ANALYSIS OF POSSIBLE INCREASES IN THE MINIMUM WAGE

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

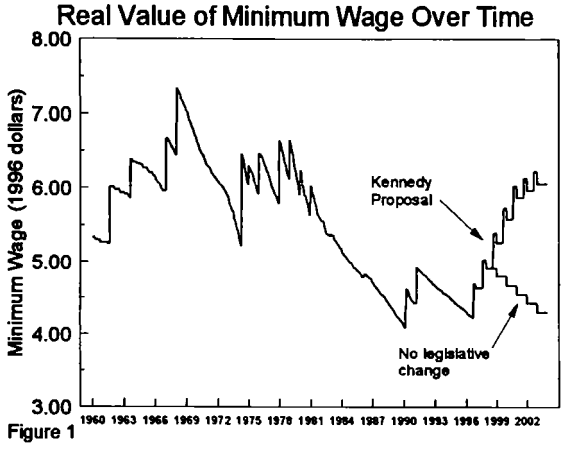

Figure 1

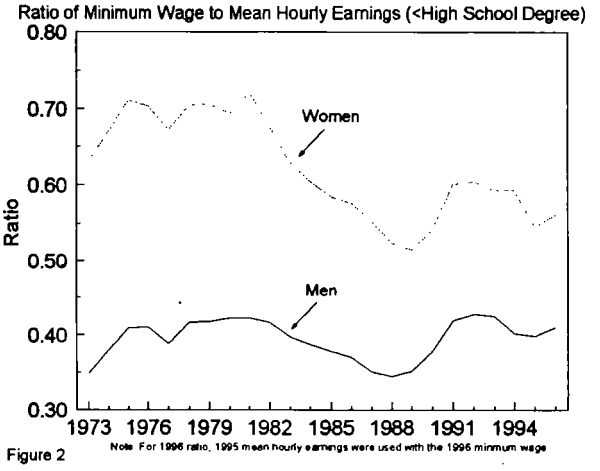

Figure 2

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

GROUPS AFFECTED BY FURTHER INCREASES

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

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

ARGUMENTS FOR AND AGAINST RAISING THE MINIMUM WAGE

Arguments for an increase

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

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

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

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

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

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

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

welfare to seek work.

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

Arguments against an increase

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

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

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

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

- **Potential inflationary impact.** There is some evidence that increases in the minimum

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

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

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

ALTERNATIVE POLICY OPTIONS

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

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

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

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

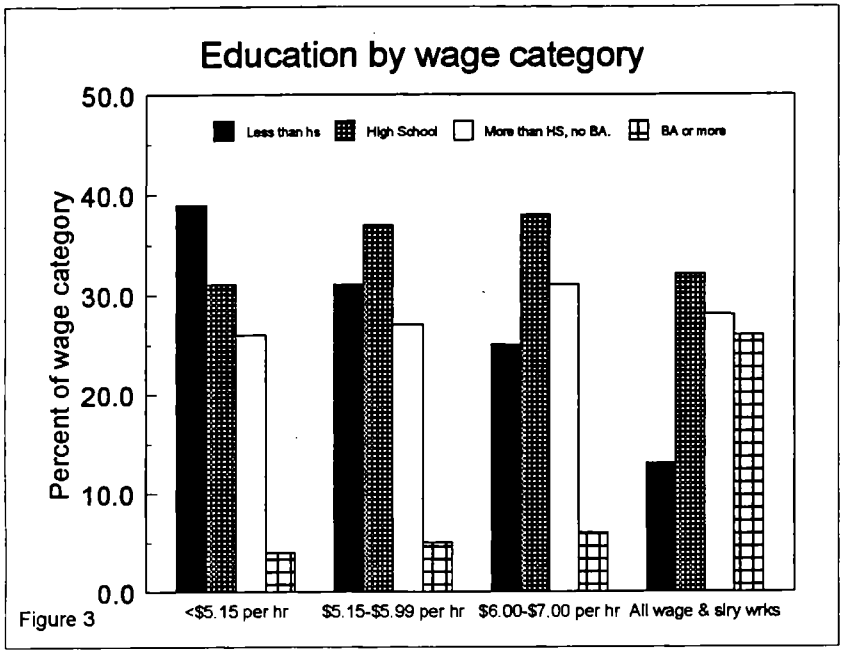

Figure 3

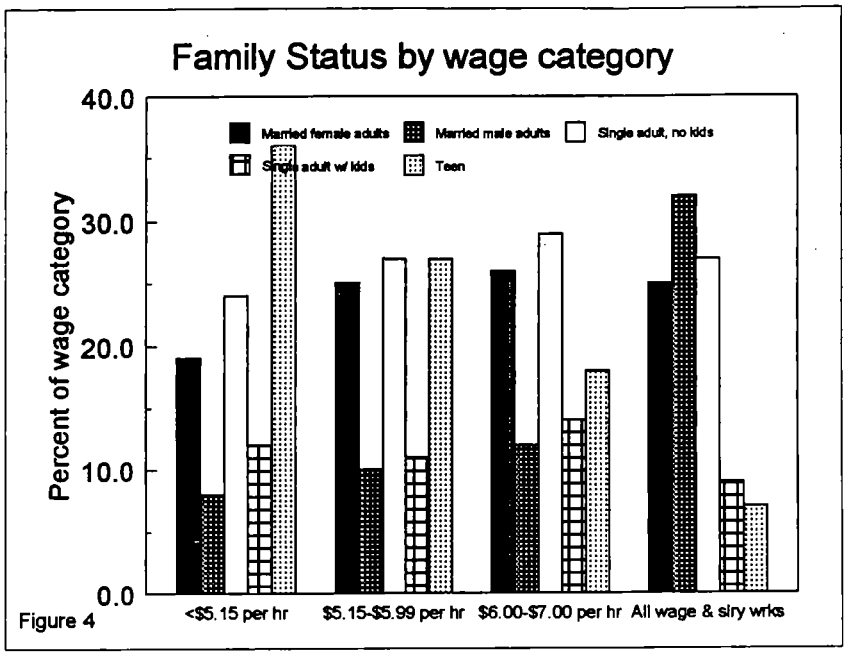

Figure 4

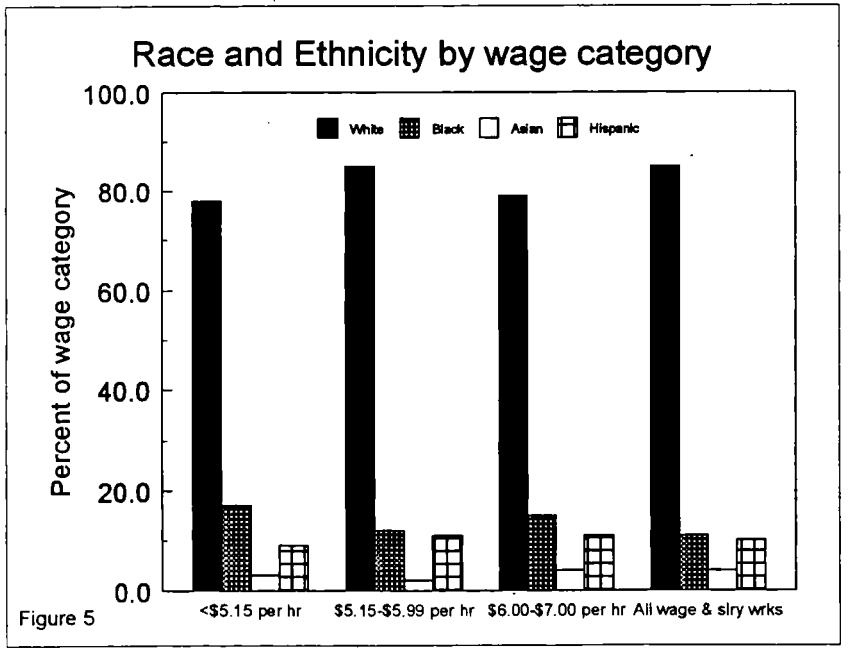

Figure 5

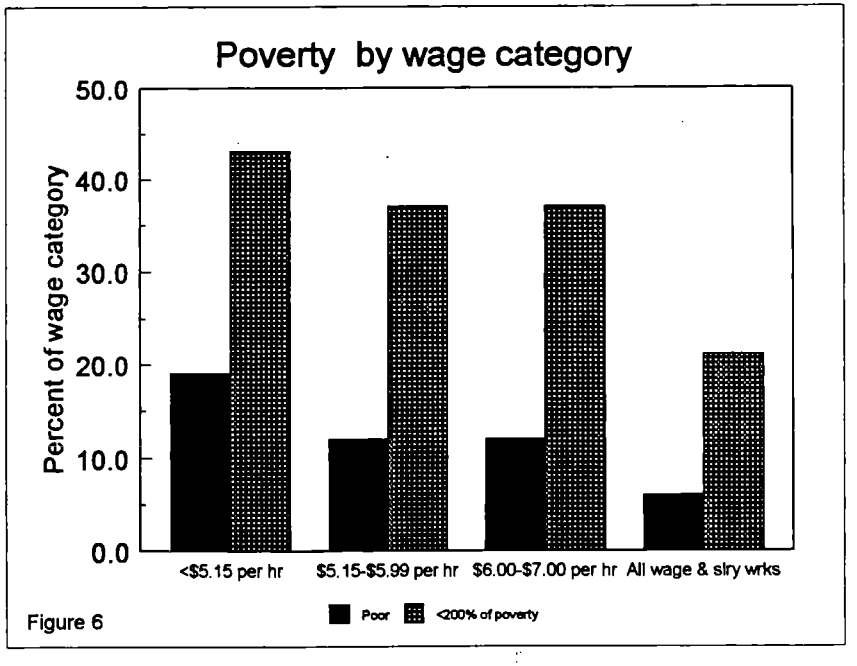

Figure 6

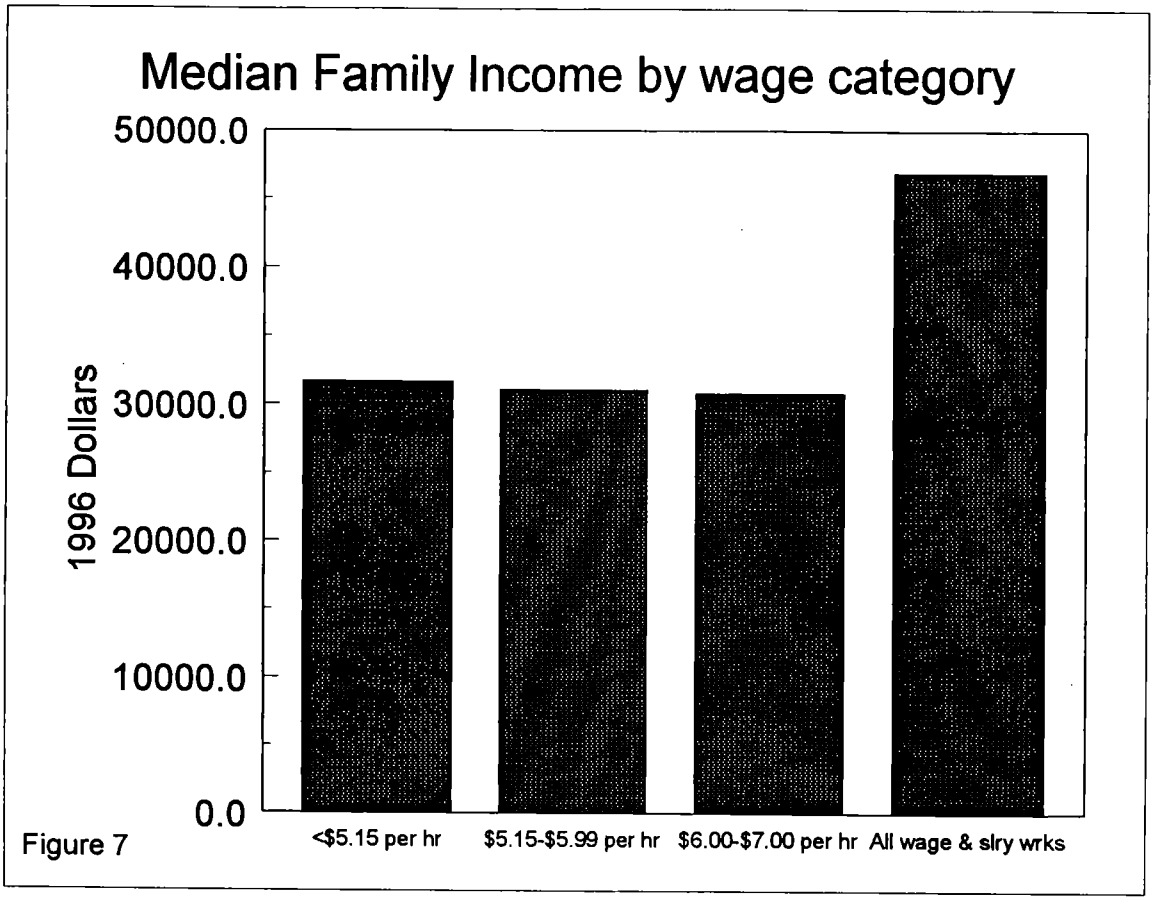
Median Family Income by wage category
50000.0
40000.0
30000.0
20000.0
10000.0
0.0
1996 Dollars
<$5.15 per hr
$5.15-$5.99 per hr
$6.00-$7.00 per hr
All wage & slry wrks

Figure 7

From AFL-CIO

REBUILDING PROSPERITY: THE NEW ECONOMICS OF THE MINIMUM WAGE

Time for a new paradigm

Since the early 1980s, the U.S. has pursued a policy of trickle down. This has resulted in an enormous increase in wealth and income inequality, and a decline in wages for those at the bottom. Round two of the minimum wage debate offers an opportunity for replacing the existing paradigm of "building prosperity from the top down" with a new paradigm that "builds prosperity from the bottom up".

Debunking the old economics of the minimum wage

Research by economists David Card and Alan Krueger on the minimum wage shows that modest increases do not automatically cause lower employment. This fundamentally challenges the old economics of the minimum wage.

A recent study by the Economic Policy Institute also shows that the September 1996 minimum wage increase did not cause loss of jobs.

Further evidence comes from the relationship between the minimum wage and the unemployment rate. Over the period 1955 - 1973 the unemployment rate averaged 5%, and the minimum wage was 50% of the average wage. Over the period 1974 - 1997 the unemployment rate averaged 6.8% and the minimum wage was 41% of the average wage.

The new economics of the minimum wage

Instead of being a cause of unemployment, the minimum wage is a "sharing" mechanism that ensures low pay workers also benefit from productivity gains. It does this by setting a legal wage floor that stops firms from exploiting dog-eat-dog wage competition.

The minimum wage also has productivity benefits. Higher wages reduce the incentive to switch jobs and saves on job turnover costs. They also encourage workers to provide more effort.

Benefits for all

The minimum wage is good for both the working poor and middle class families. The working poor benefit from higher wages. Middle class families benefit because many have two workers, one of whom is often a minimum wage worker.

Woman and minorities are disproportionately concentrated in low pay jobs. The minimum wage therefore contributes to remedying gender and race based pay discrimination.

PREPARED BY THE AFL-CIO PUBLIC POLICY DEPARTMENT
FEBRUARY 1998

The minimum wage as a surrogate middle class tax cut

The minimum wage can help alleviate the "wage squeeze". 10 million workers benefitted from the most recent increases which pushed it from $4.25 in September 1996 to $5.15 in September 1997. Of these, 71% were adult workers, and 58% were female.

39.5% of the gains from the minimum wage went to families in the bottom twenty percent of the family income distribution, 57.4% of the gains went to families in the bottom forty percent of the income distribution, and 73.7% of the gains went the bottom sixty percent of households.

In effect, a minimum wage increase can serve as a surrogate middle class tax cut, and can deliver far more for families than can any affordable tax cut. Moreover, it does so with no negative effect on the budget.

Welfare reform and our moral obligation

Welfare reform has reduced the extent of benefits, and must therefore be accompanied by policies that ensure former welfare recipients who rise to the challenge have access to jobs that pay a living wage. To cut welfare without such provision would constitute a breech of faith.

Time for a new minimum wage debate

Debate over the minimum wage has historically focused on its purported negative employment effects. This old argument is wrong. Instead, modest minimum wage increases need have no negative effect on employment and unemployment.

It is time to recognize the importance of the minimum wage in building prosperity from the bottom up. The minimum wage is good for families, and can put more money in families' pockets then can any feasible tax cut. In doing so it can open the space for a healthier national discussion about taxes and government.

Women and minority workers are disproportionately concentrated in low wage jobs, which means that the minimum wage is an effective means of dealing with pay discrimination.

The prosperity that ruled in the twenty five years after World War II was a bottoms up prosperity: its reconstruction requires an effective minimum wage.

