermore, it appears from the table that wage rates could be correlated with compliance, and it remains to be demonstrated that minimum-wage status has an effect on compliance separate from that of having a low wage.

To meet these objections, Table 4 presents compliance logits similar to the non-compliance probits reported by Ehrenberg and Schumann (1982a) for the May 1978 CPS data, except that I add a dummy variable identifying minimum-wage workers and

replicate the analysis for the May 1974 and 1976 CPS data as well. The sample again consists of covered employees who worked more than 40 hours during the survey week, and the dependent variable is a dummy indicating whether or not the individual received premium pay for overtime.¹⁵ The independent variables include the minimum-wage dummy of primary interest, a vector of socioeconomic characteristics of the individual, a set of dummies indicating major industry and major occupation, and a set of dummies indicating the census geographic division in which the worker resides. The industry, occupation, and geographic dummies are included to control for the possibility that government efforts to enforce the FLSA vary in intensity across sectors. The coefficients of these dummy variables are not reported. Standard errors are given in parentheses, and derivatives of the compliance probability with respect to the independent variables are also reported.

The results are consistent with the fixed-job model. The minimum-wage dummy has a negative coefficient in all three years, al-

¹⁵Table 4 includes the subminimum-wage workers excluded from Table 3, and this accounts for the slight differences in sample sizes across the tables. These subminimum-wage workers are classified as nonminimum-wage workers in the logits reported in Table 4, but the results do not change when these workers are excluded.

TABLE 4—LOGITS FOR OVERTIME PAY COMPLIANCE (DEPENDENT VARIABLE = OTPAY)

Variable	1974		1976		1978	
	Coefficient	Derivative	Coefficient	Derivative	Coefficient	Derivative
MINWAGE	-0.6944 (0.3380)	-0.0597	-0.2979 (0.4075)	-0.0286 (0.4010)	-1.0549 (0.3545)	-0.0886 (0.3590)
WAGE	0.3567 (0.0970)	0.0307	0.4010 (0.1434)	0.0385 (0.1434)	0.3590 (0.1438)	0.0302 (0.1438)
WAGE ² /100	-0.7379 (0.2467)	-0.0635	-2.5807 (1.0085)	-0.2477 (1.0085)	-1.8054 (0.9733)	-0.1517 (0.9733)
AGE	0.0148 (0.0066)	0.0013	-0.0050 (0.0061)	-0.0005 (0.0061)	-0.0134 (0.0059)	-0.0011 (0.0059)
EDUC	0.1060 (0.0332)	0.0091	0.0053 (0.0328)	0.0005 (0.0328)	-0.0074 (0.0320)	-0.0006 (0.0320)
UNION	0.5972 (0.2080)	0.0514	1.0742 (0.2125)	0.1031 (0.2125)	0.8265 (0.1977)	0.0694 (0.1977)
MARRIED	-0.1450 (0.1768)	-0.0125	0.0138 (0.1709)	0.0013 (0.1709)	-0.0907 (0.1587)	-0.0076 (0.1587)
FEMALE	-0.1042 (0.2224)	-0.0090	0.2487 (0.2172)	0.0239 (0.2172)	0.0618 (0.2018)	0.0052 (0.2018)
BLACK	-0.5305 (0.2689)	-0.0456	-0.5858 (0.2605)	-0.0562 (0.2605)	-0.2307 (0.2542)	-0.0194 (0.2542)
NONWHITE	-0.1487 (0.8622)	-0.0128	-0.1169 (0.6914)	-0.0112 (0.6914)	0.3911 (0.7787)	0.0329 (0.7787)
CITY	0.2874 (0.2053)	0.0247	-0.2074 (0.1997)	-0.0199 (0.1997)	0.2299 (0.1972)	0.0193 (0.1972)
SUBURB	0.0810 (0.1839)	0.0070	-0.1588 (0.1828)	-0.0152 (0.1828)	0.1562 (0.1729)	0.0131 (0.1729)
GOVTEMP	-0.3039 (0.2725)	-0.0261	0.1535 (0.2755)	0.0147 (0.2755)	-0.5965 (0.3783)	-0.0501 (0.3783)
Log likelihood:	-650.6		-683.7		-789.7	
Sample size:	2,504		2,379		2,895	

Notes: Standard errors are given in parentheses. The samples consist of covered employees who worked more than 40 hours during the survey week. Also included as independent variables were dummy variables indicating major industry, major occupation, and census geographic division. Derivatives of the compliance probability with respect to the independent variables were calculated using the overall compliance frequency of each sample: 0.905 in 1974, 0.892 in 1976, and 0.908 in 1978.

though this effect is not statistically significant in 1976.¹⁶ Furthermore, the estimated

¹⁶Reducing the straight-time wage to the minimum wage may not represent complete adjustment for some workers earning slightly above the minimum wage, so the fixed-job model implies that incentives for noncompliance also exist for these nonminimum-wage workers. Consistent with this, Table 3 reveals that compliance is relatively low for workers earning close to but above the minimum wage. However, this effect disappears in compliance logits that are identical to those reported in Table 4 except for the addition of a dummy variable identifying workers earning up to 25 cents above the basic minimum wage. In two of the three years, the coefficient on this dummy variable was not close to being statistically significant, and its inclusion did not affect the estimated coefficients of the minimum-wage dummy.

effects of this variable are relatively large, especially in 1974 and 1978. Within the covered sector, minimum-wage workers are associated with 3–9 percentage points lower probability of being paid an overtime premium, even after controlling for the wage and other characteristics of the worker.

However, Table 3 suggests that the relationship between overtime pay compliance and hourly wage rates may not be monotonic, so it could be objected that the minimum-wage dummy is simply picking up some of this nonlinearity rather than a true minimum-wage effect. It is for this reason that the wage is entered as a quadratic in the logits reported in Table 4, and the estimates do imply an inverted U-shaped relationship between compliance and wages, but even

with this specification the minimum-wage dummy has important effects. As an additional specification check of this type, logits were estimated including another dummy variable identifying workers earning the arbitrarily chosen wage of \$3.00 per hour. The \$3.00-per-hour wage dummy was found to be statistically insignificant, and its inclusion did not change the coefficients of the minimum-wage dummy, indicating that the estimated minimum-wage effect is unlikely to be an artifact arising entirely from misspecification or from the similarity between minimum-wage workers and other low-wage workers.¹⁷

Another possibility is that the minimum-wage dummy captures nothing more than a firm-size effect, since small establishments employ disproportionate numbers of minimum-wage workers. To investigate this issue, County Business Patterns data on the average number of employees per establishment for two-digit industry classifications (U.S. Department of Commerce, 1978) were merged with the CPS data. The logits for overtime pay compliance were then reestimated with the average-establishment-size variable as an additional control. The establishment-size variable was not statistically significant, and its presence did not alter the coefficients of the minimum-wage

dummy. Although this method of controlling for firm size is less than perfect, the results suggest that the compliance tests reported here are not seriously biased by the absence of micro-level data on employer size.

The estimated effects of the other variables on overtime pay compliance are qualitatively similar to those reported in the noncompliance probits of Ehrenberg and Schumann (1982a). Most notably, overtime pay compliance is considerably higher among union than nonunion workers. Under the fixed-wage model, in which overtime pay regulation imposes real costs upon firms and creates incentives for noncompliance, unions can be interpreted as policing organizations which increase the likelihood that noncompliance is recognized and reported to enforcement agencies. The fixed-job model, on the other hand, cannot easily explain why any variables other than minimum-wage status would be systematically related to overtime pay compliance, unless these variables are correlated with wage flexibility or the feasibility of making binding agreements over weekly earnings and hours packages.

V. Hours-of-Work Distributions

As discussed above, the fixed-wage model implies that the overtime pay provisions of the FLSA should increase the prevalence of a 40-hour work week. However, the well-known fact that the hours-of-work distribution has a spike at 40 hours does not by itself constitute supporting evidence for the fixed-wage model, since it is shown below that this spike occurs even among workers not subject to overtime pay regulation. Other factors obviously have much to do with the popularity of a 40-hour work week, so corroboration of the fixed-wage model requires finding a relatively larger spike in the covered sector.

In the simple fixed-wage model examined here, overtime pay regulation has no effect on those with work weeks below the statutory hours standard; therefore, the hypothesis to be tested is that, of those who work at least 40 hours during a given week, the

¹⁷The \$3.00-per-hour wage dummy remained statistically insignificant in logits that excluded the minimum-wage dummy. It still might be argued that minimum-wage workers in general are less likely to receive overtime pay, and so the pattern of overtime pay detected in the covered sector would also be found among noncovered workers. To test this conjecture, I reestimated the overtime pay logits including noncovered as well as covered workers and adding dummy variables to identify covered workers, minimum-wage workers, and covered minimum-wage workers separately. The results suggest that, as implied by the fixed-job model, being simultaneously covered by overtime pay regulation and at the minimum wage has a negative effect on the probability of receiving overtime pay which operates independently from either coverage status or minimum-wage status considered alone. This conclusion requires caution, however, because the data contain few noncovered minimum-wage workers, and therefore it is difficult to identify separately the effect of minimum-wage status for covered and noncovered workers.

probability of working exactly 40 hours should be higher for covered than for non-covered employees. Note that the fixed-job model, on the other hand, predicts that such an increased likelihood of working a 40-hour week should be found only for those covered employees earning the legal minimum wage, since, for all other employees, compensating adjustments in the straight-time hourly wage can take place to circumvent the overtime law.

Simple frequencies reveal that, although both the covered and noncovered sectors display a marked tendency for work weeks to mass at 40 hours, the tendency may be more pronounced in the covered sector. This lends some support to the fixed-wage model. For example, of those in the 1974 data who worked at least 40 hours during the survey week,¹⁸ 68 percent of covered employees worked exactly 40 hours, whereas only 55 percent of noncovered employees worked a 40-hour week. The corresponding numbers for the 1976 data are 70 percent of covered employees and 55 percent of noncovered employees. For 1978, the situation is reversed, with a greater propensity to work a 40-hour week in the noncovered sector (71 percent) than in the covered sector (65 percent). However, this reversal arises primarily because of the switch in the coverage status of state and local government employees. If these workers are excluded, then the pattern in 1978 is similar to the earlier years.

Lending support to the fixed-job model, however, is the fact that in each year the proportion working 40-hour work weeks (rather than working overtime) is around 80 percent for covered minimum-wage workers, which is considerably higher than for nonminimum-wage workers. Although sug-

gestive, these raw frequencies are not conclusive, because they do not control for other factors influencing the adoption of a 40-hour work week, and some of these other factors are likely to be correlated with coverage status.

Therefore, to provide a more convincing test of the implications just discussed, the logits reported in Table 5 were estimated. The sample now consists of all individuals (both covered and noncovered) who worked at least 40 hours during the survey week, and the dependent variable is a dummy indicating those individuals who worked exactly 40 hours. The independent variables include those used in the compliance regressions reported in Table 4, with the addition of dummy variables identifying individuals covered by the overtime pay provisions of the FLSA (OTCOVER) and covered minimum-wage workers (OTCOVER $\times$ MINWAGE). As before, the coefficients of the industry, occupation, and geographic dummies are not reported.

The estimates for 1974 and 1976 indicate that covered employees are much more likely to work a 40-hour week, even when other determinants of work-week length are held constant. These results corroborate the fixed-wage model and contradict the fixed-job model. On the other hand, the coefficient of OTCOVER is negative and statistically insignificant in 1978, which is consistent with the fixed-job model.¹⁹

Additional support for the fixed-job model is provided by the positive and relatively large coefficients estimated for the interaction term between OTCOVER and MINWAGE. This effect, which is somewhat smaller and less statistically significant in 1978, suggests that the positive influence of coverage status on the probability of working a 40-hour week is larger for minimum-wage than for nonminimum-wage

¹⁸ May versions of the CPS provide information both on usual weekly hours of work and on hours actually worked during the survey week. Because respondents may be predisposed toward giving a standard answer such as 40 hours to the question about usual weekly hours of work, the results reported here use the data on hours worked during the survey week. However, the analysis was replicated using the alternative measure of weekly hours, and similar results were obtained.

¹⁹ When state and local government employees are excluded, the coefficient of OTCOVER becomes positive but remains statistically insignificant in 1978, while the coefficients for 1974 and 1976 do not change. This sample exclusion does not affect the estimated impact of the interaction term between OTCOVER and MINWAGE.

TABLE 5—HOURS-DISTRIBUTION LOGITS (DEPENDENT VARIABLE = HOURS40)

Variable	1974		1976		1978	
	Coefficient	Derivative	Coefficient	Derivative	Coefficient	Derivative
OTCOVER	0.5728 (0.1350)	0.1257	0.6992 (0.1289)	0.1496	-0.1436 (0.0977)	-0.0322
MINWAGE	-1.1577 (0.8420)	-0.2540	-1.3064 (0.6643)	-0.2794	-0.2028 (0.4107)	-0.0454
OTCOVER × MINWAGE	1.5538 (0.8540)	0.3409	1.5260 (0.6843)	0.3264	0.7104 (0.4371)	0.1592
WAGE	0.0120 (0.0174)	0.0026	-0.0132 (0.0116)	-0.0028	-0.0449 (0.0128)	-0.0101
AGE	0.0029 (0.0020)	0.0006	0.0007 (0.0020)	0.0001	0.0038 (0.0019)	0.0009
EDUC	-0.0257 (0.0110)	-0.0056	-0.0212 (0.0108)	-0.0045	-0.0270 (0.0104)	-0.0061
UNION	0.3562 (0.0570)	0.0781	0.3865 (0.0568)	0.0827	0.4101 (0.0536)	0.0919
MARRIED	-0.2156 (0.0580)	-0.0473	-0.2161 (0.0571)	-0.0462	-0.1446 (0.0506)	-0.0324
FEMALE	0.9715 (0.0689)	0.2013	0.7779 (0.0667)	0.1664	0.7723 (0.0610)	0.1731
BLACK	0.5707 (0.0924)	0.1252	0.4586 (0.0869)	0.0981	0.2681 (0.0798)	0.0601
NONWHITE	0.3300 (0.2718)	0.0724	0.1070 (0.2184)	0.0229	0.7804 (0.1833)	0.1749
CITY	0.1128 (0.0647)	0.0247	0.1746 (0.0647)	0.0373	0.0807 (0.0609)	0.0181
SUBURB	0.0428 (0.0585)	0.0094	0.1031 (0.0583)	0.0221	0.0120 (0.0540)	0.0027
GOVTEMP	0.6721 (0.1104)	0.1474	0.5286 (0.1058)	0.1131	0.5180 (0.1097)	0.1161
Log likelihood:	-5,267.1		-5,291.3		-6,289.0	
Sample size:	9,006		9,175		10,470	

Notes: Standard errors are given in parentheses. The samples consist of employees who worked at least 40 hours during the survey week and for whom coverage status could be determined. Also included as independent variables were dummy variables indicating major industry, major occupation, and census geographic division. Derivatives of the probability of working exactly 40 hours with respect to the independent variables were calculated using the mean sample frequencies: 0.675 in 1974, 0.690 in 1976, and 0.661 in 1978.

employees. This additional effect for minimum-wage workers was confirmed in logits estimated on the sample of covered workers only. Of the remaining variables, it is apparent that workers who are less educated, unionized, unmarried, female, minority, employed by the government, or residing in a standard metropolitan statistical area (SMSA) are more likely than others to work the standard 40-hour week instead of a longer work week.

VI. Compensation

The fixed-job model presented in Section II asserts that straight-time hourly wages

adjust to leave weekly earnings and hours unaffected by the overtime pay provisions of the FLSA. This section analyzes the wages and earnings of individual workers in order to determine whether such a straight-time wage differential exists and whether this differential is large enough to completely neutralize overtime pay regulation.

A. Straight-Time Hourly Wage Rates

The fixed-job model with perfect wage flexibility predicts weekly earnings to be equal for identical individuals working the same weekly hours at jobs that differ only in terms of whether or not they are subject to

the overtime pay provisions of the FLSA. One can write this earnings equality as

$$(2) \quad wH = w^c H \quad \text{if } H \leq \bar{H}$$

$$(3) \quad wH = w^c [\bar{H} + b(H - \bar{H})] \quad \text{if } H > \bar{H}$$

where w^c and w represent straight-time hourly wages in the covered and noncovered sectors, respectively, and the remaining variables are as defined in Section II. Note that, under the type of hedonic equilibrium envisioned by the fixed-job model, wages vary with hours of work, but for notational convenience the dependence of w on H has been suppressed above. Overtime pay regulation does not affect the wages of those who do not work overtime; therefore, equation (2) implies $w^c = w$ for identical workers in identical jobs with $H \leq \bar{H}$. The above equations implicitly assume that overtime pay exists only to comply with the FLSA, and so no workers in the noncovered sector receive overtime pay, whereas all workers in the covered sector receive the minimum overtime pay required by law (i.e., an overtime premium of exactly b after exactly $\bar{H}$ weekly hours of work). The effects of relaxing this assumption will be reported below.

Using the fact that $\bar{H} + b(H - \bar{H}) = H + (b - 1)(H - \bar{H})$, equation (3) can be rewritten as

$$(4) \quad w/w^c = 1 + (b - 1)(H - \bar{H})/H \\ \equiv V > 1 \quad \text{if } H > \bar{H}.$$

V represents the straight-time wage premium necessary in the noncovered sector to produce equality in weekly earnings between this sector and the covered sector that receives overtime pay. The size of V depends on the length of the work week (H) as well as on the parameters of overtime pay regulation (b and $\bar{H}$), and it is intuitively clear why V must be increasing in H and b and decreasing in $\bar{H}$. Taking logs of equation (4) yields

$$(5) \quad \log(w^c) \approx \log(w) - (b - 1)(H - \bar{H})/H \\ \text{if } H > \bar{H}$$

where I have used the approximation that

$$\log(V) \approx (b - 1)(H - \bar{H})/H$$

since $(b - 1)(H - \bar{H})/H$ is small. Therefore, in the presence of overtime pay regulation, the structure of straight-time hourly wages is given by equation (5) for those who work overtime, and by $w^c = w$ for those who do not work overtime.

To derive an estimating equation from (5), specify straight-time hourly wages in the absence of overtime pay as $\log(w_i) = \mathbf{X}_i\beta + \varepsilon_i$, where $\mathbf{X}$ represents a vector of worker characteristics, β is a vector of parameters, ε is a random error term, and i indexes the individual. Then the foregoing discussion suggests estimating a log(wage) equation of the form

$$(6) \quad \log(\text{WAGE}_i) = \mathbf{X}_i\beta + \alpha[(H_i - \bar{H})/H_i] \\ \times \text{OTCOVG40}_i + \varepsilon_i$$

where WAGE is the straight-time hourly wage and OTCOVG40 is a dummy variable identifying those individuals who are both covered by overtime law and actually working overtime (i.e., $\text{OTCOVER} = 1$ and $H > \bar{H}$). The term $(H - \bar{H})/H$ represents overtime as a percentage of total weekly hours and is calculated for each individual using the CPS data on usual weekly hours of work and setting $\bar{H} = 40$ as required by the FLSA.²⁰ From equation (5), it is clear that the fixed-job model predicts $\alpha = -(b - 1) = -\frac{1}{2}$ in the above regression, since the FLSA currently requires $b = 1.5$. The fixed-wage model, on the other hand, provides no rationale for why straight-time wages should be inversely related to coverage status and overtime hours in this way. In other words,

²⁰ Because the earnings measure used in later analysis refers to usual weekly earnings, the hours measure employed here is usual weekly hours of work, rather than hours worked during the survey week. In addition, this measure should best reflect an individual's typical work week, since reported hours during the survey week can be affected by sick leave, holidays, vacation days, etc.

estimates of $\alpha = -\frac{1}{2}$ would provide evidence of the completely offsetting adjustment of straight-time wages to overtime pay regulation predicted by the fixed-job model, whereas $\alpha = 0$ implies the absence of any such adjustment, as is assumed by the fixed-wage model.

Before proceeding with the empirical analysis, however, it is necessary to discuss issues related to the specification and estimation of equation (6). First, note that the wage equation to be estimated is neither a labor-demand nor labor-supply function, but rather the type of equilibrium wage-hours locus described in Lewis (1969) and Rosen (1974). Because hedonic equilibrium generally requires that wage rates vary with hours of work, weekly hours enter this equation through the X vector as well as through the variable capturing the effects of overtime pay regulation. Therefore, the regressions reported below include usual weekly hours of work entering as a quadratic in the X vector.²¹

Other variables in the X vector are the human-capital measures and demographic characteristics typically included in wage equations. The human-capital variables are education, age, and age-squared. Dummy variables identifying marital status, union membership, and government employment are added because these variables are known to be correlated with wages. To control for regional cost-of-living differences, I include dummies indicating whether the individual resides in the central city of an SMSA or elsewhere in an SMSA, as well as a vector of dummies identifying the census geographic division of residence. Major industry and occupation dummies are included in an attempt to account for differences in the composition of the covered and noncovered sectors. Finally, I also introduce a dummy variable indicating coverage status under the

overtime law (OTCOVER), thus allowing the intercept in the wage equation to differ across sectors. In effect, OTCOVER picks up straight-time wage differentials between covered and noncovered individuals who do *not* work overtime, and these wage differentials will be attributed to compositional differences between the covered and noncovered sectors. By contrast, the coefficient α in equation (6) measures straight-time wage differentials between overtime workers in the covered and noncovered sectors, and it is these wage differentials that provide a test of the fixed-job model.

The empirical work in Sections IV and V focused on the behavior of minimum-wage workers, and therefore it was necessary to keep the sample as large as possible in order to observe an adequate number of these workers. The empirical work in the present section, however, affords the luxury of restricting the sample to a more homogeneous group so that any wage or earnings differentials detected between covered and noncovered workers will not simply reflect crude demographic differences across the two sectors. Accordingly, all of the wage and earnings regressions reported here restrict the sample to white males aged 18–64 who usually work at least 20 hours per week.²²

Table 6 presents ordinary least-squares estimates of equation (6).²³ Columns 1, 3,

²² I also exclude individuals covered by and earning the legal minimum wage, since these workers have their hourly wage rate fixed by law, and so the fixed-job model does not apply to them. Because they comprise a small fraction of the total sample, including these workers does not change the results. Regressions that included those who usually work fewer than 20 hours per week also produced similar estimates, as did regressions that included women and nonwhites.

²¹ Experiments in which the X vector was generalized to include interactions between hours and other variables in the X vector produced similar results to the specification in which hours was not interacted, so only estimates of the simpler specification are presented here.

²³ Because only estimates of the market wage-hours locus are sought, and not estimates of the underlying structure of worker preferences and firm technology, the empirical analysis presented here need not tackle the problems associated with structural estimation in implicit markets that have been described by James N. Brown and Harvey S. Rosen (1982) and Dennis Epple (1987). See Brown and Rosen (1987) for a recent study that also uses least squares on micro-data to estimate a hedonic wage locus. The hedonic locus estimated in

TABLE 6—HOURLY-WAGE REGRESSIONS [DEPENDENT VARIABLE = LOG(WAGE)]

Variable	1974		1976		1978	
	(1)	(2)	(3)	(4)	(5)	(6)
$[(H - \bar{H})/H](OTCOVER)$	-0.2278 (0.0697)	-0.1903 (0.0704)	-0.1777 (0.0678)	-0.1281 (0.0688)	-0.2127 (0.0694)	-0.2448 (0.0701)
OTCOVER	—	-0.0638 (0.0173)	—	-0.0719 (0.0175)	—	0.0425 (0.0139)
HOURS	0.0161 (0.0031)	0.0166 (0.0031)	0.0180 (0.0027)	0.0181 (0.0027)	0.0158 (0.0027)	0.0134 (0.0027)
HOURS ² /100	-0.0155 (0.0034)	-0.0167 (0.0034)	-0.0148 (0.0028)	-0.0156 (0.0028)	-0.0092 (0.0029)	-0.0084 (0.0029)
AGE	0.0333 (0.0018)	0.0334 (0.0018)	0.0376 (0.0020)	0.0375 (0.0020)	0.0359 (0.0019)	0.0357 (0.0019)
AGE ² /100	-0.0370 (0.0023)	-0.0371 (0.0023)	-0.0413 (0.0024)	-0.0411 (0.0024)	-0.0386 (0.0023)	-0.0384 (0.0023)
EDUC	0.0231 (0.0014)	0.0230 (0.0014)	0.0266 (0.0015)	0.0266 (0.0015)	0.0287 (0.0014)	0.0286 (0.0014)
UNION	0.2273 (0.0072)	0.2265 (0.0072)	0.2738 (0.0076)	0.2731 (0.0076)	0.2812 (0.0071)	0.2807 (0.0071)
MARRIED	0.0856 (0.0087)	0.0856 (0.0087)	0.0817 (0.0089)	0.0815 (0.0088)	0.0741 (0.0081)	0.0739 (0.0081)
CITY	0.0724 (0.0090)	0.0710 (0.0090)	0.0541 (0.0093)	0.0536 (0.0093)	0.0074 (0.0092)	0.0074 (0.0092)
SUBURB	0.1071 (0.0077)	0.1056 (0.0077)	0.0882 (0.0081)	0.0870 (0.0081)	0.0541 (0.0078)	0.0542 (0.0078)
GOVTEMP	-0.0073 (0.0145)	-0.0021 (0.0146)	0.0116 (0.0141)	0.0166 (0.0141)	0.0317 (0.0157)	0.0482 (0.0166)
R ² :	0.4953	0.4964	0.5042	0.5055	0.5061	0.5067
Sample size:	6,407		6,521		7,357	

Notes: Standard errors are given in parentheses. The samples consists of white males aged 18-64 who usually work at least 20 hours per week and for whom coverage status could be determined. Also included as independent variables were dummy variables indicating major industry, major occupation, and census geographic division.

and 5 exclude the coverage dummy OTCOVER, whereas columns 2, 4, and 6 report results when this variable is included to help control for wage differences between the covered and noncovered sectors that are unrelated to whether overtime is worked. Estimates of α occupy the first row of this table. In all three years, the estimate of α is negative and statistically significant, providing evidence that straight-time wage differentials arise in response to overtime pay regulation. However, for all three years, one can also reject the hypothesis that $\alpha = -\frac{1}{2}$, which implies that the wage adjustment is less than complete. Including OTCOVER in the regressions causes the estimates of α

to become less negative in 1974 and 1976, because in these years covered workers are found to earn lower wages independently of the effect of overtime pay regulation, whereas the opposite situation occurs in 1978.²⁴ However, in no year does α change by enough to overturn the previous conclusion that straight-time wages adjust significantly but incompletely to the presence of overtime pay regulation. These regressions support the existence of a partial wage adjustment that falls somewhere between the

²⁴The sign reversal that occurs on the coefficient of OTCOVER in 1978 is related to the U.S. Supreme Court decision that caused many state and local government employees who were classified as covered in the 1974 and 1976 data to become noncovered in the 1978 data. See the discussion in Section III.

that paper is between the mean level of the hourly wage and its variance.

predictions of the fixed-wage and fixed-job models of overtime pay regulation.²⁵ The coefficients of the other variables generally appear reasonable in both sign and magnitude, although the estimated rate of return to education is quite low.