PREPARED BY THE AFL-CIO PUBLIC POLICY DEPARTMENT
FEBRUARY 1998

Building Prosperity from the Bottom Up: The new economics of the Minimum Wage

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The minimum wage is once again the focus of attention, with President Clinton recently declaring his intention to seek a further increase. The national debate that is shaping up over this matter is potentially more than just a debate over the level of the minimum wage. Instead, it can provide an opportunity for shaping a new economic strategy predicated upon "building prosperity from the bottom up". Such a strategy would break with the existing policy of "building prosperity from the top down", a policy which has resulted in an erosion of wages at the bottom of the wage distribution.

Since the early 1980s, the U.S. has pursued a policy of trickle down. The hallmarks of this policy have been an enormous increase in the inequality of wealth and income distribution, combined with an outright decline in low end wages. Round two of the minimum wage debate offers an opportunity for a decisive break that replaces the existing paradigm of "building prosperity from the top down" with a new paradigm that "builds prosperity from the bottom up".

The impetus for this new paradigm comes from academic research into the economic effects of the minimum wage which has fundamentally challenged understandings of the way in which labor markets work. In doing so, it has laid the groundwork for a new economics of prosperity. Instead of being a cause of unemployment, the minimum wage is

increasingly being seen as a "sharing" device that ensures those at the bottom of the wage distribution receive some of the economy's productivity gains. The exact same logic applies to unions, which rather than being a cause of unemployment, are also an institution for ensuring workers benefit from productivity growth. This new interpretation challenges the myth of a natural competitive economy, a myth which has been used underwrite an attack on institutions that share the fruits of productivity by painting them as economic distortions.

The bottom line is that the minimum wage is good for both the working poor and middle class families. It is good for the working poor because it establishes a wage floor that inhibits excessive wage competition. It is good for middle class families because many such families have two workers, one of whom is often a minimum wage worker. In effect, a minimum wage increase can serve as a surrogate middle class tax cut, and can deliver far more for families than can any affordable tax cut.

Finally, there is a moral dimension. Welfare reform has reduced the extent of benefits. It must therefore be accompanied by policies that ensure former welfare recipients who rise to the challenge have access to jobs that pay a living wage. To cut welfare without such provision would constitute a breech of faith.

Debunking the old economics of the minimum wage

The last eighteen months have seen a two stage increase in the minimum wage that first pushed it from $4.25 per hour to $4.75, and then pushed it to $5.15. This increase was heavily contested, and critics claimed it would lower employment, particularly at the bottom end of the

wage scale where unskilled and young entry-level workers are concentrated. The critics' argument was based upon traditional demand and supply analysis which is the foundation of the natural economy myth. According to such analysis, buyers and sellers come together in markets, and absent "unnatural" government interventions, market prices adjust so that all who want to trade at the market price can do so.

The demand and supply model has market wages adjusting to a level at which the demand for labor equals the supply of labor. All sellers of labor therefore find buyers so that there is full employment. Introduction of a minimum wage prevents the market wage from falling to the appropriate level, thereby reducing labor demand and causing unemployment.

The demand and supply model has long dominated the teaching of economics, and a generation of students has been exposed to its message. Its policy implication is clear: minimum wages reduce employment and cause unemployment. Exposure to this model has undoubtedly contributed to shaping policy makers thinking about the minimum wage, which explains why many have been content to see a steady erosion in the real value of the minimum wage over the last twenty years. However, the intellectual tide is now turning in a profound way owing to the detailed empirical work of economists David Card and Alan Krueger who have shown that the minimum wage does not automatically reduce employment amongst low wage unskilled workers.

Card and Krueger's findings were highly influential in the 1996 debate over whether to raise the minimum wage. Even more important is the fact that their findings challenge the demand and supply model's analysis of the minimum wage. In the past, opponents of the minimum wage

could simply assert that minimum wages reduce employment and increase unemployment. Now, this is no longer possible. Though the rhetorical simplicity of the demand and supply model of labor markets means that it is unlikely to fade away, proponents must now acknowledge that its predictions sit uneasily with the evidence.

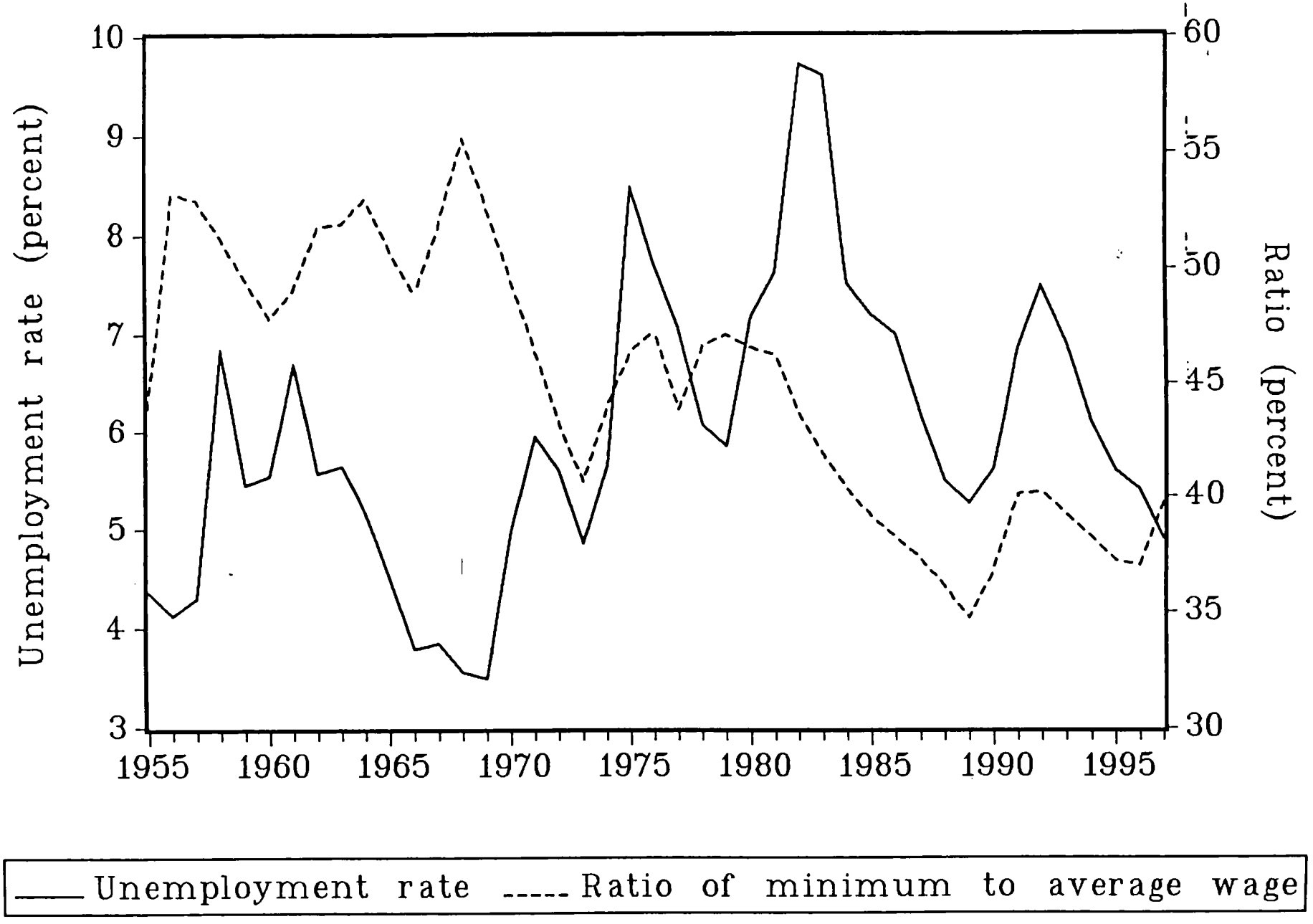
Card and Krueger's findings derive from event studies concerned with instances of change in the minimum wage. The recent increase in the minimum wage makes for another such event study, and Jared Bernstein and John Schmitt of the Economic Policy Institute have shown that it too had no significant effect on the employment of teens or young adults, one way or the other. Their findings cast further doubt on the demand and supply model's analysis of the minimum wage.

Yet another piece of evidence challenging the demand and supply paradigm comes from the relationship between the federal minimum wage and the national unemployment rate. The solid line in the accompanying figure shows the national unemployment rate, while the broken line shows the ratio of the minimum wage to the average wage. The greater the ratio, the greater the relative cost of minimum wage labor. According to conventional arguments, this should lead to higher unemployment. However, the figure reveals a different picture. Over the period 1955 - 1973 the unemployment rate averaged 5%, and the minimum wage was 50% of the average wage. Over the period 1974 - 1997 the unemployment rate averaged 6.8% and the minimum wage was 41% of the average wage.

The new economics of the minimum wage

The old economics of the minimum wage is based on the conventional demand and supply model. That model is inconsistent with the evidence

The unemployment rate and the ratio of the minimum to average wage



which shows that modest increases in the minimum wage have no negative effect on employment and do not increase unemployment. Whereas the demand and supply model represents the low wage labor market as having a "single" market clearing wage, the reality is that there is a spread of wages which depends on bargaining power and specific conditions within firms. Wage levels can vary modestly without any effect on employment. Within such a context, increases in the minimum wage merely compel firms to pay low wage workers more, and employers absorb the higher cost of the minimum wage by lowering profits rather than laying off workers.

The last minimum wage battle was fought over the demand and supply model's prediction that a higher minimum wage would cause higher unemployment. It is time to move beyond that argument. Simple demand and supply analysis, suitable for the market for peanuts, is inappropriate for labor markets where the exchange process is so much more complex. It must therefore be replaced by a new economics of labor markets and the minimum wage.

At the core of this new economics lies the concept of bargaining power. The significance of bargaining power is clearly understood with regard to union wage negotiations. However, less well recognized is the fact that all workers, union and non-union, are implicitly engaged in a bargain with their employers. The amount firms are willing to pay workers clearly depends in part on the productivity of workers, but this only sets an upper bound to the wage. How much of that productivity workers actually get to keep, depends on workers' leverage -- the extent to which they can threaten firms with leaving and taking employment elsewhere, and the extent to which firms can threaten existing employed workers with layoff and replacement by other workers. This implicit

conflictual dimension is present in every employment relation. "Good" employers try to soften this dimension, while "bad" employers seek to exploit it by intimidating workers and playing on their economic vulnerability.

In such a world, the minimum wage is not a distortion that causes unemployment. Instead, it is an institutional mechanism that enhances the bargaining power of low wage workers. By setting a legal wage floor, it helps workers obtain higher wages than they could get on their own. In the real world firms implicitly place workers in competition with each other: when one worker lowers the wage he will accept, this implicitly forces other workers to lower their wage. Minimum wages stop firms from exploiting such wage competition.

Minimum wage legislation ensures the existence of a wage floor that results in a different sharing of output. It accomplishes this by ruling out wage competition between workers that undermines their bargaining power vis-a-vis firms. Over the last two decades there has been a shift in the balance of bargaining power. This shift has resulted from technological and organizational innovations that have increased business' ability to shift jobs domestically and internationally, and it has also resulted from declining unionization rates. These developments have increased the extent of underlying wage competition, causing an erosion of wages. The intensification of wage competition has also been driven by economic policy predicated upon the myth of a natural market, which has allowed the value of the minimum wage to erode slowly.

The pursuit of the myth of a natural market has not resulted in a natural economy: instead, it has resulted in an economy in which business dominates labor, and in which wages have stagnated. Raising the

minimum wage can break with this policy. The new economics of the minimum wage shows how the minimum wage is a sharing mechanism that enables the least well off to share in society's prosperity.

In this connection, it is worth noting that exactly the same arguments apply to the economics of unions. Just as the minimum wage is a mechanism that makes for a different sharing of output, so too are unions. The principal difference is that the minimum wage is set by legislation, whereas unions negotiate the level of wages. Both are mechanisms for reducing the extent of wage competition, and both are needed if a strategy of building prosperity from the bottom up is to succeed.

The new economics of the minimum wage is well advanced, and it is time to push for a new economics of unions. The demand and supply model of labor markets represented minimum wage legislation as setting wages too high and causing unemployment. The same claim is made about unions, which it is claimed push up wages, reduce employment and cause unemployment. This is the representation that fills undergraduate economics textbooks. Given such conditioning of outlook, it is not surprising that there is substantial hostility to unions. Just as it has been necessary to break the hold of the demand and supply model's thinking about the minimum wage, so too it is necessary to break the model's hold on thinking about unions.

As with the minimum wage, the reality is that unions are institutions for sharing output, with stronger unions ensuring that workers get a larger share. As with declining minimum wages, declining unionization rates have contributed to declining wages. Raising the minimum wage can restore the value of the minimum wage: labor law reform

that makes real the right to organize can deliver increased unionization rates.

Aside from its bargaining significance, the minimum wage can also have productivity benefits. One benefit concerns its potential impact on job turnover. Here the argument is that a higher wage may reduce workers' incentive to search for new jobs, thereby resulting in reduced turnover costs for firms. A second benefit may come from its impact on worker provision of work effort, with a higher wage inducing a higher provision of effort. In this regard, firms are monopsonists and therefore underpay with regard to the purchase of effort from their workers. A minimum wage can fix this market inefficiency.

Benefits for all: the minimum wage as a surrogate middle class tax cut

A common criticism of the minimum wage is that it is not well targeted, and much of the benefit accrues to households that are not poorly off. However, rather than being a weakness, the fact that households along the entire spectrum of the income distribution benefit should be considered a major strength. The last twenty years have been a period of increasing income inequality. Median family income rose a mere $272 from $40,339 in 1973 to $40,611 in 1995. However, this increase was due to more families having two working members. Absent this, median family income would have fallen despite a 40% increase in labor productivity. American families continue to feel the pressure of a wage and time squeeze, and they have reached the limits of their ability to make family income grow. A poll conducted by Peter Hart Research in January 1998 shows that 42% of households have "only enough to pay the bills" and 16% have "less than needed to keep up with monthly bills".

The minimum wage can contribute significantly to alleviating the effect of the wage squeeze. 10 million workers benefitted from the most recent round of minimum wage increases which pushed it from $4.25 in September 1996 to $5.15 in September 1997. Of these, 71% were adult workers, and 58% were female. The minimum wage therefore contributes to raising family income, as well helping address gender based pay discrimination. Not only is the minimum wage a reasonably well targeted instrument for dealing with poverty and income inequality, it also benefits the middle class because many middle class families have one worker who is a minimum wage worker. Thus, the minimum wage is both an instrument of poverty relief as well as a surrogate middle class tax cut.

This is illustrated in the accompanying figure. 39.5% of the gains from the 1996 minimum wage increase went to families in the bottom twenty percent of the family income distribution, and 1997's modest improvement in the wages of low pay workers can be attributed largely to this increase (rather than the "new" economy). 57.4% of the gains went to families in the bottom forty percent of the income distribution, and 73.7% of the gains went the bottom sixty percent of households.

The fact that some better off families benefit should not be construed as a problem. The bulk of the gain is still concentrated at the bottom end of the family income distribution, and families in the middle of the income distribution have also been negatively impacted by the wage squeeze. Alleviating their income strain is a legitimate high priority policy goal.

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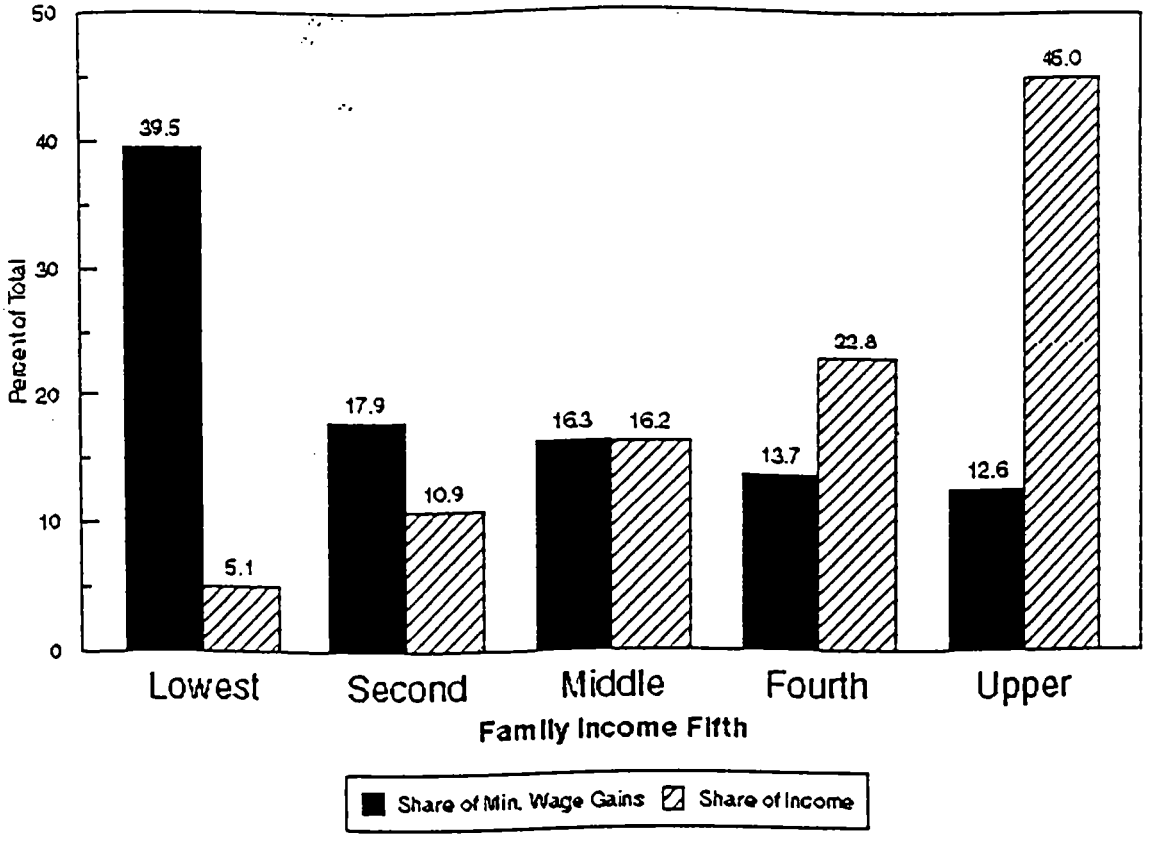

Source: EPI analysis of 1996 March CPS data.