The empirical analysis conducted above required knowledge of the overtime pay coverage status of individual workers, as well as strong assumptions about the structure of overtime pay in the covered and noncovered sectors. It is therefore useful to discuss how sensitive the results are to these assumptions. As described in Section III, every effort was made to eliminate from the sample individuals whose coverage status under the overtime pay provisions of the FLSA could not be accurately assigned, but it is inevitable that some of the remaining individuals have been misclassified. If the fixed-job model is correct, classification errors of this type would bias estimates of α in the positive direction, since some covered workers with lower straight-time wages are

being misclassified as otherwise identical noncovered workers, who would be expected to have higher straight-time wages, and vice versa. On the other hand, if the fixed-wage model best represents the truth, then no bias results from misclassification, since straight-time wages should be unrelated to coverage status. Therefore, any potential bias arising from errors in assigning coverage status works against the fixed-job model.

It was also assumed that no workers in the noncovered sector receive overtime pay, whereas all workers in the covered sector receive the minimum overtime pay required by law: an overtime premium of time and a half for weekly hours of work past 40. Although the assumptions that $b = 1.5$ and $\bar{H} = 40$ are probably not very objectionable, some union contracts specify an overtime premium of double time or above and a standard work week under 40 hours. Potentially more important assumptions are that overtime pay exists only to comply with the FLSA and that there exists perfect compliance within the covered sector. The compliance frequencies presented above indicated that about 10 percent of covered employees who worked overtime during the survey week were not paid an overtime premium as required by the FLSA, and many noncovered employees received overtime pay despite the lack of legal compulsion. To gauge the effect of these exceptions, the wage regressions were reestimated excluding union members from the sample and also excluding overtime workers in the covered sector who were not paid an overtime premium and those in the noncovered sector who were paid an overtime premium. These exclusions produced only minor changes in the estimates of α .

Finally, as noted above, weekly hours of work enter equation (6) through two avenues. The separate effect of overtime pay regulation is in large part identified by the fact that the reciprocal of weekly hours enters the term $[(H - \bar{H})/H]OTCOVG40$ but is excluded from the hedonic wage-hours locus of noncovered workers. The specific functional form of this term is a direct implication of the fixed-job model, but hedonic

²⁵The extent to which straight-time wage differentials arise in response to the statutory overtime premium may vary across demographic groups, perhaps because wage flexibility or the feasibility of making binding agreements over weekly earnings and hours packages varies across sectors. In particular, the high-turnover jobs typically held by young, uneducated workers might not involve the implicit earnings-hours contracts envisioned by the fixed-job model. To investigate this possibility, wage regressions were estimated in which the variable capturing the effects of overtime pay regulation was interacted with a dummy variable identifying those workers 25 years of age or less without a high school diploma. Since only about 7 percent of the sample in each year meet this definition of "unskilled," it is not surprising that the estimates of α for the rest of the sample are very similar to the estimates in Table 6 that constrain α to be the same for skilled and unskilled workers. The point estimates of the interaction term for 1976 and 1978 imply that α is close to zero for unskilled workers in these years, which is consistent with the conjecture just discussed. However, in the 1974 regressions, unskilled workers receive a straight-time wage differential that is more than twice the size of that received by skilled workers, and in no year is this interaction term statistically significant. I also explored similar types of interactions with age, education, union status, and, for the extended sample, race and sex. These interactions generally failed to achieve statistical significance and did not exhibit consistent sign patterns across the three years.

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nic theory provides little guidance as to the functional form of the wage-hours locus. Therefore, it could be argued that the reciprocal of weekly hours also belongs in the wage-hours locus of noncovered workers and that the estimates of α in Table 6 merely reflect this misspecification. When the reciprocal of weekly hours is added to the noncovered wage-hours locus, the estimates of α become statistically insignificant, ranging from -0.10 to 0.10 with standard errors of around 0.09 . Thus, this alternative interpretation is also consistent with the data. On the other hand, the estimates of α reported in Table 6 make sense within the context of the fixed-job model, and there is no obvious reason for this to occur if the results are primarily due to a misspecified wage-hours locus.

B. Weekly Earnings

The usual-weekly-earnings data in the CPS provide an alternative way of testing for the effects of overtime pay regulation. The fixed-job model implies that the earnings-hours locus is unaffected by overtime-pay coverage status, whereas the fixed-wage model predicts that weekly earnings (given hours of work) should be higher for those covered individuals who work overtime and thereby qualify for the statutory overtime premium. In addition, the fixed-wage model implies that the earnings advantage enjoyed by covered workers should increase with the amount of overtime worked.

The implications of overtime pay regulation for the structure of weekly earnings can be derived in a fashion very similar to that used above for straight-time wages. For individuals who are both covered by overtime pay regulation and working overtime, the natural logarithm of weekly earnings can be written as

$$(7) \quad \log(Y^c) = \log(w^c) + \log(H) \\ + (b-1)(H - \bar{H})/H \\ \text{if } H > \bar{H}.$$

If the fixed-job model is correct, then

$\log(w^c)$ adjusts to overtime pay regulation as specified in equation (5). Substituting (5) into (7), the term $(b-1)(H - \bar{H})/H$ vanishes, and therefore the fixed-job model predicts the statutory overtime premium to have no effect on weekly earnings. According to the fixed-wage model, on the other hand, straight-time wage rates are independent of overtime pay regulation, and so the earnings-hours locus is shifted outward for covered overtime workers.

Assuming as before that straight-time wages in the absence of overtime pay are given by $\log(w_i) = X_i\beta + \varepsilon_i$, one can test these implications of the fixed-job and fixed-wage models with a log(earnings) regression of the form

$$(8) \quad \log(\text{EARNINGS}_i) \\ = Z_i\gamma + \delta[(H_i - \bar{H})/H_i] \\ \times \text{OTCOVG40}_i + \varepsilon_i$$

where the vector Z includes $\log(H)$ in addition to all variables in the vector X described earlier and γ is a vector of coefficients. The fixed-job model implies $\delta = 0$, whereas the fixed-wage model predicts δ to be positive and on the order of $\frac{1}{2}$.

Table 7 reports estimates of equation (7).²⁶ Consistent with the fixed-job model, overtime pay regulation does not appear to have much effect on the earnings-hours locus. The estimates of δ never achieve statistical significance, are negative in 1974, and in the other years are always less than a third of the value predicted by the fixed-wage model.²⁷ The coverage dummy

²⁶The weekly-earnings regressions in Table 7 are estimated on slightly larger samples than the hourly-wage regressions reported in Table 6 because of the fact that hourly-wage data are missing more often than weekly-earnings data. For the years being studied, reported weekly earnings of \$1,000 or more are coded as \$999 in the May CPS. Individuals for whom the usual-weekly-earnings variable has been truncated in this way are excluded from the sample.

²⁷Unlike the straight-time wage regressions, estimates of the effects of overtime pay regulation from weekly-earnings regressions change very little when the reciprocal of weekly hours is added as a regressor.

TABLE 7—WEEKLY EARNINGS REGRESSIONS [DEPENDENT VARIABLE = LOG(EARNINGS)]

Variable	1974		1976		1978	
	(1)	(2)	(3)	(4)	(5)	(6)
$[(H - \bar{H})/H]OTCOVG40$	-0.1202 (0.0898)	-0.0325 (0.0920)	0.0263 (0.0915)	0.1254 (0.0946)	0.1403 (0.0855)	0.1132 (0.0879)
OTCOVER	—	-0.0756 (0.0175)	—	-0.0733 (0.0182)	—	0.0193 (0.0146)
HOURS	-0.0217 (0.0241)	-0.0393 (0.0245)	-0.0440 (0.0218)	-0.0619 (0.0222)	-0.1453 (0.0208)	-0.1404 (0.0211)
HOURS ² /100	0.0058 (0.0132)	0.0142 (0.0133)	0.0130 (0.0117)	0.0214 (0.0118)	0.0731 (0.0113)	0.0709 (0.0115)
log(HOURS)	1.7675 (0.5022)	2.1429 (0.5090)	2.4167 (0.4550)	2.7973 (0.4642)	4.3824 (0.4328)	4.2769 (0.4401)
AGE	0.0352 (0.0019)	0.0352 (0.0019)	0.0366 (0.0020)	0.0364 (0.0020)	0.0365 (0.0019)	0.0364 (0.0019)
AGE ² /100	-0.0396 (0.0023)	-0.0397 (0.0023)	-0.0400 (0.0025)	-0.0398 (0.0025)	-0.0397 (0.0024)	-0.0396 (0.0024)
EDUC	0.0221 (0.0015)	0.0220 (0.0015)	0.0257 (0.0015)	0.0256 (0.0015)	0.0289 (0.0015)	0.0288 (0.0015)
UNION	0.2233 (0.0073)	0.2222 (0.0073)	0.2655 (0.0077)	0.2644 (0.0077)	0.2678 (0.0074)	0.2677 (0.0074)
MARRIED	0.0809 (0.0088)	0.0807 (0.0087)	0.0862 (0.0091)	0.0860 (0.0091)	0.0818 (0.0085)	0.0817 (0.0085)
CITY	0.0715 (0.0090)	0.0697 (0.0090)	0.0377 (0.0095)	0.0374 (0.0095)	0.0028 (0.0096)	0.0028 (0.0096)
SUBURB	0.1079 (0.0078)	0.1061 (0.0078)	0.0875 (0.0083)	0.0865 (0.0083)	0.0574 (0.0081)	0.0574 (0.0081)
GOVTEMP	-0.0098 (0.0147)	-0.0046 (0.0147)	0.0195 (0.0143)	0.0245 (0.0143)	0.0306 (0.0162)	0.0380 (0.0171)
R^2 :	0.5225	0.5238	0.5579	0.5590	0.5529	0.5530
Sample size:	6,854		6,774		7,594	

Notes: Standard errors are given in parentheses. The samples consist of white males aged 18–64 who usually work at least 20 hours per week and for whom coverage status could be determined. Also included as independent variables were dummy variables indicating major industry, major occupation, and census geographic division.

OTCOVER is once again introduced to control for earnings differences between the covered and noncovered sectors that are unrelated to overtime, and OTCOVER picks up significant differences, but the same basic conclusion remains: overtime pay regulation does not significantly increase weekly earnings.

It is somewhat puzzling that the analyses of hourly wages and weekly earnings yield different estimates of the extent to which overtime pay regulation is circumvented. Straight-time wages appear to adjust in the direction implied by the fixed-job model, but by less than half as much as would be necessary to offset overtime pay regulation completely. The weekly-earnings regressions, on the other hand, suggest that adjustment is close to complete. There is evi-

dence, however, that some respondents do not include overtime pay when answering the usual-weekly-earnings question in the May CPS, and this may explain why the regressions reported above find that coverage under overtime pay regulation has little effect on the weekly earnings of those who work overtime.²⁸ If the hourly-wage ques-

²⁸Using the information provided on usual weekly hours, hourly-wage rates, and receipt of premium pay for overtime hours, I was able to calculate an alternative weekly-earnings measure for most individuals in the earnings sample. For overtime workers who receive premium pay, this alternative measure is on average 15–20 dollars higher than the response to the usual-weekly-earnings question, whereas the two measures are similar on average for those who do not work overtime or do not receive premium pay.

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tion in the CPS provides accurate information on straight-time wage rates, then the regressions using this variable are likely to be more reliable than those using weekly earnings, and therefore it is probably prudent to favor the conclusion of a sizable but incomplete wage response to overtime pay regulation over the competing conclusion of full adjustment.

VII. Conclusion

This paper has analyzed the economic effects of the overtime pay provisions of the Fair Labor Standards Act. Two alternative approaches to modeling the impact of overtime pay regulation were shown to produce dramatically different implications. In particular, the labor-demand approach adopted by previous studies assumes that the straight-time wage is independent of the statutory overtime premium. This fixed-wage assumption implies that overtime pay regulation should reduce overtime hours, increase the prevalence of a 40-hour work week, and raise the weekly earnings of overtime workers. The fixed-job approach, on the other hand, assumes that firms and workers agree to packages of weekly hours and weekly compensation, and therefore changes in the statutory overtime premium can be neutralized by offsetting adjustments in the straight-time hourly wage. As a result, weekly hours and earnings are unaffected by overtime pay regulation. Because workers earning the minimum wage are legally precluded from experiencing reductions in their straight-time wage rates, the fixed-job model predicts overtime pay regulation to have a differential impact on minimum- and nonminimum-wage workers, with no substantive economic effects expected for nonminimum-wage workers.

The empirical analysis suggests that neither of the simple models of overtime pay regulation considered here can completely account for observed labor-market outcomes. In accordance with the fixed-job model, the overtime law appears to have a greater impact on minimum-wage workers, as reflected by the findings that overtime pay compliance is significantly lower for

these workers and the prevalence of a 40-hour work week is significantly higher. On the other hand, overtime pay compliance is higher for union than for nonunion workers, a result more easily reconciled with the fixed-wage model of overtime pay regulation. In addition, the finding that overtime-pay coverage status systematically influences the hours-of-work distribution for nonminimum-wage workers is supportive of the fixed-wage model. No significant differences in weekly earnings were discovered between the covered and noncovered sectors, which is consistent with the fixed-job model. However, the analysis of hourly wages indicates a substantial but incomplete adjustment of straight-time wages to overtime pay regulation.

Overall, the data analyzed here suggest that wage adjustments occur to mitigate the purely demand-driven effects predicted by the fixed-wage model, but these adjustments are not large enough to neutralize overtime pay regulation completely. The offsetting adjustments that do occur serve to limit the potential usefulness of overtime pay regulation as a job-creation device.

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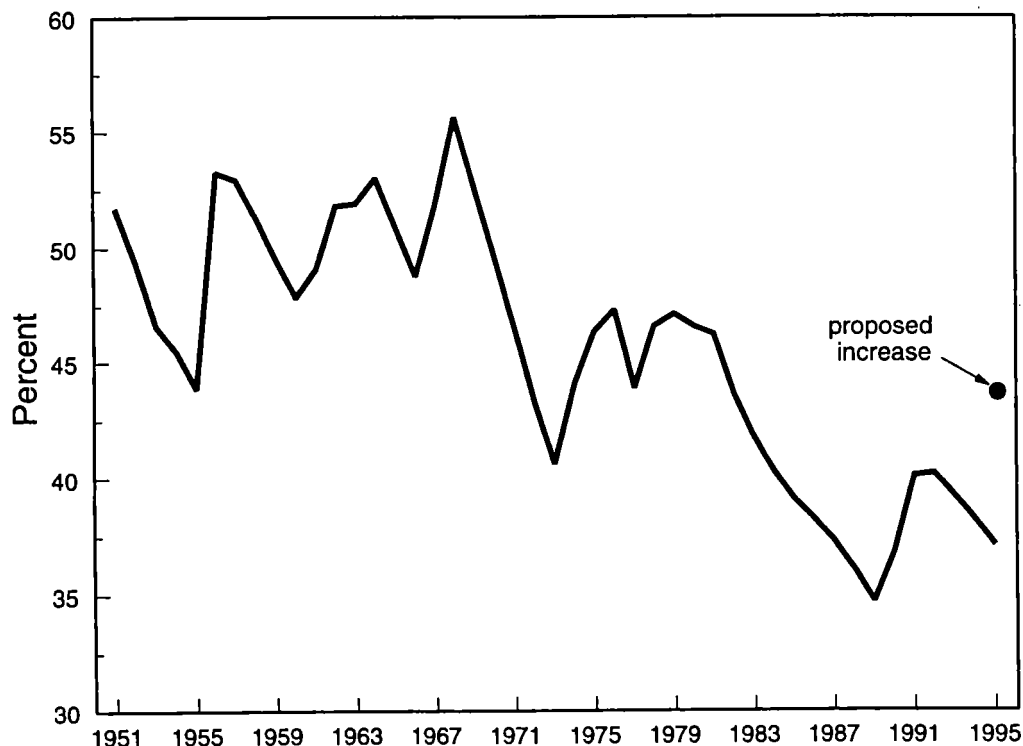
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

May 24, 1996

CHART OF THE WEEK

Minimum Wage as a Percent of Average Hourly Earnings



Because the minimum wage was unchanged during the 1980s, its value relative to the average hourly earnings of production workers declined sharply and reached a four-decade low of 35 percent in 1989. Although an increase during 1990-91 briefly pushed the minimum wage to 40 percent of hourly earnings, its relative value has eroded since 1992. The Administration's proposed increase from \$4.25 to \$5.15 per hour would raise the minimum wage to roughly 45 percent of current average hourly earnings. A Special Analysis in this issue of the Weekly Briefing assesses the effect on inflation of an increase in the minimum wage.



Congress of the United States
Joint Economic Committee
Democratic Minority Office

359 Ford House Office Building, Washington D.C. 20515 - (202) 226-4066

FAX COVER SHEET

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Name

FROM: LEE PRICE

CEA
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Number of Pages including cover: _____

MESSAGE: FINAL VERSION



Congress of the United States
Joint Economic Committee
Democratic Minority Office

359 Ford House Office Building, Washington D.C. 20515 - (202) 226-4066

Pete Stark - Ranking Democrat

104th Congress

Sorry, Mr. Speaker,
Recent Research at Federal Reserve Finds
No Loss of Jobs from Minimum Wage Hike

May 8, 1996

Dear Colleague:

In referring to the minimum wage last Sunday on "Face the Nation," Speaker Gingrich asserted "There's a Federal Reserve study which seems to indicate it could kill as many as 400,000 jobs." JEC staff discussions with the Speaker's office and the Federal Reserve revealed that there has been no "Federal Reserve study" of the current minimum wage proposal. Instead, there has been a back-of-the-envelope calculation based on a 1992 study coauthored by William Wascher, an economist at the Federal Reserve. However, Mr. Wascher's more recent research does not find job losses from hikes in the minimum wage. A 1995 study coauthored by Mr. Wascher explained:

"... several recent studies have reexamined the longstanding consensus that ... minimum wage laws reduce employment opportunities for youths. A striking feature of most of these studies (including ours) is that simple comparisons, or regressions controlling for exogenous shifts in labor demand, *do not reveal disemployment effects of minimum wages for teenagers* ... Our procedure does not significantly alter the findings from recent research regarding the net disemployment effect of minimum wages for teenagers." (emphasis added)

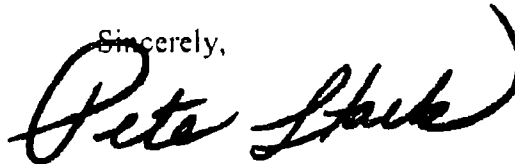
David Neumark and William Wascher, "Minimum Wage Effects on Employment and School Enrollment," *Journal of Business & Economic Statistics*, April 1995

In plain English, the consensus of recent research on the minimum wage -- including that done by the Federal Reserve's Mr. Wascher -- finds no job losses for teenagers from recent state and national hikes in the minimum wage.

A second pertinent study coauthored by Mr. Wascher in the last year also failed to find jobs losses from a minimum wage hike. That study compared employment in fast food restaurants in New Jersey and Pennsylvania at a time when New Jersey raised its state minimum wage above the federal minimum wage and Pennsylvania did not. A previous study had reached the conclusion that employment growth was no different, or actually greater, in New Jersey compared to Pennsylvania. Mr. Wascher's research on data that he and his coauthor collected, as distinct from data supplied by the restaurant industry, also found that employment went up in New Jersey. Although hours per worker declined insignificantly in New Jersey, the workers at those restaurants came out far ahead because the gain in wages per hour more than made up for the drop in hours. (David Neumark and William Wascher, "The Effect of New Jersey's Minimum Wage Increase on Fast-Food Employment: A Re-evaluation using Payroll Records," unpublished paper, January 1996)

It is time for Speaker Gingrich and Majority Leader Arney to stop reciting outdated research to justify inaction on the minimum wage. Recent economic studies of the effects of the minimum wage simply do not find significant job loss. They do find very significant income gains for low wage workers. A study the minority staff of the JEC released last week showed that the workers who would benefit from an increase in the minimum wage are underpaid compared to workers with similar skills. If you or any of your staff have questions about these studies, please contact Bill Spriggs on our staff at 225-6028.

Sincerely,

A handwritten signature in black ink, appearing to read "Pete Stark", with a large, sweeping flourish at the end.

Pete Stark

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Alan Krueger

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*Thanks for distributing this to
Joe. Feel free to give to Alicia
or Martin if they're involved.*

Alan

Princeton University

Woodrow Wilson School
of Public and International Affairs
Robertson Hall
Princeton, New Jersey 08544-1013
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April 22, 1996

Alan B. Krueger
*Bendheim Professor of
Economics and Public Affairs*

MEMORANDUM FOR SECRETARY ROBERT REICH, CHIEF OF STAFF LEON PANETTA, NEC DIRECTOR LAURA TYSON, CEA CHAIRMAN JOSEPH STIGLITZ, GEORGE STEPHANOPOULOS, AND GENE SPERLING

FROM: ALAN KRUEGER



SUBJECT: MINIMUM WAGE OPTIONS

As the minimum wage debate moves forward, I thought you might be interested in the following observations.

o Newt Gingrich mentioned that he would tie a minimum wage increase to a youth training wage. President Bush also insisted on a youth training wage in 1989. As a result, Congress passed a youth training wage that allowed a subminimum wage 15 percent below the minimum wage for teenagers for up to 6 months. The youth training wage expired after 3 years, and was not renewed. A Labor Dept. study and several others (including one by Larry Katz and me) found that employers rarely used the subminimum wage. I think the main reason they rarely used it is that they didn't want to pay teenagers and adults a different wage for doing the same work. Employers also complained that the training wage created more red tape. The training wage expired after 3 years, and there was hardly any pressure to renew it.

o Although unions dislike the subminimum wage, since it was hardly used, I would see little harm in accepting a training wage similar to the one passed in 1989. I also would recommend considering that the provision be accepted on a trial basis that expires after 3 years unless Congress then chooses to make it permanent.

o The timing of the minimum wage increase is crucial. For the last increase, a deal to increase the minimum wage was reached in November of 1989. The minimum wage increased 5 months later, on April 1, 1990. The lead time gave employers some time to adapt to the higher wage. A 5 month lead time now would mean the minimum wage would increase effective early October.

o Another, perhaps more important reason, to increase the minimum wage after the summer (e.g., after September 1) is that the summer jobs programs has not been funded, and is likely to be cut back. Without the summer jobs program, many inner city kids will lack job opportunities. Indeed, the minimum wage increase could logically be tied to full funding of the summer jobs program.

o I have heard some discussion about trying to restrict coverage of the minimum wage. There are two important issues here. First, if coverage is tightened, some workers will be exempted from the minimum wage even though they are currently protected by it. This will mean that those workers are susceptible to a wage cut. Second, enforcement of the Fair Labor Standards Act will be even harder if workers are exempt from the minimum wage.

o Instead of adjusting coverage in any deal, I think it makes more sense to consider the tipped minimum wage. Currently, the minimum wage for workers who are paid tips is half the minimum wage, or \$2.13 per hour. Employees count their tips toward meeting the \$4.25 minimum wage. If employees' combined tips and \$2.13 hourly wage do not exceed \$4.25, their employer makes up the difference. If the minimum wage increases to \$5.15, say, the tipped minimum could stay at \$2.13. Tipped workers will still make at least \$5.15 per hour because employers would have to make up any shortfall after tips. I suspect that most restaurants would prefer this provision to likely changes in coverage.

o A novel initiative would be a health insurance offset. Specifically, if minimum wage employers provide health insurance (which they rarely do), the pro-rated hourly cost of that health insurance could be counted towards meeting the minimum wage. For example, if health insurance costs \$1 per hour, and the company pays \$4.50 per hour, then the "full wage" would equal \$5.50 per hour, and the firm would exceed the \$5.15 minimum wage. This new offset would serve two purposes. First, it would encourage more employers to provide health insurance, in keeping with the President's priorities. Second, it would recognize that total compensation is relevant for workers, not just wages. Moreover, I suspect that most minimum wage employers that provide health insurance would increase their workers wages to the new minimum anyway, so in practice this provision would not lower wages. And it would have the advantage of being a New Democrat approach.

o If indexing the minimum wage becomes an issue, there are two critical issues to consider. First, what is the minimum wage indexed to? If it is indexed to the CPI, then it may rise too high relative to wages, if real wages of low-wage workers continue to fall. An alternative approach would be to index the minimum wage to the wage of the worker who falls in the 25th percentile of the wage distribution. The second, issue is political. If the minimum wage is indexed, then the issue of raising the minimum wage will not arise again in the future. And it will be locked in at a relatively low level.

o I see that Joe Stiglitz has taken some heat for statements on the minimum wage in his 1993 text book. I liked Joe's letter to the WSJ. Another possible response is that John Taylor's economics text book (Taylor was a member of George Bush's CEA) states that the effect of a minimum wage on employment is controversial. Also, the 20 House Republicans who support a minimum wage increase released a "Fact Sheet" stating that "raising the hourly [minimum wage] rate has a marginal, and possibly a beneficial, impact on employment."