At the end of the day, the minimum wage may be a much more effective way of providing family income assistance than tax cuts, the benefits of which all too often accrue to the most well to off. Tax cuts which provide broad based relief are the most expensive for the very reason that all gain. Thus, such tax cuts have tended to be rare. Instead, tax cuts have tended to target those at the top of the income distribution which keeps the cost down because the number of well off households is relatively small. This is exemplified by the 1997 tax cut package, of which 44% of the benefit went to the top 5%, and 76.7% of the benefit went to the top 20%. A minimum wage increase would have been a much more effective way of putting income in ordinary families' pockets, and it would have done so with no negative effect on the budget.

This leads to the larger point that the wage and family income squeeze is corroding the fabric of American political life. Despite current strong job conditions, wage gains remain modest. In 1997 the median hourly wage was $10.56, which is below the 1989 level of $10.93, and below the 1973 level of $11.35. This wage squeeze is undermining the national commitment to government and social insurance provided through the social security program.

Despite the fact that Americans remain fairly favorably disposed to the activities of government and see a continuing need for government, the wage squeeze is continually pushing them to call for tax cuts. With only enough to barely make ends meet, cutting taxes becomes the thing that government can most immediately do for families. This process is evident in the push for expanded individual retirement accounts, special tax deductible saving accounts, deductible health and education

accounts, and child care deductions. Pushed by the wage squeeze, the electorate is trying to make the "cost of living" tax deductible. This is unworkable, and it will defund government and strip us of the benefits and protections that only government can provide. The real solution is to end the wage and family income squeeze, and the minimum wage is one of the most effective instruments for doing so.

If the wage squeeze is the problem, then the wage squeeze needs to be addressed directly by a policy instrument that fixes the problem. That instrument is the minimum wage. Cutting taxes for upper income groups, creating a patchwork quilt of exemptions, and cutting government provision of services is not the right answer.

That is not to say that cutting taxes and government spending are always out of bounds. Rather, these measures are only warranted if there is a consensus that taxes are excessive and there is too much government. Trying to solve the wage squeeze by cutting taxes and government is a matter of using the wrong instrument, and it will backfire. Broad based relief is either too expensive or involves cuts in government that threaten the very operation of society and the economy. Tax cuts and exemptions therefore tend to get narrowly focused toward the top of the income distribution, which ends up producing a tax system that is perceived as both more unfair and more complicated. Meanwhile, government is progressively drained of adequate funds, making it less capable of delivering the things people want from it. The result is that both the government and the tax system become more unpopular. This further fuels resentment with government, despite the fact that government has historically been a net provider for those in the bottom half of the income distribution. Fixing the wage squeeze is the only way

out of this maze, and raising minimum wage is a simple and clean policy for doing this.

Time for a new minimum wage debate

Debate over the minimum wage has historically focused on its purported negative employment effects. However, it has now become clear that this old argument, which is based on the demand and supply model of low wage labor markets, is wrong. Instead, modest minimum wage increases need have no negative effect on employment and unemployment.

The inadequacy of the old minimum wage paradigm has opened the opportunity for a new debate that recognizes the important contribution the minimum wage can make to building prosperity from the bottom up. The minimum wage is good for families, and can put more money in families' pockets then can any feasible tax cut. The minimum wage can therefore help alleviate the wage squeeze, and in doing so it can also open the space for a healthier national discussion about taxes and government.

Not only is the minimum wage good for family income, it is also good for the general level of wages. By providing a wage floor, it bumps up wages along the entire lower end of the wage distribution. Women and minority workers are disproportionately concentrated in this segment of the wage distribution, which means that the minimum wage is also an effective means of dealing with the problem of pay discrimination. Finally, raising the minimum wage can provide a way out of the poverty trap whereby the value of welfare exceeds the value of wages. A higher minimum wage therefore improves the incentive to work, and in doing so

it can improve government's finances by reducing welfare payments and increasing tax revenues.

These are the arguments that should constitute the basis of a new minimum wage debate. The prosperity that ruled in the twenty five years after World War II was a bottoms up prosperity, and its reconstruction requires an effective minimum wage. However, it is not enough to just restore the "level" of the minimum wage: rather, the minimum wage must be embedded in the fabric of labor markets. One possibility is to index it to inflation, thereby preventing the type of erosion which occurred in the 1980s. Another possibility is to fix the minimum wage at 50% of the average wage, as was the case in the golden age between 1950 and 1973. This would mean that the minimum wage would be pulled along in the wake of economic growth, and it would also be protected against inflation to the extent that market wages match inflation. Both measures are consistent with a bottoms up approach to prosperity that was the true foundation of the prosperity of the Golden Age.

TO: Janet Yellen
Rebecca Blank

FROM: Amy Finkelstein

SUBJECT: Minimum Wage Estimates

DATE: February 11, 1998

Attached are some new disemployment estimates that Jon Gruber has done. These use the same methodology we used last time, but look at some different scenarios (e.g. 6.15 by 1999).

Also attached is a re-estimate that Sandy and I did of the states whose workfare programs could be effected by various increases in the minimum wage. There were some problems with the estimates we were given (miscalculation of food stamp benefits and required hours of work to meet work requirements). Our estimates suggest that even more states than previously estimated could have their workfare programs effected by minimum wage increases. I've sent these new estimates to NEC and Treasury.

Effect of Minimum Wage Increase on Cost of Workfare Program

Because workfare programs must pay participants the minimum wage, an increase in the minimum wage can increase the cost to states of complying with work requirements by enrolling states in workfare programs. (Of course, states can meet the work requirements by other means, such as caseload reductions, whose costs would not be directly effected by a change in the minimum wage).

The table below gives the number of states whose welfare benefits (plus food stamps[1]) for a single parent with two children cannot support a minimum wage workfare job under the current requirement of a 20 hour work week and under the requirement of a 30 hour work week that begins in FY 2000.

States Whose Welfare Benefits Cannot Support a Minimum Wage Workfare Job for a Single Parent with Two Children.

Minimum Wage	**20 hour work week required**	**30 hour work week required (FY 2000)**
Current Minimum	1 (MS)	24
Increase of 50 cents ($5.65)	2 (Above plus AL)	37
Increase of $1 ($6.15)	7 (Above plus TN, TX, LA, SC, AR)	42
Increase of $2 ($7.15)	13 (Above plus WV, KY, NC, GA, IN, MO)	50

[1]Food stamp benefits are calculated assuming the standard deduction and 75% of the maximum excess shelter deduction (since one-quarter of the caseload receives section 8 vouchers and hence would not be eligible for the excess shelter deduction).

RAISE MIN WAGE TO $6.00 IN 1999
(= $5.73 IN 1997)

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum: % increase in wages	Effect of New Minimum: % drop in employment	Effect of New Minimum: # of jobs lost
	$4.25	$4.99	737,000	$5.15	0.0000	11.2%	0.0%	**0**
	$5.00	$5.24	4,534,000	$5.15	0.0000	11.2%	0.0%	**0**
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	8.3%	-0.2%	**(4,540)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	3.6%	-0.2%	**(4,062)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	**0**
	$11.00	$11.24			-0.6000			
			16,379,000					**(8,602)**
	$4.25	$4.99	737,000	$5.15	-0.2000	11.2%	-2.2%	**(16,533)**
	$5.00	$5.24	4,534,000	$5.15	-0.2000	11.2%	-2.2%	**(101,711)**
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	8.3%	-1.8%	**(38,589)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	3.6%	-0.8%	**(18,279)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			16,379,000					**(175,113)**
	$4.25	$4.99	737,000	$5.15	-0.4000	11.2%	-4.5%	**(33,066)**
	$5.00	$5.24	4,534,000	$5.15	-0.4000	11.2%	-4.5%	**(203,423)**
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	8.3%	-3.4%	**(74,908)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	3.6%	-1.5%	**(34,527)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			16,379,000					**(345,924)**

RAISE MIN WAGE TO $6.00 IN 2000
(= $5.58 IN 1997)

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum: % increase in wages	Effect of New Minimum: % drop in employment	Effect of New Minimum: # of jobs lost
	$4.25	$4.99	737,000	$5.15	0.0000	8.3%	0.0%	**0**
	$5.00	$5.24	4,534,000	$5.15	0.0000	8.3%	0.0%	**0**
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	5.4%	-0.1%	**(2,978)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	0.9%	-0.0%	**(967)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	**0**
	$11.00	$11.24			-0.6000			
			16,379,000					**(3,945)**
	$4.25	$4.99	737,000	$5.15	-0.2000	8.3%	-1.7%	**(12,223)**
	$5.00	$5.24	4,534,000	$5.15	-0.2000	8.3%	-1.7%	**(75,197)**
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	5.4%	-1.2%	**(25,312)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	0.9%	-0.2%	**(4,353)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			16,379,000					**(117,086)**
	$4.25	$4.99	737,000	$5.15	-0.4000	8.3%	-3.3%	**(24,447)**
	$5.00	$5.24	4,534,000	$5.15	-0.4000	8.3%	-3.3%	**(150,395)**
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	5.4%	-2.2%	**(49,135)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	0.9%	-0.4%	**(8,222)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			16,379,000					**(232,199)**

RAISE MIN WAGE TO $6.05 IN 1999
(= $5.78 IN 1997)

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum: % increase in wages	Effect of New Minimum: % drop in employment	Effect of New Minimum: # of jobs lost
	$4.25	$4.99	737,000	$5.15	0.0000	12.1%	0.0%	**0**
	$5.00	$5.24	4,534,000	$5.15	0.0000	12.1%	0.0%	**0**
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	9.2%	-0.2%	**(5,035)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	4.4%	-0.2%	**(5,043)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	**0**
	$11.00	$11.24			-0.6000			
			16,379,000					**(10,078)**
	$4.25	$4.99	737,000	$5.15	-0.2000	12.1%	-2.4%	**(17,899)**
	$5.00	$5.24	4,534,000	$5.15	-0.2000	12.1%	-2.4%	**(110,116)**
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	9.2%	-1.9%	**(42,798)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	4.4%	-1.0%	**(22,693)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			16,379,000					**(193,506)**
	$4.25	$4.99	737,000	$5.15	-0.4000	12.1%	-4.9%	**(35,798)**
	$5.00	$5.24	4,534,000	$5.15	-0.4000	12.1%	-4.9%	**(220,231)**
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	9.2%	-3.8%	**(83,078)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	4.4%	-1.9%	**(42,865)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			16,379,000					**(381,973)**

RAISE MIN WAGE TO $6.05 IN 2000
(= $5.62 IN 1997)

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum: % increase in wages	Effect of New Minimum: % drop in employment	Effect of New Minimum: # of jobs lost
	$4.25	$4.99	737,000	$5.15	0.0000	9.2%	0.0%	**0**
	$5.00	$5.24	4,534,000	$5.15	0.0000	9.2%	0.0%	**0**
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	6.3%	-0.2%	**(3,460)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	1.7%	-0.1%	**(1,922)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	**0**
	$11.00	$11.24			-0.6000			
			16,379,000					**(5,382)**
	$4.25	$4.99	737,000	$5.15	-0.2000	9.2%	-1.8%	**(13,553)**
	$5.00	$5.24	4,534,000	$5.15	-0.2000	9.2%	-1.8%	**(83,381)**
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	6.3%	-1.3%	**(29,410)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	1.7%	-0.4%	**(8,651)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			16,379,000					**(134,995)**
	$4.25	$4.99	737,000	$5.15	-0.4000	9.2%	-3.7%	**(27,107)**
	$5.00	$5.24	4,534,000	$5.15	-0.4000	9.2%	-3.7%	**(166,761)**
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	6.3%	-2.6%	**(57,090)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	1.7%	-0.7%	**(16,341)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	0.0%	0.0%	**0**
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			16,379,000					**(267,299)**

RAISE MIN WAGE TO $6.15 IN 1999
(= $5.87 IN 1997)

	wage range		number in range	average wage	cell elasticity	% increase in wages	Effect of New Minimum: % drop in employment	Effect of New Minimum: # of jobs lost
	$4.25	$4.99	737,000	$5.15	0.0000	14.0%	0.0%	**0**
	$5.00	$5.24	4,534,000	$5.15	0.0000	14.0%	0.0%	**0**
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	11.0%	-0.3%	**(6,025)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	6.2%	-0.3%	**(7,005)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	1.2%	-0.1%	**(893)**
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	**0**
	$11.00	$11.24			-0.6000			
			16,379,000					**(13,923)**
	$4.25	$4.99	737,000	$5.15	-0.2000	14.0%	-2.8%	**(20,631)**
	$5.00	$5.24	4,534,000	$5.15	-0.2000	14.0%	-2.8%	**(126,924)**
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	11.0%	-2.3%	**(51,215)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	6.2%	-1.4%	**(31,522)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	1.2%	-0.3%	**(2,828)**
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.5000			
			16,379,000					**(233,120)**
	$4.25	$4.99	737,000	$5.15	-0.4000	14.0%	-5.6%	**(41,263)**
	$5.00	$5.24	4,534,000	$5.15	-0.4000	14.0%	-5.6%	**(253,848)**
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	11.0%	-4.5%	**(99,417)**
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	6.2%	-2.6%	**(59,541)**
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	1.2%	-0.5%	**(5,210)**
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	**0**
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	**0**
	$11.00	$11.24			-0.7000			
			16,379,000					**(459,279)**

RAISE MIN WAGE TO $6.15 IN 2000
(= $5.72 IN 1997)

	wage range		number in range	average wage	cell elasticity	% increase in wages	% drop in employment	# of jobs lost
						Effect of New Minimum		
LOW-ELASTICITY ESTIMATES	$4.25	$4.99	737,000	$5.15	0.0000	11.0%	0.0%	0
	$5.00	$5.24	4,534,000	$5.15	0.0000	11.0%	0.0%	0
	$5.25	$5.49	2,195,000	$5.29	-0.0250	8.1%	-0.2%	(4,424)
	$5.50	$5.74	2,273,000	$5.53	-0.0500	3.4%	-0.2%	(3,833)
	$5.75	$5.99	975,000	$5.80	-0.0750	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	0
	$11.00	$11.24			-0.6000			
			16,379,000					(8,257)
MID-ELASTICITY ESTIMATES	$4.25	$4.99	737,000	$5.15	-0.2000	11.0%	-2.2%	(16,214)
	$5.00	$5.24	4,534,000	$5.15	-0.2000	11.0%	-2.2%	(99,747)
	$5.25	$5.49	2,195,000	$5.29	-0.2125	8.1%	-1.7%	(37,606)
	$5.50	$5.74	2,273,000	$5.53	-0.2250	3.4%	-0.8%	(17,248)
	$5.75	$5.99	975,000	$5.80	-0.2375	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	0
	$11.00	$11.24			-0.5000			
			16,379,000					(170,814)
HIGH-ELASTICITY ESTIMATES	$4.25	$4.99	737,000	$5.15	-0.4000	11.0%	-4.4%	(32,428)
	$5.00	$5.24	4,534,000	$5.15	-0.4000	11.0%	-4.4%	(199,495)
	$5.25	$5.49	2,195,000	$5.29	-0.4125	8.1%	-3.3%	(72,999)
	$5.50	$5.74	2,273,000	$5.53	-0.4250	3.4%	-1.4%	(32,579)
	$5.75	$5.99	975,000	$5.80	-0.4375	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	0
	$11.00	$11.24			-0.7000			
			16,379,000					(337,500)

CASE 1 -- RAISE MIN WAGE TO $6.00 IN 2002 (KEEP PACE WITH INFLATION)
(= $5.15 IN 1997)

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum: % increase in wages	Effect of New Minimum: % drop in employment	Effect of New Minimum: # of jobs lost
	$4.25	$4.99	737,000	$5.15	0.0000	0.0%	0.0%	0
	$5.00	$5.24	4,534,000	$5.15	0.0000	0.0%	0.0%	0
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	0.0%	0.0%	0
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	0.0%	0.0%	0
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	0
	$11.00	$11.24			-0.6000			
			16,379,000					0
	$4.25	$4.99	737,000	$5.15	-0.2000	0.0%	0.0%	0
	$5.00	$5.24	4,534,000	$5.15	-0.2000	0.0%	0.0%	0
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	0.0%	0.0%	0
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	0.0%	0.0%	0
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	0
	$11.00	$11.24			-0.5000			
			16,379,000					0
	$4.25	$4.99	737,000	$5.15	-0.4000	0.0%	0.0%	0
	$5.00	$5.24	4,534,000	$5.15	-0.4000	0.0%	0.0%	0
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	0.0%	0.0%	0
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	0.0%	0.0%	0
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	0
	$11.00	$11.24			-0.7000			
			16,379,000					0

CASE 2 -- RAISE MIN WAGE TO $6.25 IN 2002 (OR $6.00 IN 2000)
(= $5.40 IN 1997)

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

CASE 3 – RAISE MIN WAGE TO $6.75 IN 2002 (= $5.82 IN 1997)

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

CASE 4 – RAISE MIN WAGE TO $7.25 IN 2002 (= $6.25 IN 1997)

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

Effect of Minimum Wage Increase on Cost of Workfare Programs

Talking Points

- There is one additional concern that we should be mindful of, as we consider what level of increase to propose in the minimum wage. As you know, Republicans made a concerted effort last year to roll back labor protections for those on workfare. Many Governors supported this effort, arguing they could not afford to pay the minimum wage for workfare jobs.

- A larger minimum wage increase will add to the pressure that Governors feel on this issue.

- So far, we have beaten back the Republicans' efforts, and persuaded Democratic Governors not to ally themselves with Republican Governors on this issue. However, some Democratic Governors remain very concerned about this issue. Their support of Republican proposals would give that effort new momentum.

Background

- In May, the Labor Department ruled that most workfare programs are subject to the Fair Labor Standards Act and other labor protections, including payment of the minimum wage.

- Governors have complained loudly that the DOL ruling severely hampers their ability to establish work programs for welfare recipients. The law requires states to put 50% of their welfare recipients to work by the year 2002, or face penalties. Welfare benefits are not high enough in some states to support payment of the minimum wage for 20 or 30 hours a week.

- DOL's ruling led the Republican leadership in Congress to seek to roll back current law labor protections for workfare jobs. We were able to hold the line and stop these efforts, but we can expect the issue to re-emerge this year.

- Any minimum wage increase will increase the number of states whose welfare benefits are not large enough to fund a minimum wage workfare job. As the size of the minimum wage increase goes up, so do the number of states with problems.

States Whose Welfare Benefits Can't Support a Minimum Wage Workfare Job		
Minimum Wage	**Families of 2**	**Families of 3**
Current Minimum Wage	8 states	No states
Increase of 50 cents ($5.65)	15 states	1 state

Increase of $1 ($6.15)	21 states	2 states
Increase of $2 ($7.15)	36 states	9 states

States Whose Welfare Benefits Can't Support a Minimum Wage Workfare Job		
Minimum Wage	**Families of 2**	**Families of 3**
Current Minimum Wage	8 states: Mississippi Alabama Louisiana Tennessee South Carolina Arkansas Texas West Virginia	No states
Increase of 50 cents ($5.65)	15 states -- above plus: Kentucky Indiana Missouri Georgia North Carolina Oklahoma Florida	1 state: Mississippi
Increase of $1 ($6.15)	21 states -- above plus: Idaho Delaware Arizona Illinois Ohio Colorado	2 states -- above plus: Alabama

Increase of $2 ($7.15)	36 states -- above plus: Nevada Maryland Nebraska Virginia New Mexico Maine Wyoming New Jersey Pennsylvania North Dakota Utah Montana Kansas Iowa Michigan	9 states -- above plus: Tennessee Texas Louisiana South Carolina Arkansas West Virginia Kentucky

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

February 10, 1998

MEMORANDUM FOR GENE SPERLING
ASSISTANT TO THE PRESIDENT FOR
ECONOMIC POLICY

FROM: REBECCA M. BLANK

SUBJECT: Minimum Wage

After receiving the letter signed by Eileen Appelbaum and Barbara Bergmann last Friday, I called five of the more research-oriented economists who signed that letter supporting the Kennedy-Bonier proposal of raising the minimum wage to $6.65 by September 1, 2000. Below is a summary of their comments:

Larry Klein (Univ of Pennsylvania):

* First priority is having a minimum wage that gets a family above the poverty line. (When I pointed out that this would happen at a somewhat lower minimum wage than Kennedy-Bonier call for, once the EITC is considered, he responded "well, the numbers I used need refinement.")

* Believes recent productivity gains are permanent and understated, which means we face higher potential growth rates than most forecasters. The labor market should stay strong and hence can support these increases.

Heidi Hartman (Institute for Women's Policy Research):

* Minimum wage is still below its peak of the late 1960s and it should be raised to be at that peak.

* Business should pay higher minimum wages or go out of business. If this causes the loss of low-wage jobs or businesses, these are jobs and employers that we want to lose in the economy.

Mike Piore (MIT):

* "One signs what one gets. I generally support a reasonable minimum wage and saw this petition as another opportunity to make that point."

* Sees higher minimum wages as a strategy for narrowing the income distribution. "I'm not too

unhappy if some low-wage jobs are eliminated." Believes many low-wage earners are target earners who will work fewer hours if the minimum wage is higher; this creates opportunities for hiring additional workers.

* The lack of minimum wage enforcement makes the level somewhat irrelevant. "I would happily support a smaller increase if it came along with increased enforcement."

Lisa Lynch (Tufts University):

* "The Kennedy-Bonier $6.65 proposal is an absolute upper bound. I'm much more comfortable with $6.20 to $6.40." She noted that the original $7.25 was simply not going to get any support from any economists.

* She had talked with Susan Green on Kennedy's staff and been told the Administration was dragging its feet on the minimum wage. Green told her she needed to sign the $6.65 proposal even if she wasn't entirely comfortable with it as a way to pressure the Administration into going along with any real increase at all.

* What she really would like to see: An increase to about $6.20-$6.40, with indexing after that. This should be combined with lower minimum wages for new entrants and with a very generous welfare-to-work tax credit. If we only do a minimum wage increase without these other things, she'd be concerned about job issues, particularly for welfare-to-work participants.

Sheldon Danziger (Univ of Michigan):

* "I didn't think about it much. I wanted to support the President in his call for a higher minimum wage." He saw signing this primarily as an anti-Republican statement.

* Doesn't think modest increases in the minimum wage will have big effects, would need to think about it more before he could really saw what "modest" meant.

Copy to:
Janet Yellen
Jon Orszag

February 2, 1998

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

Dear Mr. President:

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

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

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

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

Thank you for your leadership in this important area.

Sincerely,

Eileen Appelbaum
Economic Policy Institute*

Barbara R. Bergmann
American University
University of Maryland

Peter Berg
Economic Policy Institute*

Barry Bluestone
University of Massachusetts/Boston

Robert Eisner
Northwestern University

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Lawrence Mishel
Economic Policy Institute*

Juliet B. Schor
Harvard University

* For Identification Purposes Only

February 2, 1998

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

Dear Mr. President:

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

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

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

Thank your for your leadership in this important area.

Sincerely,

Ray Marshall

- 21% real increase

Who Is Affected By Increases in the Minimum Wage?

We examine the demographic characteristics of workers likely to be affected by two different increases in the minimum wage. Under one scenario, the minimum wage is increased roughly in line with expected inflation, reaching $6.00 per hour by 2003. The other scenario examined is Senator Kennedy's proposal, which would increase the minimum wage in 50 cent increments, reaching $7.25 per hour by September 2002.

Real wages have been roughly constant at the bottom of the income distribution over the last 10 years. We therefore assume constant real wages at the bottom of the income distribution through 2003. Consequently, we assume that those affected by an increase in the minimum wage to $6.00 per hour by 2003 are those who are currently earning the $5.15 per hour minimum wage. Those affected by an increase in the minimum wage to $7.25 per hour in 2002 are those currently earning $6.40 per hour or less ($7.25 in 2002 dollars deflated to 1997 dollars is $6.40).

Table 1 presents the number of people likely to be affected by a minimum wage increase. Column 1 presents the numbers affected by an increase to $6.00 by 2003; column 2 presents the numbers affected by an increase to $7.25 by September 2002. Since the increase to $6.00 by 2003 is roughly an adjustment for inflation, and we are assuming constant real wages, we do not consider any disemployment effects from this increase. However, the increase to $7.25 by September 2002 represents a 24 percent increase in the real minimum wage. Economic studies of past increases in the minimum wage find disemployment effects ranging from zero to a 3 percent decrease in employment for teens (a group likely to suffer the largest disemployment effects) for every 10 percent increase in the minimum wage.

The last column of Table 1 presents the numbers affected by the increase to $7.25 assuming this 3 percent decrease in employment for all groups for every 10 percent increase in the minimum wage; with disemployment effects, the increase to $7.25 by 2002 increases wages for about 17.7 million workers and costs about 700,000 workers their jobs. Although a 3 percent disemployment effect for every 10 percent real increase in the minimum wage is an upper bound from past studies of disemployment estimates for a group (teenagers) who are likely to have relatively large disemployment effects, we consider it a reasonable approximation of potential disemployment effects from an increase to $7.25 by September 2002 for three reasons. First, the increase to $7.25 is larger, in real terms, than previous increases studied. Second, the increase to $7.25 would cut higher into the distribution of wages for low-skilled men than previous increases have. And third, a group likely to be adversely affected by the increase is women moving from welfare to work; this group, like teenagers, is expected to have relatively large disemployment effects.

Absent any legislative changes, the real value of the minimum wage would erode by 2003 to $4.50 in 1997 dollars; this decrease in the real value of the minimum wage could boost employment in the same way that an increase in the real value of the minimum wage might decrease employment. Again, using the range of disemployment effects found in past studies, we find that relative to no legislative change, increasing the minimum wage to $6.00 by 2003 could

have an effect on employment ranging from zero to a decrease in employment of about 460,000. Increasing the minimum wage to $7.25 could have a maximal disemployment effect of about 1.2 million.

Table 2 presents the characteristics of those affected by the two different minimum wage increases; it also presents the characteristics of all wage and salary workers for comparison. For example, if the minimum wage is raised to $6.00 by 2003, about 38 percent of those affected by the increase would have less than a high school education; 35 percent of those affected by an increase to $7.25 by 2002 would have less than a high school education, compared with 13 percent of all wage and salary workers have less than a high school education. Table 2 thus reveals that, under either scenario for a minimum wage increase, those affected are disproportionately low-skilled, black, hispanic, female, teenagers, not the primary earner in the family, and poor. The proportion of the affected group that has a given set of characteristics is roughly similar under the two scenarios for a minimum wage increase. For example, 16 percent of those affected by an increase to $6.00 by 2003 are black, compared with 14 percent of those affected by an increase to $7.25 by 2002.

About 16% of those affected by either minimum wage increase are the sole breadwinner in their family. The average affected worker contributes about half of his or her family's earnings.

Table 3 indicates what proportion of various demographic groups would be affected by a minimum wage increase. For example, if the minimum wage is raised to $6.00 by 2003, 16 percent of all teenagers would be affected, whereas only 4 percent of the total population would be affected.

Table 1: Numbers of people affected.

	Increase to $6.00 by 2003	Increase to $7.25 by Sept 2002	Increase to $7.25 by Sept 2002 with disemployment effects	Estimated disemployment effect from increasing to $7.25 by Sept 2002
Total	8,766,000	18,450,000	17,753,000	697,000
Education				
Less than High School	3,374,000	6,399,000	6,181,000	218,000
High School	2,732,000	6,133,000	5,888,000	245,000
More than High School, no BA	2,289,000	5,075,000	4,874,000	201,000
BA or more	371,000	846,000	812,000	34,000
Race/ethnicity				
black	1,412,000	2,673,000	2,582,000	91,000
white	6,952,000	14,970,000	14,393,000	577,000
asian	280,000	582,000	561,000	22,000
hispanic	1,198,000	2,885,000	2,764,000	121,000
Gender				
female	5,340,000	11,010,000	10,602,000	408,000
male	3,426,000	7,444,000	7,155,000	289,000
Family status				
Teen	2,935,000	5,215,000	5,051,000	164,000
Adults	5,831,000	13,240,000	12,707,000	533,000
Married adult female	1,786,000	4,138,000	3,969,000	169,000
Married adult male	795,000	2,047,000	1,957,000	90,000
Single adult, no children	2,165,000	4,794,000	4,605,000	189,000
Single adult with children	1,086,000	2,260,000	2,175,000	85,000
Primary earner in family	2,383,000	5,418,000	5,199,000	219,000
Gender/race				
White male	2,790,000	6,152,000	5,910,000	242,000
White female	4,162,000	8,817,000	8,482,000	335,000

Black female	930,000	1,700,000	1,645,000	55,000
Black male	482,000	974,000	938,000	35,000
Asian male	79,000	207,000	198,000	9,000
Asian female	201,000	375,000	363,000	13,000
Hispanic male	607,000	1,509,000	1,444,000	65,000
Hispanic female	591,000	1,376,000	1,320,000	56,000
Economic indicators				
Poor	1,685,000	2,983,000	2,890,000	93,000
Below 200 percent of poverty	3,892,000	7,643,000	7,373,000	270,000
Poor adults	1,252,000	2,284,000	2,209,000	74,000
Adults below 200 percent of poverty	2,879,000	6,004,000	5,779,000	225,000
Sole breadwinner of family	1,379,000	3,049,000	2,929,000	120,000
Mean contribution to family earnings	0.46	0.48		
Median family income	31,200	31,000		

Table 2: Demographic characteristics of those affected as a percent of wage category
Column 1 shows those earning the current minimum wage of $5.15. Column 2 shows those currently earning less than $6.40 (the real value of $7.25 by September 2002). Column 3 shows all wage and salary workers for comparison.

	Increase to $6.00 by 2003	Increase to $7.25 by Sept 2002	All wage and salary workers
Education			
Less than High School	38	35	13
High School	31	33	33
More than High School, no BA	26	28	29
BA or more	4	5	25
Race/ethnicity			
black	16	14	12
white	79	81	84
asian	3	3	4
hispanic	14	16	10
Gender			
female	61	60	48
male	39	40	52
Family status			
Teen	33	28	7
Adults	67	72	93
Married adult female	20	22	26
Married adult male	9	11	31
Single adult, no children	25	26	27
Single adult with children	12	12	9
Primary earner in family	27	29	54
Gender/race			
White male	32	34	45
White female	48	48	40
Black female	11	9	6
Black male	6	5	5
Asian male	1	1	2

Asian female	2	2	2
Hispanic male	7	8	6
Hispanic female	7	7	4
Economic indicators			
Poor	19	16	6
Below 200 percent of poverty	44	41	21
Sole breadwinner of family	16	17	21

Table 3: Percent of demographic category affected

Each row shows the number of people in a group affected by the indicated minimum wage change, as a share of the total population in that group.