REVIEW & OUTLOOK

Stiglitz v. Clinton

Republicans have been AWOL rebutting Democratic arguments for raising the minimum wage, so we'd like to offer a tip on where they can find ammunition. Start by calling Joseph Stiglitz, the Stanford economist and, as it happens, Bill Clinton's own chief economist.

Yes, we mean the same Joe Stiglitz whose name appeared recently on this page urging a government-mandated increase in the basic wage, to \$5.15 from \$4.25 an hour. We admit we blinked when we saw his name on the list of op-ed co-authors, along with the President's other economic advisers, Laura Tyson, Robert Rubin, Robert Reich and the late Ron Brown. "Every member of the president's economic team believes this step will increase wages without costing jobs," they wrote on April 1.

Now, we can understand those other advisers. They're political types. But as the chairman of the President's Council of Economic Advisers, Mr. Stiglitz's advice is supposed to have some grounding in economic reality. Say it ain't so, Joe!

You see, we've been reading a textbook by Mr. Stiglitz, "Economics" (1993, W.W. Norton & Co.). And right there, on pages 130-133, is the clearest, or at least a clear, debunking of the minimum wage illusion. "The minimum wage is an example of a price floor," writes Mr. Stiglitz, in prose even a freshman can understand, adding that "price floors have predictable effects."

For example, they may price some workers out of a job. "Of course, those who are lucky enough to get a job will be better off at the higher wage than at the market equilibrium wage," writes Professor Stiglitz. "But there are others, who might have been employed at the lower market equilibrium wage, who cannot find employment and are worse off."

Such as? Well, writes the pre-White House Stiglitz, "In the United States, perhaps the major unemployment effect of minimum wages is on teenagers. Most other workers, even the unskilled, get paid more than the minimum wage." In other words, all that stuff about a "living wage" in the Clinton op-ed is just rhetoric, because few workers who support themselves

actually work for the minimum now. "Today's labor market often has both spouses and even a teenage child or two working. Surely they do not *all* (his emphasis) need to earn enough to support their own family," says the Stanford Stiglitz.

He's on a roll, so we'll keep quoting. "In addition, a higher minimum wage does not seem a particularly useful way to help the poor." Hmmm. That sounds a lot like, well, Milton Friedman, without the style. "Most poor people earn more than the minimum wage *when they are working*; their problem is not low wages. The problem comes when they are not working," he says.

Forgive us for asking, but if this were all true in 1993, why is it false in 1996? We suppose Mr. Stiglitz might cite the studies, done for Robert Reich's Labor Department, that somehow claimed to rebut decades of economic research on the minimum wage. But as Harvard's Robert Barro showed in January on these pages, those studies have since been pretty thoroughly discredited by more careful follow-up research.

We suspect the Stiglitz Switch has more to do with this being an election year. Democrats are desperate to win back the votes of working folks who deserted them in 1994. They figure their silver bullet is an "economic populism" that claims to speak for the little guy, diverting attention from their social liberalism. So the minimum wage is cheap political bait, no matter that the overwhelming evidence for years has shown that it hurts the working poor more than it helps.

Remember when Bill Clinton claimed he was a New Democrat precisely because he didn't favor a higher minimum wage? That was 1992, the last time he was trying to give moderates a reason to entrust their vote with him. Instead he liked the earned-income tax credit, which has in fact grown like Topsy in the Clinton Presidency. But with labor unions and liberals desperate to have something to say to working folks this year, Mr. Clinton has thrown another New Democrat principle over the side. It's too bad Joe Stiglitz seems to feel obliged to jump along with it.

known

I Changed My Mind. What's the Big Deal?

I normally welcome broad dissemination of my writing. But your selective quotations in "Stiglitz v. Clinton" (Review & Outlook, April 12) are grossly misleading. Both as an academic and as a policy-maker, I have stressed the importance of basing economic policies on careful analysis, and on avoiding a foolish consistency when the evidence shifts. As a famous economic adviser to the British government apparently once said, "When the circumstances change, I change my view. What do you do?" The evidence on the minimum wage is an example of changing circumstances.

Economic research on the minimum wage continues (fortunately) to progress. More insightful theories and new empirical studies—none of them, I may add, done at the request of the Labor Department—have improved our understanding, and the academic consensus on the effects of the minimum wage has shifted somewhat. For example, 101 leading economists, including Nobel Prize-winners Kenneth Arrow, Lawrence Klein, and James Tobin, signed a letter last year supporting President Clinton's proposed increase in the minimum wage from \$4.25 to \$5.15 per hour. They concluded that the "overall effects on the labor market, affected workers, and the economy would be positive." These economists are distinguished and disinterested academics. Do you also impugn their motives?

Your editorial is misleading for another reason. My textbook stresses that the effects of the minimum wage depend crucially on the level at which it is set and on the structure of the labor market. Throughout much of the post-war era, the minimum wage hovered around half the average wage. But the minimum wage is now just over a third of the average wage. And in a passage of the textbook that somehow must have skirted your attention, I argued that moderate increases in a relatively low minimum wage should have little effect on unemployment (page 131). The feature I co-authored on your editorial page two weeks ago noted that the minimum wage is close to its 40-year low in real terms, and concluded that a moderate increase would not have a significant affect on job levels. No big metamorphosis in opinion there.

In summary, Prof. Stiglitz and Chairman Stiglitz are not in conflict. We both agree that a moderate increase in the minimum wage from its current low level would not significantly affect employment. Both Stiglitzes also object to your gratuitous and invidious comparisons of "style," but we concur that our academic style pales in comparison with the poetry of your editorial pages. By the law of comparative advantage, perhaps you should stick to style and we will stick to economics.

JOSEPH E. STIGLITZ
Chairman

Council of Economic Advisers
Washington

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April 9, 1996

Letter to the Editor
The Washington Post
1150 15th Street, NW
Washington, DC 20071

To the Editor:

Readers of James Glassman's "Raise the Minimum Wage? No." (op-ed, April 9th) may come away thinking that I oppose President Clinton's proposed increase in the minimum wage. In fact, I support it.

Glassman quotes William Baumol and me as stating: "The primary consequence of the minimum wage law is not an increase in the incomes of the least skilled workers but a restriction of their employment opportunities." The quotation is accurate, but it comes from the first edition of our textbook (1979). Similarly, the survey of economists and CBO study that Glassman cites are both quite old by now.

In recent years, substantial new statistical evidence has accumulated, suggesting that the conventional view of the minimum wage--although enshrined in textbooks like ours for decades--may be wrong. The new findings are puzzling. The theory behind them is far from clear. But the evidence is strong enough to sow strong seeds of doubt. Accordingly, the current (sixth) edition (1994) of our textbook notes that "Recent statistical studies suggest that... the undesirable effects of the minimum wage laws are far less serious than previously was widely believed." The seventh edition, now in press, will be even more agnostic on the matter.

Such agnosticism is amply justified by the current state of the evidence. Nowadays, anyone who confidently predicts that a modest hike in the minimum wage will have large unemployment effects is choosing a priori reasoning over empirical evidence.

Sincerely,

Alan S. Blinder
Princeton, NJ

TO: JRS, AHM, MNR, MJ, SP
From: PC

Economic Trends

BY GENE KORETZ

WANT TO CUT MEDICAL COSTS?

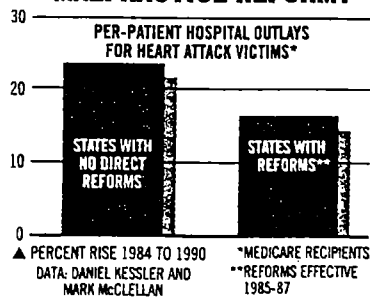
Put a lid on malpractice suits

One of the hottest issues in the U.S. debate over rising medical costs is the impact of malpractice suits. Critics claim the malpractice system vastly boosts health-care outlays by inducing doctors to practice defensive medicine—that is, prescribing tests and treatments with little or no benefit in order to ward off lawsuits. Defenders say it reduces negligence while providing injured patients with redress for doctors' mistakes.

Moreover, since the total cost of the malpractice system, including claims paid and lawyers' fees, comes to less than 1% of the nation's medical bill, its supporters argue that its effect on expenditures is highly exaggerated. Indeed, up to now, there has been little hard evidence to show how much—or even whether—doctors resort to defensive medicine.

In a new study, two Stanford University economists—Daniel P. Kessler, who is also a lawyer, and Mark McClellan, who is also a doctor—seek to fill this gap. Their findings suggest that de-

A PAYOFF FROM MALPRACTICE REFORM?



fensive medicine has been a widespread and costly practice, one that could be reduced through liability reforms.

Kessler and McClellan analyzed hospital expenditures for all elderly Medicare patients hospitalized in 1984, 1987, and 1990 with recently diagnosed heart attacks and other serious heart ailments. Controlling for patients' age, race, and sex, they compared states that had implemented malpractice reforms with those that had not, in terms of how much their spending per patient grew and how the patients fared.

The results: In states that adopted

reforms limiting liability awards, the growth in hospital outlays slowed appreciably for several years—lowering such expenditures by 5% to 9% relative to the levels reached in states with no reforms. In both groups of states, patients did equally well—measured by mortality rates and rehospitalizations.

Although the spending slowdowns that followed reforms may not have affected the long-term upward trend in medical costs, they did seem to provide a lasting one-time saving. Extrapolating from their results, Kessler and McClellan theorize that nationwide comprehensive limits on malpractice awards could reduce annual health-care outlays by as much as \$50 billion.

In fact, the recent slowdown in U.S. medical expenditures may partly reflect the malpractice reforms adopted by many states over the past decade—as well as the huge growth in managed-care plans, which closely monitor physicians for signs of excessive use of tests and costly treatments.

CHINA'S OTHER CONSUMERS

Suburbanites are spending, too

The common view, says economist Gilbert Choy of ING Baring Securities Ltd., is that China's growing consumer market is tied to its urban population, which represents about 20% to 25% of the nation's 1.2 billion people. With annual per capita disposable income of about \$465 (and much more in purchasing-power), urban dwellers reportedly earn about 2½ times as much as their poverty-stricken rural cousins.

The trouble with this picture, says Choy, is that it not only undercounts city dwellers but also misses a huge adjunct to the main consumer market: an increasingly affluent suburban economy that has sprouted on the fringes of the cities but is often classified as part of the rural economy. According to ING Baring, suburbanites and better-off peasants number some 384 million and enjoy average per capita incomes of \$450, almost as much as urbanites.

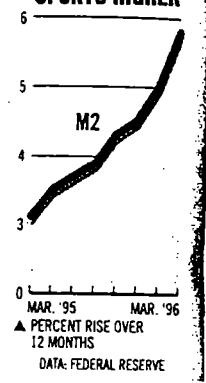
Counting the urban and suburban groups together, Choy estimates they exceed two-thirds of China's population and account for some 80% of its gross domestic product. Their purchasing power helps explain why real retail sales on the mainland continue to grow at a hefty 10% annual pace despite the nation's recent austerity policies.

MONEY, MONEY EVERYWHERE

The Fed won't ease again soon

If the Federal Reserve is pursuing a mildly restrictive monetary policy, as many financial market observers say, that stance isn't showing up in the various measures of the money supply. M1, the narrowest monetary measure, jumped at a 9.8%

THE MONEY SUPPLY SPURTS HIGHER



annual clip in March, while the annual growth rates of M2 and M3 both hit 10% to 11% and have hardly slackened in recent weeks.

Higher and speedier tax refunds may be behind some of this surge in liquidity, but not all of it. William V. Sullivan Jr. of Dean Witter

Reynolds Inc. observes that since March, 1995, the 12-month growth rate of M2 has soared from 0.4% to 5.8%—“the most rapid acceleration on record.” Moreover, both M2 and M3 are growing in inflation-adjusted terms for the first time in years. “The recent sharp pickup in monetary growth suggests that the economy is rebounding smartly,” says Sullivan, “and that further easing moves by the Fed are unlikely any time soon.”

A MINIMAL WAGE EFFECT

Will a hike raise labor costs?

Though they are not happy about a rise in the minimum wage, two Wall Street economists see only a slight impact on wage inflation. Bruce Steinberg of Merrill Lynch & Co. notes that only 5.3% of hourly workers earned the minimum wage or less last year. And nearly half of that group got less than the minimum—presumably because they are exempt from the law's coverage.

Maury N. Harris of PaineWebber Inc. observes that in seven of the nine times the minimum wage has been raised since 1968, hourly earnings slowed over the following year. “If labor markets tighten, wage pressures may emerge,” he says. “But a higher minimum wage by itself won't have much of an effect.”

ERIC HOEFLER/BWB

act on minimum wage

By Del Jones
and Beth Belton
USA TODAY

An increase could cost jobs for working poor

For the first time since 1991, Congress is likely to vote on an increase in the minimum wage — the biggest hike in 50 years.

The politics are dicey. Passage could come before Election Day (story, 2B). Here's what it could mean to business, the working poor and the economy:

► The hourly minimum wage would rise over two years to \$5.15 from \$4.25, a 21% raise for as many as 10 million workers. A bill

by 20 House Republicans would raise it to \$5.25.

► The economy, healthy by most measures, would be put at some risk. For example, if the minimum wage were raised 90 cents this month, wage inflation would rise 4.5% this year, estimates Joel

Prakken, economist at Laurence Meyer & Associates in St. Louis. That's more than a half percentage point higher than the 3.8% rise in wage inflation expected if the minimum wage is held steady.

Please see COVER STORY next page ►

Continued from 1B

► Consumer prices probably would rise 3.5% the next 12 months vs. an estimated 2.9% increase if there is no action on the minimum wage. That's because what companies pay workers accounts for two-thirds of the cost to produce goods and services on average.

► The economic impact would be short term. In 1991, when minimum wage was raised to \$4.25 from \$3.80 an hour, wage inflation rose sharply the following quarter. But after a year, wage inflation fell back to a more stable rate of increase.

► Some of the workers who expect raises would lose their jobs. How many is open to debate. But if inflation picks up, a vigilant Federal Reserve would raise short-term interest rates. That would slow the economy and cost jobs. But there have been 17 increases since 1938, and not one has caused long-term economic pain.

Many people earning minimum wage are teen-agers. But 47% are older than 25, according to the Bureau of Labor Statistics.

To the working poor, there would be little long-lasting benefit. But predictions of dire consequences also would likely prove to be exaggerated.

Families who survive on two minimum-wage jobs would surely benefit. One full-time minimum wage worker earns \$8,500 a year, 70% of the poverty level for a family of three. Yet, to move beyond poverty, that worker would have to earn well over \$6 an hour.

Even some who make minimum wage are skeptical of the benefits. "Prices are going to go up, everything will go up," says Virginia Berestein, a 27-year-old mother in El Paso, Texas, who makes \$4.40 an hour working 30 hours a week in a pizza restaurant. Her husband makes \$150 a week as a computer technician.

"Right now, I'm not so sure I'm all for it," Berestein says.

"Raising the minimum wage is not

a magic potion to eliminate poverty among workers," Labor Secretary Robert Reich said. "It is an important step in the right direction."

Economists have long said that minimum wage increases cost jobs. But over the past few years, many leading economists have decided that job loss is not as great as they once thought, and many have come out in favor of a higher wage.

But the president's own chief economist, Joseph Stiglitz, chairman of the Council of Economic Advisers, wrote a chapter in a textbook three years ago that says raising the minimum wage would cause higher unemployment among those who need jobs the most. "A higher minimum wage does not seem a particularly useful way to help the poor," Stiglitz wrote even though today he's advocating a minimum-wage hike.

States have stopped waiting to figure out who's right. Eleven states and the District of Columbia mandate higher minimum wages than what the federal government requires: Alaska, Connecticut, Delaware, Hawaii, Iowa, Massachusetts, New Jersey, Oregon, Rhode Island, Vermont and Washington.

But nearly as many states have killed or refuse to act on proposed increases, including: Georgia, Idaho, Kansas, Minnesota, New Hampshire, Nebraska, New Mexico, Oklahoma, South Dakota and Wisconsin.

Impact varies by state and region. In Louisiana, 20% of all workers make less than \$5.15 an hour; in Hawaii only 3.7%.

The most vocal opponents are small-business owners. "I can't afford (an increase of) a dollar an hour, period," says Rep. Mark Souder, R-Ind., a conservative freshman who still runs a general store in Grabill, Ind. He calls the issue "nuclear" among small-business types.

Eight of 10 members of the National Federation of Independent Business, which represents 600,000 small businesses, oppose a hike.

► "It's a bunch of political gobble-dyhook to make people think someone is doing them a favor," says Ken Haddad, owner of H&H Car Wash, which employs 27 workers at minimum wage. A \$1 increase in the minimum wage would increase his labor costs \$4,500 to \$5,000 a month and force him to immediately raise the cost of a car wash from \$8.50 to "whatever the market will bear." After inflation, the net gain to the employees "is really nothing," he says.

When asked if any workers were available for a phone interview, Haddad said none could speak English.

► "I would be paying more money to fewer people because I only have so many dollars," says Robert Benham, owner of Balliet's, a women's specialty store in Oklahoma City.

► "We're not opposed to people making more money," says Lloyd Falconer, owner of Seward Screw Products, a metal parts manufacturer in Seward, Ill. "What we're opposed to is excluding people from that first step on the ladder."

Falconer is frustrated at how political the issue has become. "This whole thing is emotional rather than logical," he says. "The big unions are targeting it because they're looking for a way to get a pay raise without negotiating it. They're trying to get Congress to do it for them."

► "We hire mostly teen-agers and part-time workers," says Kirk Robison, president of Peter Piper Pizza, which operates 38 restaurants in New Mexico and Texas. "The skill level they bring to the job is consistent to the wage they're paid."

Terri Orozco, who started with Peter Piper Pizza at \$3.35 an hour nine years ago, says she needed the entry-level job to prove herself. She now makes nearly \$40,000 a year as general manager of a restaurant in Harlingen, Texas. "The majority of kids I hire never worked before," she says.

Contributing: Richard Wolf and Anne Willette

USA TODAY

FRIDAY, APRIL 19, 1996

Call 4-19
Beth Nelson

Higher Pay, Fewer Paychecks?

Many Economists Dispute GOP on Minimum Wage Hike's Impact

By Clay Chandler
Washington Post Staff Writer

Will boosting the minimum wage kill jobs?

The notion that even a modest increase in the minimum wage could wipe out thousands of jobs is an article of faith among many congressional Republicans.

House Majority Leader Richard K. Armey (R-Tex.) insists a Democratic proposal to lift the hourly minimum wage by 90 cents, to \$5.15, over the next two years would impose a crushing burden on employers, forcing many to slash their payrolls.

Armey, who earned his living as an economics professor before he came to Washington, lectured reporters on the subject the other day:

"I taught economics in colleges for a lot of years. Any freshman who didn't get it, didn't pass," he said. The fact is, raising the minimum wage is going to destroy job opportunities for the least advantaged people in the work force. It

is bad public policy . . . a cruel hoax on the least advantaged workers."

Other economists, though, might not be so quick to give their students a failing grade. While most concur with Armey's assertion that the proposed increase would cost jobs, not all share his certitude that the impact would be severe.

Many respected economists argue that a 90-cent wage increase would do little economic harm. Indeed, a group of 101 economists, including several Nobel Prize winners, last year signed a statement of support for the proposed increase.

The logic behind Armey's argument that a wage increase would wipe out jobs is as old as Adam Smith. One of the basic tenets of economics is that when you raise the price of something—in this case, low-skilled labor—demand for it tends to fall. The theory doesn't say how far.

At the pessimistic end of the spectrum, officials at the Employment Policies Institute, an organization funded by restaurateurs and businesses employing low-wage workers,

See WAGE, F3, Col. 5

WAGE, From F1

calculate that a 90-cent wage increase would eliminate 621,000 jobs. But many economists—including those who believe raising the minimum wage is a bad idea—estimate the number of jobs lost due to the proposal would be far smaller.

For example, Mark Lasky, senior economist at DRI/McGraw-Hill Inc., a Lexington, Mass.-based economic forecasting concern, projects that over a three-year period, the proposed wage increase would result in a net reduction of only 90,000 jobs. That's about equal to the number of new jobs created by the economy in a slow month.

Research by economists David Card and Alan Krueger offered an even more optimistic assessment. Their work, which has been widely touted by the Democrats, suggests that raising the minimum wage might actually increase employment.

Card, a professor at Princeton University, and Krueger, who recently returned to Princeton after a stint as the Labor Department's chief economist, studied employment patterns at fast-food restaurants in New Jersey and Pennsylvania in 1992. New Jersey raised its minimum wage from \$4.24 to \$5.05, while neighboring Pennsylvania left its wage law unchanged. Card and Krueger found that—contrary to conventional wisdom—the New Jersey restaurants added workers, while the employment at the Pennsylvania restaurants stayed the same.

The Princeton economists found restaurants in New Jersey passed the burden of higher wages on to customers

by raising the prices for the most popular items on their menus. Higher prices didn't drive customers away.

The Card and Krueger study, which was based on data gathered through telephone surveys of restaurant managers, has been hotly disputed by other economists. A subsequent study of the fast-food industry in the two states by Michigan State University economist David Neumark and Federal Reserve Board economist William Waschler found that employment had actually fallen after New Jersey raised the wage floor.

Neumark and Waschler claim their data was more reliable, because it was drawn from payrolls rather than telephone surveys.

Clinton administration economists concede that a wage increase would rob the economy of some jobs, but they argue that it would help lift the incomes for workers at the bottom of the nation's pay scale. Armey counters, however, that the least-skilled will bear the brunt of the job loss because a higher wage may keep many of them from ever finding their first job.

A CBS Television/New York Times poll conducted March 31 found that 84 percent of those questioned favored the proposed 90-cent increase in the minimum wage. But only 46 percent said they would support the increase if it "might reduce the number of jobs available for workers with limited skills," while 38 percent said they would oppose the increase if it meant fewer jobs.

Staff writer John Yang contributed to this report.

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Alan

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April 22, 1996

Alan B. Krueger
*Bendheim Professor of
Economics and Public Affairs*

MEMORANDUM FOR SECRETARY ROBERT REICH, CHIEF OF STAFF LEON PANETTA, NEC DIRECTOR LAURA TYSON, CEA CHAIRMAN JOSEPH STIGLITZ, GEORGE STEPHANOPOLOUS, AND GENE SPERLING

FROM: ALAN KRUEGER 

SUBJECT: MINIMUM WAGE OPTIONS

As the minimum wage debate moves forward, I thought you might be interested in the following observations.

o Newt Gingrich mentioned that he would tie a minimum wage increase to a youth training wage. President Bush also insisted on a youth training wage in 1989. As a result, Congress passed a youth training wage that allowed a subminimum wage 15 percent below the minimum wage for teenagers for up to 6 months. The youth training wage expired after 3 years, and was not renewed. A Labor Dept. study and several others (including one by Larry Katz and me) found that employers rarely used the subminimum wage. I think the main reason they rarely used it is that they didn't want to pay teenagers and adults a different wage for doing the same work. Employers also complained that the training wage created more red tape. The training wage expired after 3 years, and there was hardly any pressure to renew it.

o Although unions dislike the subminimum wage, since it was hardly used, I would see little harm in accepting a training wage similar to the one passed in 1989. I also would recommend considering that the provision be accepted on a trial basis that expires after 3 years unless Congress then chooses to make it permanent.

o The timing of the minimum wage increase is crucial. For the last increase, a deal to increase the minimum wage was reached in November of 1989. The minimum wage increased 5 months later, on April 1, 1990. The lead time gave employers some time to adapt to the higher wage. A 5 month lead time now would mean the minimum wage would increase effective early October.

o Another, perhaps more important reason, to increase the minimum wage after the summer (e.g., after September 1) is that the summer jobs programs has not been funded, and is likely to be cut back. Without the summer jobs program, many inner city kids will lack job opportunities. Indeed, the minimum wage increase could logically be tied to full funding of the summer jobs program.

o I have heard some discussion about trying to restrict coverage of the minimum wage. There are two important issues here. First, if coverage is tightened, some workers will be exempted from the minimum wage even though they are currently protected by it. This will mean that those workers are susceptible to a wage cut. Second, enforcement of the Fair Labor Standards Act will be even harder if workers are exempt from the minimum wage.

o Instead of adjusting coverage in any deal, I think it makes more sense to consider the tipped minimum wage. Currently, the minimum wage for workers who are paid tips is half the minimum wage, or \$2.13 per hour. Employees count their tips toward meeting the \$4.25 minimum wage. If employees' combined tips and \$2.13 hourly wage do not exceed \$4.25, their employer makes up the difference. If the minimum wage increases to \$5.15, say, the tipped minimum could stay at \$2.13. Tipped workers will still make at least \$5.15 per hour because employers would have to make up any shortfall after tips. I suspect that most restaurants would prefer this provision to likely changes in coverage.

o A novel initiative would be a health insurance offset. Specifically, if minimum wage employers provide health insurance (which they rarely do), the pro-rated hourly cost of that health insurance could be counted towards meeting the minimum wage. For example, if health insurance costs \$1 per hour, and the company pays \$4.50 per hour, then the "full wage" would equal \$5.50 per hour, and the firm would exceed the \$5.15 minimum wage. This new offset would serve two purposes. First, it would encourage more employers to provide health insurance, in keeping with the President's priorities. Second, it would recognize that total compensation is relevant for workers, not just wages. Moreover, I suspect that most minimum wage employers that provide health insurance would increase their workers wages to the new minimum anyway, so in practice this provision would not lower wages. And it would have the advantage of being a New Democrat approach.

o If indexing the minimum wage becomes an issue, there are two critical issues to consider. First, what is the minimum wage indexed to? If it is indexed to the CPI, then it may rise too high relative to wages, if real wages of low-wage workers continue to fall. An alternative approach would be to index the minimum wage to the wage of the worker who falls in the 25th percentile of the wage distribution. The second, issue is political. If the minimum wage is indexed, then the issue of raising the minimum wage will not arise again in the future. And it will be locked in at a relatively low level.

o I see that Joe Stiglitz has taken some heat for statements on the minimum wage in his 1993 text book. I liked Joe's letter to the WSJ. Another possible response is that John Taylor's economics text book (Taylor was a member of George Bush's CEA) states that the effect of a minimum wage on employment is controversial. Also, the 20 House Republicans who support a minimum wage increase released a "Fact Sheet" stating that "raising the hourly [minimum wage] rate has a marginal, and possibly a beneficial, impact on employment."