	Increase to $6.00 by 2003	Increase to $7.25 by September 2002
Total	4	9
Education		
Less than High School	8	15
High School	4	9
More than High School, no BA	4	10
BA or more	1	2
Race/ethnicity		
black	6	11
white	4	9
asian	4	8
hispanic	6	14
Gender		
female	5	10
male	4	8
Family status		
Teen	16	28
Adults	3	7
Married adult female	3	8
Married adult male	1	4
Single adult, no children	4	8
Single adult with children	7	14
Primary earner in family		
Gender/race		
White male	3	7
White female	5	10
Black female	7	13

Black male	5	9
Asian male	2	6
Asian female	5	10
Hispanic male	6	15
Hispanic female	6	14
Economic indicators		
Poor adults	6	12
Adults below 200 percent of poverty	5	11

CASE 1 -- RAISE MIN WAGE TO $6.00 (= $5.15 IN 1997) IN 2002 (I.E., KEEP PACE WITH INFLATIO

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum: % increase in wages	% drop in employment	# of jobs lost
	$4.25	$4.99	737,000	$5.15	0.0000	0.0%	0.0%	0
	$5.00	$5.24	4,534,000	$5.15	0.0000	0.0%	0.0%	0
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	0.0%	0.0%	0
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	0.0%	0.0%	0
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	0
	$11.00	$11.24			0.0000			
			16,379,000					0
	$4.25	$4.99	737,000	$5.15	-0.2000	0.0%	0.0%	0
	$5.00	$5.24	4,534,000	$5.15	-0.2000	0.0%	0.0%	0
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	0.0%	0.0%	0
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	0.0%	0.0%	0
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	0
	$11.00	$11.24			-0.2000			
			16,379,000					0
	$4.25	$4.99	737,000	$5.15	-0.4000	0.0%	0.0%	0
	$5.00	$5.24	4,534,000	$5.15	-0.4000	0.0%	0.0%	0
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	0.0%	0.0%	0
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	0.0%	0.0%	0
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	0
	$11.00	$11.24			-0.4000			
			16,379,000					0

CASE 2 -- RAISE MIN WAGE TO $6.25 IN 2002 (OR $6.00 IN 2000)
(= $5.40 IN 1997)

7.5

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

CASE 3 -- RAISE MIN WAGE TO $6.75 IN 2002 (= $5.82 IN 1997)

(Fam 47 POV)

~~52~~ million

9.7

Effect of New Minimum

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

CASE 4 -- RAISE MIN WAGE TO $7.25 IN 2002 (= $6.25 IN 1997)

15.2 mil

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

The proposed research will continue to explore models of money illusion at low levels of inflation and ask how large is the class of models with near rational behavior and money illusion that will produce significant effects on employment at low rates of inflation. We will also attempt to characterize the optimal levels of inflation in such models. Finally, we shall see whether or not these models fit the facts about the United States economy. We shall look at both microeconomic and macroeconomic behavior. Microeconomic behavior includes attitudes toward inflation and also the disappearance of indexation in union contracts as inflation falls. Macroeconomic behavior would be nonlinear tradeoffs between inflation and unemployment (in Phillips Curves estimations) at low rates of inflation. We also plan to survey marketing executives and compensation professionals to determine when and how they use information on inflation in setting wages and prices.

The Impact of Changes in Minimum Wages

The innovation of the previous work on the impact of money wage rigidity at low inflation was the estimation of those effects in a general equilibrium framework. Similarly, we propose to examine the extent to which incorporation of the impact of minimum wage legislation into the same general equilibrium framework will alter estimates of employment losses. Until now, as indicated by Card and Krueger (1996), the standard method of estimating the impact of minimum wages has used partial equilibrium analysis.[7] The loss in employment would be calculated by multiplying the change in wages caused by the legislation by the estimated slope of the labor demand curve. (There are, of course, a large variety of decisions involved in carrying out this program empirically; Card and Krueger themselves have a rather different model of the impact of minimum wage legislation on employment.) The general equilibrium approach described in the work on money wage rigidity suggests a theoretically very different method of evaluating the employment effect of minimum wage legislation. This approach would take account of the impact on pricing decisions of the increases in minimum wages.

The earlier model cannot be used directly, but must be adapted to capture the concentration of sectoral impacts of minimum wage legislation. We shall demonstrate such a model here. A preliminary calculation using this model suggests a surprisingly large impact of minimum wage legislation on employment. This calculation poses interesting questions about the modeling of the impact of minimum wages: we propose to check the robustness of this result, both theoretically and empirically.

Consider an economy with just two sectors, fast-food, F, and manufacturing, M. Demand for the products of each of the two sectors is described in the following way: each firm in sector i (=F, M) has a constant elasticity of demand β_i for its respective product. The output of each firm in each industry is proportional to labor input, so that for each firm in the industry the real product wage is given by:

$$\frac{w_i}{p_i} = \frac{\beta_i + 1}{\beta_i} = c_i, \qquad i = F, M. \tag{30}$$

The model further assumes that the output of the goods produced by the two sectors, F and M, are perfect complements so they will always be consumed in fixed proportions. Perfect complementarity corresponds roughly to observations that minimum wage legislation has small, if any, effect on employment in the impacted sectors. (See Card and Krueger (1996)).

The equation for the supply price of labor -- a simplified version of the bargaining equation (3) in the earlier paper, is of the form:

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[7]There have been general equilibrium analyses of the effects of the minimum wage in the past. Our approach differs from the work of Cox and Oaxaca (1981) in that we model unemployment in the uncovered sector and the nature of that model significantly affects the estimated impact of the minimum wage. Our approach differs from those studies which have estimated the impact of the minimum wage by simulating large scale macro models (for example Sellekaerts, 1981) in our explicit treatment of the distinction between the covered and uncovered sector and our attention to the issue of the pass through of wage increases to prices and its implications.

(31) $$\frac{w_i}{\bar{p}} = a_i - bu$$

where $\bar{p}$ is the aggregate price level. As before b is the slope of the Phillips curve. Estimates of the slope of b are typically about ½. (See Akerlof, Dickens and Perry 1996, pp. 52-54 for derivation of the correspondence between b and the slope of estimated Phillips Curves.) We define one unit of each good as produced by one unit of labor and the aggregate price index, $\bar{p}$ as

(32) $$\bar{p} = s_F p_F + (1 - s_F) p_M,$$

where $s_F/(1-s_F)$ is the fixed ratio in which fast food and manufactured goods are consumed. Given the way we have defined units of each good s_F and $(1-s_F) = s_M$ are also the fractions of the labor force working in the two sectors. We shall suppose that the F sector uses labor that will be affected by the minimum wage, but the M sector will not. Using equations (29) to (31) the change in unemployment caused by an increase in the real wage by minimum wage legislation which only impacts the F sector will be:

(33) $$\frac{\partial u}{\partial \omega_m} = \frac{s_F}{s_M} \frac{c_2}{bc_1}.$$

This model then yields the analogue to the behavior of unemployment in figure 1 from the description of our work on zero inflation.

Equation (33) can be used to approximate the impact of the minimum wage on unemployment. If wage differences between workers earning the minimum wage and those earning more are due to differences in bargaining power then we would interpret s_F and s_M literally as the fraction of the workforce affected by the minimum wage and that not affected by the minimum wage. If we believe that workers earning more than the minimum wage have characteristics that make them more productive than minimum wage workers and that is mainly what accounts for wage differences we should interpret s_F and s_M as being the shares of the workforce measured in efficiency units of labor and it would be more appropriate to treat the ratio s_F/s_M as the ratio of the wage bill in the minimum wage sector to the wage bill in the rest of the economy. This approach will yield a smaller effect than the first, but even this effect is quite large.

The recent 1996-1997 increase in the minimum wage from $4.25 to $5.15 an hour should result in an increase in wages on directly affected workers of approximately .32 percent of the wage bill. Assuming that the elasticities of demand in sectors with and without impact of the minimum wage are the same, so that c_1 and c_2 in (33) are equal, and assuming a value of b of ½ from our rule of thumb for the slope of Phillips Curves we multiply the wage change of affected workers (10.2%) times the ratio of the fraction of the wage bill paid to affected workers to that paid to unaffected workers (.033) times 1/b (2), which yields an estimate of the impact of the increase in minimum wages on employment of 0.66 percent.[5] This estimate is conservative in that it ignores spillover effects of the minimum wage on the wages of workers not directly affected by the increase, but it is much larger than the

[5] 11.7 percent of wage and salary earners receive wages between $4.25 and $5.15 an hour; an increase in their wages to $5.25 will increase their earnings by about 10.2 percent on average. These workers work 77.9 percent of average hours and earn 40.0 percent of average hourly earnings; wage and salary earners constitute 87.8 of earnings. (See Mishel, Bernstein, and Rasell, 1996, Table 1 and *Economic Report of the President*, 1995). Multiplying .117 times .779 times .4 times .878 yields .032. Thus the ratio of the fraction of the wage bill going to affected workers to unaffected workers is .032/.968 = .033.

typical partial equilibrium estimate of the employment impact of a minimum wage increase.

The proposed research takes the preceding model as its starting point. Theoretically we shall see whether the large impact of minimum wages on employment is robust to our assumptions. We shall check to see whether alternative assumptions about the demand for the respective goods, the nature of pricing behavior, and the nature of the equation for the supply price of labor will yield large impacts. We shall especially ask whether alternative near-rational models of wage and price setting attenuate the relation between unemployment and real wages as in (31) and therefore result in much lower estimates of the impact of minimum wage legislation.

There are two empirical issues we wish to pursue. First, the employment effects of our model will only be felt if the cost of increases in the minimum wage are largely passed on in higher prices. The evidence on cost pass through is ambiguous (Card and Krueger, 1996, p. 390). We propose to look at the extent of pass through by examining how the impact of minimum wage changes on the price of goods depends on the share of minimum wage labor in the total cost of goods produced in each industry. If cost pass through is found to be substantial than it should be possible to see the impact of minimum wage changes on the natural rate of unemployment in a Phillips Curve model. We will add to the Phillips Curve in Akerlof, Dickens and Perry (1996) an index of the impact of minimum wages for the U.S. and other countries.

International Comparisons, Contract Data and Zero Inflation

Our previous research motivates two further empirical projects. First, so far we have estimated the relation between inflation and unemployment only for the United States. We should also apply our model to other countries that have had very low inflation and productivity growth, such as New Zealand and Canada.

Second, a potentially important objection to our earlier model of nominal wage rigidity is that if inflation actually should fall to zero, wages would no longer be downwardly rigid. There is an alternative view that unless inflation becomes quite high, people do their mental accounting in nominal rather than real terms (see Shiller (1996b) for evidence of resistance to indexation) and therefore even if inflation should fall to zero nominal wage cuts might be still resisted. There is a way to check to see how people now, in times of higher than zero inflation, think that they might behave if inflation should actually fall to zero, by examining indexation provisions in contracts where inflation becomes negative. We will develop a general model of indexation, incorporating both rational and irrational elements, borrowing on the work of Shiller in terms of what people say about indexation and will in particular see whether contracts provide for give-backs in the event of deflation, or whether they specifically prohibit them.

ANALYSIS OF POSSIBLE INCREASES IN THE MINIMUM WAGE

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

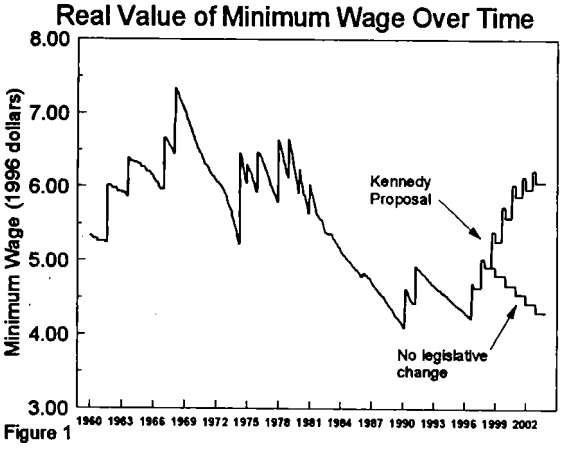

Figure 1

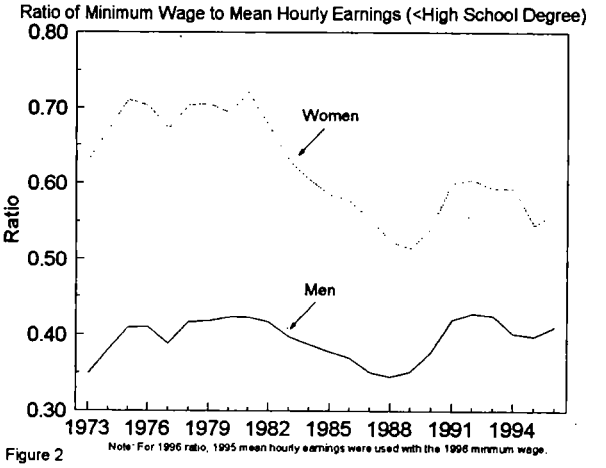

Figure 2

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

GROUPS AFFECTED BY FURTHER INCREASES

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

All numbers are preliminary. Do not cite or circulate. (Total # wkrs)

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

ARGUMENTS FOR AND AGAINST RAISING THE MINIMUM WAGE

Arguments for an increase

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

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

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

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

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

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

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

welfare to seek work.

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

Arguments against an increase

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

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

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

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

- **Potential inflationary impact.** There is some evidence that increases in the minimum