Minimum Wage vs. Supply and Demand

ss will soon vote on whether to the minimum wage to \$5.15 an m \$4.25 an hour. As usual, the ic arguments for and against a n the minimum wage have been ob d by rhetoric. While some econo have become caught up in the rical excess preceding the vote, this s not obscure the real economic effects f raising the minimum wage. We asked a group of prestigious economists what those effects were, and whether there is still a general consensus among econo mists on this issue.

William Poole, professor of economics at Brown University

Almost all economists supporting a higher minimum wage, including the president's chief economic adviser, believe that a higher minimum wage will reduce employment. The employment cost may be small, but that is because the wage effect is also small for a small increase in the minimum wage. Minimum wage advocates believe that the employment cost is worth the small wage increase received by those who remain employed.

I do not understand this callous position. The current minimum wage pro-

money. An arbitrary minimum wage increases the cost of hiring those who would otherwise earn less, but it does nothing to make them more productive.

In recent years there have been a handful of ad hoc examples or studies reporting cases where the minimum wage has increased and employment apparently did not fall. Foremost among these is the New Jersey/Pennsylvania comparison by Princeton Professors David Card and Alan Krueger. But re-examination of their data has raised so many questions that the study is generally dismissed by professional economists. Their finding, and that of a handful of other examples, should not surprise. Many things affect employment, and the minimum wage is only one. If we can disprove the law of demand by presenting seemingly anomalous examples, we can also prove that smoking does not cause cancer by pointing to a few old people who smoke.

The proof is not in the isolated example. Rather it is in the preponderance of the data, and there the picture is clear. On April 1, 1990, the federal minimum hourly wage was increased from \$3.25 to \$3.80. One year later it was increased to \$4.25. Over the course of these two increases national average employment of low wage la-

Robert Eisner, professor emeritus of Northwestern University

With perfect competition, the higher the price the lower the quantity demanded. Thus, forcing wages higher must certainly reduce employment. Some economists may consider that argument relevant yet support raising the minimum wage because the increases in incomes for those still employed will outweigh the employment losses. And low wage employers, facing modest increases in costs similar to those of their competitors, will be able to pass them on in slightly higher prices.

But economists have learned that labor markets are far from perfect. Low wage workers may not be able to find the employers that will pay them what they are worth. And employers may refuse to offer the higher wage necessary to attract needed new workers if that higher wage necessitates the added expense of higher wages for current employees. If existing employee wages were already higher because of a higher minimum wage, the additional workers could and would be recruited without that extra cost.

Thus, most economists may now accept recent studies that found that raising minimum wages caused little or no reduction in employment, and in some cases apparently increased it. They may see that the very modest minimum wage boost currently proposed would clearly raise incomes of low wage workers and that neither modern economic theory nor the facts indicate that it would cost them their jobs.

Martin Feldstein, professor of economics at Harvard University

An increase in the minimum wage would undoubtedly reduce employment and total working hours. The decline in employment would be concentrated among the least skilled and least educated. Mi-

ter one year, six out of 10 minimum wage entrants no longer work at any minimum wage job (including secondary jobs). Only 1.5 out of 10 minimum wage entrants has any minimum wage job after three years of labor-force activity. If workers don't stay long at a McDonald's outlet, the wages paid in such outlets don't gauge living standards very well.

The evident upward mobility of low wage workers shifts the focus of the minimum wage debate from arguments over the effects of a higher minimum (e.g. the extent of job losses) to its intended purpose. If the motivation behind a minimum-wage increase is to raise living standards, upward mobility renders that policy less effective and less necessary. Any job losses on the first rung of the income ladder cause larger income losses over time.

The extent of job losses on that first rung are distorted by coverage gaps in the Fair Labor Standards Act—most entry-level jobs for teens are exempt. That's why economic studies of employment generate such conflicting results, not because there's been any change in economic theory.

William A. Niskanen, chairman of the Cato Institute

The minimum wage helps some low skilled workers at the expense of those who are even less skilled. Most of those who benefit are secondary workers from families that are not poor. Many of those who lose the opportunity for legal employment are from poor families. On these issues, there is still a substantial consensus among economists.

A large body of empirical studies suggests that the proposed increase in the minimum wage by 90 cents over two years, as currently proposed, would reduce legal employment for low skilled workers by about 4%. Those who are most concerned about the employment opportunities of low

I have a question for those who lose their jobs as a result of the new minimum wage: Are you quite happy to sacrifice your job and hope for a better future so middle-class teenagers can enjoy a higher wage?

posals, if enacted, will cost about 400,000 jobs. Those who will lose their jobs are the weakest and most vulnerable members of the labor force. I have a question for those who lose their jobs: Are you quite happy to sacrifice your job and hope for a better future so middle-class teenagers can enjoy a higher wage? If not, blame the president and Congress, not your employer.

Milton Friedman, senior research fellow at the Hoover Institution

Raising by law the price of any commodity or service will reduce the quantity that purchasers of that commodity or service wish to purchase, whether the item in question is gasoline or wheat or milk or labor. The only issue is by how much.

A higher minimum wage would therefore mean that fewer people would be employed. Fewer people would produce less than more people, so that the basic cost of a higher minimum wage would be smaller total output. Some people would benefit—those current minimum wage workers who are retained at the higher minimum wage. Some people would lose—those current minimum wage workers who become unemployed.

It is difficult for me to see how this kind of redistribution of income among low income workers compensates for the loss in total output.

Finis Welch, professor of economics at Texas A&M University

When wages or other prices are artificially increased, less will be bought. This well-trod soil, the economists' law of demand, is as true today as when Adam Smith first described it more than two centuries ago. Wishing it were not so, or regretting that some have earning capabilities far below others, will not change the basics of human behavior. As employers or consumers we try to get the most for our

bor fell relative to other employment; teenage employment fell relative to adult employment; employment of high school dropouts fell relative to employment of those with more education; employment of blacks fell relative to that of whites and employment of Hispanics fell relative to that of non-Hispanics. If the minimum is again increased, we can expect a repeat performance. Increasing the minimum will make some jobs more attractive—it will also make them harder to get.

David F. Bradford, professor of economics and public affairs at Princeton University

Apart from the details of enforcement, the minimum wage law can be described as saying to the potential worker: "Unless you can find a job paying at least the minimum wage, you may not accept employment." When it is put this way, it is hard to understand why anyone would think such a law a good idea, and it is hard to imagine that it could be to the advantage of many workers. I do not think that many economists regard the minimum wage as more than a political palliative. About the best one can say is that if it isn't too high it won't do too much harm.

David Neumark, professor of economics at Michigan State University

Minimum wages do reduce the employment of the most affected workers, such as teenagers and young adults. While the overall effects appear to be quite small, the disemployment for the lowest-wage workers is quite substantial.

There is still a general consensus about this among economists. This consensus may have weakened slightly, but most economists are quite skeptical of the research claiming that minimum wages either raise employment or do not reduce employment.

If we can disprove the law of demand by presenting seemingly anomalous examples, we can also prove that smoking does not cause cancer by pointing to a few old people who smoke.

nority youth would be the most seriously affected group in the population.

Although economists may differ in their estimates of the magnitude of the employment declines that would result from a rise in the minimum wage, I believe that there is an overwhelming consensus that the higher minimum wage would reduce employment and that those who are displaced will be the low-skilled youth who now have the hardest time in getting work.

The experience of Europe, where the unemployment rate has now reached twice that of the United States, shows the danger of traveling along the road to higher minimum wages.

Brad Schiller, professor of economics at American University

President Clinton and his secretary of labor would have us believe that low wage workers are "trapped" in minimum-wage jobs forever, and are therefore unable to support their families. The real issue, then, is not who is holding a minimum wage job on any given day, but how long workers stay at minimum wage jobs.

A multiyear Labor Department-funded survey (The National Longitudinal Surveys of Youth) reveals that few workers stay at minimum wage jobs very long. Af-

skilled workers from poor families should oppose the minimum wage but support the earned income tax credit.

Arthur Laffer, chairman of Laffer Canto & Associates, financial consultants in San Diego

A minimum wage guarantees that there are more people willing to work than there are employers willing to hire. A rise in that minimum wage pushes more people out of work and allows those left with jobs to be paid more. The workers who lose their jobs are clearly worse off, even if they get welfare. The taxpayers who pay the welfare are clearly worse off as well. The workers who keep their jobs at the higher minimum pay are clearly better off by the exact amount by which the employers who are paying those workers more are worse off. On balance the whole idea of raising the minimum wage looks like a loser to me.

Robert Barro, professor of economics at Harvard University

The minimum wage prohibits people from working if their productivity falls short of the stated level. The overall consequences for economic efficiency are adverse and show up especially as reduced levels of employment for low productivity workers. Some workers gain from an increased minimum, notably the more able, who can retain and find the higher wage jobs. However, the overall consequences for income distribution are adverse because the increased joblessness tends to be concentrated among the least advantaged persons, notably minority teenagers. If the ratio of the minimum wage to the average wage is small—as currently in the U.S.—then a rise in the minimum has small effects on aggregate employment and overall income distribution, but there is no reason to think that the net effects are positive. Thus, the previously strong consensus of economists in opposition to the minimum wage remains correct, and the minimum-wage law ought to be abolished.

THE WALL STREET JOURNAL

WEDNESDAY, APRIL 24, 1996



EXECUTIVE OFFICE OF THE PRESIDENT
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WASHINGTON, D.C. 20500

May 9, 1996

SENIOR ECONOMIST

MEMORANDUM FOR JOSEPH STIGLITZ
ALICIA MUNNELL
MARTIN BAILY
MICHELE JOLIN
PETER ORSZAG
FROM TOM KANE *TJC*
RE TEAM ACT

Some in Congress have proposed linking the minimum wage increase with the TEAM Act proposal. As background for those discussions, I have attached a copy of a memo I wrote back in September regarding the TEAM Act.

Memorandum

To: Joseph E. Stiglitz
Alicia Munnell
Martin Baily
Michele Jolin
From: Tom Kane
Re: TEAM Act
Date: September 26, 1995

The Problem:

Under current law, the National Labor Relations Act appears to prohibit a very broad range of employer-sponsored employee-participation activities:

Section 8(a)(2) of the National Labor Relations Act makes it an unfair labor practice to *"dominate or interfere with the formation or administration of any labor organization or to contribute financial or other support to it."*

Section 2(s) defines a labor organization as *"any organization of any kind...in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment or conditions of work."*

In the NLRB's oft-cited Electromation case in 1992, plant workers had been discontent after a management-imposed cut in attendance bonuses. After 68 employees in the non-union shop signed a petition protesting the change, management chose from among employee volunteers to set up committees to discuss pay progression rules, a no-smoking ban and the company's communication network. Soon afterward, the Teamster's union began a membership drive and filed a petition charging a violation of section 8(a)(2). If any organizing efforts had been ongoing before the establishment of the committees, there was no evidence that management knew about them. In a decision that is currently under appeal, the NLRB ruled that the company had engaged in an unfair labor practice because the company had established and supported a "labor organization" to discuss wages and the conditions of work.

When employee-participation programs-- even those originally established to discuss productivity or efficiency issues-- discuss wages or working conditions in the course of their deliberations, such programs may be illegal under a strict interpretation of the NLRA. But they are also ubiquitous. In a survey of establishments with more than 50 employees in 1991, two-thirds were found to have some form of employee-participation program. It is unclear how many of these committees discuss productivity issues solely or also drift into

discussions of wages or working conditions. In the wake of the Electromation decision and other controversial decisions, the business community has sought some loosening of what they believe to be a overly broad prohibition of employee-participation programs. A piece of legislation aimed at meeting those concerns, the TEAM Act, is scheduled for a vote on Wednesday, September 27.

The TEAM Act

The TEAM Act (H.R. 743) takes an extreme approach to resolving the ambiguity. Indeed, the language is quite direct:

"..it shall not constitute...an unfair labor practice...for an employer to establish, assist, maintain or participate in any organization or entity of any kind in which employees participate to address matters of mutual interest, including, but not limited to, issues of productivity, efficiency and safety and health, and which does not have, claim or seek authority to be the exclusive bargaining representative of the employees or to negotiate or enter into collective bargaining agreements with the employer or to amend existing collective bargaining agreements..."

The bill has been amended to conclude with the following phrase:

"...except that in a case in which a labor organization is the representative of such employees...this proviso shall not apply."

The above amendment would prevent employers from setting up their own committees to which they could grant concessions in an attempt to break an existing union. However, the latest amendment clearly does not go far enough in protecting existing unions for at least two reasons:

First, as in the usual 8(a)(2) case in the past, an employer may establish such a committee to forestall a union organization drive. The TEAM Act would go far beyond providing legitimacy to quality circles or productivity committees. It would legalize a potent union avoidance technique.

Second, one purpose of the NLRA was to define the circumstances under which employees could expect to reach a legitimate bilateral agreement with their employers. That is why the original act explicitly prohibits any arrangements under which employers essentially have veto power over the result. The TEAM Act not so subtly upsets that balance.

The Status Quo

If the House and Senate both pass some version of the TEAM Act and if the President vetoes the bill, there is not likely to be a crisis any time soon. Despite alarmist news coverage in the *Wall Street Journal*, the legal peril faced by benign employee-participation plans has been overstated for at least two reasons:

First, in its opinions, the NLRB has made it clear that programs which are primarily intended to discuss product quality and efficiency-- which only incidentally touch upon issues of wages or working conditions-- would not represent 8(a)(2) violations.

Second, while it is not necessary to prove an employer's union-avoidance motive to claim a 8(a)(2) violation, as a practical matter, an employer is very unlikely to be challenged except in cases where a union organizing campaign is ongoing or where a employer establishes such committees without union approval.

According to one recent analysis, an average of 3 cases involving 8(a)(2) violations have been brought to the NLRB over the past 20 years. If the union movement were to launch a campaign to unmask violations of Section 8(a)(2), they could probably force the need to resolve the ambiguity. However, there is little evidence of such activity to date. Indeed, it is not at all clear that it is in the union movement's interest to pursue that strategy, because it would only hasten the passage of legislation similar to the TEAM Act.

Alternatives to the TEAM Act

One approach would be to codify the case law emerging from the NLRB on 8(a)(2) and find someone to sponsor it on the Hill. However, I am under the impression that attempts to draft such a bill became bogged down. One potential reason is that the NLRB is currently considering several cases involving 8(a)(2) violations which it might use to provide further clarification.

However, simply codifying case law may not be sufficient over the long-term. Although we do not have much direct evidence, there are probably many employee-participation programs out there which go beyond quality and efficiency issues to discuss wages and the conditions of work. Therefore, it may be reasonable to seek to define quasi-representative structures for the 87% of the workforce that is not under a collective bargaining agreement. One proposal would be to define certain minimum principles that such programs could satisfy-- short of becoming a traditional labor union with legal power to negotiate a collective bargaining agreement-- which would legitimize their discussion of wages, grievances and working conditions with employers. For instance, there is a proposal by Charles Morris-- supported by some labor experts such as Tom Kochan, Harry Katz and Clyde Summers-- which would define the following set of conditions to legitimize such discussions:

- (1) A majority of affected employees vote by secret ballot to select representatives and approve the body.
- (2) These representatives are not supervisors or other members of management.
- (3) There was no union organizational drive in process.
- (4) The employer is not in violation of other unfair labor practices.

One would probably also want requirements that employers can not retaliate against employees that participate in these discussions.

In a recent survey conducted by Richard Freeman and Joel Rogers, many workers expressed an interest in such alternative, less adversarial forms of representation. In addition, it is interesting to note that 40% of the same workers reported that they would have voted for a union in a union election, roughly 3 times as many as were actually union members.

You should know that any such proposal is **HIGHLY CONTROVERSIAL**. Any change strikes near the heart of the union movement. In effect, such language would legitimize forms of representation other than unions to discuss wages and working conditions with employers. Perhaps not surprisingly, such proposals currently have little political backing. Employer representatives are holding out for language such as in the TEAM Act. And the labor movement-- engaged in an election of a new president of the AFL-CIO-- is not in a position to discuss so fundamental a reform.

If the TEAM Act passes both the House and the Senate and the President vetoes the bill, we will be left with the status quo. And, on this issue, the status quo is certainly livable for the medium term.

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April 9, 1996

Letter to the Editor
The Washington Post
1150 15th Street, NW
Washington, DC 20071

To the Editor:

Readers of James Glassman's "Raise the Minimum Wage? No." (op-ed, April 9th) may come away thinking that I oppose President Clinton's proposed increase in the minimum wage. In fact, I support it.

Glassman quotes William Baumol and me as stating: "The primary consequence of the minimum wage law is not an increase in the incomes of the least skilled workers but a restriction of their employment opportunities." The quotation is accurate, but it comes from the first edition of our textbook (1979). Similarly, the survey of economists and CAD study that Glassman cites are both quite old by now.

In recent years, substantial new statistical evidence has accumulated, suggesting that the conventional view of the minimum wage--although enshrined in textbooks like ours for decades--may be wrong. The new findings are puzzling. The theory behind them is far from clear. But the evidence is strong enough to sow strong seeds of doubt. Accordingly, the current (sixth) edition (1994) of our textbook notes that "Recent statistical studies suggest that... the undesirable effects of the minimum wage laws are far less serious than previously was widely believed." The seventh edition, now in press, will be even more agnostic on the matter.

Such agnosticism is amply justified by the current state of the evidence. Nowadays, anyone who confidently predicts that a modest hike in the minimum wage will have large disemployment effects is choosing a priori reasoning over empirical evidence.

Sincerely,

Alan S. Blinder
Princeton, NJ

I Changed My Mind. What's the Big Deal?

I normally welcome broad dissemination of my writing. But your selective quotations in "Stiglitz v. Clinton" (Review & Outlook, April 12) are grossly misleading. Both as an academic and as a policy-maker, I have stressed the importance of basing economic policies on careful analysis, and on avoiding a foolish consistency when the evidence shifts. As a famous economic adviser to the British government apparently once said, "When the circumstances change, I change my view. What do you do?" The evidence on the minimum wage is an example of changing circumstances.

Economic research on the minimum wage continues (fortunately) to progress. More insightful theories and new empirical studies—none of them, I may add, done at the request of the Labor Department—have improved our understanding, and the academic consensus on the effects of the minimum wage has shifted somewhat. For example, 101 leading economists, including Nobel Prize-winners Kenneth Arrow, Lawrence Klein, and James Tobin, signed a letter last year supporting President Clinton's proposed increase in the minimum wage from \$4.25 to \$5.15 per hour. They concluded that the "overall effects on the labor market, affected workers, and the economy would be positive." These economists are distinguished and disinterested academics. Do you also impugn their motives?

Your editorial is misleading for another reason. My textbook stresses that the effects of the minimum wage depend crucially on the level at which it is set and on the structure of the labor market. Throughout much of the post-war era, the minimum wage hovered around half the average wage. But the minimum wage is now just over a third of the average wage. And in a passage of the textbook that somehow must have skirted your attention, I argued that moderate increases in a relatively low minimum wage should have little effect on unemployment (page 131). The feature I co-authored on your editorial page two weeks ago noted that the minimum wage is close to its 40-year low in real terms, and concluded that a moderate increase would not have a significant affect on job levels. No big metamorphosis in opinion there.

In summary, Prof. Stiglitz and Chairman Stiglitz are not in conflict. We both agree that a moderate increase in the minimum wage from its current low level would not significantly affect employment. Both Stiglitzes also object to your gratuitous and invidious comparisons of "style," but we concur that our academic style pales in comparison with the poetry of your editorial pages. By the law of comparative advantage, perhaps you should stick to style and we will stick to economics.

JOSEPH E. STIGLITZ
Chairman

Council of Economic Advisers
Washington



CENTER ON BUDGET AND POLICY PRIORITIES

FOR IMMEDIATE RELEASE:
Monday, October 2, 1995, 9:30 a.m.

CONTACT: Michelle Bazie, (202) 408-1080
Nan Gibson (202) 775-8810

LEADING ECONOMISTS CALL FOR HIGHER MINIMUM WAGE

Three Nobel Winners Among 101 Signers of Statement Backing 90-Cent Hike Over Two Years

An eminent group of economists — including three recipients of the Nobel Prize in Economics — have endorsed an increase in the federal minimum wage in a statement released today.

Among the 101 signatories of the statement are seven past presidents of the American Economics Association and experts in disciplines ranging from labor markets and industrial relations to income distribution and poverty. Their statement was released by two Washington-based research organizations, the Center on Budget and Policy Priorities and the Economic Policy Institute.

The statement notes that "After adjusting for inflation, the value of the minimum wage is at its second-lowest annual level since 1955. The purchasing power of the minimum wage is 26 percent below its average level during the 1970s..." The purchasing power of the minimum wage reached its lowest level right before the last increase in 1990.

"We believe that the federal minimum wage can be increased by a moderate amount without significantly jeopardizing employment opportunities . . . Specifically, the proposed increase in the minimum wage of 90 cents over a two-year period falls within the range of alternatives where the overall effects on the labor market, affected workers and the economy would be positive," the economists' statement continues. (Such an increase has been proposed this year in both the Senate and the House of Representatives.)

The statement's release comes as Congress is actively considering reductions in the Earned Income Tax Credit. Workers who are affected by a stagnant minimum wage are in large part the same people who would be hurt by proposed EITC cuts.

Opponents of a higher minimum wage sometimes claim that economic opinion is settled against any increase. The statement shows that this claim is inaccurate; there is substantial support within the Economics profession for a moderate increase.

The three Nobel winners backing the minimum wage increase are Kenneth J. Arrow of Stanford, Lawrence R. Klein of the University of Pennsylvania, and James Tobin of Yale. Each has served as president of the American Economics Association. The other AEA past presidents signing the statement are Moses Abramovitz of Stanford, Robert Eisner of Northwestern, John Kenneth Galbraith of Harvard, and William Vickrey of Columbia.

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As economists who are concerned about the erosion in the living standards of households dependent on the earnings of low-wage workers, we believe that the federal minimum wage should be increased. The reasons underlying this conclusion include:

- After adjusting for inflation, the value of the minimum wage is at its second lowest annual level since 1955. The purchasing power of the minimum wage is 26 percent below its average level during the 1970s.
- Since the early 1970s, the benefits of economic growth have been unevenly distributed among workers. Raising the minimum wage would help ameliorate this trend. The positive effects of the minimum wage are not felt solely by low-income households, but minimum wage workers are overrepresented in poor and moderate-income households.
- In setting the value of the minimum wage, it is of course appropriate to assess potential adverse effects. On balance, however, the evidence from recent economic studies of the effects of increases in federal and state minimum wages at the end of the 1980s and in the early 1990s — as well as updates of the traditional time-series studies — suggests that the employment effects were negligible or small. Economic studies of the effects of the minimum wage on inflation suggest that a higher minimum wage would affect prices negligibly.
- Most policies to boost the incomes of low-wage workers have both positive and negative features. And excessive reliance on any one policy is likely to create distortions. The minimum wage is an important component of the set of policies to help low-wage workers. It has key advantages, including that it produces positive work incentives and is administratively simple. For these and other reasons, such as its exceptionally low value today, there should be greater reliance on the minimum wage to support the earnings of low-wage workers.

We believe that the federal minimum wage can be increased by a moderate amount without significantly jeopardizing employment opportunities. A minimum wage increase would provide a much-needed boost in the incomes of many low- and moderate-income households. Specifically, the proposed increase in the minimum wage of 90 cents over a two-year period falls within the range of alternatives where the overall effects on the labor market, affected workers, and the economy would be positive.

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Hartmann, Heidi — Institute for Women's Policy Research
Haveman, Robert H. — University of Wisconsin
Heilbroner, Robert — New School for Social Research
Hirsch, Barry T. — Florida State University
Hirschman, Albert O. — Princeton University
Hollister, Robinson G. — Swarthmore College
Holzer, Harry J. — Michigan State University
Howell, David R. — New School for Social Research
Hurley, John — Jackson State University
Jacoby, Sanford M. — University of California at Los Angeles

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Kamerman, Sheila B. — Columbia University
Katz, Harry C. — Cornell University
Katz, Lawrence — Harvard University
Klein, Lawrence R. — University of Pennsylvania
Kleiner, Morris M. — University of Minnesota
Kochan, Thomas A. — Massachusetts Institute of Technology
Lang, Kevin — Boston University
Lester, Richard A. — Princeton University
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Polenske, Karen — Massachusetts Institute of Technology
Quinn, Joseph — Boston College
Reich, Michael — University of California at Berkeley
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CENTER ON BUDGET AND POLICY PRIORITIES

FOR IMMEDIATE RELEASE:
Monday, October 2, 1995, 9:30 a.m.

CONTACT: Michelle Bazie, (202) 408-1080
Nan Gibson (202) 775-8810

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Lawmakers poised to act on minimum wage

By Del Jones
and Beth Belton
USA TODAY

An increase could cost jobs for working poor

For the first time since 1991, Congress is likely to vote on an increase in the minimum wage — the biggest hike in 50 years.

The politics are dicey. Passage could come before Election Day (story, 2B). Here's what it could mean to business, the working poor and the economy:

► The hourly minimum wage would rise over two years to \$5.15 from \$4.25, a 21% raise for as many as 10 million workers. A bill

by 20 House Republicans would raise it to \$5.25.

► The economy, healthy by most measures, would be put at some risk. For example, if the minimum wage were raised 90 cents this month, wage inflation would rise 4.5% this year, estimates Joel Prakken, economist at Lau-

rence Meyer & Associates in St. Louis. That's more than a half percentage point higher than the 3.8% rise in wage inflation expected if the minimum wage is held steady.

Please see COVER STORY next page ►

Continued from 1B

► Consumer prices probably would rise 3.5% the next 12 months vs. an estimated 2.9% increase if there is no action on the minimum wage. That's because what companies pay workers accounts for two-thirds of the cost to produce goods and services on average.

► The economic impact would be short term. In 1991, when minimum wage was raised to \$4.25 from \$3.80 an hour, wage inflation rose sharply the following quarter. But after a year, wage inflation fell back to a more stable rate of increase.

► Some of the workers who expect raises would lose their jobs. How many is open to debate. But if inflation picks up, a vigilant Federal Reserve would raise short-term interest rates. That would slow the economy and cost jobs. But there have been 17 increases since 1938, and not one has caused long-term economic pain.

Many people earning minimum wage are teen-agers. But 47% are older than 25, according to the Bureau of Labor Statistics.

To the working poor, there would be little long-lasting benefit. But predictions of dire consequences also would likely prove to be exaggerated.

Families who survive on two minimum-wage jobs would surely benefit. One full-time minimum wage worker earns \$8,500 a year, 70% of the poverty level for a family of three. Yet, to move beyond poverty, that worker would have to earn well over \$6 an hour.

Even some who make minimum wage are skeptical of the benefits. "Prices are going to go up, everything will go up," says Virginia Berestein, a 27-year-old mother in El Paso, Texas, who makes \$4.40 an hour working 30 hours a week in a pizza restaurant. Her husband makes \$150 a week as a computer technician.

"Right now, I'm not so sure I'm all for it," Berestein says.

"Raising the minimum wage is not

a magic potion to eliminate poverty among workers," Labor Secretary Robert Reich said. "It is an important step in the right direction."

Economists have long said that minimum wage increases cost jobs. But over the past few years, many leading economists have decided that job loss is not as great as they once thought, and many have come out in favor of a higher wage.

But the president's own chief economist, Joseph Stiglitz, chairman of the Council of Economic Advisers, wrote a chapter in a textbook three years ago that says raising the minimum wage would cause higher unemployment among those who need jobs the most. "A higher minimum wage does not seem a particularly useful way to help the poor," Stiglitz wrote even though today he's advocating a minimum-wage hike.

States have stopped waiting to figure out who's right. Eleven states and the District of Columbia mandate higher minimum wages than what the federal government requires: Alaska, Connecticut, Delaware, Hawaii, Iowa, Massachusetts, New Jersey, Oregon, Rhode Island, Vermont and Washington.

But nearly as many states have killed or refuse to act on proposed increases, including: Georgia, Idaho, Kansas, Minnesota, New Hampshire, Nebraska, New Mexico, Oklahoma, South Dakota and Wisconsin.

Impact varies by state and region. In Louisiana, 20% of all workers make less than \$5.15 an hour; in Hawaii only 3.7%.

The most vocal opponents are small-business owners. "I can't afford (an increase of) a dollar an hour, period," says Rep. Mark Souder, R-Ind., a conservative freshman who still runs a general store in Grabill, Ind. He calls the issue "nuclear" among small-business types.

Eight of 10 members of the National Federation of Independent Business, which represents 600,000 small businesses, oppose a hike.

► "It's a bunch of political gobble-dygook to make people think someone is doing them a favor," says Ken Haddad, owner of H&H Car Wash, which employs 27 workers at minimum wage. A \$1 increase in the minimum wage would increase his labor costs \$4,500 to \$5,000 a month and force him to immediately raise the cost of a car wash from \$8.50 to "whatever the market will bear." After inflation, the net gain to the employees "is really nothing," he says.

When asked if any workers were available for a phone interview, Haddad said none could speak English.

► "I would be paying more money to fewer people because I only have so many dollars," says Robert Benham, owner of Balliet's, a women's specialty store in Oklahoma City.

► "We're not opposed to people making more money," says Lloyd Falconer, owner of Seward Screw Products, a metal parts manufacturer in Seward, Ill. "What we're opposed to is excluding people from that first step on the ladder."

Falconer is frustrated at how political the issue has become. "This whole thing is emotional rather than logical," he says. "The big unions are targeting it because they're looking for a way to get a pay raise without negotiating it. They're trying to get Congress to do it for them."

► "We hire mostly teen-agers and part-time workers," says Kirk Robinson, president of Peter Piper Pizza, which operates 38 restaurants in New Mexico and Texas. "The skill level they bring to the job is consistent to the wage they're paid."

Terri Orozco, who started with Peter Piper Pizza at \$3.35 an hour nine years ago, says she needed the entry-level job to prove herself. She now makes nearly \$40,000 a year as general manager of a restaurant in Harlingen, Texas. "The majority of kids I hire never worked before," she says.

Contributing: Richard Wolf and Anne Willette

USA TODAY •

FRIDAY, APRIL 19, 1996

IMPORTANT MINIMUM WAGE FACTS

IMPORTANT DATES:

November 1, 1989: Compromise reached on minimum wage increase
November 10, 1989: President Bush signs minimum wage increase
April 1, 1990: Minimum wage is increased 45 cents from \$3.35 to \$3.80.
April 1, 1991: Minimum wage is increased 45 cents from \$3.80 to \$4.25.
July 17, 1991: Senate votes to increase their pay.
January 1993: Congress takes cost-of-living adjustment, increases pay to \$133,600
February 3, 1995: President Clinton proposes 90-cent increase in the minimum wage.
July 1996: President proposal increases minimum wage by 45 cents to \$4.70
July 1997: President proposal increases minimum wage by 45 cents to \$5.15

IMPORTANT NUMBERS:

- In 1995, 2.0 million hourly-paid workers earned precisely \$4.25 an hour, down from 2.1 million in 1994. (Source: Bureau of Labor Statistics)
- In 1995, 3.7 million hourly-paid workers earned \$4.25 an hour or less, down from 4.1 million in 1994. (Source: Bureau of Labor Statistics)
- In 1995, 9.7 million hourly-paid workers would directly benefit from the President's proposal to increase the minimum wage from \$4.25 to \$5.15. (That is, 9.7 million earn between \$4.25 and \$5.14.) That's down from an estimated 10.7 million last year. (Source: Bureau of Labor Statistics)
- 59 percent of hourly workers directly affected by the President's proposal are women. (5.8 million). (Source: Bureau of Labor Statistics)
- 69 percent of hourly workers directly affected by the President's proposal are adults age 20 and over (6.6 million). (Source: Bureau of Labor Statistics)
- Almost two-fifths of all the workers who would benefit from the President's minimum wage (39%) are the sole wage-earners in their household. (Source: Economic Policy Institute.)
- The average minimum wage worker brought home half of his or her family's earnings. (Source: Economic Policy Institute.)
- Within a year, if the minimum wage is not increased, it will fall to its lowest real level in 40 years. (Labor expects the minimum wage to hit its 40-year low in January 1997.)

- The real value of the minimum wage is now 29 percent lower than it was in 1979.
- The real value of the minimum wage has fallen nearly 50 cents since its last increase in April of 1991.
- Nearly half (47%) of all workers who earn the minimum wage are part of families that are in the bottom 20 percent of the wage distribution -- that's families that earn less than \$360 a week. (Source: Economic Policy Institute)
- Only one in 14 workers earning between \$4.25 and \$5.15 per hour is a teenaged student from a family with above-average earnings. (Source: Economic Policy Institute)

THE MINIMUM WAGE AND MEMBERS OF CONGRESS:

- A Member of Congress earned more during the government shutdowns than a minimum wage worker earns all year long.
- In the last 15 years, the real value of congressional pay has increased 27 percent, while the real value of the minimum wage has dropped by the same amount (27 percent).
- For someone working full-time, the real value of the minimum wage has declined \$3,000 since 1981, while the real value of congressional pay has increased by \$28,000.
- A Member of Congress earned more before January 24, 1996 than a full-time minimum wage worker will earn all year long.

NOTE: A Member of Congress earns \$133,600 per year, while a full-time, year round minimum wage worker earns \$8,500 per year.

- It takes 16 work days for a Member of Congress to earn more than a full-time minimum wage worker earns all year long.

WHAT A \$1800 WOULD MEAN TO AN AVERAGE FAMILY?

The President's proposal to increase the minimum wage would provide \$1,800 to a worker who works full-time, year round. That's enough money for the average family to pay for:

- Over seven months of groceries;
- Basic housing costs for almost four months (rent or mortgage);
- One year of health care costs, including insurance premiums, prescription drugs, and out-of-pocket costs;
- Nine months worth of utility bills;
- More than a full-year's tuition at a 2-year college; or
- Three months worth of total transportation costs, including gasoline, maintenance, and public transportation.

MINIMUM WAGE AND POVERTY:

- About 20 percent of all minimum wage workers are in poverty.
- A recent, preliminary analysis by the Economic Policy Institute and the Department of Health and Human Services suggests that 300,000 people would be lifted out of poverty if the minimum wage were raised to \$5.15 per hour. This figure includes 100,000 children who are currently living in poverty.

THE MINIMUM WAGE HAS TRADITIONALLY HAD BIPARTISAN SUPPORT

- Presidents Eisenhower, Nixon, and Bush all signed minimum wage increases. In fact, with the exception of Presidents Reagan and Ford, every Democratic President and every Republican President since the Great Depression has raised the minimum wage during their term in office.
- In 1989, the minimum wage increase passed the House by a vote of 382 to 37 (with 135 Republicans voting for the bill), and 89 to 8 in the Senate (with the support of 36 Republicans). For example, the following prominent Republicans voted for the bill:

Senators:

Thad Cochran -- Conference Chairman
Al D'Amato -- Chairman of Dole '96
Bob Dole -- Majority Leader
Pete Domenici
Phil Gramm
Nancy Kassebaum -- Chair of Labor Committee
Trent Lott -- Majority Whip
William Roth
Alan Simpson
Strom Thurmond -- President Pro Tempore

Representatives:

Newt Gingrich -- Speaker
John Kasich
Bill Goodling -- Chair of Labor Committee
Jim Saxton -- Biggest Opponent of Increase
Nancy Johnson
Jim Leach
Pat Roberts
Cass Ballenger

PROMINENT REPUBLICANS WHO VOTED AGAINST MINIMUM WAGE INCREASE IN 1989: Armey, Delay, Livingston, Hatch, Helms, Mack, and Nickles.

- **Senator Bob Dole**, on a minimum wage increase in 1989: "[T]his is not an issue where we ought to be standing and holding up anybody's getting a 30 to 40 cents an hour pay increase, at the same time that we're talking about capital gains. I never thought the Republican Party should stand for squeezing every last nickel from the minimum wage." [Source: *Congressional Quarterly Almanac 1989*]

DOES THE MINIMUM WAGE COST JOBS?

- Nearly a dozen empirical studies have found that moderate increases in the minimum wage do not have a significant impact on employment. These studies include state-specific research that shows that higher state increases in the minimum wage did not result in significant job impacts.
- An extension of the time-series studies that had previously been used to claim that raising the minimum wage decreases employment, no longer finds a significant impact.
- As Nobel Laureate Robert Solow stated: "[T]he evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."

MINIMUM WAGE AND INFLATION

- An independent study by WEFA concluded that the President's proposal to increase the minimum wage would raise the overall price level by less than one-tenth of one percent per year. In other words, groceries for a working family during an entire year that would have cost \$3,000 would then cost \$3,003.

Talking Points on Minimum Wage and Employment

- o A dozen economic studies have concluded that a modest increase in the minimum wage has a statistically insignificant effect on employment. (See the attached list.)
- o The main evidence that has been used to argue that a rise in the minimum wage reduces employment is based on time series evidence. These studies typically relate teenage employment to a measure of the minimum wage. Time series studies that were estimated in the 1970s and early 1980s tended to find that a 10 percent increase in the minimum wage leads to a 1 to 3 percent decline in teen employment. However, if these same studies are updated to include data covering the 1980s, the results show a much smaller and statistically insignificant effect of the minimum wage on employment. In other words, in the time-series literature one can not rule out that the relationship between the minimum wage and employment occurred by chance. A study by Allison Wellington of Davidson College (NC) that was published in the Journal of Human Resources in 1991 was among the first to find this result. In addition, a study by Jacob Klerman of the Rand Institute published in 1992 in (Health Benefits in the Workforce, USDOL, 1992) reached a similar conclusion.
- o In one of the most compelling studies on the topic, Professor David Card of Princeton University examined the effect of the 1990 and 1991 increases in the minimum wage on employment growth for teenagers across states. The rise in the federal minimum wage had a varying effect on wages in different states. For example, in many Southern states over 50% of teenagers were paid between \$3.35 and \$3.80 prior to the increase in the minimum wage to \$3.80, while fewer than 10% of teens were in this range in New England and California. Card finds no evidence of the 1990 minimum wage increase affecting teenage employment or school enrollment across states. Card has followed this work up through 1992, and the data continue to show no relationship between the percent of workers affected by the minimum wage increase in a state and growth in teenage employment. It is important to note that his conclusions are essentially unchanged if he controls for changes in adult employment and other variables. The original paper was published in Industrial and Labor Relations Review, October 1992.
- o Professor Card has also done a case study of the minimum wage in California. In July 1988 California raised its minimum wage to \$4.25 per hour, 3 years before the federal minimum reached that level. Card compares teenage employment and retail employment growth in California to a group of comparison states (Arizona, Florida, Georgia, New Mexico and Texas). His results show, "Contrary to conventional predictions, however, there was no decline in teenage employment, or any relative loss of jobs in retail trade." This paper was also published in Industrial and Labor Relations Review, October 1992.

o Several studies have found that moderate changes in the minimum wage have an insignificant effect on employment in the restaurant industry. Professor Walter Wessels (Professor of economics at North Carolina State) has found that a modest rise in the minimum wage has a positive effect on employment in the restaurant industry. Professor Kevin Lang (Boston University), in a 1994 study for the Employment Policy Institute, concluded that, "In the light of the literature discussed in the introduction and the results presented above, this author can find little effect on employment levels from changes in the minimum."

o In a widely cited study, David Card and Alan Krueger (both of Princeton University at the time the article was written) examine the impact of the 1992 increase in New Jersey's minimum wage (to \$5.05 per hour) on employment in the fast food industry. They perform two types of comparisons. First, they compare the change in employment in New Jersey fast food restaurants to that in eastern Pennsylvania (along the NJ boarder). Second, they look within New Jersey, comparing restaurants that initially paid \$4.25 per hour to those that paid \$5.00 per hour or more. Both comparisons show that employment did not decline at stores that were compelled to raise their wages in response to the minimum wage increase compared to those that were unaffected by the increase. This paper was published in the American Economic Review, 1994. Some have criticized The Card/Krueger paper claiming that teenage employment between 1989 and 1993 grew more slowly in NJ than in Pennsylvania. But the recession was more severe in NJ than in Pennsylvania -- the growth in teenage employment in NJ is exactly what one would have predicted based on overall economic trends in New Jersey.

o An early study by Professor Edward Gramlich of the University of Michigan concluded, "... as long as minimum wages are kept low relative to other wages they are not terribly harmful, and in fact have slightly beneficial effects both on low-wage workers and on the overall distribution of income." Published in Brookings Papers on Economic Activity, 1976.

o Surveying the recent literature, Harvard University labor economist Richard Freeman concluded, "At the level of the minimum wage in the late 1980s, moderate legislated increases did not reduce employment and were, if anything, associated with higher employment in some locales." (Int'l Jnl. of Manpower, 1994.)

o Professor Robert Solow of MIT, Nobel Prize Winner in Economics, is quoted in the NY Times (Jan. 12, 1995) as saying, "The main thing about [minimum wage] research is that the evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

April 1, 1996

MEMORANDUM FOR: JOSEPH STIGLITZ
MARTIN BAILY
ALICIA MUNNELL
TOM KANE
MICHAEL ASH

FROM: PETER ORSZAG 

SUBJECT: Draft talking points on the minimum wage

Alicia asked me to put together some talking points on the minimum wage. Comments and corrections are welcome (as are suggestions for providing more detail on specific topics).

The value of the minimum wage

- The President has proposed to increase the minimum wage from its current level of \$4.25 an hour to \$5.15 an hour by July 1997. The increase will occur in two 45-cent steps: to \$4.70 in July 1996, and to \$5.15 in July 1997.
- The minimum wage has not been raised since April 1, 1991. On November 10, 1989, President Bush signed a 90-cent minimum wage raise. This increase, like the proposed one, took place in two 45-cent steps: from \$3.35 to \$3.80 on April 1, 1990, and from \$3.80 to \$4.25 on April 1, 1991.
- If the minimum wage is not increased within a year, it will fall to its lowest real level in 40 years. The attached table shows the value of the minimum wage in nominal dollars, real dollars, and as a percentage of the average private nonsupervisory wage. The Labor Department expects the real value of the minimum wage to fall below \$3.92 (its 1955 level in 1995 dollars) in January 1997.
- The increase would raise a full-time, year-round minimum wage worker's annual income by \$1,800 (90 cents over 2000 hours).

Workers directly affected by the increase

- In 1995, 9.7 million hourly-paid workers earned between \$4.25 and \$5.15 an hour.

-- 59 percent of these workers are women

-- 69 percent are adults

-- According to the Economic Policy Institute, almost two-fifths are the sole wage-earners in their households

- These figures apply to those directly affected only. To the extent that a minimum wage increase shifts the wage distribution even for workers currently earning more than \$5.15 an hour, the impact is broader. Research indicates that the "ripple" effect would affect at least the 3 million additional workers who earn between \$5.15 and \$5.75.

Current minimum wage workers

- The average share of household income earned by a minimum wage worker is one-half.
- In 1995, 2.0 million hourly-paid workers earned precisely \$4.25 an hour; 3.7 million earned \$4.25 or less (workers earning less than \$4.25 an hour are either not covered by the \$4.25 minimum wage or have incorrectly reported their wages or hours).
- The attached charts provide additional information on workers who were earning the minimum wage in 1993.

The employment debate

- There is an ongoing (and vitriolic) debate over the employment effects of an increase in the minimum wage. Roughly a dozen empirical studies published in peer-reviewed journals over the past 5 years find an insignificant effect (see attached list). While these results are not yet unanimously accepted in the academic community, there does seem to be a growing consensus that the employment effects are unlikely to be large. Robert Solow is often quoted as saying that the evidence "on job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."

Inflationary impact

- A WEFA study concluded that the President's proposal would raise the inflation rate during the transition period by less than 0.1 percentage point per year.

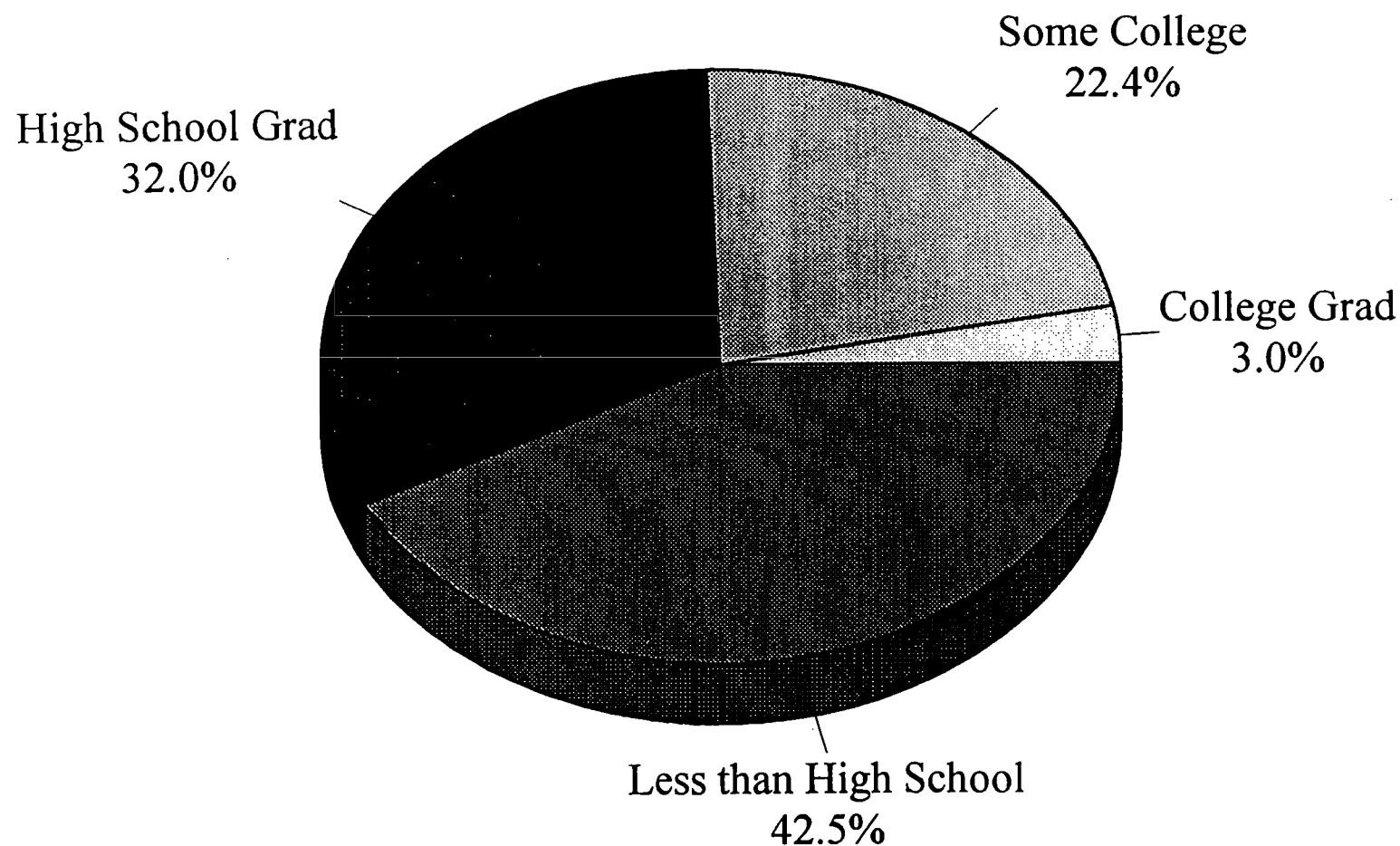
Value of the Minimum Wage, 1955-1995

<u>Year</u>	<u>Value of the Minimum Wage, Nominal Dollars</u>	<u>Value of the Minimum Wage, 1995 Dollars</u>	<u>Minimum Wage as a Percent of the Average Private Nonsupervisory Wage</u>
1955	\$0.75	\$3.92	43.9
1956	1.00	5.14	55.6
1957	1.00	4.99	52.9
1958	1.00	4.84	51.3
1959	1.00	4.81	49.5
1960	1.00	4.72	47.8
1961	1.15	5.38	53.7
1962	1.15	5.33	51.8
1963	1.25	5.71	54.8
1964	1.25	5.64	52.9
1965	1.25	5.56	50.9
1966	1.25	5.40	48.7
1967	1.40	5.86	52.3
1968	1.60	6.45	56.2
1969	1.60	6.17	52.6
1970	1.60	5.89	49.6
1971	1.60	5.64	46.4
1972	1.60	5.48	43.3
1973	1.60	5.15	40.6
1974	2.00	5.88	47.2
1975	2.10	5.68	46.3
1976	2.30	5.89	47.3
1977	2.30	5.53	43.9
1978	2.65	5.97	46.6
1979	2.90	5.96	47.1
1980	3.10	5.73	46.6
1981	3.35	5.65	46.2
1982	3.35	5.33	43.6
1983	3.35	5.11	41.8
1984	3.35	4.90	40.3
1985	3.35	4.73	39.1
1986	3.35	4.65	38.2
1987	3.35	4.48	37.3
1988	3.35	4.31	36.1
1989	3.35	4.11	34.7
1990	3.80	4.42	38.0
1991	4.25	4.74	41.2
1992	4.25	4.61	40.2
1993	4.25	4.47	39.2
1994	4.25	4.36	38.2
1995	4.25	4.25	37.1

Adjusted for inflation using the CPI-U-X1

Source: Center on Budget and Policy Priorities

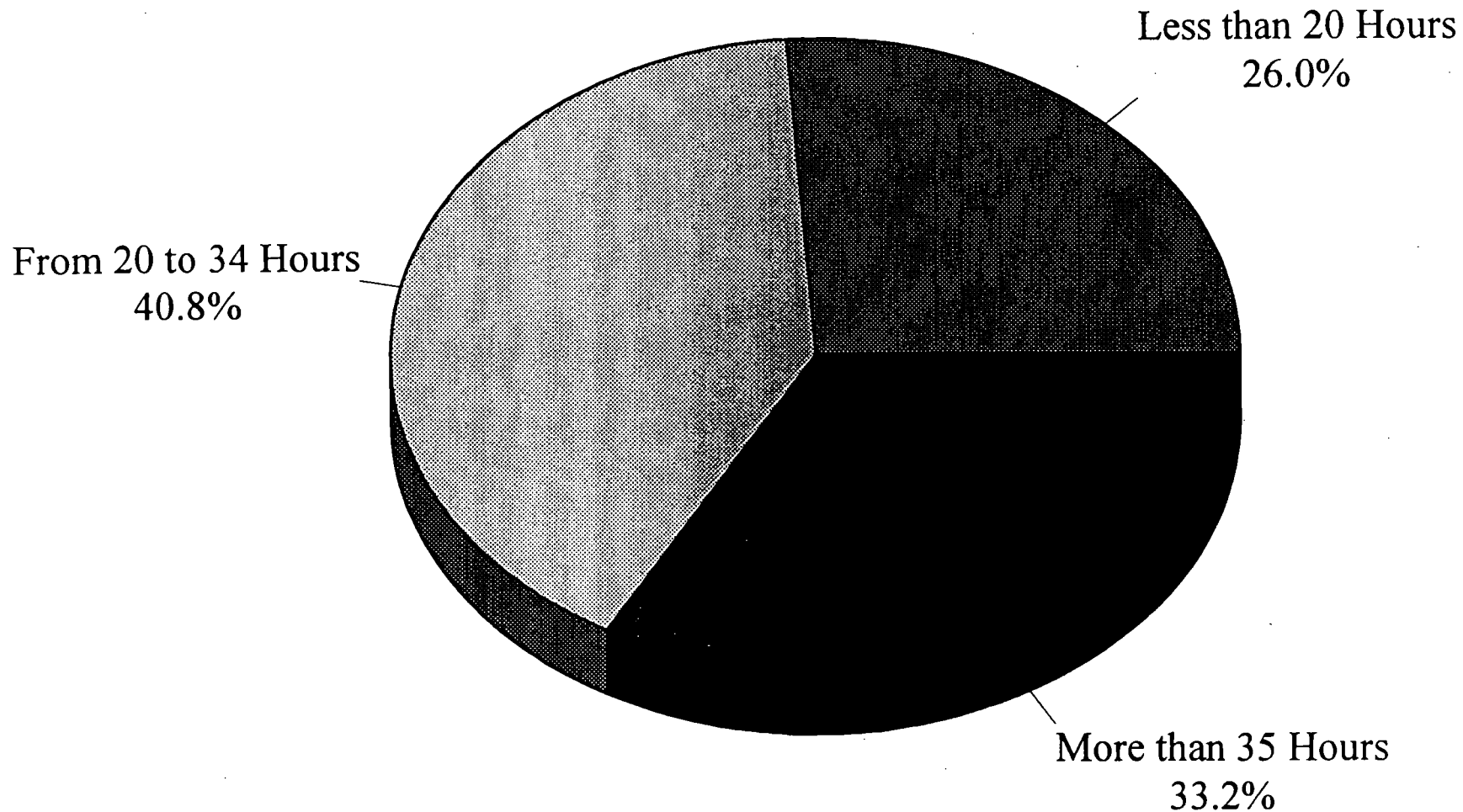
Distribution of Hourly-Paid Minimum Wage Earners by Education: 1993



Source: Bureau of Labor Statistics.