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

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

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

ALTERNATIVE POLICY OPTIONS

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

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

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

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

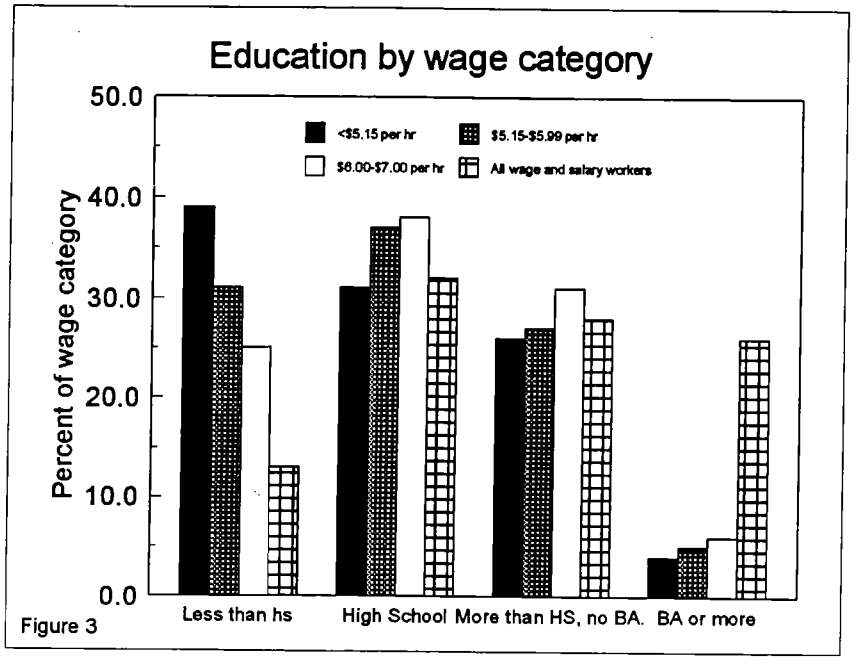

Figure 3

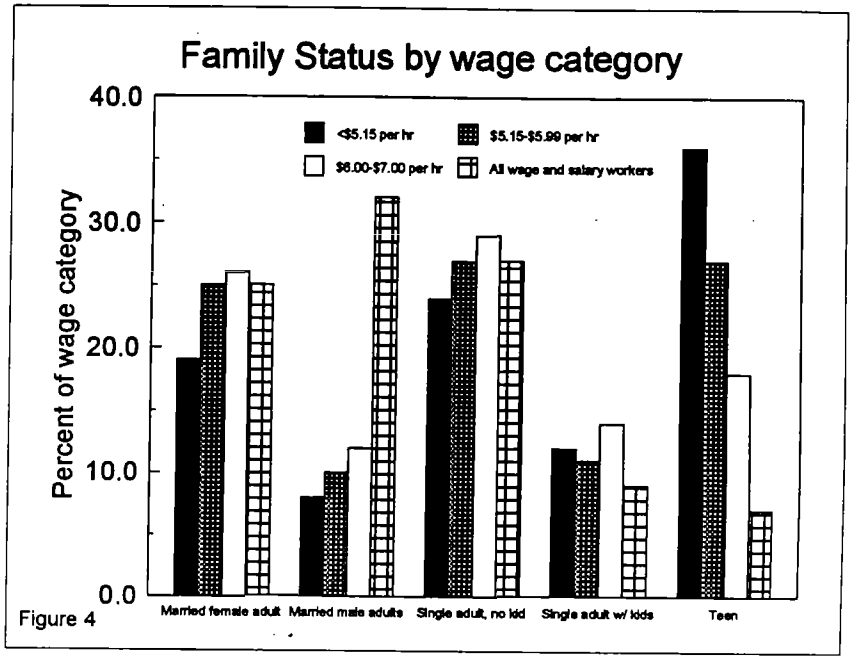

Figure 4

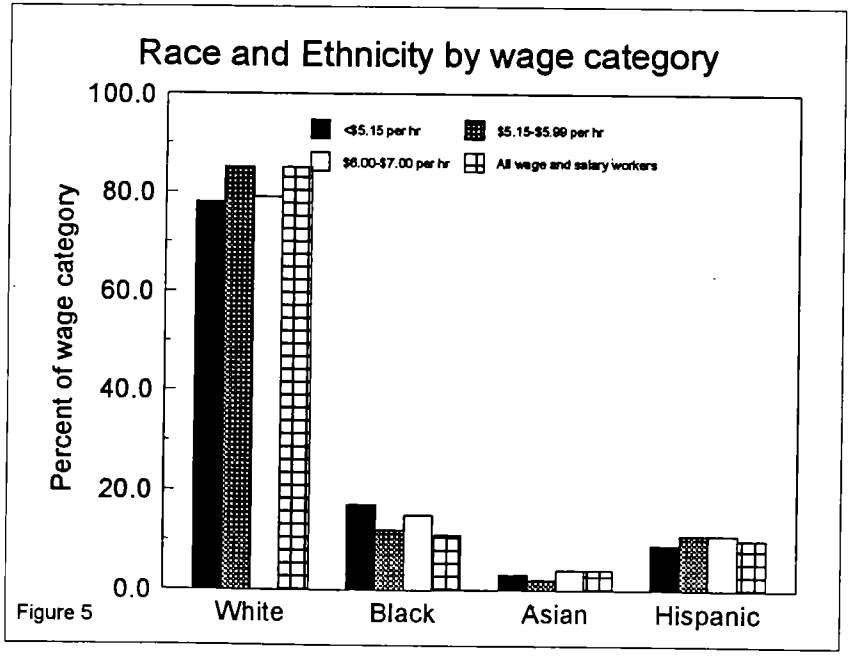

Figure 5

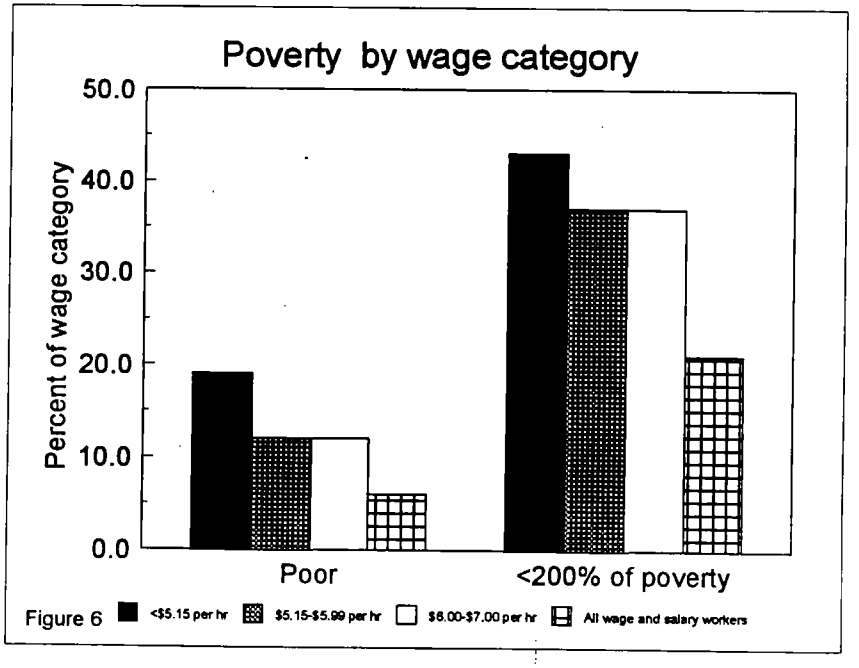

Figure 6

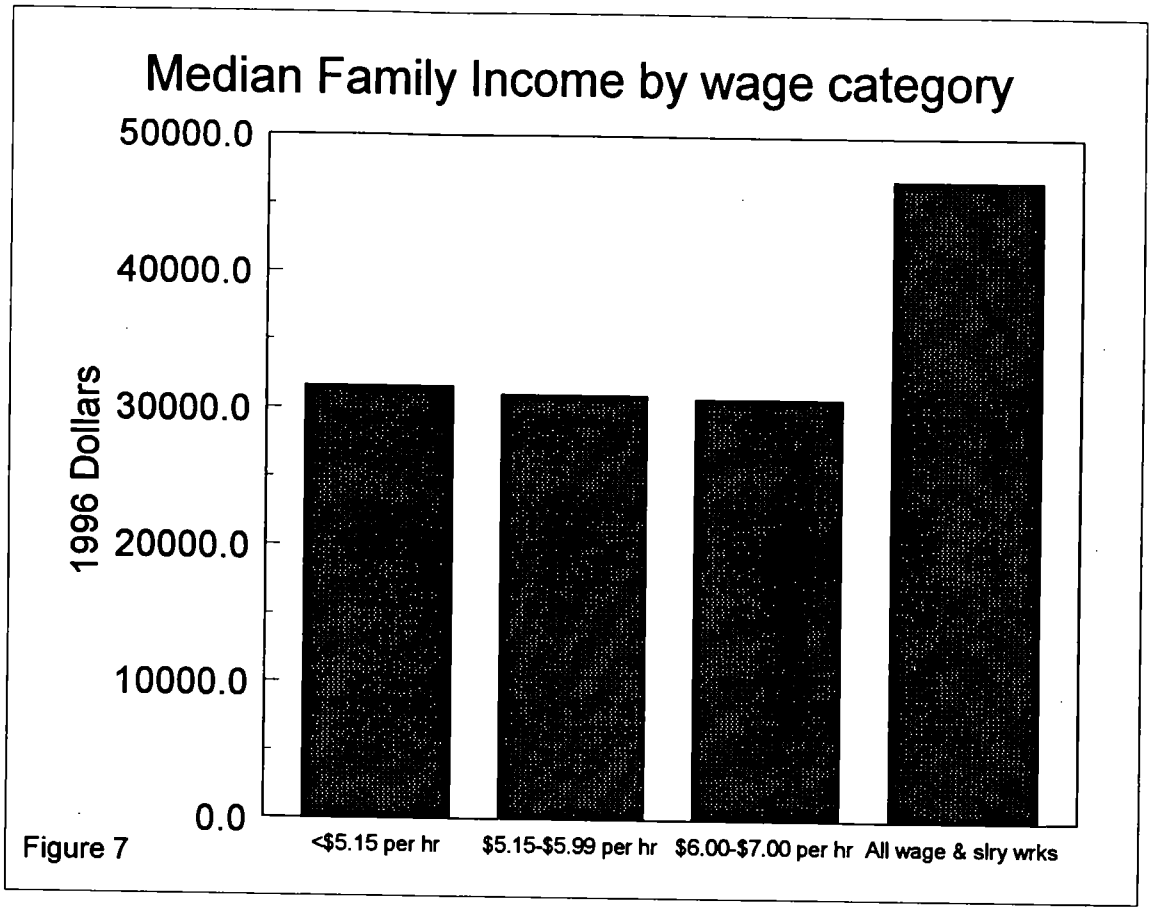
Median Family Income by wage category
50000.0
40000.0
30000.0
20000.0
10000.0
0.0
1996 Dollars
<$5.15 per hr
$5.15-$5.99 per hr
$6.00-$7.00 per hr
All wage & slry wrks

Figure 7

An Approach to Estimating the Disemployment Effects of a Higher Minimum Wage

Two Channels of Disemployment Effects

- Standard effect through the elasticity of demand
- Wage-price spiral effects, either through the Fed or thorugh efficiency wage models

Current Evidence

- Current studies estimate the effect of a 10% rise in the minimum wage on teen employment. To convert this to an elasticity, we need to divide by the effect of a 10% rise in the minimum on the average wage paid to teens (e.g. if it raises the average teen wage by 5%, then we should double these numbers to get elasticities).
- The current range of estimates of this quasi-elasticity range from zero, in the recent Card-Krueger series of papers, to over -0.5, in the Neumark-Wascher work.
- Old time series studies show an elasticity in the range of -0.1 to -0.2, with more recent evidence showing -0.06.
- There is no solid evidence to support the wage-price spiral effect of the minimum

Updating Previous Elasticities for a Higher Minimum

- There are two channels through which the disemployment effects will rise as the minimum wage rises (in real terms):
  - The minimium cuts into a thicker part of the income distribution, so that more individuals are affected at a given elasticity
  - The elasticity itself may rise, for example due to increased possibilities for technological substitution
- The goal of our exercise is to quantify these two channels, and to use apply this quantification to estimating updated disemployment effects for a higher minimum wage

Estimating the New Elasticity

- Our approach here is interpolation, using two endpoints:
  - We know the range of estimates of the elasticity at today's minimum. The most credible negative estimates are probably the time series, which is in the range of -0.06 to -0.2, converted to elasticities.
  - We know the range of estimates for the overall elasticity of demand from Hamermesh, which is roughly -0.5 to -0.7. We can say that this applies to the median wage
- The minimum wage that we should use is roughly $5, and the median wage for 1996 is roughly $11. We can consider two cases: interpolation between (the elasticity form of) -

0.06 and -0.5 (the "low elasticity case"), and interpolation between (the elasticity form of) -0.2 and -0.7 (the "high elasticity case").

Estimating Standard Disemployment Effect

- For a given elasticity, we must compute the new number of disemployed workers. This involves using the increasing elasticity along with accounting for the thickening of the wage distribution.
- The best feasible means of implementing this is to divide the CPS sample into 25 cent cells, above the current minimum wage, and to allow the elasticity to rise discreetly with each 25 cent cell.
- Then, this elasticity can be applied to each cell to estimate the number of individuals who lose their job.

Estimating Wage-Price Effect

- For a given increase in the minimum, armed with data on average wages, hours, and populations in different wage brackets, we can estimate the increase in compensation from a given rise in the minimum
- We can then use the Meyer model results to interpolate the employment effect from this rise in compensation costs

OPTIONS FOR MINIMUM WAGE INCREASE

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

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

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

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

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

CASE 1 -- RAISE MIN WAGE TO $6.00 (= $5.15 IN 1997) IN 2002 (I.E., KEEP PACE WITH INFLATIO

	wage range		number in range	average wage	cell elasticity	Effect of New Minimum: % increase in wages	Effect of New Minimum: % drop in employment	Effect of New Minimum: # of jobs lost
	$4.25	$4.99	737,000	$5.15	0.0000	0.0%	0.0%	0
	$5.00	$5.24	4,534,000	$5.15	0.0000	0.0%	0.0%	0
LOW-	$5.25	$5.49	2,195,000	$5.29	-0.0250	0.0%	0.0%	0
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.0500	0.0%	0.0%	0
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.0750	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.1000	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.1250	0.0%	0.0%	0
	$11.00	$11.24			0.0000			
			16,379,000					0
	$4.25	$4.99	737,000	$5.15	-0.2000	0.0%	0.0%	0
	$5.00	$5.24	4,534,000	$5.15	-0.2000	0.0%	0.0%	0
MID-	$5.25	$5.49	2,195,000	$5.29	-0.2125	0.0%	0.0%	0
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.2250	0.0%	0.0%	0
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.2375	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.2500	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.2625	0.0%	0.0%	0
	$11.00	$11.24			-0.2000			
			16,379,000					0
	$4.25	$4.99	737,000	$5.15	-0.4000	0.0%	0.0%	0
	$5.00	$5.24	4,534,000	$5.15	-0.4000	0.0%	0.0%	0
HIGH-	$5.25	$5.49	2,195,000	$5.29	-0.4125	0.0%	0.0%	0
ELASTICITY	$5.50	$5.74	2,273,000	$5.53	-0.4250	0.0%	0.0%	0
ESTIMATES	$5.75	$5.99	975,000	$5.80	-0.4375	0.0%	0.0%	0
	$6.00	$6.24	4,519,000	$6.02	-0.4500	0.0%	0.0%	0
	$6.25	$6.49	1,146,000	$6.30	-0.4625	0.0%	0.0%	0
	$11.00	$11.24			-0.4000			
			16,379,000					0

CASE 2 -- RAISE MIN WAGE TO $6.25 IN 2002 (OR $6.00 IN 2000)
(= $5.40 IN 1997)

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

CASE 3 -- RAISE MIN WAGE TO $6.75 IN 2002
(= $5.82 IN 1997)

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

CASE 4 -- RAISE MIN WAGE TO $7.25 IN 2002 (= $6.25 IN 1997)

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

ANALYSIS OF POSSIBLE INCREASES IN THE MINIMUM WAGE

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

Figure 1

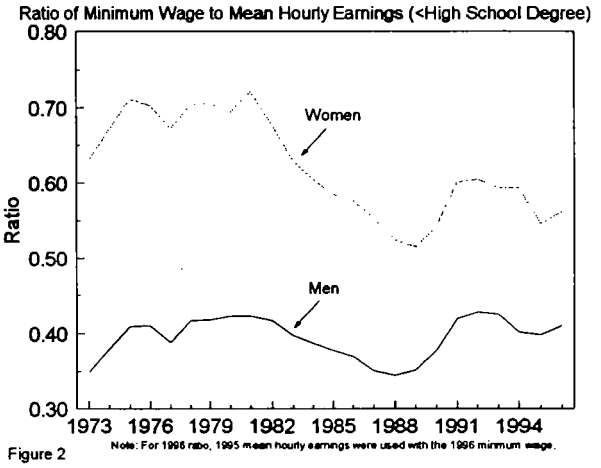

Figure 2

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

GROUPS AFFECTED BY FURTHER INCREASES

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

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

All numbers are preliminary. Do not cite or circulate.