What Hours Do Minimum Wage Workers Work?

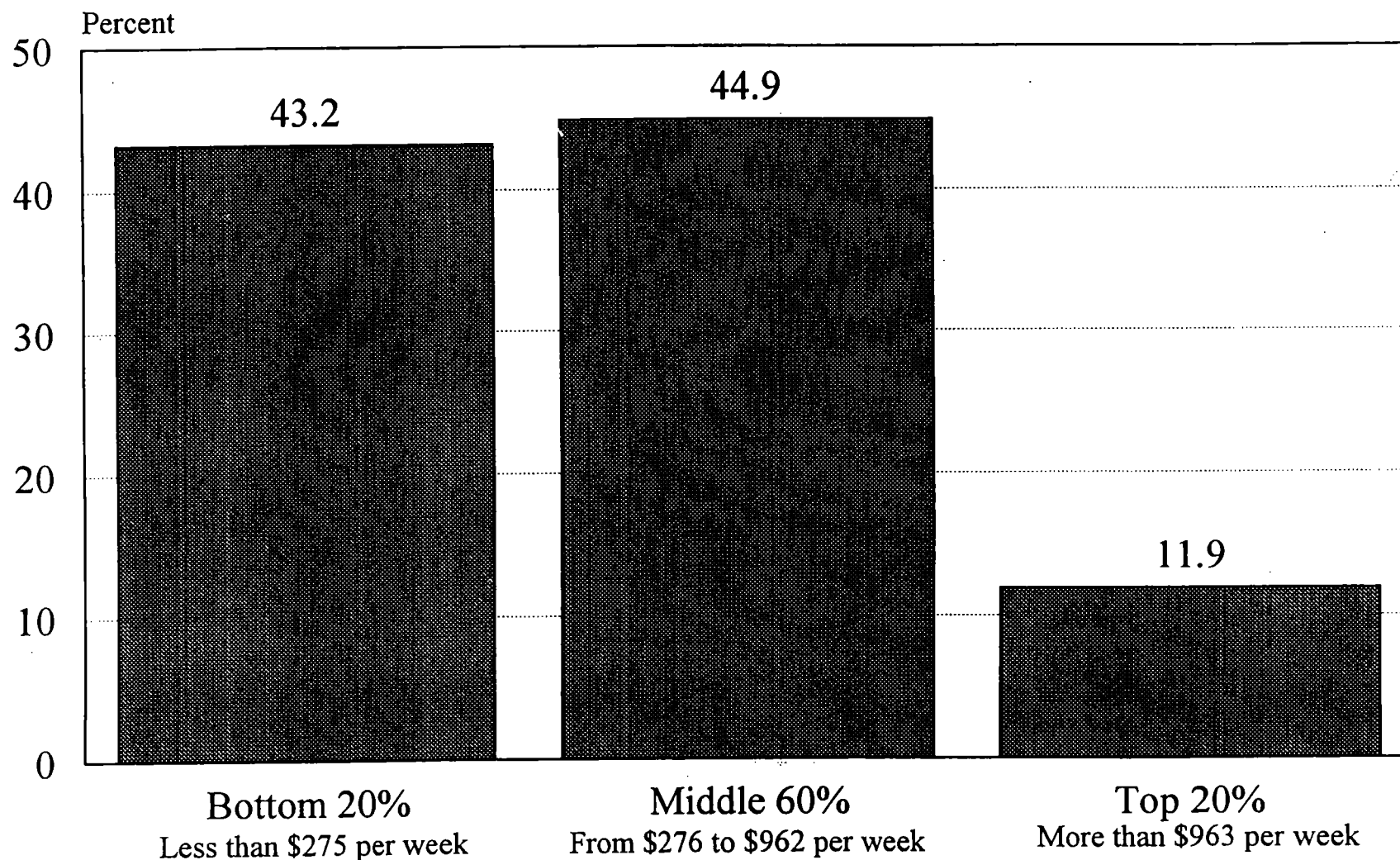
Distribution of Hourly-Paid Minimum Wage Earners by Hours Usually Worked per Week: 1993



Source: Bureau of Labor Statistics.

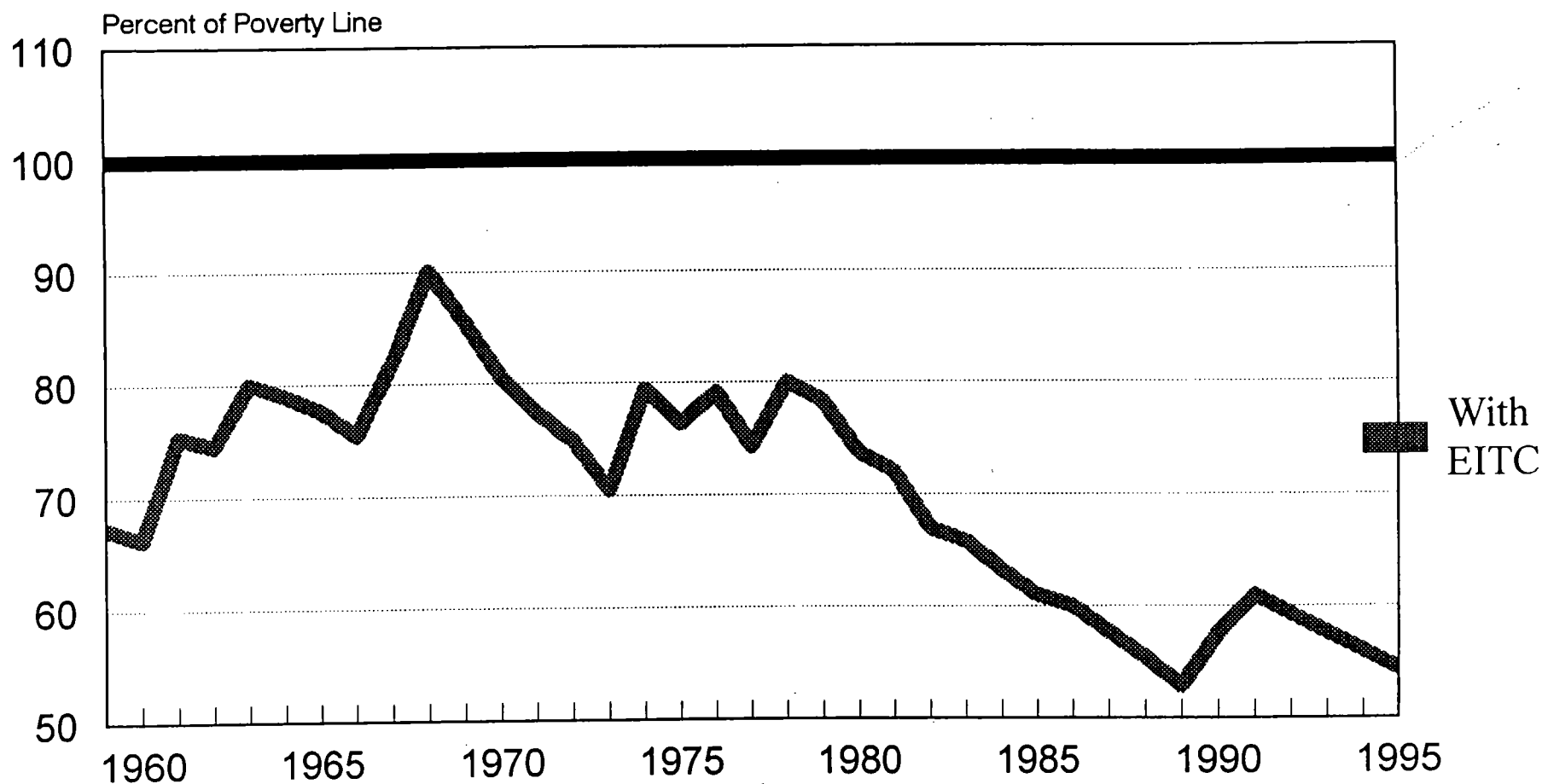
Who was Affected by the Last Minimum Wage Increase

Distribution by Family Earnings



Minimum Wage Work Does Not Lift Families Out of Poverty

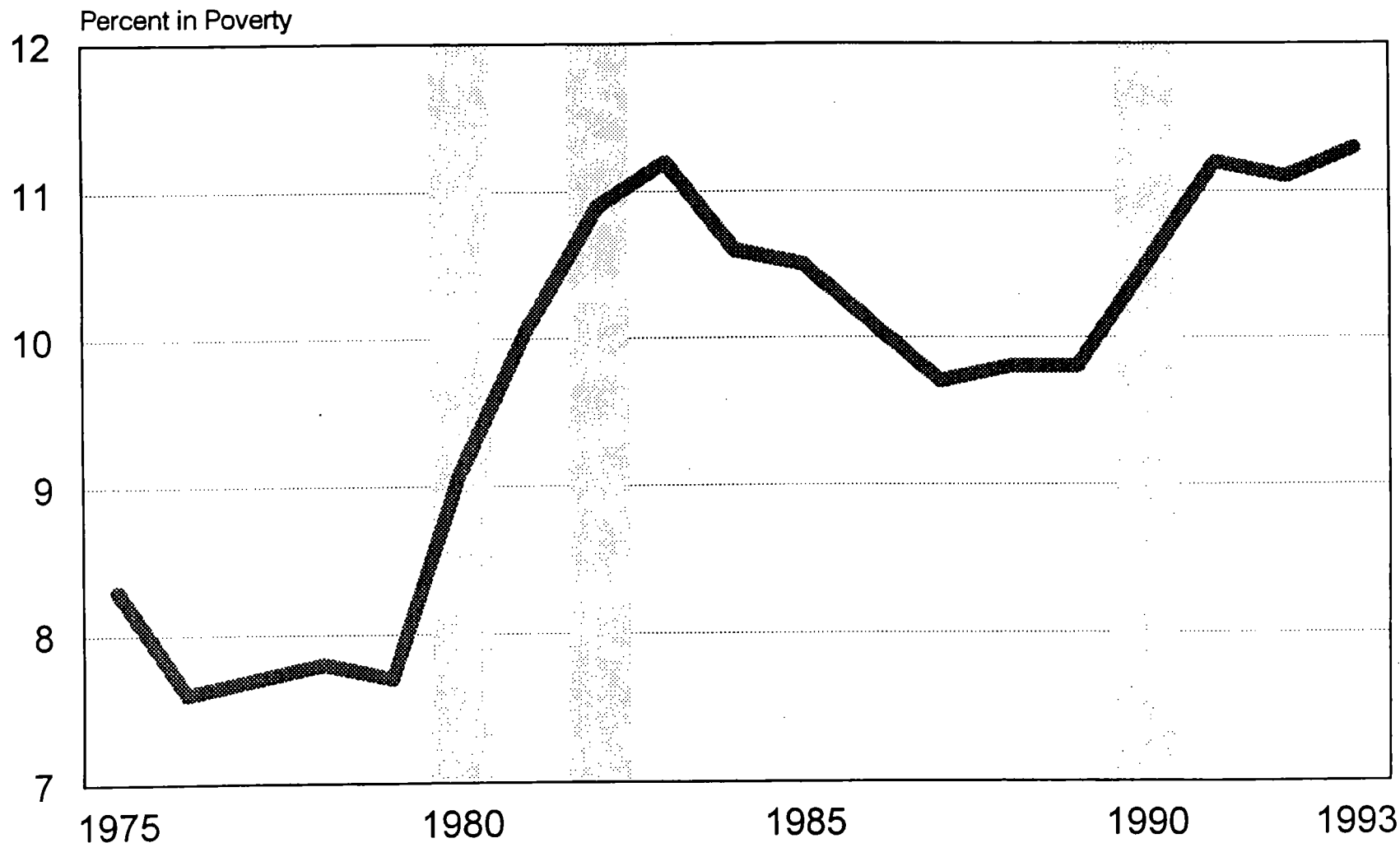
Annual Earnings at the Minimum Wage as a Percentage of the Poverty Line: 1959-1995



Note: Annual earnings for a family of four with one full-time, year-round minimum wage worker as a percentage of the four-person poverty line. The four-person poverty line for 1994 and 1995 are from Congressional Budget Office projections.

More Working Families are Poor

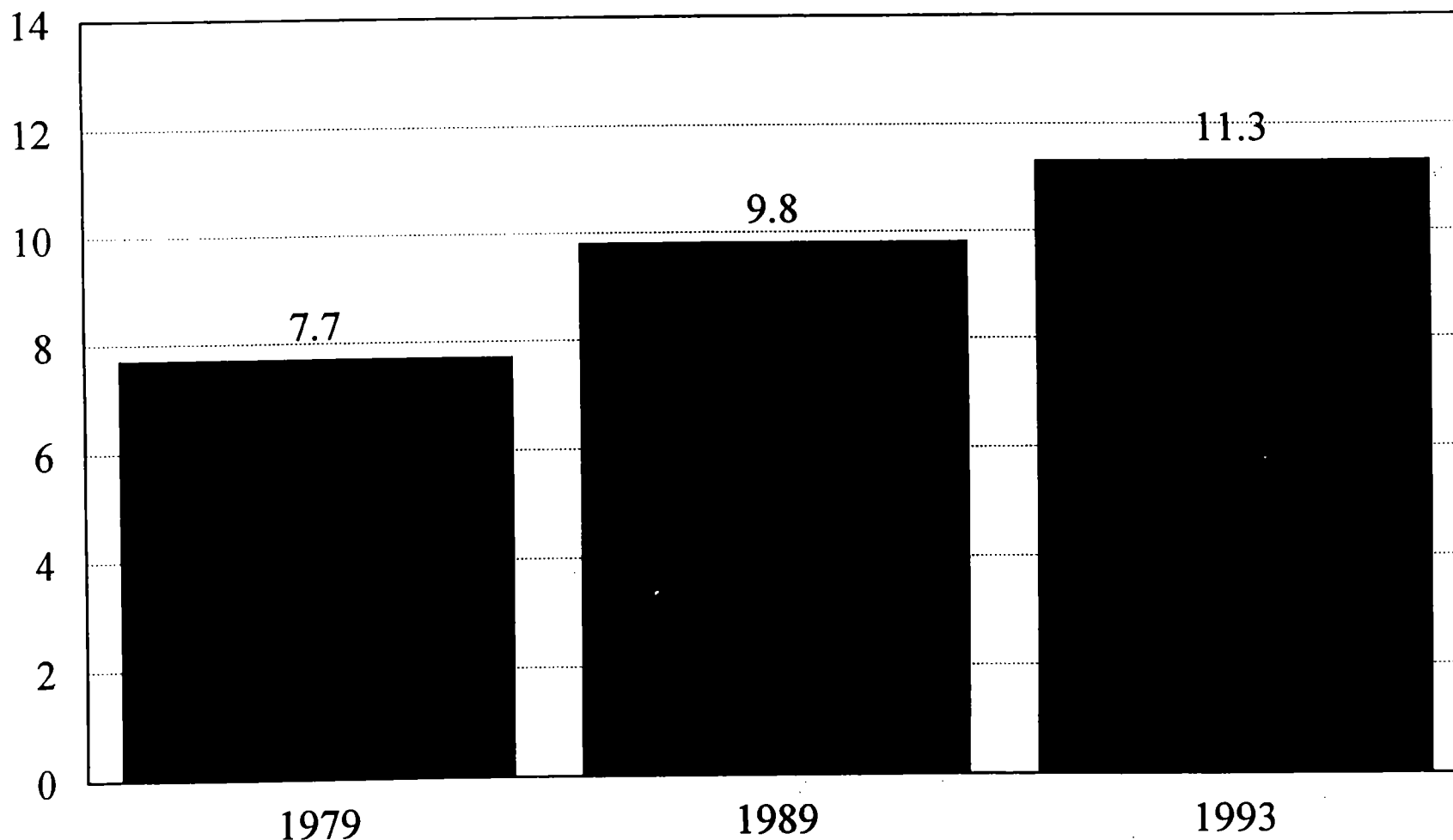
Percentage of Working Families in Poverty: 1975-1993



Source: Bureau of the Census, Current Population Survey. A working family is defined as one with children where someone in the household worked.

More Working Families are Poor

Percentage of Working Families in Poverty



Source: Bureau of the Census, Current Population Survey. A working family is defined as one with children where someone in the household worked.

**STUDIES THAT CONCLUDE A MODERATE INCREASE IN THE
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Higher Pay, Fewer Paychecks?

Many Economists Dispute GOP on Minimum Wage Hike's Impact

By Clay Chandler
Washington Post Staff Writer

Will boosting the minimum wage kill jobs?

The notion that even a modest increase in the minimum wage could wipe out thousands of jobs is an article of faith among many congressional Republicans.

House Majority Leader Richard K. Armey (R-Tex.) insists a Democratic proposal to lift the hourly minimum wage by 90 cents, to \$5.15, over the next two years would impose a crushing burden on employers, forcing many to slash their payrolls.

Armey, who earned his living as an economics professor before he came to Washington, lectured reporters on the subject the other day:

"I taught economics in colleges for a lot of years. Any freshman who didn't get it, didn't pass," he said. The fact is, raising the minimum wage is going to destroy job opportunities for the least advantaged people in the work force. It

is bad public policy . . . a cruel hoax on the least advantaged workers."

Other economists, though, might not be so quick to give their students a failing grade. While most concur with Armey's assertion that the proposed increase would cost jobs, not all share his certitude that the impact would be severe.

Many respected economists argue that a 90-cent wage increase would do little economic harm. Indeed, a group of 101 economists, including several Nobel Prize winners, last year signed a statement of support for the proposed increase.

The logic behind Armey's argument that a wage increase would wipe out jobs is as old as Adam Smith. One of the basic tenets of economics is that when you raise the price of something—in this case, low-skilled labor—demand for it tends to fall. The theory doesn't say how far.

At the pessimistic end of the spectrum, officials at the Employment Policies Institute, an organization funded by restaurateurs and businesses employing low-wage workers,

See WAGE, F3, Col. 5

WAGE, From F1

calculate that a 90-cent wage increase would eliminate 621,000 jobs. But many economists—including those who believe raising the minimum wage is a bad idea—estimate the number of jobs lost due to the proposal would be far smaller.

For example, Mark Lasky, senior economist at DRI/McGraw-Hill Inc., a Lexington, Mass.-based economic forecasting concern, projects that over a three-year period, the proposed wage increase would result in a net reduction of only 90,000 jobs. That's about equal to the number of new jobs created by the economy in a slow month.

Research by economists David Card and Alan Krueger offered an even more optimistic assessment. Their work, which has been widely touted by the Democrats, suggests that raising the minimum wage might actually increase employment.

Card, a professor at Princeton University, and Krueger, who recently returned to Princeton after a stint as the Labor Department's chief economist, studied employment patterns at fast-food restaurants in New Jersey and Pennsylvania in 1992. New Jersey raised its minimum wage from \$4.24 to \$5.05, while neighboring Pennsylvania left its wage law unchanged. Card and Krueger found that—contrary to conventional wisdom—the New Jersey restaurants added workers, while the employment at the Pennsylvania restaurants stayed the same.

The Princeton economists found restaurants in New Jersey passed the burden of higher wages on to customers

by raising the prices for the most popular items on their menus. Higher prices didn't drive customers away.

The Card and Krueger study, which was based on data gathered through telephone surveys of restaurant managers, has been hotly disputed by other economists. A subsequent study of the fast-food industry in the two states by Michigan State University economist David Neumark and Federal Reserve Board economist William Waschler found that employment had actually fallen after New Jersey raised the wage floor.

Neumark and Waschler claim their data was more reliable, because it was drawn from payrolls rather than telephone surveys.

Clinton administration economists concede that a wage increase would rob the economy of some jobs, but they argue that it would help lift the incomes for workers at the bottom of the nation's pay scale. Armey counters, however, that the least-skilled will bear the brunt of the job loss because a higher wage may keep many of them from ever finding their first job.

A CBS Television/New York Times poll conducted March 31 found that 84 percent of those questioned favored the proposed 90-cent increase in the minimum wage. But only 46 percent said they would support the increase if it "might reduce the number of jobs available for workers with limited skills," while 38 percent said they would oppose the increase if it meant fewer jobs.

Staff writer John Yang contributed to this report.

Democrats Intensify Wage Initiative

House Republicans, Decrying 'Cynical Ploy,' Block Effort to Force Vote

By Helen Dewar and John E. Yang

Washington Post Staff Writers

From the Senate lawn to the House floor, Democrats yesterday stepped up their campaign of oratory, ridicule and guerrilla warfare to shame Republican leaders into scheduling votes on raising the minimum wage—with no success.

Republicans responded by accusing them of using the issue as a "cynical ploy" to get votes and argued that raising the minimum wage is not the answer to raising low-income workers' take-home pay.

In the House, Republican leaders succeeded, 220 to 200, in blocking a move by Democrats to force a vote on legislation to raise the wage floor. The move came just a day after House Republican leaders virtually ruled out a vote on the matter this year.

Yesterday's vote came on a procedural point and did not reflect the likely vote on actual legislation. Thirteen Republicans broke ranks with their leaders on the procedural vote, but nearly two dozen Republicans have said they would vote for a minimum wage increase—enough to ensure passage if Democrats stick together in support of the bill. Only four Democrats broke ranks yesterday.

"The Republicans . . . have embarked upon a strategy of ducking this issue," said House Minority Whip David E. Bonior (D-Mich.). He said House Majority Leader Richard K. Armey (R-Tex.) intends to block an increase, while Senate Majority Leader Robert J. Dole (R-Kan.) wants to bury it in a larger package filled with extraneous matters. "This strategy of duck, block and bury is not what the American people want," Bonior added.

Rep. Pat Williams (D-Mont.) brought a Dickensian touch to the debate, lifting a small plastic bowl toward the ceiling and, playing the role of a minimum wage worker beseeching Congress, begged: "Please, sir, may I have more?"

Republicans took a decidedly different view. "It's show-and-tell for election year," said Rep. Scott McInnis (R-Colo.). "If you want to help the working poor of this country, if you really want to help them and not just play election-year politics, do something about the tax burden in this country."

In a speech to the National Association of Manufacturers, Rep. John A. Boehner (Ohio), House Republican Conference chairman, said the minimum wage battle "has become nothing more than a game . . . nothing more than a cynical ploy to make working men and women pawns in an election year."

On Wednesday, House Republican leaders pledged to consider ways "in the near future" to "increase family take-home pay" as part of their effort to avoid a vote on raising the minimum wage. Among their options are a \$500-per-child tax credit, changes in the earned income tax credit to focus it on families, tax incentives for business, overhaul of the civil litigation system and legislation to enforce a Supreme Court ruling that could curb union financing of political activities.

In the Senate, Dole offered a vote on the "minimum wage and other labor issues" between June 4 and June 28. But Sen. Edward M. Kennedy (D-Mass.) rejected the offer, saying it was not clear whether the Senate would be allowed to vote directly on the Democrats' proposal, which would raise the hourly wage floor from \$4.25 to \$5.15 over the next two years.

Meanwhile, Senate Republicans continued to block efforts to bring the proposal to an immediate vote. Dole is considering a broad package of job-

related proposals as an alternative to the Democrats' proposal but has not yet reached a final decision on its elements, according to colleagues. Democrats claim enough votes to pass their proposal in the Senate if they can force a vote on it.

At a news conference on the Senate lawn, Democrats took issue with some of these proposals, especially one endorsed by Armey that would provide a government subsidy for minimum-wage workers with families, financed by eliminating the earned income tax credit for workers without children.

It "combines the engineering of Rube Goldberg and the economics of Karl Marx," said Vice President Gore, who was flanked by Labor Secretary Robert B. Reich, House and Senate

Democratic leaders and two low-income women who argued for the minimum wage increase. "It is straight out of 'The Wizard of Oz': no heart, no brain, no courage," Gore added.

The two women, Cathy Wilkinson, who works two part-time minimum wage jobs in Wheeling, W.Va., and Vera Williams, who earns just over the minimum as a nurses aide in Monessen, Pa., said they are forced to delay payment of bills to buy food for their families. "I'm in college so I don't have to be dependent on the system," said Wilkinson. "I want to be able to support my family by myself without the government."

Reich had a word of advice for Dole and House Speaker Newt Gingrich (R-Ga.): "When you are in a hole, stop digging."

Minimum Wage vs. Supply and Demand

ss will soon vote on whether to the minimum wage to \$5.15 an m \$4.25 an hour. As usual, the ic arguments for and against a n the minimum wage have been ob d by rhetoric. While some econo f have become caught up in the rical excess preceding the vote, this s not obscure the real economic effects raising the minimum wage. We asked a group of prestigious economists what those effects were, and whether there is still a general consensus among economists on this issue.

William Poole, professor of economics at Brown University

Almost all economists supporting a higher minimum wage, including the president's chief economic adviser, believe that a higher minimum wage will reduce employment. The employment cost may be small, but that is because the wage effect is also small for a small increase in the minimum wage. Minimum wage advocates believe that the employment cost is worth the small wage increase received by those who remain employed.

I do not understand this callous position. The current minimum wage pro-

money. An arbitrary minimum wage increases the cost of hiring those who would otherwise earn less, but it does nothing to make them more productive.

In recent years there have been a handful of ad hoc examples or studies reporting cases where the minimum wage has increased and employment apparently did not fall. Foremost among these is the New Jersey/Pennsylvania comparison by Princeton Professors David Card and Alan Krueger. But re-examination of their data has raised so many questions that the study is generally dismissed by professional economists. Their finding, and that of a handful of other examples, should not surprise. Many things affect employment, and the minimum wage is only one. If we can disprove the law of demand by presenting seemingly anomalous examples, we can also prove that smoking does not cause cancer by pointing to a few old people who smoke.

The proof is not in the isolated example. Rather it is in the preponderance of the data, and there the picture is clear. On April 1, 1990, the federal minimum hourly wage was increased from \$3.25 to \$3.80. One year later it was increased to \$4.25. Over the course of these two increases national average employment of low wage la-

Robert Eisner, professor emeritus of Northwestern University

With perfect competition, the higher the price the lower the quantity demanded. Thus, forcing wages higher must certainly reduce employment. Some economists may consider that argument relevant yet support raising the minimum wage because the increases in incomes for those still employed will outweigh the employment losses. And low wage employers, facing modest increases in costs similar to those of their competitors, will be able to pass them on in slightly higher prices.

But economists have learned that labor markets are far from perfect. Low wage workers may not be able to find the employers that will pay them what they are worth. And employers may refuse to offer the higher wage necessary to attract needed new workers if that higher wage necessitates the added expense of higher wages for current employees. If existing employee wages were already higher because of a higher minimum wage, the additional workers could and would be recruited without that extra cost.

Thus, most economists may now accept recent studies that found that raising minimum wages caused little or no reduction in employment, and in some cases apparently increased it. They may see that the very modest minimum wage boost currently proposed would clearly raise incomes of low wage workers and that neither modern economic theory nor the facts indicate that it would cost them their jobs.

Martin Feldstein, professor of economics at Harvard University

An increase in the minimum wage would undoubtedly reduce employment and total working hours. The decline in employment would be concentrated among the least skilled and least educated. Mi-

ter one year, six out of 10 minimum wage entrants no longer work at any minimum wage job (including secondary jobs). Only 1.5 out of 10 minimum wage entrants has any minimum wage job after three years of labor-force activity. If workers don't stay long at a McDonald's outlet, the wages paid in such outlets don't gauge living standards very well.

The evident upward mobility of low wage workers shifts the focus of the minimum wage debate from arguments over the effects of a higher minimum (e.g. the extent of job losses) to its intended purpose. If the motivation behind a minimum-wage increase is to raise living standards, upward mobility renders that policy less effective and less necessary. Any job losses on the first rung of the income ladder cause larger income losses over time.

The extent of job losses on that first rung are distorted by coverage gaps in the Fair Labor Standards Act—most entry-level jobs for teens are exempt. That's why economic studies of employment generate such conflicting results, not because there's been any change in economic theory.

William A. Niskanen, chairman of the Cato Institute

The minimum wage helps some low skilled workers at the expense of those who are even less skilled. Most of those who benefit are secondary workers from families that are not poor. Many of those who lose the opportunity for legal employment are from poor families. On these issues, there is still a substantial consensus among economists.

A large body of empirical studies suggests that the proposed increase in the minimum wage by 90 cents over two years, as currently proposed, would reduce legal employment for low skilled workers by about 4%. Those who are most concerned about the employment opportunities of low

I have a question for those who lose their jobs as a result of the new minimum wage: Are you quite happy to sacrifice your job and hope for a better future so middle-class teenagers can enjoy a higher wage?

posals, if enacted, will cost about 400,000 jobs. Those who will lose their jobs are the weakest and most vulnerable members of the labor force. I have a question for those who lose their jobs: Are you quite happy to sacrifice your job and hope for a better future so middle-class teenagers can enjoy a higher wage? If not, blame the president and Congress, not your employer.

Milton Friedman, senior research fellow at the Hoover Institution

Raising by law the price of any commodity or service will reduce the quantity that purchasers of that commodity or service wish to purchase, whether the item in question is gasoline or wheat or milk or labor. The only issue is by how much.

A higher minimum wage would therefore mean that fewer people would be employed. Fewer people would produce less than more people, so that the basic cost of a higher minimum wage would be smaller total output. Some people would benefit—those current minimum wage workers who are retained at the higher minimum wage. Some people would lose—those current minimum wage workers who become unemployed.

It is difficult for me to see how this kind of redistribution of income among low income workers compensates for the loss in total output.

Finis Welch, professor of economics at Texas A&M University

When wages or other prices are artificially increased, less will be bought. This well-trod soil, the economists' law of demand, is as true today as when Adam Smith first described it more than two centuries ago. Wishing it were not so, or regretting that some have earning capabilities far below others, will not change the basics of human behavior. As employers or consumers we try to get the most for our

bor fell relative to other employment; teenage employment fell relative to adult employment; employment of high school dropouts fell relative to employment of those with more education; employment of blacks fell relative to that of whites and employment of Hispanics fell relative to that of non-Hispanics. If the minimum is again increased, we can expect a repeat performance. Increasing the minimum will make some jobs more attractive—it will also make them harder to get.

David F. Bradford, professor of economics and public affairs at Princeton University

Apart from the details of enforcement, the minimum wage law can be described as saying to the potential worker: "Unless you can find a job paying at least the minimum wage, you may not accept employment." When it is put this way, it is hard to understand why anyone would think such a law a good idea, and it is hard to imagine that it could be to the advantage of many workers. I do not think that many economists regard the minimum wage as more than a political palliative. About the best one can say is that if it isn't too high it won't do too much harm.

David Neumark, professor of economics at Michigan State University

Minimum wages do reduce the employment of the most affected workers, such as teenagers and young adults. While the overall effects appear to be quite small, the disemployment for the lowest-wage workers is quite substantial.

There is still a general consensus about this among economists. This consensus may have weakened slightly, but most economists are quite skeptical of the research claiming that minimum wages either raise employment or do not reduce employment.

If we can disprove the law of demand by presenting seemingly anomalous examples, we can also prove that smoking does not cause cancer by pointing to a few old people who smoke.

nority youth would be the most seriously affected group in the population.

Although economists may differ in their estimates of the magnitude of the employment declines that would result from a rise in the minimum wage, I believe that there is an overwhelming consensus that the higher minimum wage would reduce employment and that those who are displaced will be the low-skilled youth who now have the hardest time in getting work.

The experience of Europe, where the unemployment rate has now reached twice that of the United States, shows the danger of traveling along the road to higher minimum wages.

Brad Schiller, professor of economics at American University

President Clinton and his secretary of labor would have us believe that low wage workers are "trapped" in minimum-wage jobs forever, and are therefore unable to support their families. The real issue, then, is not who is holding a minimum wage job on any given day, but how long workers stay at minimum wage jobs.

A multiyear Labor Department-funded survey (The National Longitudinal Surveys of Youth) reveals that few workers stay at minimum wage jobs very long. Af-

skilled workers from poor families should oppose the minimum wage but support the earned income tax credit.

Arthur Laffer, chairman of Laffer Canto & Associates, financial consultants in San Diego

A minimum wage guarantees that there are more people willing to work than there are employers willing to hire. A rise in that minimum wage pushes more people out of work and allows those left with jobs to be paid more. The workers who lose their jobs are clearly worse off, even if they get welfare. The taxpayers who pay the welfare are clearly worse off as well. The workers who keep their jobs at the higher minimum pay are clearly better off by the exact amount by which the employers who are paying those workers more are worse off. On balance the whole idea of raising the minimum wage looks like a loser to me.

Robert Barro, professor of economics at Harvard University

The minimum wage prohibits people from working if their productivity falls short of the stated level. The overall consequences for economic efficiency are adverse and show up especially as reduced levels of employment for low productivity workers. Some workers gain from an increased minimum, notably the more able, who can retain and find the higher wage jobs. However, the overall consequences for income distribution are adverse because the increased joblessness tends to be concentrated among the least advantaged persons, notably minority teenagers. If the ratio of the minimum wage to the average wage is small—as currently in the U.S.—then a rise in the minimum has small effects on aggregate employment and overall income distribution, but there is no reason to think that the net effects are positive. Thus, the previously strong consensus of economists in opposition to the minimum wage remains correct, and the minimum-wage law ought to be abolished.

THE WALL STREET JOURNAL

WEDNESDAY, APRIL 24, 1996

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No Federal Welfare for S&L Bondholders

By MARTIN MAYER

Voters who thought they had seen the last of the savings-and-loan horrors may be surprised to learn that Godzilla has re-emerged from its hiding place, preventing a terrorized Congress from acting on two important pieces of legislation. Misconceived and misbegotten, never healthy investments for anyone, \$9 billion in bonds issued by something called the Financing Corp. are now tottering toward default. By some projections, default on the FICO bonds could come as early as next January. Proposals of what to do with them have become bargaining chips in both the federal budget bill and reform of banking regulation.

These bonds have a very special history. In September 1987, in the Federal Home Loan Bank Board's last gasp of pretense that the savings-and-loan industry could stay afloat without a government bailout, Congress passed and President Reagan signed a bill authorizing \$10.8 billion in bonds to be issued by the newly established FICO. The receipts were to be used to buy bad loans from busted S&Ls, so their depositors could be paid their insured deposits and the interest those deposits had "earned."

This paper, eventually issued as 40-year bonds with a coupon paying interest at 118 basis points above the on-the-run Treasury bond, carried on its face in capital letters the legend that it was not an obligation of the U.S. government. Repayment of the principal was financed by the immediate purchase of special zero-coupon Treasury bonds, at a cost of roughly \$4.08 for every \$100 of face value 40 years hence. Interest was to be paid only from levies on what would be, the legislative report insisted, the ever-growing deposit base of the S&Ls. Helping with the sales effort, bank board chairman Danny Wall at the time said he couldn't dream of a circumstance in which the U.S.

government wouldn't honor the payments.

Some of us had more imagination. FICO paper was described by the shadow regulatory committee of academic economists as "federal junk bonds." In my column in *American Banker* magazine, I called them "federal WHOOPS paper," after the defaulted Washington Public Power Supply bonds that had been backed by the commitment of Washington state electric companies to pay for nuclear plants even if it meant paying rates five times those charged by other utilities. At the time, I suggested on this page that investors looking for government-guaranteed high-yield bonds should instead investigate the possibility of Colombian bonds backed by receipts from the sale of cocaine.

In the end, FICO did sell \$9 billion of the \$10.8 billion in bonds authorized. Some were peddled to Japanese and Korean investors on special trips by FICO's CFO. More were sold by big-time brokerage houses—especially Merrill Lynch, which had been feuding with the bank board about its power to cancel the ridiculously high-yield certificates of deposit that Merrill had brokered to now-failed S&Ls at commissions to Merrill that might be as much as 3% of face value. Every penny of excess interest these S&Ls had promised Merrill's clients had to come out of the bankrupt S&L insurance fund, which meant out of the hides of taxpayers, and the bank board quite properly argued that once an S&L had come into federal custody its diminishing funding should cost less. When FICO bonds proved difficult to sell, the bank board changed its mind, and agreed to let the Merrill-brokered CDs pay to maturity—and Merrill agreed to place the bonds.

Now, not surprisingly, there isn't enough revenue to service these bonds. S&Ls, intelligently (only the intelligent survived), are looking for ways to avoid

the annual burden of \$600 million of deposit insurance premiums demanded by the new federal Savings Association Insurance Fund, which guarantees S&L deposits, to pay the bondholders their coupons. These S&Ls didn't, after all, indulge in the reckless and dishonest behavior that created such costs.

From a politician's point of view, the obvious place to get the money is from the banks. By paying higher premiums for four years, they have brought their federal Bank Insurance Fund, which guarantees bank deposits, to its statutory resting place of 1.25% of deposits, and 92% of them no longer pay any deposit insurance premium at all. Ever since the days of Lyndon Johnson, when it was thought that the deposit insurance funds would have surpluses forever, the funds have been counted as part of the federal budget. By reimposing premiums on the banks, which look very profitable these days, Congress would ride to the rescue of the FICO bonds—and meanwhile gain a neat, useful credit to reduce the budget deficit, year after year.

Provisions to merge the bank and savings insurance funds were part of the budget reconciliation package President Clinton vetoed in December. Then they were tacked onto the bill to repeal elements of the Glass-Steagall Act and reorganize banking regulation, in hopes of expediting that venture. This got the banks mad, resulting in the continued incarceration of the banking bill within the House Banking Committee.

So the FICO bonds are back in the limbo whence they came—and a good thing, too. The people who bought them were multiply warned. They took higher interest rates (exempt from state and local tax) to compensate for the risks. They should now live with the consequences of that decision.

Few points of public policy that can be made by this Congress would have such resonance as a principled statement that the government will not bail out paper that was explicitly and deliberately not guaranteed by law at the time of issuance. If we are going to value transparency in budgeting, these stealth attacks on the public purse should be intolerable. By stripping the FICO sections from the proposed law, the leaders of the House could strike a significant blow for honesty in government and for real limits on the growth of the national debt.

Mr. Mayer is a guest scholar at the Brookings Institution in Washington.

Notable & Quotable

Why economic growth, not sanctions, offers the best hope for a more liberal China, The Economist, March 23:

[T]hough westerners can and should push China hard to respect human rights, they should reserve economic or trade sanctions for truly egregious offenses. The evidence from the rest of East Asia is that greater economic freedom does lead to greater political freedom. As the private sector flourishes and people grow richer,

so people also become more independent of government. Sooner or later, that is likely to have political consequences. Over the past decade, Asian tigers like Taiwan, South Korea and Thailand have all made significant strides towards political pluralism. By contrast, those countries that have remained economically closed and backward—North Korea and, until recently, Myanmar and Vietnam—are among the most repressive in Asia.

REVIEW & OUTLOOK

Stiglitz v. Clinton

Republicans have been AWOL rebutting Democratic arguments for raising the minimum wage, so we'd like to offer a tip on where they can find ammunition. Start by calling Joseph Stiglitz, the Stanford economist and, as it happens, Bill Clinton's own chief economist.

Yes, we mean the same Joe Stiglitz whose name appeared recently on this page urging a government-mandated increase in the basic wage, to \$5.15 from \$4.25 an hour. We admit we blinked when we saw his name on the list of op-ed co-authors, along with the President's other economic advisers, Laura Tyson, Robert Rubin, Robert Reich and the late Ron Brown. "Every member of the president's economic team believes this step will increase wages without costing jobs," they wrote on April 1.

Now, we can understand those other advisers. They're political types. But as the chairman of the President's Council of Economic Advisers, Mr. Stiglitz's advice is supposed to have some grounding in economic reality. Say it ain't so, Joe!

You see, we've been reading a textbook by Mr. Stiglitz, "Economics" (1993, W.W. Norton & Co.). And right there, on pages 130-133, is the clearest, or at least a clear, debunking of the minimum wage illusion. "The minimum wage is an example of a price floor," writes Mr. Stiglitz, in prose even a freshman can understand, adding that "price floors have predictable effects."

For example, they may price some workers out of a job. "Of course, those who are lucky enough to get a job will be better off at the higher wage than at the market equilibrium wage," writes Professor Stiglitz. "But there are others, who might have been employed at the lower market equilibrium wage, who cannot find employment and are worse off."

Such as? Well, writes the pre-White House Stiglitz, "In the United States, perhaps the major unemployment effect of minimum wages is on teenagers. Most other workers, even the unskilled, get paid more than the minimum wage." In other words, all that stuff about a "living wage" in the Clinton op-ed is just rhetoric, because few workers who support themselves

actually work for the minimum now. "Today's labor market often has both spouses and even a teenage child or two working. Surely they do not *all* (his emphasis) need to earn enough to support their own family," says the Stanford Stiglitz.

He's on a roll, so we'll keep quoting. "In addition, a higher minimum wage does not seem a particularly useful way to help the poor." Hmmm. That sounds a lot like, well, Milton Friedman, without the style. "Most poor people earn more than the minimum wage *when they are working*; their problem is not low wages. The problem comes when they are not working," he says.

Forgive us for asking, but if this were all true in 1993, why is it false in 1996? We suppose Mr. Stiglitz might cite the studies, done for Robert Reich's Labor Department, that somehow claimed to rebut decades of economic research on the minimum wage. But as Harvard's Robert Barro showed in January on these pages, those studies have since been pretty thoroughly discredited by more careful follow-up research.

We suspect the Stiglitz Switch has more to do with this being an election year. Democrats are desperate to win back the votes of working folks who deserted them in 1994. They figure their silver bullet is an "economic populism" that claims to speak for the little guy, diverting attention from their social liberalism. So the minimum wage is cheap political bait, no matter that the overwhelming evidence for years has shown that it hurts the working poor more than it helps.

Remember when Bill Clinton claimed he was a New Democrat precisely because he didn't favor a higher minimum wage? That was 1992, the last time he was trying to give moderates a reason to entrust their vote with him. Instead he liked the earned-income tax credit, which has in fact grown like Topsy in the Clinton Presidency. But with labor unions and liberals desperate to have something to say to working folks this year, Mr. Clinton has thrown another New Democrat principle over the side. It's too bad Joe Stiglitz seems to feel obliged to jump along with it.

Inclusion

price floor such as the minimum wage, buyers (employers) cannot pay less than the government-set minimum price.

Price floors have predictable effects too. The reasoning is simply the reverse of the reasoning for price ceilings. If the government attempts to raise the minimum wage higher than the equilibrium wage, the demand for workers will be reduced and the supply increased. There will be an excess supply of labor. Of course, those who are lucky enough to get a job will be better off at the higher wage than at the market equilibrium wage; but there are others, who might have been employed at the lower market equilibrium wage, who cannot find employment and are worse off.

How much unemployment does the minimum wage create? That depends on the level at which the minimum wage is set and on the elasticity of demand and supply for labor. If the minimum wage is set low enough, then it has little effect, either on wages or on unemployment. Panel A of Figure 5.15 shows a market in which an equilibrium wage is above the minimum wage. A small increase in the minimum wage thus has no effect on either the wage rate or the employment level. With the current level of minimum wages, only the very unskilled individuals—those whose wages would have been below the minimum wage—are affected. In the United States, perhaps the major unemployment effect of minimum wages is on teenagers. Most other workers, even the unskilled, get paid more than the minimum wage.

Panel B of Figure 5.15 shows a case where the demand and supply for unskilled labor are very inelastic, so that wages can be increased significantly, with little increase in unemployment. In panel C, the demand and supply for unskilled labor are both very elastic, and the minimum wage has been set substantially above the market equilibrium price. As a result, substantial unemployment is generated with any increase in the minimum wage.

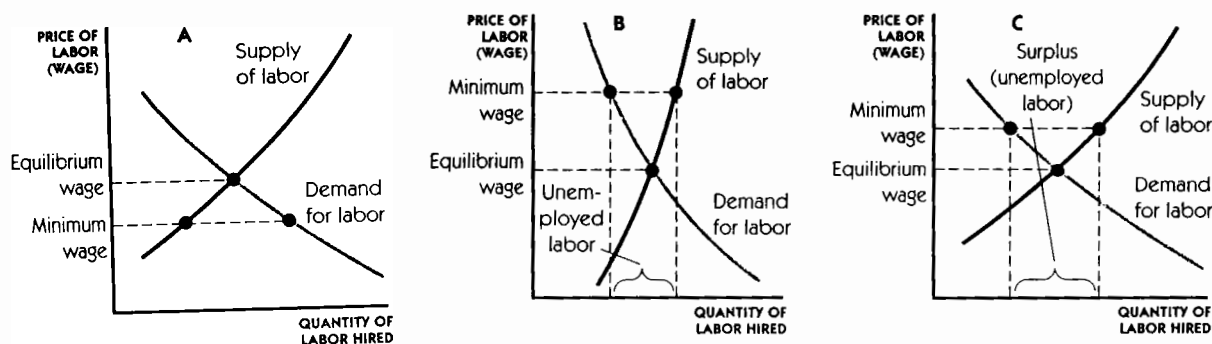


Figure 5.15 EFFECTS OF MINIMUM WAGES

In panel A, the minimum wage is below the equilibrium wage. However, since the minimum wage is a price floor, there is nothing to stop the market from paying the higher equilibrium wage, and any increase in the minimum wage will have no effect so long as the minimum wage remains below the equilibrium wage. In panel B, an increase in the minimum wage will result in very little increase in

unemployment, as the demand and supply curves for labor are inelastic. In panel C, the demand and supply curves are more elastic; the minimum wage is above the equilibrium wage, creating a large surplus of workers who would like to work but cannot find jobs. Increases in the minimum wage in this case will increase unemployment significantly.

POTENTIAL GOP Proposal

JBS
MNB
AM
MC

"THE MINIMUM WAGE FOR FAMILIES ACT"

LEGISLATIVE DESCRIPTION AND SUMMARY

This proposal will fundamentally redesign the EITC, and rename it the "Working Families Support Credit".

RATIONALE

It has become difficult in recent years to support a family on a minimum-wage salary. There is agreement among both Republicans and Democrats that we need to provide assistance to the "working poor", but there is significant disagreement on the best way to accomplish this goal.

The administration has proposed an increase in the minimum wage as the solution to this problem. While such an increase would provide some relief to the working poor, it would also have much more far reaching effects, including placing large economic constraints on the private sector, a loss of entry-level positions, and an inflationary ripple effect on wages. A minimum wage increase would also affect those persons who arguably are not in need of this assistance, such as teenagers working during their summer vacation.

Our proposal would accomplish the goal of providing assistance to those who are truly in need -- working families -- while at the same time avoiding the additional problems associated with a minimum wage increase.

BACKGROUND

The Earned Income Tax Credit (EITC), which was created in 1974, provides a refundable tax credit to lower-income working families with children and currently to some adult childless workers. The EITC has expanded greatly since its creation as a result of both Congressional and Presidential initiatives, including efforts by the Reagan, Bush and Clinton administrations.

RECIPIENTS

Under current law, there are an estimated 18.2 million tax units eligible for EITC. 12.7 million of these tax units are families with children, of whom roughly 5.3 million have one child and 7.4 million have two or more children. The remaining 5.5 million eligible tax units are childless workers ages 25 through 64.

PROPOSAL

This EITC reform proposal, which builds upon the reforms in the Republican Balanced Budget Act of 1995, will redesign and reform the current EITC program in an effort to return the program to its original purpose of serving low-income working families. The proposal will address the following:

- Convert large annual "lump sum" EITC payments into equal monthly payments so as to more practically supplement family income
- † ~~Deny credit to undocumented workers~~
- Eliminate credit for childless adults
- Increase the support credit for parents
- Rename Earned Income Tax Credit the "Working Families Support Credit"

With the savings generated from these reforms, we will significantly increase the amount of credit recipients of the Working Families Support Credit would receive.

If you believe that those people who are in need of wage assistance are America's working families, as opposed to teenagers employer during their summer vacation, please join us in support of The Minimum Wage Increase for Families Act.

If you would like to cosponsor this legislation or if you have additional questions, please contact Chuck Seyfarth with Representative Hutchinson at 5-4301.

The Minimum Wage for Families Act

A proposal to create a three tiered minimum wage to lift incomes of poor families with children. The three wage rates are :

Individuals	\$4.25 an hour
Families with 1 child	\$7.00 an hour
Families with 2 or more children	\$8.00 an hour

How does it work ?

Employers would be able to hire as many job applicants as possible at the current starting wage of \$4.25. The Federal government would provide families with children a monthly cash payment to bring these families up to the \$7 or \$8 level as outlined above. The payments would be administered through the Internal Revenue Service.

How much would it cost ?

This proposal is expected to be scored by the Joint Tax Committee to save at least \$15 billion over 6 years. Much needed reforms of the poorly designed Earned Income Tax Credit will provide significant savings that will be used to increase assistance to those families that actually have to raise children. Any additional savings generated from reforms of the EITC program will be used to finance the \$500 per child tax credit available to all low-income and middle class families.

How does it fit with the Republican Tax Cut proposal ?

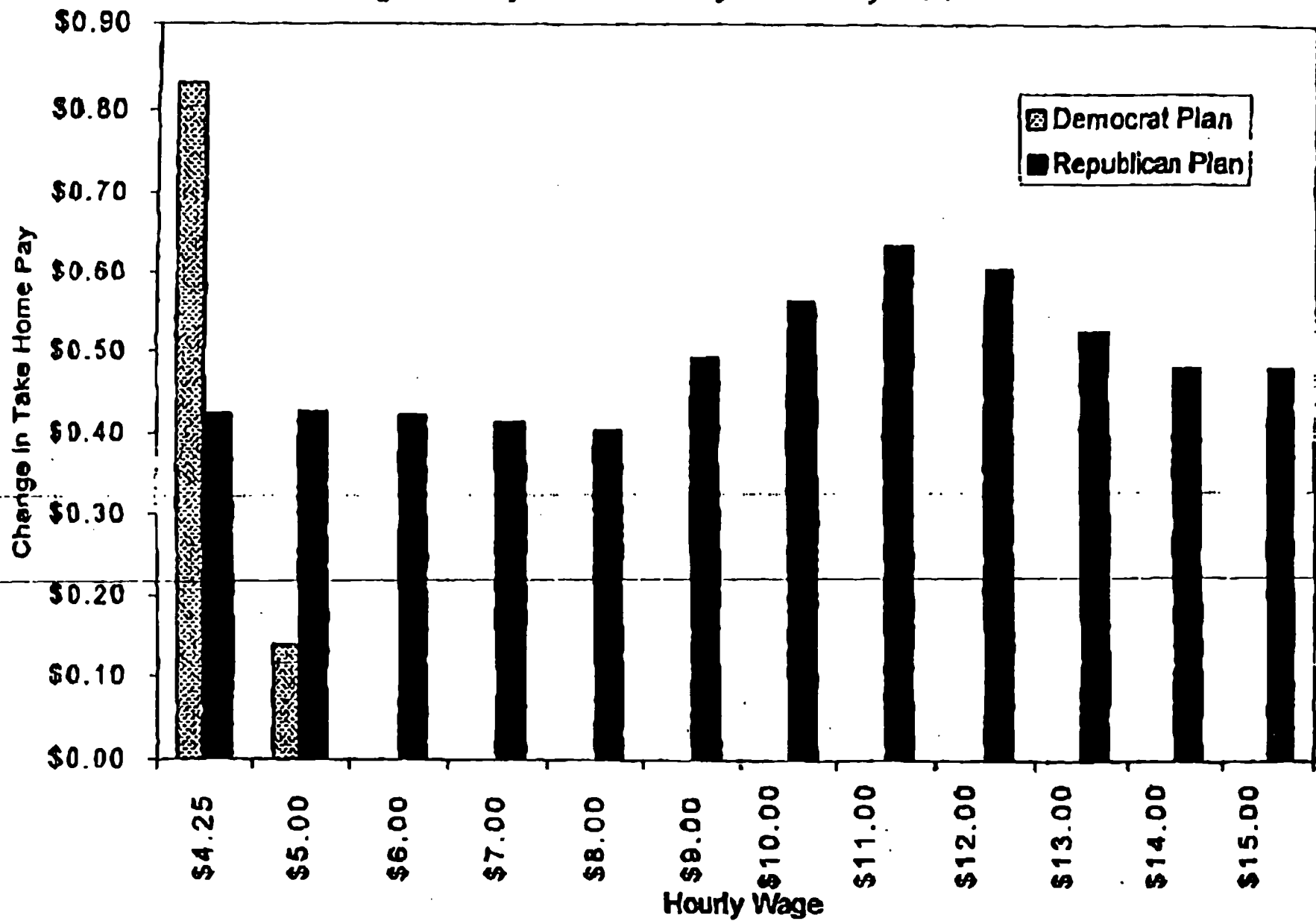
The Minimum Wage for Families Act can be easily integrated into the \$500 per child tax credit proposal. When combined, all families, whether they earn \$4.25 or more an hour, will see their take home pay increase because of this proposal.