ARGUMENTS FOR AND AGAINST RAISING THE MINIMUM WAGE

Arguments for an increase

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

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

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

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

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

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

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

Arguments against an increase

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

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

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

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

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

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

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

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

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

ALTERNATIVE POLICY OPTIONS

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

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

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

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

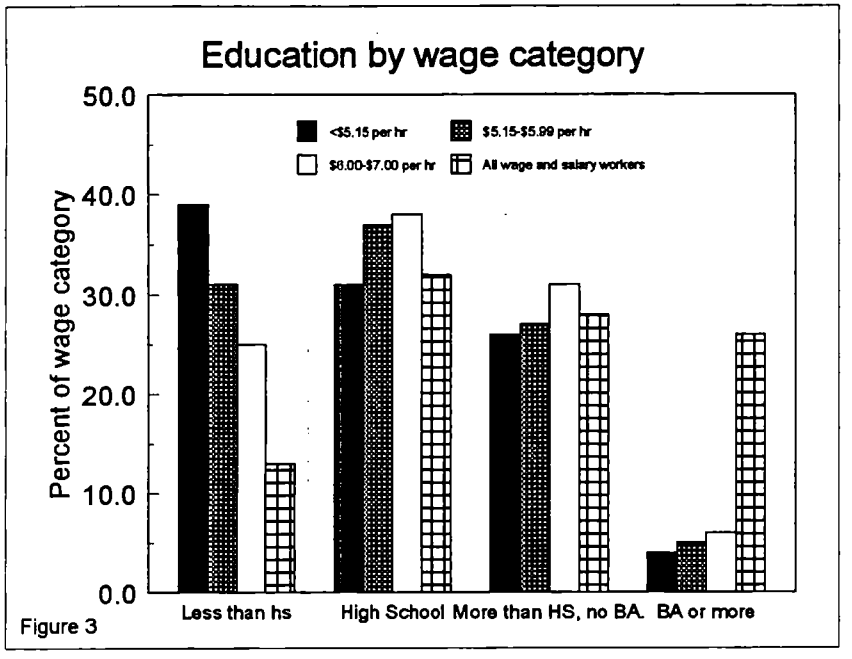


Figure 3

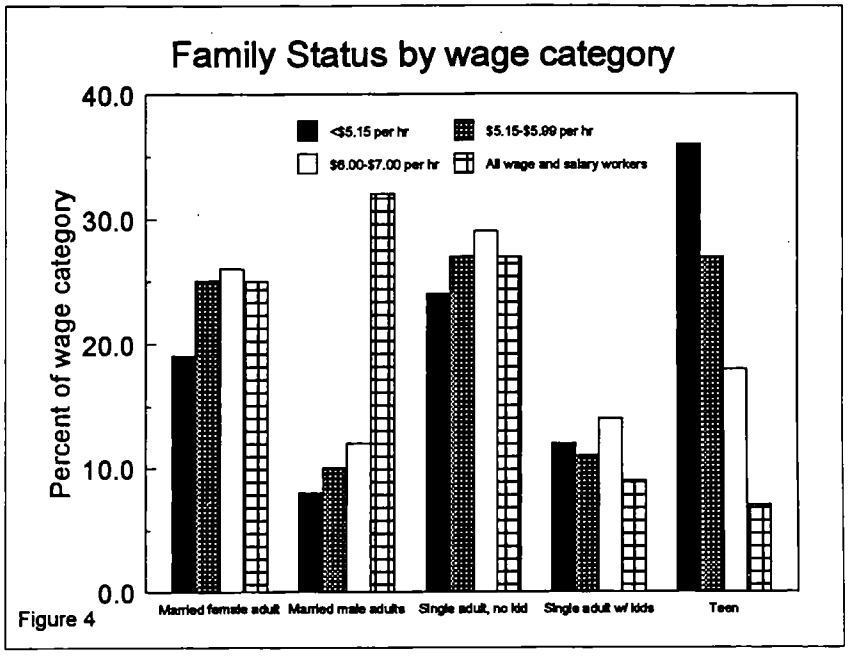


Figure 4

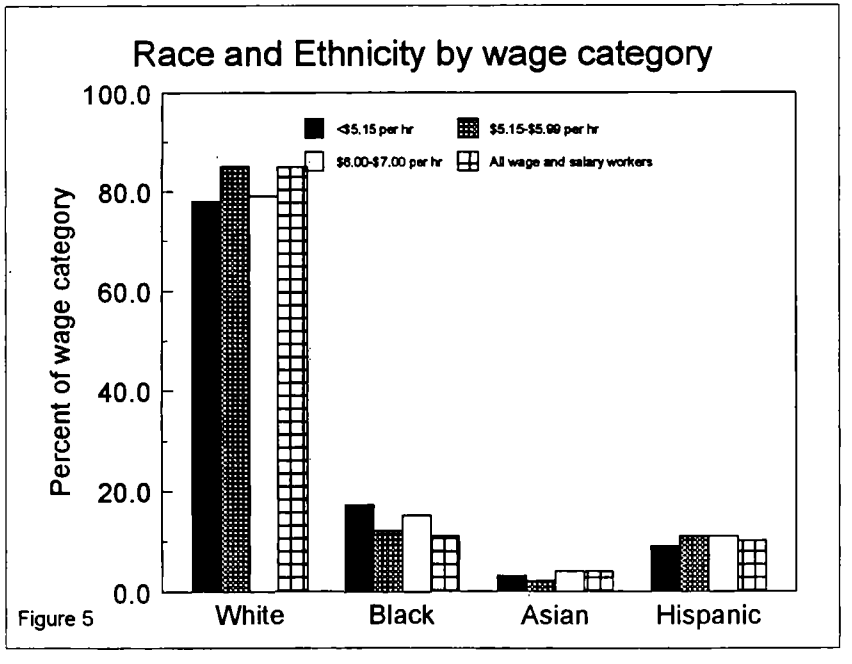


Figure 5

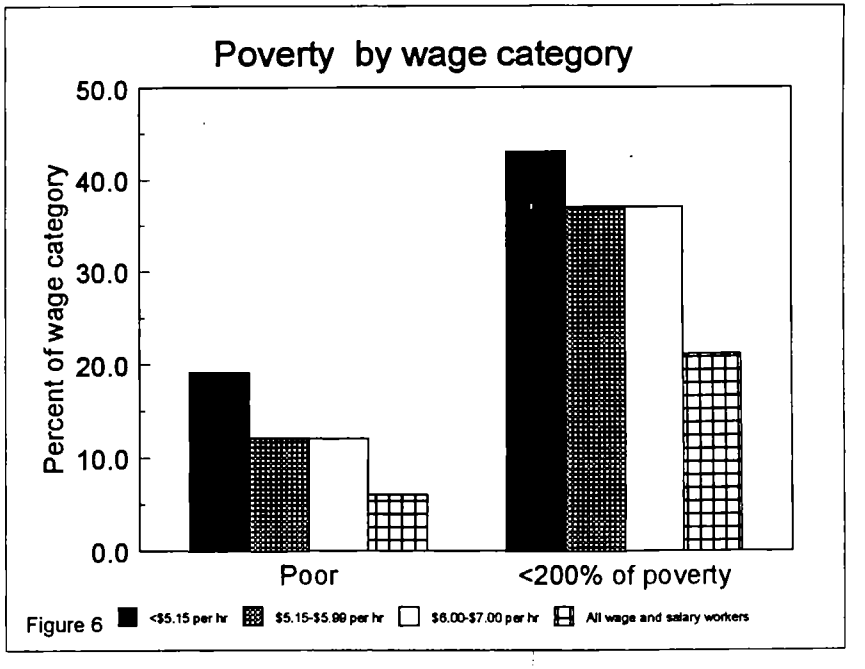


Figure 6

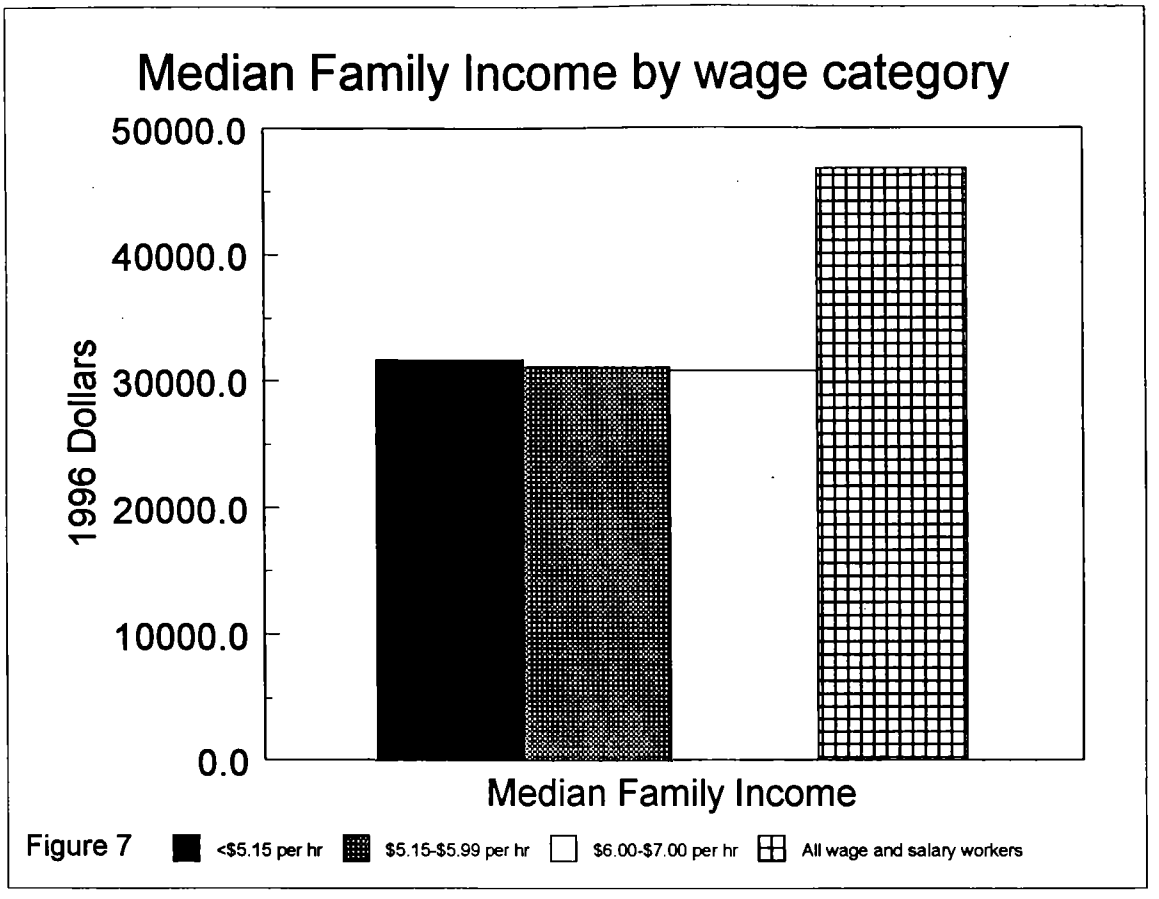
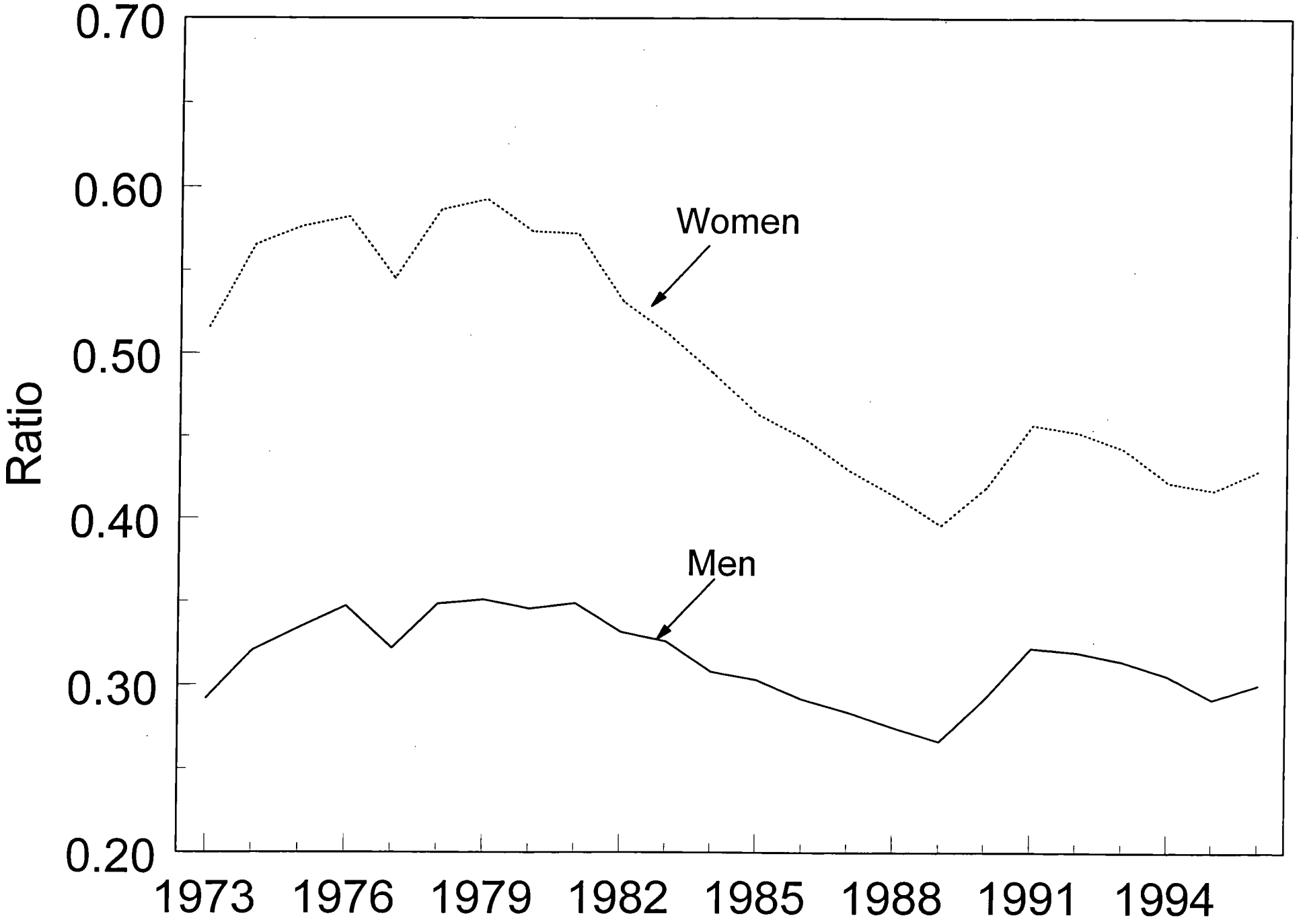

Median Family Income by wage category
50000.0
40000.0
30000.0
20000.0
10000.0
0.0
1996 Dollars
Median Family Income
<$5.15 per hr
$5.15-$5.99 per hr
$6.00-$7.00 per hr
All wage and salary workers

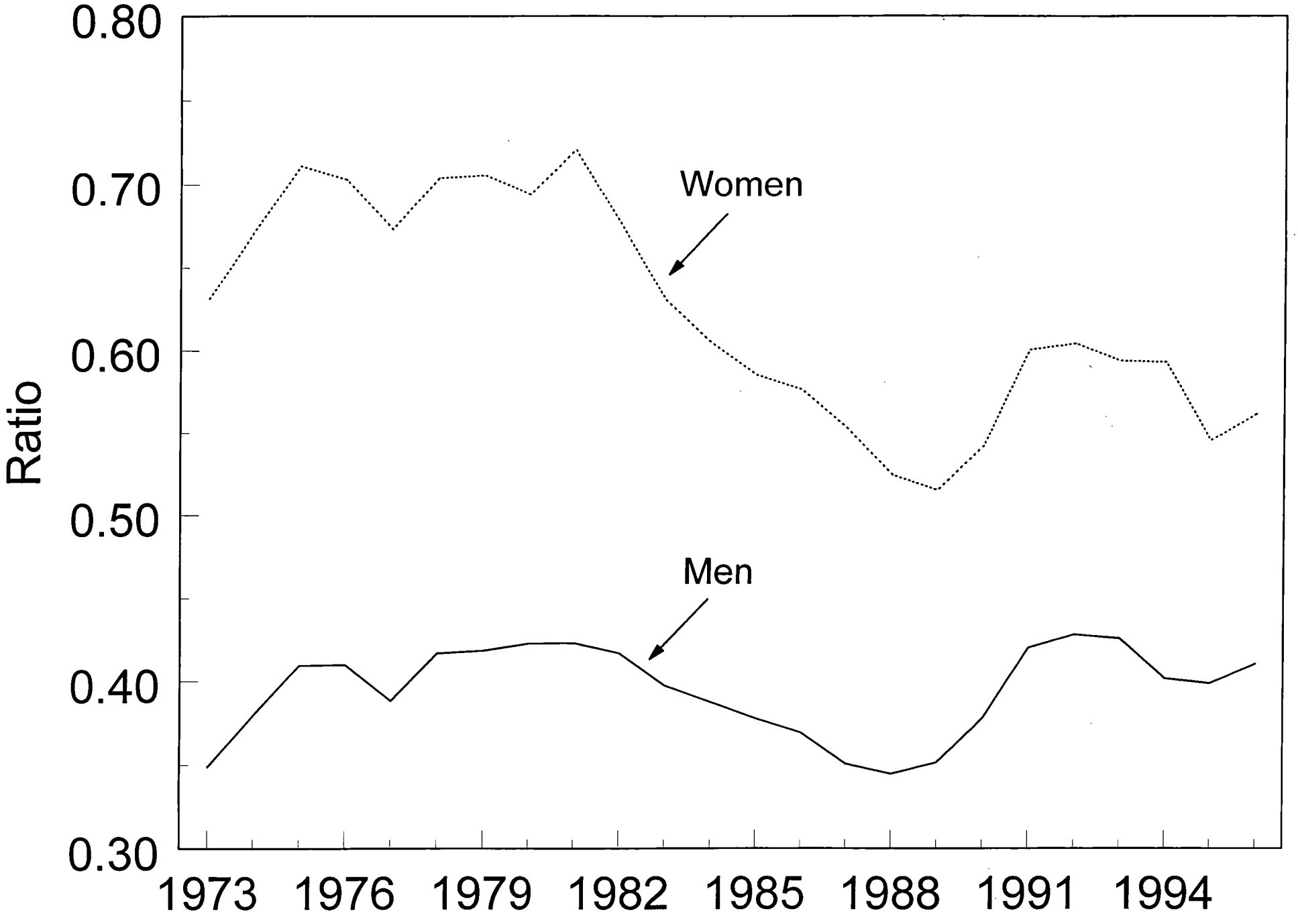
Figure 7

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



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

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



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

.DESC	Lanagra Employees	LARTRD All Employe	LA5400A All Employe	LA5800A All Employe	la5300A All Employees: General	Food Stores Total / Food stores/Total	Ed. Total / Eating/Total	Gen Merch Total / Gen Mer/Total
9501	116234	20669	3329	7261	2677 9501	0.02864	0.06247	0.02303
9502	116517	20536	3336	7280	2676 9502	0.02863	0.06248	0.02297
9503	116694	20627	3342	7302	2644 9503	0.02864	0.06257	0.02266
9504	116891	20866	3354	7310	2680 9504	0.02869	0.06254	0.02293
9505	116855	21139	3358	7312	2675 9505	0.02874	0.06257	0.02289
9506	117064	21384	3366	7353	2684 9506	0.02875	0.06281	0.02293
9507	117142	21333	3369	7372	2685 9507	0.02876	0.06293	0.02292
9508	117465	21410	3380	7389	2681 9508	0.02877	0.06290	0.02282
9509	117636	21364	3382	7416	2685 9509	0.02875	0.06304	0.02282
9510	117775	21310	3379	7401	2697 9510	0.02869	0.06284	0.02290
9511	117951	21663	3395	7428	2684 9511	0.02878	0.06298	0.02276
9512	118120	21943	3405	7436	2677 9512	0.02883	0.06295	0.02266
9601	118058	20990	3403	7440	2676 9601	0.02882	0.06302	0.02267
9602	118550	20862	3406	7457	2686 9602	0.02873	0.06290	0.02266
9603	118804	21023	3411	7491	2693 9603	0.02871	0.06305	0.02267
9604	118966	21210	3411	7485	2694 9604	0.02867	0.06292	0.02265
9605	119263	21589	3421	7493	2720 9605	0.02868	0.06283	0.02281
9606	119516	21803	3427	7499	2726 9606	0.02867	0.06274	0.02281
9607	119691	21779	3439	7505	2731 9607	0.02873	0.06270	0.02282
9608	119983	21870	3445	7510	2737 9608	0.02871	0.06259	0.02281
9609	120019	21797	3445	7509	2739 9609	0.02870	0.06257	0.02282
9610	120248	21829	3458	7516	2756 9610	0.02876	0.06250	0.02292
9611	120450	22205	3467	7530	2761 9611	0.02878	0.06252	0.02292
9612	120659	22541	3468	7551	2769 9612	0.02874	0.06258	0.02295
9701	120909	21514	3474	7552	2757 9701	0.02873	0.06246	0.02280
9702	121162	21383	3477	7556	2752 9702	0.02870	0.06236	0.02271
9703	121344	21494	3478	7525	2783 9703	0.02866	0.06201	0.02293
9704	121671	21750	3480	7571	2799 9704	0.02860	0.06223	0.02300
9705	121834	22064	3482	7572	2787 9705	0.02858	0.06215	0.02288
9706	122056	22286	3487	7595	2798 9706	0.02857	0.06223	0.02292
9707	122440	22289	3502	7639	2803 9707	0.02860	0.06239	0.02289
9708	122492	22366	3505	7618	2822 9708	0.02861	0.06219	0.02304
9709	122792	22289	3507	7626	2818 9709	0.02856	0.06211	0.02295
9710	123079	22332	3519	7623	2825 9710	0.02859	0.06194	0.02295
9711	123483	22701	3523	7653	2848 9711	0.02853	0.06198	0.02306
					Avg Wage:	July 97 8.61	July 97 5.98	July 97 8.12

Minimum Wage Talking Points:

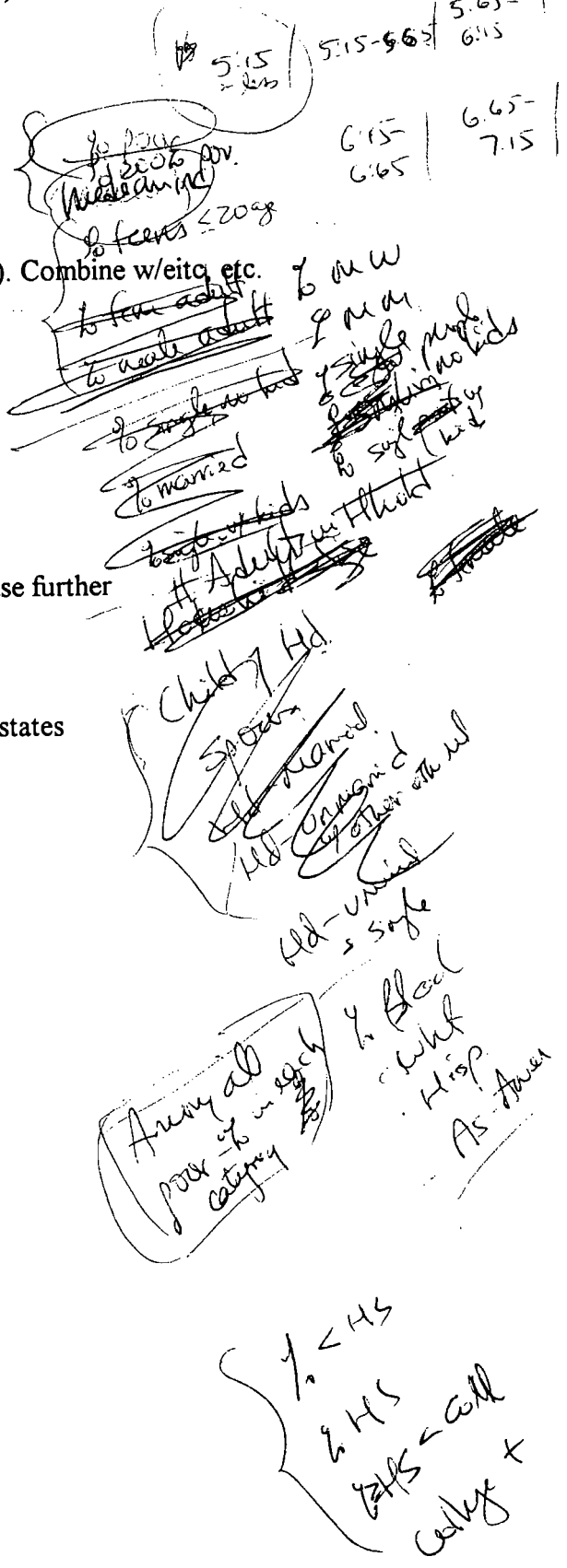
1. Current real level of min wage compared to historic levels.
2. Current ratio of min wage to median hourly earnings (also to < hs) compared to historic levels.
3. How several different increments (including Kennedy proposal) would affect 1. And 2.

Main group affected would be...characteristi adultscs.
Pop: b y poverty status / median income of hhold
By age teens vs
By spf/tpf
By race/gender/ethn.

PROS:
1) Impact on Poverty RATE/GAP (assuming no disemployment). Combine w/eitc etc.
2) Impact on wage inequality.
3) National standard / discourage 'race to the bottom'
4) raise income without raising taxes
5) labor supports

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

Note ray policy drivers
→ Differentiate age spfs/
→ Indexing min wage



December 11, 1997

MEMORANDUM FOR GENE SPERLING

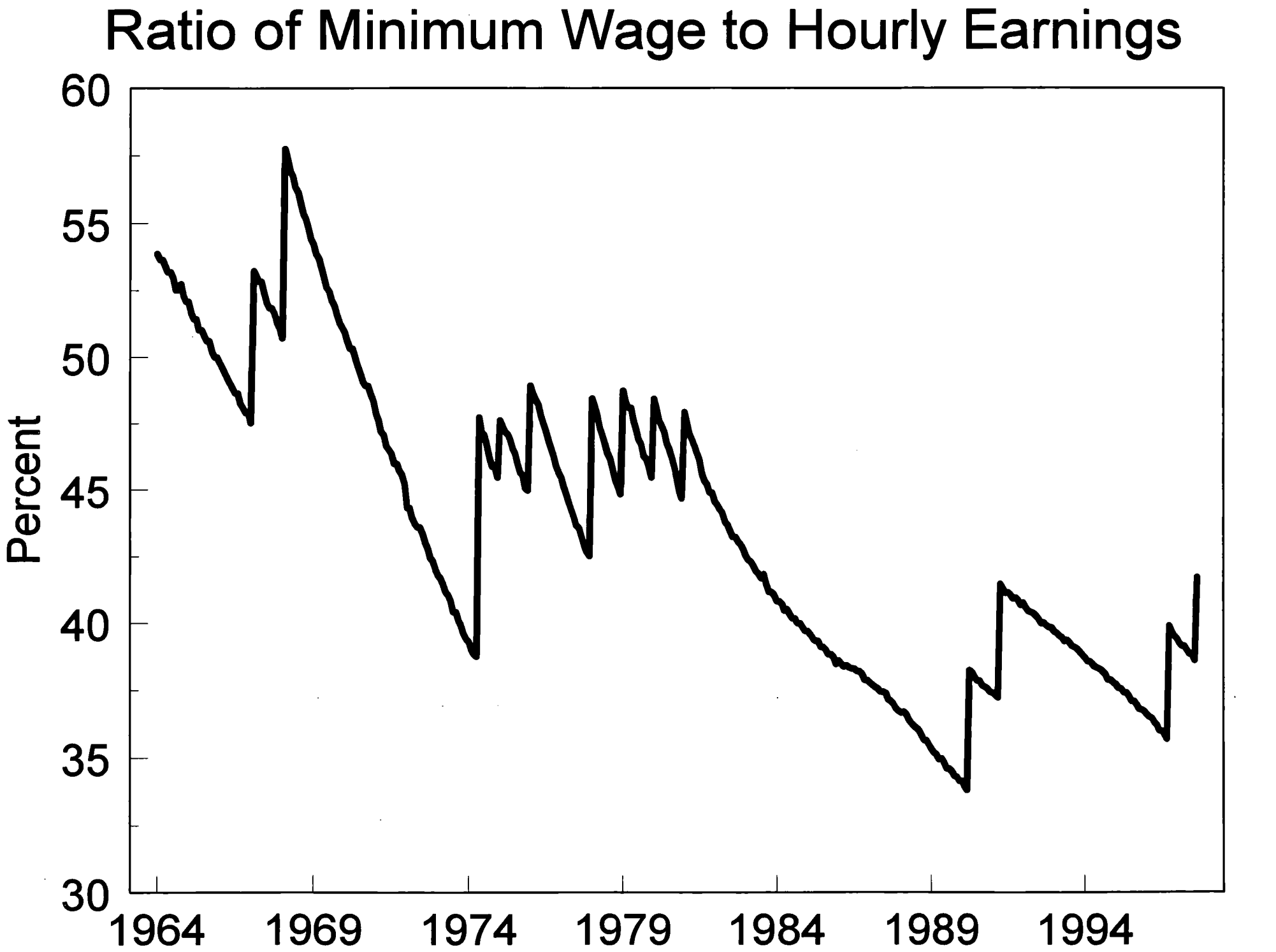
FROM: JON ORSZAG

SUBJECT: Minimum Wage

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

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

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


Ratio of Minimum Wage to Hourly Earnings
Percent
60
55
50
45
40
35
30
1964
1969
1974
1979
1984
1989
1994

Who Is Affected By Increases in the Minimum Wage?

We examine the demographic characteristics of workers likely to be affected by two different increases in the minimum wage. Under one scenario, the minimum wage is increased roughly in line with expected inflation, reaching $6.00 per hour by 2003. The other scenario examined is Senator Kennedy's proposal, which would increase the minimum wage in 50 cent increments, reaching $7.25 per hour by September 2002.

Real wages have been roughly constant at the bottom of the income distribution over the last 10 years. We therefore assume constant real wages at the bottom of the income distribution through 2003. Consequently, we assume that those affected by an increase in the minimum wage to $6.00 per hour by 2003 are those who are currently earning the $5.15 per hour minimum wage. Those affected by an increase in the minimum wage to $7.25 per hour in 2002 are those currently earning $6.40 per hour or less ($7.25 in 2002 dollars deflated to 1997 dollars is $6.40).

Table 1 presents the number of people likely to be affected by a minimum wage increase. Column 1 presents the numbers affected by an increase to $6.00 by 2003; column 2 presents the numbers affected by an increase to $7.25 by September 2002. Since the increase to $6.00 by 2003 is roughly an adjustment for inflation, and we are assuming constant real wages, we do not consider any disemployment effects from this increase. However, the increase to $7.25 by September 2002 represents a 24 percent increase in the real minimum wage. Economic studies of past increases in the minimum wage find disemployment effects ranging from zero to a 3 percent decrease in employment for teens (a group likely to suffer the largest disemployment effects) for every 10 percent increase in the minimum wage.

The last column of Table 1 presents the numbers affected by the increase to $7.25 assuming this 3 percent decrease in employment for every 10 percent increase in the minimum wage; with disemployment effects, the increase to $7.25 by 2002 increases wages for about 17.7 million workers and costs about 700,000 workers their jobs. Although a 3 percent disemployment effect for every 10 percent real increase in the minimum wage is an upper bound from past studies of disemployment estimates for a group (teenagers) who are likely to have relatively large disemployment effects, we consider it a reasonable approximation of potential disemployment effects from an increase to $7.25 by September 2002 for three reasons. First, the increase to $7.25 is larger, in real terms, than previous increases studied. Second, the increase to $7.25 would cut higher into the distribution of wages for low-skilled men than previous increases have. And third, a group likely to be adversely affected by the increase is women moving from welfare to work; this group, like teenagers, are expected to have relatively large disemployment effects.

Absent any legislative changes, the real value of the minimum wage would erode by 2003 to $4.50 in 1997 dollars; this decrease in the real value of the minimum wage could boost employment in the same way that an increase in the real value of the minimum wage might decrease employment. Again, using the range of disemployment effects found in past studies, we find that relative to no legislative change, increasing the minimum wage to $6.00 by 2003 could have an effect on employment ranging from zero to a decrease in employment of about 460,000.

Increasing the minimum wage to $7.25 could have a maximal disemployment effect of about 1.2 million.

Table 2 presents the characteristics of those affected by the two different minimum wage increases; it also presents the characteristics of all wage and salary workers for comparison. For example, if the minimum wage is raised to $6.00 by 2003, about 38 percent of those affected by the increase would have less than a high school education; 35 percent of those affected by an increase to $7.25 by 2002 would have less than a high school education, compared with 13 percent of all wage and salary workers have less than a high school education. Table 2 thus reveals that, under either scenario for a minimum wage increase, those affected are disproportionately low-skilled, black, hispanic, female, teenagers, not the primary earner in the family, and poor. The proportion of the affected group that has a given set of characteristics is roughly similar under the two scenarios for a minimum wage increase. For example, 16 percent of those affected by an increase to $6.00 by 2003 are black, compared with 14 percent of those affected by an increase to $7.25 by 2002.

About 16% of those affected by either minimum wage increase are the sole breadwinner in their family. The average affected worker contributes about half of his or her family's earnings.

Table 3 indicates what proportion of various demographic groups would be affected by a minimum wage increase. For example, if the minimum wage is raised to $6.00 by 2003, 16 percent of all teenagers would be affected, whereas only 4 percent of the total population would be affected.

Table 1: Numbers of people affected.

	Increase to $6.00 by 2003	Increase to $7.25 by Sept 2002	Increase to $7.25 by Sept 2002 with disemployment effects
Total	8,766,000	18,450,000	17,753,000
Education			
Less than High School	3,374,000	6,399,000	61,812,000
High School	2,732,000	6,133,000	5,888,000
More than High School, no BA	2,289,000	5,075,000	4,874,000
BA or more	371,000	846,000	812,000
Race/ethnicity			
black	1,412,000	2,673,000	2,582,000
white	6,952,000	14,970,000	14,393,000
asian	280,000	582,000	561,000
hispanic	1,198,000	2,885,000	2,764,000
Gender			
female	5,340,000	11,010,000	10,602,000
male	3,426,000	7,444,000	7,155,000
Family status			
Teen	2,935,000	5,215,000	5,051,000
Adults	5,831,000	13,240,000	12,707,000
Married adult female	1,786,000	4,138,000	3,969,000
Married adult male	795,000	2,047,000	1,957,000
Single adult, no children	2,165,000	4,794,000	4,605,000
Single adult with children	1,086,000	2,260,000	2,175,000
Primary earner in family	2,383,000	5,418,000	5,199,000
Gender/race			
White male	2,790,000	6,152,000	5,910,000
White female	4,162,000	8,817,000	8,482,000
Black female	930,000	1,700,000	1,645,000

Black male	482,000	974,000	938,000
Asian male	79,000	207,000	198,000
Asian female	201,000	375,000	363,000
Hispanic male	607,000	1,509,000	1,444,000
Hispanic female	591,000	1,376,000	1,320,000
Economic indicators			
Poor	1,685,000	2,983,000	2,890,000
Below 200 percent of poverty	3,892,000	7,643,000	7,373,000
Poor adults	1,252,000	2,284,000	2,209,000
Adults below 200 percent of poverty	2,879,000	6,004,000	5,779,000
Sole breadwinner of family	1,379,000	3,049,000	2,929,000
Mean contrib to family earnings	0.46	0.48	
Median family income	31,200	31,000	

Table 2: Demographic characteristics of those affected as a percent of wage category
Column 1 shows those earning the current minimum wage of $5.15. Column 2 shows those currently earning less than $6.40 (the real value of $7.25 by September 2002). Column 3 shows all wage and salary workers for comparison.

	Increase to $6.00 by 2003	Increase to $7.25 by Sept 2002	All wage and salary workers
Education			
Less than High School	38	35	13
High School	31	33	33
More than High School, no BA	26	28	29
BA or more	4	5	25
Race/ethnicity			
black	16	14	12
white	79	81	84
asian	3	3	4
hispanic	14	16	10
Gender			
female	61	60	48
male	39	40	52
Family status			
Teen	33	28	7
Adults	67	72	93
Married adult female	20	22	26
Married adult male	9	11	31
Single adult, no children	25	26	27
Single adult with children	12	12	9
Primary earner in family	27	29	54
Gender/race			
White male	32	34	45
White female	48	48	40
Black female	11	9	6
Black male	6	5	5
Asian male	1	1	2

Asian female	2	2	2
Hispanic male	7	8	6
Hispanic female	7	7	4
Economic indicators			
Poor	19	16	6
Below 200 percent of poverty	44	41	21
Sole breadwinner of family	16	17	21

Table 3: Percent of demographic category affected

Each row shows the number of people in a group affected by the indicated minimum wage change, as a share of the total population in that group.

	Increase to $6.00 by 2003	Increase to $7.25 by September 2002
Total	4	9
Education		
Less than High School	8	15
High School	4	9
More than High School, no BA	4	10
BA or more	1	2
Race/ethnicity		
black	6	11
white	4	9
asian	4	8
hispanic	6	14
Gender		
female	5	10
male	4	8
Family status		
Teen	16	28
Adults	3	7
Married adult female	3	8
Married adult male	1	4
Single adult, no children	4	8
Single adult with children	7	14
Primary earner in family		
Gender/race		
White male	3	7
White female	5	10
Black female	7	13

Black male	5	9
Asian male	2	6
Asian female	5	10
Hispanic male	6	15
Hispanic female	6	14
Economic indicators		
Poor adults	6	12
Adults below 200 percent of poverty	5	11