How does it complement the Republican Welfare Reform proposal ?

Under the Republican welfare reform proposal, as many as 7 million able-bodied adults on public assistance will be asked to work. Small business can not create 7 million jobs for these often poorly educated individuals at the same time that Democrats want to increase the cost for hiring these workers.

It's Take Home Pay, Stupid

Change in Hourly Take Home Pay for a Family of Four



THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

April 21, 1996

STATEMENT BY THE NATIONAL ECONOMIC ADVISER
LAURA D'ANDREA TYSON ON THE MINIMUM WAGE

The bipartisan minimum wage train has left the station and rather than slow it down with political gimmicks and controversial amendments, Majority Leader Dole should immediately schedule a clean, fair vote on raising the minimum wage. For the millions of hard-pressed American families who would benefit from President Clinton's proposal to increase the minimum wage, the time for a clean vote on the minimum wage is now. Every day Majority Leader Dole delays a clean vote on the minimum wage with inside-the-beltway political games, the real value of the minimum wage moves closer and closer to a 40-year low.

President Clinton has always supported raising the minimum wage -- from the campaign in 1992 to the present -- and it is sad and unfortunate that Majority Leader Dole would depart from the clear factual record by suggesting otherwise. For four years, President Clinton has fought for the most hard-pressed working families by expanding the Earned Income Tax Credit, and trying to increase the minimum wage and expand health care coverage for working families. Together with his EITC expansion, President Clinton's minimum wage increase would ensure that no parent who is willing to work full-time would have to raise their children in poverty.

PRESIDENT CLINTON HAS ALWAYS SUPPORTED THE MINIMUM WAGE AS A WAY TO MAKE WORK PAY

April 2, 1996

CLAIMS THAT PRESIDENT CLINTON OPPOSED A MINIMUM WAGE INCREASE ARE JUST NOT TRUE.

- President Clinton has always supported the Minimum Wage -- and he has NEVER opposed a minimum wage increase. President Clinton has always supported increasing the minimum wage -- from the campaign in 1992 to the present. He specifically proposed a 90-cent increase 14 months ago.
- Republican Members point to a 10-word *Time* magazine quote from 1995 that alludes to President Clinton's opposition to the minimum wage in 1993. But, President Clinton didn't say any such thing. The statement *Time* refers to does not appear in any transcript, tape, or speech text.
- For four years now President Bill Clinton has fought for several provisions that would raise the standard of living of hard-working families, including: increasing the minimum wage, expanding the Earned Income Tax Credit, and providing health care coverage for working families.
- President Clinton initially focused his legislative agenda on raising workers' incomes and increasing economic security through expansion of the Earned Income Tax Credit and health care reform, but he has always supported a Minimum Wage increase. Together with his EITC expansion, President Clinton's minimum wage increase would ensure that no parent who is willing to work full-time would have to raise their children in poverty.

PRESIDENT CLINTON HAS ALWAYS SUPPORTED A MINIMUM WAGE INCREASE AS A WAY TO MAKE WORK PAY

SUPPORTED MINIMUM WAGE HIKES AS GOVERNOR. As Governor of Arkansas, Bill Clinton supported two increases in the state minimum wage. And he changed state minimum wage law to cover more workers.

1992: CANDIDATE CLINTON CALLS FOR EXPANDING EITC AND RAISE MINIMUM WAGE TO MAKE WORK PAY. In 1992, President Clinton proposed expanding the Earned Income Tax Credit and raising the minimum wage to keep pace with inflation in order to ensure that no parent who was willing to work full-time would have to raise their children in poverty.

- **In *Putting People First***, Presidential Candidate Clinton and Vice-President Candidate Gore proposed to "increase the minimum wage to keep pace with inflation." (p. 127)
- **In the Clinton/Gore Welfare Information packet**, Candidate Clinton and Vice-President Candidate Gore proposed to make the minimum wage a fair wage, and index it to inflation because "working people shouldn't have to lose purchasing power just because of inflation." [Clinton/Gore Welfare Information Packet. September 9, 1992]
- **On October 30, 1992**, the *Star Tribune* wrote that Candidate Clinton wants to "increase the minimum wage to keep pace with inflation and expand the earned income tax credit to guarantee no full-time workers lives in poverty." [Star Tribune. October 30, 1992]

AUGUST 1993: PRESIDENT CLINTON EXPANDS EITC AS FIRST STEP TO MAKE WORK PAY. In 1993, President Clinton took the first necessary step to achieving the goal of ensuring that anyone who worked full-time didn't have to bring up their children in poverty: he expanded the Earned Income Tax Credit to provide a tax break for 15 million of our most hard-pressed households.

- **In April of 1993**, *The Washington Post* wrote that: "Mr. Clinton's goal is ambitious: to make sure that in households with children where at least one person works full-time, the family won't fall below the poverty line. Under current law, the maximum EITC benefit for a family with two or more children was scheduled to rise to \$ 2,000 next year; Mr. Clinton would boost the maximum to \$3,370 by 1995. He would also raise the benefits for families with one child and establish a small new credit for workers without children....*On top of this, Mr. Clinton would try to boost the earnings of the working poor by hiking the minimum wage.*" [The Washington Post, April 20, 1993 -- emphasis added]

IN 1994 PRESIDENT CLINTON FOUGHT FOR UNIVERSAL HEALTH CARE -- WHICH WOULD HAVE BEEN THE EQUIVALENT OF A MINIMUM WAGE INCREASE FOR MILLIONS OF LOW-WAGE WORKERS. NONETHELESS, HE STILL MAINTAINED HIS SUPPORT FOR A MINIMUM WAGE INCREASE.

- JUNE OF 1994, *THE WASHINGTON POST* WROTE THAT: "From health-care reform to *a higher minimum wage* to more training opportunities to increased earned-income tax credits to mandatory fringe benefits, the Clinton administration wants to increase dramatically the income security of the more than 6 million American adults whom it classifies as the 'working poor.'" [The Washington Post, June 26, 1994 -- emphasis added]

1995: PRESIDENT CLINTON PROPOSES MINIMUM WAGE INCREASE TO FULFILL COMMITMENT TO MAKE WORK PAY. On February 3, 1995, President Clinton put forward his proposal to increase the minimum wage from \$4.25 to \$5.15 over two years in two equal steps. This proposal would directly benefit 10 million American workers.

- In his 1995 State of the Union, President Clinton called for Congress to raise the minimum wage: "The goal of building the middle class and shrinking the underclass is also why I believe that you should raise the minimum wage. It rewards work. Two and a half million Americans -- 2.5 million Americans, often women with children, are working out there today for \$4.25 an hour. In terms of real buying power, by next year that minimum wage will be at a 40-year low. That's not my idea of how the new economy ought to work.

Now, I've studied the arguments and the evidence for and against a minimum wage increase. I believe the weight of the evidence is that a modest increase does not cost jobs, and may even lure people back into the job market. But the most important thing is, you can't make a living on \$4.25 an hour. Especially if you have children, even with the working families tax cut we passed last year. In the past, the minimum wage has been a bipartisan issue, and I think it should be again. So I want to challenge you to have honest hearings on this; to get together; to find a way to make the minimum wage a living wage.

Members of Congress have been here less than a month, but by the end of the week, 28 days into the new year, every member of Congress will have earned as much in congressional salary as a minimum wage worker makes all year long." [State of the Union Address to the Nation, January 25, 1995]

- **On February 3, 1995, President Clinton proposed raising the minimum wage from \$4.25 to \$5.15:** "Our job is to create enough opportunity for people to earn a living if they'll exercise the responsibility to work. That's why we fought so hard to expand the earned income tax credit - a working family tax cut for 15 million families - in 1993; precisely why we're calling on Congress today to raise the minimum wage 90 cents to \$5.15 per hour.

The only way to grow the middle class and shrink the underclass is to make work pay. And in terms of real buying power, the minimum wage will be at a 40-year low next year if we do not raise it above \$4.25 an hour. If we're serious- let me say this, too, emphatically- if we are serious about welfare reform, then we have a clear obligation to make work attractive and to reward people who are willing to work hard...

If in 1990, because the minimum wage had not been raised in such a long time, a Republican president and a Democratic Congress could raise the minimum wage, surely in 1995 - facing the prospect that work, full-time work, could be at a 40-year low in buying power unless we act - a Congress with a Republican majority and a Democratic president can do the same for the American people." [Announcement by President Bill Clinton of Minimum Wage Increase, February 3, 1995]

- **JUNE, 1995. At town hall meeting with Speaker Gingrich, the President reiterated his support for a minimum wage increase:** "The reason that I am for it is that I believe that -- first of all, I know that a significant percentage of people on the minimum wage are women workers raising their kids on their own. And I just believe that we shouldn't allow -- if we don't raise the minimum wage this year, then next year, after you adjust for inflation, it will be at a 40-year low...

And I believe, if you go back to when they did it when -- the last time it was done was, when, '89 or something, I think, on balance, we did fine as a result of doing it. And I think we should do it again. [Remarks by President Clinton, Speaker Gingrich at Senior Center in Claremont, N.H., June 11, 1995]

- **In May 1995, President Clinton calls for minimum wage increase:** "I believe it is especially important to women that we raise the minimum wage this year. Women represent three out of five minimum wage workers, but only half the work force. I have done everything I could to create a climate in which people are encouraged to be successful parents and successful workers. I believe that. That's what the Earned Income Tax Credit was all about in 1993... But it isn't enough. If we do not raise the minimum wage this year, next year it will be in real dollar terms, the lowest it has been in 40 years. Now that is not my idea of what the 21st century American economy is all about. [Remarks at Women's Bureau Reception, May 19, 1995]

- **On Labor Day 1995, President Clinton tells California that the minimum wage should be raised:**"I also think we ought to raise the minimum wage. Let me tell you. if we don't raise the minimum wage this year, on January the 1st of next year, our minimum wage in terms of what the money will buy will be at a 40-year low. I want a high-wage, high-growth, high-opportunity, not a hard-work, low-wage 21st century. And I think you do, too. And that's what we ought to do." [Remarks at the Dedication of California State University at Monterey Bay in Monterey, California, September 4, 1995]

1996 PRESIDENT REITERATES HIS CALL FOR AN INCREASE IN THE MINIMUM WAGE

- **Speech to Keene State College, New Hampshire.** "[A]mong the greatest heroes in this country are the people who work 40 hours a week and do their best to raise their kids and only make the minimum wage. If we do not raise the minimum wage, this year it will drop to a 40-year low in terms of what it will buy. There is always a lot talk in Washington about family values. It's hard to raise a family on \$4.25 an hour. Let's raise the minimum wage." [President Clinton, Keene, New Hampshire, February 17, 1996]
- **1996 State of the Union Address.** "More and more Americans are working hard without a raise. Congress sets the minimum wage. Within a year, the minimum wage will fall to a 40-year low in purchasing power. Four dollars and 25 cents an hour is no longer a minimum wage, but millions of Americans and their children are trying to live on it. I challenge you to raise their minimum wage." [President Clinton, State of the Union Address to Congress, January 23, 1996]



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

April 12, 1996

To The Editor:

I normally welcome broad dissemination of my writing. But your selective quotations in "Stiglitz v. Clinton" (April 12) are grossly misleading. Both as an academic and as a policy-maker, I have stressed the importance of basing economic policies on careful analysis, and on avoiding a foolish consistency when the evidence shifts. As a famous economic adviser to the British government once said, "When circumstances change, I change my view. What do you do?" The evidence on the minimum wage is an example of changing circumstances.

Economic research on the minimum wage continues (fortunately!) to progress. More insightful theories and new empirical studies -- none of them, I may add, done at the request of the Labor Department -- have improved our understanding, and the academic consensus on the effects of the minimum wage has shifted somewhat. For example, one hundred and one leading economists -- including Nobel Prize-winners Kenneth Arrow, Lawrence Klein, and James Tobin -- signed a letter last year supporting President Clinton's proposed increase in the minimum wage from \$4.25 to \$5.15 per hour. They concluded that the "overall effects on the labor market, affected workers, and the economy would be positive." These economists are distinguished and disinterested academics. Do you also impugn their motives?

Your editorial is misleading for another reason. My textbook stresses that the effects of the minimum wage depend crucially on the level at which it is set and on the structure of the labor market. Throughout much of the postwar era, the minimum wage hovered around half the average wage. But the minimum wage is now just over a third of the average wage. And in a passage of the textbook that somehow must have skirted your attention, I argued that moderate increases in a relatively low minimum wage should have little effect on unemployment (page 131). The op-ed I co-authored two weeks ago noted that the minimum wage is close to its 40-year low in real terms, and concluded that a moderate increase would not have a significant effect on job levels. No big metamorphosis in opinion there.

In summary, Professor Stiglitz and Chairman Stiglitz are not in conflict. We both agree that a moderate increase in the minimum wage from its current low level would not significantly affect employment. Both Stiglitzes also object to your gratuitous and invidious comparisons of "style," but we concur that our academic style pales in comparison to the poetry of your editorial pages. By the law of comparative advantage, perhaps you should stick to style and we will stick to economics.

Yours sincerely,

Joseph E. Stiglitz

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Give 'Em a Raise, Bob

Republicans may abandon Dole and agree to raise the minimum wage. It's O.K., say some economists



By JOHN F. DICKERSON WASHINGTON

SINCE ITS INCEPTION IN 1938—AT TWO bits an hour—the minimum wage has been attacked by economists and capitalist zealots as a prime example of wrongheaded government meddling. Let the market set wages, they say, not Washington. Yet politicians, including at times none other than Republican presidential candidate Bob Dole, have resisted that view. Dole argued in 1974 that “a living wage for a fair day’s work is a hallmark of the American economic philosophy.” Recently, however, the positions have flipped, with a rising number of economists arguing for a minimum-wage boost—and Dole holding fast against it.

He is about to be told to take a hike. Say 20%, Senator? With corporate profits ballooning a record 31% in the past year while wages for many were stagnant, Congress is poised to come down on the side of the lowest-paid workers and vote them a raise.

The case for increasing the minimum is being built on a group of studies, the most prominent of which is by Princeton economists David Card and Alan Krueger. The two surveyed employment patterns in fast-food restaurants in New Jersey and Pennsylvania cities after the Garden State raised its minimum wage to \$5.05, vs. \$4.25 for Penn-

SCAN IN AN INCREASE: Economists say raising the minimum won't hurt employment

sylvania. Economic theory says that increased labor costs should have forced New Jersey employers to cut jobs or that employers in Pennsylvania should have lifted wages to keep workers from hopping across the river for a raise. But the study found no such evidence. In fact, the results suggested that a moderate hike—much like the one the President is proposing—may have actually increased total employment.

Such studies have given some econo-

mists reason to switch sides in the wage debate. “The negative effects are not significant at the level at which the minimum wage is being raised,” contends Joseph Stiglitz, chairman of the President’s Council of Economic Advisers, who argued against the minimum wage in a textbook he wrote in 1993. Last October about 100 other economists who share his view, including three Nobel laureates, announced their support for President Clinton’s plan to raise the wage 90¢—from \$4.25 to \$5.15—over 15 months.

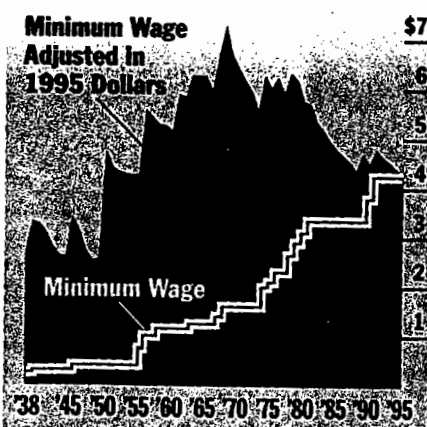
You don’t have to be an economist to know that \$5.15 an hour isn’t going to move anyone into a higher tax bracket. In fact, without an increase the minimum wage will sink to a 40-year low when adjusted for inflation. Currently, a full-time minimum-wage worker earns \$8,500 annually—one third the average U.S. wage. Even with a complement of welfare, food stamps and tax credits, that income falls well below the \$15,600 poverty line for a family of four. Administration officials say additional studies show that the 11 million workers who would benefit from the raise are not just middle-class teenagers but, in 40% of the cases, a family’s lone breadwinner. “Someone who works hard and plays by the rules should not live in poverty,” argues Labor Secretary Robert Reich.

Opponents, both political and academic, have criticized the Card-Krueger study’s methodology. But the Administration knows well that working-class voters are behind a raise: 10 states have already lifted their minimum wage above the national mandate, and 30 cities are considering “living wage” increases.

The Democrats have been working for weeks to bring a minimum-wage amendment to the floor of the Senate, but they have been parried at every turn by majority leader Dole. And they have pasted him for it, noting that Dole has voted to raise his own pay more than 35 times. The pressure is getting to the C.O.P. Last week, after Dole prevented an immigration bill from coming to the Senate floor for fear that Democrats would attach a minimum-wage amendment to it, 20 House Republicans abandoned their party leadership to propose a wage increase 10¢ more generous than the one Democrats had offered.

The Republicans are resigned to passing legislation boosting the minimum; the question that remains is what they can exact in the process. They may attach the \$500-per-child tax credit they have been fighting for. Commenting about these partisan add-ons, Dole told PBS’ *NewsHour*, “Democrats won’t be crazy about them. If they can play games, why can’t we?” To those earning \$4.25 an hour, the raise will be welcome any way it comes.

LOW DOWN





CENTER ON BUDGET AND POLICY PRIORITIES

FOR IMMEDIATE RELEASE:
Monday, October 2, 1995, 9:30 a.m.

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LEADING ECONOMISTS CALL FOR HIGHER MINIMUM WAGE

Three Nobel Winners Among 101 Signers of Statement Backing 90-Cent Hike Over Two Years

An eminent group of economists — including three recipients of the Nobel Prize in Economics — have endorsed an increase in the federal minimum wage in a statement released today.

Among the 101 signatories of the statement are seven past presidents of the American Economics Association and experts in disciplines ranging from labor markets and industrial relations to income distribution and poverty. Their statement was released by two Washington-based research organizations, the Center on Budget and Policy Priorities and the Economic Policy Institute.

The statement notes that "After adjusting for inflation, the value of the minimum wage is at its second-lowest annual level since 1955. The purchasing power of the minimum wage is 26 percent below its average level during the 1970s..." The purchasing power of the minimum wage reached its lowest level right before the last increase in 1990.

"We believe that the federal minimum wage can be increased by a moderate amount without significantly jeopardizing employment opportunities . . . Specifically, the proposed increase in the minimum wage of 90 cents over a two-year period falls within the range of alternatives where the overall effects on the labor market, affected workers and the economy would be positive," the economists' statement continues. (Such an increase has been proposed this year in both the Senate and the House of Representatives.)

The statement's release comes as Congress is actively considering reductions in the Earned Income Tax Credit. Workers who are affected by a stagnant minimum wage are in large part the same people who would be hurt by proposed EITC cuts.

Opponents of a higher minimum wage sometimes claim that economic opinion is settled against any increase. The statement shows that this claim is inaccurate; there is substantial support within the Economics profession for a moderate increase.

The three Nobel winners backing the minimum wage increase are Kenneth J. Arrow of Stanford, Lawrence R. Klein of the University of Pennsylvania, and James Tobin of Yale. Each has served as president of the American Economics Association. The other AEA past presidents signing the statement are Moses Abramovitz of Stanford, Robert Eisner of Northwestern, John Kenneth Galbraith of Harvard, and William Vickrey of Columbia.

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Signatories to Economists Statement of Support for a Minimum Wage Increase

Aaron, Henry — Brookings Institution
Abramovitz, Moses — Stanford University
Allen, Steven G. — North Carolina State University
Altonji, Joseph G. — Northwestern University
Appelbaum, Eileen — Economic Policy Institute
Arrow, Kenneth J. — Stanford University
Bartik, Timothy J. — Upjohn Institute
Bator, Francis M. — Harvard University
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Blanchard, Olivier — Massachusetts Institute of Technology
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Darity, William Jr. — University of North Carolina
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Glickman, Norman — Rutgers University
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Gordon, Robert J. — Northwestern University
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Harrison, Bennett — Harvard University
Hartmann, Heidi — Institute for Women's Policy Research
Haveman, Robert H. — University of Wisconsin
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Hirsch, Barry T. — Florida State University
Hirschman, Albert O. — Princeton University
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Holzer, Harry J. — Michigan State University
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Kahn, Alfred E. — Cornell University
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Klein, Lawrence R. — University of Pennsylvania
Kleiner, Morris M. — University of Minnesota
Kochan, Thomas A. — Massachusetts Institute of Technology
Lang, Kevin — Boston University
Lester, Richard A. — Princeton University
Levy, Frank — Massachusetts Institute of Technology
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Mangum, Garth — University of Utah
Margo, Robert — Vanderbilt University
Markusen, Ann — Rutgers University
Marshall, Ray — University of Texas at Austin
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Meyer, Bruce — Northwestern University
Minsky, Hyman P. — Bard College
Mishel, Lawrence — Economic Policy Institute
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Murnane, Richard J. — Harvard University
Musgrave, Peggy B. — University of California at Santa Cruz
Musgrave, Richard A. — University of California at Santa Cruz
Nichols, Donald — University of Wisconsin
Ooms, Van Doorn — Committee for Economic Development
Osterman, Paul — Massachusetts Institute of Technology
Packer, Arnold — Johns Hopkins University
Papadimitriou, Dimitri B. — Jerome Levy Economics Institute
Perry, George L. — Brookings Institution
Peterson, Wallace C. — University of Nebraska at Lincoln
Pfeifer, Karen — Smith College
Piore, Michael — Massachusetts Institute of Technology
Polenske, Karen — Massachusetts Institute of Technology
Quinn, Joseph — Boston College
Reich, Michael — University of California at Berkeley
Reynolds, Lloyd G. — Yale University
Scherer, F.M. — Harvard University
Schor, Juliet B. — Harvard University
Shaikh, Anwar — Jerome Levy Economics Institute
Smeeding, Tim — Center for Advanced Study in the Behavioral Sciences
Smolensky, Eugene — University of California at Berkeley
Stromsdorfer, Ernst W. — Washington State University
Summers, Anita A. — University of Pennsylvania
Summers, Robert — University of Pennsylvania
Tobin, James — Yale University
Vickrey, William — Columbia University
Voos, Paula B. — University of Wisconsin
Vroman, Wayne — Urban Institute
Watts, Harold — Columbia University
Whalen, Charles J. — Jerome Levy Economics Institute
Wolff, Edward — New York University

John

Statement of Support for a Minimum Wage Increase

As economists who are concerned about the erosion in the living standards of households dependent on the earnings of low-wage workers, we believe that the federal minimum wage should be increased. The reasons underlying this conclusion include:

- After adjusting for inflation, the value of the minimum wage is at its second lowest annual level since 1955. The purchasing power of the minimum wage is 26 percent below its average level during the 1970s.
- Since the early 1970s, the benefits of economic growth have been unevenly distributed among workers. Raising the minimum wage would help ameliorate this trend. The positive effects of the minimum wage are not felt solely by low-income households, but minimum wage workers are overrepresented in poor and moderate-income households.
- In setting the value of the minimum wage, it is of course appropriate to assess potential adverse effects. On balance, however, the evidence from recent economic studies of the effects of increases in federal and state minimum wages at the end of the 1980s and in the early 1990s — as well as updates of the traditional time-series studies — suggests that the employment effects were negligible or small. Economic studies of the effects of the minimum wage on inflation suggest that a higher minimum wage would affect prices negligibly.
- Most policies to boost the incomes of low-wage workers have both positive and negative features. And excessive reliance on any one policy is likely to create distortions. The minimum wage is an important component of the set of policies to help low-wage workers. It has key advantages, including that it produces positive work incentives and is administratively simple. For these and other reasons, such as its exceptionally low value today, there should be greater reliance on the minimum wage to support the earnings of low-wage workers.

We believe that the federal minimum wage can be increased by a moderate amount without significantly jeopardizing employment opportunities. A minimum wage increase would provide a much-needed boost in the incomes of many low- and moderate-income households. Specifically, the proposed increase in the minimum wage of 90 cents over a two-year period falls within the range of alternatives where the overall effects on the labor market, affected workers, and the economy would be positive.